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TO THE MEDIA

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Microcredit Sector of the Federation of B&H in 2014

As of 31.02.2014, 13 MCOs, 12 of which are MCFs (non-profit organizations) and 1 of which is an MCC (profit organization), had the Agency's licence for business operations in the Federation of B&H. They operated through 282 organisational units. As of 31.12.2014, the total headcount of the microcredit sector was 1 308.

Although 11 of the 13 MCOs recorded a positive result in the amount of approximately KM 15 million, the microcredit sector in the FB&H cumulatively recorded a negative financial result in the amount of approximately KM 30 million (KM 30 339 thousand), which is a consequence of one MCF's negative result in the amount of approximately KM 45 million.

Generally, the microcredit sector in the FB&H is showing signs of recovery, however, the total indicators of the business performance of the microcredit sector are significantly undermined due to the extraordinarily poor results of the business operations of just one MCF with a significant volume of operations.

Microlending is largely directed toward agriculture (34%) and service activities (21%) and is mostly related to long-term loans to natural persons. MCOs have decreased effective interest rates on total microloans, which is how, at the end of the fourth quarter of 2014, the average weighted effective interest rates on total loans in the microcredit sector amounted to 24.41%, and thus saw a decrease of 0.88 percentage points. In order to reduce interest rates on microloans and in the context of protecting consumers-clients of microcredit organisations, as well as fulfilling the mission of microlending, during examinations, the Agency particularly values and examines all types of operating costs of MCOs that significantly impact the forming of interest rates and assesses their necessity, pursuant to which it issues appropriate orders. In the future, the focus of the Agency's examinations will be to continue the control of MCOs' costs, their justification and effectiveness, in order to reduce interest rates on microloans granted by MCOs from the FB&H.

As of 31.12.2014, the balance sheet total of MCOs amounted to KM 452.3 million and was lower by KM 23.6 million or 5% compared to the balance as of 31.12.2013. This drop was primarily influenced by the drop in the balance sheet total of one MCF with a significant volume of operations, which reduced the aforementioned by even KM 52.5 million or 60%. Without the data of this MCF, the microcredit sector would have recorded a significant increase in the balance sheet total in the amount of KM 28.9 million compared to the end of the previous year.

As of 31.12.2014, total MCO gross loans, as the most significant assets item, amounted to KM 381.3 million and made up 84% of total assets of MCOs, and are therefore lower by 4% compared to the end of the previous year, while net loans amounted to KM 355.2 million and are lower by 9% compared to the balance as of 31.12.2013.

The main source of funding of MCOs are loan commitments, which amounted to KM 264.8 million or 58% of total MCO liabilities as of 31.12.2014 and are lower by 2% compared to the balance as of 31.12.2013. Total MCO capital as of 31.12.2014 amounted to KM 161.1 million or 36% of total MCO liabilities, which is lower by KM 18.6 million or 10% compared to the end of the previous year, with the capital of MCFs amounting to KM 158.6 million or 98.4% and the capital of one MCC amounting to KM 2.5 million or 1.6%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one MCF with a significant volume of operations, which reduced its capital by KM 45 million as a result of a loss in business operations. Without the data of this MCF, the microcredit sector would record a significant increase in capital in the amount of KM 26.4 million compared to the end of the previous year.

Applying the principles of legality and maintenance of prescribed standards, as well as the application of the principle of due care or good business operations is the sole responsibility and obligation of the management bodies, and it is a minimum requirement for successful and stable MCO operations and therefore a necessary requirement for maintaining an MCO operating licence.

One MCF with a significant volume of operations, improper business operations and business practices at odds with the principles of due care and diligence, as well as multiple and continuous violations of the prescribed requirements for MCO operations significantly destabilises the microcredit market by causing direct damage to the foundation's property, its creditors, clients, and donations that are of general and common interest for the citizens of the FB&H.

In the interest of the stability of the microcredit system, the Agency has taken a number of corrective actions toward the aforementioned MCF, however, at the proposal of the MCF at hand, the Agency's decisions were postponed by provisional court measures until the resolution of the administrative dispute, and the Agency's jurisdiction under the Law on Agency and the LoMCO were completely derogated in this case, as a result of which the Agency is prevented from effectively regulating the market and adequately protecting the stability of the microcredit system in the Federation of B&H.

FBA PUBLIC RELATIONS OFFICE