



**BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA BANKING AGENCY**

**INFORMATION ON THE MICRO CREDIT SYSTEM OF THE
FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31.03.2014**

Sarajevo, May 2014

The Banking Agency of the Federation of B&H (FBA) as a regulatory institution, which performs supervision of micro credit institutions prepared the Information on Micro Credit System of the Federation of Bosnia and Herzegovina as of 31.12.2013 based on the analysis of monthly and quarterly statements on business operations, information and data, which micro credit organisations deliver to the Agency (*off-site* examination) and data found during examinations on site (*on-site* examination).

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I INTRODUCTION

The Law on Micro Credit Organisations („Official Gazette of the Federation of B&H“, No. 59/06) defines the establishment, registration, activity, organisation form, business operations, management manner, closing and monitoring of business operations of micro credit organisations (MCO, i.e. micro credit foundations (MCF) and micro credit companies (MCC) in the Federation of Bosnia and Herzegovina. Competencies of the FBA over these businesses are regulated under the Law on the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the Federation of B&H“ Nos. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12) and internal rules of the FBA. All the above-stated activities are performed within the Division for supervision of micro credit organisations. FBA performs monitoring over MCOs directly (*on-site*) and indirectly, i.e. by analysing statements/reports submitted by MCOs to the FBA (*off-site*) in line with the Law on Micro Credit Organisations and legal requirements of the FBA as stated in the Attachment 1 to this Information. The reporting basis include quarterly reports on balance sheet, capital, loans, loan loss provisions, business results, employees, write-offs and other reports on individual business segments and monthly interest rate report.

As of 31.03.2014, 13 MCOs, 12 MCFs and 1 MCC had the FBA's license for business operations in the Federation of B&H. They operated through 302 organisational units. Total headcount of micro credit sector of the Federation of B&H as of 31.03.2014 was 1.363, which are 40 employees or 3% less than 31.12.2013.

MCOs balance sheet total as of 31.03.2014 was KM 459,1 million, of which KM 458,4 million or 99,8% relates to MCFs and KM 0,7 million or 0,2% to MCC out of total MCO balance. Balance sheet total at the end of the 1Q2014 was less by KM 16,7 million or 4% compared to the balance as of 31.12.2013. Total MCO gross loans, as the most significant item of MCO assets, as of 31.03.2014, were KM 395million and make 86% of total assets of MCO, while net loans amounted to KM 384,9 million, less by 2% vs. the balance as of 31.12.2013. Micro lending is largely directed to agriculture (37%) and service activities (23%) and mostly long-term loans to private individuals. MCO continued decreasing effective interest rates to total micro loans, and, at the end of the first quarter 2014, the average weighted effective interest rates in micro credit sector to total loans were 25,12% which is an insignificant drop of 0,17 percentage points compared to the fourth quarter 2013.

If compared to the previous year, micro credit portfolio as of 31.03.2014 dropped insignificantly by 0,3% (KM 1,2 million) and shows deterioration in the quality of active loan portfolio by increasing loan loss provisions rate from 1,39% as it was as of 31.12.2013 to 2,58%. Moreover, NPL portfolio exceeding 30 dpd also increased 1.50% to 3,11%. Total result of the sector as to NPL portfolio is within the standard frameworks as set by the FBA, while out of 13 MCOs, 4 MCFs do not meet the standard of FBA, which has to be below 5%. NPL portfolio over 1 dpd significantly deteriorated and increased from 2,96% as it was at the end of the last year to 5,05%. Write-off percentage at the sector level was 2,50% as of 31.03.2014, less by 0,13%, and is within the FBA standard. Three MCFs do not meet the FBA standard as for the loan write-off percentage, which has to be less than 3%.

The main source of MCO funds are loans, which were KM 255,4 million as of 31.03.2014 or 56% of total MCOs liabilities and are 5% lower than as at 31.12.2012. Total MCO capital as of 31.03.2014 stood at KM 176,6 million or 38% of total MCO liabilities, less by 2% vs. the end of the previous year. The capital of MCF was KM 176,1 million or 99,7%, and capital of one MCC was KM 0,5 million or 0,3%. The most significant items of MCF capital are excess

of income over expenses in the amount of KM 115 million, which makes 65% of total MCF capital and donated capital which was KM 49,6 million or 28% of total MCF capital, while one MCC had no capital donated. Core capital and other reserves of MCF were KM 11,5 million, i.e. 7% of total MCF capital. The loss of one MCC was KM 51 ths, while core capital of this MCC was KM 600 ths.

In the period from 01.01. to 31.03.2014, out of total 12 MCFs, eight of them posted more revenues than expenses in the amount of KM 5.043 ths, while four MCFs posted less revenues than expenses in the amount of KM 8.091 ths. This means that as of 31.03.2014 MCFs generated less income over expenses which total KM 3.048 ths. Out of these four MCFs that posted less income over expenses of KM 8.091 ths in the period between 01.01. to 31.03.2014, one of the biggest MCFs posted a shortfall of KM 8.060 ths, i.e. 99,6%, while only KM 31 ths of generated loss over expenses or 0,4% relates to other three MCFs. If we exclude this MCFs data, which are opposite to the sector trend as at 31.03.2014 and which completely destabilised the micro credit market and affected deterioration in the sector ratios, micro credit sector generated positive result in the amount of KM 5.012 ths, which positively affected performance ratios.

In the period between 01.01. to 31.03.2014, one MCC posted a net loss of KM 46 ths, which means that as of the end of the first quarter 2014, negative financial result of the micro credit sector in the B&H Federation was posted in the amount of KM 3.094 ths, which is KM 6.378 ths or 194% less than in the same period of the previous year.

During the examinations of micro credit organisations, FBA found that majority of them operates in line with the legal regulations and objectives for which they have been established. Although assets and gross loan portfolio level is dropping, majority of MCFs improved its business practices and processes as well as internal controls significantly. This reflected on the improvement of loan portfolio quality. Large efforts have been invests in enhancement of collection processes with majority MCOs from the off-balance records, which affects financial discipline of customers and business results of MCO. Still, some MCFs allocated significant funds for different marketing campaigns in order to promote the MCF body and MCF image by neglecting strategies aimed at disintegration of the institutions. Unfortunately, future of some MCOs, its employees and other resources depends on detrimental corporate practices of managing bodies. Due to lack of creditors' trust, they are deprived of new loan proceeds, which are necessary to them in order not to jeopardise their liquidity.

The examination revealed certain weaknesses and irregularities in work of certain organisations with significant volume of operations and the level of donated funds, which mostly related to non-compliance with the provisions of the Law on Micro Credit Organisations and the FBA documents, most notably as for credit risk and other risks management, creating and maintaining loan loss provisions and especially as regards re-arrangement of loan. Other irregularities included improper establishment and maintenance of off-balance records, improper calculation of due and outstanding interest, improper declaring and reporting to the FBA on the amount of donated funds, not revealing effective interest rate in loan agreements and premises of MCFs and failure to establish a connected customer registry and adopting MCO policies of connected customers, weaknesses in procedures of customer and guarantor complaints etc. The examination of one MCF revealed that one part of transactions that this MCF performs with some connected customers are regarded to be illegal short-term lending of connected customers, while another part of transactions with connected customers are characterised as indirect allocation of income surplus over expenses,

which means breaching of the Law on Micro Credit Organisations, the Law on Associations and Foundations and the FBA's bylaws.

The above irregularities affected the breach of Decision on other general conditions for MCO operations as regards the defined standards of the FBA for MCOs. The examinations revealed that managing bodies of two MCFs do not comply with the due care principle and that they create high, unnecessary and unjustified expenses and perform transactions with connected customers detrimental to the foundation. Connected customers have a direct benefit, which is contrary to legal provisions and the mission of MCF establishment.

Failure to adopt the proposed amendments to the Law on Micro Credit Organisations, which would in line with the conclusion made by the Government of the Federation of B&H, enable more efficient corrective measures to institutions and bodies which violate the Law on Micro Credit Organisations and the FBA's bylaws, will inevitably lead to damage to the donated capital. Unfortunately, the consequences will be felt by whole micro credit system, which includes customers, creditors and employees of MCOs. Failure to adopt the proposed amendments to the Law on Micro Credit Organisations is in favor of several individuals who find the safe heaven in the current regulations, which insufficiently sanction damages made to the property of a foundation and donated funds, which have wider importance.

Special notes: when preparing regular quarterly Information on Micro Credit System of the Federation of Bosnia and Herzegovina, the FBA uses data of MCOs. During its examination of MCOs business, the FBA checks the delivered reports. Therefore, some irregularities have been determined in reporting of one MCO, which include capital, fixed assets and other assets positions, which will be subject to the FBA order. The Agency expressed its unqualified opinion for one MCO which has significant business volume.

II BUSINESS PERFORMANCE OF MCOs IN THE FEDERATION OF B&H

1. STRUCTURE OF THE MICROCREDIT SECTOR

1.1. Number of micro credit organisations

As of 31.03.2014, 13 MCOs have work licenses of the FBA, thereof 12 MCFs (non-profit organisations) and 1 MCC (profit organisation) and 29 organisational units of MCC seated in the Republika Srpska. All MCFs which obtained the work license from the FBA made re-registration in line with the Law on Micro Credit Organisations, i.e. due to change of MCO established in line with the Law on Micro Credit Organisations („Official Gazette of Federation of B&H, no.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in line with the Law on Micro Credit Organisations in 2000.

The Attachment 2 includes the main data on MCF and MCC, which as of 31.03.2014 have a work license of the FBA for micro lending business.

1.2. Organisational Units

As of 31.03.2014, there were a total of 302 organisational units of MCOs seated in the B&H according to the Registry of Micro Credit Organisations and their organisational units, which in line with Article 13 of the Law on Micro Credit Organisations is maintained by the FBA. Out of this number, a total of 200 organisational units of Micro Credit Organisations are seated in the Federation of B&H, 99 in the Republic of Srpska and 3 in the Brcko District. Total number of organisational units of Micro Credit Organisations seated in the Federation of B&H dropped by 8 organisational units, i.e. by 3% vs. the end of the previous year. A total of 166 organisational units of Micro Credit Organisations seated at the Federation of B&H have authorities to assign micro loans, therefore they are registered with the competent registry.

In 1Q2014, the FBA issued 3 consents for establishment of organisational units, 11 consents for closing organisational units of MCOs and 5 consents for change of address of organisational units. Eight MCOs have their organisational units outside of the Federation of B&H and three MCOs operate solely through their HO, i.e. they have no organisational units in the Federation of B&H or Republika Srpska. The FBA issued licenses for one MCC seated in Republika Srpska, which operates through its 29 branches and on site offices in the Federation of B&H.

1.3. Human Resources

Total headcount of micro credit sector was 1.363 as of 31.03.2014, which is 40 employees or 3% less compared to 31.12.2013. This drop in number of employees was triggered by drop of employees in one of the biggest MCOs, 18% or 34 less than as at the end of the year before. MCFs employ 1.355 or 99,4% and MCC 8 employees or 0,6%.

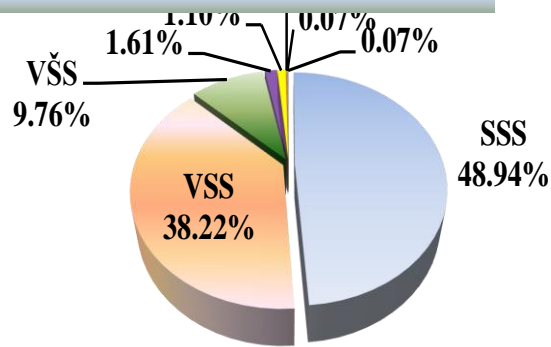
Table 1. Staff Qualifications

No.	Qualification	31.12.2013		Total	Share (%)	31.03.2014		Total	Share (%)	Index
		MKF	MKD			MKF	MKD			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	3	0	3	0,21	3	0	3	0,22	100
2.	KV	1	0	1	0,07	1	0	1	0,07	100
3.	VKV	15	0	15	1,07	15	0	15	1,10	100
4.	SSS	707	2	709	50,53	666	1	667	48,94	94
5.	VŠS	138	1	139	9,91	132	1	133	9,76	96
6.	VSS	513	6	519	36,99	516	5	521	38,22	100
7.	MR	16	0	16	1,14	21	1	22	1,61	138
8.	DR	1	0	1	0,07	1	0	1	0,07	100
TOTAL		1.394	9	1.403	100,00	1.355	8	1.363	100,00	97

* NS – semi-skilled; KV – skilled; VKV – highly skilled; SSS – secondary school qualifications; VŠS – two-year post secondary school qualifications; VSS – university qualifications; MR – M.Sc; DR – Ph.D.

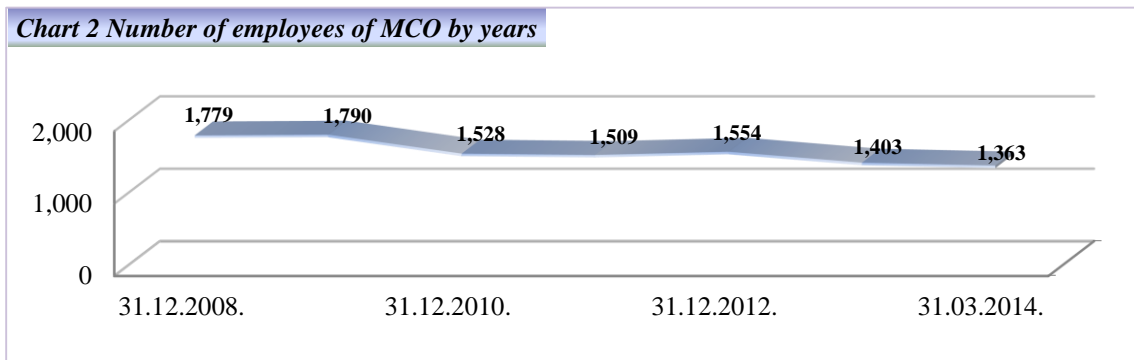
The employees' structure is dominated by secondary school education with 48,94%, university degree with 38,22% and two-year post-secondary education 9,76%. The share of employees with secondary school is on the drop by 6% while two-year post-secondary education and university degree are on a slight increase by 0,4% and number of employees with Masters degree increased by even 38% .

Chart 1 Qualification structure of employees in MCO



A historical overview of employees' number of MCOs reveals that the biggest number of employees was recorded at the end of 2009 when total headcount of MCOs was 1.790. As of 31.03.2014, MCOs had 1.363 employees, down by 24% vs. the end of 2009. A comparison of these two periods in individual MCOs reveals that two MCFs posted the largest drop of employees by even 42% and 32%, respectively.

Chart 2 Number of employees of MCO by years



2. FINANCIAL FIGURES OF MCOs BUSINESS OPERATIONS

2.1. Balance Sheet

Balance sheet volume of MCOs as of 31.03.2014 was KM 459,1 million, which is less by KM 16,7 million or 4% than as at 31.12.2013. Balance sheet volume increased with 6 MCFs while a drop was recorded with 6 MCFs and 1 MCC vs. the balance as of the last year's end.

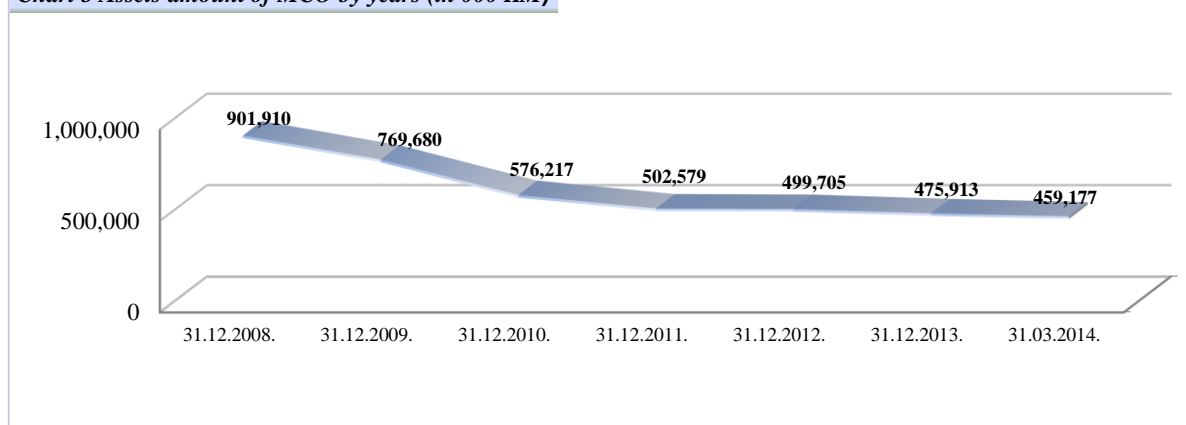
A drop of balance sheet volume up to 10% was recorded with 5 MCF vs.. 31.12.2013, while a drop of up to 20% was recorded with 1 MCF. One MCC posted a fall of balance sheet volume by 32% vs. the last year's end. One of the largest MCFs reduced its assets in three months by even 12%. Accordingly, this affected assets drop at the level of the whole sector. The largest share in total MCO balance was contributed by six MCFs with assets of KM 420 million or 91%.

- 000 KM -

DESCRIPTION	31.12.2013			31.03.2014					Index
	Balance for MCF	Balance for MCC	TOTAL	Balance for MCF	%	Balance for MCC	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	24.123	88	24.211	15.535	3	35	5	15.570	64
2. Facilities to banks	4.054	0	4.054	3.777	1	0	0	3.777	93
3. Loans	395.382	886	396.268	394.435		615		395.050	100
4. Loan loss provisions	5.507	16	5.523	10.164		9		10.173	184
5. Net loans	389.875	870	390.745	384.271	84	606	86	384.877	98
6. Business premises and other fixed assets	42.596	50	42.646	41.533	9	42	6	41.575	97
7. Long-term investments	761	0	761	761	0	0	0	761	100
8. Other assets	14.018	28	14.046	13.506	3	20	3	13.526	96
9. Provisions for other assets items, except loans	549	1	550	908		1		909	165
TOTAL ASSETS	474.878	1.035	475.913	458.475	100	702	100	459.177	96
LIABILITIES									
10. Loan liabilities	268.565	348	268.913	255.394	56	70	10	255.464	95
11. Other liabilities	27.201	92	27.293	26.998	6	83	12	27.081	99
12. Capital	179.112	595	179.707	176.083	38	549	78	176.632	98
TOTAL LIABILITIES	474.878	1.035	475.913	458.475	100	702	100	459.177	96
Off-balance records	170.598	55	170.653	171.106		54		171.160	100

A historical overview of balance sheet sum of MCOs reveal that the largest amount is posted as at the end of 2008 when it was KM 902 million. Balance sheet volume of MCOs as of 31.03.2014 was KM 459,1 million, almost double less (49%) than at the end of 2008. A comparison of these two periods shows that of individual MCOs, two MCFs posted the largest fall of balance sheet volume, with even 75% and 64%, respectively.

Chart 3 Assets amount of MCO by years (in 000 KM)



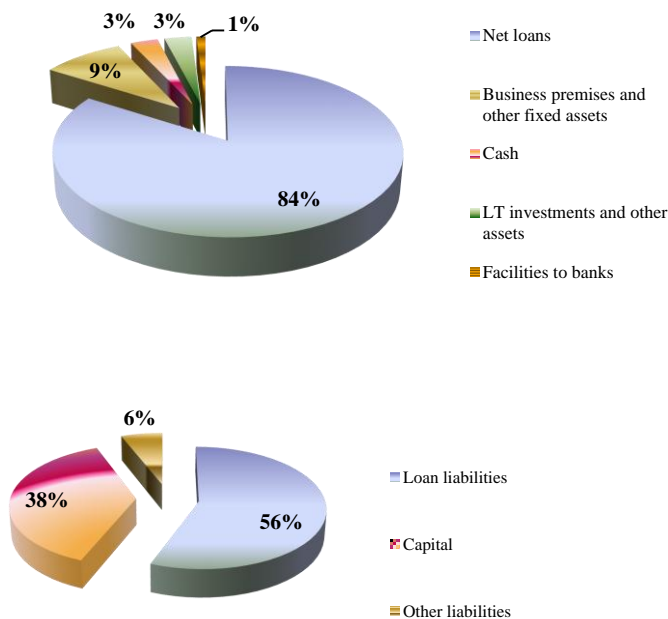
In the assets structure of MCO, cash funds amount to KM 15,6 million or 3% with a fall rate of high 36% vs. 31.12.2013 and largely include cash of MCF. Facilities to banks are KM 3,8 million or 1%, which is less by 7% vs. the end of the last year.

Net loans, i.e. gross loans reduced by loan loss provisions amount to KM 384,9 million or 84% of total assets; less by KM 5,8 million or 2% vs. 31.12.2013.

Net loan growth was recorded with 7 MCFs vs. the end of the previous year and the decline was recorded with 5 MCFs and 1 MCC. Drop of net loans up to 10% was recorded with 3 MCFs as compared to 31.12.2013, drop of 20% was recorded with 2 MCF, while a drop of up to 30% was recorded with one MCF. One of the largest MCFs posted a downfall of net loans by even KM 7,2 million and recorded a net loan drop of 10,2% vs. the end of the last year, which accordingly affected decline of this balance sheet item at the level of the whole sector.

Business premises and other fixed assets amount to KM 41,5 million or 9% of total assets, down by KM 1,1 million or 3% vs. the end of the last year. Fixed assets percentage compared to total assets (reduced by donated capital) at the sector level is 10,15%, which is border-line of the allowed amount (up to 10%). Individually, four MCFs breach this standard. The amount of KM 13,3 million or 3% includes long-term investments (KM 0,7 million showed by only one MCF) and other assets (KM 12,6 million reduced by provisions for other assets items except loans), which include calculated interest, advances, accrued and deferred items etc. Other assets percentage at the sector level vs. total assets is 2,95% and individually, other assets is below 10% vs. total assets.

Chart 4 Assets and liabilities structure of MCO



Loan liabilities in the MCO liabilities structure are the main source of financing totaling KM 255,4 million or 56% of total liabilities and are 5% less vs. 31.12.2013. they are completely dominated by liabilities of MCF.

- 000 KM -

Table 3 Maturity structure of taken loans

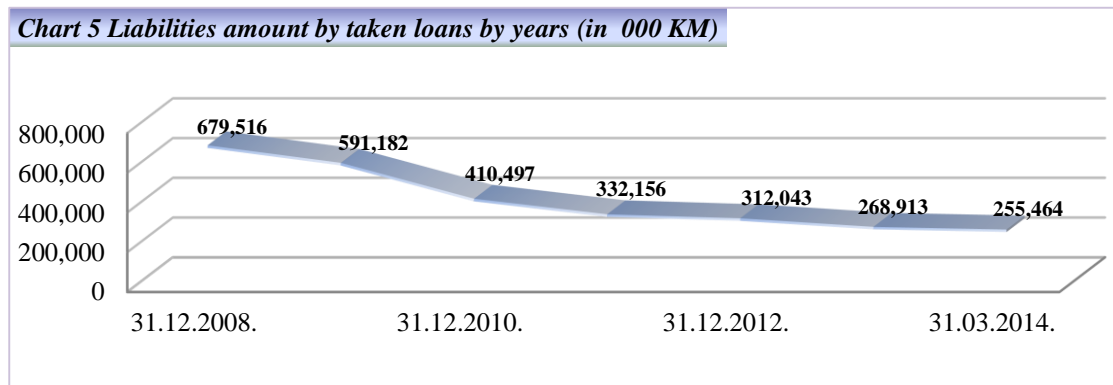
DESCRIPTION	31.12.2013				31.03.2014				Index MCF
	MCF	MCC	TOTAL		MCF	MCC	TOTAL	%	
1	2	3	4=(2+3)	1	2	3	4=(2+3)	1	2
1. Liabilities against ST loans	81.258	202	81.460	30	78.090	70	78.160	31	96
2. Liabilities against LT loans	187.307	146	187.453	70	177.304	0	177.304	69	95
TOTAL	268.565	348	268.913	100	255.394	70	255.464	100	95

Out of total loan liabilities, long-term loans (which are not recorded with 2 MCFs) were KM 177,3 million or 69% and are 5% lower than the end of the year before. Out of total loan liabilities, short-term loans (not recorded with 3 MCFs) stood at KM 78,1 million or 31% and are on the fall by 4% vs. the end of the previous year.

Given that creditors, both local commercial banks and various international socially-oriented commercial funds, are generally very cautious and abstain from lending large number of MCOs, many MCOs are deprived of funds with which they would finance its micro credit activity and generate sufficient income from regular operations to cover their expenses. Additional deprivation of MCOs of long-term funds and maturity of short-term liabilities along with poor loan collection could lead to non-liquidity of some MCOs, even with higher operations volume, which is one of important risks and challenges of managing bodies.

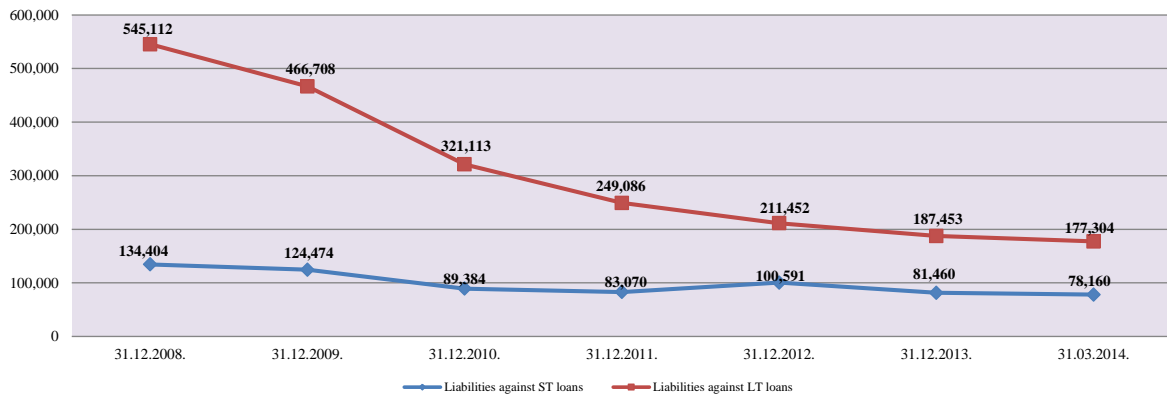
According to the delivered liquidity statements of MCO, liquidity position is jeopardised with one MCO in a way that due to difficult new loans, repayment of current liabilities could affect keeping of loan portfolio at nearly the same level or with slight reductions up to 5%. One MCO had a negative net exposure in significant amount in the period between 01.04. and 30.09.2014, thus liquidity position is jeopardised in a way that repayment of current liabilities is questionable by regular order.

Looking at total liabilities of MCOs by taken loans through years of MCOs operations, the biggest amount is recorded at the end of 2008 when they were KM 679,5 million. Total liabilities of MCO by taken loans as of 31.03.2014 were KM 255,4 million, less than 62% vs. the end of 2008. Looking at these two periods, for individual MCOs, two MCFs recorded the biggest drop of total liabilities by taken loans by even 90% and 87%, respectively.



As evident from the chart below, in addition to the fact that loan liabilities are lower by 62 % vs. 2008 and 5% vs. the end of the last year, their maturity structure is worrying. Long-term loans fell by 67% vs. 2008 and are on the constant drop, while short-term loans fell by 42% vs. 2008 and are also lower by 4 vs. the end of 31.12.2012 although they posted a growth as at the end of 2012 vs. previous two years.

Chart 6 Short-term and long-term loan liabilities

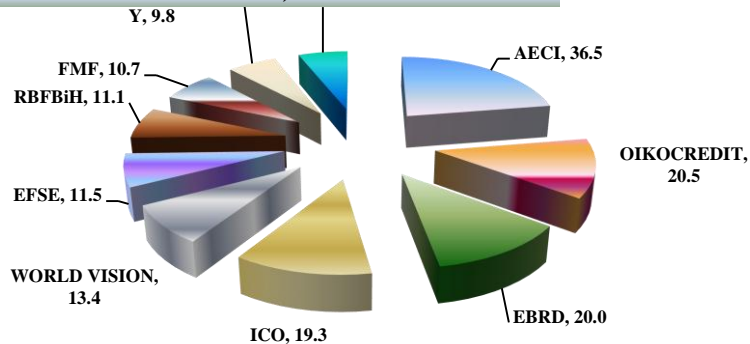


Below are ten the most significant creditors of MCOs with 64% of total loan liabilities owed to them:

- 1) AECI – Spanish Agency for International Development Cooperation (KM 36,5 million);
- 2) Oikokredit, Netherlands (KM 20,5 million);
- 3) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 20 million);
- 4.) ICO – Instituto de Credito Oficial, Spain (KM 19,3 million);
- 5.) World Vision International, USA (KM 13,4 million);
- 6.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 11,5 million);
- 7.) Development Bank of the Federation of B&H¹ (KM 11,1 million);
- 8.) Federal Ministry of Finance, FB&H (KM 10,7 million);
- 9.) Responsibility SICAV, Switzerland (KM 9,8 million);
- 10.) Triodos – Doen, Netherlands (KM 9,8 million).

One MCF is exposed with the first creditor with 46% which is high concentration of sources of funds.

Chart 7 The most significant sources of funds of MCO (in million KM)



Other liabilities amount to KM 27,1 million or 6% of total liabilities. These include liabilities to employees, suppliers, accrued expenses and others. Other liabilities at the sector level vs.

¹ Funds were disbursed within the Local Initiative Project LIP I and LIP II, which were transferred to Razvojna banka Federacije BiH under the Decision of the Federation of B&H Government („Official Gazette of Federation of B&H“, no: 78/06 and 34/07).

total liabilities are 9,58%, and individually, a total of eight MCFs and one MCC posted more than 10% of other vs. total liabilities.

Off-balance records as at 31.03.2014 was KM 171,1 million and include write-offs (KM 170,8 million) and barter deals (KM 0,3 million with three Miffs) and is 0,3% lower than as at 31.12.2013.

2.2. Capital

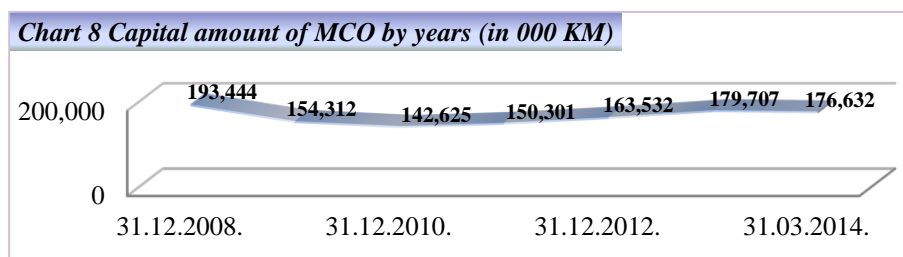
Total capital of MCOs as of 31.03.2014 was KM 176,6 million or 38% of total liabilities, which is less by KM 3,1 million or 2% vs. the end of 2013. The capital of MCFs was KM 176,1 million or 99,7%, and capital of one MCC was KM 0,5 million or 0,3%.

Total capital of micro credit sector (reduced by donated capital) was 27,65% of total assets and three MCFs have capital (reduced by donated capital) vs. total assets less than allowed, i.e. less than 10% of total assets.

- 000 KM -

DESCRIPTION	31.12.2013					31.03.2014					Index
	Balance for MCF	%	Balance for MCC	%	TOTAL	Balance for MCF	%	Balance for MCC	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	49.640	28	0	0	49.640	49.649	28	0	0	49.649	100
Core capital	8.291	4	600	101	8.891	8.291	5	600	109	8.891	100
Surplus/ deficit of income over expenses	117.975	66	0	0	117.975	114.958	65	0	0	114.958	97
Emission agio	0	0	0	0	0	0	0	0	0	0	0
Retained profit	0	0	-106	-18	-106	0	0	-51	-9	-51	48
Legal reserves	0	0	101	17	101	0	0	0	0	0	0
Other reserves	3.206	2	0	0	3.206	3.185	2	0	0	3.185	99
TOTAL CAPITAL	179.112	100	595	100	179.707	176.083	100	549	100	176.632	98

A historical review of the capital amount of MCOs reveal that the biggest amount is recorded at the end of 2008, when it was KM 193,4 million. Total capital of MCO as of 31.03.2014 was KM 176,6 million, less by 9% vs. the end of 2008. Individually, two MCFs recorded the biggest capital drop, which fell by 57% or 46%.



In the structure of capital of MCF, the most important is the surplus of income over expenses, which is KM 115 million and makes 65% of total MCF capital, less by KM 3 million or 3% vs. the end of the year before. Deficit of income over expenses for the period between

01.01.2014 to 31.03.2014 was posted by four MCFs while 8 MCFs posted a surplus over expenses. MCC posted a net loss. Surplus of income over expenses of regular operations was generated by 5 MCFs, while 7 MCFs and 1 MCC generated a shortfall of income over expenses, i.e. loss of regular operations as of 31.03.2014. Out of those 7 MCFs, 3 of them generated positive result at the end of 1Q2014 due to extraordinary income, which was significantly higher than the generated deficit of income over expenses. Extraordinary income is direct result of the increased collection of write-offs.

Significant source of MCF capital is donated capital which amounts to KM 49,6 million or 28% of total capital of MCF, while one MCC has no donated capital. The amount of donated capital, reported by MCOs, is almost at the same level as at the end of the last year. In line with Article 11 of the Decision on General Conditions for Operations of Micro Credit Organisation, MCOs have to keep the records on donated funds and treat them as donated capital on which they have to report to the FBA. As per official quarterly reports, being delivered to the Agency, 9 MCFs showed a donated capital value in their reports and keep records on their balance. During the target examination on site, it was determined that one MCF does not declare the value of donated capital, which is contrary to the FBA's regulations and the report was underestimated by around KM 7 million, which will be the subject of the FBA's ruling on written orders.

Core capital of MCF as of 31.03.2014 is KM 8,3 million or 5% of total MCF capital. Other reserves, which include 2 MCFs stand at KM 3,2 million or 2% of total capital of MCF.

Core capital of one MCC is KM 600 ths and its loss is KM 51 ths.

2.3. Loan Portfolio

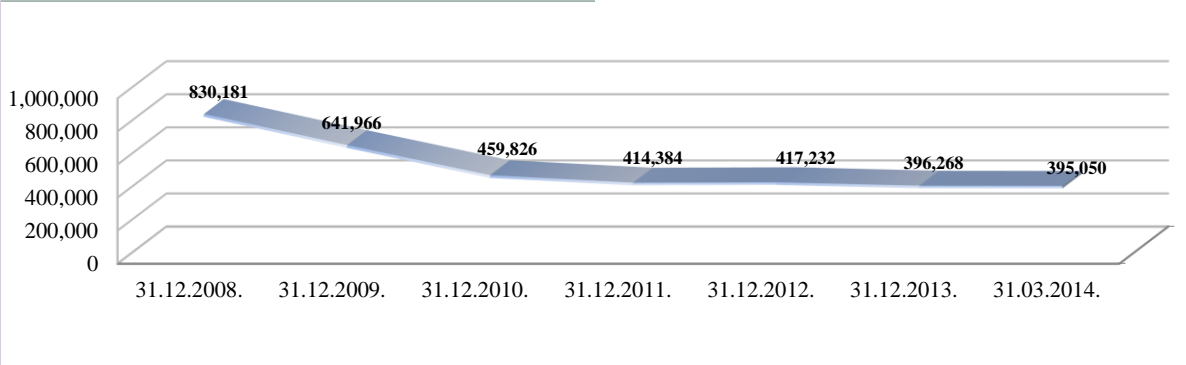
The main activity of MCO is micro lending which includes the amount of KM 395 million or 86% of total assets of the micro credit sector. The level of total loans of the sector depends on loans of MCFs which include KM 394,4 million or 99,8% of total loans, while MCC includes KM 0,6 million or 0,2% of total loans. Net loans, which make total loans reduced by loan loss provisions are stated in the Table 5.

- 000 KM -

No.	DESCRIPTION	31.12.2013			31.03.2014			Index
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	395.382	886	396.268	394.435	615	395.050	100
2.	Loan loss provisions	5.507	16	5.523	10.164	9	10.173	184
3.	Net loans (1.-2.)	389.875	870	390.745	384.271	606	384.877	98

Net loans amount to KM 384,9 million, 2% less vs. 31.12.2013, while gross loans are also lower by 0,3% vs. the end of the last year. Loan loss provisions were KM 10,1 million, up by 84% vs. 31.12.2013. Loan loss provisions to total loan portfolio are 2,58%, and recorded a 1,19 % drop compared to 31.12.2013. one of the largest MCFs increased loan loss provisions by KM 4,2 million or 260% vs.31.12.2013. This affected increase in loan loss provisions at the sector level and drop of portfolio quality ratios.

Chart 9 Gross portfolio amount of MCO by years (in 000 KM)



A review of the gross portfolio of MCO through years of operations of MCO show that its biggest amount was recorded at the end of 2008 when it was KM 830,2 million. Total gross portfolio as of 31.03.2014 was KM 395 million and it dropped by 52% vs. the end of 2008. Comparison of these two periods reveals that some MCOs and two MCFs posted the biggest fall of gross portfolio, which dropped by high 79% and 71%, respectively.

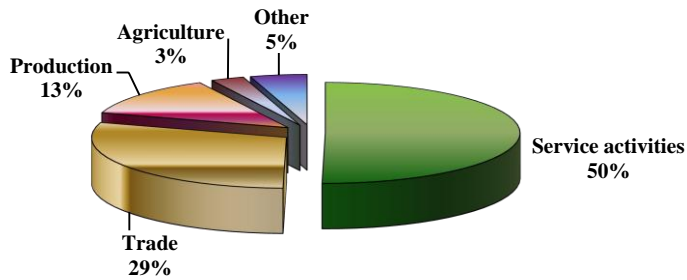
- 000 KM -

Table 6 Sector and maturity structure of micro loans MCOs as of 31.03.2014

No.	Micro loans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Corporates					
a.)	Service activities	802	3.445	23	4.270	50%
b.)	Trade	715	1.755	35	2.505	29%
c.)	Agriculture	68	166	2	236	3%
d.)	Production	336	739	8	1.083	13%
e.)	Other	67	326	7	400	5%
	TOTAL 1:	TOTAL 1:	6.431	75	8.494	100%
2.	Private individuals					
a.)	Service activities	14.304	72.545	887	87.736	23%
b.)	Trade	11.012	29.200	511	40.723	11%
c.)	Agriculture	15.710	127.398	845	143.953	37%
d.)	Production	4.789	13.590	261	18.640	5%
e.)	Housing needs	2.262	45.319	210	47.791	12%
f.)	Other	18.365	28.979	369	47.713	12%
	TOTAL 2:	66.442	317.031	3.083	386.556	100%
	TOTAL (1+2):	68.430	323.462	3.158	395.050	

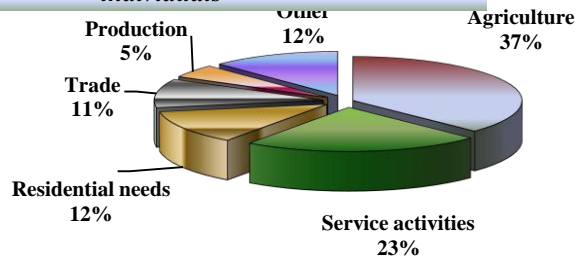
Out of total number of micro loans, KM 8,5 million or 2% was placed to legal entities and KM 386,5 million or 98% was placed to private individuals. Maturity structure of micro loans includes short-term loans with receivables due in the amount of KM 71,6 million or 18% and long-term loans of KM 323,4 million or 82%. Receivables due total KM 3,1 million or 1% of total loans and almost completely are dominated by PI loans.

Chart 10 Sector structure of microloans placed to legal entities



The biggest amount of total micro loans to **legal entities** was placed to service activities and trade – KM 4,3 million or 50% for service activities and KM 2,5 million or 29% for trade. Out of total micro loan amount, KM 1,1 million or 13% was granted to production while KM 0,2 million or 3% was granted to agriculture and KM 0,4 million or 5% for other purposes.

Chart 11 Sector structure of micro loans placed to private individuals



As for loans to **Private individuals**, KM 144 million or 37% was placed to agriculture and KM 87,7 million or 23% for service activities, KM 47,8 million or 12% for housing needs, KM 40,7 million or 11% for trade, KM 18,6 million or 5% for production and KM 47,7 million or 12% for other purposes.

- 000 KM -

Micro loans for:	31.12.2013	31.03.2014	Share	Index
Service activities	142.133	144.189	37%	101
Trade	93.750	92.006	23%	98
Agriculture	45.481	48.113	12%	106
Production	49.288	47.791	12%	97
Housing needs	45.028	43.228	11%	96
Other	20.588	19.723	5%	96
TOTAL	396.268	395.050	100%	100

Based on industry analysis the conclusion is that micro lending is largely routed to lending of agriculture (37%) and service activities (23%) and mostly includes long-term loans for private individuals. This means that loans are, in majority cases, approved to persons who do not have an access to traditional sources of financing due to risk business they perform but also due to lack of proper collaterals. Compared to the end of the last year, total loan percentage for all loan products is on the drop between 2% and 4%, save for loans for housing, which are on the rise by 1% and 6% vs. the end of the last year.

- 000 KM -

DESCRIPTION	31.12.2013	31.03.2014	Share	Index
Long-term micro loans	325.426	323.462	82%	99
Short-term micro loans with receivables due	70.842	71.588	18%	101
TOTAL	396.268	395.050	100%	100

Long-term micro loans dropped by 1% vs. the end of the last year, while short-term micro loans (including receivables due) are on the rise by 1%.

According to the Decision on the amount and manner of creating and maintaining reserves for coverage of loan loss provisions of micro credit organisations („Official Gazette of the Federation of B&H“, No.: 27/07), MCOs have to allocate all loan proceeds and other receivables to certain groups by applying days past due criteria in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for calculation of the reserve include the amount of outstanding loan, due interest and fee and any other items in which MCO is exposed to risk of impossible collection, i.e. business failure. Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 31.03.2014 are evident from the following table.

- 000 KM -

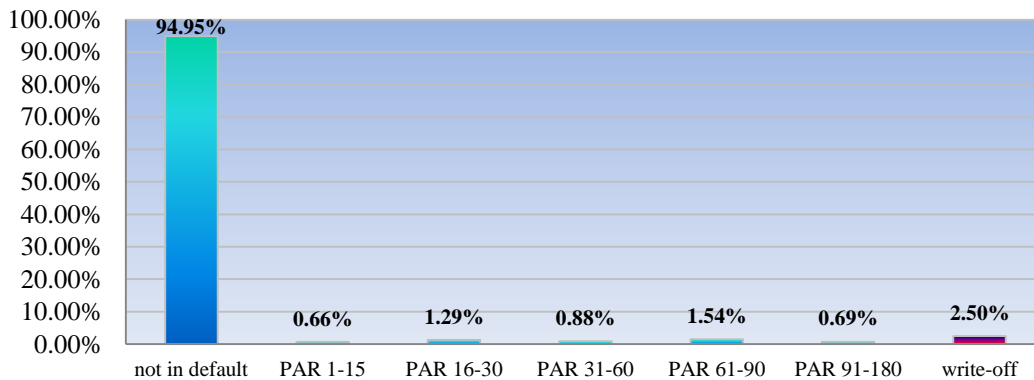
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	Po dospeljim kamatama	Po ostalim stavkama aktive	
1	2	3	4	5	6	7	8	9=(4x3)/100	1	2	3
1.	0	0%	375.087	94,95	0%	2	0	0	0	0	0
2.	1 – 15	2%	2.601	0,66	2%	48	0	52	1	0	53
3.	16 – 30	15%	5.083	1,29	100%	92	0	762	92	0	854
4.	31 – 60	50%	3.471	0,88	100%	118	0	1.736	118	0	1.854
5.	61 – 90	80%	6.083	1,54	100%	337	0	4.867	337	0	5.204
6.	91 – 180	100%	2.725	0,69	100%	358	0	2.757	361	0	3.118
TOTAL			395.050	100,00		955	0	10.173	909	0	11.082
7.	over 180	Write-off	2.472		100%	911					

*Columns 9 and 10, days past due category (91-180) include additional provisions of one MCF for loans which were restructured several times and for loans which were re-arranged, with the balance as of the reporting date higher than KM 10.000, for which the FBA, in its ruling, instructed additional provisions by 100% rate.

The amount of defaulted loans over one day is KM 20 million. Default loan rate over one day as of 31.03.2014 was 5,05% and recorded a deterioration vs. the end of the last year by 2,09 percentage points. The biggest defaulted loan amount is with those of 61 to 90 days (KM 6,1 million or 1,54% of total loans). Total amount of interest due by current loans which are defaulted for more than one day is KM 1 million. Total amount of calculated reserves on all basis is KM 11,1 million and as of 31.12.2013 is up by KM 5 million or 82%. By analysing MCOs report, it was determined that one of the biggest MCO has 62% of share in total reserve amount.

In 1Q2014, MCO wrote-off KM 2,4 million of principal and KM 0,9 million of interest.

Chart 12 Portfolio quality of MCO

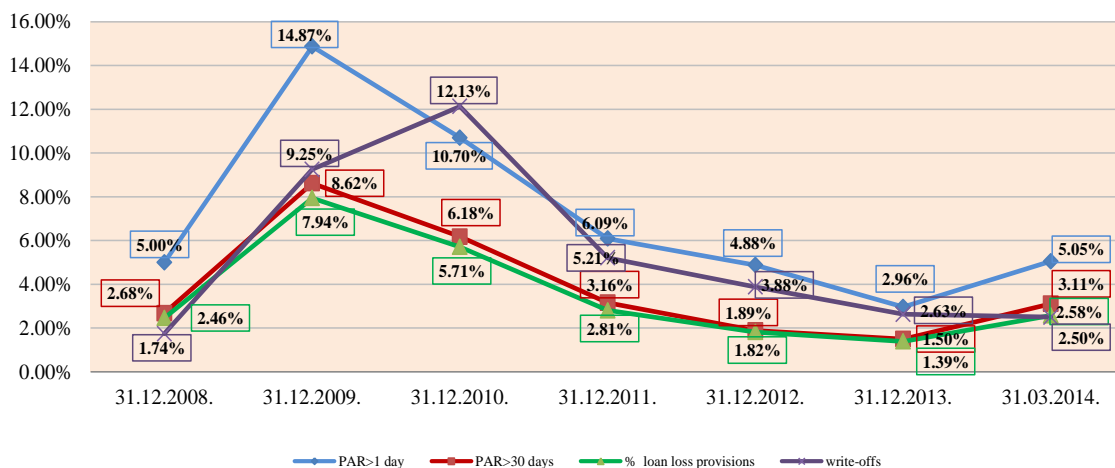


2.3.1. Key indicators of loan portfolio quality

Compared to the end of the last year, micro credit portfolio as of 31.03.2014 recorded an insignificant drop of 0,3%(KM 1,2 million) and shows deterioration in quality of active loan portfolio. Majority of MCOs are exposed to the pressure of competition both from major MCOs and banks. Many MCOs face lack of funds for financing loan portfolio.

Deterioration in quality of active portfolio was declared by increase of loan loss provisions rate from 1.39%, as it was on 31.12.2013 to 2,58%. Non-performing risk over 30 days past due also increased from 1,50% to 3,11%. Total result of the sector based on risk portfolio is within standards defined under the FBA while out of 13 MCOs, 4 MCFs do not satisfy the standard of the FBA as for risk portfolio which has to be below 5%. Non-performing risk over one day past due also recorded significant drop and it increased from 2,96% as it was at the end of the last year to 5,05%.

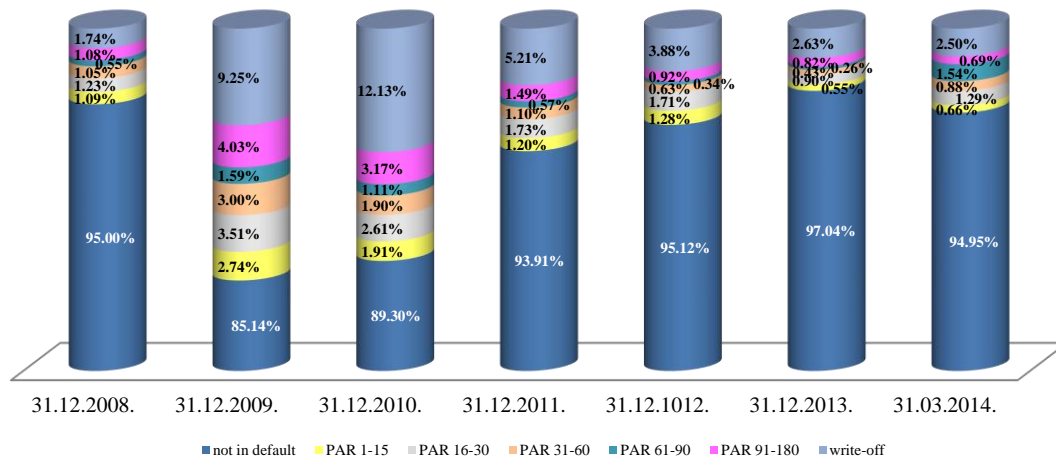
Chart 13 Active portfolio quality indicators of MCO



FBA expressed its unqualified opinion as for the quality of loan portfolio and other business results of MCFs. This was due to the fact that one of the largest MCFs which has nearly 17% of market share failed to comply with the FBA orders within timeframes set based on the

examination of this MCF, which include significant amount of instructed additional provisions and reports of this MCF were not adjusted to the regulations of the FBA.

Chart 14 Gross portfolio classification of MCO by years



During 1Q2014, MCOs wrote off 1.763 of loan accounts (1.748 of write-offs relate to private individuals and 14 to legal entities) in the total amount of KM 3,3 million. Out of this number, KM 2,4 million relate to written-off principal. Even 62% of written off loan accounts and 58% of written off principal out of total number of written off loan accounts and total number of written-off principal in 1Q2014 relates to one of the biggest MCFs in the B&H Federation. During examination of this MCF, the FBA found numerous irregularities in its business, especially as regards write-offs.

The percentage of write-offs at the sector level as of 31.03.2014 was 2,50% and this figure reduced by 0,13 percentage points and is within the FBA standard. Three MCFs do not satisfy FBA standard as for percentage of write-off loans which must be below 3%.

Micro credit organisations continued with their efforts in collection of receivables under non-performing loans and managed to collect KM 2,6 million of written-off principal in 2014 (more than written off principals in the same period) and KM 0,3 million of written off interest, while in the same reporting period two MCFs wrote-off permanently a total of KM 73 ths of principal and KM 8 ths of interest.

Total receivables against write-offs, which are in the off-balance records, amount to as KM 170,3 million as of 31.04.2014, which is 0,3% up than as of the end of the last year. One MCF has KM 44 million of total receivables against write-offs, which makes 26% of total write-offs at the sector level.

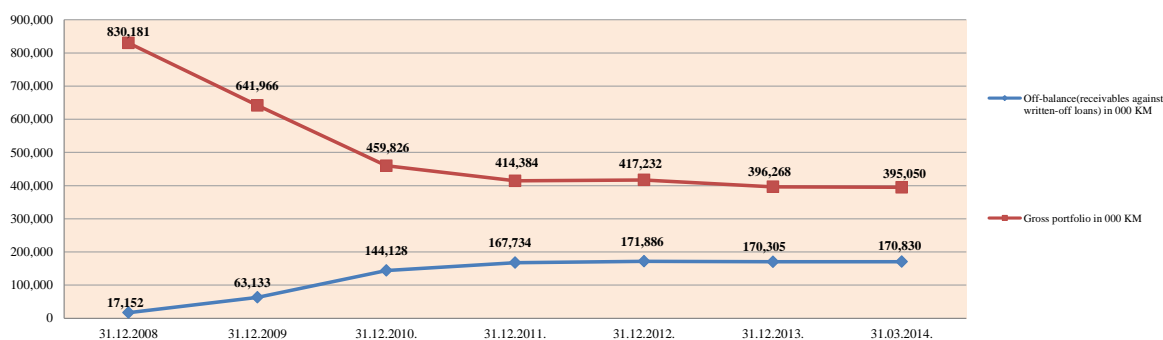
DESCRIPTION	PRIVATE INDIVIDUALS		LEGAL ENTITIES		TOTAL	
	Written off principal	Written off interest	Written off principal		Written off principal	Written off interest
1	2	3	4	5	6	7
Initial balance as of 01.01.2014	139.601	25.764	2.732	409	142.333	26.173
Changes in 2014:						
New write-off in the current year	2.437	907	35	4	2.472	911
<i>Write-off in the period 01.01.-31.03.</i>	2.437	907	35	4	2.472	911
<i>Write-off in the period 01.04.-30.06.</i>	0	0	0	0	0	0
<i>Write-off in the period 01.07.-31.12.</i>	0	0	0	0	0	0
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Collected in the current year	2.582	294	37	5	2.619	299
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2.582	294	37	5	2.619	299
<i>Collection of write-offs in the period 01.04.-30.06.</i>	0	0	0	0	0	0
<i>Collection of write-offs in the period 01.07.-31.12.</i>	0	0	0	0	0	0
<i>Collection of write-offs in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Permanent write-off in the current year	73	8	0	0	73	8
<i>Permanent write-off in the period 01.01.-31.03.</i>	73	8	0	0	73	8
<i>Permanent write-off in the period 01.04.-30.06.</i>	0	0	0	0	0	0
<i>Permanent write-off in the period 01.07.-31.12.</i>	0	0	0	0	0	0
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Balance as of 31.03.2014	139.383	26.369	2.730	408	142.113	26.777

* Note: Data in the Table 10 differ from total receivables under write-offs shown in the off-balance records in the amount of KM 1,9 million, which includes court expenses, penalty and process interest and a portion of off-court settlement and suspended interest with three MCF.

As opposed to 2008, gross portfolio of MCO is less by 52%, while receivables against write-offs is up by almost 10 times and as of 31.04.2014 make 43% of total loan portfolio.

Significant deviations in quality of portfolio between different MCOs, which are evident from the data that four MCFs have over 70% of total write-offs vs. total gross portfolio (total receivables against write-offs, which are in off-balance records, is by 5% and 14% higher of total gross loans at two MCFs), which is a direct consequence of loan expansion in the past. One MCF and one MCC showed total write-offs below 10% of total gross portfolio.

Chart 15 Receivables against written-off loans and gross portfolio of MCO MKO



In respect of the obligation to start court disputes for collection of write-offs which fell due and are not collected over 180 days, the examination at one MCF which holds significant market share, revealed that it has over 10.000 of unsued loan accounts totaling over KM 15 million, which is contrary to Article 3, Item 3 of the Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Micro Credit Organisations. Given that this MCF performs overall cash transactions regarding payment and collection of loans in cash, by avoiding court disputes for these cases, there is a space for unlawful acting with write-offs and other misuses.

2.3.2. Loan repayment with guarantorship as security instrument and customer complaints

Consequences of global economic crisis on the financial sector, improper credit policies and weaknesses of internal controls of MCOs as well as general over indebtedness of micro loan beneficiaries affected the lending process and loan portfolio quality. Activation of security instruments in case of loan insurance under guarantorship happens as a result of uncollectable receivables from earlier periods or due to impossible repayment of matured loan liabilities from customers. Aimed at collecting, monitoring and data analysis of loans being repaid through guarantors, as of 31.12.2009 the Agency defined a new reporting form OKJ.

According to the loan repayment reports of MCOs with a guarantee as security instrument, in the Federation of B&H as of 31.03.2014, 2.358 guarantors repaid KM 3,4 million out of total approved loans being repaid through this security instrument in the amount of KM 14,7 million (2.171 loan accounts) which is 4% guarantors less or 0,2% less 31.12.2013 (2.362 guarantors repaid KM 3,6 million, while the approved loans amount repaid by guarantors was KM 14 million – 2.012 of loan accounts). One MCF has 84% of share in total repayment on the account of guarantors. Average loan amount repaid or being repaid through guarantorship as of 31.03.2014 was KM 1.437.

Out of total number of loan accounts, 1,23% of loan accounts are loans with guarantee and as opposed to end of the year 2013, loan account share with guarantorship in total number of loan accounts is on the rise by 0,12 percentage points. The biggest share of loan accounts backed by guarantors is recorded with two MCFs vs. total number of loan accounts (2,84% and 2,64%). The outstanding debt balance backed by guarantors as of 31.03.2014 was KM 5,4 million, which is 1,38% of gross loans of MCOs and compared to 31.12.2013, a share of outstanding debt in gross portfolio is higher by 0,34 percentage points (as at 31.12.2013, the outstanding debt balance backed by guarantors was KM 4,1 million vs. KM 396,4 million of gross portfolio, which is 1,04% of gross portfolio of MCO).

According to MCOs reports, in the period from 01.10. to 31.03.2014, customers of MCFs filed a total of 77 complaints, while one MCC said that it had no complaints. Out of 12 MCFs having operating licenses of the Agency, 4 of them have no complaints recorded in the reporting quarter. The largest number of complaints (67) based on complaints from the category „Other“ from the area of loan business“ mostly include non-approved loan applications or loan rescheduling, complaints regarding guarantors, guarantor's complaints regarding collection procedure and behavior of loan officers. Customers of MCOs filed 26 complaints, co-debtors/guarantors filed 33 complaints, while other involved parties filed 18 complaints. In the reporting period, MCOs solved 12 complaints positively, 52 complaints were solved negatively, while 13 complaints are in the stage of processing or reporting.

2.4. Weighted Nominal and Effective Interest Rates on Micro Loans

Effective interest rates on micro loans is the total price of those loans and is calculated and shown in line with the Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits - Consolidated text („Official Gazette of the Federation of B&H“, No.: 48/12). Calculation of effective interest rate includes data on the amount of nominal interest rates on loans, compensation and fee amount, which MCO accrues to the customer during the loan approval process and compensation and fee amount as of the calculation date, which MCO calculates to the customer during the loan agreement execution. Weighted nominal and effective interest rates are calculated on newly approved loans in the reporting month.

No.	DESCRIPTION	Total amount of micro loan payment in Q4 2014 (in 000 KM)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term micro loans for:	17.918	18,60%	26,91%
1.1.	Service activities	2.924	25,08%	33,62%
1.2.	Trade	1.419	23,77%	31,42%
1.3.	Agriculture	3.112	23,22%	30,13%
1.4.	Production	379	23,40%	31,03%
1.5.	Residential needs	1.055	22,16%	28,40%
1.6.	Non-purpose-basic needs	420	16,83%	40,57%
1.7.	Other	8.609	13,33%	21,69%
2.	Long-term micro loans for:	65.944	20,86%	24,63%
2.1.	Service activities	15.033	21,02%	24,90%
2.2.	Trade	5.926	20,83%	24,65%
2.3.	Agriculture	26.430	19,72%	23,24%
2.4.	Production	1.945	21,68%	25,55%
2.5.	Housing needs	8.607	20,86%	23,95%
2.6.	Non-purpose-basic needs	639	23,34%	33,15%
2.7.	Other	7.364	24,18%	28,86%
TOTAL		83.862	20,38%	25,12%

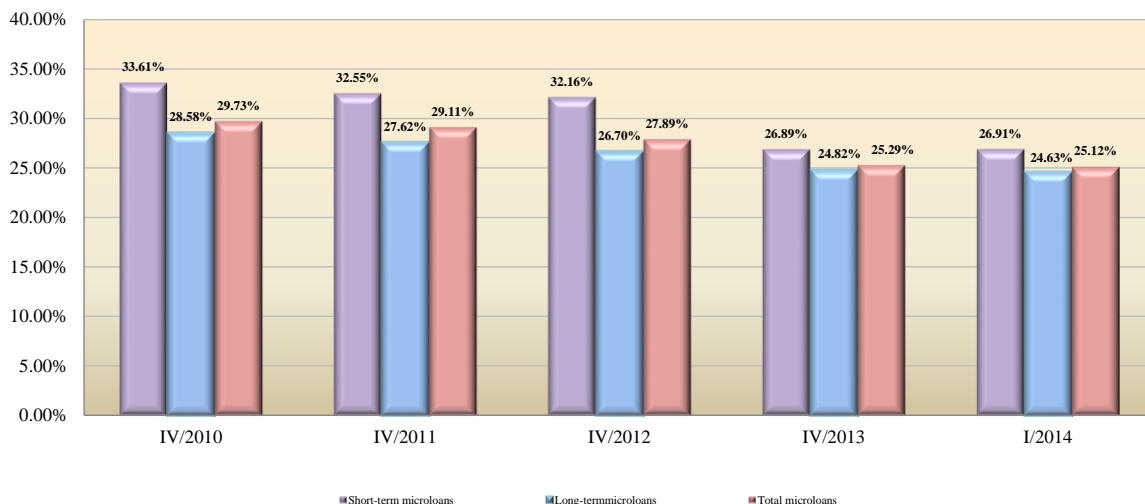
In line with monthly statements on the weighted nominal and effective interest rates by loans, MCOs placed micro loans of KM 83,8 million in Q1 2014, which is less by KM 2,8 million or 3,3% vs. micro loan amount placed in the same period of the last year. This is mostly due to reduced placement of micro loans of one of the largest MCF in the Federation of B&H. As of 31.03.2014, MCOs had 176.040 active loan accounts, which is less by 5.705 of loan accounts or 3% vs. the end of the previous year. Average amount of micro loans at the sector level as of 31.03.2014 was KM 2.244, which is the average of MCF (31.12.2013 - 2.180 KM), while average amount of micro loans in MCC is KM 1.553.

Average weighted nominal interest rate for short-term loans is in the range of 13,33%, for other loans up to 25,08% for service activities and effective interest rate is in the range of 21,69% for other loans up to 40,57% for non-purpose loans. Average weighted nominal interest rate on long-term loans is within 19,72% for agriculture up to 24,18% for other loans and effective interest rate in the range of 23,24% for agriculture up to 33,15% for non-purpose loans. By analysing effective interest rates of MCOs by loan products, the most favorable are loans placed to agriculture and loans for other purposes, while the most expensive are non-purpose loans, i.e. loans for basic needs.

Average weighted effective interest rates on short-term, long-term and total micro loans by quarters in the Federation of B&H are shown in the table below.

AVERAGE WEIGHTED EFFECTIVE INTEREST RATES on:	IV/2010	IV/2011	IV/2012	IV/2013	I/2014
Short-term micro loans	33,61%	32,55%	32,16%	26,89%	26,91%
Long-term micro loans	28,58%	27,62%	26,70%	24,82%	24,63%
Total micro loans	29,73%	29,11%	27,89%	25,29%	25,12%

Chart 16 Average weighted EIR on microloans (in %)



Micro credit organisations continued with reduction of effective interest rates to total micro loans, and, at the end of Q1 2014, average weighted effective interest rates in micro credit sector to total loans were 25,12%, and compared to Q4 2013, they recorded a drop of 0,17 percentage points. Compared with the same period, average weighted interest rates to short-term loans were 26,91% and recorded an insignificant rise of 0,02 percentage points. Average weighted effective interest rates on long-term loans at the end of Q1 2014 were 24,63% and

fell by insignificant 0,19 percentage points vs. Q4 2013. In order to reduce interest rates on micro loans and to protect consumers- customers of micro credit organisations and to fulfill the micro lending mission, the Banking Agency in its examinations puts a special focus on all types of costs of MCOs business operations, which have significant influence on interest rate creation and assesses their necessity and issues adequate orders. The Banking Agency shall further focus on cost control of MCO, whether they are justified and purposeful, in order to reduce interest rates on micro loans of MCOs from the Federation of B&H.

2.5. Income Statement

Income statement of the micro credit sector of the Federation of B&H is shown in the Table 13.

- 000 KM -

No.	DESCRIPTION	For the period 01.01. - 31.03.2013				For the period 01.01. - 31.03.2014				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based and similar income	21.747	83	21.830	87	16.962	51	17.013	87	78
1.2.	Operating income	3.108	14	3.122	13	2.526	6	2.532	13	81
2.	TOTAL INCOME (1.1.+1.2.)	24.855	97	24.952	100	19.488	57	19.545	100	78
3.										
3.1.	Interest-based and similar expenses	4.382	14	4.396	17	3.753	11	3.764	14	86
3.2.	Operating expenses	16.580	72	16.652	66	15.739	101	15.840	58	95
3.3.	Expenses for loan loss provisions and other losses	4.129	19	4.148	16	7.575	-7	7.568	28	182
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	25.091	105	25.196	100	27.067	105	27.172	100	108
5.	EXTRAORDINARY INCOME	3.894	2	3.896		4.678	2	4.680		120
6.	EXTRAORDINARY EXPENSES	367	1	368		147	0	147		40
7.	TOTAL INCOME – EXPENSES (2+5-4-6)	3.291	-7	3.284		-3.048	-46	-3.094		-94
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	3.291		3.291		-3.048		-3.048		-93
9.	PROFIT BEFORE TAX		-7	-7			-46	-46		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		-7	-7			-46	-46		
12.	TOTAL FIN. RESULT			3.284				-3.094		

Total income of MCO for the period 01.01.2013 to 31.03.2014 amounted to KM 19,5 million, which completely account for MCF income. Total income is lower by KM 5,4 million or 22% vs. the same period of the last year. The biggest portion of income is contributed by interest income with KM 17 million or 87% of total income, less by KM 4,8 million or 22% vs. the same period last year, while operating income amounts to KM 2,5 million or 13% of total income, which is less by KM 0,6 million or 19%.

Total expenses amount to KM 27,1 million. Out of this number KM 27 million or 99,6% include expenses of MCF and KM 0,1 million or 0,4% include expenses of one MCC. Total expenses rose by KM 1,9 million or 8% as opposed to the same period of the previous year. In the structure of expenses, KM 3,7 million or 14% out of total expenses include interest expenses for taken loans and other similar expenses, which are less by KM 0,6 million or 14%. Operating expenses amount to KM 15,8 million or 58% of total expenses and compared to the last year, they are down by KM 0,8 million or 5%.

Operating expenses include salary and contributions' expenses in the amount of KM 9,5 million (01.01.-31.12.2013: KM 9,7 million), business premises' expenses, other fixed assets and utility costs of KM 3,7 million (01.01.-31.12.2013: KM 4,1 million) and other operating expenses in the amount of KM 2,6 million (01.01.-31.12.2013: KM 2,8 million). Expenses for loan loss provisions and other losses amount to KM 7,6 million or 28% of total expenses and are higher by KM 3,4 million or 82%. Almost 82% of total amount of loan loss provisions for and other losses in the first quarter of 2014 is contributed by one of the largest MCF in the B&H Federation.

Salary and contributions' expenses generated in the period 01.01.-31.03.2014 are less by 2% as opposed to the same period of the last year. According to MCOs reports, average monthly net salary of MCO employee as of 31.03.2014 was KM 1.067 and average monthly net amount of incentives, stimulations and bonuses was KM 57. This means that average monthly net salary with bonuses in the micro credit sector was KM 1.124. As of 31.03.2014, average monthly net salary of senior management member was KM 4.121, while average monthly net compensations paid to supervisory board members in MCO were KM 492 and audit board members KM 386. As of the review date, , average monthly net salaries of internal auditors in MCO were KM 2.211, average monthly net salaries of middle and low management in MCO were KM 1.805, loan officers KM 873 and administration and other staff KM 933.

Namely, the examination found that some managers of MCOs which operate with loss, have monthly salaries in the amount of around KM 10.000 and one member of a managing body has a monthly compensation for his work in the amount of KM 7.000. This means that average monthly net salary of senior management with one MCF are 2,4 times higher than the average of the sector, while with the other MCF, average monthly net salaries paid to managing bodies of MCO are 14 times higher than the sector average. The analysis of individual reports of MCOs revealed that for one MCF, whose balance sheet sum share is 5,75% of total balance sheet sum of micro credit sector for which improper assets management is found in the Agency's examination, in previous periods, monthly allocations for salaries of 2 members of senior management amount to 70% of monthly allocation for salaries expenses of 7 members of senior management of the largest MCF, whose market share is 25,37%. Accordingly, average monthly net salaries of 2 members of senior management of MCF, which has 5,75% of market share are 2,5 times higher than average monthly net salaries of 7 members of senior management of the biggest MCF in the B&H Federation. Moreover, by analysing MCO report, we found that salaries of senior management with two MCFs are almost 10, and 13 times higher than salaries of loan officers. All this is unacceptable, since these salaries are ungrounded especially in organisations which generate significant operating losses, whose performance indicators are poor and/or unsatisfactory and in which MCFs do not manage their assets properly.

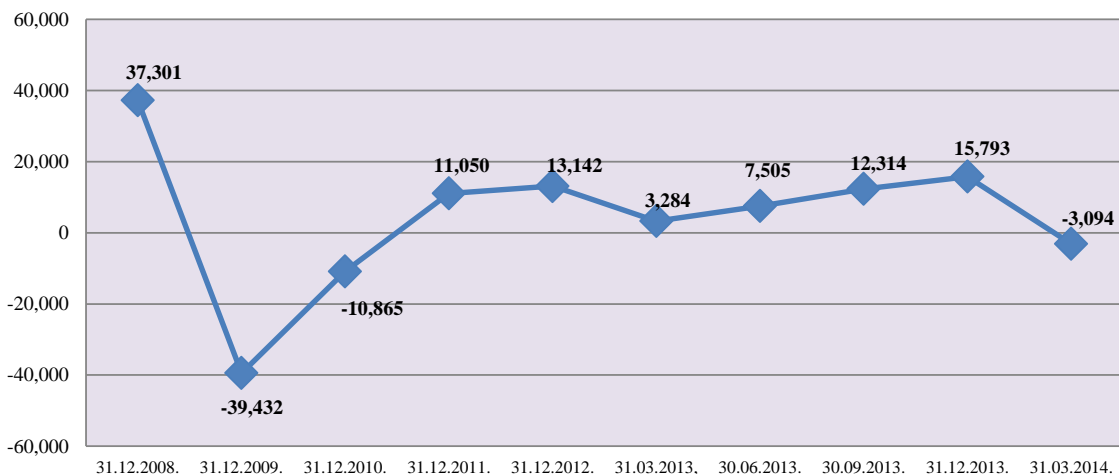
Extraordinary income of MCOs generated in the period between 01.01. and 31.03.2014 amounted to KM 4,6 million, which is higher by KM 0,7 million or 20% vs. the same period of the year before. Extraordinary income is dominated by collection of receivables from write-offs. Extraordinary income of MCO generated in the first quarter of 2014 amounted to

KM 0,1 million, which is less by KM 0,2 million or 60% vs. the same period of the year before.

In the period between 01.01. and 31.03.2014, one MCC generated a net loss of KM 46 ths (01.01. – 31.12.2013: KM 7 ths of net loss). In the same period, MCFs generated deficit of income over expenses totaling KM 3.291 ths, while MCF generated a surplus over expenses in the amount of KM 13.142 ths in the same period of the last year. In the period 01.01.2013 to 31.03.2014, out of total 12 MCFs, deficit of income over expenses was recorded with four MCFs in the total amount of KM 8.091 ths, while surplus over expenses was recorded with 8 MCFs totaling KM 5.043 ths.

Out of 4 MCFs which in the period 01.01.-31.03.2014 generated deficit of income over expenses in the amount of KM 8.091 ths, one of the largest MCFs, in this period, generated a deficit of KM 8.060 hiljada, i.e. 99,6% of total deficit at the sector level, while other three MCFs contributed with only 31 ths of generated deficit of income over expenses, i.e. 0,4%. Without data of this MCF, which are contrary to the sector trend as of 31.03.2014 and which completely destabilised microcredit market and affected deterioration of sector results and performance indicators, microcredit sector generates positive result in the amount of KM 5.012 ths, which positively affects performance indicators.

Chart 17 Total financial result of MCO by years (in 000 KM)



Negative financial result was generated at the level of micro credit sector in the Federation of B&H in the amount of KM 3.094 ths, which is less by KM 6.378 ths or 194% vs. the same period of the last year.

3. TRANSACTIONS WITH RELATED ENTITIES

Provisions of the Decision on Other General Conditions for Operations of Micro Credit Organisation (“Official Gazette of the Federation of B&H“, No.: 27/07) prescribe minimum standards for an MCO relationship with the entities considered its MCO’s related entities under Article 5 of the Law on Micro Credit Organisation. Article 6 of the Decision prescribes that an MCO may conduct business transactions with an entity considered its related entity only in compliance with the Law on Micro Credit Organisation, FBA’s decision and special policies of an MCO for relations with related entities that are adopted by the MCO’s

managing body that monitors their implementation. A transaction with related entity is also any transaction with a third entity if the funds that were employed in the transaction were transferred to a related entity or were utilised so that a related entity would gain profit. With reference to this, MCOs must establish a registry of related entities which is to be regularly updated. Also, when conducting transactions with related entities, MCOs must act in accordance with the adopted policies that, among other things, prescribe the following:

- All transactions with related entities have to be approved by an MCO's managing bodies,
- Entity related with an MCO that is a member of the managing body of such MCO must not participate in voting during the decision-making on business transactions between an MCO and him/her or any other entity related to him/her,
- The managing body must sign a written statement that any transaction between him/her and related entity is fair and in the best interest of the MCO,
- MCOs shall establish and maintain regular records, documentation and files on approvals of the managing bodies for transactions with related entities, etc.

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favorable to any other entities, and MCO's shall report the FBA through quarterly reports on all transactions conducted by MCO in the reporting quarter with its related entities.

During the first quarter 2014, out of 13 MCOs, 4 MCF and 1 MCC sent reports, in a prescribed form, to the Agency on transactions executed with related entities in the total amount of KM 115.797. Only one MCF has even 71% of share in total amount of transactions with related entities.

The Table 14 below provides a breakdown of transactions with related entities in the period 01.01. to 31.03.2014, which shows that the majority transactions performed by MCOs (52%) relate to payment of regular and penalty interest, management fees to banks related to the MCOs (52%) and payments to the founders of MCOs and founder-related persons (24%). MCOs also reported the transactions with related entities referring to the attorneys' fees, goods/services delivery, business premises' leases and other.

-in KM-

<i>Table 14 Transactions with related entities</i>			
No.	Description of transaction	Transaction amount in the period 01.01.-31.03.2014	Share (%)
1.	Regular and penalty interest, management fees	59.864	51,70%
2.	Transactions with the founder and founder-related entities	27.810	24,02%
3.	Lawyer's services	13.221	11,42%
4.	Business premises' leases	4.461	3,85%
5.	Payment against invoices for the delivered goods/services	3.977	3,43%
6.	Loan annuities	3.741	3,23%
7.	Refunding of expenses	1.741	1,50%
8.	Payment of joint expenses of the related person	982	0,85%
9.	Short-term loans from banks	0	0,00%
10.	Short-term deposits to banks	0	0,00%
11.	Borrowings from legal entities and private individuals	0	0,00%
12.	Receivables based on lease	0	0,00%
TOTAL		115.797	100,00%

Reported MCO's transactions with related entities refer to the transactions conducted with entities related to MCOs' directors (59%), MCOs' founders and founder-related persons (25%), members of audit boards (13%), members of supervisory board (2%) and transactions based on ownership shares (1%). In the period to come, the FBA will focus on compliance with the MCOs' business policies for transactions with related parties, and it will evaluate the benefits of MCOs when performing such transactions and instruct adequate measures to eliminate irregularities found in the MCOs' business operations with related entities.

III CONCLUSIONS AND RECOMMENDATIONS

By analysing MCOs' reports as of 31.03.2014, we may conclude that business operations of micro credit organisations in the Federation of B&H over the end of last year show further drop of assets (by 4%) and loan portfolio of MCOs (by 0,3%). Loan portfolio quality ratios indicate deterioration, decrease in liabilities for taken loans (by 5%) as the main source of funds for loan portfolio financing, and a drop in number of employees (by 3%). The capital of MCFs saw a 2% fall over the end of the past year due to negative financial result of one of the largest MCF.

For MCOs with further decrease in their loan portfolio, loss of their market segment and denied trust of creditors because of a negative business trend and inability to reach set standards, it is important to, for the purpose of retaining the substance of business operations, and especially donated funds, negotiate on mergers and acquisitions, which is an important step to preserve this sector. The consolidation at the level of MCOs, especially medium-sized ones, is necessary for stabilisation of micro credit sector for the purpose of increasing economy of scope, improving efficiency of business operations of MCOs through important cost savings, as well as increase in competency of the management boards, management and other MCO staff.

The consolidation would ensure strengthening of capital base of a small number of strong and healthy MCOs. Since a significant amount of loans in liabilities of micro credit organisations will fall due by the end of this year, the organisations may have problems with liquidity if they do not receive creditors' support and for that reason some smaller MCOs should consider making decisions on merger.

Imperative for eliminating negative effects is compliance with the principles of operations with care of a good businessman with focus on full transparency, optimisation of operating costs and their full reliability, adequate credit risk management, which should finally result in falling interest rates on micro loans and achieving the objectives stated in the Law on Micro Credit Organisations.

Within its responsibilities set under the Law, the FBA takes all available supervision measures before the competent authorities for the purpose of sanctioning MCOs and putting their business operations within legal frameworks for the purpose of achieving the main role of microfinance.

In a period to come, the MCOs should work intensively on the following:

- Finding the partners for mergers and acquisitions; MCOs with small amounts of capital and high degree of written-off loans should adopt a clear strategy for merger into a bigger and stronger MCO to optimise its resources, preserve donated funds, ensure support of foreign creditors and secure the future of MCOs employees;

- Increasing responsibilities of the management board, ensuring independence from the management and control of management by the management board;
- Establishing mechanisms to check reliability of projects and materially significant costs of operations, including salaries and bonuses of the management, and all other benefits of management and boards of directors exercised by them on account of assets of MCOs that are directly compensated by high interest rates;
- Establishing internal audit, fully independent from the MCO management that will also supervise the management segment and regularly inform management board;
- Controlling interest rates and achieving objectives from the Law on Micro Credit Organisations through active involvement of the managing bodies in the procedure of approving policies on establishing prices of micro loans;
- Cutting operating costs, full implementation of the principles of due care for the assets of the MCO and implementation of principles of good corporate practices;
- Reducing interest rates on micro loans;
- Full implementation of Article 2 of the Law on Micro Credit Organisations that prescribes performing the activities for the purpose of improving material status of users of micro loans, increasing employment and rendering support to development of entrepreneurship;
- Improving the system of internal controls, improving efficiency of business operations and optimisation of MCO resources and implementing the principles of responsible credit financing;
- Mandatory exchange of information at the level of the sector and Central Loan Registry;
- Taking all required activities for the purpose of solving the problems of indebted customers and guarantors;
- Improving institutional capacities, and
- Full implementation of valid provisions and increasing transparency of business operations.
- Improving the system of internal controls, improving efficiency of business operations and optimisation of MCO resources and implementing the principles of responsible credit financing;
- Mandatory exchange of information at the level of the sector and Central Loan Registry;
- Taking all required activities for the purpose of solving the problems of indebted customers and guarantors;
- Improving institutional capacities, and
- Full implementation of valid provisions and increasing transparency of business operations.

Number: U.O.-59-8/14
Sarajevo, 30.05.2014

IV ATTACHMENTS

Attachment 1 Regulations of the Banking Agency for business operations of Micro Credit Organisations

Attachment 2 Main data on MCOs

Attachment 3 Balance sheet of MCF

Attachment 4 Balance sheet of MCC

Attachment 5 Income statement of MCF

Attachment 6 Income statement of MCC

Attachment 7 Overview of donated funds of MCF

Attachment 1

REGULATIONS OF THE BANKING AGENCY FOR BUSINESS OPERATIONS OF MICRO CREDIT ORGANISATIONS VALID AS OF 31.03.2014

Decisions of the Banking Agency related to MCO operations	Official Gazette of the B&H Federation
1. Decision on Conditions and Process of Issuance of Operating License and Other Approvals for Micro Credit Foundation Resulting from Changed Organisational form of a micro credit organisation	27/07
2. Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Micro Credit Organisations	27/07 and 46/11
3. Decision on Supervision of Micro Credit Organisations	27/07
4. Decision on Form and Contents of Reports that Micro Credit Organisations Deliver to the Banking Agency of the FB&H and on Reporting Deadlines	27/07, 110/12 and 15/13
5. Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Micro Credit Organisations	27/07
6. Decision on Other General Conditions for Operations of Micro Credit Organisations	27/07
7. Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits (Consolidated text)	48/12
8. Decision on Conditions and Process of Issuance of Operating License and Other Approvals for Acquiring Ownership Share by Investing and Transferring Assets of the Micro Credit Foundation	27/07
9. Decision on Fees that Micro Credit Organisations Pay to the FB&H Banking Agency	46/11
10. Decision on Minimum Standards for Activities of Micro Credit Organisation on Prevention of Money Laundering and Terrorism Financing	48/12
11. Decision on Conditions and Manner of Customer Complaints Management by Banks, Micro Credit Organisations and Leasing Companies	23/14 and 26/14
12. Decision on Minimum Standards for Documenting Lending Activities of Micro Credit Organisations and Credit Standing Assessment	23/14
13. Decision on Conditions and Manner for Handling Guarantors' Requests for Release of the Guarantor Status	23/14

Instructions of the Banking Agency related to MCO operations
<ol style="list-style-type: none"> 1. Instructions for implementation of the Decision on uniform method of calculation and disclosure of effective interest rates on loans and deposits; 2. Instructions for Calculation of Weighted and Effective Interest Rate; 3. Instructions for Calculation of Adjusted Return on Assets; 4. Instructions for Calculation of Efficiency Ratios and 5. Instructions for MCO Reporting.

Attachment 2

MAIN DATA ON MICRO CREDIT ORGANISATIONS

No	Micro credit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	31.03.2014			
						No. Of employees	No. of org. units	Assets amount in 000 KM	Capital amount in 000 KM
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sead Mucić	033/ 754-370, 754-388 fax	sead.mucic@eki.ba www.eki.ba	702	549	8	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	108.974	48.563	261	68
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	13.609	10.518	52	12
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	52.118	8.930	179	42
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	viktor@melaha.ba	1.091	317	4	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	38.642	16.734	141	24
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	17.267	4.826	90	20
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	4.373	3.616	27	6
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	116.500	49.990	289	56
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	77.347	14.574	154	37
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1.711	1.557	9	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	434	277	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Anis Aganović	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	26.409	16.181	145	36
TOTAL						459.177	176.632	1.363	302

Attachment 3

BALANCE SHEET OF MICRO CREDIT FOUNDATION

in 000 KM

No.	DESCRIPTION	31.12.2013	%	31.04.2014	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	24.123	5	15.535	3	64
1a)	Cash and non-interest bearing deposit accounts	17.027	4	9.844	2	58
1b)	Interest-bearing deposit accounts	7.096	1	5.691	1	80
2.	Facilities to banks	4.054	1	3.777	1	93
3.	Loans	395.382		394.435		100
3a)	Loan loss provisions	5.507		10.164		185
3b)	Net loans (3-3a)	389.875	82	384.271	84	99
4.	Business premises and other fixed assets	42.596	9	41.533	9	98
5.	Long-term investments	761	0	761	0	100
6.	Other assets	14.018	3	13.506	3	96
7.	Minus: provisions for other assets items, except loans	549		908		165
8.	TOTAL ASSETS	474.878	100	458.475	100	97
LIABILITIES						
9.	ST loan liabilities	81.258	17	78.090	17	96
10.	LT loan liabilities	187.307	39	177.304	39	95
11.	Other liabilities	27.201	6	26.998	6	99
12.	TOTAL LIABILITIES	295.766	62	282.392	62	95
13.	Donated capital	49.640		49.649		100
14.	Core capital	8.291		8.291		100
15.	Surplus of income over expenses	175.440		180.514		103
15a)	For previous years	160.018		175.464		110
15b)	For current year	15.422		5.050		33
16.	Deficit of income over expenses	57.465		65.556		114
16a)	For previous years	57.439		57.465		100
16b)	For current year	26		8.091		31119
17.	Other reserves	3.206		3.185		99
18.	TOTAL CAPITAL	179.112	38	176.083	38	98
19.	TOTAL LIABILITIES	474.878	100	458.475	100	97
OFF-BALANCE RECORDS						
	- written-off loans	170.250		170.776		100
	- agent business	348		330		95

Attachment 4

BALANCE SHEET OF MICRO CREDIT COMPANY

in 000 KM

No.	DESCRIPTION	31.12.2013	%	31.03.2014	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	88	9	35	5	40
1a)	Cash and non-interest bearing deposit accounts	88	8	35	5	40
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	886		615		69
3a)	Loan loss provisions	16		9		56
3b)	Net loans (3-3a)	870	84	606	86	70
4.	Business premises and other fixed assets	50	5	42	6	84
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	28	3	20	3	71
7.	Minus: provisions for other assets items, except loans	1		1		100
8.	TOTAL ASSETS	1.035	100	702	100	68
LIABILITIES						
9.	ST loan liabilities	202	20	70	10	35
10.	LT loan liabilities	146	14	0	0	0
11.	Other liabilities	92	9	83	12	90
12.	TOTAL LIABILITIES	440	43	153	22	35
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Emission agio	0		0		n/a
16.	Unallocated profit (16a+16b)	-106		-51		48
16a)	of previous years	0		-5		n/a
16b)	of current year	-106		-46		43
17.	Legal reserves	101		0		0
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	595	57	549	78	92
20.	TOTAL LIABILITIES	1.035	100	702	100	68
OFF-BALANCE RECORDS						
	- written off loans	55		54		98
	- agent business	0		0		n/a

Attachment 5

INCOME STATEMENT OF MICRO CREDIT FOUNDATION

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.03.2013	%	For the period 01.01. - 31.03.2014	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest-based and similar income					
1.1.	Interest against interest-bearing deposit accounts with deposit institutions	3	0	9	0	300
1.2.	Interests to facilities to banks	72	0	48	0	67
1.3.	Loan interest	21.390	99	16.524	98	77
1.4.	Other financial income	282	1	381	2	135
1.5.	Total interest-based and similar income (1.1. to 1.4.)	21.747	100	16.962	100	78
2.	Interest –based expenses and similar expenses					
2.1.	Interest to borrowed funds	4.219	96	3.616	96	86
2.2.	Other financial expenses	163	4	137	4	84
2.3.	Total interest –based expenses and similar expenses (2.1. to 2.2.)	4.382	100	3.753	100	86
3.	Net financial income (1.5. - 2.3.)	17.365		13.209		76
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	2.900	93	2.060	82	71
4.2.	Other operating income	208	7	466	18	224
4.3.	Total operating income (4.1. to 4.2.)	3.108	100	2.526	100	81
5.	Operating expenses					
5.1.	Salary and contributions' costs	9.700	58	9.450	60	97
5.2.	Costs of business premises, other fixed assets and utility costs	4.100	25	3.679	23	90
5.3.	Other operating expenses	2.780	17	2.610	17	94
5.4.	Total operating expenses (5.1. to 5.3.)	16.580	100	15.739	100	95
6.	Loan loss provisions and other losses	4.129		7.575		183
7.	Surplus /deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	-236		-7.579		3.211
8.	Extraordinary income	3.894		4.678		120
9.	Extraordinary expenses	367		147		40
10.	Surplus/deficit of income over expenses (7.+8.-9.)	3.291		-3.048		-93

Attachment 6

INCOME STATEMENT OF MICRO CREDIT COMPANY

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.03.2013	%	For the period 01.01. - 31.03.2014	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest-based and similar income					
1.1.	Interest against interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interests to facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	81	98	49	96	60
1.4.	Other financial income	2	2	2	4	100
1.5.	Total interest-based and similar income (1.1. to 1.4.)	83	100	51	100	61
2.	Interest –based expenses and similar expenses					
2.1.	Interest to borrowed funds	12	86	4	36	33
2.2.	Other financial expenses	2	14	7	64	350
2.3.	Total interest –based expenses and similar expenses (2.1. to 2.2.)	14	100	11	100	79
3.	Net financial income (1.5. - 2.3.)	69		40		58
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	14	100	6	100	43
4.2.	Other operating income	0	0	0	0	n/a
4.3.	Total operating income (4.1. to 4.2.)	14	100	6	100	43
5.	Operating expenses					
5.1.	Salary and contributions' costs	42	59	76	75	181
5.2.	Costs of business premises, other fixed assets and utility costs	24	33	18	18	75
5.3.	Other operating expenses	6	8	7	7	117
5.4.	Total operating expenses (5.1. to 5.3.)	72	100	101	100	140
6.	Loan loss provisions and provisions for other losses	19		-7		-37
7.	PROFIT/LOSS OF REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-8		-48		600
8.	Extraordinary income	2		2		100
9.	Extraordinary expenses	1		0		0
10.	PROFIT/LOSS BEFORE TAXATION	-7		-46		657
11.	TAX	0		0		n/a
12.	NET PROFIT/LOSS	-7		-46		657

Attachment 7

OVERVIEW OF DONATED FUNDS OF MCF (as of 31.03.2014)

in 000 KM

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
Donations for credit fund		5.246	5.891	3.354	4.070	804	7.167	7.490	3.459	1.942	39.423
1.	USAID	3.046					3.046	3.046			9.138
2.	CHF-(SIDA, MEDI, HILP)		5.891								5.891
3.	CRS				4.070						4.070
4.	UNHCR			479		200	1.229	992		614	3.514
5.	Islamic Relief, Sarajevo Rep.Office								3.459		3.459
6.	LIP (funds of FBiH Government)			947			675			1.214	2.836
7.	UNDP	1.932					59	672			2.663
8.	PRM/USA State Department							2.006			2.006
9.	UMCOR			377			317	774			1.468
10.	IRC			371			805				1.176
11.	Women's World Banking			1.034							1.034
12.	Mercy Corps						697				697
13.	OXSIFAM					500					500
14.	ECE, Germany						339				339
15.	USDA Know-How Project	237									237
16.	Church World Service			146							146
17.	Udruženje građana "ALDI"					104					104
18.	DK from merger with the association "LORI" Orašje									98	98
19.	CRIC	31									31
20.	SOLIDARITES									16	16
Donations for fixed assets		8	0	12	65	0	229	61	0	10	385
21.	Mercy Corps						229				229
22.	CRS				65						65
23.	ICMC							53			53
24.	SOLIDARITES									10	10
25.	WORLD VISION Int.	8									8
26.	PHARE							8			8
27.	IRC			12							12
Donations for operating expenses		2.054	874	1.344	0	0	1.718	3.088	54	709	9.841
28.	PRM							2.047			2.047
29.	SIDA Housing	1.828									1.828
30.	USAID			1.344			378				1.722
31.	UNHCR						176	840			1.016
32.	LIP (funds of FBiH Government)						200			709	909
33.	CHF		874								874
34.	Mercy Corps						739				739
35.	CGAP						45	150			195
36.	EBRD	105					1				106
37.	IFC	104									104
38.	MFC						20	34			54
39.	Islamic Relief, Sarajevo Rep.Office								54		54
40.	WORLD BANK						45				45
41.	UNDP						43				43
42.	ADA ASBL (RATING)						20				20
43.	Other	17					51	17			85
TOTAL DONATED CAPITAL		7.308	6.765	4.710	4.135	804	9.114	10.639	3.513	2.661	49.649

CHARTS

Chart 1	Assets amount of MCO as of 31.03.2014 in 000 KM
Chart 2	Gross portfolio amount of MCO as of 31.03.2014 in 000 KM
Chart 3	Loan liabilities amount of MCO as of 31.03.2014 in 000 KM
Chart 4	Capital amount of MCO as of 31.03.2014 in 000 KM
Chart 5	Donated capital amount (by reports) of MCO as of 31.03.2014 in 000 KM
Chart 6	Surplus/deficit of income over expenses of MCF, i.e. net profit/loss of MCC for the period 01.01.- 31.03.2014 in 000 KM
Chart 7	Number of employees of MCO as of 31.03.2014
Chart 8	Number of organisational units of MCO seated in the Federation of B&H as of 31.03.2014
Chart 9	Number of active loan accounts of MCO with the balance as of 31.03.2014
Chart 10	Number of written-off loans of MCO with the balance as of 31.03.2014
Chart 11	Loan amount in 000 KM written-off in the period 01.01.-31.03.2014
Chart 12	Collection amount by written-off loans in 000 KM in the period 01.01.-31.03.2014
Chart 13	Total receivables amount by written-off loans of MCO in 000 KM with balance as of 31.03.2014
Chart 14	Total receivables by written-off loans vs. gross portfolio of MCO as of 31.03.2014
Chart 15	Risk portfolio over 30 days past due as of 31.03.2014
Chart 16	Fixed assets and capital vs. total assets as of 31.03.2014
Chart 17	Average monthly compensations to members of management/supervisory board of MCO for the period 01.01.-31.03.2014
Chart 18	Average monthly salaries of senior management in MCO for the period 01.01.-31.03.2014
Chart 19	Average monthly salaries of loan officers of MCO for the period 01.01.-31.03.2014
Chart 20	Total micro loans disbursed in Q1 2014 in 000 KM
Chart 21	Average weighted EIR on total loans as per reports MCO in Q1 2014
Chart 22	Average weighted EIR on short-term loans as per MCO reports in the Q1 2014
Chart 23	Average weighted EIR on long-term loans as per MCO reports in Q1 2014

Chart 1

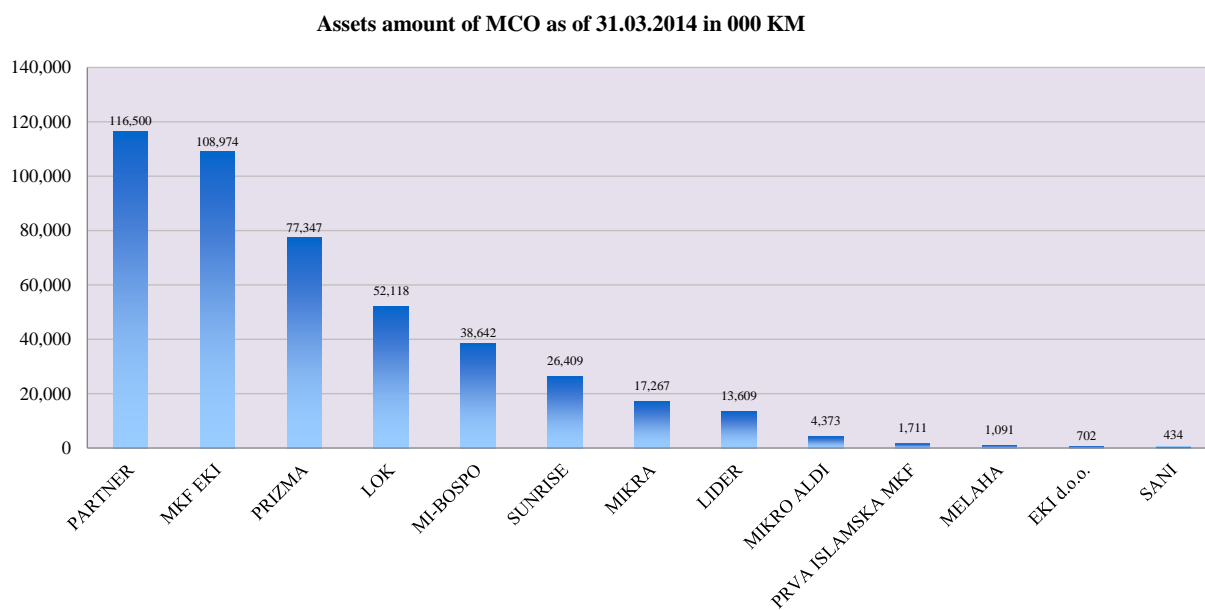


Chart 2

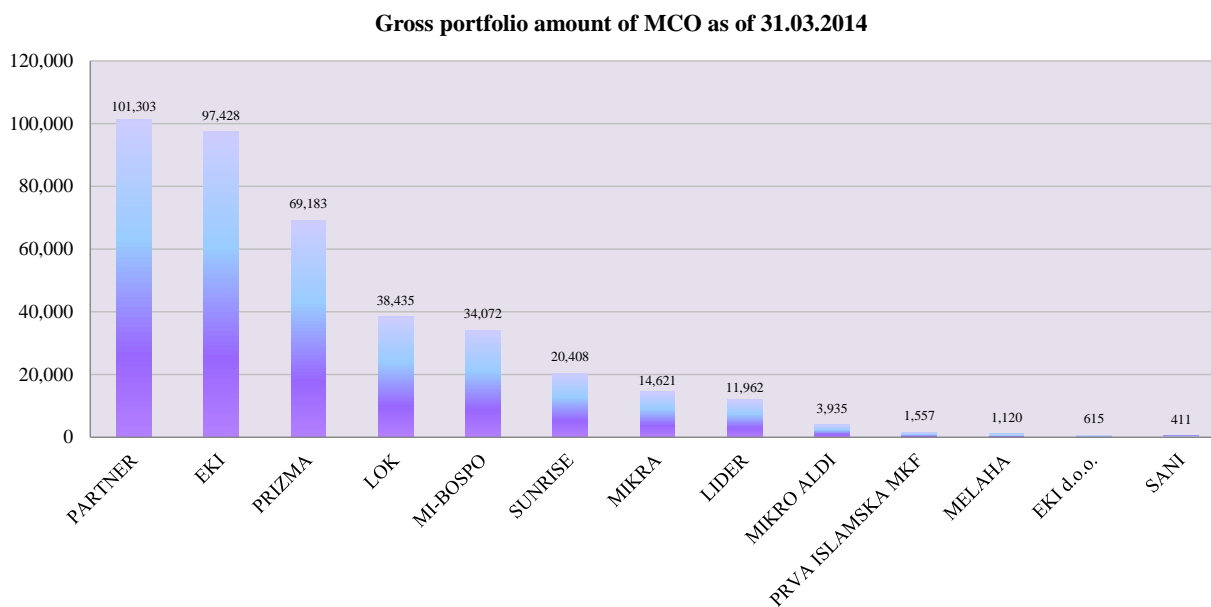


Chart 3

**Loan liabilities amount of MCO
as of 31.03.2014 in 000 KM**

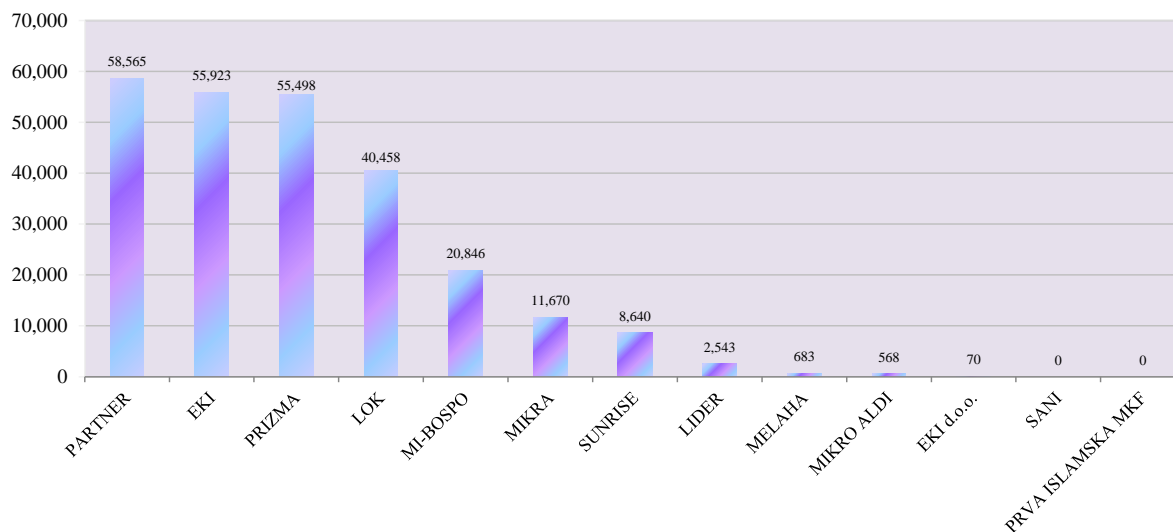


Chart 4

Capital amount of MCO as of 31.03.2014 in 000 KM

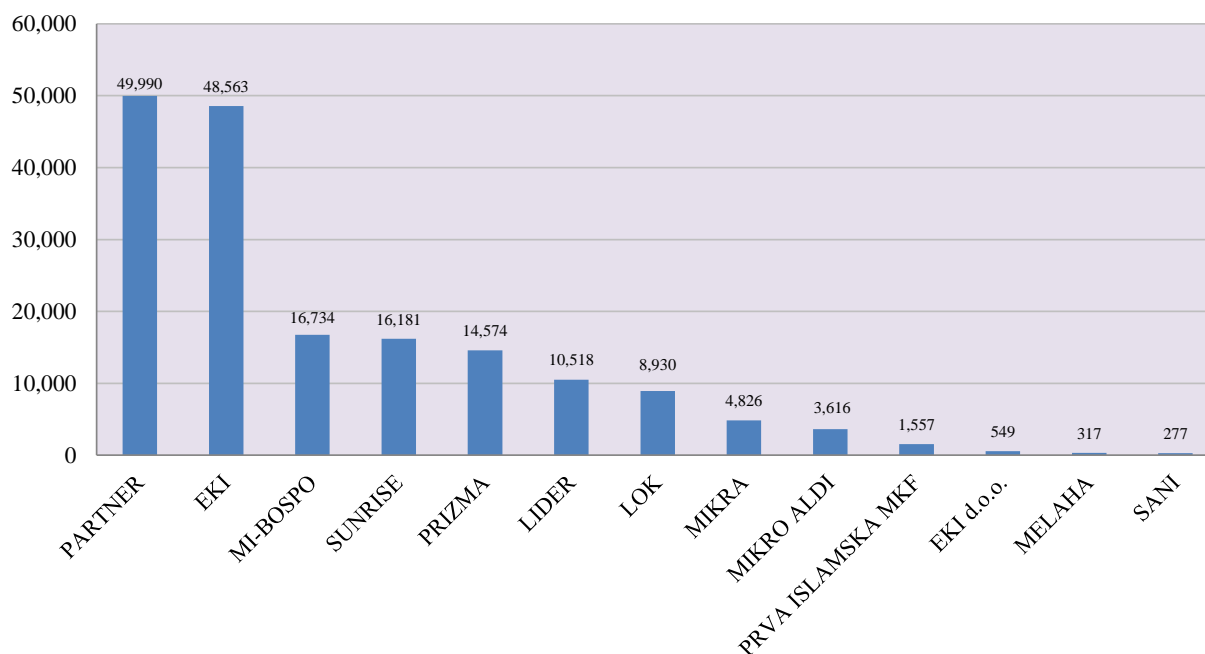


Chart 5

**Donated capital amount (by reports) of MCO
as of 31.03.2014 in 000 KM**

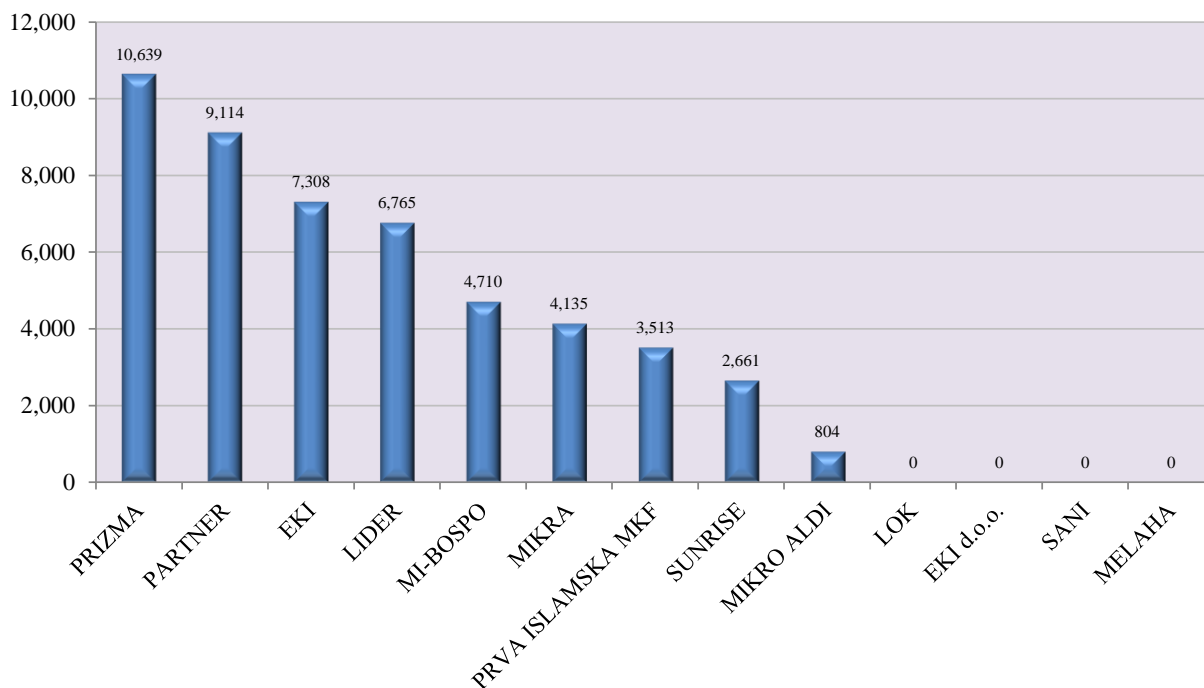


Chart 6

**Surplus/deficit of income over expenses of MCF, i.e. net profit/loss of MCC
for the period 01.01.-31.03.2014 in 000 KM**

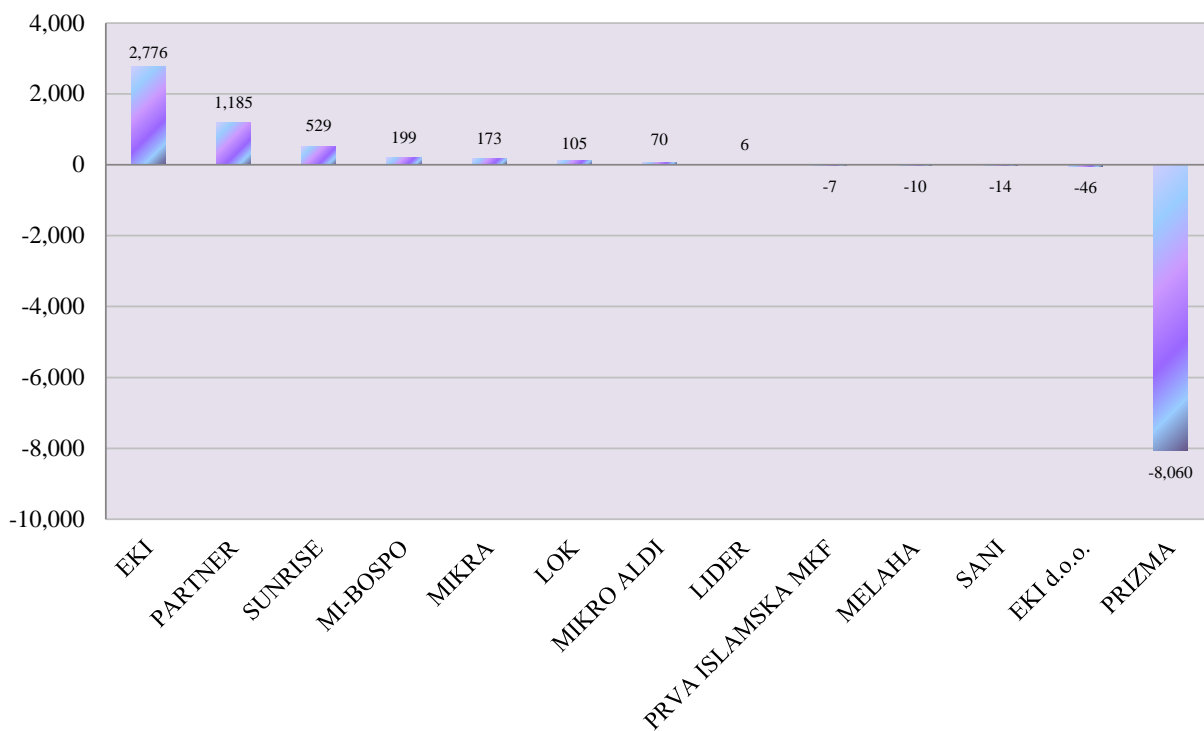


Chart 7

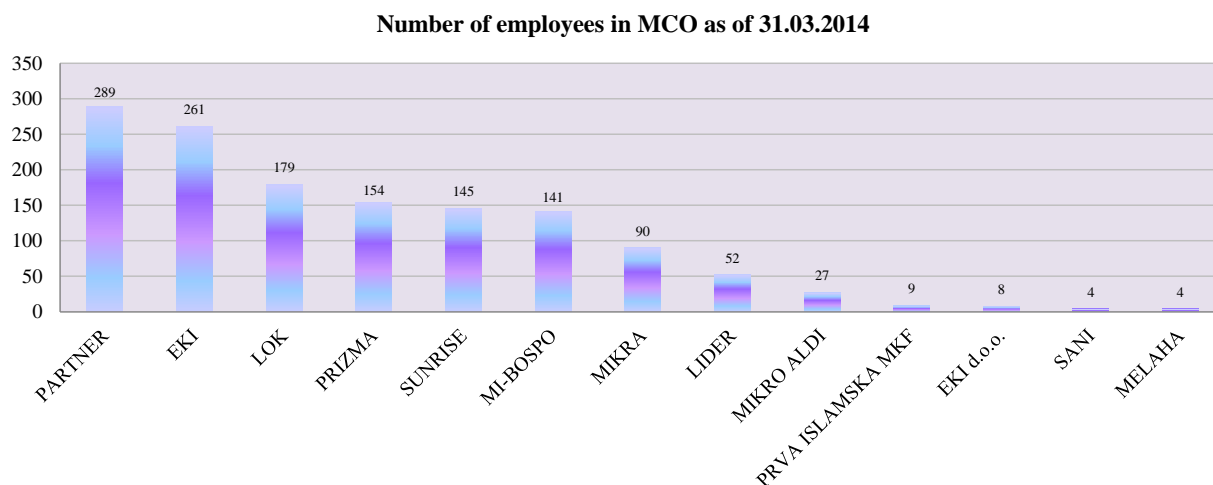


Chart 8

Number of organisational units of MCO seated in the Federation of B&H with the balance as of 31.03.2014

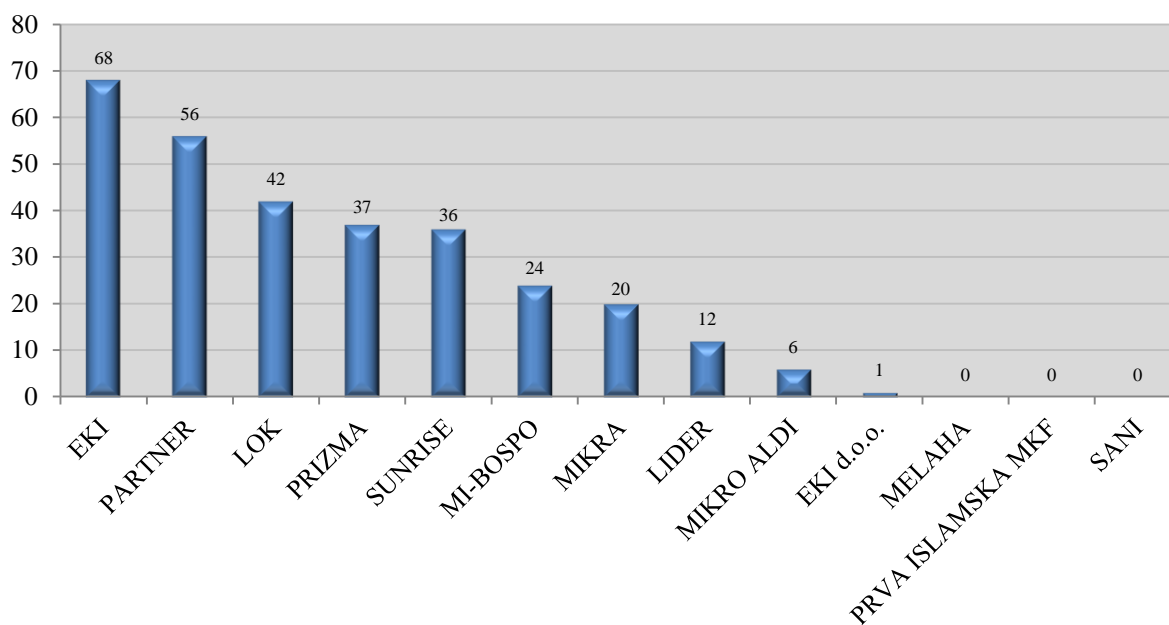


Chart 9

**Number of active loan accounts of MCO
with the balance as of 31.03.2014**

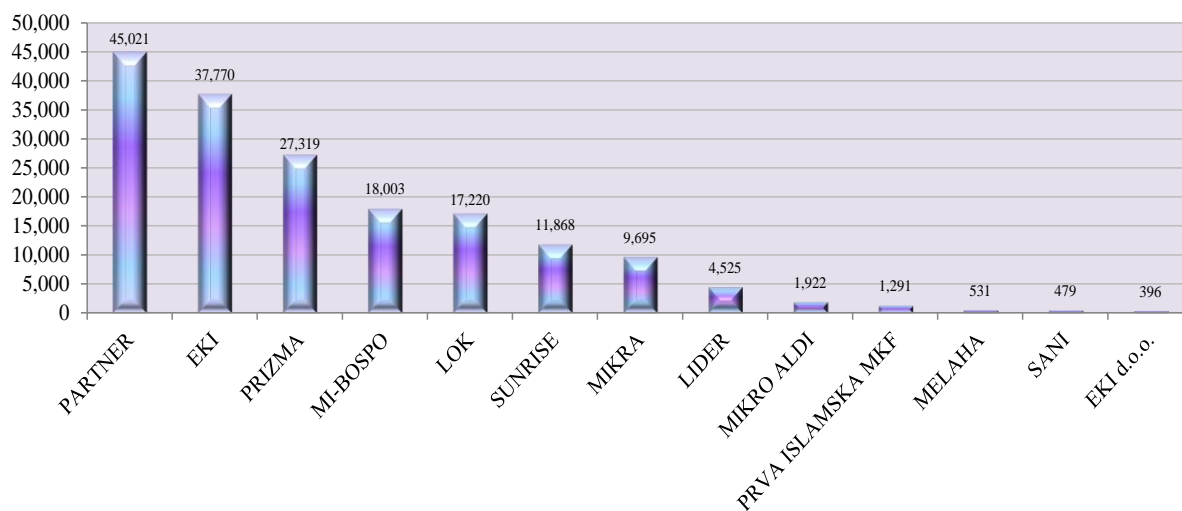


Chart 10

**Number of written-off loans of MCO
recorded in the off-balance as of 31.03.2014**

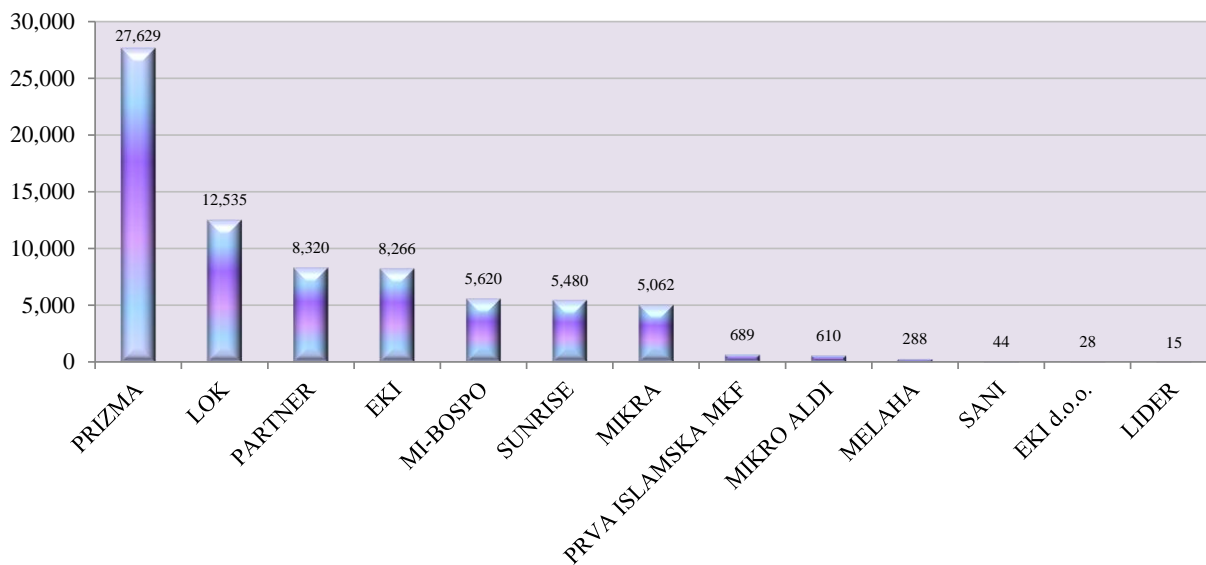


Chart 11

Loan amount in 000 KM written-off in the period 01.01.-31.03.2014

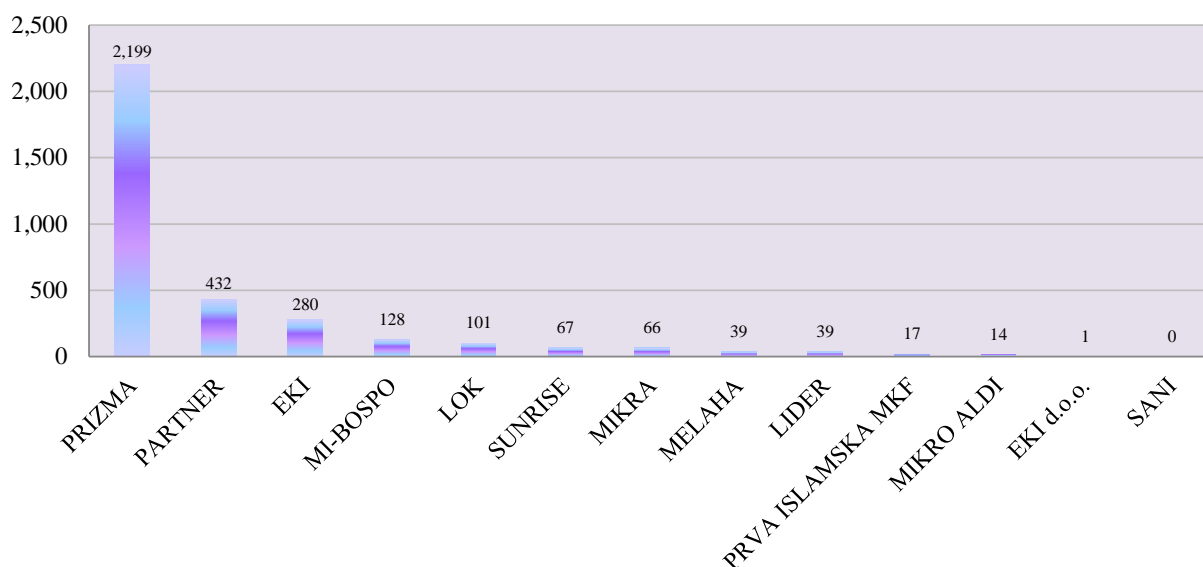


Chart 12

Collection amount by written-off loans in 000 KM in the period 01.01.-31.03.2014

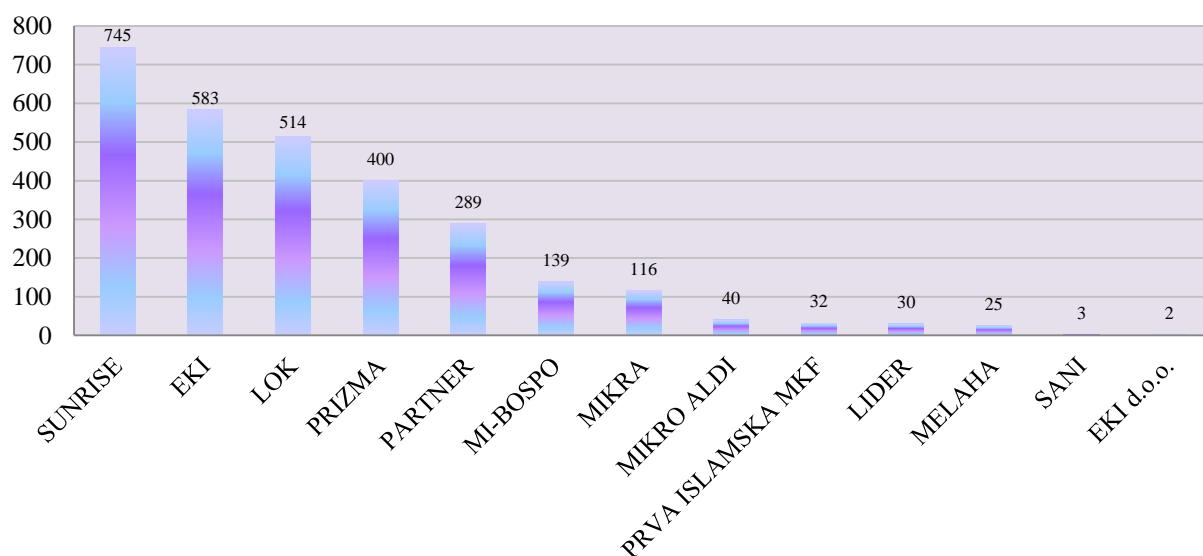


Chart 13

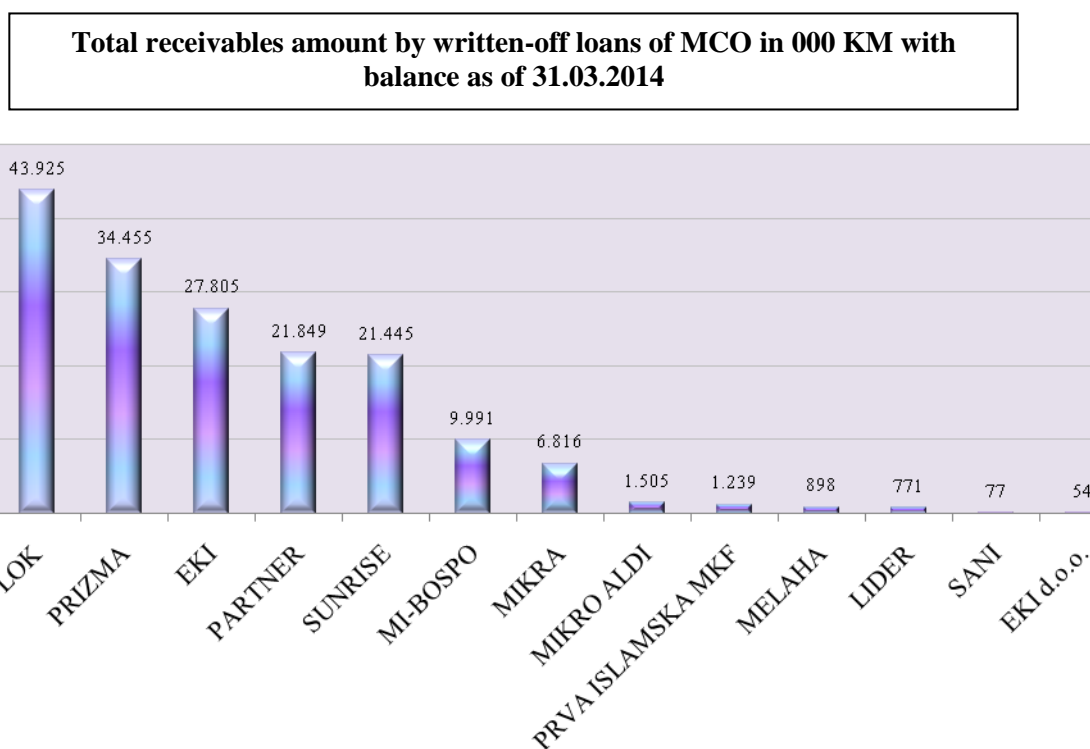


Chart 14

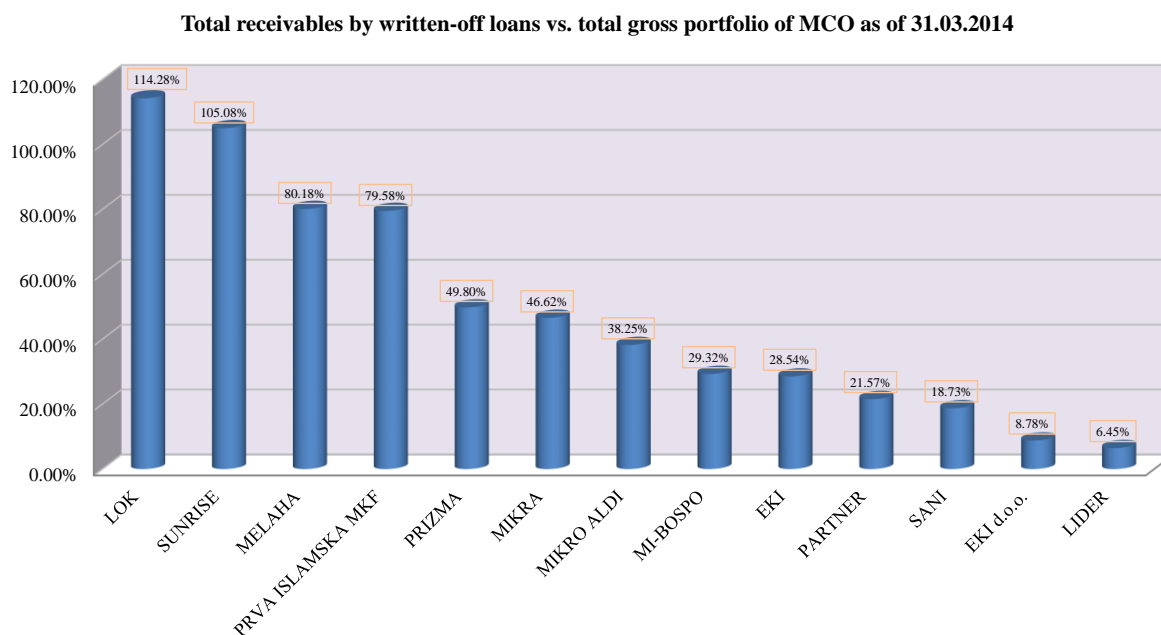


Chart 15

Risk portfolio over 30 days as of 31.03.2014

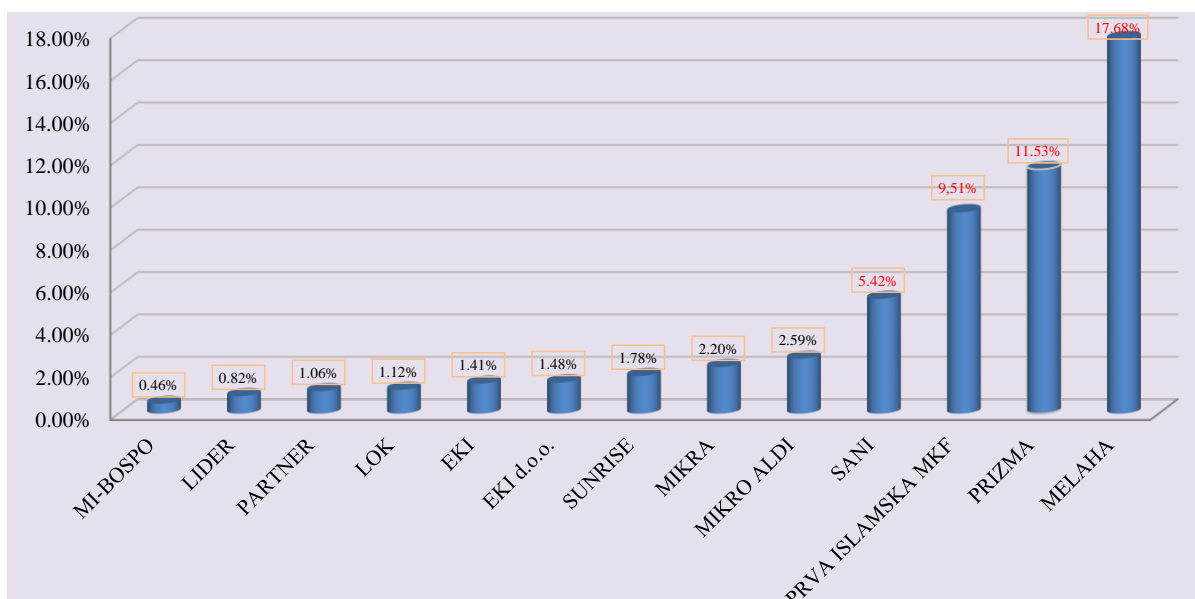


Chart 16

Fixed assets and capital vs. total assets as of 31.03.2014

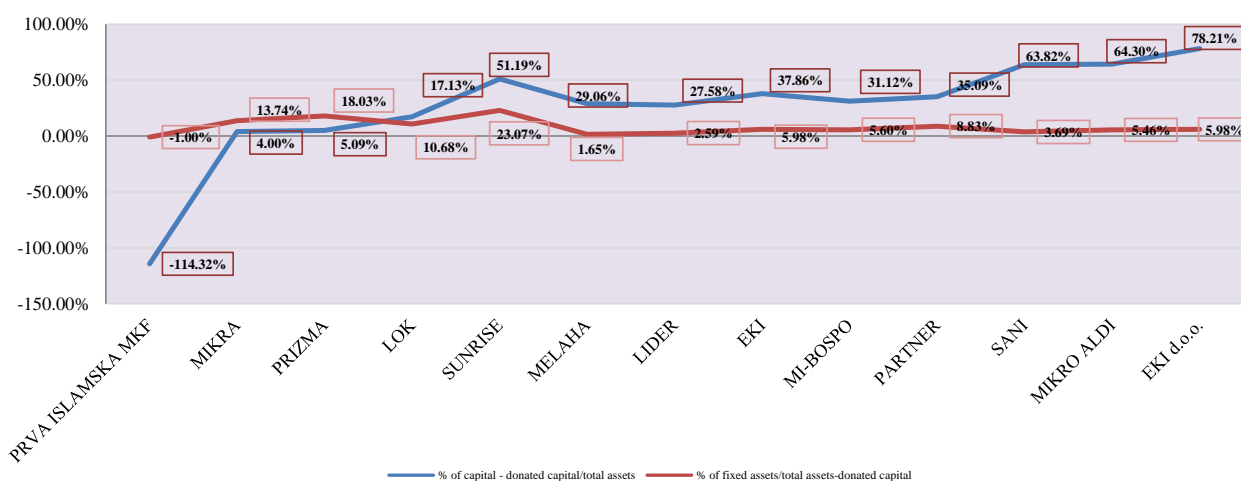


Chart 17

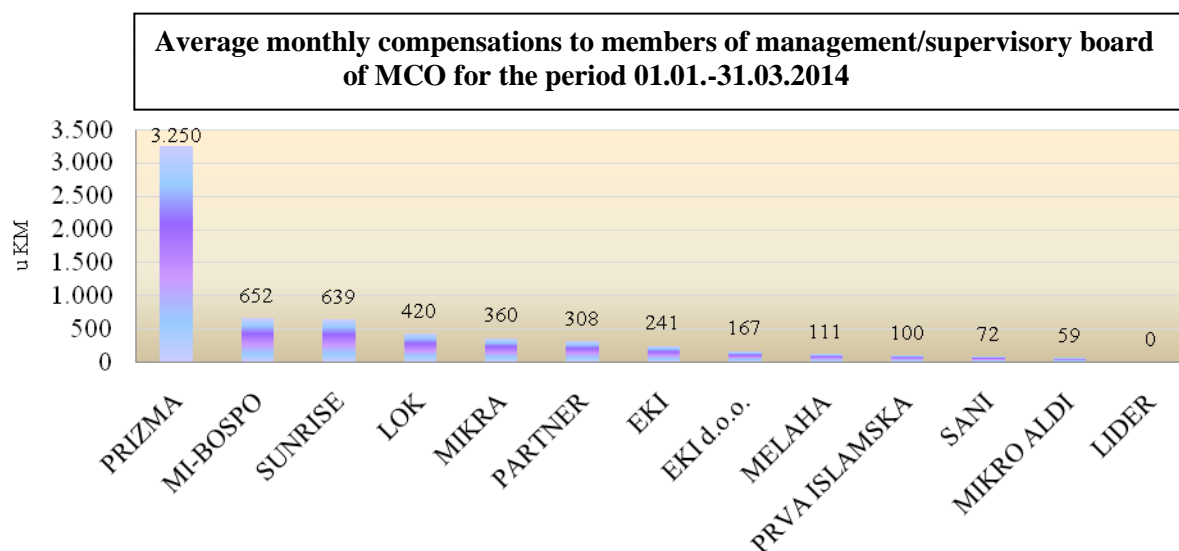


Chart 18

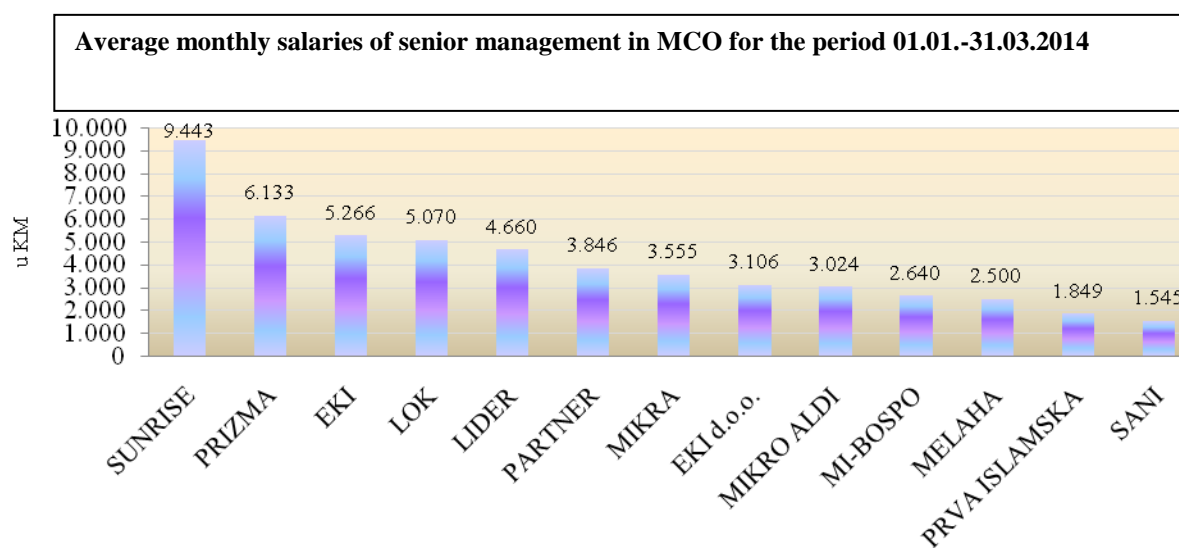


Chart 19

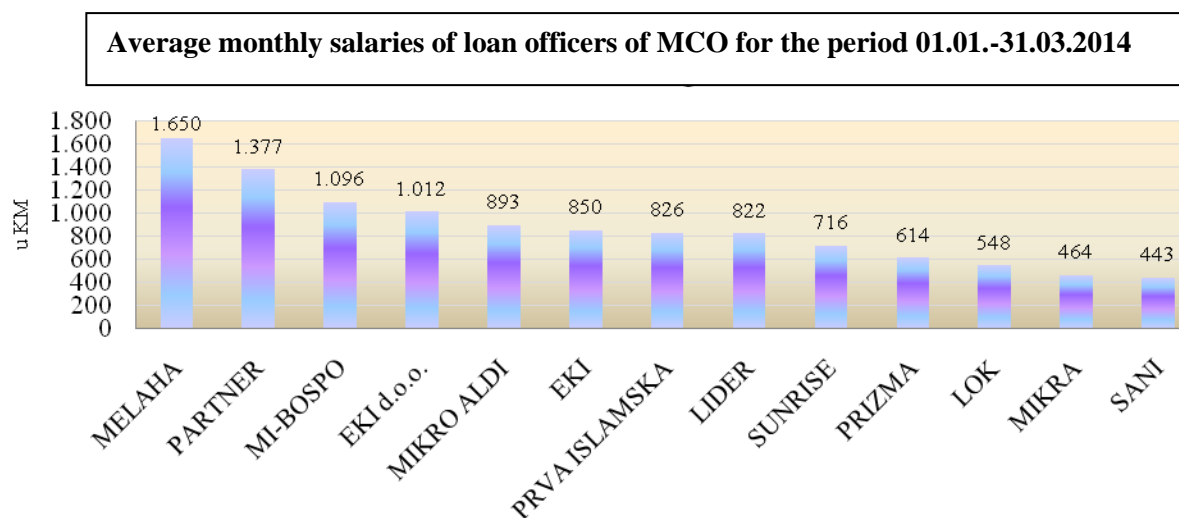


Chart 20

Total microloans disbursed in Q1 2014 in 000 KM

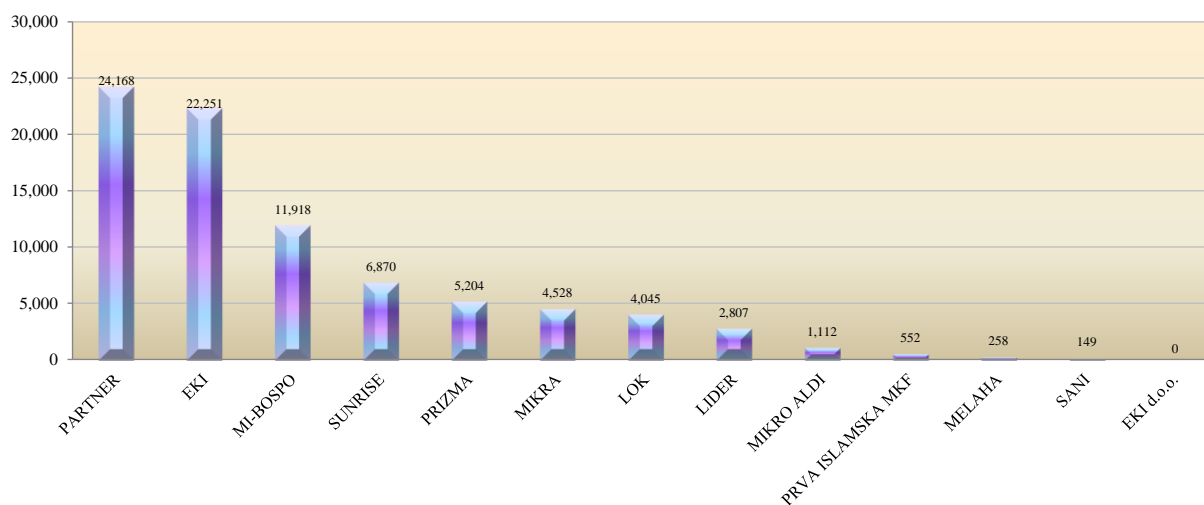


Chart 21

Average weighted EIR to total loans as per reports of MCO in Q1 2014

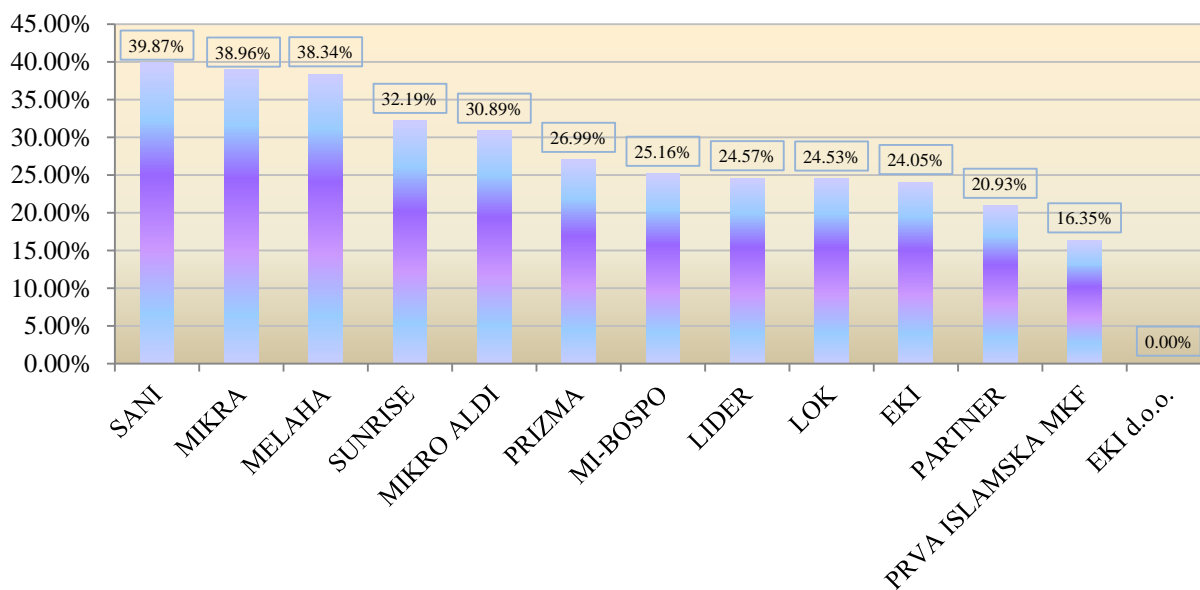


Chart 22

Average weighted EIR on short-term loans as per reports of MCO in Q1 2014

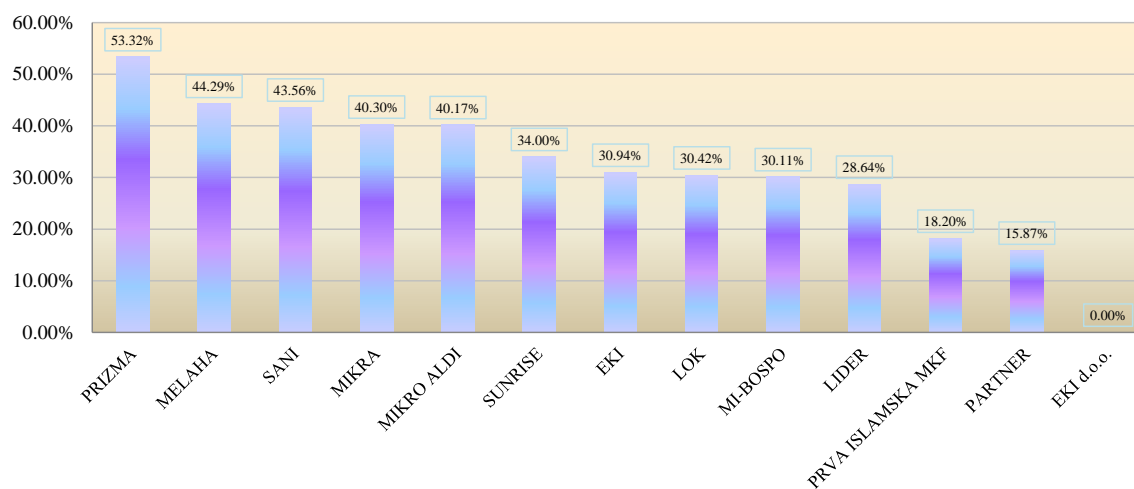


Chart 23

Average weighted EIR on long-term loans as per reports of MCO in Q1 2014

