



**BOSNIA AND HERZEGOVINA  
FEDERATION OF BOSNIA AND HERZEGOVINA  
FEDERATION OF B&H BANKING AGENCY**

**INFORMATION ON THE MICRO CREDIT SYSTEM OF THE  
FEDERATION OF BOSNIA AND HERZEGOVINA  
AS OF 31.12.2013**

Sarajevo, March 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 31.12.2013, 13 MCOs, 12 MCFs and 1 MCC had the FBA's license for business operations in the Federation of B&H. They operated through 310 organisational units. Total headcount of micro credit sector of the Federation of B&H as of 31.12.2013 was 1.403, which are 151 employees or 10% less than 31.12.2012. In 2013, the FBA granted its consent to one MCF for acquiring a share in a MCC, thus making this MCF the sole owner of MCC.

MCOs balance sheet total as of 31.12.2013 was KM 475,9 million, of which KM 474,9 million or 99,8% relates to MCFs and KM 1 million or 0,2% to MCC out of total MCO balance. Balance sheet total at the end of 2013 was less by KM 23,8 million or 5% compared to the balance as of 31.12.2012. Total MCO gross loans, as the most significant item of MCO assets, as of 31.12.2013, were KM 396,2 million and make 83% of total assets of MCO, while net loans amounted to KM 390,7 million. Both gross and net loans are lower by 5% vs.. the balance as of 31.12.2012. Micro lending is largely directed to agriculture (36%) and service activities (24%) and mostly long-term loans to private individuals. MCO continued decreasing effective interest rates to total micro loans, and, at the end of the fourth quarter 2013, the average weighted effective interest rates in micro credit sector to total loans were 25,29% which is a drop of 2.6 percentage points compared to the fourth quarter 2012.

If compared to the previous year, micro credit portfolio as of 31.12.2013 dropped by 5%. However, it shows improvements of active loan portfolio quality as shown by reduction of loan loss provisions rate from 1.82% as it was as at 31.12.2012 to 1,39%. Moreover, NPL portfolio exceeding 30 dpd also dropped from 1.89% to 1.50%. Total result of the sector as to NPL portfolio is within the standard frameworks as set by the FBA, while out of 13 MCOs, 2 MCFs do not meet the standard of FBA, which has to be below 5%. NPL portfolio over 1 dpd also improved and reduced from 4,88% as it was at the end of the last year to 2,96%. Write-off percentage at the sector level exhibits improvement and fell from 3,88% at the last year to 2,63% and four MCFs do not meet the FBA standard as for the loan write-off percentage.

The main source of MCO funds is taken loans, which were KM 268,9 million as of 31.12.2013 or 56% of total MCOs liabilities and are 14% lower than as at 31.12.2012. Total MCO capital as of 31.12.2013 stood at KM 179,7 million or 38% of total MCO liabilities, up by 10% vs.. the end of the previous year. The capital of MCF was KM 179,1 million or 99,6%, and capital of one MCC was KM 0,6 million or 0,4%. The most significant items of

MCF capital are excess of income over expenses in the amount of KM 118 million, which makes 66% of total MCF capital and donated capital which was KM 49,6 million or 27% of total MCF capital, while one MCC has 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 106 ths and legal reserves were KM 101 ths, while core capital of MCC was KM 600 ths.

In the period from 01.01.2013 to 31.12.2013, 11 MCFs posted more revenues than expenses in the amount of KM 15.925 ths, while one MCF posted less revenues than expenses in the amount of KM 26 ths. This means that as of 31.12.2013 MCFs generated excess of income over expenses which total KM 15.899 ths. In the period between 01.01.2013 to 31.12.2013, one MCC posted a net loss of KM 106 ths, which means that positive financial result of the micro credit sector was posted in the amount of KM 15.793 ths at the end of 2013. This is 20% more than in the same period of the previous year.

During the examinations of micro credit organisations, FBA found vast 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, specifically as for credit risk and other risks management 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 showing and reporting to the FBA on the amount of donated funds, not revealing of effective interest rate in loan agreements and premises of MCF 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 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 Vredit 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 document, 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 of benefit to several individuals

who find the safe heaven in the current regulations, which sanction insufficiently the damage to the property of a foundation and donated funds, which have wider importance.

In 2013, a part of assets of one micro credit foundation, which met the requirements, was transferred to a micro credit company, thus becoming the sole owner of the company. This created assumptions for strengthening the only micro credit company which is currently registered at the territory of the Federation of B&H.

### ***Reports by an Independent Auditor***

Article 18 of the Law on Micro Credit Organisations defines that MCO has to appoint, with the consent of the FBA, an external auditor which will make the audit of annual financial reports and make the audit report in line with the law and other legal regulations, which define the accounting and audit segment, which Micro Credit Organisations deliver to the FBA within five months at latest after expiry of a respective business year. Micro Credit Organisations must publish short form of the audit reports in one or more daily newspapers available at the whole territory of B&H within 30 days from the date of receiving the report. Along with delivery of a copy of the published paper, they have to inform the FBA immediately. In line with Article 19 of the Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Micro Credit Organisations („Official Gazette of the Federation of B&H“, No.: 27/07 and 46/11), MCOs have to obtain the consent of the FBA for appointment of the external auditor. Selection of auditors' company is solely performed by the MCO's managing body upon proposal of the audit board and the request for issuing the consent along with the supporting documentation and the decision by the managing body on selection of the audit company shall be delivered to the FBA. In line with Article 23 of the Law on Banking Agency of the Federation of B&H („Official Gazette of the Federation of B&H“, No. 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), the FBA can reject the external auditors' report and require new report, which will be prepared by the auditor appointed by the FBA on the account of MCO.

A review at the delivered audit reports for 2012 revealed that out of 13 MCOs, 9 MCFs and 1 MCC had unqualified reports, in which facts stated with 3 MCFs and 1 MCC in reports were those, which included non-compliance with loan agreements with financiers and non-compliance with business conditions as set under the Banking Agency's decisions. An independent auditor issued an unqualified report for one MCF, one MCF had negative opinion while one MCF had unqualified opinion of its audit report due to impossibility to obtain sufficient and appropriate audit evidences for insuring the basis for expressing the audit opinion. The Attachment 3 to this Information includes data on audit reports for individual MCOs for the year ended as of 31.12.2012 which were delivered to the FBA until 31.05.2013.

*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 MICROCREDIT SECTOR**

#### **1.1. Number of micro credit organisations**

As of 31.12.2013, 13 MCOs have work licenses of the FBA, thereof 12 MCFs (non-profit organisations) and 1 MCC (profit organisation) and 28 organisational units of MCC seated in the Republika Srpska. In 2013, the FBA issued its consent to one MCF for acquiring a share in one MCC, thus becoming the sole owner of this company. 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 31.12.2013 have a work license of the FBA for micro lending business.

#### **1.2. Organisational units**

As of 31.12.2013, there were a total of 310 organisational units of MCOs seated in the Federation of B&H 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, a total of 310 organisational units of Micro Credit Organisations seated in the Federation of B&H was recorded, thereof, 208 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 9 organisational units, i.e. by 3% vs. the end of the previous year. A total of 175 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 2013, the FBA issued 8 consents for establishment of organisational units, 18 consents for closing organisational units of MCOs and 16 consents for change of address of organisational units, while one organisational unit was added to the Registry of the FBA after the examination has been made on the spot of one MCO. 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 Federation of B&H or Republika Srpska. The FBA issued licenses for one MCC seated in Republika Srpska, which operates through its 28 branches and on site offices in the Federation of B&H.

#### **1.3. Staff**

Total headcount of micro credit sector was 1.403 as of 31.12.2013, which is 151 employees or 10% less compared to 31.12.2012. This drop in number of employees was triggered by

drop of employees in one of the biggest MCO, 36% or 107 less than as at the end of the year before. MCFs employ 1.394 or 99,4% and MCC 9 employees or 0,6%.

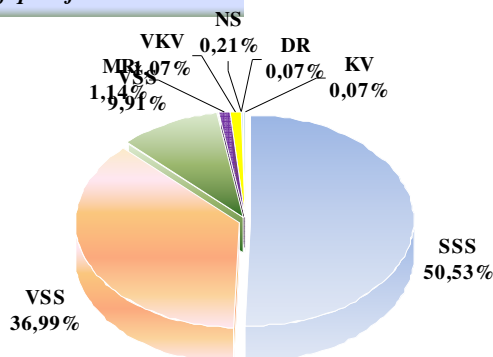
**Table 1. Staff Qualifications**

No.	Qualification	31.12.2012		Total	Share (%)	31.12.2013		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	3	0	3	0,19	3	0	3	0,21	100
2.	KV	1	0	1	0,06	1	0	1	0,07	100
3.	VKV	15	0	15	0,97	15	0	15	1,07	100
4.	SSS	828	2	830	53,41	707	2	709	50,53	85
5.	VŠS	154	1	155	9,97	138	1	139	9,91	90
6.	VS.S	530	4	534	34,36	513	6	519	36,99	97
7.	MR	16	0	16	1,03	16	0	16	1,14	100
8.	DR	0	0	0	0	1	0	1	0,07	n/a
<b>TOTAL</b>		<b>1.547</b>	<b>7</b>	<b>1.554</b>	<b>100,00</b>	<b>1.394</b>	<b>9</b>	<b>1.403</b>	<b>100,00</b>	<b>90</b>

\* 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.

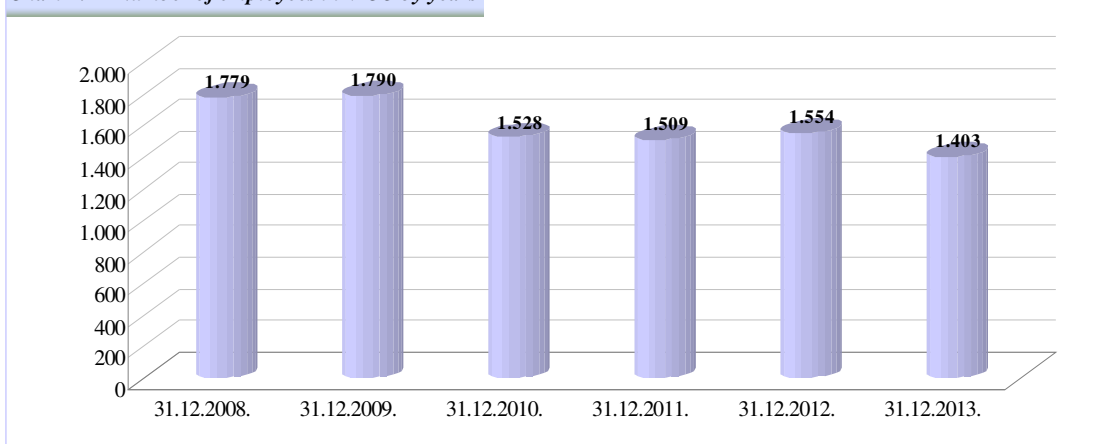
The employees' structure is dominated by secondary school education with 50,53%, university degree with 36,99% and two-year post-secondary education 9,91%. The share of employees with secondary school is on the drop by 15% while two-year post-secondary education and university degree dropped by 10% and 3%, respectively.

**Chart 1 Staff qualification 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 31.12.2013, MCOs had 1.403 employees, down by 22% 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 40% and 32%, respectively.

Chart 2. Number of employees in MCO by years



## 2. FINANCIAL FIGURES OF MCOs BUSINESS OPERATIONS

### 2.1. Balance sheet

Balance sheet volume of MCOs as of 31.12.2013 was KM 475,9 million, which is less by KM 23,8 million or 5% than as at 31.12.2012. Balance sheet volume increased with 8 MCFs while a drop was recorded with 4 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 1 MCF vs.. 31.12.2012, while a drop of up to 20% was recorded with 2 MCFs and a drop of up to 30% was recorded with 1 MCF. One MCC posted a fall of balance sheet volume by 33% vs.. the last year's end. One MCF which as of 31.12.2012 had the largest share in the balance sheet volume in the sector, reduced its assets in twelve months by even KM 26 million, thus posting a drop of 23%. 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 435,9 million or 92%.

- 000 KM -

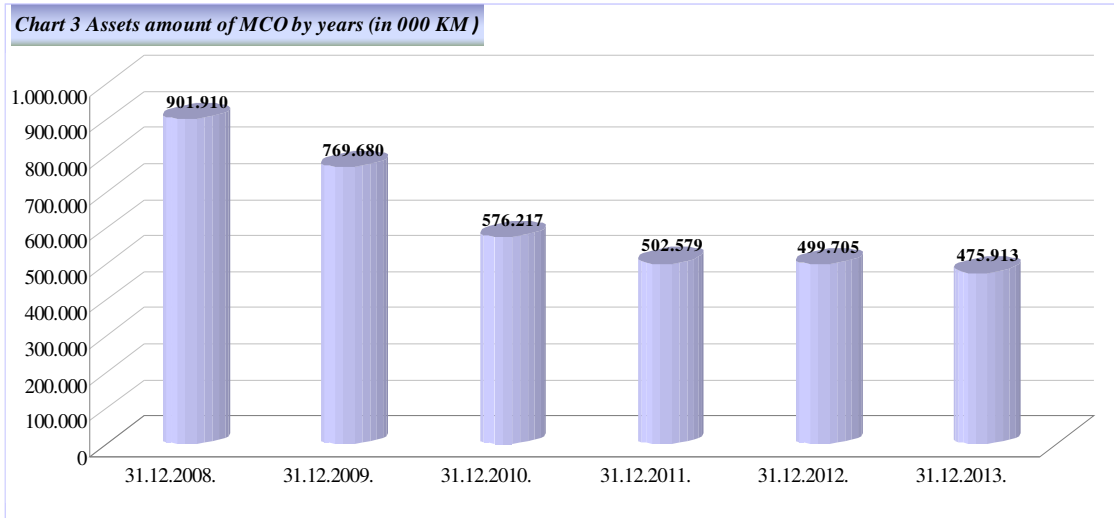
Table 2 Balance Sheet MCO

DESCRIPTION	31.12.2012			31.12.2013					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
<b>ASSETS</b>									
1. Cash	25.286	104	25.390	24.123	5	88	9	24.211	95
2. Facilities to banks	8.245	0	8.245	4.054	1	0	0	4.054	49
3. Loans	415.883	1.349	417.232	395.382		886		396.268	95
4. Loan loss provisions	7.585	25	7.610	5.507		16		5.523	73
5. Net loans	408.298	1.324	409.622	389.875	82	870	84	390.745	95
6. Business premises and other fixed assets	48.025	84	48.109	42.596	9	50	5	42.646	89
7. Long-term investments	15	0	15	761	0	0	0	761	5073
8. Other assets	9.268	33	9.301	14.018	3	28	3	14.046	151
9. Provisions for other assets items, except loans	975	2	977	549		1		550	56
<b>TOTAL ASSETS</b>	<b>498.162</b>	<b>1.543</b>	<b>499.705</b>	<b>474.878</b>	<b>100</b>	<b>1.035</b>	<b>100</b>	<b>475.913</b>	<b>95</b>
<b>LIABILITIES</b>									
10. Loan liabilities	311.240	803	312.043	268.565	57	348	34	268.913	86
11. Other liabilities	24.091	39	24.130	27.201	6	92	9	27.293	113
12. Capital	162.831	701	163.532	179.112	38	595	57	179.707	110



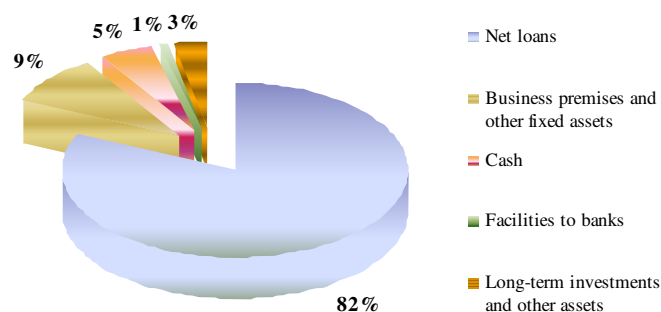
<b>TOTAL LIABILITIES</b>	<b>498.162</b>	<b>1.543</b>	<b>499.705</b>	<b>474.878</b>	<b>100</b>	<b>1.035</b>	<b>100</b>	<b>475.913</b>	<b>95</b>
Off-balance records	172.252	52	172.304	170.598		55		170.653	99

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 31.12.2013 was KM 475,9 million, almost double less (47%) 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 74% and 60%, respectively.



In the assets structure of MCO, cash funds amount to KM 24,2 million or 5% with a fall rate of 5% vs. 31.12.2012 and largely include cash of MCF. Facilities to banks are KM 4,1 million or 1%, which is less by 51% vs. the end of the last year. Net loans, i.e. gross loans reduced by loan loss provisions amount to KM 390,7 million or 82% of total assets; less by KM 18,8 million or 5% vs. 31.12.2012. 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 31.12.2012, drop of 20% was recorded with 1 MCF, while a drop of up to 30% was recorded with one MCF. One MCC posted a downfall of net loans of 34%. One MCF which as of 31.12.2012 had the biggest share in net loans of the sector, reduced these in twelve months by KM 23 million and out of all MCFs, it recorded the biggest drop of net loans of 25% vs. the end of the last year. Accordingly, this affected drop of this balance sheet position at the level of the whole sector. Business premises and other fixed assets amount to KM 42,6 million or 9% of total assets, down by KM 5,5 million or 11% vs. the end of the last year. Fixed assets percentage compared to total assets (reduced by donated capital) at the sector level is 10%, which is border-line of the allowed amount (up to 10%). Individually, three MCFs breach this standard, while one MCF is at the very level. The amount of KM 14,3 million or 3% includes long-term investments (KM 0,8 million showed by only one MCF) and other assets (KM 13,5 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 with all other MCOs.

**Chart 4 Assets and liabilities structure of MCO**



Loan liabilities in the MCO liabilities structure are dominant source of financing totaling KM 268,9 million or 56% of total liabilities and are 14% less vs. 31.12.2012. One MCF with the biggest share in loan liabilities reduced its liabilities by even KM 30,3 million and posted a fall of 34% vs. the end of the year before, which affected reduction of this balance sheet item at the level of the whole sector.

- 000 KM -

**Table 3 Maturity structure of taken loans**

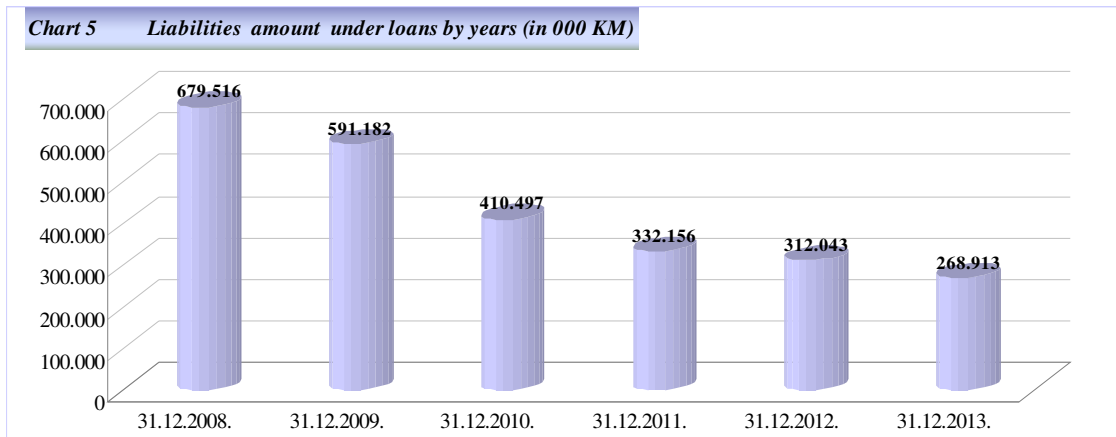
DESCRIPTION	31.12.2012				31.12.2013				Index
	MCF	MCC	TOTAL	%	MCF	MCC	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities against ST loans	99.872	719	100.591	32	81.258	202	81.460	30	81
2. Liabilities against LT loans	211.368	84	211.452	68	187.307	146	187.453	70	89
<b>TOTAL</b>	<b>311.240</b>	<b>803</b>	<b>312.043</b>	<b>100</b>	<b>268.565</b>	<b>348</b>	<b>268.913</b>	<b>100</b>	<b>86</b>

Out of total loan liabilities, long-term loans (which are not recorded with 2 MCFs) were KM 187,4 million or 70% and are 11% lower than the end of the year before. Out of total loan liabilities, short-term loans (not recorded with 3 MCFs) stood at KM 81,5 million or 30% and are on the fall by 19% vs. the end of the previous year. MCFs participate with KM 268,6 million or 99,8% of total loan liabilities.

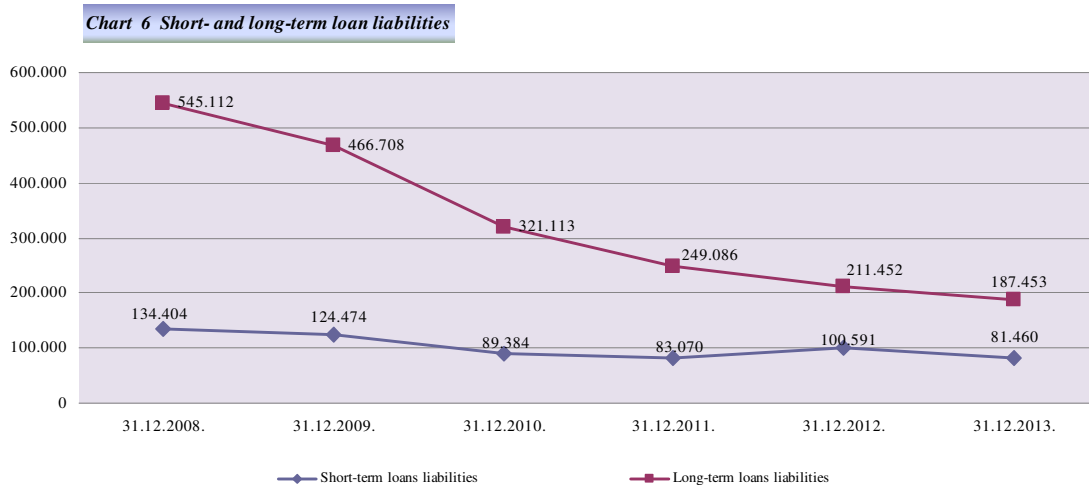
Given that creditors, both local commercial banks and various international socially-oriented commercial funds, generally exhibit high level of caution and abstain from lending large number of MCOs, many MCOs are deprived of funds with which they would finance its micro credit activity and generated a sufficient income from regular operations to cover its 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 two MCOs in a way that current liabilities is questionable, which fall due in significant amount in the first half of 2014 by regular order and loan disbursement in amounts which would enable keeping of loan portfolio at nearly the same level or with slight reductions. One MCO to which significant liabilities fall due in the first half of 2014 has to provide significant sources of funds for repayment, which could affect liquidity risk.

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 31.12.2013 were KM 268,9 million, less than 60% 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 92% and 88%, respectively.



As evident from the chart below, in addition to the fact that loan liabilities are lower by 60 % vs. 2008 and 14% vs. the end of the last year, their maturity structure is worrying. Long-term loans fell by 65% vs. 2008 and are on the constant drop, while short-term loans fell by 39% vs. 2008 and are also lower by 19 vs. the end of 31.12.2012 although they posted a growth as at the end of 2012 vs. previous two years.



Below are ten the most significant creditors of MCOs with 66% of total loan liabilities owed to them:

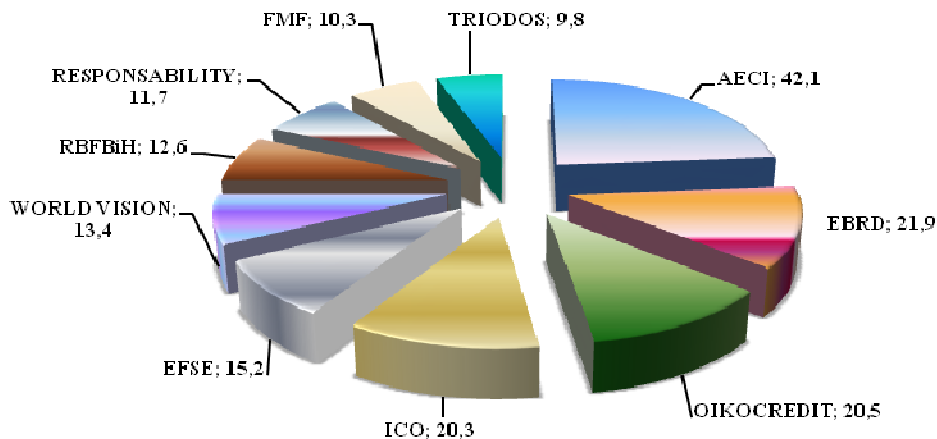
- 1.) AECI – Spanish Agency for International Development Cooperation (KM 42,1 million);
- 2.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 21,9 million);
- 3.) Oikokredit, Netherlands (KM 20,5 million);
- 4.) ICO – Instituto de Credito Oficial, Spain (KM 20,3 million);

- 5.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 15,2 million);
- 6.) World Vision International, USA (KM 13,4 million);
- 7.) Development Bank of the Federation of B&H<sup>1</sup> (KM 12,6 million);
- 8.) Responsibility SICAV, Switzerland (KM 11,7 million);
- 9.) Federal Ministry of Finance, FB&H (KM 10,3 million);
- 10.) Triodos – Doen, Netherlands (KM 9,8 million).

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

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

**Grafikon 7. Najvažniji izvori sredstava MKO (u mil. KM)**



Other liabilities amount to KM 27,3 million or 6% of total liabilities. These include liabilities to employees, suppliers, accrued expenses and others. Other liabilities at the sector level vs. total liabilities are 9,21%, and individually, a total of seven MCFs and one MCC posted more than 10% of other vs. total liabilities.

Off-balance records as at 31.12.2013 was KM 170,6 million and include write-offs (KM 170,3 million) and barter deals (KM 0,3 million with three MCFs) and is 1% lower than as at 31.12.2012.

## 2.2. Capital

Total capital of MCOs as of 31.12.2013 was KM 179,7 million or 38% of total liabilities, which is up by KM 16,2 million or 10% vs. the end of 2012. The capital of MCFs was KM 179,1 million or 99,7%, and capital of one MCC was KM 0,6 million or 0,3%.

Total capital of micro credit sector (reduced by donated capital) was 27,33% of total assets and two MCFs have capital (reduced by donated capital) vs. total assets less than allowed, i.e. less than 10% of total assets.

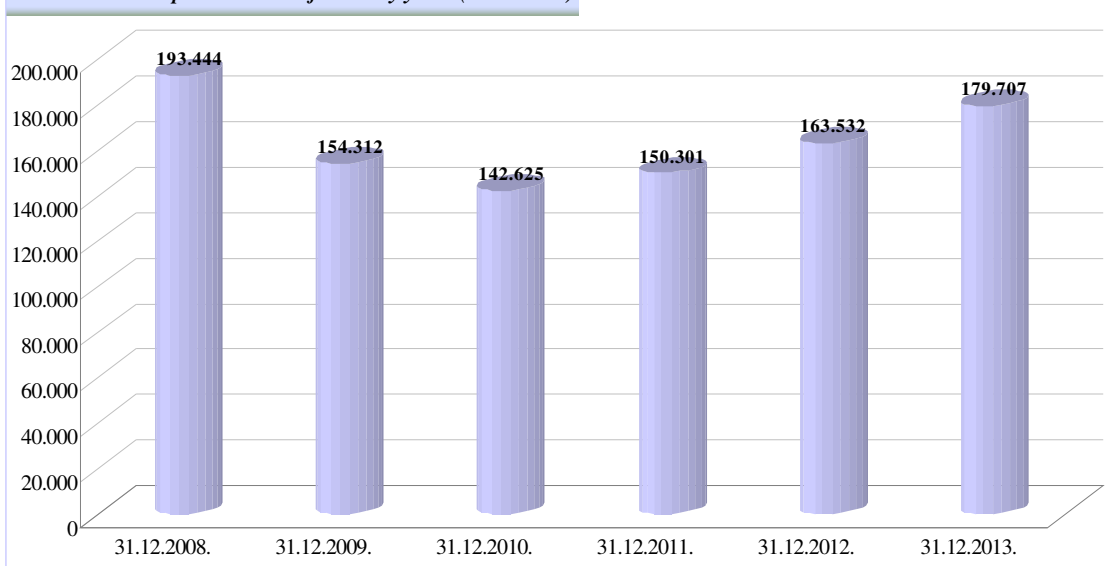
<sup>1</sup> Funds were disbursed within the Local Initiative Project LIP I and LIP II, which were transferred to Razvojna banka Federacije BiH under the Decision of the Federation of B&H Government („Official Gazette of Federation of B&H“, no: 78/06 and 34/07).

**Table 4 Capital Structure of MCO**

DESCRIPTION	31.12.2012					31.12.2013					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	46.936	29	0	0	46.936	49.640	28	0	0	49.640	106
Core capital	8.245	5	600	86	8.845	8.291	5	600	101	8.891	101
Surplus/ deficit of income over expenses	104.779	64	0	0	104.779	117.975	66	0	0	117.975	113
Emission agio	0	0	0	0	0	0	0	0	0	0	0
Retained profit	0	0	0	0	0	0	0	-106	-18	-106	n/a
Legal reserves	0	0	101	14	101	0	0	101	17	101	100
Other reserves	2.871	2	0	0	2.871	3.206	2	0	0	3.206	112
<b>TOTAL CAPITAL</b>	<b>162.831</b>	<b>100</b>	<b>701</b>	<b>100</b>	<b>163.532</b>	<b>179.112</b>	<b>100</b>	<b>595</b>	<b>100</b>	<b>179.707</b>	<b>110</b>

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 31.12.2013 was KM 179,7 million, less by 7% vs. the end of 2008. Individually, two MCFs recorded the biggest capital drop, which fell by 59% or 47%.

**Chart 8 Capital amount of MCO by years (in 000 KM)**



In the structure of capital of MCF, the most important is the surplus of income over expenses, which is KM 118 million and makes 66% of total MCF capital, up by KM 13,2 million or 13% vs. the end of the year before. Deficit of income over expenses for the period between 01.01.2013 to 31.12.2013 was posted by one MCF while 11 MCFs posted a surplus over expenses. MCC posted a net loss. Surplus of income over expenses of regular operations was generated by 3 MCFs, while 9 MCFs and 1 MCC generated a shortfall of income over expenses, i.e. loss of regular operations as of 31.12.2013. Out of those 9 MCFs, 8 of them generated positive result at the end of 2013 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 27% of total capital of MCF, while one MCC has no donated capital. The amount of donated capital, reported by MCOs, is higher by KM 2,7 million or 6% compared to the end of the last year and includes increase of donated capital with one MCF for which it was determined that it made incorrect reports to the FBA in previous periods. 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 31.12.2013 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.

Loss of one MCC is KM 106 ths and legal reserves KM 101 ths, while core capital of MCC is KM 600 ths.

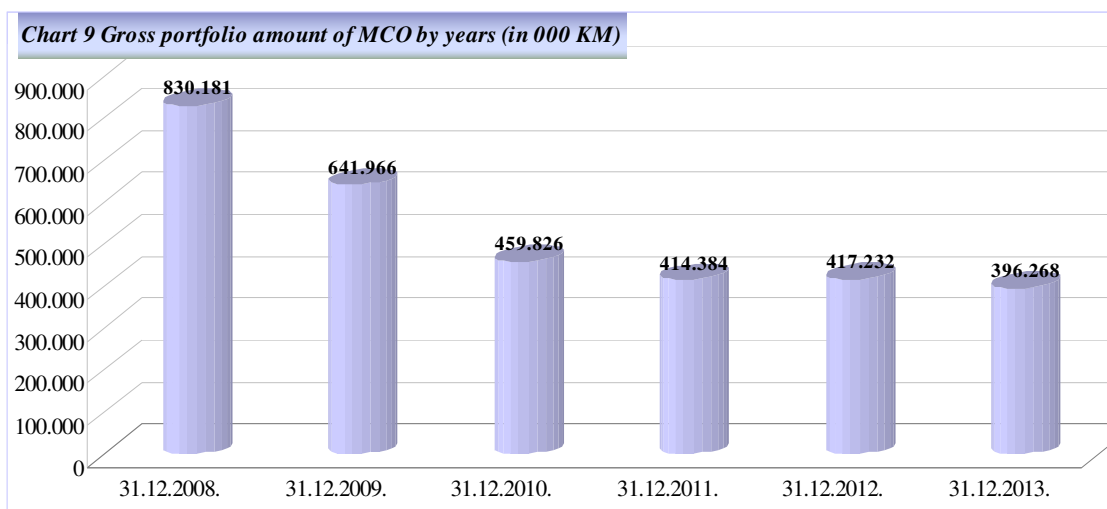
### **2.3. Loan portfolio**

The main activity of MCO is micro lending which includes the amount of KM 396,2 million or 83% of total assets of the micro credit sector. The level of total loans of the sector depend on loans of MCF which include KM 395,3 million or 99,8% of total loans, while MCC includes KM 0,9 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	31.12.2012			31.12.2013			Index
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	415.883	1.349	417.232	395.382	886	396.268	95
2.	Loan loss provisions	7.585	25	7.610	5.507	16	5.523	73
3.	<b>Net loans (1.-2.)</b>	<b>408.298</b>	<b>1.324</b>	<b>409.622</b>	<b>389.875</b>	<b>870</b>	<b>390.745</b>	<b>95</b>

Net loans amount to KM 390,7 million, 5% less vs. 31.12.2012, while gross loans are also lower by 5% vs. the end of the last year. One MCF which as of 31.12.2012 had the largest share in gross loan amount in the sector reduced loans by KM 23,4 million and posted the largest fall in gross loans out of MCFs of even 25% vs. the end of the last year. Consequently, this affected drop of this balance sheet position at the level of the whole sector. Loan loss provisions amount to KM 5,5 million, which is less by 27% as opposed to 31.12.2012. Loan loss provisions ratio vs. total loan portfolio is 1,39% and it recorded an improvement of 0,43 percentage points vs. the ratio as of 31.12.2012.



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 31.12.2013 was KM 396,2 million and it dropped by 52% vs. the end of 2008. Comparison of these two periods reveals with some MCOs that two MCFs posted the biggest fall of gross portfolio, which dropped by 78% and 67%, respectively.

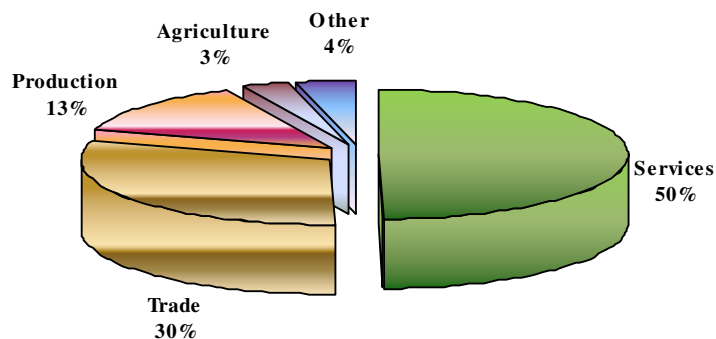
- 000 KM -

**Table 6 Sector and maturity structure of micro loans MCOs as of 31.12.2013**

No.	Micro loans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
<b>1.</b>	<b>Corporates</b>					
a.)	Service activities	1.002	3.657	20	<b>4.679</b>	<b>50%</b>
b.)	Trade	866	1.898	32	<b>2.796</b>	<b>30%</b>
c.)	Agriculture	77	202	2	<b>281</b>	<b>3%</b>
d.)	Production	410	856	10	<b>1.276</b>	<b>13%</b>
e.)	Other	67	300	4	<b>371</b>	<b>4%</b>
	<b>TOTAL 1:</b>	<b>2.422</b>	<b>6.913</b>	<b>68</b>	<b>9.403</b>	<b>100%</b>
<b>2.</b>	<b>Private individuals</b>					
a.)	Service activities	14.695	73.813	563	<b>89.071</b>	<b>23%</b>
b.)	Trade	11.420	30.491	321	<b>42.232</b>	<b>11%</b>
c.)	Agriculture	16.321	124.974	557	<b>141.852</b>	<b>36%</b>
d.)	Production	5.149	14.043	120	<b>19.312</b>	<b>5%</b>
e.)	Housing needs	2.494	46.566	228	<b>49.288</b>	<b>13%</b>
f.)	Other	16.164	28.626	320	<b>45.110</b>	<b>12%</b>
	<b>TOTAL 2:</b>	<b>66.243</b>	<b>318.513</b>	<b>2.109</b>	<b>386.865</b>	<b>100%</b>
	<b>TOTAL (1+2):</b>	<b>68.665</b>	<b>325.426</b>	<b>2.177</b>	<b>396.268</b>	

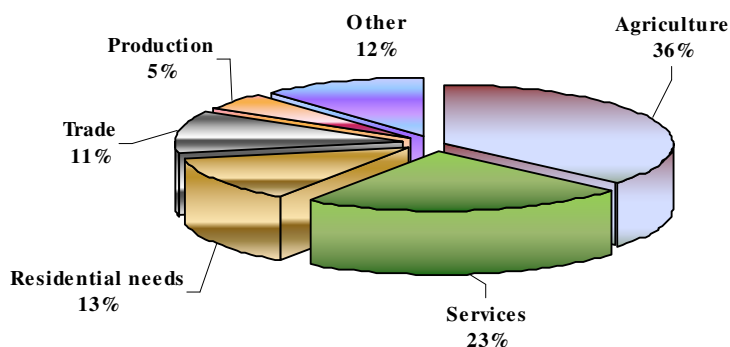
Out of total number of micro loans, KM 9,4 million or 2% was placed to legal entities and KM 386,8 million or 98% was placed to private individuals. Maturity structure of micro loans includes short-term loans with receivables due in the amount of KM 70,8 million or 18% and long-term loans of KM 325,4 million or 82%. Receivables due total KM 2,2 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 4,7 million or 50% for service activities and KM 2,8 million or 30% for trade. Out of total micro loan amount, KM 1,2 million or 13% was granted to production while KM 0,3 million or 3% was granted to agriculture and KM 0,4 million or 4% for other purposes.

**Chart 11 Sector structure of microloans placed to private individuals**



As for loans to **Private individuals**, KM 141,8 million or 36% was placed to agriculture and KM 89,1 million or 23% for service activities, KM 49,3 million or 13% for housing needs, KM 42,2 million or 11% for trade, KM 19,3 million or 5% for production and KM 45,1 million or 12% for other.

- 000 KM -

Micro loans for:	31.12.2012	31.12.2013	Share	Index
Service activities	102.589	93.750	24%	91
Trade	52.463	45.028	11%	86
Agriculture	144.056	142.133	36%	99
Production	23.492	20.588	5%	88
Housing needs	48.620	49.288	12%	101
Other	46.012	45.481	12%	99
<b>TOTAL</b>	<b>417.232</b>	<b>396.268</b>	<b>100%</b>	<b>95</b>



Based on industry analysis the conclusion is that micro lending is largely routed to lending of agriculture (36%) and service activities (24%) 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 1% and 14%, save for loans for housing, which are on the rise by 1% vs. the end of the last year.

- 000 KM -

DESCRIPTION	31.12.2012	31.12.2013	Share	Index
Long-term micro loans	373.174	325.426	82%	87
Short-term micro loans with receivables due	44.058	70.842	18%	161
<b>TOTAL</b>	<b>417.232</b>	<b>396.268</b>	<b>100%</b>	<b>95</b>

Long-term micro loans dropped by 13% vs. the end of the last year, while short-term micro loans (including receivables due) are on the rise by 61%.

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 31.12.2013 are evident from the following table.

- 000 KM -

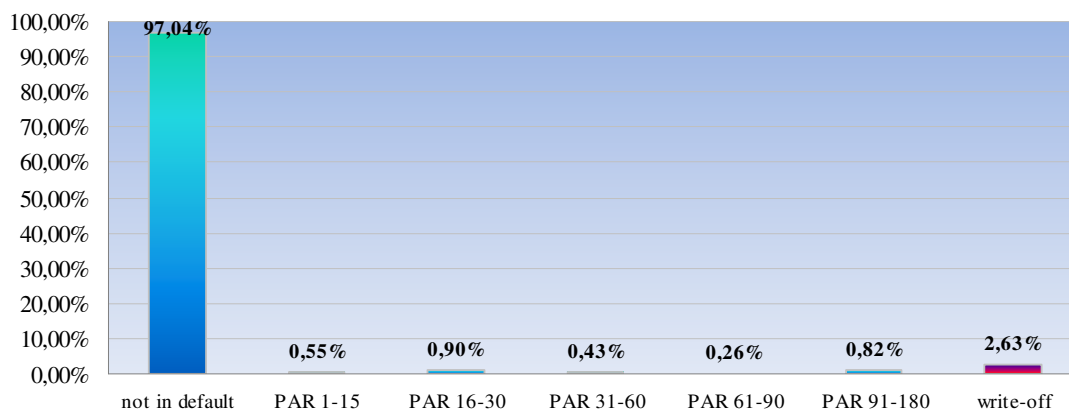
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other items of assets	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	384.523	97,04	0%	9	234	0	0	0	0
2.	1 – 15	2%	2.198	0,55	2%	40	0	44	1	0	45
3.	16 – 30	15%	3.585	0,90	100%	67	0	538	67	0	605
4.	31 – 60	50%	1.695	0,43	100%	59	0	848	59	0	907
5.	61 – 90	80%	1.012	0,26	100%	59	0	810	59	0	869
6.	91 – 180	100%	3.255	0,82	100%	360	0	3.283	365	0	3.648
<b>TOTAL</b>			<b>396.268</b>	100,00		<b>594</b>	<b>234</b>	<b>5.522</b>	<b>551</b>	<b>0</b>	<b>6.073</b>
7.	over 180	Write-off	10.714		100%	2.135					

\*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 11,7 million. Default loan rate over one day as of 31.12.2013 was 2,96% and recorded an improvement vs. the end of the last year by 1,92 percentage points. The biggest defaulted loan amount is with those of 16 to 30 days (KM 3,6 million or 1% of total loans). Total amount of interest due by current loans which are defaulted for more than one day is KM 0,6 million. Total amount of calculated reserves on all basis is KM 6,1 million and as of 31.12.2012 is less by KM 2,5 million or 29%. By analysing MCOs report, it was determined that one of the biggest MCO has 33% of share in total reserve amount.

In 2013, MCO wrote-off KM KM 10,7 million of principal and KM 2,1 million of interest.

**Chart 12 Portfolio quality of MCO**

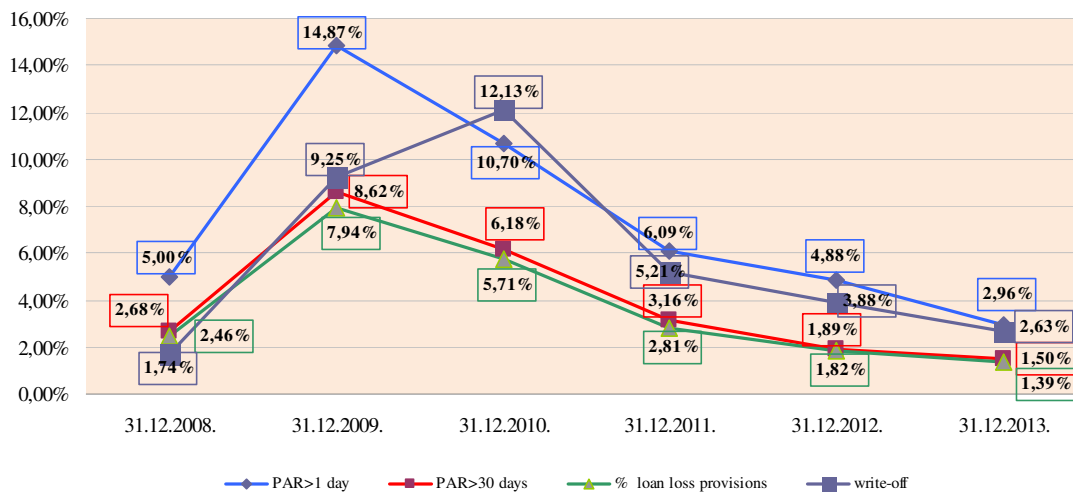


### **2.3.1. Key indicators of loan portfolio quality**

Compared to the end of the last year, micro credit portfolio as of 31.12.2013 recorded a drop of 5% and shows improvements in quality of active loan portfolio. Majority of MCOs are exposed to the pressure of competition both from major MCOs and banks. Therefore, smaller MCOs face lack of funds for financing loan portfolio.

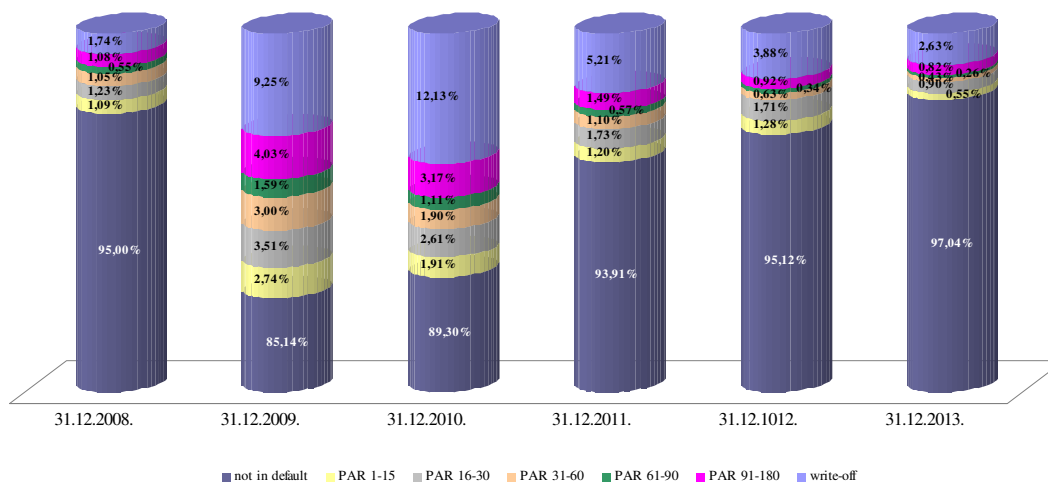
Improvements of quality indicators of active portfolio was stated by reduction of loan loss provisions rate from 1.82%, as it was on 31.12.2012 to 1,39%. Non-performing risk over 30 days past due also reduced from 1,89% to 1,50%. Total result of the sector based on risk portfolio is within standards defined under the FBA while out of 13 MCOs, 2 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 the improvement and it dropped from 4,88% as it was at the end of the last year to 2,96%.

Chart 13 Assets quality portfolio 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 19% 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 Classification of gross portfolio of MCO by years



During 2013, MCOs wrote off 11.678 of loan accounts (even 72% of write-offs out of total write-offs in 2013 relates to one of the largest MCFs in the Federation of B&H. During examination of this MCF, the FBA found numerous irregularities in its business, especially as regards write-offs) totaling KM 12,8 million. Out of this number KM 10,7 million includes written-off principal. The percentage of write-offs at the sector level as of 31.12.2013 was 2,63% and this figure reduced by 1,25 percentage points and is within the FBA standard. Four 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 11 million of written-off principal in 2013 (more than written off principals in the same period) and KM 1,6 million of written off

interest, while in the same reporting period, three MCFs and one MCD wrote off a total KM 495 ths of principal and KM 76 ths of interest.

Total receivables against write-offs, which are in the off-balance records, amount to as KM 170,3 million as of 31.12.2013, which is 1% less than as of the end of the last year. One MCF has KM 44,3 million of total receivables against write-offs, which makes 26% of total write-offs at the sector level.

- 000 KM -

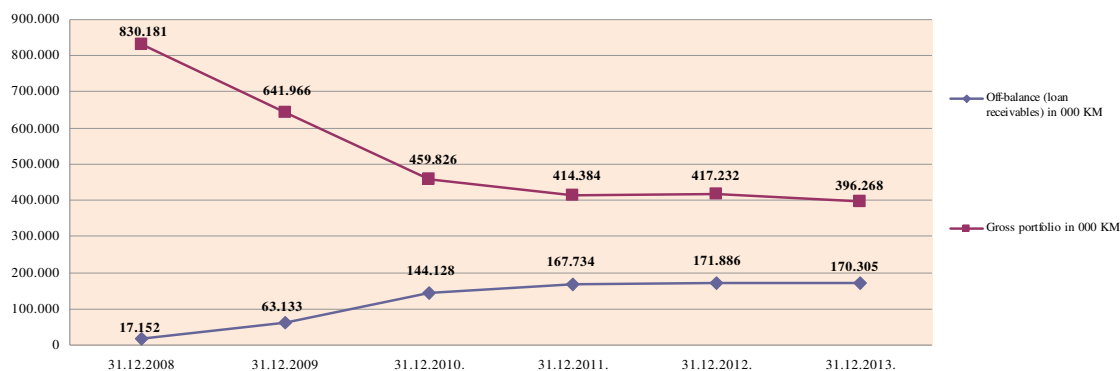
DESCRIPTION	PRIVATE INDIVIDUALS		LEGAL ENTITIES		TOTAL	
	Written off principal	Written off interest	Written off principal	Written off interest	Written off principal	Written off interest
1	2	3	4	5	6	7
<b>Initial balance as of 01.01.2013</b>	<b>140.482</b>	<b>25.252</b>	<b>2.711</b>	<b>433</b>	<b>143.194</b>	<b>25.686</b>
<b>Changes in 2013:</b>						
<b>New write-off in the current year</b>	<b>10.486</b>	<b>2.132</b>	<b>228</b>	<b>3</b>	<b>10.714</b>	<b>2.135</b>
<i>Write-off in the period 01.01.-31.03.</i>	2.166	371	71	8	2.237	379
<i>Write-off in the period 01.04.-30.06.</i>	2.120	371	65	6	2.185	377
<i>Write-off in the period 01.07.-31.12.</i>	3.381	673	47	4	3.428	677
<i>Write-off in the period 01.10.-31.12.</i>	2.819	717	45	-15	2.864	702
<b>Collected in the current year</b>	<b>10.862</b>	<b>1.548</b>	<b>207</b>	<b>27</b>	<b>11.069</b>	<b>1.575</b>
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2.597	289	32	7	2.629	296
<i>Collection of write-offs in the period 01.04.-30.06.</i>	2.612	493	85	9	2.697	502
<i>Collection of write-offs in the period 01.07.-31.12.</i>	2.744	351	45	5	2.789	356
<i>Collection of write-offs in the period 01.10.-31.12.</i>	2.908	415	45	6	2.953	421
<b>Permanent write-off in the current year</b>	<b>495</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>495</b>	<b>76</b>
<i>Permanent write-off in the period 01.01.-31.03.</i>	68	13	0	0	68	13
<i>Permanent write-off in the period 01.04.-30.06.</i>	56	8	0	0	56	8
<i>Permanent write-off in the period 01.07.-31.12.</i>	124	19	0	0	124	19
<i>Permanent write-off in the period 01.10.-31.12.</i>	247	36	0	0	247	36
<b>Balance as of the date 31.12.2013</b>	<b>139.612</b>	<b>25.760</b>	<b>2.732</b>	<b>409</b>	<b>142.344</b>	<b>26.169</b>

\* Note: Data in the Table 10 differ from total receivables under write-offs shown in the off-balance records in the amount of KM 1,8 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 31.12.2013 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 2% and 6% 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 Loan receivables and gross portfolio of MCO



As for 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 31.12.2013, 2.362 guarantors repaid KM 3,6 million out of total approved loans being repaid through this security instrument in the amount of KM 14 million (2.012 loan accounts) which is 41% less guarantors who repay loans as opposed to 31.12.2012 (4.018 guarantors repaid KM 1,8 million, while the approved loans amount repaid by guarantors was KM 24 million – 3.689 of loan accounts). One MCF has 87% of share in total repayment on the account of guarantors. Average loan amount repaid or being repaid through guarantorship as of 31.12.2013 was KM 1.528. Reduced number of loans being repaid based on guarantorship as of 31.12.2013 is the result of wrong showing of data with individual MCO in previous periods. Out of total number of loan accounts, 1,11% of loan accounts are loans with guarantee and as opposed to 2012, loan account share with guarantorship in total number of loan accounts is on the drop by 0,65 percentage points. The biggest share of loan accounts backed by guarantors is recorded with two MCFs vs. total number of loan accounts (3,10% and 2,35%). The outstanding debt balance backed by guarantors as of 31.12.2013 was KM 4,1 million, which is 1,04% of gross loans of MCOs and compared to 31.12.2012, a share of outstanding debt in gross portfolio is less by 0,86 percentage points (as at 31.12.2012, the outstanding debt balance backed by

guarantors was KM 7,9 million vs. KM 417,2 million of gross portfolio, which is 1,9% of gross portfolio of MCO).

According to MCOs reports and in line with the Decision on Conditions and Manner of Customer Complaints Management by Micro Credit Organisations („Official Gazette of the Federation of B&H“, No.: 32/10) in the period from 01.10. to 31.12.2013, customers of MCFs filed a total of 54 complaints, while one MCC said that it had no complaints. Out of 12 MCFs having operating licenses of the Agency, 7 of them have no complaints recorded in the reporting quarter. The largest number of complaints (46) 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 22 complaints, co-debtors/guarantors files 19 complaints, while other involved parties filed 13 complaints. In the reporting period, MCOs solved 12 complaints positively, 38 complaints were solved negatively, while 4 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 2013 (in 000 KM)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
<b>1.</b>	<b>Short-term micro loans for:</b>	<b>19.507</b>	<b>18,67%</b>	<b>26,89%</b>
1.1.	Service activities	3.701	24,36%	32,40%
1.2.	Trade	1.926	22,53%	29,83%
1.3.	Agriculture	3.239	22,23%	29,31%
1.4.	Production	751	21,92%	27,86%
1.5.	Residential needs	1.034	22,39%	28,63%
1.6.	Non-purpose-basic needs	522	16,69%	40,06%
1.7.	Other	8.334	13,23%	21,67%
<b>2.</b>	<b>Long-term micro loans for:</b>	<b>66.455</b>	<b>20,91%</b>	<b>24,82%</b>
2.1.	Service activities	17.446	21,22%	25,23%
2.2.	Trade	6.525	21,26%	25,03%
2.3.	Agriculture	24.137	19,15%	22,69%
2.4.	Production	2.379	20,73%	24,55%
2.5.	Housing needs	8.495	21,28%	24,44%
2.6.	Non-purpose-basic needs	586	24,15%	33,20%

2.7.	Other	6.887	25,24%	30,73%
<b>TOTAL</b>		<b>85.962</b>	<b>20,40%</b>	<b>25,29%</b>

In line with monthly statements on the weighted nominal and effective interest rates by loans, MCOs placed micro loans of KM 85,9 million in Q4 2013, which is less by KM 5,1 million or 6% 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 31.12.2013, MCOs had 181.745 active loan accounts, which is less by 27.339 of loan accounts or 13% vs. the end of the previous year. Average amount of micro loans at the sector level as of 31.12.2013 was KM 2.181, which is the average of MCF (31.12.2012 - 1.996 KM), while average amount of micro loans in MCC is KM 1.768.

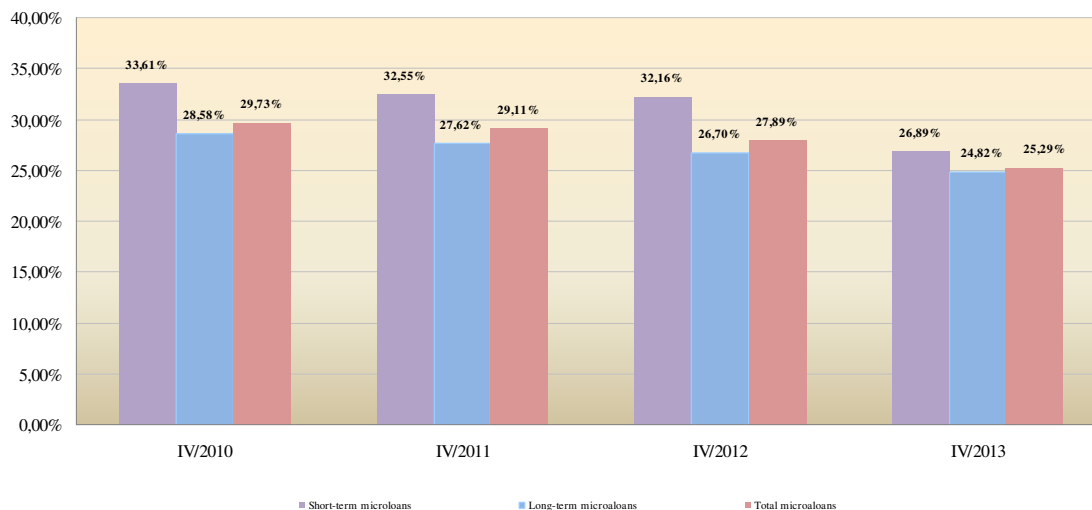
Average weighted nominal interest rate for short-term loans is in the range of 13,23%, for other loans up to 24,36% for service activities and effective interest rate is in the range of 21,67% for other loans up to 40,06% for non-purpose loans. Average weighted nominal interest rate on long-term loans is within 19,15% for agriculture up to 25,24% for other loans and effective interest rate in the range of 22,69% for agriculture up to 33,20% 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.

**Table 12 Average weighted effective interest rates on microloans by quarters**

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

**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 Q4 2013, average weighted effective interest rates in micro credit sector to total loans were 25,29%, and compared to Q4 2012, they recorded a drop of 2,6 percentage points. Compared with the same period, average weighted interest rates to short-term loans were 26,89% and recorded a fall of even 5,27 percentage points due to significant reduction of interest rates with one MCF, which in November and December 2013 had short-term loans promotion sales from the category of other purposes, which are basically, non-special purpose loans and loans for production with nominal interest rate of 0% and fixed management fee amount. Average weighted effective interest rates on long-term loans at the end of Q4 2013 were 24,82% and are on the fall by 1,88 percentage points vs. Q4 2012. 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 -

<b>Table 13 Income Statement MCO</b>										
No.	DESCRIPTION	For the period 01.01. - 31.12.2012				For the period 01.01. - 31.12.2013				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
<b>1.</b>	<b>INCOME</b>									
1.1.	Interest-based and similar income	88.026	337	88.363	89	84.920	273	85.193	88	96
1.2.	Operating income	10.447	48	10.495	11	11.314	45	11.359	12	108
<b>2.</b>	<b>TOTAL INCOME (1.1.+1.2.)</b>	<b>98.473</b>	<b>385</b>	<b>98.858</b>	<b>100</b>	<b>96.234</b>	<b>318</b>	<b>96.552</b>	<b>100</b>	<b>98</b>
<b>3.</b>	<b>EXPENSES</b>									
3.1.	Interest-based and similar expenses	19.218	82	19.300	19	16.716	65	16.781	18	87
3.2.	Operating expenses	72.499	301	72.800	72	68.165	363	68.528	73	94
3.3.	Expenses for loan loss provisions and other losses	9.335	25	9.360	9	8.695	-2	8.693	9	93
<b>4.</b>	<b>TOTAL EXPENSES (3.1.+3.2.+3.3.)</b>	<b>101.052</b>	<b>408</b>	<b>101.460</b>	<b>100</b>	<b>93.576</b>	<b>426</b>	<b>94.002</b>	<b>100</b>	<b>93</b>
5.	EXTRAORDINARY INCOME	17.551	24	17.575		15.388	3	15.391		88
6.	EXTRAORDINARY EXPENSES	1.830	1	1.831		2.147	1	2.148		117
<b>7.</b>	<b>TOTAL INCOME – EXPENSES (2+5-4-6)</b>	<b>13.142</b>	<b>0</b>	<b>13.142</b>		<b>15.899</b>	<b>-106</b>	<b>15.793</b>		120
<b>8.</b>	<b>SURPLUS/DEFICIT OF INCOME OVER EXPENSES</b>	<b>13.142</b>		<b>13.142</b>		<b>15.899</b>		<b>15.899</b>		121
9.	PROFIT BEFORE TAX		0	0			-106	-106		
10.	TAXES		0	0			0	0		
<b>11.</b>	<b>NET PROFIT/LOSS</b>		<b>0</b>	<b>0</b>			<b>-106</b>	<b>-106</b>		



12.	TOTAL FIN. RESULT		13.142				15.793		
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Total income of MCO for the period 01.01.2013 to 31.12.2013 amounts to KM 96,5 million, out of which KM 96,2 million or 99,7% is income of MCF and KM 0,3 million or 0,3% is income of one MCC. Total income is lower by KM 2,3 million or 2% vs. the same period of the last year. The biggest portion of income is contributed by interest income with KM 85,2 million or 88% of total income, less by KM 3,2 million or 4% vs. the same period last year, while operating income amounts to KM 11,3 million or 12% of total income, which is up by KM 0,8 million or 8%.

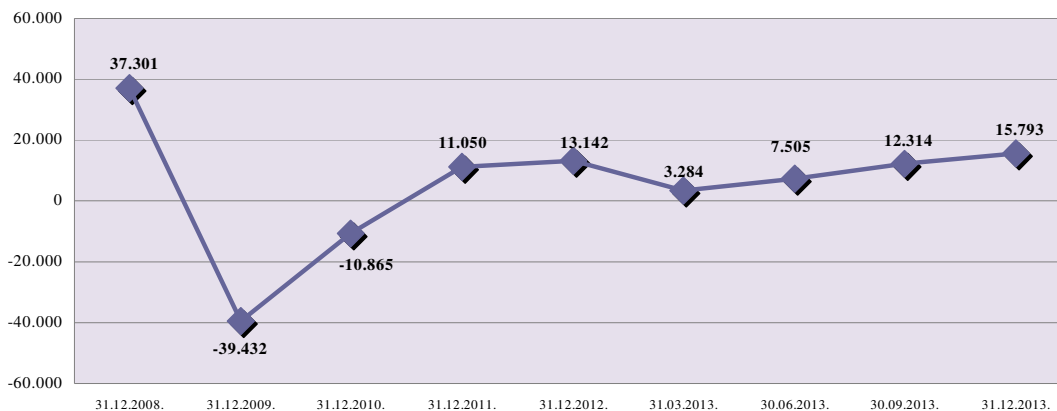
Total expenses amount to KM 94 million. Out of this number KM 93,6 million or 99,6% include expenses of MCF and KM 0,4 million or 0,4% include expenses of one MCC. Total expenses dropped by KM 7,4 million or 7% as opposed to the same period of the previous year. In the structure of expenses, KM 16,8 million or 18% out of total expenses include interest expenses for taken loans and other similar expenses and are less by KM 2,5 million or 13%. Operating expenses amount to KM 68,5 million or 73% of total expenses and compared to the last year, they are down by KM 4,3 million or 6%. Operating expenses include salary and contributions' expenses in the amount of KM 39,5 million (01.01.-31.12.2012: KM 39,3 million), business premises' expenses, other fixed assets and utility costs of KM 16,2 million (01.01.-31.12.2012: KM 17,1 million) and other operating expenses in the amount of KM 12,8 million (01.01.-31.12.2012: KM 16,4 million). Expenses for loan loss provisions and other losses amount to KM 8,7 million or 9% of total expenses and are down by KM 0,6 million or 7%.

Salary and contributions' expenses generated in the period 01.01.-31.12.2013 are almost the same as in the last year, although number of employees dropped by 151 or 10 % and activities of some MCOs are less if compared to the previous period, where income from regular activities do not cover expenses of regular activities, which means improper management of MCOs assets. According to MCOs reports, average monthly net salary of MCO employee as of 31.12.2013 was KM 1.048 and average monthly net amount of incentives, stimulations and bonuses was KM 56. This means that average monthly net salary with bonuses in the micro credit sector was KM 1.104. As of 31.12.2013, average monthly net salary of senior management member was KM 3.824, while average monthly net compensations paid to supervisory board members in MCO were KM 435 and audit board members KM 377. As of the review date, average monthly net salaries of middle and low management in MCO were KM 1.853, loan officers KM 824 and administration and other staff KM 979. Average monthly net salaries are 2,6 % higher in some MCOs than the average of the sector, while average monthly compensations paid to managing bodies of MCOs are 16 times higher than the sector average in some MCOs. 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, which is not acceptable.

Extraordinary income of MCOs generated in the period between 01.01. and 31.12.2013 amounted to KM 15,4 million, which is less by KM 2,2 million or 12% 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 2013 amounts to KM 2,1 million, which is up by KM 0,3 million or 17% vs. the same period of the year before.

In the period between 01.01. and 31.12.2013, one MCC generated a net loss of KM 106 ths (01.01. – 31.12.2012: KM 0 ths of net profit). In the same period, MCF generated surplus of income over expenses totaling KM 15.899 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 31.12.2013, out of total 12 MCFs, deficit of income over expenses was recorded with one MCF in the total amount of KM 26 ths, while surplus over expenses was recorded with 11 MCFs totaling KM 15.925 ths.

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



Positive financial result was generated at the level of micro credit sector in the Federation of B&H in the amount of KM 15.793 ths, which is up by KM 2.651 ths or 20% 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 adopted policies that, among other things, prescribe the following:

- All transactions with related entities have to be approved by an MCO’s management bodies,
- Entity related with an MCO that is a member of the management 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 management 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 management 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. In 2013, 5 out of a total of 13 MCOs reported the FBA in prescribed forms on transactions conducted with their related entities in the total amount of KM 6,2 million. One MCO participates with 85% in the total amount of transactions conducted with its related entities. The Table 14 below provides a quarterly breakdown of transactions with related entities in 2013 which shows that the majority transactions relate to loans with banks related to the MCOs (77%) and payments to the founders of MCOs (20%). MCOs also reported the transactions with related entities referring to the attorneys' fees, goods/services delivery, business premises' leases and other.

No.	Description of transaction	Transaction amount in KM					Share
		IQ2013	IIQ2013	IIIQ2013	IVQ2013	UKUPNO	
1.	Loans from banks	0	1.280.000	1.600.000	1.650.000	<b>4.530.000</b>	72,33%
2.	Transactions with MCO founder	37.520	251.345	671.418	314.618	<b>1.274.901</b>	20,36%
3.	Interest and administration fees	76.157	83.148	71.836	46.811	<b>277.952</b>	4,44%
4.	Attorneys' fees	14.625	19.539	16.263	18.486	<b>68.913</b>	1,10%
5.	Payments for delivered goods/services	2.563	6.245	5.638	30.608	<b>45.054</b>	0,72%
6.	Lease of business premises	6.861	7.261	7.461	7.461	<b>29.044</b>	0,46%
7.	ST deposits with banks	0	0	20.000	0	<b>20.000</b>	0,32%
8.	Borrowings from legal entities and private individuals	257	14.484	147	0	<b>14.888</b>	0,24%
9.	Receivables for lease	540	360	540	0	<b>1.440</b>	0,02%
10.	Refunding electricity for lease	656	225	104	123	<b>1.109</b>	0,02%
<b>TOTAL</b>		<b>139.179</b>	<b>1.662.607</b>	<b>2.393.407</b>	<b>2.068.107</b>	<b>6.263.301</b>	<b>100,00%</b>

Reported MCO's transactions with related entities refer to the transactions conducted with entities related to MCOs' directors (78%), MCOs' founders (21%) and members of audit boards (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 COMPLIANCE OF MCO'S BUSINESS OPERATIONS WITH AML/CTF STANDARDS

The Information on Compliance of Business Operations of Banks, Micro Credit Organisations and Leasing Companies with Prevention of Money Laundering and Terrorism Financing Standards for 2012 states that: "The System of Prevention of Money Laundering and Terrorism Financing Standards is still not complete. Taking into account effectiveness and efficiency of taken activities, we must state that in micro credit sector there are still reasons for concern of supervisors. Quality of AML/CTF Risk Management is marginally acceptable, while the quantity of risk is moderate ". As of 31.12.2013, controls were made of

orders given to MCOs with reference to non-compliance during examinations of compliance of business operations in 2012. On the basis of findings, we may conclude that there were moderate qualitative changes in AML/CTF risk management in MCOs.

*Table 15. Overview of Statuses of Orders*

No.	Status of given orders	Number of orders	%	Average per MCO
1.	Fulfilled orders	25	32,50	1,80
2.	Partially fulfilled orders	38	49,30	2,70
3.	Unfulfilled orders	14	18,20	1,00
TOTAL		77	100,00	5,50

A total of 77 orders were given in the rulings on issuing written orders, which is 5,50 orders per MCO. Based on reports on actions taken on written orders that have been submitted by MCOs to the FBA and examination of fulfillment of the orders, we have found that 25 orders were fulfilled (32,50% or 1,80 orders per MCO), 38 orders were partially fulfilled (49,30% or 2,70 per MCO) and 14 orders were not fulfilled (18,20% or 1 order per MCO).

In terms of compliance, it must be stated that MCOs reported only 2 suspicious transfers in 2013 in the total amount of KM 18.446,00 and 1 suspicious customer for terrorism activities because some of his data matched to the personal data of a person included in the UN Security Council Consolidated List containing the suspects/persons related to the suspects for terrorism financing. Accordingly, taking into account evaluation of compliance of MCOs in 2012, actions taken to eliminate causes of irregularities and non-compliance and AML/CTF activities in the year that ended as of 31.12.2013, we may conclude the following: quantity of money laundering risk is still moderate, quality of risk management moderately improved and is marginally acceptable with a trend of increase, while the supervision concern could be decreased and it can be declared that there are no reasons for special supervision concern. If we look at compliance of the micro credit sector with the provisions of the Law on Prevention of Money Laundering and Terrorism Financing, Law on Micro Credit Organisations, Decision on Minimum Standards for Activities of Micro Credit Organisations on Prevention of Money Laundering and Terrorism Financing and other laws and regulations prescribing obligations of micro credit organisations on anti-money laundering and terrorism financing, we may conclude that the micro credit sector in the FB&H is partially compliant with norms prescribed under the relevant laws and regulations.

## **IV CONCLUSIONS AND RECOMMENDATIONS**

By analysing MCOs' reports as of 31.12.2013, 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 5%) and loan portfolio of MCOs (by 5%). However, loan portfolio quality ratios indicate some improvement, decrease in liabilities for taken loans (by 14%), as well as main source of funds for loan portfolio financing, and a drop in number of employees (by 10%). The capital of MCOs saw a 10% increase over the end of past year thanks to a rise in total surplus of income over expenses that is 13% higher compared to the same period last year.

For MCOs with a 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.

**Number: U.O.-57-4/14**  
**Sarajevo, 31.03.2014**

## **V ATTACHMENTS**

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

Attachment 2 Main data on MCOs

Attachment 3 Reports by independent auditor for the year than ended on 31.12.2012

Attachment 4 Balance sheet of MCF

Attachment 5 Balance sheet of MCC

Attachment 6 Income statement of MCF

Attachment 7 Income statement of MCC

Attachment 8 Overview of donated funds of MCF

**Attachment 1**

**REGULATIONS OF THE BANKING AGENCY FOR BUSINESS OPERATIONS OF MICRO CREDIT ORGANISATIONS**

<b>Decisions of the Banking Agency related to MCO operations</b>	<b>Official Gazette of the B&amp;H Federation</b>
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 Conditions and Manner of Customer Complaints Management by Micro Credit Organisations	32/10
10. Decision on Fees that Micro Credit Organisations Pay to the FB&H Banking Agency	46/11
11. Decision on Minimum Standards for Activities of Micro Credit Organisation on Prevention of Money Laundering and Terrorism Financing	48/12

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



**Attachment 2**

**MAIN DATA ON MICRO CREDIT ORGANISATIONS**

No	Micro credit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	31.12.2013			
						Assets amount in 000 KM	Capital amount in 000 KM	No. Of employes.	No. of org. units
1.	MKD "ADRIA mikro" d.o.o. Mostar	ul. Kneza Višeslava 14 88 000 MOSTAR	Sead Mucić	036/ 348-891, 348-890 fax	<a href="mailto:adria.mikro@tel.net.ba">adria.mikro@tel.net.ba</a>	1.035	595	9	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	<a href="mailto:sbina@mkoeki.com">sbina@mkoeki.com</a> <a href="http://www.mkoeki.com">www.mkoeki.com</a>	111.605	45.788	266	68
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	<a href="mailto:dzavids@lider.ba">dzavids@lider.ba</a> <a href="http://www.lider.ba">www.lider.ba</a>	13.572	10.512	55	12
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	<a href="mailto:central.office@lok.ba">central.office@lok.ba</a> <a href="http://www.lok.ba">www.lok.ba</a>	56.667	8.829	185	42
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	<a href="mailto:viktor@melaha.ba">viktor@melaha.ba</a>	1.078	327	3	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	<a href="mailto:mi-bospo@mi-bospo.org">mi-bospo@mi-bospo.org</a> <a href="http://www.mi-bospo.org">www.mi-bospo.org</a>	35.885	16.535	136	23
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	<a href="mailto:mikra@mikra.ba">mikra@mikra.ba</a> <a href="http://www.mikra.ba">www.mikra.ba</a>	18.040	4.653	87	20
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	<a href="mailto:mka.aldi@bih.net.ba">mka.aldi@bih.net.ba</a> <a href="http://www.mikroaldi.org">www.mikroaldi.org</a>	4.075	3.546	27	5
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	<a href="mailto:partner@partner.ba">partner@partner.ba</a> <a href="http://www.partner.ba">www.partner.ba</a>	116.274	48.805	289	57
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	<a href="mailto:hq@prizma.ba">hq@prizma.ba</a> <a href="http://www.prizma.ba">www.prizma.ba</a>	88.266	22.610	188	46
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	<a href="mailto:info@mfi.ba">info@mfi.ba</a>	1.703	1.564	9	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	<a href="mailto:mikrosanizenica@yahoo.com">mikrosanizenica@yahoo.com</a>	442	291	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Hamdije Kreševljakovića 51 71 000 SARAJEVO		033/ 278-020, 278-032 fax	<a href="mailto:sunrise@microsunrise.ba">sunrise@microsunrise.ba</a> <a href="http://www.microsunrise.ba">www.microsunrise.ba</a>	27.271	15.652	145	36
<b>TOTAL</b>						<b>475.913</b>	<b>179.707</b>	<b>1.403</b>	<b>310</b>

Attachment 3

**REPORTS BY THE INDEPENDENT AUDITOR FOR THE YEAR THAT ENDED ON 31.12.2012**

No.	Name of MCO	Audit company which audited MCO	Report date	Daily newspapers and release date	Auditor's opinion	Facts
<b>UNQUALIFIED REPORTS</b>						
1.	<b>MKF LIDER Sarajevo</b>	Deloitte d.o.o. Sarajevo	12.03.2013.	Oslobodjenje 17.05.2013.	Unqualified report	none
2.	<b>MKF MIKRO ALDI Goražde</b>	REVIK d.o.o. Sarajevo	27.03.2013.	Dnevni avaz 14.05.2013.	Unqualified report	none
3.	<b>PARTNER MKF Tuzla</b>	Deloitte d.o.o. Sarajevo	27.03.2013.	Oslobodjenje 09.05.2013.	Unqualified report	none
4.	<b>MKF EKI Sarajevo</b>	KPMG B-H d.o.o. Sarajevo	10.04.2013.	Oslobodjenje 26.04.2013.	Unqualified report	none
5.	<b>MKF SANI Zenica</b>	REVIK d.o.o. Sarajevo	23.04.2013.	Oslobodjenje 16.05.2013.	Unqualified report	none
6.	<b>MKF MELAHA Sarajevo</b>	REVIK d.o.o. Sarajevo	29.04.2013.	Oslobodjenje 29.05.2013.	Unqualified report	none
<b>UNQUALIFIED REPORTS WITH STATING FACTS</b>						
7.	<b>MKF MIKRA Sarajevo</b>	PKF Re Opinion d.o.o. Sarajevo	30.01.2013.	Oslobodjenje 28.02.2013.	Unqualified report	Stating facts, with unqualified opinion, due to effect of the financial crises, which affected insecure business operations, increased uncertainty and significant pressure on liquidity and due to failure to meet certain business conditions defined by the Banking Agency
8.	<b>MKF SUNRISE Sarajevo</b>	Deloitte d.o.o. Sarajevo	27.03.2013.	Oslobodjenje 20.05.2013.	Unqualified report	Stating facts, with unqualified opinion, due to failure to meet provisions of loan agreement with financiers and certain requirements of regulatory bodies
9.	<b>MKD ADRIAmikro d.o.o. Mostar</b>	KPMG B-H d.o.o. Sarajevo	10.04.2013.	Dnevni list 10.05.2013.	Unqualified report	Stating facts, with unqualified opinion, due to failure to meet the regulatory requirement which includes return on assets

*Information on the Micro Credit System of the Federation of Bosnia and Herzegovina as of 31.12.2013*

10.	<b>MKF MI-BOSPO Tuzla</b>	KPMG B-H d.o.o. Sarajevo	10.04.2013.	Oslobođenje 21.05.2013.	Unqualified report	Stating facts, with unqualified opinion, due to failure to meet the regulatory requirement which includes return on assets
<b>No.</b>	<b>Name of MCO</b>	<b>Audit company which audited MCO</b>	<b>Report date</b>	<b>Daily newspapers and release date</b>	<b>Auditor's opinion</b>	<b>Facts</b>
<b>QUALIFIED OPINION</b>						
11.	<b>LOK MKF Sarajevo</b>	PKF Re Opinion d.o.o. Sarajevo	23.01.2013.	Oslobođenje 22.06.2013.	Qualified opinion due to a transaction, which deviates from the definition of micro lending from the Law on Micro Credit Organisations and which fails to meet definitions of funds as defined under the Accounting Frame of Financial Reporting, that is International Accounting Standard as for future economic benefits expected to come to MCF	Stating facts with unqualified opinion due to negative effect of the financial crisis on business operations of legal entities, i.e. their ability to continue with their business operations and activities taken in the process of merger and due to failure to meet certain regulatory requirements of the Banking Agency and approval of conservative policy of creating additional provisions to adjust fair value of assets with market values in neighboring countries
<b>QUALIFIED OPINION</b>						
12.	<b>PRVA ISLAMSKA MKF Sarajevo</b>	REVIK d.o.o. Sarajevo	06.05.2013.	Dnevni avaz 28.05.2013.	Qualified opinion since financial statements do not present realistically and objectively financial position of MCF in all materially significant items as of 31.12.2012, business results and changes in cash flow for the year then ended in line with IFRS and regulations of the Banking Agency	none
<b>QUALIFIED OPINION</b>						
13.	<b>MKF PRIZMA Sarajevo</b>	Deloitte d.o.o. Sarajevo	31.05.2013.	Dnevni list 02.06.2013.	Qualified opinion, that is no opinion is stated due to impossibility to obtain sufficient and appropriate audit evidences to provide the basis for an audit opinion	Stating facts, with unqualified opinion, due to failure to meet provisions of loan agreement with one financier and regulatory requirements of the Banking Agency as for meeting certain financial indicators

## Attachment 4

## BALANCE SHEET OF MICRO CREDIT FOUNDATION

in 000 KM

No.	DESCRIPTION	31.12.2012	%	31.12.2013	%	Index
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>25.286</b>	<b>5</b>	<b>24.123</b>	<b>5</b>	<b>95</b>
1a)	Cash and non-interest bearing deposit accounts	21.022	4	17.027	4	81
1b)	Interest-bearing deposit accounts	4.264	1	7.096	1	166
2.	Facilities to banks	8.245	1	4.054	1	49
3.	Loans	415.883		395.382		95
3a)	Loan loss provisions	7.585		5.507		73
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>408.298</b>	<b>82</b>	<b>389.875</b>	<b>82</b>	<b>95</b>
4.	Business premises and other fixed assets	48.025	10	42.596	9	89
5.	Long-term investments	15	0	761	0	5073
6.	Other assets	9.268	2	14.018	3	151
7.	Minus: provisions for other assets items, except loans	975		549		56
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>498.162</b>	<b>100</b>	<b>474.878</b>	<b>100</b>	<b>95</b>
<b>LIABILITIES</b>						
9.	ST loan liabilities	99.872	20	81.258	17	81
10.	LT loan liabilities	211.368	42	187.307	39	89
11.	Other liabilities	24.091	5	27.201	6	113
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>335.331</b>	<b>67</b>	<b>295.766</b>	<b>62</b>	<b>88</b>
13.	Donated capital	46.936		49.640		106
14.	Core capital	8.245		8.291		101
<b>15.</b>	<b>Surplus of income over expenses</b>	<b>161.552</b>		<b>175.440</b>		<b>109</b>
15a)	For previous years	146.017		160.018		110
15b)	For current year	15.535		15.422		99
<b>16.</b>	<b>Deficit of income over expenses</b>	<b>56.773</b>		<b>57.465</b>		<b>101</b>
16a)	For previous years	56.296		57.439		102
16b)	For current year	477		26		5
17.	Other reserves	2.871		3.206		112
<b>18.</b>	<b>TOTAL CAPITAL</b>	<b>162.831</b>	<b>33</b>	<b>179.112</b>	<b>38</b>	<b>110</b>
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>498.162</b>	<b>100</b>	<b>474.878</b>	<b>100</b>	<b>95</b>
<b>OFF-BALANCE RECORDS</b>						
	<b>- written-off loans</b>	171.834		170.250		99
	<b>- agent business</b>	418		348		83

**Attachment 5**

**BALANCE SHEET OF MICRO CREDITI COMPANY**

*in 000 KM*

No.	DESCRIPTION	31.12.2012.	%	31.12.2013.	%	Index
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>104</b>	<b>7</b>	<b>88</b>	<b>8</b>	<b>85</b>
1a)	Cash and non-interest bearing deposit accounts	104	7	88	8	85
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	1.349		886		66
3a)	Loan loss provisions	25		16		64
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>1.324</b>	<b>86</b>	<b>870</b>	<b>84</b>	<b>66</b>
4.	Business premises and other fixed assets	84	5	50	5	60
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	33	2	28	3	85
7.	Minus: provisions for other assets items, except loans	2		1		50
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>1.543</b>	<b>100</b>	<b>1.035</b>	<b>100</b>	<b>67</b>
<b>LIABILITIES</b>						
9.	ST loan liabilities	719	47	202	20	28
10.	LT loan liabilities	84	5	146	14	174
11.	Other liabilities	39	3	92	9	236
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>842</b>	<b>55</b>	<b>440</b>	<b>43</b>	<b>52</b>
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Surplus of income over expenses	0		0		n/a
<b>16.</b>	<b>For previous years</b>	<b>0</b>		<b>-106</b>		<b>n/a</b>
16a)	For current year	0		0		n/a
16b)	Deficit of income over expenses	0		-106		n/a
17.	For previous years	101		101		100
18.	For current year	0		0		n/a
<b>19.</b>	<b>TOTAL CAPITAL</b>	<b>701</b>	<b>45</b>	<b>595</b>	<b>57</b>	<b>85</b>
<b>20.</b>	<b>TOTAL LIABILITIES</b>	<b>1.543</b>	<b>100</b>	<b>1.035</b>	<b>100</b>	<b>67</b>
<b>OFF-BALANCE RECORDS</b>						
	<b>- write-offs</b>	52		55		106
	<b>- agency business</b>	0		0		n/a

**Attachment 6**

**INCOME STATEMENT OF MICRO CREDIT FOUNDATION**

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2012	%	For the period 01.01. - 31.12.2013	%	Index
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIAL INCOME AND EXPENSES</b>					
<b>1.</b>	<b>Interest-based and similar income</b>					
1.1.	Interest against interest-bearing deposit accounts with deposit institutions	76	0	9	0	12
1.2.	Interests to facilities to banks	263	0	217	0	83
1.3.	Loan interest	86.781	99	83.409	98	96
1.4.	Other financial income	906	1	1.285	2	142
<b>1.5.</b>	<b>Total interest-based and similar income (1.1. to 1.4.)</b>	<b>88.026</b>	<b>100</b>	<b>84.920</b>	<b>100</b>	<b>96</b>
<b>2.</b>	<b>Interest –based expenses and similar expenses</b>					
2.1.	Interest to borrowed funds	18.406	96	16.084	96	87
2.2.	Other financial expenses	812	4	632	4	78
<b>2.3.</b>	<b>Total interest –based expenses and similar expenses (2.1. to 2.2.)</b>	<b>19.218</b>	<b>100</b>	<b>16.716</b>	<b>100</b>	<b>87</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>68.808</b>		<b>68.204</b>		<b>99</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for services performed	9.808	94	10.233	90	104
4.2.	Other operating income	639	6	1.081	10	169
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>10.447</b>	<b>100</b>	<b>11.314</b>	<b>100</b>	<b>108</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Salary and contributions' costs	39.132	54	39.272	58	100
5.2.	Costs of business premises, other fixed assets and utility costs	16.966	23	16.098	24	95
5.3.	Other operating expenses	16.401	23	12.795	19	78
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>72.499</b>	<b>100</b>	<b>68.165</b>	<b>100</b>	<b>94</b>
6.	Loan loss provisions and other losses	9.335		8.695		93
<b>7.</b>	<b>Surplus /deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)</b>	<b>-2.579</b>		<b>2.658</b>		<b>-103</b>
8.	Extraordinary income	17.551		15.388		88
9.	Extraordinary expenses	1.830		2.147		117
<b>10.</b>	<b>Surplus/deficit of income over expenses (7.+8.-9.)</b>	<b>13.142</b>		<b>15.899</b>		<b>121</b>

**Attachment 7**

**INCOME STATEMENT OF MICRO CREDIT COMPANY**

*in 000 KM*

No.	DESCRIPTION	For the period 01.01. - 31.12.2012	%	For the period 01.01. - 31.12.2013 g.	%	Index
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIAL INCOME AND EXPENSES</b>					
<b>1.</b>	<b>Interest-based and similar income</b>					
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	331	98	264	97	80
1.4.	Other financial income	6	2	9	3	150
<b>1.5.</b>	<b>Total interest-based and similar income (1.1. to 1.4.)</b>	<b>337</b>	<b>100</b>	<b>273</b>	<b>100</b>	<b>81</b>
<b>2.</b>	<b>Interest –based expenses and similar expenses</b>					
2.1.	Interest to borrowed funds	75	91	56	86	75
2.2.	Other financial expenses	7	9	9	14	129
<b>2.3.</b>	<b>Total interest –based expenses and similar expenses (2.1. to 2.2.)</b>	<b>82</b>	<b>100</b>	<b>65</b>	<b>100</b>	<b>79</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>255</b>		<b>208</b>		<b>82</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for services performed	48	100	45	100	94
4.2.	Other operating income	0	0	0	0	n/a
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>48</b>	<b>100</b>	<b>45</b>	<b>100</b>	<b>94</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Salary and contributions' costs	185	61	199	55	108
5.2.	Costs of business premises, other fixed assets and utility costs	81	27	86	24	106
5.3.	Other operating expenses	35	12	78	21	223
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>301</b>	<b>100</b>	<b>363</b>	<b>100</b>	<b>121</b>
6.	Loan loss provisions and provisions for other losses	25		-2		-8
<b>7.</b>	<b>PROFIT/LOSS OF REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)</b>	<b>-23</b>		<b>-108</b>		<b>470</b>
8.	Extraordinary income	24		3		13
9.	Extraordinary expenses	1		1		100
10.	PROFIT/LOSS BEFORE TAXATION	0		-106		n/a
11.	TAX	0		0		n/a
<b>12.</b>	<b>NET PROFIT/LOSS</b>	<b>0</b>		<b>-106</b>		<b>n/a</b>

**Attachment 8**

**OVERVIEW OF DONATED FUNDS OF MCF**  
*Balance as of 31.12.2013*

*in 000 KM*

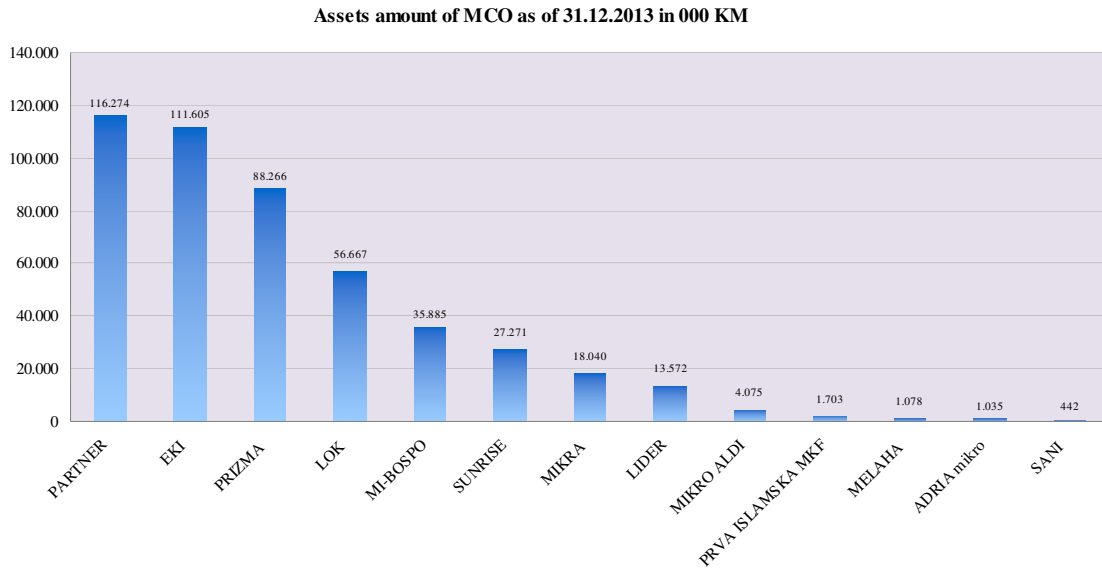
No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	MKF MI-BOSPO Tuza	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
<b>Donations for credit fund</b>		<b>5.246</b>	<b>5.891</b>	<b>3.366</b>	<b>4.070</b>	<b>804</b>	<b>7.167</b>	<b>7.490</b>	<b>3.459</b>	<b>1.942</b>	<b>39.435</b>
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			383			805				1.188
11.	Women's World Banking			1.034							1.034
12.	Mercy Corps						697				697
13.	OXSFAM					500					500
14.	ECE, Germany						339				339
15.	USDA Know-How Project	237									237
16.	Church World Service			145							145
17.	Udruženje građana "ALDI"					104					104
18.	DK iz spajanja sa udrugom "LORI" Orašje									98	98
19.	CRIC	31									31
20.	SOLIDARITES									16	16
<b>Donations for fixed assets</b>		<b>8</b>	<b>0</b>	<b>0</b>	<b>65</b>	<b>0</b>	<b>229</b>	<b>61</b>	<b>0</b>	<b>10</b>	<b>373</b>
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
<b>Donations for operating expenses</b>		<b>2.054</b>	<b>874</b>	<b>1.344</b>	<b>0</b>	<b>0</b>	<b>1.709</b>	<b>3.088</b>	<b>54</b>	<b>709</b>	<b>9.832</b>
27.	PRM							2.047			2.047
28.	SIDA Housing	1.828									1.828
29.	USAID			1.344			369				1.713
30.	UNHCR						176	840			1.016
31.	LIP (funds of FBiH Government)						201			709	910
32.	CHF		874								874
33.	Mercy Corps						739				739
34.	CGAP						45	150			195
35.	EBRD	105					1				106
36.	IFC	104									104
37.	MFC						20	34			54
38.	Islamic Relief, Pred.Sarajevo								54		54
39.	WORLD BANK						45				45
40.	UNDP						43				43
41.	ADA ASBL (RATING)						20				20
42.	Other	17					51	17			85
<b>TOTAL DONATED CAPITAL</b>		<b>7.308</b>	<b>6.765</b>	<b>4.710</b>	<b>4.135</b>	<b>804</b>	<b>9.105</b>	<b>10.639</b>	<b>3.513</b>	<b>2.661</b>	<b>49.640</b>



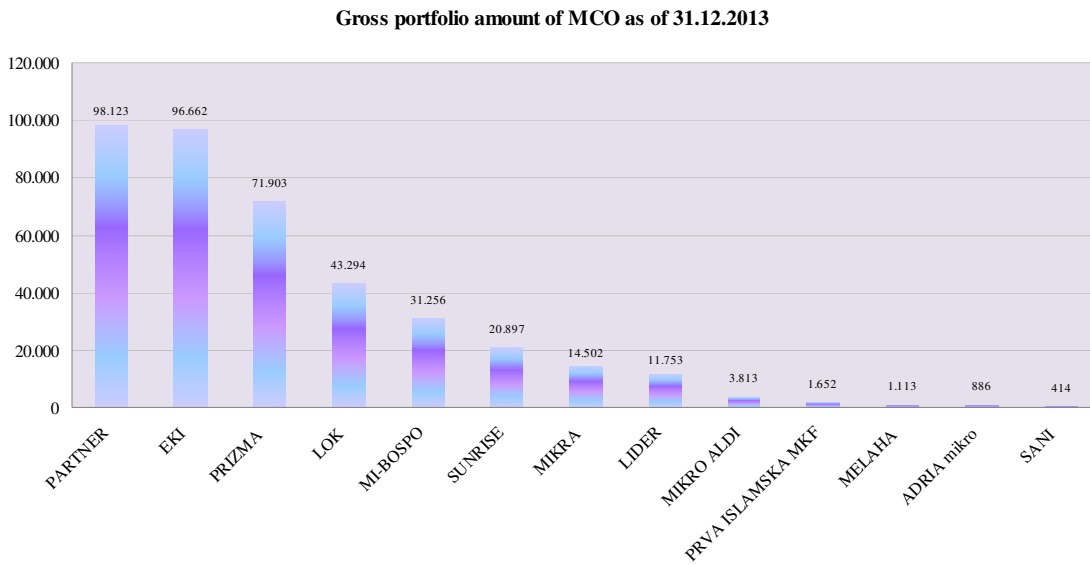
## **CHARTS**

- Chart 1 Assets amount of MCO as of 31.12.2013 in 000 KM
- Chart 2 Gross portfolio amount of MCO as of 31.12.2013 in 000 KM
- Chart 3 Loan liabilities amount of MCO as of 31.12.2013 in 000 KM
- Chart 4 Capital amount of MCO as of 31.12.2013 in 000 KM
- Chart 5 Donated capital amount (by reports) of MCO as of 31.12.2013 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.- 31.12.2013 in 000 KM
- Chart 7 Number of employees of MCO as of 31.12.2013
- Chart 8 Number of organisational units of MCO seated in the Federation of B&H as of 31.12.2013
- Chart 9 Number of active loan accounts of MCO with the balance as of 31.12.2013
- Chart 10 Number of written-off loans of MCO with the balance as of 31.12.2013
- Chart 11 Loan amount in 000 KM written-off in the period 01.01.-31.12.2013
- Chart 12 Collection amount by written-off loans in 000 KM in the period 01.01.- 31.12.2013
- Chart 13 Total receivables amount by written-off loans of MCO in 000 KM with balance as of 31.12.2013
- Chart 14 Total receivables by written-off loans vs. gross portfolio of MCO as of 31.12.2013
- Chart 15 Risk portfolio over 30 days past due as of 31.12.2013
- Chart 16 Fixed assets and capital vs. total assets as of 31.12.2013
- Chart 17 Total micro loans disbursed in Q4 2013 in 000 KM
- Chart 18 Average weighted EIR on total loans as per reports MCO in Q4 2013
- Chart 19 Average weighted EIR on short-term loans as per MCO reports in Q4 2013
- Chart 20 Average weighted EIR on long-term loans as per MCO reports in Q4 2013

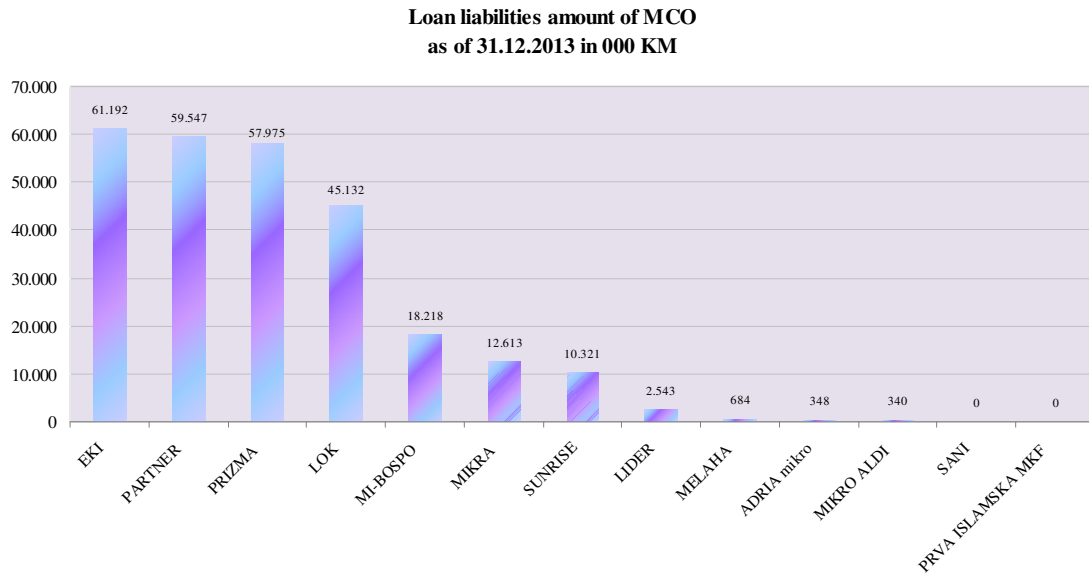
**Chart 1**



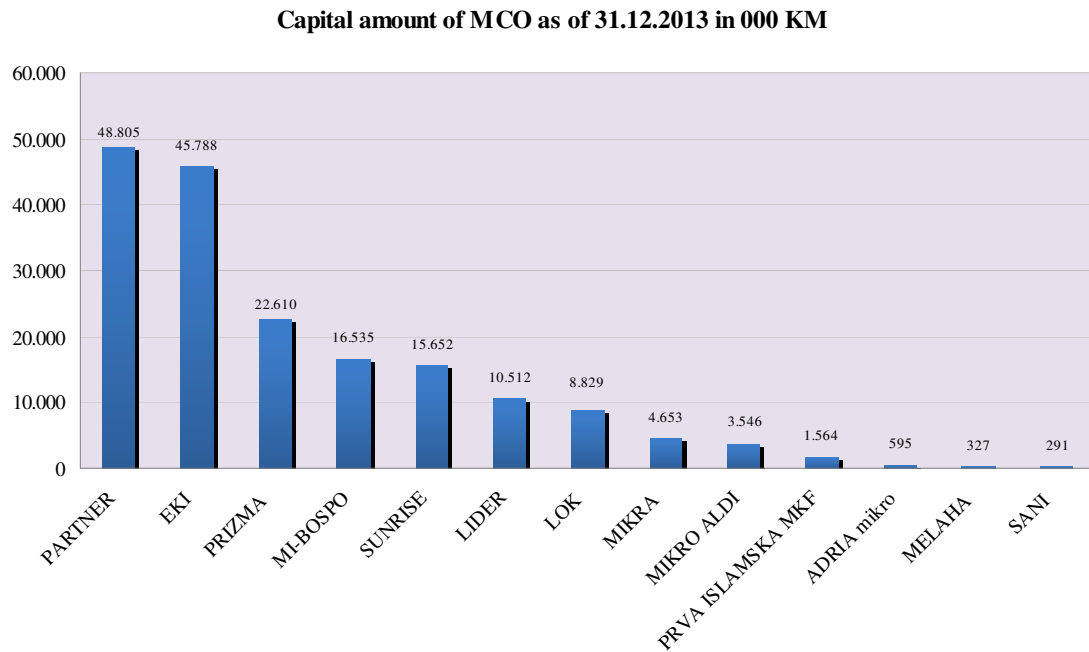
**Chart 2**



**Chart 3**

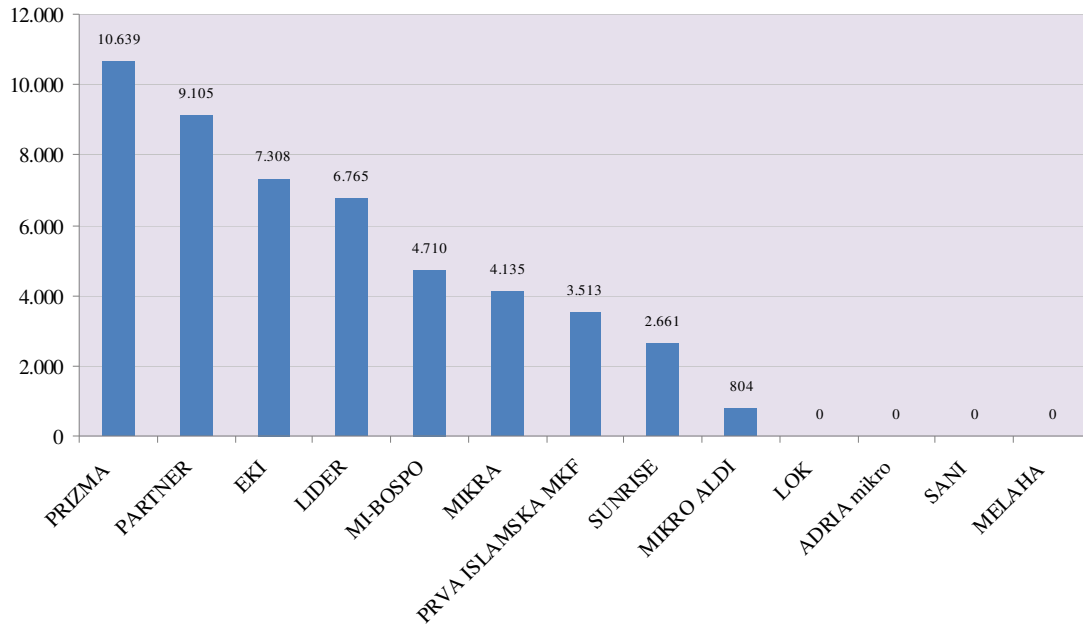


**Chart 4**



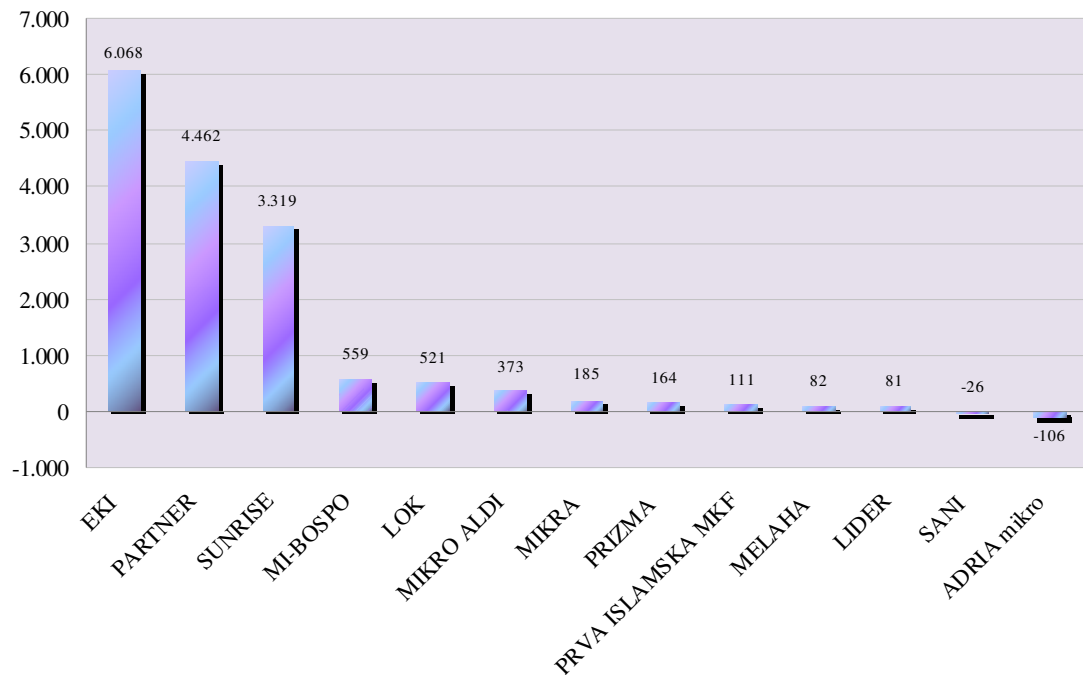
**Chart 5**

**Donated capital amount (by reports) of MCO  
as of 31.12.2013 in 000 KM**

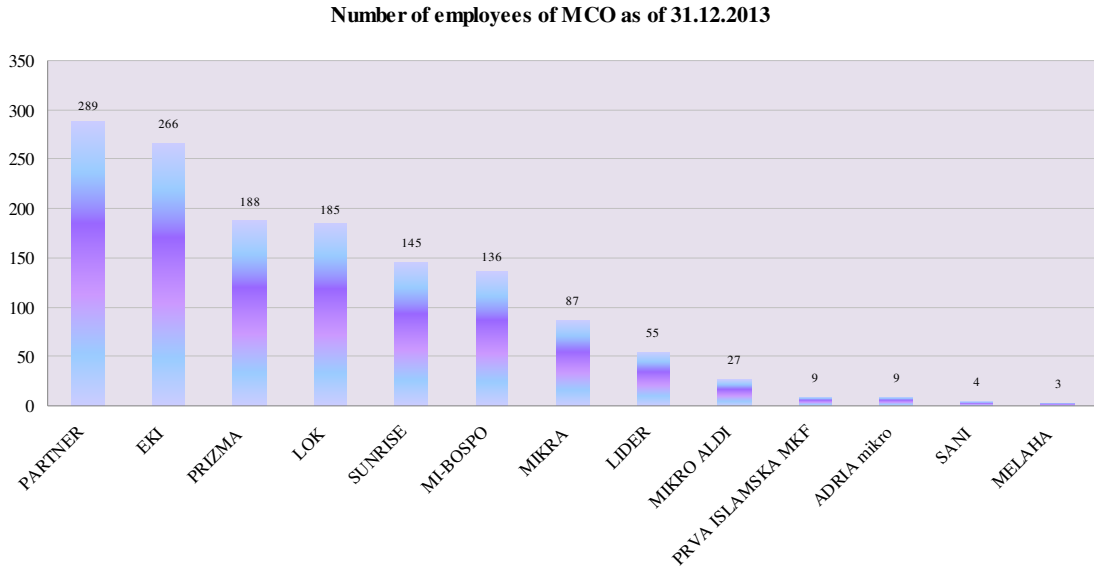


**Chart 6**

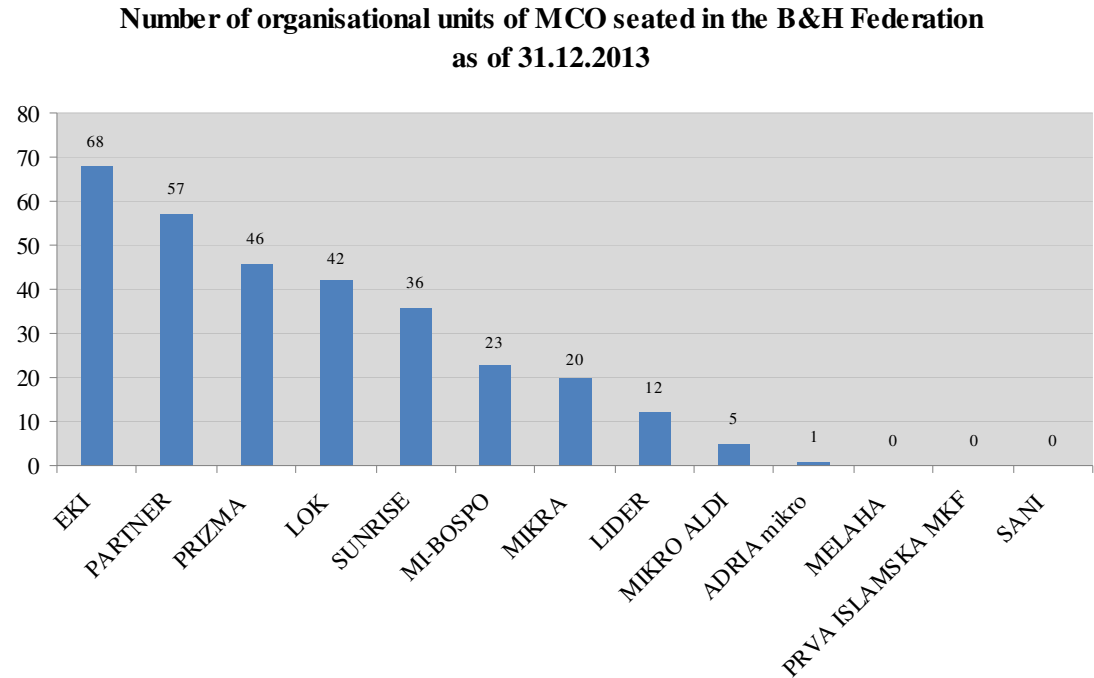
**Surplus/deficit of income over expenses of MCF, i.e. net profit /loss of  
MCC  
for the period 01.01.-31.12.2013 in 000 KM**



**Chart 7**

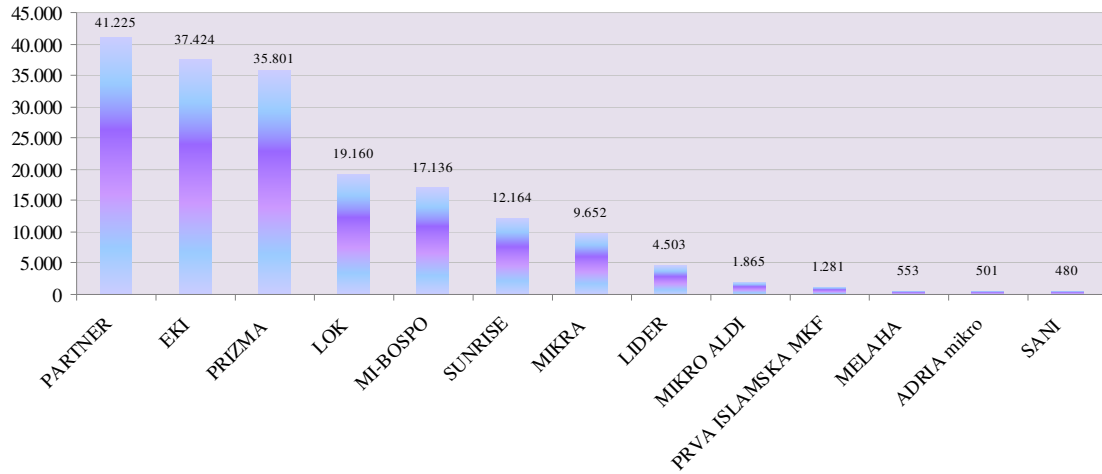


**Chart 8**



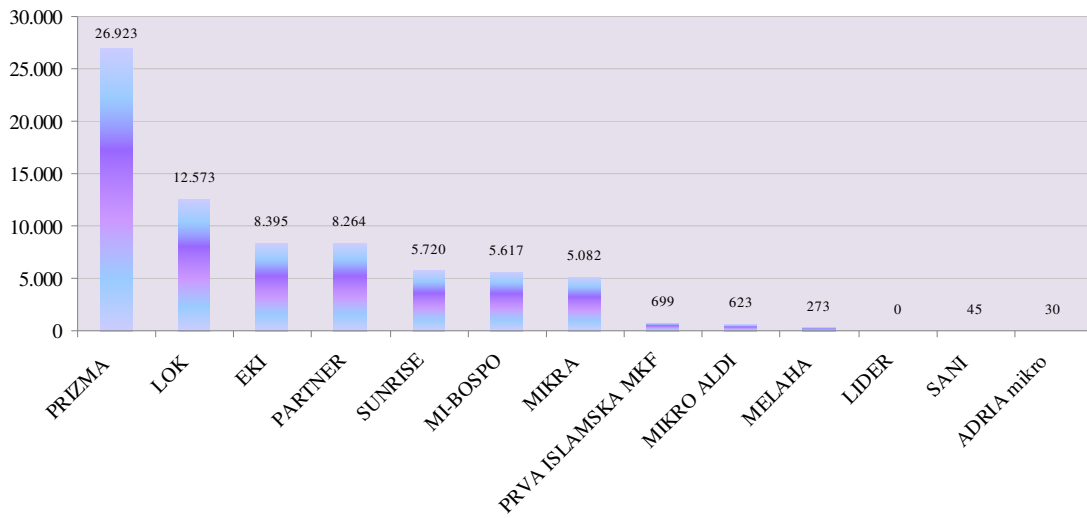
**Chart 9**

**Number of active loan accounts of MCO with the balance as of 31.12.2013**

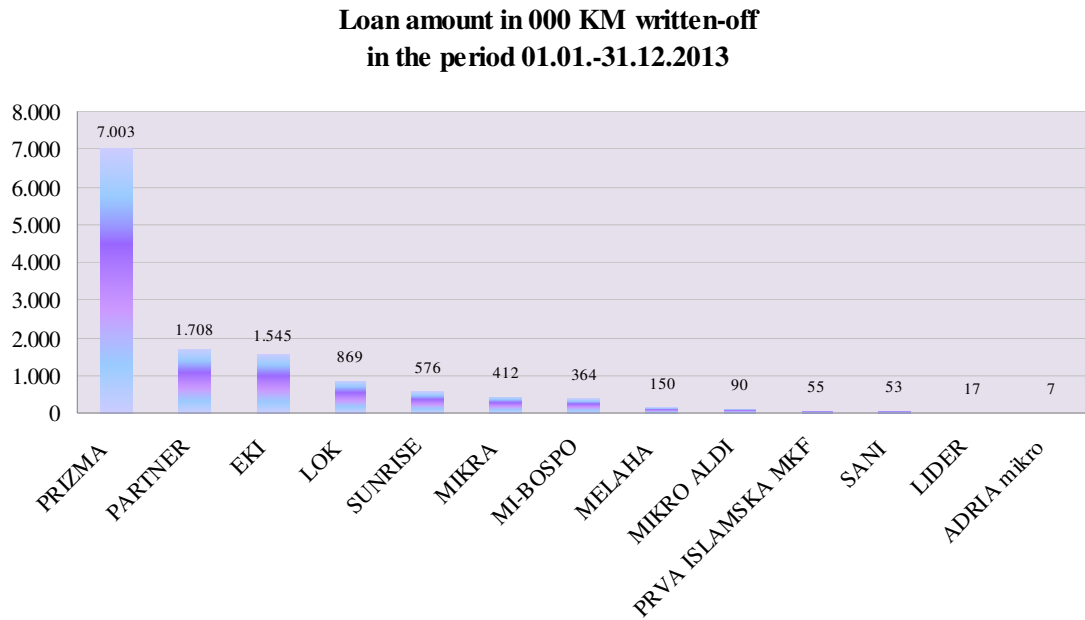


**Chart 10**

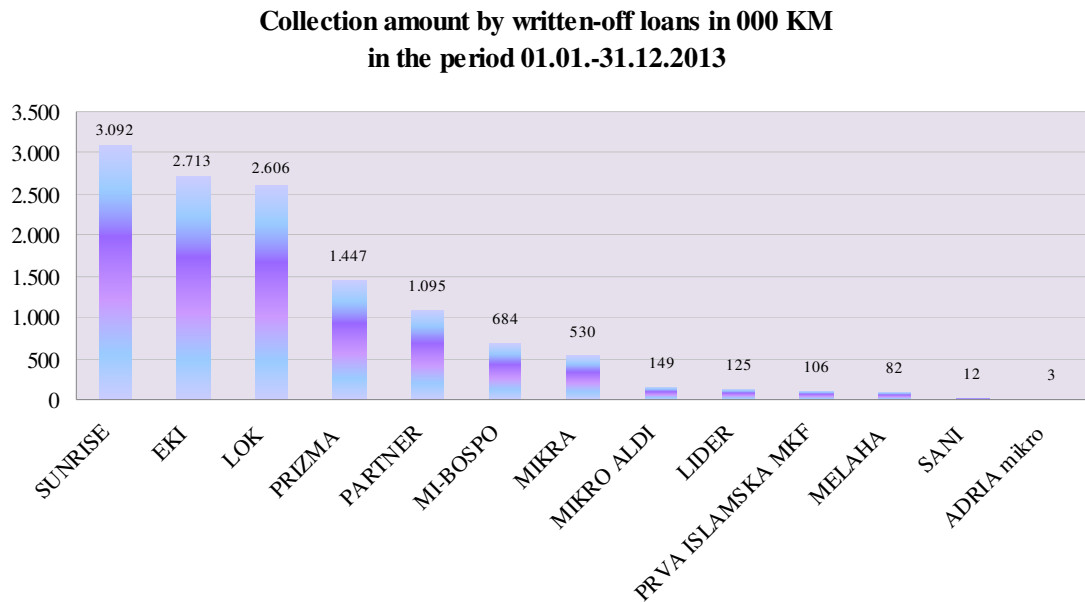
**Number of written-off loan accounts of MCO recorded in the off-balance as of 31.12.2013**



**Chart 11**

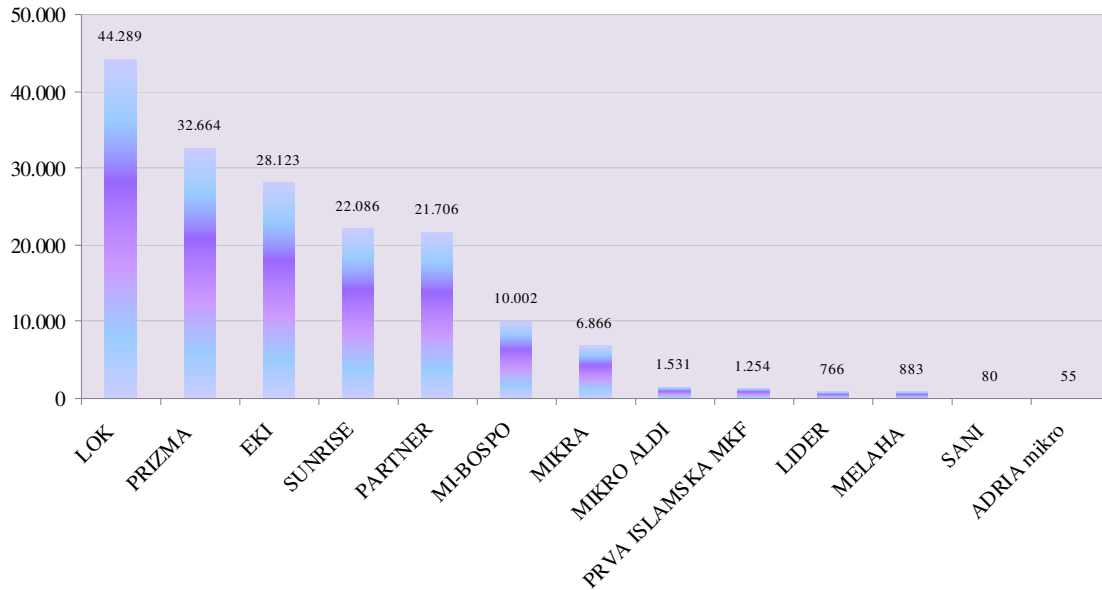


**Chart 12**



**Chart 13**

**Total receivables amount by written-off loans of MCO in 000 KM with balance as of 31.12.2013**



**Chart 14**

**Total receivables by written-off loans vs total gross portfolio of MCO as of 31.12.2013**

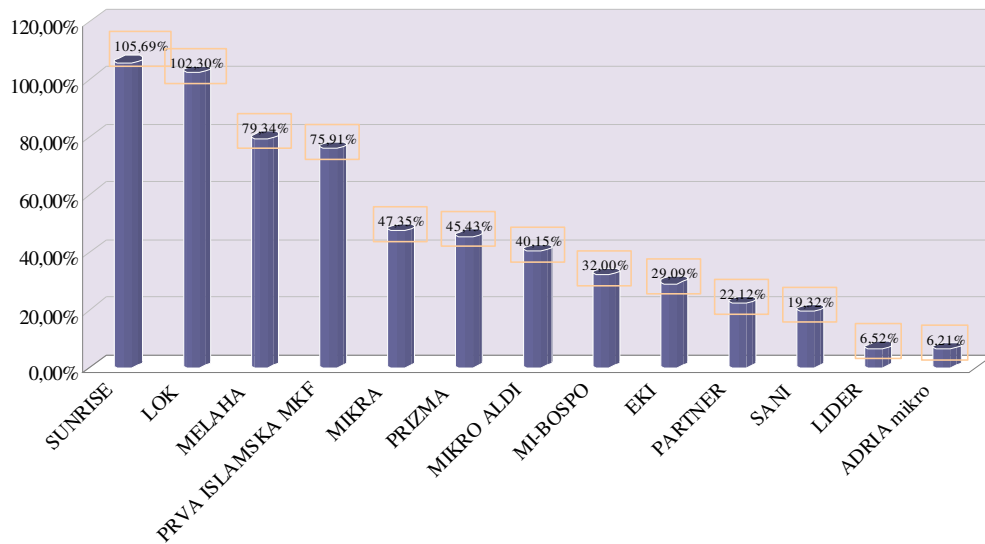




Chart 15

Risk portfolio over 30 days past due as of 31.12.2013

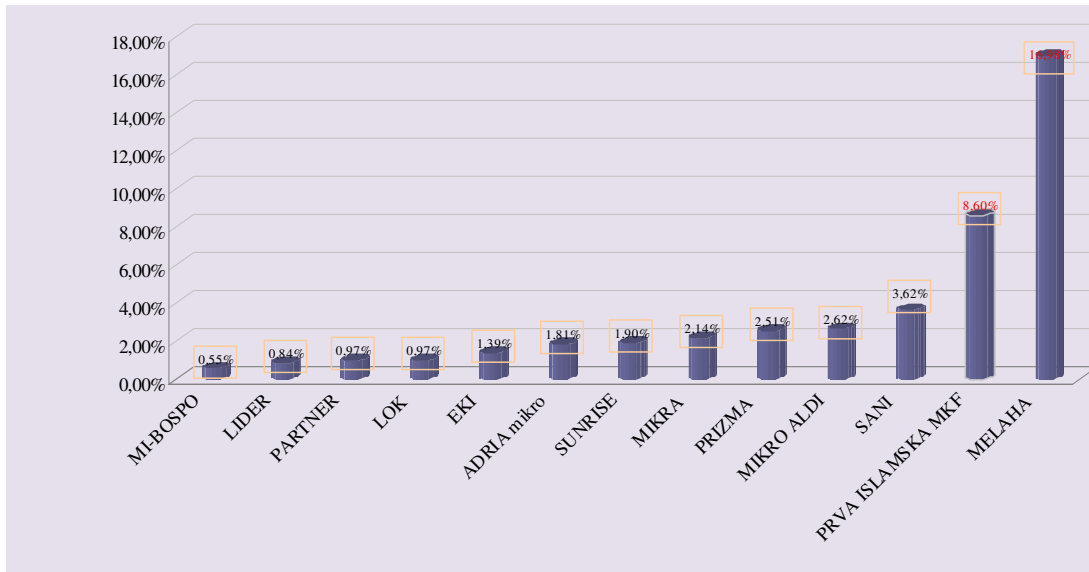
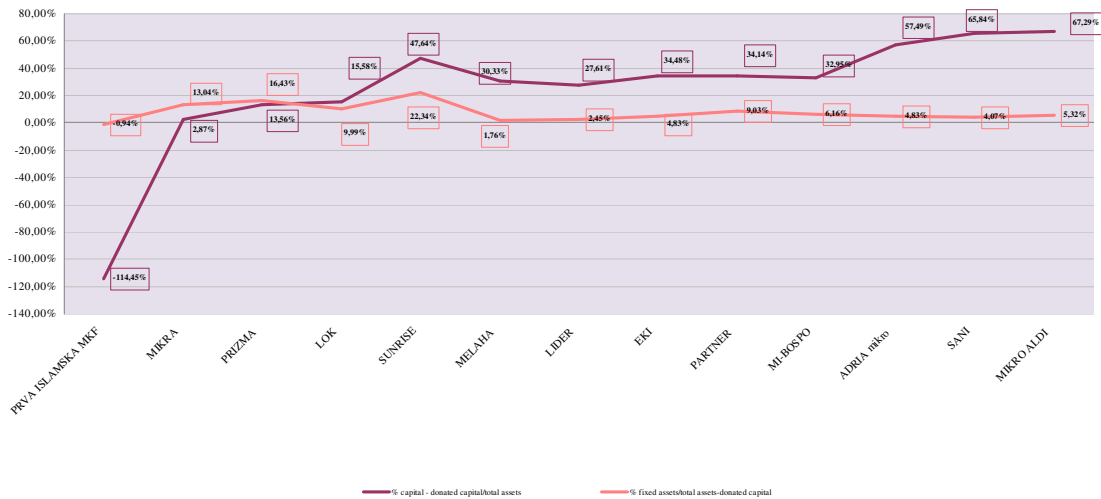


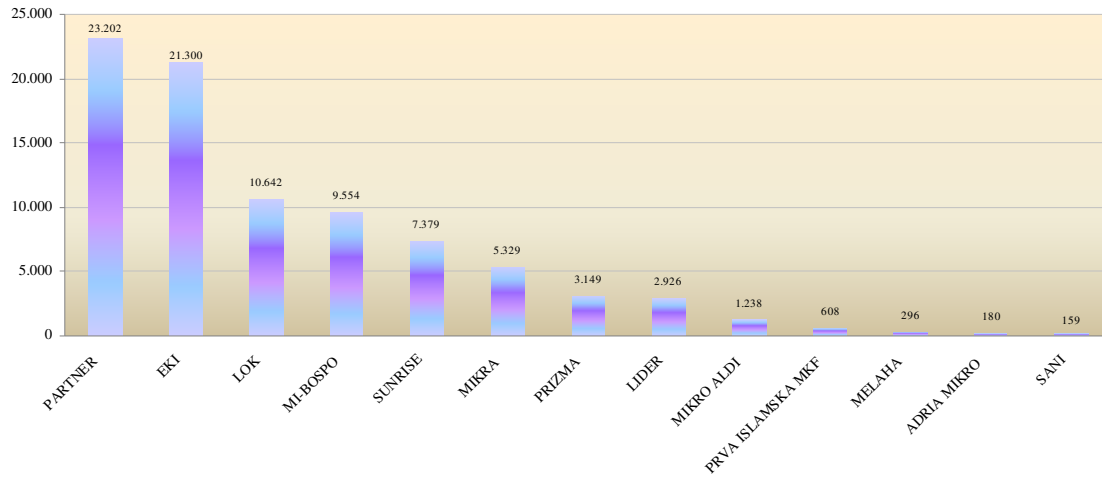
Chart 16

Fixed assets and capital vs total assets as of 31.12.2013



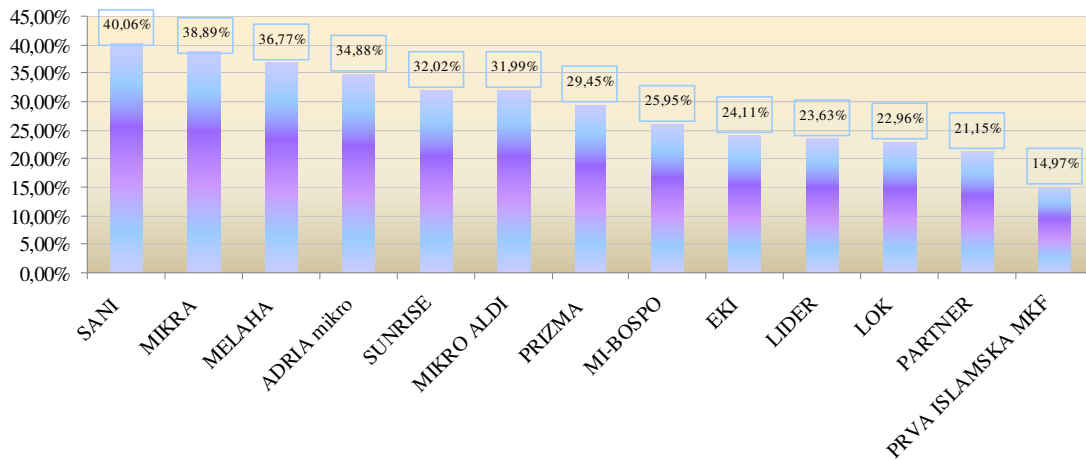
**Chart 17**

**Total disbursed microloans in Q4 2013 in 000 KM**

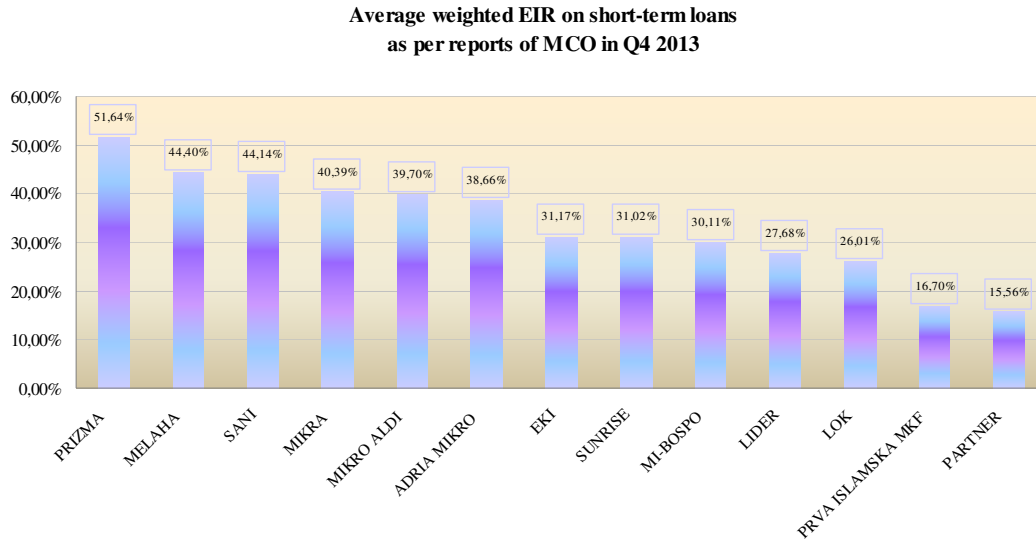


**Chart 18**

**Average weighted EIR on total loans as per reports of MCO in Q4 2013**



**Chart 19**



**Chart 20**

