



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

**INFORMATION
ON THE MICROCREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31.03.2013.**

Sarajevo, May 2013.

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1. INTRODUCTION

The law on micro-credit organizations („Official Gazette of the Federation of BiH“, number: 59/06) (Law on MCOs) regulates the establishment, registration, activities, form of organization, business operations, manner of management, termination of operations and supervision of micro-credit organization performance (MCO), that is micro credit foundation (MCF) and micro-credit companies (MCC) in the Federation of BiH. The authorities of the Banking Agency of the Federation of BiH (Agency) over these activities are regulated by the Law on the Banking Agency of Federation of Bosnia and Herzegovina („Official Gazette of the Federation of BiH“, number: 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 acts of the Agency, furthermore all the listed activities are performed within the Department for supervision of micro-credit organizations.

The function of supervision of the MCOs, the Agency performs through on site examinations and analyses of the reports that the MCOs submit to the Agency (*off-site*), in accordance with the Law on MCOs and regulations of the Agency. The reporting base is made of quarterly reports on balance sheet, capital, loans, loan loss reserves, performance results and other reports about individual performance segments, as well as a monthly report on interest rates.

The direct supervision of the MCOs' performance through the enhanced and targeted examinations, - on-site examinations, is performed by the employees of the Agency who, in compliance with the internal bylaws of the Agency, fulfill the conditions for its implementation and for it have appropriate authorizations. Microcredit organizations which are the subject of the examination by the Agency, upon the coming into effect of the report, are issued orders for correction of the violations and irregularities determined during the examination of the performance, with an aim to improve the performance, the soundness and stability of the micro credit system.

1.1. Agency's regulations regarding business operations of MCOs

The business operations of MCOs are more closely regulated by Agency's regulations, namely the decisions adopted by the Management Board of the Agency, and instructions for business operations of MCOs adopted by the Director of the Agency.

<i>Agency's decisions regarding the business operations of MCOs</i>	Official Gazette of the Federation of BiH
1. Decision on conditions and the procedure for issuing the business operation license to micro-credit foundation established through the change of micro-credit organization form;	27/07
2. Decision on conditions and the procedure for issuing and revoking the business operation license and other approvals to micro-credit organizations;	27/07 and 46/11
3. Decision on conditions and procedure for issuing the business operation license and approval for acquisition of ownership participation through investments and transfer of property of the micro-credit foundation;	27/07
4. Decision on supervision of the business operations of the micro-credit organizations;	27/07, 110/12 and 15/13
5. Decision on the form and content of reports that the micro-credit organizations submit to the Banking Agency of Federation of Bosnia and Herzegovina and the reporting deadlines;	27/07

6. Decision on the amount and manner for allocating and maintaining reserves for covering the loan losses of micro-credit organizations;	27/07
7. Decision on unified manner of accrual and recording of effective interest rates on loans and deposits;	48/12
8. Decision on other general conditions for business operations of the macro-credit organizations;	27/07
9. Decision on conditions and the manner of micro credit organization's acting on client's complaints;	32/10
10. Decision on fees that the micro-credit organizations pay to the Banking Agency of the Federation of BiH.	46/11
11. Decision on the minimum standards for micro credit organizations in regard to prevention of money laundering and terrorism financing activities.	48/12
Agency's instructions for the business operations of MCOs	
<ol style="list-style-type: none"> 1. Instructions for implementation of the Decision on unified manner of accrual and recording of effective interest rates on loans and deposits; 2. Instruction for accrual of the risk weighed nominal and effective interest rates; 3. Instruction for accrual of the adjusted return on assets; 4. Instruction for accrual of the operational efficiency indicators and 5. Instruction for development of the micro-credit organization reports. 	

2. THE STRUCTURE OF MICRO-CREDIT ORGANIZATIONS

As of 31.03.2013., there are 14 MCOs in the Federation of Bosnia and Herzegovina, of that 13 MCFs (nonprofit organizations) and 1 MCF's (profit organization), as well as 27 MCCs organization units which head offices are in Republic Srpska. All MCFs that received the Agency's operating license performed the registration in compliance with the Law on MCOs, that is they were created through the change of MCOs form established in accordance with the Law on micro-credit organizations („Official Gazette of the Federation of BiH, number: 24/00) (Law on MCOs from 2000.). Therefore, all the MCOs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on MCOs from 2000. In the Attachment 1., there are basic data on MCFs and MCCs to which as of 31.03.2013., have the Agency's operating license for operations regarding the micro-credit lending.

2.1. Organizational parts

As of 31.03.2013, in the Registry of microcredit organizations and their organizational parts, which in compliance with the Article 13 of the Law on Micro credit organizations is managed by the Agency, there was a recorded a total of 321 organizational units of MCOs with a head office in the Federation of BiH, of which in the Federation of BiH 215, Republic Srpska 103 and District Brčko 3. The total number of the organizational units of the MCOs with the head office in the Federation of BiH increased by 2 organizational units, or 1% in comparison to the end of the previous year. A total of 181 organizational units of MCFs with head offices in the Federation of BiH have authorization to grant micro-credits, and as such are registered in the appropriate Registry.

During the first three months of 2013, the Agency issued 5 consents for establishing organizational units of MCOs and 4 consents for closing of the organizational units and 3 consents for change of address of the organizational part, while 1 organizational part was

added into the Registry of the Agency, after the performed on-site examination of one MCO. There are 8 MCFs that have organizational units outside of the Federation of BiH while 4 MCFs operate exclusively through their head office, in other words do not have open organizational units in the Federation of BiH, nor in Republic Srpska.

Agency issued licenses for operations of organizational units of one MCC which has a head office in republic Srpska, and which operates in Federation through 27 branches and field offices.

2.2. Personnel

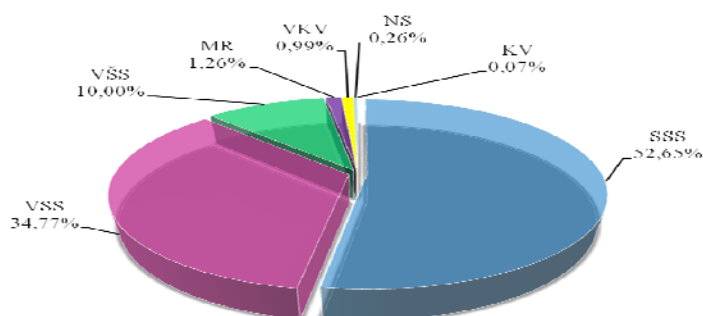
As of 31.03.2013., micro-credit sector employed a total of 1.510 employees, which is an increase by 44 in comparison to 31.12.2012 or by 3%. This decline on the level of the sector is most influenced by the decline of the employees in one of the largest MCOs, which recorded a decline of 12% or 34 employees in comparison to the end of the previous year. MCFs employ 1.503 employees or 99,5%, and MCCs 7 employees or 0,5%.

Table 1. Qualification structure of employees

No.	Qualification ¹	31.12.2012.		Total	Part. (%)	31.03.2013.		Total	Partic. (%)	Ratio
		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	4	0	4	0,26	133
2.	KV	1	0	1	0,06	1	0	1	0,07	100
3.	VKV	15	0	15	0,97	15	0	15	0,99	100
4.	SSS	828	2	830	53,41	793	2	795	52,65	96
5.	VŠS	154	1	155	9,97	150	1	151	10,00	97
6.	VSS	530	4	534	34,36	521	4	525	34,77	98
7.	MR	16	0	16	1,03	19	0	19	1,26	119
TOTAL		1.547	7	1.554	100,00	1.503	7	1.510	100,00	97

In the structure of employees the largest participation is of SSS of 52,65%, VSS of 34,77% and VŠS of 10%. The percentage of employees with master degrees is increasing (by 19%), and also increasing is the number of employees with lower vocational qualifications (by 33%) while the percentage of employees with high school degree is in decline (by 4%), with higher vocational qualification (by 3%) and with university degree (by 2%).

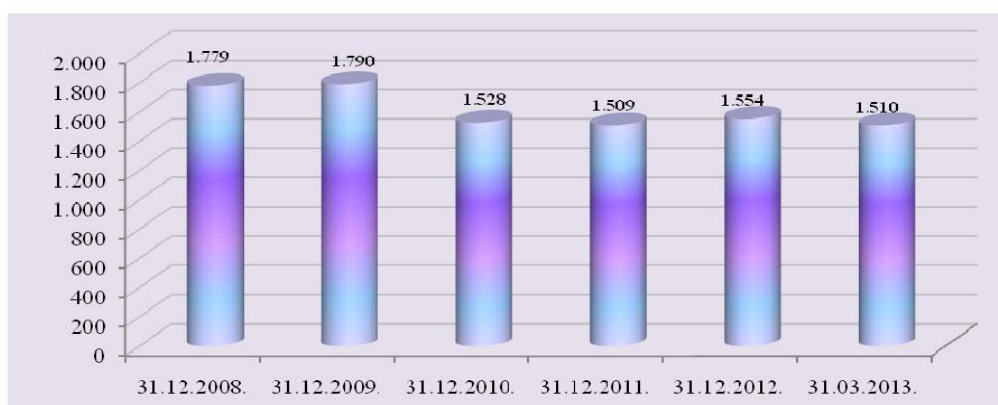
Graph 1. Qualification structure of employees in MCOs as of 31.03.2013.



¹ NS – elementary education level, KV – vocational qualifications, VKV- higher vocational qualifications, SSS – high school degree, VŠS – two year college degree, VSS – University degree, MR – Master of Arts.

Reviewing the number of employees over the years of performance of MCOs, it can be concluded that the largest number of employees was reported at the end of 2009, when MCOs were employing 1.790 employees, which when compared with the data as of 31.03.2013 presents a decline of 16% in comparison to the end of 2009. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the number of employees of a high 32% and 33% respectively.

Graph 2. Number of employees in MCOs through years



3. ANALYSES OF THE FINANCIAL CONDITION AND PERFORMANCE ACHIEVEMENT OF MCOs

3.1. Balance Sheet

As of 31.03.2013., the MCOs balance sheet amount is 479 million KM and it decreased by 20,6 million KM or 4% in relation to 31.12.2012. The balance sheet growth, in comparison to the end of previous year, was recorded by 3 MCF and 1 MCC, while 10 MCFs recorded a decline.

The decline of the balance sheet of 10% in relation to 31.12.2012 is recorded by 9 MCFs, while the decline up to 20% in relation to the end of the previous year was recorded by 1 MCF and 1 MCO with lowest amount of assets. One MCF, which as of 31.12.2012 had the largest participation in the balance sheet amount in the sector, for three months, decreased its assets by 11 million KM, and recorded a decline of a 10% in comparison to the end of the previous year, which consequently influenced the decline of the assets on the level of the entire sector.

The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 443,2 million KM or 93%.

Table 2. Balance Sheet of MCOs

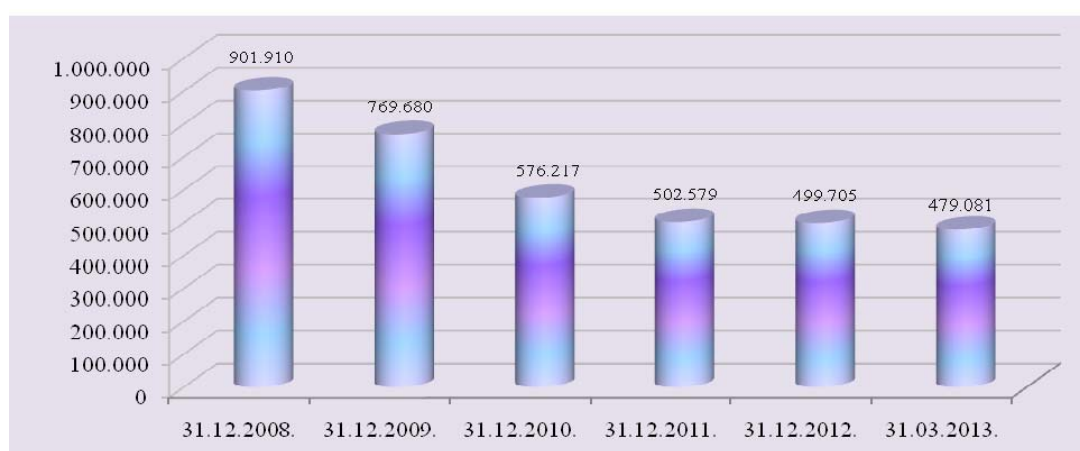
in 000 KM

DESCRIPTION	31.12.2012.					31.03.2013.					Ratio
	Balance as of MCF	%	Balance as of MCO	%	TOTAL	Balance for MCF	%	Balance for MCO	%	TOTAL	
1	2	3	4	5	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS											
1. Cash	25.286	5	104	7	25.390	22.424	5	238	14	22.662	89
2. Placements to banks	8.245	2	0	0	8.245	3.368	1	0	0	3.368	41

3. Loans	415.883		1.349		417.232	404.106		1.385		405.491	97
4. Less: reserves for loan losses	7.585		25		7.610	9.035		40		9.075	119
5. Net loans	408.298	82	1.324	86	409.622	395.071	83	1.345	80	396.416	97
6. Business premises and other fixed assets	48.025	10	84	5	48.109	47.785	10	74	4	47.859	99
7. Long term investments	15	0	0	0	15	15	0	0	0	15	100
8. Other assets	9.268	2	33	2	9.301	9.693	2	35	2	9.728	105
9. Less: reserves for other assets, except loans	975		2		977	964		3		967	99
TOTAL ASSETS	498.162	100	1.543	100	499.705	477.392	100	1.689	100	479.081	96
LIABILITIES											
10. Liabilities for loans taken	311.240	62	803	52	312.043	287.487	60	956	57	288.443	92
11. Other liabilities	24.091	5	39	3	24.130	23.782	5	39	2	23.821	99
12. Capital	162.831	33	701	45	163.532	166.123	35	694	41	166.817	102
TOTAL LIABILITIES	498.162	100	1.543	100	499.705	477.392	100	1.689	100	479.081	96
Off balance sheet	172.252		52		172.304	171.049		55		171.104	99

Reviewing the aggregate balance sheet of MCOs over the years, the largest amount was reported at the end of 2008, when it was 902 million KM. Aggregate balance sheet amount as of 31.03.2013 is 479 million KM, which presents a decline of a high 47% in comparison to the end of 2008. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the balance sheet, in which it declined by a high 60% and 73% .

Graph 3. The amount of assets of MCOs (in 000 KM)



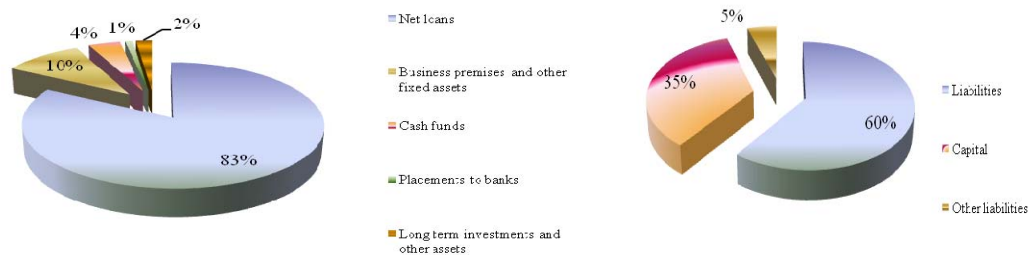
In the asset structure of MCOs, the cash funds are 22,6 million KM or 4% with a decline rate of 11% in comparison to 31.12.2011., and mainly relate to cash funds of MCF. Placements to banks are 3,3 million KM or 1% and are lower by 59% in comparison to the end of the previous year. Since the investors, local commercial banks, but also different international socially oriented commercial funds, are generally showing a higher degree of caution in lending to a majority part of the MCOs, many MCOs have a limited the access to the funds they could use for funding their micro credit activity, and realize sufficient income from regular operations to cover for their expenses. Additional restrictions on the long term funds for MCOs and maturity of the short term liabilities with a poor collection can lead to insolvency of some MCOs, even larger scale operations, which presents one of more significant risks and challenges which face the managing and governance bodies .

Net loans, that is, the gross loans deducted for the loan loss reserves, are 396,4 million KM or 83% of the total assets and decreased by 13,2 million KM or 3% in comparison to 31.12.2012. The growth of net loans in comparison to the previous year is recorded by 5 MCFs and 1 MCC, while decline is reported by 8 MCF. In comparison to 31.12.2012, while the decline of the net loans up to 10% is recorded by 6 MCFs, decline up to 20% is recorded by 1 MCF and decline of 30% by also 1 MCF. One MCF, which as of 31.12.2012 had the largest participation in the amount of net loans in the sector, for three months, decreased the same by 12 million KM, and recorded a decline of a high 13% in comparison to the end of the previous year, which consequently had an impact on the decline of this balance sheet position on the level of the entire sector.

The business premises and other fixed assets are 48 million KM or 10% of total assets and this balance sheet position is by 250 thousand KM or 1% lower than at the end of the previous year. The percentage of fixed assets in the total assets (deducted for the amount of the donated capital) on the level of the sector is 11,07%, which is slightly higher than the prescribed amount, and reviewed individually, there are four MCFs which are breaching this standard.

The amount of 8,7 million KM or 2% refers to long term investment (15 thousand KM reported by just one MCF) and other assets (8,761 thousand KM deducted for the provisioning for other items of assets apart from loans), and are composed of accrued interest, advance payments, active time reconciliation and other. The percentage of other assets on the level of the sector in comparison to the total assets is 2,03%, and viewed individually, in all MCOs, other assets are under 10% in comparison to the total assets.

Graph 4. Structure of assets and liabilities of MCOs



In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 288,4 million KM or 60% of total liabilities and decreased by 8% in comparison to 31.12.2011. One MCF with the largest participation in the amount of liabilities from loans acquired, for three months, decreased them by 12 million KM, and recorded a decline by 14% in comparison to the end of the previous year, which consequently had an impact on the decline of that balance sheet position on the level of the entire sector.

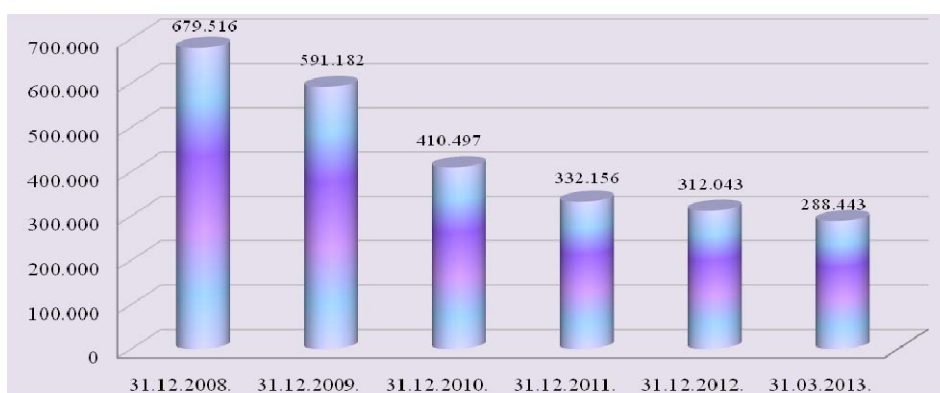
Table 3. Maturity structure of loans taken

DESCRIPTION	in 000 KM								Ratio
	31.12.2012.				31.03.2013.				
	MCF	MCO	TOTAL	%	MCF	MCO	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities from short term loans taken	99.872	719	100.591	32	95.645	621	96.266	33	96
2. Liabilities from long term loans taken	211.368	84	211.452	68	191.842	335	192.177	67	91
TOTAL	311.240	803	312.043	100	287.487	956	288.443	100	92

Of total liabilities on loans taken, 192,2 million KM or 67% are long term loans (3 MCFs do not have them), and they declined by 9% in relation to the end of last year. Of total liabilities on loans taken 96,2 million KM or 33% are short term loans (3 MCFs do not have them), with a decline rate of 4% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 287,4 million KM or 99,7% of total liabilities on loans taken.

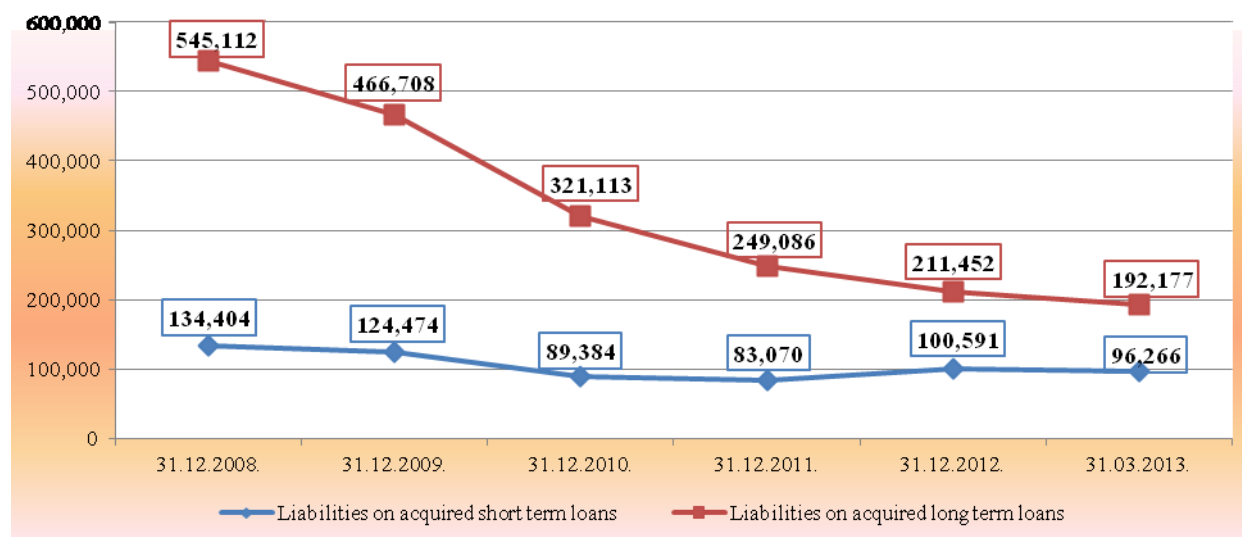
Reviewing the amount of total liabilities of MCOs on loans taken through years of performance of MCOs, their largest amount is recorded at the end of 2008, when they were 679,5 million KM. Total liabilities of MCOs in regard to loans taken as of 31.03.2013 are 288,4 million KM, and they declined by a high 58% in comparison to the end of 2008. Comparing these two periods, in individual MCOs, two MCFs recorded the largest decline of the amount of total liabilities on loans taken, in which they declined by a high 92%.

Graph 5. The amount of liabilities of MCOs on loans taken through years (in 000 KM)



As it is obvious from the graph below, in addition to the fact that the total liabilities from loans taken in comparison to 2008 are lower by 58%, or 8% in comparison to the previous year, reviewing the liabilities from loans taken by maturity of concern is the fact that the long term loans in comparison to 2008 declined by a high 65%, and are constantly decreasing, while the short term loans in comparison to 2008 declined by 28%, and in comparison to 31.12.2012 they also lower by 4%, although at the end of 2012 they recorded an increase in comparison to the previous two years.

Graph 6. Liabilities from short term and long term loans taken

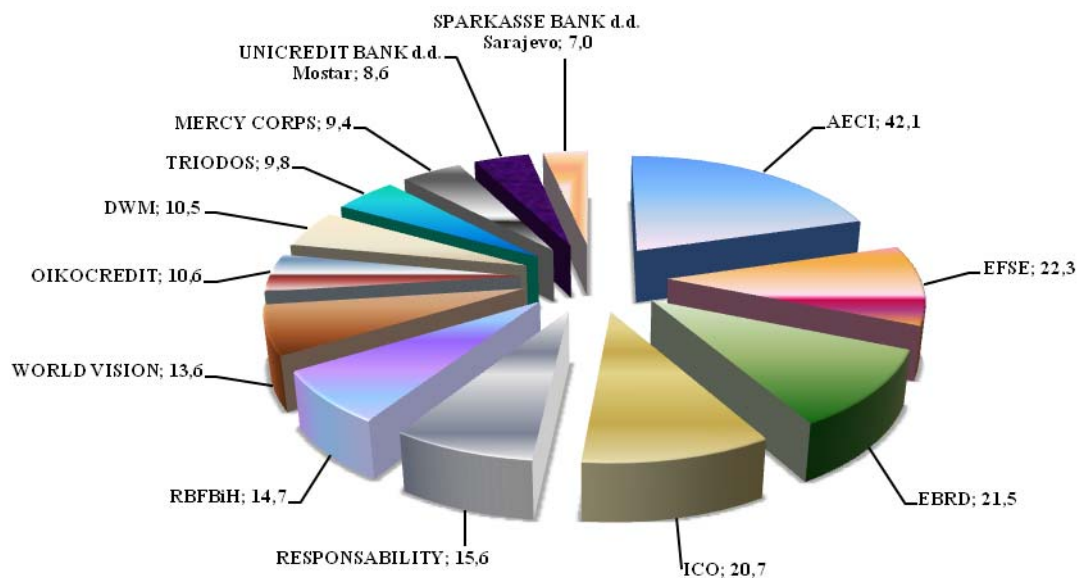


The most significant MCO creditors, with 72% of the credit liabilities, are:

- 1.) AECI – Agency for international cooperation Kingdom of Spain (42,1 million KM);
- 2.) EFSE – European Fund for the southeast Europe, Luxemburg (22,3 million KM);
- 3.) EBRD – European bank for reconstruction and development, Great Britain (21,5 million KM);
- 4.) ICO – Instituto de Credito Oficial, Spain (20,7 million KM);
- 5.) Responsibility SICAV, Switzerland (15,6 million KM);
- 6.) Development bank of the Federation of BiH² (14,7 million KM);
- 7.) World Vision International, USA (13,6 million KM);
- 8.) Oikokredit, Netherlands (10,6 million KM);
- 9.) DWM – Developing World Markets, USA (10,5 million KM);
- 10.) Triodos – Doen, Netherlands (9,8 million KM).
- 10.) Mercy Corps, USA (9,8 million KM);
- 12) UniCredit Bank d.d. Mostar, BiH (8,6 million KM) and
- 13.) Sparkasse Bank d.d. Sarajevo (7 million KM).

One MCF has an exposure, in the first creditor, of 46%, and a high 63% in the eighth creditor, which presents a high concentration in the sources of funding.

Graph 7. Sources of funding of MCOs as of 31.03.2013. (in mil. KM)



Other liabilities are 23,8 million KM or 5% of total liabilities, and they consist of liabilities towards employees, suppliers, passive time reconcilements and other. The percentage of other liabilities on the level of the sector in comparison to total liabilities is 7,63%, and viewed individually, a total of five MCF has a percent of other liabilities higher than 10% in comparison to total liabilities.

² The funds are granted under the Project of local initiatives LIP I and LIP II which management by the Decision of the Government of the Federation of BiH („Official Gazette of the Federation of BiH“, number: 78/06 and 34/07) has been transferred to the Development bank of the Federation of BiH.

As of 31.03.2013, the off-balance sheet is 171 million KM, and it consists of charged off credit receivables (170,7 million KM) and agent contracts (0,4 million KM, owned by 2 MCFs), and it decreased by 1% in comparison to 31.12.2012.

3.2. Capital

The total capital of MCOs as of 31.03.2013., was 166,8 million KM, or 35% of total liabilities and it increased by 3,3 million KM or 2% in comparison to the end of 2012. The capital of MCFs is 166,1 million MCF or 99,6%, and the capital of one MCO is 0,7 million KM or 0,4%. Two MCFs have a percentage of the ratio of the amount of capital (deducted for the donated capital) to total assets lower than allowed.

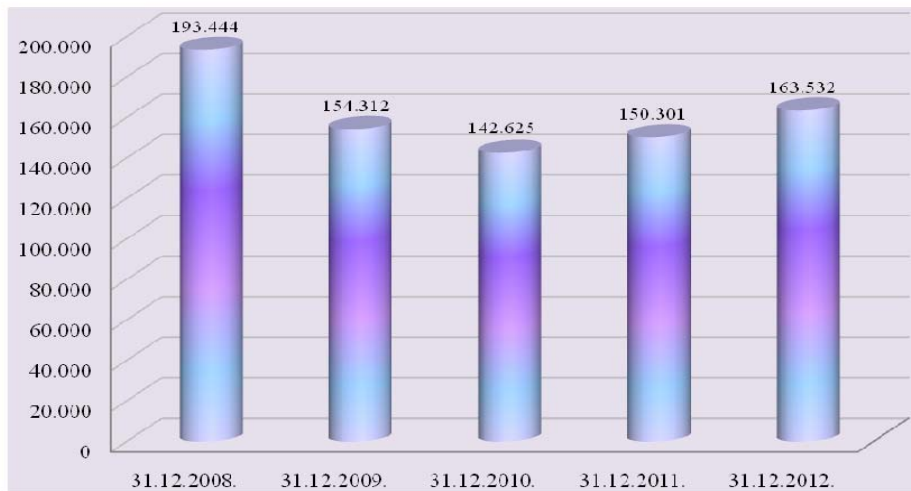
Table 4. Structure of capital of MCOs

in 000 KM

DESCRIPTION	31.12.2012.					31.03.2013.					Ratio
	Balance for MCF	%	Balance for MCO	%	TOTAL	Balance for MCF	%	Balance for MCO	%	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	46.936	28	0	0	46.936	100
Core Capital	8.245	5	600	86	8.845	8.245	5	600	86	8.845	100
Surplus/deficit of income over expenses	104.779	64	0	0	104.779	108.087	65	0	0	108.087	103
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	0	0	0	0	0	-7	-1	-7	n/a
Regulatory provisions	0	0	101	14	101	0	0	101	15	101	100
Other reserves	2.871	2	0	0	2.871	2.855	2	0	0	2.855	99
TOTAL CAPITAL	162.831	100	701	100	163.532	166.123	100	694	100	166.817	102

Reviewing the amount of capital over the years of the MCOs performance, it can be concluded that the highest amount was reported at the end of 2008 when it was 193,4 million KM. The total capital of MCOs as of 31.03.2013 was 166,8 million KM and is lower by 14% in comparison to the end of 2008. Reviewing these two periods, in individual MCOs, we can conclude that two more significant MCFs reported the largest decline in the amount of capital, which was by a high 51% and 60% respectively. The level of capital as of 31.03.2013. presents the largest recorded level since the end of 2009, due to the increased extraordinary income (collection of the written off receivables) which influenced the MCOs' total financial result.

Graph 8. Amount of capital of MCOs through years (in 000 KM)



In the MCFs' capital structure the most significant is the surplus of income over expenses which is 108,1 million KM, and constitutes 65% of total capital of MCFs, and it increased by 3,3 million KM or 3% in comparison to the end of the last year.

The deficit of income over expenses for the period of 01.01. to 31.12.2012 was realized by 2 MCFs, and surplus of income over expenses 11 MCF, while one MCC realized a net loss. The surplus of income over expenses in the regular performance as of 31.03.2013, was realized by 5 MCF, while 8 MCF and 1MCC realized deficit of income over expenses that is a loss in regular operations. At the end of the first quarter of 2013, of those 8 MCFs, 6 have, owing to extraordinary income that is higher than the realized deficit in regular operations realized a positive result, as well as one MCC. The extraordinary income is a direct result of the increased collection of the receivables from written off loans.

The significant source of capital of MCF is the donated capital which is 47 million KM or 28% of the total capital, whereas one MCC does not have any donated capital. The amount of the donated capital, which is being reported by the MCOs, in comparison to the end of the previous year is on the same level. In compliance with the Article 11 of the Decision on other general conditions for performance the microcredit organizations are obliged to record donated funds and treat them as donated capital, and report the balance to the Agency. Based on the formal quarterly reports which are submitted to the Agency, 9 MCFs reported a value of the donated capital in their reports, and are recording its balance. Off site examination determined that one MCF does not report the correct value of the donated capital which is contrary to the regulations of the Agency, and the donation reports is undervalued by around 7 million KM.

Core capital of MCOs, as of 31.03.2013, was 8,2 million KM or 5% of total capital of MCFs. Other reserves, which refer to 2 MCFs, are 2,8 million KM, or 2% of total capital of MCF.

Undivided profit and legal reserves of one MCC are 0,1 million KM or 14% of total capital of the MCC, while the core capital of the MCC is 0,6 million KM, or 86%.

3.3. Loan portfolio

The core activity of MCOs is the micro-crediting that refers to the amount of 405,5 million KM or 85% of the total assets of the micro credit sector. The level of the total loans of sectors depends on the condition of loans of MCFs referring to 404,1 million KM or 99,7% of total loans, whereas MCCs relate to 1,4 million KM or 0,3% of total loans. Net loans, total loans minus the reserves for loan losses, are presented in the Table 5.

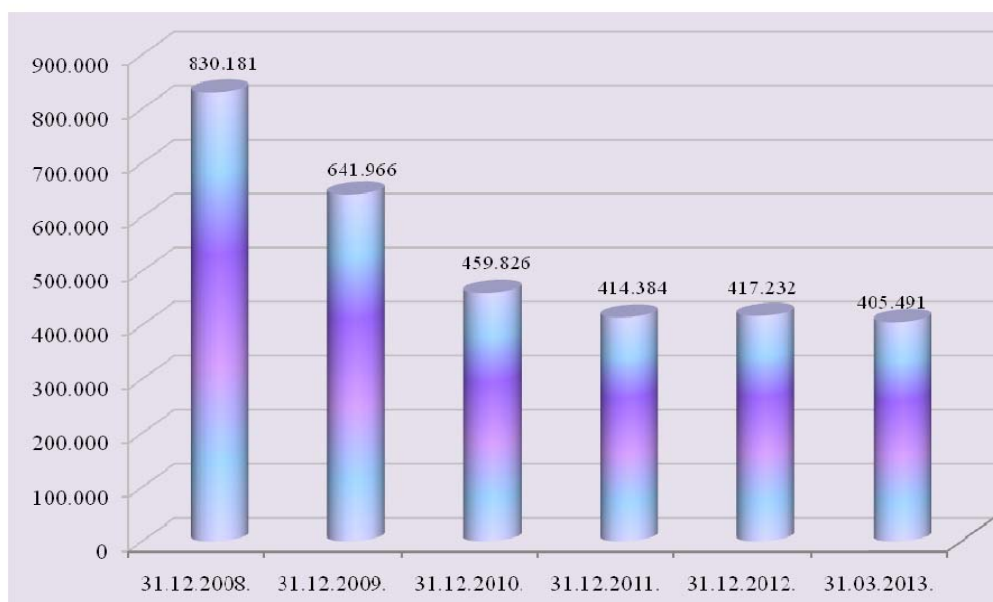
Table 6. Net loans

in 000 KM

No.	DESCRIPTION	31.12.2012.			31.03.2013.			Ratio
		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	404.106	1.385	405.491	97
2.	Loan loss reserves	7.585	25	7.610	9.035	40	9.075	119
3.	Net loans (1.-2.)	408.298	1.324	409.622	395.071	1.345	396.416	97

Net loans are 396,4 million KM and decreased by 3% in comparison to 31.12.2012, while loans on gross basis also decreased also by 3% in relation to the end of last year. Loan loss reserves are 9,1 million KM and have increased by 19% in relation to 31.12.2012. The ratio of the loan loss reserves and the total loan portfolio is 2,24%, and in comparison to 31.12.2012, recorded a deterioration by 0,42 percent points.

Graph 9. The amount of gross portfolio of MCOs over the years (in 000 KM)



Reviewing the gross portfolio of the MCOs, over the years of MCOs performance, it can be concluded that the largest amount was recorded at the end of 2008 when it was 830,2 million KM. The total gross portfolio as of 31.03.2013 was 405,5 million KM, and it is almost double lower than in comparison to the end of 2008. Comparing these two periods, in individual MCOs, it can be concluded that two MCFs reported the largest gross portfolio, in which it declined by a high 63% and 77% respectively.

Table 7. Department and maturity structure of micro loans of MCOs as of 31.03.2013.

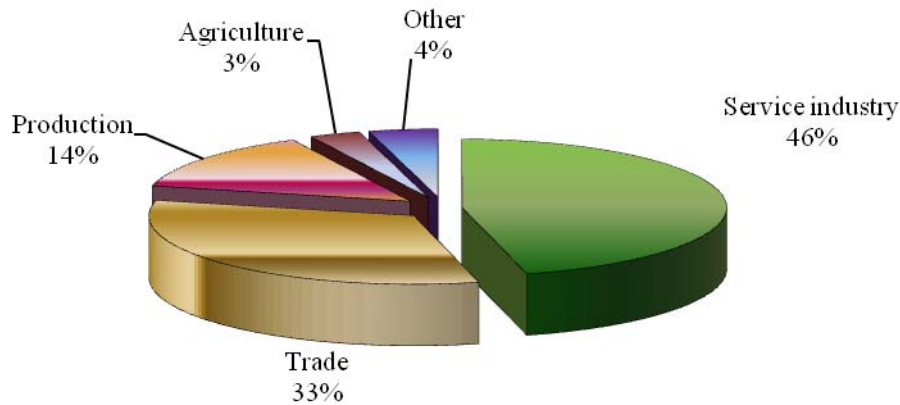
in 000 KM

No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service industry	1.138	3.321	52	4.511	46%
b.)	Trade	1.088	2.051	41	3.180	33%
c.)	Agriculture	116	189	0	305	3%
d.)	Production	480	879	19	1.378	14%
e.)	Other	72	331	9	412	4%
	TOTAL 1:	2.894	6.771	121	9.786	100%
2.	Individuals					
a.)	Service industry	9.010	84.657	1.109	94.776	24%
b.)	Trade	6.193	39.081	644	45.918	12%
c.)	Agriculture	10.005	131.951	863	142.819	36%
d.)	Production	2.043	18.600	221	20.864	5%
e.)	Housing needs	2.635	45.131	247	48.013	12%
f.)	Other	12.126	30.425	764	43.315	11%
	TOTAL 2:	42.012	349.845	3.848	395.705	100%
	TOTAL (1+2):	44.906	356.616	3.969	405.491	

Of total amount of micro loans 9,8 million KM or 2% of total loans are granted to the legal entities, and 395,7 million or 98% to individuals.

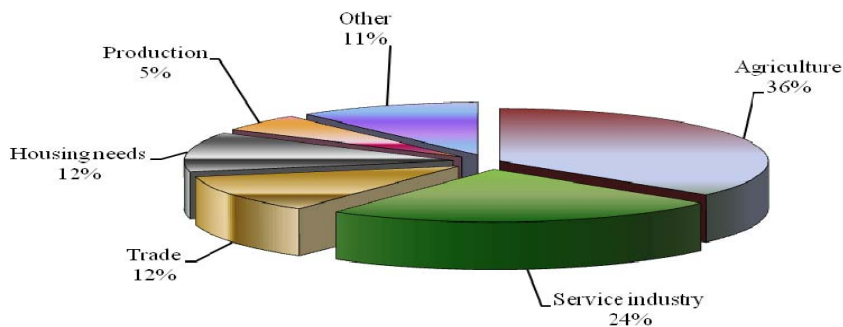
In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 48,9 million KM or 12%, and long term loans are 356,6 million KM or 88%. The past due receivables alone are 4 million KM or 1% of the total loans and almost entirely refer to loans to individuals.

Graph 10. Sector structure of microcredit loans granted to legal entities



According to the sector structure the largest amount of total amount of micro-credits to **legal entities** has been allocated in the trade and service sector – service industry 4,5 million, or 46%, and trade 3,2 million KM or 33%. For production allocated is 1,4 million KM or 14% of the total amount of micro-credits granted to legal entities, then 0,3 million KM for agriculture or 3%, and 0,4 million or 4% for other purposes.

Graph 11. Sector structure of microcredit loans granted to individuals



In regard to loans to **individuals**, 142,8 million KM or 36% was granted to agriculture, then 94,8 million KM or 24% for service industry, whereas 46 million KM or 12% was granted the sector of trade, for housing needs 48 million KM or 12%, and for production 20,8 million KM or 5%, and for other 43,3 million KM or 11%.

Table 7. Department structure of micro credits in 000 KM

Micro-credits for:	31.12.2012.	31.03.2013.	Participation	Ratio
Service industry	102.589	99.287	24%	97
Trade	52.463	49.098	12%	94
Agriculture	144.056	143.124	35%	99
Production	23.492	22.242	5%	95
Housing needs	48.620	48.013	12%	99
Other	46.012	43.727	11%	95
TOTAL	417.232	405.491	100%	97

Based on the analyses of the sector structure it is concluded that the micro-credit lending is in most part directed to lending to agriculture (35%) and service industry (24%) and mainly relates to long term loans to individuals, which leads to loans being granted to individuals that do not have access to traditional financing sources, partly due to the risk in the business they perform and partly due to the lack of adequate collateral.

In relation to the end of the previous year, the percentage of loans granted to all credit products are in decline from 1% to 6%, since the total gross loans are in decline by 3% in comparison to the end of the previous year.

Table 8. Micro-credits maturity structure in 000 KM

	31.12.2012.	31.03.2013.	Participation	Ratio
Long term micro-credits	373.174	356.616	88%	96
Short term micro credits with past due receivables	44.058	48.875	12%	111
TOTAL	417.232	405.491	100%	97

In regard to maturity, the long term micro credits are in decline by 4% in comparison to the end of the previous year, while the short term micro credits (including the past due receivables) increased by 11%.

According to the Decision on the amount and manner for allocating and maintaining the loan loss reserves of MCOs („Official Gazette of the Federation of BiH“, number: 27/07), MCOs are obliged to allocate all loan funds and other receivables in certain groups by applying the days of default criteria in such a manner that each group is assigned reserves for loan and other losses on the charge of operation expenses.

The base for accrual of the amount of the reserves is the amount of unpaid loans, accrued interest and fees and all other items where MCO is exposed to risk of payment default, which is business failure. The following table shows the amounts of receivables distributed through the given groups and accrued interests in those groups as of 31.03.2013:

Table 9. Report on the amount and manner of establishing the reserves for loan losses as 31.03.2013.

in 000 KM

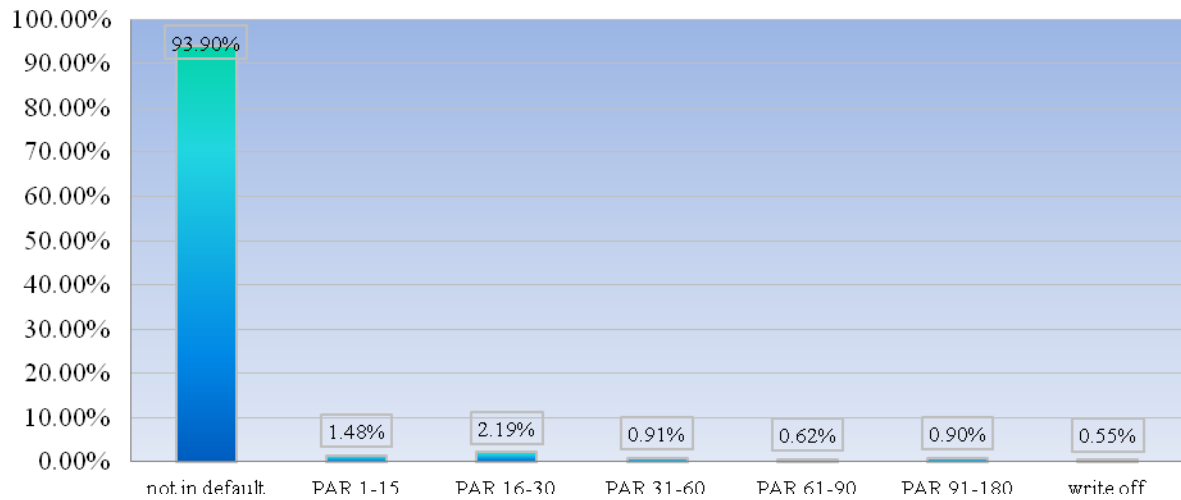
No.	Days of default	Reserve rates	Loan amount	Partic. (%)	Past due interest		Amount of other items of assets	Provisioning			Total provisioning
					Reserve rates	Amount of interest		For loans	For past due interest	For other items of assets	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	380.758	93,90	0%	4	253	0	0	0	0
2.	1 – 15	2%	5.983	1,48	2%	108	0	120	2	0	122
3.	16 – 30	15%	8.865	2,19	100%	143	0	1.330	143	0	1.473
4.	31 – 60	50%	3.700	0,91	100%	167	0	1.850	167	0	2.017
5.	61 – 90	80%	2.528	0,62	100%	162	0	2.023	162	0	2.185
6.	91 – 180	100%	3.657	0,90	100%	488	0	3.751*	493*	0	4.244
TOTAL			405.491	100,00		1.072	253	9.075	967	0	10.042

7.	over 180	Write off	2.238	0,55	100%	378					
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*In columns 9. and 10., in default categories (91-180), included is additional provisioning of one MCF for loans, which have been restructured several times and gain contracted, and which balance for the reporting period is higher than 10.000 KM, for which the Agency, with its resolution ordered additional provisioning at a rate of 100%.

Defaults in payment of longer than one day have loans in the amount of 24,7 million KM. The rate for the loans in default of more than one day, as of 31.03.2013, is 6,10%, and recorded an increase in relation to the end of previous year by 1,22 percent points. The total amount of loans has a payment default of 16 to 30 days (8,9 million KM or 2,19% of total loans). The total amount of past due interests on active loans that have a default longer than one day is 1 million KM. Total amount of accrued reserves on all bases is 10 million KM and have increased 17% or by 1,4 million KM in comparison to 31.12.2012. The analyses of reports of MCOs, it was determined that the increase of the aggregate provisions in comparison to the end of the previous year, occurred due to significant increase of reserves for loan losses in one of the largest MCO in the Federation of BiH, which recorded an increase of the same in the amount of 1,2 million KM, that is 60%. In the first three months of the current year, the write off was 2,2 million KM in principal and 0,4 million KM in interest.

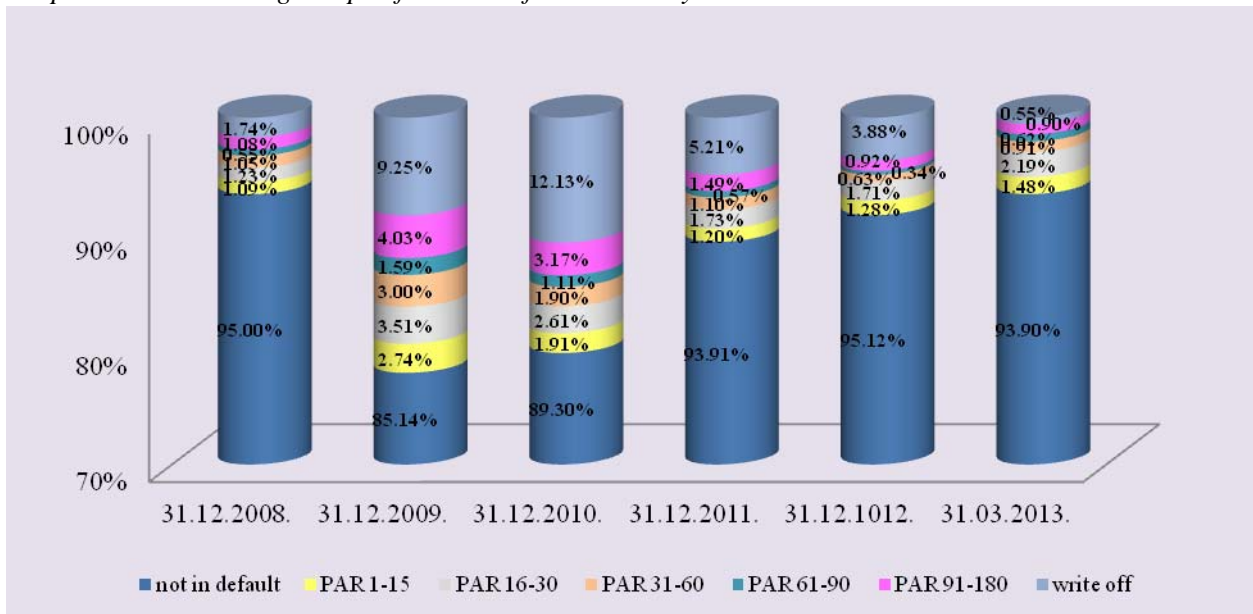
Graph 12. MCOs portfolio asset quality as of 31.03.2013.



3.3.1. Key indicators for the credit portfolio quality

In comparison with the previous years, as of 31.03.2013, the micro credit portfolio recorded a decline by 3%, reported a deterioration of the active loan portfolio quality indicators. Most of MCCs are exposed to the pressure of competition by larger MCOs as well as banks, and far smaller MCOs are faced with a lack of funds for financing the loan portfolio.

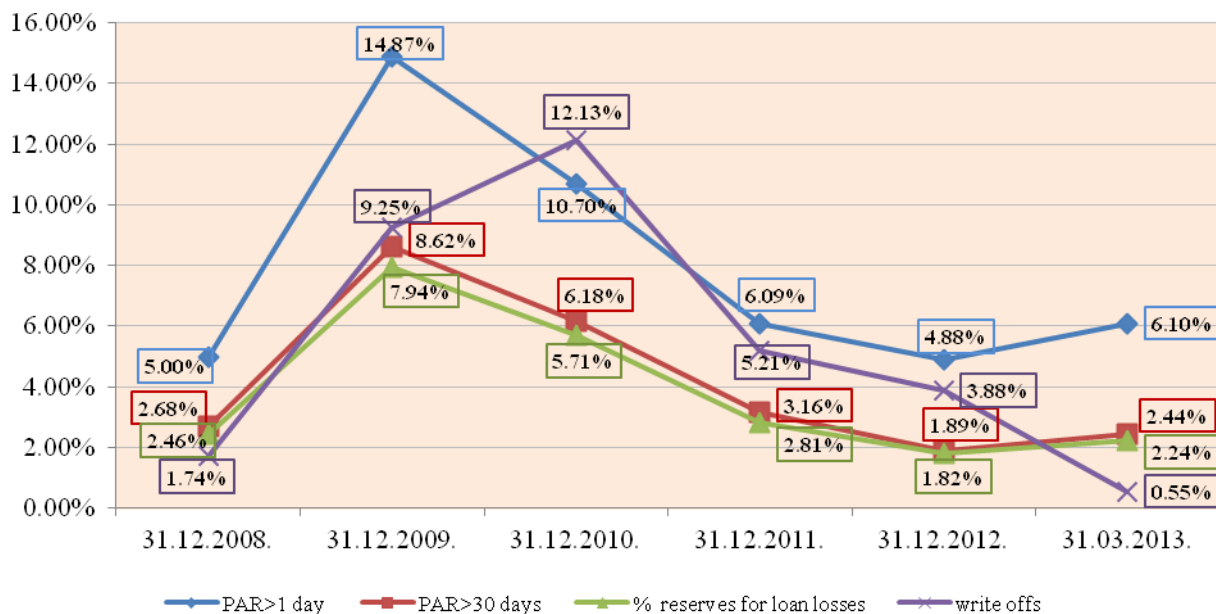
Graph 13. MCOs gross portfolio classification over years



The deterioration of the active credit portfolio quality is reflected in the increase of the loan loss reserves rate from 1,82%, as of 31.12.2012, to 2,24%. The portfolio in the risk of over 30 days delinquency also increased from 1,89% to 2,44%. The total result of the sector in regard to the risk portfolio, is within the standards prescribed by the Agency, while 14 MCOs, 3 MCFs do not fulfill the standard the Agency set for the risk in the portfolio which should be

below 5%. The portfolio in risk over one day delinquent also recorded a decline and from 4,88% (at the end of the previous year) increased to 6,10%.

Graph 14. Active portfolio quality indicators MCC



In regard to the loan portfolio quality indicators and other performance results of the MCFs, the Agency is expressing a reserve in regard to the correctness of the data, since one of the largest MCFs, which has over 20% of the market participation, did not act in accordance with the Agency's orders within the prescribed deadlines which were issued based on the performed examination of this MCF in reference to the significant amount of the ordered additional reserves, and further the reports of this MCF are not in compliance with the regulations of the Agency.

During the first quarter of 2013, MCOs wrote off 2,386 loan accounts (a high 67% of written off loans in the first quarter of 2013 refer to one of the largest MCFs in the Federation of BiH) in a total amount of 2,6 million KM, of which 2,2 million KM refers to the written off principle, which is 0,55% total gross loans, and one MCF recorded a write off of over 3% of gross loans.

The microcredit organizations continued to invest efforts in the collection of the receivables from written off loans, thus in the first three months of the current year they collected 2,6 million KM of the written off principle, that is 0,3 million KM of written off interest, while in the same reporting period one MCF permanently wrote off a total of 68 thousand KM in principle and 13 thousand KM of interest.

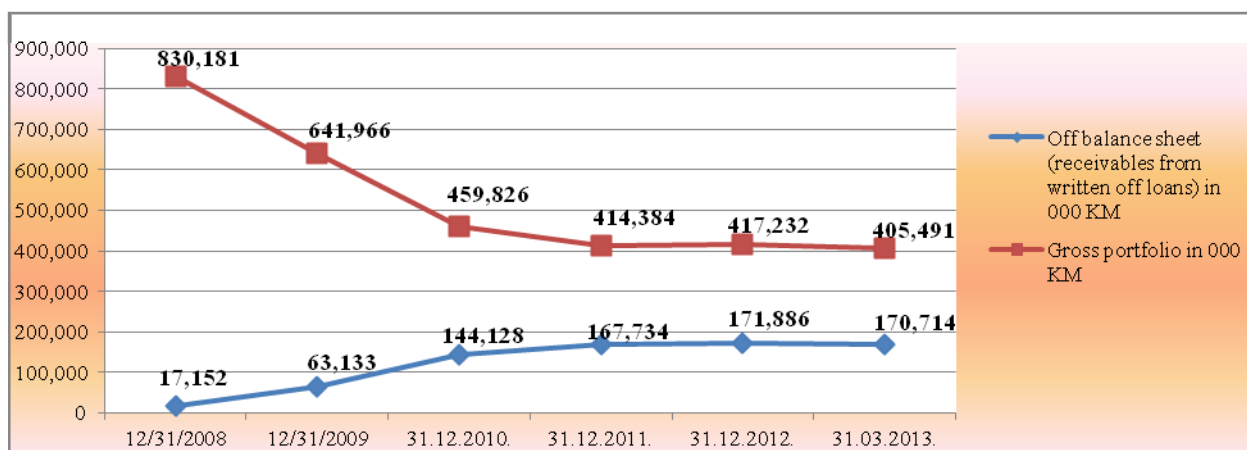
Table 10. Receivables from written off principle and interest
in 000 KM

DESCRIPTION	INDIVIDUALS		LEGAL ENTITIES		TOTAL	
	Written off principle	Written off interest	Written off principle	Written off principle	Written off interest	Written off principle
1	2	3	4	5	6	7
Opening balance as of 01.01.2013.	139.555	25.069	2.704	432	142.259	25.501
Changes in 2013.						
New write off in the current year	2.166	370	71	8	2.237	378
Write off in the period 01.01.-31.03.	2.166	370	71	8	2.237	378
Write off in the period 01.04.-30.06.	0	0	0	0	0	0
Write off in the period 01.07.-30.09.	0	0	0	0	0	0
Write off in the period 01.10.-31.12.	0	0	0	0	0	0
Collected in the current year	2.609	288	32	7	2.641	295
Collection of the write off in the period 01.01.-31.03.	2.609	288	32	7	2.641	295
Collection of the write off in the period 01.04.-30.06.	0	0	0	0	0	0
Collection of the write off in the period 01.07.-30.09.	0	0	0	0	0	0
Collection of the write off in the period 01.10.-31.12.	0	0	0	0	0	0
Permanent write off in the current year	68	13	0	0	68	13
Permanent write off in the period 01.01.-31.03.	68	13	0	0	68	13
Permanent write off in the period 01.04.-30.06.	0	0	0	0	0	0
Permanent write off in the period 01.07.-30.09.	0	0	0	0	0	0
Permanent write off in the period 01.10.-31.12.	0	0	0	0	0	0
Balance as of 31.03.2013.	139.044	25.139	2.743	433	141.787	25.572

* Note: The data in the Table 10 are different from the total receivables from written off loans reported in the off balance sheet reports by the amount of 3,3 million KM, which refers to out of court settlements and suspended interest in two MCFs.

The total write offs from written off loans, which are in off balance sheet records as of 31.12.2012, are 170,7 million KM and are lower by 2% in comparison to the end of the previous year. In comparison to 2008, the gross portfolio of the MCOs was divided in half, while the receivables from written off loans are higher by over 10 times, and as of 31.03.2013 are 42% of total loan portfolio.

Graph 15. Off balance sheet records (receivables from written off loans) and gross portfolio of MCOs



There are significant quality discrepancies between different MCOs, which are evident from the data that five MCFs have over 70% of total written off loans in comparison to the total gross portfolio (in one MCF the total amount of receivables from written off loans, which are in the off balance sheet, is by 14% higher than the amount of the gross loans), which is a direct consequence of the credit expansion in the past. Two MCFs and one MCC reported total write off under 10% of total gross portfolio.

In reference to the liability for initiating the court proceedings for collection of the past due written off receivables, and not collected for over 180 days, the on-site examination in one MCF which has a significant market participation it was determined that over 10.000 not collected loan parties in a total amount of over 15 million KM, which is contrary to the Article 3., paragraph 3 of the Decision on the amount and manner for establishing and maintaining the reserves to cover the micro credit organizations losses. Since this MCF performs all the money transactions in regard to the payment and collection of the loans in cash, by avoiding to initiate the court proceedings for these cases created is a space for illegal actions in regard to the collection of the written off receivables and other misuse.

3.3.2. Collection of loans through guarantees as insurance instruments and clients' complaints

The consequences of the global economic crises on the financial sector, inadequate loan policies and weaknesses in the internal controls of MCCs, as well as the general excessive debt of the users of the micro credits, influenced the lending process and the credit portfolio quality. Due to the trend of increase of delinquent receivables, that is the delay of clients in paying their obligations, there were activated guarantor obligations in a number of delinquent loans, which had such a security, so the repayment obligation passed on to the guarantors. With an aim to collect, monitor and analyze the data on the loans that are being paid by the guarantors, as of 31.12.2009, the Agency issues a new reporting form OKJ – repayment of loans by the guarantor.

As of 31.03.2013, according to the reports of the MCOs in reference to the loans paid by the guarantors in the Federation of BiH, 2.898 guarantors repaid 1,2 million KM of the total

granted amount of loans which are repaid with this insurance instrument in the amount of 18,3 million KM (2.636 credit units), which is by 28% less guarantors who repay loans of others in comparison to 31.12.2012. (1,8 million KM, paid by 4.018 guarantors, while the amount of the total granted loans was 24 million KM – 3.689 credit units). The average amount of loans which the first three months of 2013 were repaid or are being repaid by the guarantors is 431 KM. The decrease of the number of guarantors who pay loans as of 31.03.2013, is a result of an incorrect reporting of data in certain MCOs in the previous periods.

Of the total number of loan units, paid by the guarantor are 1,31% of credit units, and in comparison to the end of 2012, the participation of loans paid by the guarantors in a total number of loan parties decline by 0,45 percent points. Of 14 MCOs, one MCF does not have recorded payments by guarantors, while two MCFs reported the largest participation of the loans paid by guarantors in comparison to the total number of loans (4,26% and 3,57%).

The balance of the remaining debt from loans as of 31.03.2012 was 6,2 million KM, which is 1,54% of the gross loans of MCOs and in comparison to 31.12.2012 the participation of the remaining debt in the gross portfolio is lower by 0,36 percent points. (31.12.2012, the balance of the remaining debt in regard to loans with the guarantors was: 7,9 million KM in comparison to 417,2 million KM in gross portfolio, which presents 1,90% of gross loans of MCOs).

According to the MCOs reports, and in compliance with the conditions and manner for performance of the micro credit organization in regard to clients' complaints ("Official Gazette of the Federation of BiH" number : 32/10) in the period 01.10 – 31.03.2013, the clients of the MCOs filed a total of 57 complaints, while one MCC reported that it does not have any complaints. Of 13 MCFs with a license for operation from the Agency, for 6 there are no recorded complaints in the reporting quarter.

The largest number of complaints refers to the complaints category "Other", a total of 50, and in majority part they refer to complaints based on the denied request for loan or restructuring, then complaints in regard to the questioning of the guarantors pledge, complaints of the guarantor in reference to the collection procedure, as well as in regard to the behavior of the loan officers. The co-debtors/guarantors filed 19, clients 33, and other interested parties 5 complaints. MCFs resolved in a positive manner 27 complaints, negatively 23, while 7 complaints are being processed or in the resolution.

3.4. Risk weighted nominal and effective interest rates for micro-credits

Effective interest rate on micro-credit loans is the actual market price of those loans, and is accrued and recorded in compliance with the Decision on the unified manner of accrual and recording of the effective interest rate on loans and deposits – revised version („Official Gazette of the Federation of BiH“, number: 48/12).

The accrual of the effective interest rate includes the data on the amount of the nominal interest rate on loans, the amount of reimbursements and fees that MCOs calculate for the client in the loan approval process and the amount of reimbursements and fees known on the day of the calculation, that MCOs calculate for the client during the implementation of the loan agreement. Weighted nominal and effective interest rates are calculated on the newly approved loans in the reporting month.

Table 11. Average nominal and effective interest rates for microcredit loans for the I quarter of 2013. – through products

No.	DESCRIPTION	A total of micro credit payments in the first quarter of 2013.(in 000 KM)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short term loans for:	23.568	22,91%	28,60%
1.1.	Service industry	5.192	22,97%	28,28%
1.2.	Trade	4.075	22,95%	27,18%
1.3.	Agriculture	5.753	21,84%	27,32%
1.4.	Production	1.522	18,55%	20,71%
1.5.	Housing needs	1.292	20,46%	27,88%
1.6.	General purpose – basic needs	314	24,11%	38,72%
1.7.	Other	5.420	25,71%	33,15%
2.	Long term loans for:	63.170	22,48%	26,22%
2.1.	Service industry	14.645	23,12%	27,07%
2.2.	Trade	6.061	24,12%	27,43%
2.3.	Agriculture	24.493	20,84%	24,33%
2.4.	Production	2.604	23,39%	26,06%
2.5.	Housing needs	8.621	21,95%	25,34%
2.6.	General purpose - basic needs	776	24,91%	32,99%
2.7.	Other	5.970	26,02%	31,20%
TOTAL		86.738	22,60%	26,87%

In accordance with the monthly reports on risk weighted nominal and effective interest rates on loans in the first three months of 2013, MCOs placed microloans in a total amount of 86,7 million KM, which is by 7,5 million, or 8% lower than the amount of the micro credits placed in the same period previous year, which is mostly a result of a decreased placement of micro-credits of one of the largest MCFs in the Federation of BiH. The MCO's balance as of 31.03.2013, was 201,955 in active loan accounts, which is a decline by 7,127 active loan accounts, or 3,4% less than at the end of the previous year. The average amount of the micro loans on the level of the sector, as of 31.03.2013., was 2,008 KM, which is an average for MCFs (31.12.2011. - 1.996 KM), while the average amount of micro loans of MCCs is 2,263 KM.

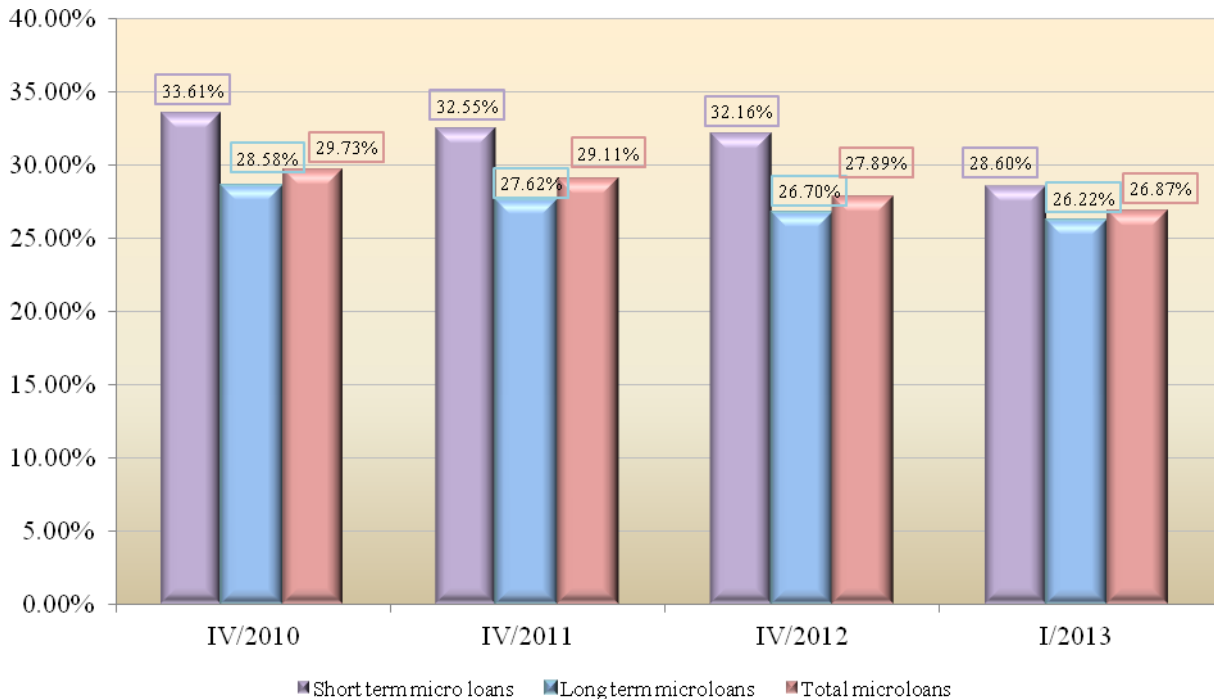
For short term loans, average nominal interest rates are in the range between 18,55% for production to 25,71% for other loans, and for the effective interest rate in the range of 20,71% for production to 38,72% for general purpose loans. For long term loans, the average nominal interest rates are in the range between 20,84% for agriculture to 26,02% for other loans, and effective interest rate in the range of 24,33% for agriculture to 32,99% for general purpose loans. Based on the analyses of the MCOs' interest rates on lending products it can be concluded that the cheapest loans are granted to production and agriculture activities, and the most expensive are general purpose loans, loans for basic needs.

The average effective interest rates on short term and long term micro-credits in the Federation of BiH through quarters are presented in the Table below.

Table 12. Trend of average effective interest rates (EIR) on micro-credit through quarters

AVERAGE EIR in % for	IV/2010	IV/2011	IV/2012	I/2013
Short term micro-credits	33,61%	32,55%	32,16%	28,60%
Long term micro-credits	28,58%	27,62%	26,70%	26,22%
Total micro credits	29,73%	29,11%	27,89%	26,87%

Graph 16. Movement trend for average effective interest rates on micro credits (in %)



At the end of the first quarter of 2013, the MCOs continued decreasing the effective interest rates on micro credits, thus the average effective interest rates in the microcredit sector on the aggregate loans, in comparison to the fourth quarter of 2012, recorded a decline of 1,02 percent points. Reviewing the same period, the average risk weight effective interest rates on the short term loans recorded a significant decline of a high 3,56 percent points, while the average risk weighted effective interest rates on long term loans are in a slight decline of 0,48 percent points.

With an aim to decrease the interest rates on micro credits, and in the context of protection of the consumers-clients of the micro credits organizations, and the implementation of the micro lending mission, the Agency in the examinations especially evaluates and controls all types of performance of MCOs which have significant impact on the establishment of the influence on the creation of the interest rates, and assesses their necessity, and accordingly issues adequate orders. The focus of the Agency's controls, in the coming period, will be on the examination of the expenses of the MCOs, its rationalization and purposefulness, with a goal to decrease the interest rates on micro credits which are placed by the MCOs from the Federation of BiH.

3.5. Income Statement

The structure of the income statement of the micro-credit sector in the Federation of BiH is presented in the Table 13.

Table 13. Income Statement MCOs

in 000 KM

No.	DESCRIPTION	For period 01.01. - 31.03.2012.				For period 01.01. - 31.03.2013.				Ratio
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INTEREST INCOME AND SIMILAR TYPES OF INCOME									
1.1.	Interest income and similar types of income	21447	96	21.543	90	21.747	83	21.830	87	101
1.2.	Operating income	2467	14	2.481	10	3.108	14	3.122	13	126
2.	TOTAL INCOME (1.1.+1.2.)	23.914	110	24.024	100	24.855	97	24.952	100	104
3.	EXPENSES									
3.1.	Income expenses and similar expenses	5.053	19	5.072	20	4.382	14	4.396	17	87
3.2.	Operating expenses	17.255	71	17.326	68	16.580	72	16.652	66	96
3.3.	Expenses for reserves for loan and other losses	3.243	23	3.266	13	4.129	19	4.148	16	127
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	25.551	113	25.664	100	25.091	105	25.196	100	98
5.	EXTRAORDINARY INCOME	3.839	4	3.843		3.894	2	3.896		101
6.	EXTRAORDINARY EXPENSES	213	0	213		367	1	368		173
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	1.989	1	1.990		3.291	-7	3.284		165
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	1.989		1.989		3.291		3.291		165
9.	INCOME BEFORE TAXES		1	1			-7	-7		
10.	TAXES		0	0			0	0		
11.	NET INCOME/LOSS		1	1			-7	-7		
12.	TOTAL FINANCIAL RESULT			1.990				3.284		

The total income of MCOs for the period of 01.01. - 31.03.2013., is 24,9 million KM, of which 24,8 million KM or 99,6% refers to income of MCFs, and 0,1 million KM or 0,4% on income of one MCC. In comparison to the same period of last year, total income increased by 928 thousand KM or 4%. The core income is interest income and it is 21,8 million KM or 87% of total income and in relation to the same period of previous year they are higher by 287 thousand KM or 1%, while operating expenses are 3,1 million KM or 13% of total income and in relation to the same period last year increased by 641 thousand KM, or 26%.

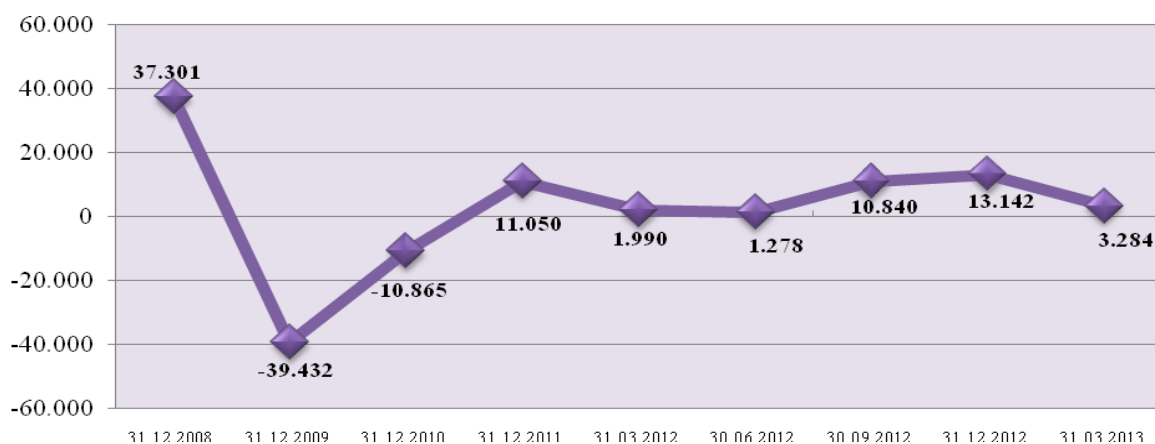
In the structure of expenses, 4,4 million KM or 17% of the total expenses refers to interest expenses on acquired loans and other similar expenses and in comparison to the same period previous year are lower by 676 thousand KM or 13%. Operating expenses are 16,6 million KM or 66% of total expenses and in comparison to the same period previous year are lower

by 674 thousand KM or 4%. Operating expenses are composed of salary expenses and contributions in the amount of 9,7 million KM (01.01.-31.03.2012.: 9,4 million KM), business premises expenses, other fixed assets and utilities in the amount of 4,1 million KM (01.01.-31.03.2012.: 4,3 million KM), and other operating expenses in the amount of 2,8 million KM (01.01.-31.03.2012.: 3,6 million KM). The expenses for provisioning for loan and other losses are 4,2 million KM or 16% of total expenses and in comparison to the same period last year are higher by 882 thousand KM or 27%.

In the period from 01.01 to 31.03.2013, the extraordinary income of MCOs was 3,9 million KM and in comparison to the same period last year was higher by 53 thousand KM, which is by 1%. In majority part the extraordinary income refers to the collection of receivables from written off loans. The extraordinary expenses of MCOs, realized during the first three months of the current year, were 368 thousand KM, and in comparison to the same period last year they increased by 155 thousand KM that is 73%.

For the period of 01.01.-31.03.2013., one MCC realized a net loss in the amount of 7 thousand KM (01.01. – 31.03.2012.: 1 thousand KM net profit). In this period MCF realized a surplus of income over expenses in a total amount of 3,291 thousand KM, while in the same period of last year the MCFs realized a surplus of income over expenses in a total amount of 1,989 thousand KM. In the period from 01.01 to 31.03.2013, of total 13 MCFs, 2 MCFs had a deficit of income over expenses in a total amount of 32 thousand KM, and 11 MCF realized an income surplus over expenses in the total amount of 3,323 thousand KM.

Graph 17. Total financial result of MCOs through quarters (in 000 KM)



On the level of the microcredit sector in the Federation of BiH, there is realized a positive financial result in the amount of 3,284 thousand KM, which is by 1,294 thousand KM or 65% higher than in comparison to the same period last year.

4. CONCLUSION AND RECOMMENDATIONS

Analyzing the reports of MCOs as of 31.03.2013., we can conclude the following:

- Aggregate balance sheet of MCOs as of 31.03.2013. is 479 million KM, of which 477,4 million KM refers to MCFs or 99,7%, and 1,6 million KM to MCOs or 0,3% of the total balance sheet of MCOs. At the end of the first quarter of 2013, the aggregate

balance sheet was lower by 20,6 million KM or 4% in comparison to the balance as of 31.12.2011;

- The total gross loans of MCOs as of 31.03.2013. are 405,5 and are 85% of total assets of MCOs, and net loans are 396,4 million KM. The loans on both net and gross base decreased by 3% in comparison to 31.12.2012;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 31.12.2013., are 288,4 million KM or 60% of total liabilities of MCOs and decreased by 8% in comparison to 31.12.2012;
- The total capital of MCOs as of 31.03.2013., is 166,8 million KM or 35% of total liabilities of MCOs which is by 2% higher in comparison to end of the previous year, of which the capital of MCF is 166,1 million KM, and capital of one MCC is 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 108,1 million KM, which constitutes 65% of the total capital of MCF, then the donated capital which is 47 million KM or 28% of total capital of MCF, while one MCO does not have donated capital. The core capital and other reserves of MCFs are 11 million KM, or 7% of total capital of MCF. The undivided profit and reserves of one MCC are 0,1 million KM or 14% of total capital of MCOs, while the core capital is 0,6 million KM or 86% of total capital of MCCs.
- In the period from 01.01. to 31.03.2013, the 11 MCFs realized a surplus in income over expenses in the amount of 3,323 thousand KM, while the deficit of income over expenses was realized by 2 MCFs in the amount of 32 thousand KM, which means that MCFs as of 31.03.2013., performed with a surplus income over expenses in the total amount of 3,291 thousand KM. One MCO, in the period from 01.01. – 31.03.2013, realized a net loss in the amount of 7 thousand KM, which means that at the end of the first quarter of 2013, a positive financial result in the amount of 3,284 thousand KM was realized on the level of the micro credit sector in the Federation of BiH, which is by 65% more than in the same period previous year.
- As of 31.03.2013, a total of MCOs (13 MCFs and 1 MCC) employ a total of 1,510 employees, which is by 44 employees or 3% less than as of 31.12.2012, while at the end of 2013, MCOs had a total of 321 organizational units, which is by 2 organizational units or 1% less than in comparison to the end of the previous year.

In the following period, MCOs need to intensify their work on:

- Finding partners for consolidation, the MCF which have smaller amounts of capital, and high amounts of written off loans, should adopt clear strategies for merger with larger and stronger MCFs in order to optimize resources, preserving the donated funds, provide for support from foreign creditors, as well as provide future for the employees in the MCOs;
- Increase the responsibility of the managing boards, securing independence from management as well as control of management by the management boards;
- Establishment of the control mechanisms for project justifications and materially significant performance expenses, including the salaries and bonuses for the management, as well as the representation expenses which are being financed with the foundations' funds, or which are directly alimented with high interest rates;
- Establishment of internal audit, completely independent from the MCO's management which will supervise the management segment, also, and regularly report about it to the management board;

- Control of the interest rates and realization of the goals from the LoMCOs through active participation of the managing bodies in the procedure for issuing the policies in regard to the establishment of the prices for microloans;
- Reduction of the performance expenses, full implement the principles of good economic performance with the funds of the foundation and application of the principles of good cooperative practices;
- Decrease of interest rates on micro loans;
- Full implementation of the Article 2 of the Law on MCOs which implies performance with an aim to improve the material position of the user of microcredit, increase of the employment and providing the support for the entrepreneurship;
- Improvement of the internal audit and internal control system, improvement of the performance efficiency and optimization of the resources of MCOs and implementation of the responsible lending principle;
- Obligatory exchange of information on the level of department and the Central credit registry;
- Implementing all actions needed in order to resolve the problem of clients and creditors with too much debt;
- Improving the institutional capacity and
- Complete implementation of the regulations that are in effect and increase of the transparency in performance.

Number: U.O.-52-3/13
Sarajevo, 04.06.2013.

ATTACHMENTS

- Attachment 1. Basic Data on MCOs
- Attachment 2. Balance Sheet MCFs
- Attachment 3. Balance Sheet MCOs
- Attachment 4. Income Statement MCFs
- Attachment 5. Income Statement MCOs

Attachment 6. Review of donated capital of MCFs

Attachment 1.

BASIC DATA ON MCOs

No.	Title of the micro credit organization	Address and head office	Director	Tel/Fax	E-mail and Web	31.03.2013.			
						Amount of assets in 000 KM	Amount of capital in 000 KM	Number of empl.	No. of org. parts
1.	MKD "ADRIA mikro" d.o.o. Mostar	ul. Kneza Višeslava 14 88 000 MOSTAR	Sena Martina Topić	036/ 348-891, 348-890 fax	adria.mikro@tel.net.ba	1.689	694	7	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	105.978	41.175	274	67
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	11.185	10.453	52	12
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	62.790	8.217	210	50
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	v.d. Jakob Finci	033/ 205-737 tel/fax	viktor@melaha.ba	972	223	2	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	32.141	16.078	144	24
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	16.094	4.552	93	24
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	3.708	3.211	23	5
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	110.695	44.882	286	56
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	103.192	22.551	261	46
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1.733	1.468	9	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	426	261	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	28.432	13.006	144	36
14.	MKF "VORTT-INVEST" Sarajevo	ul. Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	vorttdoo@yahoo.com	46	46	1	0
TOTAL						479.081	166.817	1.510	321

Attachment 2.

BALANCE SHEET OF MCFs*in 000 KM*

No.	DESCRIPTION	31.12.2012.	%	31.03.2013.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	25.286	5	22.424	5	89
1a)	Cash and noninterest –bearing deposit accounts	21.022	4	15.083	3	72
1b)	Interest-bearing deposit accounts	4.264	1	7.341	2	172
2.	Placement to banks	8.245	2	3.368	1	41
3.	Loans	415.883		404.106		97
3a)	Reserves for loan losses	7.585		9.035		119
3b)	Net loans (3-3a)	408.298	82	395.071	82	97
4.	Premises and other fixed assets	48.025	9	47.785	10	100
5.	Long term investments	15	0	15	0	100
6.	Other assets	9.268	2	9.693	2	105
7.	Less: reserves for other items of the assets, except loans	975		964		99
8.	TOTAL ASSETS	498.162	100	477.392	100	96
LIABILITIES						
9.	Liabilities on taken short term loans	99.872	20	95.645	20	96
10.	Liabilities on taken long term loans	211.368	42	191.842	40	91
11.	Other liabilities	24.091	5	23.782	5	99
12.	TOTAL LIABILITIES	335.331	67	311.269	65	93
13.	Donated capital	46.936		46.936		100
14.	Core capital	8.245		8.245		100
15.	Surplus of income over expenses	161.552		162.725		101
15a)	For previous years	146.017		159.386		109
15b)	For current year	15.535		3.339		21
16.	Deficit of income over expenses	56.773		54.638		96
16a)	For previous years	56.296		54.606		97
16b)	For current year	477		32		7
17.	Other reserves	2.871		2.855		99
18.	TOTAL CAPITAL	162.831	33	166.123	35	102
19.	TOTAL LIABILITIES	498.162	100	477.392	100	96
OFF BALANCE SHEET						
	- written off loans	171.834		170.659		99
	- agent contracts	418		390		93

Attachment 3.

BALANCE SHEET OF MCCs

in 000 KM

No.	DESCRIPTION	31.03.2012.	%	31.03.2013.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	104	7	238	14	229
1a)	Cash and noninterest –bearing deposit accounts	104	7	238	14	229
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Placements to banks	0	0	0	0	n/a
3.	Loans	1.349		1.385		103
3a)	Reserves for loan losses	25		40		160
3b)	Net loans (3-3a)	1.324	86	1.345	80	102
4.	Premises and other fixed assets	84	5	74	4	88
5.	Long term investments	0	0	0	0	n/a
6.	Other assets	33	2	35	2	106
7.	Less: reserves for other items of the assets, except loans	2		3		150
8.	TOTAL ASSETS	1.543	100	1.689	100	109
LIABILITIES						
9.	Liabilities on taken short term loans	719	47	621	37	86
10.	Liabilities on taken long term loans	84	5	335	20	399
11.	Other liabilities	39	3	39	2	100
12.	TOTAL LIABILITIES	842	55	995	59	118
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premium	0		0		n/a
16.	Undistributed profit (16a+16b)	0		-7		n/a
16a)	Previous years	0		0		n/a
16b)	Current year	0		-7		n/a
17.	Regulatory reserves	101		101		100
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	701	45	694	41	99
20.	TOTAL LIABILITIES	1.543	100	1.689	100	109
OFF BALANCE SHEET						
	- written off loans	52		55		106
	- agent contracts	0		0		n/a

Attachment 4.

INCOME STATEMENT OF MCFs

in 000 KM

No.	DESCRIPTION	For period 01.01. - 31.03.2012.	%	For period 01.01. - 31.03.2013.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	39	0	3	0	8
1.2.	Interest from placements to banks	108	1	72	0	67
1.3.	Loan interest	21.070	98	21.390	99	102
1.4.	Other financial income	230	1	282	1	123
1.5.	Total interest income and similar income (1.1. to 1.4.)	21.447	100	21.747	100	101
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	4.672	92	4.219	96	90
2.2.	Other financial expenses	381	8	163	4	43
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	5.053	100	4.382	100	87
3.	Net financial income (1.5. - 2.3.)	16.394		17.365		106
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	2.031	82	2.900	93	143
4.2.	Other operating income	435	18	208	7	48
4.3.	Total operating income (4.1. to 4.2.)	2.466	100	3.108	100	126
5.	Operating expenses					
5.1.	Cost of salaries and benefits	9.368	54	9.700	58	104
5.2.	Costs of business premises, other fixed assets and utilities	4.328	25	4.100	25	95
5.3.	Other operating expenses	3.559	21	2.780	17	78
5.4.	Total operating expenses (5.1. to 5.3.)	17.255	100	16.580	100	96
6.	Cost of provisioning for loan and other losses	3.243		4.129		127
7.	Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)	-1.638		-236		14
8.	Extraordinary income	3.839		3.894		101
9.	Extraordinary expenses	212		367		173
10.	Surplus/deficit of income over expenses (7.+8.-9.)	1.989		3.291		165

Attachment 5.

INCOME STATEMENT OF MCOs

in 000 KM

No.	DESCRIPTION	For period 01.01. - 31.03.2012.	%	For period 01.01. - 31.03.2013.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	0	0	0	0	n/a
1.2.	Interest from placements to banks	0	0	0	0	n/a
1.3.	Interest from loans	96	100	81	98	84
1.4.	Other financial income	0	0	2	2	n/a
1.5.	Total interest income and similar income (1.1. to 1.4.)	96	100	83	100	86
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	17	89	12	86	71
2.2.	Other financial expenses	2	11	2	14	100
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	19	100	14	100	74
3.	Net financial income (1.5. - 2.3.)	77		69		90
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	14	100	14	100	100
4.2.	Other operating income	0	0	0	0	n/a
4.3.	Total operating income (4.1. to 4.2.)	14	100	14	100	100
5.	Operating expenses					
5.1.	Costs of salaries and benefits	47	66	42	59	89
5.2.	Costs of business premises, other fixed assets and utilities	12	17	24	33	200
5.3.	Other operating expenses	12	17	6	8	50
5.4.	Total operating expenses (5.1. to 5.3.)	71	100	72	100	101
6.	Cost of provisioning for loan and other losses	23		19		83
7.	PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-3		-8		267
8.	Extraordinary income	4		2		50
9.	Extraordinary expenses	0		1		n/a
10.	INCOME/LOSS BEFORE TAXES	1		-7		-700
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	1		-7		-700

Attachment 6.

REVIEW OF THE DONATED CAPITAL OF MCFs

Balance as of 31.03.2013.

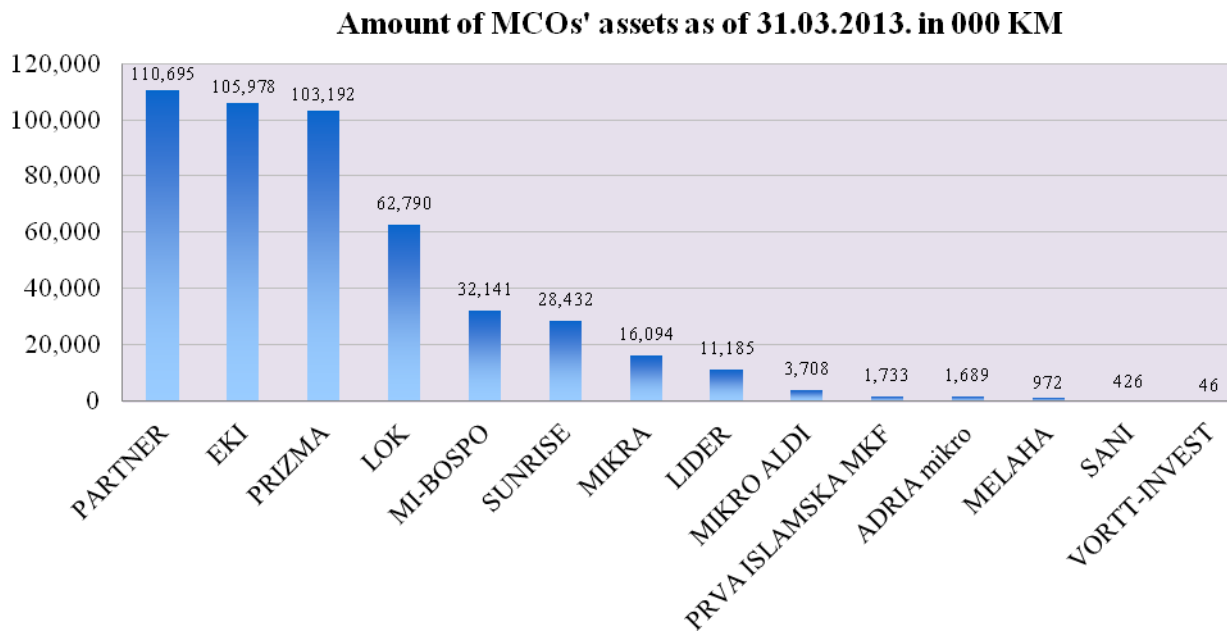
in 000 KM

No	Name of the Donator	MKF EKI Sarajevo	MKF LIDER Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Gorazde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
Donations for the credit fund		5.246	5.891	3.366	4.070	804	6.828	7.490	3.459	1.942	39.097
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 WW, Predstavništvo Sarajevo								3.459		3.459
6.	LIP (funds of the government of FBiH)			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.	USDA Know-How Project	237									237
15.	Church World Service			146							146
16.	Udruženje građana "ALDI"					104					104
17.	DK iz spajanja sa udrugom "LORI" Orašje									98	98
18.	CRIC	31									31
19.	SOLIDARITES									16	16
Donations for fixed assets		8	0	0	65	0	229	61	0	10	373
20.	Mercy Corps						229				228
21.	CRS				65						65
22.	ICMC							53			53
23.	SOLIDARITES									10	10
24.	WORLD VISION Int.	8									8
25.	PHARE							8			8
Donations for operating expenses		2.050	874	946	0	0	1.614	3.087	29	709	9.310
26.	PRM							2.047			2.047
27.	SIDA Housing	1.828									1.828
28.	USAID			946			276				1.222
29.	UNHCR						176	840			1.016
30.	LIP (funds of the Government of FBiH)						201			709	910
31.	CHF		874								874
32.	Mercy Corps						739				739
33.	CGAP						45	150			195
34.	EBRD	105					1				106
35.	IFC	104									104
36.	WORLD BANK						45				45
37.	MFC						20	34			54
38.	UNDP						43				43
39.	Islamic Relief WW, Predstavništvo Sarajevo								29		29
40.	ADA ASBL (RATING)						20				20
41.	Other	13					49	17			79
TOTAL DONATED CAPITAL		7.304	6.765	4.312	4.135	804	8.671	10.639	3.488	2.661	48.780

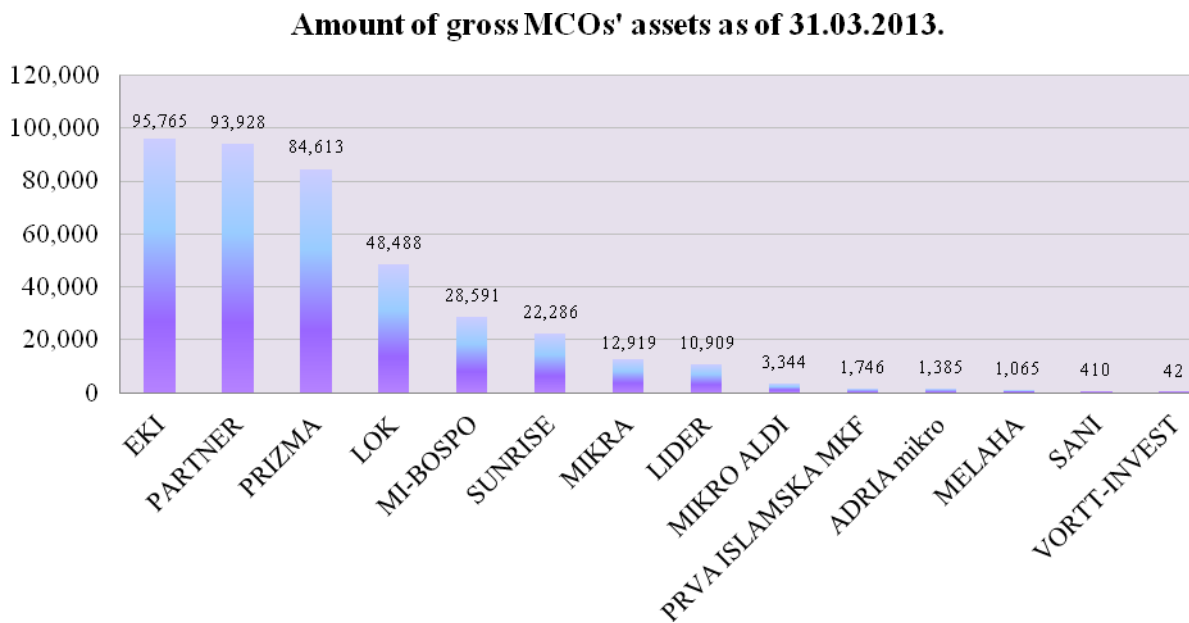
GRAPHS:

- Graph 1. *Amount of MCO assets as of 31.03.2013.*
- Graph 2. *Amount of MCO gross portfolio as of 31.03.2013. in 000 KM*
- Graph 3. *Amount of liabilities from loans taken by MCOs as of 31.03.2013, in 000 KM.*
- Graph 4. *Amount of MCO capital as of 31.03.2013. in 000 KM.*
- Graph 5. *Amount of donated capital (based on reports of MCOs as of 31.03.2013, in 000 KM*
- Graph 6. *Income surplus/deficit over the expenses of MCFs that is net profit/loss of MCCs for the period from 01.01 – 31.03.2013 in 000KM.*
- Graph 7. *Number of MCO employees as of 31.03.2013.*
- Graph 8. *Number of organizational units of the MCOs with the head office in the Federation of BiH as of 31.03.2013.*
- Graph 9. *Number of active loan parties of MCOs as of 31.03.2013.*
- Graph 10. *Number of written off loan units of MCOs as of 31.03.2013.*
- Graph 11. *Amount of total receivables from written off loans of MCOs in 000 KM as of 31.03.2013.*
- Graph 12. *Total receivables from written off loans in comparison to grow portfolio of MCOs on 31.03.2013*
- Graph 13. *Risk portfolio over 30 days as of 31.03.2013.*
- Graph 14. *Fixed assets and capital in relation to the total assets as of 31.03.2013.*
- Graph 15. *Amount of total payments of micro credits in the 1st quarter of 2013 in 000 KM*
- Graph 16. *Average risk weighted EIR on total loans based on reports of MCOs in the 1st quarter of 2013*
- Graph 17. *Average risk weighted EIR on short term loans based on reports of MCOs in the 1st quarter of 2013*
- Graph 18. *Average risk weighted EIR on long term loans based on reports of MCOs in the 1st quarter of 2013.*

Graph 1.

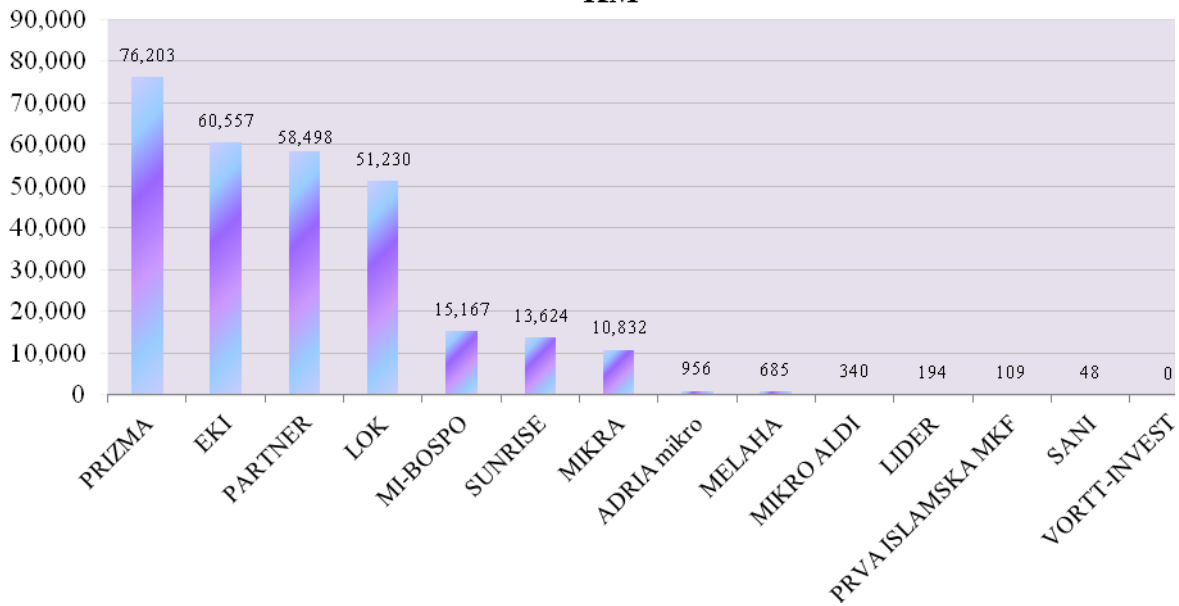


Graph 2.



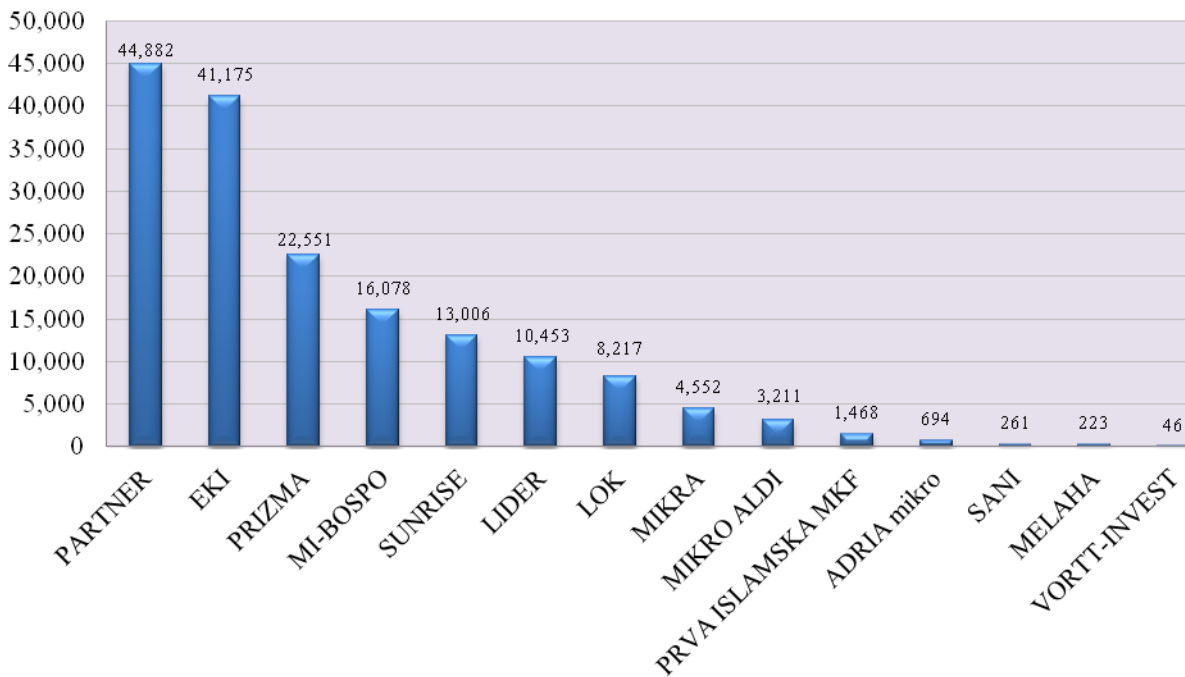
Graph 3.

Amount of MCOs' liabilities on loans acquired as of 31.03.2013. in 000 KM



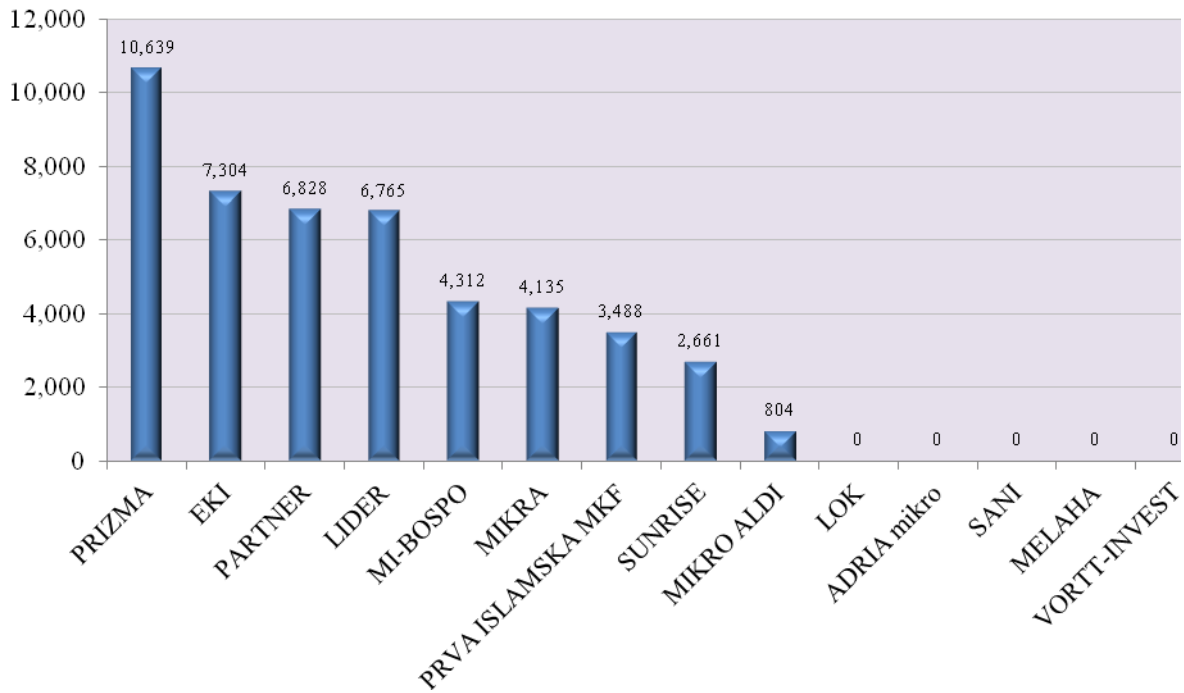
Graph 4.

Amount of MCOs' capital as of 31.03.2013. in 000 KM



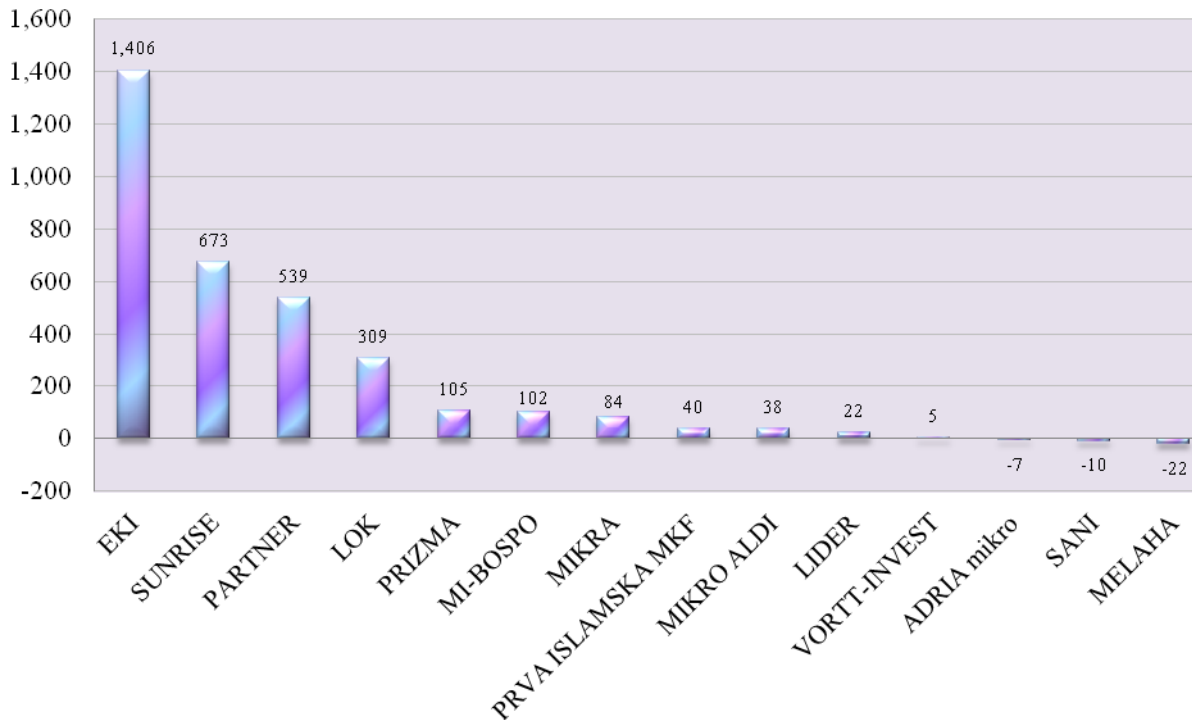
Graph 5.

**Amount of MCOs' donated capital (based on reports)
as of 31.03.2013. in 000 KM**



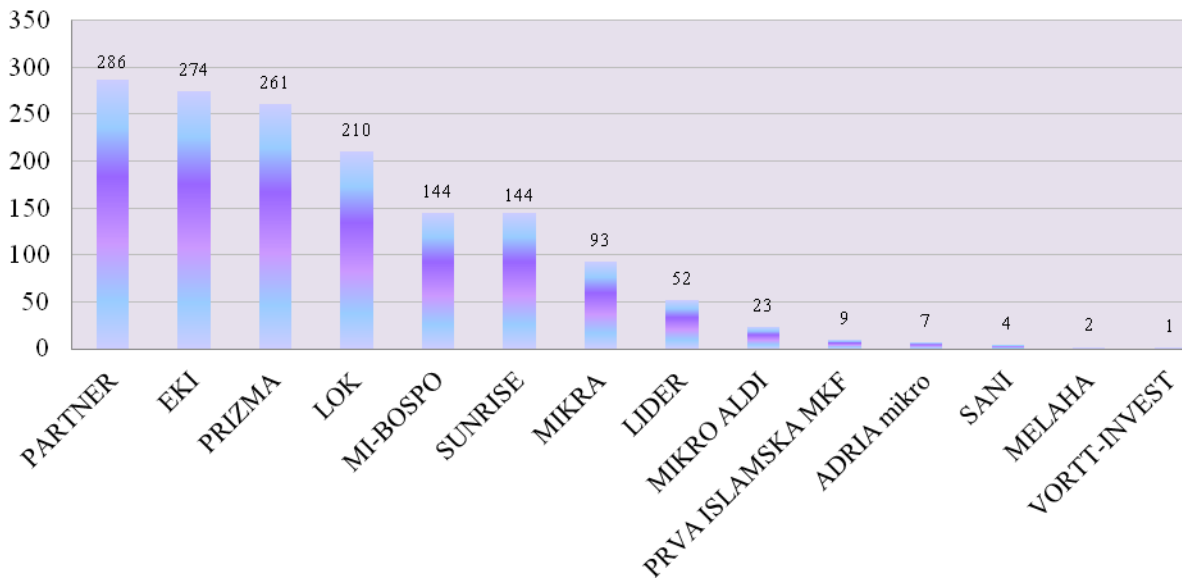
Graph 6.

**Surplus/deficit of income over expenses of MCFs,
that is MCCs' net income/loss
for the period 01.01.-31.03.2013. in 000 KM**



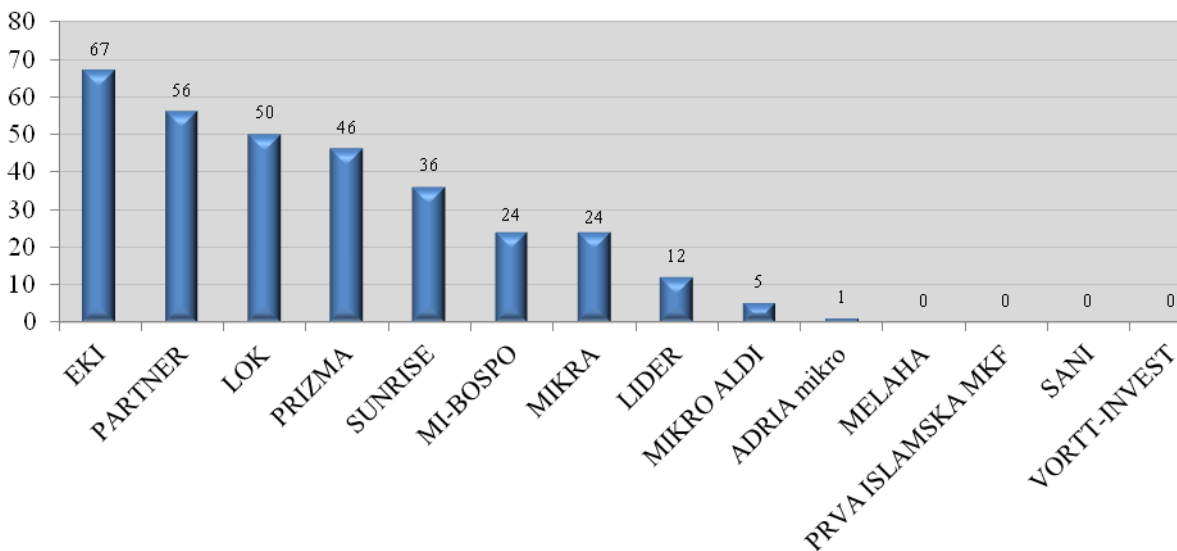
Graph 7.

Number of MCOs' employees as of 31.03.2013.



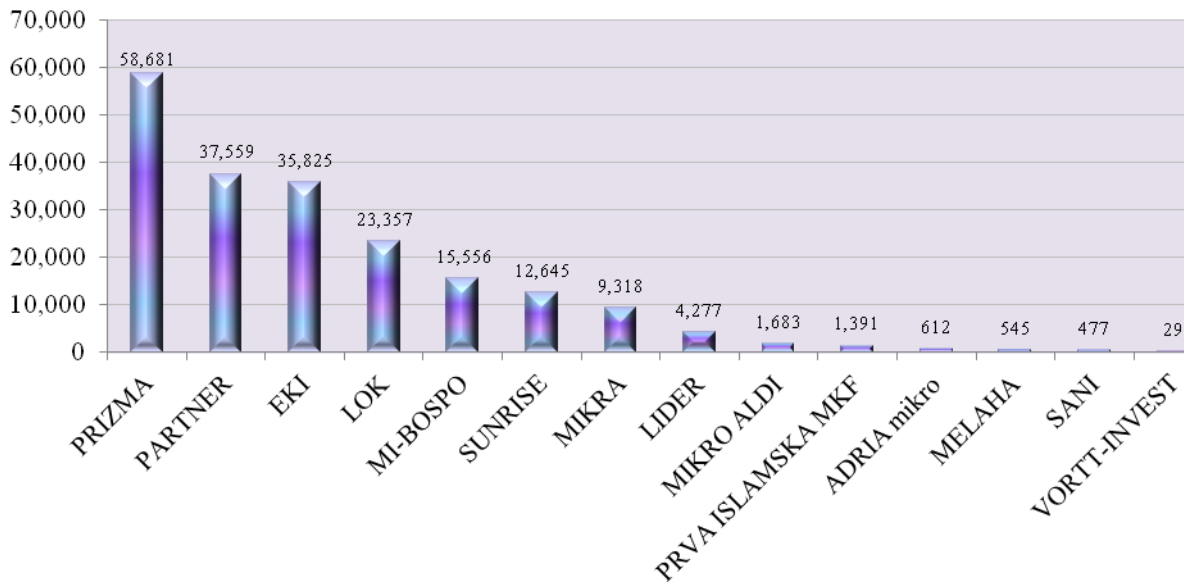
Graph 8.

Number of MCOs' organizational units with head office in the Federation of BiH as of 31.03.2013.



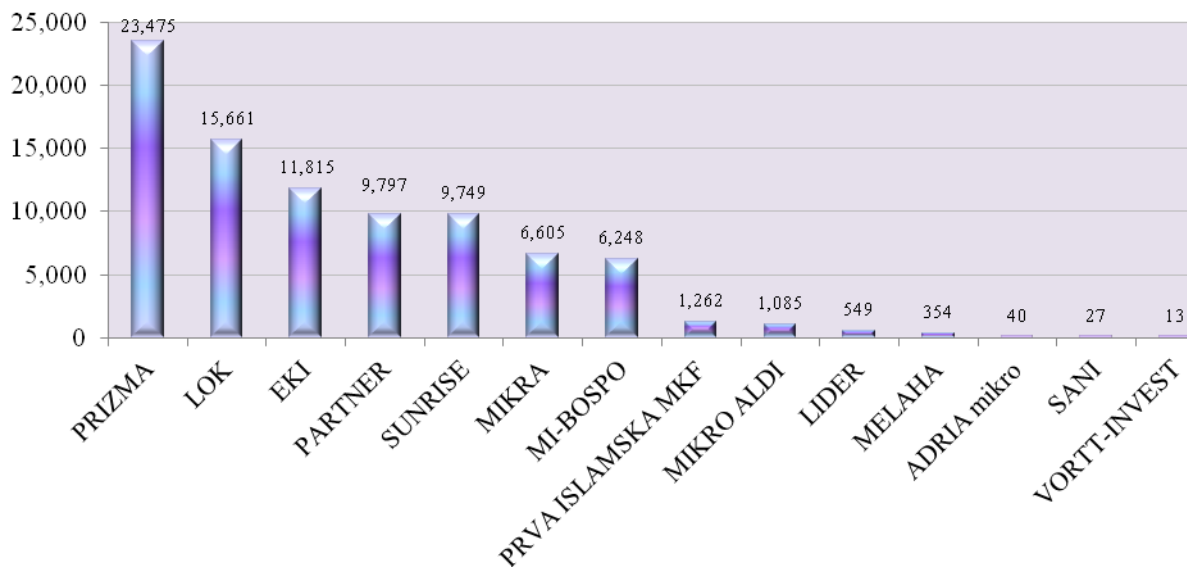
Graph 9.

**Number of MCOs' active credit accounts,
balance as of 31.03.2013.**

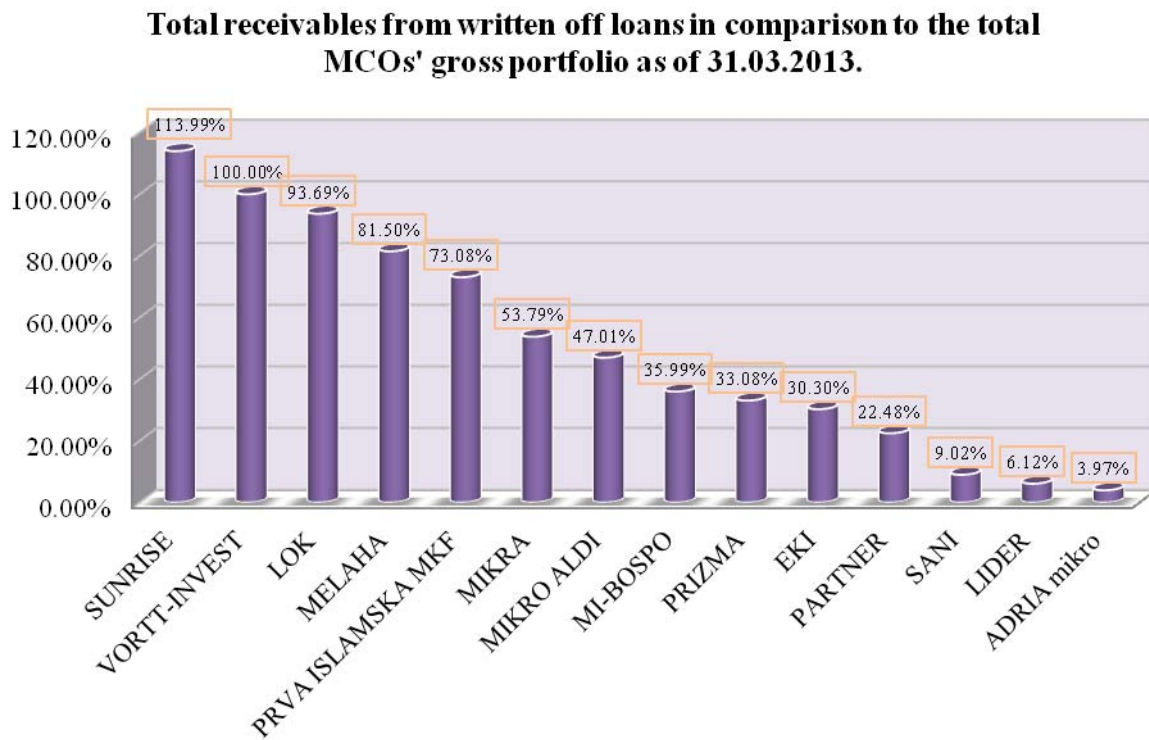


Graph 10.

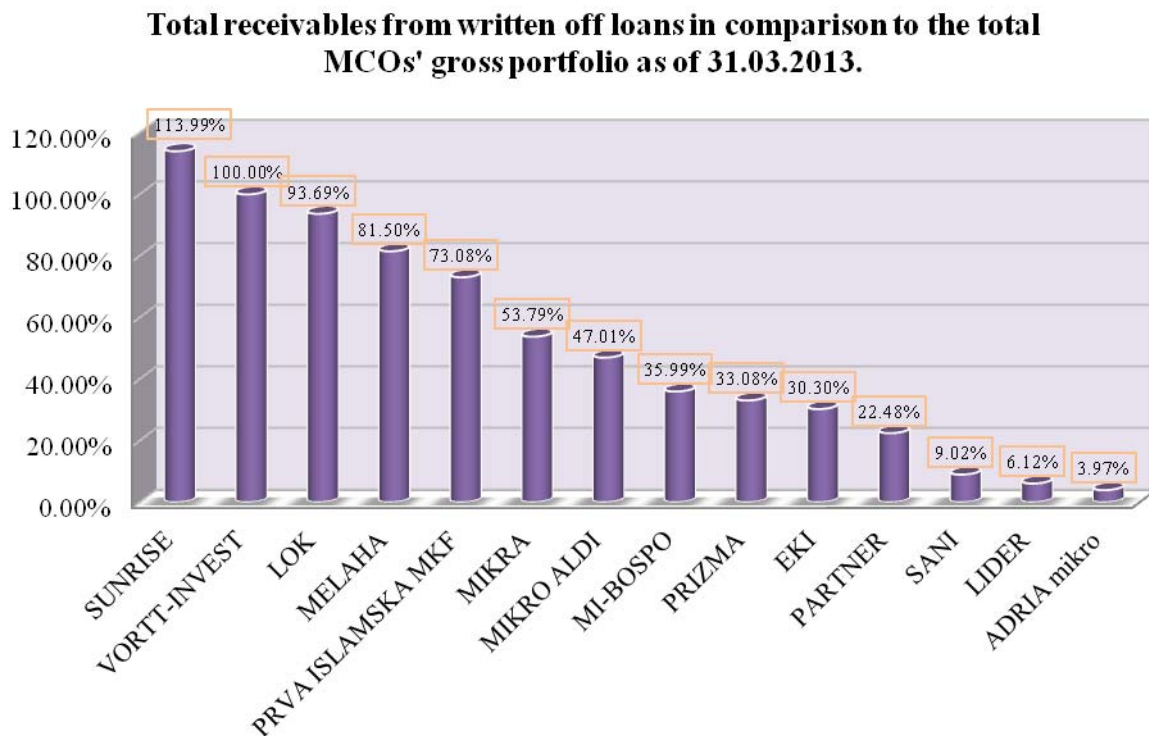
**Number of MCOs written off credit accounts,
balance as of 31.03.2013.**



Graph 11.

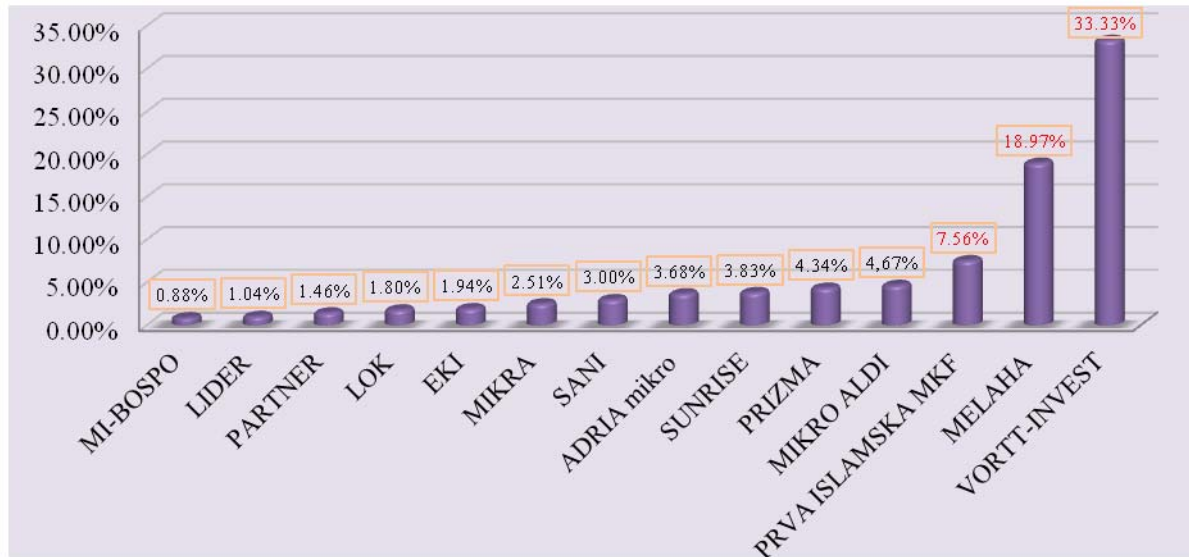


Graph 12.



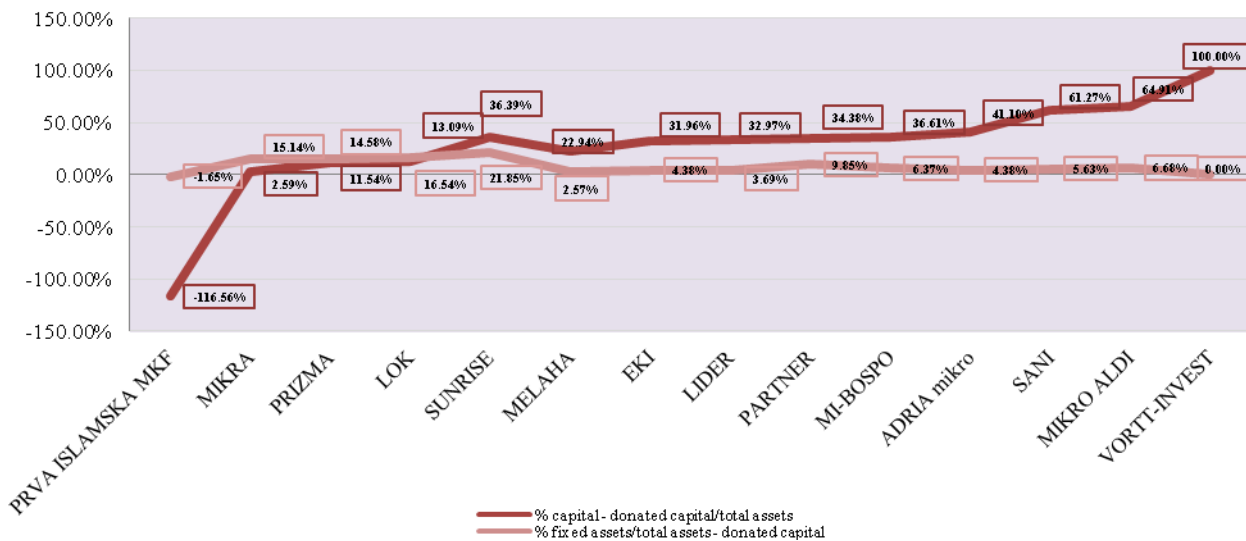
Graph 13.

Portfolio in risk over 30 days as of 31.03.2013.



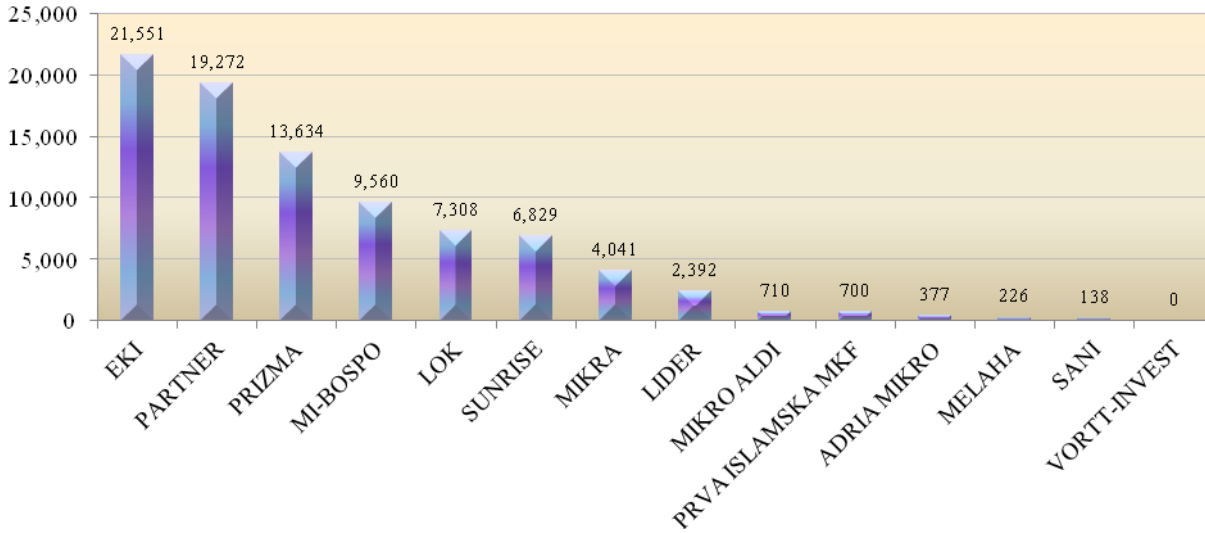
Graph 14.

Fixed assets and capital in comparison to total assets as of 31.03.2013.



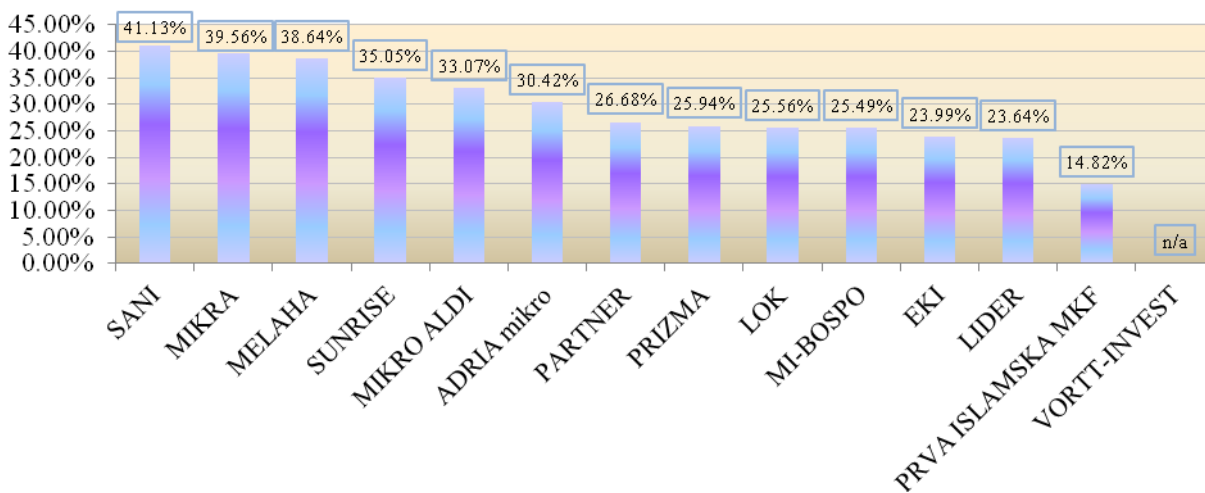
Graph 15.

**Amount of total payments of micro-credits
in the first quarter of 2013. in 000 KM**

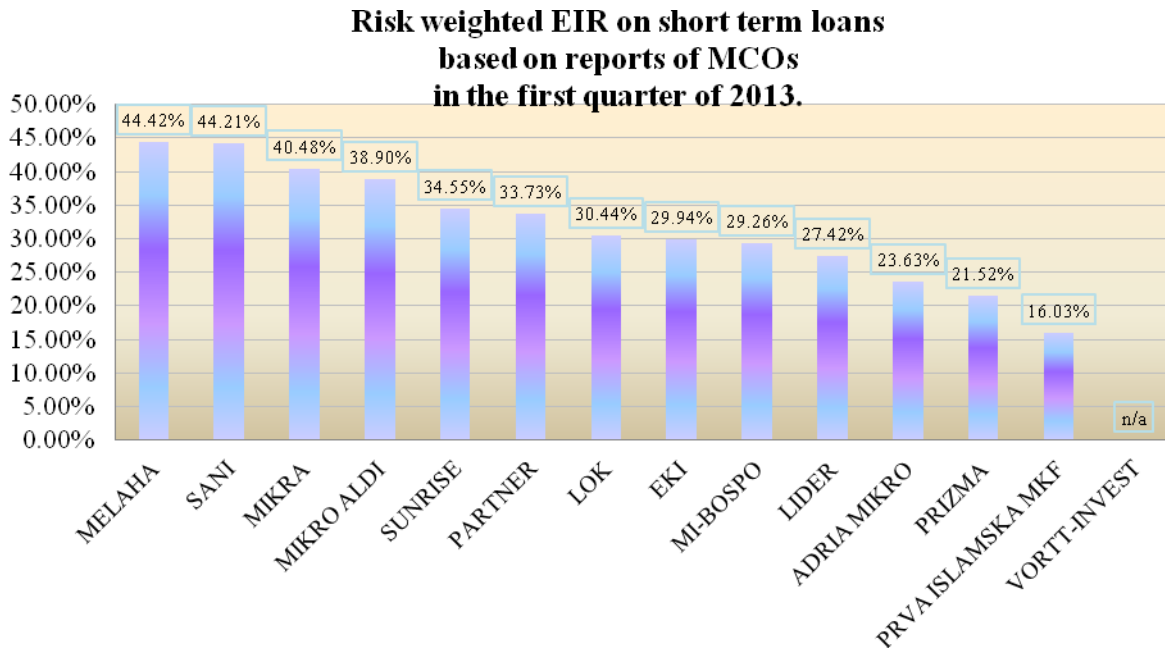


Graph 16.

**Average risk weighted EIR on total loans
based on reports of MCOs
in the first quarter of 2013.**



Graph 17.



Graph 18.

