

Pursuant to Article 21 of the Law on Microcredit Organisations (FBiH Official Gazette No. 59/06), Article 5, Paragraph (1), Item h) and Article 19, Paragraph (1), Item c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (FBiH Official Gazette No. 75/17) and Article 12, Paragraph (1), Item d) of the Statute of the Banking Agency of the Federation of BiH (FBiH Official Gazette No. 3/18), Management Board of the Banking Agency of the Federation of BiH, at its meeting held on 17.12.2018, adopted the following:

## **DECISION ON REQUIREMENTS AND OTHER OPERATING STANDARDS AND LIMITATIONS IN MICROCREDIT ORGANISATIONS**

### **I. GENERAL PROVISIONS**

#### **Article 1**

This Decision prescribes more closely operating requirements of microcredit organisations (hereinafter: MCO), i.e. microcredit foundations (hereinafter: MCF) and microcredit companies formed through a transfer/investment of assets of MCFs (hereinafter: MCC) with respect to related entities, donated funds and other business standards of MCOs and relevant limitations not defined in other decisions of the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the Agency).

#### **Article 2**

Terms used in this Decision shall have the following meanings:

- a) **Related entities**, in addition to entities from Article 4, Paragraphs (2) and (3) of the Law on Microcredit Organisations (hereinafter: the Law), include the following:
  - 1) Two or more private individuals being immediate family members up to the third degree of consanguinity or by marriage or persons living in the same household or having mutually related or joint investments;
  - 2) Private individuals and legal entities that, directly or indirectly, hold more than 25% of ownership share in capital of any legal entity, with or without voting rights, except in relevant MCO and if they mutually act in concurrence to exercise influence over policy- and decision-making in that legal entity.
- b) **Significant ownership interest** entails a legal entity or a private individual that, independently or in concurrence with one or more other legal entities or private individuals:
  - 1) directly or indirectly owns at least 10% of ownership share in other legal entity, or
  - 2) is in capacity to exercise significant influence over management or policies of that legal entity based on an agreement or in any other way.
- c) **Transactions with MCO's related entities** is any business relationship between a related entity and a MCO from Article 4, Paragraph (3) of the Law that, directly or indirectly, results in temporary or permanent transfer of assets or services between MCO and its related entity.

## **II. OPERATIONS WITH RELATED ENTITIES**

### **Article 3**

- (1) MCO shall not operate with entities from Article 2, Item a) of this Decision under any preferential conditions nor can it offer more favourable business terms to such entities than those for other entities.
- (2) Management/Supervisory Board of MCO shall ensure adoption and implementation of special policies for doing business with its related entities.
- (3) Provisions from Paragraphs (1) and (2) hereof shall apply to legal entities and private individuals acquiring significant ownership interest of over 10% of capital in MCC.
- (4) MCO may conduct business with related entities under condition that its management/supervisory board adopted a decision approving a transaction with related entity from Article 2, Item a) of this Decision, whereas such decision shall determine that the approved transaction is in the best interest on MCO.
- (5) MCO's related entity that is a member of management/supervisory board shall not participate in voting when deciding on business transactions between MCO and itself or any other entities related thereof in sense of Article 2, Paragraph (1) of this Decision.

### **Article 4**

- (1) Transactions with related entities from Article 3 hereof shall include the following:
  - a) salary of director/management in MCO and remunerations of members of other bodies in MCO for duties they perform that are to be assessed according to required / prescribed experience, qualifications and responsibilities, average salary of other employees of the same MCO and comparable with remunerations in similar institutions and for similar duties.
  - b) other standard expenses of persons from Item a) of this paragraph (e.g. travel expenses, per diems and alike) required under given circumstances and necessary for operations of MCO.
- (2) When setting the level of remuneration from Paragraph (1), Item a) of this Article, it shall be ensured that MCO meets the operation requirements from Article 12 of this Decision and that such remuneration is proportionate to business results of MCO.
- (3) Expenses from Paragraph (1) of this Article shall be prescribed in an MCO's regulation and previously approved in line with procedures enacted by the MCO.

### **Article 5**

- (1) MCO shall establish and maintain a register of related entities.
- (2) The Register from Paragraph (1) of this Article shall be maintained also in electronic form.
- (3) Within 60 (sixty) days upon enactment of this Decision, the Agency's Director shall prescribe contents and method of maintaining the register of related entities.

### **Article 6**

- (1) MCO shall form and maintain proper records, documentation and files on approvals of the management/supervisory board of MCO from Article 3 of this Decision.
- (2) At the beginning of their term of office and not later than 30 days since their appointment, all members of the management/supervisory board, audit committee, director and executive directors of MCO shall provide a written confirmation being acquainted with the policies from Article 3, Paragraph (2) of this Decision and that they shall act in accordance with such policies throughout their term of office at this position.

(3) Approval of transactions with related entities of MCOs shall be based on all relevant information, details and terms of such transaction, especially regarding loan amount, interest rates, fees, financial statements of borrowers attesting to its repayment capacity, collateral, etc.

(4) As a minimum, policies from Article 3, Paragraph (2) of this Decision shall include requirements for doing business with related entities from Paragraphs (1), (2) and (3) of this Article.

#### **Article 7**

MCO shall provide the Agency with quarterly reports on all transactions with its related entities or group of related entities conducted during relevant reporting quarter.

### **III. TRANSACTIONS WITH DONATED FUNDS**

#### **Article 8**

(1) MCF shall maintain records of all donated funds by their purpose (for the credit fund, fixed assets and operating expenses) and shall report their balance to the Agency using the prescribed form, thus also observing relevant delivery deadlines.

(2) As for the funds donated for the credit fund, MCF shall treat them as donated capital for the credit fund. They may not be used for investments in fixed assets, as operating loss coverage or as a part of liquidation estate in form of capital funds. Instead, in case of liquidation or bankruptcy, these shall be transferred to another MCF.

(3) MCF with donated capital from Paragraph (2) of this Article shall use such donated capital in its operations in line with a donation agreement, law, Agency's decisions and own regulations of MCF.

#### **Article 9**

If MCF with donated capital intended for the credit fund is found to have an operating loss or major irregularities and weaknesses in its operations, the Agency may, in addition to measures defined in the Decision on Supervision of Microcredit Organisations and Actions of the Agency, issue a written order:

a) for the MCF to prepare a program to overcome the operating loss that focused on protection of donated capital;

b) for withdrawal of donated capital and its transfer to one or several MCFs, in which case this transfer of donated capital to another MCO or several other MCOs shall be performed by a donor in consultations with the Agency. If it determines that conditions have not gathered for the donor-performed transfer, such transfer shall be performed by the Agency itself.

#### **Article 10**

Members of the management board and director of MCF holding the donated capital, as well as members of supervisory board, director and executive directors of MCC in which this MCF holds majority ownership interest, cannot be mutually related by marriage or consanguinity (up to the third degree) nor can they be members of a common household.

### **IV. OTHER OPERATING STANDARDS OF MCOs AND RELEVANT LIMITATIONS**

### **Article 11**

- (1) Total capital of MCO minus donated capital shall amount to at least 10% of assets.
- (2) without prior consent of the Agency, a MCF, as well as a MCC in which MCF holds majority ownership interest, shall not invest in fixed assets at an extent exceeding 10% of total assets minus donated capital amount.
- (3) MCF shall use the MCC's operating profit solely for performance of operations from Article 15 of the Law and for objectives defined in the Statute of MCF and in line with the Law.

### **Article 12**

- (1) MCO shall ensure that:
  - a) return on assets (adjusted by inflation, market price of capital and donations) is positive;
  - b) operating efficiency does not exceed 45%;
  - c) +30 portfolio risk does not fall below 5%;
  - d) write offs go below 3%.
- (2) Within 60 (sixty) days since effect date of this Decision, the Director of the Agency shall issue Instructions for Calculation of Adjusted Return on Assets and Operating Efficiency.

## **V. ALLOCATION OF EXCESS INCOME OVER EXPENSES AND PROFIT ALLOCATION**

### **Article 13**

- (1) There may not be direct or indirect allocation of excess income over expenses to founders, members of its bodies, responsible persons and employees of MCF and other related entities, donors and third parties.
- (2) An indirect allocation of excess income over expenses from Paragraph (1) of this Article entails a transfer of funds of MCF to persons or entities from Paragraph (1) of this Article such as:
  - a) disbursement of incentives and bonuses not defined by MCO's regulations and directly proportionate to business results and standards from Article 11 hereof;
  - b) unjustified settlement of expenses to these persons or for these persons or any other form of transfer of funds to the said persons.
- (3) There may not be an indirect allocation of profit of MCC founded by the MCF or in which MCF holds investments.
- (4) An indirect allocation of excess income over revenues of MCF, i.e. profit of MCC, shall not include remuneration payments to members of its bodies, salary payments to responsible persons and employees in line with regulations defining labour relations and collective agreements, reimbursement of standard costs to these persons (travel expenses, per diems and alike) and assumed contractual obligations of MCF, i.e. MCC, regarding fulfillment of objectives and performance of their business activities.

### **Article 14**

Upon its effect date, this Decision supersedes the Decision on Other General Operating Conditions of Micro Credit Organisations (FB&H Official Gazette No. 27/07).

**Article 15**

This Decision enters into force on the eight day following its publication in the Official Gazette of FB&H.

**No. U.O.-28-06/18  
Sarajevo, 17/12/2018**

**CHAIRWOMAN OF THE  
MANAGEMENT BOARD**

**Ljerka Marić, M.Sc. (Econ), sgd.**