



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

**INFORMATION ON THE MICROCREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 30.09.2016**

Sarajevo, November 2016

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organizations, prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 30.09.2016 based on the analysis of monthly and quarterly reports on business operations, information and data submitted to the Agency by microcredit organisations (*off-site* supervision) and data obtained during on-site examinations (*on-site* supervision). The Information was drafted on the basis of final data from reports submitted to the Agency by MCOs on 30.09.2016.

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I INTRODUCTION

The Law on Microcredit Organisations („Official Gazette of the Federation of B&H“, No. 59/06) (LoMCO) regulates the establishment, registration, activity, organisational form, business operations, management form, cessation and supervision of business operations of microcredit organisations (MCOs), microcredit foundations (MCFs) and microcredit companies (MCCs) in the Federation of B&H. The Agency's regulatory and supervisory competences regarding this Sector are stipulated by the Law on the Banking Agency of the Federation of Bosnia and Herzegovina („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) and the Agency's internal regulations, and all aforementioned operations are carried out within the Division for Supervision of Microcredit Organisations. The Agency conducts the supervision of MCOs directly (*on-site*) and indirectly, i.e. by analysing statements/reports submitted to the Agency by MCOs (*off-site*) in accordance with the Law on Microcredit Organisations and by-laws of the Agency listed in Annex 1 to this Information. The reporting basis are quarterly reports on the balance sheet, capital, loans, loan loss provisions, results of business operations, employees, costs of salaries and other benefits of MCO employees, write-offs, liquidity and other reports on individual business segments as well as a monthly interest rate report.

In the conducted examinations of microcredit organisations, it was determined that the majority operates in accordance with laws and by-laws as well as in accordance with the objectives due to which they were established. MCOs in the Federation of B&H have significantly improved their business practices and processes, as well as internal controls. Great efforts were made to improve the collection process of loans from off-balance records in the majority of MCOs, which influences the financial discipline of clients as well as the improvement of the business results of MCOs.

As of 30.09.2016, 12 MCOs, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), had the Agency's licence for business operations in the Federation of B&H. They operated through 269 organisational units. As of 30.09.2016, the total headcount of the microcredit sector was 1 235, which is 35 employees or 3% more compared to 31.12.2015.

As of 30.09.2016, the balance sheet total of MCOs amounted to KM 440.8 million, KM 411 million or 93.2% of which relate to MCFs and KM 29.8 million or 6.8% to the MCC. The balance sheet total at the end of the third quarter of 2016 was up by KM 17.5 million or 4% compared to the balance as of 31.12.2015.

As of 30.09.2016, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 376.2 million and make up 85% of total assets of MCOs, and are therefore up by 6% compared to the balance at the end of the previous year, while net loans amounted to KM 372.4 million and are up by 6% compared to the balance as of 31.12.2015. Microlending is largely directed toward agriculture (34%), service activities (20%), and housing needs (20%), and is mostly related to long-term loans to natural persons.

Average weighted effective interest rates on total loans in the microcredit sector amounted to 25.57%, up by 0.87 percentage points compared to the fourth quarter of 2015. In order to reduce interest rates on microloans in the context of protecting consumers-clients of microcredit organisations, and fulfilling the mission of microlending, during examinations, the Agency particularly values and controls all types of operating costs of MCOs that have a significant impact on the setting of interest rates and assesses their necessity, pursuant to which it issues appropriate orders. The focus of the Agency's examinations in the period to

come, along with the constant monitoring of asset quality, will be to control MCO costs, their justification and effectiveness, with the aim of reducing interest rates on microloans placed by MCOs in the Federation of B&H.

Compared to the end of the previous year, as of 30.09.2016, the microcredit portfolio saw an increase of 6% (KM 20.8 million), but also recorded a slight deterioration of certain quality indicators of the active loan portfolio. The slight deterioration of the quality indicators of the active loan portfolio was recorded by increasing the loan loss provisions rate from 0.95%, which is what it amounted to as of 31.12.2015, to 1.00%. The risk portfolio exceeding 30 days past due amounted to 1.06% and remained at the same level compared to the end of the previous year. The total sector result with respect to the risk portfolio is within the framework of the prescribed standard (below 5%). The risk portfolio exceeding more than one day past due recorded a slight increase, thus being up from 2.27%, which is what it amounted to at the end of the previous year, to 2.53%. At sector level, the percentage of write-offs amounted to 1.04% as of 30.09.2016 and this indicator was lower by 0.12 percentage points compared to the end of the previous year and is within the framework of the prescribed standard.

The main source of funding of MCOs are loan commitments, which amounted to KM 213 million or 48% of total MCO liabilities as of 30.09.2016 and are up by 2% compared to the balance as of 31.12.2015. Total MCO capital as of 30.09.2016 amounted to KM 206 million or 47% of total MCO liabilities, which is up by KM 12.7 million or 7% compared to the end of the previous year, with the capital of MCFs amounting to KM 202.5 million or 98.3% and the capital of one MCC amounting to KM 3.5 million or 1.7%. The most significant MCF capital items are excess income over expenses in the amount of KM 140.4 million, which constitutes 69% of total MCF capital, followed by donated capital, which amounted to KM 56.3 million or 28% of total MCF capital. Core capital and other MCF reserves amounted to KM 5.9 million, i.e. 3% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and unallocated profit and current profit to KM 994 thousand.

In the period from 01.01. to 30.09.2016, out of a total of 11 MCFs, 8 MCFs had excess income over expenses in the total amount of KM 12 118 thousand, while 3 MCFs recorded less income over expenses in the total amount of KM 49 thousand. In the period from 01.01. to 30.09.2016, one MCC recorded a net profit in the amount of KM 663 thousand (01.01. to 30.09.2015: KM 186 thousand net profit).

At the level of the microcredit sector in the Federation of B&H, a positive financial result in the amount of KM 12 732 thousand was recorded, which is up by KM 249 thousand compared to the same period of the previous year.

With respect to operational sustainability, out of 12 MCOs, 6 MCFs and 1 MCC can cover expenses with regular income.

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

1. MICROCREDIT SECTOR STRUCTURE

1.1. Number of Microcredit Organisations

As of 30.09.2016, 12 MCOs have operating licences of the Agency, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 36 organisational units of the MCC seated in Republika Srpska.

All MCFs that have obtained the operating licence from the Agency have performed a re-registration in accordance with the LoMCO, i.e. they came to be as a result of the change in the form of MCOs established in accordance with the Law on Microcredit Organisations („Official Gazette of the Federation of B&H, No.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on Microcredit Organisations from 2000. Annex 2 includes the main data on MCFs and MCC, which have the Agency's operating licence for microlending business operations as of 30.09.2016.

1.2. Organisational Units

As of 30.09.2016, there was a total of 269 organisational units of MCOs seated in the Federation of B&H according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the Agency in line with Article 13 of the LoMCO. Out of this number, a total of 176 organisational units of microcredit organisations are seated in the Federation of B&H, 89 in Republika Srpska and 4 in Brčko District. The total number of organisational units of MCOs seated in the Federation of B&H is up by 4 organisational units or 2% compared to the end of the previous year. A total of 145 organisational units of MCOs seated in the Federation of B&H have the authority to assign microloans and are therefore registered in the competent registry.

8 MCOs have organisational units outside of the Federation of B&H, and 3 MCOs operate exclusively from their seat, i.e. they have no open organisational units in either the Federation of B&H or in Republika Srpska. The Agency has issued operating licences for the business operations of the organisational units of one MCC, which is seated in Republika Srpska and operates in the Federation of B&H through 36 branches and field offices.

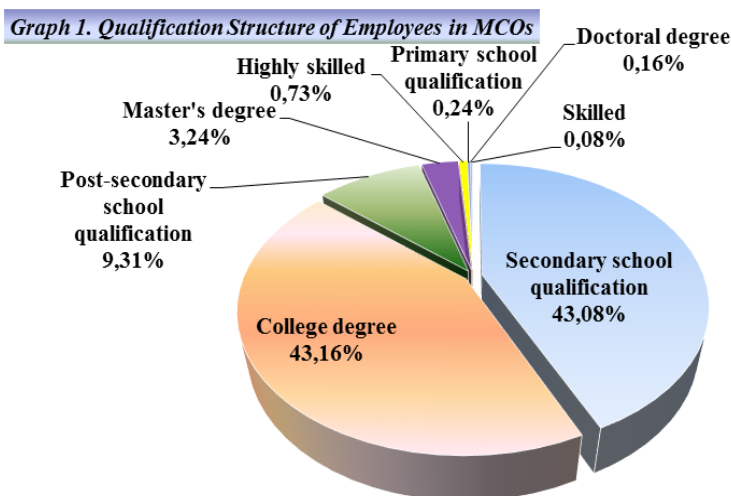
1.3. Human Resources

As of 30.09.2016, the total headcount of the microcredit sector was 1 235, which is up by 35 employees or 3% compared to 31.12.2015. MCFs employ 1 197 employees or 96.9% and the MCC 38 employees or 3.1%.

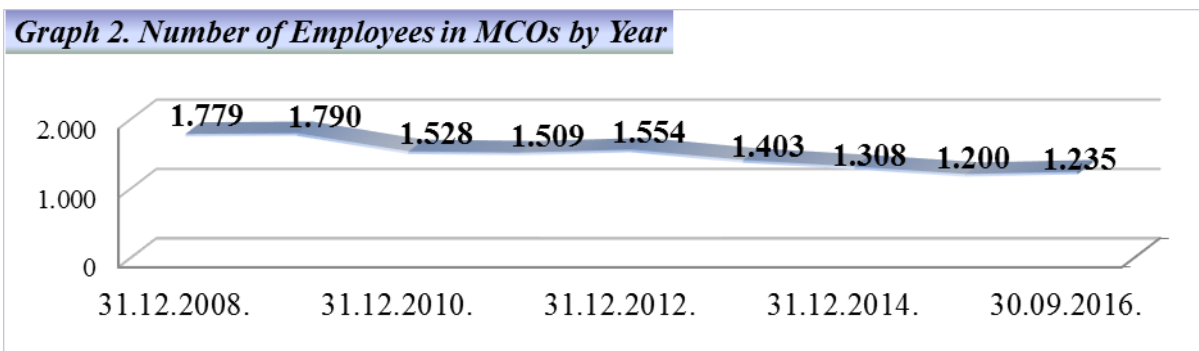
Table 1. Qualification Structure of Employees										
No.	Quali- fication	31.12.2015.		Total	Share (%)	30.09.2016		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.25	3	0	3	0.24	100
2.	S	1	0	1	0.08	1	0	1	0.08	100
3.	HS	13	0	13	1.08	9	0	9	0.73	69
4.	SSQ	509	10	519	43.25	515	17	532	43.08	103

5.	PSSQ	110	1	111	9.25	113	2	115	9.31	104
6.	CD	511	9	520	43.33	516	17	533	43.16	103
7.	MR	30	1	31	2.58	38	2	40	3.24	129
8.	DR	2	0	2	0.17	2	0	2	0.16	100
TOTAL		1 179	21	1 200	100.00	1 197	38	1 235	100.00	103

The employees structure is dominated by university degrees with 43.16%, secondary school qualification with 43.08%, and two-year post-secondary school qualification with 9.31%. The share percentage of employees with college degrees and secondary school qualification is up by 3%, with two-year post-secondary school qualification by 4%, while the share percentage of employees with Master's degrees is increasing by 29%



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 30.09.2016, MCOs had 1 235 employees, down by 31% compared to the end of 2009. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the largest drop in the number of employees by even 65% and 33%, respectively.



2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

2.1. Balance Sheet

As of 30.09.2016, the balance sheet volume of MCOs amounts to KM 440.8 million, which is up by KM 17.5 million or 4% compared to the balance as of 31.12.2015. The balance sheet volume increased with 8 MCFs and one MCC compared to the end of the previous year, 2 MCFs recorded a drop, while 1 MCF retained approximately the same balance sheet volume level compared to the reporting period.

A drop in the balance sheet total of up to 10% was recorded with 1 MCF compared to 31.12.2015, while one MCF reduced its assets by KM 6 million in the first nine months of 2016 and recorded a drop of even 23% compared to the end of the previous year.

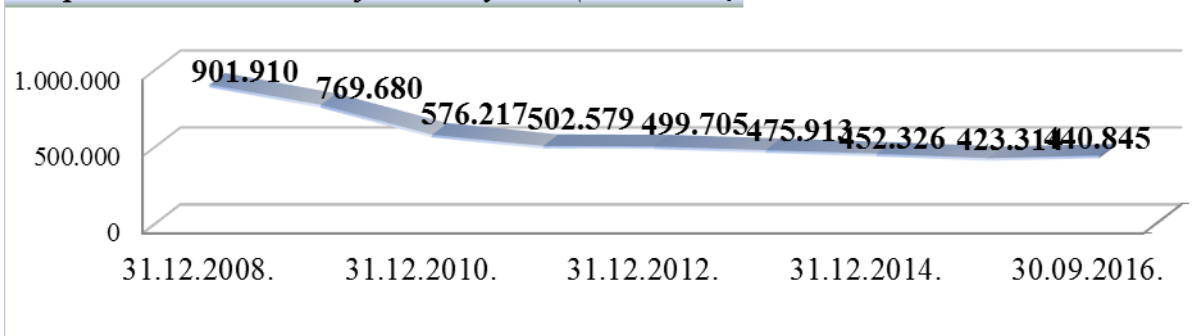
Five MCFs and one MCC with assets in the amount of KM 394 million or 89% have the largest share in the total MCO balance.

- KM 000 -

Table 2. Balance Sheet MCOs									
DESCRIPTION	31.12.2015			30.09.2016					Ind.
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	29 442	3 452	32 894	24 426	6	5 473	18	29 899	91
2. Facilities to banks	733	0	733	653	0	0	0	653	89
3. Loans	338 599	16 772	355 371	352 143		24 039		376 182	106
4. Loan loss provisions	3 359	29	3 388	3 523		227		3 750	111
5. Net loans	335 240	16 743	351 983	348 620	85	23 812	80	372 432	106
6. Business premises and other fixed assets	28 025	7	28 032	28 336	7	72	0	28 408	101
7. Long-term investments	3 061	0	3 061	3 061	1	0	0	3 061	100
8. Other assets	6 593	205	6 798	6 175	1	431	2	6 606	97
9. Provisions for other assets items, except loans	186	1	187	201		13		214	114
TOTAL ASSETS	402 908	20 406	423 314	411 070	100	29 775	100	440 845	104
LIABILITIES									
10. Loan commitments	191 618	16 737	208 355	187 733	46	25 289	85	213 022	102
11. Other liabilities	20 835	830	21 665	20 801	5	984	3	21 785	101
12. Capital	190 455	2 839	193 294	202 536	49	3 502	12	206 038	107
TOTAL LIABILITIES	402 908	20 406	423 314	411 070	100	29 775	100	440 845	104
Off-balance records	122 138	57	122 195	117 061		108		117 169	96

An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 901.9 million. The balance sheet total of MCOs as of 30.09.2016 amounted to KM 440.8 million and it is lower by even 51% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the largest drop in the balance sheet total, with even 86% and 64%, respectively.

Graph 3. Assets Amount of MCOs by Year (in KM 000)

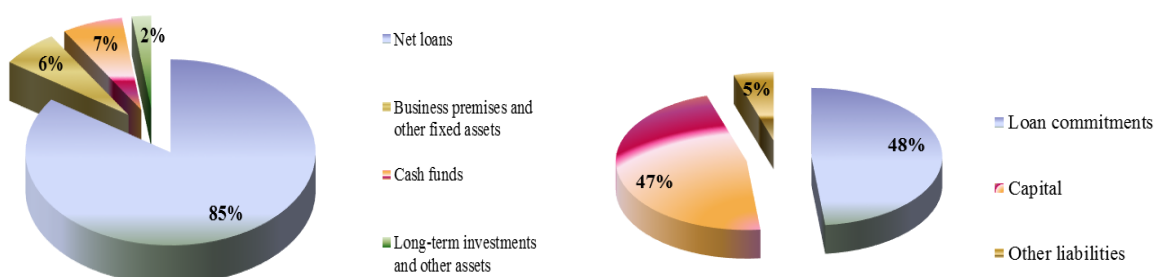


In the assets structure of MCOs, cash funds amount to KM 29.9 million or 7% with a rate of decrease of 9% compared to 31.12.2015 and largely related to cash funds of MCFs. Facilities to banks amount to KM 0.7 million and are down by 11% compared to the end of the previous year.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 372.4 million or 85% of total assets and are up by KM 20.4 million or 6% compared to 31.12.2015. Net loan growth compared to the end of the previous year was recorded by 6 MCFs and 1 MCC, a drop was recorded by 3 MCFs, while 2 MCFs retained approximately the same level of net loans in the reporting period. Compared to 31.12.2015, a net loan drop of up to 10% was recorded by 2 MCFs, while one MCF recorded a net loan drop of 18% in the reporting period.

Business premises and other fixed assets amount to KM 28.4 million or 6% of total assets and this balance sheet item is up by KM 0.4 million or 1% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 7.39%, at sector level, which is within the framework of the allowed amount (up to 10%). Individually, two MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 3.1 million, while other assets (net of provisions for other assets items except loans) amount to KM 6.4 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 2% of total assets of the microcredit sector. Other assets percentage at sector level compared to total assets is 1.50% and individually, this item is above 10% in the case of no MCF.

Graph 4. Assets and Liabilities Structure of MCOs



Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 213 million or 48% of total liabilities and being up by 2% compared to 31.12.2015.

- KM 000 -

Table 3. Maturity Structure of Taken Loans

DESCRIPTION	31.12.2015				30.09.2016				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	

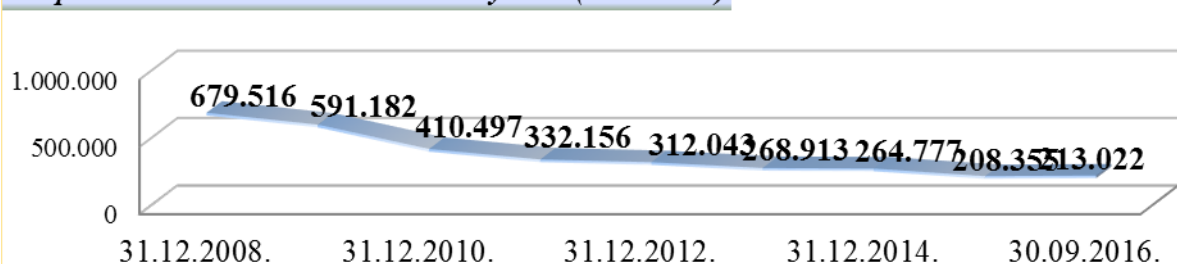
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	78 023	768	78 791	38	72 777	4 324	77 101	36	98
2. Liabilities on long-term loans	113 595	15 969	129 564	62	114 956	20 965	135 921	64	105
TOTAL	191 618	16 737	208 355	100	187 733	25 289	213 022	100	102

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 135.9 million or 64% and are up by 5% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 2 MCFs) amount to KM 77.1 million or 36% and are down by 2% compared to the end of the previous year. As of 30.09.2016, one MCF did not have loan commitments.

Creditors, local commercial banks and various international socially-oriented commercial funds are still very cautious and abstain from lending a large number of MCOs, due to which many MCOs are deprived of more favourable financial assets with which they would finance their activity. The mistrust of creditors that claimed over KM 50 million from one MCF, which is bankrupt and has suffered substantial losses due to the poor management of its assets, is one of the largest risks for the development and growth of the sector. According to submitted reports on the liquidity of MCOs as of 30.09.2016, one MCF has significant problems with maintaining liquidity. The aforementioned will, according to information provided in the report, record a decrease in the active loan portfolio in the next reporting period.

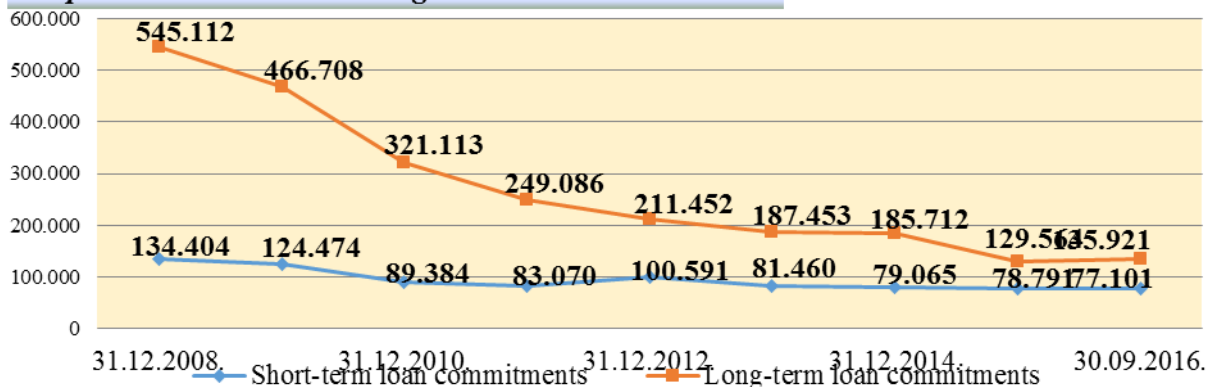
Looking at the total liabilities amount of MCOs by taken loans throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total liabilities of MCOs by taken loans as of 30.09.2016 amounted to KM 213 million, and are lower by even 69% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total liabilities by taken loans by even 86% and 84%, respectively.

Graph 5. Loan Commitments Amount by Year (in KM 000)



In addition to the fact that loan commitments are lower by 69% compared to 2008 and up by 2% compared to the end of the previous year, looking at the liabilities on taken loans by maturity, long-term loans have dropped by even 75% compared to 2008, but recorded an increase in the amount of 5% compared to the end of 2015, while short-term loans are lower by 43% compared to 2008 and down by 2% compared to the end of 2015.

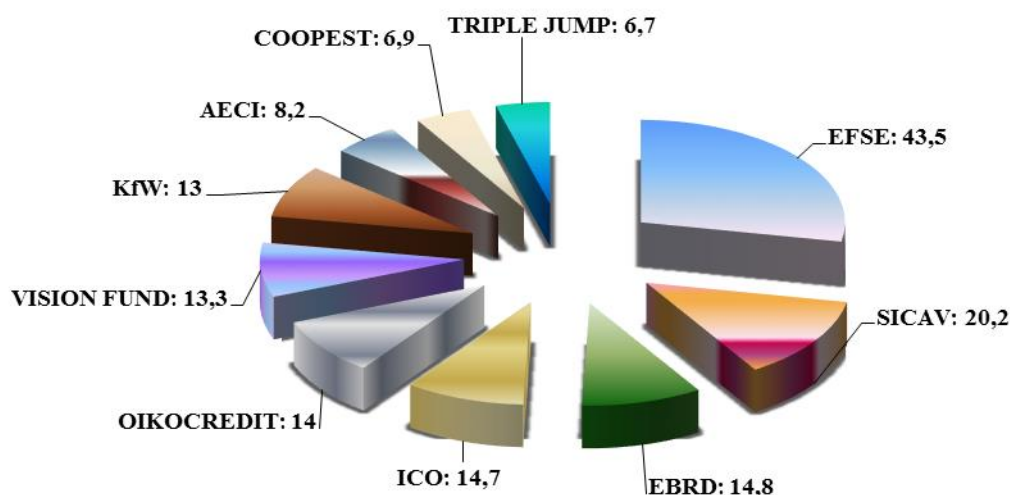
Graph 6. Short-Term and Long-Term Loan Commitments



The ten most significant creditors of MCOs are:

- 1.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 43.5 million);
- 2.) Responsibility SICAV, Switzerland (KM 20.2 million);
- 3.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 14.8 million);
- 4.) ICO – Instituto de Credito Oficial, Spain (KM 14.7 million);
- 5.) Oikokredit, Netherlands (KM 14 million);
- 6.) Vision Fund, USA (KM 13.3 million);
- 7.) KfW – Kreditanstalt fur Wiederaufbau, Germany (KM 13 million);
- 8.) AEIC – Spanish Agency for International Development Cooperation (KM 8.2 million);
- 9.) Coopest, Netherlands (KM 6.9 million);
- 10.) Triple Jump B.V., Netherlands (KM 6.7 million).

Graph 7. Most Significant Sources of Funding of MCOs (in KM million)



Other liabilities amount to KM 21.8 million or 5% of total liabilities. These include liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at sector level compared to total liabilities is 9.28%, and individually, a total of 6 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 30.09.2016 amount to KM 117.2 million and are down by 4% compared to the end of the previous year.

2.2. Capital

The total capital of MCOs as of 30.09.2016 amounts to KM 206 million or 47% of total liabilities, which is up by KM 12.7 million or 7% compared to the end of 2015. The capital of MCFs amounts to KM 202.5 million or 98.3%, and the capital of one MCC to KM 3.5 million or 1.7%.

The total capital of the microcredit sector (net of donated capital) amounts to 33.98% of total assets, with 3 MCFs having a percentage of capital amount (net of donated capital) compared to total assets that is lower than allowed, i.e. less than 10% of total assets.

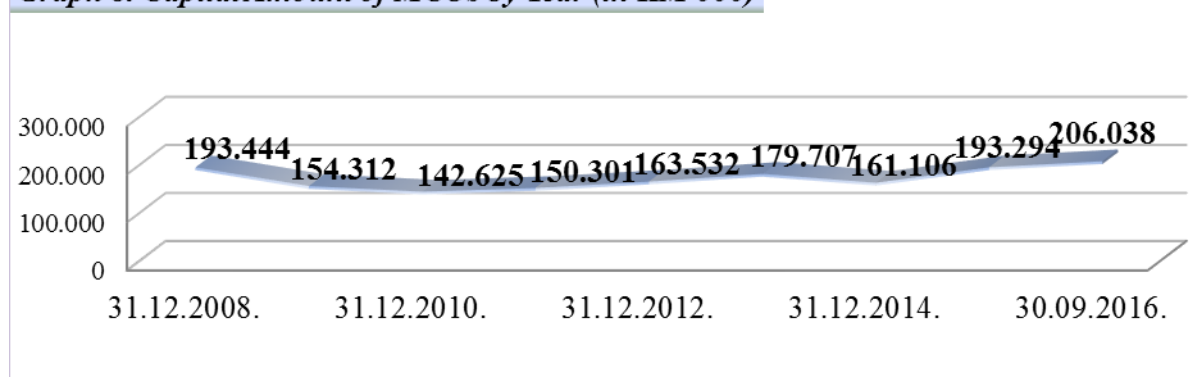
- KM 000 -

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2015					30.09.2016					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	56 096	30	0	0	56 096	56 253	28	0	0	56 253	100
Core capital	3 821	2	600	21	4 421	3 820	2	600	17	4 420	100
Surplus/deficit of income over expenses	128 432	67	0	0	128 432	140 405	69	0	0	140 405	109
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	331	12	331	0	0	994	28	994	300
Legal reserves	0	0	1 908	67	1 908	0	0	1 908	55	1 908	100
Other reserves	2 106	1	0	0	2 106	2 058	1	0	0	2 058	98
TOTAL CAPITAL	190 455	100	2 839	100	193 294	202 536	100	3 502	100	206 038	107

An overview of the capital amount of MCOs throughout the years reveals that the biggest amount was recorded at the end of 2008, when it amounted to KM 193.4 million. The capital of MCOs as of 30.09.2016 amounted to KM 206 million and is up by KM 12.6 million or 7% compared to the end of 2008.

Graph 8. Capital Amount of MCOs by Year (in KM 000)



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 140.4 million and makes up 69% of total MCF capital, which is up by KM 12 million or 9% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 30.09.2016 was recorded by 3 MCFs, while 8 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 30.09.2016, an excess of income over expenses, i.e. a profit from regular operations was recorded by 6 MCFs and 1 MCC, while 5 MCFs recorded a deficit of income over expenses from regular operations. Out of those 5 MCFs, two MCFs recorded a positive result at the end

of the third quarter of 2016 due to extraordinary income. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 56.3 million or 28% of total MCF capital. The amount of donated capital, as reported by MCOs, is at approximately the same level relative to the end of the previous year. In accordance with Article 11 of the Decision on General Conditions for Operations of Microcredit Organisations, MCOs shall keep records on donated funds and treat them as donated capital on which they have to report to the Agency. As per official quarterly reports, being submitted to the Agency, 10 MCFs include the amount of donated capital in their reports and keep records on their balance.

The core capital of MCFs as of 30.09.2016 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 2.1 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 600 thousand and its unallocated and current profit to KM 994 thousand.

2.3. Loan Portfolio

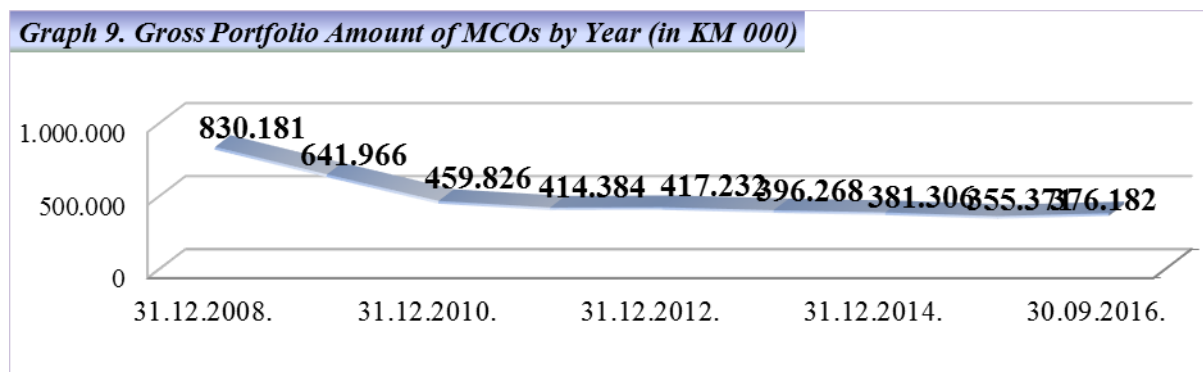
The main activity of MCOs is microlending, to which the amount of KM 376.2 million or 85% of total assets of the microcredit sector is related. The level of total sector loans depends on loans of MCFs, which account for KM 352.2 million or 93.6% of total loans, while the MCC accounts for KM 24 million or 6.4% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

- KM 000 -

Table 5. Net Loans								
No.	DESCRIPTION	31.12.2015			30.09.2016			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	338 599	16 772	355 371	352 143	24 039	376 182	106
2.	Loan loss provisions	3 359	29	3 388	3 523	227	3 750	111
3.	Net loans (1.-2.)	335 240	16 743	351 983	348 620	23 812	372 432	106

Net loans amount to KM 372.4 million and are up by 6% compared to 31.12.2015, while gross loans are also up by 6% compared to the end of the previous year.

Loan loss provisions amount to KM 3.8 million and are up by 11% compared to 31.12.2015. The loan loss provisions to total loan portfolio ratio amounts to 1.00% and recorded a deterioration of 0.05% compared to 31.12.2015.



An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2

million. The total gross portfolio as of 30.09.2016 amounted to KM 376.2 million and dropped by 55% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 88% and 68%, respectively.

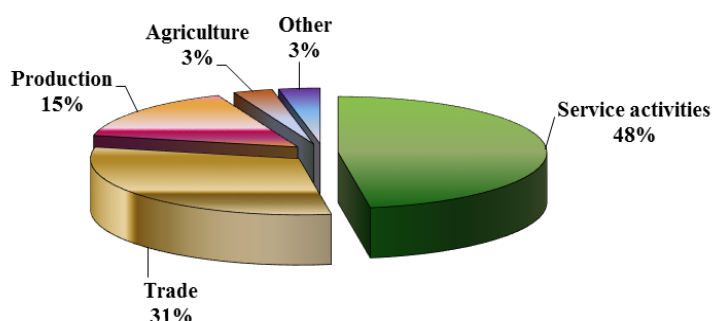
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Table 6. Sector and Maturity Structure of Microloans as of 30.09.2016

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	254	3 867	29	4 150	48%
b.)	Trade	197	2 481	14	2 692	31%
c.)	Agriculture	21	246	0	267	3%
d.)	Production	79	1 266	5	1 350	15%
e.)	Other	37	241	2	280	3%
	TOTAL 1:	588	8 101	50	8 739	100%
2.	Natural persons					
a.)	Service activities	6 747	64 322	320	71 389	20%
b.)	Trade	2 372	18 643	101	21 116	6%
c.)	Agriculture	10 664	116 508	377	127 549	35%
d.)	Production	761	7 119	34	7 914	2%
e.)	Housing needs	3 159	71 930	152	75 241	20%
f.)	Other	10 814	53 091	329	64 234	17%
	TOTAL 2:	34 517	331 613	1 313	367 443	100%
	TOTAL (1+2):	35 105	339 714	1 363	376 182	

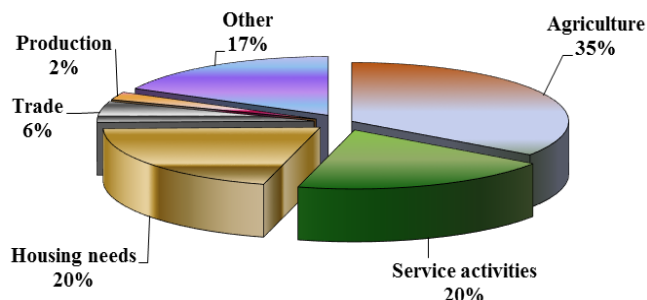
Out of the total number of microloans, KM 8.7 million or 2% were granted to legal entities and KM 367.5 million or 98% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 36.5 million or 10% and long-term loans for KM 339.7 million or 90%. Receivables due total KM 1.4 million and are almost completely related to loans granted to natural persons.

Graph 10. Sector Structure of Microloans to Legal Entities



The largest amount of total microloans to **legal entities** was placed for service activities and trade – KM 4.1 million or 48% for service activities and KM 2.7 million or 31% for trade. Out of the total microloan amount to legal entities, KM 1.3 million or 15% were granted for production, while KM 0.3 million or 3% were granted for agriculture and KM 0.3 million or 3% for other purposes.

Graph 11. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 127.6 million or 35% was placed for agriculture, followed by KM 75.3 million or 20% for housing needs, KM 71.4 million or 20% for service activities, KM 21.1 million or 6% for trade, KM 7.9 million or 2% for production, and KM 64.2 million or 17% for other purposes.

- KM 000 -

Microloans for:	31.12.2015	30.09.2016	Share	Index
Agriculture	122 622	127 816	34%	104
Services	76 481	75 539	20%	99
Housing	64 657	75 241	20%	116
Other	56 979	64 514	17%	113
Trade	25 588	23 808	6%	93
Production	9 044	9 264	3%	102
Total	355 371	376 182	100%	106

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (34%), service activities (20%), and housing needs (20%), and that it mostly includes long-term loans for natural persons. This means that loans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals.

Compared to the end of the previous year, the total loan percentage for all loan products shows an increase between 2% and 16%, with the exception of loans for trade and service activities, which decreased by 7% and 1%, respectively, in the reporting period. In terms of microloan maturity, long-term microloans are up by 7% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 7% in the reporting period.

- KM 000 -

DESCRIPTION	31.12.2015	30.09.2016	Share	Index
Long-term microloans	316 294	339 714	90%	107
Short-term microloans with receivables due	39 077	36 468	10%	93
TOTAL	355 371	376 182	100%	106

According to reports that microcredit organisations submitted to the Agency in relation to the amount of risk portfolio as a result of the May 2014 natural disasters, as of 30.09.2016, the

active loan portfolio, which was not past due as of 30.04.2014 and which was at risk as a result of the natural disasters, amounted to KM 1.5 million. The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 34 thousand as of 30.09.2016. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 0.6 million as of 30.09.2016. Loans for agriculture (36%) and loans for housing needs (28%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations („Official Gazette of the Federation of B&H“, No.: 27/07), MCOs shall allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the 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 30.09.2016 can be seen in Table 9.

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Table 9. Loan Loss Provisions with the Balance as of 30.09.2016

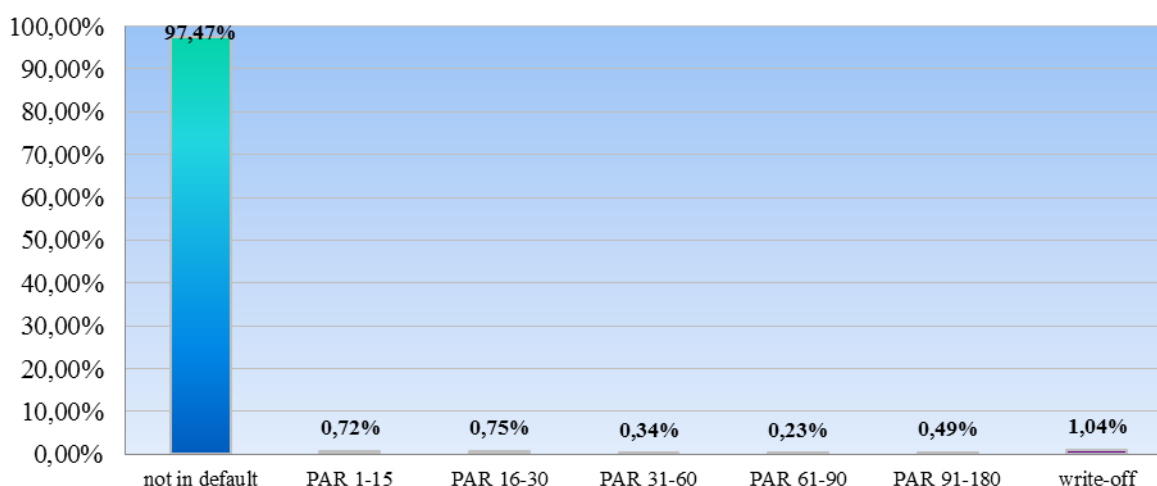
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	$9=(4 \times 3)/100$	$10=(7 \times 6)/100$	$11=(8 \times 3)/100$	$12=(9+10+11)$
1.	0	0%	366 650	97.47	0%	216	294	0	0	0	0
2.	1 – 15	2%	2 715	0.72	2%	39	0	54	1	0	55
3.	16 – 30	15%	2 832	0.75	100%	53	0	425	53	0	478
4.	31 – 60	50%	1 285	0.34	100%	39	0	643	39	0	682
5.	61 – 90	80%	871	0.23	100%	34	0	697	34	0	731
6.	91 – 180	100%	1 829	0.49	100%	88	0	1 931	88	0	2 019
TOTAL			376 182	100,00		469	294	3 750	215	0	3 965
7.	More than 180	Write-off	954		100%	81					

*Column 9, days past due category (91-180) includes additional provisions of one MCF for rescheduled loans, loans for additional funds, and contractual obligations.

The amount of defaulted loans for more than one day is KM 9.5 million or 2.53%, while 97.47% of loans are not defaulted. The total amount of interest due by current loans which are defaulted for more than one day is KM 0.3 million. The total amount of calculated reserves on all bases is KM 4 million and is up by KM 0.4 million or 11% compared to 31.12.2015.

In the first nine months of 2016, the MCO write-off amounted to KM 2.9 million of principal and KM 0.2 million of interest.

Graph 12. Portfolio Quality of MCOs

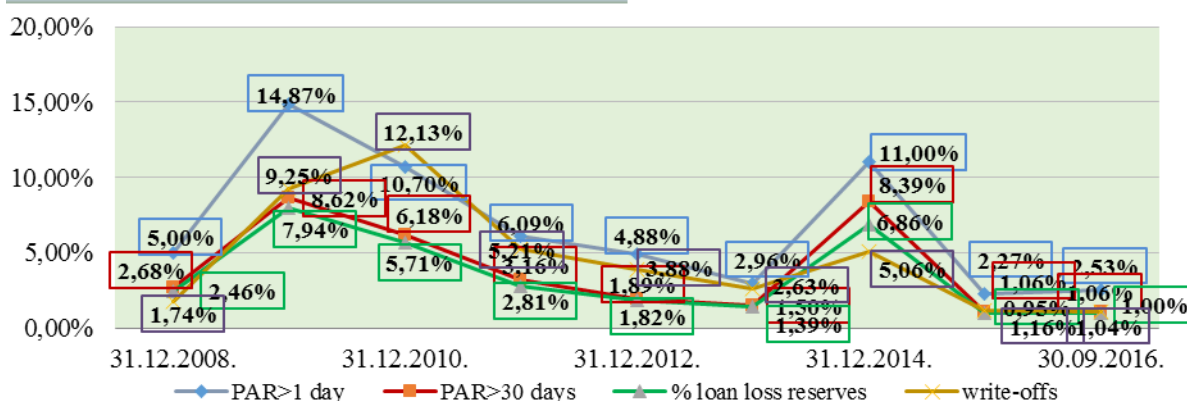


2.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 30.09.2016, the microcredit portfolio saw an increase of 6% (KM 20.8 million), while certain quality indicators of the active loan portfolio deteriorated slightly in the reporting period. The majority of MCOs is exposed to the pressure of competition both from larger MCOs and from banks. Many smaller MCOs are thus faced with a lack of funds for financing the loan portfolio.

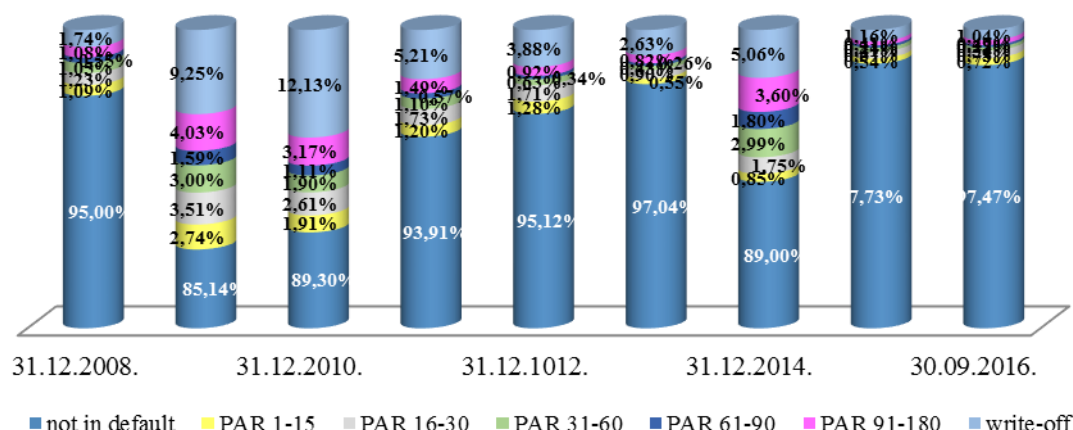
A slight deterioration of certain active loan portfolio quality indicators was rendered by an increase of the loan loss provisions rate from 0.95%, which is what it amounted as of 31.12.2015, to 1.00%. The risk portfolio exceeding 30 days past due amounted to 1.06% and remained at the same level compared to the end of the previous year. The total sector result based on the risk portfolio is within the framework of the prescribed standard (below 5%), with two MCFs violating the prescribed standard if observed individually. The risk portfolio for more than one day past due recorded a slight increase, thus being up from 2.27%, to which it amounted as of the end of the previous year, to 2.53%.

Graph 13. Active Portfolio Quality Indicators of MCOs



In the first nine months of 2016, MCOs wrote off 1 758 loan accounts (1 733 write-offs relate to natural persons and 25 to legal entities) in the total amount of KM 3.1 million, KM 2.9 million of which relate to the written-off principal.

Graph 14. Gross Portfolio Classification of MCOs by Year



As of 30.09.2016, the percentage of write-offs at sector level amounted to 1.04%, with this indicator being down by 0.12 percentage points compared to the end of the previous year and thus being within the framework of the prescribed standard. Two MCFs do not meet the Agency's standard in terms of the write-off percentage, which must be below 3%.

- KM 000 -

Table 10. Receivables by Written off Principal and Interest

DESCRIPTION	NATURAL PERSONS		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
Initial balance as of 01.01.2016.	105 851	11 281	2 798	296	108 649	11 577
Changes in 2016:						
New write-off in the current year	2 802	241	63	6	2 865	247
<i>Write-off in the period 01.01.-31.03.</i>	888	76	17	2	905	78
<i>Write-off in the period 01.04.-30.06.</i>	975	86	31	2	1 006	88
<i>Write-off in the period 01.07.-30.09.</i>	939	79	15	2	954	81
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Collected in the current year	6 676	604	101	7	6 777	611
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2 108	205	22	2	2 130	207
<i>Collection of write-offs in the period 01.04.-30.06.</i>	2 374	206	50	3	2 424	209
<i>Collection of write-offs in the period 01.07.-30.09.</i>	2 194	193	29	2	2 223	195
<i>Collection of write-offs in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Permanent write-off in the current year	518	74	0	0	518	74
<i>Permanent write-off in the period 01.01.-31.03.</i>	467	65	0	0	467	65
<i>Permanent write-off in the period 01.04.-30.06.</i>	26	3	0	0	26	3
<i>Permanent write-off in the period 01.07.-30.09.</i>	25	6	0	0	25	6
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Balance as of 30.09.2016	101 459	10 844	2 760	295	104 219	11 139

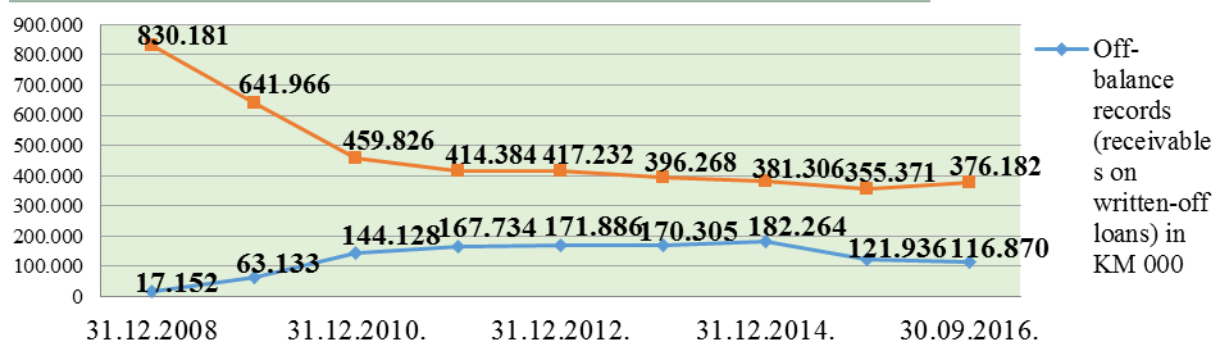
**Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1.5 million, which includes court expenses, penalty and process interest as a portion of off-court settlements in the case of three MCFs.*

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 6.8 million of written-off principal and KM 0.6 million of written-off interest in the first nine months of 2016, while the permanent write-off in the same reporting period amounted to KM 0.5 million of principal and KM 0.1 million of interest. Regarding the efficiency of the collection of write-offs in the first nine months of 2016, one MCC and 8 MCFs had a collection efficiency percentage ranging from 5% to 10% compared to the total amount of receivables by write-offs, while 3 MCFs had a collection efficiency percentage ranging from 4% to 5%.

As of 30.09.2016, total receivables by write-offs, which are in the off-balance records, amount to as KM 116.9 million, down by 4% compared to the end of the previous year.

Compared to 2008, the gross portfolio of MCOs is lower by 55%, while receivables by write-offs are almost 7 times higher and make up 31% of the total loan portfolio as of 30.09.2016. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that three MCFs have over 60% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in the off-balance records, are higher than total gross loans by 110% in the case of one MCF), which is a direct consequence of past loan expansion and the improper management of assets by MCFs. One MCF and one MCC showed total write-offs below 10% of the total gross portfolio.

Graph 15. Receivables on Written-Off Loans and Gross Portfolio of MCOs



MCOs are obligated to start court disputes for the collection of write-offs which fell due and have not been collected for more than 180 days.

2.3.2. Loan Repayment with Guarantorship as Security Instrument and Clients' Complaints

The consequences of global economic crisis on the financial sector, improper credit policies and weaknesses of internal controls of MCOs as well as general overindebtedness of microloan beneficiaries have affected the lending process and loan portfolio quality. The activation of security instruments in the case of loan insurance under guarantorship happens as a result of uncollectable receivables from earlier periods or due to the clients' inability to repay matured loan commitments. In the interest of collecting, monitoring and data analysis of loans being repaid through guarantors, the Agency has prescribed a new OKJ reporting form as of 31.12.2009.

According to the loan repayment reports of MCOs with guarantorship as a security instrument, as of 30.09.2016 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 154 052, 1.26% of which were being repaid by guarantors, which is down by 0.32 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2015 (2015: 1.58%). According to quarterly reports, the total gross loan portfolio in the MCO sector as of 30.09.2016 amounted to KM 376 182 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.35%, down by 0.35 percentage points compared to the share of outstanding loan debt being paid off by guarantors out of the total gross loan portfolio at the end of 2015 (2015: 1.70%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies („Official Gazette of the Federation of B&H“, No. 23/14 and 62/14), in the period from 01.07. to 30.09.2016, a total of 54 complaints was filed against MCOs. In the case of 5 MCFs and one MCC, there is no evidence of complaints.

Co-debtors/guarantors have filed 6 complaints, debtors 26 complaints, while other stakeholders filed 22 complaints. The MCOs resolved 4 complaints positively, 45 complaints negatively, while 5 complaints are in the process of being handled and commented on.

2.4. Weighted Nominal and Effective Interest Rates on Microloans

The effective interest rate on microloans is the total price of those loans and is calculated and shown in accordance 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). The calculation of the effective interest rate includes data on the amount of the nominal interest rate on loans, the compensation and fee amount, which MCOs calculate for the client during the loan approval process, and the compensation and fee amount as of the calculation date, which MCOs calculate for the client during the loan agreement execution. Weighted nominal and effective interest rates on newly-approved loans are calculated in the reporting month.

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the third quarter of 2016, MCOs placed microloans in the total amount of KM 87.8 million, which is up by KM 3.4 million or 4% compared to the microloan amount placed in the same period of the previous year. As of 30.09.2016, MCOs had 154 052 active loan accounts, which is up by 4 433 loan accounts or 3% compared to the end of the previous year. As of 30.09.2016, the average amount of microloans at sector level was KM 2 442, the average amount of microloans in MCFs was KM 2 328, while the average amount of microloans in the MCC was KM 8 700.

<i>Table 11. Average Weighted Nominal and Effective Interest Rates on Microloans for Q3 2016 – by Product</i>				
No.	DESCRIPTION	Total amount of microloan payment in Q3 2016 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	15 674	18.46%	28.16%
1.1.	Service activities	2 826	16.25%	25.95%
1.2.	Trade	928	16.39%	25.44%
1.3.	Agriculture	4 036	13.07%	23.52%
1.4.	Production	263	18.25%	26.44%

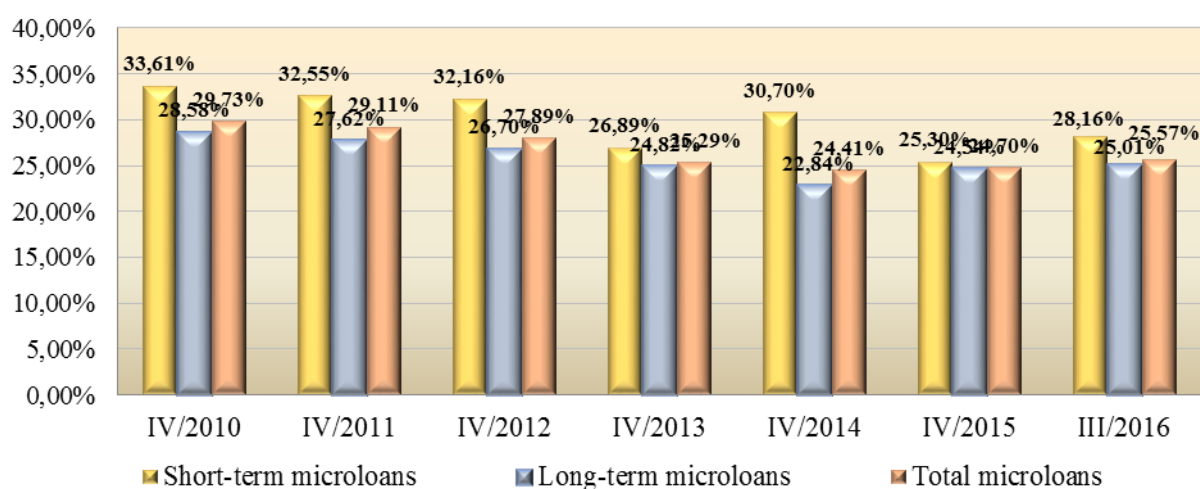
1.5.	Housing needs	1 837	20.83%	27.90%
1.6.	Non-purpose – basic needs	1 060	25.10%	36.21%
1.7.	Other	4 724	22.24%	32.13%
2.	Long-term microloans for:	72 159	20.96%	25.01%
2.1.	Service activities	12 037	20.81%	25.16%
2.2.	Trade	3 488	20.21%	24.26%
2.3.	Agriculture	22 660	19.76%	23.34%
2.4.	Production	1 589	20.37%	24.58%
2.5.	Housing needs	16 784	20.66%	23.93%
2.6.	Non-purpose – basic needs	1 018	25.21%	32.26%
2.7.	Other	14 583	23.25%	28.43%
TOTAL		87 833	20.52%	25.57%

The average weighted nominal interest rate on short-term loans ranges from 13.07% for agriculture up to 25.10% for non-purpose loans, and the effective interest rate ranges from 23.52% for agriculture up to 36.21% for non-purpose loans. The average weighted nominal interest rate on long-term loans ranges from 19.76% for agriculture up to 25.21% for non-purpose loans, and the effective interest rate ranges from 23.34% for agriculture up to 32.26% for non-purpose loans. By analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for agriculture and production, while the most expensive loans are non-purpose and other loans.

The average weighted effective interest rates on short-term, long-term and total microloans in the Federation of B&H by quarter are shown in the following table.

<i>Table 12. Average Weighted Effective Interest Rates on Microloans by Quarter</i>							
AVERAGE WEIGHTED EFFECTIVE INTEREST RATE on:	IV/2010	IV/2011	IV/2012	IV/2013	IV/2014	IV/2015	III/2016
Short-term microloans	33.61%	32.55%	32.16%	26.89%	30.70%	25.30%	28.16%
Long-term microloans	28.58%	27.62%	26.70%	24.82%	22.84%	24.54%	25.01%
Total microloans	29.73%	29.11%	27.89%	25.29%	24.41%	24.70%	25.57%

Graph 16. Average Weighted EIRs on Microloans (in %)



Microcredit organisations increased effective interest rates on total microloans, so that, at the end of the third quarter of 2016, average weighted effective interest rates on total loans in the microcredit sector amounted to 25.57% and recorded an increase of 0.87 percentage points compared to the fourth quarter of 2015. Compared to the same period, average weighted

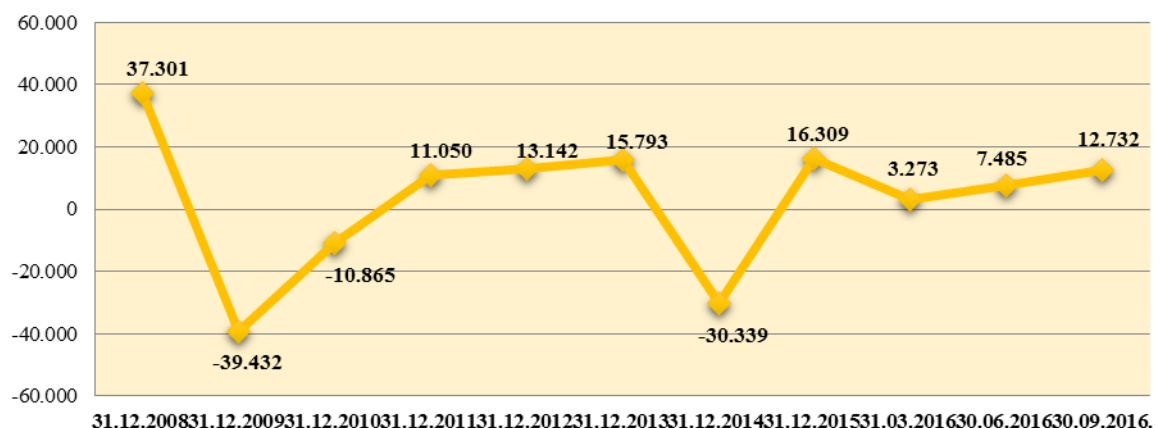
effective interest rates on short-term loans amounted to 28.16% and recorded an increase of 2.86 percentage points. Average weighted effective interest rates on long-term loans amounted to 25.01% at the end of the third quarter of 2016 and are up by 0.47 percentage points compared to the fourth quarter of the previous year.

2.5. Income Statement

In the period from 01.01. to 30.09.2016, one MCC recorded a net profit in the amount of KM 663 thousand (01.01. to 30.09.2015: KM 186 thousand net profit). In that period, MCFs recorded more income over expenses in the total amount of KM 12 069 thousand, while they recorded more income over expenses in the total amount of KM 12 297 thousand in the same period of the previous year.

In the period from 01.01. to 30.09.2016, out of a total of 11 MCFs, 8 MCFs had more income over expenses in the total amount of KM 12 118 thousand, while 3 MCFs recorded less income over expenses in the total amount of KM 49 thousand.

Graph 17. Total Financial Result of MCOs by Year (in KM 000)



At the level of the microcredit sector in the Federation of B&H, a positive financial result in the amount of KM 12 732 thousand has been recorded, which is up by KM 249 thousand compared to the same period of the previous year.

The structure of the income statement of the microcredit sector of the Federation of B&H is shown in Table 13.

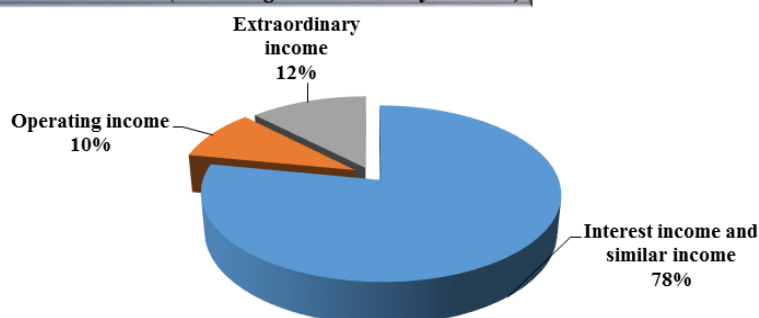
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Table 13. Income Statement MCOs										
No.	DESCRIPTION	For the period 01.01. - 30.09.2015				For the period 01.01. - 30.09.2016				Index
		MKF	MKD	Ukupno	%	MKF	MKD	Ukupno	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	48 387	1 206	49 593	88	50 074	2 619	52 693	89	106
1.2.	Operating income	6 938	88	7 026	12	6 169	192	6 361	11	91
2.	TOTAL INCOME (1.1.+1.2.)	55 325	1 294	56 619	100	56 243	2 811	59 054	100	104
3.	EXPENSES									
3.1.	Interest-based expenses and similar	7 791	400	8 191	16	7 338	945	8 283	15	101

	expenses									
3.2.	Operating expenses	39 979	686	40 665	77	41 439	940	42 379	78	104
3.3.	Expenses for loan loss provisions and other losses	3 614	21	3 635	7	3 233	268	3 501	7	96
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	51 384	1 107	52 491	100	52 010	2 153	54 163	100	103
5.	EXTRAORDINARY INCOME	9 038	13	9 051		8 422	8	8 430		93
6.	EXTRAORDINARY EXPENSES	682	14	696		586	3	589		85
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	12 297	186	12 483		12 069	663	12 732		102
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	12 297		12 297		12 069		12 069		98
9.	PROFIT BEFORE TAXES		186	186			663	663		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		186	186			663	663		
12.	TOTAL FIN. RESULT			12 483				12 732		

The total income of MCOs in the period from 01.01. to 30.09.2016 amounts to KM 59.1 million, which mainly account for MCF income. The total income is up by KM 2.4 million or 4% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 52.7 million or 89% of total income and is up by KM 3.1 million or 6% compared to the same period of the previous year, while operating income amounts to KM 6.4 million or 11% of total income and is down by KM 0.7 million or 9% compared to the same period of the previous year.

Graph 18. Income Structure (Including Extraordinary Income)

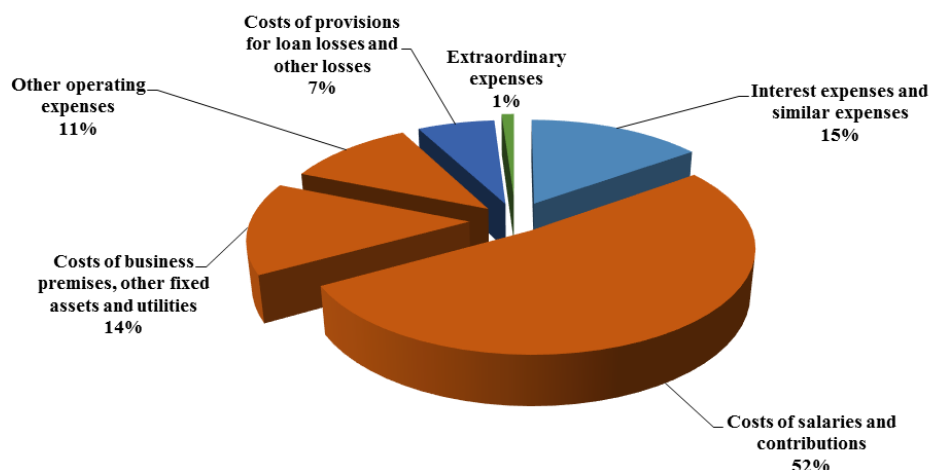


Extraordinary income of MCOs generated in the period from 01.01. to 30.09.2016 amounts to KM 8.4 million, which is down by KM 0.6 million or 7% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from write-offs. Extraordinary income of MCOs generated in the first nine months of 2016 amounts to KM 0.6 million and is down by KM 0.1 million or 15% compared to the same period of the previous year.

Total expenses amount to KM 54.2 million, 52 million or 96% of which account for the expenses of MCFs, and KM 2.2 million or 4% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 1.7 million or 3%. In the expenses structure, KM 8.3 million or 15% of total expenses account for interest expenses on taken loans and other similar expenses and are up by KM 0.1 million or 1% compared to the

same period of the previous year. Operating expenses amount to KM 42.4 million or 78% of total expenses and are up by KM 1.7 million or 4% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 28.5 million (01.01. to 30.09.2015: KM 27 million), costs of business premises, other fixed assets and utilities in the amount of KM 7.8 million (01.01. to 30.09.2015: KM 7.6 million) and other operating expenses in the amount of KM 6.1 million (01.01. to 30.09.2015: KM 6.1 million). Expenses for loan loss provisions and other losses amount to KM 3.5 million or 7% of total expenses and are down by even KM 0.1 million or 4% compared to the same period of the previous year.

Graph 19. Expenses Structure (Including Extraordinary Expenses)



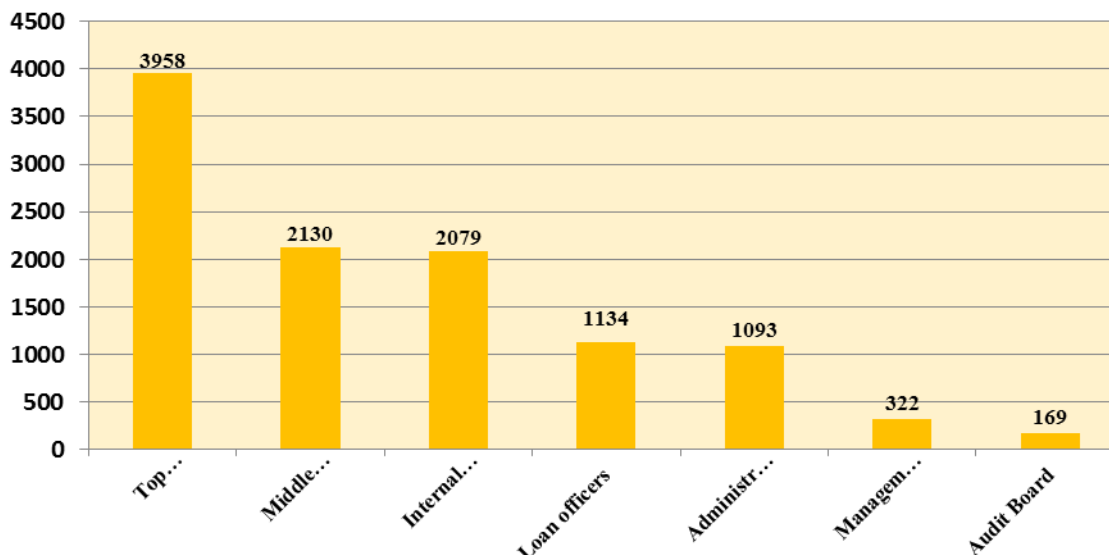
2.5.1. Standard Monthly Income in Microcredit Activities

The standard of reasonable market value is the value achieved on the labour market and the average salary of the Federation of B&H is observed as relevant data because it represents the ratio of the labour market. However, since each industry has its own peculiarities, the microcredit industry, too, has its peculiarities and standards that apply to microcredit activity are used for comparison purposes. The standard of the microcredit market is the approximate or equal standard value paid for the same service on the microcredit market industry in an approximate or equal amount with the average of the relevant group, i.e. the average of the overall microcredit industry. In order to determine the average, MCO values, the business operations of which are in line with the business standards prescribed by the decision on other general terms and conditions of microcredit organisations, are used because wages in these organisations are market-based considering that prescribed measurable standards ensure that the MCOs operate in accordance with the business principles of due diligence, which they are obligated to do in accordance with Art. 40 of the Law on Associations and Foundations.

Salary and contributions' expenses generated in the period 01.01. to 30.09.2016 are up by 5% compared to the same period of the previous year. According to MCO reports, as of 30.09.2016, the average monthly net salary of MCO employees was KM 1 217 and the average monthly net amount of incentives, stimulations and bonuses was KM 57. This means that the average monthly net salary with bonuses was KM 1 274 in the microcredit sector. As of 30.09.2016, the average monthly net salary of a senior management member in the microcredit sector was KM 3 958 including bonuses, while average monthly net compensations paid to management board members in MCOs were KM 322 and to audit board members KM 169. As of the reporting date, the average monthly net salaries of

internal auditors in MCOs were KM 2 079 including bonuses, of middle and lower management KM 2 130, of loan officers KM 1 134 and of administration and other staff KM 1 093.

Graph 20. Average Monthly Salary/Compensation in MCOs, Including Bonuses (in KM)



Article 39 of the Law on MCOs stipulates that the microcredit foundations shall invest the excess income over expenses in performing microcredit activities and that the direct or indirect allocation of the excess of income over expenses to founders, members of bodies, responsible persons and employees in the microcredit foundation is not allowed. In fact, it has been noted that some MCFs pay salaries/compensations that significantly deviate from the microcredit sector average. In the case of one MCF, the average monthly net salary of the senior management is almost 2 times higher compared to the sector average.

3. TRANSACTIONS WITH RELATED ENTITIES

The provisions of the Decision on Other General Conditions for Operations of Microcredit Organisation („Official Gazette of the Federation of B&H“, No.: 27/07) prescribe minimum standards for a business relation of MCOs with the entities considered its related entities under Article 4 of the Law on Microcredit Organisations. Article 6 of the Agency's Decision prescribes that an MCO may conduct business transactions with an entity considered its related entity only in compliance with the Law on Microcredit Organisations, the Agency's decision and special policies of MCOs for business relations with related entities, which are adopted and the implementation of which is monitored by the MCOs' managing bodies. A transaction with a related entity is also any transaction with a third party if the funds that were employed in the transaction were transferred to a related entity or were used so that a related entity would profit. With reference to this, all MCOs must establish a register of related entities, which is to be regularly updated.

Also, when conducting transactions with related entities, MCOs must act in accordance with the adopted policies that, among other things, prescribe the following:

- All transactions with related entities must be approved by an MCO's managing body,
- An entity related to an MCO that is a member of the managing body of such MCO must not participate in voting during the decision-making process on business transactions between an MCO and them or any other entity related to them,

- The managing body must sign a written statement that any transaction between them and a related entity is fair and in the best interest of the MCO,
- MCOs shall establish and maintain regular records, documentation and files on approvals of the managing bodies for transactions with related entities, etc.

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favourable to any other entities, and MCOs shall report to the Agency through quarterly reports on all transactions conducted by the MCO with its related entities in the reporting quarter. In the first nine months of 2016, out of 12 MCOs, 10 MCFs and 1 MCC submitted reports, in the prescribed form, to the Agency on transactions conducted with related entities in the total amount of KM 354 343 million. Two MCFs have a 57% share in the total amount of transactions with related entities.

- in KM -

No.	Description of transaction	Transaction amount in the period 01.01.-30.09.2016	Share (%)
1.	Transactions with the founder and founder-related entities	120 039	33.88%
2.	Payment of joint expenses of a related person	99 571	28.10%
3.	Payment by invoices for delivered goods/services	92 748	26.17%
4.	Refunding of expenses	34 185	9.65%
5.	Lease of business premises	6 000	1.69%
6.	Borrowings from legal entities and natural persons	1 800	0.51%
7.	Loan annuities	0	0.00%
8.	Short-term loans from banks	0	0.00%
9.	Regular and penalty interest, management fees	0	0.00%
10.	Legal services	0	0.00%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
TOTAL		354 343	100.00%

Table 14 provides a breakdown of transactions with related entities in the period from 01.01. to 30.09.2016, which shows that the largest share in transactions with related entities belongs to transactions with the MCOs' founders and their related entities (33.88%), followed by payments of joint expenses of a related person (28.10%) and payments by invoices for delivered goods/services (26.17%). In addition to the aforementioned transactions, MCOs also reported transactions with related entities based on the lease of business premises, borrowings from legal entities and natural persons and other transactions.

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' founders and their related entities (74%), members of the audit board (15%), and members of the management board (11%). During the examinations in the period to come, the Agency will focus on the compliance with business policies for the MCOs' transactions with related entities, and it will evaluate the benefits the MCOs have when performing such transactions and order adequate measures to be taken in the interest of eliminating irregularities found in the MCOs' business operations with related entities.

III CONCLUSIONS AND RECOMMENDATIONS

By analysing MCO reports as of 30.09.2016, it can be concluded that the business operations of microcredit organisations in the Federation of B&H show a slight improvement compared to the end of the previous year. The balance sheet volume recorded an increase in the amount of 4%, the loan portfolio is up by 6%, with a slight deterioration of certain quality indicators. The number of employees is also up (by 3%) and there is an increase in capital (by 7%) and loan commitments (by 2%).

For MCOs with a continuous loan portfolio drop, loss of their market segment and that have been denied the 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. Consolidation at the level of MCOs, especially medium-sized ones, is necessary for the stabilisation of the microcredit sector for the purpose of increasing the economy of scope, improving efficiency of business operations of MCOs through important cost savings, as well as increasing the competence of the management boards, management and other MCO staff. Consolidation would ensure the strengthening of the capital base of a small number of stronger and healthier MCOs. Since a significant amount of loans in liabilities of microcredit organisations will fall due by the end of this year, the organisations may have problems with liquidity, and for that reason all MCOs that are not operationally sustainable should consider mergers or acquisitions in order to protect the assets of MCFs, which would be in line with the business principle of due diligence.

In the period to come, the imperative of MCOs is complying with the principles of operating with the care of a good businessman and focusing on full transparency, the optimisation of operating costs and their full justification, proper credit risk management, which should finally result in falling interest rates on microloans and achieving the objectives stated in the Law on Microcredit Organisations.

Within its responsibilities under the Law, the Agency takes all available supervision measures and initiates necessary procedures before the competent authorities for the purpose of sanctioning MCOs and leading their business operations into the legal framework in order to fulfill the basic role of microlending.

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

- Fully implementing Article 2 of the LoMCO, which prescribes performing activities for the purpose of improving the material status of beneficiaries of microloans, increasing employment and providing support to the development of entrepreneurship;
- Reducing interest rates on microloans;
- Controlling interest rates and achieving objectives from the LoMCO through the active involvement of managing bodies in the process of approving policies on establishing prices of microloans;
- Cutting operating costs, the full implementation of the principles of due care for the assets of the foundation and the implementation of principles of good corporate practices, which should influence the reduction of interest rates;
- Establishing mechanisms to check the justification of projects and materially significant costs of operations, including salaries and bonuses of the management, and all other benefits of the management and members of the boards of directors, which the

aforementioned exercise at the expense of the assets of MCOs and which are directly compensated by high interest rates;

- Increasing the responsibilities of management boards, ensuring independence from the management and control of the management by management boards;
- Improving the system of internal controls, improving efficiency of business operations and optimising MCO resources as well as implementing the principles of responsible credit financing;
- Establishing an internal audit that is fully independent from the MCO management and will also supervise the management segment and regularly report to the management board;
- The mandatory exchange of information at the level of the sector and the Central Loan Registry;
- Taking all required actions in the interest of solving the problems of overindebted customers and guarantors;
- Improving institutional capacities,
- Fully implementing valid regulations and increasing the transparency of business operations; and
- Finding partners for mergers and acquisitions; MCOs with smaller amounts of capital and a high degree of written-off loans should adopt a clear strategy for merging with bigger and stronger MCOs to optimise resources, preserve donated funds, ensure support of foreign creditors and secure the future of MCO employees.

No.: U.O. -90-5 /16

Sarajevo, 08.12.2016

IV ANNEXES

Annex 1. Regulations of the Banking Agency for business operations of MCOs

Annex 2. Main data on MCOs

Annex 3. Balance sheet of MCFs

Annex 4. Balance sheet of MCCs

Annex 5. Income statement of MCFs

Annex 6. Income statement of MCCs

Annex 7. Overview of donated funds of MCFs

Annex 1.

REGULATIONS OF THE BANKING AGENCY FOR THE BUSINESS OPERATIONS OF MCOs AS OF 30.09.2016

Decisions of the Banking Agency related to MCO operations	Official Gazette of the Federation of B&H
1. Decision on Conditions and Process of Issuance of Operating License for Microcredit Foundation Resulting from Changed Organisational Form of a Microcredit Organisation	27/07
2. Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Microcredit Organisations	27/07 and 46/11
3. Decision on Supervision of Microcredit Organisations	27/07
4. Decision on Form and Contents of Reports Microcredit Organisations Submit to the Banking Agency of the Federation of B&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 Microcredit Organisations	27/07
6. Decision on Other General Conditions for Operations of Microcredit Organisations	27/07
7. Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Consolidated text)	48/12
8. Decision on Conditions and Process of Issuance of Operating License and Approval for Acquiring Ownership Share by Investing and Transferring Assets of the Microcredit Foundation	27/07
9. Decision on Fees Microcredit Organisations Pay to the Banking Agency of the Federation of B&H	46/11
10. Decision on Minimum Standards for Activities of Microcredit Organisation to Prevent Money Laundering and Financing Terrorist Activities	48/12
11. Decision on Conditions and Manner of Customer Complaint Management by Banks, Microcredit Organisations and Leasing Companies	23/14, 26/14 and 62/14
12. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessing Creditworthiness	23/14
13. Decision on Conditions and Manner for Handling Guarantors' Requests for Release from the Guarantor's Obligation	23/14 and 62/14
14. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services	62/14

Instructions of the Banking Agency related to MCO Operations
<ol style="list-style-type: none"> 1. Instructions for Implementation of the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits; 2. Instructions for Calculation of Weighted Nominal and Effective Interest Rate; 3. Instructions for Calculation of Adjusted Return on Assets; 4. Instructions for Calculation of Efficiency Ratios and 5. Instructions for MCO Reporting.

Annex 2.

MAIN DATA ON MCOs

No.	Name of microcredit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	30.09.2016			
						Assets amount in KM 000	Capital amount in KM 000	No. of employees	No. of org. units
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sead Mucić	033/ 754-380, 754-388 fax	sead.mucic@eki.ba www.eki.ba	29 775	3 502	38	3
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	118 459	62 748	262	69
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	17 184	10 770	63	14
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	20 711	2 226	107	22
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 234	436	6	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	52 405	20 480	159	29
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	24 416	6 919	107	24
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	5 627	4 518	28	7
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	130 874	69 956	297	60
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 759	1 586	8	0
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	347	231	5	0
12.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Samir Bajrović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	38 054	22 666	155	41
TOTAL						440 845	206 038	1 235	269

Annex 3.

BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2015	%	30.09.2016	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	29 442	7	24 426	6	83
1a)	Cash and non-interest bearing deposit accounts	20 636	5	12 977	3	63
1b)	Interest-bearing deposit accounts	8 806	2	11 449	3	130
2.	Facilities to banks	733	0	653	0	89
3.	Loans	338 599		352 143		104
3a)	Loan loss reserves	3 359		3 523		105
3b)	Net loans (3-3a)	335 240	83	348 620	85	104
4.	Business premises and other fixed assets	28 025	7	28 336	7	101
5.	Long-term investments	3 061	1	3 061	1	100
6.	Other assets	6 593	2	6 175	1	94
7.	Minus: provisions for other assets items, except loans	186		201		108
8.	TOTAL ASSETS	402 908	100	411 070	100	102
LIABILITIES						
9.	Short-term loan commitments	78 023	20	72 777	18	93
10.	Long-term loan commitments	113 595	28	114 956	28	101
11.	Other liabilities	20 835	5	20 801	5	100
12.	TOTAL LIABILITIES	212 453	53	208 534	51	98
13.	Donated capital	56 096		56 253		100
14.	Core capital	3 821		3 820		100
15.	Surplus of income over expenses	190 637		202 738		106
15a)	For previous years	174 100		190 636		109
15b)	For current year	16 537		12 102		73
16.	Deficit of income over expenses	62 205		62 333		100
16a)	For previous years	61 562		62 284		101
16b)	For current year	643		49		8
17.	Other reserves	2 106		2 058		98
18.	TOTAL CAPITAL	190 455	47	202 536	49	106
19.	TOTAL LIABILITIES	402 908	100	411 070	100	102
OFF-BALANCE RECORDS						
	- written-off loans	121 879		116 762		96
	- agent business	259		299		115

Annex 4.

BALANCE SHEET OF MCCs

in KM 000

No.	DESCRIPTION	31.12.2015	%	30.09.2016	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	3 452	17	5 473	18	159
1a)	Cash and non-interest bearing deposit accounts	3 452	17	5 473	18	159
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	16 772		24 039		143
3a)	Loan loss reserves	29		227		783
3b)	Net loans (3-3a)	16 743	82	23 812	80	142
4.	Business premises and other fixed assets	7	0	72	0	1029
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	205	1	431	2	210
7.	Minus: provisions for other assets items, except loans	1		13		1300
8.	TOTAL ASSETS	20 406	100	29 775	100	146
LIABILITIES						
9.	Short-term loan commitments	768	4	4 324	15	563
10.	Long-term loan commitments	15 969	78	20 965	70	131
11.	Other liabilities	830	4	984	3	119
12.	TOTAL LIABILITIES	17 567	86	26 273	88	150
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	331		994		300
16a)	Of previous years	0		331		n/a
16b)	Of current year	331		663		200
17.	Legal reserves	1 908		1 908		100
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	2 839	14	3 502	12	123
20.	TOTAL LIABILITIES	20 406	100	29 775	100	146
OFF-BALANCE RECORDS						
	- written-off loans	57		108		189
	- agent business	0		0		n/a

Annex 5.

INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.09.2015	%	For the period 01.01. - 30.09.2016	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	65	0	35	0	54
1.2.	Interest on facilities to banks	9	0	1	0	11
1.3.	Loan interest	47 760	99	49 179	98	103
1.4.	Other financial income	553	1	859	2	155
1.5.	Total interest income and similar income (1.1. to 1.4.)	48 387	100	50 074	100	103
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	7 125	91	6 726	92	94
2.2.	Other financial expenses	666	9	612	8	92
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	7 791	100	7 338	100	94
3.	Net financial income (1.5. - 2.3.)	40 596		42 736		105
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	4 850	70	5 613	91	116
4.2.	Other operating income	2 088	30	556	9	27
4.3.	Total operating income (4.1. do 4.2.)	6 938	100	6 169	100	89
5.	Operating expenses					
5.1.	Salary and contributions costs	26 486	66	27 714	67	105
5.2.	Costs of business premises, other fixed assets and utility costs	7 528	19	7 794	19	104
5.3.	Other operating expenses	5 965	15	5 931	14	99
5.4.	Total operating expenses (5.1. to 5.3.)	39 979	100	41 439	100	104
6.	Loan loss provisions and provisions for other losses	3 614		3 233		89
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	3 941		4 233		107
8.	Extraordinary income	9 038		8 422		93
9.	Extraordinary expenses	682		586		86
10.	Surplus/deficit of income over expenses (7.+8.-9.)	12 297		12 069		98

Annex 6.

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.09.2015	%	For the period 01.01. - 30.09.2016	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	1 206	100	2 617	100	217
1.4.	Other financial income	0	0	2	0	n/a
1.5.	Total interest income and similar income (1.1. to 1.4.)	1 206	100	2 619	100	217
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	373	93	905	96	243
2.2.	Other financial expenses	27	7	40	4	148
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	400	100	945	100	236
3.	Net financial income (1.5. - 2.3.)	806		1 674		208
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	83	94	177	92	213
4.2.	Other operating income	5	6	15	8	300
4.3.	Total operating income (4.1. to 4.2.)	88	100	192	100	218
5.	Operating expenses					
5.1.	Salary and contributions costs	544	79	739	79	136
5.2.	Costs of business premises, other fixed assets and utility costs	37	6	52	5	141
5.3.	Other operating expenses	105	15	149	16	142
5.4.	Total operating expenses (5.1. to 5.3.)	686	100	940	100	137
6.	Loan loss provisions and provisions for other losses	21		268		1 276
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	187		658		352
8.	Extraordinary income	13		8		62
9.	Extraordinary expenses	14		3		21
10.	PROFIT/LOSS BEFORE TAXES	186		663		356
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	186		663		356

Annex 7.

OVERVIEW OF DONATED FUNDS OF MCFs
as of 30.06.2016

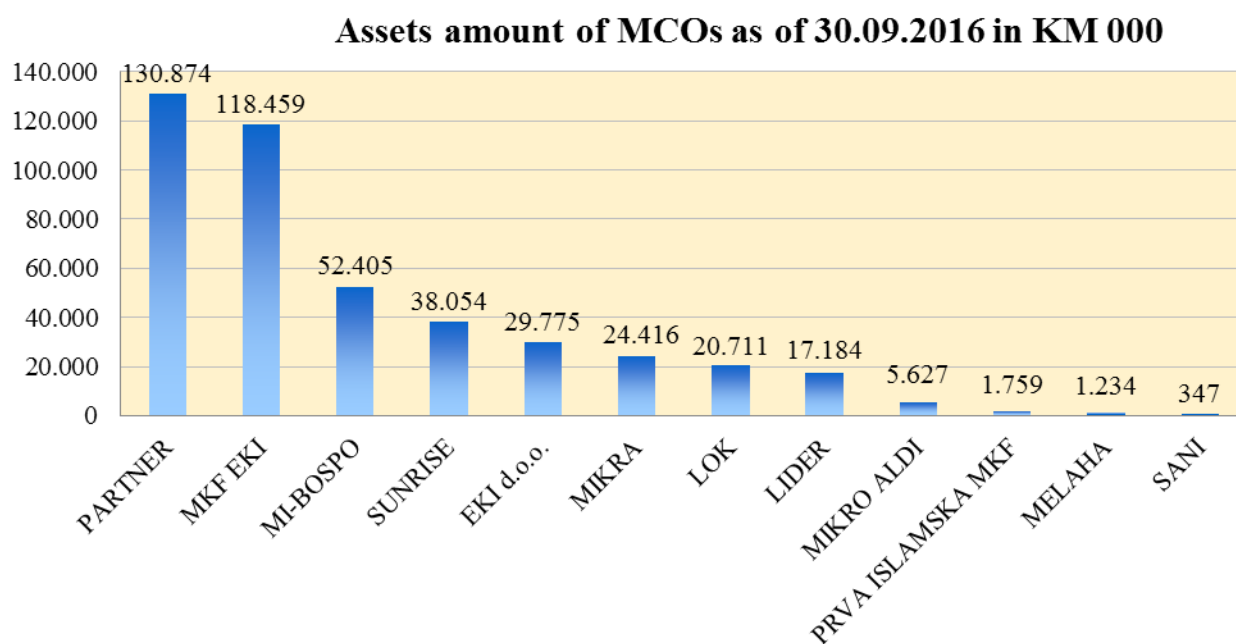
KM 000

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	16 561	2 263	1 942	45 850
1.	Mercy Corps								10 091			10 091
2.	USAID	3 046		543					3 046			6 635
3.	CHF-(SIDA, MEDI, HILP)		5 891									5 891
4.	LIP			1 479		947			675		1 214	4 315
5.	CRS						4 070					4 070
6.	UNHCR			1 198		479		200	1 229		614	3 720
7.	Islamic Relief WW, Representative Office Sarajevo									2 263		2 263
8.	UNDP	1 932		153					59			2 144
9.	UMCOR			637		377			317			1 331
10.	IRC					371			805			1 176
11.	SIDA Housing	1 080										1 080
12.	Women's World Banking					1 034						1 034
13.	PRM/USA State Department			577								577
14.	OXFAM							500				500
15.	EZE, Germany								339			339
16.	USDA Know-How Project	237										237
17.	Church World Service					146						146
18.	Other	31		52				104			114	301
Fixed assets donations		8	0	286	0	12	235	80	229	0	85	935
19.	Mercy Corps								229			229
20.	Unipromet						170					170
21.	Nedžad Beglerović			102								102
22.	NOVIB							80				80
23.	EBRD										75	75
24.	CRS						65					65
25.	Other	8		184		12					10	214
Operating expenses donations		1 019	874	2 810	500	1 344	17	146	2 047	2	709	9.468
26.	LIP			1 515					201		709	2 425
27.	USAID					1 344			591			1 935
28.	CHF		874									874
29.	Mercy Corps								808			808
30.	SIDA Housing	748										748
31.	PM			556								556
32.	BCT			519								519
33.	JKPHD La Benevolencija				500							500
34.	NBR			220								220
35.	UNHCR								176			176
36.	EFSE	26						1	87			114
37.	NOVIB							110				110
38.	EBRD	105							1			106
39.	IFC	104										104
40.	Other	36					17	35	183	2		273
TOTAL DONATED CAPITAL		7 353	6 765	7 735	500	4 710	4 322	1 030	18 837	2 265	2 736	56 253

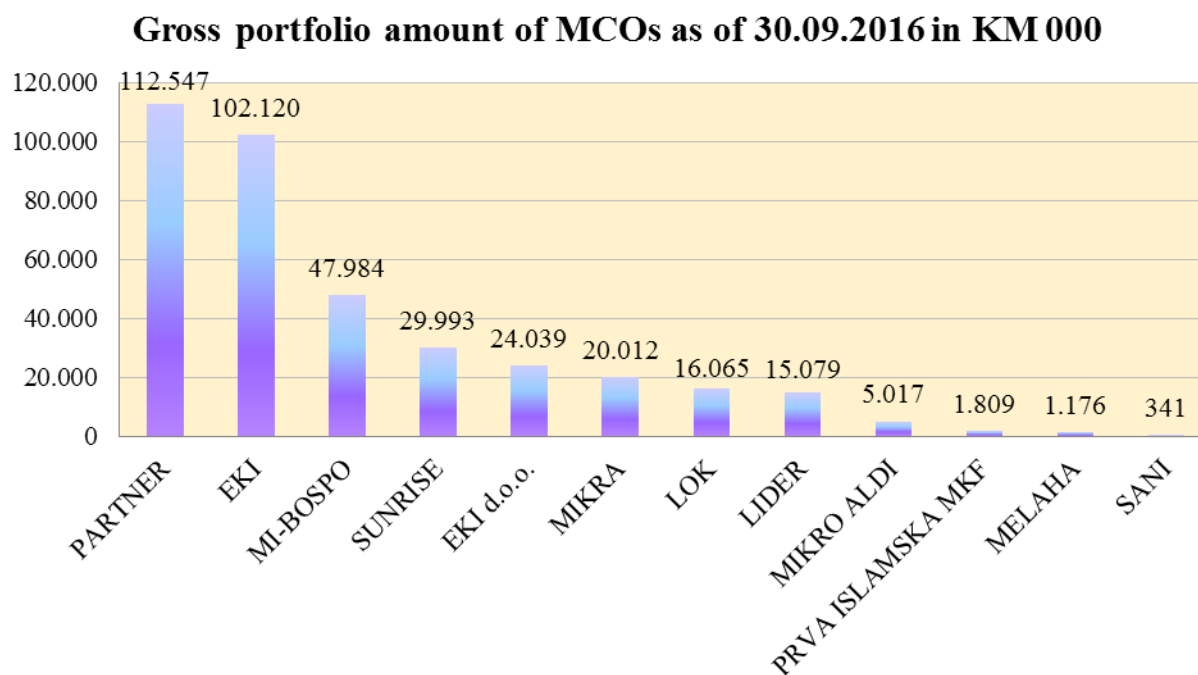
GRAPHS

- Graph 1. Assets amount of MCOs as of 30.09.2016 in KM 000
- Graph 2. Gross portfolio amount of MCOs as of 30.09.2016 in KM 000
- Graph 3. Loan commitments amount of MCOs as of 30.09.2016 in KM 000
- Graph 4. Capital amount of MCOs as of 30.09.2016 in KM 000
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- Graph 24. Average weighted EIR on long-term loans as per MCO reports in Q3 2016

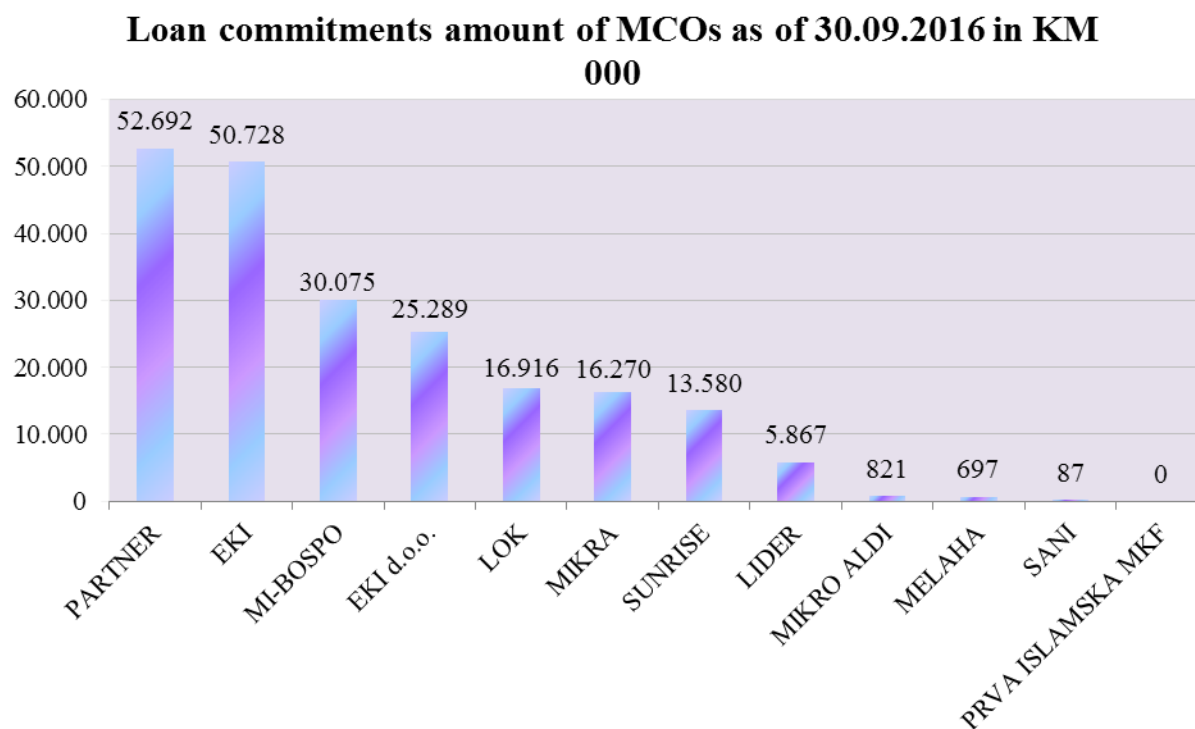
Graph 1.



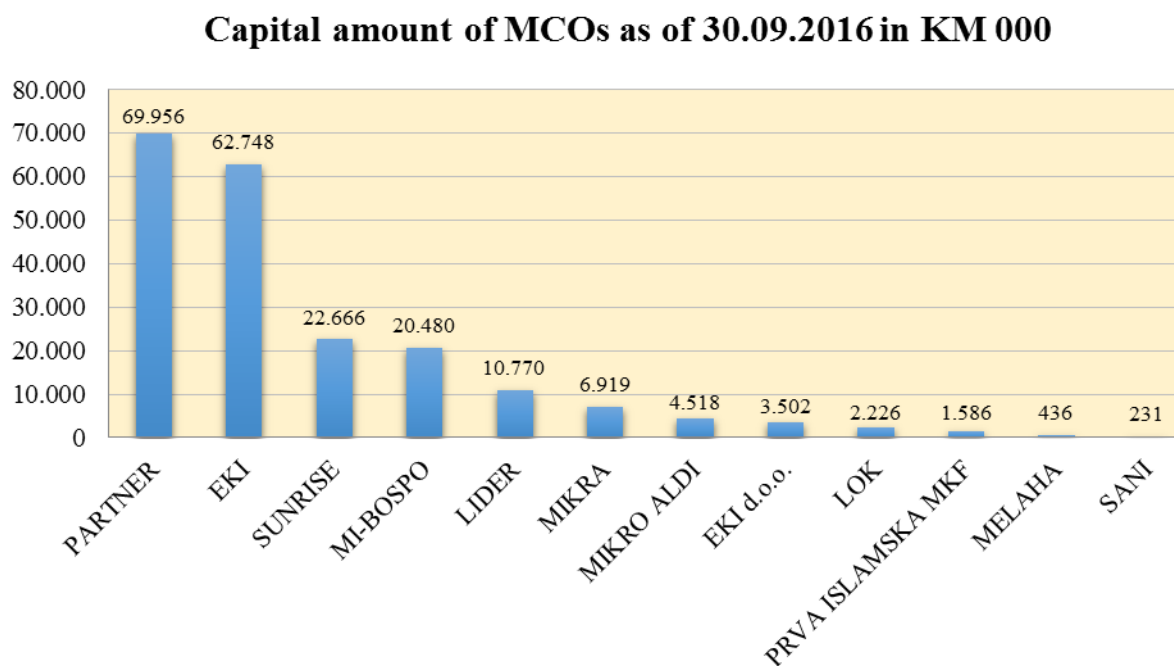
Graph 2.



Graph 3.

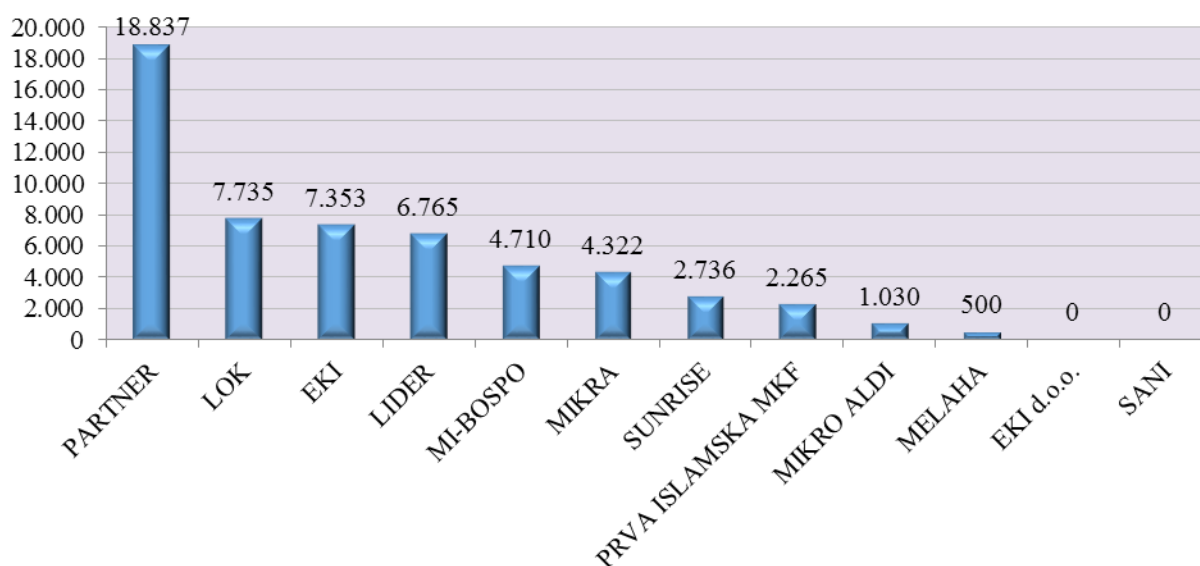


Graph 4.



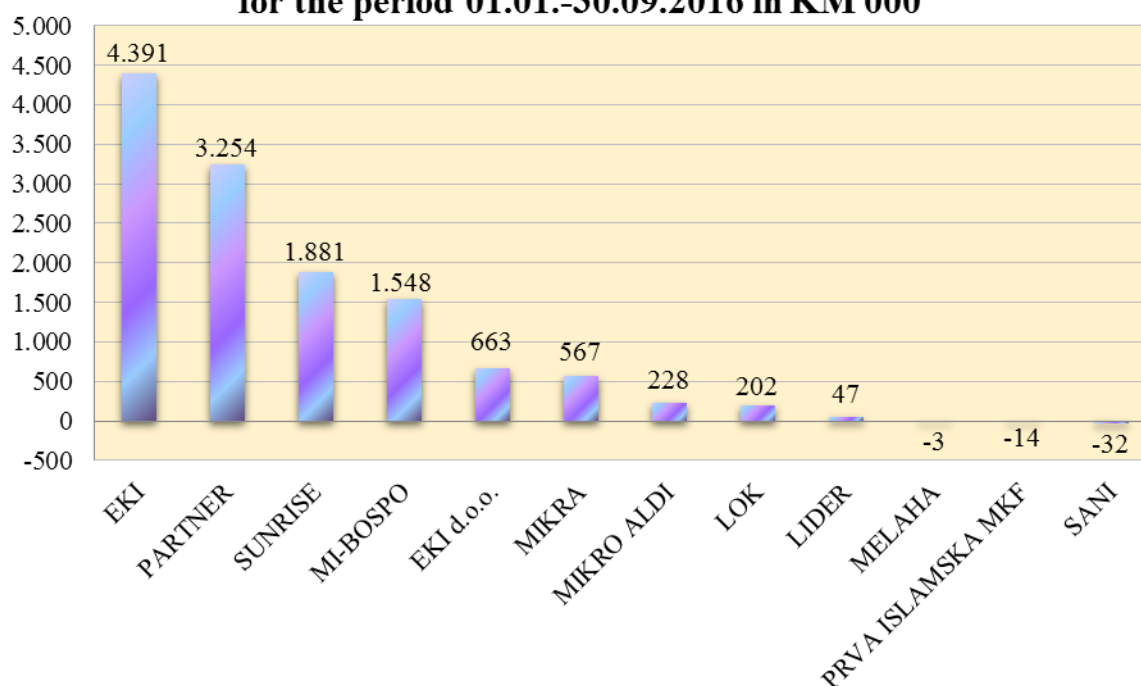
Graph 5.

**Donated capital amount (by reports) of MCOs as of
30.09.2016 in KM 000**

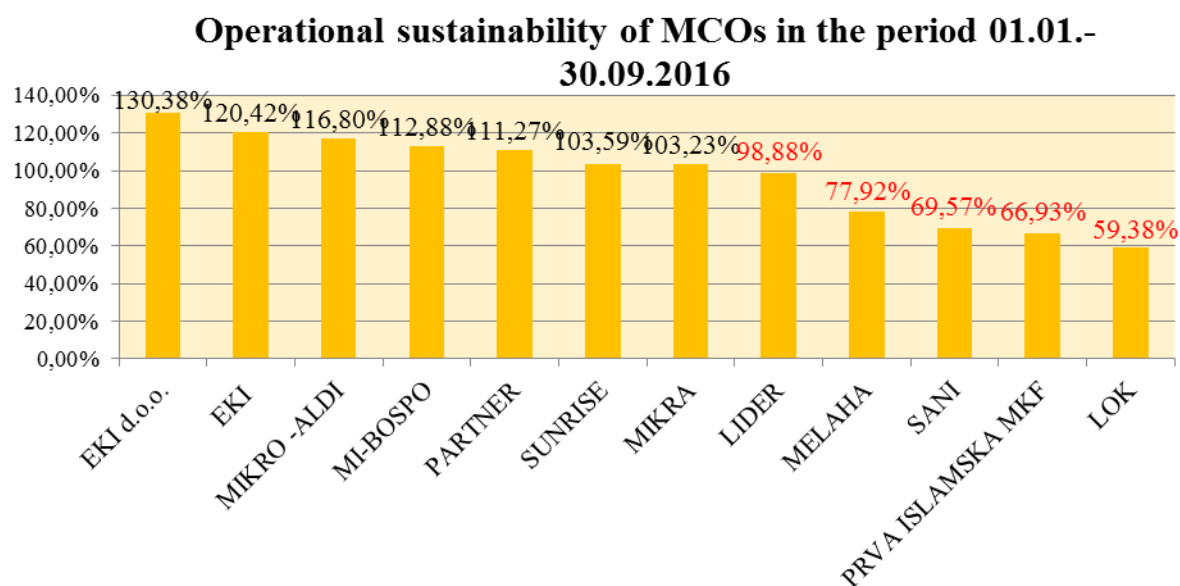


Graph 6.

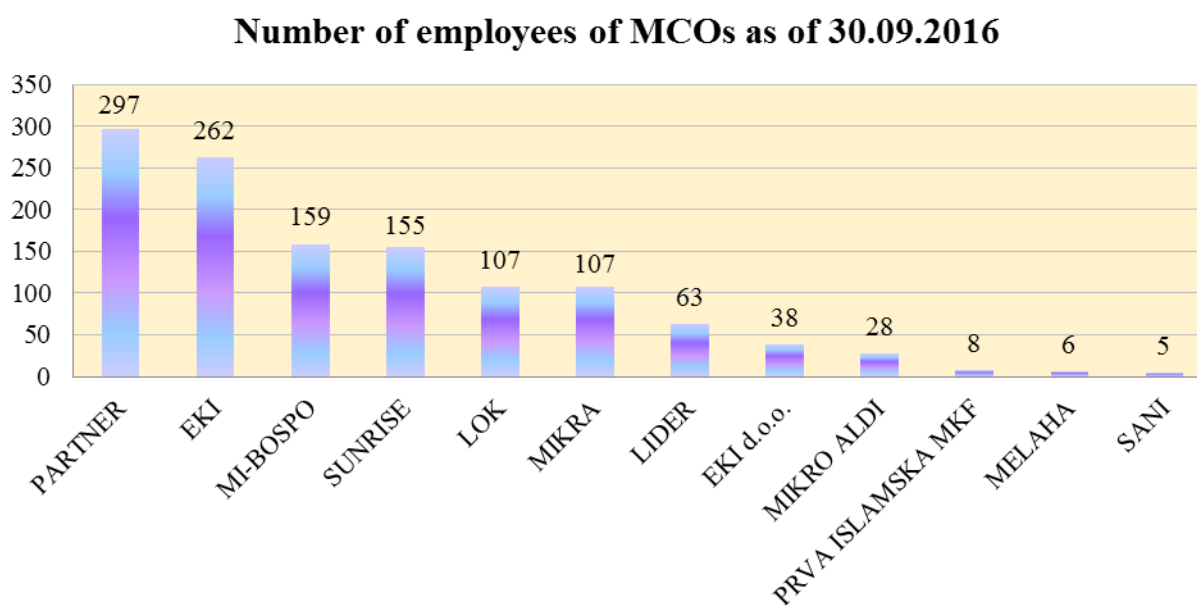
**Surplus/deficit of income over expenses of MCFs, i.e. net
profit/loss of MCCs
for the period 01.01.-30.09.2016 in KM 000**



Graph 7.

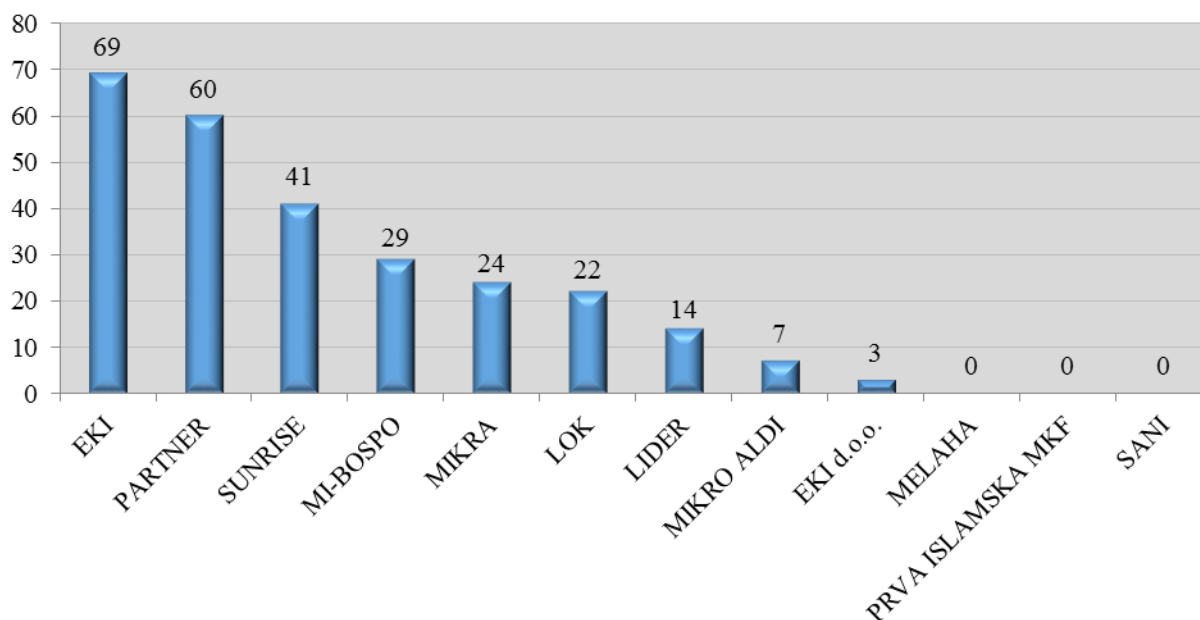


Graph 8.



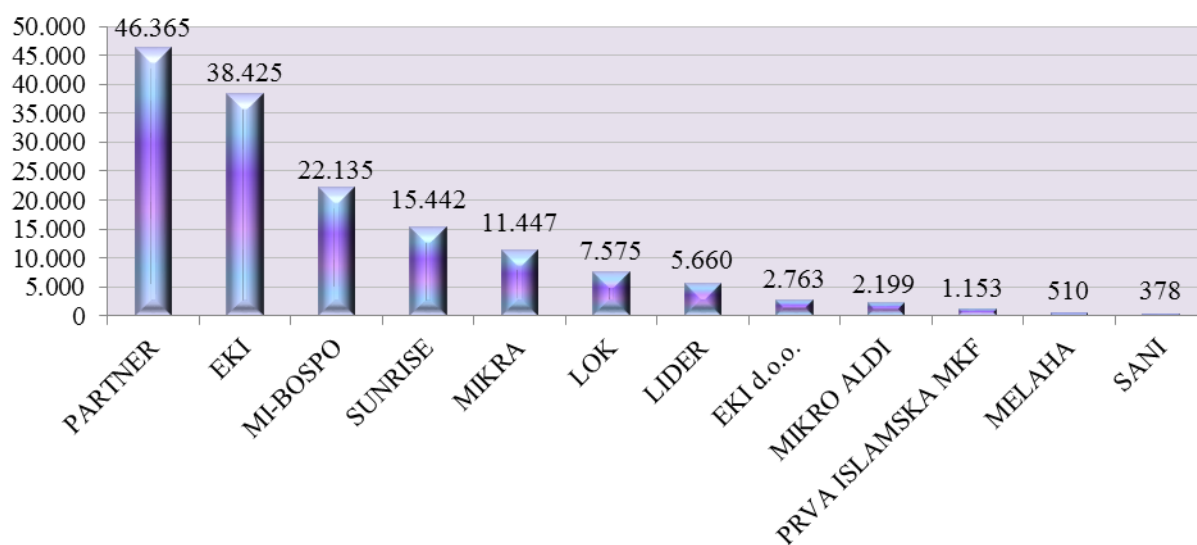
Graph 9.

Number of organisational units of MCOs seated in the Federation of B&H as of 30.09.2016



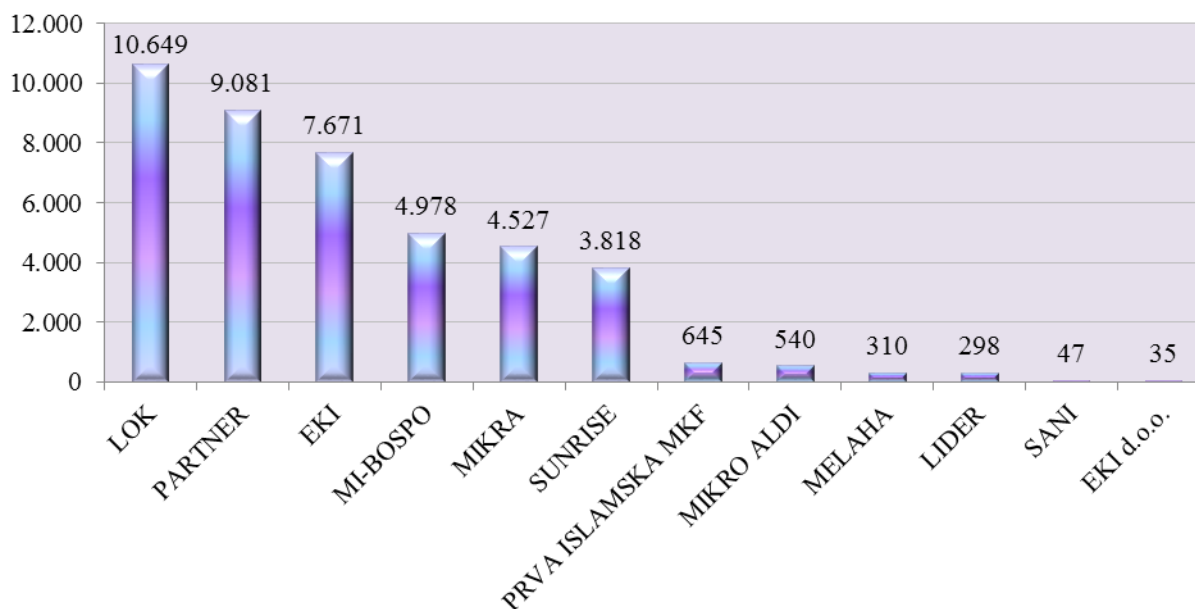
Graph 10.

Number of active loan accounts of MCOs with the balance as of 30.09.2016



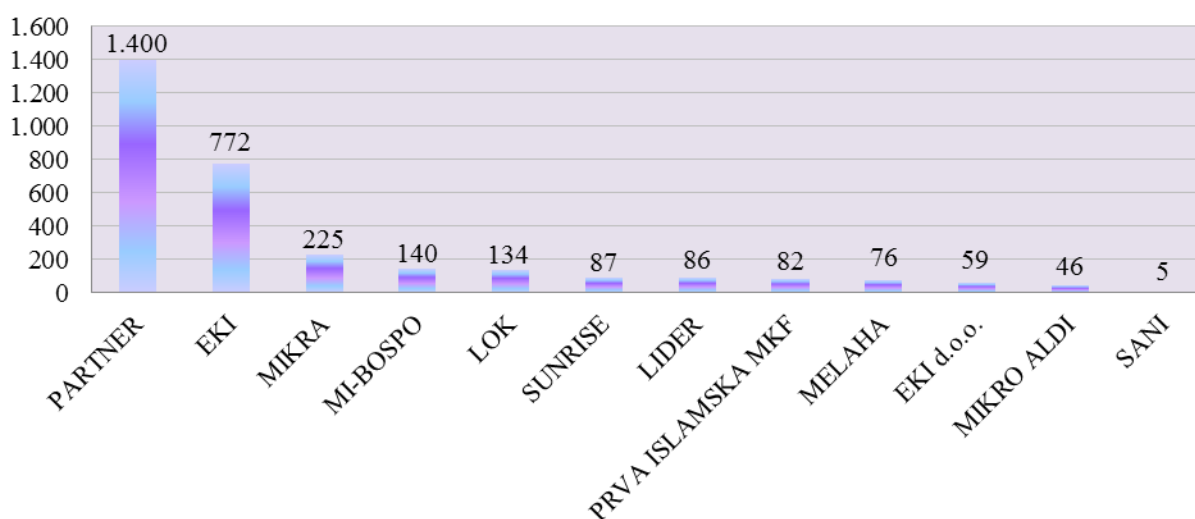
Graph 11.

**Number of written-off loans in the off-balance records as of
30.09.2016**

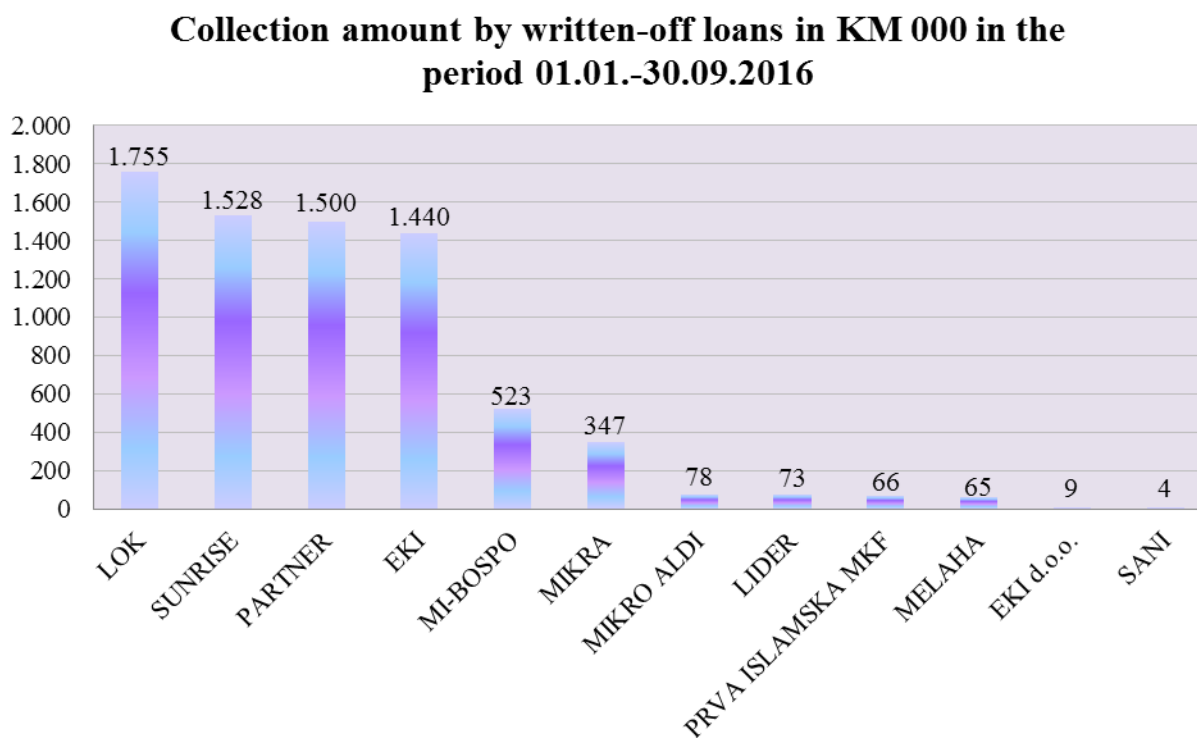


Graph 12.

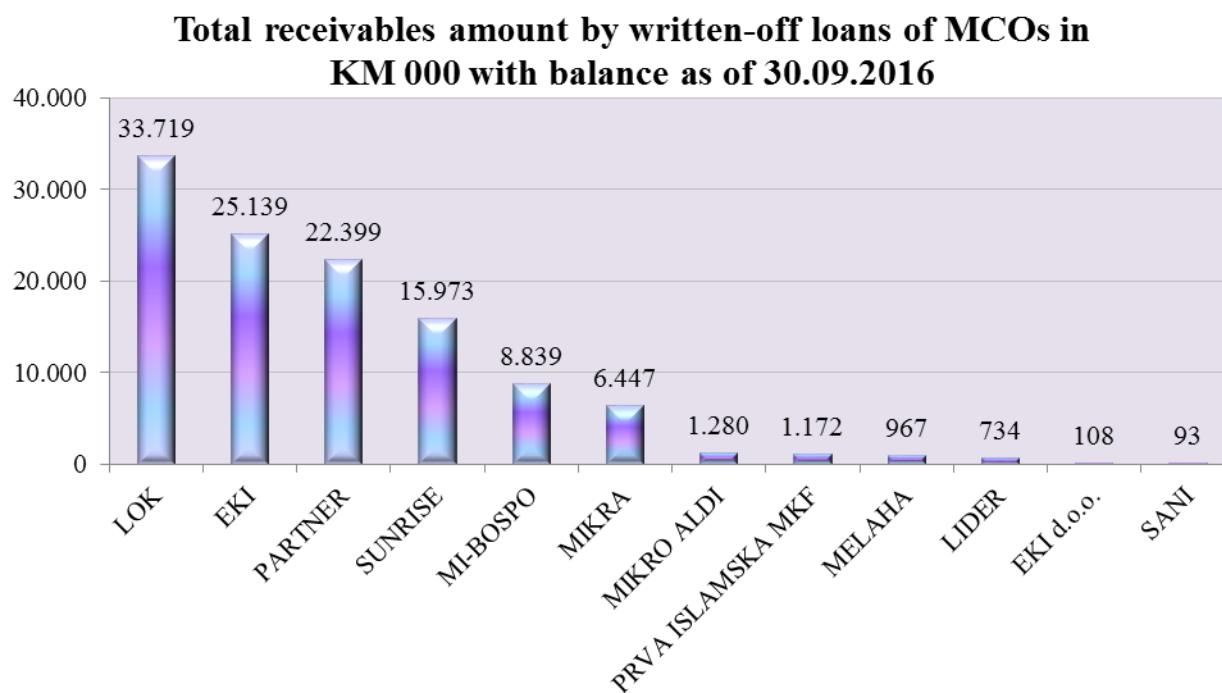
**Loan amount in KM 000 written-off in the period 01.01.-
30.09.2016**



Graph 13.

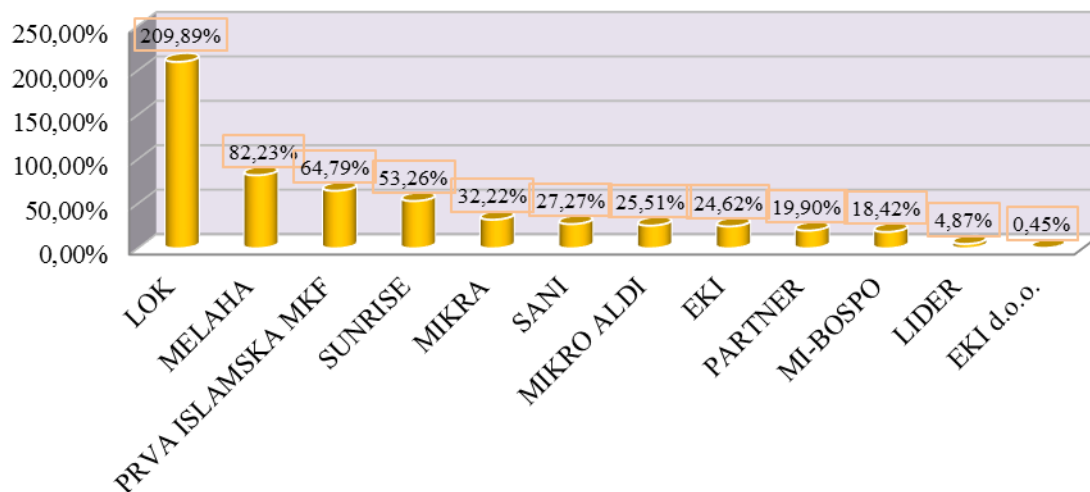


Graph 14.



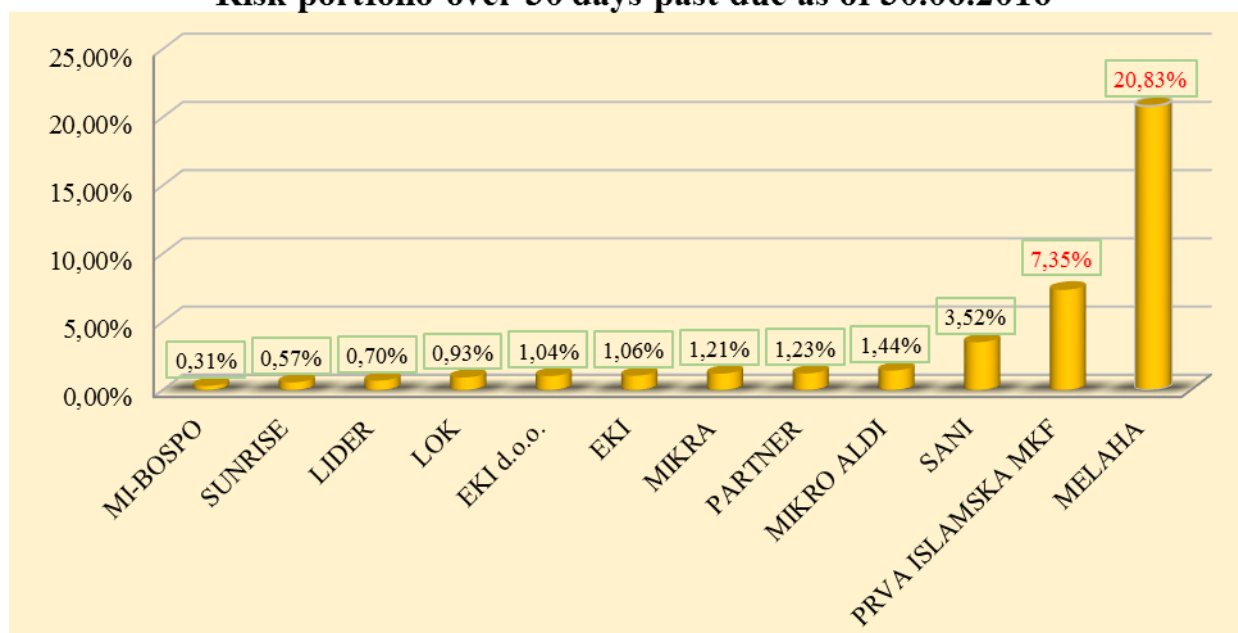
Graph 15.

Total receivables by written-off loans vs. total gross portfolio of MCOs as of 30.09.2016

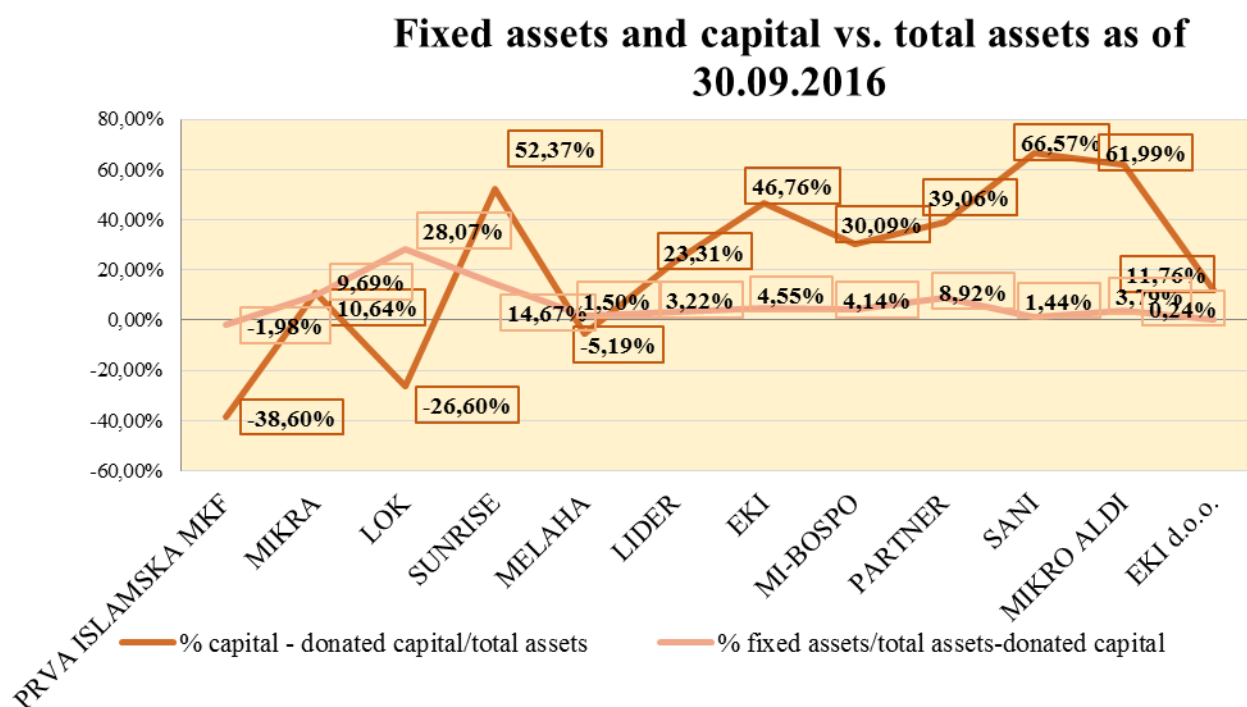


Graph 16.

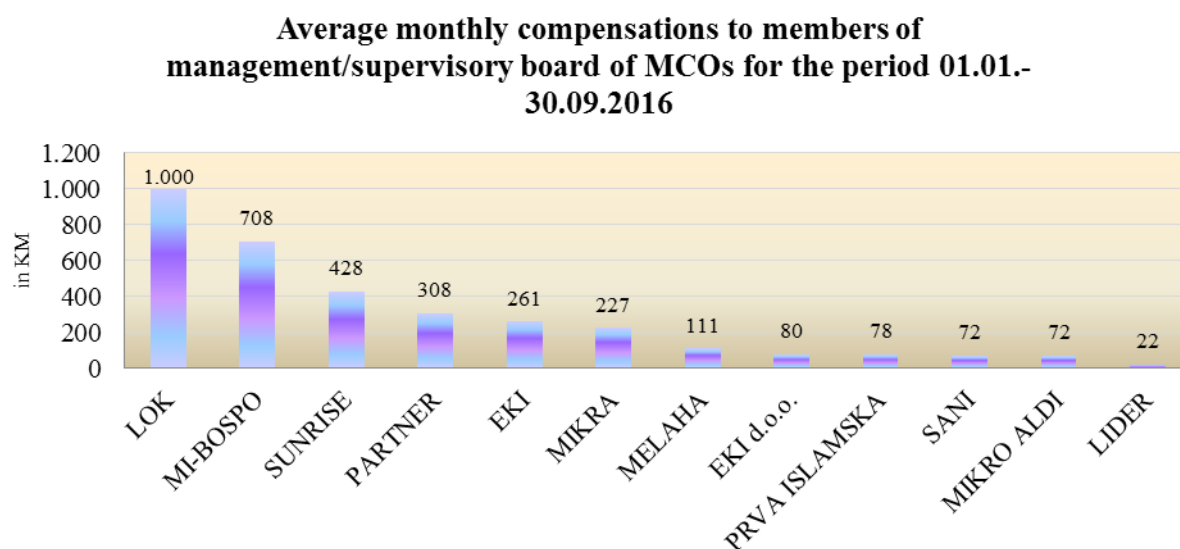
Risk portfolio over 30 days past due as of 30.06.2016



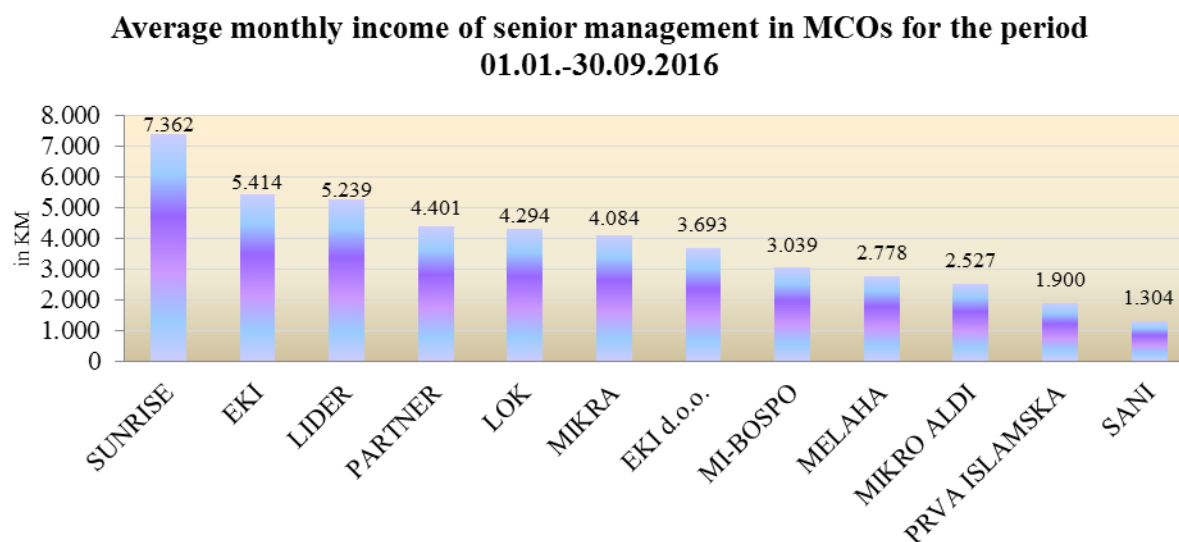
Graph 17.



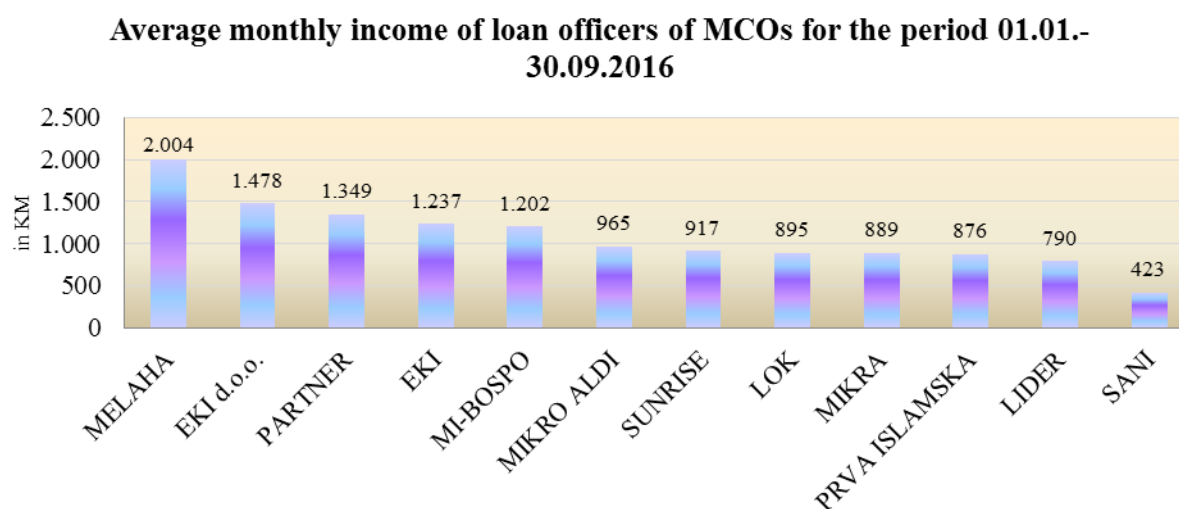
Graph 18.



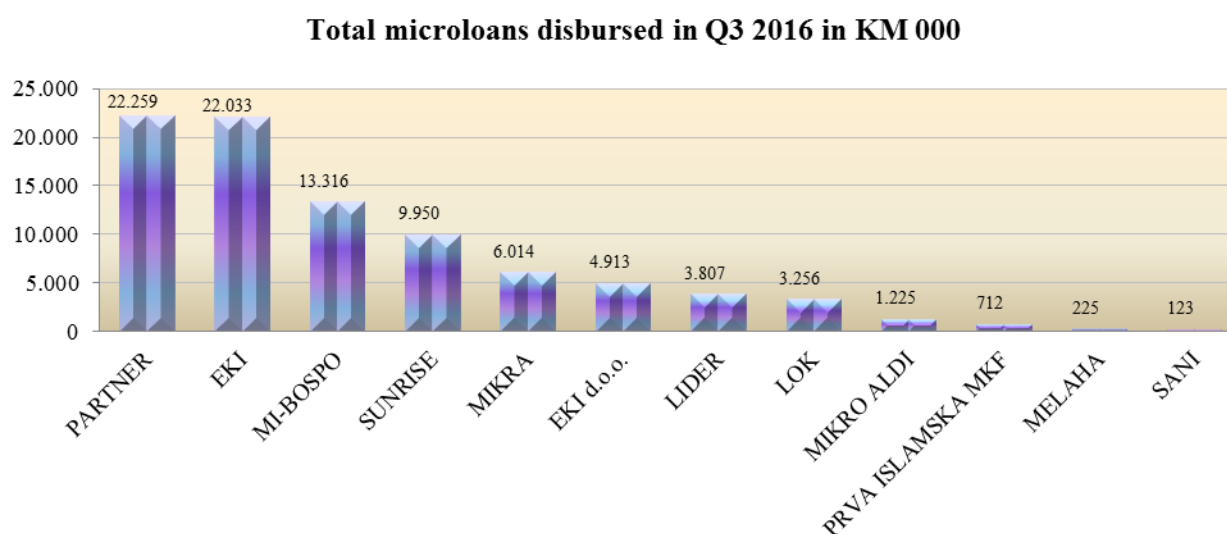
Graph 19.



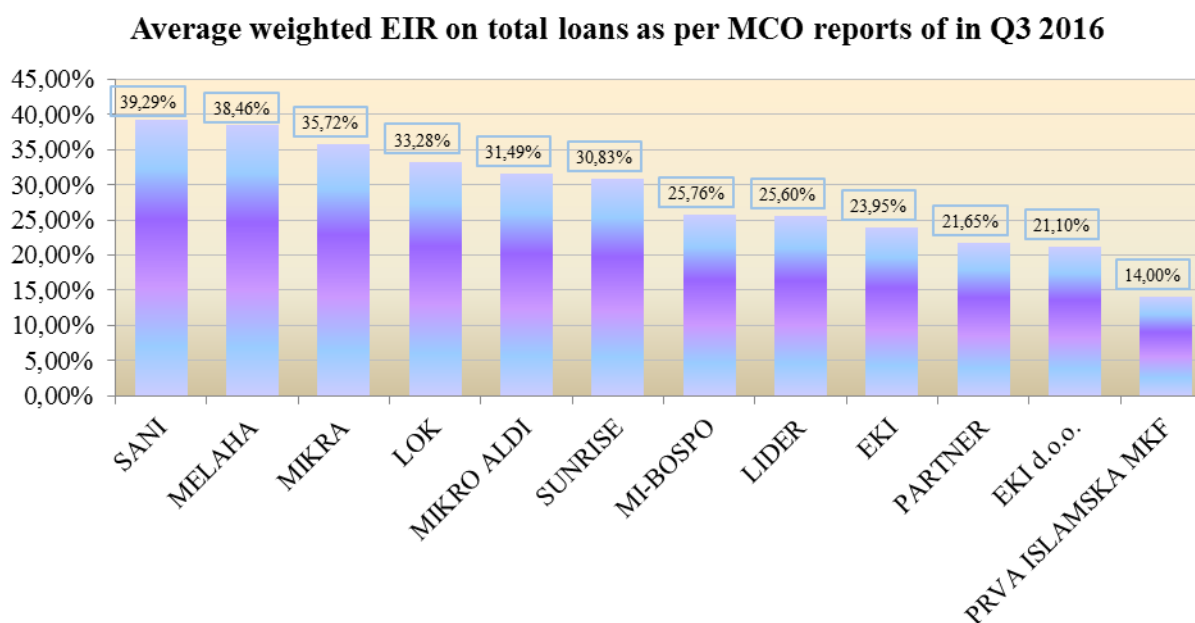
Graph 20.



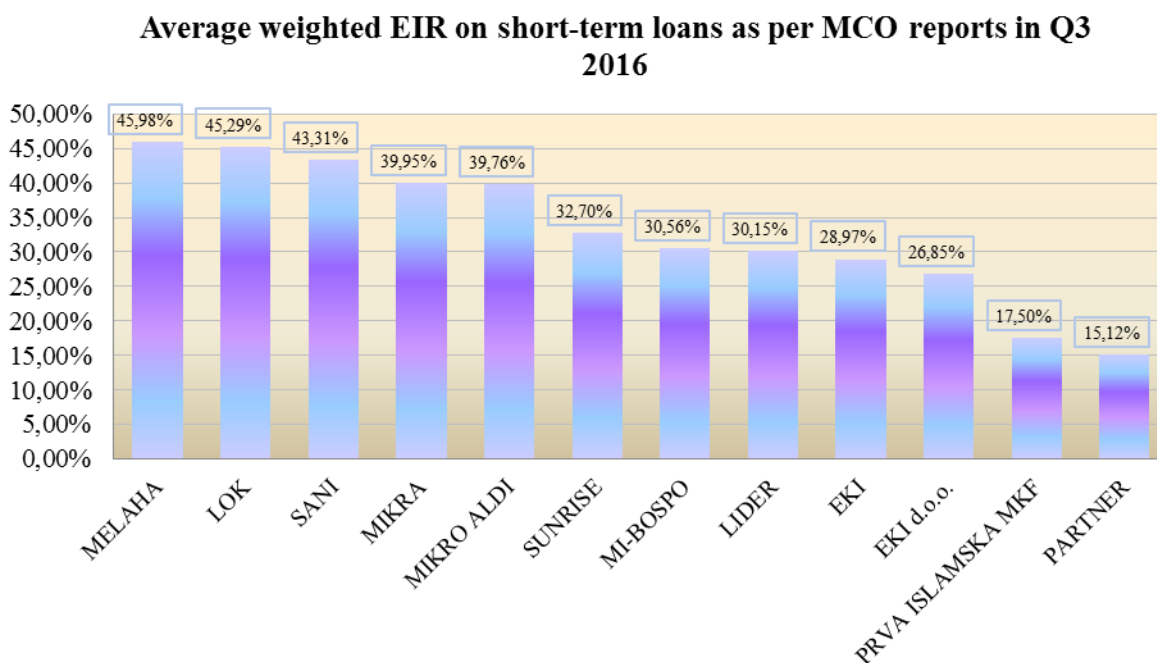
Graph 21.



Graph 22.



Graph 23.



Graph 24.

