

Recent developments in MCO sector of BiH and challenges for capacity development



Sector highlights



End 2006

1. 50% growth: Over 200.000 active clients and EUR 300 million of outstanding portfolio; average loan size disbursed EUR 1,500
2. Excellent portfolio quality; PAR 0.76% Write off ratio of 1.12%
3. Yield on portfolio 26.01%; Administrative efficiency 14.56%
4. AROA 3.72% ; AROE 13.72%; Leverage 3.73

Changes in legal and regulatory framework

New Law on MCOs

1. Entity level Laws; not fully harmonized; in one entity direct transformation allowed
2. Profit (MCCs) and non-profit (MCF) form of MCOs possible
3. Introduction of supervision by Banking Agencies
4. Relaxation of restrictions on MCO products, but MCOs remain credit-only institutions
5. The process of re-registration should be completed by September 2007

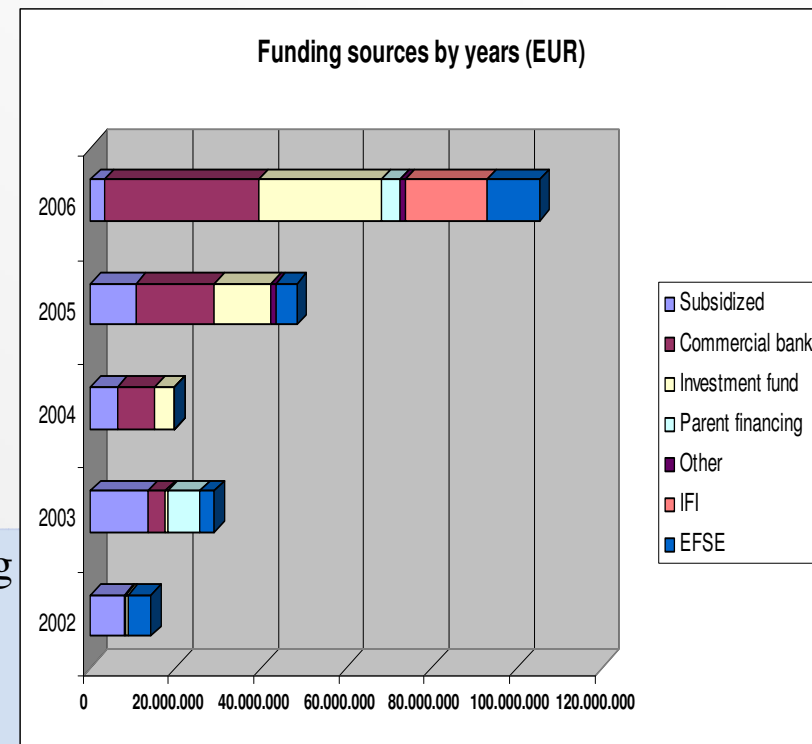
Challenges and Opportunities

Funding

1. Increased interest of investors; growth of funding 120% ; coming predominantly (over 60%) from private sector: Commercial banks and Investment funds; EFSE 12%

2. Better terms and conditions of ref. facilities longer maturity, fixed interest rates, pricing

3. Shift from subsidized to commercial funding
Average weighted margin over six month EURIBOR dropped from 534 bp in 2005 to 457 bp in 2006 (Q4 4.15%); ranges from 414 to 492 depending on the products



Challenges and Opportunities



Capacity building

1. Transformation challenges: change of the corporate culture, legal, financial, operational aspect
2. Changes in ownership and governance structure; balancing social mission and commercial orientation
3. Addressing the shortcomings of the new Law related to the other products and services that the MCO clients have (payment transactions, savings, guarantees)

Outlook

1. Support to this critical period in the sector development with adequate mix of products and services addressing the changes in the regulatory framework
2. Continue the support to the market orientation of the MCOs, full integration into the financial sector
3. Technical assistance in supporting the capacity building activities; EFSE has organized focused TA on transformation issues