

EKI, Bosnia and Herzegovina

EKI began operations as a project of World Vision International (WVI) in February 1996 in Zenica, Bosnia Herzegovina (BiH). It registered as a local Microcredit Organization (MCO) in March 2001 and obtained a license under the new microfinance law in 2007. EKI now waits for registration by the Ministry of Justice before becoming officially a Microcredit Foundation (MCF) and plans rapidly thereafter to become a Microcredit Company (MCC). Through its network of 12 branches and 55 satellite offices, EKI serves clients across BiH in both urban and rural areas. With loans from 300 to 30,000 BAM, it serves a clientele comprised of small entrepreneurs, microentreprises and SMEs. As of September 2007, EKI had an outstanding portfolio of over 71.2 million EUR, serving over 37,950 clients of all ethnic origins.

GIRAFE Rating

Rating

A

Outlook

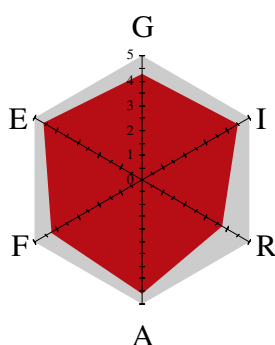
Stable

Date of the rating

November 2007

Valid until October 2008

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- EKI is highly profitable (ROA=8.3%, ROE=37.5% in Sept. 2007), this excellent performance is fuelled by increased leverage, higher economies of scale and continuous success in cost control.
- Decentralized and cost effective lending operations, effective IT systems, good productivity and excellent asset deployment all contributed to better efficiency.
- EKI grew very fast (averaged 63.7% from 2005) thanks to an aggressive marketing and expansion strategy, but portfolio quality stayed at excellent levels (PAR 30=0.4%) thanks to rigorous portfolio management practices. Part of the operations, such as internal audit staff, did not catch up with operations' growth.
- Financing increasingly through debts, EKI demonstrated good negotiation skills as evidenced by the still moderate funding expenses (4.9% as of Sept. 2007), which helped EKI to hold a solid third position in terms of active borrowers and loan portfolio (market shares are 15% and 19%, respectively in Sept. 2007).
- An important short-term challenge is whether EKI will be able to fully mitigate the regulatory risk of delayed transformation into a MCF and then a MCC (see Microfinance Sector section). By the end of 2008, EKI needs to raise new capital in order to finance further growth, though its prospects are considered very good.

Outlook

- The "Stable" trend is underpinned by Planet Rating's expectations that EKI will maintain its good market position and excellent portfolio quality and will handle smoothly the challenges associated with its transformation thanks to adequate preparations, and solid operational and financial profile.

Performance indicators

EUR	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007
Assets	12,240,515	16,944,984	21,323,302	28,954,562	46,733,399	74,565,536
Growth	61.0%	38.4%	25.8%	35.8%	61.4%	59.6%
Loan portfolio	11,283,874	15,238,777	19,367,863	26,610,292	44,226,914	71,297,483
Growth	53.0%	35.0%	27.1%	37.4%	66.2%	61.2%
Active borrowers	8,999	13,323	18,815	22,619	28,078	37,950
Staff	89	102	119	153	211	242
ROE	52.3%	34.5%	27.2%	22.1%	31.0%	37.5%
ROA	7.0%	6.3%	6.3%	5.3%	7.4%	8.3%
Liabilities / Equity	5.86x	3.74x	3.00x	3.28x	3.10x	3.88x
Portfolio Yield	26.3%	23.1%	22.6%	21.0%	23.6%	22.3%
Operating expense ratio	16.4%	14.3%	13.7%	12.7%	11.6%	8.6%
PAR 31-365	0.2%	0.3%	0.4%	0.3%	0.3%	0.4%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.5%	0.3%	0.4%	0.5%	0.5%	0.2%

Microfinance sector

The microfinance sector in Bosnia and Herzegovina (BiH) was launched in 1996 with support from the World Bank (WB) and international NGOs. The bulk of start-up funds to the sector have been channeled through the WB-financed Local Initiatives Project (LIP). Through various rounds of LIP funding, the WB has been able to dictate conditions through its Eligibility Criteria and thus heavily influenced the way many microfinance organizations (MCOs) are managed. Numerous international donors have funded MCOs and provided valuable technical assistance. The largest MCOs, having adopted most industry best practices, are among the strongest MFIs in Eastern Europe. As of September 2007, the 12 largest MCOs reporting to the Association of Microfinance Institutions (AMFI), reported a total portfolio of 737 M BAM (376.8 M EUR), for 272,315 loans. This does not include commercial banks' portfolio, with the largest share attributed to ProCredit Bank Bosnia (outstanding loan portfolio of 154.3 M EUR for 64,871 loans as of September 2007).

Both BiH entities' parliaments have adopted the new microfinance law (Republika Srpska -RS- Parliament on June, 2006 and Federation of BiH -FBH- Parliament on October, 2006). Relevant bylaws have been issued in both entities. The new law will require existing FBH-based MCOs to register first into a Microcredit Foundation (MCF) and subsequently to follow two options: to remain with the MCF status or to create a Microcredit Company (MCC) of which the foundation will be a shareholder and which may operate either as Limited Liability Company (LLC) or as Joint Stock Company (JSC). Both options (MCFs or MCCs) are non-deposit taking, an activity reserved to banks. The two main differences between these two options are: 1) minimum capital requirement (500,000 BAM or 250,000 EUR for a company and 50,000 BAM or 25,000 EUR for a foundation); and 2) maximum loan size (50,000 BAM or 25,000 EUR for a company and 10,000 BAM or 5,000 EUR for a foundation). The law authorizes MFI mergers and acquisitions and outlines clear reporting requirements. The Law on Enterprises will also apply to newly transformed MCCs including the requirement to pay income taxes. The MFIs will be licensed and supervised by each entity's Banking Agency, which is a step forward in terms of supervision of the sector, presently regulated by the Ministry of Finance in RS, and by the Ministry of Displaced Persons and Refugees in FBH. Regulation will not include prudential norms given the absence of deposit taking risks.

The BiH microfinance sector is now in an interesting phase of development where MCO top managers and their Boards have been deciding which transformation option to take. The largest MCOs are expected to transform into MCCs for the

following reasons: 1) most have sufficient capital which was built up from capitalized donations and retained earnings; 2) all have been disbursing loans exceeding 10,000 BAM; 3) the company status will allow the opening of the capital structure to investors. For the time being, most FBH-based MCOs have received their license from the banking agency to operate as MCF but have not been registered as such yet. In contrast, as RS-based MCOs did not have to register first as MCFs, they are already operating as MCC in RS and even FBH (once registered in one entity, registering in the other is generally swift). FBH-based MCOs contemplating to apply later for the MCC status will be operating as MCFs during a period that could last three months (presumably from January 2008, once they will be registered as such by the Ministry of Justice). Currently granting loans up to 30,000 BAM, they will most likely have to reduce their maximum loan size down to 10,000 BAM during this period. In a context of fierce competition, MFIs currently lending a significant part of their portfolio over 10,000 BAM could lose some market share depending on how long this period might drag on.

Several MFIs are in discussion with potential domestic and foreign investors to secure their participation as strategic equity partners. Merger discussions are expected to accelerate and to be more serious than before. Mikrofin, the largest MFI of BiH has already merged with Benefit, and it is likely that other mergers will take place over the next few years when equity investors start to flex their muscles. Most commercial banks, led by Raiffeisen and Hypo-Alpe-Adria (but with the notable exception of ProCredit which conducts microfinance operations directly), have thus far chosen to get involved in the microfinance sector indirectly by financing MFI portfolio growth. They might become equity investors as well. In all cases, the BiH microfinance sector is firmly heading towards consolidation and further commercialization.

Political & economic environment

Robust domestic demand and good export performance have been underpinning growth. The fixedness of the exchange rate based on a currency board regime has made it possible to keep inflation at low levels except for the price increases registered in 2006, attributable to introduction of VAT. Financial intermediation has been developing. Foreign currency reserves have been growing. The tax system has been modernized, the public sector deficit reduced and government debt kept to moderate levels. That progress nonetheless rests on shaky foundations. The current account deficit is still too large, reflecting the limited extent of domestic savings. This imbalance has tended to increase the country's external vulnerability in view of its appreciable debt burden. Exports have not been very diversified, with

half comprising sales of metals, mineral products, and wool and depending on price trends for staple commodities. The lagging pace of reforms intended to improve the business environment has deterred private investment. Institutions are fragmented with administrative capacities remaining limited. The sharp credit expansion could undermine the financial sector. The future development of public spending will be uncertain due to a lack of adjustment measures and to the substantial arrears owed by the government for war damages. Bosnia-Herzegovina is still the region's least advanced country in the transition process.

In the political arena, the October 2006 general elections materialized the defeat of the traditional nationalist parties. However, the winning parties' divisive rhetoric hardly augurs a peaceful legislature. More recently, the political climate has deteriorated as the police reform proposed by the Office of the High Representative was rejected and the Prime Minister Nikola Spirić resigned. The consequences of renewed tensions would be to prolong the country's current international "protectorate" status and delay its march toward the European Union.

Rating : D - The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.

USD millions	2004	2005	2006(e)	2007(f)
Economic growth (%)	5.8	5	5.5	6
Inflation (%)	0.2	2.8	6.5	2.5
Public sector balance (%GDP)	-5.9	-3.9	-3.6	-5.7
Exports	2,087	2,591	3,041	3,686
Imports	6,656	7,581	7,973	9,389
Trade balance	-4,570	-4,989	-4,932	-5,703
Current account balance (%GDP)	-19.3	-21.3	-17.0	-17.5
Foreign debt (%GDP)	53.5	57.9	54.7	54.2
Debt service (%G&S exports)	2.7	2.5	2.7	2.5
Foreign currency reserves (in months of imports)	4	3.7	4.8	5.5

Source: COFACE's Country Risk Rating Guidebook. (e) estimates (f) forecasts. Note: COFACE is a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

EKI is currently operating as MCO and registered with the Federal Ministry of Displaced Persons and Refugees. Though already licensed to operate as a MCF (under the provisions of the new Law published in October 2006 in the FBH), EKI is still waiting for its registration as a MCF by the Ministry of Justice in order to operate officially as a MCF and becomes eligible to transform into a MCC. Once

registered as a MCF, EKI will fall under the supervision of the FBH Banking Agency. The regulatory environment differs slightly from the FBH to the RS, thereby requiring MFIs that operate in both entities, like EKI, to register twice (with each entity's banking agency) and comply with slightly different reporting and supervision rules. PriceWaterhouseCoopers (PwC) was selected again as the external auditor in 2006 (PwC was its auditor before the local firm INACO was chosen in 2001). PwC provided an unqualified opinion for the 2006 financial statements which are audited in accordance with international accounting standards (IAS and IFRS).

Ownership

As a MCO and soon a MCF, EKI has no owners. EKI is governed by a 7-member Board of Directors (BOD). Any new BOD member is elected by the existing ones. As EKI will transform into a MCF and subsequently into a MCC, each BOD member will be subject to the approval of the FBH banking agency. Most members were invited by World Vision (WVI) and the Management Team to join the BOD in 2001 when the institution localized. The current BOD, with a mandate of four years, is presided over by Richard Reynolds recently appointed to the position of Vision Fund (VF) Operations Director. There are also BOD Committees (e.g. Audit, Compensation and Asset Liability Committees) providing oversight on specific areas. Upon becoming a MCC under the form of a Limited Liability Company (LLC), the EKI MCF will be the sole owner. Then the MCC is expected to open up its ownership to outsiders, but the first shareholder is expected to be VF by mid-2008 through the conversion of WVI/VF senior debts into shares. Afterward, MCC will enter into negotiations to open up its capital to other investors. In all scenarios, MCF is expected to stay the majority share owner (51%) of the MCC for the next 2 years.

The recent WVI decision to transfer its microfinance assets to VF (created to manage WVI global microfinance assets) has not reflected on EKI yet. WVI still dominates EKI's BOD and WVI and VF interests are intimately intertwined. Represented on the BOD by three representatives, WVI and VF have "de facto" veto right on key issues. WVI loan contract with EKI outlines very strict rules on operations, among which is a stipulation for maximum PAR and write-off ratio levels. WV owns the eMerge loan tracking system. EKI benefits from WVI's network through trainings, IT licensing, and technical assistance plus some funding obtained by/through WVI.

Donations

EKI received 3.4 M EUR of donations since its inception. Most of the funds came from WVI, USAID LAMP, UNDP,

IFC, SIDA and CIDA. SIDA and CIDA funds are channeled through World Vision Bosnia for economic support projects.

Funding composition

Beside from the loan of WV and VF (13.5% and 3.1% of total funding respectively), EKI is presently funded by foreign funds and governments like KfW-EFSE, DEXIA/Blue Orchard, IFC, EBRD, Oikocredit and SYMBIOTICS up to 63%. The others funding organizations are the local banks like Raiffeisen Bank, HVB Central Profit Banka and Unicredit for 13% and local funds such as LIP2 for 7% of the total funding. Other negotiations are underway, including EKI's participation in the 2008 BOLD bond to be arranged by Blue Orchard.

Management team

Since inception and for practical reasons, the management team is not all located in its official Sarajevo headquarters. The Executive Director (ED) is based in Tuzla along with the MIS Manager, the lawyer and the Training Officer; the HR Manager (HRM) is based in Dobo; one Operations Manager (OM) is based in Bijeljina and the other in Brcko with the Marketing Manager (MM); the Finance Manager (FM) and the Internal Controller are based in Sarajevo and the Risk Manager (RM) in Zenica. Operations are decentralized as most of credit decisions and basic liquidity management are the responsibility of individual branches.

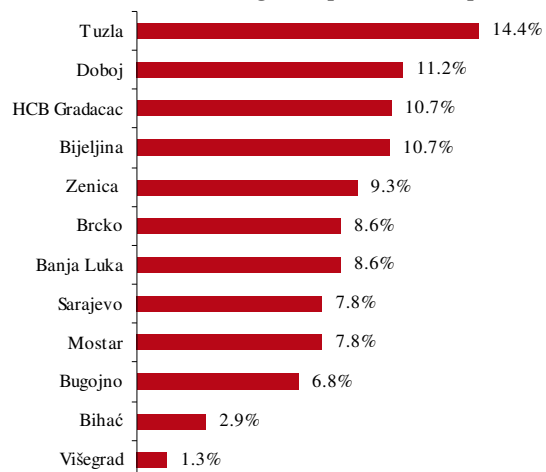
Organization

Credit activities are managed from Branch Offices led by a Branch Manager (BM). Each BM is responsible for the branch and related satellites' loan officers (LOs). Each branch might have up to 4 satellite offices. Loans up to 30,000 BAM are presented on the Loan Committee and approved by BMs. Larger loans require the approval of a Regional Manager or one of the two OMs. All disbursements and repayments are made through banks so EKI branches and satellites do not handle any cash. MIS officers process loan portfolio information daily into e-Merge. Disbursement and repayment data are transferred through the Internet from the banks to e-Merge. Updated databases are transferred every day at HQ in Tuzla through the VPN network. At the branch level, loan portfolio data is transferred daily into the accounting system (SUN), which databases are sent daily by e-mail to the Sarajevo finance department.

Market penetration

Following its recent expansion to eastern RS, western and south western B&H, EKI has established a network covering almost all BiH's territory, comprised of 12 branches and 55 satellite offices.

Outstanding loans per branch - Sept. 2007



Products and services

In 2006, EKI has rationalized its products' range, and is now offering 7 loan products with an average portfolio yield of 22.3%.

- Three loan products are for registered businesses and represent 19.9% of the portfolio as of Sept. 2007: short term loans with amounts ranging from 300 to 3,000 KM (1,393 KM in average) and terms from 1 to 6 months (5 months in average); revolving loan (for good clients) with amounts ranging from 300 to 10,000 KM (7,325 KM in average) and with terms from 1 to 12 months (12 months in average); SME loans with amounts ranging from 5,000 to 30,000 KM (14,402 KM in average) and terms from 1 to 36 months (31 months in average).
- One loan product is for agriculture and represents 27.7% of the portfolio. It has the same term and loan size conditions as SME loans but with an average loan size of 10,073 KM and an average term of 34 months.
- One loan product is for unregistered microentrepreneurs (Mikro Loan) and represents 37.9% of the portfolio. It may also finance agriculture. Amounts granted range from 300 KM to 5,000 KM (2,618 KM in average) and terms from 1 to 36 months (22 months in average).
- Two loans are for non-productive purposes. Household loans are for consumption purpose, represent 1.5% of the portfolio and are granted according to the same term and loan size conditions as Mikro loan with an average loan size of 1,665 KM and an average term of 20 months. Housing improvement loans represent 12.7% of the portfolio. Amounts granted range from 1,000 to 30,000 KM (4,959 KM in average) and terms from 1 to 36 months (29 months in average).
- One branch also offers group loans, but these loans account for a tiny part of the portfolio (0.2%).

Networks

EKI is a member of AMFI (the local association of MFIs in BiH) and Warsaw-based MFC (the Microfinance centre for Central and Eastern Europe and NIS). EKI is also part of the World Vision International (WVI) Network of MFIs grouped under the US-based Vision Fund (VF) umbrella.

■ Governance

Governance and Decision making is rated “a”

Decision making

Current decision-making process as good and effective as expected from a well organized NGO-type BOD. It is getting stronger which in phase with EKI transforming into a MCF. Various BOD Committees (Audit, Compensation and the new ALCO) ensure greater BOD members' involvement in defining, guiding and supervising EKI's operations, although the ALCO is still too new to measure its effectiveness. Overall, the BOD meets regularly (with well-documented minutes), receives relevant and timely data, and is well informed of EKI challenges and issues, facilitating effective decision making.

WVI/VF still holds the main decision-making power, keeping an adequate control over EKI. Still dominated by WVI/VF representatives, EKI's BOD composition and nature have not changed much over the last few years. While the BOD makes relevant and largely autonomous decisions, there are a number of them that need to be further validated by WVI/VF (e.g. purchase of premises) which, now and then, slowed down the decision-making process. No major BOD change is expected before EKI opens up its capital for new investors, which will presumably take around one year from now. Even then, the decision-making will not be significantly altered as the majority shareholder of the MCC will be the MCF, which will be in turn controlled by WVI/WV once WVI and VF senior debts will be converted into equity.

Planning

There is a strong and embedded planning culture throughout the organization involving all staff levels, formalized and backed by the thorough use of documented plans. EKI good planning skills were in part acquired through its association with WVI and its compliance to the network rules and standards. The buy-in of strategic goals is ensured by a participatory and efficient annual planning process involving the BM and one specialized LO in each branch. Based on reasonable assumptions, the 2008-2010 plan and projections are achievable though aggressive (total portfolio is expected to grow by 87% from Sept. 2007 to Dec. 2008, by 44% in 2009 and by 34% in 2010). Similarly to its main competitors, EKI has an ambitious market strategy

characterized by fast office expansion to provide dense/close national coverage. The budgeting process is regular and systematic. Relevant analysis and reports are regularly made to track and benchmark actual performance versus set objectives.

EKI has designed various relevant strategies (however limited by available legal means) to face the risks related to its potential delayed transformation into a MCC. Well-documented Transformation & Business Plans include the successive necessary steps that the organization needs to go through. EKI expects to be registered in early 2008 as MCF by the Ministry of Justice, but this step could potentially drag on. Appropriate short-term tactics/ideas have been elaborated to cope with and to minimize the regulatory impact of being a MCF unable to provide loans above 10,000 BAM (5,113 EUR) during a limited period of time (presumably three months). However, if the registration process into a MCC was to take more time, EKI could be affected as RS-based competitors can currently provide loans up to 50,000 BAM (25,565 EUR).

Once this time-consuming MCC creation process will be over, EKI's top-management will reportedly focus on drawing different scenarios (e.g. staying as a LLC, becoming a joint-stock company, transforming into a bank, etc.) providing the basis to secure new private investors..

Management team

EKI is competently managed by a skilled and broadened management team. Under the strong leadership of the ED, the middle management has deepened its skills set and experience. Following the hiring of a new Risk Manager, the management team has indeed grown stronger in number (HRM, and second OM) and experience (MM and Lawyer have grown in their position). There nevertheless remains a significant skill gap between the top managers (ED and FM) and the others, as they are still holding the main initiative-generating and decision-making powers. To go forward, it would probably be good to benchmark the team with Banking Agency standards for banks to identify further capacity building opportunities. As EKI gets larger, it might be necessary to review the organizational chart and see whether there is a need to add management layers to enhance efficiency.

The medium-to-low key-person risk on ED is somewhat mitigated thanks to a cohesive management team and by the planned grooming of two capable managers (one of whom is the FM) that could step in, in the absence of the ED. EKI has a good track record of decentralized collective decision-making on key issues through well-organized and regular meetings. HQ sector teams (e.g. Finance, Operations, IT) are particularly strong in terms of skills and staffing. Marketing

has been adequately strengthened in each branch by part-time field marketing coordinators (also LOs). Internal Audit is well-skilled but still weak regarding staffing. Branch management is good overall thanks to regular communication and relevant empowerment even though control and support of new offices could be strengthened.

Human resource management

Human Resource management is generally adequate and has improved but still needs to better plan for fast growth. Basic HR procedures and policies are in place along with adequate recruitment, training and performance evaluation practices. The stronger HR team is now made up of a HR Manager, a training officer and a recruiting officer. However, EKI's fast expansion stretches HRD's resources and capacity to train and integrate so many new staff. Even though experienced LOs are mentors for new recruits, one training officer for 147 LOs is not enough to monitor closely the successful integration of LOs after a few months in service. The more experienced LOs could also benefit from refresher credit training courses. Regarding BMs, the HRD has adequate plans to reinforce their skills. While EKI has adequate planning and resources for field expansion, it could pay more attention to ensuring that support staff and infrastructure keeps up more closely with growth.

Staff retention and motivation mechanisms have improved, resulting in a lower and therefore more manageable turnover (8.8% in Sept. 2007 from 10.4% in 2006 and 14% in 2005) and good staff morale. The incentive system is currently being improved to be more effective. Although performance criteria have toughened with time in line with EKI's ambitious objectives, they remain realistic and easily monitored thanks to the user-friendly Intranet portal. Good and regular communication through meetings, staff retreats, and Intranet also contribute to staff's satisfaction.

Information

Information is rated "a"

Compared to the last rating, EKI has improved its already good information systems and equipments. EKI has a very good technical handle of its loan tracking system eMerge thanks to an ever-growing internal IT capacity resulting in increased autonomy from the vendor's technical support. Programming capabilities have grown stronger and cover almost all needs, the software developer (Temenos) providing adequate trainings and the required assistance for major upgrades. At the branch level, the daily data processing is fairly efficient though there is still a little room for improvement (e.g. in clients' contract processing). Portfolio data quality is high and can be accessed easily throughout the organization. E-Merge's reliable and accurate

data is transferred daily to a web-server and is automatically displayed in the internally-developed user-friendly intranet, thus allowing all staff to benefit from a timely access to customized reports.

Data security is adequate overall and improving. Security weaknesses identified early 2007 by the external auditors are being addressed with the recent recruitment of an IT security officer. Main weaknesses have already been tackled (i.e. servers' room with fire alarm and limited access) while others are expected to be dealt with soon once the information security policy will be approved by the BOD. The current system is expected to accommodate EKI's very fast growth thanks to a large database capacity and flexibility, and an efficient VPN network domiciled on powerful servers. The next step contemplated by the IT team is to make e-Merge more centralized, ensuring more control from HQ.

The quality of financial and accounting data, reporting, budgets' tracking, and analysis of variances remain excellent thanks to a skilled and experienced Finance Department. As in previous years, loan loss reserves will reportedly be adjusted in audited accounts, in line with the banking agency's requirements and IAS rules¹. EKI's provisioning policy is expected to be harmonized with IAS rules for year 2008. Management accounting information has further improved with the development of an Activities Based Costing (ABC) system. EFSE-funded technical assistance has contributed to its good implementation by EKI (as financial officers received a specific training) in addition to enhancing its portfolio management decision-making (see Activities section).

Risk Management

Risk Management is rated "b"

Procedures and internal controls

EKI's excellent procedures and internal controls have largely kept pace with the institution's growth, as evidenced by the recent recruitment of a Risk Manager. EKI plans to create a stand alone Risk Committee (independent from ALCO) made up of the main managers and that will reportedly monitor a series of indicators yet to be selected. Such a strengthening of Risk Management will be a potential good mitigant to increased non-compliance risks due to EKI's decentralized structures, partial reliance on local representatives for clients' assessment (so far only for housing loans) and fast growth. This is also in phase with EKI's expected transformation into a MCC next year.

¹ In unaudited accounts, the loan loss reserve includes a 2% provision on healthy portfolio which is shifted to equity in audited accounts.

Internal audit

Skilled and adequately risk-oriented Internal Audit (IA) staff has allowed sufficient control over EKI's procedures even though staffing has lagged behind growth. As of September, EKI has three internal auditors controlling 12 branches and 55 satellites. As a result, some satellite offices have not seen IA visits this year or very little. EKI is aware of this situation as witnessed by the recent BOD Audit Committee (AC) approval for the recruitment of a fourth internal auditor. The AC contemplates recruiting a fifth internal auditor in 2008 if deemed necessary depending on growth. However, these planned hirings are not likely to be sufficient even for the current network size alone. They will merely catch up and by the time new internal auditors gain enough experience, the network will have become even larger resulting in permanent understaffing. Recent detected minor frauds are red flags for sooner investments in this area. The IA plan remains quite good as the internal auditors use risk-based approach to plan their work and spend about 60% of their time controlling the credit operations. Their work is very detailed-oriented and essentially covers key potential risk prone areas. The next auditor (internally recruited) will reportedly bring specific MIS auditing skills.

EKI's AC meets regularly and receives relevant reports from IA staff, allowing them to track the implementation of previously made recommendations. External auditors (PwC) have brought valuable findings that complemented IA work. Their findings on IT security highlighted IA suboptimal capacity to audit MIS functions. Soon to be supervised by the Banking Agency, EKI already exceeds its standards as the MCO requires all internal auditors to be certified.

■ Activities

Activities: products and services is rated "a"

Market positioning and strategy

EKI is one of the leaders of the BiH market, holding a solid third position in terms of active borrowers and loan portfolio as its market share slightly increased to 15% and 19% respectively (from 15% and 16% in 2005). This has been allowed by the exponential growth of EKI's loan portfolio – faster than the sector's – in 2006 (+66%) and 2007 (+61% as of Sept. 2007). Similarly to the largest MFIs, EKI has extended its branch network all over BiH, both in FBH and RS. This broader network, as well as very good internal infrastructure and capacity, and continued large access to local and international funding have allowed such a fast growth. This trend reflects EKI's ambition to remain a key microfinance player when the industry further consolidates. As competition is becoming stronger and fiercer and although cross-indebtedness is common among MFIs'

clients², EKI and other major competitor's growth are likely to remain the same in the near future as their PAR are still excellent and market (especially in remote areas) is not saturated yet.

Thanks to an active positioning and marketing, EKI is still well-positioned on the medium/low-end of the market, serving both rural and urban areas. In line with EKI's rural lender positioning and as initiated in 2007, a deeper branch network will allow easier outreach to untapped areas, closer relationships with clients and economies on travel expenses. The average outstanding loan has nevertheless increased to 1,879 BAM as of Sept. 2007 (from 1,176 BAM as of Dec. 2005), due to the higher proportion of housing loans in the portfolio and following the industry's trend. Marketing intelligence has further developed and the implemented strategy has proved efficient to face very aggressive competition as indicated by EKI's market share increase (see above). The MM is adequately assisted by Marketing Coordinators (one LO per branch) to conduct regular market research. Eager to secure best clients, EKI has been working on making collaterals more flexible when deemed appropriate. In this regard, other innovative ideas, such as providing services to very poor clients upgrading from WV BiH financial and business planning trainings or benefiting from WV guarantees, could also be useful.

EKI has remained competitive and successfully rationalized its loan product offering thanks to interesting market and client research initiatives. Competitive advantages are basically made of fast and simple loan approval and disbursement process, low interest rates (ranked #4 lowest among Bosnian MFIs according to portfolio yields) and good client service. Offering competitive enough pricing conditions, EKI decided in 2006 to increase interest rates on Micro and Agro Loans and in 2007 to charge all clients with up-front application fee (previously discounted to clients with good repayment history). Besides, the efficient MIS has proved helpful to allow the provision of EKI's innovative revolving loans, however so far granted to very few clients.

EKI has elaborated relevant strategies to limit the potential effects on its market share of operating temporary under the MCF status (see the Planning section). This is necessary as 10% of EKI's clientele receive loans superior to 10,000 BAM and could be attracted by the services of RS-based competitors such as Mikrofin, already transformed into MCC and potentially offering loans up to 50,000 BAM in both entities.

² See Credit Risk section for more details

Loan portfolio management

Despite growing cross-indebtedness and an ever-larger decentralized network, EKI still applies appropriate and flexible loan methodologies and keeps a good handle on its lending activities. Procedures have been adequately followed as EKI expanded to new areas. For housing loans, small discrepancies due to the take over of one part of clients' repayment capacity analysis by local counselors were adequately detected by IA. EKI has taken appropriate measures and contemplates extending the use of local counselors to other loan products to gain in efficiency. EKI has clear rules regarding multiple loans (e.g. revolving loans are exclusively granted to SME clients with good repayment capacity) and loans to indebted clients. Keeping in mind that all MFIs (including major ones) do not report to the credit bureau, EKI makes nevertheless an adequate minimal use of it by excluding (if deemed necessary after investigation) clients with bad repayment history. Delinquency management has further improved thanks to the systematic daily use of motivating and user-friendly delinquency reports by LOs and BMs.

Portfolio growth remains healthy as EKI has successfully diversified its portfolio in terms of financed activities (48% in agriculture, 20% in trade and 13% in housing) notably thanks to a broader range of products. Recent ABC-backed decisions on interest rates and up-front application fee (see above) allow EKI to offer both a competitive and profitable portfolio mix. In particular, pricing conditions of Micro loans were changed to reach profitability on this product. After increasing to 23.6% in 2006, EKI portfolio yield decreased to 22.3% in 2007 due to the increase of the comparatively cheaper housing loan to 13 % of the portfolio.

LOs have appropriate skills and are adequately trained for loans appraisal and follow-up. New LOs' training is fairly well ensured by the combined supervision of BMs and mentors (experienced LOs) even though mentoring could be further monitored. LOs are entrusted with an appropriate loan portfolio (e.g. new and experienced LOs deal with micro and SME loans respectively). Finally, tight portfolio management by LOs and BMs is fuelled by a clear and appropriate bonus system.

Credit risk

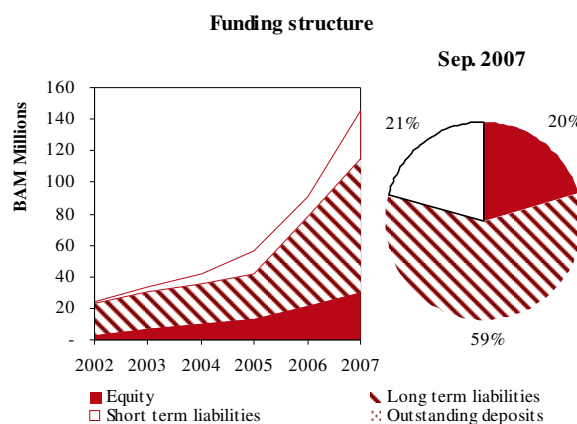
PAR 31-365 remains excellent (0.4% as of Sept. 2007) thanks to very good use of MIS, efficient incentive system and strong delinquency management. This applies whatever the region, product and sector of activity. EKI manages quite well the very fast thus naturally risky growth of its portfolio as evidenced by low PAR. Such a growth has nevertheless started stretching LOs capacity as some of them are overloaded (over 400 clients) and need to make a selection

in clients to be followed up in priority. This might not be sustainable in the near future to ensure low PAR 31 (<1.5%). Moreover, with cross-indebtedness growing over the years (now presumably representing a minimum of 30% of EKI's and other MFI's clientele), it is unlikely that PAR remains at such a low level as the underlying credit risk is increasing. Rescheduling is very limited (0.01% of loan portfolio).

The provisioning policy on late portfolio exceeds largely minimum required as a 2% provision on healthy portfolio is accounted for in the unaudited accounts. When this provision is shifted to capital according to IAS requirements, loan loss reserves decreased to only cover PAR30 at 74% in 2005, 68% in 2006 and 70% in 2007³. If the loan loss reserve on doubtful portfolio remains at these levels next year when EKI harmonizes its provisioning policy with IAS requirements, it would be good to consider increasing it to cover PAR 30 at 100%. Collaterals are generally actionable to recover late loans. Write-off policy follows international best practices. EKI write-off ratio, while growing slightly over the years decreased back to a very low 0.2% as of September 2007 due to excellent asset quality.

■ Funding and liquidity

Funding and liquidity is rated "a"



Capital structure & Leverage

Despite growing recourse to debt, EKI is reasonably capitalized with equity at 20% thanks to retained earnings and capitalized grants (in 2006, 3 M BAM or 1.6 M USD received from USAID LAMP). Increased resort to borrowings since 2006 led to a 3.9x leverage, growing fast to 5x (estimated for end 2007). This is not a problem as binding loan covenants were renegotiated and BOD allowed 6x for the first 2008 semester. WVI and VF stated plan to convert their loans (13.1% and 3.5% of Sep. 2007 liabilities

³ In this report, accounts as of September 2007 are presented as received with the 2% loan loss reserves and provision on healthy portfolio. To enable benchmarking with previous years, ratios were calculated shifting this provision to equity.

respectively) into equity will decrease the leverage and provide EKI some additional time toward the end of 2008 before having to open up its capital to new shareholders. If considering these loans as quasi-equity, EKI is then only leveraged at 2x. EKI also has the option to secure subordinated debts providing it additional flexibility in timing to negotiate for new capital.

Asset & Liability Management

Existent Asset & Liability Management (ALM) risks are well-managed by EKI, but this has been further enhanced since the creation of the ALM Committee (ALCO) monitoring market risks. The ALCO currently monitors liquidity risks (quick ratio > 1.2x; liquid asset ratio > 5%), maturity risks (maturity gap analysis) and financial leverage (debt to equity ratio < 8:1 or < 5:1 when WV loan is converted to equity), and plans to monitor as well interest rate and foreign exchange risks. In spite of the lengthening average portfolio term around 21 months (partially due to SME and housing loans), maturity risks are low as long term resources represent 74% of the balance sheet. EKI is exposed to medium/high interest rate risks with 40% of its borrowings being EURIBOR-based. However, increasing EURIBOR rates have been partially offset by EKI's ability to negotiate lower margins, maintaining a palatable interest spread with EKI's portfolio yield. Significant FX risks exist in theory as 73% of total funding is EUR-based whereas all loans are BAM-issued, but remain quite limited given that BAM has been pegged to the EUR since 1997. The FX clause in clients' contracts linking their repayments to EUR amounts brings an additional security layer. However, while this clause is legally binding, it might prove difficult to enforce if the BAM was to depreciate substantially and does not address the resulting credit risk.

Funding strategy

Thanks to its active funding strategy, EKI enjoys a well-diversified and still cheap funding base. Funding expenses have jumped to a still moderate 4.9% as of Sept. 2007 from 3.4% in 2006 and 2.1% in 2005. Even though the share of concessional loans dropped to 21% of total liabilities as of Sept. 2007 (from 70% in December 2005), EKI has generally proved able to negotiate reasonably cheap commercial terms. Benefiting from good relationships with the best known microfinance investors and funders (domestic and foreign involved in the region) and excellent track record, EKI's top management should be able to secure all needs in the next 12 months.

EKI plans to finance future growth mainly through additional debts (380 M BAM of the 427 M BAM of estimated financing needs over the next three years), as retained earnings and new equity injections will be leveraged

by 6:1. Given its limited capacity, VF is not likely to be among the biggest funders going forward to address EKI important funding needs.

Liquidity management

EKI web-based liquidity management is proactive, dynamic, centralized and done in real time. Weekly, monthly, quarterly and annual cashflow plans are done regularly. EKI is able to deploy cash quickly after large funding disbursements. This good performance is evidenced by the excellent portfolio to asset deployment ratio increasing to 95.4% as of September 2007.

Efficiency and Profitability

Efficiency and Profitability is rated "a"

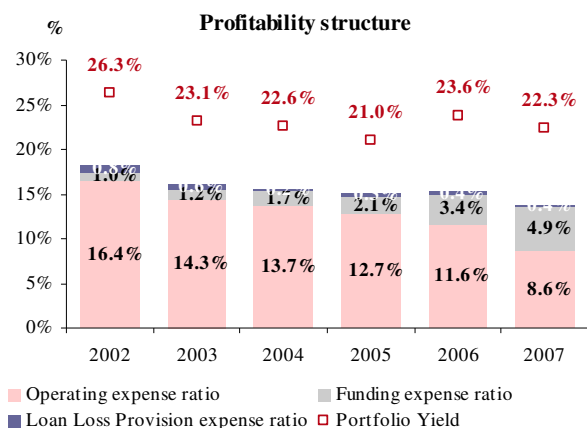
Profitability analysis

Over the 5 last years EKI's profitability has kept improving to reach excellent levels. As of September 2007, the ROA increased to 8.3% from 7.4% in 2006 and 5.3% in 2005 thanks to the combination of a slight increase in portfolio yield and a sensible decrease in the operating cost ratio resulting mainly from higher economies of scale, a change in portfolio mix and continued high quality of assets. However, as EKI needs to finance growth and funding came from commercial sources, funding expenses are becoming one of the major costs of the institution (3.4% in 2006 and 4.9% in 2007). Leverage has subsequently increased to 3.1x in 2006 and 3.9x at end September 2007, bringing ROE to 31% and 37.5% respectively.

As EKI is offering competitive enough interest rates (ranked #4 lowest among Bosnian MFIs according to portfolio yields), the pressure from other MFIs did not prevent the institution from slightly increasing its portfolio yield by systematically charging up-front application fees to clients and increasing interest rates of Micro and Agro-loans (see Activities section). After increasing to 23.6% in 2006, portfolio yield decreased back to 22.3% in Sept. 2007 due to the higher proportion of (relatively cheaper) housing loans in the total portfolio. As of September 2007, EKI portfolio yield of 22.3% is slightly lower than the average portfolio APR, which reflects the excellent portfolio quality.

While keeping its portfolio yield above 22%, EKI managed to become very efficient by further reducing its operating expense ratio to 8.6% in September 2007 (from 16.4% in 2002). Excellent productivity, ever-improving cost control (in part boosted by ABC cost system), and greater economies of scale (portfolio almost tripled since the end of 2005) have been the main contributing factors. Some Bosnian MFIs are even more profitable, but EKI ranks above

already excellent regional benchmarks. This has been achieved despite EKI's outreach to the low segment of the market (its average outstanding loan size has nevertheless increased by 60% from Dec. 2005 to Sept. 2007). Excellent and improving resource optimization as indicated by a 95.4% outstanding loan portfolio to assets ratio as of Sept. 2007 (from 91.7% in Dec. 2005) contributed without any doubt to higher profitability. The increase resort to commercial borrowings has naturally resulted in higher but still moderate funding expenses (average funding expense ratio is 4.9% as of Sept. 2007).

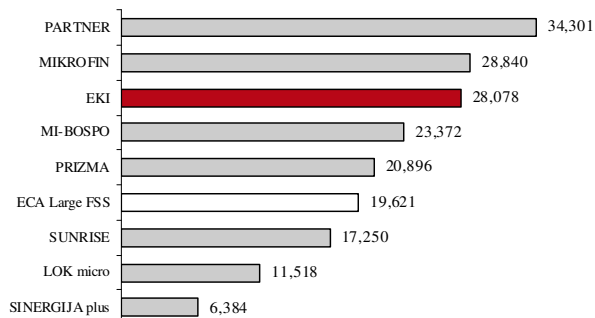


Profitability outlook are very good in spite of pricing pressure, growing cross-indebtedness and fiercer competition. EKI is expected to maintain tight portfolio management practices and excellent portfolio quality. Its market share should not change significantly over the next 12 months as mergers are unlikely to take place during the ongoing MFIs' transformation phase. Further use of the ABC system and deeper economies of scale will improve operational profitability and will help to partially compensate rising funding costs.

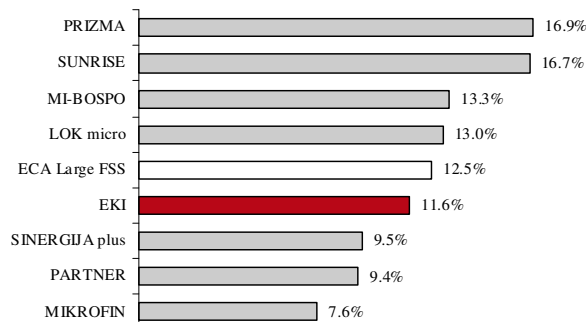
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Benchmarking

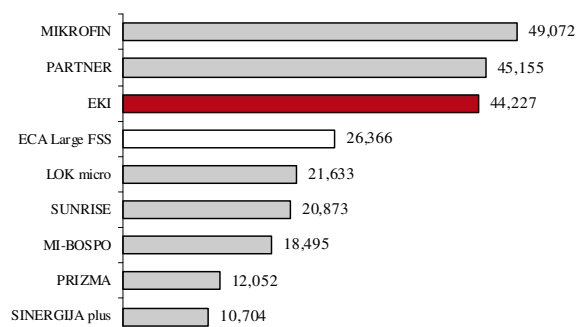
Active borrowers



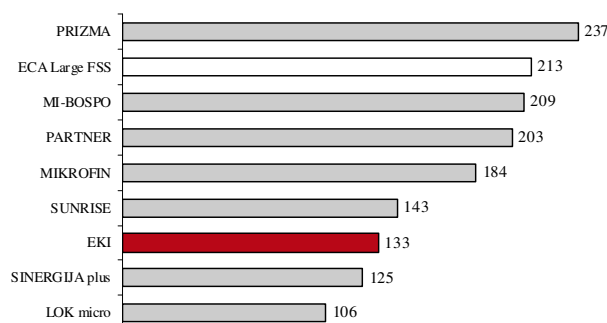
Operating expense ratio



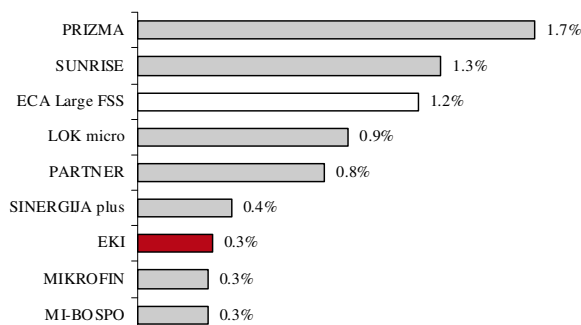
Loan portfolio



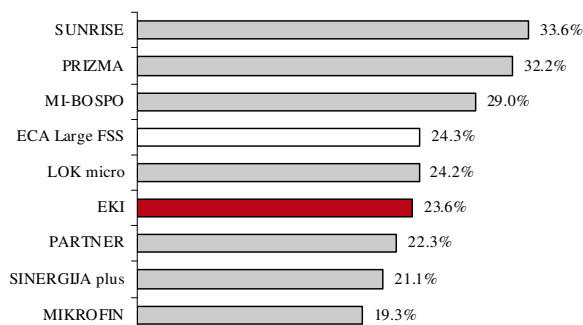
Staff productivity



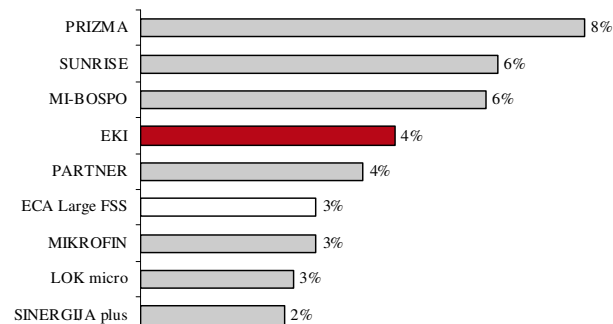
PAR 31-365



Portfolio Yield



ARO A



Source:

Bosnian MFIs:

AMFI data as of December 2006 (some differences with Planet Rating data): Benefit, EKI, LOKmicro, MI-BOSPO, MIKROFIN, Partner, PRIZMA, SINERGIJApus, and Sunrise

MBB Peer groups; benchmarks 2006 (medians)

■ Performance indicators

Data in EUR, unless otherwise stated

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007 ⁴
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	11,283,874	15,238,777	19,367,863	26,610,292	44,226,914	71,297,483
Loan portfolio (BAM)	22,069,000	29,804,000	37,879,666	52,044,410	86,498,999	139,443,618
Evolution	53.0%	35.0%	27.1%	37.4%	66.2%	61.2%
Average outstanding loan	8,602,712	13,237,750	17,003,489	22,693,162	33,999,520	58,463,026
Active borrowers	8,999	13,323	18,815	22,619	28,078	37,950
Evolution	41.3%	48.0%	41.2%	20.2%	24.1%	35.2%
Average outstanding loan per client	1,254	1,144	1,029	1,176	1,575	1,879
% of GDP per capita	73.2%	66.8%	60.1%	68.7%	91.9%	109.7%
Average amount disbursed per loan	1,879	1,634	1,506	1,694	1,938	2,101
% of GDP per capita	109.7%	84.4%	71.7%	75.2%	76.2%	82.6%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.2%	0.3%	0.4%	0.3%	0.3%	0.4%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.5%	0.3%	0.4%	0.5%	0.5%	0.2%
Credit risk coverage						
Risk coverage ratio	892.4%	719.7%	53.1%	73.9%	68.0%	69.9%
PAR 31 net of loan loss provision / Equity	(12.0%)	(8.0%)	0.6%	0.3%	0.4%	0.5%
Staff						
Total number of staff	89	102	119	153	211	242
% Credit officers	48.3%	52.0%	55.5%	56.9%	61.6%	60.7%
Turnover	6.3%	1.0%	8.1%	14.0%	10.4%	8.8%
Profitability analysis						
ROE	52.3%	34.5%	27.2%	22.1%	31.0%	37.5%
Liabilities / Equity	5.86x	3.74x	3.0x	3.3x	3.1x	3.9x
ROA	7.0%	6.3%	6.3%	5.3%	7.4%	8.3%
Profitability structure						
Portfolio Yield	26.3%	23.1%	22.6%	21.0%	23.6%	22.3%
Operating expense ratio	16.4%	14.3%	13.7%	12.7%	11.6%	8.6%
Cost per borrower	157	142	124	128	140	132
Staff productivity	101	131	158	148	133	157
Loan officer productivity	209	251	285	260	216	258
Average outstanding loan per client (EUR)	1,254	1,144	1,029	1,176	1,575	1,879
Funding expense ratio	1.0%	1.2%	1.7%	2.1%	3.4%	4.9%
Cost of savings	N/A	N/A	N/A	N/A	N/A	N/A
Cost of liabilities	1.0%	1.4%	2.0%	2.6%	4.1%	6.2%
Loan Loss Provision expense ratio	0.8%	0.6%	0.2%	0.3%	0.4%	0.4%
PAR 31-365	0.2%	0.3%	0.4%	0.3%	0.3%	0.4%
Write-off ratio	0.5%	0.3%	0.4%	0.5%	0.5%	0.2%
Resource optimization						
Outstanding Loan Portfolio / Assets	90.2%	88.0%	90.7%	91.7%	94.4%	95.4%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.3%	0.2%	0.1%	0.1%
Liquidity						
Loans to deposits	N/A	N/A	N/A	N/A	N/A	N/A
Liquidity / Total assets (LAR)	4.1%	5.2%	1.5%	0.5%	0.5%	0.3%
Adjusted ratios						
Adjustment expense ratio	10.8%	7.6%	5.9%	3.6%	3.4%	2.0%
AROE	(17.8%)	(3.0%)	4.8%	8.7%	18.1%	29.0%
AROA	(2.4%)	(0.6%)	1.1%	2.1%	4.4%	6.4%
Financial self-sufficiency	90.5%	97.4%	105.8%	112.5%	125.8%	141.9%
Adjusted operating expense ratio	16.4%	14.3%	13.7%	12.7%	11.6%	8.6%
Adjusted funding expense ratio	11.8%	8.8%	7.5%	5.6%	6.8%	6.8%
Adjusted loan loss provision expense ratio	0.8%	0.6%	0.2%	0.3%	0.4%	0.4%
Exchange rate 1 EUR= xx BAM	2.0	2.0	2.0	2.0	2.0	2.0

⁴ To enable comparison with previous years, ratios for Sept. 2007 were calculated after adjustments. On the balance sheet, the 2% general provision on healthy portfolio is shifted to equity. On the income statement, the general provision is not included in the loan loss provision expense of the year. Financial statements below do not include these adjustments.

EKI Income Statement	Notes	EUR					
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007
Financial Revenue (a)		2,260,967	3,062,685	3,859,860	4,769,881	8,041,687	9,810,237
Financial Revenue from Loan Portfolio		2,260,967	3,062,685	3,849,968	4,761,695	8,034,987	9,798,815
Interest on Loan Portfolio		1,944,984	2,683,812	3,668,664	4,280,900	7,131,091	8,918,344
Fees and Commissions on Loan Portfolio		310,870	373,760	172,077	474,533	895,782	876,198
Penalty Revenue on Loan Portfolio		5,113	5,113	9,227	6,261	8,114	4,273
Financial Revenue from Investments		-	-	9,892	8,186	6,700	11,422
Other Operating Revenue		-	-	-	-	-	-
Financial Expense (b)		84,364	160,037	281,891	465,921	1,153,742	2,144,103
Interest paid on borrowings		84,364	160,037	281,891	465,921	1,153,742	2,144,103
Interest paid on deposits		-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-
Financial income [c=a-b]		2,176,603	2,902,649	3,577,969	4,303,960	6,887,945	7,666,134
Net Loan Loss provision expense (d)		71,071	83,342	38,051	74,566	141,863	668,128
Loan loss provision expense and write-off	1	108,396	125,780	82,617	131,396	194,214	717,251
Recovery from Loans written off		37,325	42,438	44,566	56,830	52,350	49,123
Operating expense (e)		1,409,653	1,893,854	2,326,198	2,892,616	3,933,082	3,752,546
Personnel Expense (includes fringe)		987,320	1,311,484	1,599,783	1,933,332	2,489,806	2,433,574
Administrative Expense (non-staff operating expenses)		422,334	582,370	726,415	959,283	1,443,276	1,318,971
Depreciation and amortization		23,815	47,955	83,132	137,577	185,801	191,633
Consulting fees		-	-	-	-	-	-
Administrative expenses		47,886	48,361	73,020	82,324	101,723	82,630
Communication expenses		74,493	106,376	120,059	123,621	146,485	131,857
Occupancy expenses		120,539	140,493	153,011	194,883	228,862	211,800
Travel expenses		50,094	82,542	112,992	160,733	198,595	175,538
BOD fees		6,663	5,548	4,799	4,796	7,811	3,488
Bank fee		13,805	21,475	29,472	53,252	222,311	159,682
Others		80,752	107,433	45,177	116,999	276,270	285,521
Net Operating Income Before Taxes and Donations [f=c-d-e]		695,879	925,453	1,213,720	1,336,778	2,813,000	3,245,461
Income Taxes (g)		-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		695,879	925,453	1,213,720	1,336,778	2,813,000	3,245,461
Non Operating Revenue (i)		11,249	33,746	27,658	17,576	128,997	46,884
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		707,128	959,198	1,241,377	1,354,355	2,941,998	3,292,345
Donations (l)		6,647	2,045	208,426	82,171	1,700,946	66,720
Net Income (after Taxes and Donations) [m=k+l]		713,774	961,243	1,449,804	1,436,526	4,642,944	3,359,065

Notes

- In Sept. 2007 unaudited accounts, the loan loss provision expense includes a 2% general provision on healthy portfolio

EKI		EUR						
Balance sheet		Notes	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007
ASSETS			12,240,515	16,944,984	21,323,302	28,954,562	46,733,399	73,154,346
Short Term Assets			10,201,963	14,173,740	16,656,987	20,614,670	25,277,198	36,025,726
Cash and Due from Banks			506,698	883,526	312,332	158,671	215,592	229,036
Short Term Investments	1		-	-	291,086	307,976	294,720	294,720
Short Term Net Loan Portfolio			9,200,327	12,446,058	15,595,690	19,409,716	24,220,496	34,489,507
Short Term Gross Loan Portfolio (Loan Loss Reserve)	2		9,442,172	12,777,380	15,633,841	19,474,698	24,319,205	36,075,985
Interest Receivable			241,845	331,322	38,151	64,982	98,709	1,586,479
On loan portfolio	3		3,068	4,090	-	289,107	299,327	557,706
On investments			3,068	4,090	-	289,107	299,327	544,097
Accounts receivable and other assets			-	-	-	-	-	13,609
Long term assets			2,038,552	2,771,245	4,666,315	8,339,892	21,456,201	37,128,620
Long Term Net Investments			-	-	-	-	-	-
Long Term Gross Loan Portfolio			1,841,702	2,461,397	3,734,022	7,135,595	19,907,709	35,221,498
Net Fixed Assets			196,850	309,848	931,158	1,203,389	1,547,811	1,907,122
Other Long Term Assets			-	-	1,135	908	681	-
LIABILITIES AND EQUITY			12,240,515	16,944,984	21,323,302	28,954,562	46,733,399	73,154,346
Liabilities			10,456,079	13,366,397	15,993,071	22,187,805	35,323,698	59,288,561
Short term liabilities			654,975	1,261,888	2,885,454	7,517,287	6,707,026	15,604,681
Demand Deposits			-	-	-	-	-	-
Compulsory Deposits			-	-	-	-	-	-
Short Term Time Deposits			-	-	-	-	-	-
Short Term Borrowings			430,003	985,786	1,853,276	6,242,917	6,431,052	13,200,814
Interest payable	4		-	-	-	-	-	520,656
Accounts Payable and Other Short Term Liabilities			224,972	276,102	1,032,177	1,274,369	275,974	1,883,211
Long term liabilities			9,801,104	12,104,510	13,107,617	14,670,518	28,616,672	43,683,880
Long Term Time Deposits			-	-	-	-	-	-
Long Term Borrowings			9,801,104	12,104,510	13,107,617	14,670,518	28,616,672	43,683,880
Other Long Term Liabilities			-	-	-	-	-	-
Equity			1,784,436	3,578,587	5,330,231	6,766,757	11,409,701	13,865,785
Paid-In Capital								
Donated equity			538,399	1,371,306	1,595,959	1,678,130	3,379,076	3,445,796
Retained earnings without donations and reserves			1,246,037	2,207,281	3,426,815	4,783,916	7,281,368	10,266,267
Current year			707,128	959,198	1,241,377	1,354,355	2,941,998	3,800,555
Other equity accounts	5		-	-	307,457	304,711	749,257	153,723

Notes

1. ST deposits at local banks to secure credit facilities
2. In Sept. 2007 unaudited accounts, the loan loss reserve includes a 2% general provision on healthy portfolio
3. For 2004, interests receivable are included in accounts receivable
4. Except for year 2007, interests payable are included in accounts payable
5. General provisions for loan impairment on healthy portfolio are placed in equity in compliance with IAS 39 (except for 2007 unaudited accounts)

■ Formulas

Personnel productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Loan officer productivity:	$\text{Active borrowers} / \text{Total Loan Officers (end of period)}$
Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Adjusted return on assets (AROA):	$\text{Adjusted net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Adjusted return on equity (AROE):	$\text{Adjusted net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{13-month average gross outstanding portfolio}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowing}$
Loan loss expense ratio:	$\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{total assets (end of period)}$
Financial self-sufficiency:	$\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{13-month average gross outstanding portfolio}$
Quick ratio:	$\text{Cash} + \text{Current accounts receivable} / \text{Current liabilities}$
Liquid Asset Ratio	$\text{Liquid asset} / \text{Total assets}$

■ Rating scale

Rating	Definition
A+	Excellent
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	Good
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	Minimum required
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	Insufficient
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	Immediate risk of default or very insufficient
	There are immediate or underlying risks for operations or an unacceptable under performance.