

## SINERGIJApus, Bosnia and Herzegovina

SINERGIJApus became a for-profit Limited Liability Company owned by the NGO Sinergija in September 2007, under the new microfinance law adopted in Republika Srpska in June 2006. It was first established as an Association of Citizens in March 1997, started providing its services in October 1997 and was registered as a non-profit Microcredit Organization in December 2001. Through its network of 20 field offices, SINERGIJApus provides individual loans ranging from 800 to 50,000 BAM (409 to 25,565 EUR) to clients across RS in both urban and rural areas and targets farmers and small business owners in the medium and high end of the microfinance market. As of December 2007, SINERGIJApus had an outstanding portfolio of over 18.7 million EUR, serving 9,778 clients.

### GIRAFE Rating

#### Rating

**B+**

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at [www.planetrating.com](http://www.planetrating.com)

#### Outlook

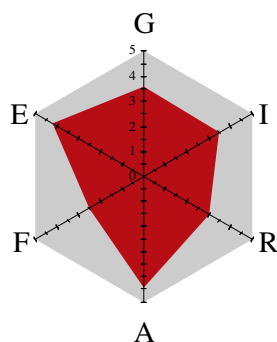
**Stable**

#### Date of the rating

**March 2008**

Valid until February 2009

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- SINERGIJApus has been steadily profitable since 2003 (ROA standing at 3.5% as of Dec. 2007) thanks to improving cost control, increased economies of scale, in addition to a high average outstanding loan per client (1,893 EUR), and despite growing funding expenses and declining portfolio yield.
- The prudent growth, well mastered credit methodology and efficient delinquency management have led to an excellent portfolio quality (PAR 30=0.4%).
- Internal controls are effective but lack formalization especially regarding cash handling by LOs. The absence of an IA department will reportedly be addressed soon with the arrival of an Internal Auditor at the end of March.
- Adequately led by the top management and soon further strengthened, the management team capacity to accomplish all fixed goals has been stretched by the departure on maternity leave of the Credit and Finance Managers.
- 2008 2Q funding needs are not secured yet, which could potentially result in liquidity shortages, as it has been the case recently. SINERGIJApus' capacity to fund through debt is however limited as its CAR already stands at 17.6%.

#### Outlook

- The "Stable" trend is underpinned by the expectation that SINERGIJApus will strengthen its risk management system and management team in addition to maintaining its profitability in a context of growing over-indebtedness and fierce competition.
- However, the uncertainty about the institution transformation into a Joint Stock Company allowing for timely equity injections points toward a stable condition over the next 12 months.

#### Performance indicators

EUR	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Assets	5,457,323	7,055,000	10,335,932	13,408,475	20,989,761
Growth	14.3%	29.3%	46.5%	29.7%	56.5%
Loan portfolio	4,711,433	6,205,951	9,717,131	10,825,644	18,511,789
Growth	44.3%	31.7%	56.6%	11.4%	71.0%
Active borrowers	2,930	3,169	4,326	6,277	9,778
Staff	34	33	46	51	64
ROE	15.7%	30.1%	17.3%	22.3%	18.6%
ROA	4.4%	8.1%	4.2%	4.8%	3.5%
Liabilities / Equity	2.82x	2.65x	3.55x	3.72x	4.67x
Portfolio Yield	24.8%	27.3%	21.6%	23.0%	20.7%
Operating expense ratio	15.3%	13.8%	12.0%	11.1%	10.5%
PAR 31-180	0.0%	0.1%	0.5%	0.5%	0.4%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.2%	0.1%	0.0%	0.3%	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 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, totaling 850 M BAM (435 M EUR) of portfolio and 293,703 active clients as of December 2007, not including commercial banks (the biggest share being attributed to ProCredit with 163 M EUR and 68,752 loans as of December 2007).

MFI As of Dec. 2007	Portfolio in EUR	%	Active clients	%
Mikrofin	97,302,170	22.4%	51,508	17.6%
Partner	81,765,151	18.8%	44,459	15.2%
EKI	81,537,489	18.8%	51,982	17.7%
LOKmicro	44,849,042	10.3%	27,007	9.2%
Sunrise	32,855,787	7.6%	23,175	7.9%
Mi-Bospo	28,932,782	6.7%	30,565	10.4%
Prizma	25,169,195	5.8%	29,310	10.0%
<b>SINERGIJAPlus</b>	<b>18,747,499</b>	<b>4.3%</b>	<b>9,778</b>	<b>3.3%</b>
Mikra	14,521,372	3.3%	13,584	4.6%
Žene za žene	5,914,259	1.4%	8,878	3.0%
Mikro Aldi	2,936,299	0.7%	3,100	1.1%
<b>Total</b>	<b>434,531,045</b>	<b>100%</b>	<b>293,346</b>	<b>100%</b>

Over the years, cross-indebtedness level is believed to have grown to a minimum of 30% of the MCO's clientele. In order to mitigate related risks, an increasing number of MCOs are shifting from LCR, their present information exchange platform, to the Central Bank's credit bureau (CRK), already used by most BiH banks.

According to the new microfinance law, adopted by both BiH entities' parliaments (June 2006 for Republika Srpska -RS- and October 2006 for the Federation of BiH -FBH-), MCOs now have to transform into either Microfinance Foundations (MCF) or Microfinance Companies (MCC). The two main differences between these two options are:

- Minimum capital requirement (50,000 BAM or 25,000 EUR for an MCF and 500,000 BAM or 250,000 EUR for an MCC);
- Maximum loan size (10,000 BAM or 5,000 EUR for an MCF and 50,000 BAM or 25,000 EUR for an MCC).

The Law on Enterprises applies to MCCs, including the requirement to pay income taxes. Both options are non-deposit taking, an activity reserved to banks. RS-based MFIs are licensed and supervised by the Banking Agency of RS (BA-RS) while FBH-based MFIs will soon be by the

Banking Agency of FBH. This is a step forward in terms of supervision of the sector<sup>1</sup>, presently regulated by the Ministry of Justice and the Ministry of Displaced Persons and Refugees in FBH, and previously by the Ministry of Finance in RS. Regulation does not include prudential norms given the absence of deposit taking risks. The law authorizes mergers and acquisitions. MCOs operating in both entities have to get a license from each entity's Banking Agency (obtaining the second license is generally fast).

The regulatory environment slightly differs between the two entities, with a notably swifter transformation process in RS:

- The new law requires existing FBH-based MCOs to register first into an MCF and then follow one out of two options: operate as an MCF or create an MCC, fully owned by the MCF, operating as a Limited Liability Company (LLC) or as a Joint Stock Company (JSC);
- In contrast, RS-based MCOs do not have to register as MCFs, and are already operating as MCCs in RS and even FBH.

For the time being, most FBH-based MCOs have received their license to operate as MCFs and will soon be registered as such (presumably during the first quarter of 2008). As those wanting to transform into an MCC also have to temporarily operate as MCFs, they will need to reduce their maximum loan size down to 10,000 BAM while waiting for the MCC license. In a context of fierce competition and depending on how long this period might drag on, FBH-based MCOs currently lending a significant part of their portfolio over 10,000 BAM could lose some market share at the advantage of RS-based MCCs.

The BiH microfinance sector has now entered a new phase of development. 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) most have been disbursing a significant number of loans exceeding 10,000 BAM; 3) the MCC status will allow the opening of the capital structure to investors. Several MFIs are in discussion with potential domestic and foreign investors to secure their participation as strategic equity partners. Merger discussions are expected to resume once MFIs will have transformed. Mikrofin, the largest MFI, 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. With the notable exception of ProCredit, most commercial banks, led by Raiffeisen and Hypo-Alpe-Adria, have thus far chosen to get involved in the microfinance sector indirectly by financing MFIs, and might become

<sup>1</sup> Relevant bylaws have been issued in both entities, defining the minimum requirements for MCFs or MCCs, the scope of supervision, the reporting requirements, the way of forming reserves for the coverage of loan losses and the way to calculate the effective interest rate of loans, which MCOs are now required to disclose on the client's contract.

equity investors as well. In all cases, the BiH microfinance sector is firmly heading towards further consolidation and commercialization.

## Political & economic environment

Economic growth remained strong in 2007 amid a favourable external environment coupled with strong consumption driven by rising real wages and the expansion of credit. The economy should remain buoyant in 2008 thanks to still robust domestic demand. Inflation declined sharply in 2007 after the effects of the VAT introduction the previous year petered out. The fixed nature of the exchange rate should facilitate limiting inflationary pressures in 2008, rising energy and food prices notwithstanding.

The country nonetheless still suffers from many weaknesses including a bloated and inefficient public sector, an over-regulated business environment, and a segmented labor market reflecting to some extent the institutionally and ethnically fragmented context in the country. Efforts will have to be made to improve policy coordination between entities and create a unified economic space. And bank oversight and fiscal prudence need to be strengthened. Exports still lack diversification – with metals, mineral products, and wood representing nearly half of sales abroad – and are still vulnerable to price trends for commodities. The country continues to run high current account deficits albeit limited by expatriate worker remittances.

In the political arena, the crisis the country has been contending with, resulting from the deterioration of relations between Bosnian Serb leaders and the High Representative of the International Community seems to have abated. The Action Plan proposed by the High Representative, which includes a reform of the police, had raised protests and led the Bosnian government's Serbian prime minister to resign in November 2007. Parliament finally adopted the Action Plan in early December 2007. This has permitted the EU to sign stabilization and association agreement, the first step towards membership. However, these events have given rise to a mounting nationalist rhetoric in the Serbian Republic (one of the two entities comprising the country, with the Croatian-Muslim Federation). Some tensions have resurfaced since Kosovo became independent on February 17<sup>th</sup>, 2008.

COFACE Country Rating: D - A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behaviour. Corporate default probability is very high.

COFACE Business Climate Rating: C - The business environment is difficult. Corporate financial information is often unavailable and when available often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Intercompany transactions run major risks in this difficult environment.

USD millions	2005	2006	2007(e)	2008(f)
Economic growth (%)	5	6.2	5.5	6
Inflation (%)	3.7	7.4	1.4	2.1
Public sector balance (%GDP)	-2.2	0.4	-3.9	-4.3
Exports	2 590	3 382	4 058	4 600
Imports	7 545	7 680	9 753	10 700
Trade balance	-4 955	-4 298	-5 695	-6 100
Current account balance (%GDP)	-19.7	-10.8	-15.5	-15
Foreign debt (%GDP)	49.9	49.4	49.2	45.6
Debt service (%G&S exports)	4.1	5	5	5.2
Foreign currency reserves (in months of imports)	3.7	4.8	5.1	5.8

Source: COFACE's Country Risk Rating Guidebook. (e) estimates (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

SINERGIJAPlus was registered as a Limited Liability Company (LLC) in September 2007 and is operating under the new microfinance law adopted in Republika Srpska (RS) in June 2006. It was first established as an Association of Citizens in March 1997 and started providing its services in October 1997. As required by the law, the NGO Sinergija split its financial services from its consulting services, thus establishing SINERGIJAPlus as a separate non-profit Microcredit Organization in December 2001. SINERGIJAPlus is presently supervised by the Banking Agency of RS (BA-RS). The yearly on-site supervision visit of SINERGIJAPlus is planned for April-May 2008.

Deloitte performed the 2006 and 2007 audit in accordance with international accounting standards (IAS and IFRS), thus restating the 2005 financial statements. Deloitte was selected again for year 2008. Audits have been performed by Deloitte since 2003 and accounts have been certified without reserve since 2002.

### Ownership

SINERGIJAPlus is totally owned by the NGO Sinergija since it transformed to a LLC in September 2007. Its General Assembly is made up of the historic members of the NGO, including the top managers of SINERGIJAPlus which Executive Manager for Development (EMD) was elected as

president. The five-member BOD was reelected by the Assembly in September 2007 with a mandate of 4 years and was approved by the BA-RS. An Audit Committee (AC) was created in December 2007 as required by the law. The General Manager (GM) and the EMD attend BOD meetings and have no voting rights. Minutes are presently kept by the lawyer of SINERGIJAPlus.

The BOD is chaired by Mr. Milorad Dokić since January 1999. He is consultant for a domestic private company and solicitor with 40 years of experience in business management. He attended various Microfinance trainings in the framework of the LIP2<sup>2</sup> technical assistance. Mrs. Gordana Đokić rejoined the BOD in December 2006 as representative of the NGO Sinergija (of which she is the GM) and was later on appointed as Deputy President of the LLC BOD. Both of them are members of the Assembly. The other three members bring significant experience from the banking, financial, and governmental sectors.

## Donations

SINERGIJAPlus received from the World Bank co-financed Local Initiative Projects (LIP) 1,132,141 BAM (578,855 EUR) of donated equity at its inception and 703,177 BAM (359,529 EUR) of grants for technical assistance from 1997 to 1999.

## Funding composition

As of December 2007, SINERGIJAPlus was funded by equity (18%) and liabilities (82%), the latter being mainly long-term (85%) and commercial (82%). The subsidized loan from LIP granted in 2003 (consolidating previous and new loans) currently represents 17% of liabilities as of Dec. 2007 (5.7 M BAM i.e. 2.9 M EUR) as its reimbursement started in Sept. 2007 and is scheduled over 10 years. Commercial sources are mainly from international investors such as EFSE (16.5% of liabilities – 5.6 M BAM i.e. 2.7 M EUR), DUAL Return Fund (7.1%), CREDIT SUISSE (5.8%), ResponsAbility (5.8%), and Deutsche Bank (2.3%). With regard to local sources, SINERGIJAPlus has contracted loans with Zepher Banka (20.1% of liabilities), HYPO Alpe-Adria Bank (9.4%), NLB (9.3%) and UniCredit (3%). In 2008, new loans have already been granted by UniCredit (2 M BAM) and UPI Banka (2.5 M BAM).

## Management team

Top management comprises a General Manager (GM), supported by an Executive Manager for Development (EMD). The latter supervises the Market Manager (MM) and the Human Resources Manager (HRM) and is in charge with the Funding strategy. The EMD and the GM are together

dealing with planning and budgeting. The tasks of the Financial Manager (FM) and Credit Manager (CM), on one-year maternity leave respectively from May and June 2007, were split: Accounting tasks have been handled by a well-staffed accounting department supervised by the GM; the latter has taken over liquidity management and, assisted by the HRM, financial analysis; and the MM and the HRM have been in charge with the Loan officers (LO) supervision. This organization will evolve soon with the arrival of the Executive Manager for Operations (EMO) expected at the end of March. She will report to the GM and will be in charge of ALM and Funding in addition to supervising the credit and finance departments. An Internal Auditor (IA) is also expected at the end of March, as the current Credit Supervisor covers only partially the IA function.

The team is lead since inception by Mr. Željko Bogdanić who has 25 years of experience in the business and financial sectors and was previously holding various top management positions. He was GM of the Institute for Economics and Enterprise Development in Banja Luka which most projects were related to the food and agriculture industry. The EMD, Mr. Damir Miljević, has 25 years of experience in business consulting and financial management as project manager and regularly conducts trainings on Marketing, Financial and HR Management, Strategic Planning and Agriculture Business. Their microfinance knowledge is drawn from on-the-job experience in a country comprising major best-practice MFIs, as well as trainings from LIP2 (MCO capacity building support), EFSE (ALM, Risk Management), Perfect Point Partners (Activity-Based Costing system), and the RS employers confederation (Professional selection for productivity increase - hiring procedures).

## Organization

SINERGIJAPlus headquarters in Banja Luka centralizes all the Management team. The three largest field offices (located in Banja Luka, Gradiška and Srbac) are in the process of becoming branches. As loan approval and MIS are still centralized in HQ, field offices are only made up of junior and/or senior LOs in charge with finding new clients, assessing their repayment capacity, and recovering late loans when necessary. Prepared application forms are brought by car twice a week to HQ (branches are in average 1 hour far from HQ) for MIS processing by Loan Tracking Officers (LTOs) and loan approval by the Credit Committee (made up of at least two managers). LTOs subsequently send orders for loan disbursement to the bank while contracts are brought back to LOs. The client signs the contract at the field office and collects the money at the bank. Although clients are to reimburse their loan directly to the bank, it happens that they reimburse their installment directly to LOs.

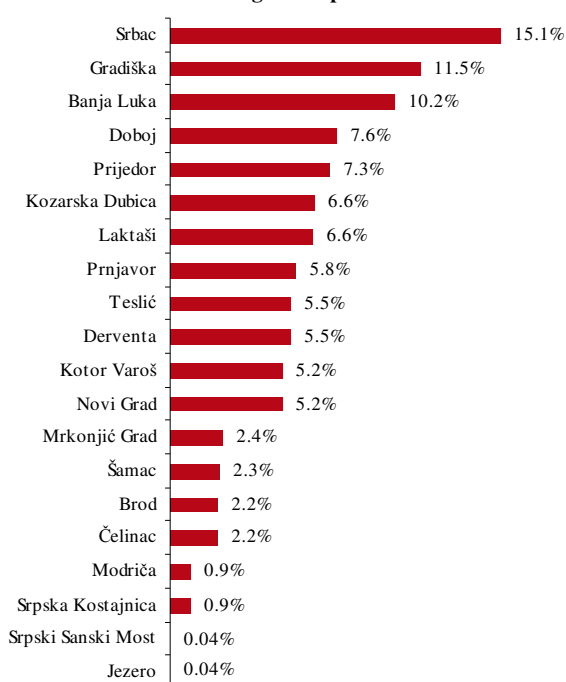
<sup>2</sup> WB second Local Initiatives Project, cf. the 'Microfinance Sector' section.

SINERGIJAPlus already appointed three Branch Managers (BMs) who will be supervising four to five field offices from their respective branch and approving loans supposedly up to 5,000 BAM (2,556 EUR). The PUB 2000 information system outsourced in April 2007 to the PEXIM solutions' Banja Luka office has been partially installed in the three branches, allowing BMs to use PUB 2000 for information purposes. The accounting and loan tracking systems are integrated and domiciled on SQL servers located in the HQ.

## Market penetration

SINERGIJAPlus operates through a network of 20 field offices serving 27 municipalities in both urban and rural areas in the central and north-west part of Republika Srpska.

Outstanding Loans per branch - Dec. 2007



## Products and services

In February 2008, SINERGIJAPlus offers 4 individual loan products intended for different purposes with monthly repayments and declining interest rates. A 1.5% application fee is charged at the disbursement. Collaterals requirements include paychecks, promissory notes and/or bills of exchange of the client and/or his/her guarantor. For loans above 10,000 BAM, a combination of two of the above mentioned collaterals is required. The average APR of the current portfolio is 22.1%.

- The Agriculture Loan (AL), designed for farmers accounts for 52.3% of the portfolio. Amounts range from 800 to 40,000 BAM. Average loan size is of 5,549 BAM (2,837 EUR) for a 27-month average term including a grace period lasting up to 9 months. Annual effective rate is of 23.2%.

- The Entrepreneurs Loan (EL), designed for urban and rural small business owners accounts for 24.7% of the portfolio. Amounts range from 800 to 40,000 BAM. Average loan size is of 9,217 BAM (4,713 EUR) for a 32-month average term including a grace period lasting up to 6 months. Annual effective rate is of 22.6%.
- The Consumer Loan (CL), launched in December 2006 accounts for 13.1% of the portfolio. Amounts range from 800 to 20,000 BAM. Average loan size is of 2,544 BAM (1,301 EUR) for a 25-month average term. Annual effective rate is of 25.3%.
- The Development Loan (DL), offered to best clients, accounts for 6.8% of the portfolio. Amounts range from 40,000 to 50,000 BAM. Average loan size is of 48,500 BAM (24,798 EUR) for a 67-month average term including a grace period lasting up to 12 months. Annual effective rate is of 14%.

## Networks

SINERGIJAPlus is a member of AMFI, the local association of MFIs in Bosnia and Herzegovina.

## Governance

Governance and Decision making is rated "b"

## Decision making

The decision-making process at SINERGIJAPlus is in practice clear and well-balanced among both BOD and management thanks to shared strategic vision and mission. There is notably the consensus in that SINERGIJAPlus objective is to provide proximity services to the high-end of the Microfinance market in North-West Republika Srpska (BiH) and grow along with its institutional capacity. Since the new information system was implemented, the BOD has had access to relevant and quickly available monitoring information comprised of basic microfinance indicators, portfolio, financial and staff data as well as a comparison of actual performance with the budget. Although this has allowed so far timely and quality decision-making, the introduction of more detailed information related to SINERGIJAPlus funding structure (e.g. D/E ratio, Capital Adequacy ratio) would enhance BOD members' understanding of the future challenges lying ahead. However, BOD members are involved, meet regularly (minutes being well-documented), and have various technical and managerial skills in addition to diversified experience, which ensures their independence of thinking and efficient control over the implementation of decisions.

SINERGIJAPlus' current legal status of Limited Liability Company (LLC) is in line with the evolution of the RS microfinance sector but is still suboptimal. In order to ensure

future growth by increasing its capital base, the institution plans to transform into a Joint Stock Company (JSC) as soon as possible from June 2008, even though delays for the Banking Agency approval are still unknown (Cf. Planning). Besides, transforming into a JSC would require clarifying the decision-making process given that the EMD also chairman of the Assembly can virtually control the BOD. This situation is due to the involvement of top managers and BOD president involvement in the NGO since its inception, which resulted in the natural election of one of them as Assembly president. It has so far not affected the balance of power thanks to the shared vision and strong BOD. SINERGIJAPlus is nevertheless aware that this situation should be clarified before inviting potential strategic partners.

## Planning

SINERGIJAPlus' 2008-2012 business plan (BP) details ambitious growth plans (especially for 2008 with a targeted end-of-year portfolio of 81 M BAM, representing a growth of 124%) and institutional development strategy (various projects are conducted simultaneously). Although most projects and related resources necessary to carry out the BP are well-identified and their deadlines properly set, the probability these being achieved is uneven though generally positive:

- In terms of demand, objectives are deemed achievable thanks to the adequate assessment of markets' potential based on statistic research and good knowledge of the clients' activities.
- In terms of internal capacity building, SINERGIJAPlus is on a good track, notably with the arrival of the EMO and IA at the end of March, the ongoing decentralization and the development of an ALM module within the MIS. It would nevertheless be timely to finalize the planning and calendar for the next decentralization steps proposed by PPP<sup>3</sup>.
- In terms of funding, the institution still needs to secure funds, in particular for the second quarter of the year to fulfill its growth objectives (Cf. section "F"). This is nevertheless a good thing that SINERGIJAPlus adopted the new BP replacing the 2006-2010 understated one (e.g. 2007 portfolio growth was understated by 30%) that led to shortages of funding early 2006 and late 2007.
- SINERGIJAPlus transformation into a JSC, planned after the BA-RS on-site visit expected in April-May 2008 and deemed as a necessary step to increase equity, relies on the BA-RS approval whose delays are currently unknown.

<sup>3</sup> SINERGIJAPlus received technical assistance from Perfect Point Partners partly funded by EFSE for its decentralization, the development of an Activity Based Costing system and the integration of an ALM module.

The annual planning process involving the management team and finalized by the top management is functioning well. Although LOs are not involved, it stems from the operations as the MM and HRM are in close contact with LOs thanks to frequent meetings and travels in the field. LOs have no stated growth objectives but their buy-in is ensured by a motivating bonus system. Precise financial projections and budget, developed on Microfin, are available for the whole duration of the plan, monitored on a monthly basis and updated once a year.

## Management team

The institution is competently led by a strong top management (GM and EMD) adequately supported by a skilled management team (HRM and MM), which mitigates the ED key-person risk. The current management team has proved flexible and polyvalent enough (HRM and MM stemming from LO positions) to successfully face the departure on maternity leave of the FM and CM<sup>4</sup> thanks to collective decision-making on key-issues, cohesiveness and smooth internal communication. The capacity of the management team to accomplish all fixed goals has nevertheless been stretched, somewhat affecting the timely realization of some projects (e.g. timely funding, compiled procedures, active ALM). Even though this situation should end with the return of the FM and CM from maternity leave, there exists a general person risk at the management team level due to the absence of middle-management (BMs have not been trained for their position yet).

The management team will soon be further strengthened with the arrival of the EMO and IA at the end of March. The creation of the EMO position was at first required to strengthen a downsized management team. It finally proves useful to optimally manage risks associated with SINERGIJAPlus increased recourse to commercial funding. Once operations are decentralized, formalizing management meetings into minutes could ensure the continuity of good management team communication.

## Human resource management

Human Resources are professionally administrated within the institution. Most basic procedures, including job descriptions, recruiting, induction, training and remuneration processes, are in place but have yet to be compiled in a manual.

- Trainings are provided regularly to all staff: operational staff is trained by the management team, the latter receiving external training on relevant subjects (ALM, ABC system, recruitment, IAS and IFRS).

<sup>4</sup> Cf. the Institutional Presentation of the management team for additional details on the split of the FM and CM tasks.

- Since April 2007, the remuneration of most staff has been exclusively based on a motivating bonus system<sup>5</sup>, resulting in an increase in the average salary from an already attractive level.
- There is no formal evaluation of staff distinct from the bonus system. Putting in place an evaluation system could be useful to better identify training needs and trigger promotions.

SINERGIJAPlus has been reasonably successful in retaining staff over the last three years, as evidenced by manageable turnover rates (from 5.1% in 2005 to 8.7% in 2007). The higher turnover in 2004 (26.8%) was due to the dismissal of non performing staff. Since then, selective recruitment based on the candidates' motivation and knowledge of the agriculture business, good induction process and good staff morale have all contributed to staff retention.

## ▪ Information

Information is rated "b"

The current MIS<sup>6</sup> provides quickly available and reliable information allowing well-informed decision-making and is being upgraded to meet all SINERGIJAPlus needs. The complete outsourcing of the MIS function has proved to be adequate thanks to the processing staff training and the Banja Luka-based Pexim team availability. PUB 2000 flexibility has allowed for timely upgrades and produces most required reports (including those required by regulation), which was not the case of the previous MIS. Necessary upgrades for a better management of the operations (e.g. automatic checks on guarantors, more user-friendly PAR reports and control interfaces for Loan Tracking Officers) are well-identified by the management team and are expected to be implemented soon. Looking forward, efficiency gains could be made by directly downloading clients' repayment data from banks into PUB 2000 instead of processing the data manually. The MIS, primarily designed for retail banking, is easily being adapted to the ongoing decentralization needs. It is already installed on-line in three branches for staff to familiarize with available reports. Next steps are expected to be handled smoothly. Risks associated to the reliance on an external MIS provider are adequately mitigated as SINERGIJAPlus could buy the license – if becoming necessary as the network expands – for a more flexible MIS support.

Data security is satisfactory. The accounting and the loan tracking systems are integrated and domiciled on powerful

<sup>5</sup> For Loan Officers, it is based on the portfolio size, the proportion of new clients, PAR 15 and write-off ratio. The level of education is also taken into account.

<sup>6</sup> Pexim Universal Banking (PUB) 2000 is an integrated banking application for retail and corporate banking used by various banks in Eastern Europe.

enough SQL servers. Although back-ups are performed regularly (overnight between the two servers and weekly on hard disks), security could improve by restricting the access to servers or moving them to secured locations (e.g. Pexim Banja Luka future recovery site, thus allowing SINERGIJAPlus to benefit from Pexim's disaster recovery procedures). SINERGIJAPlus enjoys a good computational infrastructure thanks to an adequate outsourced maintenance (antivirus and license are frequently updated by EKOM, a local company) and investments (e.g. in leased lines, ensuring secured HQ to branch connection).

The quality of the financial and accounting data is good, allowing for a monthly variance analysis to budget, and improving thanks to regular upgrades. In particular, the recent implementation of an Activity-Based Costing system outlined most profitable products and served as a basis to streamline SINERGIJAPlus product offering. An ALM module is also being developed within PUB 2000 and will reportedly be operational in the coming months.

## ▪ Risk Management

Risk Management is rated "b"

### Procedures and internal controls

Effective controls are presently in place to mitigate arising risks but some procedures ought to be compiled and in some cases formalized. The absence of the Financial and Credit Managers for several months has indeed stretched the management team capacity to provide all departments and field offices with formal procedure manuals: procedures presently exist and are being updated for key departments (operations, finance, HR) but need to be compiled in a manual for a better dissemination to staff. These deficiencies have so far not significantly affected control mechanisms within SINERGIJAPlus thanks to regular training and close supervision of staff by the MM and HRM and due to the fact that loan approval has been centralized in HQ. Operational risks are further mitigated as incompatible tasks are handled by distinct persons (e.g. loan application, data entry, loan approval, disbursement). Cross checks and reconciliations are regularly performed and facilitated by the integration of the accounting and loan tracking systems, thus ensuring data is reliable. SINERGIJAPlus is aware that the forthcoming decentralization of the loan approval will require formalizing clear limitations of power.

On the other hand, there is no written procedure for cash handling. Even though SINERGIJAPlus expects clients to repay their loan directly to the bank, some clients prefer repaying their loan to LOs, compelling them to handle cash. The risk resulting from the lack of written procedure is partially offset by the adequate use of receipts, daily follow

up by Loan Tracking Officers on reimbursed amounts and control of the bank statements, in addition to the close supervision of LOs by the management team. However, there are still no safe in field offices and no limitations or insurance for cash transport. Amounts collected are estimated to be low but significantly vary from one field office to another. SINERGIJAPlus needs to choose between strictly forbidding cash handling and putting the necessary mechanisms in place to ensure cash security.

## Internal audit

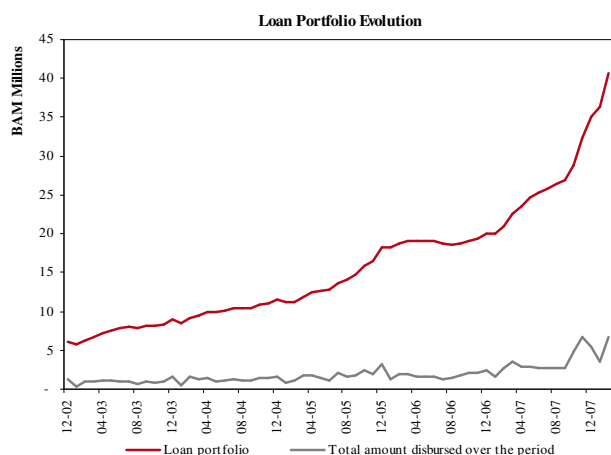
There is presently no actual Internal Audit (IA) department within the institution and thus no effective coverage of all potential risks. The Internal Auditor has nevertheless been recruited and will reportedly arrive at the end of March. The absence of an IA has not been critical so far given that credit decisions are centralized at HQ. Audit work performed since 1998 by the Credit Supervisor (CS) has been useful but is still far from IA best practices. Although credit files are regularly reviewed and clients' visits performed at least once a year for each field office (and kept confidential), there are neither audit plans, nor formal targets. Moreover, CS controls do not cover cash handling and other-than-credit HQ departments (e.g. HR, Finance). Reports sent twice a year to the Board lack of details (e.g. no categorization of findings by category, no follow-up of previous recommendations). These controls are somewhat supplemented by the external auditor's portfolio audit (visit of 25 clients selected by Deloitte) and soon by the Banking Agency on-site examination (review of business books, accounting and documentation).

## ■ Activities

Activities: products and services is rated "a"

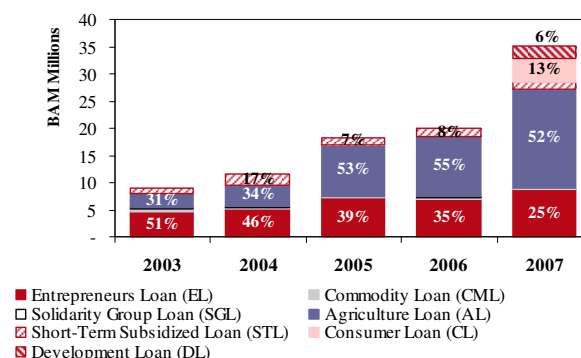
### Evolution and composition of the portfolio

The historically moderate growth rate of the loan portfolio is resulting from SINERGIJAPlus prudent growth monitored



from the HQ, centralizing so far all the loan approvals. It increased by an average 2003-05 yearly rate of 43%, slowed down in 2006 (+11%), and accelerated in 2007 (+71%).

Loan Portfolio per Product



As 56.7% of the portfolio is related to agriculture, more disbursements are made during the planting season (from October to December), although funds have been sometimes lacking to meet all the clients' needs. It was somewhat the case between Dec. 2007 and Jan. 2008 (some clients were placed on a 15-days waiting list). The much more important slowdown in 2006 was notably due to fund shortages (the average amount disbursed per loan decreased to 1,893 EUR from 2,246 EUR in 2005) partly resulting from SINERGIJAPlus' choice not to take significant risks before the new law was enacted in June 2006. As of December 2007, SINERGIJAPlus' portfolio is exclusively composed of individual loans, the AL and EL still representing the largest share, the CL and DL significantly increasing (the latter being responsible for the increase to 2,184 EUR in 2007 and 3,411 EUR in February 2008 in the average amount disbursed per loan), and the SGL, STL and CML being definitively stopped.

### Loan portfolio management

SINERGIJAPlus' individual lending methodology, relying on an adequate repayment capacity analysis and a centralized loan approval process, has led to well-informed and appropriate credit decisions. For all loan products, LOs are to conduct a credit risk analysis based on their knowledge of agriculture risks, the client's character/reputation, business cash flow and quality of guarantors. These factors are systematically reviewed during the credit committee comprised of at least two members of the management team, thus ensuring adequately conservative loan approval decisions. Clients' visits and reputation assessment are particularly important as SINERGIJAPlus decided not to use the credit bureau (CRK) information to evaluate their level of indebtedness. Yet, using CRK could bring a valuable additional layer of control given the clients' growing cross-indebtedness and the current lack of actual IA (necessary to ensure LOs' regular visits to clients). This current centralized organization, creating bottlenecks at the

loan approval stage, justified decentralization. SINERGIJAPlus, benefiting from the valuable EFSE-funded technical assistance from Perfect Point Partners, is aware of the challenges associated with the forthcoming decentralization of the loan approval.

Delinquency management and follow-up on written-off loans is very efficient. Strict rules are defined to follow-up late clients (well-defined steps ending with the cancellation of the contract after 15 days in arrears). Their good implementation is allowed by 1) the close supervision of LOs and frequent update trainings delivered during regional staff meetings, 2) the motivating bonus system based on credit-risk indicators and 3) the availability of actionable collaterals. Even though the absence of the CM and FM has not significantly impacted the supervision quality yet, it is time to build a well-trained middle-management to relay the HRM and MM in this task.

### Credit risk

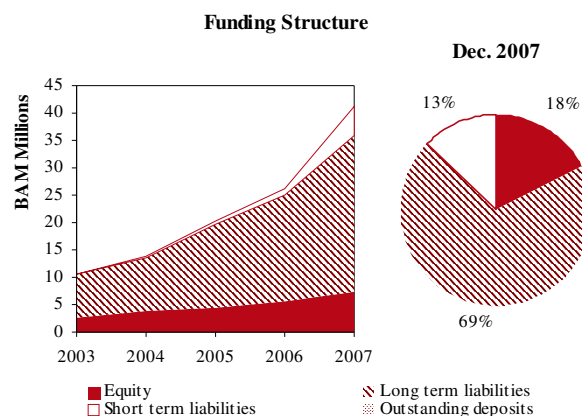
Credit Risk has slightly increased over the years (from 0.1% in Dec. 2004 to 0.5% in Dec. 2005) due to the expansion of activities but remains very low thanks to a prudent growth, a conservative lending methodology and effective delinquency management. Ratios are excellent, PAR 30 (0.4% as of Dec. 2007) and Write-off (0.2%) being respectively ranked 4<sup>th</sup> and 2<sup>nd</sup> lowest among BiH peers (Cf. Benchmarking). The concentration of the portfolio in the agriculture sector remains moderate (representing 56.7% in 2007 from 62.1% in 2006), is offset by the fact that most clients diversify their investments (e.g. in seeds and cattle) and proves not to be riskier than other sectors (PAR 30 of the AL is 0.4% in Dec. 2007).

### Credit risk coverage

Credit Risk coverage is excellent as PAR 30 is covered at 122% by the loan loss reserve, which is above international standards. The recent significant decrease in the loan loss reserve is due to the fact that SINERGIJAPlus stopped provisioning 0.5% of its healthy portfolio in compliance with the Banking Agency requirements. An adequate mix of collaterals (from the clients and his/her guarantor), varying according to the loan amount and client type, has allowed for a rather good recovery on written-off loans.

## Funding and liquidity

Funding and liquidity is rated “c”



### Market risk

Market risks related to SINERGIJAPlus' present funding structure are not adequately mitigated through hedging mechanisms or internally defined acceptable limits. The EMO arriving at the end of the month will reportedly be assigned to this task in priority.

- SINERGIJAPlus is exposed to FX risk as open FX position represents 149% of equity (vs. no more than 15% best-practice without appropriate hedging mechanisms): this risk is reduced by the BAM / EUR fixed peg that has been going on for several years, but would not resist a severe devaluation, especially as the contractual transfer to the client would then pose serious limits and convert into credit risk.
- SINERGIJAPlus is very exposed to interest rate risk as open EURIBOR position represents 188% of equity: this is especially true given that the EURIBOR has been on an upward trend over the last years<sup>7</sup>. The institution is aware of this risk and will reportedly try to borrow only fixed rate loans in the future.

### Liquidity risk

Liquidity risk exists due to occasional lacks of timely available funds but does not affect SINERGIJAPlus ability to meet its obligations against its creditors. The departure of the FM on maternity leave since July 2007 has stretched the management team capacity to timely satisfy all the funding needs of the institution. This has resulted in temporary liquidity shortages during the seeding season and in over-priced loans due to the difficulty to negotiate in a short period of time. The high cost and limited availability of funds has led SINERGIJAPlus to adopt a tense liquidity management, as evidenced by the low level of liquidity during the high season (Liquid to Asset ratio at 1.24% and

<sup>7</sup> 6M EURIBOR decreased by 2.5% over the last 6 months but increased by 15.2% over the last year and by 109% over the last 3 years.

1.97% in Nov. and Dec. 2007, at 2.07% in January 2008, vs. a minimum of 3% as best practice). However, liquidity risks remains moderate as 1) the level of liquidity covered 3.2 months of operating expenses as of Dec. 2007 (vs. 3 months best practice), 2) SINERGIJAplus has a good visibility on the future liquidity available thanks to the use of the MIS customizable cash flow projections and 3) the Finance department adequately pools funds available to the various local banks' accounts. With regard to maturity risk, it is very well mitigated as most liabilities are long term (in line with the average loan term of 30 months) and are consequently exceeded by assets for maturities below one year (quick and current ratios are all above 100%). However, liquidity shortages could potentially happen during the next few months, as SINERGIJAplus has difficulties to increase its funding base up to its growing needs.

### Capitalization and funding strategy

SINERGIJAplus' funding needs for 2008 are of 48 M BAM (25 M EUR), out of which 19 M BAM (10 M EUR) are secured. Over the 29 M BAM (15 M EUR) left, SINERGIJAplus has already agreed for 8 M BAM (4 M EUR) with Deutsche Bank for the third quarter of the year. The second quarter is more problematic with 15 M BAM still to be secured, which mainly results from: 1) the understated growth objectives for 2007; 2) the overrun of the local banks country/industry exposure limits by SINERGIJAplus funding needs; and 3) the buying back of the Bosnian Zepet Banka (20% of SINERGIJAplus liabilities) by the Austria's Volksbank in July 2007, suspending the bank activities into the Microfinance sector. SINERGIJAplus has already several leads with international funders still to be negotiated. The arrival of the EMO at the end of March, bringing 26 years of experience from the banking sector to the top management team, is expected to enhance the institution negotiating power. SINERGIJAplus has indeed some room to reduce the cost of its liabilities (7% in Dec. 2007) as some competitors manage to negotiate cheaper rates<sup>8</sup>.

SINERGIJAplus' current level of indebtedness has been increasing over the years but is not giving cause for serious concern yet: as of Dec. 2007, the debt to equity ratio increased up to 4.7x and the Capital Adequacy ratio (CAR) decreased to 17.6%. Although this is in line with minimum standards for MFIs at this stage of development, SINERGIJAplus is technically not complying with one of the EFSE loan covenant requiring a CAR over 18%. This has not affected good relationships and only resulted in a tighter follow-up by EFSE.

<sup>8</sup> Cost of liabilities is 6.2% for EKI in Sept. 2007 (including 21% of concessional loans).

In the near future, SINERGIJAplus capital adequacy relies on the timely injection of equity. Related risks exist given the uncertain timing of the institution's transformation into a JSC<sup>9</sup>, which SINERGIJAplus plans to do before injecting new equity. Despite this unknown, the institution intends to invite employees into the capital in Sept. 2008 and to raise capital from new equity partners at the beginning of 2009. SINERGIJAplus might prove attractive for several investors but has not started serious discussion with potential strategic partners yet. The institution ought to build scenarios (e.g. based on its expected profitability and on the timing and amounts of potential equity injections) to enhance its monitoring of the compliance of the debt to equity and capital adequacy ratios.

### ■ Efficiency and Profitability

Efficiency and Profitability is rated "a"

#### Profitability analysis

SINERGIJAplus has been steadily profitable since 2003, as evidenced by its solid ROA and high ROE, respectively standing at 3.5% and 18.6% as of December 2007. This is a good performance by international standards (ROA is 3% for ECA large peers) but SINERGIJAplus comes in 8<sup>th</sup> position among BiH MFIs (Cf. Benchmarking) as its ROA decreased from 8.1% in 2004. This trend can be explained by the tighter margins resulting from a decreasing portfolio yield (20.7% in Dec. 2007, the third lowest in BiH) and increasing funding expenses and that are not fully offset by the decreasing operating expenses and the 2007 loan loss provision reversal.

SINERGIJAplus has built a solid market position over the years thanks to its historically strong presence in north-western RS, expertise in agriculture lending, and competitive interest rates (average APR is 22.3% in Dec. 2007). The increase of the representation of the Development loans to 6.5% of the portfolio in Dec. 2007 (APR of 13.1%) in addition to the decrease in the interest rates and their calculation on a declining basis since October 2007 have made SINERGIJAplus' pricing even more competitive when compared to that of its main competitors. Historically competing with Mikrofin, SINERGIJAplus has also had to face EKI and Partner, the latter having significantly expanded their operations in RS. However, the combination of a good proximity to clients through LOs visits and an active customer care<sup>10</sup> further strengthens SINERGIJAplus' market position.

<sup>9</sup> Cf. the planning section.

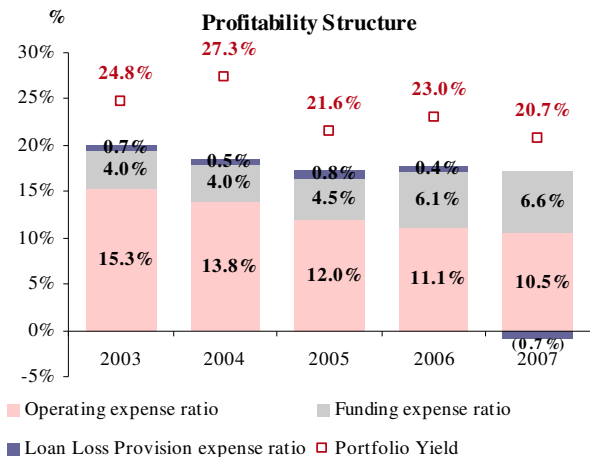
<sup>10</sup> The Market Manager builds and maintains relationships with associations of farmers and fruit producers, made up of current and potential clients.

The operating expense ratio has been constantly decreasing since 2003 down to 10.5%, which is excellent by international standards and the lowest among BiH MFIs. Such a low ratio has been the result of SINERGIJAPlus' high average outstanding loan size (1,893 EUR as of Dec. 2007, the highest among BiH MFIs). Its decreasing trend nevertheless reflects the high productivity of LOs (227 clients per LOs as of Dec. 2007) for an institution providing only individual loans. The cost per borrower decreased to 157 EUR in 2007 (from 237 EUR in 2004) in spite of the 2007 increase by 45.5% of the LOs' average salary due to the new bonus system. The streamlining of the loan product offering based upon the Activity-Based Costing system and allowing the identification of the most costly activities<sup>11</sup> has also contributed to optimize operating expenses. The forthcoming decentralization of the loan approval is expected to allow a quicker disbursement of loans. This could potentially further reduce the operating expense ratio given that the related MIS investments have already been done and provided that the new system does not entail significant additional staff expenses.

The funding expense ratio has increased to 6.6% in 2007 from 4% in 2003 due to increased recourse to commercial sources. Now representing the most important cost category of SINERGIJAPlus, the evolution of funding expenses will depend on the institution's ability to negotiate cheaper and/or fixed rate loans. On the other side, there were no loan loss provision expenses in Dec. 2007 but a significant loan loss provision reversal (0.7% of the average gross loan portfolio) in order to comply with the BA-RS requirements. The very good portfolio quality is expected to keep this ratio low in the future.

SINERGIJAPlus shows a good level of resource optimization with an asset deployment ratio constantly above 80% since 2003 and peaking at 91.1% as of Dec. 2007, which contributes to the solid ROA level. Provided that growth is not impeded by lack of funding and resulting tight cash management, SINERGIJAPlus should be able to maintain its good levels of profitability.

SINERGIJAPlus' profitability outlook is stable: the institution is expected to preserve its market position, maintain its excellent portfolio quality in spite of the clients' growing indebtedness, and still has some room to further reduce its operating expenses ratio. On the other side, the control of funding expenses will depend on SINERGIJAPlus' ability to negotiate cheaper loans.

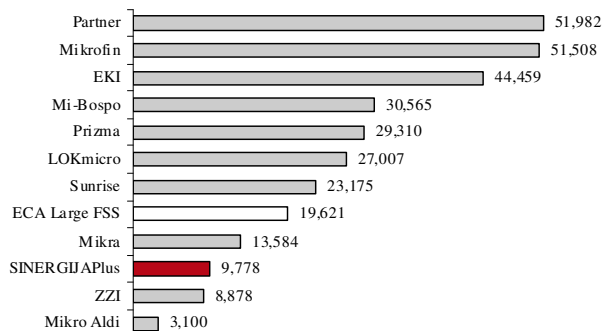


*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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.*

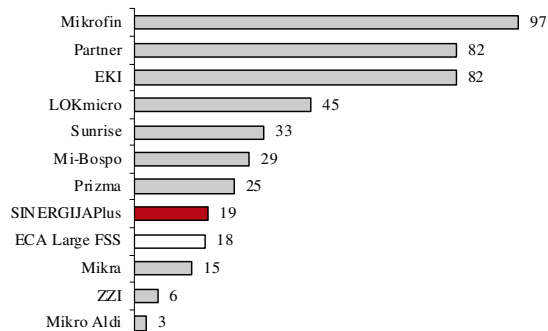
<sup>11</sup> The current loan products were identified as the most profitable given their respective generated income and costs.

## Benchmarking

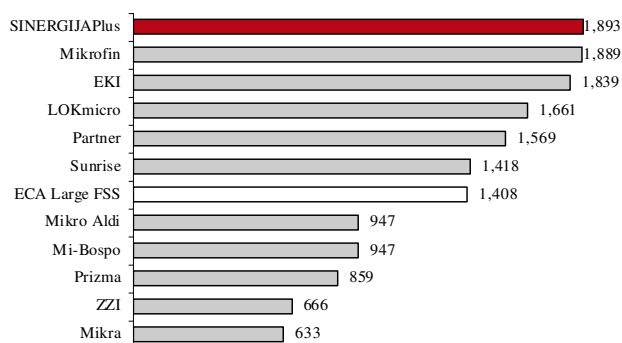
Active borrowers



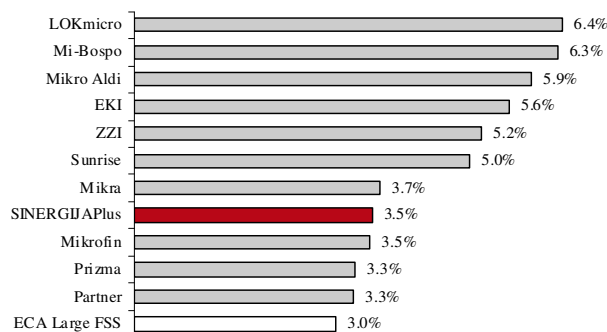
Loan portfolio (M EUR)



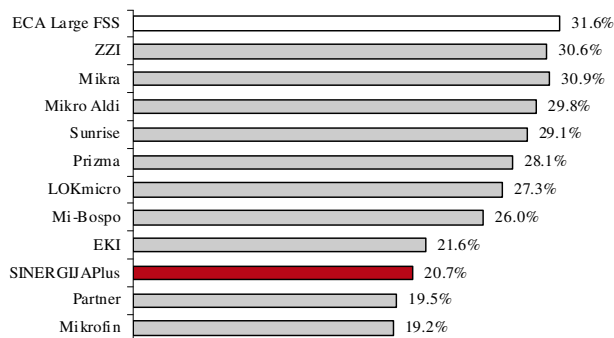
Average outstanding loan per client



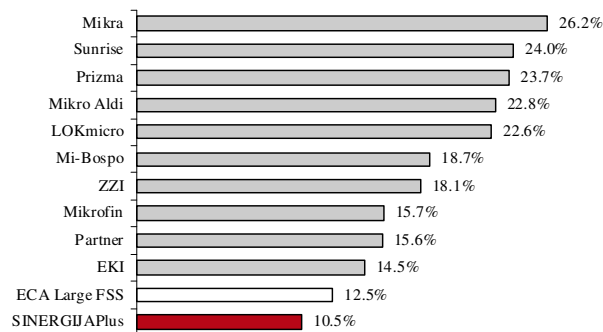
ROA



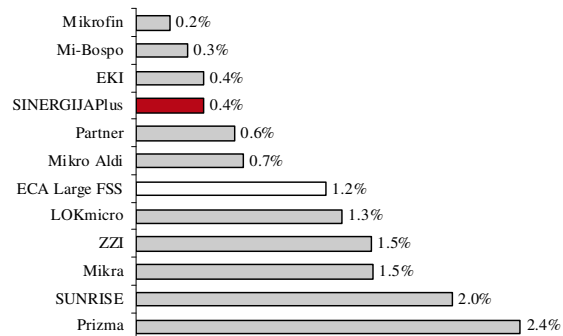
Portfolio Yield



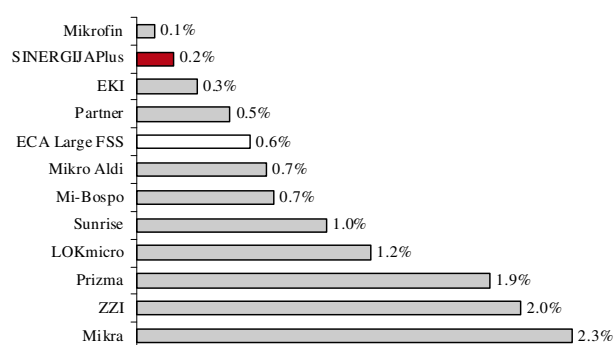
Operating expense ratio



PAR 31-365



Write-off ratio



Source: SINERGIJPlus, Zene za Zene International (Planet Rating data as of Dec. 2007), other MCOs (MCOs' Dec. 2007 reporting to AMFI), MiX (MBB ECA Large FSS Peer group, 2006 benchmarks, Median).

Data in EUR, unless otherwise stated

## ■ Performance indicators

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
<b>Loan Portfolio</b>					
<b>Loan portfolio evolution</b>					
Loan portfolio	4,711,433	6,205,951	9,717,131	10,825,644	18,511,789
Loan portfolio (BAM)	9,214,762	12,137,786	19,005,056	21,173,119	36,205,913
Evolution	44.3%	31.7%	56.6%	11.4%	71.0%
Average outstanding loan portfolio	3,987,681	5,458,692	7,961,541	10,271,387	14,668,717
Active borrowers	2,930	3,169	4,326	6,277	9,778
Evolution	66.7%	8.2%	36.5%	45.1%	55.8%
Average outstanding loan per client	1,608	1,958	2,246	1,725	1,893
% of GDP per capita	89.9%	101.5%	109.0%	75.1%	75.2%
Average amount disbursed per loan	2,011	2,612	2,721	1,924	2,184
% of GDP per capita	112.5%	135.4%	132.1%	83.8%	86.7%
<b>Portfolio quality</b>					
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-180	0.0%	0.1%	0.5%	0.5%	0.4%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.2%	0.1%	0.0%	0.3%	0.2%
<b>Credit risk coverage</b>					
Risk coverage ratio (PAR 30)	5,574.1%	1,831.7%	400.2%	472.0%	122.2%
PAR 31 net of loan loss provision / Equity	(6.5%)	(6.1%)	(6.5%)	(6.1%)	(0.5%)
<b>Staff</b>					
Total number of staff	34	33	46	51	64
% Credit officers	47.1%	48.5%	58.7%	62.7%	67.2%
Turnover	6.3%	26.9%	5.1%	6.2%	8.7%
<b>Profitability analysis</b>					
ROE	15.7%	30.1%	17.3%	22.3%	18.6%
Liabilities / Equity	2.82x	2.65x	3.6x	3.7x	4.7x
Capital adequacy ratio	26.9%	28.3%	22.1%	23.1%	17.6%
ROA	4.4%	8.1%	4.2%	4.8%	3.5%
<b>Profitability structure</b>					
Portfolio Yield	24.8%	27.3%	21.6%	23.0%	20.7%
Operating expense ratio	15.3%	13.8%	12.0%	11.1%	10.5%
Cost per borrower	209	239	221	181	157
Staff productivity	86	96	94	123	153
Loan officer productivity	183	198	160	196	227
Average outstanding loan per client	1,608	1,958	2,246	1,725	1,893
Funding expense ratio	4.0%	4.0%	4.5%	6.1%	6.6%
Cost of liabilities	4.2%	4.9%	5.5%	6.8%	7.0%
Loan Loss Provision expense ratio	0.7%	0.5%	0.8%	0.4%	(0.7%)
PAR 31-180	0.0%	0.1%	0.5%	0.5%	0.4%
Write-off ratio	0.2%	0.1%	0.0%	0.3%	0.2%
<b>Resource optimization</b>					
Outstanding Loan Portfolio / Assets	84.6%	86.2%	92.1%	79.1%	87.7%
Revenue from investment as a % of financial revenues	1.5%	0.5%	0.3%	0.1%	0.3%
<b>Liquidity</b>					
Liquidity / Total assets (LAR)	2.9%	3.1%	0.4%	8.4%	2.0%
Exchange rate 1 EUR= xx BAM	2.0	2.0	2.0	2.0	2.0

**GIRAFE Rating – SINERGIJAPlus, Bosnia and Herzegovina – March, 2008**

SINERGIJAPlus Income Statement	BAM					EUR					Evolution		
	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	2005/2004	2006/2005	2007/2006
<b>Financial Revenue (a)</b>	<b>1,997,713</b>	<b>2,951,888</b>	<b>3,402,458</b>	<b>4,651,972</b>	<b>5,972,542</b>	<b>1,021,414</b>	<b>1,509,276</b>	<b>1,739,649</b>	<b>2,378,516</b>	<b>3,053,712</b>	<b>15.3%</b>	<b>36.7%</b>	<b>28.4%</b>
Financial Revenue from Loan Portfolio	1,931,852	2,919,466	3,359,451	4,614,822	5,940,957	987,740	1,492,699	1,717,660	2,359,521	3,037,563	15.1%	37.4%	28.7%
Interest on Loan Portfolio	1,756,352	2,694,404	3,195,624	4,239,691	5,433,515	898,008	1,377,627	1,633,897	2,167,720	2,778,112	18.6%	32.7%	28.2%
Fees and Commissions / Loan Port.	175,288	224,668	163,178	374,066	507,428	89,623	114,871	83,431	191,257	259,444	(27.4%)	129.2%	35.7%
Penalty Revenue on Loan Portfolio	213	395	649	1,065	14	109	202	332	544	7	64.5%	64.1%	(98.7%)
Financial Revenue from Investments	30,056	13,358	10,533	4,514	17,789	15,367	6,830	5,386	2,308	9,095	(21.1%)	(57.1%)	294.1%
Other Operating Revenue	35,805	19,064	32,474	32,636	13,796	18,307	9,747	16,604	16,687	7,054	70.3%	0.5%	(57.7%)
<b>Financial Expense (b)</b>	<b>310,671</b>	<b>428,420</b>	<b>696,575</b>	<b>1,229,520</b>	<b>1,898,830</b>	<b>158,843</b>	<b>219,048</b>	<b>356,153</b>	<b>628,644</b>	<b>970,856</b>	<b>62.6%</b>	<b>76.5%</b>	<b>54.4%</b>
Interest paid on borrowings	310,671	428,420	696,575	1,229,520	1,898,830	158,843	219,048	356,153	628,644	970,856	62.6%	76.5%	54.4%
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Financial income [c=a-b]</b>	<b>1,687,042</b>	<b>2,523,468</b>	<b>2,705,883</b>	<b>3,422,452</b>	<b>4,073,712</b>	<b>862,571</b>	<b>1,290,229</b>	<b>1,383,496</b>	<b>1,749,872</b>	<b>2,082,856</b>	<b>7.2%</b>	<b>26.5%</b>	<b>19.0%</b>
<b>Net Loan Loss provision expense (d)</b>	<b>51,607</b>	<b>56,853</b>	<b>128,560</b>	<b>89,440</b>	<b>(213,917)</b>	<b>26,386</b>	<b>29,068</b>	<b>65,732</b>	<b>45,730</b>	<b>(109,374)</b>	<b>1</b>	<b>(30.4%)</b>	<b>(339.2%)</b>
Loan loss provision expense and write-off	6,049	2,378	147,966	110,468	(175,943)	29,479	30,284	75,654	56,481	(89,958)	149.8%	(25.3%)	(259.3%)
Recovery from Loans written off	6,049	2,378	19,406	21,028	37,974	3,093	1,216	9,922	10,751	19,416	716.1%	8.4%	80.6%
<b>Operating expense (e)</b>	<b>1,195,738</b>	<b>1,478,461</b>	<b>1,866,985</b>	<b>2,220,352</b>	<b>3,011,569</b>	<b>611,371</b>	<b>755,925</b>	<b>954,574</b>	<b>1,135,248</b>	<b>1,539,791</b>	<b>26.3%</b>	<b>18.9%</b>	<b>35.6%</b>
Personnel Expense (includes fringe)	671,240	852,107	1,080,854	1,256,297	1,836,612	343,200	435,675	552,632	642,334	939,045	26.8%	16.2%	46.2%
Administrative Expense	524,498	626,354	786,131	964,055	1,174,957	268,172	320,250	401,943	492,914	600,746	25.5%	22.6%	21.9%
Depreciation and amortization	127,378	129,666	130,176	141,993	168,060	65,127	66,297	66,558	72,600	85,928	0.4%	9.1%	18.4%
Consulting fees	22,786	22,786	22,783	26,909	28,080	11,650	11,650	11,649	13,758	14,357	(0.0%)	18.1%	4.4%
BOD fees	17,820	21,450	21,450	19,470	20,900	9,111	10,967	10,967	9,955	10,686	0.0%	(9.2%)	7.3%
Marketing	8,606	6,786	45,917	110,315	98,657	4,400	3,469	23,477	56,403	50,443	576.7%	140.2%	(10.6%)
Transportation	32,241	37,326	59,764	88,419	101,184	16,485	19,084	30,557	45,208	51,735	60.1%	47.9%	14.4%
Maintenance	48,232	70,836	64,706	56,858	89,221	24,661	36,218	33,084	29,071	45,618	(8.7%)	(12.1%)	56.9%
Bank services	55,058	75,036	72,659	100,803	169,791	28,151	38,365	37,150	51,540	86,813	(3.2%)	38.7%	68.4%
Other employees expenses	7,347	31,545	31,998	54,542	42,554	3,756	16,129	16,360	27,887	21,758	1.4%	70.5%	(22.0%)
Rent	39,032	37,749	41,029	50,345	68,754	19,957	19,301	20,978	25,741	35,153	8.7%	22.7%	36.6%
Telecommunications	27,657	28,595	29,569	49,516	64,577	14,141	14,620	15,118	25,317	33,018	3.4%	67.5%	30.4%
Others	138,341	164,579	266,080	264,885	323,179	70,733	84,148	136,044	135,434	165,239	61.7%	(0.4%)	22.0%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>	<b>439,697</b>	<b>988,154</b>	<b>710,338</b>	<b>1,112,660</b>	<b>1,276,060</b>	<b>224,814</b>	<b>505,235</b>	<b>363,190</b>	<b>568,894</b>	<b>652,439</b>	<b>(28.1%)</b>	<b>56.6%</b>	<b>14.7%</b>
Income Taxes (g)	-	-	-	-	84,195	-	-	-	-	43,048	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>	<b>439,697</b>	<b>988,154</b>	<b>710,338</b>	<b>1,112,660</b>	<b>1,191,865</b>	<b>224,814</b>	<b>505,235</b>	<b>363,190</b>	<b>568,894</b>	<b>609,391</b>	<b>(28.1%)</b>	<b>56.6%</b>	<b>7.1%</b>
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>	<b>439,697</b>	<b>988,154</b>	<b>710,338</b>	<b>1,112,660</b>	<b>1,191,865</b>	<b>224,814</b>	<b>505,235</b>	<b>363,190</b>	<b>568,894</b>	<b>609,391</b>	<b>(28.1%)</b>	<b>56.6%</b>	<b>7.1%</b>
Donations (l)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>	<b>439,697</b>	<b>988,154</b>	<b>710,338</b>	<b>1,112,660</b>	<b>1,191,865</b>	<b>224,814</b>	<b>505,235</b>	<b>363,190</b>	<b>568,894</b>	<b>609,391</b>	<b>(28.1%)</b>	<b>56.6%</b>	<b>7.1%</b>

Note: SINERGIJAPlus became liable for tax on the 13th of September 2007.

SINERGIJPlus Balance sheet	Notes	EUR										Evolution		
		Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	2005/2004	2006/2005	2007/2006
<b>ASSETS</b>		<b>10,673,597</b>	<b>13,798,380</b>	<b>20,215,326</b>	<b>26,224,697</b>	<b>41,052,405</b>	<b>5,457,323</b>	<b>7,055,000</b>	<b>10,335,932</b>	<b>13,408,475</b>	<b>20,989,761</b>	<b>46.5%</b>	<b>29.7%</b>	<b>56.5%</b>
<b>Short Term Assets</b>		<b>9,418,485</b>	<b>12,508,832</b>	<b>18,994,562</b>	<b>24,197,168</b>	<b>38,753,774</b>	<b>4,815,595</b>	<b>6,395,664</b>	<b>9,711,765</b>	<b>12,371,816</b>	<b>19,814,490</b>	<b>51.8%</b>	<b>27.4%</b>	<b>60.2%</b>
Cash and Due from Banks		306,681	425,399	88,210	2,197,881	809,976	156,804	217,503	45,101	1,123,759	414,134	(79.3%)	2,391.6%	(63.1%)
Short Term Investments	1	-	-	104,756	889,372	1,605,813	-	-	53,561	454,729	821,039	-	749.0%	80.6%
Short Term Net Loan Portfolio		9,030,202	11,895,030	18,618,132	20,740,984	36,016,090	4,617,069	6,081,832	9,519,300	10,604,697	18,414,734	56.5%	11.4%	73.6%
Short Term Gross Loan Portfolio		9,214,762	12,137,786	19,005,056	21,173,119	36,205,913	4,711,433	6,205,951	9,717,131	10,825,644	18,511,789	56.6%	11.4%	71.0%
(Loan Loss Reserve)		184,560	242,756	386,924	432,135	189,823	94,364	124,119	197,831	220,947	97,055	59.4%	11.7%	(56.1%)
Interest Receivable		51,749	102,130	143,611	353,119	308,652	26,459	52,218	73,427	180,547	157,811	40.6%	145.9%	(12.6%)
On loan portfolio		51,749	102,130	143,611	353,119	308,652	26,459	52,218	73,427	180,547	157,811	40.6%	145.9%	(12.6%)
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		29,853	86,273	39,853	15,812	13,243	15,264	44,111	20,377	8,085	6,771	(53.8%)	(60.3%)	(16.2%)
<b>Long term assets</b>		<b>1,255,112</b>	<b>1,289,548</b>	<b>1,220,764</b>	<b>2,027,529</b>	<b>2,298,631</b>	<b>641,729</b>	<b>659,335</b>	<b>624,167</b>	<b>1,036,659</b>	<b>1,175,271</b>	<b>(5.3%)</b>	<b>66.1%</b>	<b>13.4%</b>
Long Term Net Investments		150,000	150,000	-	-	-	76,694	76,694	-	-	-	(100.0%)	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		1,105,112	1,139,548	1,220,764	2,027,529	2,298,631	565,035	582,642	624,167	1,036,659	1,175,271	7.1%	66.1%	13.4%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>10,673,597</b>	<b>13,798,380</b>	<b>20,215,326</b>	<b>26,224,697</b>	<b>41,052,405</b>	<b>5,457,323</b>	<b>7,055,000</b>	<b>10,335,932</b>	<b>13,408,475</b>	<b>20,989,761</b>	<b>46.5%</b>	<b>29.7%</b>	<b>56.5%</b>
<b>Liabilities</b>		<b>7,880,540</b>	<b>10,017,169</b>	<b>15,773,777</b>	<b>20,670,488</b>	<b>33,811,331</b>	<b>4,029,256</b>	<b>5,121,697</b>	<b>8,065,004</b>	<b>10,568,653</b>	<b>17,287,459</b>	<b>57.5%</b>	<b>31.0%</b>	<b>63.6%</b>
Short term liabilities		85,781	358,510	563,867	1,178,317	5,212,891	43,859	183,303	288,301	602,464	2,665,309	57.3%	109.0%	342.4%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	81,818	401,491	955,698	4,874,628	-	41,833	205,279	488,641	2,492,358	390.7%	138.0%	410.1%
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other		85,781	276,692	162,376	222,619	338,263	43,859	141,470	83,022	113,823	172,951	(41.3%)	37.1%	51.9%
Short Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities		7,794,759	9,658,659	15,209,910	19,492,171	28,598,440	3,985,397	4,938,394	7,776,703	9,966,189	14,622,150	57.5%	28.2%	46.7%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	2	7,794,759	9,658,659	15,209,910	19,492,171	28,598,440	3,985,397	4,938,394	7,776,703	9,966,189	14,622,150	57.5%	28.2%	46.7%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>		<b>2,793,057</b>	<b>3,781,211</b>	<b>4,441,549</b>	<b>5,554,209</b>	<b>7,241,074</b>	<b>1,428,067</b>	<b>1,933,302</b>	<b>2,270,928</b>	<b>2,839,822</b>	<b>3,702,302</b>	<b>17.5%</b>	<b>25.1%</b>	<b>30.4%</b>
<b>Tier 1 Capital</b>		<b>2,793,057</b>	<b>3,781,211</b>	<b>4,441,549</b>	<b>5,554,209</b>	<b>7,241,074</b>	<b>1,428,067</b>	<b>1,933,302</b>	<b>2,270,928</b>	<b>2,839,822</b>	<b>3,702,302</b>	<b>17.5%</b>	<b>25.1%</b>	<b>30.4%</b>
Paid-In Capital		5,000	5,000	5,000	5,000	500,000	2,556	2,556	2,556	2,556	255,646	0.0%	0.0%	9,900.0%
Donated equity		1,132,141	1,132,141	1,132,141	1,132,141	1,132,141	578,855	578,855	578,855	578,855	578,855	0.0%	0.0%	0.0%
Retained earnings without donations and reserves		1,655,916	2,644,070	3,304,408	4,417,068	5,608,933	846,656	1,351,892	1,689,517	2,258,411	2,867,802	25.0%	33.7%	27.0%
<b>Tier 2 Capital</b>		-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-

**Note:**

1. LT deposits with local banks used as loan collaterals
2. Commercial and concessional borrowings

## ■ Formulas

Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{Equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{Average gross outstanding portfolio}$
Staff productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{Average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
Loan loss provision expense ratio:	$\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{Average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{Total assets (end of period)}$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{Average gross outstanding portfolio}$
Liquid Asset Ratio (LAR):	$\text{Cash and due from banks} / \text{Total assets}$
Quick ratio (one month):	$\text{Assets maturing within one month} / \text{Liabilities maturing within one month}$
Current ratio:	$\text{Assets maturing within one year} / \text{Liabilities maturing within one year}$
Capital Adequacy Ratio (CAR)	$\text{Capital} / \text{Risk weighed assets}$

## ■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	INVESTMENT GRADE
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	SPECLATIVE INVESTMENT
C++	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C+	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	TECHNICAL ASSISTANCE REQUIRED
D	<b>High risk:</b> Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	