

GIRAFE

Benefit, BiH

November 2005

Rating

A+	<p>Excellent: The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement.</p> <p>There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.</p>
A	
A-	
B+	
B	
B-	
C+	
C	
C-	
D	
E	

Trend

Positive	<p>Due to the upcoming adoption of the new microfinance law, future regulation, increased competition and their combined impact on smaller institutions like Benefit.</p>
Stable	
Uncertain	
Negative	

Performance indicators

(K EUR, unless otherwise indicated)

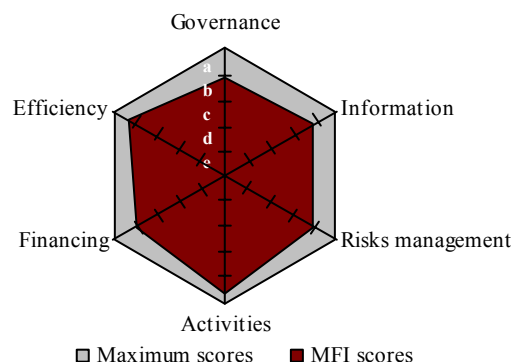
ACTIVITY	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005
Total number of staff	37	46	50	56
Assets	3,693	4,883	6,791	7,918
Assets (K BAM)	7,223	9,551	13,282	15,487
Loan portfolio (EUR)	3,593	4,605	6,399	7,514
Active borrowers	3,117	4,906	7,068	8,392
APR	39.8%	24.3%	24.3%	24.2%
PAR 31-365	0.0%	0.0%	0.0%	0.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%	0.1%
Risk coverage ratio	NA	NA	NA	> 100%

PERFORMANCE

ROE	28.4%	8.5%	13.2%	20.5%
Liabilities / Equity	168.6%	167.1%	225.4%	225.2%
ROA	6.6%	3.2%	4.4%	6.3%
OSS	131.1%	115.7%	125.0%	138.9%
FSS	104.7%	100.7%	110.8%	119.4%
Portfolio Yield	32.8%	25.6%	24.6%	24.3%
Operating expense ratio	20.5%	17.4%	14.6%	12.5%
Staff productivity	84	107	141	150
Funding expense ratio	3.7%	4.2%	4.4%	4.4%

GROWTH

Portfolio growth	63.2%	28.2%	39.0%	17.4%
Asset growth	66.1%	32.2%	39.1%	16.6%
EUR/BAM	1.96	1.96	1.96	1.96



Description of the institution

Benefit was created in November 1996 as a “citizens association” in Lukavica, the eastern suburb of Sarajevo. In December 2001, it was transformed into a Micro Credit Organization in accordance with the Law on Micro Credit Organizations. As of September 2005, Benefit serves 8,392 clients through a network of 26 satellite offices, of which 5 are regional offices concentrated mainly in the eastern part of the Republika Srpska entity of Bosnia and Herzegovina. The institution has a loan portfolio of 7.5 M EUR and offers three individual loan products directed to production, trade, services and agriculture.

Rating summary

The MFI has been assigned / received a global rating of A-

This rating is based on Benefit’s excellent operational and financial performance. With the years, Benefit has been able to reap the benefits of economies of scale which, combined with its amazing loan portfolio quality, enabled Benefit to achieve consistent and high profitability. An area of concern is its long-term ability to compete effectively against larger MFIs and banks having a larger range of products and stronger financial resources.

This grade has been given with an **Uncertain** trend. This is due mainly to the regulatory uncertainty associated with the new law to be adopted in June 2006 and its impact on overall competition and industry consolidation.

Financing needs

The MFI anticipates a net funding need of about 5 M BAM (2.6 M EUR) for the 2006-2007 period. Planet Rating believes that Benefit is able to support additional debt to cover the identified funding need on commercial terms given Benefit’s strong track record, sound business plan and excellent profitability.

Planet Rating SAS

13 rue Dieumegard 93400 Saint Ouen France
Tel: 33 1 49 21 26 30 Fax: 33 1 49 21 26 27
contact@planetrating.com www.planetrating.com

Benefit - Mira Nenadić, Executive Director

Istocno Sarajevo, Vuka Karadzica 42a
Tel/Fax: 387 057 340 290 / 387 057 342 359
benefit@paleol.net

▪ Microfinance sector

The microfinance sector in Bosnia and Herzegovina (BiH), launched after the end of war in 1997, is highly developed 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 various conditions through its Eligibility Criteria and thus heavily influenced the way many MFIs are managed. Numerous international donors have funded microfinance organizations (MFIs) and provided valuable technical assistance. The 10 largest MFIs, having adopted most industry best practices, are among the strongest MFIs in Eastern Europe. There is a pressure to consolidate the 46 registered MFIs into 4-5 strong players mirroring the parallel trend in the general banking sector. Although talks about takeovers and mergers are getting louder, there is not yet an industry-wide sense of urgency to translate words into actions. As most MFIs have yet to experience “real pain” (e.g. slower growth, deteriorating portfolio quality) to triggering them into serious merger/takeover talks. One of the biggest obstacles to industry consolidation is top MFI management having used to manage their own MFIs their own way to consider potential different, possibly reduced roles in larger merged MFIs.

The next big event on the BIH industry calendar is the new microfinance law expected to be adopted in June 2006 after much delays. The new law will provide existing MFIs two choices: non-profit foundation status or for-profit shareholder company status – both options non-deposit taking, an activity reserved to banks. This proposed law, while does not clearly define ultimate ownership of MFIs’ donated equity, will open the way for foreign and domestic equity investment and thus will further push the industry down the commercialization path. Since the beginning of 2005, the level of competition has heated up considerably between MFIs, but also with some of the local banks “downscaling” into top-tier MFI markets. Most banks, led by Raiffeisen Bank BiH and with the notable exception of ProCredit Bank BiH, have chosen to get involved in the microfinance sector indirectly by financing MFI portfolio growth. As of September 30th, 2005, local banks and insurance firms provided about 51 of the 97,3 M BAM in outstanding exposure on commercial terms to BiH MFIs.

▪ Political and economical environment

It has been ten years since the Dayton Agreement was signed by all parties ending the war in BiH. BiH’s national

government is charged with conducting foreign, economic and fiscal policies with a second tier of governments organized along ethnic lines: the Bosniak-Croat Federation of Bosnia and Herzegovina (FBH) and the Bosnian Serbed Republika Srpska (RS) with each having substantial legislative powers. BiH is burdened by these many overlapping government levels which is reflected in their big share in the national GDP.

There are ongoing efforts to streamline government functions and transfer some key powers to the national level as evidenced by the creation of a single Ministry of Defense and soon a single national police. On November 22, 2005, leaders of all major Bosnian ethnic groups signed an unity agreement in Washington D.C. seeking to overhaul their constitutional and governmental systems. It is planned that BiH will eventually have only one president, with a strong prime minister and parliament, in order to lead the country forward more effectively.

Ranked 66 (out of 175 countries) in the UNDP 2004 Human Development Report, BiH is a post-conflict country transitioning to a free market economy. BiH Central Bank forecasted a 6% real GDP growth in 2005 fueled by strong FDI, especially in the manufacturing area. On October 21, 2005, the European Commission opened negotiations with BiH for a Stabilization and Association Agreement which is the first major step in the European integration process.

- Macro-economic conditions are stable; industrial production recorded rapid growth in 2005, particularly in the mining and processing sectors; unemployment rate remains over 40%.
- The Central Bank of BiH has kept inflation low and the national currency (BAM) firmly pegged to the EUR for the past few years. Inflation now runs around 2.5% mainly due to increased fuel costs.
- This favorable economic climate and renewed trust have resulted in strong growth of deposits in domestic banks (+20%) and of bank credit (+26%) to private companies and households.
- Informal economy is estimated by various sources to be as high as 40% of overall economy.
- The Central Bank regulates banks and other financial companies, but does not yet regulate MFIs, which are currently overseen by entity governments.

	Dec.02	Dec.03	Dec.04	Sept.05
GDP per cap. (EUR)	1,556	1,611	1,681	1,763
Inflation	0.3%	0.2%	0.9%	1.7%
Moody’s rating BiH				B3
COFACE				D

Sources: CBBH, Moody’s, COFACE

September 2005 data is preliminary and subject to revision.

▪ Institutional presentation

Networks

Benefit 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).

Ownership

As a non-profit microcredit organization, Benefit has no specific owners. The issue of ownership has been unclear since the beginning and will likely remain so as the new microcredit law is silent on this subject. The Government (either at entity or State level) will likely have the final say about this sensitive subject. No specific timeframe has been mentioned.

The Board of Directors (BOD) is composed of five members with private sector and banking backgrounds. A representative of Raiffeisen Bank, Benefit's largest commercial lender, attends BOD meetings as an observer without voting rights. There are functioning Audit and Compensation Committees of the BOD.

Management team

The management team includes the Executive Director (ED), Finance Manager, Credit Supervisor (CS) and the Head of the Trebinje Region. The management team also counts on the services of 3 specialists: 1 Finance & Accounting Specialist and 2 MIS Specialists. The Internal Auditor directly reports to the BOD and is not technically a member of the management team.

The Executive Director (ED), Mira Nenadić, has led Benefit since the beginning of the program. She has over 20 years of practical experience in banking and manufacturing firms prior to Benefit. She built the organization with the technical assistance of the World Bank and Carl Bro – an international consultancy. She received numerous microfinance trainings from various providers and networks.

Donations

Benefit received close to 1,6 M BAM (847K EUR) in donations, mostly from WB LIP I and II through various capitalizations of their soft loans and from UNHCR for 620K BAM (317K EUR) in 2003.

Legal form, supervision and audit

Created in 1997 as a citizens' association, Benefit was officially registered as a MFI on December 2001. Benefit is not subject to any banking supervision. Benefit's financial statements are prepared in accordance with IFRS and IASB. Information disclosure in the financial statements is high and meets many of CGAP's disclosure standards. PwC is

Benefit's external auditor and has always certified the accounts without qualification.

Organization

- The headquarters (HQ) is located in East Sarajevo suburb of Lukavica where all key managerial staff and operational functions are located.
- Operations are decentralized through a network of branches and satellite offices. Branch Managers (BM) supervise satellite offices in their respective territories and are in charge of general portfolio management (loan validation process, monitoring of portfolio performance and Loan Officer (LO) work, market evaluations). Loans up to 5,000 BAM are approved locally in Credit Committees made up of LOs and the BM. Approval of larger loans require the presence of a HQ representative and his/her consent.
- All operations involving cash (disbursements and repayments) are made through local partner banks.
- Client data are entered directly by LOs at the local office, the disbursement and repayment data are entered at the branches and updated databases are sent back daily to the HQ via phone/fax modem.

Market penetration

Benefit operates through a network of 26 offices (of which 5 are regional offices) located in the eastern part of RS/BiH. Benefit's strength has been in rural areas and smaller towns. It opened its first office in the Federation of Bosnia Herzegovina (FBH) in Livno in the second half 2005. Benefit was once dominant in its service area. The competition is now present everywhere in its territory. Benefit enjoys good client loyalty for being the first MFI present in many smaller towns.

Area of operations of Benefit



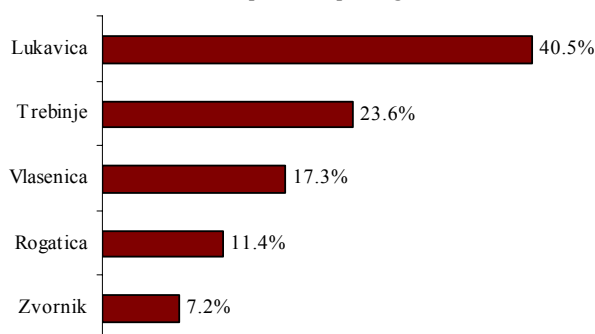
Products and services

A detailed description of products is provided in appendix

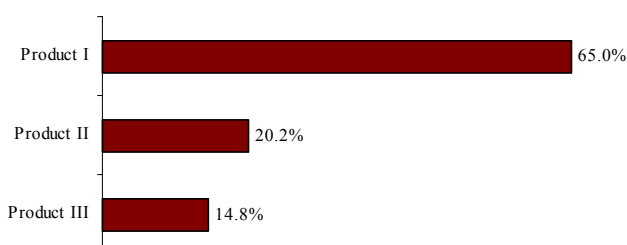
Benefit offers three individual loan products and for several years it offered only one general loan product for all productive purposes (Product I). Two additional loan products have been introduced to cater to client specific needs, namely longer term and lower interest agriculture loans (Product II) and home crafts loans (Product III). It does not yet offer consumption loans or non-credit products as they are forbidden under the existing LIP funding terms. The APR is 24.3% for Product I, with a lower interest rate for Product II (APR of 20.9%) and a higher interest rate for Product III (APR of 28.1%).

Products I and II are capped at 30,000 BAM (15,000 EUR), with Product III being capped at 2,000 BAM (1,000 EUR). The average disbursed loan size is 2,907 BAM (1,486 EUR). Agriculture loans can be up to 18 months while the others are limited at 12 months. At the end of 2005, there has been a BOD decision to extend the term of agriculture loans and certain investment loans up to 36 months. All loans are guaranteed with promissory notes and in certain cases administrative bans on salaries and personal guarantees.

Loan portfolio per region



**Loan portfolio by product type
September 2005**



■ Governance

Governance and Decision Making is rated « b »

Benefit, currently registered as a not-for-profit microcredit organization, plans to transform into a not-for-profit microcredit foundation when the new microcredit law is enacted. The risks linked to this transformation are limited as it does not alter in a material way Benefit's operations. The new law could impact other aspects of Benefit's operations including prudential supervision and reporting requirements when the State Banking Agency and/or the Central Bank is expected to ultimately replace the current entities' departments as regulators. Potential impact of changes in the regulatory regime is not evaluated here.

Decision-making

Benefit's existing governance structures provide good oversight over its lending operations. Its BOD composition and experience are adequate for its not-for-profit NGO status, but the BOD members act more as overseers and custodians rather than owners. The BOD members, all volunteers, come from different professional backgrounds and provide good representation for all relevant stakeholders.

Like many other BiH MFIs, Benefit BOD does not lead but rather relies on a proactive management team, namely on its Executive Director, for key initiatives. Despite its willingness to adapt and take the necessary actions, Benefit BOD adopts a more incremental approach favoring gradual vs. big changes to address the incoming industry challenges. Its approach is consistent with its more custodian vs. ownership role.

Benefit has an efficient and democratic decision-making process helping it to make consensus-type decisions. BOD meetings are held regularly, relevant subjects are discussed and well-documented minutes are kept on files. Information provided to BOD is of good quality and timely. Decisions are well-communicated and implemented fast thanks in part to its smaller size. With regular and detailed reporting, the BOD is well-informed of the evolution of the institution allowing good reactivity as needed.

Planning

Benefit has an efficient and participatory planning process. Its latest Strategic Plan 2005-2009 outlines three strategic options ranging from a modest transformation into a not-for-profit microcredit foundation to a full-fledged merger. It is noted that Benefit has received some strategic planning advice from Carl Bro – a consultancy with good experience in Bosnia and in microfinance.

Benefit's Strategic Plan shows both its willingness and its flexibility to make the right decisions to ensure its long-

term survival even if that means compromising independence and giving/sharing control under the merger scenario. Now that the merger idea is written on paper, it remains to be seen how this mindset will be sustained when potentially contentious issues of management control and employment rationalization surface.

As a smaller institution operating in a highly competitive market, Benefit recognizes that it needs economies of scale and such economies of scale are most likely to be achieved through a merger rather than from internal growth. While the Strategic Plan's options and its sequential steps are clear, the timing and the various possible execution and implementation strategies remain vague suggesting a reluctance for drastic changes. Benefit would be better positioned to seize opportunities if it further elaborates the options with associated milestones and implied costs.

Benefit's Business Plan 2005-2007 is a solid document as evidenced by its completeness and highly detailed projections. While the growth forecasts are aggressive (average +25% for the next three years), they should be achievable as Benefit starts from a relatively lower base and covers relatively less competitive rural areas of eastern RS. Benefit counts a lot on opening offices to secure new clients forecasted in the Business Plan. It opened its first office inside the FBH territory in Livnov during the second half of 2005. There have been delays in some office openings which contributed to underachieving client targets as of September 2005.

Using Microfin, Benefit has a systematic budget planning process which is being updated at a regular interval. Based on existing systems and processes, Benefit's capacity to track and monitor its performance is excellent.

Management team

Benefit's experienced ED provides steady leadership and sets the harmonious tone for the institution. Her strong commitment helped to build team solidarity and cohesiveness. Most of current senior team members joined since the beginning of the institution with a strong humanitarian mindset. Benefit managers have good experience and microfinance training, but they are highly operational-focused with limited cross-functional experience. The team communicates well together and meets regularly to discuss key issues and make decisions.

Benefit is well-managed overall. Management strengths reside in core lending operations with key gaps in marketing/promotion and product development areas. While conscious of key-person risk and taking career development measures for senior managers, Benefit is still too dependent on the leadership of the ED for key initiatives. The CS is being groomed to undertake greater responsibilities.

Since Benefit has consistently delivered excellent results in the past, there is not a sense of urgency to rethink the existing way of doing business or make big changes. Questions can be raised whether the current team's more gradual approach to change will prepare Benefit adequately for a fully competitive market.

Human Resource Management

While not having a dedicated HR Manager, Benefit has good HR processes and succeeded in recruiting competent and devoted staff. Staff morale is good and based on loyalty developed during the post-war period. Loan officers (LOs) are being evaluated monthly and compensated with a performance bonus if deserved. While bonus criteria are clear, Benefit could better communicate the bonus calculation methodology. Performance evaluation can also be improved by moving beyond strictly numbers (e.g. portfolio size and quality) to other aspects such as career development and coaching in order to keep good staff in light of increasing competition for LOs (e.g. ProCredit Bank BiH recruited numerous MFI staff this year).

	Dec. 2002	Dec. 2003	Dec. 2004	Sept. 2005
Total number of staff	37	46	50	56
% Loan officers	59.5%	60.9%	60.0%	53.6%
Turnover	0.0%	7.2%	4.2%	3.8%

Information

Information and equipment is rated « a »

Description of the MIS

Equipment	<ul style="list-style-type: none"> ▪ 50 computers and 8 laptops; all offices have at least one computer. ▪ Phone/fax connections between HQ and the branches; Dial-up Internet is available at HQ.
Accounting	<ul style="list-style-type: none"> ▪ Integrated, internally developed software on FoxPro language and DBF database. ▪ Centralized accounting process; daily reconciliation with bank statements. ▪ Portfolio information automatically transferred to accounting module on a daily basis; provisions automatically generated; all other transactions inputted manually. ▪ Monthly financial statements (at HQ and Branch levels) including amortization and provisions.
Portfolio information	<ul style="list-style-type: none"> ▪ Integrated, internally developed software on FoxPro language and DBF database. ▪ Client and disbursement data entered in the satellite offices, then transferred to branches; consolidated data is sent to HQ daily. ▪ Repayment information input in branches based on payment slips from banks and is sent to HQ daily.

Management Information System (MIS) and Equipment

Benefit has a good computerized MIS infrastructure managed by a MIS Specialist who works part time and a full-time junior MIS Specialist who joined the institution in

2004. The internally developed and integrated MIS has sufficient flexibility and capacity to serve Benefit's needs over the next 2-3 years. The loan tracking system, updated daily through modem connection between HQ and branches, handles all steps of the loan processing and produces all necessary reports that LOs and BMs use in their day-to-day work, including the daily arrears reports.

There are sufficient access controls in addition to an audit trail to ensure data security. The risk of data loss is minimized by existing back-up and storage procedures. The risk of data manipulation is considered low given existing control procedures and clear separation of duties. Systematic reconciliations of loan data (using bank statements) allow Benefit to rapidly detect and correct errors. The main database is located in the HQ and is run on a FoxPro database. Despite well-known FoxPro limitations, these do not constitute a major obstacle in fulfilling Benefit's IT needs based on the current Business Plan's goals. The current system is however not flexible enough if Benefit wants to introduce non-credit products.

The overall MIS is user-friendly and stable. The accounting platform is basic, but is able to generate periodic (including monthly) financial statements and other accounting reports on demand. The integrated system allows for a quick production of financial statements. An analytical accounting system enables to generate financial statements per branch with an appropriate allocation of costs of the HQ.

The two MIS Specialists have the necessary skills to manage the current system. Benefit does control the MIS source codes and if the part time Specialist leaves, his junior Specialist has sufficient programming knowledge to continue working with the MIS. There is no plan for big changes in the MIS area in the next year.

Information on activities

The portfolio information is accurate and up-to-date. Operational information is widely disseminated and used. Quality information coupled with strong reporting capacity allow staff to make informed and timely decisions. Operational reports are complete, detailed and can be segmented by office, branch or loan officer. Client and loan data is consistently collected and processed. Guarantor information is kept on file, but is not tracked in the MIS.

Client/portfolio indicators and ratios used are both LIP II and CGAP-compliant. Comprehensive and relevant ratio analysis together with qualitative analysis proved very useful for performance monitoring, although such analysis can be more concise and shorter. More client data mining for product/market competitive purposes and

implementation of credit scoring would further enhance information generation and analysis capacity at Benefit.

Financial and accounting information

Financial and accounting information is timely and of high quality. Benefit adopts best practices with regard to generating financial statements and prior period data available for easy comparison. Accounting of accrued interests is not optimal as happens with many MFIs in BiH, but its impact on financial information is not material¹. Benefit's accounts are compliant with Bosnian GAAP and its content/presentation meets several of CGAP financial disclosure standards.

Financial performance is closely monitored and discussed during management team meetings. Performance discrepancies resulting from monthly comparisons of actual performance vs. targets are quickly identified and remedy solutions are also quickly adopted. Very comprehensive financial indicators are included in the monthly operational reports. They could be summarized and better presented for faster absorption and understanding.

■ Risk

Risk Management is rated « a »

Procedures and internal controls

Benefit adopted best practices with regard to credit procedures and internal controls. There is a good understanding of operational risks throughout the organization. Procedures are documented in comprehensive operating manuals available in all offices. Almost all loan disbursement and repayments are conducted in banks, thus there is limited cash security risk. Regular contacts and field visits by LOs either living in or having good knowledge of the communities where the clients live have contributed to the excellent portfolio quality that Benefit has maintained for several years.

Fraud and other operational risks are effectively mitigated by regular reporting and monitoring of the loan portfolio. There is an adequate segregation of duties at branch level and at the HQ, but a bit less so at certain satellite offices due to lone staff status. There is no policy of rotating LOs and BMs which could add an additional layer of protection against collusion risks. Recent cases of fraud involving staff and clients occurred at some BiH MFIs have heightened management awareness and reinforced their commitment to effective risk control.

¹ Accrued interests are calculated considering 50% of the expected interests of the next month.

Internal audit

Benefit's experienced Internal Auditor (IA) performs frequent and effective controls on credit operations and other HQ departments. She has held a number of positions inside Benefit including LO, Accountant and CS which enabled her to have a broad perspective of operational risks and how to control them. Her annual audit plan is approved by the BOD Audit Committee from which she drafts her monthly work plans.

Despite being alone, the IA manages to visit each of Benefit's 26 branches/offices at least once every 2 months which includes random visits to clients. Each field report is distributed to all relevant parties and quarterly reports are submitted to the BOD Audit Committee for review. Audit reports not only document discrepancies, but also provide good feedback and improvement recommendations. Sanctions in form of negative bonus are given if recommendations are not followed through.

Beside from the IA, all management staff and certain administrative employees such as accountants in each branch also have control responsibilities to ensure compliance with Benefit's policies and procedures. Nevertheless, forecasted growth will put strains on the current limited IA resources. PwC have audited Benefit for the past 3 years without qualification.

■ Activities

Activities: products and services is rated « a »

Marketing and competition

The BiH microfinance sector is highly competitive, mostly in urban areas where MFIs have been operating for years and commercial banks are active, but also increasingly in rural areas. Overall market demand is still expanding, but growth rates have slowed down with an increasing number of clients having loans at more than one institutions. By the end of September 2005, the 14 largest MFIs were serving around 140,000 clients on a total potential microfinance market estimated by some to be 250,000 to 350,000 clients. The industry microfinance portfolio outstanding is estimated around 140 M EUR. This is in addition to the commercial banks' portfolio with the largest share attributed to ProCredit Bank BiH with over 20,000 micro-credit clients and an estimated portfolio of 17,5 M EUR at the end of September 2005.

The major ongoing trends are:

- MFIs going aggressively into rural areas providing agriculture-related loans;
- MFIs extending loan terms longer to around 36 months;
- MFIs looking to diversifying the product offerings themselves (e.g. housing loans) or in partnerships with

other financial institutions (e.g. selling insurance products, mobilizing deposits); and

- Commercial banks "down-scaling" into the top 10% of MFI largest clients. The latter trend is partially explained by excess local liquidity forcing commercial banks to look for new markets.

The days of "polite" competition in BiH are over. All MFIs have been facing more aggressive competition from ProCredit Bank who has been fast expanding its office network and hiring lots of new staff. With cheaper funding base (access to savings) and broader range of products, ProCredit Bank has started to poach top-end MFI clients. Thus far, MFIs have been mostly relying on word-of-mouth and fast quality service to gain and retain clients. Although industry portfolio quality remains strong overall, there are signs that the BiH microfinance sector is becoming more "normal" as evidenced by increasing portfolio-at-risk and write-offs recorded at some MFIs as the results of increased industry competition and client over-indebtedness.

Benefit has not developed yet a comprehensive marketing strategy adapted to the level of competition of the market:

- Product development has been slow compared to competition.
- Marketing of the existing range of products, mainly based on word-to-mouth, has been sufficient so far to allow steady portfolio growth. However it will need to be more sophisticated as the competition grows.

Benefit has however some competitive advantages. The most important one is its lower interest rates, a factor that clients look at in detail as the supply of financial products increases. Benefit's average portfolio yield is around 22.8%, one of the lowest in BiH together with bigger players such as Mikrofin and EKI².

MFI	Average Portfolio yield	Average Loan Size (BAM)
SINERGJA plus	20.1%	4,490
MIKROFIN	20.4%	2,845
EKI	20.5%	2,171
PARTNER	22.2%	2,545
BENEFIT	22.8%	1,751
Women for Women	23.4%	852
MI-BOSPO	25.0%	1,566
SUNRISE	28.6%	1,975
PRIZMA	29.0%	1,171
LOK micro	31.4%	3,167
MIKRA	34.8%	1,138

Source: LIP Sept. 2005

Other advantages mentioned by clients are fast processing times and physical presence in small towns. However, these advantages are not sustainable in the long run as other MFIs are using the same strategies and have/will have expanded to its traditional territory.

² SINERGJA plus interest rates are also among the lowest of the market, but the institution targets a higher up clientele, as can be seen in its average loan size.

Credit methodology

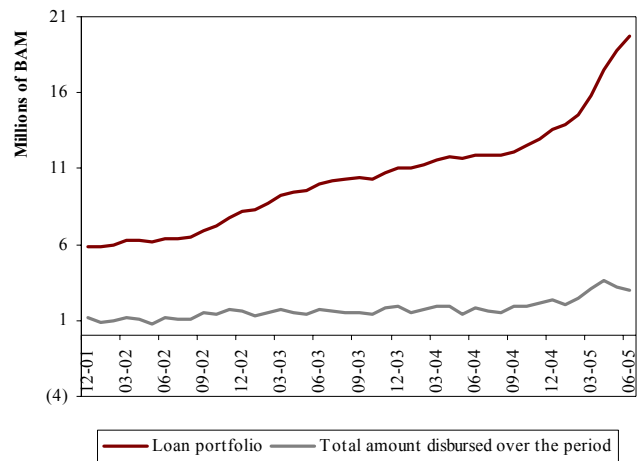
Benefit has implemented very rigorous credit policies which explained the high quality of its portfolio:

- Following best practices in microfinance, client selection is based on reputation and a simple assessment of household revenues. Guarantees are not considered as a selection factor. There are specific loan forms for each of product, with distinctive features for agriculture lending.
- For amounts higher than 10,000 BAM (5,102 EUR) there is a more in-depth analysis of repayment capacity that includes cash flow projections. Benefit average loan size is amongst the lowest in the industry (1,751 BAM or 893 EUR), thus it is not highly exposed to concentration risk in high loan amounts.
- There are adequate follow up procedures. All clients, even old ones, must be visited at least 30 days after disbursement to check actual loan use. Given that LOs live in their clients' communities, they are able to visit/meet their clients very frequently. However these visits are not always formalized or documented, even if there are specific forms for this purpose.
- The institution has established rigorous response to delinquency with actions taken from the first day late by LOs. From day 30, LOs must transfer the file to the CS to initiate legal collection process in cooperation with the lawyer, even if LO continues contacting the client. The collection procedures are formalized.
- LOs have a very deep knowledge of their respective markets. Per internal policies, they are recruited in the cities where they are going to work. Their training guarantees a good understanding and application of procedures. All LOs have individual objectives in terms of outstanding portfolio and must respect general goals in terms of portfolio quality³. The bonus scheme motivates them but is not yet fully formalized: incentives are given by common decisions of the ED, CS and IA if the LO has respected his/her individual objectives taking into account local conditions, without a standardized formula. Such informal mechanism may not be sustainable in the long term as the number of LOs grows.

A deeper thinking on caseload per LO and by seniority may be necessary. Indeed, even if global productivity is high, there are significant differences in the number of clients and portfolio volume per LO. This generates unbalances in the workload that affect work quality. It can also increase the key person risk on senior LOs who are often exposed to job offers from other MFIs or banks. Concentration of portfolio in a single LO generates also a collusion risk as clients do not rotate to other LOs and might be tempted to establish fraudulent relationships with their LO.

³ For example, senior LOs are expected to have at least an outstanding portfolio of 700,000 BAM and 400 active loans. Additionally, all LOs must maintain their portfolio quality that enables Benefit to keep a PAR>30 days and write-offs below 0.7% and 0.3%, respectively.

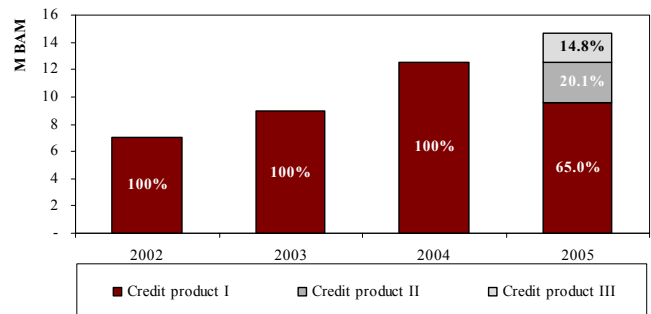
Loan portfolio evolution



Evolution of the portfolio

The main feature of portfolio evolution has been the diversification of credit products in 2005. New Product II has grown at a rapid pace, representing in less than a year 20% of total portfolio, while Product III already accounts for 15% of portfolio. However, this portfolio diversification has been mainly concentrated in the same client base (i.e. clients switching from Product I going to Product II or III) and has not attracted new client segments in a significant way.

Loan portfolio per product



Portfolio growth has been steady, but it loses pace in 2005 due to delays in the reception of expected funds for agriculture lending. The average outstanding loan per client decreased with the growth of smaller sized Product III. Average outstanding loan per product is higher for Product II (2,987 BAM), while it is naturally smaller for Product III (903 BAM). Since the Product II was launched, overall portfolio maturity lengthened as longer term agriculture loans (up to 36 months) has increased significantly its share from 0% of the portfolio in 2004 to 15.3% as of September 2005.

Quality of the portfolio

EUR, unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005
Loan portfolio	3,593,036	4,604,775	6,398,651	7,513,520
Loan portfolio (BAM)	7,027,367	9,006,157	12,514,674	14,695,168
Evolution	63.2%	28.2%	39.0%	17.4%
Average outst. Loan	2,504,038	3,924,408	5,263,795	6,832,153
Active borrowers	3,117	4,906	7,068	8,392
Evolution	NA	57.4%	44.1%	18.7%
Average outst. loan /client	1,153	939	905	895
% of GDP/capita	74.1%	58.3%	53.9%	50.8%
Average amount disbursed	1,829	1,558	1,483	1,486
% of GDP/capita	117.6%	96.7%	88.2%	84.3%
PAR 31-365	0.0%	0.0%	0.0%	0.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%	0.1%

Portfolio quality is amazingly good, even by excellent BiH standards: PAR > 30 at 0%, write-off ratio at 0.1%⁴. This can be explained by Benefit's excellent portfolio management policies, but also by the favorable environment of its rural service areas where clients usually stay loyal and the competition has been, until early 2005, relatively mild. The first written off loan in Benefit history was recorded in 2005 for a total amount of 12,403 BAM (6,328 EUR). This good quality is found in all products, even the new ones, despite their fast growth.

Portfolio diversification

Benefit has established diversification rules per sector. Agriculture should not represent more than 25% of total portfolio⁵. The rest is shared between trade (20%) production (15%) and services (40%). These rules are basic but show a good understanding of risk concentration. There are no rules of diversification per area of operations.

Credit risk coverage

	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005
Risk coverage ratio	NA	NA	NA	> 1,000%
PAR 31 net of loan loss provision / Equity	NA	NA	NA	NA

Benefit has a very conservative provision policy, as required of LIP program participants, that includes a provision on the healthy portfolio (see provisioning policies in annexes). This and the very good quality of the portfolio resulted in a high risk coverage ratio of 19,808% as of September 2005. However, this conservative policy understates profitability and asset levels despite not having an impact on Benefit's lending volumes.

⁴ The averages for the sector are 0.98% for PAR > 30 and 0.67% for write-off ratio (Source LIP, Sept. 05).

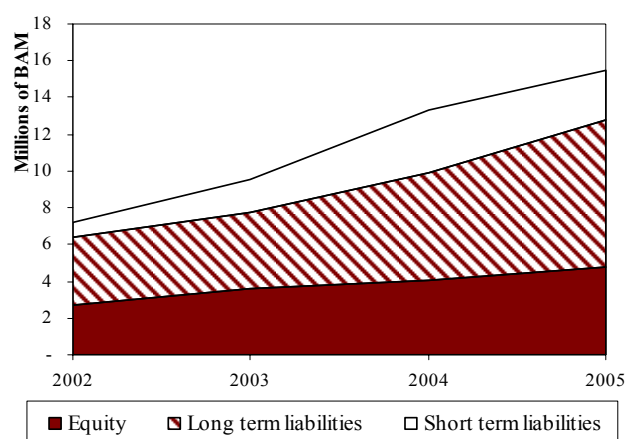
⁵ Agriculture lending is directed to households that conduct diversified activities instead of riskier producers that depend solely on agriculture production. It involves activities such as dairy and poultry production together with agro business activities (fertilizers, transformation).

On the very few cases of delinquency, Benefit launches legal actions very early (after 30 days) without stopping other recovery actions carried out by LOs. Enforcement of guarantees is not easy, thus legal actions are used mainly as an incentive for reaching settlement by mutual consent prior to court appearance (only one case was in court as of September 2005). As most BiH MFIs, Benefit requests promissory notes, which are useful only if the client or the guarantor has enough resources in their bank accounts. Other collaterals requested are personal guarantees and salary withholdings.

Financing and liquidity

Financing and liquidity is rated « a »

Funding structure



	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005
Liabilities equity ratio	168.6%	167.1%	225.4%	225.2%

Details of the funding structure are provided in appendix.

Being a non-deposit taking MFI, Benefit funds its activities essentially with equity (31%) and debts (69%). Equity is made of retained earnings (3.1 M BAM) and of donations received over the years (1.7 M BAM, coming from LIP, UNHCR and in a lesser extent the World Confederation of Churches). Debt funding is made of short-term (25%) and long-term borrowings (75%).

Financing strategy

Like most BiH MFIs, Benefit has been able to diversify its financing structure through access to local commercial financing and concessional loans.

- LIP is still the main source of funds, with its loans representing more than 52.2% of liabilities in September 2005. However its share of total debt has decreased (54.6% in December 2004, 69.8% in December 2003). LIP loans are cheap, long term (principal repayment starts in 2007 and will end in 2017) and have been partly

capitalized, allowing for a quick development of the MFI and of the sector as a whole.

- Benefit has developed an excellent debt capacity based on good risk profile and high capitalization. It has negotiated short term loans with Raiffeisen Bank, Hypo Alpe-Adria-Bank and recently with HVB at competitive commercial rates (between 9.15% and 9.5%). It has also been successful in obtaining a long term loan with Raiffeisen Bank that represents 28% of total commercial debt.
- Per its presence in rural and poor areas, it has also negotiated a long term loan from the Ministry of Agriculture of RS with IFAD funds, at concessional rates.

Despite these successes, Benefit still lags behind larger BiH MFIs that have been able to diversify even further with loans from international investors. Additionally, Benefit needs to secure longer resources in order to generalize the supply of long-term financial products. However, the interest of investors in Benefit has been poor: it is considered as a mainly rural/agriculture lending MFI, therefore riskier than others, despite excellent performance; its area of operations, namely East RS, is not eligible for investment by some donors/investors for political reasons.

Asset liability management procedures

Asset and liability management (ALM) risks are identified and efficiently monitored:

- **No maturity risk:** short term loan portfolio represents 80% of assets while short term liabilities only represent 17% of funds, the rest being financed by long-term resources (equity or long term loans). The launching of Product II for agriculture has enabled a quick growth of the long term portfolio share representing 15% of total portfolio as of September 2005.
- **Limited FX risk:** 66% of borrowings (all concessional debt) are in EUR, but the BAM has a fixed parity to the EUR and the rate has not changed since the introduction of the EUR, which limits FX risk. Furthermore, Benefit like most MFIs in BiH has protected itself against devaluation by labeling loan contracts with borrowers in EUR (although generating a credit risk).
- **Low interest rate risk:** a substantial part of Benefit's liabilities are linked to variable rates (LIP at EUROLIBOR + 1% and never less than 5%, long term loan of Raiffeisen at EURIBOR six months + 6.4%). However expected fluctuations represent minor risk, as they are compensated by Benefit's high interest spreads and efficiency, and its low blended funding cost resulting from low leverage and LIP concessional funding.

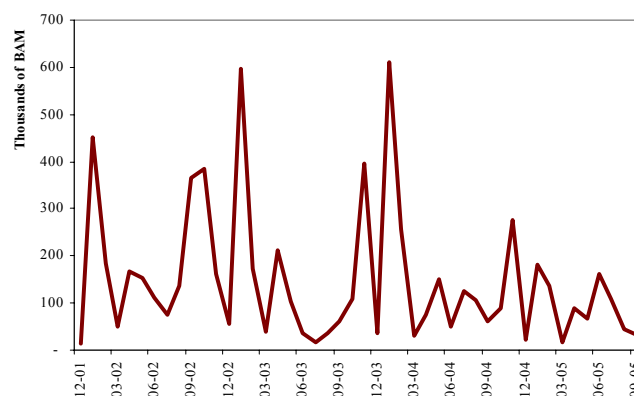
Liquidity management

Benefit has very good annual, monthly and daily cash flow projections and all tools are in place to ensure an efficient

day-to-day cash management. Cash is efficiently invested in portfolio: liquidity only represents 3.7% of assets, of which 3.5% is collateral for a Raiffeisen loan.

Benefit has also developed good bank relationships. All bank accounts are centralized at HQ level, enabling fast deployment of resources for loan disbursement to branches⁶. Additionally, Benefit has opened bank accounts in different banks to enable transactions in all towns where the institution is present.

Evolution of cash balance



▪ Efficiency and Profitability

Efficiency and Profitability is rated « a »

Profitability analysis	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005
ROE	28.4%	8.5%	13.2%	20.5%
Liabilities / Equity	168.6%	167.1%	225.4%	225.2%
ROA	6.6%	3.2%	4.4%	6.3%
Profit generation				
Operational self-sufficiency	131.1%	115.7%	125.0%	138.9%
Portfolio Yield	32.8%	25.6%	24.6%	24.3%
Operating expense ratio	20.5%	17.4%	14.6%	12.5%
Staff productivity	84	107	141	150
Loan officer productivity	142	175	236	280
Average outstanding loan per client (EUR)	1,153	939	905	895
Funding expense ratio	3.7%	4.2%	4.4%	4.4%
Cost of liabilities	3.8%	5.2%	6.1%	6.0%
Loan Loss Provision expense ratio	0.8%	0.5%	0.7%	0.6%
PAR 31-365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%	0.1%
Asset management				
Outstanding Loan Portfolio / Assets	95.3%	92.4%	92.3%	92.9%
Non-portfolio income as a % of financial revenues	0.0%	0.0%	0.0%	0.0%

Overview of the profitability

Although very profitable, Benefit experienced in 2003 a dip in its financial indicators, related to a decrease of interest rates. Indeed, from July 2002 the institution started charging in its main product (Product I) monthly interest rates of 1.7% in a declining basis instead of flat, making

⁶ Branches only receive money orders each time they request resources from HQ. They do not have their own bank accounts.

APR decrease from 39.8% to 24.3%. However, as of September 2005 Benefit had already reached the same ROA and higher operational self-sufficiency than in 2002!

The main drivers of Benefit performance are:

- High efficiency that results in a declining operating expense ratio.
- Excellent portfolio quality that ensures stability of portfolio yield and low loan loss provision expenses.
- Optimization of assets, which are mainly concentrated on portfolio (portfolio/assets ratio higher than 90%).

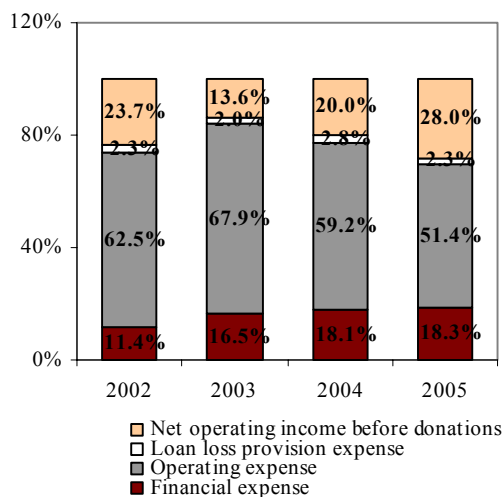
Portfolio yield and effective interest rate

The portfolio yield follows a downward trend over the period (from 32.8% in 2002 to 24.6% in 2004 and 24.3% in September 2005) due to an interest rate cut decided in July 2002 and to the introduction of Product II for Agriculture in 2005 (which has an APR of 20.9%). Portfolio yield (24.3%) is almost equal to the estimated APR of Benefit (24.2%), due to the excellent quality of portfolio.

Operating expense ratio

Thanks to constant improvement in productivity and growing economies of scale, the operating expense ratio dropped steadily (20.5% in 2002 to 12.5% in September 2005). The ratio is expected stay relatively low due to the planned strong portfolio growth.

Cost structure in % of financial income



- LO productivity has been trending upward over the period and reached 280 in September 2005, which is a good performance for individual lending and for the sector (LIP average as of September 2005 is 268 clients per LO).
- Average outstanding loan per client has decreased steadily, from 1,153 EUR in 2002 to 895 in September 2005. This is a low average for individual lending and might result from LOs goals, that push them to disburse low amounts in order to protect portfolio quality and

ensure productivity. However, high productivity has offset the downside effects of low average outstanding loan per client.

- Operating costs are closely monitored through a tight budget follow up. They have grown 12.1% in 2004 while the average outstanding portfolio has grown 34.1%, generating economies of scale.

Loan loss provision expense ratio

This ratio remains at a non significant level all over the period (below 1%), due to the excellent portfolio quality.

Funding expense ratio

The funding expense ratio has grown slightly over the period (from 3.7% in 2002 to 4.4% in September 2005) essentially due to a higher debt/equity ratio and a share of subsidized funding in the total liabilities that has decreased until 2004 (it has grown again in September 2005 to represent 66.2% of total liabilities compared to 54.6% in 2004 due to Ministry of Agriculture financing). This ratio is expected to increase in the coming years as the institution will further access funding at commercial rates that range from 7% to 10% for BiH MFIs.

Asset management

Benefit is very efficient a deploying its assets to productive use as 92.9% of assets are invested in the portfolio and the rest is shared between fixed assets (2.2%) and cash (3.7%). Benefit maintains a cash collateral of 545,000 BAM (278,061 EUR) per one of its loan agreements with Raiffeisen Bank representing 3.5% of total assets. Therefore, non restricted liquidity is only 0.2% of assets.

Adjusted performance

Details concerning the specific adjustments are included in the annexes

According to Planet Rating's adjustment methodology, Benefit has achieved financial self-sufficiency. The adjustment expense ratio of 2.8% in September 2005 is attributed to the standard adjustments for cost of funds and inflation. The cost of funds adjustment accounts for 81.7% of total adjustments, while inflation accounts for the remaining 18.3%. No adjustments for provisions were necessary since Benefit provision methodology is more conservative than that of the GIRAFE. The adjustment expense ratio was higher in previous years since average commercial interest rates were higher.

	Dec. 02	Dec. 03	Dec. 04	Sept. 05
Adjustment expense ratio	6.3%	3.3%	2.5%	2.8%
AROE	5.4%	0.4%	6.4%	11.9%
AROA	1.2%	0.2%	2.2%	3.7%
Financial self-sufficiency	104.7%	100.7%	110.8%	119.4%

Profitability outlook

In the short and medium term, Benefit profitability looks strong and based on solid foundations of high operational

efficiency and excellent portfolio quality. In the long run, Benefit profitability outlook, as for all smaller BiH MFIs, will depend largely on its capacity to cope with increased competition while keeping its portfolio healthy. Any merger could also bring cost-saving benefits, but this possibility is not likely to happen in the next 12 months.

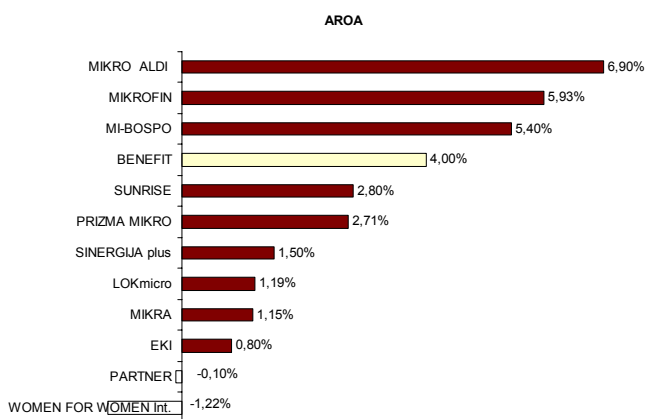
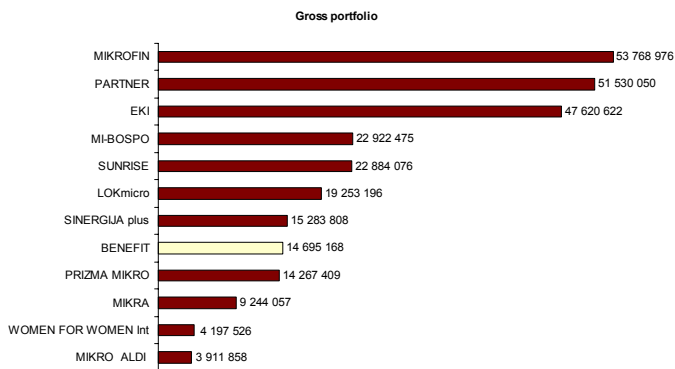
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

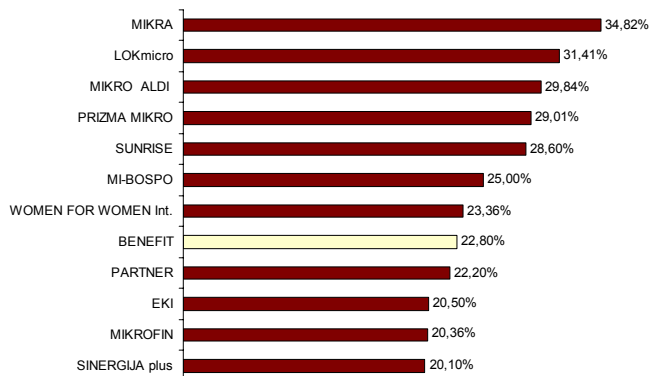
Classification based on MBB criteria

Area	Europe and Central Asia (ECA)
MBB peer group	ECA Medium Broad: Agregak (Armenia), Constanta (Georgia), Finca (Kyrgystan), KLF (Kazakhstan) KEP (Kosovo), MI-BOSPO, Mikra and Prizma (BiH), NOA, OIS (Serbia), PSHM (Albania).
Maturity	Mature (9 years of operations)
Scale of operations	Medium with an outstanding portfolio of 7.5 M EUR.
Target population	Broad: average loan outstanding represents 51% of GDP per capita.

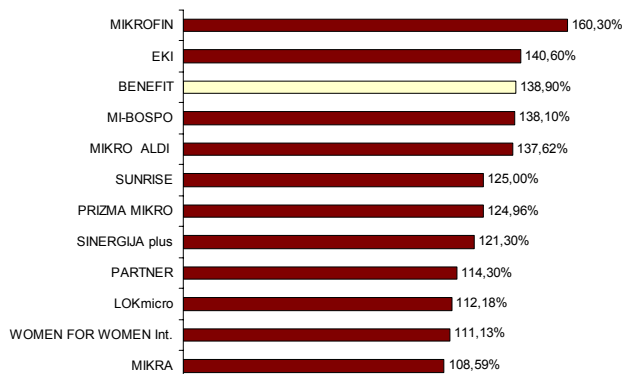
Source: LIP – September 2005



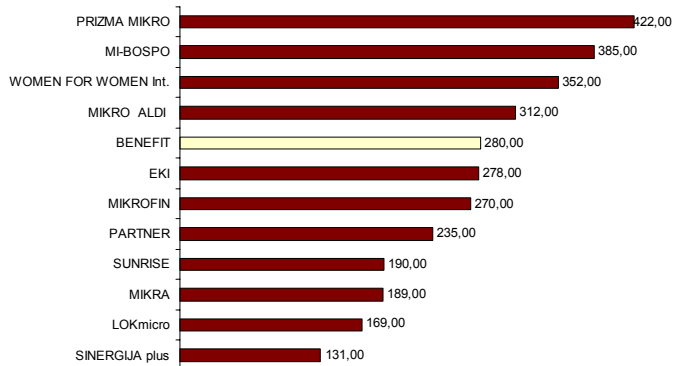
Yield on portfolio



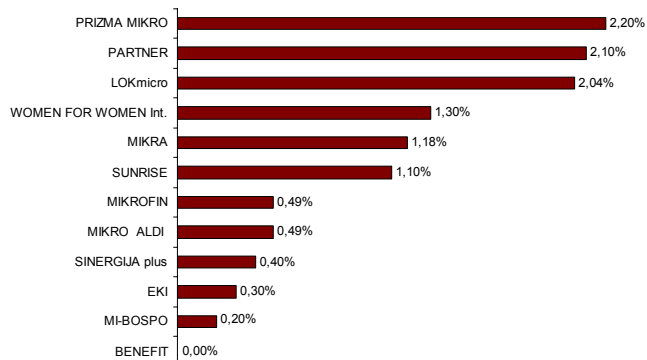
Operational sustainability



Loan officer productivity



PAR>31



Annexes

Acronyms

ALM	Asset/Liability Management
BAM	Bosnian Convertible Mark
BoD	Board of Directors
BiH	Bosnia and Herzegovina
CWS	World Confederation of Churches
EBRD	European Bank for Reconstruction and Development
EDF	Employment and Development Fund
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FY	Fiscal Year (October 1st to September 30th)
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IT	Information technology
KfW	German Development Bank
LIP	Local Initiatives Project
LO	Loan officer
MBB	MicroBanking Bulletin
MIS	Management Information System
MFI	Microfinance institution
MFC	Microfinance Center for Central and Eastern Europe and the Newly Independent States
NA	Not Applicable
NGO	Non Governmental Organization
PAR	Portfolio at risk
ROA	Return on assets
ROE	Return on equity
RS	Republika Srpska
SME	Small and medium sized enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar

Formulas and ratios

- Personnel productivity: Active borrowers / Total personnel (end of period)
- Loan officer productivity: Active borrowers / Total Loan Officers (end of period)
- Return on assets ROA: Net operating income before donations / Average assets
- Adjusted return on assets: AROA: Adjusted net operating income before donations / Average assets
- Return on equity: ROE: Net operating income before donations / Average equity
- Adjusted return on equity: AROE: Adjusted net operating income before donations / Average equity
- Leverage: Debt (savings + debts) / equity (end of period)
- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio
- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding portfolio

- Net portfolio as a % of assets: Net outstanding portfolio / total assets (end of period)
- Operational self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio

Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

0 The MFI follows the CGAP disclosure guidelines.

1 The Financial Statements presented include a balance sheet, income statement, and accompanying notes.

2 The financial statements provided include 3.5 years of data.

3 Segment Reporting for Multiservice Microfinance Institutions: Benefit only offers microfinance services.

4 Portfolio reporting

4.1 Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement ("loan loss expense").

4.2 The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated at the end of each month by the Finance Manager according to the methodology described in the table.

Provisioning methodology

Provision	2% on healthy portfolio, 31 to 60 days 60%, 61 to 90 days is 80% and after 90 days 100%.
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Write-off Loans that are more than 90 days late are written off.

4.3 Loans are written off when they are past due over 90 days upon decision by the Credit Committee.

4.4 The following table reconciles these movements:

BAM	Dec. 2002	Dec. 2003	Dec. 2004	Sept. 2005
Loan loss reserve, January 1st	103,155	140,427	180,003	250,293
+ Loan loss provision expense	37,272	39,576	70,290	56,207
- Provision reversal	-	-	-	-
- Loans written off during the year	-	-	-	12,403
Loan loss reserve, year end	140,427	180,003	250,293	294,098

Note: as of September 2005 the real loan loss reserve in Balance Sheet was 306,501 BAM, 12,403 BAM more than the 294,098 BAM stated above. This is due to the fact that Benefit has not subtracted yet from its loan loss reserve the loan that was written off in 2005 (12,403 BAM). This amount is being compounded in other receivables in order to account for the machinery that Benefit has received as a collateral for this loan.

4.5 Accrual vs. Cash accounting: Interest income and costs are calculated on an accrual basis. Interest income includes 50% of calculated interest which will be collected the following month, and for which expenses have occurred in the current month. Calculation of interest for loans in arrears stops when the loan is written off.

5 Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

5.2 Renegotiation of loans: the MFI does refinance/reschedule loans.

5.3 Insider loans: the MFI does not allow employees to borrow funds.

6 Donations

6.1 Revenue from donations is shown separately from income generated by operations in the income statement.

6.2 Current period donations:

Donor	Amount (BAM)	Conditions and comments
World Confederation of Churches (CWS)	126,000	Through Agreement on transferring assets into a grant, dated November 1, 2002, CWS forgave Benefit's debt as per Agreement Memorandum dated August 6, 2001.
Employment and Development Fund - LIP	912,242	Through Agreement dated August 1, 2002, a portion of debt from LIP was forgiven.
UNHCR	619,800	Assets of revolving UNCHR fund defined as a grant according to the Agreement on transfer of the grant, dated October 9, 2003.

6.3 Donations accounting methodology: All grants are recorded in the income statement and income from donations are clearly identified in the balance sheet.

6.4 In-kind donations: There were no in-kind donations identified.

6.5 Cumulative amount of all prior period donations: see table above. The total amount is 1,658,042 BAM.

7 Details of liabilities

7.1 Liabilities are listed in a table at the end of the report

7.2 Deposits: Benefit is not allowed to collect savings.

8 Other significant Accounting Policies

8.1 Accrual or deferral income/expense accounting: all expenses and revenues are accounted on an accrual basis, except for unexpected revenues.

8.2 Depreciation of fixed assets: The depreciation of fixed assets on a flat basis is done using the following table:

Type of assets	%
Vehicles	20%
Furniture	12.5%
Computers, other IT equipment and software	25%
Other equipment	15%

8.3 Inflation accounting: none

8.4 Currency mismatch: please refer to the F area for more information on potential mismatch.

8.5 Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: none.

Specific notes to the financial statements

Balance sheet

1. Restricted deposits amounting to 545,000 BAM Benefit has to keep according to a Loan Agreement with Raiffeisen. Funds are deposited at Raiffeisen Bank and generate for most of them an annual interest rate of 1.2%.
2. Accrued interests calculation: 50% of interests to be received in the following month.
3. Includes 12,403 BAM for the equipment that was transferred by the delinquent client whose loan was written off. The amount was not reduced from the loan loss reserve.
4. Includes JICA-OIN loan

Income statement

1. From 2004 all banking charges were transferred to operating expenses.
2. Audit fees.

Off balance sheet item

1. A 500,000 BAM loan from Raiffeisen was guaranteed by the deposits of an individual who does not have conflict of interests with Benefit per signed declaration. These funds are in USD and EUR and are deposited at Raiffeisen Bank. Their amount is for an equivalent of 359,167 BAM.

Benefit Balance sheet	Notes	BAM				EUR				Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005	2003/2002	2004/2003	2005/2004
ASSETS		7,223,390	9,550,770	13,282,066	15,486,559	3,693,261	4,883,231	6,791,013	7,918,152	32.2%	39.1%	16.6%
Short Term Assets		7,008,027	9,275,940	12,962,985	12,901,442	3,583,147	4,742,713	6,627,869	6,596,403	32.4%	39.7%	(0.5%)
Cash and Due from Banks		55,778	33,810	22,062	34,601	28,519	17,287	11,280	17,691	(39.4%)	(34.7%)	56.8%
Short Term Investments	1	-	301,964	545,373	545,000	-	154,392	278,845	278,654	-	80.6%	(0.1%)
Short Term Net Loan Portfolio		6,886,940	8,826,154	12,262,093	12,143,735	3,521,237	4,512,741	6,269,509	6,208,993	28.2%	38.9%	(1.0%)
Short Term Gross Loan Portfolio		7,027,367	9,006,157	12,512,386	12,450,236	3,593,036	4,604,775	6,397,481	6,365,704	28.2%	38.9%	(0.5%)
(Loan Loss Reserve)		140,427	180,003	250,293	306,501	71,799	92,034	127,973	156,711	28.2%	39.0%	22.5%
Interest Receivable		59,682	76,501	106,307	143,261	30,515	39,114	54,354	73,248	28.2%	39.0%	34.8%
On loan portfolio	2	59,682	76,501	106,307	143,261	30,515	39,114	54,354	73,248	28.2%	39.0%	34.8%
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	3	5,627	37,511	27,150	34,845	2,877	19,179	13,882	17,816	566.6%	(27.6%)	28.3%
Long term assets		215,363	274,830	319,081	2,585,117	110,113	140,518	163,144	1,321,749	27.6%	16.1%	710.2%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	2,288	2,244,933	-	-	1,170	1,147,816	-	-	98,017.7%
Net Fixed Assets		215,363	274,830	316,793	340,184	110,113	140,518	161,974	173,933	27.6%	15.3%	7.4%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		7,223,390	9,550,770	13,282,066	15,486,559	3,693,261	4,883,231	6,791,013	7,918,152	32.2%	39.1%	16.6%
Liabilities		4,534,480	5,975,169	9,200,480	10,723,702	2,318,443	3,055,055	4,704,131	5,482,942	31.8%	54.0%	16.6%
Short term liabilities		844,047	1,799,569	3,353,343	2,663,724	431,554	920,105	1,714,537	1,361,941	113.2%	86.3%	(20.6%)
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		756,221	1,702,378	3,252,908	2,496,668	386,650	870,412	1,663,185	1,276,526	125.1%	91.1%	(23.2%)
Interest payable		-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		87,826	97,191	100,435	167,057	44,905	49,693	51,352	85,415	10.7%	3.3%	66.3%
Long term liabilities		3,690,433	4,175,600	5,847,137	8,059,977	1,886,888	2,134,950	2,989,594	4,121,001	13.1%	40.0%	37.8%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	4	3,690,433	4,175,600	5,847,137	8,059,977	1,886,888	2,134,950	2,989,594	4,121,001	13.1%	40.0%	37.8%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		2,688,910	3,575,601	4,081,586	4,762,858	1,374,818	1,828,176	2,086,882	2,435,210	33.0%	14.2%	16.7%
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity		1,038,242	1,658,042	1,658,042	1,658,042	530,845	847,743	847,743	847,743	59.7%	0.0%	0.0%
Retained earnings without donations and reserves		1,650,668	1,917,559	2,423,544	3,104,816	843,973	980,432	1,239,138	1,587,467	16.2%	26.4%	28.1%
Current year		381,567	266,892	505,985	681,272	195,092	136,460	258,706	348,329	(30.1%)	89.6%	34.6%
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

Benefit Income Statement	Notes	BAM				EUR				Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005	Dec. 2002	Dec. 2003	Dec. 2004	Sep. 2005	2003/2002	2004/2003	2005/2004
Financial Revenue (a)		1,608,177	1,968,067	2,532,953	2,432,427	822,248	1,006,257	1,295,078	1,243,680	22.4%	28.7%	(4.0%)
Financial Revenue from Loan Portfolio		1,608,177	1,968,067	2,532,953	2,432,427	822,248	1,006,257	1,295,078	1,243,680	22.4%	28.7%	(4.0%)
Interest on Loan Portfolio		1,460,248	1,675,540	2,137,470	2,087,801	746,613	856,690	1,092,871	1,067,476	14.7%	27.6%	(2.3%)
Fees and Commissions on Loan Portfolio		147,929	292,527	395,483	344,626	75,635	149,567	202,207	176,205	97.7%	35.2%	(12.9%)
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		-	-	-	-	-	-	-	-	-	-	-
Other Operating Revenue		-	-	-	-	-	-	-	-	-	-	-
Financial Expense (b)		183,544	324,821	457,488	445,003	93,845	166,078	233,910	227,526	77.0%	40.8%	(2.7%)
Interest paid on borrowings		141,202	269,056	457,488	445,003	72,195	137,566	233,910	227,526	90.5%	70.0%	(2.7%)
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	1	42,342	55,765	-	-	21,649	28,512	-	-	31.7%	(100.0%)	-
Financial income [c=a-b]		1,424,633	1,643,246	2,075,465	1,987,424	728,403	840,178	1,061,168	1,016,154	15.3%	26.3%	(4.2%)
Net Loan Loss provision expense (d)		37,272	39,576	70,290	56,207	19,057	20,235	35,939	28,738	6.2%	77.6%	(20.0%)
Loan loss provision expense and write-off		37,272	39,576	70,290	56,207	19,057	20,235	35,939	28,738	6.2%	77.6%	(20.0%)
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)		1,005,794	1,336,778	1,499,190	1,249,945	514,254	683,484	766,524	639,087	32.9%	12.1%	(16.6%)
Personnel Expense (includes fringe)		686,641	850,731	892,318	738,010	351,074	434,972	456,235	377,339	23.9%	4.9%	(17.3%)
Administrative Expense (non-staff operating expenses)		319,153	486,047	606,872	511,935	163,180	248,512	310,289	261,748	52.3%	24.9%	(15.6%)
Depreciation and amortization		34,437	70,173	80,054	69,015	17,607	35,879	40,931	35,287	103.8%	14.1%	(13.8%)
Consulting fees	2	29,562	21,514	19,800	14,850	15,115	11,000	10,124	7,593	(27.2%)	(8.0%)	(25.0%)
Rent		77,356	118,694	157,585	119,522	39,551	60,687	80,572	61,111	53.4%	32.8%	(24.2%)
Facilities		44,957	74,160	72,523	54,292	22,986	37,917	37,080	27,759	65.0%	(2.2%)	(25.1%)
Stationery		33,073	36,398	24,362	24,151	16,910	18,610	12,456	12,348	10.1%	(33.1%)	(0.9%)
Bank charges		25,658	35,469	75,250	53,548	13,119	18,135	38,475	27,379	38.2%	112.2%	(28.8%)
Transport		28,424	30,653	32,020	35,512	14,533	15,673	16,372	18,157	7.8%	4.5%	10.9%
Others		45,686	98,986	145,278	141,045	23,359	50,611	74,279	72,115	116.7%	46.8%	(2.9%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		381,567	266,892	505,985	681,272	195,092	136,460	258,706	348,329	(30.1%)	89.6%	34.6%
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		381,567	266,892	505,985	681,272	195,092	136,460	258,706	348,329	(30.1%)	89.6%	34.6%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		381,567	266,892	505,985	681,272	195,092	136,460	258,706	348,329	(30.1%)	89.6%	34.6%
Donations (l)		1,038,242	619,800	-	-	530,845	316,899	-	-	(40.3%)	(100.0%)	-
Net Income (after Taxes and Donations) [m=k+l]		1,419,809	886,692	505,985	681,272	725,937	453,358	258,706	348,329	(37.5%)	(42.9%)	34.6%

Financing sources

Loan Providers	Currency	Initial Amount	Outstanding amount 30/09/05	Interest rate	Maturity date, and repayment schedule (grace period, etc.)	Guarantee mechanism, details on any arrears and other comments
Development and Employment Fund RS – LIP	EUR	2,860,000	5,593,673	5% or EUROLIBOR + 1% Which ever is higher	14 years, grace period 4 years, semi-annual payments, first payment due 15.09.07, last payment due 15.03.17	Receivables, 42 bills of exchange
Raiffeisen Bank	BAM	500,000	500.000,00	9.15%	25.12.05	Combined guarantees for all loans: - 10 bills of exchange, - 10 payment orders, - Receivables, - Earmarked deposits: 545.000,00 BAM and deposits by an individual (116,002 EUR and 81,590 USD)
	BAM	500,000	500.000,00	9.15%	12.05.06	
	BAM	500,000	500.000,00	9.15%	22.12.05	
	BAM	1,500,000	954.545,40	EURIBOR + 6.4%	3 years, grace period 3 months, quarterly payments, first payment due on 16.12.04, last payment due on 16.06.07	
Hypo Alpe Adria Bank	BAM	1,000,000	996,667	9.5%	31.03.06	Over-draft loans - 2 bill of exchange - 2 bill of exchange by the Director - 2 payment orders
Ministry of Agriculture of RS - IFAD	EUR	770,000	1,505,989	For the first tranche (260,000 EUR) 2.197% For the second tranche (250,000 EUR) 2.15% For the third tranche (260,000 EUR) 2.156%	10 years, grace period 2 years for capital repayment, payments in 5 equal instalments at the end of year 2, 4, 6, 8 and 10, last payment due on 16.12.14 for the first tranche, 05.05.15 for the second tranche, and 22.08.15 for the third tranche	- 15 bills of exchange

Loan products description

Name of the product	Product I for trade, services and production	Product II for agriculture	Product III for home crafts
Creation Date	1997	2005	2005
Client type (rural, urban, etc.)	Rural and urban	Rural	Rural and urban
Authorised loan size	500 – 30,000 BAM	500,00 - 30.000,00 BAM	500,00 - 2.000,00 BAM
Average disbursed loan size	3,317 BAM	3,507 BAM	1,123 BAM
Authorised loan length (minimum and maximum)	1 - 12 months	For working capital 1-12 months For investment 1-18 months	1 - 12 months
Average loan length	10,81 months	14,26 months	11,60 months
Grace period	max. 2 months	For working capital max. 3 months For investment max. 6 months	
Collateral requirements and other conditions	Promissory note, administrative ban, pledge of movable and fixed assets	Promissory note, administrative ban, pledge of movable and fixed assets	Promissory note and administrative ban
Repayment Schedule	monthly	monthly	Monthly
Nominal monthly interest rate	1.7%	1.5%	2.0%
Flat or declining ?	Declining	Declining	Declining
APR	24.3%	20.9%	28.1%
Fees and penalties	2,00 % on the loan amount	1,50 % on the loan amount	2,00 % on the loan amount
Major changes since creation	in July 2002 the interest rate calculation method was changed- from flat to declining		

Organizational chart

