

GIRAFE

EKI, BiH

March 2006

Rating

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

Trend

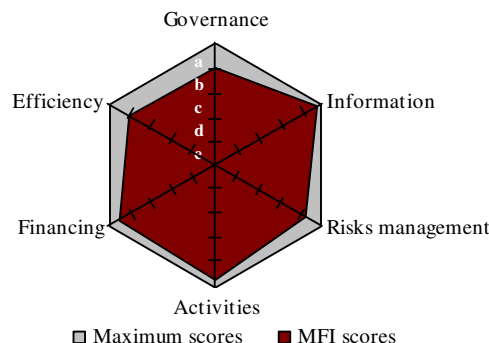
Positive	As the adoption of the new microfinance law is being further delayed, industry conditions are not expected to affect EKI's operational and financial condition in a material way in the next 12 month period. EKI is very likely to keep its current market positions despite intensifying industry competition.
Stable	
Uncertain	
Negative	

Performance indicators

(K EUR, unless otherwise noted)

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
ACTIVITY				
Total number of staff	84	102	119	153
Assets	12,239	16,945	20,748	28,148
Assets (K BAM)	23,938	33,141	40,579	55,051
Loan portfolio	11,284	15,238	19,148	26,610
Active borrowers	8,999	13,323	18,815	22,619
APR	See note below.			
PAR 31-365	0.2%	0.3%	0.4%	0.3%
PAR > 365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.5%	0.3%	0.4%	0.5%
Risk coverage ratio	891.7%	719.2%	581.6%	673.7%
PERFORMANCE				
ROE	53.2%	35.8%	28.2%	23.5%
Liabilities / Equity	586.0%	373.6%	313.1%	335.6%
ROA	7.1%	6.6%	6.4%	5.5%
OSS	145.6%	145.6%	144.6%	137.7%
FSS	128.2%	123.8%	113.3%	101.1%
Portfolio Yield	26.1%	23.1%	23.0%	21.6%
Operating expense ratio	16.3%	14.3%	13.7%	12.7%
Staff productivity	107	131	158	148
Funding expense ratio	1.0%	1.2%	1.7%	2.1%
GROWTH				
Portfolio growth	53.0%	35.0%	25.7%	39.0%
Asset growth	61.0%	38.4%	22.4%	35.7%
EUR/BAM	1.96	1.96	1.96	1.96

Note: 2005 APR of 19.8%. Product APRs range from 18.1% to 21%. Please see Annexes for APR by product.



Description of the institution

EKI began operations as a project of World Vision International (WVI) in February 1996 in Zenica, Bosnia Herzegovina (BiH). It registered as a local microcredit organization in March 2001. Through its network of 10 branches and 25 offices, EKI serves clients in the Federation of BiH (FBH), Republika Srpska (RS) and Brcko District, both in urban and rural areas. With loans from 300 to 30,000 BAM, it serves a clientele comprised of small entrepreneurs, microenterprises and SMEs. As of December 2005, EKI had an outstanding portfolio of over 26.6 million EUR, serving over 22,600 clients of all ethnic origins.

Rating summary

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

This rating is underpinned by EKI's strong market position in BiH where it is a top three industry player. This rating also recognizes its strong franchise in the rural/agriculture lending area, its core position within WVI network and its ability to secure funding on competitive terms. While its portfolio yield and profitability indicators have declined over the years due to the increasing competitive market condition, EKI has been able to keep healthy margins thanks to excellent portfolio quality, increased efficiency and good cost control. Planet Rating expects EKI's Operational Self-Sufficiency Ratio to stay above 120% in the next 12-month period.

This grade has been given with a **Stable** trend. This is explained by the fact that further delays in the adoption of the new microfinance law toward the second half of 2006 and possibly beyond will further postpone the forecasted major industry changes that could have had a material impact on EKI. As such, EKI is likely to maintain its market positions and financial condition based on its continued investments to improve and strengthen its operations within the current industry framework.

Financing needs

EKI anticipates funding needs of 42 BAM (21.7 M EUR) over the next three years. Planet Rating believes that EKI, given its relatively low leverage (when the WVI loan is reclassified as quasi-equity), has the capacity to absorb the above forecasted funding needs thanks to its strong risk profile and earning quality.

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▪ 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 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 trigger them into serious merger/takeover talks. One of the biggest obstacles to industry consolidation is that top MFI management, used to manage their own MFIs their own way to consider potentially 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 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 it does not clearly define the 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 December 31st, 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

Since the 1995 Dayton Agreement, the country has made substantial progress in a context characterized by the

presence of a peacekeeping force, a waiving of debts, and conclusion of agreements with the IMF. GDP has tripled, exports have increased tenfold, introduction of a fixed exchange rate regime made it possible to stabilize inflation, and public sector finances have partly recovered.

The economy continued to grow at a robust rate in 2005, reflecting the steadiness of manufacturing and exports. A slight economic upturn is expected in 2006 as a result of investments made in infrastructure and the industrial sector. The financial and economic situation has nonetheless remained shaky. The unemployment and poverty rates have been high, the savings rate very low, and production has not yet returned to its pre-war level. Robust domestic demand, spurred by a credit boom, has caused imports to rise and kept the current account deficit at levels difficult to sustain in the medium term just when international aid has been declining.

Politically, the situation has not completely calmed down. Although the Dayton Agreement certainly pacified the country, it also sanctioned political division and ethnic segregation. However, on the tenth anniversary of the agreement, and under international pressure, Bosnian leaders accepted a revision of the peace treaty intended to strengthen the central government. Meanwhile, the European Union announced the start of negotiations on a stabilization and association agreement.

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

USD millions	2003	2004	2005	2006
Economic growth (%)	4	5.7	5.4	5.7
Inflation (%)	0.6	0.4	1	1.9
Public sector balance (%GDP) (*)	-6.6	-4.8	-3	-2
Exports	1,296	1,664	2,072	2,434
Imports	3,816	4,496	5,195	5,541
Trade balance	-2,520	-2,832	-3,123	-3,107
Current account balance (%GDP)	-17.8	-17.3	-16.8	-15.2
Foreign debt (%GDP)	57.1	55.2	52.7	49.4
Debt service (%Exports)	5.2	4.3	4.5	4.7
Foreign exchange reserves (import months)	5.2	6	5.3	5.1

Source: COFACE's Country Risk Ratings Guidebook 2006. 2005 and 2006 data are forecasts.

Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating SAS.

▪ Institutional presentation

Networks

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

Ownership

EKI is governed by a 7-member Board of Directors (BOD). Any new Board Member is elected by the existing BOD members. These individuals, from different backgrounds, were invited by World Vision and the Management Team to join the Board in 2001 when the institution localized. The current BOD, with a mandate of four years, is presided by Mr. Sead MUCIC – its Chairman since the beginning. There are also BOD Committees, notably Audit Committee and Asset Liability Committee providing oversight on specific areas.

WVI is EKI's founder and remains the key decision-maker. WVI has a "de facto" veto right on key issues and has two representatives on the BOD. WVI loan contract with EKI outlines very strict rules on operations, among which is a stipulation for maximum PAR and write-off ratio levels. WVI controls 33% of EKI's total funding and owns the eMerge loan tracking system. EKI benefits from WVI's network through trainings, IT licensing, and technical assistance plus some funding obtained by/through WVI.

Management team

EKI has established a network of 10 main branches and 25 satellites offices, covering a large portion of BiH's territory. The Management Team is not located in its official Sarajevo headquarters; the Executive Director (ED) is based in Tuzla along with the MIS Manager and the lawyer, the Operations Manager is based in Brcko as well as Marketing Manager, and the Finance Manager is based in Sarajevo whereas the Training Officer is based in Doboj. Operations are decentralized as most of credit decisions and basic liquidity management are the responsibility of individual branches.

Donations

EKI received 3.2 M EUR of donations since its inception. Most of the funds came from WVI, USAID LAMP, UNDP, SIDA and CIDA.

Legal form, supervision and audit

EKI is a not-for-profit institution operating under BiH's microcredit law. The law is simple and provides for registration of specialized credit-only, non-government, non-profit institutions with minimal regulation and no formal government supervision. An effort is underway to change the legal framework for MFIs, expand legal options, and

review the range of products that may be offered. The regulatory environment differs from the FBH to the RS, thereby requiring MFIs that operate in both entities, like EKI, to register twice and comply with slightly different reporting and supervision rules.

PriceWaterhouseCoopers (PwC) was selected again in 2005 (PwC was its auditor before local firm INACO came in) as the external auditor after the call for proposals in which three firms submitted their bids to the BOD Audit Committee. PwC provided an unqualified opinion for the 2005 financial statements which are audited in accordance with international accounting standards (IAS and IFRS). Being funded by LIP, EKI is also subject to its annual audit.

Market penetration

EKI has established a network of 10 main branches and 25 satellites offices, covering a large portion of BiH's territory. The MFI has close to a national network serving most of BiH. EKI is expanding toward Western RS and FBH (west of Mostar towards Bihac in areas bordering with Croatia).



Products and services

EKI offers three loan products for registered businesses (working capital, fixed assets, and a "big loan" product for repeat clients), two for agriculture (one being subsidized), and one for unregistered microentrepreneurs ("microloans" that may also finance agriculture). One branch also offers group loans, but these loans account for a tiny part of the portfolio (0.4% of the outstanding balance). One branch provides housing improvement loans which should be expanded to all branches in 2006. All disbursements and repayments are made through banks so EKI branches and offices do not handle any cash.

■ Governance

Governance and Decision Making is rated « a »

Support

In the event of financial difficulties, EKI would turn to WVI for support. WVI exerts a strong, but appropriate influence on EKI's decision-making process. WVI's capacity and propensity to support EKI is considered high as EKI represents 27% and 45% of WVI's global and Middle East & Eastern Europe microfinance assets, respectively.

Decision-making

Decision-making process is as good as a NGO BOD can be. Its decision-making process is effective, democratic and consensus-based among BOD members despite the decisive voice of WVI through its 2 BOD representatives. EKI and WVI have numerous formal and informal links between them. WVI as the controlling shareholder adopts the "appropriate" role of an involved and concerned party, but not overbearing or dominating its decision-making process. EKI BOD displays positive characteristics of providing direction on strategic issues without interfering in the management's operational responsibilities. Still, EKI BOD is most often validating management's initiatives and proposals rather than leading as more commonly found in private shareholder-led BODs.

EKI is exploring various transformation options and is drafting a preliminary plan in anticipation of the new microfinance law. The current outlined options seem logical with organic growth and continued WVI involvement being the key elements. WVI and EKI's interests are closely aligned and the planned transfer of ownership from WVI to the new VF should provide a more focused stewardship as VF was created to manage WVI global microfinance assets. In the long run, potential points of tension between VF and EKI could be the selection of the "right" new shareholders to be included in EKI's capital structure and whether VF will be able to supply sufficient funds to EKI to ensure its future growth and avoid dilution of WVI control.

As EKI thinks ahead about its future legal structure, it would be useful to determine how the current BOD composition should be renewed in order to bring in more specialized skills and competencies (e.g. asset liability and risk management) required of a transformed and possibly regulated financial institution. More private and financially-oriented BOD would also invigorate some existing useful, but not very active BOD committees such as the Asset-Liability Committee.

Planning

EKI in general displays good planning, budgeting, implementing and performance tracking skills. The planning

process is open and participative. Some of EKI good planning skills were acquired through its association with WVI and its compliance to the network rules and standards.

EKI Strategic Plan adopted in 2003 could be more substantial both in the covered subjects and in the depth of their content analysis. As EKI is now starting to plan for potential transformation, the new strategic options along with key elements should logically be part of a new Strategic Plan. Key issues to be addressed include governance renewal, capital structure and adequacy, risk management, dividend policy...etc. It is understood that consultations with key stakeholders are on the way to keep them on board and to ensure their buy-in. EKI Business Plan 2006-2008 is relevant and strong especially with regard to operational and competitive areas. Certain financial management aspects can however be enhanced. The Business Plan includes coherent projections and sensible budgets based on reasonable assumptions.

Management team

The management team is well-run, effective and cohesive resulting in a good morale. Regular meetings are held between senior management and branch managers. EKI management team has close to 10 years of track record with key managers (like ED and IT Manager) having worked in EKI from the beginning. The existing team represents a broad range of experience and skills acquired on the job and through numerous relevant trainings. The team is particularly strong in Finance/Accounting, Internal Audit, MIS and Legal Affairs. Some managers (Operations, HR, Marketing) have further room to grow in their current jobs.

Despite the fact that the team is now stronger and broader-based, there are still some key-person risks at ED level given her strong qualifications compared to other managers. It is noted that WVI often provides management advice to EKI ED and other managers. Quite unique among MFIs, EKI Senior Management Team is not all located in its headquarters, but is spread out in various cities. While EKI works well under current set-up, distance does put some obstacles for quickly enhancing team cross-functional abilities and capacity building. It would be useful to reflect whether this decentralized arrangement will still work fine when EKI doubles in size and when the market conditions become much tougher than today.

Human resource management

EKI is a flexible and learning institution. Basic HR policies and procedures are in place and applied. The HR Manager position is presently not staffed. It is important however to fill this position given EKI's size, forecasted growth and increasing complexity with planned transformation. EKI is undertaking some interesting HR-related initiatives (e.g. build Knowledge Management Database). EKI also forms

dedicated teams with cross-section of different staff to develop solutions regarding certain subjects (e.g. new bonus scheme, process improvements).

An area for improvement is for EKI to tackle the relatively high turnover of the last two years, partially due to ProCredit Bank hiring. A new designed incentive policy should help, but such policy should not be taken in isolation from other HR management measures such as better training, coaching and career planning. As the new incentive scheme will soon be implemented, it would be useful to monitor closely the first 3 months to determine if the new eligibility conditions are too strict (resulting in too few people getting highest bonus) which could have the opposite than intended effects.

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Total number of staff	84	102	119	153
% Credit officers	51%	52%	55%	57%
Turnover	7%	5%	8%	14%

■ Information

Information and equipment is rated « a »

Description of the MIS

Equipment	<ul style="list-style-type: none"> ▪ Modern equipment (hardware and software) ▪ Sun servers, SQL database ▪ LAN, Internet connection in all branches to HQ
Accounting	<ul style="list-style-type: none"> ▪ Sun System ▪ Centralized accounting ▪ Daily reconciliation of portfolio information ▪ Monthly financial statements detailed by branch, with allocation of the HQ expenses.
Portfolio information	<ul style="list-style-type: none"> ▪ Software: eMerge, developed by Temenos ▪ Numerous and detailed reports available on demand

Management Information System (MIS) and equipment

Compared to the last rating, EKI now has a better (technical) handle of its loan tracking system eMerge thanks to higher internal IT capacity (more experienced personnel) and better technical support and training by Temenos – the software developer. While there are still some areas for improvement, the system is generally stable, backed by experienced IT staff with programming capability. The latest eMerge version presently used by EKI is flexible, user-friendly and could accommodate forecasted growth. Data security standards are high and are being applied. The fact that eMerge is not fully integrated with accounting system does not seem to affect data flow timeliness and quality in a major way. As WVI (the official owner of eMerge for its affiliates) is firmly behind EKI, the risk of discontinuity in ownership and usage rights is considered low. Similarly, the IT Manager and his three colleagues have gained more experience with eMerge, key-person IT risk has diminished.

Nevertheless, EKI is still dependent on eMerge consultants for major upgrades or changes.

Information on activities

Portfolio data quality is high. Current systems can provide timely, accurate and reliable portfolio information. Highly detailed portfolio data can be obtained by branch or product and all necessary reports can be generated on demand in real time. There is a good understanding and use of key information throughout the organization.

Financial and accounting information

Similar to portfolio data, financial and accounting data is of high quality, easily available and very detailed. The Finance Department is staffed by experienced and competent personnel. There is regular tracking of budgets and relevant analysis of variances. Reporting standards and capability are excellent.

■ Risk

Risk Management is rated « a »

Procedures and internal controls

Necessary lending policies and procedures are in place and are documented in detailed manuals. Overall EKI staff has a good understanding of key lending risks and of the need of compliance to procedures. Relevant segregation of duties and approval limits are being applied. Client recruitment, assessment, visit and loan approval processes are adequate. Client assessment is tighter and more formalized than before. EKI's decentralized structures pose some coordination challenges, but having experienced middle management staff in key positions combined with formal training sufficiently mitigates non-compliance risks.

Internal audit

EKI employs good and competent Internal Audit (IA) personnel that have good risk control thinking and mindset. They use risk-based approach to plan their work and spend about 60% of their time controlling the credit operations. Their work is very detailed-oriented and fully covers key potential risk prone areas. Audit reports are of good quality and contain recommendations for improvement. EKI BOD Audit Committee (AC) meets regularly and receives relevant reports from IA staff. It would be useful for the AC to have a systematic system or mechanism to track previously made recommendations and to see whether such recommendations have been carried out. Beside from IA work, EKI is also audited regularly by various funders (e.g. LIP I & II) and donors (e.g. USAID LAMP) and by external auditors.

■ 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. The overall market demand is still expanding, but growth rates have slowed down with an increasing number of clients having loans at more than one institution. By the end of December 2005, the 14 largest MFIs were serving over 147,000 clients. The microfinance portfolio outstanding is estimated around 162 M EUR. This is in addition to the commercial banks' portfolio with the largest share attributed to ProCredit Bank BiH with over 23,650 micro-credit clients and an estimated portfolio of 40.5 M EUR at the end of December 2005.

The major ongoing trends are:

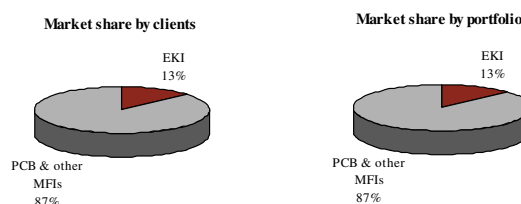
- MFIs going aggressively into rural areas providing agriculture-related loans;
- MFIs extending loan terms longer to around 36 months;
- MFIs looking at product diversification directly (e.g. housing loans) or in partnerships with other financial institutions (e.g. selling insurance products, mobilizing deposits);
- 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 a lot of new staff. With a cheaper funding base (access to savings) and a 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.

Market positioning and strategy

Thanks to competitive interest rates, good understanding of client needs, regular market research and large national branch network, EKI enjoys a good competitive position and reputation in BiH. It is the largest MFI by number of active clients and third by portfolio as of December end 2005 (please see Benchmarking section for more details). EKI is one of the few BiH MFIs that can claim being a serious national player. Positioned as a rural lender, EKI today

offers its clients a broad range of products, except for loans specifically designed for consumption purposes. With slight variations, all BiH MFIs adopt very similar market strategies with the fast and simple loan approval and disbursement process being the core competitive advantage in comparison with banks. EKI's products do not differ much from those of the competition despite its high internal capacity to revise existing products and to develop new ones. It is understood that its latest research efforts will lead to both rationalization of its current product offering and introduction of new products (e.g. revolving loan) that will complement and enhance existing products.

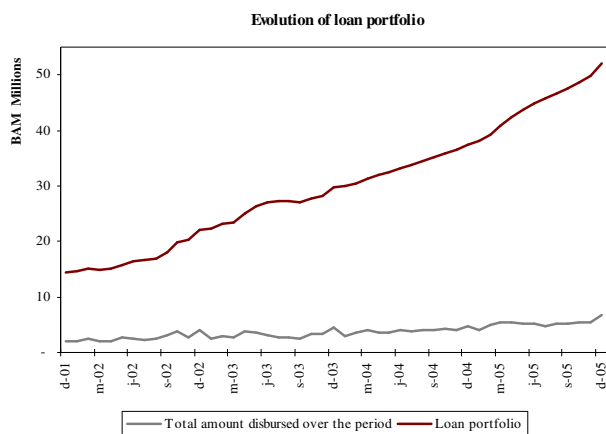


Similar to other MFIs, EKI is only recently investing in marketing and promotion activities in a serious way trying to differentiate itself. Combined with good market intelligence and the right competitive thinking, EKI has the means to adjust its products and rates rapidly. Its Marketing Manager has drafted a comprehensive Marketing Plan (MP) identifying Mikrofin and Partner to be EKI's most serious MFI competitors and ProCredit Bank a contender for its higher-end clients. Its MP outlines some interesting market and client research initiatives along with an initial budget (about 1% of total budget) and key milestones to be achieved. While the MP is too new to evaluate its effectiveness, EKI would stand to maintain and potentially gain in market share if the MP is carried out well and fully.

Credit methodology

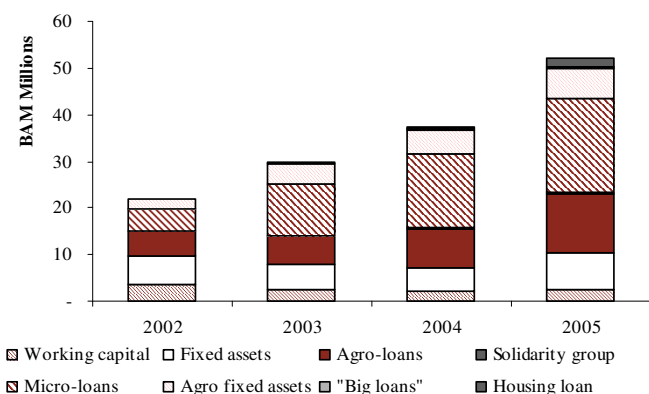
EKI continues to use appropriate and flexible loan methodologies. Its portfolio management is tight thanks to established procedures and regular visits together with adequate delinquency management procedures. Despite fast expansion in the last few years, EKI has managed to keep a good handle on its lending activities. Despite the turnover, EKI continues to be able to attract and train good candidates for LO positions. Documentation and record keeping of client data is well done. As EKI continues its expansion to areas already covered by its competitors (e.g. Western RS), its management is aware of strictly following its procedures to minimize the risks of picking up bad or rejected clients of existing MFIs.

Portfolio Evolution



EKI portfolio witnessed fast growth jumping from 11.3 M EUR in 2001 to 26.6 M EUR at the end of 2005 thanks to the opening of new branches/offices and funding availability. Staying true to its low-income clientele and rural market positioning, EKI portfolio continues to be dominated by micro-loans and agriculture loans. The most significant changes to the loan portfolio in the past few years have been the introduction of solidarity group and housing loans – the latter funded through a SIDA grant through WV BiH. While the solidarity group loan remains marginal, housing improvement loans showed good promise accounting for 3.1% of total portfolio at the end of 2005. Following positive testing in the Gradacac area, EKI plans to extent housing loans throughout its branch network. Overall, EKI aims for 20% portfolio growth in 2006.

Portfolio by Product



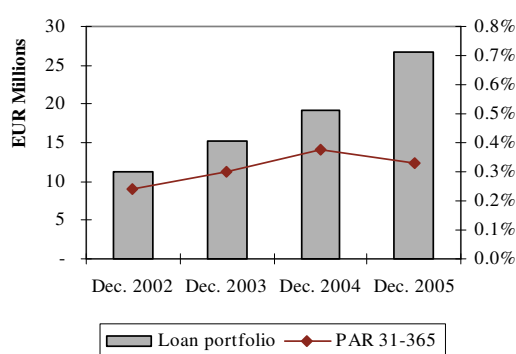
Portfolio quality

K EUR, unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Loan portfolio	11,284	15,238	19,148	26,610
Loan portfolio (K BAM)	22,069	29,803	37,449	52,044
Evolution	53.0%	35.0%	25.7%	39.0%
Avg. outstanding loan port.	8,659	13,240	17,193	22,879
Number of active borrowers	8,999	13,323	18,815	22,619
Evolution	41.3%	48.0%	41.2%	20.2%
Average outstanding loan per client	1,254	1,144	1,018	1,176

% of GDP per capita	80.6%	69.7%	56.7%	60.0%
Average amount disbursed	1,879	1,634	1,506	1,694
% of GDP per capita	120.7%	99.5%	83.9%	86.3%
PAR 31-365	0.2%	0.3%	0.4%	0.3%
PAR > 365	0.0%	0.0%	0.0%	0.0%

Despite fast growth, EKI managed to keep excellent asset quality overall as evidenced by PAR > 31 of less than 0.5% since 2000. This performance can be explained by good selection of clients as well as rigorous portfolio management policies. While this excellent performance is likely to continue in the short term, PAR is expected to grow in the medium term for all BiH MFIs (including EKI) as increased competition has already brought cross-indebtedness of microfinance clients and guarantors.

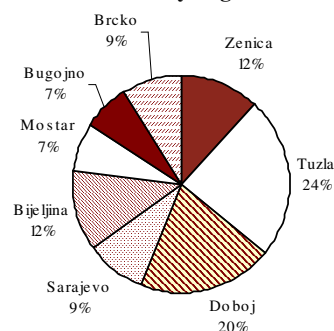
Trends in portfolio & PAR



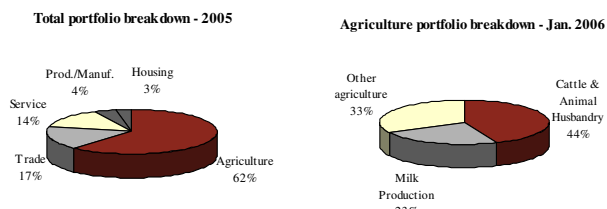
Looking deeper into EKI's portfolio, the riskiest products are micro-loan and working capital loans. Microloans account for 55% of total PAR31 even if it made up only 39% of the portfolio outstanding as of 2005 (PAR of 0.5%). Similarly, working capital accounted for 8% of total PAR31 compared to its 4.7% share of the portfolio (PAR of 0.6%). In January 2006, riskiest loans are all in agriculture, namely apiculture (PAR31=3.34%), livestock and meat production (PAR31=1.79%), and egg production (PAR31=1.22%). Agriculture-related PAR is calculated at around 0.87% almost three times overall PAR of 0.3%. While these above figures are significant in percentages, they are not alarming in the global picture as the absolute numbers stay small and are deemed manageable.

Portfolio diversification

Portfolio By Region



EKI is keenly aware of portfolio concentration risk and tries to establish overall portfolio limits. A key limit spelled out in the 2006-2008 Business Plan is the maximum 65% ratio of portfolio lent to agriculture. As of December 2005, loans to the agriculture sector represented about 62% of portfolio outstanding and 65% of active clients. There are no geographic limits.



As shown in the above pie charts and consistent with its market strategy, EKI is lending heavily in the agriculture sector. These loans are however concentrated on cattle raising and animal husbandry (chickens and other livestock) and milk production which are less risky than financing crops. EKI recently published some educational brochures about various agriculture projects in order to educate its borrowers. These brochures are valuable, but whether they will directly help to protect asset quality remain to be seen.

As of December 31, 2005, EKI's 10 largest borrowers represented 0.53% of the portfolio outstanding. EKI does have a policy limiting its exposure to any single client to a maximum of 2 loans without exceeding 20,000 BAM (10,204 EUR) per loan or 40,000 BAM (20,408 EUR) in total.

Credit risk coverage

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Risk coverage ratio	891.7%	719.2%	581.6%	673.7%
PAR 31 net of loan loss provision / Equity	(12.0%)	(8.0%)	(6.9%)	(7.8%)

Due to conservative provisioning policy typical of BiH MFIs funded by LIP II, EKI's credit risk coverage is very comfortable and exceeds international standards as shown in the above table. Beside from accounting provisioning, all EKI loans (except for solidarity group loans) are backed by collaterals (e.g. check, bill of exchange, payment order, administrative ban on salary...etc.).

Write off

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Write-off ratio	0.5%	0.3%	0.4%	0.5%

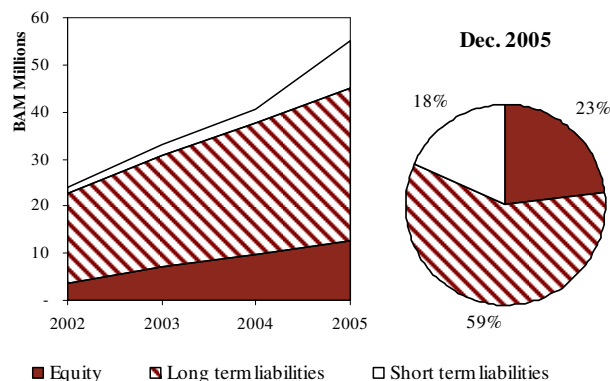
EKI conservatively write-offs late loans over 120 days. EKI write-off ratio, while growing slightly with the years, is still very low (e.g. under 1%) due to excellent asset quality.

■ Financing and liquidity

Financing and liquidity is rated « a »

Financing strategy

Funding structure



Capital structure & Leverage

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Liabilities / Equity	586.0%	373.6%	313.1%	335.6%

Thanks to capitalized grants and retained earnings, EKI's equity reached 6.5 M EUR as at December 31, 2005 which is healthy in relation to its existing size of operations. Equity represented almost 23% of total 2005 assets. EKI is reasonably leveraged at 3.35 times its equity (liabilities to equity ratio) as of December 31, 2005. Given VWI stated plan to convert its loan (36.6% of total 2005 liabilities) into equity in due course, it is reasonable to consider the founder's loan as quasi-equity. Should we reclassify VWI loan as quasi-equity, EKI is then only leveraged at 0.95 times its equity as of December 31, 2005. At this low level, EKI has the necessary flexibility to raise additional borrowings to expand its operations.

EKI has a diversified funding base with long-term loans dominating the funding structure. Long-term loans are made up substantially of concessional or soft loans (70% of total liabilities) with a growing share priced at commercial terms. Some of the best known microfinance investors (BlueOrchard, MicroVest, responsAbility) are already part of its funding base and other prominent investors have recently come by to conduct due diligence (EFSE, IFC, EBRD). Given its good performance and borrowing track record, EKI should remain an attractive target for all investors – domestic and foreign.

ALM risks

In general, ALM risks are low and deemed manageable at EKI.

FX Mismatch	BAM	EUR	USD
As of December 31, 2005			
Liabilities by currency	40,787,181	9,484,107	2,150,000
Portfolio by currency	52,044,410	0	0

EKI does not have yet an official FX hedging policy for its liabilities despite its awareness of the FX risks and its preference for BAM-denominated borrowings. Given the fact that the national currency BAM is pegged to the EUR and the peg has been holding for years, the combined BAM and EUR liability exposure corresponds roughly to the entire loan portfolio disbursed in BAM only as shown in the above table. Therefore its FX mismatch risk is limited. It is noted that EKI has an additional layer of FX protection as its loan contracts' amounts are linked to fixed EUR amounts giving it the right to require repayments in EUR equivalent should the BAM depreciates. While this clause is legally-binding, it might prove difficult to enforce if the BAM depreciates substantially. Given the prevailing stable economic conditions, devaluation is not considered likely in the short and medium term.

Maturity Mismatch	2004		2005	
	Portfolio	Liabilities stated	Portfolio	Liabilities stated
Short term up to 12 months	30,146	5,071	38,055	10,026
Long term >12 months	7,303	25,685	13,989	32,386
Total	37,449	30,755	52,044	42,412

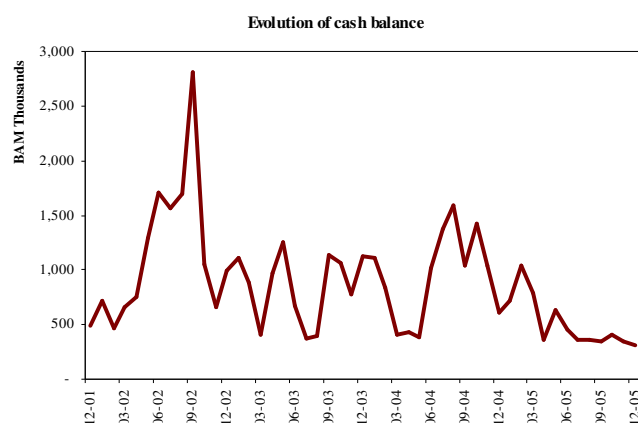
As shown on the above table, EKI's average loan portfolio term of 18 months is adequately funded by borrowings which are mostly longer term (over 12 months) and by its equity. As this situation is unlikely to change materially over the next 12 months, the maturity risk is considered low.

Interest Mismatch	2002	2003	2004	2005
Funding expense ratio	1.0%	1.2%	1.6%	2.0%
Portfolio yield	26.1%	23.1%	22.8%	21.4%

Floating rate liabilities	2005 Amount	Rate
EUR	1,345,000	6mEURIBOR
BAM	1,000,000	5.8% + 6mEURIBOR
EUR	300,000	6% + 6mEURIBOR

EKI does not have an active interest rate management policy. Despite the fact that EKI lends only on a fixed rate basis and part of its funding base is on floating rate basis, the interest mismatch risk exists, but is considered low due to the high interest spread between EKI's portfolio yield and low blended funding expense ratio shown above and the relatively low liability amounts (representing 8% of total assets) priced on a floating rate basis. Furthermore a sizeable part of the floating rate borrowings is priced at 6mEURIBOR without a spread giving it some breathing room even if the underlying benchmark should increase significantly.

Liquidity management



EKI web-based liquidity management is proactive, dynamic, centralized and done in real time. Liquidity projections are updated regularly. As evidenced by the liquidity trend shown above, EKI has become a better organization at managing liquidity over the years. This good performance is also evidenced by the excellent portfolio to asset deployment ratio of around 92%.

Efficiency and Profitability

Efficiency and Profitability is rated « a »

Profitability analysis	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
ROE	53.2%	35.8%	28.2%	23.5%
Liabilities / Equity	586.0%	373.6%	313.1%	335.6%
ROA	7.1%	6.6%	6.4%	5.5%
Profit generation				
Operational self-sufficiency	145.6%	145.6%	144.6%	137.7%
Portfolio Yield	26.1%	23.1%	23.0%	21.6%
Operating expense ratio	16.3%	14.3%	13.7%	12.7%
Staff productivity	107	131	158	148
Loan officer productivity	209	251	285	260
Average outstanding loan per client (EUR)	1,254	1,144	1,018	1,176
Funding expense ratio	1.0%	1.2%	1.7%	2.1%
Cost of liabilities	3.5%	3.0%	2.6%	2.5%
Loan Loss Provision expense ratio	0.7%	0.4%	0.7%	1.0%
PAR 31-365	0.2%	0.3%	0.4%	0.3%
Write-off ratio	0.5%	0.3%	0.4%	0.5%
Asset management				
Outstanding Loan Portfolio / Assets	90.2%	88.0%	90.3%	92.4%
Non-portfolio income as a % of financial revenues	0.0%	0.0%	0.2%	0.2%

Overview of the profitability

EKI is a profitable institution as measured by OSS, ROA and ROE indicators. This profitability is based on three key factors: good productivity, ability to control costs (including funding costs) and better economies of scale. Nevertheless profitability levels have been decreasing, which is consistent with heightened market competition driving down portfolio yield. Since EKI continues to maintain good portfolio

quality and strives to achieve better efficiency, its ROE is expected to stay above 20% for 2006.

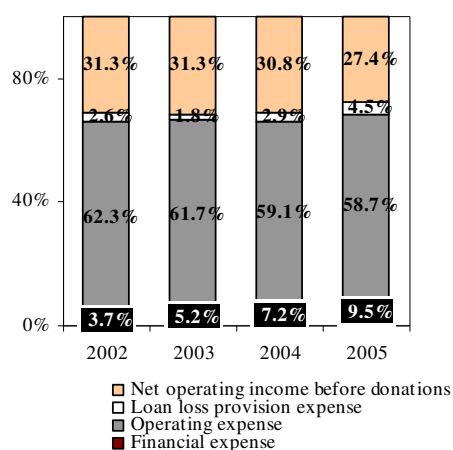
Portfolio yield

EKI portfolio yield of 21.6% is slightly higher than its average portfolio APR of 19.8% thanks to excellent portfolio quality. Since 2000, portfolio yield pursued its expected decline both as a result of competitive pressure, but also because of EKI's strategy to be at the low-end of interests range practiced by BiH MFIs. As EKI interests are already among the lowest in BiH, the pressure on its rates is not expected to be strong in the short-term. Nevertheless, the declining trend should continue, even if EKI aims to keep its portfolio yield above 19%.

Operating expense ratio

EKI's operating expense ratio is excellent at 12.7% in 2005. This performance can be attributed to better staff productivity (despite lower productivity levels in 2005 due to significant new staff hirings) and efficiency gains from IT investments. This ratio, already excellent, can go even lower as the portfolio grows.

Cost structure in % of financial income



Funding expense ratio

EKI's blended funding expense ratio continues to be very low at around 2.1% despite increased commercial borrowing in its funding mix. This can be partially explained by its ability (by its own and/or through WVI) to attract soft loans from various donors and funders. This can also be explained by its relatively low leverage level (after excluding WVI loan) given its size of operations.

Asset management

EKI is excellent at asset management by deploying 92.4% of its assets in the income-earning portfolio. This ratio is expected to stay above 90% in 2006.

Adjusted performance

Details concerning the specific adjustments are included in the annexes

EKI is financially self-sufficient after GIRAFE adjustments although the FSS is now only slightly above 100% due to both declining portfolio yield and unnecessarily high loan loss provisioning. The adjustment expense ratio of 5.7% in 2004 is attributable to the standard adjustments of the cost of funds (more than 94% of all adjustments) and inflation (6%). There is no loan loss provisioning adjustments. Please note that the shadow cost of funds was lowered from 12% in 2002 to 10% in 2003 and 9.2% in 2005 to take into account the fact that EKI was able to access better priced funds.

	Dec. 02	Dec. 03	Dec. 04	Dec. 05
Adjustment expense ratio	2.4%	2.8%	4.4%	5.7%
AROE	37.4%	22.0%	10.8%	0.9%
AROA	5.0%	4.0%	2.5%	0.2%
Financial self-sufficiency	128.2%	123.8%	113.3%	101.1%

Profitability outlook

Profitability outlook should maintain around current levels in spite of decreasing portfolio yield compensated by continued high asset quality, low funding cost and expected higher productivity. Therefore EKI's stated goal to keep OSS at least 120% seems very achievable.

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

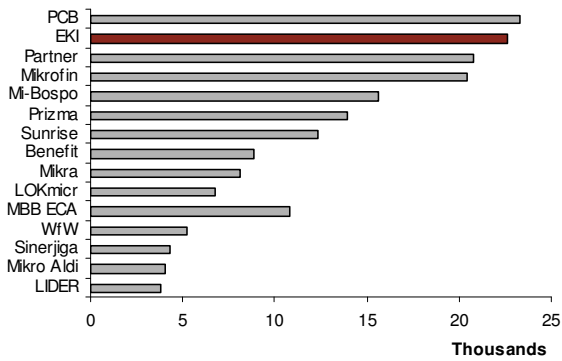
Area	Europe and Central Asia (ECA)
MBB peer group	ECA Large Broad: AgroInvest, EKI, FM, FOR A, OBM, Sunrise, Partner, XAC
Maturity	Mature
Scale of operations	GLP > 8 M EUR
Target	Avg. Balance per Borrower/GNI per Capita >= 20% and population <=150%

Source: MBB August 2005

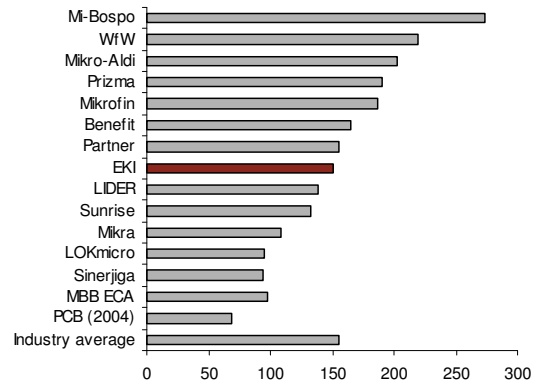
Note: ProCredit Bank (PCB) 2005 data includes only micro-loans up to 10,000 EUR.

EKI compares favourably to its BiH and MBB ECA peers in almost all indicators shown below.

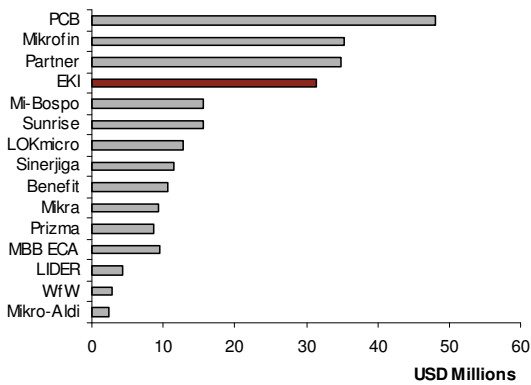
Number of Active Clients - End 2005



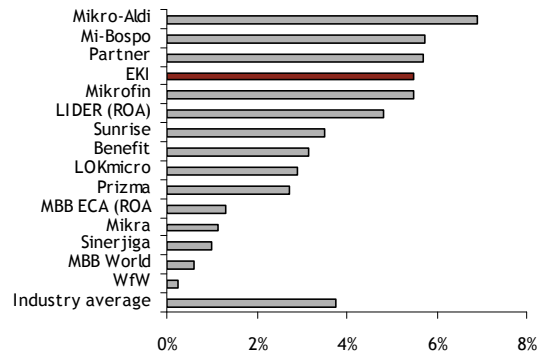
Staff Productivity - End 2005



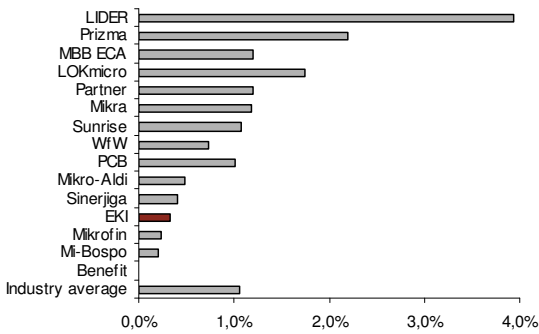
Gross Loan Portfolio - End 2005



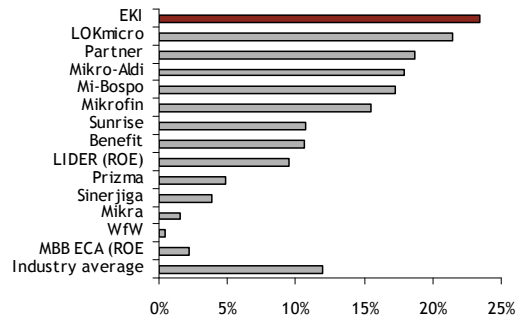
Adjusted Return on Assets - End 2005



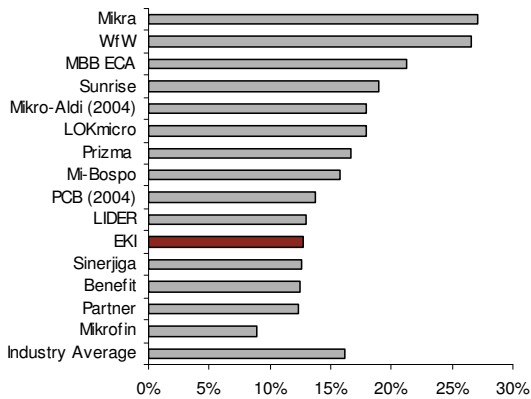
PAR > 30 days - End 2005



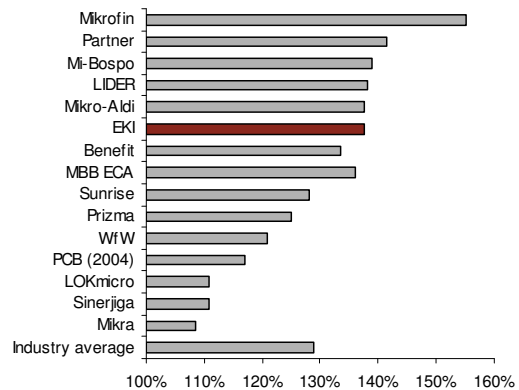
Adjusted Return on Equity - End 2005



Operating Expense Ratio - End 2005



Operational self-sufficiency - End 2005



Annexes

Acronyms

ALM	Asset/Liability Management
BOD	Board of Directors
BPRM	Bureau of Population, Refugees and Migration
CEO	Chief Executive Officer
EBRD	European Bank for Reconstruction and Development
EFSE	European Fund for South-Eastern Europe
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FI	Financial intermediary
FY	Fiscal Year (Jan. 1st to Dec. 31st)
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IT	Information technology
KfW	German Development Bank
LIBOR	London Interbank Offered Rate
LO	Loan officer
LTS	Loan Tracking Specialist
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
SIDA	Swedish International Development Agency
SME	Small and medium sized enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
USD	United States Dollar
USAID	United States International Development Agency
VF	Vision Fund
WVI	World Vision International

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

- The MFI follows partially the CGAP disclosure guidelines.
- The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
- The financial statements provided include 4 years of data.
- Segment Reporting for Multiservice Microfinance Institutions: if the MFI offers both financial and nonfinancial services, say whether the non-financial services are included in this statement.
- Portfolio reporting
 - 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").
 - The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated each December by the finance manager according to the methodology described in the table.

Provisioning methodology	Rate
Healthy portfolio	2,0%
Rescheduled	100,0%
less than 30 days	10,0%
31 - 60	25,0%
61 - 90	50,0%
91 - 120	75,0%
more than 120 days	100,0%
over 365 days	100,0%
Write off amount	100,0%

- Loans are written off every December from the loan loss reserve and the loans outstanding.

- The following table reconciles these movements:

BAM	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Loan loss reserve, January 1st	337,711	472,662	647,533	817,200
+ Loan loss provision expense	211,053	246,303	312,641	545,547
- Provision reversal	211,767	246,303	312,641	545,547
- Loans written off during the year	714	-	-	-
Loan loss reserve, year end	76,102	71,431	142,975	204,509

- Accrual vs. Cash accounting: the MFI recognizes interest on a cash basis and therefore does not accrue interest.

- 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. Such loans are not tracked separately in the loan software.

5.3 Insider loans: the MFI does allow employees to borrow funds. In 2005, there are no staff loans outstanding. Loans to employees are formalized in a contract between the MFI and the employee that state the amount granted and repayment schedule. Loans repayments are automatically withdrawn from salary. Employee loans are non-interest bearing. This amount is not a material percent of the outstanding portfolio.

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
UNDP	1,636,607	District Brcko lending act. Y2003
CIDA	3,950	Petra Project
UNDP	331,361	District Brcko lending act. Y2004
SIDA	73,391	Donations for op.costs Y2004
SIDA	157,824	Donations for op.costs Y2005
WVI	800,000	Initial investment
USAID	3,152,076	LAMP Project
Other	66,746	
Total	6,221,955	

6.3 Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income statement. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet. Please note that the financial statements disclosed in this report have been modified for presentation to better reflect donations.

6.4 In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.

6.5 Cumulative amount of all prior period donations: The amount is/not available. Give the amount.

7 Details of liabilities

7.1 Loans that account for more than 10% of total liabilities are listed in a table at the end of the report

7.2 Deposits: None, not a deposit-taking MFI.

8 Other significant Accounting Policies

8.1 Accrual or deferral income/expense accounting: none.

8.2 Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

8.3 Inflation accounting: none

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

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

Adjustments

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Adjustment for the cost of funds = (a*b)-c	403,785	715,183	1,402,860	2,378,262
Average amount of borrowings (a)	4,736,083	10,280,671	21,357,188	35,755,564
Shadow price of borrowings (b)	12.0%	10.0%	9.2%	9.2%
Interest expense on borrowings (c)	164,545	312,884	551,323	911,250
Adjustment for inflation = (d-e)*f	7,055	9,496	64,762	155,408
Avg. Equity (d)	2,603,115	5,243,617	8,410,542	11,231,006
Average fixed assets (e)	251,289	495,473	1,214,772	2,089,373
Inflation rate (f)	0.3%	0.2%	0.9%	1.7%
Adjustment for in-kind donations	-	-	-	-
Staff and technical assistance				
Other				
Adjustments for provisions	-	-	-	-
Loan losses	-	-	-	-
Other risks				
Other adjustments				
Total adjustments	410,840	724,679	1,467,622	2,533,670
Net income before donations	1,384,408	1,876,885	2,372,946	2,638,387
Adjusted net income before donations	973,567	1,152,206	905,324	104,718
Adjusted net income before donations (EUR)	497,785	589,123	462,892	53,542

EKI	Notes	BAM					EUR				Evolution		
		Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	2003/2002	2004/2003	2005/2004
Balance sheets													
ASSETS		14 871 393	23 937 915	33 140 764	40 578 829	55 050 933	12 239 449	16 944 863	20 747 944	28 147 527	38,4%	22,4%	35,7%
Short Term Assets			13 767 858	17 736 838	31 452 098	38 706 191	7 039 502	9 068 840	16 081 449	19 790 465	28,8%	77,3%	23,1%
Cash and Due from Banks			988 763	1 122 423	610 859	310 329	505 554	573 895	312 332	158 671	13,5%	(45,6%)	(49,2%)
Short Term Investments			-	605 427	605 427	605 427	-	309 555	309 554	309 554	-	(0,0%)	0,0%
Short Term Net Loan Portfolio	14 088 547	11 811 008	14 357 904	29 328 796	36 896 797	6 038 965	7 341 192	14 995 805	18 865 322	21,6%	104,3%	25,8%	
Short Term Gross Loan Portfolio	14 426 258	12 283 670	15 005 437	30 145 996	38 055 034	6 280 637	7 672 276	15 413 639	19 457 528	22,2%	100,9%	26,2%	
(Loan Loss Reserve)	337 711	472 662	647 533	817 200	1 158 237	241 672	331 083	417 834	592 206	37,0%	26,2%	41,7%	
Interest Receivable			-	-	-	-	-	-	-	-	-	-	-
On loan portfolio			-	-	-	-	-	-	-	-	-	-	-
On investments			-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets			968 087	1 651 084	907 016	893 639	494 983	844 199	463 757	456 917	70,6%	(45,1%)	(1,5%)
Long term assets			10 170 057	15 403 926	9 126 731	16 344 742	5 199 947	7 876 023	4 666 495	8 357 062	51,5%	(40,8%)	79,1%
Long Term Net Investments			-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio	-	9 785 275	14 797 763	7 303 351	13 989 376	5 003 208	7 566 092	3 734 201	7 152 764	51,2%	(50,6%)	91,5%	
Net Fixed Assets	117 795	384 782	606 163	1 823 380	2 355 366	196 739	309 931	932 294	1 204 298	57,5%	200,8%	29,2%	
Other Long Term Assets			-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY			23 937 915	33 140 764	40 578 830	55 050 934	12 239 449	16 944 863	20 747 944	28 147 527	38,4%	22,4%	35,7%
Liabilities			20 448 222	26 143 223	30 755 287	42 412 463	10 455 170	13 367 023	15 725 170	21 685 481	27,9%	17,6%	37,9%
Short term liabilities			1 279 470	2 468 240	2 805 904	10 026 417	654 193	1 262 010	1 434 658	5 126 504	92,9%	13,7%	257,3%
Demand Deposits			-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits			-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits			-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		841 800	1 928 150	2 117 796	9 057 903	430 412	985 863	1 082 828	4 631 303	129,1%	9,8%	327,7%	
Interest payable			-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		437 670	540 090	688 108	968 513	223 781	276 148	351 830	495 201	23,4%	27,4%	40,8%	
Long term liabilities		19 168 752	23 674 983	27 949 383	32 386 047	9 800 978	12 105 012	14 290 512	16 558 977	23,5%	18,1%	15,9%	
Long Term Time Deposits			-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	1 558 020	7 072 345	10 719 047	27 949 383	32 386 047	3 616 088	5 480 646	14 290 512	16 558 977	51,6%	160,7%	15,9%	
Other Long Term Liabilities		12 096 407	12 955 936	-	-	6 184 890	6 624 366	-	-	7,1%	(100,0%)	-	
Equity		1 716 536	3 489 693	6 997 541	9 823 542	12 638 470	1 784 279	3 577 841	5 022 774	6 462 046	100,5%	40,4%	28,7%
Paid-In Capital			-	-	-	-	-	-	-	-	-	-	-
Donated equity	1 040 542	1 053 506	2 668 506	3 002 844	3 179 385	538 657	1 364 406	1 535 353	1 625 618	153,3%	12,5%	5,9%	
Retained earnings without donations and reserves		2 436 187	4 329 035	6 820 698	9 459 086	1 245 622	2 213 434	3 487 421	4 836 428	77,7%	57,6%	38,7%	
Current year		1 384 408	1 876 885	2 372 946	2 638 387	707 847	959 651	1 213 287	1 349 007	35,6%	26,4%	11,2%	
Other equity accounts			-	-	-	-	-	-	-	-	-	-	-

EKI Income Statement	Notes	BAM				EUR				Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	2003/2002	2004/2003	2005/2004
Financial Revenue (a)		4 421 792	5 989 783	7 699 325	9 641 413	2 260 861	3 062 574	3 936 663	4 929 652	0	28,5%	25,2%
Financial Revenue from Loan Portfolio		4 421 792	5 989 783	7 653 486	9 594 610	2 260 861	3 062 574	3 913 225	4 905 721	35,5%	27,8%	25,4%
Interest on Loan Portfolio		3 804 098	5 249 035	6 756 352	8 241 064	1 945 034	2 683 830	3 454 521	4 213 654	38,0%	28,7%	22,0%
Fees and Commissions on Loan Portfolio		607 944	730 844	897 134	1 353 545	310 842	373 680	458 704	692 067	20,2%	22,8%	50,9%
Penalty Revenue on Loan Portfolio		9 750	9 904			4 985	5 064			1,6%	(100,0%)	-
Financial Revenue from Investments		-	-	18 617	16 011	-	-	9 519	8 186	-	-	(14,0%)
Other Operating Revenue		-	-	27 222	30 792	-	-	13 918	15 744	-	-	13,1%
Financial Expense (b)		164 545	312 884	551 323	911 250	84 132	159 978	281 891	465 922	90,2%	76,2%	65,3%
Interest paid on borrowings		164 545	312 884	551 323	911 250	84 132	159 978	281 891	465 922	90,2%	76,2%	65,3%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]		4 257 247	5 676 899	7 148 002	8 730 163	2 176 729	2 902 597	3 654 772	4 463 730	33,3%	25,9%	22,1%
Net Loan Loss provision expense (d)		115 914	104 972	225 479	434 398	59 267	53 672	115 287	222 108	(0)	1	1
Loan loss provision expense and write-off		211 053	246 303	312 641	545 547	107 911	125 934	159 853	278 938	16,7%	26,9%	74,5%
Recovery from Loans written off		95 139	141 331	87 163	111 149	48 645	72 263	44 566	56 830	48,6%	(38,3%)	27,5%
Operating expense (e)		2 756 925	3 695 042	4 549 578	5 657 377	1 409 615	1 889 274	2 326 198	2 892 615	0	0	0
Personnel Expense (includes fringe)		1 731 131	2 565 437	3 079 367	3 781 211	885 127	1 311 707	1 574 480	1 933 332	48,2%	20,0%	22,8%
Administrative Expense (non-staff operating expenses)		1 025 794	1 129 605	1 470 211	1 876 166	524 488	577 567	751 718	959 283	10,1%	30,2%	27,6%
Depreciation and amortization		46 578	93 791	162 590	269 074	23 815	47 955	83 132	137 577	101,4%	73,4%	65,5%
Consulting fees/ training and technical assistance		8 384	43 393	204 876	166 434	4 287	22 187	104 753	85 098	417,6%	372,1%	(18,8%)
Administrative expenses		93 655	94 585	142 813	161 010	47 886	48 361	73 020	82 324	1,0%	51,0%	12,7%
Communication expenses		145 694	208 051	234 811	241 779	74 493	106 376	120 059	123 621	42,8%	12,9%	3,0%
Occupancy expenses		235 751	274 777	299 259	381 151	120 539	140 493	153 011	194 883	16,6%	8,9%	27,4%
Travel		97 973	161 436	220 990	314 361	50 094	82 542	112 992	160 733	64,8%	36,9%	42,3%
Fees to World Vision		13 031	10 850	9 385	9 381	6 663	5 548	4 799	4 796	(16,7%)	(13,5%)	(0,0%)
										-	-	-
Others		384 728	242 722	195 486	332 976	196 711	124 104	99 952	170 250	(36,9%)	(19,5%)	70,3%
Net Operating Income Before Taxes and Donations [f=c-d-e]		1 384 408	1 876 885	2 372 946	2 638 387	707 847	959 651	1 213 287	1 349 007	35,6%	26,4%	11,2%
Income Taxes (g)										-	-	-
Net Operating Income Before Donations [h=f-g]		1 384 408	1 876 885	2 372 946	2 638 387	707 847	959 651	1 213 287	1 349 007	35,6%	26,4%	11,2%
Non Operating Revenue (i)										-	-	-
Non Operating Expense (including related taxes) (j)										-	-	-
Net Income Before Donations [k=h+i-j]		1 384 408	1 876 885	2 372 946	2 638 387	707 847	959 651	1 213 287	1 349 007	35,6%	26,4%	11,2%
Donations (l)		12 964	12 184	118 533	173 654	6 628	6 230	60 606	88 789	(6,0%)	872,9%	46,5%
Net Income (after Taxes and Donations) [m=k+l]		1 397 372	1 889 069	2 491 479	2 812 041	714 476	965 881	1 273 893	1 437 796	35,2%	31,9%	12,9%

	Product 1	Product 2	Product 3	Product 4	Product 5	Product 6	Product 7	Product 8
Name of the product	P1, Working Capital	P2, Fixed Assets	P3, Working Capital in Agriculture	P4, Group Lending	P5, Microloan	P6, Fixed Assets in Agriculture	P7, Big Loan	P8, Housing loans
Creation Date	1998	1998	1998	1998	Dec 2002	April, 2002	Oct, 2003	Aug, 2004
Client type (rural, urban, etc.)	registered businesses, urban	registered businesses, urban	rural, primary agriculture		rural, urban, all clients for microloan	agricultural	registered, non-agricultural businesses	rural, poor
Authorized loan size (minimum and maximum)	min. KM 5.001; max KM 10.000	min. KM 5.001; max KM 15.000	Min. KM 5.001; max KM 10.000	1st cycle up to KM 1.500; 2nd cycle up to KM 2.300; 3rd cycle KM 3.500	Min KM 300, max KM 5.000	min KM 10.001, max KM 25.000	min KM 15.000, max KM 30.000	min KM 1,000, max KM 30,000
Average disbursed loan size	6,693 KM	8,867 KM	5,177 KM	1,391 KM	2,061 KM	9,951KM	19,805 KM	4,549 KM
Authorized loan length (minimum and maximum)	min 3, max 12 months	min 3, max 24	1st cycle min 3, max 18 mths; second and next cycles min. 3, max 24 months	1st cycle: min/3, max 6m; 2nd cycle min 3, max 7m; 3rd cycle min3, max 8m	3 – 14 for agriculture, 3 – 18 for trade, production, service	min 3, max 36 months	min 12, max 36 months	max. 36
Average loan length	17	22	23	12	16	32	28	35
Grace period	0	0	max. 9 months	0	max. 6 mths for agriculture loans	max. 9 months	max. 6 months	0
Collateral requirements and other conditions	check, bill of exchange, blank payment order, salary deduction	check, bill of exchange, blank payment order, salary deduction	check, bill of exchange, blank payment order, salary deduction	group collateral	combination: salary deduction and bill of exchange	check, bill of exchange, blank payment order, salary deduction; loans > 20,000 secured with the property	check, bill of exchange, blank payment order, salary deduction; loans > 20,000 secured with the property	check, bill of exchange, blank payment order, salary deduction
Repayment Schedule (ex. weekly, monthly)	monthly	monthly	monthly	monthly	monthly	monthly	monthly	monthly
Nominal annualized interest rate	12.96%	12.72%	12.00%	12.96%	13.20%	12.00%	12.00%	6.70%
Flat or declining ?	flat	flat	flat	flat	flat	declining	flat	flat
APR	20.50%	20.10%	18.10%	20.60%	21.00%	18.60%	18.10%	20.00%
Fees and penalties	Fee 2%	Fee 2%	2% loans up to 18 mths, 2.5% loans up to 24 mths	Fee 3%	Fee 2%	Fee 2.5%	Fee 2%	Fee 1.5%
Major changes since creation (rate, size, term)	Minimal loan amount has changed from 3,000 to 5,000 KM	Minimal loan amount has changed from 3,000 to 5,000 KM	Minimal loan amount has changed from 3,000 to 5,000 KM	no changes	Maximal loan amount changed from 3,000 to 5,000 KM and term for agro loans	no changes	no changes	no changes

Financing sources

As of December 31, 2005

Loan Provider (Source)	Currency	Contracted Currency Amount	Current Amount (BAM)	Current Amount (USD)	Current Amount (EUR)	Interest Rate	Maturity	Guarantee Mechanism
OdRaz FbiH	EUR					5%	15.03.2017	Portfolio 1:1
LIP RS	EUR	2 951 391	5 772 419		2 951 391	5%	15.03.2017	Portfolio 1:1
World Vision Loan	BAM	383 469	750 000		383 469	no interest	15.10.2008	
USAID_1	BAM	13 836 876	15 299 417	150 000	-	6 month Libor	01.05.2005	Portfolio 1:1
USAID_2	BAM	1 000 000	-		-	6 month Libor	01.05.2006	Portfolio 1:1
E.U. LOAN (K.f.W.)	EUR	2 000 000	333 333		-	6 month EurLibor	31.03.2008	Portfolio 1:1
E.U. LOAN (R.L.P.)	EUR	750 000	733 436	374 202	375 000	6 month EurLibor	30.09.2008	Portfolio 1:1
E.U. LOAN (SME-EU)	EUR	200 000	234 700		120 000	6 month EurLibor	30.09.2008	Portfolio 1:1
E.U. LOAN (SME-SCH)	EUR	250 000	293 375		150 000	6 month EurLibor	30.09.2008	Portfolio 1:1
RAIFFEISEN BANK LOAN	BAM	250 000	293 375	149 681	150 000	9,45%	30.09.2008	Pledge on business space
RAIFFEISEN SHORT TERM LOAN	BAM	520 000	310 175		158 590	7,85%	Oct/Dec 2005	Cash deposit and portfolio 1:1
RAIFFEISEN Business Space Loan	BAM	4 000 000	3 512 000		1 795 657			Pledge on business space Portfolio 1:1
E.U. LOAN (K.f.W.) Srebrenica	BAM	319 600	307 600			6 month EurLibor	31.03.2009	Portfolio 1:1
USAID-LAMP	USD	500 000	684 541		350 000	no interest		
RAIFFEISEN LONG TERM LOAN	BAM	2 000 000	3 152 076	2 000 000	-	7,85%	21.06.2007	Portfolio 1:1
BLUE ORCHARD LOAN	EUR	2 600 000	2 145 455		-	7,75%	Feb, Apr 2006, Nov 2008	Portfolio 1:1
HVB Central Profit Banka	KM	1 500 000	2 933 745		1 500 000	5.8% + 6 month EurLibor	Mar-08	Portfolio 1:1 and Stand by Letter of Credit (USD125K) Portfolio 1:1
EU Loan KfW - First Contract	EUR	1 000 000	1 000 000		-	Euribor	Aug.-07	Portfolio 1:1
The World Bank Agricultural Project	EUR	500 000	391 166		200 000	4,00%	Mar 2010	
MikroVest	EUR	300 000	586 749		300 000	6% + 6 month EurLibor	May-06	Portfolio 1:1
Symbiotics	EUR	600 000	586 749		300 000	7,75%	Nov-08	Portfolio 1:1
		750 000	1 466 873		750 000			
Total:			40 787 181	2 673 883	9 484 107			

Organizational chart

