

## GIRAFE

### Rating

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

### Trend

Positive	Processes and systems in place to manage growth; profitability structure allowing to face increased cost of funding and competition on prices.
<b>Stable</b>	
Uncertain	
Negative	

### Performance indicators

(K EUR, unless otherwise stated)

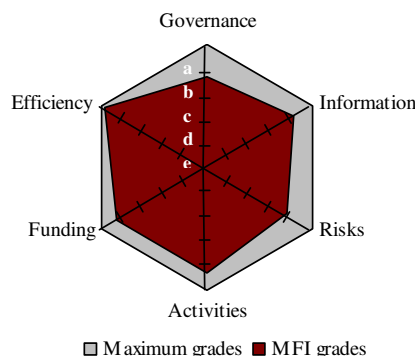
	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006*
<b>ACTIVITY</b>				
Total number of staff	39	41	57	88
Assets	6,732	8,398	14,647	19,072
Assets (K BAM)	13,167	16,425	28,648	37,302
Loan portfolio	5,636	6,924	13,154	17,353
Active loans	7,161	9,318	14,272	22,983
Active borrowers	7,161	9,210	13,013	18,122
APR**	34.0%	29.0%	29.0%	29.0%
PAR 31-365	0.2%	0.4%	0.2%	0.3%
PAR > 365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.8%	1.2%	0.8%	0.5%
Risk coverage ratio	638.2%	314.0%	602.8%	462.8%
<b>PERFORMANCE</b>				
ROE	23.4%	16.3%	24.0%	29.5%
Liabilities / Equity	1.59x	1.64x	2.39x	2.51x
ROA	9.2%	6.2%	7.8%	8.5%
OSS	148.8%	133.1%	143.1%	148.6%
FSS	130.2%	114.6%	126.7%	135.5%
Portfolio Yield	32.6%	30.8%	29.5%	28.7%
Operat. expense ratio	16.5%	18.1%	14.7%	12.7%
Staff productivity	184	225	228	206
Funding expense ratio	4.8%	3.8%	4.9%	5.6%
<b>GROWTH</b>				
Portfolio growth	34.7%	22.8%	90.0%	31.9%
Asset growth	32.2%	24.7%	74.4%	30.2%
<b>EUR/BAM</b>	<b>1.96</b>	<b>1.96</b>	<b>1.96</b>	<b>1.96</b>

\* Ratios as of Sept. 2006 have been annualized, except write-off, risk coverage, and debt to equity ratio.

\*\* Weighed average; see annexes for a detail of interest rate per product.

## MI-BOSPO, BiH

October 2006



### Description of the institution

After starting microcredit activities in 1996, the local NGO BOSPO founded MI-BOSPO in December 2000. MI-BOSPO has been part of the World Bank (WB) Local Initiatives Project (LIP) for several years and an affiliate of Women's World Banking since 1999. Headquartered in Tuzla, MI-BOSPO serves clients both in the Federation of Bosnia and Herzegovina (FBH) and in the Republika Srpska (RS), through a network of 15 branches and sub-branches. As of September 2006, MI-BOSPO has a portfolio of over 17 million EUR, serving 18,000 women of all ethnic origins.

### Rating summary

**The MFI has been assigned a global rating of A-.** MI-BOSPO is a strong regional MFI with an efficient operational structure and management, proven credit methodology and excellent portfolio quality. Through dynamic marketing, it has built a strong brand and diversified its loan products range, which are important assets to face the fierce competition from stronger national players with significantly lower prices. All performance indicators have been boosted by efficiency gains brought by the decentralization of operations and solid portfolio growth. The planned transformation into a for-profit Microfinance Company will require enhanced financial management skills for the Board and Management team while continued portfolio growth requires increased internal audits to better control all operational risks.

This grade has been given with a **Stable trend for the year to come.** All processes and systems are in place to manage the planned growth and a strong profitability provides the financial margins needed to absorb higher funding costs while gradually decreasing interest rates. A good capacity to react mitigates the existing execution risks. Important structure changes brought by the transformation as well as the expected industry consolidation will bring new competition and strategic challenges for which MI-BOSPO is not yet fully prepared and result in an **uncertain trend in the medium term.**

### Financing needs

MI-BOSPO anticipates funding needs of 14 M EUR over the next two years with 90% of the funds needed for 2007 already secured. Based on MI-BOSPO's excellent borrowing track record, strong financial performance and good monitoring, Planet Rating believes that MI-BOSPO can absorb and manage this additional funding on a commercial basis.

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## ■ Microfinance sector

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The microfinance sector in Bosnia and Herzegovina (BiH), launched in 1996 is highly developed with support from the World Bank (WB) and international NGOs. The bulk of start-up funds to the sector have been channelled 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 55 registered MFIs into 4-5 strong players mirroring the parallel trend in the general banking sector. Although there have been informal talks about mergers, there is not yet an industry-wide sense of urgency to translate words into actions. BiH 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. Another obstacle is the allocation of management staff positions following any mergers.

Both BiH entities’ parliaments have recently adopted the new microfinance law (FBH Parliament on August 30<sup>th</sup>, 2006, and RS Parliament on June 14<sup>th</sup>, 2006). The attention is now shifted to the upcoming drafting of the new bylaws by entities’ Banking Agencies and their possible application in early 2007. BiH MFIs will be given time, up to July/September 2007 to comply with the new law. 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. The two main differences between these two options are: 1) minimum capital requirement (500,000 BAM or 250,000 EUR for a company and 50,000 BAM or 25,000 EUR for a foundation); and 2) maximum loan size (50,000 BAM or 25,000 EUR for a company and 10,000 BAM or 5,000 EUR for a foundation). The law authorizes MFI mergers and acquisitions and outlines clear reporting requirements. The Law on Enterprises will also apply to newly transformed MFI companies including the requirement to pay income taxes. The MFIs will be licensed and supervised by each entity’s Banking Agency which is a step forward in terms of supervision of the sector which is presently regulated by Ministry of Finance in RS, and by Ministry of displaced persons and refugees in FBiH. Regulation is however expected to be lighter than those applied to banks given the absence of deposit taking risks.

The BiH microfinance sector is now entering an interesting phase of development where MFI managers and their Boards will have to decide soon which transformation option to take. It is expected that the vast majority of BiH MFIs will transform into for-profit companies for the following reasons: 1) most have sufficient capital which was built up from capitalized donations and retained earnings; 2) all have been extending loans exceeding 10,000 BAM (i.e. if they choose the foundation status they will have to give up substantial number of existing clients; and 3) the company status will allow the opening of the capital structure to investors which in turn reinforces their capacity to compete in the future (i.e. additional funds to finance expansion and product development). Several MFIs are in discussion with potential domestic and foreign investors to secure their participation as strategic equity partners. Merger discussions are expected to accelerate and to be more serious than before. It is likely that one or more MFIs will announce a merger within the next 6 months. The BiH microfinance sector is firmly heading toward consolidation and further commercialization. Most commercial banks, led by Raiffeisen and Hypo-Alpe-Adria (but with the notable exception of ProCredit), have chosen to get involved in the microfinance sector, either directly by “downscaling” into top-tier MFI markets, or indirectly by financing MFI portfolio growth. As of June 30<sup>th</sup>, 2006, the local banks and insurance firms provided about 76 of the 136 M BAM in outstanding exposure on commercial terms to BiH MFIs.

## ■ Political and economical environment

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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

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 data is estimated and 2006 forecasted. (\*) Excluding grants.

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

## ■ Institutional presentation

### Networks

MI-BOSPO is a member of local, state, regional, and international microfinance networks. These include the NGO Reference Group, AMFI (the local association of MFIs in BiH), Warsaw-based MFC (the Microfinance Centre for Central and Eastern Europe and NIS), and the Women's World Banking (WWB) network of associated MFIs.

### Ownership

As a local non-profit microcredit organization, MI-BOSPO has no owners. The Founder, BOSPO<sup>1</sup> started the microlending activities in March 1996 with the help of the World Bank and set the general orientation, social mission and values that the institution should respect. Per the Founding Act in 2000 and the Memorandum of Understanding in 2003, BOSPO gave up all its rights, liabilities or responsibilities in MI-BOSPO operations.

<sup>1</sup> Bosnian Committee for Help: NGO started by the Danish Refugee Council (DRC) that provided psychosocial and educational support for displaced women and children in addition to other services.

The Board of Directors is composed of seven members with finance, economics and banking backgrounds, including the Odras Foundation as an Associate Member without voting rights and, since January 2004, a Raiffeisen Bank representative as a full Board member with voting rights. The current Board receives an honorarium per meeting.

### Management team

The management team includes the Executive Director (ED), Finance Manager, Credit Manager, Marketing Manager and IT Manager. The Internal Auditor directly reports to the Board and is not a member of the management team, nor is the Human Resource Manager. The Executive Director, Nejira Nalic, has led MI-BOSPO since its genesis as a program within the NGO BOSPO. She has built the organization from scratch with the technical assistance of the World Bank and WWB. Her microfinance knowledge is drawn from on-the-job experience and complemented by several international microfinance trainings led by WWB, MFC, and LIP. Her secondary school focus was interpretation and she has prior work experience in administration, interpretation, and NGO management.

### Donations

MI-BOSPO's development has been supported by the WB-funded LIP since 1999, and by WWB starting 2002, with donations totalling 3.2 M BAM (approx. 1.6 M EUR) as of September 2006. LIP has provided a 1 M BAM loan (484 K EUR) during the first round of financing, that has been transformed into a grant in 2002, and a 5 M EUR loan during the subsequent rounds that bears a 5% interest rate and is due in 2017. In 2002, WWB provided a 500 K USD donation for capitalisation that is to be used only for loan disbursements.

### Legal form, supervision and audit

In December 2000, BOSPO microcredit program was transformed into a formal microcredit organization under the FBH law enacted July 2000, and MI-BOSPO was officially registered on December 18<sup>th</sup>, 2000 with the FBH Ministry of Social Welfare, Displaced Persons, and Refugees. MI-BOSPO is not subject to any banking supervision.

From 2000 to 2002, MI-BOSPO's accounts were audited by Revik d.o.o. Sarajevo, partner of PriceWaterhouseCoopers Netherlands. Since 2003, Deloitte & Touche performs the annual audits, and was selected after a combined tender organized by AMFI members. The auditors have always certified the accounts without reserve.

### Organization

Tuzla headquarters (HQ) centralize all management and administrative staff (general management, accounting and finance, human resources, credit manager, internal audit). Operations management has been decentralized since

February 2005, Branch Managers (BM) being responsible for one or several offices depending on the portfolio size: they are in charge of the general portfolio management (loan validation process, market evaluations, monitoring of portfolio performance and Loan Officers' work). Loans up to 7,000 BAM are validated by Branch staff, with different combination of validators depending on loan amounts (two LOs or Senior LO or BM). Loans of higher amounts still require HQ validation.

All operations involving cash handling (disbursements and repayments) are made through the local partner bank teller windows. All Branches are connected to a VPN and have permanent access to the central database, located at HQ. Client data are directly entered by LOs at the local office. Disbursement and repayment data are entered at HQ by data entry clerks and instantly available for all staff.

### Market penetration

MI-BOSPO operates through a network of 15 offices located in the North Eastern part of BiH. MI-BOSPO's traditional operating area is the Tuzla Canton in FBH, where 8 offices are located, currently covering most municipalities. Since 2003, the network has been extended to the Eastern part of the RS, with openings in Bijeljina, Brčko, Zvornik, Srebrenica and Prnjavor.



### Products and services

*For more details about the products, please see Annexes.*

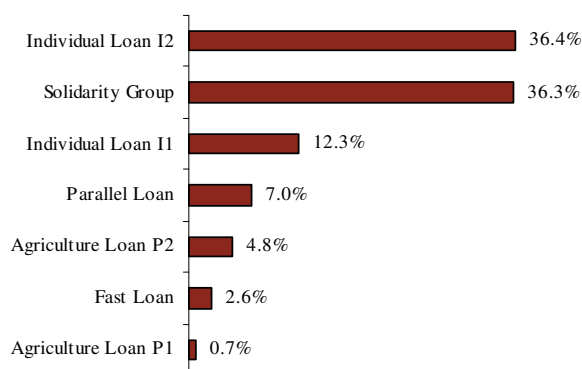
Solidarity group loans were for several years the only product offered by MI-BOSPO. The product offering was expanded in 2001 with the introduction of an individual loan product. An agricultural loan product launched in 2002 with a notably lower interest rate is disbursed in only two branches. Incentives for repeated clients have been

introduced since 2001 and enhanced in 2004. They now include reduced interest rates, longer terms, grace periods, lighter guarantee requirements and parallel loans. Parallel loans<sup>2</sup> have been introduced in 2004 and refined in 2006 with the introduction of seasonal loans. All loans are repaid monthly; interest rates are computed on the declining balance and loans do not bear any additional fees which make the pricing very transparent for clients.

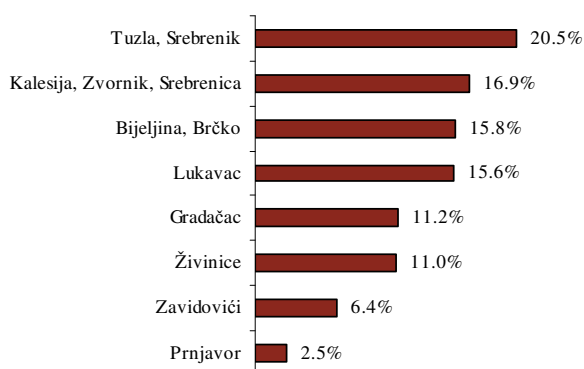
- Group loans are capped at 3,000 BAM (1,500 EUR) per person, with terms ranging from 1 to 24 months. The APR is 31% for the first cycle and can go down to 20% for repeated clients.
- Individual loans are capped at 30,000 BAM (15,000 EUR) with terms ranging from 1 to 36 months. The initial APR of 31% can go down to 20% for loyal clients. Co-signers and/or guarantors are required. Physical collateral might also be provided.
- Agricultural loans are capped at 20,000 BAM (10,000 EUR), for terms up to 36 months with a maximum grace period of 6 months and APR of 24%. This loan is only disbursed in two branches. A smaller agricultural loan, capped at 3,000 BAM (1,500 EUR) in solidarity group is provided in all branches. Lighter APR (24% to 28%) and longer grace period are the main differences with the non-agricultural loans.
- Since 2004, repeated clients can ask for Parallel loans starting the 5<sup>th</sup> month of their initial loan, for total instalment amounts not exceeding 60% of their net income, and capped at 5,000 BAM (2,500 EUR). Terms are up to 6 months and repayments schedules are flexible, with an up to 5 months grace period. They bear an interest rate of 30% per year.
- Fast loans up to 1,500 BAM (750 EUR) are available for all clients that can provide either guarantors working in state-owned company or a solid property pledge. They can be repaid in 2 to 5 months and bear higher interest rate of 33%.
- Since August 2006, MI-BOSPO also started marketing fixed pre-approved 500 BAM (250 EUR) family/ seasonal loans that are offered to pre-selected existing clients. These loans are designed to meet consumption needs such as summer vacations, school tuitions (in autumn) or home heating (during winter). Terms are between 6 and 10 months, without grace period. The interest rate is of 31%.

<sup>2</sup> Loans provided for clients that already have an outstanding loan

Portfolio per product - Sept.2006



Portfolio per region - Sept.2006



## ■ Governance

Governance and Decision Making is rated « b »

### Decision-making

Board members have little to no experience in microfinance<sup>3</sup>, which leads them to rely on the experienced ED and limits their balancing power. This imbalance in the decision-making process is compensated by frequent inputs from international microfinance experts and an intense participation of the management team in the decisions. The team holds well-structured and efficient quarterly meetings during which the main strategic decisions are discussed and taken. Board approval is required for all strategic decisions (business plan, budget, funding contracts) as well as for procedures validation. The good level of commitment of the Board, allowed for a timely and well-documented decision-making.

A stronger Board, with additional microfinance, finance or business backgrounds, would however be needed given the complex challenges ahead (e.g. change in legal status, ownership issues, potential merger, development of new financial services, increased competition). The Board has

<sup>3</sup> Except for the LIP representative that has no voting rights.

indeed made the important decision that the institution would transform into a for-profit entity and look for new shareholders, within a time-frame of one to two years. The existing organization will be transformed into a Foundation under the new Law and will remain one of the shareholders of the new for-profit entity. This transformation process is inherently risky but is a great opportunity for MI-BOSPO to strengthen its governance and capital structure, and reinforce the skills and systems that will ensure that the institution remains competitive. MI-BOSPO's institutional profile, good performances and strong identity will certainly attract investors, notably (but not only) socially-oriented ones, but MI-BOSPO did not yet enter into any precise negotiation with potential future partners, while other MFIs are better prepared with have transformation and/or consolidation plans clearly laid out. Some ground work has already been done to definite the ideal profile of the new shareholder(s) and new shareholding structure, but important decisions remain to be made during 2007 that will shape the future identity of the institution and be key to the preservation of the mission of the institution.

MI-BOSPO management and Board have quality management information regarding financial and portfolio performance. MI-BOSPO is noteworthy for its careful analysis of competitors, market size, market share, etc. The institution also has a practice of open communication with regards to performance and strategy. All staff receives via email the monthly financial report and are frequently informed of major initiatives.

### Planning

MI-BOSPO has an efficient and participatory planning process with yearly workshops that gather all management team, strategic partners and some Board members. The institution's situation is thoroughly analyzed with specific attention given to the identification of internal and external risks related to its operations.

The current business plan (2004-2007) clearly defined the roadmap to strengthen and deepen MI-BOSPO's strategic positioning in its current low-end market and expand it to a wider base of all women-led or supported businesses in the north-eastern regions of BiH. MI-BOSPO has demonstrated a good capacity to efficiently implement this plan, with all strategic projects either finalized or well advanced:

- Exclusive focus on women maintained: This constitutes a key element of MI-BOSPO's mission and image and is also considered to be a good way to differentiate, and keep the credit risk at a low level.
- Decentralization of operations: the new organizational structure and procedures have been rolled out in 2005 and provide quicker client service and increased efficiency.
- Improvement of product offering: products have been revised to introduce greater flexibility and increase client

loyalty. A marketing department has been put in place in 2005 in order to further adapt products to clients' needs, and develop new lines of products.

- Intensification of the outreach within the current geographical area: in line with the plan, an increased penetration in MI-BOSPO's current service area accounts for the majority of the portfolio growth (six satellite offices have been added to existing branches during the planning period). One branch was opened in 2005 in Prnjavor but only accounts for 5% of portfolio growth in 2005 and 3% in 2006<sup>4</sup>.

This strategy increases MI-BOSPO's exposure to competition, with a smaller portion of the portfolio in the quite preserved niche of solidarity group lending<sup>5</sup>. This high competition risk is well identified and specifically addressed in the plan with relevant efforts on marketing (e.g. market analysis, product design and promotion).

The first draft projections have been worked out for the 2007-2010 period based on optimistic assumptions in terms of portfolio growth (+40% on average over the next 4 four years), while keeping the institution's regional focus. These projections will be refined before the end of the year with more market and operational inputs in order to validate their feasibility. MI-BOSPO has indeed demonstrated its capacity to grow as fast as and even faster than the market over the past year but issues related to market saturation have to be addressed with related risks efficiently prevented (over-lending, portfolio quality deterioration).

Despite some improvements over the last year, MI-BOSPO still faces difficulties in the production of precise operational projections, with targets largely exceeded in 2005 and likely to be so in 2006 (+90% portfolio growth achieved in 2005 compared to +60% planned; revised targets for 2006 at +32% almost already been achieved as of Sept. 2006 and thus likely to be exceeded). This derives from an underestimation of the efficiency gains brought by the decentralization, as well as a "targets are there to be exceeded" mindset. While this did not negatively affect the institution thanks to a good monitoring and timely adoption of revised plans, it makes it difficult to precisely predict the financing needs and financial performance which becomes increasingly important as margins get reduced by the competitive pressure. The active participation of Branch Managers in the 2007 planning process might improve the quality of the projections.

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<sup>4</sup> As of Sept. 2006.

<sup>5</sup> Prizma set up an office in Tuzla in mid-2005 which should significantly increase the competition in the low-end market.

### **Management team**

The management structure is strong given the current size of the organization and can still handle significant growth, even though increasingly complex environment and operations (diversified product range, increased competition and soon to come for-profit status) set the need for constantly upgraded skills, notably in product development, MIS management or financial modelling and forecasting. The managers are experienced, efficient, eager to learn and have adopted international best practices for their work culture and performance. Several members do not have the educational or professional background anticipated in the job descriptions, but all have acquired good technical skills via on-the-job training, participation to conferences and workshops and assistance from international experts provided by the WB or WWB on specific issues (internal audit, product design, financial management, capital markets, marketing).

The roles of each manager are clearly defined and the team is properly organized. The ED plays a preponderant role in the institution's development and strategic orientation but her participatory management style efficiently limits this key person risk. Other managers participate in key negotiations (mergers, funding) and are called to work on issues not ordinarily under their charge in "cross-functional" teams or based on individual competencies. Branch Managers are being well coached to become an efficient middle management interface between HQ and field staff, taking part in all crucial processes for their branch (recruitment and evaluation of staff, planning, marketing). They have been provided all the necessary tools to monitor and pilot the operations.

The team has been working together for several years, having grown into their respective positions via internal promotion. Communication within the team is excellent.

### **Human resource management**

MI-BOSPO invested very early in a Human Resource Manager, creating the position in 2000 when there were only 20 employees. Given the limited size of the structure and the fact that most procedures are well defined and now running smoothly, the vacancy of the HR manager position during almost a year in 2005/2006 did not prove to be a major problem. The new HR manager, nominated in September 2006, arrives in time for the definition of the new training program and management of staff annual evaluation.

MI-BOSPO has built its motivated team through clear recruitment procedures, favourable pay scale for field staff along with a well-designed bonus system, internal promotion of staff in key management roles and on-going training. The strong work culture for high quality

performance is a notable characteristic at MI-BOSPO, as well as the attention given to staff well-being.

- A salary structure that has been implemented in 2004 after a year-long negotiation greatly satisfies staff and fosters staff loyalty. It however significantly increased the operational costs (LO salaries increased by 24% from 2003 to 2004) and has been revised in 2004 to introduce a lower level for freshly recruited LO until they reach a normal productivity.
- Since internal promotion opportunities will be limited in the future (BM positions have been staffed, geographic expansion will be limited in the near future), MI-BOSPO has instituted non-financial motivation schemes.
- The annual staff evaluation process includes self-evaluations and evaluations by supervisors. It has been in place for two years and Branch managers are now familiar with the process and provide really valuable input for the improvement of staff skills.

Staff turnover has been at a relatively high level over the past three years (>10%) and is mainly due to movements in LO positions. With MFIs maturing and becoming more and more efficient, LOs have interesting profiles both for banks and expanding MFIs that can offer them more promotion opportunities and/or perceived stability.

	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006*
Total number of staff	39	41	57	88
% Credit officers	56%	59%	61%	63%
Turnover*	5%	13%	14%	10%

\* The ratio for Sept. 2006 is not annualized.

## Information

**Information and equipment** is rated « a »

### Description of the MIS

Equipment	<ul style="list-style-type: none"> <li>▪ 33 computers and 8 laptops (the norm is one computer for two persons in each local office and one laptop per leadership team member).</li> <li>▪ VPN connection between HQ and the branches.</li> </ul>
Accounting	<ul style="list-style-type: none"> <li>▪ FINK: BiH software.</li> <li>▪ Centralized accounting process; daily reconciliation with bank statements and loan tracking system.</li> <li>▪ Monthly financial statements including amortization and provisions.</li> </ul>
Portfolio information	<ul style="list-style-type: none"> <li>▪ MIB2004: Internally developed software, Visual Fox Pro based.</li> <li>▪ On-line connection of all branches to the central database. Instant access to up-to-date information.</li> <li>▪ Loan files entered by LOs or branch assistants, with electronic validation system; disbursements and repayment information entered at HQ based on bank statements and verified at HQ.</li> </ul>

### Management Information System (MIS) and equipment

The fully computerized information system handles all steps of the loan processing (loan evaluation and approval

process, contracting, collateral registration, disbursements, repayments), produces all documents and reports that LOs, and BMs use in their day-to-day work and provides all needed information to monitor the activities. The accounting software is basic but sufficient given that the internal MIS manager has added a report generation module for financial statements production, with links to the loan tracking system for ratio calculations. All branches now have an on-line connection with the HQ database which allows permanent access to up-to-date information for branch and HQ staff.

The risk of data loss is effectively mitigated by extensive back-up and storage procedures: daily back-ups of data on the server hard disks and on the MIS Manager laptop, weekly back-ups stored in the bank safe. All important paper documents are either stored in locked rooms or in safes.

The information flow is designed to ensure a strong level of control with an effective separation of duties, several check points and daily reconciliations between portfolio tracking and accounting data. Even though the system has never been “fraud tested”, the risk of data manipulation is thus reasonably low.

The information system is continuously being improved. Modifications required by a change in procedures or products can easily be implemented by the internal MIS manager. Modules have recently been developed to ease the liquidity management process, marketing efforts and HR management. However, the organization has been changing at a fast pace and the MIS Manager has been overwhelmed with projects over the past few years: information needs related to new loan products have not always been fully anticipated and MIS improvements not sufficiently prioritized which led to delays on important MIS projects while non-strategic modules could have been subcontracted.

The MIS Manager, who has developed the loan tracking system, has all the necessary skills to manage the MIS. The key person risk for this position remains high even if MI-BOSPO has produced efforts to reduce it:

- The software’s specifications have been documented and an electronic version of the MIS source code is also stored in the bank safe which limits the risks of destruction of the software.
- A new IT staff has been hired and has been trained for MIS programming.

### Information on activities

The portfolio information is accurate and instantly available. Numerous reports or indicator calculations are preset in the system or could easily be added if deemed necessary. Key data on outstanding and disbursed loans as well as portfolio quality and guarantors are readily available by loan officer, by office or consolidated. The quality of the reporting per

loan product would however need to be adapted to the development of “parallel” loan products in order to refine the evaluation of the portfolio quality.

The information is widely disseminated, both internally (all staff has at least read-only access to the system, receives a monthly report in their e-mailbox and discusses performances during their monthly meetings with their manager) and externally (donor reports, annual report on the web site).

The very rich information about clients is stored in a database (business evaluations, credit history, etc.) and is frequently analyzed. Studies on client segmentation and impact have given hints on ways to improve the dataset that is being created and might in the future be used for a more efficient management of social performance.

#### **Financial and accounting information**

Financial information is timely and of high quality. The external auditor always certified the accounts without reserve and never mentioned any major problems regarding the accounting information. MI-BOSPO produces monthly financial statements with calculations of reserves, loan write-offs and amortization expenses. The financial statements conform to microfinance best practices and facilitate performance ratio calculations and analysis.

Financial performance is closely monitored by the finance team and discussed during management team meetings. This includes calculation of key ratios and monthly comparisons of actual performance vs. targets. The profitability by LO and office now complements this already very rich set of ratios and BMs have been trained to be more and more involved in the analysis of their branch’s profitability.

A more detailed analysis of the profitability per product would now be necessary given the development of products with different yields and cost structures in order to be able to define with more precision the optimal level of interest rates for each product.

## ■ Risks

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**Risks Management** is rated « **b** »

#### **Procedures and internal controls**

MI-BOSPO has an appropriate control of most risks, through comprehensive and detailed operational procedures for both individual and solidarity groups, as well as good compliance culture. Procedures updates are regular and well shared by all, through frequent meetings at branch level between Loans Officers (LO) and Branch Managers (BM). Good segregation of duties and double checks at all levels further strengthens the effectiveness of risk control: loan data entry is done by LOs, and systematically checked by

the BM; different LOs are appointed for business analysis and loan disbursements; repayment data entry is done at HQ by dedicated IT staff.

Procedures related to the prevention of fraud, such as LO rotation (procedure that already exists for BM) could however be reinforced for a better coverage of operational risks.

As in most BiH MFIs, cash management risk is fully passed on to banks and clients: all loan disbursements and repayments are done through banks, which also separates cash handling from other credit tasks.

#### **Internal audit**

Internal Audit currently covers all areas of risks, including those related to management functions as well as compliance to law, covenants of funding agreements and BOD’s strategic decisions. The Internal Auditor is independent and reports directly to a supportive BOD, who approves Internal Audit plans at year end, and follows up on audit-related matters.

Internal Audit reports are clear and detailed, with appropriate recommendations focusing on procedure improvements. They are handed to the ED and Credit Manager who are in charge of corrective actions. Current Internal Audit procedures and tools (various forms and questionnaires, often provided by BOD or by external consultants) are comprehensive and combine different type of audits, but they still need to be further documented in a separate IA Manual.

The Internal Auditor identified and tracks helpful indicators to monitor the quality of LO work (e.g. early repayments, cross-guarantors, use of parallel loans to repay previous instalments), but there still is not enough emphasis on some credit and operational risks, despite an increase in the number of branch visits to 2 per year and per branch. The number of audited clients is still low as compared to the industry standards (less than 2% of clients’ visits, 2.5% of checked files) and, even though the Internal Auditor selects the clients to be visited, the actual visits are mostly performed by Branch Managers which does not guarantee a complete independence of this control. One new internal auditor has recently been added to the team, which will allow the Internal Audit department to keep up with the growth of the portfolio, but might not be sufficient to increase the level of control, especially if the activity keeps growing at a faster pace than planned.

The supervision is complemented with annual LIP monitoring visits and the comprehensive work of external auditors. Deloitte & Touche external audits follow IFRS and IAS and financial statements have been certified without

qualifications. As there is no internal audit of the IT function, external auditors will perform an IT audit in 2007 to cover any information system-related risk.

## ■ Activities

**Activities: products and services** is rated « a »

<b>K EUR, unless otherwise stated</b>	<b>Dec. 2003</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Sept. 2006</b>
Loan portfolio	5,636	6,924	13,154	17,353
Loan portfolio (K BAM)	11,023	13,542	25,726	33,940
Evolution	34.7%	22.8%	90.0%	31.9%
Avg. outstanding loan port.	4,966	6,102	10,039	15,311
Number of active loans	7,161	9,318	14,272	22,983
Evolution	30.2%	30.1%	53.2%	61.0%
Number of active borrowers	7,161	9,210	13,013	18,122
Evolution	30.2%	28.6%	41.3%	39.3%
Average outstanding loan per borrower	787	752	1,011	958
% of GDP per capita	44.3%	38.7%	54.3%	49.3%
Average amount disbursed per loan	1,178	1,125	1,138	944
% of GDP per capita	66.3%	57.7%	54.3%	45.1%
Rescheduled loans	0.2%	0.6%	0.1%	0.0%
PAR 31-365	0.2%	0.4%	0.2%	0.3%
PAR > 365	0.0%	0.0%	0.0%	0.0%

### 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 June 2006, the 14 largest MFIs were serving over 150,000 clients. The microfinance portfolio outstanding is estimated around 180 M EUR. This is in addition to the commercial banks' microfinance portfolio with the largest share attributed to ProCredit Bank BiH with over 25,000 micro-credit clients and an estimated portfolio of over 55 M EUR in June 2006.

The major ongoing trends are:

- MFIs going aggressively into rural areas providing agriculture-related loans;
- MFIs extending loan terms to around 36 months (until the new law allows longer terms);
- MFIs looking at product diversification directly (e.g. housing loans) or in partnerships with other financial institutions (e.g. selling insurance products, indirect mobilizing deposits, but these non-core activities have not really taken off for any MFI);
- Certain commercial banks “downscaling” 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.

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 resulting from increased industry competition and client over-indebtedness.

MI-BOSPO is a strong medium-sized regional player in the BiH market with a clear strategy to exclusively target women<sup>6</sup>, even if many of the funded businesses are family businesses headed by men. Whether through marketing, active promotion, first-mover advantage in certain areas or quality of service, MI-BOSPO has achieved a good penetration of its target market (estimated by MI-BOSPO to be approx. 15% for 2005 and 21% for 2006<sup>7</sup>), has developed a good client loyalty (retention rate of 75% in 2005 and 73% in 2006) and increased its market share from 8% in 2004 to 12% as of June 2006 in terms of number of clients and from 6% to 8% in terms of loan portfolio outstanding.

MI-BOSPO offers flexible loan products with interest rate and guarantee requirement schemes meant to foster client retention. Products however do not differ much from one institution to another (loan terms and amounts are pretty similar) and competition mainly relies on interest rates, collateral requirement and speed of disbursement. While MI-BOSPO is relatively well positioned on the last two factors, the smaller size of the institution remains a handicap in terms of pricing when compared to MIKROFIN, EKI and PARTNER, its main competitors in its area of service (see table below)<sup>8</sup>. Several MFIs are intensifying their presence in MI-BOSPO's traditional regions of North-Eastern BiH (Mikrofin with 8 offices, Prizma with 6, Mikra with 4, Women for Women with 2), which further reinforces the needs for differentiated products and competitive loan conditions.

In this context, product development and marketing have been focal points in the last few years

- Several studies (client segmentation, drop-out analysis, new products and service quality) have been conducted to

<sup>6</sup> The main signatories of the loans are exclusively women.

<sup>7</sup> These figures are based on population estimates since the last census available in Bosnia dates from before the war. This data could be significantly changed if more accurate data became available.

<sup>8</sup> It is however to be noted that clients logically seem to be more sensitive to price on higher loan amounts, that do not constitute so far the majority of MI-BOSPO's portfolio.

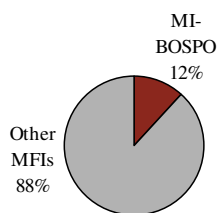
better understand the client needs and launch products fostering greater client retention: in 2006, the innovative pre-approved family loans with low risk profile encountered great success; solidarity loans for pairs, along with MI-BOSPO positioning, allowed it to keep its group loans growing, while other MFIs are progressively concentrating on individual loan products. The product launch process however needs to be refined with greater analysis of the impact on the organization and notably the MIS.

- The creation of a strong brand and institutional identity are also seen as important elements of Mi-BOSPO’s growth plan. The new Marketing Manager (position created in 2005) has, among other things, developed numerous promotion tools for both the institution and its loan products: leaflets and posters, promotion tours, pre-renewal calls, 10-year events with clients, and charity work.

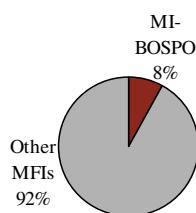
Data in BAM, as of June 2006*	Active borrowers	Average loan size	Portfolio yield
Sinerjiga	5,585	3,598	21%
Mikrofin	23,725	3,029	20%
LOKmicro	8,115	3,015	29%
Partner	24,699	2,723	23%
EKI	24,799	2,600	22%
Mikra*	8,752	2,226	26%
Sunrise	15,146	2,194	31%
Benefit	9,187	2,043	23%
<b>MI-BOSPO</b>	<b>19,446</b>	<b>1,637</b>	<b>29%</b>
Prizma	15,806	1,213	24%
Mikro Aldi	4,201	1,052	28%
<b>Average</b>	<b>14,496</b>	<b>2,605</b>	<b>25%</b>

\*Source: LIP, June 2006; Prizma, Aldi and Mikra, MiX 2005.

Market share by Number of Active clients – June 2006



Market share by Gross loan portfolio – June 2006



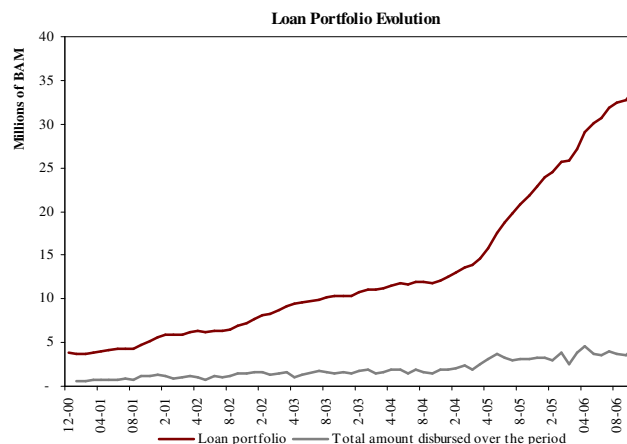
**Credit methodology**

A careful client selection and well-established credit methodology have proved efficient to manage a fast growing portfolio while keeping the credit risk at a minimal level. Credit procedures are appropriate, well documented, and frequently updated. The loan application is adequately reviewed by one or two LOs depending on the loan size, with a good cash flow analysis and a business analysis that is currently being revised to better cope with bigger loans (with enhanced gross margins and sales prices calculation). The response to delinquency is fast. The parallel loan methodology has been appropriately designed to optimize

the outstanding loan for clients with a good credit and repayment history. An increased awareness of clients’ cross-indebtedness has led to a systematic check of loans above 3,000 BAM with the Credit Bureau. As many funded businesses are headed by men, the credit history of the applicants’ husbands is also checked, and husbands have to co-sign the loan agreement for a family business.

LOs are committed to the institution. They are either focused on group or individual loans and are provided appropriate initial training, as well as on-going training on new procedures. Their performance is closely monitored with multiple indicators complementing the usual portfolio size and portfolio quality indicators (e.g. retention rate). So far, there was no specific training on topics related to loan evaluation, but following a training session with a dedicated consultant, a new comprehensive manual on business analysis is currently being drafted, and should further improve client selection once staff is fully trained. Branch Managers have all the needed tools to evaluate their branch performance and provide the Credit Manager with detailed monthly reports that include all necessary indicators as well as a useful analysis of the context and underlying explanations.

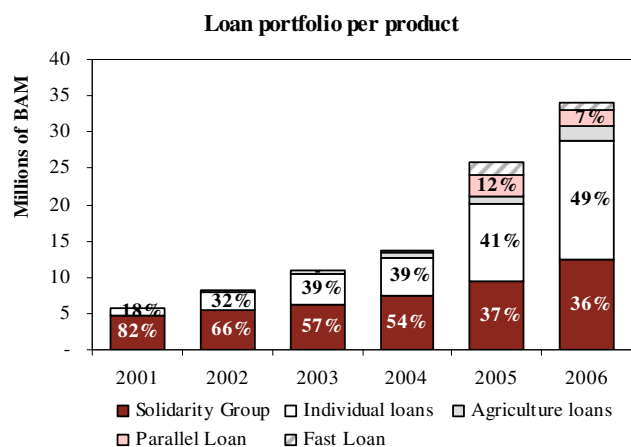
**Portfolio Evolution**



MI-BOSPO’s portfolio has experienced high percentages of growth, peaking at 90% in 2005 and reaching 32% as of September 2006. This growth reflects a general growth of all products and is due to i) significant market demand ii) higher penetration rates through the development of the offices network in areas already served and iv) decentralisation that allowed LOs to dedicate a significantly higher amount of their time on new clients search.

Reflecting the increasing demand for individual loans on the BiH market, Solidarity Group weight decreased from 82% in 2001 to stabilize around 37% in 2005 and 2006. Yet, it is still significantly growing at a 30% pace in absolute amounts over the past two years, reflecting MI-BOSPO’s strong

position on the low-end market (commonly used as an entry point in new markets). Agriculture loans are still available in only two offices, thus growing at a slower rate than other products.



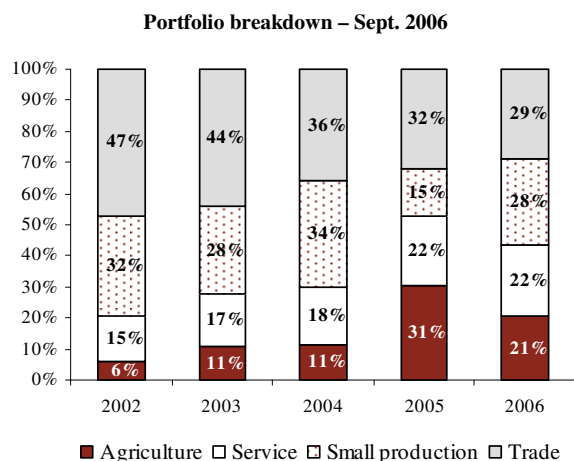
**Portfolio quality**

Despite fast growth, increased competition, and decreasing loan penalties (from 2% to 0.04%), MI-BOSPO has managed to keep an excellent portfolio quality, and has been maintaining its PAR > 31 at less than 0.4% since 2001. Such a result is typical of the BiH market, but is also due to tight portfolio management. PAR 1-30 target is set below 1%, and despite some fluctuations within the month (around the repayment date), delays are usually minor and quickly dealt with.

It is nevertheless important to note that if a Parallel loan is late, the system currently does not include the initial loan when computing the PAR, potentially leading to a lower ratio. It is however not a major issue so far since Parallel loans have a PAR > 31 as low as 0.5%, and only account for 7% of total portfolio and 12.3% of total PAR > 31.

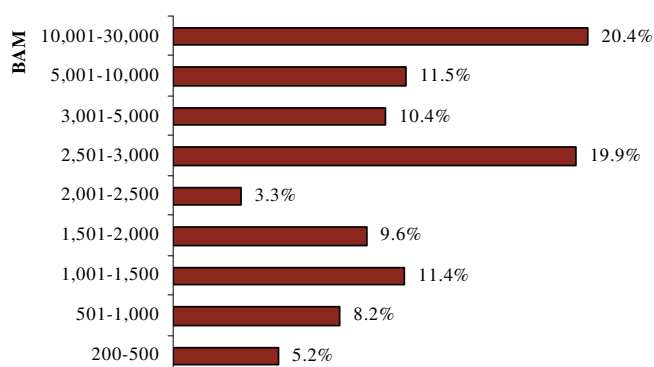
**Portfolio diversification**

There still are neither formal diversification policies nor targets, even if information on clients’ activities is available. Thanks to the product mix, and as shown below, the portfolio breakdown by type of activity has however evolved over the years to become adequately diversified.



Loans above 10,000 BAM account for over 20% of total portfolio. The new microfinance law caps loan amount to 10,000 BAM for non-for-profit Microfinance Foundations, a status that MI-BOSPO is likely to have to adopt for a transition period before transforming to a for-profit structure<sup>9</sup>. MI-BOSPO might thus have to figure out a mechanism to serve these clients during the transition period or replace one fifth of its current portfolio.

**Loan portfolio by initial loan amount - Sept. 06**



**Write-off**

	Dec. 03	Dec. 04	Dec. 05	Sept. 06*
Write-off ratio	0.8%	1.2%	0.8%	0.5%

\* The ratio for Sept. 2006 has not been annualized

Due to excellent portfolio quality, write-off ratio is minimal, although MI-BOSPO conservatively writes off all loans over 90 days in arrears on a monthly basis.

**Credit risk coverage**

	Dec. 03	Dec. 04	Dec. 05	Sept. 06
Risk coverage ratio (%)	638.2	314.0	602.8	462.8
PAR 31 net of loan loss provision / Equity	<0	<0	<0	<0

MI-BOSPO also has a very conservative provisioning policy, as required of LIP program participants: provisions

<sup>9</sup> MFIs in the Federation of Bosnia and Herzegovina might not be allowed to transform directly to a for-profit microfinance company.

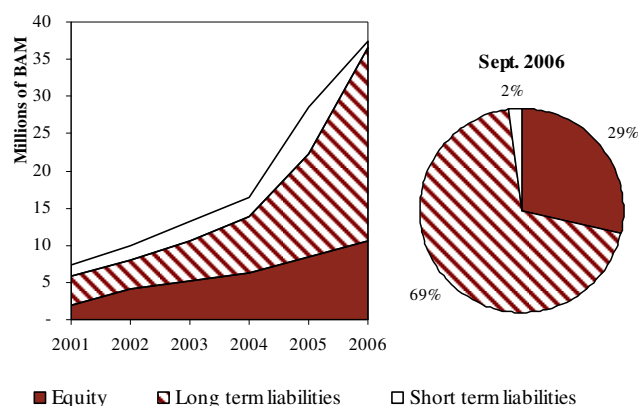
are based on healthy portfolio and result in a more than adequate coverage level.

Requested collateral guarantees provide additional risk coverage, although their enforcement is not easy, guarantors being used as a pressure means rather than being an actual source of payments. MI-BOSPO uses solidarity groups, salary withholdings, bills of exchange and movable property as collateral for the loans, but does not fully check guarantors capacity to face their obligations (guarantor indebtedness, multiple or cross-guarantees are not systematically checked).

## ■ Financing and liquidity

Financing and liquidity is rated « a »

Funding structure



	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006
Liabilities / Equity	1.59x	1.64x	2.39x	2.51x

### Capital structure & Leverage

Being a non-deposit taking MFI, MI-BOSPO funds its activities essentially with equity (29%) and debts (71%). Equity capital is made of retained earnings (7.5 M BAM) and of donations received over the years (3.2 M BAM, predominantly coming from LIP and WWB). Debt funding is made of short-term (2%) and long-term borrowings (69%), with LIP loans' weight gradually decreasing to only 20% of liabilities: the proportion of long-term borrowings has substantially increased in 2006, as a result of the recent renegotiations of several contracts or newly secured long-term debts.

### ALM risks

There still is no formal Asset Liability Management (ALM) policy, but ALM risks are identified and have been generally controlled so far.

Interest Mismatch	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006
Funding expense ratio	4.8%	3.8%	4.9%	5.6%
Portfolio yield	32.6%	30.8%	29.5%	28.7%

Floating rate liabilities	Outst. amount (BAM)	% of assets	Rate
As of Sept. 2006			
KfW	233,721	0.6%	EURIBOR
HVB/Central Profit Bank	260,000	0.7%	1mEURIBOR+ 5%
Raiffeisen Bank	500,000	1.3%	6mEURIBOR+ 5.25%
Raiffeisen Bank	725,758	1.9%	6mEURIBOR+ 5.45%
Raiffeisen Bank	1,600,000	4.3%	6mEURIBOR+ 4.95%
<b>Total</b>	<b>3,319,479</b>	<b>8.9%</b>	

MI-BOSPO is exposed to interest rate risk as 11.6% of its debt (8.9% of assets) is on a floating rate basis (mainly Raiffeisen EUR loans). This risk should be monitored, especially as the underlying EURIBOR benchmark has been

moving up since mid-2005 (3.6% in October 2006 compared to 2.1% in mid-2005). It is nevertheless mitigated by high spread between the overall funding expense ratio and the portfolio yield.

Maturity Mismatch (K BAM)	As of Sept. 2006			
	1-30 days	31-90 days	91-365 days	> 1 year
Assets	4,800	5,691	16,865	8,564
Liabilities	736	83	4,646	21,257
Gap	4,064	5,608	12,219	(12,694)
<b>Cumulated gap</b>	<b>4,064</b>	<b>9,672</b>	<b>21,891</b>	<b>9,198</b>

There is no maturity risk, as the cumulated financial assets constantly exceed financial liabilities, whether on the short or on the long run. This risk is not expected to change, given that average portfolio term is of 13 months while a substantial part of the borrowings is on a much longer term basis (5.5 years on a weighted average basis).

FX Mismatch (BAM)	As of Sept. 2006		
	BAM	EUR	USD
Assets by currency	34,750,500	1,168,808	736
Liabilities by currency	3,548,938	23,173,622	-
<b>Gap</b>	<b>31,201,562</b>	<b>(22,004,814)</b>	<b>736</b>

MI-BOSPO is exposed to foreign exchange risk (with 87% of its borrowings labelled in EUR) despite BAM/EUR fixed peg that has not changed since EUR introduction. Although BiH governments seem to prudentially manage the economy, internal or external shocks can change this currency peg. This risk is contractually transferred to the client, but a severe devaluation would test its limits. Again as MI-BOSPO looks forward towards transformation, ALM risks will have to become an important item for management consideration.

### Financing strategy

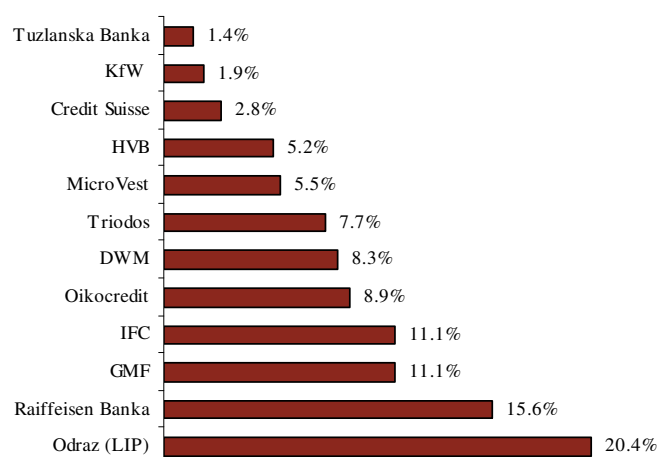
MI-BOSPO has achieved a solid funding structure with a varied investor base. It has a good anticipation of its funding needs, and the ED has been leading a very active and successful funding search: growth was never limited by the lack of funds; currently disbursed or approved loans (such as Triodos, GMF, DWM, or IFC) provide sufficient visibility; and several additional loans are under negotiation with prominent microfinance fund providers, and should cater for future growth. As a result of a diversified funding mix, very good credit track record, and increased negotiation abilities, the institution has managed to lower both interest rates and guarantee requirements and increase loan terms when renewing its borrowings (Oikocredit, MicroVest, GMF).

Although MI-BOSPO has surpassed its ECA peers in terms of leverage (respectively 2.5x and 1.7x), it still has some additional debt absorption capacity.

Given its current growth targets and loan contracts conditions, MI-BOSPO plans to reach a debt/equity ratio of

4:1 in June 2008. The institution has defined this level as the maximum prudential leverage ratio and is getting organized to transform into a Microcredit Company and raise additional equity before that date. Such a time frame will allow the Finance Department, which so far has no experience of such operations, to define a clear strategy for its future capital structure, build its knowledge on equity investments and define suitable investors' profiles (based on multiple criteria such as alignment with MI-BOSPO's mission, knowledge of the BiH market, ROE expectations, etc.).

Loan providers 2002-2006



### Liquidity management

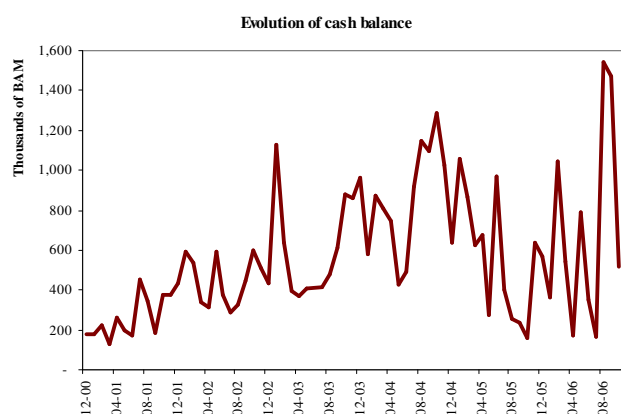
MI-BOSPO has good annual and monthly cash flow projections with details per branch, and all tools are in place to ensure efficient day-to-day cash management: disbursement plans per LO are followed on a weekly basis; forecasts of daily repayments are calculated for each bank account thanks to a new dedicated MIS application<sup>10</sup> and budgets include monthly plans of operating expenses.

The liquidity process is fast and responsive. Top managers have all been granted an access to the new e-banking system, which has fostered decisions' effectiveness. The number of bank accounts is soon going to be decreased from 12 to 6 in order to further ease daily liquidity management. Yet, investors' requirements (separate bank accounts, minimum amount of overdraft) still prevent a full optimization of cash management.

The cash to assets ratio is excellent, and has been below 1.5% since 2005. Thanks to better planning of loan disbursements and to overdraft facilities, the average cash balance has been decreasing since the last 2005 quarter (from 850 K BAM in average to 550 K BAM, although it

<sup>10</sup> Historic daily balances are however not available for *post facto* efficiency analysis.

has slightly increased in 2006 due to DWM loan disbursement).



## ■ Efficiency and Profitability

Efficiency and Profitability is rated « a »

Profitability analysis	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006*
ROE	23.4%	16.3%	24.0%	29.5%
Liabilities / Equity	1.6x	1.6x	2.4x	2.5x
ROA	9.2%	6.2%	7.8%	8.5%
<b>Profit generation</b>				
Operational self-sufficiency	148.8%	133.1%	143.1%	148.6%
Portfolio Yield	32.6%	30.8%	29.5%	28.7%
Operating expense ratio	16.5%	18.1%	14.7%	12.7%
Staff productivity**	184	225	228	206
Loan officer productivity**	326	384	372	329
Loan officer productivity***	326	388	408	418
Average outstanding loan per loan (EUR)	787	752	1,011	958
Funding expense ratio	4.8%	3.8%	4.9%	5.6%
Cost of liabilities	5.8%	5.2%	6.6%	7.3%
Loan Loss Provision expense ratio	1.2%	1.3%	1.2%	1.1%
PAR 31-365	0.2%	0.4%	0.2%	0.3%
Write-off ratio	0.8%	1.2%	0.8%	0.5%
<b>Asset management</b>				
Outstanding Loan Portfolio / Assets	82.6%	81.3%	88.7%	89.8%
Non-portfolio income as a % of financial revenues	0.6%	0.6%	0.4%	0.2%

\* Ratios as of Sept. 2006 have been annualized.

\*\* Clients per staff and clients per loan officer

\*\*\* Loans per LO officer

### Overview of the profitability

After a dip experienced in 2004, due to the combined effects of a declining portfolio yield and an increase of LO salaries, the profitability indicators resumed their upward trend, thanks, essentially, to economies of scale provided by high portfolio growth rates reported for 2005 (+90%) and expected for 2006 (+40%; 32% already reached as of Sept. 2006). The ROA stood at 7.8% for 2005 and should slightly increase for 2006, while the ROE reached the very comfortable level of 24% in 2005 and might reach 30% for 2006 thanks to a constantly increased leverage ratio (from 1.6 in 2003 to 2.5 as of Sept. 2006).

### Portfolio yield

The portfolio yield follows a downward trend over the period (from 34.8% in 2002 to 29.5% in 2005 and 28.7% as of Sept. 2006) due to several interest rate cuts decided by the management to make the institution's products more competitive and stick to MI-BOSPO's social mission. At the end of 2001, MI-BOSPO introduced a declining interest scale as clients go from cycle to cycle<sup>11</sup> and the interest rate on first cycles was lowered from 36% to 33% in 2002 and down to 31% in 2006. For 2006, this pricing scheme and the introduction of new parallel products with higher interest rates (33%) resulted in a portfolio yield of 28.7%, in line with the average interest rate charged on the portfolio (28%). This evolution is closely monitored in order not to put the institution's sustainability at risk, and the portfolio yield is expected to gradually decrease to reach 25% in 2008.

### Operating expense ratio

Thanks to constant improvements in staff and LO productivity (calculated in average loan portfolio per LO), brought notably by the decentralization of loan operations, the operating expense ratio is on a downward trend (16.5% in 2003, 12.7% in Sept. 2006) with a temporary increase in 2004 due to the important raise in LO salaries that was decided in late 2003 (+24%). LO productivity calculated in number of loans has been trending upward over the period and reached 418 in Sept. 2006 thanks to efficiency gains reached through decentralized loan approval procedures, introduction of new pre-approved parallel loans and to the increase of the average loan term (from 11,51 months in 2003 to 13,27 months as of Nov. 2006). The downward trend of the LO and staff productivity in terms of number of clients finds its roots in the decreasing proportion of group loans in the portfolio. The operating expense ratio is expected to be further lowered to reach 11% in 2008.

### Funding expense ratio

The funding expense ratio has been increasing since 2004 (from 3.8% in 2004 to 5.6% as of Sept. 2006) given that the growth of the portfolio has been essentially funded on commercial loans that bear interest rates between 7.3% and 9%. Given the important subsidized funding received from LIP, that still represents a fourth of the total liabilities, the average cost of funds only stands at 7.3%, despite a constant increase over the period. Given the target funding structure envisioned by MI-BOSPO (leverage of 4:1), the funding expense ratio could reach levels of approximately 6.7% in the near future.

<sup>11</sup> Interest rates decrease by 1% at each new cycle for clients without repayment problems with a minimum interest rate of 20%.

**Asset management**

93% of the non-restricted assets<sup>12</sup> are invested in the portfolio and the rest is either in fixed assets (for a reasonable 3.6%) or in cash for 1.4% which reflects very efficient asset management procedures. Given the fact that short term investments with attractive rates are not available in Bosnia, MI-BOSPO has chosen to optimize its liquidity levels thanks to overdraft facilities negotiated with several local banks.

**Adjusted performance**

*Details concerning the specific adjustments are included in the annexes*

According to Planet Rating's adjustment methodology, MI-BOSPO has achieved financial self-sufficiency. The adjustment expense ratio of 2.7% in 2005 is attributable to the standard adjustments of the cost of funds, inflation, loan loss provisions, and in-kind donations. The cost of funds adjustment accounts for 73% of these adjustment expenses, since the adjustment for the other items is minimal. Please note that the shadow cost of funds was lowered from 12% in 2002 to 10% in 2003, 9.2% in 2004 and 9% in 2006 to take into account the fact that MI-BOSPO was able to access funds at 8 to 9% during the last year. The other years were not changed to allow comparability with our previous reports about BiH MFIs.

	Dec. 03	Dec. 04	Dec. 05	Sept. 06
Adjustment expense ratio	3.2%	3.8%	2.7%	1.9%
AROE	16.6%	8.3%	16.8%	23.7%
AROA	6.5%	3.2%	5.5%	6.9%
Financial self-sufficiency	130.2%	114.6%	126.7%	135.5%

**Profitability outlook**

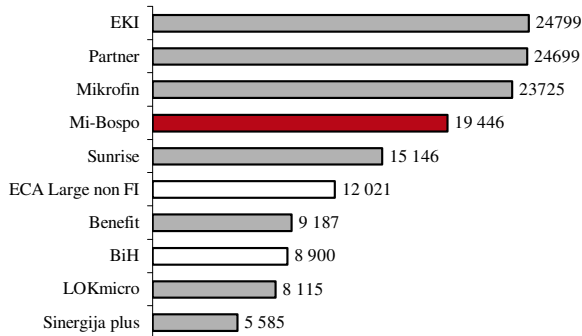
MI-BOSPO has demonstrated its ability to successfully expand into new markets and is well prepared to struggle for client loyalty. With higher profitability levels than its major competitors as well as a reserve for additional efficiency gains through marginal increases in LO productivity and in average amount lent, MI-BOSPO should be able to respond positively to the competitive pressure for interest rate cuts without endangering its sustainability. The institution also has room for more sophistication in the definition of interest rate per product, and could certainly optimize its revenues while improving the competitiveness of the institution on the highest segments of portfolio.

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

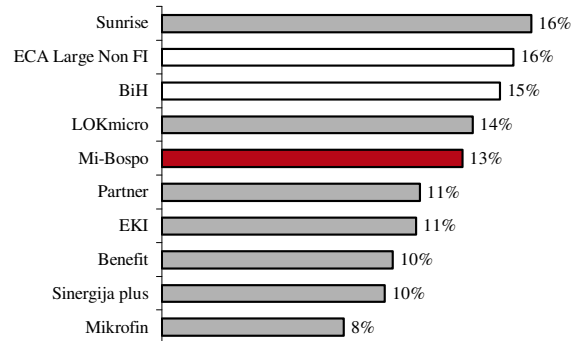
<sup>12</sup> 1 M BAM long term investment guarantees Raiffeisen loans and may not be used for on-lending purposes. They are originated from a Deutsche Bank loan and the WWB capitalization fund.

## Benchmarking

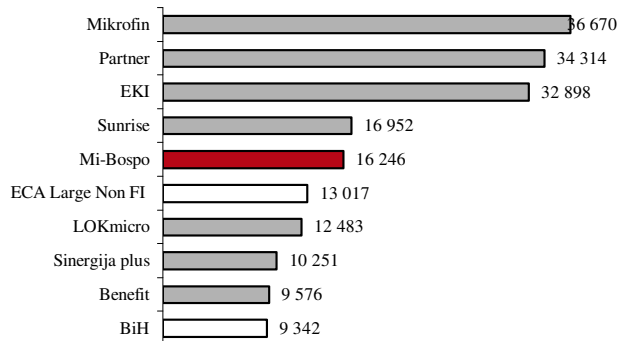
Number of active borrowers



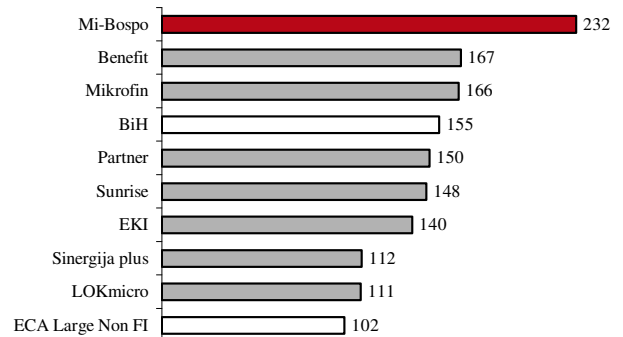
Operating expense ratio



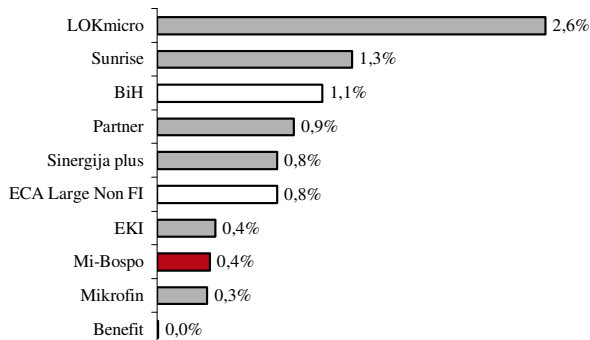
Gross portfolio outstanding in K EUR



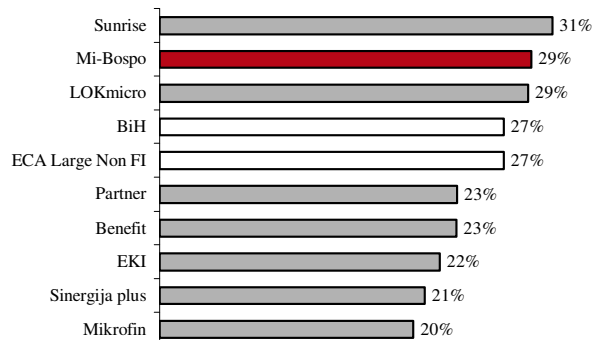
Staff productivity



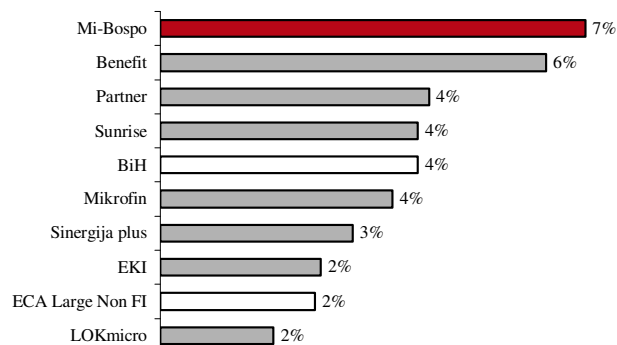
PAR 31 -365 days



Portfolio Yield



ARO



**Source:**

**Bosnian MFIs:**

LIP data as of June 2006

**MBB Peer groups; benchmarks 2005 (medians)**

**BiH:** BENEFIT, EKI, LIDER, LOKmicro, MI-BOSPO, Mikra, Mikro ALDI, MIKROFIN, Partner, Prizma, SinergijaPlus, Sunrise, Women for Women

**ECA Large non FI:** ACBA, Agroinvest, Benefit, BESA, EKI, FINCA - KOS, FMCC, FORA, Fundusz Mikro, KAFC, KEP, KLF, KMB, LOKmicro, MFBA, MI-BOSPO, MIKROFIN, Moznosti, Partner, PRIZMA, ProCredit - MDA, PSHM, SINERGIJAplus, Sunrise, Valyut-Transit.

## ■ Annexes

### Acronyms

ALM	Asset/Liability Management
APR	Annual Percentage Rate
BAM	Konvertible Marka, Bosnian Currency
BiH	Bosnia and Herzegovina
BM	Branch Manager
BOD	Board of Directors
EBRD	European Bank for Reconstruction and Development
ED	Executive Director
EFSE	European Fund for South-Eastern Europe
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
IFRS	International Financial Reporting Standard
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
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	Information technology
KfW	German Development Bank
LIBOR	London Interbank Offered Rate
LIP	Local Initiative Project (WB funded project for Bosnian MF)
LO	Loan officer
MIS	Management Information System
MF	Microfinance
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
SME	Small and medium sized enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
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

- The MFI follows the CGAP disclosure guidelines.
- The financial statements presented include a balance sheet, income statement, and accompanying notes.
- The financial statements provided include 5.5 years of data. 2001 to 2005 data has been audited. Partial year 2006 is not.
- Segment Reporting for Multiservice Microfinance Institutions: not applicable as MI-BOSPO 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 each December by the finance manager according to the methodology described in the table.

Provisioning methodology	Rate
Healthy portfolio	1%
Rescheduled	n.a.
less than 30 days	20%
31 – 60 days	60%
61 – 90 days	80%
more than 91 days	100%
over 365 days	100%
Write-off amount	100% after 90 days

4.3 Loans are written off every month from the loan loss reserve and the loans outstanding.

4.4 The following table reconciles these movements:

BAM	Dec. 03	Dec. 04	Dec. 05	Sept. 06
Loan loss reserve, January 1 <sup>st</sup>	97,038	147,180	184,185	314,982
+ Loan loss provision expense	124,201	179,348	280,815	266,575
- Provision reversal	-	-	-	-
- Loans written off during the year	74,058	142,343	150,018	150,657
<b>Loan loss reserve, year end</b>	<b>147,181</b>	<b>184,185</b>	<b>314,982</b>	<b>430,900</b>

4.5 Accrual vs. Cash accounting: accrued interest on loans to clients and borrowings from banks are calculated on a monthly basis;

#### 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: Rescheduled loans are tracked separately in the IT system.

BAM	Dec. 03	Dec. 04	Dec. 05	Sept. 06
Rescheduled loans	18,878	78,451	21,152	15,530

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: 60,087 BAM.

6.3 Donations accounting methodology: All grants are recorded in the income statement and income from donations is clearly identified 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: Donations since 1996 are detailed in the table below.

Donor	Amount BAM	Purpose
ODRAZ / LIP	1,182,372	Capitalisation
WWB	1,048,482	Capitalisation and operating costs
UNHCR	479,036	Capitalisation
CWS (Church World Service)	145,600	Capitalisation
SEEP	108,616	Capitalisation
UMCOR	79,145	Efficiency improvement
Various donations	76,235	
DRC / Fresta	25,471	Operating costs
<b>Total</b>	<b>3,144,956</b>	

## 7 Details of liabilities

7.1 Loans are listed in a table at the end of the report.

7.2 Deposits: not applicable as it is not allowed by law.

## 8 Other significant Accounting Policies

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

Asset Class	Rate
Computers and other equipment	25%
Vehicles	16%
Furniture	11% - 20%
Buildings	1.3%

8.2 Inflation accounting: none.

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

8.4 Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: 837 BAM in 2005 in Other Operating Revenues, and 1,434 BAM in 2004 in Other Financial Expenses.

## Adjustments

	Dec. 03	Dec. 04	Dec. 05	Sept. 06
<b>Adjustment for the cost of funds = (a*b)-c</b>	<b>285,473</b>	<b>340,921</b>	<b>387,788</b>	<b>302,109</b>
Average amount of borrowings (a)	6,873,503	8,727,783	14,704	23,034
Shadow price of borrowings (b)	10.0%	9.2%	9.2%	9.0%
Interest expense on borrowings (c)	401,877	457,671	965,041	1,252,737
<b>Adjustment for inflation = (d-e)*f</b>				
Avg. Equity (d)	4,548,652	5,652,371	7,338,488	9,544,109
Average fixed assets (e)	365,275	612,528	1,015,709	1,309,177
Inflation rate (f)	0.6%	0.4%	1.0%	1.9%
<b>Adjustment for in-kind donations</b>	<b>-</b>	<b>88,402</b>	<b>77,213</b>	<b>-</b>
Staff and technical assistance	-	88,402	77,213	-
<b>Adjustments for provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loan losses	-	-	-	-
Other risks	-	-	-	-
<b>Other adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total adjustments</b>	<b>310,574</b>	<b>449,482</b>	<b>528,228</b>	<b>419,457</b>
Net income before donations	1,064,635	921,245	1,757,917	2,114,201
Adjusted net income before donations	754,062	471,762	1,229,689	1,694,745
<b>Adjusted net income before donations (EUR)</b>	<b>385,546</b>	<b>241,208</b>	<b>628,730</b>	<b>866,509</b>

MI-BOSPO Balance sheet	Notes	BAM					EUR					Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006	2004/2003	2005/2004	2006/2005
<b>ASSETS</b>		<b>9,960,732</b>	<b>13,166,845</b>	<b>16,425,410</b>	<b>28,647,561</b>	<b>37,301,796</b>	<b>5,092,841</b>	<b>6,732,101</b>	<b>8,398,179</b>	<b>14,647,265</b>	<b>19,072,106</b>	<b>24.7%</b>	<b>74.4%</b>	<b>30.2%</b>
<b>Short Term Assets</b>		<b>8,356,728</b>	<b>11,124,195</b>	<b>13,495,086</b>	<b>20,243,784</b>	<b>26,997,176</b>	<b>4,272,727</b>	<b>5,687,711</b>	<b>6,899,928</b>	<b>10,350,482</b>	<b>13,803,437</b>	<b>21.3%</b>	<b>50.0%</b>	<b>33.4%</b>
Cash and Due from Banks		436,206	578,047	1,055,916	364,950	517,102	223,029	295,551	539,881	186,596	264,390	82.7%	(65.4%)	41.7%
Short Term Investments		-	-	-	103,516	103,516	-	-	-	52,927	52,927	-	-	0.0%
Short Term Net Loan Portfolio		7,797,470	10,398,400	12,232,252	19,390,272	25,825,716	3,986,783	5,316,617	6,254,251	9,914,089	13,204,479	17.6%	58.5%	33.2%
Short Term Gross Loan Portfolio (Loan Loss Reserve)		7,894,508	10,545,580	12,416,437	19,705,254	26,256,617	4,036,398	5,391,869	6,348,423	10,075,136	13,424,795	17.7%	58.7%	33.2%
Interest Receivable		97,038	147,180	184,185	314,982	430,900	49,615	75,252	94,172	161,048	220,316	25.1%	71.0%	36.8%
On loan portfolio		121,559	147,328	169,595	309,554	400,487	62,152	75,328	86,713	158,272	204,766	15.1%	82.5%	29.4%
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		1,493	420	37,323	75,492	150,354	763	215	19,083	38,598	76,875	8,786.4%	102.3%	99.2%
<b>Long term assets</b>		<b>1,604,004</b>	<b>2,042,650</b>	<b>2,930,324</b>	<b>8,403,777</b>	<b>10,304,621</b>	<b>820,114</b>	<b>1,044,390</b>	<b>1,498,251</b>	<b>4,296,783</b>	<b>5,268,669</b>	<b>43.5%</b>	<b>186.8%</b>	<b>22.6%</b>
Long Term Net Investments		1,104,363	1,042,650	1,101,716	1,054,243	1,331,817	564,652	533,098	563,298	539,026	680,947	5.7%	(4.3%)	26.3%
Long Term Gross Loan Portfolio		291,274	477,818	1,125,734	6,020,991	7,682,993	148,926	244,304	575,579	3,078,484	3,928,252	135.6%	434.9%	27.6%
Net Fixed Assets		208,367	522,182	702,874	1,328,543	1,289,812	106,536	266,987	359,374	679,273	659,470	34.6%	89.0%	(2.9%)
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>9,960,732</b>	<b>13,166,845</b>	<b>16,425,410</b>	<b>28,647,560</b>	<b>37,301,796</b>	<b>5,092,841</b>	<b>6,732,101</b>	<b>8,398,179</b>	<b>14,647,265</b>	<b>19,072,106</b>	<b>24.7%</b>	<b>74.4%</b>	<b>30.2%</b>
<b>Liabilities</b>		<b>5,948,158</b>	<b>8,082,115</b>	<b>10,205,398</b>	<b>20,190,596</b>	<b>26,670,542</b>	<b>3,041,245</b>	<b>4,132,320</b>	<b>5,217,937</b>	<b>10,323,288</b>	<b>13,636,432</b>	<b>26.3%</b>	<b>97.8%</b>	<b>32.1%</b>
Short term liabilities		1,913,896	2,529,296	2,651,775	6,370,558	744,018	978,559	1,293,209	1,355,831	3,257,215	380,410	4.8%	140.2%	(88.3%)
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		1,783,500	2,376,424	2,451,736	6,062,955	260,000	911,889	1,215,046	1,253,553	3,099,940	132,936	3.2%	147.3%	(95.7%)
Interest payable		-	-	36,866	109,228	228,721	-	-	18,849	55,847	116,943	-	196.3%	109.4%
Accounts Payable and Other Short Term Liabilities		130,396	152,872	163,173	198,375	255,297	66,670	78,162	83,429	101,428	130,531	6.7%	21.6%	28.7%
Long term liabilities		4,034,262	5,552,819	7,553,623	13,820,038	25,926,525	2,062,685	2,839,111	3,862,106	7,066,073	13,256,022	36.0%	83.0%	87.6%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		4,034,262	5,552,819	7,074,587	13,820,038	25,926,525	2,062,685	2,839,111	3,617,179	7,066,073	13,256,022	27.4%	95.3%	87.6%
Other Long Term Liabilities		-	-	479,036	-	-	-	-	244,927	-	-	-	(100.0%)	-
<b>Equity</b>		<b>4,012,574</b>	<b>5,084,730</b>	<b>6,220,012</b>	<b>8,456,964</b>	<b>10,631,253</b>	<b>2,051,597</b>	<b>2,599,781</b>	<b>3,180,242</b>	<b>4,323,977</b>	<b>5,435,674</b>	<b>22.3%</b>	<b>36.0%</b>	<b>25.7%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity		2,384,275	2,391,796	2,605,833	3,084,869	3,144,956	1,219,060	1,222,906	1,332,341	1,577,268	1,607,991	8.9%	18.4%	1.9%
Retained earnings without donations and reserves		1,628,299	2,692,934	3,614,179	5,372,096	7,486,297	832,536	1,376,875	1,847,900	2,746,709	3,827,683	34.2%	48.6%	39.4%
Current year		676,060	1,064,635	921,245	1,757,080	2,114,201	345,664	544,339	471,025	898,381	1,080,974	(13.5%)	90.8%	20.3%
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-

MI-BOSPO Income Statement	Notes	BAM					EUR					Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Sept. 2006	2004/2003	2005/2004	2006/2005
<b>Financial Revenue (a)</b>		<b>2,339,658</b>	<b>3,248,227</b>	<b>3,701,117</b>	<b>5,840,690</b>	<b>6,464,827</b>	<b>1,196,248</b>	<b>1,660,792</b>	<b>1,892,351</b>	<b>2,986,297</b>	<b>3,305,414</b>	<b>13.9%</b>	<b>57.8%</b>	<b>10.7%</b>
Financial Revenue from Loan Portfolio		2,291,268	3,168,999	3,677,707	5,756,790	6,435,190	1,171,507	1,620,283	1,880,382	2,943,400	3,290,260	16.1%	56.5%	11.8%
Interest on Loan Portfolio		2,281,430	3,150,017	3,661,669	5,735,941	6,418,450	1,166,477	1,610,578	1,872,181	2,932,740	3,281,702	16.2%	56.6%	11.9%
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		9,838	18,982	16,038	20,849	16,739	5,030	9,705	8,200	10,660	8,559	(15.5%)	30.0%	(19.7%)
Financial Revenue from Investments		-	20,938	23,410	22,310	13,057	-	10,705	11,969	11,407	6,676	11.8%	(4.7%)	(41.5%)
Other Operating Revenue		48,390	58,290		61,590	16,580	24,741	29,803		31,490	8,477	(100.0%)	-	(73.1%)
<b>Financial Expense (b)</b>		<b>366,351</b>	<b>463,283</b>	<b>459,369</b>	<b>965,041</b>	<b>1,252,737</b>	<b>187,312</b>	<b>236,873</b>	<b>234,872</b>	<b>493,418</b>	<b>640,514</b>	<b>(0.8%)</b>	<b>110.1%</b>	<b>29.8%</b>
Interest paid on borrowings		256,954	401,877	457,671	965,041	1,252,737	131,378	205,476	234,003	493,418	640,514	13.9%	110.9%	29.8%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		109,397	61,406	1,698			55,934	31,396	868			(97.2%)	(100.0%)	-
<b>Financial income [c=a-b]</b>		<b>1,973,307</b>	<b>2,784,944</b>	<b>3,241,748</b>	<b>4,875,649</b>	<b>5,212,090</b>	<b>1,008,936</b>	<b>1,423,919</b>	<b>1,657,479</b>	<b>2,492,880</b>	<b>2,664,899</b>	<b>16.4%</b>	<b>50.4%</b>	<b>6.9%</b>
<b>Net Loan Loss provision expense (d)</b>		<b>66,658</b>	<b>117,161</b>	<b>155,278</b>	<b>243,794</b>	<b>244,734</b>	<b>34,082</b>	<b>59,903</b>	<b>79,392</b>	<b>124,650</b>	<b>125,130</b>	<b>32.5%</b>	<b>57.0%</b>	<b>0.4%</b>
Loan loss provision expense and write-off		74,469	124,201	179,348	280,815	266,575	38,075	63,503	91,699	143,578	136,298	44.4%	56.6%	(5.1%)
Recovery from Loans written off		7,811	7,040	24,070	37,021	21,842	3,994	3,599	12,307	18,929	11,167	241.9%	53.8%	(41.0%)
<b>Operating expense (e)</b>		<b>1,230,589</b>	<b>1,603,148</b>	<b>2,165,225</b>	<b>2,873,938</b>	<b>2,853,155</b>	<b>629,190</b>	<b>819,676</b>	<b>1,107,062</b>	<b>1,469,421</b>	<b>1,458,795</b>	<b>35.1%</b>	<b>32.7%</b>	<b>(0.7%)</b>
Personnel Expense (includes fringe)		785,430	1,091,315	1,562,318	1,691,888	1,765,457	401,584	557,980	798,801	865,049	902,664	43.2%	8.3%	4.3%
Administrative Expense (non-staff operating expenses)		445,159	511,833	602,907	1,182,050	1,087,698	227,606	261,696	308,261	604,373	556,131	17.8%	96.1%	(8.0%)
Depreciation and amortization		38,612	56,667	70,188	120,691	151,411	19,742	28,973	35,887	61,708	77,415	23.9%	72.0%	25.5%
Consulting fees		90,674	45,302	121,694	207,839	92,678	46,361	23,163	62,221	106,266	47,385	168.6%	70.8%	(55.4%)
Rental costs		56,665	67,828	79,416	70,988	69,516	28,972	34,680	40,605	36,296	35,543	17.1%	(10.6%)	(2.1%)
Travel costs		28,750	14,496	15,712	16,638	16,638	14,700	7,412	8,033	8,507	8,507	8.4%	(100.0%)	-
Bank fee		42,170	55,658	67,235	121,318	153,090	21,561	28,457	34,377	62,029	78,274	20.8%	80.4%	26.2%
BOD fees		31,726	23,281	28,836	22,816	n.a.	16,221	11,903	14,744	11,666	n.a.	23.9%	(20.9%)	-
Accrued interest written off		-	-	225	1,414	228	-	-	115	723	117	-	528.4%	(83.9%)
Others		156,562	248,601	219,601	636,984	604,136	80,049	127,108	112,280	325,685	308,890	(11.7%)	190.1%	(5.2%)
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>676,060</b>	<b>1,064,635</b>	<b>921,245</b>	<b>1,757,917</b>	<b>2,114,201</b>	<b>345,664</b>	<b>544,339</b>	<b>471,025</b>	<b>898,809</b>	<b>1,080,974</b>	<b>(13.5%)</b>	<b>90.7%</b>	<b>20.3%</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>676,060</b>	<b>1,064,635</b>	<b>921,245</b>	<b>1,757,917</b>	<b>2,114,201</b>	<b>345,664</b>	<b>544,339</b>	<b>471,025</b>	<b>898,809</b>	<b>1,080,974</b>	<b>(13.5%)</b>	<b>90.7%</b>	<b>20.3%</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>676,060</b>	<b>1,064,635</b>	<b>921,245</b>	<b>1,757,917</b>	<b>2,114,201</b>	<b>345,664</b>	<b>544,339</b>	<b>471,025</b>	<b>898,809</b>	<b>1,080,974</b>	<b>(13.5%)</b>	<b>90.7%</b>	<b>20.3%</b>
Donations (l)	1	1,493,292	7,521	214,037	479,036	60,087	763,508	3,846	109,435	244,927	30,722	2,745.7%	123.8%	(87.5%)
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>2,169,352</b>	<b>1,072,157</b>	<b>1,135,282</b>	<b>2,236,116</b>	<b>2,174,289</b>	<b>1,109,172</b>	<b>548,185</b>	<b>580,460</b>	<b>1,143,736</b>	<b>1,111,696</b>	<b>5.9%</b>	<b>97.0%</b>	<b>(2.8%)</b>

Notes:

1) Subordinated loan from UNHCR converted in equity.

MI-BOSPO	Product 1	Product 2	Product 3	Product 4	Product 5	Product 6	Product 7
Name of the product	Solidarity Group	Individual Loan I1	Individual Loan I2	Agriculture Loan P1	Agriculture Loan P2	Parallel Loan	Fast Loan
Creation Date	1997	2001	2001	2002	2002	2004	2004
Client type (rural, urban, etc.)	Low income women entrepreneurs who have business activity or intend to start income generating activities	Low income women entrepreneurs who run income generating activities	Women entrepreneurs who have developed micro and small businesses or are active in family businesses which accumulate profit	Low income women entrepreneurs who deal with agriculture activities that generate income	Women who have actively participated in agricultural activities for three years. Activities are of larger scale.	Women from 18 to 65	Women from 18 to 65
Authorized loan size (minimum and maximum)	no minimum, max 3,000 BAM per group member	no minimum, max 3,000 BAM	min 5,000 BAM max 30,000 BAM	no minimum, max 3,000 BAM	min 5,000 BAM, max 30,000 BAM	no minimum, max 5,000 BAM	no minimum, max 1,500 BAM
Average disbursed loan size	1,645	1,871	7,797	2,172	7,095	2,041	743
Authorized loan length (minimum and maximum)	1 to 24 months	1 to 24 months	1 to 36 months	1 to 24 months	1 to 36 months	1 to 10 months	1 to 12 months
Grace period	no	no	up to 3 months	no	up to 6 months	up to 5 months	up to 4 months
Collateral requirements and other conditions	Solidarity Group	Co-signers, guarantors, collateral	Co-signers, guarantors, collateral, bill of exchange	Co-signers, guarantors	Co-signers, guarantors, collateral, bill of exchange	Co-signers, collateral	Co-signer
Repayment Schedule (ex. weekly, monthly)	monthly	monthly	monthly	monthly	monthly	monthly	monthly
Nominal annualized interest rate	20%-31%	20%-31%	20%-28%	28%	24%	30%	33%
Flat or declining ?	declining	declining	declining	declining	declining	declining	declining
Fees and penalties	No fees Daily penalty of 0.04% on the whole loan amount for late payments	No fees Daily penalty of 0.04% on the whole loan amount for late payments	No fees Daily penalty of 0.04% on the whole loan amount for late payments	No fees Daily penalty of 0.04% on the whole loan amount for late payments	No fees Daily penalty of 0.04% on the whole loan amount for late payments	No fees Daily penalty of 0.04% on the whole loan amount for late payments	No fees Daily penalty of 0.04% on the whole loan amount for late payments
Major changes since creation (rate, size, term)	Since creation SG loan has lived many changes. Interest rate was decreased, loan amounts increased at the beginning but since individual loan was introduced SG amounts were decreased and now are limited to 3000 KM. Term was increased.	Since creation: -Interest rate was decreased -Loan amounts limited (decreased) -Term was increased -Shorten procedure for repeated loans	Since creation: -Interest rate decreased -Loan amount increased -Term increased -New collateral introduced -Grace period introduced	No major changes	Since creation: -Loan amounts increased -Term was increased -New collateral introduced	This loan can be taken after the 5th installment has been paid. Loan is limited to amount that equals half current loan size.	

**Financing sources**

As of September 30, 2006

Loan Provider (Source)	Currency	Contracted Amount (BAM)	Contracted Amount (EUR)	Outstanding Amount (BAM)	Interest Rate	Duration
Fondacija Odraz / LIP	EUR	7,220,406	3,683,881	7,220,406	5,00%	15 years
IFC	BAM	3,911,660	1,995,745	-	8,60%	3 years
DWM	BAM	2,933,745	1,496,809	2,933,745	7,80%	5 years
TRIODOS	BAM	2,738,162	1,397,021	2,738,162	8,80%	3 years
Oikocredit II	EUR	1,955,830	997,872	1,955,830	8,00%	5 years
Global Microfinance Facility	BAM	1,955,830	997,872	1,955,830	8,50%	3 years
Global Microfinance Facility	BAM	1,955,830	997,872	1,955,830	8,25%	3 years
MicroVest	BAM	1,955,830	997,872	1,955,830	8,00%	3 years
Raiffeisen banka	EUR	1,600,000	816,327	1,600,000	6 m EURIBOR + 4,95%	3 years
Raiffeisen banka	EUR	1,500,000	765,306	-	7,30%	2 years
HVB/Central Profit banka	EUR	1,450,000	739,796	-	6 m EURIBOR +5%	1 year
Oikocredit I	EUR	1,173,498	598,723	1,173,498	8,8%	2 years
Raiffeisen banka	EUR	1,000,000	510,204	-	7,5%	1 year
Credit Suisse	BAM	977,915	498,936	977,915	8,30%e	18 months
KfW	EUR	684,541	349,256	233,721	EURIBOR	5 years
Raiffeisen banka	EUR	583,333	297,619	466,667	6 mj EURIBOR +5,45%	3 years
Raiffeisen banka	EUR	500,000	255,102	500,000	6 mj EURIBOR +5,25%	3 years
Tuzlanska banka	BAM	500,000	255,102	-	7,9%	1 year
HVB/Central Profit banka	EUR	400,000	204,082	260,000	1 mj EURIBOR +5%	1 year
Raiffeisen banka	EUR	345,455	176,253	259,091	6 mj EURIBOR +5,45%	3 years
<b>Total</b>		<b>35,342,035</b>	<b>18,031,651</b>	<b>26,186,525</b>		

**Organizational chart**