

Žene za žene International, Bosnia and Herzegovina

Žene za žene International (Women for women International, ZZI) microfinance activities started in 1997 as a project of the US-based humanitarian NGO Women for Women International (WWI). WWI split its financial and non-financial services in 2001, thus establishing ZZI as a separate local Micro Credit Organization. Following the 2006 law on microfinance, ZZI is presently waiting to get registered as a Micro Credit Foundation. ZZI is based in Sarajevo with 2 regional offices, 4 field offices and 18 satellites, covering rural and urban areas in northern and southern parts of BiH. It offers both individual and group loans, and had 8,878 active borrowers and an outstanding portfolio of 11.8 M BAM (6 M EUR) as of December 2007.

GIRAFE Rating

Rating

B-

Outlook

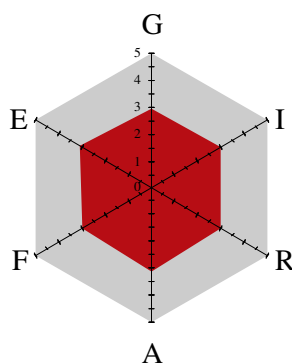
Stable

Date of the rating

January 2008

Valid until December 2008

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

The GIRAFE methodology was modernized. Changes have no impact on the meaning of the rating. More information on www.planetrating.com

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Rating highlights

- ZZI has been steadily profitable since 2002 (ROA and ROE respectively standing at 5.2% and 11.4% in 2007), thanks to decreasing operating expenses and despite growing funding expenses and declining portfolio yield.
- Portfolio quality is improving but remains average by BiH standards (PAR=1.5% and write-off =2%), which is partly due to the delinquent individual loans.
- ZZI has historically grown at a slower pace than the market and presently holds a 1.4% market share. It entered a more dynamic phase starting 2005, thanks to a willful management team and adequate recourse to diversified commercial funds.
- The management team is in the process of being strengthened to keep up with growth and diminish present key-person risks, notably with the recruitment of an Internal Auditor.
- Though its actual planning could be more precise and better articulated, ZZI is aware of the most significant challenges lying ahead, including potential market consolidation, recruiting operational staff with appropriate skills, enhancing its MIS, refining its individual methodology and product development process, reducing its PAR, and optimizing its liquidity management and funding strategy.

Outlook

- The “Stable” trend is underpinned by the expectation that ZZI will strengthen its management team, refine its individual methodology, decrease its relatively high interest rates as its current competitive advantages erode, and maintain a good level of profitability in a context of growing over-indebtedness and fierce competition.

Performance indicators

EUR	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Assets	1,271,685	1,478,808	1,758,743	2,550,529	4,061,488	6,270,813
Growth	43.4%	16.3%	18.9%	45.0%	59.2%	54.4%
Loan portfolio	1,066,672	1,218,979	1,097,855	2,408,688	3,574,796	5,914,259
Growth	24.8%	14.3%	(9.9%)	119.4%	48.4%	65.4%
Active borrowers	2,169	2,676	2,871	5,265	6,556	8,878
Staff	13	12	18	24	42	58
ROE	23.1%	20.7%	11.9%	15.2%	8.0%	11.4%
ROA	7.3%	9.1%	6.1%	9.8%	5.0%	5.2%
Liabilities / Equity	2.01x	0.90x	1.00x	0.35x	0.80x	1.56x
Portfolio Yield	32.4%	31.7%	34.2%	35.7%	32.9%	30.6%
Operating expense ratio	23.7%	19.4%	24.9%	22.0%	20.0%	18.1%
PAR 31-365	2.9%	3.1%	2.0%	1.3%	1.4%	1.5%
Write-off ratio	0.4%	2.1%	3.8%	0.9%	2.7%	2.0%

Microfinance sector

The microfinance sector in Bosnia and Herzegovina (BiH) was launched in 1996 with support from the World Bank (WB) and international NGOs. The bulk of start-up funds to the sector have been channeled through the WB-financed Local Initiatives Project (LIP). Through various rounds of LIP funding, the WB has been able to dictate conditions and thus heavily influenced the way many microfinance organizations (MCOs) are managed. Numerous international donors have funded MCOs and provided valuable technical assistance. The largest MCOs, having adopted most industry best practices, are among the strongest MFIs in Eastern Europe, totaling 850 M BAM (435 M EUR) of portfolio and 293,703 active clients as of December 2007, not including commercial banks (the biggest share being attributed to ProCredit with 163 M EUR and 68,752 loans as of December 2007).

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

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

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

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

The Law on Enterprises will apply to MCCs, including the requirement to pay income taxes. Both options are non-deposit taking, an activity reserved to banks. The MFIs will be licensed and supervised by each entity's Banking Agency, which is a step forward in terms of supervision of

the sector¹, presently regulated by the Ministry of Finance in RS, and by the Ministry of Justice and the Ministry of Displaced Persons and Refugees in FBH. Regulation will not include prudential norms given the absence of deposit taking risks. The law authorizes mergers and acquisitions. MCOs operating in both entities have to get a license from each entity's Banking Agency (obtaining the second license is generally fast).

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

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

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

The BiH microfinance sector has now entered a new phase of development. The largest MCOs are expected to transform into MCCs for the following reasons: 1) most have sufficient capital which was built up from capitalized donations and retained earnings; 2) most have been disbursing a significant number of loans exceeding 10,000 BAM; 3) the MCC status will allow the opening of the capital structure to investors. Several MFIs are in discussion with potential domestic and foreign investors to secure their participation as strategic equity partners. Merger discussions are expected to accelerate and to be more serious than before. Mikrofin, the largest MFI, has already merged with Benefit, and it is likely that other mergers will take place over the next few years when equity investors start to flex their muscles. With the notable exception of ProCredit, most commercial banks, led by Raiffeisen and Hypo-Alpe-Adria, have thus far chosen to get involved in the microfinance sector indirectly by financing MFIs, and might become equity investors as well. In all cases, the BiH microfinance

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

sector is firmly heading towards further consolidation and commercialization.

Political & economic environment

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

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

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

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

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

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

Institutional presentation

Legal form, supervision and audit

Žene za žene International (ZZI) is currently operating as an MCO registered with the Federal Ministry of Displaced Persons and Refugees. Though already licensed to operate as an MCF under the provisions of the new law, ZZI and all other FBH-based MCOs are still waiting to be registered as such by the Ministry of Justice. Once registered as an MCF, ZZI will fall under the supervision of the FBH Banking Agency.

Deloitte performed the external audit of ZZI in 2006 in accordance with international accounting standards (IAS and IFRS), thus restating the 2005 financial statements. It was selected again in 2007. Previous audits were performed by Spectrum, a local company. Accounts have been certified without reserve since 2002.

Ownership

As an MCO and soon an MCF, ZZI has no owners, although it is clearly affiliated to the Women for Women International (WWI) network headquartered in Washington DC. It is governed by a Board of Directors (BOD) whose 3 members were elected in June 2007, replacing the previous 5-member BOD. The Executive Director attends BOD meetings but has no voting rights. Minutes are presently kept by the HR manager. There are no BOD committees.

The current BOD has a mandate of 4 years and can be reelected for one mandate at most. It is chaired by Mrs. Farida Mušanović, who has been involved in ZZI activities since inception and focuses on social issues. The two other BOD voting members have good accounting, auditing and business experience. The current BOD members have been approved by the FBH Banking Agency.

Donations

Since inception, ZZI has received donations for a total of 2.7 M BAM (1.4 M EUR), mainly from WWI, US State Department for People, Refugees and Migration, USAID, UNHCR and United Methodist Church (UMCOR).

Funding composition

As of December 2007, ZZI was funded by equity (39%) and liabilities (61%), both short and long term (respectively 38% and 23%). The latter mainly consist of a 4-year 1 M EUR loan from Deutsche Bank bearing an interest rate of 8.50%. Short term funding includes revolving lines with local commercial banks such as NLB-Tuzlanska, Unicredit-Zagrebačka, Raiffeisen, and ABS Bank, in addition to an overdraft facility from Hypo Bank. ZZI has also benefited from subordinated debts, from UMCOR (transformed into capital grant) and from UNDP (about to be transformed).

Management team

The management team comprises an Executive Director (ED), two managers for the North and South regions (hereafter referred to as Regional Managers – RM), a Supervisor (in charge of auditing the branches), an IT specialist, a Finance and Administration Manager (FAM) as well as a Human Resources (HR) Manager.

The team is lead by Mrs. Seida Sarić since 1998, originally as WWI country director for BiH and then as the MCO's ED. Her microfinance knowledge is drawn from on-the-job experience in an industry including best-in-class MFIs, as well as trainings from CGAP and MFC among others. She studied Mechanical Engineering and has obtained a B.A. in Economics. Before joining WWI, she worked with Save the Children as a Financial and Administrative Manager and with Care International.

Organization

ZZI headquarters (HQ) in Sarajevo centralizes all top managers, except the RM in charge of the north region located in the Gračanica regional office (the RM in charge of the south region is located in HQ, where the Sarajevo regional office also is). Each regional office has credit and financial administrators as well as field offices. Each one of the four field offices is made up of a Chief of the Office (hereafter referred to as Branch Manager – BM) and LOs. Satellite offices comprise LOs working in an office or at home and physically reporting to the nearest field office twice a week. The BM is still to be appointed in Zenica.

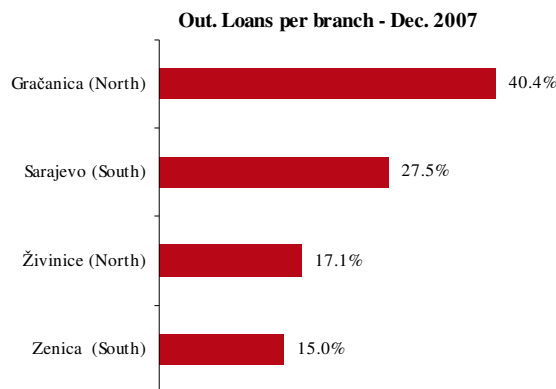
Credit operations are decentralized with most credit decisions being approved by BMs up to 5,000 BAM and by RMs up to 10,000 BAM. The ED participates in credit

committees for loans of bigger size. Disbursements and reimbursements are made through banks, apart for Group loans through the center (cf. Products and services). For the latter, LOs handle cash to the banks and fax/bring the related paperwork to the field office where verifications are performed by the Financial administrator.

Credit and Financial administrators process portfolio information daily into the Microcredit module of the MIS. Online reconciliations are done on a daily basis between the Sarajevo and Gračanica servers. ZZI bought its MIS software in 2003 from a local IT firm and has been internally upgrading it since then. The MIS comprises 5 modules: Microcredit for loan tracking, and Financial Bookkeeping, Salaries, Treasury, and Fixed assets for accounting.

Market penetration

ZZI operates through a network of 2 regional offices (Sarajevo and Gračanica) and 4 branches located in Sarajevo and Zenica for the south region, and in Živinice and Gračanica for the north region, with 18 satellites located as far as Derventa and Gradačac in the North, Srebrenica in the North East, and Mostar in the South. These areas are also served by other MCOs.



Products and services

ZZI offers 12 loan products intended for different purposes and including both individual and group methodologies with monthly repayments and declining interest rates, yielding an average APR of 35%. Group loans account for 74% of the portfolio and individual loans for 26%.

- Group loans through the center (GLC), have historically accounted for the vast majority of the portfolio and still represent 28% of it as of December 2007. They target groups of 3 to 6 women in remote areas, with disbursements through banks and local reimbursements made to the LO. Amounts range from 500 to 10,000 BAM (250 to 5,000 EUR) with a 5 to 36-month term. Average loan size is of 1,423 BAM (728 EUR) for a 12-month term. Annual effective rate is of 32.5%.

- Group loans (GL) account for 45% of the portfolio and include a specific product for pairs. Amounts range from 500 to 5,000 BAM (600 to 1,200 BAM for pairs) with a 5 to 36-month term (6 to 12 for pairs). Average loan size is of 1,984 BAM (1,025 for pairs) for a 18-month term (12 for pairs). Annual effective rate is of 33% (42% for pairs).
- Business and Micro-Micro individual loans (BL and MM), accounting for 21% of the portfolio, target women with existing businesses. Amounts range from 3,000 to 20,000 BAM for the BL and from 500 to 3,000 BAM for the MM loan. Average loan size is of 5,760 BAM (1,995 for MM) for a 19-month term (16 for MM). A 1% application fee is charged on the BL. Annual effective rate is of 37% (38% for MM). Collateral requirements include one or several guarantors and bills of exchange.
- Other loans account for 7% of the total portfolio and include parallel loans, basic needs consumption loans, seasonal loans, as well as specific products designed for refugees under the Rene WLS program².

Networks

ZZI is a member of AMFI (the local association of MFIs in BiH), Grameen network and Warsaw-based MFC (the Microfinance centre for Central and Eastern Europe and NIS). ZZI is also part of the WWI network of NGOs grouped under the US-based WWI umbrella.

Governance

Governance and Decision making is rated “c”

Decision making

The decision-making process at ZZI is clear and efficient, although some small improvements could still be made for an optimal anticipation of risks. BOD and management share the same strategic vision and aim at addressing the main upcoming issues while focusing on sustainability and remaining true to ZZI’s social mission that is evidenced by a strong affiliation to WWI and a long-standing commitment on the ED and BOD chair’s behalf. Previously involved in the institution and elected in June 2007, the current BOD is active and well informed of the key developments and challenges of the institution. Decisions are taken in a timely manner and the control over their implementation is effective thanks to regular meetings and well-documented minutes. BOD members have overall good technical and managerial skills as well as diversified experiences, but more specific microfinance knowledge would definitely bolster their independence of thinking: in that regard, and

² Women graduating to ZZI from non-financial branch of WWI in BiH. Every woman under this program receives trainings individually financed by an American woman.

given the various challenges ahead, it is a good thing that ZZI has been considering strengthening its BOD with two new members, one of whom possibly coming from WWI. Monitoring information made available to the BOD is relevant but still too general (cf. section “I”), which may hamper adequate decision-making.

On the short run, the change of legal status is expected to go smoothly given that ZZI intends to remain under the MCF status (cf. Microfinance Sector). On the longer term, ZZI could consider merging with another MFI as the industry further consolidates.

Planning

Though participatory and reasonably well-designed, ZZI planning remains short-sided and could be better articulated.

- The Strategic Plan (SP) is mainly used for communication purposes.
- The 2007-2009 Business Plan (BP) lacks some precisions in terms of IT development, market position by product and region and staff trainings. Strategic targets proved to be misstated as the number of active clients and the loan portfolio amounts reached in 2007 are respectively 14% below and 10% above the BP forecasts.
- The BP was rightly revised in a valuable 2008 Operational Plan (OP) with growth targets increased by 32% for the gross loan portfolio, 62% for the funding needs, and 173% for staff needs. The OP includes most of the precisions missing in the BP but ought to be enriched with some of the relevant details included in the regional and HQ action plans (e.g. detailed deadlines and competition analysis).
- The assessment of the 2007 achievements was not formalized and included in the 2008 OP.

Despite a good buy-in of strategic goals and clear growth objectives for each LO followed upon on a monthly basis, ZZI historically remained less aggressive than its competitors. Even with a +65% increase in terms of portfolio size (vs. +49% planned), ZZI’s 2007 growth remained below that of the sector (+75%). Lower access to funds and technical assistance (as opposed to the majority of its competitors³) are important reasons, but there has also been a lower sense of urgency to gain market shares. ZZI 2008 plans are more ambitious with 13,258 active clients (+49%) for a gross portfolio of 19.3 M BAM (+66%), which seems achievable in spite of the growing saturation of the market. Annual budget is designed according to the 3-year Microfin financial projections linked to operational targets in line with the OP and monitored on a monthly basis.

³ ZZI was not selected for the various WB-financed Local Initiatives Project (LIP) - cf. the Microfinance Sector section.

The underestimation of strategic targets did not negatively affect ZZI thanks to a timely adoption of revised plans. However, it makes it difficult to precisely predict the financing needs and financial performance which is necessary for building optimal relationships with partners and becomes increasingly important as margins get reduced by the competitive pressure.

Management team

The management team, competently led by the ED, is in the process of being strengthened to keep up with the institution's growth. There is presently a key-person risk at the ED level as top management needs to further strengthen its skills and/or fill in key areas: most managers have not been in place for long and still have room to grow in their position (e.g. HR, Finance); there is no Internal Audit (IA) Manager yet; the former Operations Manager's (OM) tasks were recently split between the two Regional Managers, leaving only the ED with a complete oversight of the operations; there is no clear succession plan. In the absence of strong middle-management, there is also a more general person risk at the HQ level. The institution is aware of those risks and plans on recruiting an IA Manager⁴ and an OM (on a longer run), and aims at building a strong middle-management within the coming few months, notably by promoting competent staff as the network expands. The present team was nevertheless able to carry most of its former plans, though sometimes at a slower rate, thanks to: 1) clear division of tasks, 2) well-formalized management minutes, 3) smooth internal communication and good teamwork, and 4) collective decision-making process for all key issues.

Human resource management

ZZI has an overall satisfactory administrative management of personnel issues, but still needs to strengthen its HR management to cope with the expected growth. In 2007, the institution has taken a good step forward with the creation of the HR Manager position and the consecutive formalization of the employment procedure, atop of previously existing basic procedures (rules of work, job descriptions, etc.). However, some processes to improve staff skills are not yet fully in place: despite proper training on the group loan methodology and external trainings on various subjects, training on the individual lending methodology is still lacking; knowledge sharing on the latter among LOs has been useful but is not enough to provide them with all the required skills; annual evaluations have not been systematic but will reportedly be refined (along with promotion rules) for future assessments of staff performance. These

⁴ ZZI has had an open IA Manager position for over 6 months and has contracted a head hunting company in that regard in late 2007. Recruiting qualified staff is not a common issue for BiH MFIs.

weaknesses have been rightly identified in the 2008 OP, and ZZI also plans to develop a bonus system for all staff in addition to the present one.

Despite good staff morale, turnover has been increasing to very high levels (from 13% in 2004 to 24% in 2005, 30% in 2006 and 28% in 2007). Such a high turnover is explained by ZZI's difficulties in recruiting LOs with appropriate skills and profiles (especially for the individual loan methodology), and the subsequent termination of labor contracts and non-renewal of temporary contracts⁵. With LOs job description being currently refined, these problems are expected to fade away starting 2008. Although the LOs' average salary decreased in 2005 (due to the higher proportion of new and therefore less paid LOs), the remuneration package has improved. The bonus scheme introduced in 2005 became more attractive in terms of importance (in Dec. 2007, it represents 12% of a fairly good salary base) and design (revamped in Sept. 2007).

Information

Information is rated "b"

The information provided by the current MIS has so far allowed for a proper monitoring of ZZI's operations. Given the institution's size and growth plans, information now ought to be more detailed and more easily disseminated throughout the institution. As the Microcredit module is only accessible from the HQ and the two regional branch offices, making data available (in particular to LOs and heads of the office) is presently time consuming and affects the efficiency and follow-up of the operations. Similarly, the lengthy production of some reports impedes administrative tasks, especially since Microcredit is still not flexible enough to provide all the needed indicators (e.g. PAR by satellite, by activity). The IT team has been actively working on improving the MIS, successfully tackling some of the issues (e.g. effective interest rate calculated and stated on each loan repayment schedule), whereas some others will reportedly be in the near future. The hiring of an additional developer should allow further development of IT functionalities and a quicker expansion of the IT network, with direct access to Microcredit in satellite offices (once its offline version is finalized). As ZZI now owns the loan tracking software, the IT department has access to all the source codes, thus rendering changes easy to implement.

⁵ ZZI's staff figures include employees on "Piece Work Agreement" (i.e. on a probationary period). ZZI has been hiring two candidates for one LO position before opting for the appropriate employee. There were nevertheless also many employees under labor contracts terminated because of their underperformance. Turnover is not a common issue in BiH: it ranges from 3% for Sunrise in March 2007, to 8.8% for EKI in Sept. 2007, and 18% for LOK micro in Dec. 2006.

Data security is adequate. The accounting and loan tracking modules are not integrated but are easily consolidated since the databases are compatible and are domiciled on powerful SQL servers. Most basic data security standards are met with an antivirus in place, effective passwords, limited access to the server, servers' daily back-ups on tapes, and monthly back-up at the bank. However servers' back-ups concern only the data stored into the MIS modules and not the other data as most computers are not connected into a network with adequate storage mechanisms. Data security could also improve with daily back ups stored in another place than the server's and with crash and recovery tests.

Financial and accounting data is reliable, although their limited level of detail disallows in-depth analysis. Financial statements are produced monthly, allowing for regular variance analysis to budget. However, there is no profitability analysis by products, regions, or offices which is necessary for an optimal adaptation to the Bosnian very competitive market. Main microfinance ratios are generated and adequately analyzed by the management team.

■ Risk Management

Risk Management is rated "b"

Procedures and internal controls

Effective controls are presently in place to mitigate arising risks within ZZI. Procedures are formalized for existing key departments (operations, finance, IT), though they ought to be compiled, completed or updated for some (operations, HR) or even created for IA. There are some non-critical discrepancies in their application between the two regions and operational staff can still improve in its overall compliance (e.g. precise evaluation of repayment capacity, competition overview), but this has not exposed the institution to major risks given that the basics of internal controls are well implemented: limitations of power are in place (e.g. limitations on loan approval above 5,000 BAM and 10,000 BAM), and incompatible tasks are handled by distinct persons (e.g. loan application and data entry, loan approval and disbursement), with the notable exception of GLC. For the latter, although LOs handle cash reimbursements, follow up on reimbursement amounts and daily control of the bank statements ensure money is deposited on time. As the LOs do not have appropriate insurance to cover up for potential theft / loss, this risk is mitigated by limiting the maximum amount of transported cash to 6,000 BAM (3,000 EUR) and requiring an additional LO for higher amounts. Cash risk is further reduced by the decreasing importance of GLC in the total portfolio (28% as of December 2007). All other loan disbursements and reimbursements are made through banks, thus ensuring there are no other cash security issues. All of

the above mentioned control mechanisms, atop of monthly reconciliations and cross-checks at all levels, ensure data is reliable.

Internal audit

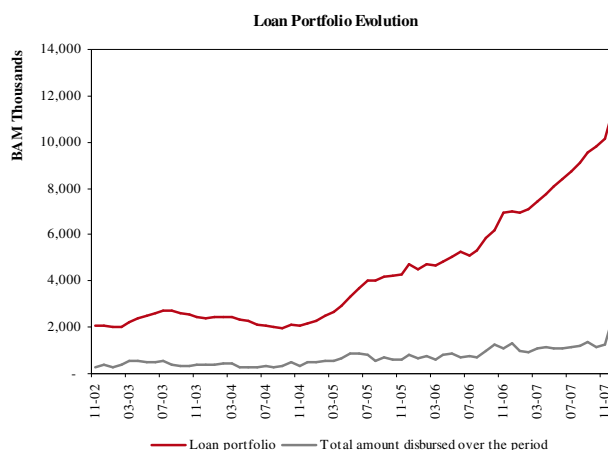
There is presently no Internal Audit (IA) department within the institution and thus no effective coverage of all potential risks. The 2007 plan included the set up of an IA department reporting to BOD and covering all HQ functions but has been delayed due to recruitment difficulties. Since May 2006, there is nevertheless a dedicated staff under the ED (Supervisor) in charge of covering the main operational risks by verifying procedures are consistently applied by all LOs: in this framework, LOs are audited once a year and although there is no plan with formal objectives, checks are within the industry's norms (10% file checks and 1% client visits); these audits are well documented in reports comprising clear recommendations. These controls are presently supplemented by the external auditor's portfolio audit (visit to clients, which are selected by Deloitte and performed by the Supervisor) and soon by the Banking Agency checks (review of business books, accounting and documentation).

■ Activities

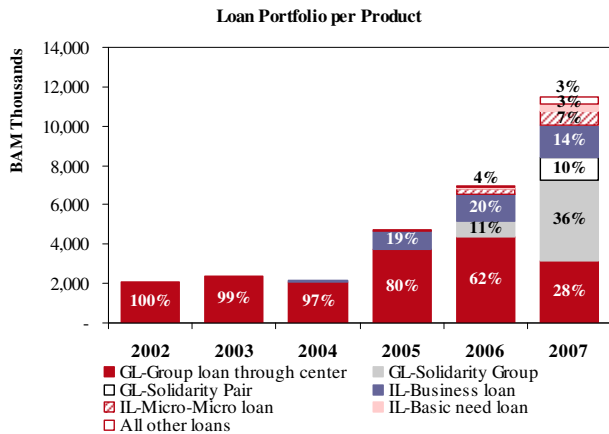
Activities: products and services is rated "b"

Evolution and composition of the portfolio

ZZI portfolio has been increasing at an average yearly rate of 78% since Dec. 2004, contrasting with a slow average growth of 19.6% from 2001 to 2003 and a decrease by 9.9% in 2004.



After reorganizing its activities in 2004 to cope with poor performance (many LOs were dismissed), ZZI managed to trigger growth thanks to: 1) the diversification of its portfolio with the launch of Business loans in Sept. 2004, and Solidarity Group and Micro-micro loans in Nov. 2006; and 2) the decentralization of its operations initiated with the opening of the Gračanica field office in 2006.



As of December 2007, ZZI's portfolio is composed of 74% of group loans and 26% of individual loans. The growing share of the Business Loans (14.3%) and the subsequent relatively slower growth in active clients as compared to the portfolio growth has resulted in an increase of the average outstanding loan per client to 666 EUR in Dec. 2007 from 492 EUR in Dec. 2002 and 382 EUR in Dec. 2004.

Loan portfolio management

Over time, ZZI has managed to define an adequate group loan methodology, but still needs to improve the individual loan one, which was not originally well designed and led to a moderate portfolio quality. Even though the Business Loan was introduced in 2004, with procedures being formalized since then, few LOs handle it properly and it is still too often considered as "new" due to the high turnover of LOs. With respect to group loans, defining a maximum gap between the loans granted to each group member within a cycle would further ensure proper group guarantee mechanisms. For both loan methodologies, repayment capacities assessments have been strengthened by systematic visits to all clients' home prior to disbursement. In the Bosnian context of increasing cross-indebtedness, ZZI would also benefit from an even more precise analysis of the repayment capacity (e.g. formalize the final step in the application forms to allow quick comparison of the client's net revenues to her potential monthly repayments). In that regard, ZZI has rightly systematized the use of CRK for loans exceeding 3,000 BAM and recently hired a dedicated person to perform those checks.

Delinquency management has improved since the incentive scheme was revamped, but could be even tighter. The new incentive scheme has allowed to improve the portfolio quality as LOs are evaluated on their PAR ratio on a monthly basis and receive daily reports stating amounts and days in arrear by client. The direct access of LOs to these reports from satellite offices is expected to facilitate their follow-up (cf. section "I") in the future. However,

delinquency management has been hindered by the suboptimal redistribution of departing LOs' portfolios (e.g. a Goražde redistributed portfolio was followed up from Sarajevo during three months).

Supervision of LOs is limited as more than 60% of them are working in satellites sometimes far from a field office. This has been manageable so far but will be more risky with the ongoing expansion. The institution is aware of that and is planning to open more field offices in the future.

Credit risk

Credit Risk ratio has been decreasing over the years (PAR 30 decreased to 1.5% in 2007 from 3.1% in 2005 whereas write off remains over 2%⁶) but clearly remains above both regional peers (PAR and write-off medians are respectively of 1.2% and 0.6% for ECA Large peers) and Bosnian standards (both PAR and write-off ratios medians are 0.7%⁷). The current level of PAR 30 is mainly due to the higher PAR of individual loans (3.6% for Business Loans and 2.8% for Micro-micro Loans) contrasting with the moderate to low PAR of solidarity loans (1.5% for solidarity loan through center, 0.8% for Solidarity Group and 0.2% for Solidarity Pair). PAR can be as high as 7.6% for individual loan portfolios that were redistributed after the departure of LOs in 2007. The write-off ratio is among the highest in BiH but is still moderate when compared to international standards given the early write-off policy.

Already monitoring credit risk by region, ZZI ought to also manage its portfolio by product type, satellites, economic sector and loan amount to mitigate concentration risks.

Credit risk coverage

Credit risk coverage has increased to 102% in 2007 from 89% of PAR 30 in 2005, which is line with international standards and FBA requirements⁸. ZZI has adequately improved the quality of collaterals required by systematically checking the clients' guarantors' existence and credit history through CRK. Aside from guarantors, ZZI mainly relies on the group guarantee for solidarity loans and on bills of exchange (their number increasing with loan size) for individual loans. However, the recovery from loans written-off is estimated to be low. ZZI does not have any financial guarantees to cover potential industry crisis.

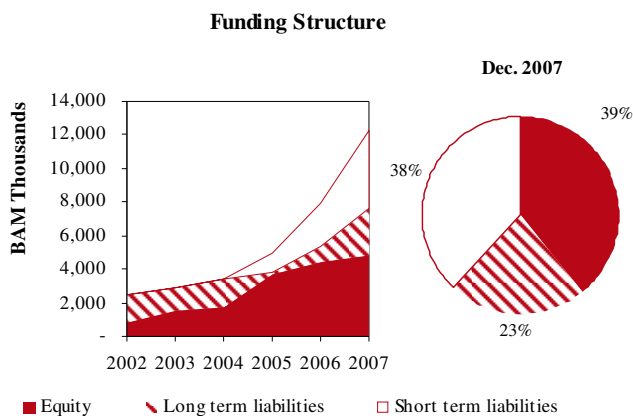
⁶ ZZI complies with the Banking Agency requirement to write-off loans late over 180 days only if legal action has already been taken, which decreases PAR 30 and increases the write-off ratio.

⁷ Figures reported to AMFI by BiH MCOs.

⁸ In its final unaudited 2007 accounts, ZZI stopped provisioning 0.5% of its healthy portfolio in compliance with the FBA provisioning standards. Once registered as an MCF, ZZI will have to submit quarterly reports on its loan loss reserves.

■ Funding and liquidity

Funding and liquidity is rated “b”



Market risk

Market risks related to ZZI's present funding structure are not adequately mitigated through hedging mechanisms or internally defined acceptable limits.

- ZZI is exposed to FX risk as open FX position represents 40.8% of equity (vs. no more than 15% best-practice without appropriate hedging mechanisms): this risk is somehow reduced by the BAM / EUR fixed peg that has been going on for several years, but would not resist a severe devaluation, especially as the contractual transfer to the client would then pose serious limits and convert into credit risk.
- ZZI is exposed to interest rate risk as open EURIBOR position represents 14.5% of equity: this is especially true given that the EURIBOR has been on an upward trend since the loan was contracted in May 2007, leading it to be over-priced as compared to others taken from the same bank. The institution is aware of this risk and presently trying to borrow only fixed rate loans.

Liquidity risk

ZZI's Finance department is presently well organized and led by a capable manager. Current funding structure efficiently reduces the risk of not being able to renew maturing liabilities: there is no maturity risk as assets constantly exceeds liabilities (quick and current ratios are above 100%); funding sources are stable and well diversified, with access to several local banks as well as one foreign bank, atop of negotiations with regional and international investors (e.g. EFSE) that should lead to new funding opportunities.

Though not yet optimal, liquidity management improved over the years. The institution experienced tensions on

disbursements in 2004⁹, and despite the rule of keeping the Liquid Asset Ratio (LAR) at 3%, liquidity level is often too low: LAR has dropped to 1.3% in 2005 and stands even lower in 2007 (0.8%), while operating expenses coverage has dropped below 1 month in 2007 (vs. 3-month minimum best practice). It would be timely to consider designing a contingency plan, but major cash flow shortages may now be avoided thanks to the overdraft facility negotiated with Hypo Bank in January 2008.

Capitalization and funding strategy

ZZI's funding needs for 2008 are of 6.7 MBAM (3.4 M EUR), out of which 2.3 MBAM (1.2 M EUR) are already secured through local banks and 2 MBAM (1 M EUR) are in negotiation. Although the Microfin model also provides the future needs, 2008 needs are the core basis of the search for funds, especially as the current planning comprises soft implementation deadlines for operational issues (cf. Planning). So far, good communication and relationship management with fund providers has allowed to reduce the cost of liabilities (e.g. from 7.9% to 7.36% with NLB Bank). Yet, the institution still has room to gain negotiation power in order to bring down its funding expenses to the level of its BiH competitors, who show both a higher leverage and a lower cost of liabilities (e.g. 7.1% for ZZI as of December 2007 vs. 6.2% for EKI and 6.1% for Sunrise). Leverage is still low (1.6x), thus ensuring minimal capital requirements are met.

■ Efficiency and Profitability

Efficiency and Profitability is rated “b”

Profitability analysis

ZZI has been a steadily profitable institution since 2002, as evidenced by solid ROA and ROE, respectively standing at 5.2% and 11.4% as of December 2007. This is a very good performance by international standards and ZZI shows the 5th highest BiH ROA for 2007 (cf. Benchmarking) even though it decreased from 9.8% in 2005. This trend can be explained by the tighter margin resulting from the declining portfolio yield (to 30.6% in 2007 from 35.6% in 2005) and the increasing funding expenses, and that is not fully offset by the improving portfolio quality and the decreasing operating expenses.

Given its profitability structure, ZZI still has room to maneuver and decrease its interest rates to make it resemble that of its competitors. It enjoys a good revenue quality for group loans, since it holds a competitive advantage thanks to the local cash collections in rural areas: on the medium run,

⁹ Liquidity in excess was invested in term deposits that were not immediately available.

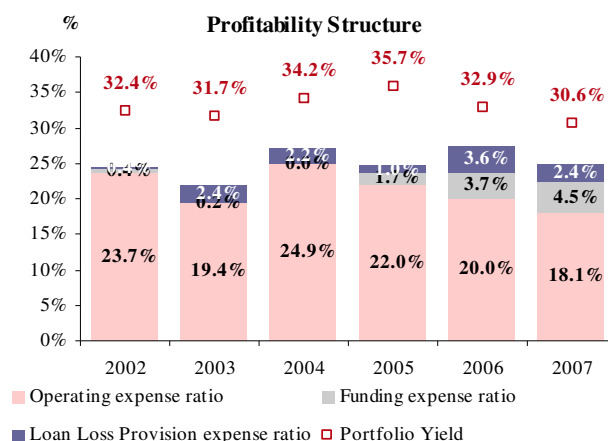
this advantage could erode as competitors start moving into the same remote areas (e.g. EKI or LOK that have started tapping into the rural areas, though with loans at a higher interest rate). The institution relies on client's proximity and quality of service, which is not enough on a market as competitive as BiH, especially for individual loans where ZZI offers higher interest rates. Aware of these limitations, and in order to better cope with increased competition, ZZI tries to adapt its services to demand. The product development process is based on constant LOs' feedback and on competition's products, resulting in seven new products launched in 2006 and two in 2007 (Solidarity Pair has been the most successful so far, reaching 10% of the total portfolio in one year). Though flexible and reactive, this process is time-consuming and does not generate fast results since it requires many adjustments in post-pilot phase. In that regard, ZZI still needs to develop a formal process for assessing client's needs, pilot testing and evaluation of products.

Operating expenses ratio has been regularly decreasing since 2004, and reached its lowest level since inception (from 24.9% in 2004 down to 18.1% in 2007). This is more the result of an increased average loan size (+46% in two years) rather than increased productivity (fell from 439 clients / LO in 2005 to 269 in 2007) or lower cost per borrower (increased from 74 EUR in 2005 to 89 EUR in 2007). Unless productivity is boosted, operating expenses will be increasing on the medium run, notably with the opening of new offices, since 63% of LOs are presently working from home (satellites) while inducing a relatively light telecommunication expenses given the daily phone calls and faxes to HQ (3.3% of the total operating expenses in 2007). This would be even truer should ZZI decide to change its bonus scheme to offer a better package to performing LOs. But ZZI's light structure could also be viewed as a strong assets in case of a merger.

On the other expenses side, and providing it keeps on closely monitoring its PAR 30, loan loss provision expense ratio is expected to remain stable, especially since ZZI has stopped provisioning an extra 0.5% on its healthy portfolio. The funding expense ratio has been increasing as a sign of larger recourse to commercial borrowings, but cost of liabilities has started decreasing in 2007 (from 8.4% to 7.1%) and could be further reduced as the institution gains negotiation power (e.g. cost of liabilities at 6.2% for EKI with a leverage of 3.9x as of September 2007). The overall funding expense ratio is nevertheless expected to increase, given ZZI intends on funding its growth mainly through commercial loans.

ZZI shows a good resource optimization with an asset deployment ratio always above 80% and peaking at 92.9% as of December 2007, which contributes to the solid ROA level. Providing this ratio is more rigorously monitored and

growth is not impeded by too tight cash management, ZZI should be able to maintain its high levels of profitability.

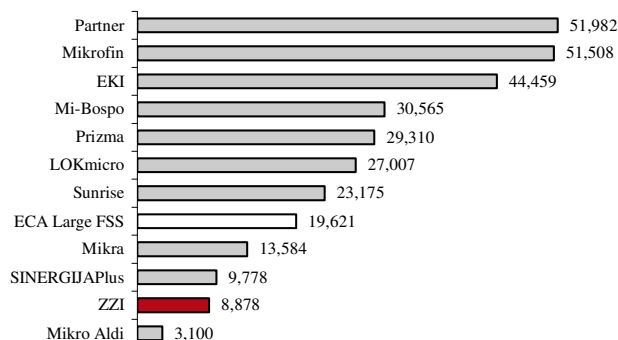


ZZI's profitability outlook is stable: the institution faces numerous challenges in a context of growing cross-indebtedness and fierce competition, but it is expected to enhance its portfolio quality, refine its individual methodology and improve its current MIS to bridge the gap with its BiH competitors and become an equal partner as the industry consolidates.

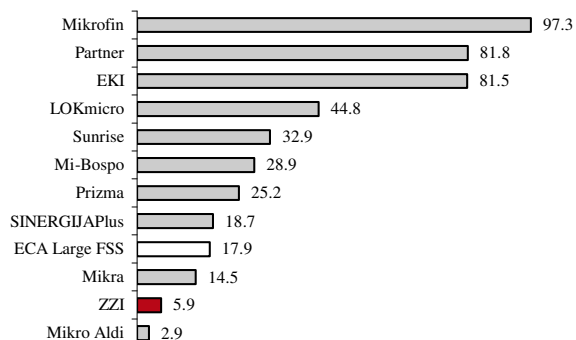
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

Benchmarking

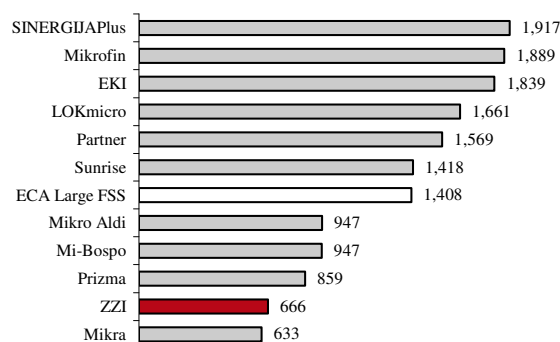
Active borrowers



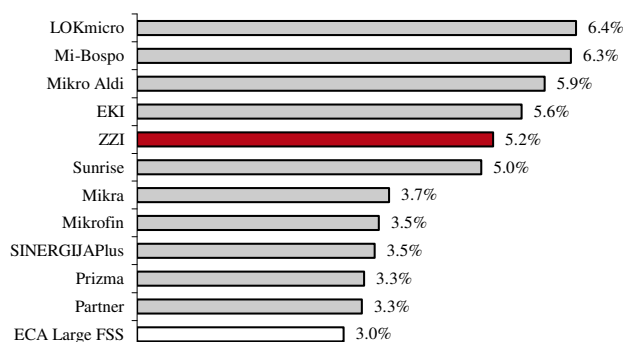
Loan portfolio (M EUR)



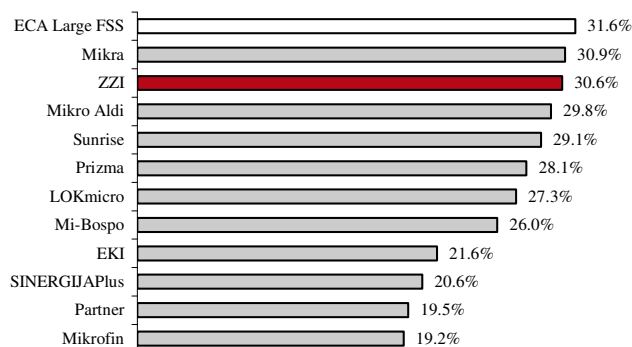
Average amount disbursed per loan (EUR)



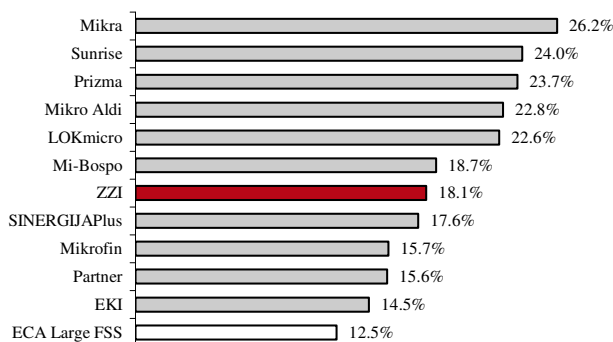
ROA



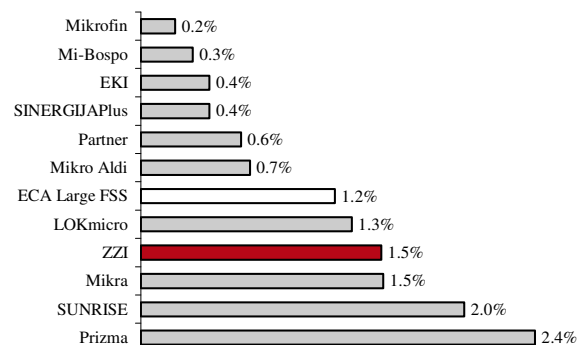
Portfolio Yield



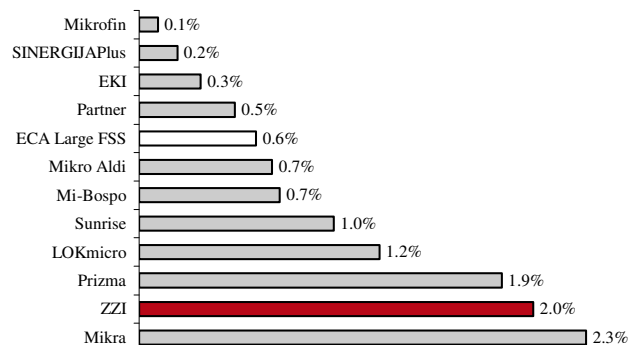
Operating expense ratio



PAR 31-365



Write-off ratio



Source: ZZI (Planet Rating), other MCOs (MCOs' quarterly reporting to AMFI), MiX (MBB ECA Large FSS Peer group, 2006 benchmarks, Median). Note: Apart from ZZI, Portfolio Yields (PY) were calculated using figures reported to AMFI using the following formula: Portfolio Revenue / ((Dec. 2006 + Dec. 2007 gross loan portfolios)/2). With the same formula, ZZI's PY is of 28.8%. Using ZZI's latest data and the more accurate monthly average for the gross loan portfolio, PY is of 30.6%.

■ Performance indicators

Data in EUR, unless otherwise stated

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	1,066,672	1,218,979	1,097,855	2,408,688	3,574,796	5,914,259
Loan portfolio (BAM)	2,086,218	2,384,104	2,147,207	4,710,960	6,991,658	11,567,227
<i>Evolution</i>	24.8%	14.3%	(9.9%)	119.4%	48.4%	65.4%
Average outstanding loan portfolio	960,531	1,237,977	1,130,724	1,772,283	2,738,194	4,366,658
Active borrowers	2,169	2,676	2,871	5,265	6,556	8,878
<i>Evolution</i>	-	23.4%	7.3%	83.4%	24.5%	35.4%
Average outstanding loan per client	492	456	382	457	545	666
% of GDP per capita	28.8%	25.5%	19.8%	22.2%	23.7%	26.4%
Average amount disbursed per loan	836	802	638	688	759	853
% of GDP per capita	48.9%	44.9%	33.0%	33.4%	33.0%	33.9%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	2.9%	3.1%	2.0%	1.3%	1.4%	1.5%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.4%	2.1%	3.8%	0.9%	2.7%	2.0%
Credit risk coverage						
Risk coverage ratio (PAR 30)	69.8%	66.1%	81.7%	88.8%	125.5%	101.7%
PAR 31 net of loan loss provision / Equity	2.2%	1.7%	0.5%	0.2%	(0.6%)	(0.1%)
Staff						
Total number of staff ¹⁰	13	12	18	24	42	58
% Credit officers	38.5%	50.0%	55.6%	50.0%	64.3%	56.9%
Turnover	0.0%	16.0%	13.3%	23.8%	30.3%	28.0%
Profitability analysis						
ROE	23.1%	20.7%	11.9%	15.2%	8.0%	11.4%
Liabilities / Equity	2.01x	0.90x	1.0x	0.3x	0.8x	1.6x
Capital adequacy ratio	38.1%	62.0%	76.3%	77.2%	62.3%	41.0%
ROA	7.3%	9.1%	6.1%	9.8%	5.0%	5.2%
Profitability structure						
Portfolio Yield	32.4%	31.7%	34.2%	35.7%	32.9%	30.6%
Operating expense ratio	23.7%	19.4%	24.9%	22.0%	20.0%	18.1%
Cost per borrower	105	90	98	74	84	89
Staff productivity	167	223	160	219	156	153
Loan officer productivity	434	446	287	439	243	269
Average outstanding loan per client (EUR)	492	456	382	457	545	666
Funding expense ratio	0.4%	0.2%	0.0%	1.7%	3.7%	4.5%
Cost of liabilities	0.2%	0.0%	0.0%	4.0%	8.4%	7.1%
Loan Loss Provision expense ratio	0.4%	2.4%	2.2%	1.0%	3.6%	2.4%
PAR 31-365	2.9%	3.1%	2.0%	1.3%	1.4%	1.5%
Write-off ratio	0.4%	2.1%	3.8%	0.9%	2.7%	2.0%
Resource optimization						
Outstanding Loan Portfolio / Assets ¹¹	82.2%	80.7%	61.4%	93.3%	86.5%	92.9%
Revenue from investment as a % of financial revenues	0.3%	0.4%	1.8%	0.6%	0.1%	0.1%
Liquidity						
Liquidity / Total assets (LAR)	12.9%	14.6%	9.5%	1.3%	7.4%	0.8%
Exchange rate 1 EUR= xx BAM	1.96	1.96	1.96	1.96	1.96	1.96

¹⁰ Including staff on piece work agreement (cf. HR section for more information).

¹¹ Adjusted by netting out the cash collateral on commercial loans.

GIRAFE Rating – Žene za žene International, Bosnia and Herzegovina – January 2008

Žene za žene International Income Statement	Notes	BAM						EUR						Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	05/04	06/05	07/06
Financial Revenue (a)		614,904	775,983	793,014	1,268,930	1,786,923	2,650,146	314,397	396,756	405,464	648,797	913,644	1,355,005	60.0%	40.8%	48.3%
Financial Revenue from Loan Portfolio		609,230	767,922	755,429	1,237,511	1,759,421	2,617,192	311,496	392,634	386,247	632,733	899,582	1,338,156	63.8%	42.2%	48.8%
Interest on Loan Portfolio		569,578	719,840	714,330	1,200,053	1,723,356	2,581,928	291,222	368,050	365,233	613,580	881,142	1,320,126	68.0%	43.6%	49.8%
Fees and Commissions on Loan Portfolio		38,195	45,148	38,882	35,907	32,942	30,774	19,529	23,084	19,880	18,359	16,843	15,734	(7.7%)	(8.3%)	(6.6%)
Penalty Revenue on Loan Portfolio		1,457	2,934	2,217	1,552	3,124	4,490	745	1,500	1,134	794	1,597	2,296	(30.0%)	101.3%	43.7%
Financial Revenue from Investments		1,640	2,809	14,158	7,809	2,347	2,055	839	1,436	7,239	3,993	1,200	1,051	(44.8%)	(69.9%)	(12.4%)
Other Operating Revenue	1	4,034	5,252	23,427	23,610	25,155	30,899	2,062	2,685	11,978	12,072	12,862	15,798	0.8%	6.5%	22.8%
Financial Expense (b)		7,231	5,304	344	59,335	198,541	383,159	3,697	2,712	176	30,338	101,513	195,907	17,127%	234.6%	93.0%
Interest paid on borrowings		2,169	704	232	59,335	198,541	382,793	1,109	360	119	30,338	101,513	195,720	25,475%	234.6%	92.8%
Other Financial Expenses	2	5,062	4,600	112	-	-	366	2,588	2,352	57	-	-	187	(100.0%)	-	-
Financial income [c=a-b]		607,672	770,679	792,670	1,209,595	1,588,382	2,266,987	310,700	394,044	405,288	618,459	812,131	1,159,098	52.6%	31.3%	42.7%
Net Loan Loss provision expense (d)		7,684	57,072	49,249	33,961	193,265	201,647	3,929	29,181	25,181	17,364	98,815	103,101	(31.0%)	469.1%	4.3%
Loan loss provision expense and write-off		8,304	57,795	69,157	51,912	209,919	231,327	4,246	29,550	35,360	26,542	107,330	118,276	(24.9%)	304.4%	10.2%
Recovery from Loans written off		620	723	19,909	17,952	16,654	29,680	317	370	10,179	9,179	8,515	15,175	(9.8%)	(7.2%)	78.2%
Operating expense (e)		446,105	469,971	550,891	763,516	1,070,899	1,542,317	228,091	240,293	281,668	390,381	547,545	788,578	38.6%	40.3%	44.0%
Personnel Expense (includes fringe)		269,223	280,737	344,014	518,449	761,039	952,335	137,652	143,539	175,892	265,080	389,115	486,924	50.7%	46.8%	25.1%
Administrative Expense (non-staff operating expenses)		176,882	189,234	206,877	245,067	309,860	589,982	90,439	96,754	105,775	125,301	158,430	301,655	18.5%	26.4%	90.4%
Depreciation and amortization		27,175	40,718	42,735	45,201	49,500	56,386	13,895	20,819	21,850	23,111	25,309	28,830	5.8%	9.5%	13.9%
Consulting fees		18,680	20,725	14,575	12,352	21,306	55,473	9,551	10,597	7,452	6,316	10,894	28,363	(15.3%)	72.5%	160.4%
Rental costs		16,151	15,048	13,848	17,603	28,236	58,485	8,258	7,694	7,080	9,000	14,437	29,903	27.1%	60.4%	107.1%
Travel costs		22,300	22,334	35,825	24,549	27,349	111,507	11,402	11,419	18,317	12,552	13,983	57,013	(31.5%)	11.4%	307.7%
Bank fee		6,719	7,613	6,563	10,939	17,945	38,107	3,435	3,892	3,356	5,593	9,175	19,484	66.7%	64.0%	112.4%
Materials		4,477	6,755	2,183	24,986	31,156	36,659	2,289	3,454	1,116	12,775	15,930	18,743	1,044.3%	24.7%	17.7%
Telecommunications		6,186	14,451	17,724	18,608	29,235	50,203	3,163	7,389	9,062	9,514	14,948	25,668	5.0%	57.1%	71.7%
Advertising and representation		-	3,514	1,805	2,208	25,793	59,324	-	1,797	923	1,129	13,188	30,332	22.3%	1,068%	130.0%
Others		75,194	58,075	71,619	88,621	79,340	123,839	38,446	29,694	36,618	45,311	40,566	63,318	23.7%	(10.5%)	56.1%
Net Operating Income Before Taxes and Donations [f=c-d-e]		153,883	243,636	192,530	412,119	324,218	523,023	78,680	124,570	98,440	210,714	165,771	267,419	114.1%	(21.3%)	61.3%
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		153,883	243,636	192,530	412,119	324,218	523,023	78,680	124,570	98,440	210,714	165,771	267,419	114.1%	(21.3%)	61.3%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		153,883	243,636	192,530	412,119	324,218	523,023	78,680	124,570	98,440	210,714	165,771	267,419	114.1%	(21.3%)	61.3%
Donations (l)		163,339	5,975	724	-	1,748	2,331	83,514	3,055	370	-	894	1,192	(100.0%)	-	33.3%
Net Income (after Taxes and Donations) [m=k+l]		317,222	249,611	193,254	412,119	325,966	525,354	162,194	127,625	98,810	210,714	166,665	268,611	113.3%	(20.9%)	61.2%

Notes: 2005 as restated by Deloitte; 2007 not audited; 1) Including FX gains; 2) FX losses.

GIRAFE Rating – Žene za žene International, Bosnia and Herzegovina – January 2008

Žene za žene International	Notes	BAM						EUR						Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	05/04	06/05	07/06
Balance sheet																
ASSETS		2,487,186	2,892,283	3,439,784	4,988,376	7,943,539	12,264,581	1,271,685	1,478,808	1,758,743	2,550,529	4,061,488	6,270,813	45.0%	59.2%	54.4%
Short Term Assets		2,369,353	2,787,484	3,330,950	4,895,421	7,807,150	12,112,967	1,211,437	1,425,225	1,703,096	2,503,002	3,991,753	6,193,293	47.0%	59.5%	55.2%
Cash and Due from Banks		321,859	421,569	326,477	62,395	588,517	101,817	164,565	215,546	166,926	31,902	300,906	52,059	(80.9%)	843.2%	(82.7%)
Short Term Investments	1	-	10,000	861,000	130,000	270,000	450,000	-	5,113	440,225	66,468	138,050	230,083	(84.9%)	107.7%	66.7%
Short Term Net Loan Portfolio		2,044,494	2,334,923	2,112,756	4,654,967	6,869,165	11,392,333	1,045,338	1,193,833	1,080,241	2,380,059	3,512,166	5,824,837	120.3%	47.6%	65.8%
Short Term Gross Loan Portfolio		2,086,218	2,384,104	2,147,207	4,710,960	6,991,658	11,567,227	1,066,672	1,218,979	1,097,855	2,408,688	3,574,796	5,914,259	119.4%	48.4%	65.4%
(Loan Loss Reserve)		41,724	49,180	34,450	55,993	122,493	174,893	21,333	25,146	17,614	28,629	62,630	89,422	62.5%	118.8%	42.8%
Interest Receivable		1,000	-	20,718	44,390	73,063	142,568	511	-	10,593	22,696	37,357	72,894	114.3%	64.6%	95.1%
On loan portfolio		1,000	-	19,416	44,390	73,063	142,568	511	-	9,927	22,696	37,357	72,894	128.6%	64.6%	95.1%
On investments		-	-	1,302	-	-	-	-	-	666	-	-	-	(100.0%)	-	-
Accounts receivable and other assets		2,000	20,992	9,999	3,669	6,405	26,248	1,023	10,733	5,112	1,876	3,275	13,420	(63.3%)	74.6%	309.8%
Long term assets		117,833	104,799	108,834	92,955	136,389	151,614	60,247	53,583	55,646	47,527	69,735	77,520	(14.6%)	46.7%	11.2%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		117,833	104,799	108,834	92,955	136,389	151,614	60,247	53,583	55,646	47,527	69,735	77,520	(14.6%)	46.7%	11.2%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		2,487,186	2,892,283	3,439,784	4,988,376	7,943,539	12,264,581	1,271,685	1,478,808	1,758,743	2,550,529	4,061,488	6,270,813	45.0%	59.2%	54.4%
Liabilities		1,661,828	1,367,314	1,721,561	1,286,110	3,526,343	7,467,147	849,684	699,100	880,225	657,581	1,803,000	3,817,911	(25.3%)	174.2%	111.8%
Short term liabilities		13,427	8,785	12,880	1,190,377	2,548,428	4,661,648	6,865	4,492	6,585	608,633	1,302,997	2,383,475	9,142.3%	114.1%	82.9%
Short Term Borrowings		-	-	-	1,172,015	2,494,572	4,478,700	-	-	-	599,245	1,275,461	2,289,935	-	112.8%	79.5%
Interest payable		2,169	1,253	828	445	21,070	112,607	1,109	641	423	228	10,773	57,575	(46.2%)	4,6230%	434.5%
Accounts Payable and Other Short Term Liabilities		11,258	7,532	12,052	17,916	32,786	70,341	5,756	3,851	6,162	9,160	16,764	35,965	48.7%	83.0%	114.5%
Long term liabilities		1,648,401	1,358,529	1,708,681	95,733	977,915	2,805,498	842,818	694,609	873,639	48,948	500,003	1,434,436	(94.4%)	921.5%	186.9%
Long Term Borrowings		1,648,401	1,358,529	1,708,681	95,733	977,915	2,805,498	842,818	694,609	873,639	48,948	500,003	1,434,436	(94.4%)	921.5%	186.9%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity		825,358	1,524,969	1,718,223	3,702,266	4,417,196	4,797,434	422,001	779,708	878,518	1,892,948	2,258,488	2,452,902	115.5%	19.3%	8.6%
Tier 1 Capital		825,358	1,524,969	1,718,223	3,702,266	4,028,232	4,644,879									
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity	2	551,766	1,007,741	1,008,465	2,580,389	2,582,137	2,675,761	282,115	515,252	515,622	1,319,339	1,320,232	1,368,102	155.9%	0.1%	3.6%
Retained earnings without donations and reserves		273,592	517,228	709,758	1,121,877	1,446,095	1,969,118	139,886	264,456	362,896	573,610	739,380	1,006,799	58.1%	28.9%	36.2%
Tier 2 Capital						388,964	152,555					198,875	78,001			(60.8%)
Subordinated debt	3	-	-	-	-	388,964	152,555	-	-	-	-	198,875	78,001	-	-	(60.8%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 2005 as restated by Deloitte; 2007 not audited; 1) Cash collateral; 2) Including Income Statement donations reclassified by Planet Rating; 3) In Dec. 2007, UMCOR subordinated debt was capitalized whereas UNDP subordinated debt is still to be.

■ Formulas

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

■ Rating scale

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