

Prizma

Bosnia and Herzegovina

April 2005

Global Rating

Rating: A-
Trend: Stable

Prizma is a locally registered not-for-profit microcredit organization, founded by Swiss-based NGO International Catholic Migration Commission (ICMC) in 1997. Prizma targets the low-end poor to poorest niche market in Bosnia and Herzegovina, providing its credit services mostly in the Federation but also in some parts of the Republika Sprska. As of March 2005, Prizma had an outstanding portfolio of over 6.6 million EUR, serving over 12,400 clients of all ethnic origins.

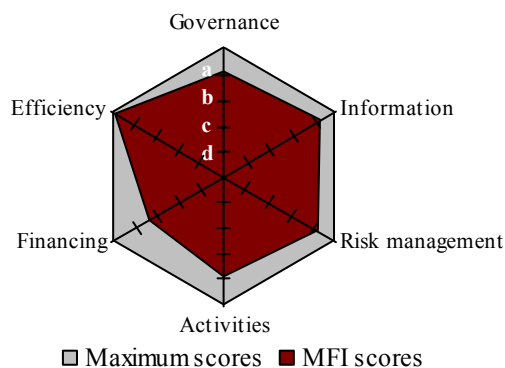
Rating Plus Summary

Environment	Politically stable/ economically favourable
Maturity	Mature: 8 years of operations
Scale	Large: Portfolio of 8.8 million USD
Target market	Broad: Avg. out. loan of 835 USD

Rating scales and formulas may be found on the following page.

Area Scores

G overnance	a
I nformation	a
R isk Management	a
A ctivities	b
F inancing and Liquidity	b
E fficiency and Profitability	a



ACTIVITY	Dec. 2002	Dec. 2003	Dec. 2004	PERFORMANCE	Dec. 2002	Dec. 2003	Dec. 2004
Total nb of staff	50	57	62	ROE	3.7%	11.2%	19.0%
Total assets (kEUR)	4,999	6,109	7,803	Liabilities / Equity	49.2%	61.4%	68.1%
(kBAM)	9,777	11,948	15,261	ROA	2.8%	7.2%	11.5%
Loan portfolio (kEUR)	3,701	5,350	6,829	Operational self-sufficiency	111.5%	134.3%	159.3%
Outstanding deposits (kEUR)	0	0	0	Financial. self-sufficiency	105.6%	124.2%	148.1%
Nb of active borrowers	8,112	10,968	12,603	Portfolio Yield	36.8%	35.2%	34.5%
Nb of savers	0	0	0	Operating. expense ratio	28.6%	22.0%	18.6%
APR ⁽¹⁾	See notes			Staff productivity	162	192	203
PAR 31-365	1.6%	1.3%	1.5%	Funding expense ratio	2.1%	2.3%	2.0%
PAR > 365	0.0%	0.0%	0.0%	GROWTH			
Write-off ratio	0.8%	1.3%	1.6%	Loan portfolio growth	83.8%	44.5%	27.7%
Risk coverage ratio	306%	298%	234%	Savings ptf growth	0	0	0
Exchange rate 1 EUR= BAM	1.96	1.96	1.96	Assets growth	60.2%	22.2%	27.7%

Notes:

- Prizma offers eight products based on sector and lending methodology. The basic needs loans have the highest average effective interest rate, around 43%. Enterprise loans have an average effective rate ranging between 30% for individuals and 36% for groups. The agriculture loans have an average effective interest rate of 19%, the lowest among all products. The weighted average effective interest rate for all products is 32.8% in 2004, which is slightly different from calculated portfolio of 34.5% for the same period.
- For most industry comparisons, peers group used comprises of Mikrofin, EKI, Partner, Prizma, Sunrise, LOK Mikro, Sinergija Plus, Mi-Bospo and Benefit.

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Rating Scale

Area Rating	Global Rating	Explanation
A	A+ A A-	Excellent The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
B	B+ B B-	Good Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
C	C+ C C-	Minimum required Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
D	D	Insufficient Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	E	Immediate risk of default or very insufficient There are immediate or underlying risks for operations or an unacceptable under performance.

Rating Plus: MicroBanking Bulletin categories for ECA (Eastern Europe and Central Asia)

Scale (Outstanding portfolio USD)	Target Clientele (Avg. out. loan / GNP per capita)	Maturity (Years of operation)
Large: > 8 million	Low-end: < 20% OR avg. out. loan ≤ 150 USD	New: 1 to 3 years
Medium: 2 to 8 million	Broad: 20% to 149%	Young: 4 to 7 years
Small: < 2 million	High-end: 150% to 249%	Mature: over 7 years
	Small Business: 250 %	

Ratio Formulas

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

Executive Summary

The microfinance sector in Bosnia and Herzegovina (BiH), launched after the end of war in 1997, is highly developed with support from the World Bank-financed Local Initiatives Project (LIP), international NGOs and development agencies such as KfW and USAID. Subsequent rounds of LIP financing targeting progressively fewer microfinance institutions (MFIs) have led to consolidation pressure among MFIs funded by LIP. Although there were only few takeovers and mergers completed to date, this consolidation trend mirroring the parallel trend in the general banking sector will intensify according to industry watchers. There are officially 46 registered MFIs, but most of outstanding industry portfolio is concentrated among the largest 10 MFIs, a group that includes Prizma.

By the end of 2004, these 10 leading MFIs were serving around 100,000 clients, mainly in urban, but also increasingly in rural areas, with a total portfolio outstanding of around 100 million EUR representing 20% plus growth both in terms of clients and portfolio since 2003. Although portfolio quality remains strong, the entire sector is seeing signs of increased client cross-indebtedness and a relative decline of guarantors' quality due to the fact that many guarantors are also borrowers. Based on estimates of a sample of loan officers from a select number of MFIs, 20% to 60% of clients take loans from a variety of sources. Bosnian MFIs therefore must offer more customized products in a timely fashion while strengthening risk management, to maintain market position and portfolio quality.

Founded by Swiss-based International Catholic Migration Commission (ICMC) in 1997, Prizma registered as an independent MFI in 2001 with both entity governments, allowing it to operate 5 branches and 30 satellite offices throughout BiH. With eight credit products in four categories (enterprise, basic needs, agriculture, shelter), Prizma lends up to 15,000 BAM (7,653 EUR) with 79% portfolio comprising of loans under 1,500 BAM (765 EUR). As of March 31, 2005, Prizma had 12,462 active clients with a portfolio of 6 million EUR made up of mostly enterprise loans in trade and service sectors. It is the 7th and 4th largest Bosnian MFI in terms of outstanding portfolio and active clients, respectively. Prizma targets low-end clientele, which is reflected in its relatively small average loan size outstanding (623 EUR) – among the lowest averages among BiH MFIs.

Prizma received a global rating of A-. This rating is based on Prizma's clear low-end market niche strategy, diversified product offering, good portfolio quality and currently conservative expansion strategy. This rating reflects Planet Rating's expectations that Prizma is institutionally capable of growing more rapidly while preserving relatively higher portfolio yield compared to its peers owing to lower competitive pressure in its market niche. Main areas for improvements include middle management's capacity building, product marketing and market research, client retention, and liquidity management. The small decline in the portfolio quality in the first 3 months of 2005 should be closely monitored, as it does not reflect typical seasonality.

The trend for the year to come is Stable. The stable trend is underpinned by Prizma's low-end market strategy and broad geographic coverage which, according to Planet Rating, will allow it to better defend and expand its market share from "down-scaling" commercial banks than most of its peers. While execution risk exists, Planet Rating views positively the fact that the senior management team has been stabilized since last year, funding limitations have been resolved, a marketing push is planned for 2005 and that an efficient MIS continues to keep

control on costs. Internal trend is positive, however planned adoption of the new microfinance law in late 2005 as well as expected industry consolidation will bring new competition and strategic challenges.

Governance receives a score of: a

- ❑ Prizma's decision-making process is efficient and localized with no influence from its founder ICMC. Committed and knowledgeable Board of Directors guides the institution competently and anchors Prizma firmly in its pro-poor social orientation.
- ❑ Prizma's strategy targeting the low-end segment of the market is well defined, relevant and positions Prizma well from increased competition. This strategy affords Prizma ample demand and protection from price competition helping to maintain high profitability.
- ❑ Prizma experienced major changes in 2004: a) move of HQ from Mostar to Sarajevo; b) external appointment a new Executive Director; c) many new faces in the management team; d) introduction new agriculture products; and e) tight liquidity periods.
- ❑ Prizma's management team is finally stabilized after high turnover in 2003. The new Executive Director succeeded in providing stable leadership, lifting staff morale and creating new dynamism. Progress has been made, but more capacity building and experience is needed to transform all middle managers into a strong and cohesive team.
- ❑ Prizma's New Business Plan is comprehensive and high in quality, but execution risks exist despite conservative growth targets. Cost control and efficient management of a large national branch/office network will continue to pose important challenges.
- ❑ Many new initiatives have positive potential (e.g. credit scoring, drop-out scoring, non-credit products, a new branch in Tuzla, etc.), but will need to be carefully planned out and executed.
- ❑ Prizma is still debating whether to transforming itself into a for-profit finance company (as permitted under new microcredit law) would allow it to retain its strong social orientation.

Information management and systems receives a score of: a

- ❑ The loan tracking system is not integrated with the accounting system, but is well functioning as a coordinated MIS. The Information System Manager is competent and intimately knowledgeable of its MIS and requirements.
- ❑ Prizma's US-developed Kredits loan tracking system and a locally developed accounting system are stable and well supported by the vendors. Both systems provide numerous timely and relevant management and control reports.
- ❑ Segregation of data entry duties, defined user rights limitations, adequate management control, comprehensive audit trail capacity, regular internal audit visits and daily data back-up ensure data security and accuracy.
- ❑ Prizma plans to work with Kredits' developer to migrate its loan databases to the SQL server platform on which its accounting system is already operating, to provide the basis for integrating both systems into a seamless MIS and develop credit, drop-out and poverty scoring.

Risk management receives a score of: a

- ❑ Operating procedures and policies are well documented in comprehensive and updated manuals. They are generally well understood and adhered to, with the exception of minor discrepancies resulting from weak communication channels.
- ❑ Prizma's lending operations are mostly cash-based, therefore inherently riskier than using bank intermediaries. However, cash security procedures are generally adequate. The application of these procedures are not entirely consistent across all branches, but this does not pose a material operational risk.

- ❑ Internal audit functions represent a key strength at Prizma. A competent Internal Auditor reports to the Executive Director on a daily basis and provides detailed quarterly reports to the Board Audit Committee. Audit reports are clear, and detailed and include recommendations for improvement.
- ❑ Prizma is audited yearly by Deloitte & Touche and has received unqualified audit opinions for the past three years.
- ❑ Prizma received a Honourable Mention for CGAP Financial Transparency Awards in 2004.

Activities receives a score of: b

- ❑ Prizma's management identified weak to mild competition in its low-end market. Its low-end focus should continue to shelter it from growing competition from and among top-tier MFIs and commercial banks. Client cross-indebtedness, partially resulting from increased debt accessibility from various providers, is becoming an issue for all MFIs.
- ❑ A broad product range and extensive branch/office network provides good coverage of low-end clients' borrowing needs. A growing share of agriculture and livestock loans provides important portfolio diversification and improves Prizma's overall risk profile.
- ❑ There are certain weaknesses in areas of market research, product marketing and client retention. No clear marketing strategy exists, but there have been efforts to address these weaknesses. Prizma plans to convene a two-day Strategic Marketing retreat for the Board and is in the process of hiring a dedicated Marketing Manager.
- ❑ Based on recent market research, Prizma plans to introduce non-credit products within the next 12 months. This represents an important step in the BiH market and is part of a diversification strategy addressing geographic, sector and product goals. However, specific quantitative diversification goals remain to be articulated.
- ❑ Portfolio quality is good as measured by PAR>31 days not exceeding 1.6% in the past 3 years, but it is understandably weaker than those of BiH peers due to its riskier, low-end clientele. For the first 3 months of 2005, there was a material increase in arrears (albeit from a low base), which should be monitored closely as it was not entirely seasonal.
- ❑ Prizma is adequately covered with a 236% risk coverage ratio at the end of 2004 thanks to a conservative provisioning policy. Greater monitoring of loan guarantors' risk profiles and clearer prudential limits would enhance overall risk protection at Prizma.

Financing and liquidity receives a score of: b

- ❑ Prizma is modestly leveraged with additional capacity for debt financing. Since mid-2004, Prizma has been quite successful in attracting international financing from well-known social investors. This has helped to diversify its funding base away from bilateral donors and multilateral agencies based in BiH.
- ❑ Active in fund raising, Prizma has secured 85% of funding for 2005. It has not yet received local commercial bank funding – a step that would diversify portfolio funding despite less favorable terms than those offered by social investors and inherent competitive risks.
- ❑ Asset and liability risks are adequately controlled. Maturity risk is a non-issue as its portfolio has an average 10-month term whereas funding is mostly over one year. FX risk exists due to EUR borrowings, but is sufficiently mitigated due to BAM's fixed peg to the Euro and pass-on clauses in loan contracts. Interest rate risk is manageable owing to Prizma's high interest spreads.
- ❑ Liquidity management is weak as evidenced by periods of high idle cash accumulation and at other times periods of tight liquidity. Better synchronization of growth and funding forecasts would allow optimization of liquidity planning. A high number of bank accounts, decentralized liquidity management to the branch level and lack of dynamic liquidity planning have all rendered liquidity management difficult for Prizma.

Efficiency and profitability receives a score of: a

- ❑ Prizma is a highly profitable institution and has been financially sustainable since 2001. Its good financial performance is mainly explained by relatively high portfolio yields consistent with the dominance of its group methodology and unsecured products.
- ❑ Prizma's somewhat higher cost structure vis-à-vis some of its BiH peers is due to the smaller average loans required to serve its low-end market clientele.
- ❑ Overall portfolio yield has decreased slightly since 2003 since the introduction of new agriculture products supported by USAID LAMP funds whose wholesale lending interest rate is capped at 10%. Prizma will have a chance to readjust pricing on USAID LAMP funds upon their official capitalization.
- ❑ The operating expense ratio decreased from 28.6% in 2001 to 18.6% in 2004 thanks to streamlined products and strong staff productivity and despite its average loan size that is significantly smaller than virtually every other peer in Bosnia (average loan size dropped almost 40% to 623 EUR in 2004). LO productivity increased dramatically in the last few years, due significantly to the quick-disbursing Basic Needs loan product. Prizma's loan officer and staff productivity ratios are among the highest in BiH.
- ❑ The financial expense ratio remained very low at 2% thanks to the heavy weighting of soft loans in the funding mix. Prizma is still highly profitable after adjustments, with an AROA of 10% and AROE of 16.5% as of December 2004.
- ❑ Profitability levels are expected to remain strong due to: a) low price competition at its low-end market niche; and b) expected gains from internal improvements (e.g. MIS integration; better liquidity management and a more clear marketing strategy stimulating growth).

Financing needs:

- ❑ Prizma anticipates significant financing needs of 20.6 million BAM (10.5 million EUR) through 2007, supported by both soft loan funding and increased commercial funding in the capital structure.
- ❑ Planet Rating believes that Prizma is capable of executing its 3-year Business Plan and of raising sufficient funding to finance its planned growth.

Conflict of Interest Statement

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.

Rating Plus

The GIRAFE rating evaluates the sustainability of an institution. However, it is difficult for an institution that is young, and operating in a challenging environment, or targeting hard-to-serve populations to achieve this level of sustainability. Rating Plus serves to clarify the institution's context.

Operating Context

Economic and Political Environment: Improving

Ranked 66 (out of 175 countries) in the UNDP 2004 Human Development Report, BiH is a post-conflict country transitioning to a free market economy. Much needs to be done to improve the regulatory environment and eliminate barriers to investment.

	Dec. 2002	Dec. 2003	Dec. 2004
Exchange rate: 1 EUR = X BAM	1.96	1.96	1.96
GDP/ capita (EUR)	1,556	1,642	1,732
Inflation	0.4%	0.6%	0.4%
BiH rating: Moody's			B3
:COFACE			D

Source: Central Bank of BiH, Moody's, COFACE

- There is still too much over-lapping governing institutions in BiH. Laws are slow to pass, though some improvements have been made in the recent past. The adoption of the microfinance law has been delayed for over a year now. Macro-economic conditions are stable, but economic growth remains sluggish and unemployment remains extremely high, especially among youth (estimated at over 60%).
- The Central Bank of BiH has kept inflation low and the national currency (BAM) firmly pegged to the EUR for the past few years. This favourable economic climate and renewed trust have resulted in strong growth of deposits in domestic banks (+30%) and of overseas portfolio investment in BiH's stock exchanges.
- The Central Bank regulates banks and other financial companies, but does not yet regulate MFIs, which are currently overseen by entity governments.

Infrastructure: Favorable

Since the war, critical infrastructure has been rebuilt. Prizma communicates very efficiently with its branches and satellite offices via phone, email and Intranet; occasionally roads are closed during winter due to snow, causing some delays.

Institutional Development (MBB Indicators)

Maturity: Mature; Scale: Large

- 8 years of operations since inception in 1997
- Loan portfolio of 8,8 million USD
- Grants: 4.9 million USD since start up.

Target clientele: Broad; Other Activities: No.

- Average loan at disbursement is 35% of GDP per capita, while the average outstanding loan is between 40% and 36% of GDP per capita (Dec. 2003 and Dec. 2004) on a clear downward trend, placing Prizma in the Broad category as defined by the MBB.
- Prizma targets the low-end of the market, and continuously tries to adapt its product range to its clients. The institution developed a poverty scorecard and started collecting data in 2002. Prizma plans to work in areas of credit, dropout and poverty scoring in its MIS starting mid-year 2005.

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Acronyms

ALM	Asset/Liability Management
BAM	Bosnia Official Currency
BiH	Bosnia and Herzegovina
BoD	Board of Directors
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FY	Fiscal Year (December 31 st)
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
ICMC	International Catholic Migration Commission
IFRS	International Financial Reporting Standards
IS	Information Systems
IT	Information technology
KfW	German Development Bank
LAMP	Linking Agriculture Producers to Markets
LIP	Local Initiatives Project
LO	Loan officer
MBB	MicroBanking Bulletin
MIS	Management Information System
MFI	Microfinance institution
MFC	Microfinance Center for Central and Eastern Europe and the Newly Independent States
MFN	MicroFinance Network
N/A	Not Applicable
NGO	Non Governmental Organization
PAR	Portfolio at risk
ROA	Return on assets
ROE	Return on equity
SME	Small and medium enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
USD	United States Dollar

Institutional Presentation

Environment The microfinance sector in Bosnia and Herzegovina (BiH), launched after the end of war in 1997, is highly developed with support from the World Bank-financed Local Initiatives Project (LIP), international NGOs and development agencies such as KfW and USAID. Subsequent rounds of LIP financing targeting progressively fewer microfinance institutions (MFIs) have led to consolidation pressure among MFIs funded by LIP. Although there were only few takeovers and mergers completed to date, this consolidation trend, mirroring the parallel trend in the general banking sector, will intensify according to industry watchers. There are officially 46 registered MFIs, but most of industry outstanding portfolio is concentrated among the largest 10 MFIs, a group that includes Prizma.

By the end of 2004, these 10 leading MFIs were serving around 100,000 clients, mainly in urban, but also increasingly in rural areas, with a total portfolio outstanding of around 100 million EUR demonstrating 20%+ growth both in terms of clients and portfolio since 2003. Although portfolio quality remains strong, the entire sector is seeing signs of increased client cross-indebtedness and a relative decline of guarantors' quality due to the fact that many guarantors are also borrowers. Based on estimates of a sample of loan officers from a select number of MFIs, 20% to 60% of clients take loans from a variety of sources. Bosnian MFIs therefore must offer more customized products in a timely fashion while strengthening risk management, to maintain market position and portfolio quality.

Macroeconomic and banking reforms have been most advanced and represent top marks on BiH's scorecard. Competition in the banking sector has increased, especially with the entry of foreign-owned banks. This has generally resulted in better product offerings and a decline in interest rates, but has also resulted in a swift consolidation of the sector, as evidenced by a decrease in the number of registered banks from 76 in 1997 to 35 in 2004. At the end of 2004, the banking system had over 9.4 billion BAM in assets. Many banks, especially foreign-owned ones, such as Raiffeisen Bank and Hypo-Alpe-Adria Bank, have started to lend to select MFIs on commercial terms. Some of these banks are also "downscaling" into top-tier MFI markets and thus increasing the competitive environment overall.

Mission Prizma's vision is "to be widely recognized for giving people choices to improve their lives and building committed respectful relationships." Its mission is "to improve the well-being of large numbers of poor women and their families by providing long-term access to quality financial services." Its twofold objective is social impact and long-term sustainability. Prizma is a member of Microfinance Network— a global network of leading MFIs.

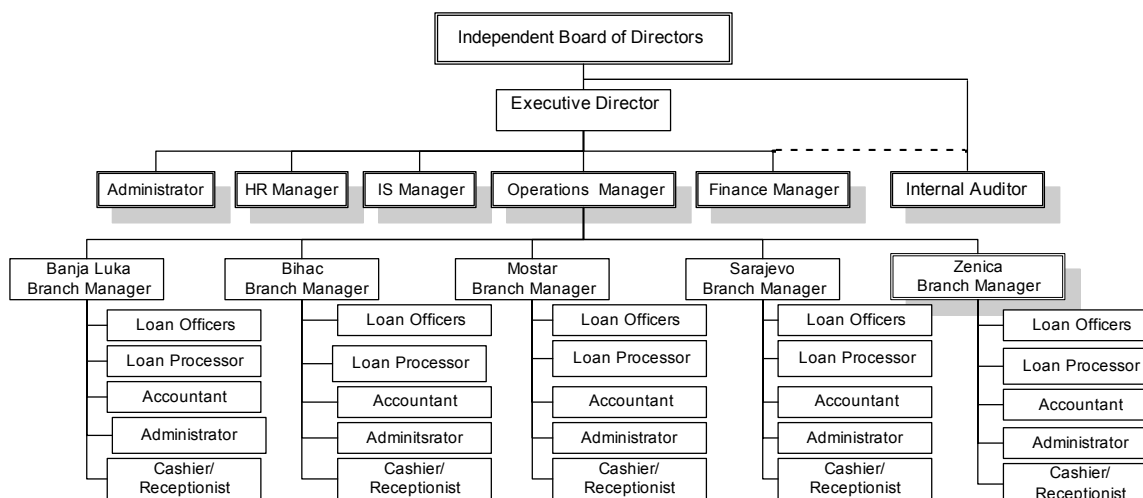
Legal form and supervision Prizma is a not-for-profit, non-deposit-taking institution registered with the two entity governments of BiH under two similar microcredit laws. The laws are simple, providing for registration of specialized credit-only, non-government, non-profit, non-deposit-taking institutions with minimal regulation and no formal supervision beyond that of NGOs. Efforts are underway to change the legal framework for MFIs, to expand legal options and the range of products that may be offered. A new microfinance law is expected to be adopted at the end of 2005. A key proposed change is the possibility for MFIs to transform to for-profit, regulated, tax-paying finance companies, capable of raising equity from private investors.

Ownership and External Support Registered as an MFI, Prizma has no formal shareholders and has never paid any dividends. All profits and cash donations are capitalized. Prizma's Board of Directors is its highest

decision-making body and is comprised of seven independently elected members. These individuals, coming from diverse backgrounds and experiences, are deeply committed to Prizma's mission. Several members have been involved with Prizma since its founding in 2001. The current Board of Directors is presided by Mr. Mehmed Vreto - a designated ICMC representative. It is understood that ICMC has ceased all direct involvement in Prizma's operations and has transferred all assets to Prizma. Its influence as founder is limited and non-material.

Services and products Prizma offers eight loan products grouped into four categories (i.e. enterprise, basic needs, agriculture and shelter loans) and employs two lending methodologies to deliver these products: group solidarity and individual. Prizma targets low-end poor, predominantly female clients. Enterprise loans represent its core products, comprising about 63% of all loans issued in 2004. Prizma is also unique among MFIs in openly marketing very small consumption loans (basic needs loans) and housing repair (shelter) loans. All disbursements and repayments are made in cash at branches or directly to the loan officers during field visits. *(A detailed product description is provided in the appendices.)*

Human resources and branches Prizma currently has a network consisting of 5 main branches and over 30 satellite offices covering a large portion of BiH's territory. It plans to open a satellite office shortly in Tuzla – a major town in the northeast with the intention of transforming it into a full-fledged branch by the end of 2005. The Senior Management Team is located in a new headquarters in the capital Sarajevo following a move from the town of Mostar a year ago. Operations are highly decentralized with all credit decisions and basic liquidity management being the responsibility of individual branch managers. The majority of Prizma's 62 staff members are located at its branches and satellite offices.



Human resources	Dec. 02	Dec. 03	Dec. 04
Number of branches	4	5	5
Number of personnel	50	57	62
% Loan officers	36%	40%	42%
Turnover (exits/ period average number of personnel)*	9%*	9%*	10%*

* The relatively high turnover is explained in section "G"

External audit Deloitte & Touche has been Prizma's external auditor for the last three fiscal years (FY end is December 31st). Its accounts are compliant with and audited based on IFRS and CGAP disclosure guidelines. Prizma received all unqualified audit opinions for this same period and issues raised in yearly management letters have been operational in nature. Prizma has been selected by CGAP for Honorable Mention in its 2004 Global Financial Transparency Awards.

Governance

Prizma had an eventful year in 2004 marked by several key changes and events that tested its governance structures: a) move of HQ from Mostar to Sarajevo; b) external appointment of the new Executive Director; c) many new members appointed to the management team; d) introduction of new agriculture products; and e) tight liquidity periods. Prizma managed these changes reasonably well. It is now in its consolidation phase, which should position it strongly to face the challenges described below. Prizma is currently registered as a not-for-profit MFI. As a new microcredit law is expected to be adopted later this year, Prizma will have to choose between two legal forms under review: a not-for-profit foundation or a for-profit finance company. For now, Prizma is leaning toward the foundation statute, which is more in line with its social mission. This report does not address the risks, benefits or impact of adopting either of the two legal statuses.

Decision-making

Prizma's decision-making process is efficient and ensures coherence with its mission to serve poor women and their families. The governance process is no longer influenced by its founder- the international NGO ICMC¹. Strategic decisions are approved by a well-informed and knowledgeable Board of Directors (BoD), which relies on a strong Executive Director (ED) to execute plans.

Prizma has succeeded in creating a committed and knowledgeable Board, in spite of the challenges typically faced by NGOs whose Boards rely on voluntary members who are not its owners. BoD members come from diverse backgrounds and have gradually acquired microfinance experience by working with Prizma and by monitoring the nature and growth of the sector. (All have sat on the Board for more than 3 years) The BoD also benefits from the participation of the two previous Executive Directors, whose thorough knowledge of Prizma's operations contributes to the competence of the BoD. Quarterly meetings, lasting a day each, guarantee proper Board support and oversight of operations and planning. The BoD receives necessary information (e.g. core performance reports, audit reports, proposed motions, etc.) prior to every meeting. In addition, workshops and board committees complement full BoD meetings. There are currently standing Executive, Finance, Audit, Human Resources and Nominations, Credit and Marketing committees. All decisions are well documented in detailed BoD minutes.

Planning

Relevance of the current strategy

Prizma's strategy targeting low-end poor clientele is well defined, relevant and positions Prizma well against increased competition. This strategy affords Prizma ample demand and relative protection from growing price competition helping to safeguard profitability.

Prizma's planning process is both comprehensive and detailed at the strategic and operational levels. The new three-year Business Plan (2005-2007) translates well the general mission into

¹ ICMC direct partnership with Prizma ended in 2002. Though not a direct representative of the founder, the current president of the board was nominated by ICMC prior to 2002.

qualitative and quantitative objectives and projections. The planning process is finalized every year in December and involves key stakeholders engaged in the development and execution of strategy.² Institutional performance is monitored on a monthly basis.

Prizma's strategy is based on the following main axes:

- ❑ **Service expansion** by redesigning existing products to better meet clients' needs, introducing two new non-credit products in cooperation with third-party companies, and disbursement of larger loans for existing products through banks.
- ❑ **Geographic expansion** by opening a new branch in Tuzla and several satellite offices to reach more remote areas from existing branches.
- ❑ **Marketing reinforcement** through more and better use of market research and tools, a strategic marketing retreat for the Board and the hiring of a Marketing Manager.
- ❑ **Capacity development** through the improvement of the MIS (integration of loan tracking and accounting systems), strengthening of middle management capacity, the development of an LO training program and the implementation of a credit, drop-out and poverty scoring system.

The principal objective of the strategy is to strengthen and expand Prizma's strategic positioning in the low-end market. As competition increases overall, Prizma will continue to occupy a niche that remains unattractive to the largest MFIs, focused on the upper-market and to downscaling commercial banks. Not many competitors are willing to go as deep as Prizma in terms of providing very small loans to a large number of unregistered and un-collateralized entrepreneurs employing a group lending methodology.

Prizma demonstrates a strong, comprehensive, clear strategy, which supports its mission and strong social orientation. By developing new non-credit products, seeking out partnerships and developing a coherent marketing plan, Prizma should retain the low-end market leadership position. This strategy also allows Prizma to maintain its current pricing strategy and profitability level (refer to section E for more details).

Execution risks exist in areas of geographic expansion and product development. Expansion plans will need to ensure increased cost-efficiency and effective management of a growing decentralized branch network (refer to section A and R). Though Prizma's planned new non-credit products represent a good diversification strategy, they are clearly outside of Prizma's existing competency. Therefore, the institution will need to address extra care to product development and marketing.

Budgeting Process

The budgeting process closely follows the strategic, business, and operating planning processes and involves all managers. Budgets are developed for each branch and non-operating unit (MIS, Internal Audit, HR, etc.) and these are strictly monitored every month. Budgets are updated twice a year and forecasts are provided quarterly to the Board for review. Budgets and associated projections are based on conservative assumptions. Prizma projects to grow its portfolio by 30% in 2005, 23% in 2006 and 44% in 2007. According to financial projections, existing branches are not anticipated to grow significantly during this period; the majority of the growth will be achieved by establishing new satellite and branch offices. The new Tuzla office, to be opened in June 2005, is anticipated to reach approximately 1,000 clients by

² Branch Managers' initial projections are discussed and consolidated by the Finance and Operations Managers. A consolidated annual operating plan and supporting budget for the coming year are presented to the Board for review and approval at the end of each year.

December 2005, representing almost 50% of the Zenica Branch's current caseload - a branch that has been in operation since 1997. This represents a high expectation for this new office, but is based in part on the facts that Tuzla is the most populous Canton in BiH and lies in close proximity to many poor communities.

Management Team

Skills and experience of the management team

The HQ Management Team is knowledgeable in their respective areas. All managers have relevant experience in microfinance and/or other related sectors. Following significantly high turnover in 2003 the Management team is now stabilized.³ This recent turnover implies that a number of current middle managers have limited experience in their current positions. Middle managers (including Branch Managers) represent the backbone of Prizma and have gained significant operating level experience on the job since 1997. For some of them, more managerial experience on the job would complete their overall skills set.

The new ED, who arrived in March 2004, succeeded in providing stable leadership, lifting staff morale and creating a new dynamism at Prizma. Typical of many MFIs, Prizma's middle management relies on the strong ED for strategic vision and execution. As Prizma grows in size and complexity, more management capacity building will be needed to transform all middle managers into an equally strong and cohesive team. Prizma also plans to create a Marketing Manager position in 2005 as a part of a broader strategy to complete the Management team's skills set (refer to section "A").

Executive Director: Kenan Crnkic started his career in microfinance in 2000 as a LO of MKO-EKI, one of BiH's largest MFIs. He soon became EKI's Operations Manager and served on that position until 2004 when he was appointed Prizma's Executive Director. Mr. Crnkic has undergone several management and microfinance trainings organized by leading learning or technical organizations. He studied for his degree in Economics at the Karl Frances University, Graz, Austria, and continued on to the University of Sarajevo where he completed his studies in the same discipline. Mr. Crnkic is a regional trainer for MFC and a certified service provider for MicroSave market research tools for microfinance.

Organization of the management team

The Management Team is well organized and communication among them is efficient, thanks to daily interactions and monthly meetings, including those between Branch Managers. Each manager's role is well defined and the division of tasks is respected.

Human Resource Management

Organization of human resource management

The HR functions work well at Prizma. HR procedures are very clear, thanks to technical assistance received in previous years and a deliberate emphasis on this key area. The HR Manager, who was recently promoted from the loan officer position, has a background in psychology and is now responsible for developing and applying policies and procedures approved by the Executive Director or the BoD. Prizma had three internal promotions to the

³ Previous managers left for personal reasons (e.g. the previous executive directors left to pursue new job opportunities and pave the way for Bosnian leadership, some managers were not willing to relocate to take up new leadership roles and others found better paid jobs). The move of the headquarters from Mostar to Sarajevo promises to help Prizma to minimize turnover.

management level in 2004 (Operations, HR and Branch Managers) demonstrating to existing staff Prizma's commitment to employees' internal career paths and continuity.

Skills management and performance evaluation

There is a strong institutional adherence to Prizma's social mission and the goal of maintaining sustainability. A monthly incentive for field staff and quarterly appraisal for all staff serves as a useful motivation tool and ensures that performance is clearly communicated monitored. There is a clear salary scale, which takes into account skills, responsibility and seniority of every employee. Bonuses are offered to LOs on a monthly basis using a transparent process and an annual team bonus is shared among all staff according to global performance. Prizma could improve the training process by identifying training needs at the individual level in order to ensure the completeness of skill sets required in all positions.

The recruitment process is well planned, transparent and led by the appropriate individual responsible for interviewing and hiring. Internal promotion is given priority over external selection wherever possible. Following each hiring, there is an induction process for every new staff member.

Information

Management Information System (MIS) and Equipment

Description of the MIS

Activity Information	<ul style="list-style-type: none">• Prizma uses Kredits, a user-friendly, stable and reputable loan tracking system developed by US-based Technical Development Solutions.• Prizma has 5 operating licenses for each of its branches and HQ. Client and loan data is stored and backed up at the branch level and is consolidated and backed-up at the HQ level.• Client and loan data is entered and analyzed in a timely fashion at the branch level and then sent to HQ on a monthly basis for institution-wide consolidation and analysis.• Kredits generates numerous useful reports and Prizma has paid to develop a few customized reports for its particular use. All reports can be run on a real time basis.
Accounting	<ul style="list-style-type: none">• A locally developed accounting system installed at the HQ and in all branches reflects the decentralized nature of Prizma's operations.• Reconciliation of bank statements and portfolio information are conducted daily at the branch level and information is sent to HQ for institution-wide consolidation and analysis.• Branch and consolidated financial statements can be generated at any time, but are typically done on a monthly basis and include provisioning, depreciation and write-offs.
Network	<ul style="list-style-type: none">• A server and a local area network (LAN) in each branch is linked to a HQ server through a leased Internet line, permitting secure virtual private network (VPN) and Internet connection. Key information systems are online. Prizma has a secure Intranet to share information with and among its employees and board members, as well as to provide web-based e-mail for all management and board when they travel.

Security

Segregation of data entry duties, defined user rights, appropriate management control, comprehensive audit trail capacity, regular internal audit visits and anti-virus software all ensure that the accuracy and integrity of data is protected from unauthorized access. There is some weakness at distant satellite offices, where segregation of duties is impractical due to human resource limitations. Also, more frequent, systematic changing of passwords, which enable access to critical systems such as the loan tracking and accounting systems, would further enhance data and system security.

Data loss protection is adequate. Client and loan data is backed-up daily on each branch's server, and sent monthly to the HQ where it is also backed-up. Prizma plans to back-up data on CD, which are retained in banks, to enhance data protection.

Ease of system use

Systems, especially Kredits, are user-friendly, allowing real time access to and sharing of key management data. As Prizma has grown in size, processing time on Kredits has slowed down due to limited flexibility of the underlying Microsoft Access database. Additionally, the fact that the loan tracking and accounting systems are not integrated results in some loss of inefficiency in reporting. However, as a whole, systems are performing sufficiently well to provide Prizma with quality and timely information.

MIS plan and future improvements

While there is no stand-alone IT strategy, Prizma's business plan does cover sufficiently this important area while providing an adequate budget to accomplish its goals. In June 2005, Prizma plans to work with Kredits' developer to migrate its databases to the more flexible and scalable SQL server platform on which its accounting system is already operating. A common SQL platform is expected to provide the basis for integrating both systems into a seamless MIS and for adding a credit, drop-out and poverty scoring system. Planet Rating is confident that this important operation will be carried out with success, given that a) Prizma's MIS Manager has technical competency and experience; and b) Technical Development Solutions has a track record for reliability which is enhanced by their self-interest to improve Kredits. (i.e. Once Kredits is tested successfully on SQL, the vendor will be able to market the new platform to other software licensees).

Skills of MIS manager

Prizma's IS Manager is technically competent, committed and possesses intimate knowledge of the MIS and its requirements. On the post since 2003, he has a good overview of future MIS needs and the role of the system in Prizma's social and financial performance and future development. Daily maintenance and regular system control are done internally. As the MIS manager works alone at HQ he represents a key-person risk; however the risk is somewhat mitigated by the fact that the loan tracking and accounting systems are stable and enjoy solid technical support from their respective software vendors. At the branch level, there are staff members who are comfortable with Prizma's systems as well, but they are not considered technically competent enough to undertake programming and lack sufficient global view of Prizma's system development needs. Technical Development Solutions has provided strong technical support thus far. As Prizma grows in size and complexity, it will be important to maintain support for its systems and adapt them for non-credit products as needed.

Information on Activities

Information quality

Kredits-generated reports provide all relevant data that allow Prizma's adequate monitoring and control of its lending operations. Reporting is one of Kredits' strongest features and provides an impressive number of reports, based on simple queries. Detailed client and loan information is provided for multiple operational levels and segments and individualized or consolidated reports can be generated as needed. Reports are clear, well-presented and available in local languages and in English.

Information dissemination

Prizma's employees and Board members are generally happy with the relevance, quality and timely delivery of activity reports. Relevant reports can also be printed on demand from online real-time databases. Due to the lack of integration of current systems, certain reports are not automatically generated (i.e. must be computed separately in Excel spreadsheets), but this does not have a material impact on daily operations.

Financial and Accounting Information

Information quality and financial analysis

Financial statements and accounting reports are timely and of high quality. Some reports contain ratio analysis, permitting more detailed assessments. An accountant at each branch is responsible for tracking revenues and expenses for the branch, performing daily reconciliations and producing branch-specific, monthly financial statements. This data is then sent monthly to

HQ for institution-wide consolidation and analysis. Consolidated monthly statements are typically available 10 days after month end.

Skills of the finance department

Promoted to her position in 2003, Prizma's knowledgeable Finance Manager works with one assistant in HQ and interacts almost daily with the accountants located in each branch. Communication protocols seem sufficiently effective in permitting seamless coordination among branches throughout the country. The Finance Manager acts as central coordinator, but does not manage branch accountant staff directly. With the planned migration of MIS to a SQL server platform, Prizma may reconsider the need for an accountant in each branch in the future. This event could also serve as a good opportunity to reconsider how Prizma's financial management could be reorganized to optimize the use of human resources between the HQ and branches. The Finance Department performs sound financial analysis overall, but there is some weakness in liquidity management (refer to section "F"). Prizma also needs to better communicate and educate staff about calculating, analyzing and interpreting performance ratios pertinent to their respective work.

Risk Management

Procedures and Internal Controls

Internal controls

Prizma's management and non-management staff have a good understanding of the institution's credit, financial and operational risks. Prizma's procedures and policies are well documented in comprehensive and updated manuals. While Prizma's risk management strategies are considered adequate, its wide, decentralized operations create some challenges to their application. We noticed some discrepancies in the application of certain policies and procedures at the branch level, but they do not affect materially the overall soundness of Prizma's operations.

An area where further risk assessment would be useful is Kredits' user rights, granted to Branch Managers. Currently Managers can edit certain client and loan data on their own. System audit trail and regular portfolio reconciliation exist, but data integrity risks could potentially be reduced further with additional layers of authorizations and/or periodic verification by HQ and subject to cost/benefit considerations.

Liquidity security

Prizma's lending operations are mostly cash-based, therefore inherently riskier than those of MFIs which use bank intermediaries. Loan staff collects loan repayments in cash and deposits the money in bank accounts themselves when they work from satellite offices far from the branch. However, triple-copy loan repayment receipts, loan disbursements in the presence of at least two staff members and cash transport to banks in alarm-enabled bags with remote alarm trigger devices by two separate staff provide sufficient security for the risk posed by working in cash. Regular monitoring, as well as daily bank account reconciliation, also ensures quick detection of any anomalies.

Overnight cash security procedures are adequate as well, but their application is not entirely consistent across all branches for a number of reasons. There are no cameras filming either the safe or the cashier in branches. Material discrepancies were found in some staff having both safe keys, which would allow a person to open a safe unaccompanied, and levels of cash kept overnight sometimes exceeded maximum limits. It should be noted that Prizma has plans to disburse all loans higher than 5,000 BAM using bank intermediaries later this year, which will further address the risk of dealing in cash. Prizma has not reported any cash losses or cash-related frauds since its inception. Nevertheless, it would benefit from a more rigorous and consistent application of some existing cash security policies and procedures.

Internal Audit

Risk identification

The internal audit function represents a key strength at Prizma. Systematic, standardized performance control at all management levels allows quick tracking of discrepancies and gaps. Prizma has a competent and experienced Internal Auditor who thinks critically of relevant internal and external risks facing Prizma and their impact on its operations. The Internal Auditor reports on a daily basis to the Executive Director and provides detailed quarterly

reports to the Board Audit Committee. With Board Audit Committee and management input she drafts comprehensive annual audit plans covering all operational aspects.

Internal audit quality

Audit work is methodical, regular and of good quality. The Internal Auditor’s experience and knowledge is clearly reflected in well-documented, quality audit reports and recommendations for improvements. The Internal Auditor spends 60% of her time auditing lending operations and the remaining time with other departments. She visits each branch twice a year for a period of two weeks, allowing sufficient time to cover both branch and satellite office operations. While there is strong institutional support for the Internal Auditor’s work, her recommendations take some time to be fully implemented due to the decentralized nature of Prizma’s operations.

When not in the field, the Internal Auditor splits her remaining time between auditing the finance and MIS departments and writing reports for the Audit Committee of the Board, which meets quarterly, in advance of regular board meetings. Prizma’s Board President also serves on the Audit Committee. Reports of such meetings are well kept and updated. In addition to her internal audit work, the Internal Auditor also assists in branch and client sampling for Prizma’s external auditor, Deloitte & Touche, during its regular annual external audit – a task that most Bosnian accounting firms do not perform as part of their normal due diligence.

Activities

Marketing and Competition

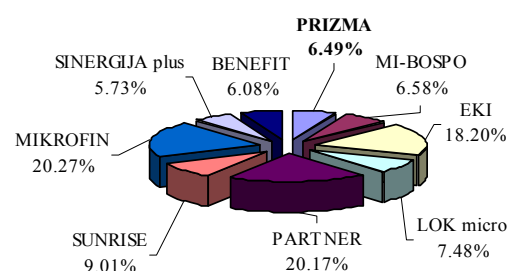
The size of the microfinance market is difficult to assess, as the last census took place in BiH, before the war in the early 1990s. The World Bank estimated the total population to be 4.1 million in 2004. The BiH microfinance environment is highly competitive, notably in urban areas where MFIs have been operating for 8 years and commercial banks are now very active. Some urban markets seem to be at or near saturation, therefore many MFIs are seeking to expand their rural outreach. By the end of 2004, the 10 leading MFIs were serving about 100,000 clients, mainly in urban, but also increasingly in rural areas, with a total portfolio outstanding of about 100 million EUR. Although portfolio quality remains strong, the entire sector is concerned about growing client cross-indebtedness and the relative decline of guarantors' creditworthiness (for example, many guarantors also have loans and guarantee more than one loan).

Consistent with its mission and market strategy, Prizma targets the low-end segment of the market. It serves primarily female clients, the majority of whom operate unregistered businesses. Prizma's management identifies weak to mild competition for its market segment. Based on market and competition surveys, Planet Rating considers Prizma's strategy to be sound from a market-positioning standpoint. Competition from both MFIs and "down-scaling" commercial banks impacts and will continue to impact its more upper-end market peers, which disburse higher average loans and serve less poor, vulnerable, and non-poor clients. Prizma's competitors include the MFIs Mikra, LOK, EKI, Mikrofin and Partner, with varying degrees of intensity depending on the region. The key concern for Prizma is not so much direct competition (yet), but the increased cross-indebtedness of its clients. To address this issue, Prizma is currently developing a credit-scoring module in Kredits that is anticipated to be ready in 2006 and will help the institution better manage credit risk in the medium- to long term.

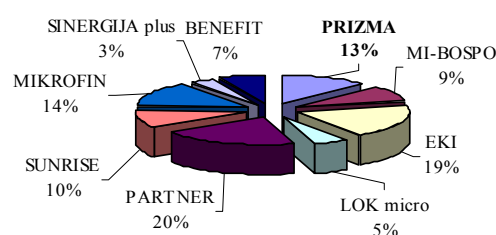
Prizma's market share in terms of outstanding portfolio is small when compared to those of BiH's largest MFIs, reflecting its smaller average size loans and low-end market niche. Its market share has slightly deteriorated since 2003 (by 1%). While the institution has experienced substantial growth, it has grown slower than its top-three peers Mikrofin, EKI and Partner, which explained the loss of relative market share for Prizma and much smaller MFIs.

Despite its growing branch network, Prizma's share of active clients, though substantial, fell by 3% in 2003, while peers, such as Partner and Mikrofin, experienced gains of 3% each. The deterioration can be

Market Share by Portfolio Outstanding as of 12/2004



Market Share by Number of Active Clients as of 12/2004



explained, in part, by Prizma's limited marketing strategy and weak liquidity management. Prizma is taking several measures to remedy these weaknesses, such as addressing marketing directly at the board level through a marketing committee, a strategic marketing retreat and the planned hire of a Marketing Manager to develop and lead execution of a coherent and more aggressive marketing strategy.

Prizma is competitive in providing small, simple and reasonable fast cash loans. A weakness however, is the relatively low maximum loan amounts (e.g. 8,000 BAM or 4080 EUR for core enterprise loans compared to 30,000 BAM or 15,300 EUR offered by some other MFIs) resulting in larger and often better clients having to look elsewhere for bigger credit. Contrary to many of its peers, Prizma continues to employ group solidarity lending methodology as a key client management system. It also has individual loan products to assist existing group clients when they transition to individual loans. Prizma's product range provides good coverage of low-end clients' financial needs ranging from enterprise and agriculture loans (3 new products in 2004) to consumption and housing loans. Its 5-branch and 30-satellite-office network is one of the most extensive delivery networks in BiH.

Prizma has certain weaknesses in areas of market research, product promotion and client retention. Prizma has pursued social impact and poverty assessment surveys over the past two years, confirming that it has made a difference in the lives of its poor clients. Some of its products, most notably the basic needs product, were designed in response to the findings of such research and to identified client needs. However client dropout rates after 90 days have consistently exceeded 35% since tracking began in 2004 leading us to question Prizma's product marketing effectiveness, and the dropout situation across the industry. To be fair to Prizma, most MFIs do not collect client dropout rates and many industry watchers often refer to "high" dropout rates for all MFIs. This is arguably a complex industry-wide issue, not a specific Prizma issue. It is worth noting that Prizma has undertaken exit research among its clients, in collaboration with researchers from the MFC, and has plans to implement a pioneering drop-out scoring module in its MIS in the second half of 2005 to address this important issue.

Prizma relies primarily on word-of-mouth to attract new clients and has deliberately avoided active promotion using traditional media such as TV, radio and newspapers. Prizma agreed that its marketing and promotion strategy is limited and a 2-day Marketing Session of the Board will convene in June 2005 to further address this issue. Planet Rating views this meeting as a step in the right direction to producing a Marketing Strategy and is encouraged by Prizma's plan to hire a dedicated Marketing Manager in 2005 to conduct market research, prepare a marketing and communications plans and to work with the Operations Manager on product delivery effectiveness with a focus on satellite offices.

Prizma is taking steps to introduce non-credit products as strategic partners aim for greater product diversification. While it is too soon to evaluate the impact and effectiveness of these planned products, Planet Rating views favorably any well-planned and well-executed diversification from capital-intensive credit products to fee-based products where exposure risks are essentially borne by strategic partners.

Portfolio Management

Lending methodology

Prizma effectively employs both group and individual lending methodologies with the group method being dominant method per portfolio outstanding. Its portfolio management

procedures are clearly defined and documented and are generally understood by all staff. Products and loan application forms are standardized. Lending staff is well trained to select appropriate clients, perform proper credit analysis, ask for appropriate guarantors (if needed) and conduct regular monitoring. Regular credit committees of knowledgeable and experienced staff ensure uniform approval standards across products.

Loan applications, which include basic household cash-flow and, for business applicants, business plans. These are simple yet contain sufficient information for credit analysis and approval. Clear credit procedures and limits provide adequate risk control in light of decentralized credit decision-making at the branch level. LOs are aware that cross-indebtedness is an issue, but handling of this risk is still left in each LO's hands and could be more defined and formalized at the corporate level to ensure consistency.

Loan Officers' skills

LOs have a clear understanding of their role and responsibilities, as well as credit risks and knowledge of local market. They know the Credit Manual well and have sufficient training and experience to deal with most client cases. They have been with Prizma for an average of 3.5 years and are paid competitively with other MFIs.

Global portfolio diversification rules

An area for Prizma to improve is its diversification strategy, which could be better defined. Prizma has some specific sector targets or limits addressed in the business plan, but they do not seem to be derived from an extensive analysis or strategy-driven logic. Trade and services continue to dominate the portfolio with agriculture growing in importance since the introduction of the USAID-supported LAMP program. A more clear HQ strategy regarding both sector and product diversification would enhance its ability to mitigate recurrent external risks such as harsh winters and late payment of public-employee salaries and their effects on temporary delinquency.

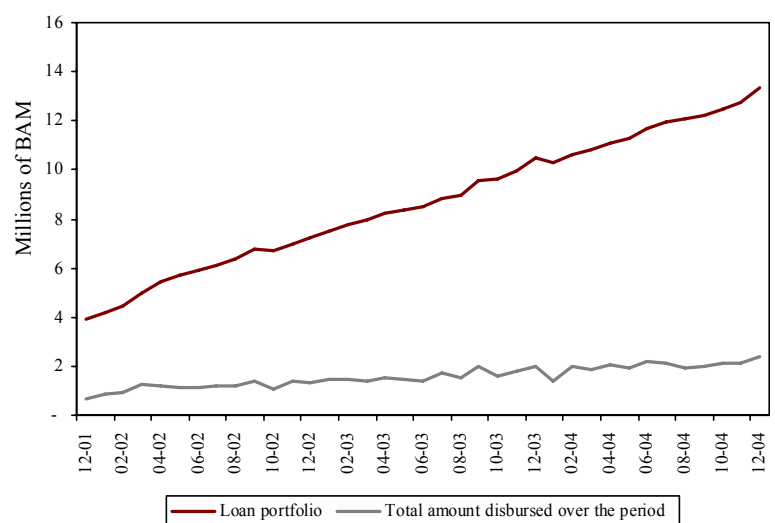
Portfolio Composition and Evolution

Prizma's loan portfolio has experienced strong growth in the last three years increasing 83.8% in 2002, 44.5% in 2003 and 27.7% in 2004. There is a small seasonality in disbursements as they are lower during the first two months of the year due to winter conditions.

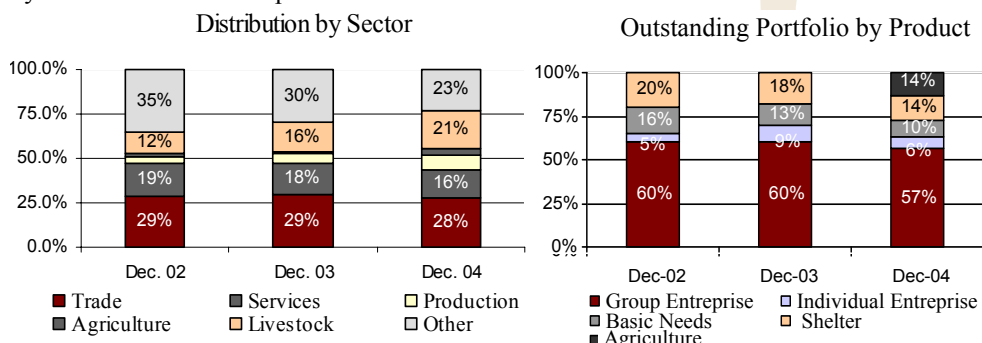
The composition of Prizma's portfolio has changed in 2004 with the introduction of USAID LAMP-financed agriculture products. The growing share of these loan

products has led to a greater diversification of portfolio and risk. It is noted that agriculture loans are most often used to finance regular-income producing livestock and thus do not display typical higher risk profile of pure agriculture lending for growing crops.

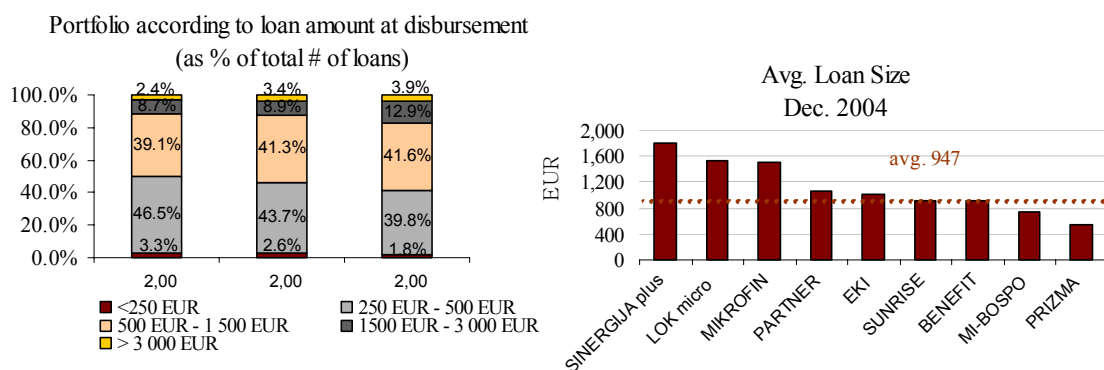
Loan Portfolio Outstanding and Disbursements
(December 2001-December 2004)



Trade and services sectors loans continue to dominate the portfolio, but their shares are diminishing. With more products and the first-time inclusion of male clients (required under USAID LAMP funding), Prizma now has more flexibility in selecting clients leading to a more dynamic and diversified portfolio.



The average outstanding loan per client has continuously decreased in the last years (from 1,015 EUR in 2002 to 623 EUR in 2004, i.e. staying around 36% of the GDP per capita). 81% of the loans disbursed in 2004 were between 250 EUR and 1,500 EUR. Prizma has among the lowest average loans at disbursement in BiH.



Portfolio at Risk (PAR)

Write-off Ratio

EUR, unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004
Loan portfolio	3,701,375	5,350,019	6,829,604
Loan portfolio (BAM)	7,239,149	10,463,567	13,357,339
Evolution	83.8%	44.5%	27.7%
Average outstanding portfolio	2,936,228	4,438,051	5,941,421
Number of active borrowers	8,112	10,968	12,603
Evolution	NA	122.4%	35.2%
Average outstanding loan per client	456	488	542
% of GDP per capita	29.3%	29.7%	31.3%
Average amount disbursed	573	559	612
% of GDP per capita	36.8%	34.0%	35.3%
PAR 31-365	1.6%	1.3%	1.5%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.8%	1.3%	1.6%
Risk coverage ratio	306.6%	298.4%	234.2%
PAR 31 net of loan loss provision / Equity	(2.0%)	(2.5%)	(2.3%)

Prizma's portfolio quality is good by international standards as measured by PAR>31 days, which has not exceeded 1.6% of gross loan portfolio in the past 3 years. While PAR is weaker than its BiH peer average of PAR>31 days of 0.5% at 2004 end, Planet Rating considers the level good given its low-end target clients and the prominence of its group-lending uncollateralized products. Delinquent loans were mostly enterprise loans to the trade and services sector heavily affected by increased market competition.

PAR>31 days crossed the 2% mark in February 2005 and climbed further to 2.35% at the end of March 2005. The PAR increase, while material, remains modest in relation to its overall portfolio. Prizma offered three reasons to explain this change a) it serves a significantly lower-income segment of the broad low-income market and this segment has more intermittent revenue flows; b) Prizma's deliberate effort to mitigate bias against poorer clients led it to abandon a policy of zero tolerance for delinquency—a step that was taken after significant research; and c) Prizma's effort to enhance efficiency also led it to relax its delinquency management based on research of its historic PAR, which allowed it to accommodate slightly higher PAR but also improved efficiency. The PAR situation is not yet alarming in our view, but if the situation does not improve by this summer (it usually does) it could have negative rating implications in the long-term.

Prizma's write-off ratio has been on an upward trend over the past 3 years rising from 1.6% from 0.9%, due primarily to enterprise and shelter loans. While this write-off ratio is also higher than MFI peers' average of 0.41% at the end of 2004, it does not exceed levels that we would be concerned about for reasons mentioned above. We also noted that recovery from written-off loans (after 180 days late) also increased significantly over the period thanks to the diligence of its lending staff.

Credit Risk Coverage

Coverage by provisions (*Refer to appendices for provisioning methodology*)

Similar to its BiH peers, Prizma has conservative provisioning ratios leading to high loan loss reserves and a risk coverage ratio of 236% at the end of 2004. This high coverage level is essentially due to the industry-wide requirement of a 2% provisioning ratio for healthy portfolio not normally found outside of BiH. Due to the high reserves level, adjustments are not required and none have been made by Planet Rating.

Coverage by guarantees

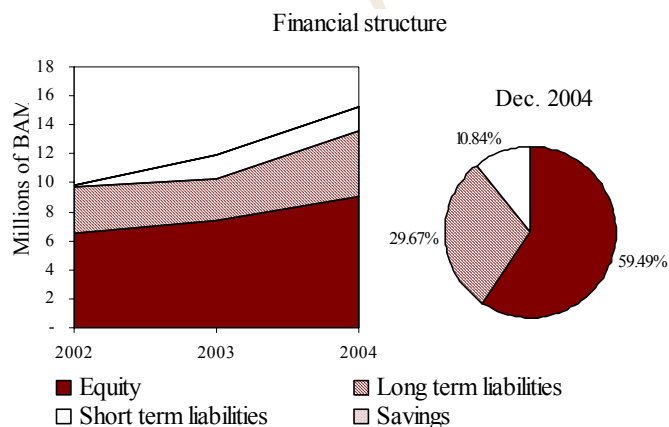
Since the group lending methodology has a prominent place at Prizma, credit risk covered by physical guarantees as a percentage of the portfolio is not as significant as that of MFI peers where individual credit products predominate. Nevertheless, guarantees do exist for Prizma's individual loan products, such as basic needs loans and shelter loans. Guarantee requirements and investigations of guarantors' risk profile at Prizma are not considered as tough/rigorous as those found in other MFIs. This is a reflection of Prizma's low-end clientele make-up which has less, and relatively lower quality guarantors than higher-end clients. Nevertheless better monitoring of loan guarantors' quality and clearer prudential limits (such as limiting a guarantor's vouching to a single loan at one time) would enhance overall risk protection at Prizma.

Financing and Liquidity

Financing Strategy

Description of the funding structure

Prizma is predominantly (60%) funded by capitalized donations and retained earnings giving it a low leverage for a financial institution. Remaining funds are long-term loans from social investors and public donor agencies.⁵ Prizma has yet to approach local banks and receive truly commercial funds. It is expected that Prizma's leverage ratio will fall further to 41% from 68% once the 0% interest USAID-LAMP loans are capitalized in April 2005. This represented 1.7 Million BAM in December 2004, barring new debts.



Asset & Liability management procedures

Main asset & liability management (ALM) risks are identified and manageable given Prizma's current conservative asset/liability structure.

- ❑ **No maturity risk:** 73% of the loan portfolio is short-term (average term of 10 months), while most of funds are either equity or long-term loans. Prizma offers loans of up to 36 months (agriculture and shelter) but these loans should not represent more than 15% of the portfolio, according to the business plan.
- ❑ **Limited FX risk:** 63% of long-term borrowing is in EUR, but as the Bosnian currency has a fixed parity to the EUR and the rate has not changed since the introduction of the EUR, FX risk is contained. Furthermore, Prizma has protected itself against devaluation by labelling loan contracts with borrowers in EUR, a technique widely used by MFIs and banks in BiH.
- ❑ **Low interest rate risk:** Some of Prizma's borrowings are linked to variable benchmarks (Blue Orchard's to LIBOR and KfW's to EURIBOR); expected fluctuations represent minor risk, as they are compensated by Prizma's high interest spreads and its low blended funding cost resulting from low leverage.

Financing strategy

Financing has become a priority since 2004, when Prizma realized that funding needs and the integration of multiple funding arrangements had not been sufficiently anticipated or aligned. The new ED has strengthened relationships with international investors and local donors and will soon contact local commercial banks to collaborate on several issues (funding, employing tellers, and selling other financial products to their borrowers). Currently, Prizma reports to have secured 85% of its 2005 funding needs. The current low debt to equity ratio of 68% and strong operational performance should facilitate Prizma's negotiations with investors to renew

⁵ See appendices for further details on liabilities and interest rates

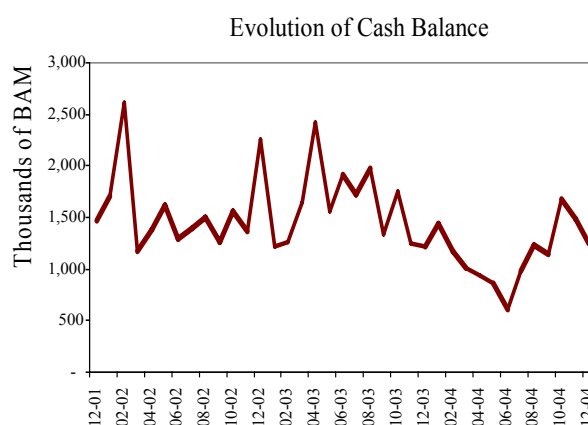
existing loans and secure new ones. Prizma is also considering buying a building in order to use it as mortgage for future local bank borrowing.

Liquidity Management

Liquidity forecasting and management is Prizma's primary weakness. In early 2004, it was caught in tight liquidity spot due to poor forecasts. Then the situation reversed in late 2004 (following significant fund raising) with significant, cash amounts sitting in bank accounts instead of being quickly deployed in lending operations. It has yet to achieve optimal liquidity management.

The graph to the right reflects relatively high liquidity levels since 2001, despite occasional constraints caused by large loan repayments. Even in 2005, the budget shows an average amount of cash in banks of 900K EUR (10% of assets). Low deposit rates combined with usually higher fund costs made idle cash a costly proposition for Prizma especially in light of much higher yield available (average 34.5%) if such cash is to be used in its lending operations⁶.

Weak liquidity management is accentuated by a large decentralized branch network, a large number of bank accounts (33 with 4 banks)⁷ and a lack of stronger, dynamic liquidity planning. Liquidity needs are planned by the branch manager and reviewed by the Finance Manager for the whole year and are then updated on a monthly basis. The disadvantages of this type of planning lie in the fact that projections are updated only for one month, and that the plan is annual and not rolling.⁸ As cash management is decentralized, many branches felt the need to keep high liquidity in case the HQ needs it to pay for loan installments. It would be more efficient to centralize liquidity management at the HQ so that branches are only concerned with optimizing cash use at their level.



Prizma's management is well aware of the need to strengthen this area, and the ED has already attended a course on liquidity management and purchased liquidity management software that will be implemented by Prizma's Finance Department in 2005. It would also be useful to either revise upwards its growth targets or better negotiate fund disbursement schedules so that Prizma is not found with too much idle cash.

⁶ Current excess of liquidity in BiH provides only minimal returns on bank deposits and short-term investments.

⁷ This is partly due to donors' conditions, which require a separate account to monitor their funds (USAID, CORDAID), but is also a result of Prizma's own internal security policy to maintain separate accounts for operational expenses and portfolio funds.

⁸ The plan is drawn up for January to December, so that in November for instance, the team may not know its precise funding needs for two months ahead.

Efficiency and Profitability

Profitability analysis	Dec. 2002	Dec. 2003	Dec. 2004
ROE	3.7%	11.2%	19.0%
Liabilities / Equity	49.2%	61.4%	68.1%
ROA	2.8%	7.2%	11.5%
Profit generation			
Operational self-sufficiency	111.5%	134.3%	159.3%
Portfolio Yield	36.8%	35.2%	34.5%
Operating expense ratio			
Operating expense ratio	28.6%	22.0%	18.6%
Staff productivity	162	192	203
Loan officer productivity	451	477	485
Average outstanding loan per client (EUR)	1,015	660	623
Funding expense ratio			
Funding expense ratio	2.1%	2.3%	2.0%
Cost of savings	NA	NA	NA
Cost of liabilities	6.3%	5.3%	5.3%
Loan Loss Provision expense ratio			
Loan Loss Provision expense ratio	2.4%	2.0%	2.1%
PAR 31-365	1.6%	1.3%	1.5%
Write-off ratio	0.8%	1.3%	1.6%
Asset management			
Outstanding Loan Portfolio / Assets	72.1%	85.3%	85.1%
Non-portfolio income as a % of financial revenues	0.6%	0.4%	0.0%
Adjusted ratios			
Adjustment expense ratio	1.9%	2.1%	1.7%
AROE	1.9%	8.6%	16.5%
AROA	1.4%	5.5%	10.0%
Financial self-sufficiency	105.6%	124.2%	148.1%

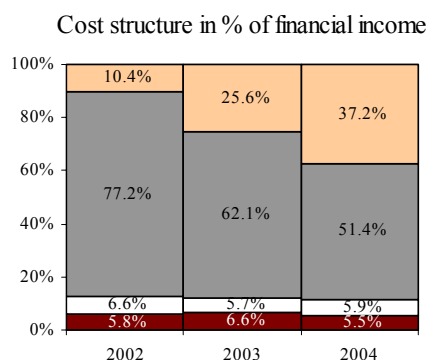
Overview of the profitability

Prizma is highly profitable institution having generated ROA and ROE of 11.5% and 19%, respectively in 2004. As shown on the graph on the right, the key to Prizma's excellent profitability resides in its ability to reduce operating costs over the years. Efficient MIS, high staff productivity and streamlined products all contributed to keeping costs under control.

Prizma's profitability can also be explained by its ability to charge higher interest rates, reflecting the risk of unsecured group loans and small non-business basic needs loans that dominate its loan portfolio (70% in 2004), as well as relatively low competition in its low-end market segment.

Portfolio yield and effective interest rate

There has been a slight decrease in portfolio yield in 2004. It is mostly attributed to the introduction of agriculture loan products in May 2004 funded by USAID LAMP (which



capped interest rate to end clients at 10%). Representing 14% of the outstanding portfolio in December 2004, APRs of agriculture loans of 19.4% are substantially lower than Prizma's other highly profitable products' APRs, such as group enterprise loans (35.8%) and basic needs loans (43%). Prizma will have a chance to readjust pricing on USAID LAMP funds upon their official capitalization.

Prizma's high profitability is due to the fact that its most lucrative products, as measured by APRs, such as its enterprise and basic needs loans, dominate the portfolio. As Prizma is working on developing a Marketing Plan, it would be useful to integrate consideration of product profitability into its future marketing strategy while keeping an eye on risk and diversification goals. Based on low competition for its market niche and the ability to adjust agriculture loans' pricing, Prizma is likely to maintain its traditionally high portfolio yield.

Operating expense ratio

Prizma's operating expense ratio fell progressively from 29% in 2002 to 18.6% in 2004. Reaching the 18% level while issuing much smaller average loan sizes than other BiH MFIs is a remarkable feat (refer to the Benchmarking section). This good performance is underpinned by rising productivity — from 451 clients per LO in 2002 to 485 in 2004; 162 clients per staff in 2002 to 203 in 2004). This increase in productivity is supported by several factors:

- ❑ Streamlined products and simplified procedures;
- ❑ Efficient MIS facilitating fast processing of loans;
- ❑ The popularity of basic needs loans (small, fast disbursing, no on-site visits)

Prizma can improve its cost efficiency further by:

- ❑ Cutting down on client drop-out rates ratio (40.5% in December 2004) which appear to be rather high although no comparable data is available for other BiH MFIs;
- ❑ Consistently applying activity based costing tool as part of a comprehensive strategy to understand and trim costs;
- ❑ Optimizing and rationalizing certain satellite offices as some are opened only part-time and support a very small number of clients (e.g. Konjic satellite office supports 75 clients).

Funding expense ratio

Prizma's financial expense ratio is very low, standing at slightly above 2% for the past three years. This is a reflection of: a) low overall leverage level and b) the heavy presence of soft and even zero interest rate loans in its capital structure. It is expected however that Prizma's funding expense ratio will go up in the next few years as availability of soft loans will drop and more costly funding from international and local investors will finance growth.

Loan loss provision expense ratio

Given Prizma's good portfolio quality for the market it serves, the loan loss provision expense remains constant at around 2%. 65% of the 2004 loan loss expense is not linked to covering the PAR but to the 2% that all BiH MFIs are required to have covered for the healthy portfolio. Loan loss provision expenses represented 6% of Prizma's 2004 financial income.

Asset management

As of December 2004, Prizma had 85% of total assets invested in the income-producing loan portfolio compared to 89.5% invested by BiH peers. An 11.3% share is actually in cash or short-term investments and 2% in fixed assets. Had Prizma been able to deploy the low-earning short-term cash into the loan portfolio it would have achieved higher profitability and optimised its asset management/allocation. Refer to section "F" for more on liquidity management.

Adjusted performance (Refer to *appendices for details*)

Prizma's performance was adjusted for cost of funds (87% of total adjustments) and inflation (small impact since inflation rates have remained low in the past years). Prizma's conservative loan loss provisioning policy didn't warrant any adjustment. Technical assistance or in-kind donations are properly accounted for in Prizma's income statements, and thus additional adjustment is not needed. As a result, the overall adjustment expense ratio is low (only 2% for December 2004), and does not have a major impact on performance; financial self-sufficiency remains very high (148% in December 2004).

Evolution of profitability

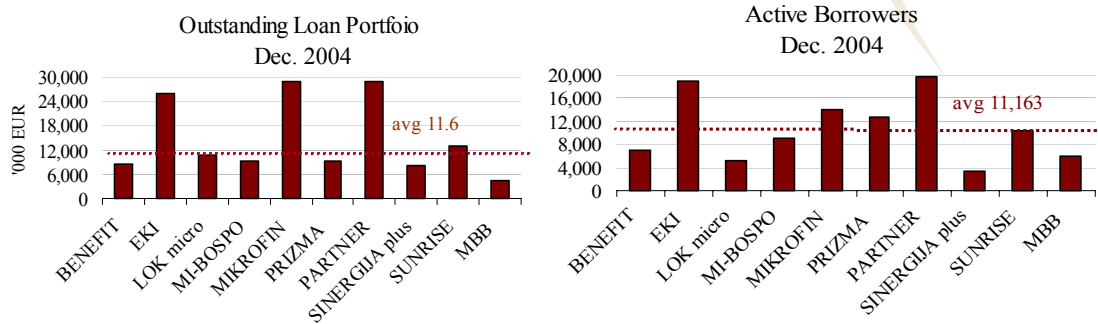
Given Prizma's low-end market strategy, favorable pricing climate, efficient MIS, streamlined products and procedures, strong internal controls and new funding dynamism, the positive profitability trend is expected to continue in the upcoming years. Further efficiencies are expected with:

- ❑ Planned MIS integration in June 2005, if successful, should boost efficiency especially in accounting staff at branches allowing redeployment of those resources to other productive uses;
- ❑ Stronger liquidity management allowing for better asset allocation and its optimisation;
- ❑ Tighter management of branch/office network to ensure that an office is opened only if there is an acceptable minimum threshold of clients and if it can break even quickly.

Benchmarking

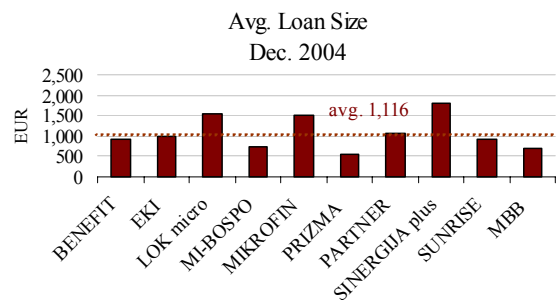
Prizma was compared to the following groups:

- MBB peer group “ECA” consisting of 20 MFIs in Eastern Europe and Central Asia.
- 8 BiH MFIs funded by World Bank’s LIP II. Note: These MFIs represent a wide range of institutions, lending methodologies and market focus making direct comparison difficult. Comparison to its peers is made nevertheless to provide an idea how Prizma is performing in the market place.

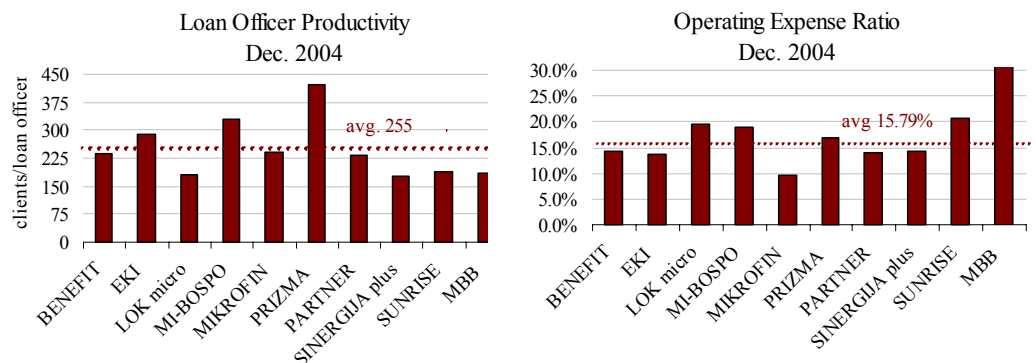


In terms of the clientele, the number of active borrowers at Prizma lies above the ECA average and the average for the Bosnian sample thanks mainly to the fast-disbursing Basic Needs loan product. However, their relative small sizes did not help making Prizma among the largest MFIs in BiH as measured by outstanding loan portfolio despite issuing lots of them.

Prizma’s average loan size is comparable to the ECA average however significantly lower than that of the sample peer group. This corresponds with the institution’s focus on a poorer clientele and its positioning strategy of the low-end market niche where demand has been less exploited by competitors.



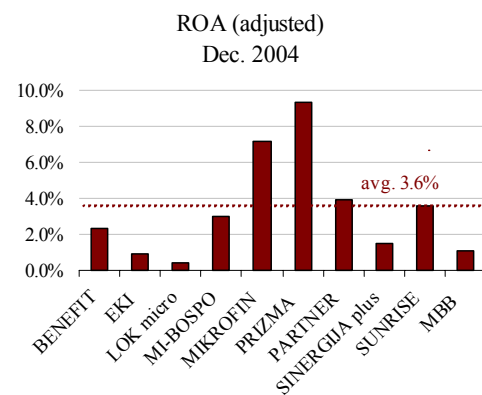
Prizma has achieved excellent loan officer productivity (485 clients per LO in 2004 - more than double that of the MBB peer group average), which can be attributed to its highly efficient group solidarity methodology as well as the popularity of its Basic Needs loans where approval is fast subject to household cashflow analysis, no need for field monitoring and most clients come to Prizma’s offices allowing branch-based loan officers to manage very large client portfolios often exceeding 1,000 loan clients for each LO specializing in Basic Needs loans.



Prizma has achieved a good operational expense ratio compared to ECA peers, but it is weaker than BiH peers who tend to issue larger loans. Prizma fared well considering the low-end market niche in which it serves, the wide geographic coverage of its branches and the small size loans. Looking at the past three years, Prizma did very well by reducing the operational expense ratio from 28.6% in 2002 to 18.6% in 2004. The fact that Prizma has higher operational expense ratio than its BiH peers is not that material as it is able to compensate larger by high portfolio yields in its less-price sensitive low-end market niche.

Both the PAR30 and the write-off ratio for Prizma are higher than the peer group MBB average and the average for the BiH sample. This discrepancy is related partly to Prizma's strategy to target the low-end of the market and to offer many more non-enterprise products (e.g. basic needs and shelter loans), which inherently carry higher risks. Another explanation is poor initial client selection upon the introduction of the shelter loan. Both ratios compare, however, favorably to the global sector averages and lie only slightly below the FSS MBB benchmark indicators (group of 66 financially self sufficient institutions located world-wide).

Prizma presents an adjusted profitability ratio (ROA) that is significantly superior to the two peer groups. This impressive performance can be explained mainly by its high portfolio yield of 35% compared to the BiH group average of 24.35% for 2004. Prizma's high proportion of un-collateralized, and potentially riskier loan products in relation to peers' portfolio composition is reflected in higher average interest rates charged to clients. Another factor is its low-end market focus, which is less touched by price competition therefore preserving its ability to maintain high portfolio yield and giving it more room to maneuver to better serve its clients.



Appendices

Financial Statements and Notes

General notes to financial statements per CGAP Disclosure Guidelines

Prizma's Financial Statements follow the CGAP disclosure guidelines. In fact, Prizma received an Honorable Mention for CGAP Financial Transparency Awards in 2004.

It is important to note that at the end of the each year, Prizma does an adjustment to accounts for interest and outstanding portfolio on a declining rather than flat rate basis. This explains the data differences between final year audit statements and internal financial statements and activity reports.

1. The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
2. The financial statements provided include 2 years of data, each year.
3. Prizma does not offer non-financial services.
4. Portfolio reporting

Provisioning methodology	
Aging	Provision (% outstanding balance)
Healthy portfolio	2.0%
Rescheduled	0.0%
Less than 30 days	10.0%
31 – 60	25.0%
61 – 90	50.0%
91 – 180	100.0%
181 – 365	100.0%
Write-off	Over 180 days

- (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").
- (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.
- (3) Loans are written off every December from the loan loss reserve and the loans outstanding.
- (4) The following table reconciles these movements:

	Dec. 2002	Dec. 2003	Dec. 2004
Loan loss reserve, January 1 st	89,672	190,290	276,302
+ Loan loss provision expense for the year	148,251	200,431	278,440
+ Loan loss provision expense	148,251	200,431	278,440
- Provision reversal	-	-	-
- Loans written off during the year	47,632	114,419	185,701
Loan loss reserve, December 31st	190,291	276,302	369,042

- (5) Accrual vs. Cash accounting: Prizma accrues interests following a standard flat methodology, does not accrue expenses.
5. Portfolio quality
 - (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 30 days)/(total portfolio outstanding).
 - (2) Renegotiation of loans: Prizma does not refinance nor reschedule loans.
 - (3) Insider loans: Prizma does not allow employees to borrow funds.
6. Donations
 - (1) Revenue from donations is shown separately from income generated by operations in the income statement.
 - (2) Current period donations (please report to audited financial statements).
 - (3) Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income statement. Grants for fixed assets and loan fund are recorded directly in the

balance sheet. Please note that the financial statements disclosed in this report have been modified for presentation to better reflect donations.

- (4) In-kind donations: all in-kind donations to be used in the current operating period are accounted in the income statement.
- (5) Cumulative amount of all prior period donations: up to the end of 2003 the total amount of donations received by Prizma was 3,518,244 USD.

7. Details of liabilities

- (1) Loans that account for more than 10% of total liabilities.

Loan Providers	Interest Rate	Capital outstanding 2004	Restrictions and Comments
USAID- LAMP	-	1,725,224	Can be capitalized
CORAID, Netherlands	7%	1,434,277	
ASN-Novib Fond, Netherlands	9%	782,332	
Kreditanstalt für Wiederaufbau (KfW), Germany	EURIBOR	651,917	
USAID- Central Bank of BiH	EURIBOR	500,000	
Triodos-Doen, Netherlands	8.7%	391,166	
Dexia Micro credit fund (Blue Orchard), Luxembourg	LIBOR+7%+hedging costs	293,375	
Oikocredit, Ecumenical Development Co-operative Society	8.5%	195,583	

- (2) Deposits: none

8. Other significant Accounting Policies

- (1) Accrual or deferral income/expense accounting: none.
- (2) Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

Asset Class	Depreciation Rate
Furniture and equipment	25%
Vehicles	20%
Computers	20%
Intangible Assets	20%

- (3) Inflation accounting: none
- (4) Currency mismatch: please refer to the F area for more information on potential mismatch.
- (5) Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: none.

Specific notes to the financial statements

Balance Sheet

1. Bank deposits as of December 2004 refer to deposits with ProCredit Bank, with maturity from 15 to 30 days and annual interest rate from 1.6% to 2.5%
2. Short term installment of long term loans
3. 2002: Deferred income 2003: Deferred income 2004: USAID LAMP very soft loan (refer to section "F") and deferred income from UNDP funds (108 K€)

Income Statement

4. 2004 Foreign exchange gains

PRIZMA			BAM				EUR			Evolution	
Balance sheet	Notes	Dec. 2002	Dec. 2003	Dec. 2004		Dec. 2002	Dec. 2003	Dec. 2004	2003/2002	2004/2003	
ASSETS		9,777,681	11,948,816	15,261,488		4,999,326	6,109,426	7,803,195	22.2%	27.7%	
Short Term Assets		8,133,574	8,528,985	11,271,462		4,158,694	4,360,868	5,763,095	4.9%	32.2%	
Cash and Due from Banks		2,252,843	1,213,534	1,244,916		1,151,878	620,480	636,525	(46.1%)	2.6%	
Short Term Investments	1	-	-	480,000		-	-	245,424	-	-	
Short Term Net Loan Portfolio		5,751,418	7,148,974	9,350,907		2,940,698	3,655,268	4,781,116	24.3%	30.8%	
Short Term Gross Loan Portfolio		5,941,708	7,425,276	9,719,948		3,037,994	3,796,542	4,969,807	25.0%	30.9%	
(Loan Loss Reserve)		190,290	276,302	369,041		97,295	141,273	188,691	45.2%	33.6%	
Interest Receivable		88,000	127,000	162,300		44,994	64,935	82,984	44.3%	27.8%	
On loan portfolio		88,000	127,000	162,300		44,994	64,935	82,984	44.3%	27.8%	
On investments		-	-	-		-	-	-	-	-	
Accs receiv and other assets		41,313	39,477	33,339		21,123	20,185	17,046	(4.4%)	(15.5%)	
Long term assets		1,644,107	3,419,831	3,990,026		840,631	1,748,559	2,040,099	108.0%	16.7%	
Long Term Net Investments		-	-	-		-	-	-	-	-	
Long Term Gross Loan Portfolio		1,297,441	3,038,291	3,637,391		663,381	1,553,477	1,859,797	134.2%	19.7%	
Net Fixed Assets		346,666	381,540	352,635		177,250	195,081	180,302	10.1%	(7.6%)	
Other Long Term Assets		-	-	-		-	-	-	-	-	
LIABILITIES AND EQUITY		9,777,681	11,948,816	15,261,488		4,999,326	6,109,427	7,803,195	22.2%	27.7%	
Liabilities		3,226,312	4,544,107	6,182,938		1,649,612	2,323,401	3,161,334	40.8%	36.1%	
Short term liabilities		85,714	1,651,489	1,654,433		43,826	844,406	845,911	1,826.7%	0.2%	
Demand Deposits		-	-	-		-	-	-	-	-	
Compulsory Deposits		-	-	-		-	-	-	-	-	
Short Term Time Deposits		-	-	-		-	-	-	-	-	
Short Term Borrowings	2	-	1,561,174	1,561,175		-	798,228	798,228	-	0.0%	
Interest payable		-	45,924	46,665		-	23,481	23,860	-	1.6%	
Accs Payable and Other Short Term Liabilities		85,714	44,391	46,593		43,826	22,697	23,823	(48.2%)	5.0%	
Long term liabilities		3,140,598	2,892,618	4,528,505		1,605,787	1,478,995	2,315,423	(7.9%)	56.6%	
Long Term Time Deposits		-	-	-		-	-	-	-	-	
Long Term Borrowings		3,129,328	2,879,570	2,687,474		1,600,025	1,472,323	1,374,105	(8.0%)	(6.7%)	
Other Long Term Liabilities	3	11,270	13,048	1,841,031		5,762	6,671	941,319	15.8%	14,009.7%	
										%	
Equito		6,551,369	7,404,709	9,078,550		3,349,713	3,786,026	4,641,860	13.0%	22.6%	
Paid-In Capital		-	-	-		-	-	-	-	-	
Donated equito		6,809,584	6,880,982	6,995,565		3,481,738	3,518,244	3,576,830	1.0%	1.7%	
Retained earnings w/o donations and reserves		(258,215)	523,727	2,082,985		(132,025)	267,782	1,065,030	(302.8%)	297.7%	
Current year		215,589	781,942	1,559,258		110,231	399,807	797,248	262.7%	99.4%	
Other equity accounts		-	-	-		-	-	-	-	-	

PRIZMA Income Statement	Notes	BAM			EUR			Evolution	
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2002	Dec. 2003	Dec. 2004	2003/2002	2004/2003
Financial Revenue (a)		2,125,899	3,068,657	4,196,065	1,086,972	1,569,003	2,145,447	44.3%	36.7%
Financial Revenue from Loan Portfolio		2,112,665	3,057,691	4,009,993	1,080,205	1,563,397	2,050,308	44.7%	31.1%
Interest on Loan Portfolio		1,885,062	2,727,026	3,566,040	963,832	1,394,328	1,823,315	44.7%	30.8%
Fees and Commissions on Loan Portfolio		210,615	289,593	381,459	107,687	148,069	195,040	37.5%	31.7%
Penalty Revenue on Loan Portfolio		16,988	41,072	62,494	8,686	21,000	31,953	141.8%	52.2%
Financial Revenue from Investments		13,234	10,966	1,975	6,767	5,607	1,010	(17.1%)	(82.0%)
Other Operating Revenue	4	-	-	184,097	-	-	94,129	-	-
Financial Expense (b)		123,103	201,291	230,524	62,943	102,920	117,867	63.5%	14.5%
Interest paid on borrowings		123,103	201,291	230,524	62,943	102,920	117,867	63.5%	14.5%
Interest paid on deposits		-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-
Financial income [c=a-b]		2,002,796	2,867,366	3,965,541	1,024,029	1,466,083	2,027,580	43.2%	38.3%
Net Loan Loss provision expense (d)		140,665	175,964	246,773	71,922	89,970	126,175	25.1%	40.2%
Loan loss provision expense and write-off		148,251	200,431	278,440	75,801	102,480	142,366	35.2%	38.9%
Recovery from Loans written off		7,586	24,467	31,667	3,879	12,510	16,191	222.5%	29.4%
Operating expense (e)		1,642,059	1,906,866	2,156,782	839,584	974,980	1,102,762	16.1%	13.1%
Personnel Expense (includes fringe)		926,097	1,103,538	1,212,889	473,513	564,239	620,150	19.2%	9.9%
Admin Exp (non-staff operating expenses)		715,962	803,328	943,893	366,071	410,741	482,612	12.2%	17.5%
Depreciation and amortization		111,038	132,816	145,977	56,774	67,909	74,638	19.6%	9.9%
Legal and Professional Fees		133,657	134,348	130,225	68,339	68,692	66,584	0.5%	(3.1%)
Office Rent		150,214	165,019	188,358	76,804	84,374	96,307	9.9%	14.1%
Communication		46,094	64,606	84,498	23,568	33,033	43,204	40.2%	30.8%
Office Supplies		47,733	59,020	71,527	24,406	30,177	36,572	23.6%	21.2%
Others		227,226	247,519	323,308	116,181	126,556	165,307	8.9%	30.6%
Net Operating Income Before Taxes and Donations [f=c-d-e]		220,072	784,536	1,561,986	112,523	401,133	798,643	256.5%	99.1%
Income Taxes (g)		-	-	-	-	-	-	-	-
Net Op. Income Before Donations [h=f-g]		220,072	784,536	1,561,986	112,523	401,133	798,643	256.5%	99.1%
Non Operating Revenue (i)		18	202	1,905	9	103	974	1,022.2%	843.1%
Non Operating Expense (including related taxes) (j)		4,501	2,796	4,633	2,301	1,430	2,369	(37.9%)	65.7%
Net Income Before Donat [k=h+i-j]		215,589	781,942	1,559,258	110,231	399,807	797,248	262.7%	99.4%
Donations (l)		1,102,323	71,398	114,583	563,617	36,506	58,586	(93.5%)	60.5%
Net Income (after Taxes and Donat) [m=k+l]		1,317,912	853,340	1,673,841	673,848	436,313	855,834	(35.3%)	96.2%

Adjustments

The following adjustments were applied:

- Adjustment for inflation: to neutralize the effect of inflation on equity and fixed assets;
- Adjustment for cost of funds: to estimate the cost that the institution would paid if using commercial financing;
- No adjustment for in-kind donations: Prizma accounts for all in-kind donations in the income statement;
- No adjustment for provisions, as Prizma's provisioning policy is already in compliance with international standards.

Data in EUR	Dec. 2002	Dec. 2003	Dec. 2004
Adjustment for the cost of funds = (a*b)-c	85,055	146,175	167,016
Average amount of borrowings (a)	1,965,609	3,785,036	4,344,697
Shadow price of borrowings (b)	10.6%	9.2%	9.2%
Interest expense on borrowings (c)	123,103	201,291	230,524
Adjustment for inflation = (d-e)*f	22,175	39,684	31,498
Avg. Equity (d)	5,892,413	6,978,039	8,241,630
Average fixed assets (e)	348,605	364,103	367,088
Inflation rate (f)	0.4%	0.6%	0.4%
Adjustment for in-kind donations	0	0	0
Staff and technical assistance	0	0	0
Other	0	0	0
Adjustments for provisions	0	0	0
Loan losses	0	0	0
Other risks	0	0	0
Other adjustments	0	0	0
Total adjustments	107,230	185,859	198,514
Net income before donations	220,072	784,536	1,561,986
Adjusted net income before donations	112,842	598,677	1,363,472
Adjusted net income before donations (EUR)	57,696	306,104	697,143

Board of Directors Members

Name	Position on Board	Education	Current position	Date elected to Board
Mr. Mehmed Vreto	President		Professional in the Business Development of Bosnia Bank International (BBI), Bosnia-Herzegovina	November 2001
Mrs. Amra Smailagić	Vice President	MBA from the University of Zagreb with specialization in Marketing	Head of Department for Project Implementation (IFI) for Federation Government of Bosnia-Herzegovina	February 2001
Ms. Maja Gizdić	Treasurer	Bachelors in Civil Engineering from University of Split, Croatia	Project Manager for Bankakademie, Germany	June 2004
Mr. Sean Kline	Secretary	Master's degree from the London School of Economics (LSE)	Senior Microfinance Technical Advisor with Freedom from Hunger, USA	July 2002
Mr. Samir Dikić	Member	Master's degree in economics from the London School of Economics (LSE)	Senior Public Relations Advisor of the public relations firm Northhoff, Germany	May 2001
Mr. Kemal Alečković	Member	Bachelors Degree in law from the University of Sarajevo	Practicing lawyer in Bosnia-Herzegovina	March 2002
Mr. Ismet Pasic	Member	Master's degree from the La Sapienza University Rome, Italy	Expert in the Corporate Finance Department of UPI Bank	September 2004

Product description

Loan product features (amounts in BAM)	Group Enterprise	Individual Enterprise	Basic Needs	Group Basic Needs	Shelter	Small Agriculture	Group Small Agriculture	Agriculture
Creation Date	October 1997	April 2002	March 2001	October 2002	August 2001	May 2004	May 2004	May 2004
Minimum / Maximum loan amount	min 600, max 6000	min 1,000, max 8,000	min 300, max 500	min 300, max 500	Min 800 max 10,000	min 600, max 3,000	min 600, max 3000	min 3,000, max 15,000
Average disbursed loan size	1,670	5,800	490	450	5,600	2,800	2,800	7,800
Minimum/ Maximum loan length	min 6 months, max 12 months	min 6, max 18 months	min 3, max 5 months	min 3, max 5 months	min 6, max 36 months	min 6, max 24 months	min 6, max 24 months	min 6, max 36 months
Average loan length	9.7 months	16.9 months	5 months	5 months	30.3 months	22,5 months	22.5 months	34 months
Grace period	NA	NA	NA	NA	NA	up to 6 months	up to 6 months	up to 6 months
Collateral requirements	Social collateral (group guarantee)	1-2 guarantors	Letter from employer or co-guarantor's employer	Social collateral (group guarantee),	1-2 guarantors, bill of exchange Proof of legal ownership	1 guarantor and bill of exchange.	Social collateral (group guarantee).	2 guarantors bill of exchange,
Repayment Schedule	monthly, equal instalments	monthly, equal instalments	monthly, equal instalments	monthly, equal instalments	monthly, equal instalments	monthly, equal instalments	monthly equal instalments	monthly, equal instalments
Nominal annualized interest rate	18% flat	15% flat	26% flat	26% flat	15% flat	10% flat	10% flat	10% flat
APR	35.8%	29.5%	43%	43%	27.7%	19.4%	19.4%	19.4%
Fees and penalties	2% up-front fee, 0,5% par day late fee	2% up-front fee, 0,5% par day late fee	0,5% par day late fee	0,5% par day late fee	2% up-front fee, 0,5% par day late fee	2% up-front fee, 0,5% par day late fee	2% up-front fee, 0,5% par day late fee	2% up-front fee, 0,5% par day late fee