

## EKI, Bosnia and Herzegovina

In early 1996, EKI began as a project of World Vision International (WVI), based in Zenica, Bosnia and Herzegovina (BiH). As of March 2001 EKI was established as a Microcredit Organization (MCO). EKI has undergone a further legal transformation and in 2008 EKI became a Microcredit Foundation (MCF), and now awaits its license as a Microcredit Company (MCC). Its 14 branches and 58 sub branch offices reach rural and urban clients of all ethnicities across BiH. EKI offers individual loan products for business, agriculture, home improvement and consumption purposes. As of December 2008 EKI serves 53,033 active borrowers with a total loan portfolio of 204 million BAM (104 M EUR).

### GIRAFE Rating

#### Rating

**A-**

#### Outlook

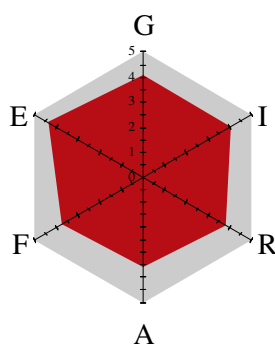
**Stable**

#### Date of the rating

**February 2009**

Valid until January 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- A recession in the Bosnian economy combined with a situation of over indebtedness of clients has resulted in rising credit risk levels in the industry.
- EKI has experienced a similar increasing trend from a low PAR 30 of 0.4% as of Dec. 2007 to moderate levels of 1.7% in Dec. 2008 and 2.9% in Feb. 2009. Credit risk levels are expected to increase further.
- Increased provision expenses have lowered the previous high profitability of 7.1% in FY07 to 3.1% in FY08. The majority of the reduced profitability was planned by EKI as it lowered its interest rates to keep a competitive edge in the sector.
- EKI remains well governed and managed and EKI has shown that it can handle well a change in operating environment as experienced in the past six months.
- The economic downturn in Bosnia and Herzegovina has also resulted in the fact that EKI was not significantly affected by the international financial crisis as growth levels have halted. EKI has been able to attract sufficient funding to renew its maturing liabilities and support its low growth projections.
- Besides maintaining credit risk at moderate levels, a key challenge for EKI is to maintain a good compliance level by its staff. Most notably, increased controls are needed on the client - loan officer relationships.

#### Outlook

The stable outlook reflects Planet Rating's opinion that EKI will be able to manage well the increasing trend in credit risk and to maintain its solid financial position in the worsening economic situation in Bosnia and Herzegovina.

#### Performance indicators

*000 EUR	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Assets	16,945	21,323	28,955	46,733	83,461	104,690
Evolution	38.4%	25.8%	35.8%	61.4%	78.6%	25.4%
Loan portfolio	15,239	19,368	26,610	44,227	79,781	101,915
Evolution	35.0%	27.1%	37.4%	66.2%	80.4%	27.7%
Active borrowers	13,305	18,789	22,559	28,019	41,215	53,033
Avg. outs. loan per client	1,145	1,031	1,180	1,578	1,936	1,922
Staff	102	119	153	211	281	320
ROE	53.6%	27.9%	22.4%	32.4%	33.7%	16.3%
ROA	6.6%	6.5%	5.4%	7.8%	7.1%	3.1%
Liabilities / Equity	3.74x	3.00x	3.28x	3.10x	4.17x	4.32x
Portfolio Yield	23.1%	22.6%	21.0%	23.6%	21.6%	19.6%
Operating expense ratio	14.3%	13.7%	12.7%	11.6%	8.9%	7.5%
PAR 31-365	0.3%	0.4%	0.3%	0.3%	0.4%	1.7%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.3%	0.4%	0.5%	0.5%	0.3%	1.3%

## Microfinance sector

The microfinance sector in Bosnia and Herzegovina (BiH) was launched in 1996 with support from the World Bank (WB) and international NGOs. The bulk of start-up funds to the sector have been channeled through the WB-financed Local Initiatives Project (LIP). Through various rounds of LIP funding, the WB has been able to dictate conditions and thus heavily influenced the way many MFIs are managed. Numerous international donors have funded MFIs and provided valuable technical assistance. The largest MFIs, having adopted most industry best practices, are among the strongest MFIs in Eastern Europe, totaling 1.1 billion BAM (555 M EUR) of portfolio and 392,703 active clients as of December 2008, not including commercial banks (the biggest share being attributed to ProCredit with 163 M EUR and 68,752 loans as of December 2007).

MFI As of Dec. 2008	MFI Type	Portfolio in M EUR	%	Active loans	%
Mikrofin	MCC	116.3	21.0%	58,774	15.0%
EKI	MCF	104.0	18.7%	57,318	14.6%
Partner	MCF	93.2	16.8%	65,866	16.8%
LOK	MCF	67.6	12.2%	44,713	11.4%
Sunrise	MCF	48.5	8.7%	30,702	7.8%
Mi-Bospo	MCF	37.7	6.8%	36,248	9.2%
Prizma	MCF	37.4	6.7%	61,602	15.7%
Sinergija	MCC	26.5	4.8%	10,200	2.6%
Mikra	MCF	11.0	2.0%	13,320	3.4%
Žene za žene	MCF	8.5	1.5%	10,817	2.8%
Mikro Aldi	MCF	3.7	0.7%	3,143	0.8%
<b>Total</b>		<b>554.6</b>	<b>100%</b>	<b>392,703</b>	<b>100%</b>

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

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

The Law on Enterprises applies to MCCs, including the requirement to pay income taxes. Both options are non-deposit taking, an activity reserved to banks. RS-based MFIs are licensed and supervised by the Banking Agency of RS while FBH-based MFIs are licensed and supervised by the Banking Agency of FBH. The law authorizes mergers and acquisitions. MFIs operating in both entities have to get a license from each entity's Banking Agency (obtaining the second license is generally fast).

Relevant bylaws have been issued in both entities, defining the minimum requirements for MCFs or MCCs, the scope of

supervision, the reporting requirements, the way of forming reserves for the coverage of loan losses and the way to calculate the effective interest rate of loans, which MFIs are now required to disclose in their premises and on the client's contract. Regulation does not include prudential norms given the absence of deposit taking risks. To date, the supervisory capacity of the Banking Agencies remains limited and supervisory visits are still to commence in full.

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

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

Most FBH-based MCOs have received their license to operate as MCFs and most are registered as such. As those wanting to transform into an MCC also have to temporarily operate as MCFs, they will need to reduce their maximum loan size down to 10,000 BAM while waiting for the MCC license. In a context of strong competition and given that FBH-based MCFs are still awaiting their license as MCC, FBH-based MCFs that were currently lending a significant part of their portfolio over 10,000 BAM have lost some market share in this segment at the advantage of RS-based MCCs, although not all MCFs have adhered to this limit.

### A changed environment

In recent years MFIs in BiH have shown strong growth rates with the vast majority achieving annual growth rates between 50-100% and some even above 100%. Given this strong emphasis on growth, and with the microfinance market reaching saturation, this has led to a situation of strong cross-indebtedness – it is estimated that 30% to 40% of the MFI clientele has at least two loans. Even if quite a number of MFIs made prudent use of the national Credit Register (CRK) to avoid over-indebtedness, other MFIs, mostly those with the aim to increase their market shares, continued to provide loans without a thorough check on the indebtedness of their clients. Some MFIs only started providing data to the CRK in 2009. Furthermore, many MFIs made a strong push to disburse loans over 10,000 BAM prior to their transformation into an MCF to avoid losing market share. These factors combined have led to a situation of over-indebtedness of many MFI clients.

The global financial crisis has had a twofold impact on this situation. On the one hand MSMEs were no longer able to borrow ever larger loan amounts to repay current debt given

reduced liquidity in the financial sector in BiH. On the other hand it caused an economic slowdown in BiH as well as a reduction in inflow of remittances, which created increased difficulties for many of the MSMEs to meet their debt obligations. This has resulted in increasing levels of credit risk within the microfinance industry. The industry average PAR 30 has increased from 1.0% as of December 2007 to 2.5% as of December 2008. This upward trend is likely to continue in the coming year, especially as the government has been late in paying salaries and pensions in 2009. However, it should be noted that the majority of the MFIs are taking considerable steps to mitigate this situation as well as exploring joint initiatives.

This trend has also caused other changes in the microfinance sector. MFIs have seen a strong reduction in their growth rates since mid to end 2008 and are therefore in much less need of outside capitalization. Three to four of the MCFs are still likely to convert to an MCC in the short-term although the need to open up to outside shareholders has significantly reduced. This will also likely impact the number of potential mergers, even if some smaller MFIs will have difficulty to survive in the current market conditions. On the other hand, the trend that local commercial banks were entering the microfinance sector has more or less completely stopped.

## Political & economic environment

### Gloomier growth prospects

Thanks to a fixed exchange rate and implementation of reforms in important areas like the financial system, the country achieved strong growth in recent years with little inflation. Private consumption spurred by the rise of real wages and a credit expansion drove the economy in 2008. In 2009 infrastructure investment will likely buoy construction and consumption is only expected to slow moderately. A marked economic slowdown is nonetheless forecast due to the contraction of export markets, the rise of interest rates, and limited access to financing. The remittances from migrant workers on which the country is very dependent will likely suffer amid the slowdown affecting Western economies.

### Greater imbalances

The stimulatory fiscal policy pursued by the government, strong domestic demand, and higher prices for energy and food products have been accompanied by a disquieting increase in the current account deficit that could prove difficult to cover in the current context. Even with imports now trending down, they will continue to outstrip exports by a wide margin. Although strengthened by productivity gains, sales abroad still lack diversification (with basic metals,

mineral products, and wood representing nearly half of total exports) and remain dependent on world price trends. Achieving more balanced and stronger growth will depend on progress on structural reforms including corporate restructuring and privatization, improvement in the business environment, reduction of taxes on labor, and tax reform.

### A still weak political and institutional context

Despite the Stabilization and Association Agreement concluded with the European Union in June 2008, political risk has remained high with the country continuing to suffer from extensive institutional and ethnic fragmentation. Necessary structural changes, especially at the constitutional level, could again meet with delays.

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

COFACE Business Climate Rating: C – The business environment is difficult. Corporate financial information is often unavailable and when available often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Intercompany transactions run major risks in this difficult environment.

(USD millions)	2006	2007	2008(e)	2009(f)
Economic growth (%)	6.2	5.5	5.3	3.0
Inflation (%)	6.1	1.6	8.0	5.0
Public sector balance (%GDP)	-0.4	-3.3	-4.9	-5.4
Exports	3,381	4,243	5,400	5,900
Imports	7,680	9,947	12,400	12,700
Trade balance	-4,298	-5,704	-7,000	-6,800
Current account balance (%GDP)	-8.5	-13.2	-17.2	-17.2
Foreign debt (%GDP)	50.4	52.5	53.9	64.5
Debt service (%G&S exports)	6.2	4.6	5.5	5.4
Foreign currency reserves (in months of imports)	4.8	5.0	3.2	4.0

Source: COFACE's Country Risk Rating Guidebook 2008, (e) estimates (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

Following the legislation of 2006, EKI has registered as a Microcredit Foundation (MCF). It became an MCF in April 2008 and as such is registered under the Ministry of Justice in FBH. EKI has applied to become a Microcredit Company

(MCC) but is still awaiting approval from the FBH Banking Agency.

Under the new law EKI falls under the supervision of the FBH Banking Agency. Supervision includes monthly, quarterly and annual reporting, higher transparency of operations (publication of effective interest rates) and standardization of procedures (application of IFRS, common provisioning policy). However, the current capacity of the Banking Agency has not yet allowed for direct supervision and site visits. This should change in the near future as the transformation process is complete and the Banking Agency matures. Given that the new law does not authorize deposit mobilization, regulated institutions will not be subject to prudential norms.

The financial statements of EKI, prepared in accordance with IFRS and IAS, have been audited by PriceWaterhouseCoopers, d.o.o. Sarajevo for 2006-2007 and have been audited by KPMG B-H d.o.o., Sarajevo for the 2008 fiscal year. PWC has not qualified its opinion for the years under review. The financial year of EKI starts on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

## Ownership

EKI is currently licensed as a Microcredit Foundation and therefore has no owners. EKI is governed by a 7-member Board of Directors (BOD). Any new BOD member is elected by the existing ones. Each BOD member will be subject to the approval of the FBH banking agency. Most members were invited by World Vision (WVI) and the Management Team to join the BOD in 2001 when the institution localized. The current BOD, with a mandate of four years, is presided over by Richard Reynolds recently appointed to the position of Vision Fund (VF) Operations Director. There are also BOD Committees (e.g. Audit, Risk Management, and Compensation) providing oversight on specific areas.

Upon becoming a MCC under the form of a Limited Liability Company (LLC), the EKI MCF will be the sole owner. The BOD for the MCC has already been selected and consists of three local professionals with a financial and/or banking background. They have already begun to join the existing BOD meetings of EKI MCF. WVI still leads EKI's BOD and WVI and VF interests are intimately intertwined. Represented on the BOD by three representatives, WVI and VF have "de facto" veto right on key issues. WVI loan contract with EKI outlines very strict rules on operations. WV owns the eMerge loan tracking system. EKI benefits from WVI's network through trainings, IT licensing, and technical assistance plus some funding obtained by/through WVI.

## Donations

Since inception EKI has received a total of 4.1 M EUR in donations, mostly received from WVI, USAID LAMP, UNDP, IFC, SIDA and CIDA. 2008 donations totaled nearly 1.2 M BAM (600 K EUR).

## Funding composition

EKI has a diversified funding base, with loans from IFIs, international investors and local commercial banks. World Vision and the SIDA Housing Project provide interest free funding that constitutes around 8% of total debt. Of the rest, 72% is at a fixed rate and 20% is floating linked to the EURIBOR. Out of the total debt 84% is denominated in EUR and the remainder in local currency.

## Management team

EKI has a geographically decentralized management team. The General Director (GD) is based in Tuzla along with the IT Director, the Legal & HR Director and the Training Officer. The HR Manager (HRM) is based in Dobož. One Operations Manager (OM) is based in Bijeljina and the other is in Brčko, as is the Marketing Manager (MM). The Finance Director (FD) and the Internal Auditor are based in Sarajevo. The Risk Manager (RM) is based in Zenica and presently also fulfils the position of Operations Director (OD) supervising the two OMs. The Senior Management Team is composed of the GD, FD, RM/OD and Legal & HR Director.

- The General Director, Mrs. Sadina Bina, has over 19 years of work experience in Finance and Microcredit. She has worked with World Vision's microcredit programs since 1996, and has been the General Manager for the last 8 years. She has attended many training courses in Microfinance, in addition to her degrees in Business Administration and Finance from the University of Economics in Sarajevo.

## Organization

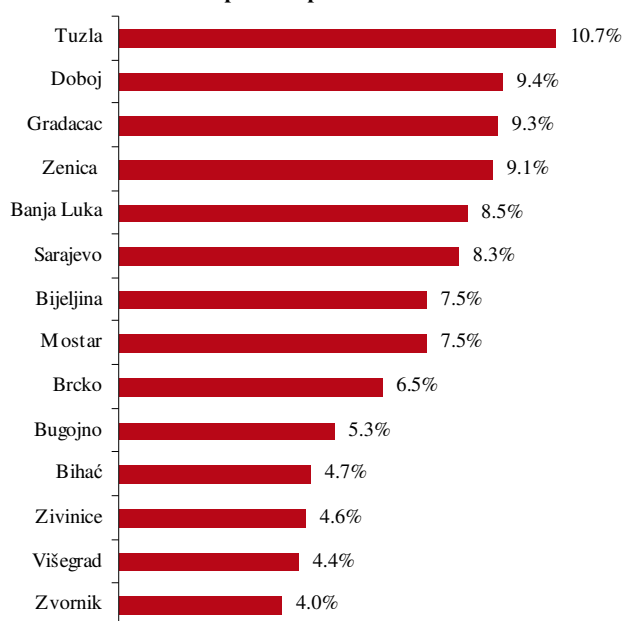
EKI is a decentralized organization. Credit activities are managed from Branch Offices led by a Branch Manager (BM). Each BM is responsible for the branch and the loan officers (LOs) in their regional satellite branches. Each branch might have up to 4 satellite offices. Loans up to 10,000 BAM are presented on the Loan Committee and approved by BMs. Larger loans require the approval of a Regional Manager or one of the two OMs, although these loans have been suspended since EKI became a MCC. All disbursements and repayments are made through banks so EKI branches and satellites do not handle any cash. In 2008 the position of Credit Administrator was introduced in branches with the task to verify completeness of loan application files.

For loan tracking and accounting EKI uses two separate systems, eMerge and SUN respectively. MIS officers in branches process loan portfolio information into e-Merge daily; branches are connected on-line via VPN. On a daily basis disbursement and repayment data is exported automatically to SUN. Additional accounting information is entered by accounting staff based in Tuzla. Also on a daily basis eMerge data is exported to the intra-net platform through which branch staff has access to client data, as well as hosting other resources such as internal policies, etc.

## Market penetration

As one of the top microcredit organizations in BiH, EKI has 14 branch offices and 58 sub branch offices. Half of the branch offices are located in the Federation of BiH, six are in RS and one is in Brcko. As of December 2008 EKI is the second largest MFI in BiH in terms of portfolio and fourth largest in terms of number of loans outstanding, resulting in respective market shares of 18.7% and 14.6%.

Loan portfolio per branch - Dec. 2008



## Products and services

EKI's product offering includes five categories of loans. In December 2008, there were over 57,318 active loans with an outstanding loan portfolio of 204 M BAM (104 M EUR). The compounded effective interest rate for the total portfolio is estimated at 19.7%.

- Microloans are designed for small registered and non-registered businesses and amounts to 36% of the total outstanding loan portfolio. Loan amounts range from 300-5,000 KM – with an average of 2,300 KM and with a period of 1-36 months. The average effective interest rate for this product is around 20%.

- Agricultural loans for registered and unregistered businesses amount to nearly 29% of the total outstanding loan portfolio. Loan amounts range from KM 5,001-10,000 – with an average of 9,400 KM in 2008 and with a period of 1 – 60 months. The average effective interest rate for this product is 18%.
- SME loans for registered businesses to purchase working capital or fixed assets. They amount to 15% of the total outstanding loan portfolio. Loan amounts and period are the same as SME loans, with an average loan size of 12,300 KM in 2008. The average effective interest rate for this product is 19%.
- Housing reconstruction loans and loans for households account for 15% and 5% of the total outstanding loan portfolio. Housing loans range from 1,000-10,000 KM and have an average size of 6,700 KM, while household loans have an average of 1,800 and must be below 5,000 KM. Housing reconstruction loans are for 36 months if they are below 5,000 and up to 60 months otherwise. Household loans are for a period of 1-36 months. Both of these loans have received portfolio restrictions for 2009. Housing loans should not exceed 15% of the portfolio and household loans should not exceed 5%. The effective interest rates are 19% and 25%, respectively.
- Short-term loans are designed for clients who need an additional (second) loan. Clients are eligible for this product if they are in the higher cycles of crediting and have no history of delinquency. They account for less than 1% of the portfolio. Loan amounts range from 300-3,000 KM for a period of 6 months and have an average of around 700 KM. The effective interest rate is 32%

EKI discontinued disbursements of its revolving loan product in 2008, although there were still 126,000 BAM outstanding at the end of 2008. Considering the difficult economic circumstances, EKI does reschedule loans for clients with solid credit histories. Rescheduling takes place on an individual basis and must be approved by BMs and OMs.

There are no product launches planned for 2009, given the economic climate and decreased client demand. There are some test projects underway with the EBRD, to examine whether very poor families in the region would benefit from access to credit.

## Networks

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

## ■ Governance

Governance and Decision making is rated “a”

### Decision making

EKI is well governed by its Board of Directors (BOD) which presents a balanced mix between WVI representatives as well as local members, and can draw from a wide range of expertise among the members. The vision and mission is shared among the BOD members. To date EKI has an appropriate legal set-up for its services although as and MCF it is limited in the loan size and term it can offer. Transformation into an MCC is pending approval of the banking agency. The establishment of the new entity has been well prepared, new BOD members have already been sourced and the new entity is ready to commence operations when approval is given by the banking agency. To ensure a smooth continuation of governance the new BOD members of the MCC – that have a strong financial background – already participate in current BOD meetings and for the foreseeable future the BOD of MCF will continue to have quarterly meetings to ensure their guidance to the MCF.

BOD meetings are held sufficiently frequent and BOD members receive all relevant information needed to take well-informed decisions on EKI. Documentation of BOD meetings could benefit from the inclusion of on-going actions points to ensure a stronger follow-up. The BOD is further supported by standing working bodies for audit, risk and compensation.

### Planning

EKI has a good strategy in place and this strategy is adapted sufficiently fast to changing market situations, as experienced in H208. For the coming period the strategy underlines a conservative approach focused on ‘zero growth’, transformation into a MCC – at first as a Limited Liability Company wholly owned by EKI MCF, with its ownership to be diversified later-on – while consolidating its market position in the current unstable environment.

This is outlined in a well developed 2009-2011 business plan and based on a SWOT analysis identifying internal and external challenges. The plan could nevertheless benefit from a clearer timeframe for implementation of key projects. Financial projections for EKI are well developed, based on a consolidation of a Microfin model for each branch. To this extent BMs have received specific training on financial analysis and Microfin. This ensures a participatory, bottom-up planning process although the involvement of LOs varies per branch.

More detailed operational plans are developed on an annual basis per department, as well as a budget per department and

for EKI as a whole. There is good budget follow-up throughout the year.

### Management team

EKI has a strong management team in place with long standing experience. The management structure has become more efficient with the establishment of the Senior Management Team, which now provides a better balance between senior, middle and branch management. In the recent past the team has been strengthened by the introduction of a Risk Manager, which now also takes up the role of Operations Director. This dual role is in need of review as the person now reports both to the BOD (as RM) as well as to the General Manager (as OD). Key-person risk is effectively mitigated through collective decision-making on key issues within the SMT, as well as within the wider management team. Well-organized and regular meetings at different levels (SMT, per department, wider management team and branch managers) allow for a smooth internal communication.

The management team shows a good execution track record and has well managed the change in operating context in the past six months, showing it can adequately and swiftly react to significant changes in the operating context. Personal management of staff could be stronger to ensure staff remains motivated in these difficult times; this is likely to improve in the short term with more direct involvement of the SMT in working with branches in the management of the increasing credit risk.

### Human resource management

EKI enjoys a strong human resource management with well established procedures and standards. The recruitment process is well organized with active and creative advertising for new employees and a methodical review of candidates through interviews and testing. LO initiation is well developed with a one week initial training and a 3 month probation period under the mentorship of a senior LO.

There is adequate continued training for existing staff based on a good identification of staff training needs. Stronger emphasis could be given to training on LOs to re-orientate them on their work in the current changed market environment. Furthermore, staff performance is guided by semi-annual evaluations. These evaluations are however mostly quantitative and lack a formalized evaluation of qualitative aspects of job performance. The incentive system is well received by staff and has been adjusted for changing nature of the job and higher credit risk levels to avoid demoralization of the staff.

Staff turnover increased to 16% in 2008 from under 11% in 2006 and 2007. Attention must be paid to retain staff in the face of poaching from commercial banks, with 25% of staff leaving for this reason. However, it should also be noted that 38% of staff turnover is as a result of letting go of staff in an effort to increase overall strength of the employees of EKI.

## ■ Information

Information is rated “a”

The management information systems in place are efficient and cost-effective for EKI and ensure that all relevant information for management of the institution is easily and timely available at every level in the organization.

EKI is well capable of managing and improving eMerge and the intranet platform and there is sufficient internal capacity to customize these systems. There is less capability to manage the SUN accounting software and the lack of user profiles has yet to be resolved; at present there is insufficient restriction of user rights within the SUN system. Besides electronic data is well secured in eMerge and adequate password complexity is used. Furthermore, there is adequate protection by anti-virus software; there is a good data backup policy which is further supported by a disaster recovery site in a second location. Paper data is securely stored in an organized manner in branches, but not necessarily protected from fire or water damage.

For monitoring of its activities EKI has developed an intranet platform to make data available to its staff. This intranet platform is also used for dissemination of additional information and internal communication. Portfolio data is available in a timely manner and can easily be dissected from different view points (e.g. by LO, product, sector, maturity, disbursement date, etc.). Individual LOs can easily track their individual performance and the interface is developed in a user-friendly manner to support the LOs in their work. In addition, customized reports are available by request for senior management from the IT department.

Financial analysis is detailed and done on a monthly basis, or more frequently if needed. EKI has a good overview of its costs which allows it to set informed interest rates. Furthermore, branches are monitored as profit centers, which allows EKI to assess which Sub-branches might need to be closed.

## ■ Risk management

Risk Management is rated “b”

### Procedures and internal controls

EKI enjoys a comprehensive and mostly effective internal control system, which is continuously adapted to arising issues. Furthermore, it has been strengthened with the introduction of Risk Manager who has developed specific risk levels. There is also a stronger follow-up with the establishment of a risk committee at the BOD level to review and analyze arising risks. Procedures are well formalized and made available to all staff on the intranet portal. Sufficient checks are in place to control data reliability and have been strengthened by more formalized and automated transfers of information between SUN and eMerge.

Policies and procedures are available to all employees through the intranet and are generally well respected. However, over the past 18 months several instances of fraud have been discovered (the largest one being in Brcko Branch with a total amount of 1 M BAM involved). A common underlying reason is the closeness of staff in some branches as a result of a lack of a rotation policy of LOs and BMs. Given the BiH context a rotation policy would be difficult to implement, but this situation is also not sufficiently mitigated by additional checks. The recent introduction of the Credit Administrator position, the follow-up with new clients after disbursement by the marketing department do offer an additional level of checks<sup>1</sup> but do not yet compensate sufficiently for the limited number of client (or guarantor) visits by staff (e.g. BM, Internal Audit) outside of the LO. Furthermore, EKI would also benefit from a more even spread of a culture of accountability and transparency throughout the institution.

### Internal audit

The Internal Audit (IA) department of EKI has a wide scope of risk including both operational, financial and other risks covering both branch and head office functions. There is also an appropriate monitoring of regulatory risk now that EKI is operating as an MCF. Using a risk-based approach the IA function makes sure to focus on the most critical areas of operations. The IA team is well qualified for their tasks.

EKI has increased the number of internal audit staff to four, which has increased the capacity of the department to do sufficient number of audits. However, the time to visit clients during regular audits of branches remains limited. In light of this (cf. Internal Control above) and the growth of

<sup>1</sup> The SMT has made a request to the IA department to check the feasibility to increase the number of client visits to 5% per LO per year. A decision whether to implement this policy or not is still pending.

recent special investigations, there is a need to further increase the headcount of the department. The marketing department has also assisted Internal Audit with the collection of client input.

The internal audit team is sufficiently independent and there is a good level of communication with the board through the Audit Committee. Suggestions from the IA department have recently been much better received by management.

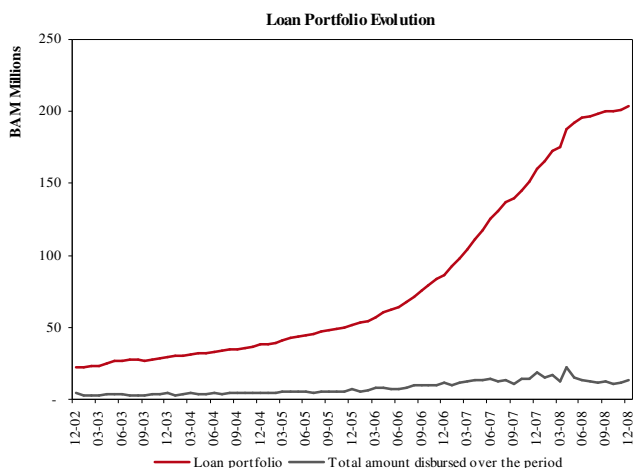
Regarding external support EKI receives good support from their auditors on the internal control system. On the other hand, the Banking Agency has yet to perform any on-site investigation.

## ■ Activities

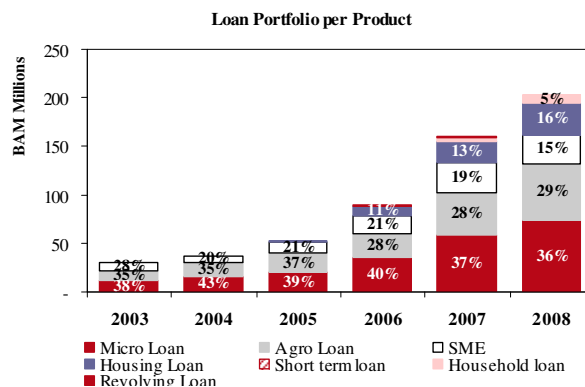
Activities: products and services is rated “b”

### Financial services evolution

In comparison to the FY07 portfolio growth of 84.0% from the previous year, FY08 showed a much slower annual growth of 27.4%. The slowdown began in May 2008, when the month on month portfolio growth dropped to 2.7% from 6.6% in April. The latter half of the year, from July onwards shows a monthly portfolio growth around or less than 1.0%. The 29.0% growth in active borrowers in 2008 was also almost half that of the year before. Most of this sluggish growth can be contributed to the market downturn, which is not expected to fully rebound until at least the end of 2009.



The portfolio composition has largely been stable over the past three years with only minor movements in its composition. It remains dominated by the MicroLoan product, with over 36% of the portfolio in 2008 and 62% of the outstanding loans. The reduction in SME loans as a part of the total portfolio is reduced to 15% in 2008 from 19% the year before as a result of the restriction of the maximum allowed loan amount for EKI as an MCF.



This gap has been filled in by an increase in prominence of the Housing Loan and Household Loan. These two products have now however reached the internal limit set by EKI of 15% and 5% respectively. These two products have been very popular, but increasingly risky as they are not necessarily tied to developing revenue streams.

### Financial services management

EKI has shown a good portfolio management in the last six months, as the credit crises placed increasing pressure on the BiH market and an increase in credit risk was inevitable. EKI's solid credit methodology is the first reason why they have been able to keep the deterioration in portfolio quality at a moderate level despite difficult market conditions.

The thorough credit appraisal process adapted to the size of the loan amount has been effectively implemented throughout EKI. EKI has structurally integrated the use of the Credit Register (CRK) in the loan application.<sup>2</sup> A recent improvement has been to extend this check to guarantors and close family members of the applicant. In general LOs have the right skills for their job. Further training in sales may be necessary in an increasingly competitive environment. Although at this point in time managing delinquency is a priority and creates a new working environment for staff to which they need to get adjusted.

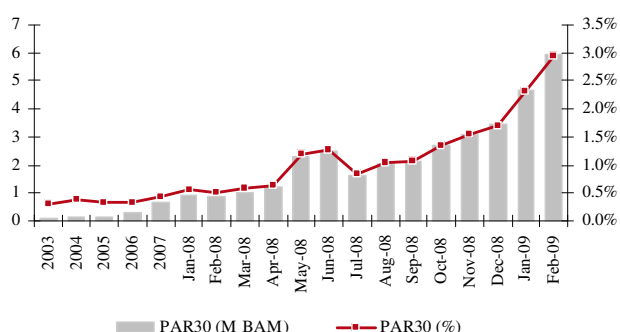
Good measures have been taken to manage delinquency in the current market conditions with the creation of delinquency teams headed by senior LOs. Although, swifter follow-up on delinquency is needed as indicated by the high mid-month PAR 1-30 which can reach over 20% for some branches. This has to some extent already been addressed by increasing the focus on average PAR for the month in the bonus system of LOs besides the focus on end-of-month PAR. LOs would benefit from stronger guidance from both Branch and Senior Management to ensure their continued motivation in their new working environment.

<sup>2</sup> Only clients with the two highest repayment status of A or B can be approved for a loan.

### Credit risk

Credit risk for EKI has increased from historic low levels to moderate levels in late 2008 and early 2009. PAR 30 increased to 1.7% as of December 2008 and up to 2.9% as of February 2009. This increase is to a large extent due to the worsening economic situation in the country combined with a saturation of the microfinance market and clients that are over indebted. The increase in January and February is partly due to the fact that the government has been late in paying salaries and pensions, besides it being the winter months with lower business activity. Amongst its peers in the industry, EKI maintains a good position as in December 2008 it was one of 5 MFIs with PAR 30 below 2%.

PAR 30 Evolution 2002-2009



Within the portfolio, the SME loan product has the highest PAR 30 at 4.2% for February 2009. This is likely to be caused by the high focus on disbursements prior to the ban on loans over 10,000 KM when EKI became an MCF. Prior to June 2008 the SME loans were performing better than the Micro and Agro Loans. As of February 2009 these two products have a PAR 30 of 2.6% and 3.2% respectively. In terms of breakdown by sector, it can be noted that manufacturing and trade have higher PAR, with PAR 30 at 4.4% and 4.1% respectively. Other sectors such as Agriculture, Services and Housing maintain a PAR 30 between 2.4% and 2.7%.

The performance per branch is somewhat uneven with five branches having PAR 30 below 2% and seven branches with PAR 30 between 2 and 5%. Zenica and Brcko branches have PAR 30 over 5%, which are also the branches where the majority of the frauds have taken place.

EKI follows the write-off policy under the law where all loans over 180 days late need to be written-off. The write-off ratio increased fourfold between 2007 and 2008 from 0.3% to 1.3%. Besides the increase in credit risk, this is to a large extent due to the fraud in the Brcko branch that contributed to almost 40% of the written-off amount for the year. Rescheduling of loans is well-monitored and kept to a minimum consisting of only 0.1% of portfolio as of December 2008.

There is limited concentration risk within the portfolio of EKI as it is well diversified both geographically and among differing economic sectors. There is however no policy in place to limit exposure to specific sectors or regions, although EKI has set limits on Household and Housing loans to 5% and 15% respectively. For December 2008,

### Credit risk coverage

EKI follows the prescribed provisioning policy by law and based on its auditors recommendation added a provision on the healthy portfolio of 0.74% based on historic repayment experience. As such, EKI has a good credit risk coverage with 136% of PAR 30 covered. Additionally, EKI uses efficient collateral in the form of salary guarantees and promissory notes, the level of which is dependent on the loan amount, repayment capacity of the client and possession of assets. The latter is however mostly used as a deterrent rather than as a form of payment. Final execution through the court system is a lengthy process and yields only limited returns.

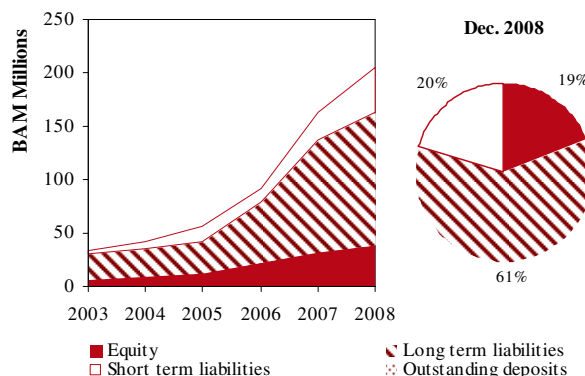
### Funding and liquidity

Funding and liquidity is rated “b”

### Capitalization and funding strategy

EKI has reached its minimum level of capitalization as a foundation with a Capital Adequacy Ratio of 19.0% as of December 2008. During FY08 EKI has been able to maintain its capitalization through retained earnings. Given the current growth scenario for 2009, EKI can similarly fund this growth through its retained earnings. Should the economic situation improve faster than expected and higher growth resume, or should income be negative in 2009, EKI has plans to diversify the ownership of the MCC to include World Vision and increase its capitalization.

Funding Structure



EKI has a good funding strategy and has been able to build a well diversified debt portfolio. Funding needs for the coming six months are secured with the remaining funding for the

rest of the year already in advanced stages of negotiation. EKI has precisely identified its funding needs for the next few years and has good relationships and a proven track record with both local and international investors. Their proven negotiation skills have led to favorable terms and revolving credit lines where needed.

EKI will need to use these advantages to renegotiate loan contracts. With the increasing credit risk levels it will breach covenants on PAR. As of March 2009, this was already the case for two loan contracts with one investor, constituting 5% of the debt portfolio.

### Liquidity risk

Treasury functions are carried out by the experienced and capable finance department, led by the seasoned FM. Asset and Liability Management is monitored on a monthly basis by the ALCO at management level. Asset and Liability Management has been formalized in a specific policy detailing financial risk levels for liquidity, maturity and market risks. Maturity risk is low, with a current ratio of 200%. Short term liabilities represented 24% of total liabilities as of December 2008, slightly above EKI's internal aim of 20%. A "fund manager" module that has been developed as part of the intranet platform helps to efficiently monitor maturing liabilities. This module is planned to be further extended to incorporate additional fund management features.

Liquidity levels are well managed, both at the branch and global level. Actual liquidity levels as of December 2008 are low at only 0.6% of assets, representing a low one month of operating expenses. At this time EKI did not meet its internally defined standard of 2% of assets, which represents a sufficient 2-3 months of operating expenses. Liquidity risk is partially mitigated by the availability of overdraft facilities which represent 5 months of operating expenses.

### Market risk

EKI is both exposed to FX risk and interest rate risk. EKI has an open EUR position of 171% on assets as its loans to clients are effectively denominated in EUR as well as 84% of its debt. An upward revaluation of the BAM against the EUR is highly unlikely. However, with a potential devaluation of the BAM against the EUR, EKI is adequately covered on paper, but this situation is likely to lead to an increased credit risk as the risk is passed on to its clients.

EKI is also exposed to interest rate risk as 20% of its debt is linked to the EURIBOR with all loans to clients are on a fixed interest rate. This represents an open position of 82% on Tier 1 capital as of December 2008. The interest rate risk is manageable for EKI as a 100 basis point increase in the

funding expense ratio only has a 0.15 percentage point decrease in ROA. Recent months however have seen a decrease of over 300 basis points in the 6-month EURIBOR from over 5% at end of Q308 to below 2% at the end of February 2009.

## ■ Efficiency and profitability

Efficiency and Profitability is rated "a"

### Profitability analysis

In 2008 EKI experienced a reduction in its profitability with ROA reducing from over 7% in 2006 and 2007 to 3.0% in FY08, retaining a sufficient profitability level. ROE also dropped, from 33.2% in 2007, to just 16.3% at the end of 2008. To a large extent this reduction in profitability was planned, although the increase in the provision expenses lowered ROA further.

The planned reduction in profitability was instigated by a lowering of EKI's interest rates to remain competitive in the market. Portfolio yield dropped 2% points from 21.6% in FY07 to 19.6% in FY08, and continues to closely resemble theoretical yield levels. At present EKI is among the top four MFIs that have the lowest interest rates in the country. This provides EKI with a solid competitive position and in general EKI enjoys a good revenue quality. Besides its low interest rates, EKI is also competitive in terms of branding, service orientation, range and packaging of products and breadth of branch network. EKI also has sufficient internal capacity to ensure that it remains competitive – for example in adapting or re-packaging its loan products to keep them attractive to clients – and continuously monitors its competition closely. One area that deserves continued attention is the conservative growth strategy chosen which might lead to a loss of market share in the short run. However, it is likely to consolidate the market position of EKI in the long run.

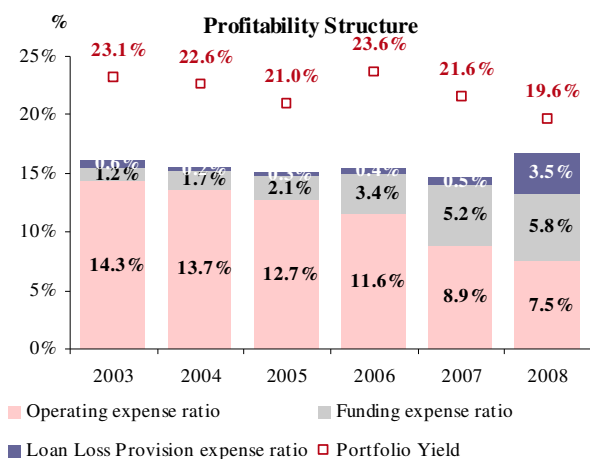
In terms of efficiency EKI remains one of the most efficient MFIs in the country with an operating expense ratio of only 7.7%. The main driver for this trend is the increase in staff and LO productivity, the latter increasing from 220 in 2007 to 284 in 2008. This is likely the result of the lower growth rates which reduces the percentage of new LOs that are not yet fully productive. The funding expense ratio has seen a modest increase in 2008 as a result of a higher percentage of commercial borrowings, as well as an increase in cost of funding related to the credit crunch which led local banks to increase their interest rates.

EKI's loan loss provision expense ratio increased significantly in 2008 to reach 3.5%. This is mostly caused by a needed increase in provisioning levels to cover for the

higher credit risk level as well as a change in provisioning policy (cf. Credit risk coverage). Additionally, around 20% of the provision expenses are related to the fraud case in Brcko.

EKI continues a strong optimization of its assets with 95% of its assets invested in its portfolio.

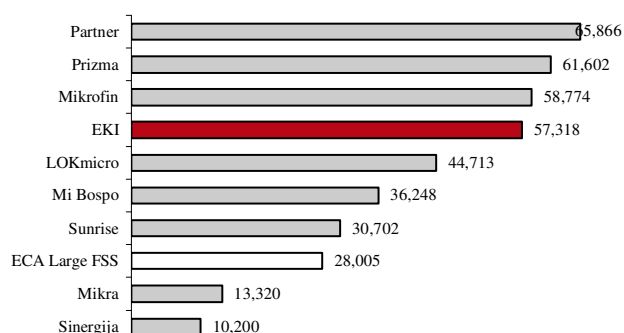
EKI has a stable profitability outlook and projects to remain at a ROA level between 3-4% in the coming years. To this end EKI has slightly increased its interest rates in January 2009 to compensate for further increase in funding and provision expenses. Also EKI expects to increase the number of clients served while maintaining the same portfolio size which can negatively impact its operating expense ratio, although this is likely to be off-set by an increase in staff productivity with maturing LOs. Additionally the transformation into an MCC will give EKI the option to again disburse loans over 10,000 BAM and gain in economies of scale.



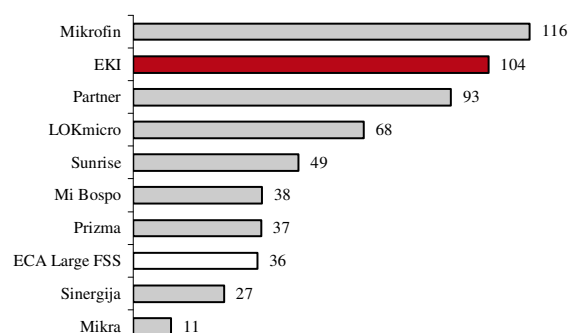
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

## Benchmarking

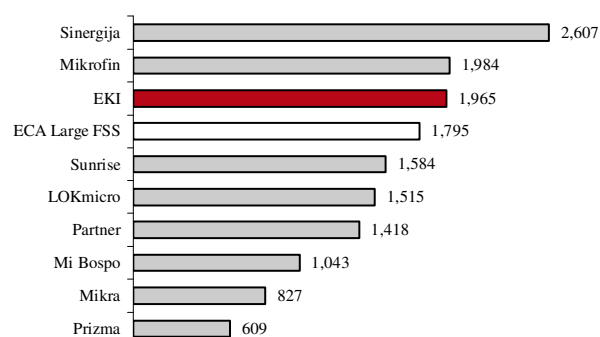
Number of loans outstanding



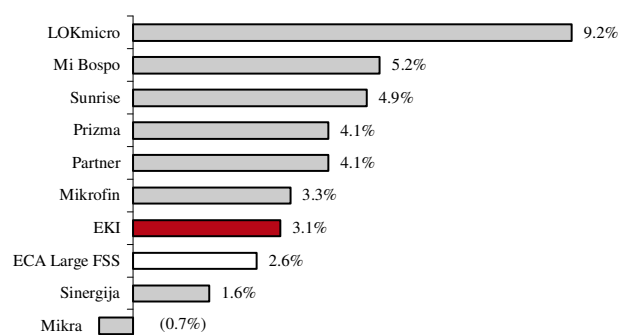
Loan portfolio (M EUR)



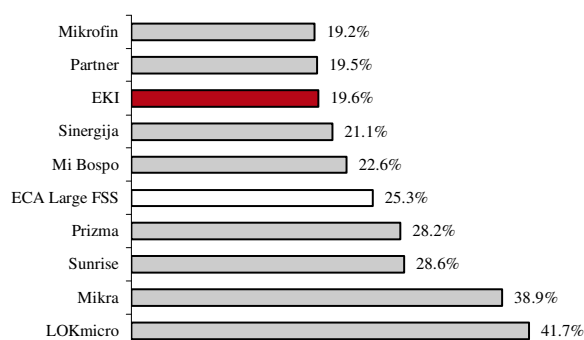
Average outstanding loan balance per client (EUR)



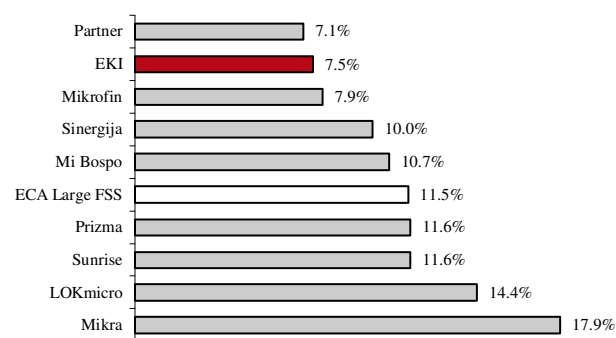
ROA



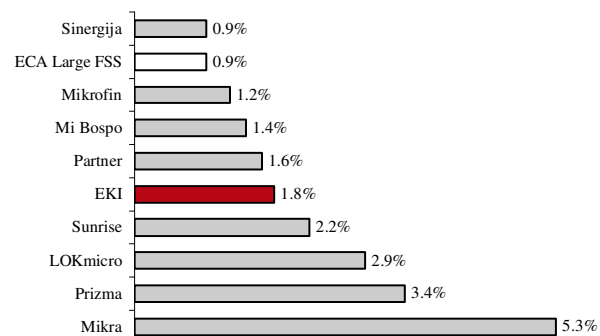
Portfolio Yield



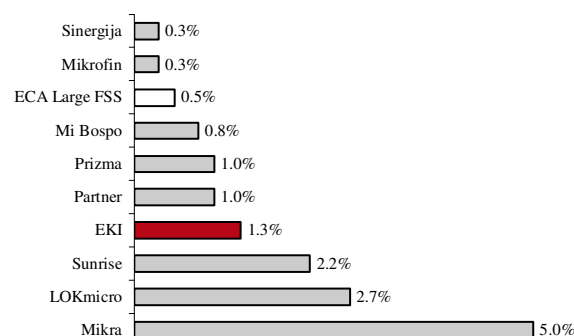
Operating expense ratio



PAR 31-365



Write-off ratio



Sources: EKI, Mi-Bospo - Planet Rating data as of Dec. 2008; other MFIs - Dec. 2008 reporting to AMFI; ECA Large FSS peer group - Mix Market 2007 Benchmarks, median.

Data in EUR, unless otherwise stated

## ■ Performance indicators

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
<b>Loan Portfolio</b>						
<b>Loan portfolio evolution</b>						
Loan portfolio	15,238,777	19,367,863	26,610,292	44,226,914	79,780,505	101,915,329
Loan portfolio (BAM)	29,804,000	37,879,666	52,044,410	86,498,999	156,034,711	199,326,000
<i>Evolution</i>	35.0%	27.1%	37.4%	66.2%	80.4%	27.7%
Average outstanding loan portfolio	13,237,750	17,003,489	22,693,162	34,051,820	62,911,367	96,632,306
Active borrowers	13,305	18,789	22,559	28,019	41,215	53,033
<i>Evolution</i>	48.2%	41.2%	20.1%	24.2%	47.1%	28.7%
Average outstanding loan per client	1,145	1,031	1,180	1,578	1,936	1,922
<i>% of GDP per capita</i>	59.6%	49.7%	53.4%	63.8%	69.7%	61.1%
Average amount disbursed per loan	1,634	1,506	1,694	1,938	2,165	2,168
<i>% of GDP per capita</i>	85.0%	72.6%	76.7%	78.3%	77.9%	69.0%
<b>Portfolio quality</b>						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
PAR 31-365	0.3%	0.4%	0.3%	0.3%	0.4%	1.7%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.3%	0.4%	0.5%	0.5%	0.3%	1.3%
<b>Credit risk coverage</b>						
Risk coverage ratio (PAR 30)	719.7%	53.1%	72.5%	68.0%	85.3%	136.1%
PAR 31 net of loan loss provision / Equity	(8.0%)	0.6%	0.4%	0.4%	0.3%	(3.2%)
<b>Staff</b>						
Total number of staff	102	119	153	211	281	320
% Credit officers	52.0%	55.5%	56.9%	61.6%	66.5%	58.4%
Turnover	5.2%	8.1%	14.0%	10.4%	11.0%	16.3%
<b>Profitability analysis</b>						
ROE	53.6%	27.9%	22.4%	32.4%	33.7%	16.3%
Liabilities / Equity	3.74x	3.00x	3.28x	3.10x	4.17x	4.32x
Capital adequacy ratio	22.3%	25.7%	23.7%	24.7%	19.5%	19.0%
ROA	6.6%	6.5%	5.4%	7.8%	7.1%	3.1%
<b>Profitability structure</b>						
Portfolio Yield	23.1%	22.6%	21.0%	23.6%	21.6%	19.6%
Operating expense ratio	14.3%	13.7%	12.7%	11.6%	8.9%	7.5%
Cost per borrower	142	124	128	140	135	137
Staff productivity	130	158	147	133	147	166
Loan officer productivity	251	285	259	216	220	284
Average outstanding loan per client	1,145	1,031	1,180	1,578	1,936	1,922
Funding expense ratio	1.2%	1.7%	2.1%	3.4%	5.2%	5.8%
Cost of liabilities	1.4%	2.0%	2.6%	4.1%	6.5%	7.5%
Loan Loss Provision expense ratio	0.6%	0.2%	0.3%	0.4%	0.5%	3.5%
PAR 31-365	0.3%	0.4%	0.3%	0.3%	0.4%	1.7%
Write-off ratio	0.3%	0.4%	0.5%	0.5%	0.3%	1.3%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	88.0%	90.7%	91.7%	94.4%	95.2%	95.1%
Revenue from investment as a % of financial revenues	0.0%	0.3%	0.2%	0.1%	1.3%	0.0%
<b>Liquidity</b>						
Liquidity / Total assets (LAR)	5.2%	1.5%	0.5%	0.5%	0.6%	0.6%
Exchange rate 1 EUR= xx BAM	1.96	1.96	1.96	1.96	1.96	1.96

EKI Income Statement	'000 BAM						'000 EUR						Evolution		
	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	06/05	07/06	08/07
<b>Financial Revenue (a)</b>	<b>6,056</b>	<b>7,603</b>	<b>9,363</b>	<b>15,980</b>	<b>27,067</b>	<b>37,455</b>	<b>3,096</b>	<b>3,888</b>	<b>4,787</b>	<b>8,171</b>	<b>13,839</b>	<b>19,151</b>	<b>70.7%</b>	<b>69.4%</b>	<b>38.4%</b>
Financial Revenue from Loan Portfolio	5,990	7,530	9,313	15,715	26,581	37,081	3,063	3,850	4,762	8,035	13,591	18,960	68.7%	69.1%	39.5%
Interest on Loan Portfolio	5,249	7,175	8,373	13,947	24,476	34,389	2,684	3,669	4,281	7,131	12,514	17,583	66.6%	75.5%	40.5%
Fees and Commissions on Loan Portfolio	731	337	928	1,752	2,095	2,677	374	172	475	896	1,071	1,369	88.8%	19.6%	27.8%
Penalty Revenue on Loan Portfolio	10	18	12	16	10	15	5	9	6	8	5	8	29.6%	(35.6%)	46.7%
Financial Revenue from Investments	-	19	16	13	363	15	-	10	8	7	186	8	(18.2%)	2,672%	(95.9%)
Other Operating Revenue	66	54	34	252	123	359	34	28	18	129	63	184	633.9%	(51.4%)	192.5%
<b>Financial Expense (b)</b>	<b>313</b>	<b>551</b>	<b>911</b>	<b>2,256</b>	<b>6,435</b>	<b>10,925</b>	<b>160</b>	<b>282</b>	<b>466</b>	<b>1,154</b>	<b>3,290</b>	<b>5,586</b>	<b>147.6%</b>	<b>185.2%</b>	<b>69.8%</b>
Interest paid on borrowings	313	551	911	2,256	6,425	10,925	160	282	466	1,154	3,285	5,586	147.6%	184.8%	70.0%
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	-	-	-	10	-	-	-	-	-	5	-	-	-	(100.0%)
<b>Financial income [c=a-b]</b>	<b>5,743</b>	<b>7,052</b>	<b>8,452</b>	<b>13,724</b>	<b>20,632</b>	<b>26,530</b>	<b>2,936</b>	<b>3,606</b>	<b>4,322</b>	<b>7,017</b>	<b>10,549</b>	<b>13,565</b>	<b>62.4%</b>	<b>50.3%</b>	<b>28.6%</b>
<b>Net Loan Loss provision expense (d)</b>	<b>163</b>	<b>74</b>	<b>146</b>	<b>277</b>	<b>644</b>	<b>6,642</b>	<b>83</b>	<b>38</b>	<b>75</b>	<b>142</b>	<b>329</b>	<b>3,396</b>	<b>90.3%</b>	<b>132.2%</b>	<b>930.9%</b>
Loan loss provision expense and write-off	246	162	257	380	769	6,831	126	83	131	194	393	3,493	47.8%	102.5%	788.0%
Recovery from Loans written off	83	87	111	102	125	189	42	45	57	52	64	97	(7.9%)	22.1%	51.2%
<b>Operating expense (e)</b>	<b>3,704</b>	<b>4,550</b>	<b>5,657</b>	<b>7,692</b>	<b>10,916</b>	<b>14,185</b>	<b>1,894</b>	<b>2,326</b>	<b>2,893</b>	<b>3,933</b>	<b>5,581</b>	<b>7,253</b>	<b>36.0%</b>	<b>41.9%</b>	<b>30.0%</b>
Personnel Expense (includes fringe)	2,565	3,129	3,781	4,870	7,239	8,945	1,311	1,600	1,933	2,490	3,701	4,574	28.8%	48.7%	23.6%
Administrative Expense	1,139	1,421	1,876	2,823	3,676	5,240	582	726	959	1,443	1,880	2,679	50.5%	30.2%	42.5%
Depreciation and amortization	94	163	269	363	522	807	48	83	138	186	267	413	35.1%	43.6%	54.6%
Consulting fees	43	205	166	148	-	-	22	105	85	75	-	-	(11.4%)	(100.0%)	-
Administrative expenses	95	143	161	199	130	189	48	73	82	102	67	97	23.6%	(34.4%)	44.9%
Communication expenses	208	235	242	286	423	907	106	120	124	146	216	464	18.5%	47.5%	114.6%
Occupancy expenses	275	299	381	448	568	879	140	153	195	229	291	449	17.4%	27.0%	54.6%
Travel expenses	161	221	314	388	896	1,022	83	113	161	199	458	523	23.6%	130.7%	14.1%
BOD fees	11	9	9	15	30	-	6	5	5	8	15	-	62.9%	97.1%	(100.0%)
Bank fee	42	58	104	435	431	526	21	29	53	222	220	269	317.5%	(0.9%)	22.1%
Others	210	88	229	540	676	910	107	45	117	276	346	465	136.1%	25.1%	34.6%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>			<b>2,649</b>	<b>5,754</b>	<b>9,072</b>	<b>5,703</b>	<b>959</b>	<b>1,241</b>	<b>1,354</b>	<b>2,942</b>	<b>4,638</b>	<b>2,916</b>	<b>117.2%</b>	<b>57.7%</b>	<b>(37.1%)</b>
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>	<b>1,876</b>	<b>2,428</b>	<b>2,649</b>	<b>5,754</b>	<b>9,072</b>	<b>5,703</b>	<b>959</b>	<b>1,241</b>	<b>1,354</b>	<b>2,942</b>	<b>4,638</b>	<b>2,916</b>	<b>117.2%</b>	<b>57.7%</b>	<b>(37.1%)</b>
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>	<b>1,876</b>	<b>2,428</b>	<b>2,649</b>	<b>5,754</b>	<b>9,072</b>	<b>5,703</b>	<b>959</b>	<b>1,241</b>	<b>1,354</b>	<b>2,942</b>	<b>4,638</b>	<b>2,916</b>	<b>117.2%</b>	<b>57.7%</b>	<b>(37.1%)</b>
Donations (l)	4	408	161	3,327	208	1,170	2	208	82	1,701	106	598	1,970%	(93.8%)	463.6%
<b>Net Income (after Taxes and Donations) [m=k+l]</b>	<b>1,880</b>	<b>2,836</b>	<b>2,810</b>	<b>9,081</b>	<b>9,279</b>	<b>6,873</b>	<b>961</b>	<b>1,450</b>	<b>1,437</b>	<b>4,643</b>	<b>4,745</b>	<b>3,514</b>	<b>223.2%</b>	<b>2.2%</b>	<b>(25.9%)</b>

EKI Balance sheet	'000 BAM						'000 EUR						Evolution		
	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	06/05	07/06	08/07
<b>ASSETS</b>	<b>33,141</b>	<b>41,704</b>	<b>56,629</b>	<b>91,401</b>	<b>163,233</b>	<b>204,752</b>	<b>16,945</b>	<b>21,323</b>	<b>28,955</b>	<b>46,733</b>	<b>83,461</b>	<b>104,690</b>	<b>61.4%</b>	<b>78.6%</b>	<b>25.4%</b>
<b>Short Term Assets</b>	<b>27,721</b>	<b>32,578</b>	<b>40,318</b>	<b>49,437</b>	<b>77,471</b>	<b>96,065</b>	<b>14,174</b>	<b>16,657</b>	<b>20,615</b>	<b>25,277</b>	<b>39,611</b>	<b>49,118</b>	<b>22.6%</b>	<b>56.7%</b>	<b>24.0%</b>
Cash and Due from Banks	1,728	611	310	422	954	1,327	884	312	159	216	488	678	35.9%	126.3%	39.1%
Short Term Investments	-	569	602	576	553	564	-	291	308	295	283	288	(4.3%)	(4.1%)	2.1%
Short Term Net Loan Portfolio	24,342	30,502	37,962	47,370	74,193	92,031	12,446	15,596	19,410	24,220	37,935	47,055	24.8%	56.6%	24.0%
Short Term Gross Loan Portfolio	24,990	30,577	38,089	47,564	74,765	96,730	12,777	15,634	19,475	24,319	38,227	49,458	24.9%	57.2%	29.4%
(Loan Loss Reserve)	648	75	127	193	572	4,699	331	38	65	99	292	2,403	51.9%	196.2%	721.8%
Interest Receivable	8	-	565	585	1,218	1,679	4	-	289	299	623	858	3.5%	108.0%	37.9%
On loan portfolio	8	-	565	585	1,218	1,679	4	-	289	299	623	858	3.5%	108.0%	37.9%
On investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	1,643	896	879	483	553	464	840	458	449	247	283	237	(45.0%)	14.4%	(16.1%)
<b>Long term assets</b>	<b>5,420</b>	<b>9,126</b>	<b>16,311</b>	<b>41,964</b>	<b>85,762</b>	<b>108,687</b>	<b>2,771</b>	<b>4,666</b>	<b>8,340</b>	<b>21,456</b>	<b>43,850</b>	<b>55,572</b>	<b>157.3%</b>	<b>104.4%</b>	<b>26.7%</b>
Long Term Net Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio	4,814	7,303	13,956	38,935	81,270	102,596	2,461	3,734	7,136	19,908	41,553	52,457	179.0%	108.7%	26.2%
Net Fixed Assets	606	1,821	2,354	3,027	4,492	6,091	310	931	1,203	1,548	2,297	3,114	28.6%	48.4%	35.6%
Other Long Term Assets	-	2	2	1	1	-	-	1	1	1	-	-	(25.0%)	(33.3%)	(100.0%)
<b>LIABILITIES AND EQUITY</b>	<b>33,141</b>	<b>41,704</b>	<b>56,629</b>	<b>91,401</b>	<b>163,233</b>	<b>204,752</b>	<b>16,945</b>	<b>21,323</b>	<b>28,955</b>	<b>46,733</b>	<b>83,461</b>	<b>104,690</b>	<b>61.4%</b>	<b>78.6%</b>	<b>25.4%</b>
<b>Liabilities</b>	<b>26,142</b>	<b>31,279</b>	<b>43,395</b>	<b>69,086</b>	<b>131,638</b>	<b>166,284</b>	<b>13,366</b>	<b>15,993</b>	<b>22,188</b>	<b>35,324</b>	<b>67,307</b>	<b>85,021</b>	<b>59.2%</b>	<b>90.5%</b>	<b>26.3%</b>
Short term liabilities	2,468	5,643	14,702	13,118	26,753	41,694	1,262	2,885	7,517	6,707	13,679	21,318	(10.8%)	103.9%	55.8%
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	1,928	3,625	12,210	12,578	25,569	37,140	986	1,853	6,243	6,431	13,073	18,990	3.0%	103.3%	45.3%
Interest payable	-	-	-	-	-	1,897	-	-	-	-	970	-	-	-	-
Accounts Payable and Other Short Term Liabilities	540	2,019	2,492	540	1,184	2,657	276	1,032	1,274	276	606	1,359	(78.3%)	119.4%	124.3%
Long term liabilities	23,674	25,636	28,693	55,968	104,885	124,590	12,105	13,108	14,671	28,617	53,628	63,703	95.1%	87.4%	18.8%
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	23,674	25,636	28,693	55,968	104,885	124,338	12,105	13,108	14,671	28,617	53,628	63,574	95.1%	87.4%	18.5%
Other Long Term Liabilities	-	-	-	-	-	252	-	-	-	-	-	129	-	-	-
<b>Equity</b>	<b>6,999</b>	<b>10,425</b>	<b>13,234</b>	<b>22,315</b>	<b>31,595</b>	<b>38,468</b>	<b>3,579</b>	<b>5,330</b>	<b>6,767</b>	<b>11,410</b>	<b>16,154</b>	<b>19,669</b>	<b>68.6%</b>	<b>41.6%</b>	<b>21.8%</b>
<b>Tier 1 Capital</b>	<b>6,999</b>	<b>9,824</b>	<b>12,638</b>	<b>20,850</b>	<b>31,595</b>	<b>38,468</b>	<b>3,579</b>	<b>5,023</b>	<b>6,462</b>	<b>10,660</b>	<b>16,154</b>	<b>19,669</b>	<b>65.0%</b>	<b>51.5%</b>	<b>21.8%</b>
Paid-In Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity	2,682	3,121	3,282	6,609	6,816	7,986	1,371	1,596	1,678	3,379	3,485	4,083	101.4%	3.1%	17.2%
Retained earnings without donations and reserves	4,317	6,702	9,356	14,241	24,778	30,482	2,207	3,427	4,784	7,281	12,669	15,585	52.2%	74.0%	23.0%
<b>Other equity accounts</b>	<b>-</b>	<b>601</b>	<b>596</b>	<b>1,465</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>307</b>	<b>305</b>	<b>749</b>	<b>-</b>	<b>-</b>	<b>145.9%</b>	<b>(100%)</b>	<b>-</b>

## ■ Formulas

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

## ■ Rating scale

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