

LOK Microcredit Foundation, Bosnia and Herzegovina

LOK micro was created in 1997 as a “citizens association” in the city of Sarajevo. In February 2001 it transformed into a Micro Credit Organization and as of May 31st 2008 it has transformed into a Micro Credit Foundation in line with the changes in regulation in BiH. As of May 2008, LOK served 31,909 active borrowers through a national network of 83 Field Offices. The institution has a loan portfolio of 56.6 M EUR (110.7 M BAM) and offers credit products to clients for production, trade, services, insurance and agriculture.

GIRAFE Rating

Rating

A-

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at www.planetrating.com

Outlook

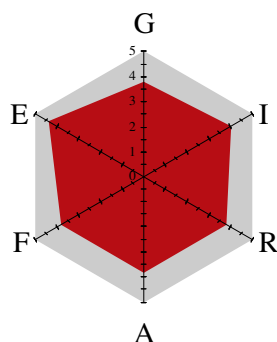
Uncertain

Date of the rating

July, 2008

Valid until June, 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- LOK has seen a strong increase in profitability in FY07 with ROA at 8.1% up from 3.7% in FY06.
- The main driver has been an increase in economies of scale boosted by a 156% growth of its loan portfolio in 2007 reducing its operating expense ratio from 17.8% in 2006 to 13.2% in 2007; while LOK has been able to keep its yield levels above 30% in the competitive Bosnian market.
- The strong growth has resulted in a strengthening of its market position among the MFIs in Bosnia and Herzegovina to 11.1% as of June 2008.
- LOK has seen this growth being accompanied by a deterioration of its portfolio quality with PAR 30 increasing from 0.9% at FYE06 to 1.6% as of May 2008.
- The management team has been further strengthened and consolidated since Planet Rating's previous rating in March 2007. However, the level of governance has slightly reduced with a smaller board of directors and inactivity of the board committees.
- The main challenge ahead for LOK is to transform to a Micro Credit Company and raise equity investments to support its future growth.

Outlook

The uncertain outlook underlines opposing trends within LOK for which it is not clear how they will materialize in the coming 12 month period. Profitability and efficiency show a strong positive trend but there is a deteriorating trend in credit risk and funding is not fully secured for the coming 6 month period to sustain the growth of LOK. New equity investors can provide support to LOK but at present the negotiations are only at a preliminary level.

Performance indicators

EUR	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	May. 2008
Assets	6,687,119	9,208,120	11,670,343	19,766,194	50,134,744	61,080,869
Growth	21.7%	37.7%	26.7%	69.4%	153.6%	21.8%
Loan portfolio	4,784,252	6,867,427	9,382,854	17,474,555	44,672,277	56,292,132
Growth	15.3%	43.5%	36.6%	86.2%	155.6%	26.0%
Active borrowers	3,829	5,040	6,284	10,498	25,237	31,909
Staff	49	47	61	106	174	251
ROE	6.4%	7.9%	21.7%	28.8%	60.2%	50.4%
ROA	1.3%	1.3%	3.2%	3.7%	8.1%	7.2%
Liabilities / Equity	4.26x	5.69x	5.82x	7.65x	6.05x	5.96x
Portfolio Yield	34.7%	32.0%	31.7%	31.1%	32.7%	30.8%
Operating expense ratio	28.0%	22.7%	18.7%	17.8%	13.2%	12.7%
PAR 31-365	0.7%	0.8%	1.7%	0.9%	1.3%	1.6%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.8%	0.2%	0.7%	1.8%	1.4%	0.6%

Microfinance sector

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

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

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

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

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

The Law on Enterprises 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 (BA-RS) while FBH-based MFIs are licensed and

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

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

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

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 fierce competition and depending on how long this period might drag on, FBH-based MCOs currently lending a significant part of their portfolio over 10,000 BAM could lose some market share at the advantage of RS-based MCCs.

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

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

equity investors as well. In all cases, the BiH microfinance sector is firmly heading towards further consolidation and commercialization.

Political & economic environment

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

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

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

COFACE Country Rating: D - A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment 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	2005	2006	2007(e)	2008(f)
Economic growth (%)	5.0	6.2	5.5	6.0
Inflation (%)	3.7	7.4	1.4	2.1
Public sector balance (%GDP)	-2.2	0.4	-3.9	-4.3
Exports	2 590	3 382	4 058	4 600
Imports	7 545	7 680	9 753	10 700
Trade balance	-4 955	-4 298	-5 695	-6 100
Current account balance (%GDP)	-19.7	-10.8	-15.5	-15
Foreign debt (%GDP)	49.9	49.4	49.2	45.6
Debt service (%G&S exports)	4.1	5.0	5.0	5.2
Foreign currency reserves (in months of imports)	3.7	4.8	5.1	5.8

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

Institutional presentation

Legal form, supervision and audit

LOK started its microfinance operations in 1997 as a "citizen's association" (non-profit organization). In February 2001 it was transformed into a Micro Credit Organization (MCO). As of May 31st 2008 it has transformed into a Micro Credit Foundation (MCF) in accordance with the new Law on Micro Credit Organizations, and registered with the Federation Ministry of Justice. Before the end of 2008, LOK intends to transform into a Micro Credit Company (MCC) through a two step process: step one is to register the MCC where the foundation will be the main shareholder and share options are provided to staff and management; step two is to add new equity investors.

Under the new law LOK 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). Given that the new law does not authorize deposits-collection, regulated institutions will not be subject to prudential norms.

The financial statements of LOK, prepared in accordance with IFRS and IAS, have been audited by Deloitte d.o.o. Sarajevo since its registration as a MCO. This firm has auditing experience with many other MFIs in BiH, has been

in communication with WB actors on microfinance issues, and applies the CGAP audit guidelines. The auditors have always certified the accounts without qualifications. The financial year of LOK starts on January 1st and ends on December 31st.²

Ownership

LOK has no owners as a local non-profit MCO, nor as a MCF. The founders are individuals who started microfinance activities with the help of the WB. The Board of Directors (BOD) of LOK MCO currently includes five members with banking, commercial, law and teaching backgrounds. Until May 2007, when two members were replaced with new members, all members of the BOD had been in place since 2001. Two external members from Raiffeissen Bank and Hypo Alpe-Adria Bank left the BOD in May 2007. The BOD had two sub-committees for Audit and Compensation but they did not meet since May 2007.

Since February 2008 the effective governance has been taken over by the BOD of LOK MCF which has three members (two that were with LOK MCO since 2001 and one of the new members of LOK MCO). The BOD of LOK MCF has one sub-committee on Audit (composed of three external members) established in February 2008 and is yet to convene its first meeting.

Donations

LOK micro has capitalized 1.3 M BAM (662 K EUR) from the absorption of the equity of three smaller MFIs: Blue Bridge, Business Center and NBR Modriča. This equity includes grants received by these institutions but also their own retained earnings.³

Funding composition

The funding structure of LOK is composed for 15.9% of equity and 83.8% of debt. Equity includes subordinated debt from Deutsche Bank worth 2 M EUR. As of May 31st LOK had a total of 15 domestic funding sources for a total of 42 M BAM (21.5 M EUR) and 11 international sources of funding totaling 62 M BAM (31.8 M EUR). 66% of its debt is denominated in EUR, 1% in CHF and the remainder is in local currency. 77% of its debt is on a fixed rate basis while 22% is linked to the EURIBOR and 1% to CHF.

² The books of accounts for LOK MCO were closed as of May 31st and were audited by Deloitte. The data in this report is based on the audited data for May 2008.

³ In 2006 LOK capitalized 2.25 M BAM (1.15 M EUR) of long term loans from LIP and UNHCR as all conditions had been met. This was also taken up as such by Deloitte in its audited financial statements for Dec. 2006. However, as official approval remains outstanding this transaction was reversed in 2007 and the 2006 audited financial statements were restated by Deloitte.

Management team

LOK MCF management team includes eight managers: a CEO, Deputy CEO and Executive Directors for Finance, Credit (2 positions, each covering several regions), Operations (currently vacant; responsible for IT and PR), Human Resources and an Internal Auditor. It is supported by a middle management team including the heads of the Finance, IT, PR departments and seven Branch Managers.

- The CEO, Mr. Nusret Čaušević, is an economist, with more than 25 years of work experience in management and economics including experience in the fields of civil service (Ministry of Urban Planning, Stari Grad Municipality) and civil society. He created LOK micro together with other individuals and with the support of the WB. As most practitioners of microfinance in BiH, he has received trainings organized by LIP.
- The Deputy CEO, Mr. Nedžad Beglerović, is also a founding Director and was previously the Executive Director for Finance. He is an economist with more than 19 years work experience in the financial management of various companies.

Organization

The head office (HO) in Sarajevo centralizes all management and administrative staff (management, internal audit, IT, accounting, finance, HR and marketing and PR). Credit activities are managed from Branch Offices led by a Branch Manager. Each Branch Manager is responsible for several Field Offices, and is in charge of portfolio management: loan approval, monitoring of portfolio performance and Loan Officers (LOs). Loans up to 12,000 BAM are approved by local staff in a credit committee that includes LOs and the Branch Manager. Larger loans require the approval of the Executive Director for Loans. As of January 2008 the Field Offices have been grouped into 'profit centers' for administrative purposes but also to be supervised by a Senior LO in the future. All operations involving cash (disbursements, repayments) are made through local banks. Some late repayments may be collected by LOs.

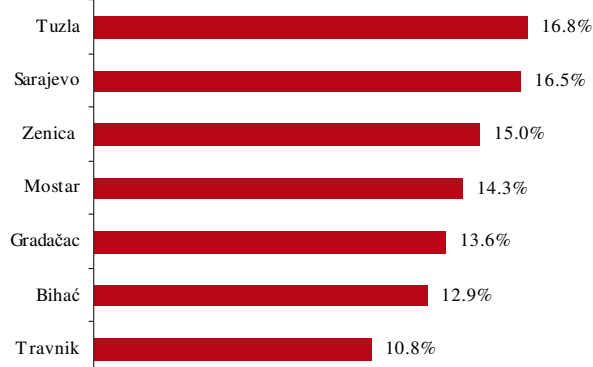
As of April 2008 a new MIS – Credit Manager 1.0 – has come on-line which was developed since early 2007 by LOK and a local IT company COMP 2000. The system is on-line available in Field Offices through a web-based user interface. For accounting purposes LOK still uses FINPOS. Credit Manager is being further developed to include an accounting function and become a fully integrated system. This is expected to be operational by October 2008.

Market penetration

LOK operates through a network of seven Branch Offices and 83 Field Offices (some Field Offices are located within

the Branch Offices). This is an increase from 29 Field Offices at the end of 2006 and presently provides LOK with a national presence.

Outstanding loan portfolio per branch - May 2008



As of June 2008 the market share of LOK is 11.1% in terms of outstanding portfolio and 10.7% in terms of active borrowers. For a further overview please refer to the Benchmarking on page 11.

Products and services

LOK micro has offered for many years a single product for all different sectors (trade, services, production, agriculture) and purposes (working capital, investment). In 2004 and 2005 it started a redefinition of its products' range to customize a product for each type of activity. This has led the institution to offer up to six permanent products and some short term products linked to promotional policies by early 2007. Later on additional products were developed in cooperation with specific investors and for specific purposes. At present LOK has a total of 12 standard credit products and another 3 were launched in June 2008.

- Product L1 is the oldest product and represented 79% of total portfolio as of May 2008. It can be disbursed to any kind of formal or informal microenterprise, including startups with a maximum loan size of 30,000 BAM (15,000 EUR).⁴ It has an average disbursed amount of 3,700 BAM (1,850 EUR). Terms range from 1 to 36 months. Its Effective Interest Rate (EIR) is 32%.
- Product VIP was launched in 2006 for the best clients of LOK. Such clients are awarded with a Silver or Golden Business Partner card. The VIP loans have a slightly lower interest rate (EIR at 31.1% and 28.8% respectively) and are approved within one working day, and with the possibility to complete paper work in the field. Such loans are only disbursed to clients having successfully paid four cycles. The average disbursed amount is 9,500 BAM (4,750 EUR). Loan amounts and terms are similar to L1.

- Product T was launched in 2001 in partnership with the insurance company Triglav and currently also includes other insurance products (SO, HO). The maximum loan amount is 20,000 BAM (10,000 EUR) and terms are capped at 24 months. The average disbursed loan amount is 4,500 BAM (2,250 EUR) and the EIR is 26.0% for terms below 12 months and 31.7% above 12 months.
- Product AO was launched in 2006 to cover the costs of vehicle licensing and insurance. Its maximum amount is 1,500 BAM (750 EUR), with an average disbursed amount of 500 BAM (250 EUR). Terms range from 1 to 5 months. The EIR varies between 19-25% depending on the loan amount.
- Product P for agriculture was launched in 2002. The maximum loan size is 30,000 BAM (15,000 EUR) with a maximum term of 36 months. The EIR is around 14-18% depending on the grace period.
- Two other agricultural loan products were developed in 2007 (Caritas and Econ) for specific investors and specific purposes and geographic areas. The maximum loan amount is 10,000 BAM (5,000 EUR) and a maximum term of 36 months with a possible grace period of 24 months. EIR is 5-8% depending on the grace period.
- Product E1 (Express) for short term liquidity needs was launched in 2004. It ranges from 500 BAM (250 EUR) to 2,000 BAM (1,000 EUR), with an average disbursed amount of 1,500 BAM (750 EUR). Terms range from 1 to 5 months. The APR is 40%.
- In 2008 three products (ESP) were developed in cooperation with the AEICD⁵. The loans are focused on fixed assets (max 9,500 BAM and 36 months; EIR is 20-30% depending on the grace period), working capital (max 5,500 BAM and 12 months; EIR is 29%) or construction of business premises (max 19,500 BAM and 60 months; EIR is 6-8%).

LOK does not reschedule and/or refinance loans of its clients. The compounded theoretical yield for LOK is estimated at 31.5% for FY2007 and reduced to just below 31% as of May 2008.

Based on the policy started in 2005, LOK has continued launching promotional products to attend specific needs of clients and to boost demand in particular periods of the year. For example, it launched various one-shot products with the same conditions as L1 to finance specific expenditures such as enterprise vehicles (L1A), home improvement (L1H) and Agriculture Enterprises (L1P). It also launched seasonal loans in the summer months, with lower interest rates, at periods when demand was low and LOK had excess liquidity.

⁴ As a MCF LOK is not allowed to disburse loans over 10,000 BAM but has continued to do so in the transition period until it becomes a MCC.

⁵ Agencia Española de Cooperación Internacional para el Desarrollo

Networks

LOK is a member of the Association of Microfinance Organizations in Bosnia and Herzegovina (AMFI), of the Microfinance Center for Central and Eastern Europe and the Newly Independent States (MFC), an associate member of the European Microfinance Network (EMN) and a member of Chamber of Commerce of BiH.

■ Governance

Governance and Decision making is rated “b”

Decision making

LOK has an adequate decision making process and decisions are generally taken in the best interest of the institution. 2007 saw a welcome renewal to the BOD of LOK MCO with the entry of two new BOD members after the constitution of the BOD had not changed in the 5 previous years. However, with the transformation into LOK MCF the size of the BOD was reduced to three members in anticipation of their reduced role in governance after the further transformation into LOK MCC. The three BOD members have appropriate backgrounds and good technical skills to effectively govern LOK. BOD meetings are held sufficiently frequent but at times 5 months apart. As a result of the focus on the transformation process the two BOD committees of LOK MCO did not meet since May 2007 and the audit committee of LOK MCF is yet to hold its first meeting. Together with the reduced number of BOD members this has reduced the effectiveness of governance of the BOD as compared to previous levels but remains adequate.

The BOD receives sufficient and good quality information in a timely fashion to prepare the BOD meetings. The balance in decision making has remained with the management of LOK who prepares most strategic initiatives and submits them for approval to the BOD. The balance in decision making is likely to improve in the new MCC with the entry of new shareholders before the end of 2008. The BOD meetings are well documented in minutes and there is a systematic follow-up on decisions taken. BOD minutes could further detail the opinion of the BOD on the performance of LOK.

Planning

LOK has detailed an appropriate strategy in its Strategic Plan 2008-2012 which focuses on increasing its market position based on high growth backed by strengthening of the institution and its operations, strong marketing and development of new products. The strategic plan is concise and is based on a detailed SWOT analysis which leads to the identification of key activities needed to fulfill the strategy.

Yearly operational plans are developed with more detailed operational projections and action plans per department. The planning process has a good balance between input from operational staff and senior management to set targets that are aggressive, realistic and owned by staff. Throughout the institution there is a strong commitment of staff to their targets.

The financial projections are realistic and achievable but should be better supported by a more detailed analysis and would benefit from scenario planning to analyze the impact of different growth scenarios as well as possible future changes in interest rates. A main strength of the planning process is the frequent updates of the plan. Monthly targets are adapted if needed (e.g. based on availability of funding) and the annual projections are updated quarterly if needed. Furthermore there is a strong monitoring whether targets are achieved as well as good budget follow-up.

Management team

LOK has a strong, cohesive and polyvalent management team in place and the team has been further consolidated since the end of 2006 as most of the managers have been in place since then. The team has been further strengthened with the addition of a second ED for Credit. The management team shows strong leadership in all areas of operations and is backed by good middle management (BMs and Heads of Departments) to support them in their work. The strengthening of the senior management team has significantly reduced, if not completely nullified, the key-person risk on the CEO and Deputy CEO that have led the institution since inception.

Sufficiently frequent management team meetings (bi-weekly on average) allow for good internal communication but communication is not limited to these official meetings and the management team is characterized by an open working atmosphere. Overall LOK has demonstrated good execution capacity in terms of its growth plans and the projects needed to support this growth.

Human resource management

The HR department has been significantly strengthened in the past 18 months and human resource management is professionally run at LOK, which is key to the current growth of the institution. LOK has a good recruitment process in place with a well developed introduction process for LOs. This is composed of a formalized training at HO, on-the-job training and further support through a dedicated mentor during a probationary period of three months. Within LOK, strong emphasis is given to continuous capacitation of staff, both operational and HO staff, through in house trainings as well as support for official education of middle

and top management. Monitoring and evaluation of operational staff performance is a continuous process. Clear monthly targets are set for operational staff which is monitored as part of the incentive system. However, for staff at HO no staff evaluations are carried out separately.

The staff of LOK displays a good morale and there is a positive work atmosphere at LOK. Staff is further motivated through bonus schemes as well as yearly awards, selective staff retreats, etc. Despite this and despite adequate compensation staff turnover has remained high between 18 and 20% for 2006 and 2007. In 2008 staff turnover is likely to remain at the same level. It should be noted however that 33% of staff leaving in 2007 were LOs that were not given a contract at the end of their 3 month probation; without this the staff turnover would have been 13%. Still, LOK can develop more creative staff retention mechanisms of which the planned staff share option in the MCC is one.

■ Information

Information is rated “a”

The new loan tracking software - Credit Manager 1.0 - came online in April 2008 which solves several weaknesses identified in the previous system (CREDPOS): difficulties in the integration with the accounting system because of incompatibility, lack of different level of user rights, low flexibility in generation of loan information, etc. The system also has an on-line web based connection between HO and the Field Offices making data available in real-time. The efficiency of the system will be further enhanced when the accounting module will come online in October 2008.

The IT team has been reinforced in the last months and the team will be further strengthened in August 2008 with a new IT Manager to head the department. The maintenance and future improvements of the system will be facilitated due to a specific contract with the system developer⁶.

The level of digital data security is high with a relevant system of individual passwords, antivirus protection (automatically updated), and daily back-ups stored in a safe. Nevertheless, LOK will only commence with storage of back-ups outside its premises in July 2008. Paper data is stored securely as well with promissory notes stored in a safe at Regional Offices and a duplicate of the loan contract is sent to HO.

The information available from Credit Manager is versatile and allows in-depth analysis of its credit activities. Contrary to the previous system, the new system provides several

⁶ LOK shares the propriety rights of the system (50% for each entity) with the local developer company.

reports which can be more easily improved or adapted in case of need. Loan repayments are entered daily at HO from bank statements which allows for an up-to-date availability of data to staff.

Financial statements are prepared on a monthly basis accompanied by relevant performance ratios: ROA, ROE, operational efficiency, employees' productivity, portfolio yield, etc. Financial analysis is set to further improve once the profit centers will be analyzed as such by the end of 2008. At present their use in financial analysis is limited to cost allocation. Furthermore, LOK would benefit from a more thorough product costing to gain better insight in the profitability of each of its products, especially with the recent increase in number of products.

■ Risk Management

Risk Management is rated “b”

Procedures and internal controls

The procedures for LOK are well documented and certified under ISO 9001:2000. They contain good internal controls as a result of good separation of duties and hierarchical controls. The implementation of the new MIS has further reinforced operational controls by integrating several limitations (maximum amount per type of loan, loan term electronic approval of the credits, etc.) in addition to rules set by internal procedures such as limitation of credit decision making at branch level at 12,000 BM (6,122 EUR).

There are also good controls on data accuracy with bank reconciliation carried out daily for credit operations and monthly reconciliation of credit data in Credit Manager and FINPOS. Cash risk itself is limited by the use of bank accounts for the disbursement and the repayment. Specific procedures for cash handling have been set in place though the internal audit department continues to find some disrespect of these procedures.

Internal audit

The internal audit department is lead by a skilled Chief Internal Auditor assisted by a junior auditor hired in April 2008. The team applies a relevant methodology covering the different fields of operation (credit, accounting, cash handling, etc.). The new MIS has however not yet been fraud tested as it is still undergoing its final revisions. The findings are documented in detailed reports accompanied with adequate recommendations. The implementation of the recommendations is adequate overall but needs to be strengthened by a more systematic and proactive decision making by the management team in case of incompliance to procedures by staff. The IA team has received limited

support from the BOD in the past 12 months. This is partly as a result of the fact that the audit committee has not been active since May 2007.

The current man power of the department is limited especially in the current context of growth of the institution. The recruitment of one new auditor is already planned before the end of the year in order to ensure a better coverage and more frequent missions of the audit department. However, an audit department with only three staff remains limited for the present and future size and geographic spread of LOK.

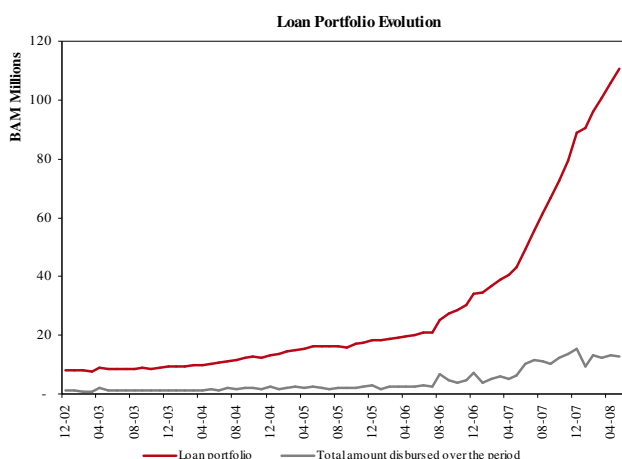
LOK has received basic support to its internal controls from Deloitte. In future additional support will be available through the supervisory missions of the Banking Agency.

■ Activities

Activities: products and services is rated “b”

Portfolio evolution

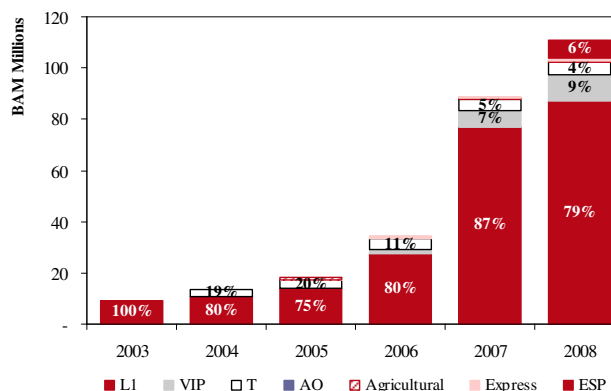
LOK has experienced a significantly high portfolio growth of 156% in FY07. The first five months of 2008 only show a growth of 26.0% but as compared to May 2007 this is a growth of 157% as LOK experiences its main growth in the second half of its financial years. The growth in number of active borrowers has been 140% and 26.4% for the same periods. This global portfolio growth is expected to continue although LOK might not fully reach its 2008 targets as a result of a delay and slow down of funding from investors (see Funding & Liquidity section).



The portfolio composition remains dominated by the product L1 (multi-purpose microenterprise loan) which together with its related VIP product represent 88% of the total portfolio as of May 2008. The percentage share of the VIP product will remain limited as LOK aims to only make it available for a maximum of 5% of its clients (as of May 2008 this was 4.1%).

Even though LOK has greatly diversified its product base, new products take up only a relatively small percentage of the total portfolio. The exception are the ESP products which have increased from nil to 6.0% of the portfolio in the first five months of 2008 as these loans are backed by specific funding from AECID.

Loan Portfolio per Product



Loan portfolio management

LOK demonstrates good portfolio management. The products have an adequate credit methodology that is implemented well. To achieve faster growth LOK has consciously chosen to implement its credit methodology with a slightly higher risk profile.

The credit appraisal is efficient including client visits, collection of required documents and supervision by the Branch Manager and ED for Credit, etc. However, the analysis of the client’s repayment capacity can be further improved with a more detailed cash-flow analysis. The information about the client level of indebtedness from the national credit register is being used by LOK since December 2007 although it is not yet systematically incorporated in the appraisal process.

Overall the LOs have sufficient capacity to implement the credit methodology. However, as a result of the strong growth LOK has a high number of new LOs that, even though they are well trained, are not yet fully experienced.

The delinquency management is well organized and proactive. LOs are informed within one day of clients’ default and perform progressive actions of pressure on the borrower and his or her guarantors in order to recover late payments.

Credit risk

LOK experiences low credit risk as the portfolio quality remains good, with PAR 30 at 1.6% as of May 2008. There is however a negative trend as portfolio at risk has been

increasing from 0.9% at FYE06 and 1.3% at FYE07. Given the high growth of the portfolio PAR levels are expected to understate the real credit risk. The distribution of the PAR 30 among the different products is not homogeneous. The main product L1 is average for the institution PAR 30 at 1.7%. Other products perform better (e.g. VIP loans have PAR of 0.6%). The only negative exception is the Express loan with PAR 30 of 10.9%. This loan however only comprises 1.0% of the total portfolio. It should be noted however that if a client is in default of one loan, its other loans are not classified as at risk.

The distribution per region as of May 2008 also shows differences between regions with low PAR 30 in Sarajevo (0.63%), Mostar (0.84%), Travnik (0.96%) and Zenica (.070%) and above average PAR 30 in Gradacac (3.18%) and Tuzla (3.02%). Part of the reason for this increase is regulatory changes for companies in the administrative region of Brcko as well as a fraud case in a regional branch of one of its main competitors.

LOK follows the write-off policy in the law where all loans over 180 days need to be written-off. The write-off ratio has slightly improved from 1.8% in 2006 to 1.4% in 2007. The annualized ratio for 2008 stands at 1.5% after the first five months of the year. The level of recovery of written-off loans is very low as only 10% of the written off amount is collected.

LOK does not have a specific policy in place to limit exposure to a certain sector although its loan portfolio is currently adequately diversified.

Credit risk coverage

LOK shows a reduction in its risk coverage ratio (PAR 30) because the provisioning policy in the new law is less conservative. The risk coverage ratio has decreased from 257.9% at FYE06 to 78.7% at FYE07 and 87.1% as of May 2008. A consequence of this evolution is that the PAR 30 net of loan loss provisioning over equity now stands at 1.4% as of May 2008. However, the risk coverage ratio (PAR 90) has remained above 200%. The coverage of the credit risk is further reinforced by the additional use of guarantors and hard collateral which are mostly used as a deterrent. Promissory notes signed by clients can easily be used in court, although the collection itself is a lengthy process.

■ Funding and liquidity

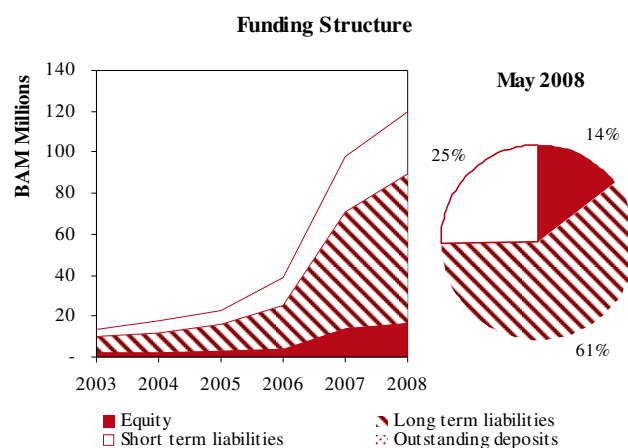
Funding and liquidity is rated “b”

Capitalization and funding strategy

LOK is slightly undercapitalized given its status as foundation as it has a core Capital Adequacy Ratio of 10.6%

and a total CAR of 14.7% as of May 2008. This is a strengthening from 2006 when the Total CAR was 12.1% as a result of the added subordinated debt from Deutsche Bank. The first five months of 2008 indicate a further strengthening of the core CAR to 11.4% but the total CAR remained at 14.7%. It should be noted however that LOK does remain below the maximum leverage as specified in the new law (10x). Additional strengthening of the capital base is expected with the investments of new shareholders before the end of 2008.

LOK has a good funding strategy and has been able to build up a diversified debt portfolio over the past years. As of May 2008 funding came from 26 different sources. LOK maintains good relations with investors and is able to negotiate favorable conditions for its debt and if needed renegotiate covenants. LOK has a solid identification of its funding but as of June 2008 it was not yet able to contract sufficient funding to cover its funding needs for the coming six-month period until the end of 2008. With additional negotiations ongoing it is likely that LOK will be able to contract close to its projected funding needs. However, in the first six months of 2008 LOK experienced some delays in disbursements by investors and it received less funding than expected which resulted in a lower growth than projected.



Liquidity risk

Treasury functions are carried out by the finance department by experienced and capable staff. Maturity risk is adequately monitored on a monthly basis. LOK does not experience any maturity risk as the terms of the loans to clients are easily covered by the longer terms of debt from banks and its equity. This is underlined by a Current Ratio and Quick Ratio's of well over 100%.

Adequate liquidity management is in place but updated forecasts are only made for the month ahead. Liquidity risk is mitigated by the availability of overdraft facilities and remaining draw down options. However, in H108 these have

been stretched to their limits as a result of delays in funding from investors. On average liquidity levels fluctuate between 2-3% of total assets which is sufficient and covers over 2.5 months of operating expenses.

Market risk

LOK is exposed to Foreign Exchange Risk but this risk is limited. As of May 2008 LOK has an open EUR position on assets of 230%. This is as a result of the fact that its loans to clients are effectively denominated in EUR where 66% of its debt is denominated in EUR. An upward revaluation of the BAM against the EUR is highly unlikely. With a potential devaluation of the BAM LOK is adequately covered on paper, but it is likely to lead to an increased credit risk. Furthermore LOK has an open liability position on CHF of 5.8%. Fluctuations between the two currencies have been minimal in the past two years.

LOK is also exposed to interest rate risk as 22% of its debt is linked to the EURIBOR where all loans to clients are on a fixed interest rate. This represents an open position of 136% on Tier 1 capital as of May 2008. The interest rate risk is manageable for LOK as a 1 percentage point increase in the funding expense ratio only has a 1.1 percentage point decrease in ROA which is sufficiently high at over 8%.

■ Efficiency and Profitability

Efficiency and Profitability is rated “a”

Profitability analysis

LOK posts a positive trend in profitability with ROA increasing from 1.3% in FY04 to 3.7% in FY06 and 8.1% in FY07. This trend is continued in 2008 where the first five months audited statements show an annualized ROA of 7.2%. ROE follows a similar positive trend and reached 60.2% in FY07 as a result of LOK's leverage of 6.0x. The main reason for this positive trend is that portfolio yield has remained stable over the years while the operating expense ratio has been on a declining trend. The portfolio yield of LOK has been very near its theoretical yield.

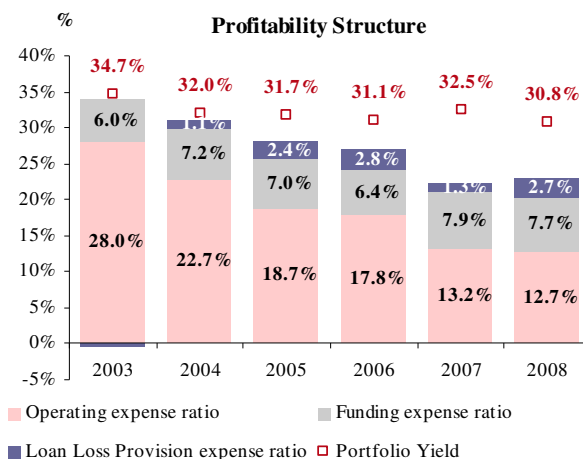
The earnings of LOK have been underlined by a good revenue quality. LOK has on the one hand displayed a keen sense in marketing with several promotional offers being developed each year. Furthermore, several new products have been developed to better suit specific niche markets. On the other hand LOK has consciously slightly relaxed its loan approval criteria to be able to grow faster (see Activities section). As a result of the above LOK has been able to strengthen its market position from a 5.7% share in number of clients as of December 2006 to 10.7% as of June 2008; and from 8.7% to 11.1% in terms of loan volume. Pressure

on its pricing is expected to increase as its main competitors offer similar loan products with on average a 10 percentage point lower effective interest rate.

The main reason for the declining trend in the Operating Expense Ratio has been an increase in economies of scale as highlighted by the increase in staff productivity from 99 at FYE06 to 145 at FYE07, where the loan officer productivity has been between 180 and 200 in the past years. Also the average outstanding loan amount has remained stable and has even slightly decreased as a percentage of GDP per capita.

The funding expense ratio and loan loss provision expense ratio have remained relatively stable. Even though the cost of liabilities has gone up a reduction in leverage has balanced this trend. FY07 shows a one time lower loan loss provision expense ratio as a result of a less conservative provision methodology in the new law. Another factor contributing to the increase in ROA is the positive trend in resource optimization. In the past years the loan portfolio as a percentage of assets has increase from 77.9% at FYE05 to 86.3% and 89.7% at FYE06 and FYE07 respectively.

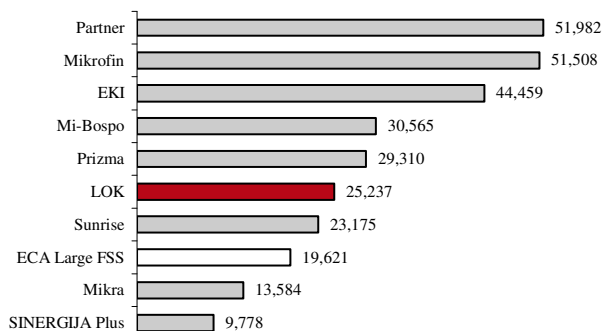
The profitability outlook for LOK is stable as on the one hand it is likely to further increase its economies of scale given its growth plans and further optimization of staff efficiencies. However, on the other hand the pressure on its pricing level is expected to increase as the market further saturates. It is expected that LOK will be able to balance both trends.



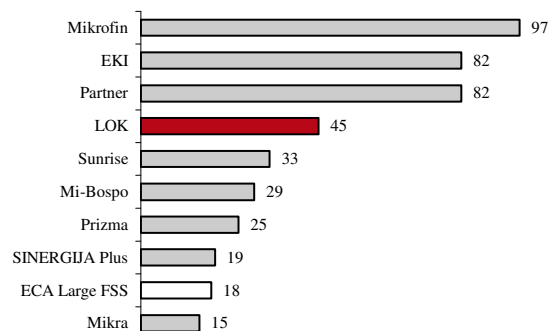
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

Benchmarking

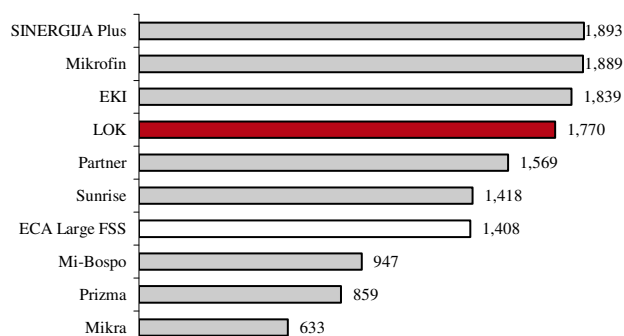
Active borrowers



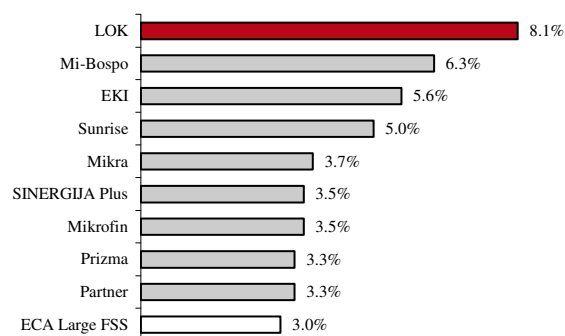
Loan Portfolio (M EUR)



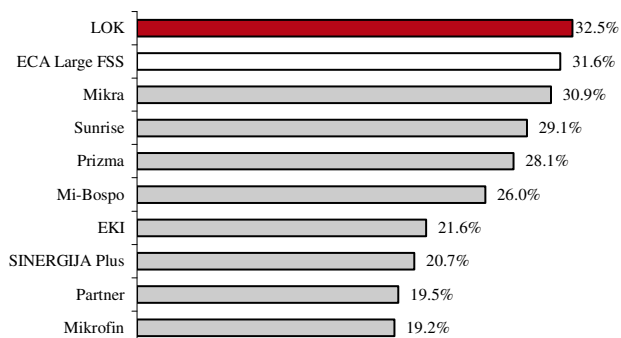
Average outstanding loan per client



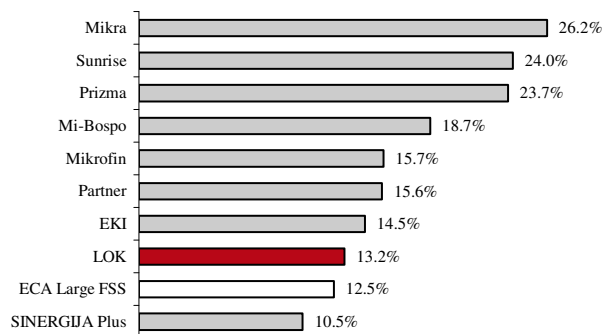
ROA



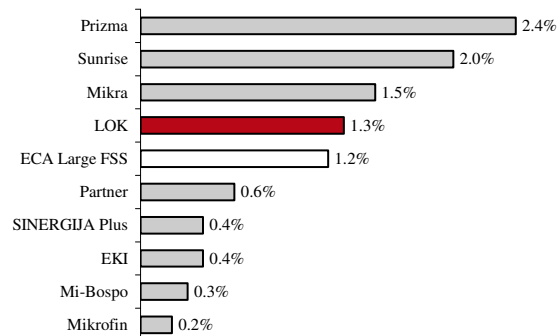
Portfolio Yield



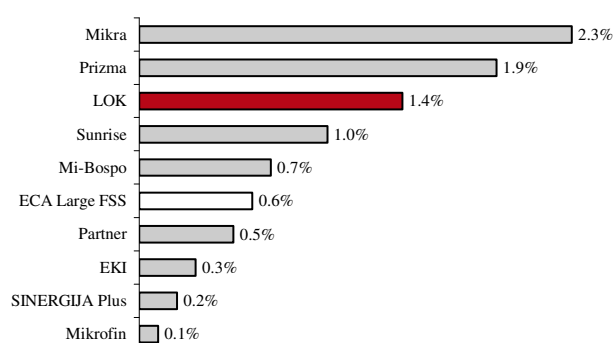
Operating expense ratio



PAR 31-365



Write-off ratio



Sources: LOK, SINERGJA Plus - Planet Rating data as of Dec. 2007; other MFIs - Dec. 2007 reporting to AMFI; ECA Large FSS peer group - Mix Market 2006 Benchmarks, median.

Performance indicators

Data in EUR, unless otherwise stated

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	May. 2008
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	4,784,252	6,867,427	9,382,854	17,474,555	44,672,277	56,292,132
Loan portfolio (BAM)	9,357,184	13,431,520	18,351,268	34,177,259	87,371,379	110,097,840
<i>Evolution</i>	15.3%	43.5%	36.6%	86.2%	155.6%	26.0%
Average outstanding loan portfolio	4,373,661	5,547,770	8,096,525	11,769,352	27,276,861	50,450,419
Active borrowers	3,829	5,040	6,284	10,498	25,237	31,909
<i>Evolution</i>	7.1%	31.6%	24.7%	67.1%	140.4%	26.4%
Average outstanding loan per client	1,249	1,363	1,493	1,665	1,770	1,764
<i>% of GDP per capita</i>	65.0%	65.6%	67.6%	67.3%	65.4%	58.4%
Average amount disbursed per loan	1,843	1,868	1,850	1,854	1,908	1,968
<i>% of GDP per capita</i>	95.9%	90.0%	83.8%	75.0%	70.5%	65.2%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.7%	0.8%	1.7%	0.9%	1.3%	1.6%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.8%	0.2%	0.7%	1.8%	1.4%	0.6%
Credit risk coverage						
Risk coverage ratio (PAR 30)	276.2%	256.7%	176.3%	257.9%	78.7%	87.1%
PAR 31 net of loan loss provision / Equity	(4.5%)	(6.4%)	(7.3%)	(11.1%)	1.8%	1.4%
Staff						
Total number of staff	49	47	61	106	174	251
% Credit officers	51.0%	59.6%	60.7%	67.9%	73.6%	75.7%
Turnover	0.0%	10.4%	3.7%	18.0%	19.3%	7.1%
Profitability analysis						
ROE	6.4%	7.9%	21.7%	28.8%	60.2%	50.4%
Liabilities / Equity	4.26x	5.69x	5.82x	7.65x	6.04x	5.96x
Capital adequacy ratio	19.5%	15.9%	15.1%	11.8%	14.7%	14.7%
ROA	1.3%	1.3%	3.2%	3.7%	8.1%	7.2%
Profitability structure						
Portfolio Yield	34.7%	32.0%	31.7%	31.1%	32.5%	30.8%
Operating expense ratio	28.0%	22.7%	18.7%	17.8%	13.2%	12.7%
Cost per borrower	319	250	241	199	142	201
Staff productivity	78	107	103	99	145	127
Loan officer productivity	153	180	170	146	197	168
Average outstanding loan per client	1,249	1,363	1,493	1,665	1,770	1,764
Funding expense ratio	6.0%	7.2%	7.0%	6.4%	7.9%	7.7%
Cost of liabilities	5.5%	6.1%	6.4%	5.6%	7.3%	8.2%
Loan Loss Provision expense ratio	(0.4%)	1.1%	2.4%	2.8%	1.3%	2.7%
PAR 31-365	0.7%	0.8%	1.7%	0.9%	1.3%	1.6%
Write-off ratio	0.8%	0.2%	0.7%	1.8%	1.4%	0.6%
Resource optimization						
Outstanding Loan Portfolio / Assets	70.2%	73.0%	77.9%	86.3%	88.2%	90.6%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.3%	0.3%	0.2%	0.3%
Liquidity						
Liquidity / Total assets (LAR)	2.4%	2.9%	2.4%	2.2%	2.7%	2.0%
Exchange rate 1 EUR= xx BAM	1.96	1.96	1.96	1.96	1.96	1.96

LOK Income Statement	Notes	K BAM						K EUR						Evolution		
		Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	May. 08	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	May. 08	05/04	06/05	07/06
Financial Revenue (a)		3,024	3,559	5,107	7,346	17,467	12,756	1,546	1,820	2,611	3,756	8,931	6,522	43.5%	43.8%	138%
Financial Revenue from Loan Portfolio		2,965	3,472	5,018	7,161	17,346	12,680	1,516	1,775	2,565	3,662	8,869	6,483	44.5%	42.7%	142%
Interest on Loan Portfolio		2,965	3,469	4,989	7,047	17,285	12,647	1,516	1,774	2,551	3,603	8,838	6,466	43.8%	41.2%	145%
Fees and Commissions on Loan Portfolio		-	3	28	114	61	33	-	1	14	58	31	17	873%	306.2%	(46.5%)
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		-	-	16	24	41	42	-	-	8	12	21	21	-	46.1%	72.4%
Other Operating Revenue		59	87	73	161	81	35	30	45	38	82	41	18	(15.9%)	119.9%	(50.1%)
Financial Expense (b)		512	779	1,102	1,481	4,202	3,158	262	398	563	757	2,149	1,615	41.4%	34.5%	184%
Interest paid on borrowings		512	779	1,102	1,481	4,217	3,138	262	398	563	757	2,156	1,604	41.4%	34.5%	185%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	(15)	20	-	-	-	-	(7)	10	-	-	-
Financial income [c=a-b]		2,512	2,780	4,005	5,865	13,265	9,599	1,284	1,421	2,048	2,999	6,782	4,908	44.1%	46.4%	126%
Net Loan Loss provision expense (d)		(33)	114	381	646	705	1,103	(17)	58	195	330	360	564	234%	69.3%	9.1%
Loan loss provision expense and write-off		(12)	132	385	655	742	1,144	(6)	67	197	335	379	585	192%	70.0%	13.2%
Recovery from Loans written off		21	18	4	9	37	41	11	9	2	5	19	21	(77.8%)	130.4%	306%
Operating expense (e)		2,392	2,460	2,968	4,095	7,022	5,228	1,223	1,258	1,517	2,094	3,590	2,673	20.6%	38.0%	71.5%
Personnel Expense (includes fringe)		1,537	1,680	1,967	2,558	4,655	2,962	786	859	1,006	1,308	2,380	1,515	17.1%	30.0%	82.0%
Administrative Expense (non-staff operating expenses)		855	780	1,001	1,537	2,366	2,266	437	399	512	786	1,210	1,158	28.3%	53.6%	54.0%
Depreciation and amortization		93	125	134	202	262	184	47	64	68	103	134	94	6.8%	51.4%	29.2%
Consulting fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marketing/Advertising and entertainment		131	97	100	256	501	224	67	50	51	131	256	115	3.4%	154.8%	95.9%
Rent/ Utilities/ Material		168	158	161	212	406	343	86	81	82	108	208	175	1.7%	31.6%	91.6%
Insurance/ Bank fees and commissions		126	132	114	199	229	176	65	67	58	102	117	90	(13.9%)	75.2%	14.9%
Transport/ Telecommunication expenses		136	131	173	261	503	386	70	67	89	134	257	197	31.9%	50.7%	92.5%
Others		200	136	319	407	466	952	102	70	163	208	238	487	134%	27.6%	14.6%
Net Operating Income Before Taxes and Donations [f=c-d-e]		153	206	656	1,124	5,539	3,268	78	105	336	575	2,832	1,671	219%	71.3%	393%
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		153	206	656	1,124	5,539	3,268	78	105	336	575	2,832	1,671	219%	71.3%	393%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		153	206	656	1,124	5,539	3,268	78	105	336	575	2,832	1,671	219%	71.3%	393%
Donations (l)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]		153	206	656	1,124	5,539	3,268	78	105	336	575	2,832	1,671	219%	71.3%	393%

LOK	Notes	K BAM						K EUR						Evolution				
		Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	May. 08	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	May. 08	05/04	06/05	07/06	08/07	
Balance sheet																		
ASSETS		13,079	18,010	22,825	38,659	98,055	119,715	6,687	9,208	11,670	19,766	50,135	61,210	26.7%	69.4%	154%	22.1%	
Short Term Assets		8,740	12,959	15,813	26,121	68,571	81,705	4,469	6,626	8,085	13,356	35,060	41,775	22.0%	65.2%	163%	19.2%	
Cash and Due from Banks	314	517	558	852	2,658	2,368	160	264	285	436	1,359	1,211	8.0%	52.7%	212%	(10.9%)		
Short Term Investments	-	650	150	-	786	943	-	332	77	-	402	482	(76.9%)	(100%)	-	20.0%		
Short Term Net Loan Portfolio	8,379	11,757	14,951	25,207	62,030	76,170	4,284	6,011	7,644	12,888	31,715	38,945	27.2%	68.6%	146%	22.8%		
Short Term Gross Loan Portfolio	8,555	12,040	15,514	26,018	62,953	77,747	4,374	6,156	7,932	13,303	32,187	39,751	28.9%	67.7%	142%	23.5%		
(Loan Loss Reserve)	176	283	563	811	923	1,577	90	145	288	415	472	806	99.0%	44.1%	13.8%	70.8%		
Interest Receivable	-	-	-	-	1,495	1,995	-	-	-	-	764	1,020	-	-	-	33.4%		
On loan portfolio	-	-	-	-	1,495	1,995	-	-	-	-	764	1,020	-	-	-	33.4%		
On investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Accounts receivable and other assets	47	35	154	62	1,603	230	24	18	79	32	819	117	340%	(59.8%)	2,491%	(85.7%)		
Long term assets		4,339	5,051	7,012	12,538	29,484	38,010	2,219	2,582	3,585	6,411	15,075	19,434	38.8%	78.8%	135%	28.9%	
Long Term Net Investments	150	150	730	797	150	-	77	77	373	408	77	-	386%	9.2%	(81.2%)	(100%)		
Long Term Gross Loan Portfolio	803	1,392	2,837	8,159	24,419	32,351	410	712	1,451	4,172	12,485	16,541	105%	188%	199%	32.5%		
Net Fixed Assets	3,386	3,504	3,445	3,581	4,915	5,659	1,731	1,792	1,761	1,831	2,513	2,894	(1.7%)	4.0%	37.2%	15.1%		
Other Long Term Assets	1	5	-	-	-	-	-	3	-	-	-	-	(100%)	-	-	-		
LIABILITIES AND EQUITY		13,079	18,010	22,825	38,659	98,055	119,715	6,687	9,208	11,670	19,766	50,135	61,210	26.7%	69.4%	154%	22.1%	
Liabilities		10,594	15,319	19,478	34,188	84,133	102,526	5,416	7,832	9,959	17,480	43,017	52,421	27.2%	75.5%	146%	21.9%	
Short term liabilities	2,776	6,576	6,887	13,338	26,886	30,333	1,420	3,362	3,521	6,820	13,747	15,509	4.7%	93.7%	102%	12.8%		
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Short Term Borrowings	2,550	6,325	6,611	12,735	24,997	27,997	1,304	3,234	3,380	6,511	12,781	14,315	4.5%	92.6%	96.3%	12.0%		
Interest payable	25	40	36	158	836	1,111	13	20	18	81	427	568	(8.7%)	338%	429	33.0%		
Accounts Payable and Other Short Term Liabilities	202	212	239	445	1,053	1,225	103	108	122	227	538	626	13.0%	85.8%	137%	16.3%		
Long term liabilities	7,817	8,742	12,591	20,850	57,247	72,193	3,997	4,470	6,438	10,661	29,270	36,911	44.0%	65.6%	175%	26.1%		
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Long Term Borrowings	7,817	8,742	12,591	20,755	57,148	72,098	3,997	4,470	6,438	10,612	29,219	36,863	44.0%	64.8%	175%	26.2%		
Other Long Term Liabilities	-	-	-	95	99	94	-	-	-	49	51	48	-	-	3.8%	(4.6%)		
Equity		2,485	2,691	3,347	4,471	13,922	17,190	1,271	1,376	1,711	2,286	7,118	8,789	24.4%	33.6%	211%	23.5%	
Tier 1 Capital		2,485	2,691	3,347	4,471	10,010	13,278	1,271	1,376	1,711	2,286	5,118	6,789	24.4%	33.6%	124%	32.6%	
Paid-In Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Donated equity	1,295	1,295	1,295	1,295	1,295	1,295	662	662	662	662	662	662	0.0%	0.0%	0.0%	0.0%		
Retained earnings without donations and reserves	1,190	1,396	2,052	3,176	8,715	11,983	608	714	1,049	1,624	4,456	6,127	47.0%	54.8%	174%	37.5%		
Tier 2 Capital		-	-	-	-	3,912	3,912	-	-	-	-	2,000	2,000	-	-	-	0.0%	
Subordinated debt	-	-	-	-	3,912	3,912	-	-	-	-	-	2,000	2,000	-	-	-	0.0%	
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

■ 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-		
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.	INVESTMENT GRADE
B		
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.	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+		
C		
C-		TECHNICAL ASSISTANCE REQUIRED
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	