

## MI-BOSPO, Bosnia and Herzegovina

After starting its microcredit activities in 1996, the local NGO BOSPO founded MI-BOSPO in December 2000. MI-BOSPO has been part of the World Bank (WB) Local Initiatives Project (LIP) for several years and an affiliate of Women's World Banking (WWB) since 1999. In 2008, it became a Microcredit Foundation (MCF), and now awaits its license as a Microcredit Company (MCC). Headquartered in Tuzla, MI-BOSPO offers both individual and group loans in the Federation of Bosnia and Herzegovina (FBH) and in Republika Srpska (RS) through a network of 27 branches and sub-branches. As of December 2008, it had a portfolio of 74 M BAM (37.8 M EUR), serving 36,248 women of all ethnic origins.

### GIRAFE Rating

#### Rating

**A-**

#### Outlook

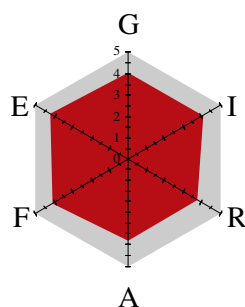
**Stable**

#### Date of the rating

**February 2009**

Valid until January 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

#### Planet Rating Contact

Nadine Chehade  
nchehade@planetrating.com  
+ 33 1 49 21 26 30

#### MFI Contact

Ms. Nejira Nalić  
Bosne srebrenе bb 75 000 Tuzla  
Bosnia and Herzegovina  
+ 387 25 270 283  
nnalic@mi-bospo.org

#### Rating highlights

- Following a voluntary decrease of its interest rates, MI-BOSPO's profitability has trended downward in 2008 (ROA=5.2%, ROE =22.1%).
- Credit risk has increased throughout the country, thus leading to a higher and still rising PAR 30 (1.39% as of Dec. 2008, 2.96% as of Mar. 2009).
- MI-BOSPO has quickly adopted the needed measures to restore its historical portfolio quality, by addressing its internal controls weaknesses, adapting its delinquency management, and further improving the loan approval process.
- Thanks to a strong management team, in place for several years, it maintains a solid position as a medium-sized player, operating on the lower end of the market.
- MI-BOSPO enjoys a diversified funding base made up of both local and international funders. Anticipating fresh capital needs following its transformation, it has already engaged talks with potential equity investors.
- Upcoming challenges include actually transiting to the MCC status, refining the product development process as well as the profitability analysis by product to maintain competitiveness, and proving the efficiency of undertaken actions, notably more effective and increased checks, to stabilize then reduce the PAR.

#### Outlook

The grade is assigned with a "Stable" outlook based on expectation that MI-BOSPO will sustain its overall efficiency level, if not its exact cost structure, while keeping its credit risk within the internationally and regionally acceptable limits.

#### Performance indicators

EUR	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Assets	6,732,101	8,398,179	14,647,265	20,327,738	30,885,460	40,950,540
<i>Evolution</i>	32.2%	24.7%	74.4%	38.8%	51.9%	32.6%
Loan portfolio	5,636,174	6,924,002	13,153,620	18,534,399	28,932,634	37,813,316
<i>Evolution</i>	34.7%	22.8%	90.0%	40.9%	56.1%	30.7%
Active borrowers	7,161	9,318	14,272	19,412	30,565	36,248
Average outst. loan / client	787	743	922	955	947	1,043
Staff	39	41	57	111	121	148
ROE	23.4%	16.3%	24.0%	26.3%	28.3%	22.1%
ROA	9.2%	6.2%	7.8%	7.5%	7.3%	5.2%
Liabilities / Equity	1.59x	1.64x	2.39x	2.61x	3.12x	3.38x
Portfolio Yield	32.6%	30.9%	29.5%	28.5%	26.2%	22.6%
Operating expense ratio	16.5%	18.2%	14.7%	14.0%	11.6%	10.7%
PAR 31-180	0.2%	0.4%	0.2%	0.3%	0.3%	1.4%
PAR > 180	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.8%	1.2%	0.8%	0.7%	0.7%	0.8%

REF: NC / 210409

## 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%
<b>MI-BOSPO</b>	<b>MCF</b>	<b>37.7</b>	<b>6.8%</b>	<b>36,248</b>	<b>9.2%</b>
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

MI-BOSPO was officially registered on December 18<sup>th</sup>, 2000, with the FBH Ministry of Social Welfare, Displaced Persons, and Refugees, as a result of the NGO BOSPO transforming its microcredit program into a formal microcredit organization under the FBH law enacted in July

2000. Following the 2006 microfinance law, MI-BOSPO was registered as an MCF on April 1<sup>st</sup>, 2008, and is presently waiting to be licensed as an MCC by the FBH Ministry of Justice, which it is expecting during the course of 2009<sup>1</sup>. As an MCF, MI-BOSPO is subject to the FBH Banking Agency supervision.

From 2000 to 2002, MI-BOSPO's accounts were audited by Revik d.o.o. Sarajevo, partner of PWC Netherlands. Since 2003, Deloitte & Touche performs the annual audits, and was selected after a combined tender organized by AMFI members. The auditors have always certified the accounts without reserve. The financial year starts on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

## Ownership

As an MCF, MI-BOSPO has no owners. Its founder, the NGO BOSPO<sup>2</sup>, started micro-lending activities in March 1996 with the help of the WB and set the general orientation, social mission and values that the institution should respect. Per the Founding Act in 2000 and the Memorandum of Understanding in 2003, BOSPO gave up all its rights, liabilities or responsibilities in MI-BOSPO operations.

MCF MI-BOSPO is governed by a Board of Directors (BOD) composed of a minimum of three members<sup>3</sup>. BOD presently comprises an ALCO sub-committee and is supplemented by an independent Audit committee made up of external members. Its members have business, economics and finance backgrounds. The MCF's BOD has a mandate until the MCC is registered. It is chaired by Mrs. Sanja Hajdukovic, who is the coordinator of the Tuzla University business centre and has been serving on MI-BOSPO's BOD since 2003.

## Donations

MI-BOSPO's development has been supported by the WB-funded LIP since 1999, and by WWB starting 2002. Donations total 3.1 M BAM (1.6 M EUR) as of December 2008 and were mainly granted by LIP (38%), WWB (34%), and UNHCR (15%). Other donors include Church World Service (CWS), SEEP and UMCOR. MI-BOSPO has received virtually no donation since 2005, apart from technical assistance.

<sup>1</sup> Precise timeframe remains unknown as registration has proved more complex in FBH than in RS, and it cannot be excluded it drags further on. In a first stage, MCCs are expected to be 100% held by the MCFs, but FBH would like to clarify the holding MCFs ownership status.

<sup>2</sup> Bosnian Committee for Help: NGO started by the Danish Refugee Council (DRC) that provided psychosocial and educational support for displaced women and children in addition to other services.

<sup>3</sup> Following the registration, two former BOD members have officially resigned. They still attend the meetings while waiting to join the future MCC BOD.

## Funding composition

MI-BOSPO funds its activities through equity (23%) and borrowings (77%), out of which 91% are of long term. Equity is made up of a large majority of retained earnings (83%), atop of some donations (17%). Subsidized loans (ICO and LIP) decreased over time and now stand at 20% of MI-BOSPO's total liabilities. Out of the total debt, 89% originates from international investors, 89% is denominated in EUR and 13% is on a floating basis linked to EURIBOR.

Outstanding loan As of Dec. 08	M BAM	M EUR	Rate	Duration (years)
EBRD	11.7	6.0	8.2%	3
GMF	7.8	4.0	7.5%	4
Oikocredit	7.2	3.7	7.5%	1
Razvojna Banka (LIP)	6.1	3.1	4.0%	8
DWM	5.9	3.0	8.0%	4
ICO	5.9	3.0	5.0%	8
EFSE	4.9	2.5	8.1%	4
Unicredit	2.4	1.2	6.9%	0.4
Blue Orchard	2.0	1.0	6.8%	2
NBL Tuzlanska	1.9	0.9	6.7%	0.3
ABS Banka	1.4	0.7	7.5%	2
IFC	1.0	0.5	8.6%	0.4
MicroVest	1.0	0.5	8.0%	0.5
Komercijalna Banka	0.8	0.4	7.0%	0.4
Credit Suisse	0.5	0.3	8.0%	0.0
Nova Banka	0.4	0.2	7.0%	0.4
<b>Total</b>	<b>60.8</b>	<b>31.1</b>	<b>7.1%</b>	<b>3.8</b>

## Management team

The management team includes the Executive Director (ED), Credit Manager (CM), Marketing Manager, Finance Manager, IT Manager, and Human Resources & Legal Manager. The Internal Auditor directly reports to the BOD's Audit Committee.

The ED, Ms. Nejira Nalic, has led MI-BOSPO since its genesis as a program within the NGO BOSPO. She has built the organization from scratch with the technical assistance of the WB and WWB. Her microfinance knowledge is drawn from on-the-job experience and complemented by several international microfinance trainings led by WWB, MFC, and LIP. Her secondary school focus was interpretation and she has prior work experience in administration, interpretation, and NGO management. Upon registration, she is expected to step down from her present function<sup>4</sup> to chair the future MCC's BOD and manage the holding MCF.

## Organization

Tuzla headquarters (HQ) centralize all management and administrative staff (general management, accounting and finance, human resources, credit manager, internal audit). Operations management has been decentralized since February 2005, with Branch Managers (BM) responsible for

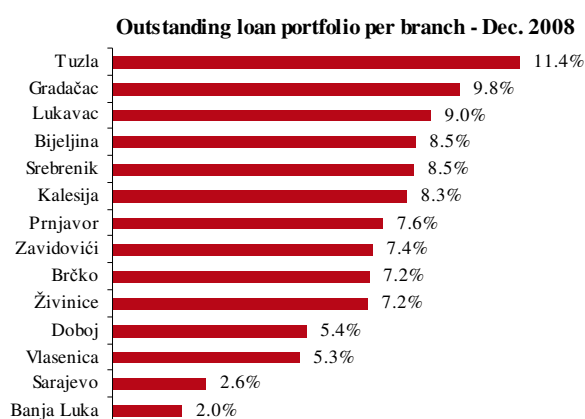
<sup>4</sup> As per law, MFIs EDs are required to hold an advanced university degree.

one or several offices depending on the portfolio size: they are in charge of the general portfolio management, including loan validation process, market evaluations, monitoring of portfolio performance, and Loan Officers' (LO) work. Loans up to 5,000 BAM (2,556 EUR) are validated by branch staff, with different validations depending on loan amounts (two LOs or Senior LO or BM). Loans of higher amounts require HQ validation.

MI-BOSPO still relies on its internally developed Fox Pro-based software and an SQL database for loan tracking. It maintains a non-integrated accounting system, and has switched from FINK to SpinFin<sup>5</sup> in April 2008. Branches are connected via a VPN and have permanent access to the central database, located at HQ. Client data are directly entered by LOs in the branch. Disbursement and repayment data are entered at HQ by data entry clerks and instantly available for all staff. All operations involving cash handling (disbursements and repayments) are made through the local partner bank teller windows.

## Market penetration

MI-BOSPO operates through a network of 27 offices concentrated in the North Eastern part of BiH. MI-BOSPO's traditional operating area is the Tuzla Canton in FBH, where 8 offices are located, currently covering most municipalities. Since 2003, the network has been extended to the Eastern part of the RS, with openings in Bijeljina, Brčko, Zvornik, Srebrenica and Prnjavor. In 2008, it went further south towards Sarajevo and its suburbs, and towards the Western parts of the RS with an opening in Banja Luka.



## Products and services

In February 2009, MI-BOSPO has grouped its loans under three categories, comprising several products each:

- Business loans, intended for existing business activities; they include three products (additional earnings, micro and small businesses, fast business loans) with amounts

ranging from 2,000 to 10,000 BAM (1,023 to 5,113 EUR), terms from 24 to 60 months with a grace period of 6 to 9 months for agriculture, and effective interest rate from 18% to 29%;

- Housing loans, intended for the renovation, expansion or purchase of residential unit; amounts are up to 10,000 BAM (5,113 EUR) and terms up to 60 months; effective interest rate varies from 18% to 29%;
- Consumption loans, intended to improve living conditions; they include seven products (family loans, vehicle registration, emergency, school, wedding, non-purpose, commodity), with amounts ranging from 100 to 10,000 BAM (51 to 5,113 EUR) and terms going up to 60 months; effective interest rate is of 29%.

Guarantees vary according to the loan amount. They include a combination of bills of exchange, one or two employed guarantors, and/or pledges on movable property. Loans for agriculture are granted with a grace period of up to 9 months. Clients can have neither more than two pending loans at any time nor have, as per law, an outstanding loan amount higher than 10,000 BAM. MI-BOSPO aims at keeping the blended effective interest rate at 22%.

## Networks

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

## Governance

Governance and Decision making is rated "a"

### Decision making

Decision-making process within MI-BOSPO continues to be clear and efficient, thanks to committed and well-informed BOD members who meet regularly, documented minutes, and systematic control over the decisions made. This timely and sound decision-making is made possible thanks to relevant, reliable and quickly available monitoring information. It is complemented by the recently drafted rules limiting potential conflict of interests.

Over the past two years, MI-BOSPO has been implementing its previously taken decision to transform into an MCC. As per the FBH law, it has registered as an MCF while waiting for its MCC license. Though temporary, this status is not the most appropriate as it prevents MI-BOSPO from competing on the upper and most profitable segment of the market (loans above 10,000 BAM), currently monopolized by its

<sup>5</sup> BiH accounting software.

RS-based competitors that are already registered as MCCs. However, this is not a very worrying issue for now, since MI-BOSPO has decided to focus on its core clientele as long as the market trends downwards.

BOD does not rely on management anymore, as it had been the case for several years. This does not prevent the strategic vision and mission to be shared and the management team to remain highly involved in the decision-making process. But the new BOD members with business, audit, finance and economics backgrounds prove more challenging to the management team, thus constituting a good transitional BOD prior to the MCC's, especially as they have already been trained on corporate governance by IFC and are expected to benefit from additional training through EBRD. As more in-depth technical expertise will soon become indispensable (e.g. ownership structure, mergers and/or acquisitions options), MI-BOSPO is already in contact with several potential partners. Though it needs to be further clarified, a first "ideal shareholder" profile has been drafted.

## Planning

Based on an accurate and thorough analysis of the current situation and a good identification of potential risks, MI-BOSPO's 4-year business plan (2009-2011) comprises a relevant strategy and achievable medium term goals. Yearly operational plans are set within this general framework through a participatory process including inputs from branch staff. Yet, MI-BOSPO regularly achieved unanticipated growth and still finds it challenging to make precise operational projections: 2007 and H1 2008 portfolio targets were once again exceeded, and total 2008 were only met due to the downward market trend starting H2 2008. During growth periods, this has not affected the institution thanks to timely adoption of revised plans and easy access to funds: on the contrary, in case of stagnation, it could prove costly to keep borrowed funds into dormant accounts. It is to be noted that over the past two years, and driven by the desire to behave as a responsible lender, MI-BOSPO has sometimes voluntarily grown at a slower pace than the BiH market.

The implementation of strategic projects identified in the business plan has always been effective. But regarding the financial and human resources needed to carry out the different tasks, the latest plan would have benefited at times from a better identification and at others from a more systematic formalization. Besides, it could also include cash-flow statements and clearly highlight the funding needs, now available separately.

The budget is closely monitored and regularly updated. As a result, for 2009, three scenarios were recently built with the costs inferred by the initial plan (+22% in terms of portfolio) but with slower growth due to market conditions (+15%,

+10%, 0% portfolio growth), which should allow the institution to rapidly adjust to an unfavourable environment experienced for the first time since inception. These new goals, and especially the related potential expense cuts (e.g. lower bonuses and/or lower salaries), still enjoy a good buy-in of staff thanks to the commitment of top management who toured each of the branches to explain the situation and its impact on the institution financial performance.

## Management team

MI-BOSPO has skilled, experienced and polyvalent managers for all key areas, who have all been in their position for several years and benefited from numerous trainings. A participatory management style, regular meetings and collective decision-making on key issues, contributed to building an efficient and cohesive team that is eager to improve. Coupled with a good organization of work and excellent internal communication, this was instrumental in limiting key-person risk, apart for IT (cf. section "I"). BMs and most senior LOs are well coached and provided the tools required for an in-depth understanding of their branches, thus building a pool of potential middle-managers.

Thanks to this sound structure, the management team was able to handle growth in the past, as well as to deal with the challenges posed by the present delinquency level, thus clearly demonstrating its capacity to both execute plans and adjust operational strategies when needed. Anticipating its transformation into an MCC, MI-BOSPO has already established its succession plan: the transition process should be further smoothed by the present ED chairing the MCC's BOD.

As compared to the previous rating, MI-BOSPO now benefits from improved skills in terms of forecasting, but upcoming challenges (e.g. fiercer competition, diversified product range, MCC status) still require upgraded capacities in terms of financial modeling, MIS management and product development.

## Human resource management

Thanks to a dedicated department in place since inception, MI-BOSPO's has very good administrative management and procedures for all key HR areas (recruiting, training, evaluation, with clear salary grids and job descriptions). Yearly evaluation, ongoing mentoring and training induce a continuous improvement of staff skills, especially with the creation of a trainer position in 2007. Coupled with an efficient incentive scheme, it has allowed new LOs to quickly become productive (+25 LOs between 2006 and 2008 vs. productivity increase from 277 to 382 clients per LO). Overall policies foster motivation and well-being. Historic focus of staff's sense of responsibilities at all levels

and proactive communication from top management to the field maintains good staff morale despite the current situation and increasing difficulties faced by LOs in their daily work. Moreover, a fixed bonus is presently kept for field staff: along with non-financial incentives (phone, car, etc.), they are instrumental in preventing demotivation risks.

Turnover peaked at 16% in 2008 and has been historically relatively high (12% on a 5-year average), though it trended downward over the past 2 years (7% in 2007). It is mainly related to field staff seeking better opportunities within banks. Yet, despite predictable high turnover level, existing portfolio transfer procedures are not very efficient and LOs departures still contribute to an increased PAR.

## ■ Information

Information is rated “a”

MI-BOSPO enjoys high quality, efficient and cost effective information systems, as well as a skilled IT department that has the capacity to manage and improve them. Similarly to the previous rating, key-person risk for the IT head remains quite high as the present manager is still the only one with advanced programming skills. This risk is partly mitigated by the recruitment of an additional staff, the documentation of the software specifications, and the code source storage in a bank’s safe.

The in-house developed loan tracking system is user-friendly, stable, and adaptable. Loan related information is available instantly, notably thanks to fast input processes with adequate checks and controls, and the rich reporting tools that automatically generate numerous indicators. Financial statements are produced according to microfinance best practices. Detailed information is thus widely disseminated both internally and externally to various stakeholders. Performance and financial analysis (either consolidated or detailed by LO or branch) are conducted regularly at all levels, thus allowing high-quality decision-making, close follow up of targets, and timely adjustments if needed.

Though generally good, the MIS handling of loan products is burdensome: so far, a separate product has been created every time a loan characteristic was modified, thus leading to almost 40 different products, which renders performance analysis lengthy. Profitability analysis by product also remains to be refined notably in order to set appropriate rates for products viewed as profit units. With the increased sophistication of the BiH market and MCC’s access to fresh capital, these issues need to be tackled rapidly as they will become increasingly critical to maintain competitive advantages, by fine-tuning the loan offering, selecting the portfolio composition and yield, and orienting LOs’ selling

force accordingly. Being aware of such necessity, MI-BOSPO has recently opted for EBRD’s technical assistance, which IT developments are also expected to include a credit scoring module.

Data security is well ensured. Data loss is limited to one day at most thanks to daily back ups of the entire data set (loan tracking, accounting, HR, etc.) on a server located offsite, weekly back ups stored in a bank’s safe, and periodic crash and recovery tests. The back up of files stored on personal computers is left to each user and could be systematized to add a last layer to the data security strength. The anti-virus is up-to-date. Paper files are well organized and securely stored at HQ.

## ■ Risk Management

Risk Management is rated “b”

### Procedures and internal controls

With the notable exception of IA, procedures are formalized for all departments (Risk, Credit, Finance, HR, IT) and updates well shared thanks to frequent meetings at branch level. As highlighted in the previous rating, some operational risks were underestimated, which led to lower compliance as the network increased and focused on larger loans (e.g. fewer client visits after disbursement, lighter business analysis). This, in turn, has allowed some ghost loans to remain ongoing for over a year (e.g. Lukavac). After a thorough audit, appropriate measures were quickly taken and the total impact limited to 0.6% of the 2008 portfolio. The creation of a Risk Management department, through a thorough identification of all risks and their related controls, has contributed to address some of the previous inconsistencies: the initially good segregation of duties is now supplemented with increased limitation of power (e.g. HQ approval for loans above 5,000 BAM instead of 7,000) and reinforced hierarchical controls (e.g. BMs increased from 1/20 LOs to 1/10 LOs); non-compliance has been addressed through either limited disbursements or actual firing. Although additional time is required to demonstrate their true effectiveness, such measures will ensure a good compliance culture is restored and probably explain the lower PAR level for newly disbursed loans.

The present organization is getting closer to that of the typical banking front/back office mode with an ongoing monitoring of risks, which should help transiting to in-house cash disbursements once the MCC is created. For now, risks related to cash handling remain null, as all disbursements and repayments are made through banks.

Data is reliable thanks to double checks at different levels throughout the entry process (e.g. entry done by LOs and

systematically checked by the BM; reimbursement data entered at HQ), as well as daily reconciliation between the loan tracking and accounting systems, and monthly reconciliation with bank statements.

### Internal audit

MI-BOSPO's IA covers all areas of risks, including those related to management functions, as well as compliance to law and to BOD's strategic decisions. IA technical skills being insufficient to fully cover the information system, the external auditors performed an IT audit in late early 2009<sup>6</sup>. IA's independence is guaranteed by its direct reporting to a supportive BOD, through a dedicated Audit committee to which the annual plan is submitted. As compared to the previous rating, such plan has been significantly reinforced to include 3 visits per branch and per year, atop of 3 random checks on recommendation follow-up, thus increasing the number of branch visits from 2 to 6 a year. In 2008, the number of checked files and audited clients was still low (respectively 3.6% and less than 1%, the latter being sometimes conducted by the BM instead of IA), mainly due to the department being under-staffed in regard to the actual growth. An additional staff has already been recruited and, as a result, the 2009 plan is more in line with industry norms, counting 2.5% client visits and 12.5% file checks. This should help mitigate the credit and operational risks more appropriately, especially as activities slow down.

IA procedures and reports' quality remained very good. Reports comprise clear recommendations and suggestions for procedure improvement. Findings are prioritized according to the risk level, though their format would better reflect the priority level with only slight enhancements. They are first handed to the ED and CM, who follow up on corrective actions, while IA reports to BOD on the follow-up status. All the existing tools (e.g. forms, questionnaires) and indicators to monitor the quality of LOs' work (e.g. early repayments, cross-guarantors, use of parallel loans to repay previous installments) still need to be documented in a separate IA manual.

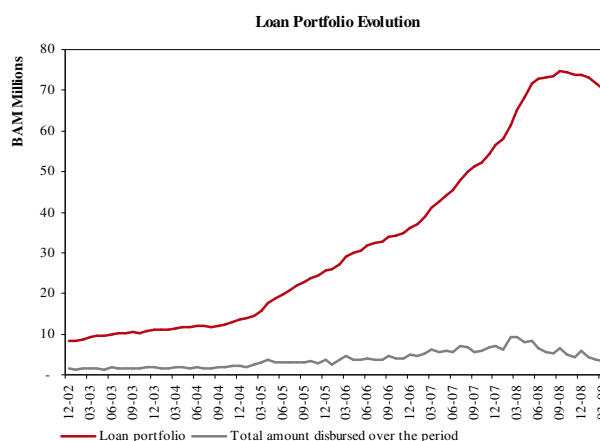
Internal controls are adequately supplemented by external evaluations and audits, comprising management letters (Deloitte, previously LIP). The Banking Agency onsite visit is still to come.

## Activities

Activities: products and services is rated "b"

### Financial services evolution

After several years of fast-paced growth, peaking at +90% in 2005, MI-BOSPO's portfolio has stagnated starting the second semester 2008. FY08 growth (+31%) was nearly halved as compared to FY07 (+56%), yet still compares favorably to the overall industry growth in BiH (+28%), which is due to both the increase of the average loan size (+10%) and the number of active borrowers (+19%). The slowdown began in June 2008, with the portfolio growth dropping from +4.7% to +1.9%, then experiencing a slightly negative growth starting November 2008<sup>7</sup> (-0.9% 3-month average). Most of this sluggish growth can be attributed to the market downturn, which is not expected to fully rebound until at least the end of 2009.



Solidarity group's weight in the total portfolio has stabilized at around 30% over the past three years, though its growth has outperformed that of the overall portfolio in 2008 (+54%) as a result of four new branches openings (group loans being commonly used to enter new markets). Housing and agriculture loans respectively counted for 20% and 22.5% of the 2008 portfolio. Due to the numerous product changes and the limited flexibility of the loan tracking system in that regard (cf. section "I"), the evolution of the portfolio composition is not further analyzed.

### Loan portfolio management

MI-BOSPO still has well-designed credit methodologies for its different types of loans. Combined with committed LOs, good training including on new procedures and close performance monitoring of both LOs and branches, it should lead to appropriate client selection. Yet, and despite a fast response to delinquency, loan portfolio management recently

<sup>6</sup> Findings were still pending at the time of the rating.

<sup>7</sup> Slower growth is classical in December and January. Previous negative growth rates date back to 2004.

suffered from several issues, which contributed to the PAR increase:

- Credit committee checks evolving into routine work once pre-approved by the LO in charge;
- Loans being approved sometimes regardless of the client's needs / capacity, despite improved forms for business analysis;
- Tolerated cross-indebtedness, with CRK checks only performed for loans above 3,000 BAM (whereas the 1,500-3,000 segment proved to be relatively risky);
- CRK itself not being fully efficient until early 2008;
- Insufficient supervision of LOs as the network expanded.

Several measures were undertaken to improve the portfolio management, but additional time is needed to prove their positive impact on the portfolio quality. They include:

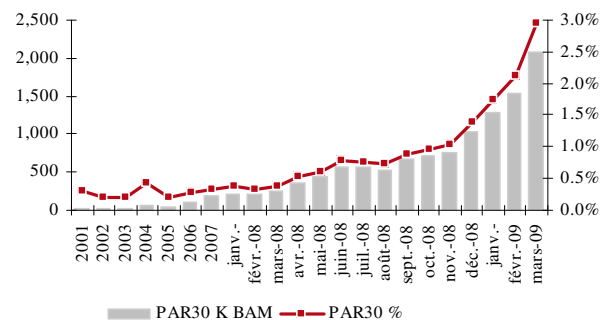
- Business analysis and repayment capacity refresher module to all LOs;
- Delinquency management procedures updates to allow additional time for follow-up and/or graduated response according to the delinquency reasons / client relationship;
- Special training modules on delinquency management;
- Heavy support from the top management to the field;
- A dedicated team made up of one senior LO and two lawyers to assist LOs in collecting late loans;
- A more frequent recourse to rescheduling (cf. infra);
- CRK checks made compulsory for all adult members of a family starting September 2008;
- Reinforced supervision of LOs (cf. section "R");
- Methodology refined, with caps applied;
- Loan offering rationalized, with a target shift towards individual lending and strengthened guarantees;
- LOs trained to become polyvalent sellers, thus preventing internal competition between group and individual loan products.

## Credit risk

Historically very low, PAR 30 has increased from 0.3% in 2007 to 1.39% in 2008 and 2.96% as of March 2009. Write-off ratio has been stable over the past few years and stands at 0.8% in 2008 with a similarly stable average recovery of 23%. In 2008, MI-BOSPO started writing off loans late by more than 180 days instead of 90, which contributed to a greater PAR and a steadier write-off ratio<sup>8</sup>. It is to be noted that PAR could be understated given that if a parallel loan is late, the system does not include the initial loan in the PAR computation or vice-versa. Though higher than its ECA peers (PAR 30=0.9%, write-off=0.5%), MI-BOSPO's credit risk remains at an acceptable level. The speed of the upward delinquent amounts is more a matter of concern, with an

average of +80% over the first quarter 2009 vs. +49% on the last quarter 2008.

PAR 30 Evolution - 2001-2009



MI-BOSPO has conducted an in-depth PAR analysis, which allowed identifying the riskiest loans and laid ground for appropriate measures to prevent further increase. Indeed, the largest PAR contributions come from:

- Loans disbursed from mid-07 to mid-08, when stress was put on disbursing large loans prior to the MCF status with a less-than-optimal focus on credit analysis<sup>9</sup>;
- Loans above 10,000 BAM, for the same reason;
- Newly opened offices that were not properly staffed (e.g. Sarajevo – the farthest and most urban branch, with BMs not selected from the city) and/or who suffered from an insufficient supervision (e.g. Gračanica), despite a generally well managed branch network development;
- Traditionally difficult area (e.g. Brčko);
- Departing LOs' portfolio (e.g. Srebrenik);
- The Lukavac branch where numerous ghost loans were discovered<sup>10</sup>;
- Group loans and particularly loan pairs, equivalent to tranches comprised between 1,500 and 3,000 BAM, as they were often destined to a single person.

There are both internal and external causes to the credit risk level. Internal causes essentially derive from a looser application of procedures and/or insufficient supervision (cf. section "R") during a period of significant disbursement. External causes include (cf. Microfinance sector): 1) cross and over-indebtedness; 2) fast growth of the overall industry; 3) Government's lateness in paying pensions in 2009, which affected either clients or their guarantors.

Undertaken measures not mentioned above (cf. "Internal controls" and "Loan portfolio management") include:

- A complaint system dedicated to the clients;

<sup>8</sup> On a pro-forma basis, PAR 30 would have been on 0.9% in 2008 and write-off of 1.4% (vs. 0.3% and 0.7% in 2007).

<sup>9</sup> The adjusted write-off ratio is of 2.3% as of December 2008 under the most pessimistic scenario (i.e. if all late loans disbursed between Q2 2007 and Q2 2008 were written off).

<sup>10</sup> 24 loans were consolidated and handed out to a third party, probably with the involvement of the LO in charge.

- Two actions at the industry level, initiated by MI-BOSPO, first to establish a debt advisory centre, and second to consolidate the loans from all MFIs and offer a common rescheduling agenda at the client level. The latter has been rejected by other MFIs.

In addition, rescheduled loans' authorized share is to increase from 2% to 3% per year to better cope with over-indebted clients of good faith. Procedures are presently under revision as they are not sufficiently detailed to cope with a significant number of cases, rescheduling having always been exceptional (13 loans as of December 2008, counting for 0.1% of the portfolio). New procedures are expected to keep on following strict approval rules.

Following such measures, the credit risk level has dropped for newly issued loans. Yet, this will not affect the PAR until at least the second half of 2009, i.e. once the share of the risky disbursed loans has decreased and/or growth resumed. MI-BOSPO still does not have specific diversification targets, apart from consumption loans to be kept at 20% of the total portfolio at most. Potential concentration is nevertheless monitored and portfolio proves to be well diversified by region and by type of activity.

### Credit risk coverage

Due to the new provisioning policy prescribed by the Banking Agency, MI-BOSPO's risk coverage has decreased from a 5-year average level of 486% to 84% in 2008, which is still acceptable but not sufficient anymore to cover an increasing PAR 30. Part of the loan loss reserve was moved to a separate account on the equity side and bears no restrictions: when taking into account this specific reserve, the adjusted risk coverage ratio reaches the more than adequate level of 138%.

So far, MI-BOSPO relied on additional collateral in the form of salary guarantees and bills of exchange, essentially used as pressure means as their enforcement is not easy. Their present efficiency is further weakened by delays with the pensions and salaries payment, as well as by the firings resulting from the economy slowdown. This is especially true as loans above 5,000 BAM (2,556 EUR) do not systematically require collateral and that cross-guarantors are not always checked, which has already led to cases of guarantors not being able to face their obligations. MI-BOSPO holds pledges on movable property, but no particular guarantees are required for housing loans, which have grown to 20% of the portfolio: at present this does not generate significant risks as such loans are of 3,359 BAM (1,717 EUR) on average.

## Funding and liquidity

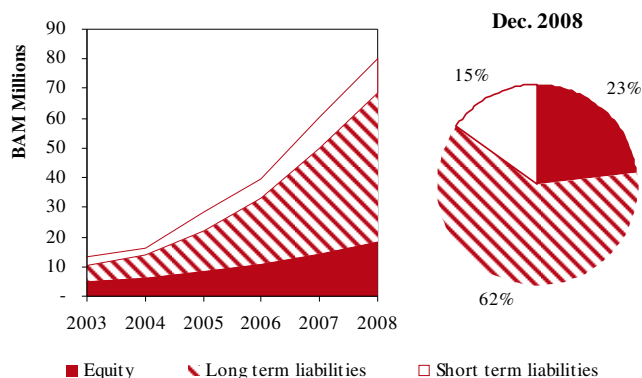
Funding and liquidity is rated "a"

### Capitalization and funding strategy

MI-BOSPO maintains a solid and diversified funding structure, comprising both local and international investors (respectively 11% and 89%), as well as new and old ones. It has gained an increased negotiation power over time, thus managing to lower interest rates and guarantee requirements when renewing some borrowings. Excellent relations with funders should help buying their support and/or renegotiate specific covenants should it become necessary: in that regard, potential breaches are closely followed upon by the Risk Manager and the Treasury department.

Funding needs are usually clearly identified and were initially of 32 M BAM (16 M EUR) for 2009, half of which were already under negotiation. Due to the market downturn, existing resources are now expected to be largely sufficient at least until the second semester and negotiations were thus put on hold. Nevertheless, previously active and successful search for funds, coupled with a proactive and transparent communication, paved way to numerous and easily accessible funding opportunities. Also due to the market trend, capital increase is not planned for 2009, but it will be needed once the institution resumes with growth as minimum capital requirements might rapidly become constraining (leverage of 3.4x and total CAR of 24% at present). The ideal capital structure is still to be defined, notably in regard to MI-BOSPO's mission, but talks have already been engaged with potential equity investors on the general conditions (e.g. ROE expectations, voting rights, exit strategies, etc.).

Funding Structure



### Liquidity risk

Liquidity risk within MI-BOSPO is presently low. Liquidity management is efficient, notably thanks to a skilled staff within the Finance and Treasury departments, annual and monthly cash flow projections detailed per branch, and a

dedicated IT application. Thanks to an ALCO committee<sup>11</sup> in place since June 2008, the institution's solvency and ALM risks are being specifically monitored. New measures have been introduced to further mitigate any arising risks (e.g. matching maturities, 2% of liquid assets to be kept at all times, etc.). As a result, the immediately available cash cushion covers 4 months of operating expenses when adjusted with the idle cash invested in unrestricted term deposits<sup>12</sup>.

## Market risks

MI-BOSPO is exposed to FX risk as close to 90% of its liabilities and 100% of its portfolio are labeled in EUR, leading to an open position representing over 100% of its tier 1 capital. This is despite the BAM/EUR fixed peg that has never changed and the risk transfer to the end client by contract: indeed, internal or external shocks could change the currency peg and a severe devaluation would test the limits of the contractual transfer. Additional loan contracts stipulating the BAM and EUR equivalence (e.g. IFC) would help mitigate this risk more efficiently.

MI-BOSPO is also exposed to interest rate risk with 13% of its liabilities linked to the EURIBOR, though at a lesser extent since the open position represents only 11% of its tier 1 capital<sup>13</sup>. This risk is thus small and further mitigated by the downward trend of the EURIBOR<sup>14</sup>.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated "a"

### Profitability analysis

After 3 years of stable profitability with an ROA at 7.5% on average since 2006, MI-BOSPO's ROA decreased to stand at 5.2% in 2008. On an upward trend since 2004, the ROE also dropped from 28.3% in 2007 to 22.1% in 2008, but to a lesser extent than the ROA thanks to the constantly increased leverage (from 1.6x in 2004 to 3.4x in 2008). Though declining, this performance still compares favorably to both BiH and best performing large ECA peers whose ROA is of 2.6%. This downward trend, linked to that of the portfolio yield, is intentional and explained by the decreased rates offered in order to maintain MI-BOSPO's competitiveness on the market.

<sup>11</sup> Made of the management team and one BOD member with financial skills.

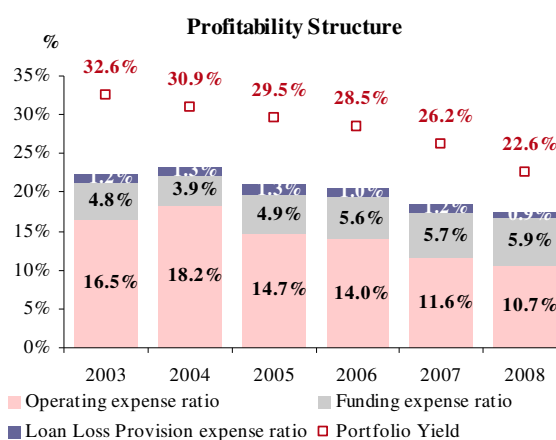
<sup>12</sup> Only 2.3 months on unadjusted basis.

<sup>13</sup> LIP borrowings excluded, as capped at 5%.

<sup>14</sup> From 4.7% in January to 3% in December 08 and 1.9% in February 2009, but with a peak at 5.4% in Q3 2008.

MI-BOSPO still offers among the widest product range in terms of characteristics. Its main competitive advantages rely in the quality and speed of the service, as well as easy loan conditions, which provides a good revenue quality and compensates the relatively higher interest rates, especially as cheaper priced competitors have recently started increasing their own rates. Historically important, product development and marketing are still the basis of a cautious product launch, with the marketing department leading very active promotion campaigns as well as market research, eventually with the support of external partners such as WWB. Innovative secondary loans products (housing, school, wedding, emergency, car registration, etc.) with a low risk profile (contributing to 1.4% of the total PAR) are popular and further consolidate MI-BOSPO's position as a strong medium-sized player on the BiH market.

Nevertheless, the product development process is still to be refined. Loans were recently grouped into three main categories (business, housing, consumption) with decreasing rates for larger amounts, but a more sophisticated pricing strategy definitely needs to be implemented in order to properly monitor the portfolio yield per product and thus optimize sales (cf. section "I"). On this last topic, EBRD and WWB's TA packages should bring in the necessary expertise by the time it is built in-house.



Operating expenses have gone further down from 11.6% in 2007 to 10.7% in 2008. They remain slightly higher than BiH peers since MI-BOSPO keeps on targeting the lower end of the market to be in line with its mission. The average loan size was stable at around 1,800 BAM (1,043 EUR) over the past three years, and only increased to 2,000 BAM in 2008, whereas as the closest competitor offers an average loan size larger by 50% (cf. "Benchmarking" below).

The overall cost structure remains relatively stable as the financial expenses ratio slight increase (larger recourse to commercial loans and higher leverage) was offset by the decrease of the loan loss provision expenses ratio (policy prescribed by law). With an average deployment ratio over

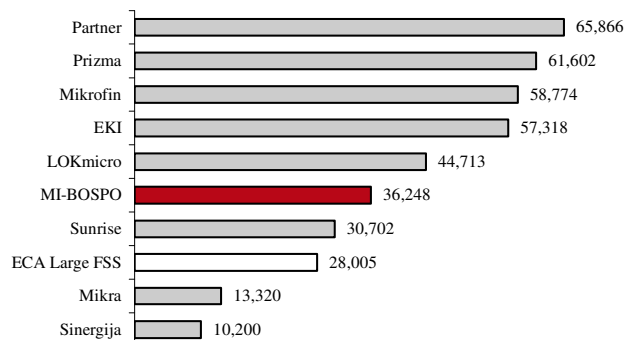
90% during the past few years, MI-BOSPO shows an excellent optimization of its resources, which should further contribute to even out its performance.

MI-BOSPO's profitability outlook is thus expected to remain stable on the short run, notably thanks to the measures taken in response to delinquency. Positive prospects are of longer term as they require the overall industry / economy to resume growth, which will most probably not occur before 2010.

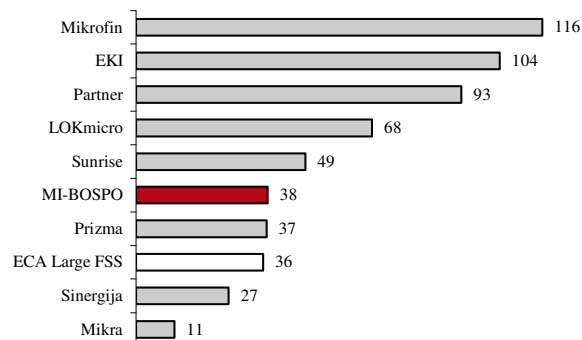
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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

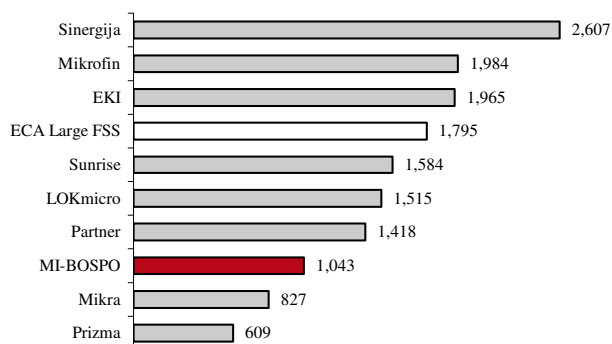
Number of loans outstanding



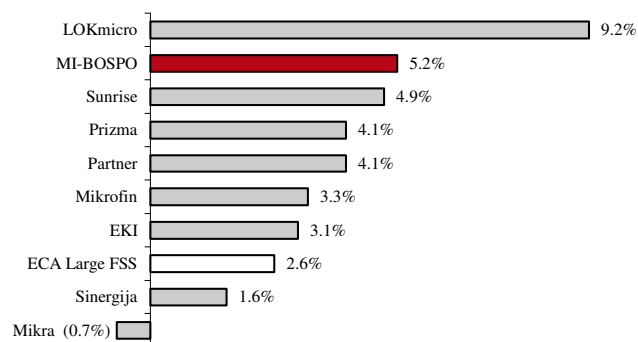
Loan portfolio (M EUR)



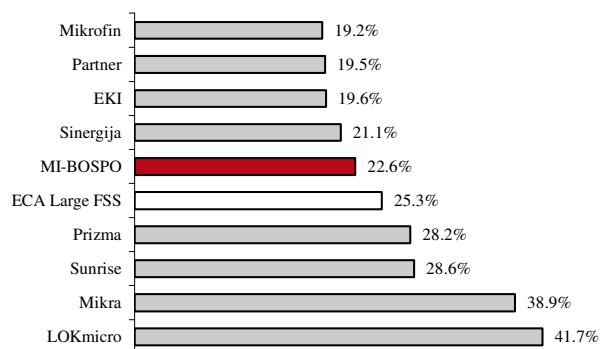
Average outstanding loan per client (EUR)



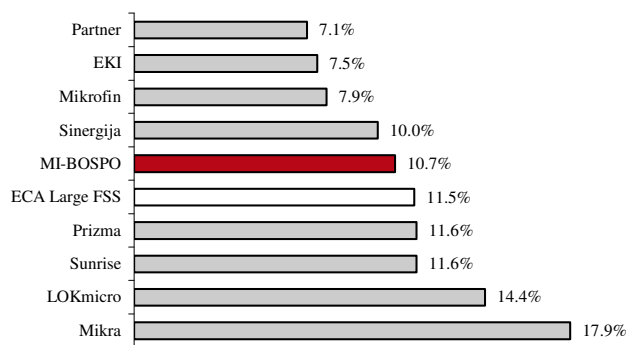
ROA



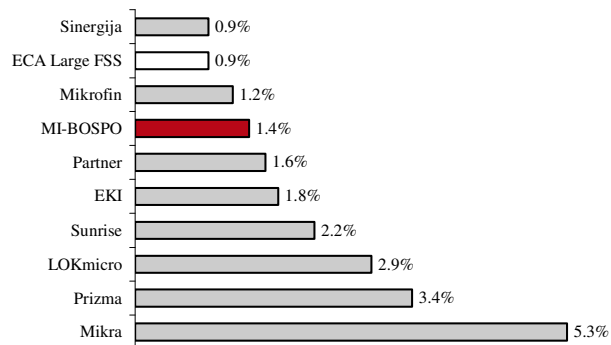
Portfolio Yield



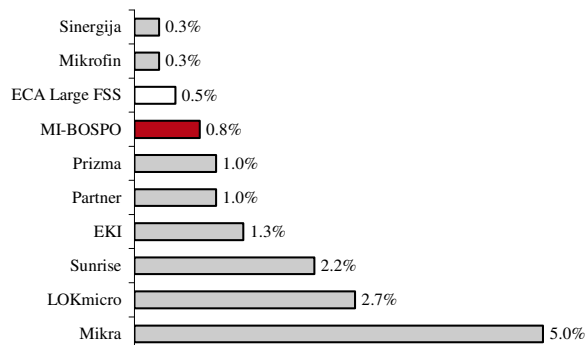
Operating expense ratio



PAR 31-365



Write-off ratio



Source: AMFI, Planet Rating; data as of December 2008.

Data in EUR, unless otherwise stated

## ■ Performance indicators

Loan Portfolio	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
<b>Loan portfolio evolution</b>						
Loan portfolio	5,636,174	6,924,002	13,153,620	18,534,399	28,932,634	37,813,316
Loan portfolio (BAM)	11,023,398	13,542,171	25,726,245	36,250,133	56,587,313	73,956,419
Evolution	34.7%	22.8%	90.0%	40.9%	56.1%	30.7%
Average outstanding loan portfolio	4,971,077	6,086,679	9,970,011	15,924,748	23,493,732	35,475,409
Active borrowers	7,161	9,318	14,272	19,412	30,565	36,248
Evolution	30.2%	30.1%	53.2%	36.0%	57.5%	18.6%
Average outstanding loan per client	787	743	922	955	947	1,043
% of GDP per capita	40.9%	35.8%	41.7%	38.6%	34.1%	33.2%
Average amount disbursed per loan	1,209	1,125	1,138	963	1,131	1,183
% of GDP per capita	62.9%	54.2%	51.5%	38.9%	40.7%	37.7%
<b>Portfolio quality</b>						
Rescheduled loans	0.2%	0.6%	0.1%	0.1%	0.1%	0.1%
PAR 31-180	0.2%	0.4%	0.2%	0.3%	0.3%	1.4%
PAR > 180	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.8%	1.2%	0.8%	0.7%	0.7%	0.8%
<b>Credit risk coverage</b>						
Risk coverage ratio (PAR 30)	638.2%	314.0%	602.8%	457.3%	417.1%	83.5%
PAR 31 net of loan loss provision / Equity	(2.4%)	(2.0%)	(3.1%)	(3.3%)	(3.9%)	0.9%
<b>Staff</b>						
Total number of staff	39	41	57	111	121	148
% Credit officers	56.4%	58.5%	61.4%	63.1%	66.9%	64.2%
Turnover	5.3%	12.5%	14.3%	9.5%	6.9%	16.4%
<b>Profitability analysis</b>						
ROE	23.4%	16.3%	24.0%	26.3%	28.3%	22.1%
Liabilities / Equity	1.6x	1.6x	2.4x	2.6x	3.1x	3.4x
Capital adequacy ratio	44.0%	43.6%	31.2%	28.9%	25.1%	23.8%
ROA	9.2%	6.2%	7.8%	7.5%	7.3%	5.2%
<b>Profitability structure</b>						
Portfolio Yield	32.6%	30.9%	29.5%	28.5%	26.2%	22.6%
Operating expense ratio	16.5%	18.2%	14.7%	14.0%	11.6%	10.7%
Cost per borrower	114	119	103	115	89	105
Staff productivity	184	227	250	175	253	245
Loan officer productivity	326	388	408	277	377	382
Average outstanding loan per client (EUR)	787	743	922	955	947	1,043
Funding expense ratio	4.8%	3.9%	4.9%	5.6%	5.7%	5.9%
Cost of liabilities	5.8%	5.2%	6.6%	7.2%	7.2%	7.8%
Loan Loss Provision expense ratio	1.2%	1.3%	1.3%	1.0%	1.2%	0.9%
PAR 31-365	0.2%	0.4%	0.2%	0.3%	0.3%	1.4%
Write-off ratio	0.8%	1.2%	0.8%	0.7%	0.7%	0.8%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	82.6%	81.3%	88.7%	90.0%	92.4%	91.3%
Revenue from investment as a % of financial revenues	0.6%	0.6%	0.4%	0.2%	0.2%	0.2%
<b>Liquidity</b>						
Liquidity / Total assets (LAR)	4.4%	6.4%	1.3%	1.3%	1.5%	1.8%
Exchange rate 1 EUR= xx BAM	1.96	1.96	1.96	1.96	1.96	1.96

MI-BOSPO Income Statement	BAM						EUR						Evolution			
	Notes	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	06/05	07/06	08/07
<b>Financial Revenue (a)</b>		<b>3,248,227</b>	<b>3,701,117</b>	<b>5,840,690</b>	<b>8,968,993</b>	<b>12,152,071</b>	<b>15,761,926</b>	<b>1,660,792</b>	<b>1,892,351</b>	<b>2,986,297</b>	<b>4,585,773</b>	<b>6,213,255</b>	<b>8,058,945</b>	<b>53.6%</b>	<b>35.5%</b>	<b>29.7%</b>
Financial Revenue from Loan Portfolio		3,168,999	3,677,707	5,756,790	8,886,477	12,052,121	15,674,531	1,620,283	1,880,382	2,943,400	4,543,584	6,162,152	8,014,260	54.4%	35.6%	30.1%
Interest on Loan Portfolio		3,150,017	3,661,669	5,735,941	8,865,817	12,030,351	15,569,347	1,610,578	1,872,181	2,932,740	4,533,020	6,151,021	7,960,481	54.6%	35.7%	29.4%
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		18,982	16,038	20,849	20,660	21,770	105,184	9,705	8,200	10,660	10,563	11,131	53,780	(0.9%)	5.4%	383.2%
Financial Revenue from Investments		20,938	23,410	22,310	21,559	21,951	34,989	10,705	11,969	11,407	11,023	11,223	17,890	(3.4%)	1.8%	59.4%
Other Operating Revenue		58,290	-	61,590	60,957	77,999	52,406	29,803	-	31,490	31,167	39,880	26,795	(1.0%)	28.0%	(32.8%)
<b>Financial Expense (b)</b>		<b>463,283</b>	<b>459,369</b>	<b>965,041</b>	<b>1,733,543</b>	<b>2,627,851</b>	<b>4,106,202</b>	<b>236,873</b>	<b>234,872</b>	<b>493,418</b>	<b>886,346</b>	<b>1,343,599</b>	<b>2,099,468</b>	<b>79.6%</b>	<b>51.6%</b>	<b>56.3%</b>
Interest paid on borrowings		401,877	457,671	965,041	1,730,192	2,627,534	4,106,202	205,476	234,003	493,418	884,633	1,343,437	2,099,468	79.3%	51.9%	56.3%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		61,406	1,698	-	3,351	317	-	31,396	868	-	1,713	162	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	(90.5%)	(100.0%)
<b>Financial income [c=a-b]</b>		<b>2,784,944</b>	<b>3,241,748</b>	<b>4,875,649</b>	<b>7,235,450</b>	<b>9,524,220</b>	<b>11,655,724</b>	<b>1,423,919</b>	<b>1,657,479</b>	<b>2,492,880</b>	<b>3,699,427</b>	<b>4,869,656</b>	<b>5,959,477</b>	<b>48.4%</b>	<b>31.6%</b>	<b>22.4%</b>
<b>Net Loan Loss provision expense (d)</b>		<b>117,161</b>	<b>155,278</b>	<b>243,794</b>	<b>323,916</b>	<b>562,146</b>	<b>591,894</b>	<b>59,903</b>	<b>79,392</b>	<b>124,650</b>	<b>165,616</b>	<b>287,421</b>	<b>302,631</b>	<b>32.9%</b>	<b>73.5%</b>	<b>5.3%</b>
Loan loss provision expense and write-off		124,201	179,348	280,815	361,534	623,549	645,416	63,503	91,699	143,578	184,849	318,816	329,996	28.7%	72.5%	3.5%
Recovery from Loans written off		7,040	24,070	37,021	37,618	61,403	53,522	3,599	12,307	18,929	19,234	31,395	27,365	1.6%	63.2%	(12.8%)
<b>Operating expense (e)</b>		<b>1,603,148</b>	<b>2,165,225</b>	<b>2,873,938</b>	<b>4,347,965</b>	<b>5,329,184</b>	<b>7,427,030</b>	<b>819,676</b>	<b>1,107,062</b>	<b>1,469,421</b>	<b>2,223,079</b>	<b>2,724,769</b>	<b>3,797,380</b>	<b>51.3%</b>	<b>22.6%</b>	<b>39.4%</b>
Personnel Expense (includes fringe)		1,091,315	1,562,318	1,691,888	2,869,820	3,691,832	4,591,181	557,980	798,801	865,049	1,467,316	1,887,604	2,347,434	69.6%	28.6%	24.4%
Administrative Expense (non-staff operating expenses)		511,833	602,907	1,182,050	1,478,145	1,637,352	2,835,849	261,696	308,261	604,373	755,764	837,165	1,449,946	25.0%	10.8%	73.2%
Depreciation and amortization		56,667	70,188	120,691	205,299	237,101	341,024	28,973	35,887	61,708	104,968	121,228	174,363	70.1%	15.5%	43.8%
Consulting fees		45,302	121,694	207,839	336,184	271,011	575,882	23,163	62,221	106,266	171,888	138,566	294,444	61.8%	(19.4%)	112.5%
Rental costs		67,828	79,416	70,988	100,924	150,462	246,423	34,680	40,605	36,296	51,602	76,930	125,994	42.2%	49.1%	63.8%
Transportation costs		14,496	15,712	-	88,910	115,214	186,626	7,412	8,033	-	45,459	58,908	95,420	-	29.6%	62.0%
Bank fee		55,658	67,235	121,318	210,484	238,008	317,088	28,457	34,377	62,029	107,619	121,692	162,125	73.5%	13.1%	33.2%
BOD fees		23,281	28,836	22,816	46,021	70,315	64,529	11,903	14,744	11,666	23,530	35,951	32,993	101.7%	52.8%	(8.2%)
Utilities		-	-	-	50,130	66,346	91,096	-	-	-	25,631	33,922	46,577	-	32.3%	37.3%
Telecommunication		-	-	-	138,927	159,431	207,998	-	-	-	71,032	81,516	106,348	-	14.8%	30.5%
Office supplies		-	-	-	73,600	81,862	128,828	-	-	-	37,631	41,855	65,869	-	11.2%	57.4%
Others	1	248,601	219,826	638,398	227,666	247,602	676,354	127,108	112,395	326,408	116,404	126,597	345,814	(64.3%)	8.8%	173.2%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>1,064,635</b>	<b>921,245</b>	<b>1,757,917</b>	<b>2,563,569</b>	<b>3,632,890</b>	<b>3,636,800</b>	<b>544,339</b>	<b>471,025</b>	<b>898,809</b>	<b>1,310,732</b>	<b>1,857,467</b>	<b>1,859,467</b>	<b>45.8%</b>	<b>41.7%</b>	<b>0.1%</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>1,064,635</b>	<b>921,245</b>	<b>1,757,917</b>	<b>2,563,569</b>	<b>3,632,890</b>	<b>3,636,800</b>	<b>544,339</b>	<b>471,025</b>	<b>898,809</b>	<b>1,310,732</b>	<b>1,857,467</b>	<b>1,859,467</b>	<b>45.8%</b>	<b>41.7%</b>	<b>0.1%</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>1,064,635</b>	<b>921,245</b>	<b>1,757,917</b>	<b>2,563,569</b>	<b>3,632,890</b>	<b>3,636,800</b>	<b>544,339</b>	<b>471,025</b>	<b>898,809</b>	<b>1,310,732</b>	<b>1,857,467</b>	<b>1,859,467</b>	<b>45.8%</b>	<b>41.7%</b>	<b>0.1%</b>
Donations (l)		7,521	214,037	479,036	-	-	4,424	3,846	109,435	244,927	-	-	2,262	(100.0%)	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>1,072,157</b>	<b>1,135,282</b>	<b>2,236,953</b>	<b>2,563,569</b>	<b>3,632,890</b>	<b>3,641,224</b>	<b>548,185</b>	<b>580,460</b>	<b>1,143,736</b>	<b>1,310,732</b>	<b>1,857,467</b>	<b>1,861,728</b>	<b>14.6%</b>	<b>41.7%</b>	<b>0.2%</b>

Note: 1) Including provision for interest receivable impairment.

MI-BOSPO Balance sheet	Notes	BAM						EUR						Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	06/05	07/06	08/07
<b>ASSETS</b>		<b>13,166,845</b>	<b>16,425,410</b>	<b>28,647,561</b>	<b>39,757,599</b>	<b>60,406,709</b>	<b>80,092,294</b>	<b>6,732,101</b>	<b>8,398,179</b>	<b>14,647,265</b>	<b>20,327,738</b>	<b>30,885,460</b>	<b>40,950,540</b>	<b>38.8%</b>	<b>51.9%</b>	<b>32.6%</b>
<b>Short Term Assets</b>		<b>11,124,195</b>	<b>13,495,086</b>	<b>20,243,784</b>	<b>9,422,125</b>	<b>22,828,078</b>	<b>33,614,951</b>	<b>5,687,711</b>	<b>6,899,928</b>	<b>10,350,482</b>	<b>4,817,456</b>	<b>11,671,811</b>	<b>17,187,051</b>		<b>142.3%</b>	<b>47.3%</b>
														<b>(53.5%)</b>		
Cash and Due from Banks		578,047	1,055,916	364,950	535,746	894,502	1,436,908	295,551	539,881	186,596	273,923	457,352	734,679	46.8%	67.0%	60.6%
Short Term Investments		-	-	103,516	103,516	103,516	1,000,000	-	-	52,927	52,927	52,927	511,292	0.0%	0.0%	866.0%
Short Term Net Loan Portfolio		10,398,400	12,232,252	19,390,272	8,332,780	21,147,353	30,509,514	5,316,617	6,254,251	9,914,089	4,260,483	10,812,470	15,599,267	(57.0%)	153.8%	44.3%
Short Term Gross Loan Portfolio		10,545,580	12,416,437	19,705,254	8,801,756	21,907,000	31,370,526	5,391,869	6,348,423	10,075,136	4,500,266	11,200,871	16,039,495	(55.3%)	148.9%	43.2%
(Loan Loss Reserve)		147,180	184,185	314,982	468,976	759,647	861,012	75,252	94,172	161,048	239,784	388,401	440,228	48.9%	62.0%	13.3%
Interest Receivable		147,328	169,595	309,554	416,296	560,214	617,206	75,328	86,713	158,272	212,849	286,433	315,572	34.5%	34.6%	10.2%
On loan portfolio	1	147,328	169,595	309,554	416,296	560,214	617,206	75,328	86,713	158,272	212,849	286,433	315,572	34.5%	34.6%	10.2%
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		420	37,323	75,492	33,787	122,493	51,323	215	19,083	38,598	17,275	62,630	26,241	(55.2%)	262.5%	(58.1%)
<b>Long term assets</b>		<b>2,042,650</b>	<b>2,930,324</b>	<b>8,403,777</b>	<b>30,335,474</b>	<b>37,578,631</b>	<b>46,477,343</b>	<b>1,044,390</b>	<b>1,498,251</b>	<b>4,296,783</b>	<b>15,510,282</b>	<b>19,213,649</b>	<b>23,763,488</b>	<b>261.0%</b>	<b>23.9%</b>	<b>23.7%</b>
Long Term Net Investments		1,042,650	1,101,716	1,054,243	1,056,279	1,056,279	1,135,416	533,098	563,298	539,026	540,067	540,067	580,529	0.2%	0.0%	7.5%
Long Term Gross Loan Portfolio		477,818	1,125,734	6,020,991	27,448,377	34,680,313	42,585,893	244,304	575,579	3,078,484	14,034,132	17,731,762	21,773,821	355.9%	26.3%	22.8%
Net Fixed Assets		522,182	702,874	1,328,543	1,830,818	1,842,039	2,756,034	266,987	359,374	679,273	936,082	941,820	1,409,138	37.8%	0.6%	49.6%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>13,166,845</b>	<b>16,425,410</b>	<b>28,647,561</b>	<b>39,757,599</b>	<b>60,406,709</b>	<b>80,092,294</b>	<b>6,732,101</b>	<b>8,398,179</b>	<b>14,647,265</b>	<b>20,327,737</b>	<b>30,885,460</b>	<b>40,950,540</b>	<b>38.8%</b>	<b>51.9%</b>	<b>32.6%</b>
<b>Liabilities</b>		<b>8,082,115</b>	<b>10,205,398</b>	<b>20,190,596</b>	<b>28,737,065</b>	<b>45,753,285</b>	<b>61,797,646</b>	<b>4,132,320</b>	<b>5,217,937</b>	<b>10,323,288</b>	<b>14,693,028</b>	<b>23,393,283</b>	<b>31,596,635</b>	<b>42.3%</b>	<b>59.2%</b>	<b>35.1%</b>
Short term liabilities		2,529,296	2,651,775	6,370,558	6,742,382	10,725,413	11,947,908	1,293,209	1,355,831	3,257,215	3,447,325	5,483,817	6,108,868	5.8%	59.1%	11.4%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		2,376,424	2,451,736	6,062,955	6,270,807	10,004,316	10,795,166	1,215,046	1,253,553	3,099,940	3,206,213	5,115,125	5,519,481	3.4%	59.5%	7.9%
Interest payable		-	36,866	109,228	193,982	328,959	559,540	-	18,849	55,847	99,181	168,194	286,088	77.6%	69.6%	70.1%
Accounts Payable and Other Short		152,872	163,173	198,375	277,593	392,138	593,202	78,162	83,429	101,428	141,931	200,497	303,299	39.9%	41.3%	51.3%
Term Liabilities																
Long term liabilities		5,552,819	7,553,623	13,820,038	21,994,683	35,027,872	49,849,738	2,839,111	3,862,106	7,066,073	11,245,703	17,909,467	25,487,766	59.2%	59.3%	42.3%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		5,552,819	7,074,587	13,820,038	21,870,454	34,899,667	49,700,998	2,839,111	3,617,179	7,066,073	11,182,186	17,843,916	25,411,717	58.3%	59.6%	42.4%
Other Long Term Liabilities		-	479,036	-	124,229	128,205	148,740	-	244,927	-	63,517	65,550	76,050	-	3.2%	16.0%
<b>Equity</b>		<b>5,084,730</b>	<b>6,220,012</b>	<b>8,456,965</b>	<b>11,020,534</b>	<b>14,653,424</b>	<b>18,294,648</b>	<b>2,599,781</b>	<b>3,180,241</b>	<b>4,323,977</b>	<b>5,634,709</b>	<b>7,492,177</b>	<b>9,353,905</b>	<b>30.3%</b>	<b>33.0%</b>	<b>24.8%</b>
<b>Tier 1 Capital</b>		<b>5,084,730</b>	<b>6,220,012</b>	<b>8,456,965</b>	<b>11,020,534</b>	<b>14,653,424</b>	<b>17,733,676</b>	<b>2,599,781</b>	<b>3,180,241</b>	<b>4,323,977</b>	<b>5,634,709</b>	<b>7,492,177</b>	<b>9,067,085</b>	<b>30.3%</b>	<b>33.0%</b>	<b>21.0%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity		2,391,796	2,605,833	3,084,869	3,084,869	3,084,869	3,089,293	1,222,906	1,332,341	1,577,268	1,577,268	1,577,268	1,579,530	0.0%	0.0%	0.1%
Retained earnings without donations and reserves		2,692,934	3,614,179	5,372,096	7,935,665	11,568,555	14,644,383	1,376,875	1,847,900	2,746,709	4,057,441	5,914,908	7,487,554	47.7%	45.8%	26.6%
<b>Tier 2 Capital</b>		-	-	-	-	-	<b>560,972</b>	-	-	-	-	-	<b>286,820</b>	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts	2	-	-	-	-	-	560,972	-	-	-	-	-	286,820	-	-	-

Note: 1) Net of the reserve on interest receivable; 2) Amount moved from the loan loss reserve to the equity in 2008, following to the legal provisioning methodology applying to MCFs.

## ■ 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.	SPECULATIVE INVESTMENT
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.	
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	TECHNICAL ASSISTANCE REQUIRED
C+		
C		
C-		
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.	
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.	