

BUSINESS REPORT FOR THE PERIOD

JANUARY 1ST 2008 – DECEMBER 31ST 2008

Tuzla, February 23, 2009

Resume

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Resume

In the past year, 2008 a positive financial result was achieved although the goals regarding the number of clients, a volume of operations –size of portfolio - have not achieved that objective. According to a target, 31.019 of active clients was supposed to be served by the organization while that number achieved was 30.920, as for portfolio the amount planned was 78.451.841 KM while achieved portfolio amounted to 73.956.419 KM – which is 4.495.422 KM less, in other words 6%.

Regarding the number of clients and measuring by portfolio, MI-BOSPO kept its place among competition (is in the fifth place by the number of clients, and sixth by the portfolio amount) - according to indicators from December 2008. According to these indicators, MI-BOSPO holds 7% of the microcredit market in BiH.

Productivity measured by the ratio of the number of active clients per loan officer, is more favourable compared to the planned (planned 317, reached 382 of active clients - the scope of work on the annual level), while the amount of portfolio is smaller compared to the planned (scheduled 800,529 KM achieved 778,489 KM).

All employees have tried to well use the time while performing as a microcredit organization, in the first quarter, to disburse more credits of higher amounts (up to 30,000 KM). Microcredit Foundation MI-BOSPO was registered at the beginning of the second quarter, so disbursements of loans with the maximal amount of 10,000 KM started on April 01, 2008.

Signs are good, the ratio of administrative efficiency, was planned at 11.3%, and achieved the better: 10.9% and the ratio of the operational efficiency was planned at 18.4% and reached 19.5% - which is not a good result.

MI-BOSPO is still a highly profitable organization, but with a 21.2% return on equity since 2007, this ratio fell to 15.1% - was planned even lower - 12.7%. This percentage maintains a healthy - responsible - profitability. It is important to take into account a number of allegations from the assessment reports on consumer protection, which is related to transparency and fair prices¹:

- Prices of products are competitive in the context. Using the yield on portfolio as an alternative to interest rates, MI-BOSPO yield is in the middle range, and below the average of 12 MCO. Average yield on the portfolio in the industry is 25.3%, while MI-BOSPO's yield is 23.6%. (September 30, 2008 report from the industry.)
- MI-BOSPO values long-term business relationships with clients' more than short-term maximization of profit, as evidenced by the reduction in interest rates, flexible terms and the need for guarantees that are offered to repeated customers as part of customer loyalty initiatives. (+)
- Financial institutions do not charge users for their own inefficiency. Out of 12 MCO's, MI-BOSPO average loan size is the fourth lowest. MCO with the lowest average size of loans have a higher yield on portfolio. Since September 2008 MI-BOSPO's operating efficiency ratio was 19.5% compared with adjusted return on equity of 15.1%.
- Financial institution transfer benefits of efficient operations on to customers. In the past MI-BOSPO has reduced interest rates on loans. Currently, management is concerned, due to the ability of debtors to afford a loan, as well as increased competition from other MCO that are charging lower rates. Given the increase in costs and squeezed margins, it is not likely that the interest rates will continue to decrease.
- Checks and synchronization are there in order to avoid costly sales of other products that are available. May be a tendency to sell longer-term loans than is necessary for business, as evidenced by a large volume of prepaid instalments. However, clients generally want long-term loans due to affordability of instalments although these loans can be more expensive.
- Fee for pre payment of loans is currently 4% of principal. Banks charge 5%.

¹ Full report available upon a request.

Also, very important activities were obligations issued by the new law on micro-credit organizations² meaning the Microcredit organization is transformed in Microcredit Foundation MI-BOSPO. For MI-BOSPO this was not just registration into Microcredit Foundation but also change of members in the Governing Board. From April 01, 2008 the organization adapted to the new legal framework and started filling out the obligations according to the banking agency of Federation of Bah and Republic Ruska.

In order to conduct business of re-registration into micro-credit foundation, and now that the activities of the establishment of microcredit company MI-BOSPO have intensified, and since the decisions were made with the full participation of all members of the Governing Board previously, 20 meetings were held. At the time, while the registration of Microcredit Foundation was not yet done, for the first three months of 2008 four (4) sessions of the Governing Board were held. For the remaining 9 months 16 (sixteen) sessions were held. Total of 20 (twenty) meetings. The Audit Committee has held 7 meetings in 2008.

The work of re-organizations and preparation of documentation for the establishment of the company, were helped by IFC consultants / lawyers. For each session of the Governing Board and for each sub-session, the work of managers and members of the Board was coordinated, in order to adjust necessary decisions for free and conducted business be done as efficiently. In timely manner all (financial) statements about the performance were adopted.

A special report is attached at the end of this business report.²

Balance sheet

Net balance amount as of December 31, 2008 was 80.394.780 KM and it is increased for 33% when compared to the same period of the previous year.

Table 1. – Balance Sheet

	31 12 2007	Planned 31 12 2008	Realized 31 12 2008	Index 1	Index 2
				4 : 2	4 : 3
1	2	3	4	5	6
ASSETS					
Cash and bank accounts	894.502	2.373.293	1.436.908	161	61
Deposits in bank	103.516	103.516	1.079.137	1042	1042
Portfolio					
Gross active portfolio	56.587.313	78.451.841	73.956.419	131	94
(Reserve for loan losses)	-759.647	-451.206	-861.012	113	191
Net active portfolio	55.827.665	78.000.636	73.095.407	131	94
Other claims	0	0	0		
Other current assets	634.451	800.000	971.015	153	121
TOTAL CURRENT ASSETS	57.460.134	81.277.445	76.582.467	133	94
Long-term time deposits	1.056.279	1.056.279	1.056.279	100	100
Long-term investments	475.672	0	0	0	
Building	528.167	1.274.611	1.345.745	255	106
Property and equipment	1.639.239	2.754.867	2.338.043	143	85
(Accumulated amortization)	-705.749	-1.091.214	-927.754	131	85
Net property and equipment	933.490	2.938.265	2.756.034	295	94
TOTAL ASSETS	60.453.742	85.271.988	80.394.780	133	94
LIABILITIES					
LIABILITIES					
Short-term debts, subsidized loans	0	0	0		
Short-term debts, commercial loans	7.300.000	13.500.001	6.820.352	93	51
Liabilities with income tax calculated in it	0	65.317	0		0
Other short term liabilities	844.297	1.050.000	1.293.053	153	123
Total current liabilities	8.144.297	14.615.317	8.113.405	100	56
Long-term loans, subsidized	10.859.058	12.034.171	12.034.173	111	100
Long-term loans, commercial	26.796.963	40.903.408	41.952.553	157	103
Other long-term liabilities	0	0	0		
TOTAL LONG-TERM LIABILITIES	37.656.021	52.937.579	53.986.726	143	102
TOTAL LIABILITIES	45.800.317	67.552.896	62.100.131	136	92
CAPITAL					
Grant capital from previous year	2.685.355	2.685.355	2.685.355	100	100
Grant capital from current year	0	0	0		
Reserves into capital	0	560.972	560.972		100
Success (previous year)	8.335.179	11.968.070	11.968.070	144	100
Success Jan-march 2008	3.632.890	881.836	994.261		113
Success foundation		1.622.860	2.085.991	57	129
TOTAL CAPITAL	14.653.424	17.719.091	18.294.649	125	103
TOTAL LIABILITIES	60.453.742	85.271.988	80.394.780	133	94

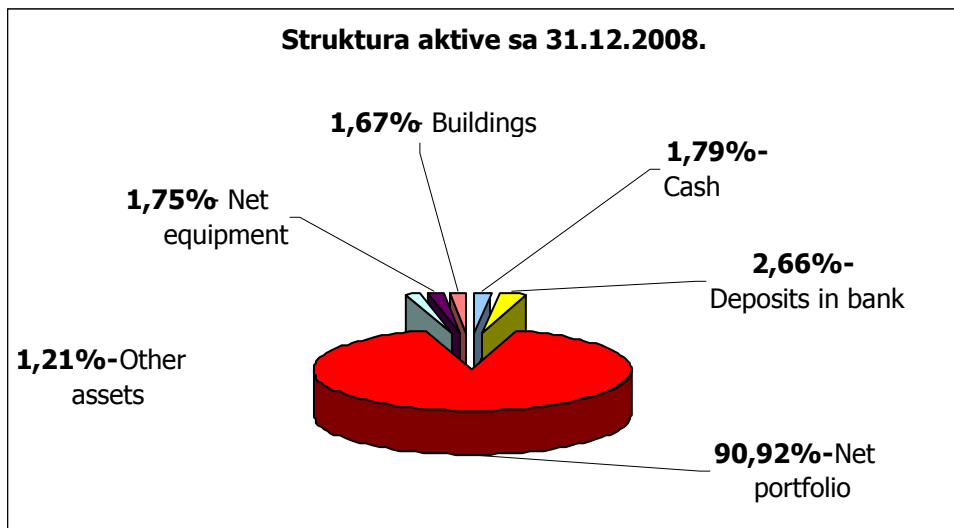
Assets

Increased balance amount in comparison to the same period of the previous year (index 133), is mostly a result of net portfolio increase to 31%, whose realization of 6% is less than planned target in portfolio of the organization.

This increase of balance amount is financed by increase of capital (own resources) for 25% and the additional borrowings for 36% compared to the same period last year.

The most significant share of assets makes the portfolio with 91% of total assets. Organization had at the end of the year a significant share of liquid assets in total assets these were assets in the accounts, or term deposits in the bank for the purpose of maintaining liquidity reserves. The reason for this are smaller disbursements especially in the last quarter, than it was planned, which was felt in much less implemented portfolio in relation to plan. Credit resources are provided according to the defined plan of disbursements and portfolio growth. Also, the organization has made a decision to term certain assets in order to allow more liquidity in the new conditions of operations. Other assets consist of fixed assets and other assets.

Graph 1. Assets structure as of Dec 31, 2008



Structure of Liabilities

Table 2.

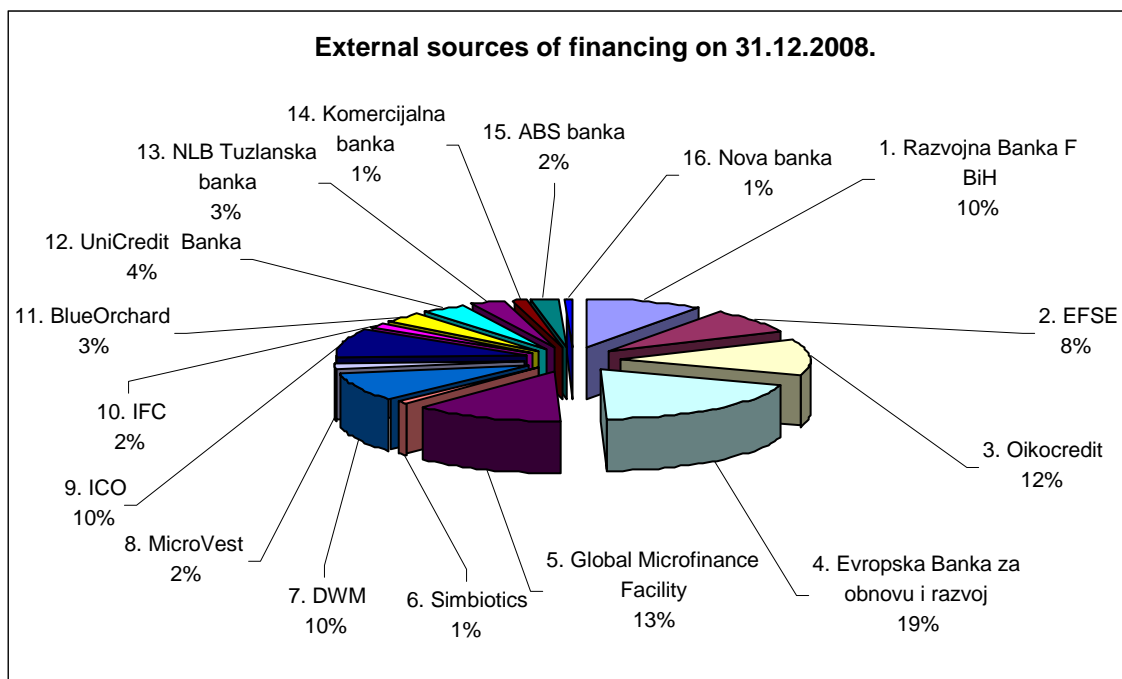
Category of liabilities	31 12 07	31 12 08	31 12 08
	(realization)	(plan)	(realization)
1	2	3	4
A. SUBSIDIZED LOANS	10.859.058	12.034.171	12.034.173
1. Razvojna Banka F BiH	6.859.386	6.137.344	6.137.345
2. Spanish Government loan	3.911.660	5.867.490	5.867.490
3. EFSE	88.012	29.337	29.337
B. COMMERCIAL LOANS	34.096.963	54.403.408	48.772.906
4. GMF	7.823.320	9.779.150	7.823.320
5. Oikocredit	3.911.660	7.236.571	7.236.571
6. EBRD	0	5.867.490	5.867.490
7. EBRD 2	0	0	5.867.490
8. EFSE 2	0	0	4.889.575
9. DWM	2.933.745	2.933.745	2.933.745
10. DWM Asset Management, SNS Institutional Microfinance Fund II	0	0	2.933.745
11. UniCredit banka	2.000.000	6.850.000	2.400.000
12. Dexia Micro-Credit Fund (Sub Fund BlueOrchard Debt)	0	0	1.955.830
13. NLB Tuzlanska banka	0	0	1.850.000
14. ABS banka	0	0	1.400.000
15. IFC	2.933.745	977.915	977.915
16. MicroVest	1.955.830	977.915	977.915
17. Komercijalna banka	0	2.000.000	750.000
18. RGM fond	977.915	488.958	488.958
19. Nova banka	0	0	420.352
20. Raiffeisen banka	8.641.667	11.291.665	0
21. TRIODOS banka	1.369.081	0	0
22. HVB/ Central Profit banka	1.550.000	0	0
23. other sources	0	6.000.000	0
C. OTHER LIABILITIES	844.297	1.115.317	1.293.053
total: (A+B+C):	45.800.317	67.552.896	62.100.131

In 2008 there were the following changes related to indebtedness:

1. Razvojna Banka - legal successor Foundation OdRaz – funds repaid in accordance to the repayment schedule
2. Spanish Government loan - approved loan of 3 million EUR; in 2007 one called for 2 million EUR was made. Remaining 1million EUR was called in the beginning of 2008.
3. EFSE fond – assets paid back to the financer during the year according to a contracted repayment plan.
4. Global Microfinance Facility (GMF) – In August of 2007 a Contract for 5 million EUR was signed. The assets were used in 2007 and 1 million EUR has not been used yet or called yet.
5. Oikocredit – At the beginning of the year an additional loan was approved.
6. EBRD – there were no changes
7. EBRD 2 – New funds approved in 2008 amounting to 3 million EUR.
8. EFSE 2 - New funds approved in October 2008. Approved 8 million EUR, withdrawn 2.5 million EUR.
 - a. The rest is planned to be withdrawn during the 2009
9. DWM – There were no changes

10. In order to provide liquidity for 2008 and 2009 an additional 3 million Euro from the DWM-SNS fund was provide. Part widrown in 2008 and part in 2009.
11. Unicredit Bank – not realized the level of indebtedness as planned
- 12; 13; 14; 17; 19 during the year, disbursements were higher than planned, so additional funds were provided, the biggest part from domestic banks.
15. International Finance Corporation (IFC) – Funds returned to financier according to agreed repayment plan.
16. Micro Vest – Funds returned to financier according to agreed repayment plan.
18. RGM - Funds returned to financier according to agreed repayment plan.
20. Raiffeisen Bank - A major financial support from Raiffeisen Bank in 2008 has been planed. However, the bank at the end of 2008 significantly increased prices on existing loans provided to MI-BOSPO. Since the organization had sufficient provided funds at the end of the year the loan was fully returned to the bank. Bank freed the deposit, which had the purpose of guarantee for loan funds.
21. Fond TRIODOS – returned at the beginning of 2008.
22. HVB/Central Profit Banka – formally and now it is Unicredit bank.

Graph 2. External sources of financing



No.	External sources of financing as of December 31, 2008	approved currency	Amount of approved loan in approved currency	Amount of liability (KM)	Interest rate	Date of signing contract	Maturity
Long-term loans				53.986.726	x	x	x
1.	Razvojna Banka F BiH	EUR	3.691.735	6.137.345	6mj EURIBOR+1% (max 5%)	10.10.2003.	Mart 2017
2.	EFSE	EUR	150.000	29.337	6mj EURIBOR	19.11.2003.	Mart 2009
	EFSE 2	EUR	8.000.000	4.889.575	8,10%	15.09.2008.	Mart 2013
3.	Oikocredit I	EUR	1.000.000	1.955.830	7,50%	18.07.2007.	July 2009
	Oikocredit II	EUR	1.000.000	1.369.081	8,00%	20.04.2006.	April 2011
	Oikocredit III	EUR	2.000.000	3.911.660	7,25%	14.03.2008.	Mart 2010
4.	Evropska Banka za obnovu i razvoj	EUR	3.000.000	5.867.490	8,08%	17.12.2007.	Decembar 2011
	Evropska Banka za obnovu i razvoj 2	EUR	3.000.000	5.867.490	8,239%	03.09.2008.	Septembar 2012
5.	Global Microfinance Facility	EUR	5.000.000	7.823.320	7,50%	31.08.2007.	January 2013
6.	Credit Suisse Microfinance Fund Management Company	EUR	500.000	488.958	8,0%-effective interest rates	10.07.2007.	Januar 2009
7.	DWM Securitization S.A. koji djeluje u ime i u korist svog odjela MICROFINANCE SECURITIES XXEB	EUR	1.500.000	2.933.745	7,75%	28.06.2006.	Jun 2011
	DWM Asset Management, LLC, SNS Institutional Microfinance Fund II	EUR	3.000.000	2.933.745	8,25%	07.11.2008.	Novembar 2013
8.	MicroVest	EUR	1.000.000	977.915	8,00%	27.06.2006.	Jun 2009
9.	Instituto de Credito Oficial of the Kingdom of Spain	EUR	3.000.000	5.867.490	5,00%	03.11.2006.	Mart 2017
10.	International Finance Corporation	EUR	2.000.000	977.915	8,554%	13.06.2006.	Jun 2009
11.	Dexia Micro-Credit Fund (Sub Fund BlueOrchard Debt)	EUR	1.000.000	1.955.830	6 months EURIBOR+3,85%	06.08.2008.	Avgust 2010
Short-term revolving loans				6.820.352			
12.	UniCredit Banka	KM	400.000	400.000	6,90%	14.07.2008.	Juli 2009
			1.000.000	1.000.000		19.06.2008.	Juni 2009
			2.000.000	1.000.000		16.05.2008.	Maj 2009
13.	NLB Tuzlanska banka	KM	1.400.000	1.400.000	6,75%	21.03.2008.	Mart 2009
			600.000	0		14.03.2008.	
			450.000	450.000		6,50%	16.05.2008.
14.	Komercijalna Banka	KM	1.500.000	750.000	7,00%	09.06.2008.	June 2009
15.	ABS Banka	KM	2.000.000	1.400.000	7,50%	26.06.2008.	June 2011
16.	Nova Banka	KM	1.000.000	420.352	7,00%	16.05.2008.	May 2009
Total				60.807.079	x		x

Capital

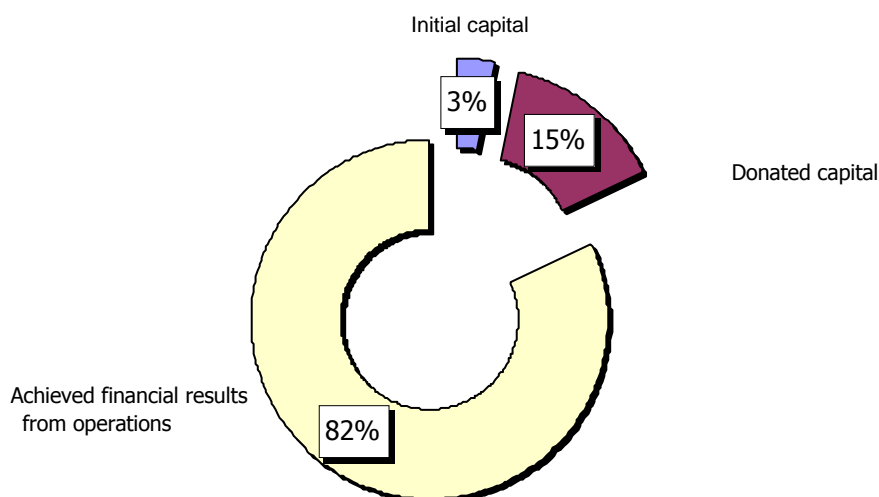
Table 4. Changes in capital:

No.	description	Initial capital	Donated capital	Achieved financial result from operations	TOTAL:
1	<i>01.01.2001.</i>	618.084	0	0	618.084
2	Year 2001	0	575.625	632.900	1.208.525
3	Year 2002	0	1.472.844	713.119	2.185.964
4	Year 2003	0		1.072.157	1.072.157
5	Year 2004	0	157.850	977.432	1.135.282
6	Year 2005	0	479.036	1.757.917	2.236.953
7	Year 2006	0	0	2.563.569	2.563.569
8	Year 2007	0	0	3.632.890	3.632.890
9	Year 2008	0	0	3.641.224	3.641.224
10	Total:	618.084	2.685.355	14.991.209	18.294.649

There was an increase of capital as of December 31, 2008 for 25% when compared with the same period of the previous year, which is realized with surplus income over expenditures from operations in 2008.

Graph 3. Capital structure

Capital structure as of Dec 31, 2008



Income Statement

Table 5. – *Income Statement*

	01 01- 31 12 07	01 01- 31 12 08		Index 1 4:'2	Index 2 4:'3
		Planned	Achieved		
1	2	3	4	5	6
Financial income					
1. income from interest rate	12.010.224	14.913.765	15.552.502	129	104
2. income from commission and default interest	41.897	27.623	122.030	291	442
3. Provision for changed policy on reserves	0	560.972	560.972		100
4. Other income	143.257	67.474	142.290	99	211
Total financial income	12.195.378	15.569.834	16.377.794	134	105
Financial costs					
4. interest rates and commissions for borrowed funds	2.627.534	3.943.060	4.106.202	156	104
5. commissions for approved loans	99.746	110.000	155.421	156	141
Total financial costs	2.727.280	4.053.060	4.261.623	156	105
Gross financial margin	9.468.098	11.516.774	12.116.171	128	105
7. Reserve costs for loan losses	623.549	742.144	1.206.387	193	163
8. Reserves for interest losses	0	0	137.165		
Net financial margin	8.844.549	10.774.630	10.772.619	122	100
Operational costs					
9. salaries and benefits	3.564.552	4.595.670	4.465.622	125	97
10. other operational costs	1.432.077	2.662.511	2.329.172	163	87
11. amortization	237.101	385.465	341.024	144	88
Total operational costs	5.233.730	7.643.645	7.135.818	136	93
Net income from operations	3.610.819	3.130.984	3.636.800	101	116
Non-operational income					
12. Donations for loan funds	0	0	0		
13. Donations for purchase of fixed assets	0	0	0		
14. Donations for operational costs	22.072	0	4.424	20	
15. Other donations without special conditions	0	0	0		
Total non-operational income	22.072	0	4.424	20	
Surplus income (over outcomes)	3.632.890	3.130.984	3.641.224	100	116
16. Income tax	0	65.317	0		0
Surplus over expenditures after taxes	3.632.890	3.065.668	3.641.224	100	119

Achieved income

Income from interest rates is bigger for 29% compared with the previous year and 4% compared with the plan. The reason is that portfolio was higher than planned, until the last quarter of 2008. Increase of total income was influenced by income from commissions and late fees, other income that are bigger than planned and a donation that was not anticipated in the plan. Total achieved income is bigger for 34% when compared with the previous year, and 5% when compared to the plan.

Table 6. (Income analyses)

Income category	01 01- 31 12 07	01 01- 31 12 08	
		Planned	Achieved
1	2	3	4
A. income from interest rate from crediting	12.010.224	14.913.765	15.552.502
B. income from commission and default interest	41.897	27.623	122.030
C. income from donations	22.072	0	4.424
1. Donation IFC	0	0	4.424
2. Reward CGAP	14.575	0	0
3. Donation SEEP	7.497	0	0
D. Other non-operational Income	143.257	628.446	703.263
4. Provision for changed policy on reserves	0	560.972	560.972
5. Income from refund	36.455		19.132
6. Income from repaid loans that are written off	61.403	40,000	53.522
7. Positive exchange rate differentials	3		458
8. interest rate from sight deposits	3.470		4.946
9. interest rate from time deposit	18.481	27.474	30.042
10. Income from liabilities from previous period	1.019		14.201
11. Income from correction of value	12.426		0
12. Income from sale of fixed assets that are written off	10.000		19.990
TOTAL INCOME (A + B + C+D):	12.217.450	15.569.834	16.382.218

A – Income from interest rate for crediting

In 2008 there was 95% of achieved income from operations, crediting.

C– Income from donations

1. Donation from IFC in the amount of KM 4.424 refers to donation for covering cost of travel to Australia in 2007.

D – Other non-operational income

4. Provision for changed policy on reserves relates to income on the basis of reserves in the healthy portfolio that have accumulated in the period of work as MCO. Move to the reservation policy consistent with the Banking Agency of Federation of Bosnia and Herzegovina regulations there was provision of accumulated reserves in the amount of 560,972 KM

5. Income from refunds is related to revenue of refunded rent from the Contractor on the business premises in the amount of KM 9000 and refund fees maternity absence from the Centre for Social Welfare of Brcko District in the amount of KM 5786, as well as refunds of damage to cars in the amount of KM 4346.

9. Interest on term deposits were increased in comparison to the past year because of Fixed-term deposits of funds in the Intesa bank.

10. Income from obligations from earlier period relating to income from more calculated obligation towards the EBRD in the amount of KM 8505, as well as calculated obligations under the provisions for employee benefits on the basis of MRS 19 (severance) in the amount of 5646 KM.

12. Income from the sale expenditure fixed assets in the amount of KM 19,990 has been achieved by selling written off cars (Skoda Felicia).

Other expenditures

Table 7. Structure of expenditures

Type of expenditures	Amount	% participation in total liabilities
1. Financial expenses	4.261.623	33%
2. Cost of provision for loan losses	1.343.553	11%
3. Operating expenses	7.135.818	56%
Total expenses (1. +2. +3.)	12.740.994	

Survey of costs

Costs increased for 33% compared with the same period of the previous year. The costs decreased for 2% that it was anticipated in the Business Plan for 2008.

Table 8.

Outcome analysis	01.01. - 31.12.2007.	2008		01.01. - 31.12.2008.		% participation in total liabilities	Index 1	Index 2	Difference
		Plan	Achievement	Plan	Achievement				
1	2	3	4	5	6	7	8	9	
A. financial costs	2.727.280	4.053.060	4.053.060	4.261.623	33,45	156	105	-208.563	
1. GMF interest rate	389.033	672.325	672.325	596.528	4,68	153	89	75.797	
2. EBRD	0	440.703	440.703	581.161	4,56		132	-140.457	
3. interest rate for loan from Raiffeisen bank	385.377	718.971	718.971	535.126	4,20	139	74	183.845	
4. Oikocredit interest rate	283.103	486.472	486.472	497.853	3,91	176	102	-11.381	
5. interest rate others	0	64.167	64.167	331.056	2,60		516	-266.889	
6. interest rate on LIP funds	347.493	321.127	321.127	324.226	2,54	93	101	-3.099	
7. interest rate Symbiotics and DWM	290.242	286.040	286.040	290.611	2,28	100	102	-4.571	
8. Interest rate for loan from Spanish Government	118.154	281.015	281.015	277.969	2,18	235	99	3.046	
9. IFC interest rate	317.467	195.185	195.185	204.945	1,61	65	105	-9.760	
10 interest rate Unicredit bank loan	43.323	139.993	139.993	162.156	1,27	158	116	-22.163	
11. MicroVest interest rate	158.205	140.168	140.168	149.143	1,17	94	106	-8.975	
12. HVB CPB interest rate	102.847	131.922	131.922	98.710	0,77	55	75	33.212	
13. Komerčijalna banaka	0	52.083	52.083	43.726	0,34		84	8.357	
14. interest rate Trodos bank loan	179.200	10.200	10.200	10.147	0,08	6	99	53	
15. interest rate on KfW	6.423	2.689	2.689	2.847	0,02	44	106	-158	
16. interest rate Calvert	6.667	0	0	0,00	0,00	0		0	
17. Commission for approved loans	99.746	110.000	110.000	155.421	1,22	156	141	-45.421	
B. Reserves for loan losses		742.144	742.144	1.343.552	10,55	215	181	-601.408	
18. Reserve costs for loans that are past due	422.150	742.144	742.144	1.206.387	9,47	286	163	-464.243	
19. Reserve costs for interest rates that are past due	0	0	0	137.165	1,08			-137.165	
20. Reserve costs for healthy portfolio (1%)	201.399	0	0	0	0,00	0		0	
C. Operational costs	5.233.730	7.643.645	7.643.645	7.135.818	56,01	136	93	507.828	
21. salaries and benefits	3.564.552	4.595.670	4.595.670	4.465.622	35,05	125	97	130.049	
22. Amortization costs	237.101	385.465	385.465	341.024	2,68	144	88	44.440	
23. Other operational costs	1.432.077	2.662.511	2.662.511	2.329.172	18,28	163	87	333.338	
23.1. Costs of fuel and vehicle maintenance	176.262	241.098	241.098	267.429	2,10	152	111	-26.331	
23.2. Rent for facilities	150.463	249.314	249.314	246.423	1,93	164	99	2.891	
23.3. Communication costs	142.370	194.686	194.686	191.801	1,51	135	99	2.885	
23.4. Office supplies	81.862	137.234	137.234	128.828	1,01	157	94	8.406	
23.5. Utilities (water, electricity)	66.346	91.420	91.420	91.096	0,71	137	100	324	

23.6. Travel expenses	22.157	30.000	30.000	30.660	0,24	138	102	-660
23.7. Other operational costs	792.617	1.718.759	1.718.759	1.372.935	10,78	173	80	345.824
23.7.1. Marketing costs	218.253	500.000	500.000	500.328	3,93	229	100	-328
23.7.2. Bank commissions	138.262	189.287	189.287	161.667	1,27	117	85	27.621
23.7.3. Tax on interest paid to foreign founders	0	257.750	257.750	133.363	1,05		52	124.388
23.7.4. Other expenses	36.501	47.190	47.190	107.039	0,84	293	227	-59.849
23.7.5. Educational costs	82.940	120.000	120.000	92.568	0,73	112	77	27.432
23.7.6. Costs of Board meetings	70.315	80.000	80.000	81.460	0,64	116	102	-1.460
23.7.7. Audit expenses	34.752	51.125	51.125	50.318	0,39	145	98	807
23.7.8. Temporary service contract	25.454	35.000	35.000	38.963	0,31	153	111	-3.963
23.7.9. Maintenance of equipment and premises	5.722	52.736	52.736	29.147	0,23	509	55	23.589
23.7.10. Court and administrative taxes	10.224	20.000	20.000	27.223	0,21	266	136	-7.223
23.7.11. Supervision costs	0	40.060	40.060	26.959	0,21		67	13.102
23.7.12. Licenca Comnet Trend Micro	21.745	30.000	30.000	23.203	0,18	107	77	6.797
23.7.13. Costs of municipal taxes	12.824	30.000	30.000	20.568	0,16	160	69	9.432
23.7.14. Postal costs	17.062	30.000	30.000	18.238	0,14	107	61	11.762
23.7.15. Membership fees (AMFI, Refernetna grope, MFC)	9.401	16.338	16.338	10.998	0,09	117	67	5.340
23.7.16. Representation costs	5.974	15.000	15.000	9.378	0,07	157	63	5.622
23.7.17. Process agent costs	5.512	1.604	1.604	8.013	0,06	145		-6.409
23.7.18. Lawyer's services	2.340	5.000	5.000	6.907	0,05	295	138	-1.907
23.7.19. Insurance for employees	7.163	12.368	12.368	6.858	0,05	96	55	5.510
23.7.20. Maintenance of equipment	4.998	15.000	15.000	6.189	0,05	124	41	8.811
23.7.21. CRK (LRC) costs	16.167	1.500	1.500	5.374	0,04	33	358	-3.874
23.7.22. Cost of foundation	0	150.000	150.000	4.334	0,03		3	145.666
23.7.23. Additional insurance cost	4.241	6.000	6.000	3.842	0,03	91	64	2.158
23.7.24. Transformation and growth costs	15.508	0	0	0	0,00	0		0
23.7.25. Currency difference	320	0	0	0	0,00	0		0
23.7.26. Evaluation costs for founders	42.760			0	0,00	0		0
23.7.27. Cost of WWB collateral	4.182	12.800	12.800	0	0,00	0	0	12.800
TOTAL EXPENDITURES (A+B+C):	8.584.560	12.438.850	12.438.850	12.740.994	100,00	148	102	-302.144

A Financial costs

Financial costs are 33% of total costs realized in 2008. They were calculated and paid according to contracted interest rates for individual loans.

Financial costs were higher than planned because the portfolio was bigger than planned until the last quarter of 2008. As a result more loan funds were provided in that period and the costs were higher than planned.

B Commissions for loan losses

Commission for loan losses consisted of 11% of total expenses of the organization which is a significant 'jump' in relation to the previous year when the commission for the loan losses had a 7% share in total costs.

Commissions are planned up to 1% reserve for loan losses of the portfolio amount.

Provision for loan losses was carried out in accordance to the policy of reservation of the organization, which was changed on April 01, 2008 and determined by Banking Agency decisions. Planned portfolio delay has happened during the year and increased from April 2008 and is more than 1%. In December 2008 the delay has reached the percentage of 2.5% of the total portfolio.

C Operational costs

Operational costs are 56% of total costs.

- Costs of salaries and benefits for 2008 are 4.465.622 KM, which is 35% of total costs achieved in 2008. Total costs for salary are increased for 25% compared with the same period in 2007.

Cost of wages is lower by 3% compared to the plan; the reason is delinquency that has increased in the last quarter of 2008. Disbursements were smaller, and the incentive payments (bonuses) that were calculated to credit team were lower than planned.

Other operational costs

For budget lines that have achieved a higher cost than planned there is following explanation:

23.1. The costs of fuel and vehicle maintenance - During 2008 there has been a significant increase in prices of fuel in relation to the planned fuel prices

23.7.4. Other expenses - items that most often occur within these categories of expenses are the ones that are not planned, and why these costs are higher than planned are the following: services of student cooperative, advertising in the media for jobs and release of audit reports, the rental of premises for testing, meetings and workshops, fast postal service, installation services, dismantling and office moving, taxi transport payments, etc.

23.7.6. Costs of Governing Board and Audit Committee - At the time, while the registration of Microcredit Foundation has not been finished, for the first three months of 2008 four (4) sessions of the Governing Board were held. For the remaining 9 months 16 (sixteen) meetings were held. Total of 20 (twenty) meetings. The Audit Committee had 7 meetings in 2008.

23.7.8. Temporary work contracts - Cost of temporary work contracts was higher than planned, because during this period, more people were involved than planned, as well as the fact that at the end of the year two members of the Governing Board changed contracts to temporary.

23.7. 10. Judicial and administrative fees-due to the increase in number of written off loans that are given to Court, there was an increase in the amount intended for the court fees and costs in relation to the planned funds

23.7.17. Cost of the process of agent-These costs are related to contracts with EFSE and EBRD. Specifically, these lenders requested the organization to give power to agents in England and Germany in the event of arbitration related to mentioned credit arrangements.

23.7.18. Bar services - legal service costs primarily consists of costs of the Tkalcic Law Practice related to contractual engagements with IFC and notary house costs related to preparing the contract on establishment of MCD (M. Terzić) and sales contract for the premises (A. Kumrić).

23.7.21. Costs CRK-Due to increased demand for more efficient checking of credit history, for the purposes of credit team ordered an additional 16 cards and card readers.

Performance indicators

Table 9. Performance indicators

	31 12 2007	31 12 2008	31 12 2008	Index 1	Index 2
1	2	3	4	5	6
INSTITUTIONAL INDICATORS	Achieved	Planned	Achieved	4 : 2	4 : 3
1. Number of active clients	25.305	31.019	30.920	122	100
2. Number of active loans	30.565	31.019	36.248	119	117
3. Number of disbursed loans	32.848	31.401	34.599	105	110
4. amount of disbursed loans (KM)	72.638.853	89.098.765	80.087.144	110	90
5. Average amount of loan (KM)	2.211	2.837	2.315	105	82
6. Number of employees	121	144	148	122	103
7. Number of field offices	24	28	28	117	100
PORTFOLIO RATIOS					
8. Gross portfolio (KM)	56.587.313	78.451.841	73.956.419	131	94
9. Ratios of reserves for loan losses	1,34%	0,58%	1,16%	87	202
10. % portfolio at risk over 30 days	0,32%		1,39%	436	
11. % of loan write offs in period	0,72%		0,83%	116	

PROFITABILITY RATIOS					
12. Adjusted return on assets	5,4%	2,8%	3,5%	65	125
13. Adjusted return on capital	21,2%	12,7%	15,1%	71	118
14. Yield on portfolio	26,2%	22,1%	23,8%	91	108
15. Operational sustainability	142,1%	125,2%	128,5%	90	103
16. Financial sustainability	128,8%	115,3%	117,9%	92	102
EFFICIENCY RATIOS					
17. Indicators of administrative efficiency	11,4%	11,3%	10,9%	96	97
18. Indicators of operational efficiency	18,8%	18,4%	19,5%	104	106
19. Costs of personnel/Administrative costs	41,7%	36,9%	35,0%	84	95
20. Number of active loans per an employee (end of period)	253	215	245	97	114
21. Number of active loans per a loan officer (end of period)	377	317	382	101	121
22. Active portfolio per a loan officer (end of period) (BAM)	698.609	800.529	778.489	111	97
23. cost per unit of active loan (BAM)	0,15	0,16	0,17	114	109
24. cost per unit of a repaid loan (amount of loan) (BAM)	0,12	0,14	0,16	135	114
25. cost per a repaid loan (number of loans)	261	396	368	141	93
26. Liability/equity ratio	3,13	3,81	3,39	109	89

Report on purchase of fixed assets

An amount planned in the Budget for purchase of fixed assets in 2008 was **1.069.740 KM**.

The above amount includes **150,000 KM**, reserved for the equipping of new business premises in Tuzla (unit number 2 and number 3.).

Purchases of fixed assets are undertaken continuously throughout the year. Procurement procedures are prescribed by internal procedures, so that the same have been implemented during the procurement of each of the planned items. For each procurement at least three bids are required, and the committee is required to select the most favourable.

In addition to regularly planned procurements, in the course of 2008 the irregular procurement of fixed assets has been done. Irregular procurement is related mainly to the replacement of damaged and shabby fixed assets and fixed assets stolen by unknown perpetrators. Any emergency purchase is verified by the Board.

The total value of fixed assets purchased (both regular and irregular procurement) for the period from 01.01.2008. To 31.12.2008 amounted to **822,417.99 KM**.

After the procurement of everything in 2008 unspent amount of **247,322.01 KM**, remained even though everything that has been planned was purchased - all items of fixed assets. This amount can be considered as savings realized by homely attitude of employees towards this issue, as well as the consistent application of procedures for procurement of fixed assets, which has enabled the selection of the best (and among others the cheapest) from a large number of submitted bids.

It can be stated that equipment with fixed assets is at a high level and that allows easy workflow. All the offices are equipped constant thanks to the internal procedures that prescribe minimum standards for terms of equipment and which are used for procurement planning.

In Table 1 which is located in the Appendix, an overview of the total procurement of fixed assets is shown for the period 01.01.2008. - 31.12.2008 year.

Table 1.

No.	Name of fixed asset	pieces	Amount in KM
1.	Automobile	27	555.923,74
Total for vehicles:			555.923,74
COMPUTER EQUIPMENT			
2.	Computer	21	24.870,06
3.	Laptop	15	20.911,45
4.	17" LCD monitor	15	5.389,02
5.	Server	6	53.987,57
6.	Router	1	1.865,68
7.	Rack cupboard	2	3.067,62
8.	Laser printer	24	5.042,64
9.	Printer master	6	6.065,28
10.	UPS NETYS PR 3000 VA	4	4.446,00
11.	Copier	2	2.870,32
Computer equipment total:			128.515,64
TELEPHONE EQUIPMENT			
12.	Fixed PHONE	30	2.095,48
13.	Mobile phone	17	1.450,92
14.	Fax machine	4	769,48
15.	Telephone switchboard	2	8.832,69
Total telephone equipment:			13.148,57
FURNITURE			
16.	Desk	43	16.165,71
17.	Conference table	6	2.956,90
18.	Conference table – more parts	2	2.989,35
19.	Club table	3	605,46
20.	Desk extensions	11	2.711,97
21.	Reception desk	1	359,72
22.	Mobile cabinet with drawers	17	3.864,67
23.	Chair with arm rest	60	8.221,89
24.	Conference chair	75	3.667,91
25.	Arm chair	7	980,00
26.	Closet	39	10.537,46
27.	A wardrobe for files	14	7.304,31
28.	A wardrobe for clothes	2	950,95
29.	Clothes stand	2	428,22
30.	3 piece sitting set	1	1.273,60
31.	Wooden partition	22	3.740,49
32.	Cupboard for kitchenette	1	487,44
33.	Hanger	5	372,40
Total furniture:			67.618,45
Other equipment			
34.	Vacuum cleaner	7	1.470,01
35.	Commercials (advertisement)	7	12.074,40
36.	Kitchen with electronic equipment	1	3.755,95
37.	Anti-Fire appliance	4	224,64
38.	Alarm appliance	3	6.971,75
39.	Air conditioner	7	29.997,75
40.	Projection wall canvas	1	287,82
41.	ladders for Archives	1	333,45
42.	Zepter water purifier	1	1.869,77
43.	Air compressor	1	226,05
Total for other equipment:			57.211,59
Total:			822.417,99

Report on loan operation

Qualitative results

The following qualitative results were achieved in the assessed period:

- One continuously monitored the loan operation through management of loan disbursements, management of interest rate, monitoring of loan repayment
- At the beginning of the year the organizational structure was changed in order to be more efficient and it includes:
 - organized smaller number of branches (five),
 - an operating management position has been introduced that is responsible for operations, which includes approval of loans in field offices, and branch manager is responsible for managing the performance of the branch,

- Opened four new offices in: Sarajevo, Ilidža, Banja Luka, Laktaši.
- Proposal for MCF strategic plan for 2008 - 2012 for credit operation has been made
- Credit procedures were amended with the provisions in the field of ecology and credit risk
- The results of loan officers were followed up and in accordance with it starting salaries and ranges of loan officers were determined and all this in accordance with the Regulations on the volume of work of loan officers
- Decentralization of sending documents by mail from Branches has been done
- Complete training of all loan officers in the field of disbursement of loans - to update knowledge has been done
- Regular monthly meetings of the Branch staff and meetings of credit management
- From November 01, 2008 Organizational structure was adjusted in accordance to the situation in the market:
 - From 5 branches the work is organized in 14 branches
 - abolished the position of the operating manager
 - existing management assigned to the position of Branch Manager
 - introduced regional manager position (currently vacant)

In accordance with these changes Credit procedures were updated

- In the credit approval process, all participating employees in that office are present with the branch manager
- Other changes that contribute to the reduction of credit risk while disbursing

Quantitative results

The following quantitative results were achieved in the assessed period:

- Loan disbursement in regard to the plan is achieved with 85%
- Amount of disbursed loan assets is achieved with 90% than planned
- Interest rate stayed at 22,38% as planned
- An average amount of a disbursed loan is 2.315 KM:
 - Solidarity group methodology - 1.351 KM as planned
 - Individual- 3.728 KM
- 100% of planned number of active clients is achieved
 - Solidarity group methodology 91%
 - Individual 114%
- Amount of active portfolio is 94% achieved
 - Solidarity group methodology 91%
 - Individual 95%
- Amount of principal that is written off is 544.077 KM, which is 0,7% of portfolio average in 2008
- On Dec 31,2008 late principal was 2,51%
- One maintained planned productivity of the loan officers (disbursement of 40 loans in solidarity groups methodology and 20 in individual methodology per a loan officer)
- Average repayment period is 20 months; in solidarity methodology 18 and in individual 24 months.

Loan disbursement

In 2008 loan disbursements did not meet set objectives in regard to a number of loans and disbursement of loan assets.

Table 1.

	solidarity			individual				TOTAL		
	Planned	Achieved	Index	Planned	Achieved	Index	index	Planned	Achieved	Index
	1	2	3	4	5	6	9	10	11	12
Number of disbursed loans	19.486	20.570	1,06	11.915	14.029	1,18	0,00	31.401	34.599	1,10
Repeated loans	10.468	9.235	0,88	6.221	6.359	1,02	0,00	16.689	15.594	0,93
New loans	9.018	6.194	0,69	5.694	4.955	0,87	0,00	14.712	11.149	0,76
Parallel loans		5.141			2.715				7.856	

Table 1. Shows that one disbursed 10% of loans more than it was planned. Disbursement of parallel loans – seasonal loans to active clients contributed to the increase of loan disbursement.

If we exclude parallel loans from the total disbursement, then achieved disbursement is 85% of plan.

Disbursement of loan assets

If we assess this table 2. We can see that MI-BOSPO did not achieve planned result in the assessed period. The achieved loan disbursement is 90% of the planned one.

Table 2.

	solidarity			individual			total		
	Planned	Achieved	Index	Planned	Achieved	Index	Planned	Achieved	Index
	1	2	3	4	5	9	10	11	12
Number of disbursed loans	25.802.826	28.562.917	1,11	32.913.986	41.854.485	2,95	59.471.111	72.641.853	1,22
Repeated loans	16.432.481	16.847.260	1,03	21.588.876	28.904.758	3,03	38.617.257	47.556.369	1,23
New loans	9.370.345	8.893.557	0,95	11.325.110	10.758.877	2,65	20.853.854	20.072.534	0,96
Parallel loans		2.822.100			2.190.850			5.012.950	

Regarding the methodology, solidarity group methodology disbursed the same as individual methodology disbursed 90% of planned funds.

Disbursement of parallel loans contributed to increased disbursement of assets. If we exclude them, the plan is only made by 85%.

Disbursement of assets is done along with an excellent management of interest rate.

Planned interest rate of 22% at the level of MI-BOSPO is achieved (22, 38%). Solidarity group methodology had an average interest rate of 24, 42% while individual methodology had 20, 79%.

Active clients and active portfolio

Talking about a number of active clients and amount of active portfolio one can say that MI-BOSPO has achieved the planned number of active clients (100%) while the active portfolio is lesser the plan for 6%.

Table 3.

	Table 3.			Solidarity group			individual		total	
	Planned	Achieved	Index	Planned	Achieved	Index	index	Planned	Achieved	Index
	1	2	3	4	5	6	9	10	11	12
No. of active clients	19.274	17.488	0,91	11.745	13.430	1,14	0,00	31.019	30.918	1,00
Amount of active portfolio	22.139.078	20.487.871	0,93	56.312.763	53.468.548	0,95	0,00	78.451.841	73.956.419	0,94

If we assess methodologies, we can see that solidarity group methodology achieved 91% of planned number of active clients while the individual methodology achieved 114% of planned number of active clients. Active portfolio in the solidarity group methodology is achieved with 93% while active portfolio in individual methodology is 95% less than planned.

Disbursement of loans to new and repeated clients

In the assessed period MI-BOSPO disbursed 14.712 new and 16.689 repeated loans, which in total are 36.743 loans.

Great anticlimax is recorded in the disbursement of loans to new clients (76% of the plan). Repeated loans achieved with 93% of the plan.

Productivity of loan officers

Volume of work per credit officer at the level of MI-BOSPO, as seen per credit methodologies, is satisfactory.

Solidarity methodology has achieved an average volume of work of 41 loans per loan officer while in the individual methodology only 15 loans per loan officer (without parallel loans).

The average number of active clients per loan officer in solidarity methodology is 564 while in the individual methodology the number is 210. The average loan portfolio of a loan officer in solidarity methodology is 660,899 KM, while in the individual methodology it is 835,446 KM.

Loan disbursement per amount

If we observe disbursement of primary loans by methodologies it is evident that the solidarity methodology disbursement of credits up to 1000 KM presents 35% of total loans placed in solidarity methodology while in funds it is 16%.

In individual methodology disbursement of credits up to 3,000 KM presents 57%, while in the amounts disbursed it is 22%.

	primary				secondary			
	solidarity	individual	individual	total	solidarity	individual	individual	total
Up to 500 KM	1.963	908.869	455	213.105	4.847	2.407.508	2.453	1.212.694
from 501 to 1.000 KM	2.846	2.665.026	1.251	1.164.058	605	563.757	369	344.765
From 1.001 to 1.500 KM	2.853	4.024.682	1.118	1.572.516	324	464.904	232	331.008
from 1.501 - 2.000 KM	3.928	7.835.656	1.048	2.079.754	573	1.141.830	296	587.550
From 2.001 - 3.000 KM	2.449	7.239.850	1.254	3.594.164	182	531.650	336	974.906
3.001 - 5.000 KM			1.379	6.367.457			471	2.199.301
5.001 - 10.000 KM			2.297	19.043.932			805	7.087.101
10.001 do 15.000 KM			90	1.285.200			23	326.000
15.0001 to 30.000 KM			136	3.538.500			16	381.400

Average amount of disbursed primary loan in solidarity group methodology is 1.615 KM and in individual methodology it is 4.304 KM.

Loan disbursement per repayment dates and deadlines

A ratio per loan disbursement per time of repayments 37: 63. This is the ratio between loans disbursed up to 12 months and loans over 12 months.

This is the ratio with an advantage of long-terms ones 19:81.

	primary				secondary			
	solidarity	total	individual	total	solidarity	total	individual	total
Up to 1 month	2	300	4	41.300			9	35.500
From 2 do 6 months	155	96.069	317	707.755	144	71.680	146	149.525
From 7 do 12 months	5.113	5.214.034	2.895	5.410.373	5.214	2.939.728	2.964	2.151.708
From 13 do 24 months	7.677	14.564.985	3.045	10.953.178	1.129	1.984.741	833	2.924.791
From 25 do 36 months	894	2.267.895	2.073	14.917.961	36	113.500	709	4.901.401
From 37 do 48	198	530.800	694	6.828.100	0		340	3.281.800

Survey of growth of branches

Assessing the growth of branches in regard to the number of active clients and active portfolio, we can see that most branches have a tendency of growth compared to last year.

No.	description	Achieved on 31.12.2007		Achieved per reports		Index 1	Index 2
		Number of clients	Amount of portfolio	Number of clients	Amount of portfolio		
1	2	3	4	7	8	9	10
	Branch					clients	Growth
1	Tuzla	3.200	6.236.697	3.633	8.459.348	1,14	1,36
2	Srebrenik	2.480	5.779.103	2.388	6.276.684	0,96	1,09
3	Prnjavor	1.856	4.894.843	2.572	5.636.596	1,39	1,15
4	Doboj	1.089	2.481.433	1.747	4.030.095	1,60	1,62
5	Lukavac	1.833	5.639.533	2.086	6.628.928	1,14	1,18
6	Kalesija	2.316	5.602.391	2.235	6.135.354	0,97	1,10
7	Sarajevo	0	0	938	1.941.403		
8	Bijeljina	2.690	5.323.961	2.872	6.127.421	1,07	1,15
9	Banja Luka	0	0	611	1.462.576		
10	Zavidovići	2.047	3.369.208	2.643	5.437.424	1,29	1,61
11	Živinice	2.327	4.555.397	2.523	5.331.575	1,08	1,17
12	Gradačac	2.132	5.893.212	2.557	7.231.672	1,20	1,23
13	Vlasenica	1.283	2.703.186	1.770	3.896.589	1,38	1,44
14	Brčko	2.051	4.108.348	2.343	5.360.754	1,14	1,30
	MI-BOSPO	25.304	56.587.313	30.918	73.956.419	1,22	1,31

Principal write off

In the table below there is an overview of write off of principal per branch. The amount written-off in equity this year was 0.77% compared to the average portfolio in 2008 year.

The biggest deduction is in Srebrenik branch (147,992 KM).

Table 12.

No.	Description	On 31.12.2007		Reporting period		Index 5:3	Index 6:4
		Number of loans	Portfolio amount	Number of clients	Amount of portfolio	clients	funds
1	2	3	4	5	6	7	8
	Branch						
1	Tuzla	45	43.495	68	80.239	1,51	1,84
2	Srebrenik	22	60.346	68	147.992	3,09	2,45
3	Prnjavor	6	28.538	13	28.346	2,17	0,99
4	Doboj	0	0	6	2.274	0,00	0,00
5	Lukavac	31	69.150	23	41.807	0,74	0,60
6	Kalesija	27	61.908	33	34.629	1,22	0,56
7	Sarajevo	0	0	0	0	0,00	0,00
8	Bijeljina	11	12.523	34	36.605	3,09	2,92
9	Banja Luka	0	0	0	0	0,00	0,00
10	Zavidovići	15	7.917	19	9.068	1,27	1,15
11	Živinice	18	6.990	25	42.117	1,39	6,03
12	Gradačac	6	3.804	15	39.952	2,50	10,50
13	Vlasenica	8	4.894	1	435	0,13	0,09
14	Brčko	12	33.312	52	80.612	4,33	2,42
	MI-BOSPO	201	332.878	357	544.077	1,78	1,63

Principal that is past due

Until April 2008 past due principal did not exceed 1%, which was set in the organization's plan. Since May and until the end of 2008 this amount was increasing.

The table shows principal that is past due as of Dec 31, 2008 per branch.

No.	Description	On 31.12.2007		Reporting period		Index 5:3		Index 6:4	
		Number of loans	Portfolio amount	Number of loans	Amount of portfolio	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9	10
	Branch								
1	Tuzla	44	33.934	149	158.157	0,54%	1,87%		
2	Srebrenik	41	152.084	141	280.829	2,63%	4,47%		
3	Prnjavor	21	49.078	116	196.431	1,00%	3,48%		
4	Doboj	2	579	39	66.896	0,02%	1,66%		
5	Lukavac	16	34.032	90	360.033	0,60%	5,43%		
6	Kalesija	25	37.713	48	55.125	0,67%	0,90%		
7	Sarajevo	0	0	157	220.833		11,37%		
8	Bijeljina	40	65.281	63	91.590	1,23%	1,49%		
9	Banja Luka	0	0	8	8.114		0,55%		
10	Zavidovići	25	16.947	28	22.228	0,50%	0,41%		
11	Živinice	7	4.646	56	103.311	0,10%	1,94%		
12	Gradačac	13	40.354	37	48.177	0,68%	0,67%		
13	Vlasenica	1	7.085	25	30.981	0,26%	0,80%		
14	Brčko	50	48.317	125	216.715	1,18%	4,04%		
	MI-BOSPO	285	490.051	1.082	1.859.422	0,87%	2,51%		

Analysis of disbursements and productivity of loan officers

The table shows a list of important indicators from loan operations per methodologies.

Table 14.

	Solidarity	Individual	Total
	1	2	3
No. of disburse loans	15.429	11.314	26.743
Amount of disbursed loans	27.783.732	52.303.412	80.087.144
No. of active clients	17.488	13.430	30.918
Active portfolio	20.487.871	53.468.548	73.956.419
First loans	6.194	4.955	11.149
Average amount of loan	1.801	4.623	2.995
Average time of loan	18,00	23,90	18
No. of loan officers	31	64	95
Disbursements per loan officer	41	15	23
Active clients per loan officer	564	210	325
Active portfolio per loan officer	660.899	835.446	778.489
Interest rate	24,42%	20,79%	22,38%

Report on marketing activities

Marketing strategy and a short survey of undertaken activities:

In order to strengthen its position, MI-BOSPO's management created 4 guidelines for marketing for 2008. Those guidelines are typed in bold letters as an A, B, C; D. Activities that were undertaken are described under every strategy.

A Continuation of brand building internally and externally

- The project was designed, the system of competition of brand promotion among employees, but it did not come to life
- Visual identity of the organization is fully adapted to development and strengthening of brand including messages, visuals on promotional materials and labels, and promotional products
- Advertising Campaigns including campaign to penetrate the market of Sarajevo and Banja Luka are customized with the identity of organization with colours, messages, visual identity.
- MI-BOSPO had performed at 6 fairs during 2008: Celic, Gradacac, Doboje, Zenica, Bijeljina and Brcko with the same message and visual identity.
- The web page www.mi-bospo.org. Was redesigned.
- With Association 'Our Reality' a new project has been designed. The project shows good news about women's entrepreneurship through the examples of our clients and the success they make.
- In cooperation with IFC a publication "Voice of women entrepreneurs in Bosnia and Herzegovina" has been promoted. There, through the prism of difficulties and problems that women entrepreneurs in Bosnia and Herzegovina are faced with, presents the story about our clients that still find ways to achieve business success.
- The client CLUBS have been implemented in branches of Tuzla and Zivinice.
- Consulting for clients has been organized in the areas of agricultural production, and competition in schools which further strengthens the brand of the organization.
- Provided the financial support for the Home for children without parental care Tuzla, Home for children and youth in Kiseljak near Zvornik, and the Centre for Prevention of breast cancer in Tuzla.

B Continuation of building systems that will ensure excellent service to all clients regardless of where and when they approach the organization for support: to establish a system for the provision of client satisfaction, from training of employees to setting of the system to resolve client complaints

- The research had been conducted with the agency GMS on excellence of services in micro-credit sector and especially in 5 MI-BOSPO offices, as well as benchmarking analysis of 5 competitors in the market.

- Designed a project -competition among employees in the implementation of the best client services.
- A program has been designed to animate clients.
- Implemented training for credit staff with the agency Adizes in the area of improving the sales skills.
- The project has been written „System of satisfaction for clients“where it is described and set all activities for setting the system to improve client satisfaction.

C Support to launching new products

- Transformation of MI-BOSPO to a microcredit foundation, legislation recognizes reducing the amount for credit products, or the entire client assignments, to the maximum amount of 10.000 KM. This has caused a change of production programs that had to adapt to these changes.
- Modification of products according to trends in the market has been done, so the changes made in the office of Srebrenica are as follows:

Product P1

For disbursements through solidarity methodology for all loans from 100 KM to 3000 KM initial interest is 23% and the lowest possible 17%.

For disbursements through individual methodologies for all loans from 100 KM to 3000 KM of interest is 23% *Note:* The regular interest rate is 29% up to 1000 KM, 25% up to 3,000 KM with the possibility of motivation and discounts from cycle to cycle of 1%.

Product P2

For all loans from 4001 KM to 9999 KM the interest is 19%

Note: The regular rate is 24% up to 5999 km and it is 19% from 6000 KM to 9999 KM.

Product P3

For loans of 10,000 KM the interest is 17%

Note: The regular rate is 18%

Product S1, housing loans

For all loans from 100 KM to 3.000 KM interest is 23%

For all loans from 3.001 KM to 9.999 KM interest is 19%.

For all loans from 10.000 KM interest is 16%.

Note: the regular interest rates according to the notes above.

- According to special conditions, loans disbursements were advanced in 4 campaigns in 2008. Actions were adapting: interest, amounts, terms or quickness of payment, and by noticed changes or needs in the market. In 2008 following actions of credit products were implemented:

In February the campaign for loans in the amount from 10,000 to 30,000 KM with cut interest rate and payment within 24 hours.

In April and May the action of yellow and purple flower (margarette) in individual and solidarity methodology with a lower interest rate, simpler guarantees for SG and payment within 24 hours.

In September campaign in the SP loan of up to 3000 KM in the first loan cycle and amounts of IM 6000 and 9000 KM.

December campaign offered loans in the amount of 5000 KM with a lower interest rate and payment within 24 hours.

The project of credit cards for clients was created in cooperation with the New Bank of Bijeljina.

- The market research was conducted, analysis of the financial industry, in cooperation with GfK, with emphasis to offer housing loans.

D Building capacity at the branch level for development and implementation of efficient and effective marketing

- took a continuous radio campaign, 30 stations in the area, and recorded a few radio shows with games and prizes for women.
- Recorded 10 shows on RTV TK about MI-BOSPO offices and clients.
- Organized the celebration of March 8th and bought gifts for clients in all offices.
- Organized summer promotions with students.
- Acquired summer and New Year branded gifts.
- held out-of-van promotions and implemented a series of promotions with info desks.
- In all offices advertising was done in local newspapers, on billboards, city lights, electronic displays, billboards, the buses were painted, etc.
- uses the services of un-addressed mail in Bijeljina branch
- Implemented were campaigns to enter the markets of Sarajevo and Banja Luka with: print and outdoor campaign, depicting trams and buses, radio campaign, organizing events for journalists, etc.

Results achieved

Results achieved and index of achievement are presented in the tables below:

	TOTAL		
	Plan	Achievement	Index
	1	2	2:1
No. of disbursed loans	31.401	34.599	1,10
Amount of disbursed assets	89.098.765	80.082.144	0,90
Interest rate	22,3		
No. of active clients	31.513	30.971	0,98
Active portfolio	78.451.841	74.048.701	0,94
First loan (#)	16.526	11.150	0,67
First loan (KM)	33.691.063	27.754.003	0,82
Repeated loans (#)	18.341	15.592	0,85
Repeated loans (KM)	55.407.701	47.601.953	0,86

Comments on sale of loan products

The table shows disbursement per groups of products in the reporting period:

	No.	Amount	Average	Participation in group #
Primary	23.165	61.628.991	2.660	67%
Secondary	11.434	18.453.152	1.613	33%
Total	34.599	80.082.144	2.315	100%

Apparently the sales by product in the reporting period for the benefit of primary ones but not in the ratio in which the non-prescribed policy proposed. Primary loans should be in the number 90% and 10% secondary ones. The reason being that in the summer period a lot of housing loans were disbursed and also seasonal loans were published several times during the year. Also, housing credit is in this group of products and interest for it was so significant that it is one of the reasons for such distribution of disbursements by product groups.

Trend placements by Segment has not changed so that in the course of 2008. The largest number of loans was disbursed in segment I, then in segment II and at the end, the segment III.

	Segment I	Segment II	Segment III
Disbursed loans (#)	23.330	9.140	938
Disbursed loans (KM)	41.102.051	29.696.118	7.787.137
Average loan amount (KM)	1.762	3.249	8.302

Risk Management

In 2008 establishment of systems for risk management was continued, which is due to the increasingly turbulent environment, jobs getting more complicated, the growth of the organization, strengthening of competition was conceived and whose establishment began in 2007. System for risk management is defined as a comprehensive system that includes internal controls, internal audit and taking preventive measures to manage risks that could arise in the future.

Managing risk is defined as a continuous process which consists of the following steps:

- Identification of risks,
- Classification of risks and setting of priorities,
- Measurement and assessment of impact
- Development of policies and procedures,
- The formation of executive bodies
- testing process
- The execution of correction

In 2008 if asked about establishing systems for managing risks the following activities were undertaken:

- revised the list of all the risks that are defined prior to that concerning the exposure of the organization, all the risks through its operations in all spheres
- made the classification of risk according to strength of influence they have on institution
- In addition to bodies that have existed (Board, internal and external audits, management) additional executive body to manage the risks that did not exist before are defined (the Committee for the management of assets and liabilities ALCO and Committee for Risk Management RMO and defined their role in the system of risk management)
- Responsibility and authority bodies are defined
- defined the way of functioning of the body,
- An analysis of the systems of internal controls with the goal of adequacy evaluation,
- made the update for policy of internal controls
- The specific touch points and interactions of the system of internal audit, internal controls and systems for risk management are made
- Policies designed to manage risks
- Manufactured procedures for risk management that is consistent with other operational procedures in the Foundation.

After these activities on the establishment of systems for managing risks were completed by June 30, 2008, adopted policies and procedures for managing risks. Were appointed members for the Board for assets and liabilities (ALCO Committee) and Committee for Risk Management (RMO) and that is when the application of new systems for managing risks has started.

Managing financial risks:

Committee for the management of assets and liabilities (ALCO), in accordance with its responsibilities and the authorities is responsible for monitoring and managing financial risks (liquidity risk, currency risk and interest rate risk) as well as the factors that influence the exposure to financial risks. In 2008, 8 meetings of the Committee for the management of assets and liabilities were held which reviewed reports, analysis and did stress testing for exposure to financial risks. The Committee has proposed measures for the reduction of exposure to financial risks that the Governing Board adopted, it is as follows:

1. Measures for the reduction of liquidity risk:
 - a. Formed liquidity reserves in the amount of minimum 2% of total assets with the following structure (1% of total assets are cash reserves in the form of term deposits on 3 or 6 months, and 1% of total assets are revolving line backups)
 - b. A rule of finance has been accepted, that is:
 - Long-term assets are financed solely from long-term sources
 - Short-term assets financed by the minimum 20% from long-term sources and max 80% of short-term sources
 - c. Adopted the principle of reconciliation of liabilities in the event of problems with liquidity so that:

- The first obligation to settle is towards financier
- The other is to settle obligations towards the state and state entities
- The third - obligations towards suppliers get settled
- The fourth obligations to employees get settled
- the fifth is paid to clients by credit criteria as determined by the credit manager

2. Measures for reduction of risk of interest rates:

a. The limit for liabilities by variable interest rates is to a maximum of 10% of total liabilities, given that the sources that are responsible by variable interest rates are the most exposed to changes that depend on fluctuaton of EURIBOR and considering that the EURIBOR had a tendency of growth is the limit set with the aim of limiting the influence of interest rate risk.

b. In order to reduce interest rate risk in the contracts with the borrower (client) MI-BOSPO defined a "variable rate" and included a clause that makes the transfer of interest rate risk to users of credit. This measure was introduced with the aim of eventual impairment shocks on the price of sources and to reduce the possible effects on business shocks of MI-BOSPO.

3. Measures for reduction of risks of foreign currency:

a. Given that the effective model of Currency Board and the Central Bank of Bosnia and Herzegovina holds constant balance between the two currencies, and taking into account the stability of the currency, of EURO in comparison to other world currencies (USD) for this reason MI-BOSPO adopted the principle to charge only in KM and EUR currency.

b. In order to reduce the risk of foreign currency in the agreements with the borrower (client) MI-BOSPO's already included the clause that makes the transfer of risk by foreign currency loans to customers. This measure was introduced with the aim of eventual impairment shocks (loss of value of KM in relation to the EUR) for the purpose of decreasing the effects of any shock to the operations of MI-BOSPO's.

Managing other risks in the organization:

In addition to management, which manages the risks by practicing procedure within the framework of doing business that are in the job description for managing other risks (other than financial) in accordance with its mandate and responsibilities of the Committee responsible for risk management (RMO). In 2008 the RMO held 8 Meetings where they reviewed reports, analysis and stress tests (what would be if there were) and made decisions and proposals of decisions for risk reduction.

Managing Credit Risk:

Credit risk in the organization was under the control of credit management team of the organization. In addition to the management, Committee for the management of risks considered reports, analysis and stress tests on exposure to credit risk due to the nature of work of the organization and the consequences of the credit risks that may cause to the stability of the organization, if out of control.

In the second half of 2008 there has been an increase in exposure to credit risk, which is caused by external and internal factors. External factors which led to delayed repayment of debts caused by the consequences of world economic and financial crisis and with moves of Competitive MCO.

The global crisis has led to a reduction of direct foreign investments, reducing inflow of money from Diaspora that is sent or brought by relatives and invested in Bah, the fall of exports of goods to European markets, lower investment in the construction sector, etc. All the mentioned effects had direct or indirect negative influence on the ability of MI-BOSPO clients to pay.

Another external factors are the individual competitive MCOs whose conscious and irresponsible way of disbursement led to indebtedness of certain number of clients, although they had information about the debt of the same, as well as undignified behaviour towards clients with late payments, and thus jeopardized the reputation of the microcredit sector and discipline of individual clients in loans due to revolt.

Internal factor that is partly caused by the increase in credit risk is a sales-oriented organizational structure with a strong emphasis on the sale of the mild postponement of events in the market and a slight weakening of internal controls.

In order to reduce exposure to credit risks, the following measures are taken:

- The level of awareness of employees about the situation in the market has been raised
- limited are placements in risky areas and for loan officers, who have high delinquency,
- provided was the additional training for credit officers how to estimate the credit rating of the client,
- Credit operations were reorganized with the aim of strengthening of internal controls,
- made the adjustment of some credit products to new business conditions,

By the end of 2008 late principal had a tendency of growth. Activities for reduction of financial credit risks were taken in two segments:

- portfolio management in delay with important aim of strengthening the collection of loans that were disbursed in the previous period,
- strengthening the quality of new disbursements with the aim of prevention of credit risk management in the future

Other external risk management:

Macroeconomic risk, the risk of competition, the risk of legislation, demographic risk, etc. fall into category of other external risks. These are the ones organization can not directly influence but takes measures mitigate negative effects of these risks to operations of the organization. Committee of risk management has reviewed reports, analysis and stress tests for exposure to other external risks. Perceived negative effects of these risks and possible negative effects in the coming period were taken into account when drafting a business plan for 2009.

Managing operational risk:

These are done regularly and at least once a month through the reports: internal audit, internal controls and stress analysis. Risk Management Committee has considered the exposure to operational risks and when necessary proposed measures for reduction of operational risk.

Measures that were undertaken in 2008, by the issue of managing operational risks, often have been about strengthening internal controls in certain areas of operations with the aim of decreasing risk of embezzlement, risk of abuse, the risk of documentation and establishing certain restrictions in MIS.

As a test for the system of management of risks internal audit reports are used and reports that resulted from a system of internal controls. From these statements it can clearly be seen whether they identified all the risks and whether they adhere to measures that are prescribed for the reduction of certain types of risk. If some irregularities are noted it is determined whether the measures that are prescribed sufficient for reduction of risk if not additional measures are prescribed, and if these are sufficient measures but not respected then activities are undertaken in order to strengthen internal controls.

Report on Human Resources

MI-BOSPO was in 2008 dedicated to creating a positive and professional work environment and focused on key achievements that were eventually achieved, and that is to attract and retain the best staff.

Human Resources Management combines tasks related to selection of the best candidates in the labour market, integration into the foundation, training, all the way to professional development.

Policies and procedures relating to material and immaterial compensation, incentive systems, leadership style, adjustment to market demands, and in 2008 'MI-BOSPO', as in previous years, successfully confirmed its image of a desirable employer. 'MI-BOSPO' was by the web portal posao.ba, that conducted surveys, proclaimed among the 50 best employers in Bosnia and Herzegovina, which proves the above. Research was conducted during the months of February and March on more than 1600 respondents. Research on the most desirable employer is based on the perception of respondents about the actual companies and their free choice, because the names were not offered in advance.

Material compensation

Material compensation is necessary but not sufficient condition for successful development of motivation within the foundation.

Rulebook on Salaries and other personal income of 'MI-BOSPO' employees has precisely fixed salary grades for each position. During the year, certain employees performed the growth of coefficient, all in accordance with the commitment and achieved results.

The planned budget for salaries and benefits in 2008 amounted to 4,595,670 KM.

The average salary in 'MI-BOSPO' amounted to 1445.00 KM.

The average wage includes variable part of the salaries, meal ticket and compensation for seniority.

Variable part of the salaries for credit staff is a system proven to contribute to good results, and based on the individual amount for each employee. The process of calculation of this variable part of the salaries is transparent. Loan officers are trained to do the calculation of individual variable part of salary.

In addition to salaries that employees receive as compensation for their work, 'MI-BOSPO', had in 2008 paid its staff other cash compensation, such as compensation for annual leave, compensation for meals, compensation for past performance (seniority), transportation fees, annual bonus, collectively combined insurance for workers in and outside of the ordinary course of job performance with the risk of death due to illness.

The annual bonus is calculated and paid once a year. It is determined by evaluation of the results of work of employees. This is a process that is implemented at the end of the year, and apart from financial compensation, its aim is an open a conversation between employee and manager.

Non-material compensations (supported with smaller material assets)

A system of motivation of MI-BOSPO's employees, besides material compensations, involves non-material compensations in order to satisfy human needs.

In 2008 we had a competition for the best loan officer in each rank and best branch office. This incentive was greatly accepted among loan officers and as a result it had a healthy competition among colleagues. Besides a personal satisfaction for winning the first place and the results announced internally, there is a letter-of-thanks and a cup that were delivered monthly. The reward also had a material character – a monthly amount of 15 KM per employee in a branch, where employees of the Branch mainly organize a get-together for dinner.

A care about health condition of personnel was not neglected and during the year organization also offered a possibility of a detailed health examination for every employee, which turned out to be a good move because 81 of our employees went for examination.

MI-BOSPO has organized an annual trip for its employees, which is a reflection of the spirit and culture of 'MI-BOSPO' and the constant goal to maintain and enhance staff motivation. The trip is, of course, a way to establish a balance between values and goals of foundation.

Strengthening of human relationships is a continuous activity, which was built in 'MI-BOSPO' during 2008 through: semi-annual meetings, regular out of office meetings within the departments, New Year's gifts for children of employees etc.

Rule books

Certain changes were made during 2008 and they resulted with approvals of new texts of the Wage and salary regulations of the employees, Manuel on internal organization and systematization of working positions.

These changes appeared mostly as a reply to the process of reorganization: an increase of number of workers at certain positions, opening of new positions, changes in salary levels, etc.

Changes were also undertaken due to pre-registration into micro-credit foundation, relating to the Working Regulations, Regulations of internal organization and systematization of jobs, Regulations on Salaries and other personal income of employees, Regulations on the assessment of volume on realization of loan officers.

In the year 2008 'MI-BOSPO' created the code of conduct for employees.

Structure of employees

Other than the director, in the end of 2008 MI-BOSPO had 147 employees divided in seven departments: Credit department (116), financial department (9), marketing department (3), IT (4), Risk management (2), department for legal, human resources and general department (11), internal audit (2).

According to possibilities offered at the labour market in B&H, MI-BOSPO always chooses the best workers offered. Out of 48 new employees in 2008 there are almost 27% of people with university qualifications, 15% with college degree and 58% with secondary school education.

'MI-BOSPO' employs 76 people who possess university degree (51%), with college degree 26 employees (18%), while secondary school education has a total of 46 employees (31%).

Organizational structure

'MI-BOSPO' organization that is recognized by its mission, and respect for fundamental human values, promoting gender, equality between the sexes, and in favour of that is the fact that the total number of women in the organization is 77 (52%).

- Strengthening of the credit department (employing 39 new loan officers);
- combining the Department of legal and general affairs and human resources into one department called the Department for legal, human resources and general affairs and which has 11 employees;

Education of employees

The year 2008, for employees of 'MI-BOSPO' has been a year of great changes caused by the formation of micro-credit foundation and represented a challenge for all employees.

As always, the management of 'MI-BOSPO' was dedicated to creating a positive and professional work environment and supported the training and education of existing human capital.

As in previous years, 'MI-BOSPO' had abstracted in 2008 significant resources for education of employees, and members of the Governing Board. Budget for training, study tours and school fees amounted to 120,000 KM, of which was realized 92,568.49 KM.

Organized were trainings with the assistance of expert consultants, the presence on seminars / lectures, trainings, round tables, etc...

Some of the topics that were identified as areas for improvement and which were addressed in 2008 are:

- Taxes and contributions on personal income of employees
- Law and legal practice (guarantees, letters of credit, and co-signs)
- Managing the risks related to environmental protection, health and safety of employees in the economy
- Education for CISKO Networking Academy
- Sales and Service

Throughout 2008, 'MI-BOSPO' signed a contract with EBRD whose value is EUR 300,000, which is related to the implementation of professional support from experts within the following areas:

- Marketing Strategy Development
- Strategy Development of Risk management
- Strategy of IT development
- Credit scoring
- Strategy of development of human resources;
- Improving the excellent service and sales;
- Training in the field of business planning of capital-structure

Technical assistance will help 'MI-BOSPO' further development of capacity; will ensure long-term sustainability through the expansion of institutional outreach and accelerating the process of commercialization.

Selection of candidates

All positions opened in 2008 were publicly announced in 2008 and it was transparent. Job openings were publicized in mass media, unemployment offices, web portal 'posao.ba', universities.

Transparency in the selection of candidates for work position is the process by which MI-BOSPO can be proud. Candidates are treated at the highest level of professionalism; fairness in the selection can be seen through three rounds of elimination: testing, the first and second interview.

Termination of employment

During 2008 employment was founded with 48 employees, a majority of positions were for Loan Officers, while MI-BOSPO left 22 persons.

The percentage of staff turnover for 2008 amounted to 15.6%.

Out of 22 persons who left the Foundation, four went to positions in banks while the professional development of others continued outside of financial institutions.

Conclusion

In 2008 as seen from the above listed activities, we were continuously working on the motivation of employees, strengthening feelings of belonging to the organization, and building confidence of employees towards management and MI-BOSPO in general.

In addition to the continuing concern for employees, MI-BOSPO tries as much as possible to meet socially useful role in the community, and we continued cooperation with the student service in 2008 (by employing of 33 students for promotions).

Information technologies

IT team managed to develop a modern and safe business environment and improve communication infrastructure between offices and employees, and facilitate and improve everyday activities.

At the end of business year 2008 IT capacities were:

1. Application software

- System for monitoring of loans
- Accounting system
- Payment System
- The system for tracking assets

2. Hardware

- 75 computer + OS Windows XP Professional + Microsoft Office
- 2 computer server characteristics + OS Windows 2003 Server
- 12 Routers
- 10 laptops + OS Windows XP + Microsoft Office
- 27 matrix printer Epson LQ 680 + 47 HP laser printers
- 11 leased lines
- 10 ISDN connections
- 2 ADSL connections
- 2 wireless connections

2. Human Resources

- IT Manager
- System Administrator
- MIS operative

Credit Tracking system is internally developed and covers all phases of credit procedures (recording, loans, evaluation and approval of loans, tracking economic analysis, payment of credit instalments), and provides all documents and reports that are essential for the daily work of loan officers and leadership.

The system of accounting is purchased from external developers and is independent from system of credit monitoring.

Payment system is internally developed. Allows monitoring of absence and presence of employees, and the calculation of salaries in accordance with the MI-BOSPO 'Regulations on wages and other income for employees'.

"The system for tracking assets is internally developed and provides a record of fixed assets and reporting in accordance with the regulations.

The whole information system is simple to use: the process of data entry is easy, information is available to staff in accordance with the levels of authority, a system of reporting and documentation is clear and well thought out. All staff is well trained to use application software.

From the standpoint of IT technology, decentralization has been supported by the introduction of VPN technology (Virtual Private Network). Technology allows connection of all MI-BOSPO offices in so-called Virtual private network. Security of data that circulate through VPN is protected by their transfer to the encrypted form, which means VPN traffic is completely separated from other traffic in the public network.

The risk of loss of information is minimized through a system for backup and data. Backup system is set up on daily archiving of data. Data is stored on DAT-tapes, currently the most trusted media for archiving data. Once a week-DAT tapes are stored in a bank safe. Complete source code is archived and stored in a bank safe.

Things that have been done within the IT department for 2008.

1. Support of decentralization and support of growth and changes in business activities of MI-BOSPO.
 - Maintaining the existing server infrastructure
 - Adding a middle layer server
 - Improving communication infrastructure
 - Maintenance and administrating as well as expansion of existing communication infrastructure in accordance with the organization's business needs
 - Creating of application solutions that will support the unimpeded growth and expansion of business activities of the organization.
 - Adjustments to new organizational structure
 - Adjustment of the requirements of Banking Agencies
 - Continuous improvement of existing resources, to achieve efficiency in operations
2. Changes in the payment system.
 - Adaptation of the existing payment system in accordance with changes in 'Regulations on wages and other earnings of employees'.
 - Harmonization of payment systems with the new legal regulations (taxes changed)
 - Implementation phase and testing of new payment systems
 - Implementation of new payment system
3. Acquisition and replacement of existing computers
 - Procurement of new computers in accordance with MI-BOSPO standards for office equipment (9 new computers)
 - Change of old computers and monitors and other components (12 computers)
4. Legalization of software
 - Extension of software licenses (OS Microsoft XP, Microsoft Office 2003, and SQL Server)
 - Renewal of licenses for antivirus software

5. Employment and Training

- Support trainings of new and senior employees in the field of IT:
 - Using Microsoft Office 2003
 - Using Microsoft Outlook
 - Using the Internet
 - Using Microsoft Windows OS

Internal audit

General Internal audit activities in 2008.

The main objectives of internal audit in 2008 were primarily the fulfilment of the annual work plan of internal audit, and providing estimates on the functioning of internal controls established by the Governing Board of the Foundation.

In the year 2008 the Audit Committee has been formed, which is authorized and responsible for preparing and proposing procedures that need to minimize risks of offenses and trespasses, insure and oversee the application of accounting standards, monitors compliance of work of the internal audit with the plan (of work of the internal audit) and assesses the adequacy of internal controls in the foundation.

Sessions of the Audit Committee are held at list once in three months, and in 2008 the Audit Committee had a total of 7 sessions.

All internal audit reports are reviewed at the Audit Committee, and after given suggestions submitted to the Governing Board to adopt.

During 2008 the internal audit carried out 63 individual audits, such as:

Reports	Number of audits	Recommendations
1 Audit on compliance of investments in fixed assets in accordance To budget	1	1
2 Audit of the recruitment process for 2007	1	0
3 Audit of written off loans in 2007	1	0
4 Audit of personal income of Employees	1	1
5 Audit on compliance of investments in marketing with a budget	1	1
6 Audit on Finance and Accounting	1	1
7 <u>Audit of individual field offices</u>	<u>57</u>	<u>124</u>
Total:	63	128

Based on the findings the reports are made, and if necessary, provided concrete recommendations, implementation of which should provide further improvement of established systems of internal control.

Most of the recommendations refers to the steps defined in procedures but not followed, and their improvements, while increasing risks, types of fraud, was determined in one office.

Internal audits continued during the year and exercised control of accuracy of all statements that are passed to banking agencies, and with their signature confirmed the reports to be complete and accurate.

When estimating established systems of internal control, it was found that the same ones pervades through the entire foundation and that risks are managed so as to eliminate or significantly reduce their bad effects on business. It was found that the improvement of internal controls is conducted continuously, and thus seeks to improve the perceived weaknesses in management of existing or finding new risks.

During the year, the internal audit has continuously monitored implementation of the recommendations and the Governing Board of the Foundation knows about it continuously through regular reporting.

When working with external audit, as well as in cooperation with the control by other authorized financiers, all reports of internal audit are made available. For the purpose of the external audit, field visits to each client by the sample has been done, with the aim to conduct and harmonize the balance of confirmation of debts.

The report on the activities of re-registration of MCO MI-BOSPO to MCF and establishing Microcredit Company

Process of re-registration of MCO MI-BOSPO to MCF MI-BOSPO:

Process of re-registration from the legal form of micro-credit organization (hereinafter MCO) into the legal form of micro-credit Foundation (hereinafter text MCF) as prescribed by law on MCO's from 2006 and by-laws consisted of several phases as follows:

- To obtain a permit to perform activities from the Banking Agency of FBiH, (hereinafter FBA),
- obtain approval for conducting activities in the organizational parts in the territory of RS from Banking Agency of RS (hereinafter text ABRS)
- Conduct enrolment in the registry of Foundations at the Federal Ministry of Justice
- Harmonize business in accordance with the requirements of regulatory institutions,

MI-BOSPO has started the process of re-registration in 2007 but due to slow performance, inefficiency and the unwillingness of state authorities, the process was not completed until the end of 2007, so it continued in 2008. In the year 2007 everything was completed but the entry in the Register of MCF at the Federal Ministry of Justice and the harmonization of business of MI-BOSPO foundation with legal regulations since it could not have been resolved before the Federal Ministry of Justice FBiH, issues a decision about the entry in the registry by which micro-credit Foundation MI - BOSPO becomes MCF.

At the beginning of 2008. year it is expected that the Ministry of Justice FBiH passes resolution on admission of MCF MI-BOSPO Tuzla in the Register of micro-credit foundations.

In January 2008 the Federal Ministry of Justice passed a Law on Amendments to the Regulations regarding the conduct of the registry and entering into the registry of Foundations, which entered into force in mid-February of 2008. MI-BOSPO in February 2008, has again submitted a request to enter MCF MI-BOSPO into the Register of Foundations at the Federal Ministry of Justice in accordance with the new regulations.

On March 31, 2008 the Federal Ministry of Justice has made a decision about enrolling in the registry MCF MI-BOSPO Tuzla, which enabled MCF MI-BOSPO to become a legal entity in the form of MCF.

After publishing the decision in the period from April 01, 2008 – to July 01, 2008 adjustment in the ways the business is conducted was carried out for MCF MI-BOSPO with the new regulations as follows:

- constituted the Governing Board for MCF
- Adopted Statute for MCF and delivered it to the FBA
- Confirmed the appointment of director of MCF
- Consented and passed all the internal acts of the Foundation in accordance with new statutory regulations
- Found needed personnel decisions in the organization of MCF so it could respond to all requirements,
- Modifications to the credit products were made so that these would correspond to legal regulations
- Audit Committee was appointed
- Appointed internal auditors
- Acquired all necessary permits from the tax and statistical entities
- All the employees were re-registered in accordance to the law

After all these activities were done MCF MI-BOSPO is fully in compliance with the regulations governing the microfinance sector in Bah.

The process of establishing Microcredit Company MI-BOSPO:

One of the goals, which is set in the Strategic Plan of Microcredit Foundation MI-BOSPO is establishment of the Company (hereinafter MCC), and the possibility of better satisfying the needs of clients for Micro-credits and keeping the good competitive position of the organization.

Given the constraints of organizational form MCF in terms of the amount of debt clients (max. 10,000 KM), there was a real fear for the loss of a number of clients and rather reduced space for disbursement of loans, and consequently the weakening of competitive advantages in relation to other MCO's which will decide to do business in the form of MCC and have a chance to disburse loans up to 50,000 KM (maximum amount the client can get up to 50.000 KM). This position provides both broad mix of products that can be financed and disbursements of lower amount of loans of MI-BOSPO to known and recognized clients and with long-term.

In addition, due to the fact that as it increases the scope of their business (portfolio) Foundation will further get new funds and at one point it will be necessary to attract new capital because of restrictions that are set by law and by some of the investors, which refers to the total amount of debt relative to total capital.

The form of MCC leaves the possibility of attracting capital and creating the preconditions for the future development of the institution and for that form of MCF is not attractive.

For these reasons, management has proposed and Governing Board of MI-BOSPO made a decision about establishment of MCC MI-BOSPO with the aim of providing of more opportunities to retain current and acquire new clients, and to enable the strengthening of competitive positions and growth by increasing capital base.

It is regulated that the process of establishment of MCC gets done in the following steps:

1. Obtain a permit for the establishment of MCC by investment and transfer of property of MCF and performance of microcredit activities for MCC MI-BOSPO,
2. Obtain a work permit for organizational parts of MCC operating on the territory of RS,
3. Make enrolment of the newly established company into the register for companies and with the competent court,
4. Harmonize new business of MCC with all the provisions of the Law and Bylaws.

In 2008 MI-BOSPO began implementation of the first step which is obtaining of permits for the operation from the Banking Agency of FBiH which occurred in two phases as follows:

a. pre-processing phase:

- finding and selecting personnel for the Supervisory Board and Management of MCC
- create the founding documents (Decision on the Establishment of MCC and proposal for Statute of MCC)
- Creation of strategic plan for MCC and preparing of other documentation for MCC and members of the Management and Supervisory Board

b. Phase of implementation (Sending requests to the Banking Agency of FBiH and communication in the process of issuing permits for work)

Until September 10, 2008 all necessary documentation for MCC MI-BOSPO was made and adopted by the Governing Board of MCF MI-BOSPO, Chosen were members of the Management and Supervisory Board of MCC and decisions about their appointments were made.

On September 12, 2008 MCF MI-BOSPO submitted request for issuance of FBA approval for the establishment of MCC MI-BOSPO.

In December 2008, FBA has answered to the request letter in which it sought some changes to be made in the proposed statute and Business Plan of MCC for the period 2009-2011.

Amended, after requested changes, will be sent in early January 2009 when a period of 60 days starts in which FBA is required to answer the request.

Considering that for taking of other above mentioned steps in establishing of MCC basic prerequisite is obtaining FBA license. Left over activities will be implemented in 2009.