![Planet Rating – Transparency for microfinance development]

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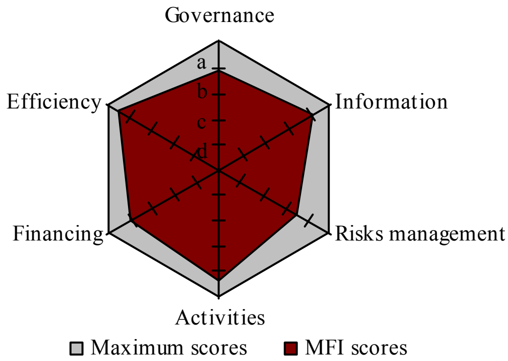
GIRAFE

MI-BOSPO, BiH

June 2005



Rating

Rating	
A+	**Excellent:** The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A	
A-	
B+	
B	
B-	
C+	
C	
C-	
D	
E	

Trend

Trend	
Positive	Positive internal trend, however planned adoption of the new microfinance law in late 2005 as well as expected industry consolidation will bring new competition and strategic challenges.
Stable	
Uncertain	
Negative	

Performance indicators
(K EUR, *unless otherwise stated*)

	dec. 02	dec. 03	dec. 04	jun. 05
ACTIVITY				
Total number of staff	37	39	41	60
Total assets (K EUR)	5 093	6 732	8 398	11 413
(K BAM)	9 961	13 167	16 425	22 321
Loan portfolio (K EUR)	4 185	5 636	6 924	10 106
Outstanding deposits	-	-	-	-
Number of active borrowers	5 496	7 157	9 318	11 732
Number of savers	-	-	-	-
APR	35%	34%	29%	28%
PAR 31-365	0,2%	0,2%	0,4%	0,3%
PAR > 365	0,0%	0,0%	0,0%	0,0%
Write-off ratio	0,8%	0,8%	1,2%	0,5%
Risk coverage ratio	572%	638%	317%	435%
PERFORMANCE				
ROE	23,1%	23,1%	16,3%	20,7%
Liabilities / Equity	148%	159%	164%	201%
ROA	7,8%	9,1%	6,2%	7,3%
Operational self-sufficiency	141%	149%	133%	139%
Financial self-sufficiency	112%	130%	116%	124%
Portfolio Yield	34,8%	32,6%	30,8%	29,6%
Operating expense ratio	18,7%	16,6%	18,1%	15,7%
Staff productivity	149	184	227	196
Funding expense ratio	5,6%	4,2%	3,8%	4,3%
GROWTH				
Loan portfolio	39,8%	34,7%	22,8%	46,0%
Savings portfolio	-	-	-	-
Assets	36,8%	32,2%	24,7%	35,9%
Exchange rate 1 EUR= xx BAM	**1,96**	**1,96**	**1,96**	**1,96**

▪ Description of the institution

After starting microcredit activities in 1996, the local NGO BOSPO founded MI-BOSPO in Dec. 2000. MI-BOSPO has been a participant of the World Bank Local Initiatives project for several years and is an affiliate of Women's World Banking since 1999. MI-BOSPO is headquartered in Tuzla and serves clients both in the Federation of Bosnia and Herzegovina and in the Republika Srpska through a network of 13 offices. As of June 2005, MI-BOSPO has a portfolio of 10 million EUR serving over 11,000 women of all ethnic origins.

▪ Rating summary

The MFI has been assigned / received a global rating of A-. This rating is based on MI-BOSPO's strong management, efficient operational structure, cohesive working environment, diversified product offering and excellent portfolio quality. Profitability indicators resumed their upward trend in 2005 after a year of consolidation. In the current context of decision decentralization, fast growth and increasing competition, main areas for improvements include closer scrutiny of credit risk, Board's capacity building and a strategy dealing with upcoming industry consolidation.

This grade has been given with a **Stable** trend. The current structure is solidly designed to cope with the planned growth and the institution should be able to mobilize sufficient funding. Execution risk exists but is mitigated operationally by competent management team and competitive cost structure. The Internal trend is positive, however planned adoption of the new microfinance law in late 2005 as well as expected industry consolidation will bring new competition and strategic challenges.

▪ Financing needs

Per the latest projections, MI-BOSPO is seeking additional financing of 12 million EUR for the 2005-2007 period (24 million BAM to complement the 8 million BAM already secured in available or committed financings for 2005). Planet Rating believes that MI-BOSPO is a highly organized and profitable institution with solid operations and a proven track record to support commercial rate debt.

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▪ Political /economic environment

In December 1995, the Dayton Agreement defined Bosnia and Herzegovina's (BiH) international boundaries and created a joint multi-ethnic and democratic government. BiH's national government is charged with conducting foreign, economic and fiscal policy. A second tier of government composed of two entities includes the Bosniak/Croat Federation of Bosnia and Herzegovina (FBH) and the Bosnian Serb-led Republika Srpska (RS) - each presiding over roughly one-half the territory. The Federation and RS governments are charged with overseeing internal functions.

The transitioning economy is burdened by these many over-lapping government levels. There have been efforts to streamline certain government functions and ministries and reduce government expenses, but the process is slow and pain-staking due to inter-entity politics. Reforms have gone further on the Federation side reflected in its more dynamic economy. There is a significant imbalance between the two entities, as GDP per capita in RS is estimated to be only 75% of the countrywide average.

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

- Macro-economic conditions are stable, but economic growth remains sluggish and unemployment is extremely high, especially among youth (estimated at 60%+).
- The Central Bank of BiH has kept inflation low and the national currency (BAM) firmly pegged to the EUR for the past few years. This favourable economic climate and renewed trust have resulted in strong growth of deposits in domestic banks (+30%) and of overseas portfolio investment in BiH's stock exchanges.
- The Central Bank regulates banks and other financial companies, but does not yet regulate MFIs, which are currently overseen by entity governments.
- Informal economy is estimated by various sources to be as high as 40% of overall economy

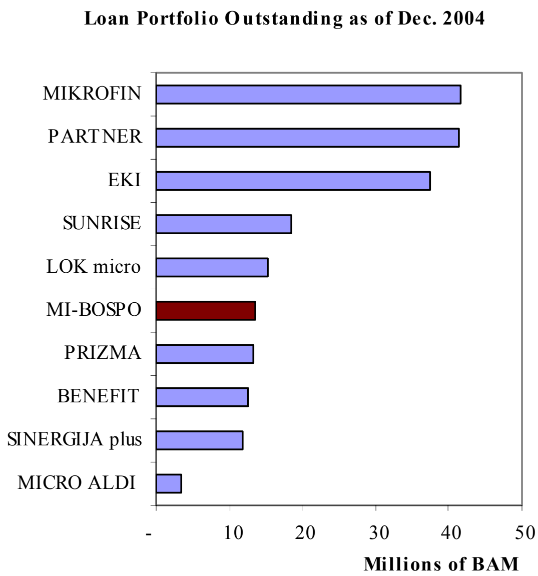
	Dec.02	Dec.03	Dec.04
GNI per cap. (EUR)	1,556	1,642	1,732
Inflation	0.4%	0.6%	0.4%
Moody's rating BiH			B3
COFACE			D

Source: CBBH, Moody's, COFACE

▪ Microfinance sector

The microfinance sector in BiH, launched after the end of war in 1997, is highly developed 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). In addition to numerous international development agencies, actors such as KfW and USAID have funded microfinance organizations (MFIs). Subsequent rounds of LIP financing targeting fewer and fewer MFIs have started the consolidation pressure within the sector. Although there were only few takeovers and mergers completed to date, this consolidation trend mirroring the parallel trend in the general banking sector will intensify according to industry watchers. There are officially 46 registered MFIs, but most of outstanding industry portfolio is concentrated among the largest 10 MFIs (see figure below).

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



Source : LIP and Prizma.

▪ Institutional presentation

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), MFC (the Microfinance Centre for Central and Eastern Europe and NIS), and the Women's World Banking (WWB) network of associated MFIs.

Ownership
As a local non-profit microcredit organization, MI-BOSPO has no owners. The Founder, BOSPO[1] started the microlending activities in March 1996 with the help of the World Bank 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 for MI-BOSPO operations.

The Board of Directors is composed of six members with finance, economics and banking backgrounds, including the Odraz Foundation as an Associate Member without voting rights and, since January 2004, a Raiffeisen Bank representative as a full Board member with voting rights. The current Board receives an honorarium per meeting.

Management team
The management team includes the Executive Director (ED), Finance Manager, Credit Manager, Human Resource Manager, and IT Manager. The Internal Auditor directly reports to the Board and is not a member of the management team.

- The Executive Director, Nejira Nalic, has led MI-BOSPO since its genesis as a program within the NGO BOSPO. She has built the organization from scratch locally with the technical assistance of the World Bank and Women's World Banking. Her microfinance knowledge is drawn from on-the-job experience and complemented by several international microfinance trainings led by WWB, MFC, and LID. Her secondary school focus was interpretation and her prior work experience in administration, interpretation, and NGO management.

Donations
MI-BOSPO development has been supported by the WB-financed LIP since 1999 and by WWB starting 2002, with donations totaling 2.7 M BAM (approx. 1.3 M EUR) as of June 2005.

- LIP has provided a 1 M BAM loan (484 K EUR) during the first round of financing, that has been transformed into a grant in 2002, and a 5 M EUR loan during the subsequent rounds that bears a 5% interest rate and is due in 2017.
- In 2002, WWB provided a 500 K USD donation for capitalization that is to be used only for loan disbursements.

Legal form, supervision and audit
In December 2000, BOSPO microcredit program was transformed into a formal microcredit organization under the Federation law enacted July 2000, and MI-BOSPO was officially registered on December 18, 2000 with the Federation Ministry of Social Welfare, Displaced Persons, and Refugees. MI-BOSPO is not subject to any banking supervision.

From 2000 to 2002, the accounts of MI-BOSPO were audited by Revik d.o.o. Sarajevo, a partner of PriceWaterhouseCoopers Netherlands. This firm has audited 8 other BiH MFIs in the past and has been in communications with World Bank actors on microfinance issues. Deloitte and Touche was hired for the 2003 and 2004 audits after a combined tender organized by MFIs members of AMFI. The auditors have always certified the accounts without reserve.

Organization

- The headquarters (HQ) in Tuzla centralize all management and administrative staff (general management, accounting and finance, human resources, credit manager, internal audit).
- Operations management has been decentralized since Feb. 2005 which resulted the creation of Branch Manager (BM) positions[2]. Each of them is responsible for either one or several offices depending on the portfolio size, and is in charge of the general portfolio management (loan validation process, monitoring of portfolio performance and Loan Officer (LO) work, market evaluations). Loans up to 7,000 BAM are validated by field staff, with different combination of validators depending on the loan amounts (two LOs or Senior LO or BM). Bigger loans still require HQ validation.
- All operations involving cash handling (disbursments, repayments) are made through local partner bank teller windows.
- Client data are entered directly by LOs at the local office, the disbursement and repayement data are entered at HQ and updated databases are sent back at least every week to local offices via e-mail.

[1] Bosnian Committee for Help: NGO started by the Danish Refugee Council (DRC) that provides psychosocial and educational support for displaced women and children in addition to other services.

[2] The former Regional Managers became Branch Managers for the most important branches.

Market penetration

MI-BOSPO operates through a network of 13 offices located in the northeastern part of BiH. MI-BOSPO traditional operating area is the Federation's Tuzla Canton, where eight of the offices are located, covering most of its municipalities. Since 2003, the network has been extended to the northeastern part of the Republika Srpska, with office openings in Bijelina, Brcko, Zvornik, Srebrenica and Prjnavor.

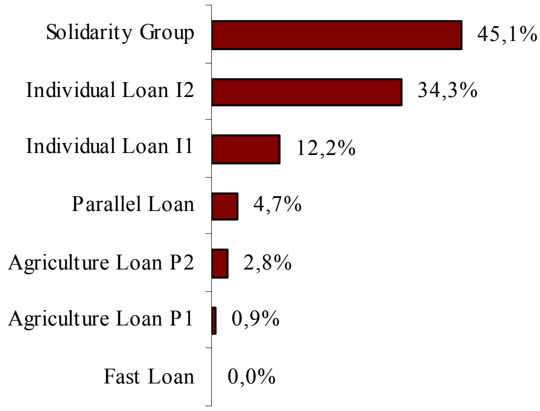
Products and services

A detailed description of products is provided in appendix

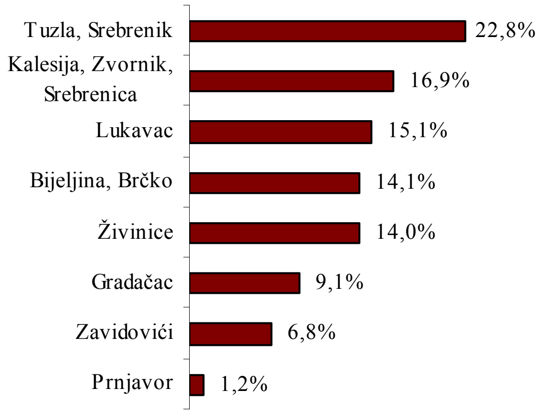
Solidarity group loans were for several years the only product offered by MI-BOSPO. The product offering was expanded in 2001 with the introduction of an individual loan product. An agricultural loan product launched in 2002 with a notably lower interest rate is disbursed in two branches. Incentives for repeated clients have been introduced since 2001 and enhanced in 2004. They now include reduced interest rates, longer terms, lighter guarantee requirements and parallel loans. All loans are repaid monthly; interest rates are computed on the declining balance and loans do not bear any additional fees which make the pricing very transparent for clients.

- Group loans are capped at 3,000 BAM (1,500 EUR) per person, with terms ranging from 1 to 24 months. The APR is 33% for the first cycle and can go down to 26% for repeated clients.
- Individual loans are capped at 30,000 BAM (15,000 EUR) with terms ranging from 1 to 36 months. The initial APR of 33% can go down to 24% for loyal clients. Co-signers and/or guarantors are required. Physical collateral might also be provided.
- Agricultural loans are capped at 20,000 BAM (10,000 EUR), for terms up to 36 months with a maximum grace period of 6 months and APR of 24%. This loan is only disbursed in two branches. A smaller agricultural loan, capped at 3,000 BAM (1,500 EUR) in solidarity group is provided in all branches. A lighter APR (28%) is the only difference with the non-agricultural loans.
- Since 2004, repeated clients can ask for parallel loans for maximum amounts of 5,000 BAM (2,500 EUR), terms up to 6 months and flexible repayments schedules with grace periods up to 5 months. They bear an interest rate of 30% per year.
- Fast loans up to 1,500 BAM (750 EUR) are available for all clients that can provide either guarantors working in state-owned company or a solid property pledge. They can be repaid in 2 to 5 months and bear higher interest rate of 42%.

Outstanding loan per product (June 2005)



Outstanding loan portfolio by region (June 2005)



▪ Governance

Governance and Decision Making is rated « **b** »

MI-BOSPO is currently registered as a not-for-profit microcredit organization, but might decide to transform into a for-profit limited liability microcredit company when the new microcredit law is enacted. This transformation from an NGO to a private company would raise many ownership questions with the most important being: who will own the grants given to MI-BOSPO under its NGO status (2.7 million BAM as of June 2005)? The risks linked to this transformation are not taken into account in this report. The new law will also impact other aspects of MI-BOSPO's operations and therefore its global risk profile, notably in key areas of governance, prudential supervision, reporting requirements, collateral requirements and income taxes.

Decision-making

Board members have little to no experience in microfinance[3], which leads them to rely on the experienced ED and limits their balancing power. This imbalance in the decision-making process is compensated by frequent inputs from international microfinance experts and an intense participation of the management team in the decisions. The team holds well-structured and efficient monthly meetings during which the main strategic decisions are discussed and taken. A stronger Board, with additional microfinance, finance or business backgrounds, would however be needed given the complex challenges ahead (e.g. change in legal status, ownership issues, potential merger, development of new financial services, increased competition).

Board approval is required for all strategic decisions (business plan, budget, funding contracts) as well as for procedures validation. The good level of commitment of the Board, that has met on a quasi-monthly basis during the last years[4], allowed for a timely and well-documented decision-making. The efficiency of the decision-making process could however be improved by the definition of general framework for some decisions, which is already underway for loan negotiations, and by the real activation of the sub-committees that were put in place in 2003 (e.g. strategic planning, financial control, recruitment, compensations and business communication).

MI-BOSPO management and Board have quality management information regarding financial and portfolio performance. MI-BOSPO is noteworthy for its careful analysis of competitors, market size, market share, etc. The institution also has a practice of open communication with regards to performance and strategy. All staff receives via email the monthly financial report and are frequently informed of major initiatives.

Planning

MI-BOSPO has an efficient and participatory planning process with yearly workshops that gather all management team, strategic partners and some Board members. The institution's situation is thoroughly analyzed with specific attention given to the identification of internal and external risks related to its operations.

The current strategic business plan (2004-2007) clearly defines the roadmap to strengthen and deepen MI-BOSPO strategic positioning in its current low-end market and expand it to a wider base of all women-led or supported businesses in the north-eastern regions of BiH:

- The exclusive focus on women will be maintained. This is considered to be a good way to differentiate, as well as a way to keep the credit risk at a low level. It also constitutes a key element of MI-BOSPO's mission and image.
- Operations will be decentralized to provide quicker client service and increase efficiency.
- Products will be revised to be further adapted to clients' needs.
- Aggressive growth within the current geographical network will be sought in order to achieve economies of scale and cope with ever stronger competition.

This strategy increases MI-BOSPO's exposure to competition, with a smaller portion of the portfolio in the quite preserved niche of solidarity group lending[5]. This high competition risk is well identified and specifically addressed in the plan with relevant efforts on marketing (e.g. market analysis, product design and promotion).

The current strategic plan makes the valid assumption that MI-BOSPO can successfully operate without merging for the period covered by the plan. This question however needs to be addressed in more details since MI-BOSPO has already been involved in several merger talks that did not come to an agreement and revealed that the institution does not yet have a clear vision as whether it wants to stay a strong regional player or become a national institution. The latter implies potential mergers with other MFIs or being taken over by banks interested in microfinance. In such case, it would useful to define soon the profile of potential partners and the conditions under which that could be successfully done.

The precise operational targets and financial projections designed with Microfin are revised on a yearly basis. In

[3] Except for the LIP representative that has no voting rights.

[4] 11 meetings in 2004.

[5] Prizma set up an office in Tuzla in mid-2005 which will signicantly increase the competition in the low-end market.

2004, the stagnation in average loan amount, despite otherwise plans (+23% per the business plan) triggered a timely release of a revised plan. This evolution however reveals a weakness either in planning or in management of field staff and has to be thoroughly analyzed as MI-BOSPO recurrently strived to achieve its targets for individual loan growth in the past years.

Management team

The current management structure is strong given the current size of the organization and could handle significant growth. The managers are experienced, efficient, eager to learn and have adopted international best practices for their work culture and performance. Even if several members do not have the educational or professional background anticipated in the job descriptions, they all have acquired good technical skills via on-the-job training, participation to conferences and workshops and assistance from international experts provided by the WB or WWB on specific issues (internal audit, product design, financial management, capital markets, marketing).

The roles of each manager is clearly defined and without overlap. The ED plays a preponderant role in the institution development and strategic orientation but her participatory management style efficiently limits this key person risk. Other managers participate in key negotiations (mergers, funding) and are called to work on issues not ordinarily under their charge in "cross-functional" teams or based on individual competencies.

The team has been working together for several years, having grown into their respective positions via internal promotion. Communication within the team is excellent, and the leadership team meets on a monthly basis with formal minutes.

Human Resource Management

MI-BOSPO has built its motivated team through clear recruitment procedures, favorable pay scale for field staff along with a well-designed bonus system, internal promotion of staff in key management roles and on-going training. The strong work culture for high quality performance is a notable characteristic at MI-BOSPO, as well as the attention given to staff well-being.

- A salary structure that has been implemented in 2004 after a year-long negotiation greatly satisfies staff and fosters staff loyalty. It however significantly increased the operational costs (LO salaries increased by 24% from 2003 to 2004) and has been revised in 2004 to introduce a lower level for freshly recruited LO until they reach a normal productivity.
- Since internal promotion opportunities will be limited in the future (BM positions have been staffed, geographic expansion will be limited in the near future), MI-BOSPO has instituted non-financial motivation schemes including office competition based on MI-BOSPO values, special service awards, anti-stress weekends, an internal "job shadowing" program to allow employees an opportunity to learn about the positions of other colleagues, and education scholarships.
- An overall staff evaluation system has been tested in 2004. The new system includes both a self-evaluation and an evaluation by supervisors, but the test so far showed that staff and managers are hesitant to be really critical.
- The relatively high 2004 turnover (13%) does not seem to have structural internal reasons.

	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Total number of staff	37	39	41	60
% Credit officers	65%	56%	59%	62%
Turnover	9%	5%	13%	4%

MI-BOSPO invested very early in a Human Resource Manager, creating the position in 2000 when there were only 20 employees. Given the limited size of the structure and the fact that most procedures have now been defined, the HR manager is not 100% dedicated to HR and also manages procurement/administration and marketing actions.

▪ Information

Information and equipment is rated **« a »**

Management Information System (MIS) and Equipment

Description of the MIS	
Equipment	▪ 33 computers and 8 laptops (the norm is one computer for two persons in each local office and one laptop per leadership team member) ▪ Internet connections between HQ and the branches; should be replaced by VPN connections during 2005.
Accounting	▪ FINK: BiH software ▪ Centralized accounting process; daily reconciliation with bank statements and loan tracking system. ▪ Monthly financial statements including amortization and provisions.
Portfolio information	▪ MIB2004: Internally developed software, Visual Fox Pro based· ▪ Client data entered in the branches, with electronic validation system; disbursements and repayment information entered and verified in HQ. ▪ Databases sent each week from HQ to the branches and each evening from the branches to HQ.

The fully computerized information system handles all steps of the loan processing (loan evaluation and approval process, contracting, collateral registration, disbursements, repayments), produces all documents and reports that LOs, and BMs use in their day-to-day work and provides all needed information to monitor the activities. The accounting software is basic but sufficient given that the internal MIS manager has added a report generation module for financial statements production, with links to the loan tracking system for ratio calculations. The master database containing the latest information about repayments is housed at HQ in Tuzla but lists of late clients are sent daily by e-mail to local offices while local databases are updated on a weekly basis. Permanent online access to up-to-date information in all branches is planned for 2005.

The risk of data loss is effectively mitigated by extensive back-up and storage procedures: daily back-ups of data on the server hard disks and on the MIS Manager laptop, weekly back-ups stored in the bank safe. Furthermore all important paper documents are either stored in locked rooms or in safes.

The information flow, that has been adapted in 2004 to the new decentralized procedures, is designed to ensure a strong level of control with an effective separation of duties and several check points. Even though the system has never been "fraud tested", the risk of data manipulation is thus reasonably low.

- Individual passwords determine several access levels (read-only for accounting staff, possibility to add information but not to modify or erase data for loan officers, etc.).
- An audit trail has also been implemented to better control potential data manipulation.
- Consistency of bank and MIS information is checked daily by the accountant before entering data in the accounting system,
- Frequent reconciliations between the two systems (accounting and loan tracking) allow to rapidly detect errors.

The system is continuously being improved. Modifications required by a change in the procedures/products or possible improvements identified by staff members can easily be implemented by the internal MIS manager since he is the one who created the software. Future plans include: upgrades to more robust technologies for hardware (server) as soon as the headquarters moves to its new premises (July 2005); development of a new module to help accountants with cash flow projections and liquidity management, development of a module to centralize data on rejected clients.

The MIS Manager has all the necessary skills to manage the information system. The key person risk for this position remains high even if MI-BOSPO has produced efforts to reduce it:

- The software's specifications have been documented and an electronic version of the MIS source code is also stored in the bank safe which limits the risks of destruction of the software.
- A new IT staff has been hired and is being trained for MIS programming.

Information on activities

The portfolio information is accurate and up-to-date. Numerous reports or indicator calculations are preset in the system or could easily be added if deemed necessary. Key data on outstanding and disbursed loans as well as portfolio quality are readily available, by product, by loan officer, by office or consolidated. Data on client businesses is also entered into the system. Data about guarantors is tracked, which makes it possible to know how many loans have been supported by a given guarantor.

The information is widely disseminated, both internally (all staff has at least read-only access to the system, receives a monthly report in their e-mailbox and discusses performances during their monthly meetings with their manager) and externally (donor reports, annual report on the web site).

The very rich information about clients is stored in a database (business evaluations, credit history, etc.) and is frequently analyzed. Recent studies on client segmentation and impact have given hints on ways to improve the dataset that is being created.

Financial and accounting information

Financial information is timely and of high quality. The external auditor always certified the accounts without reserve and never mentioned any major problems regarding the accounting information. MI-BOSPO produces monthly financial statements with calculations of reserves, loan write-offs and amortization expenses. The internal financial statements conform to microfinance best practices and facilitate performance ratio calculations and analysis.

Financial performance is closely monitored by the finance team and commented during management team meetings. This includes calculation of key ratios and monthly comparisons of actual performance vs. targets. The profitability by LO and office now complements this already very rich set of ratios. BM will be more and more involved in the analysis of their branch's profitability.

▪ Risk

Risk management is rated « **b** »

Procedures and internal controls

Along the years, MI-BOSPO has developed and documented work procedures that effectively control most risks and include the traditional features of a good internal control system (segregation of duties, double checks, hierarchical controls and internal audit, instant and reliable reporting on performances for which LOs and BMs are accountable). In 2004, MI-BOSPO has conducted a process mapping exercise with WWB and revised its procedures in order to increase efficiency (via the decentralization of the loan decision process) and client friendliness (easier loan conditions, faster procedures). These changes of the control system weakened some of the control points in the loan process:

- Field visits to clients are very seldom performed by a second person which is not compensated anymore by systematic presence of a second person on the disbursement day (case of renewal for individual clients).
- There is no policy for LO rotation, which is not anymore compensated by the centralization of the loan approval process that implied frequent visits to HQ.

It is however expected that BM, Credit Manager and Internal Auditor, that are still new to their current positions but all have very good understanding of risks, will gradually be spending more time in the field monitoring LOs, and will institute more regular controls on compliance with credit procedures.

As many other MFIs in BiH, MI-BOSPO reduces fraud, credit and cash management risks by using banks to handle all cash operations, thereby separating cash handling from other credit functions. MI-BOSPO could however perform regular checks on the reliability of this control point that might also have its flaws.

Internal audit

The design of the new Internal Audit position, that replaces the former Internal Control position[6], is representative of the very comprehensive understanding of risks that exists in the institution: it has the mandate to cover all areas of risks (including compliance with Board decisions and business strategy) and directly reports to the Board of Directors. The Auditor attends all Board meetings.

The formal internal audit procedures created in 2004 are based on a systematic and thorough identification of risks that is translated into a detailed and confidential audit plan combining audits of different nature (e.g. traditional branch audits, checks on sample loan files, verification of recruitment or purchasing procedures, analysis on nature of written-off loans, comparison of plan with realizations, etc.). The audit reports based on a well designed template are communicated to relevant heads of departments, the ED and Board and are subject to relevant follow-up on recommendations.

Although the "big picture" topics covered by the Auditor bring great value in the institution's constant improvement process, the focus on credit risk could be increased and include a more systematic and detailed analysis of the rich data available in the MIS: in 2004, branches were only visited once[7]; the auditor sampled 390 loan files (3,9% of disbursed loans) and visited a random sample of 95 clients (0.9% of active clients).

The Internal Auditor, a former senior loan officer, has been working during the past year to learn about proper procedures through both existing public documents, trainings, with the support of consultants and of one Board member that has extensive auditing experience.

Activities

Activities: products and services is rated **« a »**

Marketing and competition

The BiH microfinance environment is highly competitive, notably in urban areas where MFIs have been operating for years and commercial banks are active. Some urban markets seem to be at or near saturation, therefore many MFIs are seeking to expand their rural outreach. By the end of Q1 2005, the 10 leading MFIs were serving around 105,000 clients on a total potential market estimated by MI-BOSPO to be approx. 250,000 clients. The total portfolio outstanding reaches about 110 million EUR. Although portfolio quality remains strong, the entire sector is becoming concerned about the high level of client cross-indebtedness and the relative decline of guarantors' quality (many guarantors also have loans and guarantee more than one loan).

A worrying trend is also the "down-scaling" of commercial banks into the low-income entrepreneurs niche. This trend, originating in a stronger competition among commercial banks for market shares, is also enhanced by the EU-funded program managed by KfW, in which seven participating commercial banks offer loans starting at 5,000 KM. Furthermore, MI-BOSPO will face stronger competition than in the past from ProCredit Bank BiH –a dynamic bank dedicated to SME and micro-lending. ProCredit Bank plans to double its current 17-branch-and-office network by 2009 and is already present in most of MI-BOSPO's service areas. With cheaper funding base (access to savings) and broader range of products, ProCredit Bank has the capacity to seriously poach top-end clients. The question is not when, but how fast and how determined ProCredit Bank will be in doing so.

MI-BOSPO is a very strong medium-sized regional player in the BiH market with a clear strategy to target women

[6] The Internal Controller had a similar mandate but reported to the ED.

[7] 6 of the 12 branches were visited by the Internal Auditor that started in this position in June ; other branches were visited by the Internal Controller

only, even if many of the funded businesses are headed by men in the household. Whether through marketing, active promotion, first-mover advantage or quality of service, MI-BOSPO has achieved a good penetration of its target market (estimated by MI-BOSPO to be approx. 13%) and has developed a good client loyalty (retention rate of 65%).

MFI	Average Portfolio yield	Average Loan Size
PARTNER	21%	2,092
MIKROFIN	21%	2,973
BENEFIT	22%	1,771
EKI	22%	1,973
SINERGIJA plus	22%	3,529
LOK micro	28%	3,016
MI-BOSPO	**29%**	**1,471**
MICRO ALDI	30%	881
SUNRISE	30%	1,800
PRIZMA	35%	1,196

Source: LIP Dec. 2004

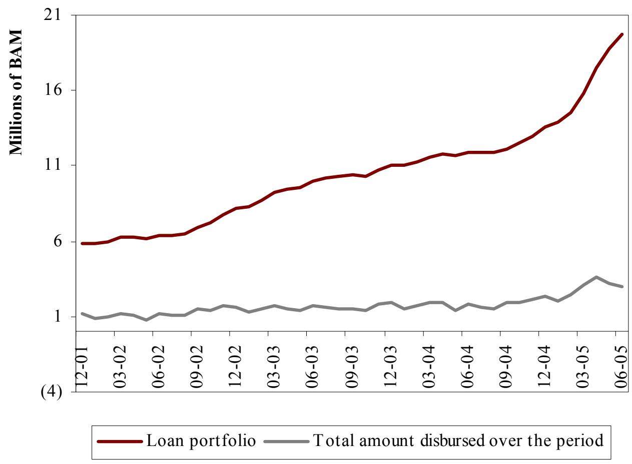
Marketing has been a focal point in the last few years and several studies (client segmentation, drop-out analysis, new products, service quality) have been conducted to better understand the client needs and further adapt the product characteristics. This resulted in a Marketing Plan for 2004-2006 including a promotion plan (e.g. advertising, promotion materials, tours, exit interviews, pre-renewal calls, etc.) and in more flexible loan products with schemes meant to foster client retention. Products however do not differ much from one institution to another (loan terms and amounts are pretty similar) and competition mainly relies on interest rates, collateral requirement and speed of disbursement. While MI-BOSPO is well positioned on the last two factors, the smaller size of the institution remains a handicap in terms of pricing when compared to MIKROFIN, EKI and PARTNER, its main competitors in its area of service (see table above). However, while other MFIs have or are phasing out a group loan product given client preferences for individual loans, MI-BOSPO continues to be the largest provider of group loans in its market, and therefore always available to those with no other recourse.

Credit methodology

MI-BOSPO's strong portfolio quality is attributable mainly to a careful client selection and a well-established credit methodology.

- Individual loan clients undergo a retrospective cash flow analysis based on the IPC methodological approach. Group loan clients now also undergo a similar analysis, although quicker.
- Given the pre-selection by LOs, the credit committee or approving LO does not typically reject candidates but may reduce the loan size from the request.
- LOs know of client delinquency within 24 hours from HQ and swiftly apply the well-defined measures for dealing with delinquent clients.
- LOs receive incentive pay for performance based on client caseload, portfolio quality, and other factors. The policy is office-focused so as to avoid any problems with client referrals between group loan and individual loan officers.
- Late penalties of 0.2% per day are a strong incentive to pay on time, although they are not applied if clients have a "good" reason for being late (sickness, family problems).

Loan portfolio evolution

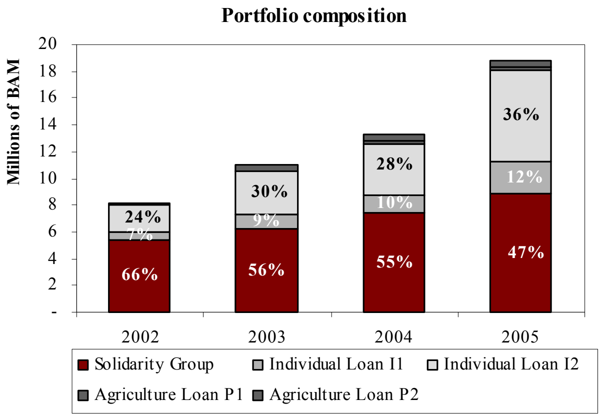


LOs focus exclusively on either group or individual loans, therefore LO recruitment and training are oriented to ensure the appropriate skills for the type of position. MI-BOSPO can find university educated economists in the market to serve as individual LOs and has defined that interpersonal skills were the most critical for group LO that are only required to have high school degrees. The on-the-job training is perhaps the most important element of MI-BOSPO's success in building a quality pool of loan officers.

EUR , unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Loan portfolio	4,185,324	5,636,174	6,924,002	10,105,598
Loan portfolio (BAM)	8,185,782	11,023,398	13,542,171	19,764,832
Evolution	39.8%	34.7%	22.8%	46,0%
Average outstanding loan	3,364,976	4,966,436	6,101,710	8 321 212
Number of active borrowers	5,496	7,157	9,318	11,732
Evolution	23.2%	30.2%	30.2%	25,9%
Average outstanding loan per client	762	788	743	861
% of GDP per capita	48.9%	48.9%	46.1%	53,5%
Average amount disbursed	1,135	1,209	1,125	1,197
% of GDP per capita	73.0%	75.1%	69.9%	74,3%
PAR 31-365	0.2%	0.2%	0.4%	0,3%
PAR > 365	0.0%	0.0%	0.0%	0,0%
Write-off ratio	0.8%	0.8%	1.2%	0,5%

Evolution of the portfolio

The constant growth of the loan portfolio over the past three years, is mainly driven by the development of the individual loan product. The agriculture loan that was launched in 2002 is not a major focus for MI-BOSPO and is so far only available in 2 local offices, explaining its slow growth. The growth rate for 2005 is notably higher than that of previous years (+46% for the first six months of 2005, compared to +23% in 2004 or +35% in 2003) which is attributable to the definition of more ambitious targets and to the decentralization of the loan processes that induced more proactive actions in local offices.



Quality of the portfolio

The PAR31 remains exceptionally low at less than 0,5% over the period and no discrepancies among products can be noted. Even though MI-BOSPO policies regarding late clients account in part for this very good portfolio quality, these results are typical for BiH. MI-BOSPO very rarely reschedules loans, only when the economic situation of the client activity make it impossible to repay the installments. The outstanding amount of these loans is included in the regular portfolio figures but it is not material and can be easily identified (23,468 BAM in June 2005).

Despite MI-BOSPO's conservative write-off policy of each month writing off all loans over 90 days in arrears, the write-off ratio remains minimal at approximately 1.2% in 2004. Since MI-BOSPO began operations, it has recovered approximately 14.5% of all amounts written off.

Portfolio diversification

There are no formal diversification policies nor targets, but information on clients activities are available in the MIS which makes it easy to develop such policies. The current product mix and network of branches brings some form of natural diversification. MI-BOSPO would however benefit from conducting risk scenario analysis to develop prudential diversification targets in the future.

Credit risk coverage

EUR	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Risk coverage ratio	571.8%	638.2%	316.9%	434,8%
PAR 31 net of loan loss provision / Equity	(2.0%)	(2.4%)	(2.0%)	(2,7%)

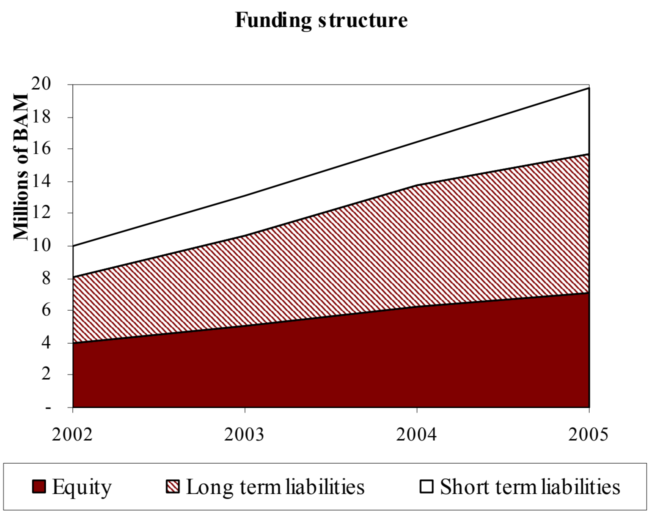
MI-BOSPO has a very conservative provision policy, as required of LIP program participants, that includes a provision on healthy portfolio (see provisioning policy in the notes to financial statements). This, and the very good quality of the portfolio, result in a high risk coverage ratio of more than 400% in June 2005.

MI-BOSPO seeks to send a strong message with regards to delinquency and will therefore refer to court all default cases even if the net value to be recovered is insignificant. There are currently 132 court cases pending.

Guarantees are requested of loan clients as an additional measure of risk coverage, although their enforcement is not easy and guarantors are used more to pressure clients than being an actual source of payment. MI-BOSPO uses solidarity groups, personal guarantees, salary withholdings, bills of exchange and movable property as collateral for the loans.

▪ Financing and liquidity

Financing and liquidity is rated **« a »**



	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Liabilities Equity ratio	148.2%	158.9%	164.1%	201,3%

Details of the funding structure are provided in appendix.

Being a non-deposit taking MFI, MI-BOSPO funds its activities essentially with equity (38%) and debts (62%). Equity capital is made of retained earnings (4 M BAM) and of donations received over the years (2.7 M BAM, predominantly coming from LIP and WWB). Debt funding is made of short-term (29%) and long-term borrowings (71%), with LIP loans constantly representing 50% to 60% of liabilities.

Asset liability management procedures
Asset and liability management (ALM) risks are identified and efficiently limited during the negotiation of loan terms with potential funders:

- **No maturity risk**: 80% of the loan portfolio is short-term while 84% of funds are either equity or long-term loans. MI-BOSPO offers loans of up to 36 months (agriculture and individual) but these long-term loans currently represent only 20% of the portfolio.
- **Limited FX risk:** 80% of borrowings is in EUR, but the BAM has a fixed parity to the EUR and the rate has not changed since the introduction of the EUR, which limits FX risk. Furthermore, MI-BOSPO has protected itself against devaluation by labelling loan contracts with borrowers in EUR, a pass-through technique widely used by MFIs and banks in BiH.
- **Low interest rate risk:** Some of MI-BOSPO's borrowings are linked to variable benchmarks (Raiffeisen and KfW to EURIBOR); expected fluctuations represent minor risk, as they are compensated by MI-BOSPO's high interest spreads and its low blended funding cost resulting from low leverage and LIP concessional funding.

Financing strategy
The institution has a good identification of its funding needs and the ED has led a very efficient funding search, assisted in this by the Finance Manager since 2004. MI-BOSPO's growth has never been limited by the lack of funds and the institution was even among the first MFIs in BiH to access commercial funding: it has already closed deals with eight different funders (Raiffeisen in 2001, KfW in 2002, TRIODOS in 2003, MicroVest and Central Profit Bank in 2004, GMF, Tuzlanska Banka and Oikokredit in 2005). The WWB network membership has been very instrumental in this process with increased international exposure and capitalization funds that increased the leverage potential.

Fruitful contacts are established with potential funders in BiH and abroad and 75% of the 9.5 million BAM needed to finance 2005 growth have been secured while several options are in negotiation to cover the subsequent months. MI-BOSPO now needs to improve its negotiation skills to reach better loan conditions (average interest rate of 8.9% and one-year terms for most of them). All efforts of the ED and Finance Manager are geared towards this goal with positive results on deals closed in 2005: two loans with two-year terms and one loan without collateral. Interest rates remain higher than that of its major competitors, which can only partially be explained by the smaller size of the institution.

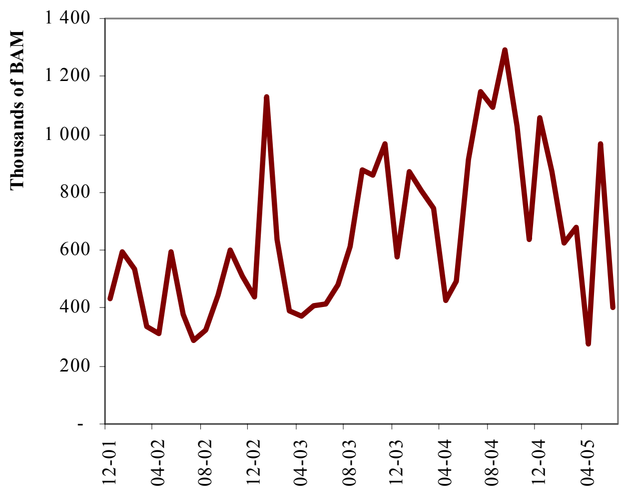
Given current growth targets and leverage standards set by the management (300%), MI-BOSPO will need to increase its equity by 2007/2008. The management team is currently building its knowledge on this issue via international experts consultation (WWB), in order to anticipate the changes in legal structure that will be required and get prepared for this new kind of negotiation.

Liquidity Management
MI-BOSPO has good annual and monthly cash flow projections and all tools are in place to ensure an efficient day-to-day cash management: disbursements plans are sent by LOs one week in advance, forecasts of daily repayments are calculated for each bank account by the MIS, and budgets include monthly plans of operating expenses. This system should even be improved in 2005/2006 by the development of a dedicated software module connected to the MIS.

In order to be responsive in its disbursement process, MI-BOSPO always keeps at least 5% of the total portfolio plus 50% of monthly operating expenses in cash in bank accounts, which used to be a conservative policy given the low PAR and relatively slow growth (+2% per month in 2004) but is now consistent with the current portfolio growth rate (+6.5% per month in 2005).

Some funders requirements (separate bank accounts from which disbursements are issued and on which repayments are made, minimum amount of overdraft to be used) make it more difficult for the institution to fully optimize its cash management. MI-BOSPO however managed to reduce the number of bank accounts from 16 in 2002 to 10 in 2005.

Evolution of cash balance



▪ Efficiency and profitability

Efficiency and profitability is rated **« a »**

Overview of the profitability

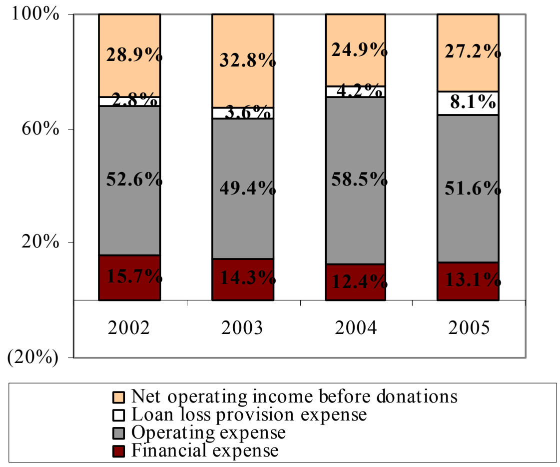
After several years of growth in profitability, indicators have experienced a dip in 2004, due to the combined effects of a declining portfolio yield and an increase of LO salaries. In Dec. 2004, the ROA and operational self-sufficiency however remained at a comfortable level of 6.2% and 133% and partial results for 2005 show that profitability indicators should resume their upward trend thanks to economies of scale provided by the important growth of the portfolio (+46% for the first six months). The ROE followed the same pattern since the liabilities/equity ratio has only increased slowly over the last three years from 148% in 2002 to 164% in 2004. The transformation of several quasi-loans (CWS, part of LIP loans) in equity in 2002, important donations received from WWB and the addition of retained earnings over the years explain the quasi-stability of the leverage ratio.

Profitability analysis	**Dec. 2002**	**Dec. 2003**	**Dec. 2004**	**Jun. 2005**
ROE	23.1%	23.1%	16.3%	20.7%
Liabilities / Equity	148.2%	158.9%	164.1%	201.3%
ROA	7.8%	9.1%	6.2%	7.3%
Profit generation				
Operational self-sufficiency	140.6%	149.2%	133.1%	139.4%
Portfolio Yield	34.8%	32.6%	30.8%	29.6%
Operating expense ratio	18.7%	16.6%	18.1%	15.7%
Staff productivity	149	184	227	196
Loan officer productivity	229	325	388	317
Average outstanding loan per client (EUR)	762	788	743	861
Funding expense ratio	5.6%	4.2%	3.8%	4.3%
Cost of liabilities	4.6%	5.8%	5.1%	5.7%
Loan Loss Provision expense ratio	1.0%	1.2%	1.3%	2.0%
PAR 31-365	0.2%	0.2%	0.4%	0.3%
Write-off ratio	0.8%	0.8%	1.2%	0.5%
Asset management				
Outstanding Loan Portfolio / Assets	81.2%	82.6%	81.3%	87.4%
Non-portfolio income as a % of financial revenues	0.0%	0.7%	0.6%	3.4%

Portfolio yield and effective interest rate

The portfolio yield follows a downward trend over the period (from 34.8% in 2002 to 30.8% in 2004 and 29.6% in June 2005) due to several interest rate cuts decided by the management to make the institution's products more competitive and stick to MI-BOSPO's social mission. At the end of 2001, MI-BOSPO introduced a declining interest scale as clients go from cycle to cycle[8] and in 2002, the interest rate on first cycles was lowered from 36% to 33%. In 2004, this pricing scheme and a retention rate of 65% resulted in a portfolio yield of 30%, that is expected to decrease to 27-28% in 2005 and 26% in 2006. This evolution is closely monitored in order not to put the institution's sustainability at risk.

Cost structure in % of financial income



Operating expense ratio

Thanks to constant improvements in productivity, the operating expense ratio is on a downward trend (18.7% in 2002, 15.7% in June 2005) with a temporary increase in 2004 due to the important raise in LO salaries that was decided in late 2003 (+ 24%). The ratio is expected to decrease again in 2005 thanks to decentralized procedures, a revised salary grid and more economies of scale brought by the important growth of the loan portfolio (planned to reach +90% for 2005).

- LO productivity has been trending upward over the period and reached 388 in 2004, which is consistent with the fact that 75% of the clients are engaged in group lending and that MI-BOSPO LOs do not have to deal with repayments. LO productivity should be further improved thanks to decentralized loan approval procedures that do not require that LO travel to HQ every week to prepare disbursements. The dip in June 2005 is due to the fact that 19 LOs have been hired by March 2005 and did not yet reach their optimal caseload.
- The decentralization of the loan approval process that implied the appointment of 7 Branch Managers (BM) has been performed at limited cost (+7% on average monthly operating costs[9]) since BM only received little increases in base salary from their former position (senior LOs or Regional Managers) and are not entitled to bonuses anymore.
- The salary grid defined in 2003, that is notably more generous for LOs than that of other MFIs has been revised and now includes a lower level for new hires that reduces the cost of network expansion. New hires salaries

[8] Interest rates decrease by 1% at each new cycle for clients without repayment problems with a minimum interest rate of 26% for group loans and 24% for individual loans.

[9] Jan-Jun. 2005 average monthly operating costs / Jan-Dec 2004 average monthly operating costs.

are increased after a year or so, when they reach a normal productivity.

Funding expense ratio
The funding expense ratio has been slightly reduced over the period (from 5.6% in 2002 to 3.8% in 2004) essentially due to a stable debt/equity ratio and a share of subsidized funding in the total liabilities that increased in 2004 thanks to the disbursement of the last round of LIP funding (1.5 million BAM, i.e. 750 K EUR). This ratio is expected to increase in the coming years as the institution will only be able to access funding at commercial rates that range from 7% to 10% for MFIs in BiH.

Asset management
87% of the non-restricted assets[10] are invested in the portfolio and the rest is either in fixed assets (for a reasonable 4%) or in cash for a higher 7% that is over the level of the liquidity margin set by MI-BOSPO management. This is mainly due to the early disbursement of the MicroVest loan that could not be postponed due to MicroVest constraints. It is to be noted that short-term investment opportunities are not readily available in BiH at attractive rates.

Adjusted performance
Details concerning the specific adjustments are included in the annexes
According to Planet Rating's adjustment methodology, MI-BOSPO has achieved financial self-sufficiency. The adjustment expense ratio of 3.4% in 2004 is attributable to the standard adjustments of the cost of funds, inflation, loan loss provisions, and in-kind donations. The cost of funds adjustment accounts for 90% of these adjustment expenses, since the adjustment for the other items is minimal. Please note that the shadow cost of funds was lowered from 12% in 2002 to 10% in 2003 and 9.2% in 2004 to take into account the fact that MI-BOSPO was able to access funds at 8.5% and 9.5%. The other years where not changed to allow comparability with our previous reports about BiH MFIs.

	Dec. 02	Dec. 03	Dec. 04
Adjustment expense ratio	6.5%	3.3%	3.4%
AROE	8.5%	16.1%	9.2%
AROA	2.9%	6.3%	3.5%
Financial self-sufficiency	111.9%	129.8%	116.2%

Profitability outlook
Being a medium-size MFI with a portfolio that represents a third to a half that of its major competitors, MI-BOSPO has defined a strategy of aggressive growth in order to maintain its current profitability level. Provided that the market responds positively to MI-BOSPO ever more transparent, client-friendly and efficient procedures, which seemed to be the case in the first months of 2005, procedures and systems are in place to cope with it. This growth would generate the expected economies of scale that will compensate for higher cost of funds and declining portfolio yield.

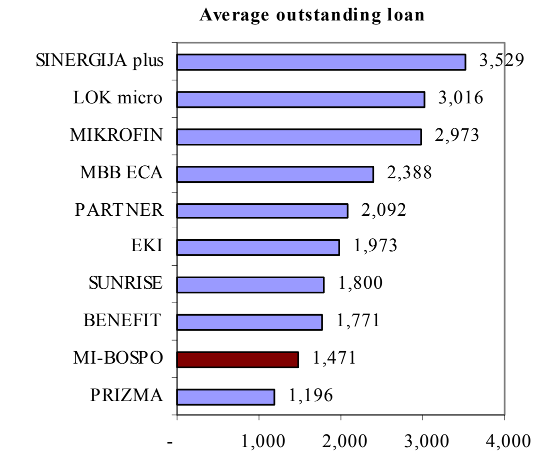
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

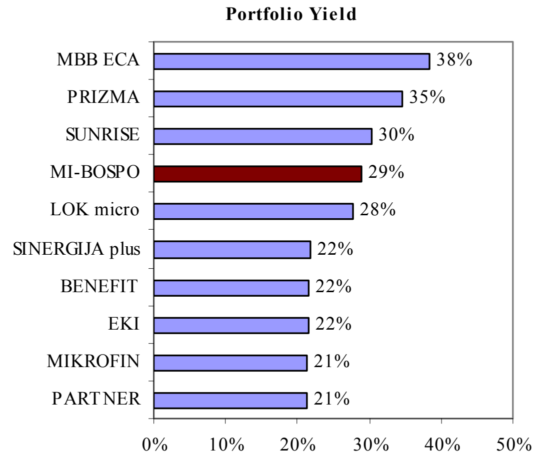
[10] 1 M BAM long term investment are funds that guarantee Raiffeisen loans and may not be used for on-lending purposes. They are originated from a Deutsche Bank loan and the WWB capitalization fund.

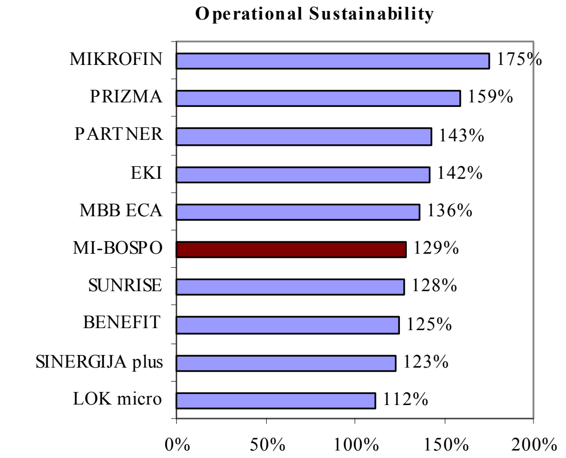
▪ Benchmarking

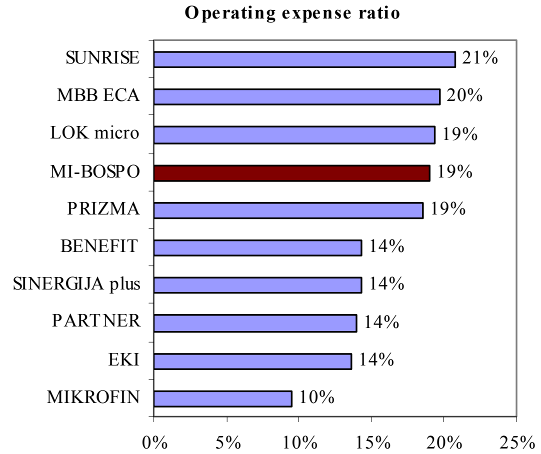
Classification based on MBB criteria	
Area	Europe and Central Asia (ECA)
MBB peer group	ECA Medium Broad: Aregak (Armenia), Constanta (Georgia), Finca (Kyrgystan), KLF (Kazakhstan) KEP (Kosovo), MI-BOSPO, Mikra and Prizma (BiH), NOA, OIS (Serbia), PSHM (Albania).
Maturity	Mature (9 years of operations)
Scale of operations	Medium with an outstanding portfolio of 8 M EUR.
Target population	Broad; average loan outstanding represents 50% of GNI per capita.

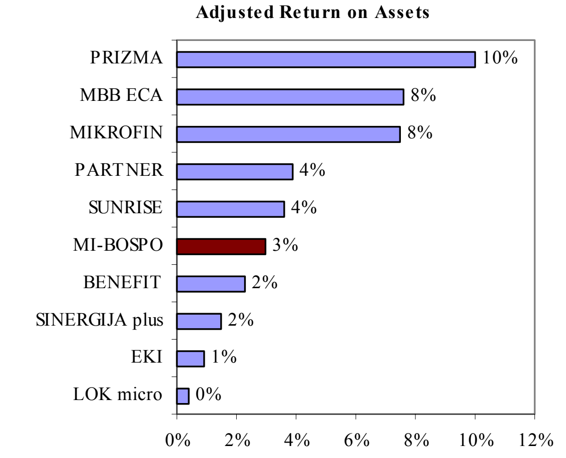
Sources : LIP, Dec. 2004. MBB 10 (March 2005 with 2002 data)

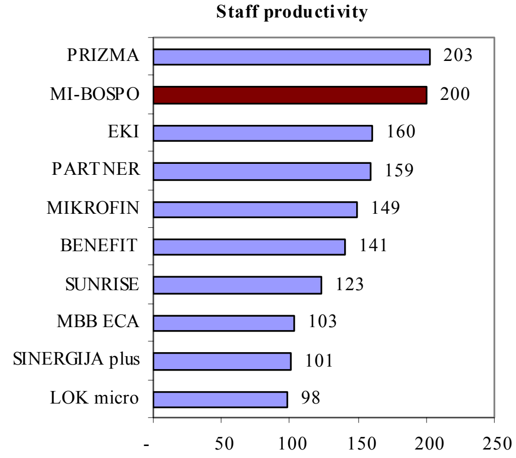












Appendices

Acronyms

ALM	Asset/Liability Management
BAM	Bosnian Convertible Mark
BoD	Board of Directors
BiH	Bosnia and Herzegovina
BPRM	Bureau of Population, Refugees and Migration
CEO	Chief Executive Officer
EBRD	European Bank for Reconstruction and Development
EIR	Effective interest rate
ENDA	Environmental Development Action in the Third World
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FI	Financial intermediary
FY	Fiscal Year (October 1st to September 30th)
HO	Head Office
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
GM	General Manager
IAS	International Accounting Standards
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IRC	International Rescue Committee
IT	Information technology
KfW	German Development Bank
LO	Loan officer
LTS	Loan Tracking Specialist
MBB	MicroBanking Bulletin
MIS	Management Information System
MC/SEA	Mercy Corps/Scottish European Aid
MFI	Microfinance institution
MFC	Microfinance Center for Central and Eastern Europe and the Newly Independent States
NA	Not Applicable
NBFC	Non Banking Financial Company
NGO	Non Governmental Organization
PAR	Portfolio at risk
ROA	Return on assets
ROE	Return on equity
SC	Save the Children
SME	Small and medium sized enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
USDA	United States Department of Agriculture
WWB	Women's World Banking

Formulas and ratios

- Personnel productivity: Active borrowers / Total personnel (end of period)
- Loan officer productivity: Active borrowers / Total Loan Officers (end of period)
- Return on assets ROA: Net operating income before donations / Average assets
- Adjusted return on assets: AROA: Adjusted net operating income before donations / Average assets
- Return on equity: ROE: Net operating income before donations / Average equity
- Adjusted return on equity: AROE: Adjusted net operating income before donations / Average equity
- Leverage: Debt (savings + debts) / equity (end of period)
- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio
- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding portfolio
- Net portfolio as a % of assets: Net outstanding portfolio / total assets (end of period)
- Operational self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio

Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

0 The MFI follows the CGAP disclosure guidelines.

1 The Financial Statements presented include a balance sheet, income statement, and accompanying notes.

2 The financial statements provided include 3.5 years of data. 2002, 2003 and 2004 have been audited. Partial year 2005 financial statements are not.

3 Segment Reporting for Multiservice Microfinance Institutions MI-BOSPO only offers microfinance services.

4 Portfolio reporting

4.1 Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement ("loan loss expense").

4.2 The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated each month by the finance department according to the methodology described in the table.

Provisioning methodology	
Provision	1% on healthy portfolio, 1 to 30 days 20%, 31 to 60 days 60%, 61 to 90 days is 80% and after 90 days 100%,
Write-off	Loans that are more than 90 days late are written off.

4.3 Loans are written off each month from the loan loss reserve and the loans outstanding.

4.4 The following table reconciles these movements:

BAM	**dec. 2002**	**dec. 2003**	**dec. 2004**	**jun. 2005**
Loan loss reserve, January 1st	78,293	97,038	148,668	185,898
+ Loan loss provision expense	74,469	124,461	179,573	163,278
- Provision reversal				
- Loans written off during the year	55,724	74,119	142,343	88,807
Loan loss reserve, year end	**97,038**	**147,380**	**185,898**	**260,369**

4.5 Accrual vs. Cash accounting: accrued interest on loans to clients and borrowings from banks are calculated each month.

5 Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

5.2 Renegotiation of loans: the MFI does reschedule loans. Such loans are tracked separately in the loan tracking system. The outstanding amounts of rescheduled loans are detailed in the table below.

	Dec. 2002	Dec. 2003	Dec. 2004	Jun. 2005
Rescheduled loans	78,103	18,878	78,451	13,419

5.3 Insider loans: MI-BOSPO employees are not entitled to any loans from the institution.

6 Donations

6.1 Revenue from donations is shown separately from income generated by operations in the income statement.

6.2 Donations since inception as of Dec. 2004:

Donor	
ODRAZ	1,182,372
WWB	1,038,324
CWS	145,600
SEEP	56,187
UMCOR	79,145
DRC	17,950
Other sources	23,156
Total	**2,542,734**

6.3 Donations accounting methodology: All grants are recorded in the income statement and income from donations are clearly identified in the balance sheet.

6.4 In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.

6.5 Cumulative amount of all prior period donations: see table above.

7 Details of liabilities

7.1 Liabilities are listed in a table at the end of the report.

7.2 Deposits: MI-BOSPO is not allowed to collect savings.

8 Other significant Accounting Policies

8.1 Accrual or deferral income/expense accounting: all expenses and revenues are accounted on an accrual basis, except for unexpected revenues.

8.2 Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

Type of assets	%
Vehicles	16%
Furniture	13%
Computers and other IT equipment	25%
Other equipment	11% to 15%

8.3 Inflation accounting: none

8.4 Currency mismatch: please refer to the F area for more information on potential mismatch.

8.5 Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: none.

Specific notes to the financial statements

Balance sheet

1. Receivable from advance payments
2. Liabilities towards employees, audit fee, other liabilities

Income statement

3. Gain on exchange rate
4. Foreign exchange loss

Financing sources

Loan provider	Currency	Initial amount	Initial amount (EUR)	Outstanding amount in June 2005 (BAM)	Interest rate	Final due date
Fondacija OdRaz, LIP	EUR	3,066,352	3,066,352	7,220,406	5.0%	Mar. 2017
Raiffeisen Bank dd Sarajevo	BAM	2,000,000	1,022,584	1,061,500	EURIBOR+5,8% = 8,25	Jun. 2007
Raiffeisen Bank dd Sarajevo	BAM	950,000	485,727	690,909	EURIBOR+5,8%= 8,25	
KfW	EUR	350,000	350,000	452,188	EURIBOR	Mar. 2009
Deutche Bank-garancijski fond	USD	125,000	100,032	202,820	2.0%	Jun. 2006
UNHCR	BAM	479,036	244,927	-	0.0%	Jan. 2005
TRIODOS	EUR	400,000	400,000	782,332	9.0%	Jan. 2006
MicroVest	EUR	375,000	375,000	733,436	9.9%	Dec. 2005
Central Profit banka	BAM	300,000	153,388	300,000	7.0%	Jun. 2006
UMCOR	USD	50,000	25,565	-	0.0%	
Tuzlanska banka	BAM	1,000,000	511,292	700,000	9.5%	Jun. 2007
Global Microfinance Facility	EUR	1,369,081	700,000	1,369,081	9.5%	May. 2006
Oikocredit	EUR	1,173,498	600,000	1,173,498	8.8%	Jun. 2007
TOTAL				**14,686,170**		

Mi-Bospo		BAM				EUR				Evolution		
Balance sheet	**Notes**	**Dec. 2002**	**Dec. 2003**	**Dec. 2004**	**Jun. 2005**	**Dec. 2002**	**Dec. 2003**	**Dec. 2004**	**Jun. 2005**	**2003/2002**	**2004/2003**	**2005/2004**
ASSETS		**9,960,732**	**13,166,845**	**16,425,410**	**22,321,042**	**5,092,841**	**6,732,101**	**8,398,179**	**11,412,567**	**32.2%**	**24.7%**	**35.9%**
Short Term Assets		**8,356,728**	**11,182,118**	**13,495,086**	**20,238,358**	**4,272,727**	**5,717,326**	**6,899,928**	**10,347,708**	**33.8%**	**20.7%**	**50.0%**
Cash and Due from Banks		436,206	578,047	1,055,916	402,520	223,029	295,551	539,881	205,805	32.5%	82.7%	(61.9%)
Short Term Investments		-	-	-	79,137	-	-	-	40,462	-	-	-
Short Term Net Loan Portfolio		7,797,470	10,396,912	12,230,539	19,504,463	3,986,783	5,315,857	6,253,375	9,972,474	33.3%	17.6%	59.5%
Short Term Gross Loan Portfolio		7,894,508	10,545,580	12,416,437	19,764,832	4,036,398	5,391,869	6,348,423	10,105,598	33.6%	17.7%	59.2%
(Loan Loss Reserve)		97,038	148,668	185,898	260,369	49,615	76,013	95,048	133,125	53.2%	25.0%	40.1%
Interest Receivable		121,559	206,738	208,496	252,238	62,152	105,703	106,602	128,967	70.1%	0.9%	21.0%
On loan portfolio		121,559	206,738	208,496	252,238	62,152	105,703	106,602	128,967	70.1%	0.9%	21.0%
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	1	1,493	421	135	-	763	215	69	-	(71.8%)	(67.9%)	(100%)
Long term assets		**1,604,004**	**1,984,727**	**2,930,324**	**2,082,684**	**820,114**	**1,014,775**	**1,498,251**	**1,064,859**	**23.7%**	**47.6%**	**(28.9%)**
Long Term Net Investments		1,104,363	1,042,650	1,101,716	1,049,824	564,652	533,098	563,298	536,767	(5.6%)	5.7%	(4.7%)
Long Term Gross Loan Portfolio		291,274	477,818	1,125,734	-	148,926	244,304	575,579	-	64.0%	135.6%	(100%)
Net Fixed Assets		208,367	464,259	702,874	1,032,859	106,536	237,372	359,374	528,093	122.8%	51.4%	46.9%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		**9,960,732**	**13,166,845**	**16,425,410**	**22,321,042**	**5,092,841**	**6,732,101**	**8,398,179**	**11,412,567**	**32.2%**	**24.7%**	**35.9%**
Liabilities		**5,948,158**	**8,082,115**	**10,205,398**	**14,913,591**	**3,041,245**	**4,132,320**	**5,217,937**	**7,625,198**	**35.9%**	**26.3%**	**46.1%**
Short term liabilities		1,913,896	2,529,296	2,651,775	4,473,771	978,559	1,293,209	1,355,831	2,287,403	32.2%	4.8%	68.7%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		1,783,500	2,376,424	2,451,736	4,246,349	911,889	1,215,046	1,253,553	2,171,124	33.2%	3.2%	73.2%
Interest payable		-	26,791	38,340	-	-	13,698	19,603	-	-	43.1%	(100%)
Accounts Payable and Other Short Term Liabilities	2	130,396	126,081	161,699	227,421	66,670	64,464	82,675	116,279	(3.3%)	28.3%	40.6%
Long term liabilities		4,034,262	5,552,819	7,553,623	10,439,820	2,062,685	2,839,111	3,862,106	5,337,795	37.6%	36.0%	38.2%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		4,034,262	5,552,819	7,553,623	10,439,820	2,062,685	2,839,111	3,862,106	5,337,795	37.6%	36.0%	38.2%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		**4,012,574**	**5,084,730**	**6,220,012**	**7,407,451**	**2,051,597**	**2,599,781**	**3,180,242**	**3,787,369**	**26.7%**	**22.3%**	**19.1%**
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity		2,384,275	2,048,469	2,206,319	2,685,355	1,219,060	1,047,366	1,128,073	1,373,000	(14.1%)	7.7%	21.7%
Retained earnings without donations and reserves		1,628,299	3,036,261	4,013,693	4,722,096	832,536	1,552,416	2,052,169	2,414,369	86.5%	32.2%	17.6%
Current year		676,060	1,051,499	921,245	705,906	345,664	537,623	471,025	360,924	55.5%	(12.4%)	(23.4%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

Mi-Bospo		BAM				EUR				Evolution		
Income Statement	**Notes**	**Dec. 2002**	**Dec. 2003**	**Dec. 2004**	**Jun. 2005**	**Dec. 2002**	**Dec. 2003**	**Dec. 2004**	**Jun. 2005**	**2003/2002**	**2004/2003**	**2005/2004**
Financial Revenue (a)		**2,339,658**	**3,189,938**	**3,701,117**	**2,496,779**	**1,196,248**	**1,630,989**	**1,892,351**	**1,276,583**	**36.3%**	**16.0%**	**(32.5%)**
Financial Revenue from Loan Portfolio		2,291,268	3,169,000	3,677,707	2,411,329	1,171,507	1,620,284	1,880,382	1,232,893	38.3%	16.1%	(34.4%)
Interest on Loan Portfolio		2,281,430	3,150,018	3,661,669	2,401,422	1,166,477	1,610,579	1,872,181	1,227,828	38.1%	16.2%	(34.4%)
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		9,838	18,982	16,038	9,907	5,030	9,705	8,200	5,065	92.9%	(15.5%)	(38.2%)
Financial Revenue from Investments		-	20,938	23,410	85,450	-	10,705	11,969	43,690	-	11.8%	265.0%
Other Operating Revenue	3	48,390				24,741				(100.0%)	-	-
Financial Expense (b)		**366,351**	**405,500**	**459,369**	**351,671**	**187,312**	**207,329**	**234,872**	**179,807**	**10.7%**	**13.3%**	**(23.4%)**
Interest paid on borrowings		256,954	401,876	457,671	351,671	131,378	205,476	234,003	179,807	56.4%	13.9%	(23.2%)
Interest paid on deposits										-	-	-
Net Inflation Adjustment Expense												
Other Financial Expenses	4	109,397	3,624	1,698		55,934	1,853	868		(96.7%)	(53.1%)	(100%)
Financial income [c=a-b]		**1,973,307**	**2,784,438**	**3,241,748**	**2,145,108**	**1,008,936**	**1,423,660**	**1,657,479**	**1,096,776**	**41.1%**	**16.4%**	**(33.8%)**
Net Loan Loss provision expense (d)		**66,658**	**117,421**	**155,503**	**163,278**	**34,082**	**60,036**	**79,507**	**83,483**	**76.2%**	**32.4%**	**5.0%**
Loan loss provision expense and write-off		74,469	124,461	179,573	163,278	38,075	63,636	91,814	83,483	67.1%	44.3%	(9.1%)
Recovery from Loans written off		7,811	7,040	24,070		3,994	3,599	12,307		(9.9%)	241.9%	(100%)
Operating expense (e)		**1,230,589**	**1,615,518**	**2,165,000**	**1,275,924**	**629,190**	**826,001**	**1,106,947**	**652,370**	**31.3%**	**34.0%**	**(41.1%)**
Personnel Expense (includes fringe)		785,430	1,149,646	1,562,318	835,735	401,584	587,805	798,801	427,305	46.4%	35.9%	(46.5%)
Administrative Expense (non-staff operating expenses)		445,159	465,872	602,682	440,189	227,606	238,197	308,146	225,065	4.7%	29.4%	(27.0%)
Depreciation and amortization		38,612	56,667	70,188	47,263	19,742	28,973	35,887	24,165	46.8%	23.9%	(32.7%)
Consulting fees		90,674	96,207	121,694		46,361	49,190	62,221		6.1%	26.5%	(100.0%)
Rental costs		56,665	65,862	79,416		28,972	33,675	40,605		16.2%	20.6%	(100.0%)
Travel costs		28,750	6,974	15,712		14,700	3,566	8,033		(75.7%)	125.3%	(100.0%)
Bank fee		42,170	55,658	67,235		21,561	28,457	34,377		32.0%	20.8%	(100.0%)
Supervisory board fees			23,281	28,836			11,903	14,744		-	23.9%	(100.0%)
Others		188,288	161,223	219,601	392,926	96,270	82,432	112,280	200,900	(14.4%)	36.2%	78.9%
Net Operating Income Before Taxes and Donations f=c-d-e]		**676,060**	**1,051,499**	**921,245**	**705,906**	**345,664**	**537,623**	**471,025**	**360,924**	**55.5%**	**(12.4%)**	**(23.4%)**
Income Taxes (g)										-	-	-
Net Operating Income Before Donations [h=f-g]		**676,060**	**1,051,499**	**921,245**	**705,906**	**345,664**	**537,623**	**471,025**	**360,924**	**55.5%**	**(12.4%)**	**(23.4%)**
Non Operating Revenue (i)										-	-	-
Non Operating Expense (including related taxes) (j)										-	-	-
Net Income Before Donations [k=h+i-j]		**676,060**	**1,051,499**	**921,245**	**705,906**	**345,664**	**537,623**	**471,025**	**360,924**	**55.5%**	**(12.4%)**	**(23.4%)**
Donations (l)		1,493,292	20,658	214,037	481,533	763,508	10,562	109,435	246,204	(98.6%)	936.1%	125.0%
Net Income (after Taxes and Donations) [m=k+l]		**2,169,352**	**1,072,157**	**1,135,282**	**1,187,439**	**1,109,172**	**548,185**	**580,460**	**607,128**	**(50.6%)**	**5.9%**	**4.6%**

Loan products description

Name of the product	Solidarity Group	Individual Loan I1	Individual Loan I2	Agriculture Loan P1	Agriculture Loan P2	Parallel Loan	Fast Loan
Creation Date	1997	2001	2001	2002	2002	2004	2004
Client type	Low income women entrepreneurs who have business activity or intend to start income generating activities	Low income women entrepreneurs who run income generating activities	Women entrepreneurs who have developed micro and small businesses or are active in family businesses which accumulate profit	Low income women entrepreneurs who deal with agriculture activities that generate income	Women who have actively participated in agricultural activities for three years. Activities are of larger scale.	Women from 18 to 65	Women from 18 to 65
Authorized loan size	Up to 3000 BAM per group member	Up to 3000 BAM	3.500 to 30.000 BAM	Up to 3000 BAM.	3.500 to 20.000 BAM	500 to 5.000 BAM	100 BAM to 1.500 BAM
Average disbursed loan size	1,645	1,871	7,797	2,172	7,095	2,041	743
Authorized loan length	1-24 months (avg. 11)	1-24 months (avg. 12)	1-36 months (avg. 15)	1-24 months (avg. 13)	1-36 months (avg. 19)	1-6 months (avg. 6)	2-5 months (avg. 5)
Grace period	No	no	up to 3 months	no	up to 6 months	up to 5 months	up to 4 months
Collateral requirements and other conditions	Solidarity Group	Co-signers, guarantors, collateral	Co-signers, guarantors, collateral, bill of exchange	Co-signers, guarantors	Co-signers, guarantors, collateral, bill of exchange	Co-signers, collateral	Co-signer
Repayment Schedule	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Nominal annualized interest rate / APR	26%-33% declining	26%-33% declining	24%-29% declining	28% declining	24% declining	30% declining	42% declining
Fees and penalties	No fees. Penalty : 0,2% on loan amount per day.	No fees. Penalty : 0,2% on loan amount per day.	No fees. Penalty : 0,2% on loan amount per day.	No fees. Penalty : 0,2% on loan amount per day.	No fees. Penalty : 0,2% on loan amount per day.	No fees. Penalty : 0,2% on loan amount per day.	No fees. Penalty : 0,2% on loan amount per day.
Share in the outstanding portfolio (as of June 2005)	45.1%	12.2%	34.3%	0.9%	2.8%	4.7%	0%

Organizational chart