

Performance Trends

Microfinance Information eXchange (MIX)

Bosnia and Herzegovina MFIs

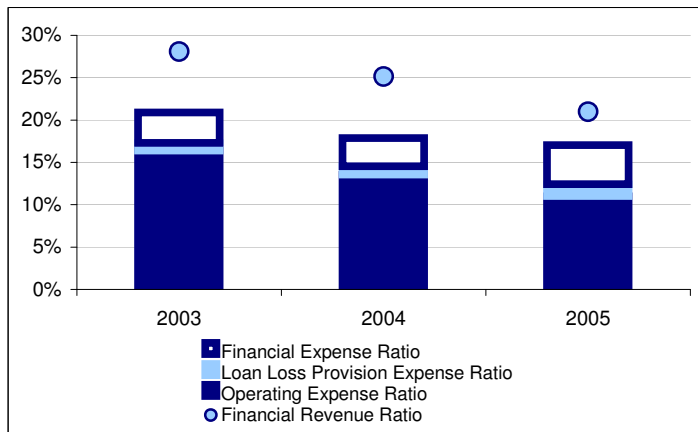
Trends

2003

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2005

Key Performance Trends



- ↑ Number of Active Borrowers
- ↑ Gross Loan Portfolio
- ↑ Debt/ Equity Ratio
- ↓ Return on Assets
- ↓ Financial Revenue Ratio
- ↓ Total Expense Ratio
- ↓ Operating Expense/ Loan Portfolio
- ↑ Borrowers per Staff Member
- Portfolio at Risk > 30 Days



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Bosnia and Herzegovina has the hallmarks of a mature microfinance sector – increasing efficiency and stable profitability as well as the tighter profit margins and lower gross revenues which accompany increasing competition.

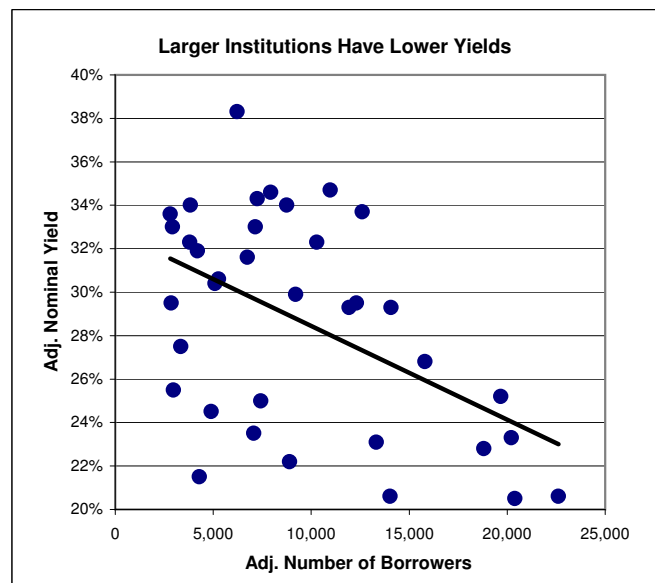
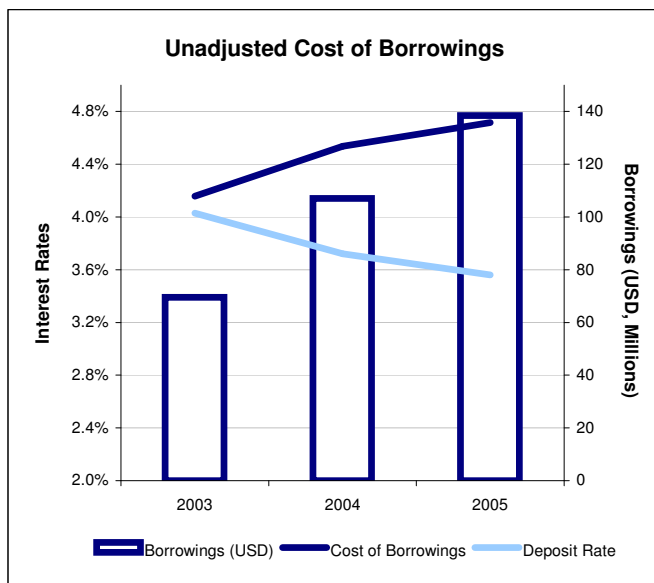
Having a set of MFIs that have been financially transparent for a number of years presents a good opportunity to observe trends in a developed microfinance sector. The data set here includes 12 MFIs for which the MIX has data over the period 2003 - 2005. Each of the institutions has similar legal charters and operating environments, although there are slight differences between the two federated entities of Bosnia and Herzegovina. All information is based on audited financial statements and, when available, confirmed by external ratings.

Two sets of metrics are presented for the same set of MFIs. Aggregate trends are presented for the 12 MFIs treated together. In addition, median trends are presented for the same sample.

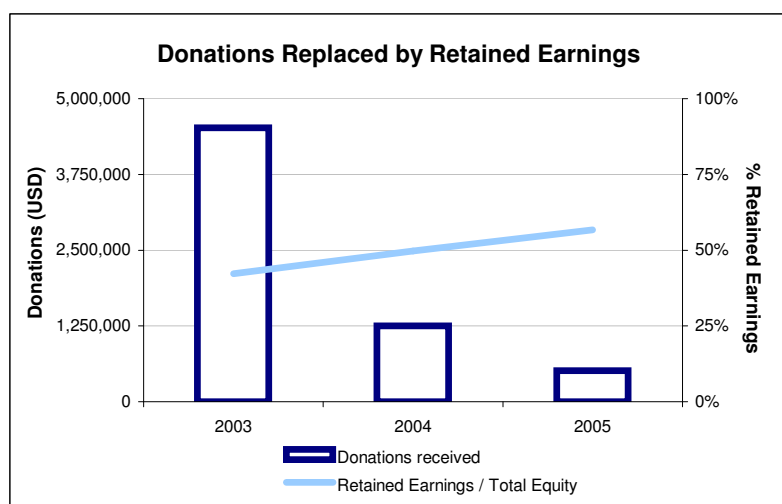
The number of clients served by microcredit organizations in Bosnia has increased by over 75% over the past three years to around 150,000 borrowers, slightly more than 3% of the total population. At the same time, the gross loan portfolio of the same organizations has similarly increased by over 80% to \$200M USD. Together, the balanced growth in borrowers and loan portfolios indicates that there was not a substantial move ‘up-market’, and average loan balances increased by only 5% during the period. Loan balances as a percentage of GDP per capita have actually decreased over the period, given generally rising levels. This confirms that growth did not come at the expense of outreach for these organizations.

Costs have decreased overall as these institutions have begun to operate more efficiently. However, the entire cost structure has also shifted, as the graph on the cover demonstrates. Financial expenses have increased as the pool of donor funding has decreased and been replaced with commercial sources of financing. In addition, expenses from loan losses have also increased for Bosnian MFIs, although portfolio-at-risk levels are still low (PAR > 30 below 1% on average). The unadjusted average expense on borrowings has risen from 4.16% to 4.72% over the past three years. While this is a small increase, the deposit rate in Bosnia has also dropped from 4% to 3.5% over the same period, widening the gap between the cost of financing for microcredit organizations and other deposit-taking financial institutions.

While costs have decreased, returns have also declined over the past three years for the vast majority of MFIs as margins are squeezed in the increasingly competitive environment. At the same time, no Bosnian MFI lost money during the last three years – adjusted returns remained positive for every MFI in the sample for the entire period. The decreasing returns are driven largely by a combination of higher financial expenses and lower lending rates. Yield levels decreased year-to-year in all but a handful of instances, and real yield levels for some MFIs dropped below 20%. The institutions with the lowest yields also have the largest client bases and the lowest expenses. The competitive environment for clients rewards those institutions that are able to provide lower-cost services.



Return on equity has increased slightly since 2003, although this increase is primarily due to the increasing leverage among Bosnian MFIs. The capital base of Bosnian MFIs was originally largely donor-funded, but has grown more quickly through retained earnings than through donations. Within the last two years, the level of retained earnings in equity for the 12 MFIs crossed the 50% threshold. Bosnian MFIs are now supported more by their own retained earnings than by donated equity. Inflows of donations have also dropped to around 0.5M USD in 2005, less than 1% of equity - down from 10% of equity in 2003 (although this only reflects the extent to which donations are disclosed in financial statements and ratings).



The data from Bosnia and Herzegovina supports the notion that scale, outreach and profitability can go together and that Bosnian MFIs are improving in their provision of services to microcredit clients. The microfinance sector in Bosnia and Herzegovina provides a good illustration of some of the trends that come with increased competition – increased efficiency, lower rates for microcredit clients and rapid growth, although along with higher financial costs, increased delinquency and lower returns. It should be noted that for-profit microfinance providers were excluded from this data set (most notably, ProCredit Bank Bosnia and UPI Bank), and that the growth in the non-profit microfinance sector occurred despite added competition from formal financial sector entities. As the new legislative framework for microfinance begins to take effect this year, we can continue to monitor how microfinance institutions will respond.

Participant MFIs:

BENEFIT, EKI Microcredit Institution, LIDER *, LOKmicro, MI-BOSPO, Mikra, Mikro ALDI, MIKROFIN, Partner, Prizma, SinergijaPlus, Sunrise, Women for Women

* included in median trend data only

- Scott Gaul

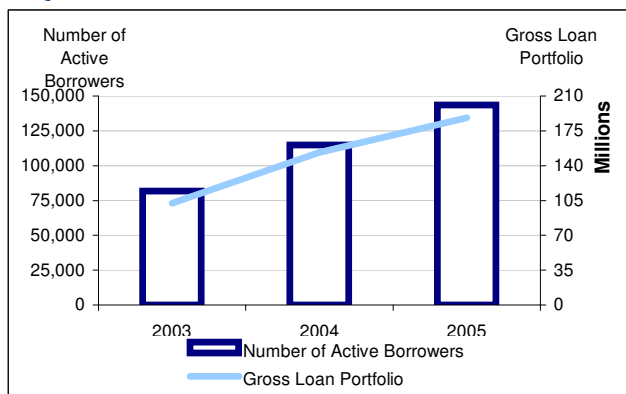
Analyst, Eastern Europe and Central Asia

Microfinance Information eXchange

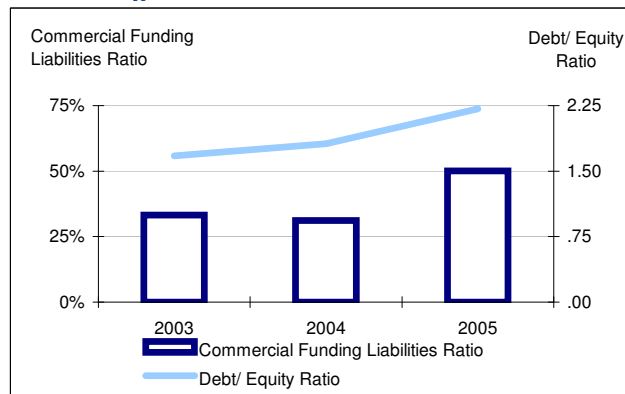
September 2006

INSTITUTIONAL CHARACTERISTICS	Adjusted					
	2005		2004		2003	
	Indicators	% Δ	Indicators	% Δ	Indicators	
Number of MFIs	12		12		12	
Age	8		7		6	
Total Assets	206,388,580	21.0%	170,499,064	47.7%	115,461,907	
Offices	259	5.3%	246	20.0%	205	
Personnel	907	21.9%	744	16.6%	638	
FINANCING STRUCTURE						
Capital/ Asset Ratio	31.1%	-12.3%	35.5%	-5.0%	37.4%	
Commercial Funding Liabilities Ratio	50.0%	60.4%	31.2%	-6.2%	33.3%	
Debt/ Equity Ratio	2.2	21.8%	1.8	8.4%	1.7	
Deposits to Loans	0.0%	n/a	0.0%	n/a	0.0%	
Deposits to Total Assets	0.0%	n/a	0.0%	n/a	0.0%	
Gross Loan Portfolio/ Total Assets	91.1%	1.2%	90.0%	1.7%	88.6%	
OUTREACH INDICATORS						
Number of Active Borrowers	143,604	25.1%	114,796	40.6%	81,670	
Percent of Women Borrowers	59%	0.2%	59%	-4.8%	62%	
Number of Loans Outstanding	145,543	26.2%	115,316	40.8%	81,905	
Gross Loan Portfolio	187,986,981	22.4%	153,524,335	50.1%	102,257,269	
Average Loan Balance per Borrower	1,309	-2.1%	1,337	6.8%	1,252	
Average Loan Balance per Borrower/ GNI per Capita	64%	-2.1%	66%	-19.4%	81%	
Average Outstanding Balance	1,292	-3.0%	1,331	6.6%	1,248	
Average Outstanding Balance/ GNI per Capita	63%	-3.0%	65%	-19.5%	81%	
Number of Voluntary Savers	0	n/a	0	n/a	0	
Number of Voluntary Savings Accounts	0	n/a	0	n/a	0	
Voluntary Savings	0	n/a	0	n/a	0	
Average Savings Balance per Saver	n/a	n/a	n/a	n/a	n/a	
Average Savings Account Balance	n/a	n/a	n/a	n/a	n/a	
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	4.1%	-43.8%	7.3%	0.8%	7.2%	
Return on Equity	12.4%	-38.4%	20.1%	2.2%	19.7%	
Operational Self-Sufficiency	130.5%	-8.3%	142.2%	1.2%	140.6%	
Financial Self-Sufficiency	123.0%	-12.4%	140.4%	4.4%	134.5%	

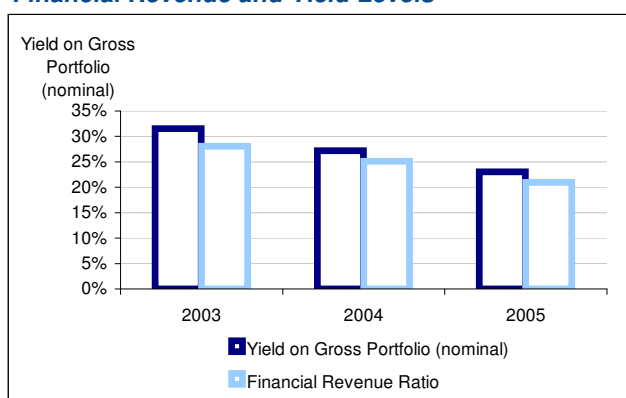
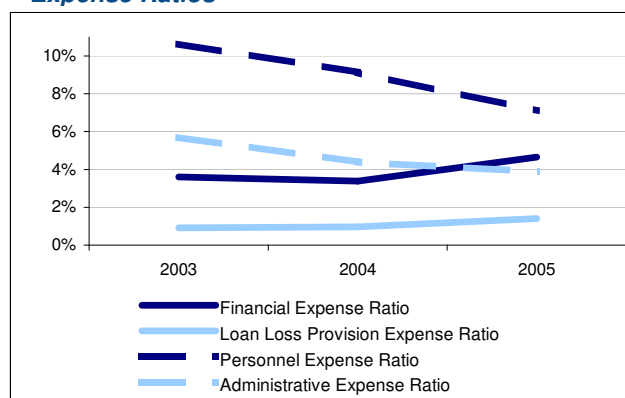
Adj. Number of Borrowers and Gross Loan Portfolio



Financing and Asset Structure

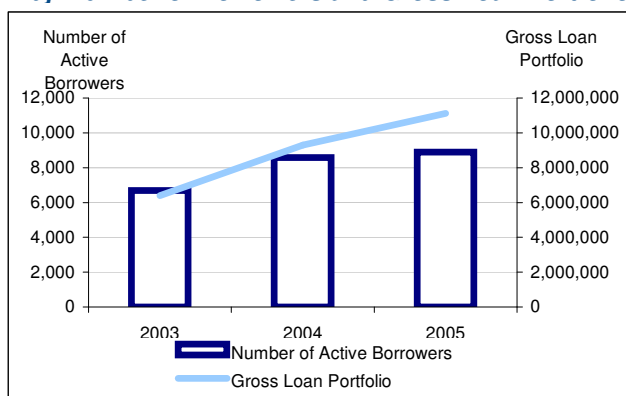


	2005		Adjusted 2004		2003
	Indicators	% Δ	Indicators	% Δ	Indicators
REVENUES					
Financial Revenue Ratio	21.0%	-16.5%	25.1%	-10.6%	28.1%
Profit Margin	18.7%	-35.1%	28.8%	12.3%	25.6%
Yield on Gross Portfolio (nominal)	23.0%	-15.3%	27.2%	-13.9%	31.6%
Yield on Gross Portfolio (real)	22.2%	-18.5%	27.3%	-13.5%	31.5%
EXPENSES					
Total Expense Ratio	17.0%	-4.7%	17.9%	-14.4%	20.9%
Financial Expense Ratio	4.7%	37.6%	3.4%	-6.3%	3.6%
Loan Loss Provision Expense Ratio	1.4%	45.4%	1.0%	4.4%	0.9%
Operating Expense Ratio	11.0%	-18.8%	13.5%	-17.2%	16.4%
Personnel Expense Ratio	7.1%	-22.2%	9.1%	-14.1%	10.6%
Administrative Expense Ratio	3.9%	-11.6%	4.4%	-23.0%	5.7%
Adjustment Expense Ratio	-1.0%	-339.7%	-0.2%	75.4%	-0.9%
EFFICIENCY					
Operating Expense/ Loan Portfolio	11.0%	-12.6%	12.6%	-13.4%	14.6%
Personnel Expense/ Loan Portfolio	7.1%	-16.3%	8.5%	-10.2%	9.5%
Average Salary/ GNI per Capita	7.2	-13.2%	8.3	-9.3%	9.2
Cost per Borrower	159	-19.1%	196	-9.8%	217
Cost per Loan	160	-18.6%	197	-9.6%	218
PRODUCTIVITY					
Borrowers per Staff Member	158	2.6%	154	20.5%	128
Loans per Staff Member	160	3.5%	155	20.7%	128
Borrowers per Loan Officer	253	-1.1%	256	17.6%	218
Loans per Loan Officer	257	-0.2%	257	17.8%	218
Voluntary Savers per Staff Member	0	n/a	0	n/a	0
Savings Accounts per Staff Member	0	n/a	0	n/a	0
Personnel Allocation Ratio	62.5%	3.8%	60.2%	2.5%	58.8%
RISK AND LIQUIDITY					
Portfolio at Risk > 30 Days	0.7%	37.3%	0.5%	-16.6%	0.6%
Portfolio at Risk > 90 Days	0.3%	87.0%	0.1%	-23.5%	0.2%
Write-off Ratio	1.1%	123.8%	0.5%	7.2%	0.4%
Loan Loss Rate	1.0%	191.7%	0.3%	16.9%	0.3%
Risk Coverage	280.9%	-37.2%	447.1%	21.0%	369.4%
Non-earning Liquid Assets as % Total Assets	2.8%	2.3%	2.7%	1.8%	2.7%
Current Ratio	n/a	n/a	n/a	n/a	n/a

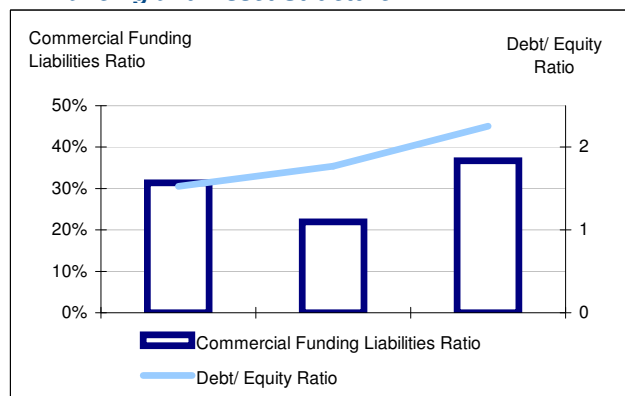
Financial Revenue and Yield Levels**Expense Ratios**

INSTITUTIONAL CHARACTERISTICS	Adjusted					
	2005		2004		2003	
	Indicators	% Δ	Indicators	% Δ	Indicators	
Number of MFIs	13		12		12	
Age	8		7		6	
Total Assets	12,363,914	12.4%	11,001,514	36.3%	8,074,310	
Offices	20	0.0%	20	-2.4%	21	
Personnel	62	18.1%	53	9.4%	48	
FINANCING STRUCTURE						
Capital/ Asset Ratio	30.8%	-14.9%	36.2%	-8.5%	39.6%	
Commercial Funding Liabilities Ratio	36.7%	67.2%	22.0%	-30.0%	31.4%	
Debt/ Equity Ratio	2.3	27.3%	1.8	15.7%	1.5	
Deposits to Loans	0.0%	n/a	0.0%	n/a	0.0%	
Deposits to Total Assets	0.0%	n/a	0.0%	n/a	0.0%	
Gross Loan Portfolio/ Total Assets	92.8%	3.2%	89.9%	1.5%	88.6%	
OUTREACH INDICATORS						
Number of Active Borrowers	8,900	3.8%	8,573	28.1%	6,694	
Percent of Women Borrowers	42%	-10.5%	47%	-2.1%	48%	
Number of Loans Outstanding	8,900	3.1%	8,629	28.9%	6,695	
Gross Loan Portfolio	11,120,950	19.6%	9,301,687	45.5%	6,393,791	
Average Loan Balance per Borrower	1,207	-2.7%	1,240	3.6%	1,197	
Average Loan Balance per Borrower/ GNI per Capita	59%	-2.8%	61%	-21.8%	78%	
Average Outstanding Balance	1,207	-2.7%	1,240	3.6%	1,197	
Average Outstanding Balance/ GNI per Capita	59%	-2.8%	61%	-21.8%	78%	
Number of Voluntary Savers	0	n/a	0	n/a	0	
Number of Voluntary Savings Accounts	0	n/a	0	n/a	0	
Voluntary Savings	0	n/a	0	n/a	0	
Average Savings Balance per Saver	n/a	n/a	n/a	n/a	n/a	
Average Savings Account Balance	n/a	n/a	n/a	n/a	n/a	
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	4.0%	-39.8%	6.7%	3.9%	6.4%	
Return on Equity	15.9%	-11.4%	18.0%	21.7%	14.8%	
Operational Self-Sufficiency	129.0%	-5.7%	136.8%	0.6%	136.1%	
Financial Self-Sufficiency	124.1%	-7.8%	134.6%	2.9%	130.8%	

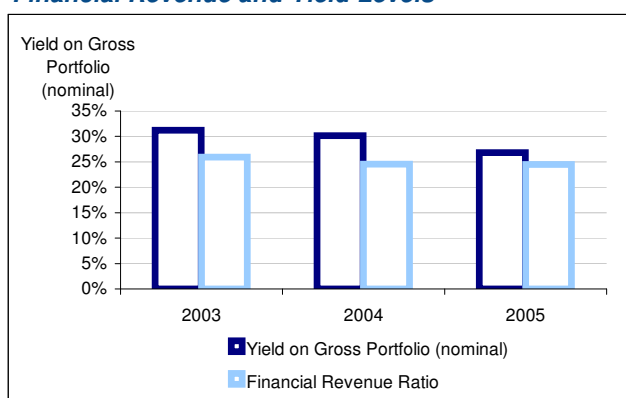
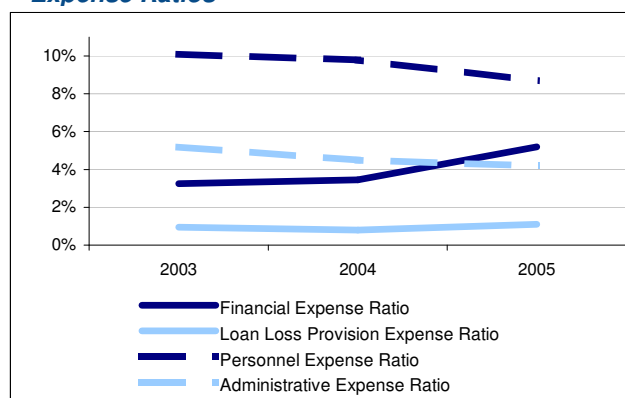
Adj. Number of Borrowers and Gross Loan Portfolio



Financing and Asset Structure



	2005		Adjusted 2004		2003
	Indicators	% Δ	Indicators	% Δ	Indicators
REVENUES					
Financial Revenue Ratio	24.5%	-0.2%	24.6%	-5.4%	26.0%
Profit Margin	19.4%	-24.4%	25.7%	8.9%	23.6%
Yield on Gross Portfolio (nominal)	26.8%	-11.1%	30.2%	-3.5%	31.3%
Yield on Gross Portfolio (real)	22.4%	-26.7%	30.6%	-1.3%	31.0%
EXPENSES					
Total Expense Ratio	19.0%	0.3%	19.0%	-2.8%	19.5%
Financial Expense Ratio	5.2%	50.7%	3.5%	6.2%	3.3%
Loan Loss Provision Expense Ratio	1.1%	37.5%	0.8%	-15.8%	1.0%
Operating Expense Ratio	13.5%	-7.5%	14.6%	-4.6%	15.3%
Personnel Expense Ratio	8.7%	-11.2%	9.8%	-3.0%	10.1%
Administrative Expense Ratio	4.2%	-6.7%	4.5%	-13.5%	5.2%
Adjustment Expense Ratio	1.0%	1100.0%	-0.1%	-200.0%	0.1%
EFFICIENCY					
Operating Expense/ Loan Portfolio	15.0%	-13.5%	17.4%	1.2%	17.2%
Personnel Expense/ Loan Portfolio	9.4%	-18.3%	11.5%	-5.0%	12.1%
Average Salary/ GNI per Capita	7.6	-14.8%	8.9	-13.4%	10.3
Cost per Borrower	159	-18.4%	195	-10.7%	219
Cost per Loan	157	-19.2%	194	-11.3%	218
PRODUCTIVITY					
Borrowers per Staff Member	151	-1.6%	153	18.4%	129
Loans per Staff Member	155	0.7%	154	18.1%	130
Borrowers per Loan Officer	236	-2.3%	241	13.0%	214
Loans per Loan Officer	239	-1.0%	241	13.0%	214
Voluntary Savers per Staff Member	0	n/a	0	n/a	0
Savings Accounts per Staff Member	0	n/a	0	n/a	0
Personnel Allocation Ratio	62.7%	4.5%	60.0%	5.7%	56.8%
RISK AND LIQUIDITY					
Portfolio at Risk > 30 Days	1.1%	120.0%	0.5%	42.9%	0.4%
Portfolio at Risk > 90 Days	0.4%	300.0%	0.1%	0.0%	0.1%
Write-off Ratio	0.7%	133.3%	0.3%	0.0%	0.3%
Loan Loss Rate	0.4%	100.0%	0.2%	0.0%	0.2%
Risk Coverage	215.8%	-37.5%	345.1%	-28.1%	479.8%
Non-earning Liquid Assets as % Total Assets	2.1%	-14.3%	2.5%	-15.5%	2.9%
Current Ratio	786.7%	19.5%	658.4%	28.7%	511.6%

Financial Revenue and Yield Levels**Expense Ratios**

Bosnia and Herzegovina MFIs

Average Adjusted Financial Statement - 8

Year: 2005 Currency Conversion Factor .602410
 Currency: United States Dollar Units 1

** Values represent weighted averages for all BiH MFIs in sample

	Unadjusted Accounts	Adjusted Accounts		Adjusted Accounts
BALANCE SHEET			INCOME STATEMENT	
Cash and Due from Banks	480,914	480,914	Financial Revenue	3,292,610
Reserves from Central Bank	0	0	Financial Revenue from Loan	3,275,211
Short Term Financial Assets	230,533	230,533	<i>Interest on Loan Portfolio</i>	3,061,798
Net Loan Portfolio	15,365,162	15,365,162	<i>Fees and Commissions on Loan Portfolio</i>	213,413
<i>Gross Loan Portfolio</i>	15,667,759	15,665,582	Financial Revenue from Other Financial Assets	3,158
<i>(Loan Loss Reserve)</i>	302,597	300,420	Other Revenue Related to Financial Services	14,241
Interest Receivable	77,798	77,798	Financial Expense	579,214
Accounts Receivable and Other Assets	107,207	107,207	Financial Expense on Liabilities	482,315
Long Term Financial Assets	5,020	5,020	<i>Interest and Fess Expense on Deposits</i>	0
Net Fixed Assets	906,359	932,415	<i>Interest and Fee Expense on Borrowings</i>	482,315
Total Assets	17,172,992	17,199,048	Net Inflation Adjustment Expense	0
Demand Deposits	0	0	<i>Inflation Adjustment Expense</i>	0
<i>Voluntary Savings</i>	0	0	<i>Inflation Adjustment Revenue</i>	0
<i>Compulsory Savings</i>	0	0	Subsidized Cost-of-Funds Adjustment Expense	0
Time Deposits	0	0	Other Financial Expenses	96,899
Borrowings	11,535,545	11,535,545	Net Financial Income	2,713,396
<i>Borrowings at concessional interest rates</i>	4,413,723	4,413,723	Net Loan Loss Provision Expense	219,387
<i>Borrowings at commercial interest rates</i>	7,121,822	7,121,822	Loan Loss Provision Expense	232,673
Interest Payable	25,854	25,854	Recovery on Loans Written-Off	13,286
Accounts Payable and Other Liabilities	283,173	283,173	Operating Expense	1,725,157
Total Liabilities	11,844,572	11,844,572	Personnel Expense	1,116,350
Paid-in Capital	350,090	350,090	Administrative Expense	608,807
Donated Equity	1,941,875	1,941,875	<i>Rent and Utilities</i>	118,014
<i>Prior Years</i>	1,899,058	1,899,058	<i>Transportation</i>	29,741
<i>Current Year</i>	42,816	42,816	<i>Office Supplies</i>	39,466
Retained Earnings	3,038,966	2,885,512	<i>Depreciation and Amortization</i>	100,563
<i>Prior Years</i>	2,241,627	2,241,627	<i>Other Administrative Expenses</i>	321,023
<i>Current Year</i>	797,340	643,885	Net Operating Income	768,852
Adjustments	0	179,510	Net Non-Operating Income	28,488
<i>Inflation Adjustment</i>	0	160,250	Non-Operating Revenue	36,419
<i>Subsidized Costs of Funds Adjustment</i>	0	17,674	Non-Operating Expense	7,932
<i>In-Kind Subsidy Adjustment</i>	0	1,586	Net Income (Before Taxes and Donations)	797,340
Reserves	0	0	Taxes	0
Other Equity Accounts	-2,510	-2,510	Net Income (After Taxes and Before Donations)	797,340
Total Equity	5,328,420	5,354,476	Donations to Subsidize Financial Services	42,816
Total Liabilities and Equity	17,172,992	17,199,048	Net Income (After Taxes and Donations)	840,156
				686,702