

# Performance Trends

Microfinance Information eXchange (MIX)

August 2007

## Bosnia and Herzegovina Trends

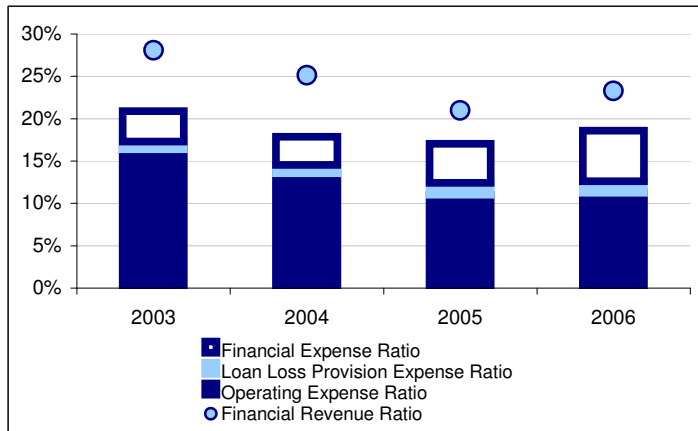
Trends

2003

–

2006

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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**As the microfinance sector in Bosnia and Herzegovina continues to grow rapidly, institutions are grappling with the challenges of commercialization. Loan balances and financial costs increased from 2005 to 2006, but institutions generally remained efficient and profitable**

A set of roughly a dozen institutions has led the development of the non-bank microfinance sector in Bosnia and Herzegovina. Over the past four years, these institutions expanded rapidly, supported by substantial gains in efficiency and fueled by increasing access to capital markets. Additional changes impacted the sector in 2006 with the passage of new MFI legislation requiring all institutions to register either as non-profit foundations or as for-profit companies by fall 2007. Early 2007 also saw the merger of two of the largest MFIs, Mikrofin and Benefit.

The trend data presented in this report outlines the changes in the sector over the period 2003 – 2006 for this group of leading institutions. Aggregate trends are presented. All information is based on audited financial statements and, when available, confirmed by external ratings.

Microcredit organizations in Bosnia and Herzegovina continued their rapid expansion in 2006, increasing outreach by 37% in the past year, 50% higher than the global norm. The gross loan portfolio of all 12 institutions increased even more rapidly by 70%, to over 300M USD. Annual growth rates for the past four years are similar, with 34% annual growth in outreach, and 46% annual growth in the loan portfolio. The disproportionate increase in the loan portfolio in the past year indicates a further shift to higher loan balances at some institutions. Some movement up-market is to be expected in the face of new legislation in 2006 allowing higher loan balances for institutions that register as ‘microcredit companies’. Although 2006 saw average loan balances rise to around 1600 USD, income levels have increased faster than loan balances. Loan balances relative to income levels remained roughly constant at around 65% of GNI per capita, which is still an overall decline from 2003 levels.

**Financing of MFIs in Bosnia and Herzegovina**

The rapid expansion of the microfinance sector in Bosnia is supported in part by the ability of these institutions to raise external financing. While the majority of financing still comes from international investors and donors, a large portion is raised locally. Over 40% of all outstanding debt is local, with 25% of the total funding coming from local commercial banks. The several government programs which also provide financial support to local MFIs make up the remaining 16% of the total debt, which is generally on more concessional terms. Foreign funding comes primarily from commercial investors, funds, and development financial institutions (DFIs).

Higher funding costs were driven primarily by an increased concentration of funds from commercial lenders. Commercial sources funded 50% of the total loan portfolio in 2005, increasing to 73% in 2006. As seen in chart 1, rapid increases occurred in 2006 in the amount of debt outstanding from foreign DFIs, microfinance investment funds, and local commercial banks. Outstanding debt from public sources and from NGOs/foundations remained roughly constant or decreased.

With the rising commercialization of funding, the cost of debt increased sharply from 2005 to 2006 – from 4.7% to 6.0%. Prevailing deposit rates in Bosnia have remained substantially lower than the MFI cost of funds, around 3.7% (chart 2), but current legislation does not allow MFIs to mobilize deposits. Interest rates offered to MFIs by commercial banks are comparable with those from foreign commercial investors (both around 8% in 2006), although commercial bank financing is generally for smaller amounts, shorter term and more often in local currency.

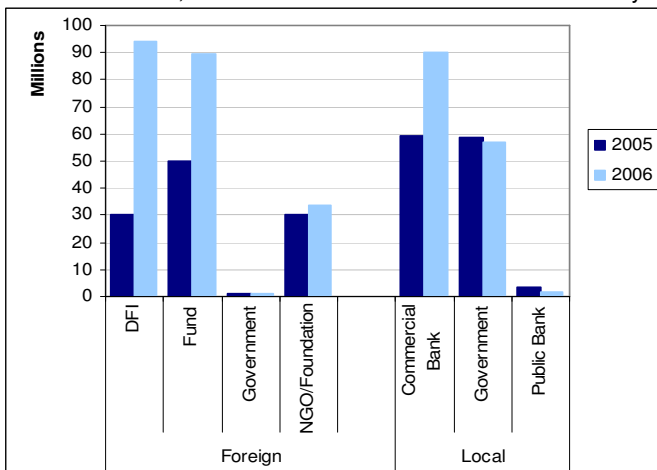


Chart 1: Sources of funding for Bosnian MFIs

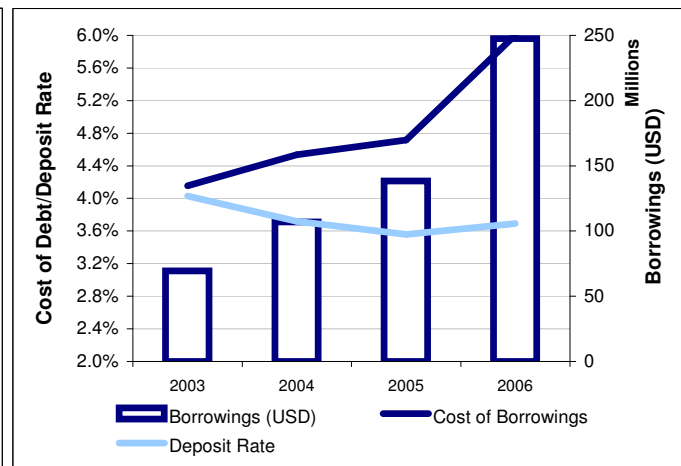


Chart 2: Cost of funds (unadjusted) for Bosnian MFIs

Financing costs also rose, due to the increased presence of market-oriented DFIs, such as EBRD, IFC and the EFSE Fund (through KfW), offering debt at commercial interest rates. The level of low-cost funds from international NGOs declined as founder funds were augmented and replaced by commercial sources. While the loan portfolios of MFIs in Bosnia are entirely in local currency, there is limited effective currency mismatch at institutions since the vast majority of funding (99.5%) comes in either convertible marks or euros (the mark is pegged to the euro). Roughly two thirds of all debt outstanding is at fixed rates, similar to the loan portfolios, but with an average term around four years. The term of the debt tends to be shorter at more 'commercial' lenders – commercial banks and investment funds average less than two-year commitments, while DFIs and NGOs are closer to four years, with government funds approaching ten year average loan terms.

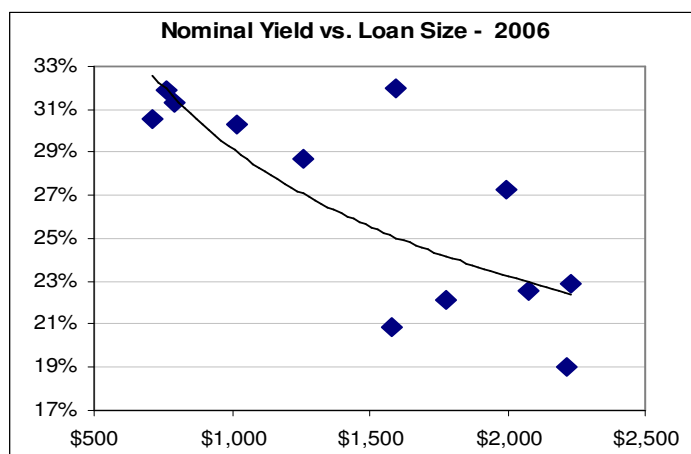


Chart 3: Higher Yields correspond to Lower Average Loan Balances

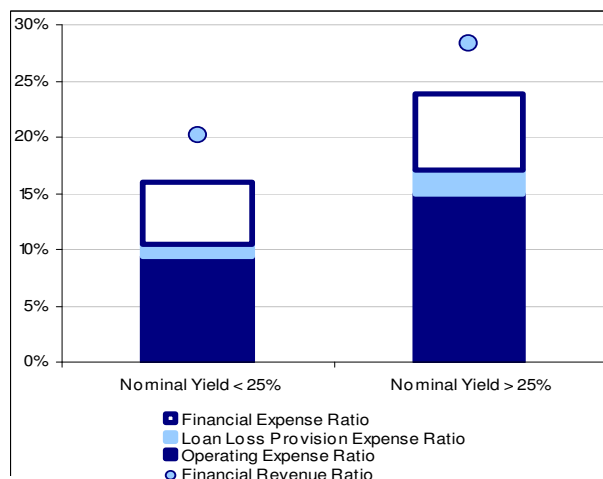


Chart 4: Cost structure of MFIs by yield levels

### Performance of MFIs in Bosnia and Herzegovina

Aggregate returns for Bosnian MFIs increased in 2006, but these increases were not spread evenly across all institutions. After peaking in 2003 and 2004, median returns declined again in 2006 as margins narrowed at most institutions. For those institutions that saw higher returns in 2006, one of the main drivers was increasing portfolio yields. Unlike prior years, nominal yields at Bosnian MFIs increased overall during 2006, driven by higher interest and fee income from borrowers. This is a somewhat surprising result to see in a competitive microfinance market, where the assumption is that yields will uniformly decrease over time, given a stable macroeconomic environment. However, average inflation levels in Bosnia increased from around 3.5% in 2005 to near 7.5% in 2006, and the higher inflation levels may have led to the higher interest rates for local MFIs, due to higher funding costs and potential increases in other operating costs.

Operating efficiency stagnated in 2006. This is the first year in which rising financial costs were not offset by reduction in operating costs. Operating expense ratios remained roughly constant at about 11% (of assets) for the sector as a whole. The level of efficiency in Bosnia and Herzegovina is still below all other regions of Eastern Europe and Central Asia. The limited changes in the past year may mean that efficiency gains have bottomed out for the sector. Personnel costs make up the majority of expenses, while expenses from loan losses have continued to remain low for all institutions and PAR > 30 levels are still below 2% for all institutions.

Yield levels for Bosnian MFIs closely track with the client base of the institutions and the accompanying cost structures. Higher yields correspond to the higher costs of making small loans, as seen in chart 3. If we group Bosnian MFIs into peer groups by their average yield levels, we can begin to see these differences across several indicators. Chart 4 displays median indicators for the Bosnian MFIs with 'lower' yields (nominal yield levels between 19 – 24%) and those with 'higher' yields (between 27 – 32%). Institutions with higher yields also had higher operating expenses, most of which were devoted to staff costs. Those institutions reaching further down-market had smaller overall outreach, although greater outreach to women, more frequent use of solidarity-group lending, lower leverage ratios and a higher cost of financing. The market appears to have an increasing gulf between institutions working with lower-income sectors at a higher cost, and those who have moved closer to SME clients and a mixed product offering.

### Participant MFIs:

BENEFIT\*, EKI Microcredit Institution, LIDER \*\*, LOKmicro, MI-BOSPO, Mikra, Mikro ALDI, MIKROFIN, Partner, Prizma, SinergijaPlus, Sunrise, Women for Women; \* has since merged with MIKROFIN; \*\* included in median trend data only

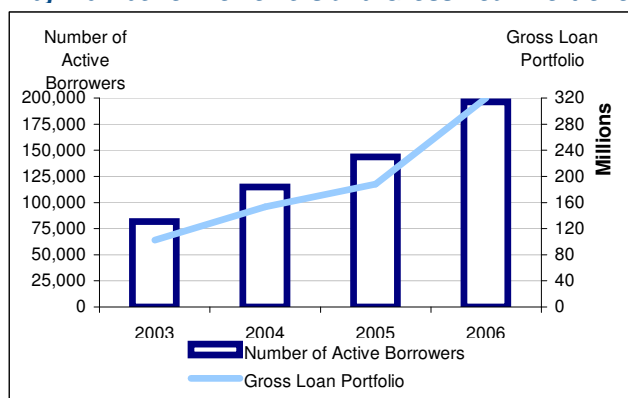
## 4 - Performance Trends - Aggregate

## Bosnia and Herzegovina Trends

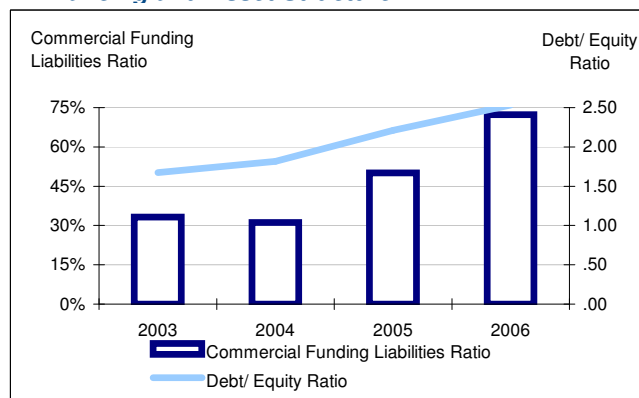
\* ratios present weighted averages for all indicators

	2006		Adjusted		
	Indicators	% Δ	2005	2004	2003
<b>INSTITUTIONAL CHARACTERISTICS</b>					
Number of MFIs	12		12	12	12
Age	9		8	7	6
Total Assets	354,183,105	45.3%	206,388,580	170,499,064	115,461,907
Offices	359	20.5%	259	246	205
Personnel	1,215	23.9%	907	744	638
<b>FINANCING STRUCTURE</b>					
Capital/ Asset Ratio	28.3%	-8.8%	31.1%	35.5%	37.4%
Commercial Funding Liabilities Ratio	72.3%	29.6%	50.0%	31.2%	33.3%
Debt/ Equity Ratio	2.5	14.7%	2.2	1.8	1.7
Deposits to Loans	0.0%	n/a	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	n/a	0.0%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	90.3%	0.6%	91.1%	90.0%	88.6%
<b>OUTREACH INDICATORS</b>					
Number of Active Borrowers	196,326	34.0%	143,604	114,796	81,670
Percent of Women Borrowers	59%	-1.8%	59%	59%	62%
Number of Loans Outstanding	204,660	35.7%	145,543	115,316	81,905
Gross Loan Portfolio	319,799,039	46.2%	187,986,981	153,524,335	102,257,269
Average Loan Balance per Borrower	1,629	9.2%	1,309	1,337	1,252
Average Loan Balance per Borrower/ GNI per Capita	67%	-6.4%	64%	66%	81%
Average Outstanding Balance	1,563	7.8%	1,292	1,331	1,248
Average Outstanding Balance/ GNI per Capita	64%	-7.6%	63%	65%	81%
Number of Voluntary Savers	0	n/a	0	0	0
Number of Voluntary Savings Accounts	0	n/a	0	0	0
Voluntary Savings	0	n/a	0	0	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
<b>OVERALL FINANCIAL PERFORMANCE</b>					
Return on Assets	4.7%	-13.2%	4.1%	7.3%	7.2%
Return on Equity	16.1%	-6.4%	12.4%	20.1%	19.7%
Operational Self-Sufficiency	136.9%	-0.9%	130.5%	142.2%	140.6%
Financial Self-Sufficiency	125.3%	-2.3%	123.0%	140.4%	134.5%

**Adj. Number of Borrowers and Gross Loan Portfolio**



**Financing and Asset Structure**



## Bosnia and Herzegovina Trends

## Performance Trends - Aggregate - 5

\* ratios present weighted averages for all indicators

	2006		Adjusted	2004	2003
	Indicators	% Δ	2005		
<b>REVENUES</b>					
Financial Revenue Ratio	23.3%	-6.1%	21.0%	25.1%	28.1%
Profit Margin	20.2%	-7.6%	18.7%	28.8%	25.6%
Yield on Gross Portfolio (nominal)	25.4%	-7.0%	23.0%	27.2%	31.6%
Yield on Gross Portfolio (real)	24.5%	-8.0%	22.2%	27.3%	31.5%

### EXPENSES

Total Expense Ratio	18.6%	-3.8%	17.0%	17.9%	20.9%
Financial Expense Ratio	6.0%	18.3%	4.7%	3.4%	3.6%
Loan Loss Provision Expense Ratio	1.4%	14.6%	1.4%	1.0%	0.9%
Operating Expense Ratio	11.2%	-11.8%	11.0%	13.5%	16.4%
Personnel Expense Ratio	7.1%	-12.4%	7.1%	9.1%	10.6%
Administrative Expense Ratio	4.1%	-10.7%	3.9%	4.4%	5.7%
Adjustment Expense Ratio	-1.6%	-220.2%	-1.0%	-0.2%	-0.9%

### EFFICIENCY

Operating Expense/ Loan Portfolio	9.8%	-12.3%	11.0%	12.6%	14.6%
Personnel Expense/ Loan Portfolio	6.3%	-12.9%	7.1%	8.5%	9.5%
Average Salary/ GNI per Capita	9.0	-0.5%	10.8	8.3	9.2
Cost per Borrower	179	-6.2%	159	196	217
Cost per Loan	185	-5.3%	160	197	218

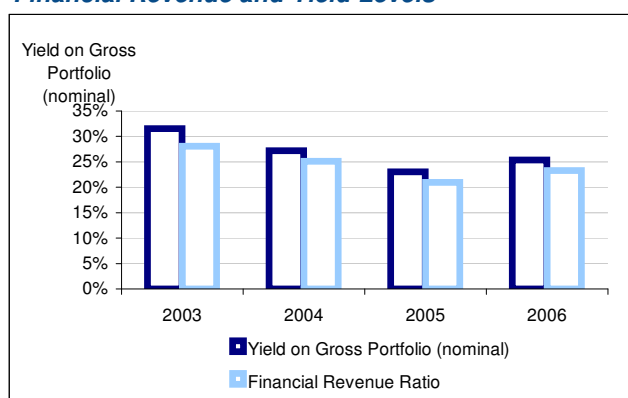
### PRODUCTIVITY

Borrowers per Staff Member	162	8.1%	158	154	128
Loans per Staff Member	169	9.5%	160	155	128
Borrowers per Loan Officer	254	5.3%	253	256	218
Loans per Loan Officer	265	6.7%	257	257	218
Voluntary Savers per Staff Member	0	n/a	0	0	0
Savings Accounts per Staff Member	0	n/a	0	0	0
Personnel Allocation Ratio	63.6%	2.6%	62.5%	60.2%	58.8%

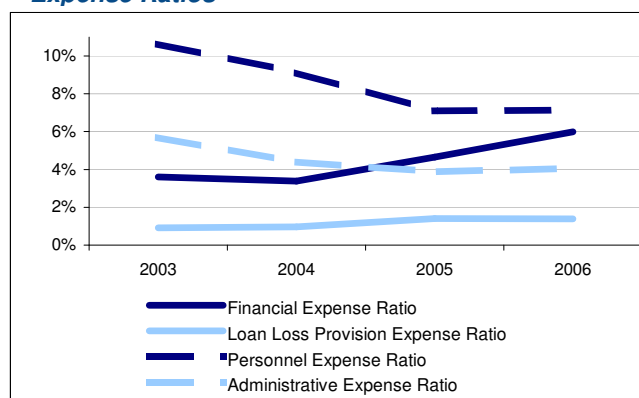
### RISK AND LIQUIDITY

Portfolio at Risk > 30 Days	0.6%	1.6%	0.7%	0.5%	0.6%
Portfolio at Risk > 90 Days	0.2%	7.1%	0.3%	0.1%	0.2%
Write-off Ratio	0.8%	21.3%	1.1%	0.5%	0.4%
Loan Loss Rate	0.0%	-45.5%	1.0%	0.3%	0.3%
Risk Coverage	297.2%	-7.0%	280.9%	447.1%	369.4%
Non-Earning Liquid Assets as % Total Assets	4.7%	20.9%	2.8%	2.7%	2.7%
Current Ratio	n/a	n/a	n/a	n/a	n/a

### Financial Revenue and Yield Levels

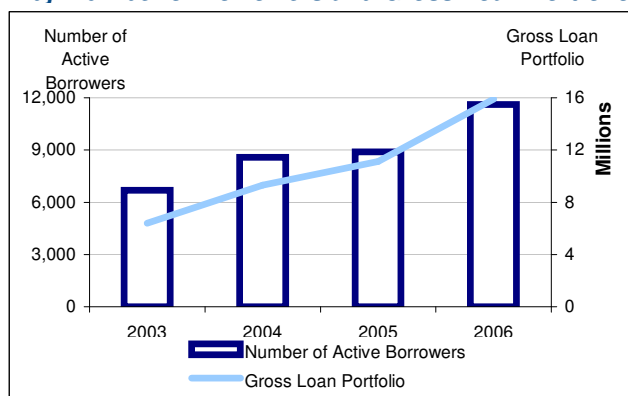


### Expense Ratios

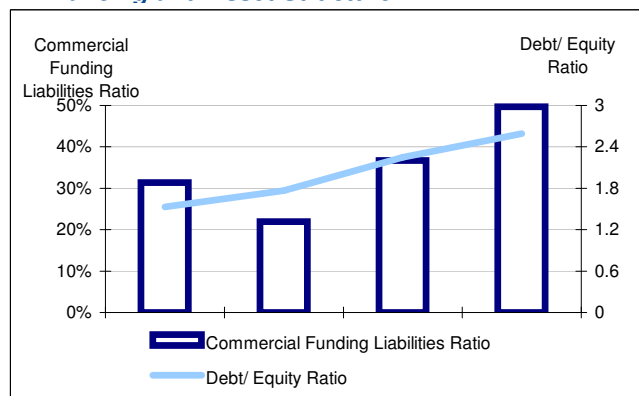


	2006		Adjusted		
	Indicators	% Δ	2005	2004	2003
<b>INSTITUTIONAL CHARACTERISTICS</b>					
Number of MFIs	13		13	12	12
Age	9		8	7	6
Total Assets	17,720,561	30.0%	12,363,914	11,001,514	8,074,310
Offices	31	14.8%	20	20	21
Personnel	88	22.4%	62	53	48
<b>FINANCING STRUCTURE</b>					
Capital/ Asset Ratio	27.8%	-11.1%	30.8%	36.2%	39.6%
Commercial Funding Liabilities Ratio	49.7%	16.6%	36.7%	22.0%	31.4%
Debt/ Equity Ratio	2.6	19.3%	2.3	1.8	1.5
Deposits to Loans	0.0%	n/a	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	n/a	0.0%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	90.4%	0.7%	92.8%	89.9%	88.6%
<b>OUTREACH INDICATORS</b>					
Number of Active Borrowers	11,611	20.2%	8,900	8,573	6,694
Percent of Women Borrowers	47%	-1.2%	42%	47%	48%
Number of Loans Outstanding	14,602	29.7%	8,900	8,629	6,695
Gross Loan Portfolio	15,907,744	35.5%	11,120,950	9,301,687	6,393,791
Average Loan Balance per Borrower	1,583	9.8%	1,207	1,240	1,197
Average Loan Balance per Borrower/ GNI per Capita	65%	-5.8%	59%	61%	78%
Average Outstanding Balance	1,583	9.8%	1,207	1,240	1,197
Average Outstanding Balance/ GNI per Capita	65%	-5.8%	59%	61%	78%
Number of Voluntary Savers	0	n/a	0	0	0
Number of Voluntary Savings Accounts	0	n/a	0	0	0
Voluntary Savings	0	n/a	0	0	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
<b>OVERALL FINANCIAL PERFORMANCE</b>					
Return on Assets	3.7%	-16.7%	4.0%	6.7%	6.4%
Return on Equity	14.9%	0.3%	15.9%	18.0%	14.8%
Operational Self-Sufficiency	137.6%	0.4%	129.0%	136.8%	136.1%
Financial Self-Sufficiency	122.9%	-2.1%	124.1%	134.6%	130.8%

Adj. Number of Borrowers and Gross Loan Portfolio



Financing and Asset Structure



	2006		Adjusted	2004	2003
	Indicators	% Δ	2005		
<b>REVENUES</b>					
Financial Revenue Ratio	23.5%	-3.3%	24.5%	24.6%	26.0%
Profit Margin	18.7%	-7.4%	19.4%	25.7%	23.6%
Yield on Gross Portfolio (nominal)	27.3%	-4.4%	26.8%	30.2%	31.3%
Yield on Gross Portfolio (real)	18.5%	-15.8%	22.4%	30.6%	31.0%

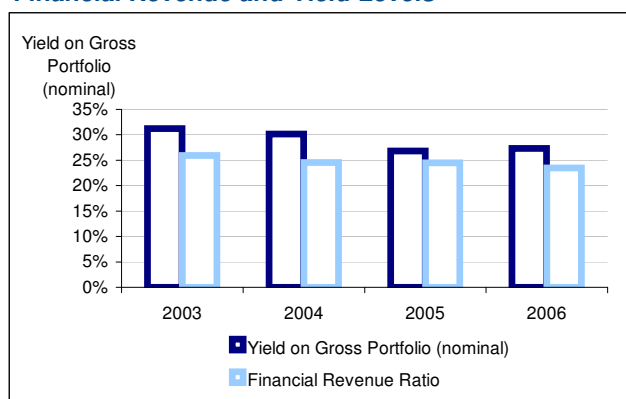
	2006		Adjusted	2004	2003
	Indicators	% Δ	2005		
<b>EXPENSES</b>					
Total Expense Ratio	19.8%	0.5%	19.0%	19.0%	19.5%
Financial Expense Ratio	6.6%	26.6%	5.2%	3.5%	3.3%
Loan Loss Provision Expense Ratio	1.5%	16.4%	1.1%	0.8%	1.0%
Operating Expense Ratio	12.4%	-6.8%	13.5%	14.6%	15.3%
Personnel Expense Ratio	8.4%	-6.0%	8.7%	9.8%	10.1%
Administrative Expense Ratio	3.8%	-9.9%	4.2%	4.5%	5.2%
Adjustment Expense Ratio	1.6%	152.0%	1.0%	-0.1%	0.1%

<b>EFFICIENCY</b>					
Operating Expense/ Loan Portfolio	14.0%	-6.5%	15.0%	17.4%	17.2%
Personnel Expense/ Loan Portfolio	9.3%	-8.4%	9.4%	11.5%	12.1%
Average Salary/ GNI per Capita	7.5	-10.2%	7.6	8.9	10.3
Cost per Borrower	175	-7.2%	159	195	219
Cost per Loan	171	-7.8%	157	194	218

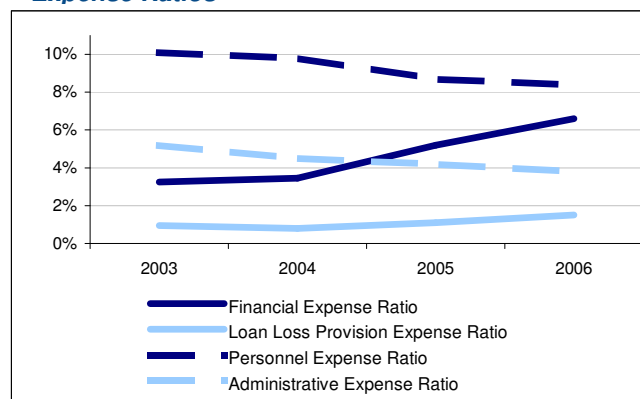
<b>PRODUCTIVITY</b>					
Borrowers per Staff Member	153	5.7%	151	153	129
Loans per Staff Member	156	6.2%	155	154	130
Borrowers per Loan Officer	242	4.3%	236	241	214
Loans per Loan Officer	242	4.3%	239	241	214
Voluntary Savers per Staff Member	0	n/a	0	0	0
Savings Accounts per Staff Member	0	n/a	0	0	0
Personnel Allocation Ratio	65.7%	5.0%	62.7%	60.0%	56.8%

<b>RISK AND LIQUIDITY</b>					
Portfolio at Risk > 30 Days	0.8%	31.7%	1.1%	0.5%	0.4%
Portfolio at Risk > 90 Days	0.3%	44.2%	0.4%	0.1%	0.1%
Write-off Ratio	1.0%	49.4%	0.7%	0.3%	0.3%
Loan Loss Rate	1.0%	71.0%	0.4%	0.2%	0.2%
Risk Coverage	257.7%	-18.7%	215.8%	345.1%	479.8%
Non-earning Liquid Assets as % Total Assets	4.8%	18.3%	2.1%	2.5%	2.9%
Current Ratio	786.7%	15.4%	786.7%	658.4%	511.6%

#### Financial Revenue and Yield Levels



#### Expense Ratios



## 8 - Aggregate Adjusted Financial Statement

## Bosnia and Herzegovina Trends

Year: 2006 Currency Conversion Factor 0.673401  
 Currency: United States Dollar Units 1

	Unadjusted Accounts	Adjusted Accounts		Adjusted Accounts
<b>BALANCE SHEET</b>			<b>INCOME STATEMENT</b>	
Cash and Due from Banks	16,793,537	16,793,537	<b>Financial Revenue</b>	<b>65,273,290</b>
Reserves from Central Bank	0	0	Financial Revenue from Loan	64,424,771
Short Term Financial Assets	3,638,237	3,638,237	Interest on Loan Portfolio	60,249,398
Net Loan Portfolio	313,848,970	313,848,970	Fees and Commissions on Loan Portfolio	4,175,372
Gross Loan Portfolio	319,799,039	319,799,039	Financial Revenue from Other Financial Assets	75,307
(Loan Loss Reserve)	5,950,068	5,950,068	Other Revenue Related to Financial Services	773,212
Interest Receivable	2,419,978	2,419,978	<b>Financial Expense</b>	<b>12,366,886</b>
Accounts Receivable and Other Assets	987,717	987,717	Financial Expense on Liabilities	11,588,401
Long Term Financial Assets	0	0	Interest and Fess Expense on Deposits	0
Net Fixed Assets	15,594,972	16,494,666	Interest and Fee Expense on Borrowings	11,588,401
<b>Total Assets</b>	<b>353,283,411</b>	<b>354,183,105</b>	Net Inflation Adjustment Expense	0
Demand Deposits	0	0	Inflation Adjustment Expense	0
Voluntary Savings	0	0	Inflation Adjustment Revenue	0
Compulsory Savings	0	0	Subsidized Cost-of-Funds Adjustment Expense	0
Time Deposits	0	0	Other Financial Expenses	778,485
Borrowings	247,515,919	247,515,919	<b>Net Financial Income</b>	<b>52,906,403</b>
Borrowings at concessional interest rates	63,940,901	63,940,901	<b>Net Loan Loss Provision Expense</b>	<b>3,881,723</b>
Borrowings at commercial interest rates	183,575,018	183,575,018	Loan Loss Provision Expense	4,237,117
Interest Payable	1,714,959	1,714,959	Recovery on Loans Written-Off	355,393
Accounts Payable and Other Liabilities	4,643,175	4,643,175	<b>Operating Expense</b>	<b>31,419,446</b>
<b>Total Liabilities</b>	<b>253,874,054</b>	<b>253,874,054</b>	Personnel Expense	20,024,964
Paid-in Capital	4,696,154	4,696,154	Administrative Expense	11,394,482
Donated Equity	35,770,335	35,770,335	Rent and Utilities	1,983,441
Prior Years	25,602,414	25,602,414	Transportation	763,068
Current Year	10,134,250	10,134,250	Office Supplies	584,919
Retained Earnings	58,976,539	54,569,256	Depreciation and Amortization	1,777,595
Prior Years	41,288,616	41,288,616	Other Administrative Expenses	6,285,458
Current Year	17,687,923	13,280,640	<b>Net Operating Income</b>	<b>17,605,235</b>
Adjustments	0	5,306,977	<b>Net Non-Operating Income</b>	<b>82,688</b>
Inflation Adjustment	0	5,306,977	Non-Operating Revenue	159,647
Subsidized Costs of Funds Adjustment	0	0	Non-Operating Expense	76,958
In-Kind Subsidy Adjustment	0	0	<b>Net Income (Before Taxes and Donations)</b>	<b>17,687,923</b>
Reserves	0	0	Taxes	0
Other Equity Accounts	0	0	<b>Net Income (After Taxes and Before Donations)</b>	<b>17,687,923</b>
<b>Total Equity</b>	<b>99,409,357</b>	<b>100,309,051</b>	Donations to Subsidize Financial Services	10,134,250
<b>Total Liabilities and Equity</b>	<b>353,283,411</b>	<b>354,183,105</b>	<b>Net Income (After Taxes and Donations)</b>	<b>27,822,173</b>
				<b>23,414,891</b>