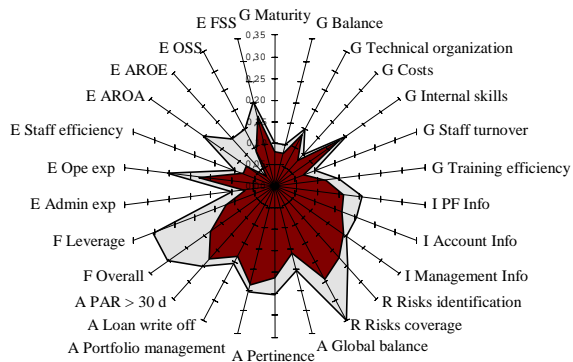


PRIZMA
Bosnia and Herzegovina
August 2002

Prizma is a locally registered microfinance organization, started by the Swiss-based NGO International Catholic Migration Commission (ICMC) in 1997. Prizma targets poor and low-income women in Bosnia and Herzegovina, having recently started operations in Republika Sprska. The institution reached financial sustainability in 2001 with disbursements growing at record levels over the last year.

Rating	
Final rating	G4*
Composite rating	G I R A F E
	a a b a c b
Trend	++



- Rates obtained by the institution
- Maximum rates: the maximum height of each peak is proportional to the weight in the final composite rating

Peer Group	Scale of operations	PRIZMA
Scale of operations	Medium	3.948 million USD
Target Market	Broad (avg. loan at disbursement 20% to 149% of GNP)	38%

(Categories from the MicroBanking Bulletin)
Conversion rate : 1 Euro = 0.99210 US Dollar, Oanda.com

	Dec 2000	Dec 2001	June 2002 annualized
Total Assets (EUR)	2,197,426	3,121,464	3,979,592
(Local currency)	4,297,792	6,105,052	7,783,405
ACTIVITIES			
Outstanding loans (Balance sheet) (EUR)	1,663,794	2,014,272	3,052,966
(Local currency)	3,254,098	3,939,574	5,971,082
Annual effective interest rate	41.3%	39.5%	37.1%
Portfolio yield	39%	38%	38%
Number of active borrowers	2,755	3,647	6,084
Number of active depositors	-	-	-
Total savings	-	-	-
PAR 30 to 180 days	0.31%	0.55%	0.64%
Write off ratio (after 180 days)	1.2%	1.1%	0.4% non annualized
PERFORMANCE			
Return On Assets (ROA)	1.9%	5.1%	2.7%
Adjusted ROA	(0.7)%	2.9%	0.7%
<i>After special adjustments</i>	(7.9)%	(1.4)%	0.7%
Return On Equity (ROE)	1.9%	5.6%	3.3%
Adjusted ROE	(0.7)%	3.2%	0.8%
<i>After special adjustments</i>	(8.0)%	(1.5)%	0.8%
Operational self-sufficiency	107%	125%	111%
Financial self-sufficiency	97%	113%	103%
<i>After special adjustments</i>	78%	96%	103%
Operational expense ratio	36.7%	29.7%	31.1%
Staff productivity	86	101	138
FUNDING			
Commercial liabilities/ Total Assets	-	13.1%	20.6%

7 6 rue du Faubourg St Denis
7 5 0 1 0 Paris France
Tel + 33 (0) 1 53 24 31 31
Fax + 33 (0) 1 53 24 11 57
Email rating @ planetfinance.org

Executive Summary

Seven years after the end of the conflict, the BiH economy is still relying on foreign support. Unemployment remains high at around 40% while the state-owned enterprises and banks are undergoing privatization and restructuring. The main growth sectors are services and light industry with small and medium enterprises leading the way. Supported essentially by the World Bank, the highly professional microfinance industry responds to these economic conditions by serving as the main supplier of credit to micro and small entrepreneurs. The market is growing more competitive, both among MFIs and more recently with banks for consumer and housing loans. This increased competition led to takeovers/mergers among MFIs and increased sophistication in the sector. In this context, product diversification and geographic expansion have become a necessity for forward-thinking MFIs like Prizma.

Founded in 1997 by the Swiss-based NGO ICMC, Prizma is now a local Microcredit Organization (MCO), having officially registered with the Federation in September 2001 accompanied by a complete transfer of assets from ICMC. The smooth localization process required the constitution of a Board of Directors, increasingly active though new, and the transition from technical assistance to local management. Formerly the Finance Director for two years, Prizma's new Executive Director, Maja Gizdic, is highly capable. Her already very skilled team has been strengthened with successful hires at headquarters: an Operations Manager, an Internal Auditor and a MIS Manager. Indeed, Prizma's very detailed and formalized strategy anticipated this organizational reinforcement to support geographic expansion. Consequently, Prizma opened a new branch in Sarajevo at the end of 2001, and further expansion prospects look encouraging.

Prizma has identified clearly its target client for each product. The core Group Enterprise Loan product meets the needs of economically active poor and low-income women. Urban state employees with low salaries and the unemployed may benefit from the Basic Needs Loan. Individual Loan and Housing Loan clientele have greater financial resources than the other target groups or have successfully graduated from other loan products. Prizma closely monitors its target with impact and market assessments.

Despite remarkable efforts to anticipate and manage its credit activities, Prizma experienced unanticipated market reactions in 2001. Portfolio growth has varied from the projections both in total and by product. New products have proven an immediate success and led to a complete restructuring of the portfolio since 2001. For these new products, Prizma has made several innovations: collateral requirements in lieu of solidarity groups, three-year maximum maturity instead of 12 months, and new loan purposes to include consumption and housing in addition to income generation. The impact of these new products, which will account for an increasing part of portfolio, will be difficult to predict despite the care taken in developing and piloting the products. Although the PAR remains at low levels, its recent increase, especially for the Basic Needs Loan, should be and is closely monitored by Prizma.

Prizma effectively monitors most risks, especially with the recent addition of an Internal Audit department now testing a very comprehensive set of audit tools. Most external risks are linked to the unpredictable legal environment, which could have impact both on Prizma's clients

(unregistered businesses may have to register and pay taxes) and on Prizma itself (current restrictions on allowable activities).

Since inception, Prizma has received funds mainly from UNHCR and BPRM and to a lesser extent UMCOR and CGAP. The institution has an ambitious financing program relying on loans, the first being a commercial loan from CORDAID.

Prizma is an efficient institution. Since 2000, productivity has continued to increase and should compensate for the increase in headquarter costs. Productivity improvements have increased efficiency, but Prizma's strategy, resulting in a decrease in the average loan at disbursement, has limited potential efficiency gains. The expense ratio, stable over time, masks the underlying dynamics of increased productivity coincident with expense increases, notably due to a 69% increase in staff expense (legal requirement to pay social benefits and taxes upon localization in October 2001). New MIS and streamlining efforts now in place should further improve efficiency.

Prizma has shown an unusual trend in profitability with an impressive increase through September 2001 and a decline in profitability thereafter. This decrease is mainly due to the increase in taxes and social benefits with localization, the launching of new products with lower interest rates and a strategic decision to move even further down-market. Certain products are too new to prove their profitability. Given that these new loans will represent an increasing part of the outstanding portfolio, Prizma carefully monitors their effect on profitability. Return on Equity is 5.6% in Dec 2001 before adjustments and (1.5)% after adjustments, including special adjustments for local personnel taxes. This ROE ratio decreases to 3.3% in June 2002 (annualized unadjusted figure), but after adjustments shows an increase from a negative figure in 2001 to a positive 0.8% in June 2002.

Prizma's cost control orientation has led to the pilot of "ABC" (Activity Based Costing). This approach will serve to better identify costly and time-consuming aspects of operations so as to make work processes more efficient and profitable. In 2002, expansion to new markets should first increase overall costs, although in a controlled manner, and then generate new revenue to help defray the fixed costs of the headquarters. Revenues could grow with more consistent and sophisticated liquidity management. In the medium term, all these organizational changes should lead to an increase in the already positive profitability.

Contents



	<i>Executive Summary</i>	2
	<i>Acronyms</i>	5
	<i>Microfinance in Bosnia and Herzegovina</i>	6
	<i>Presentation of the institution</i>	8
Appraisal Report	<i>Governance and Decision Making Process</i>	11
	<i>Information and Management tools</i>	15
	<i>Risks : Analysis and Control</i>	17
	<i>Activity and Loan portfolio</i>	20
	<i>Funding: Equity and Liabilities</i>	25
	<i>Efficiency and Profitability</i>	26
Appendix	<i>Appendix 1: Organizational chart</i>	31
	<i>Appendix 2: Financial Statements</i>	32
	<i>Appendix 3: Adjustments</i>	35
	<i>Appendix 4: MCOs in BiH</i>	36
	<i>Appendix 5: Organizational chart</i>	37
	<i>Appendix 6: Definition of ratios</i>	38

Acronyms

ABC	Activity Based Costing
AMFI	Association of Microfinance Institutions (BiH)
BAM	Konvertibilna Marka (local currency, also called KM)
BiH	Bosnia and Herzegovina
BNL	Basic Needs Loan
BPRM	Bureau of Population, Refugees, and Migration, United States State Department
EUR, €	Euro
FY	Fiscal Year (January 1 st to December 31 st)
GDP	Gross Domestic Product
GEL	Group Enterprise Loan
GNP	Gross National Product
HR	Human Resources
HL	Housing loan
ICMC	International Catholic Migration Commission
IL	Individual Loan
MBB	Micro Banking Bulletin
MFI	Microfinance Institution
MIS	Management Information System
NGO	Non Governmental Organization
PAR	Portfolio at Risk
ROA	Return on Assets
ROE	Return on Equity
RS	Republika Srpska
UMCOR	United Methodist Committee on Relief
UNHCR	United Nations High Commissioner for Refugees
USAID	United States Agency for International Development
USD	United States Dollar

Microfinance in Bosnia and Herzegovina

The Country

	99	00	01	02
Exchange Rates	1 BAM = 0.51129 EUR			
Inflation	4%	3%	3%	3%

Source : Local estimates

Economy of both entities is still weak and in transition, reforms are slow

Seven years after the Dayton Agreement ended the conflict, the country still relies heavily on foreign aid. In December 1995, the Dayton Agreement defined Bosnia and Herzegovina's 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. 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.

The economy is undergoing a very sluggish transition from a centrally planned system to a free market economy. The privatization initiatives, developed by the international community, result in a mixed system with certificates/vouchers and cash. Three years after the start of privatization in 1999, the results are not convincing: the privatization process is delayed and the firms' new owners are generally not likely to create the conditions needed for sustained business development.

Restructuring of the banking sector has accelerated with positive results. Banks are being consolidated or liquidated, deposits are increasing, interests rates are falling and assets are shifting from the public to the private sector. The big state banks are also in the process of being liquidated or sold, and slowly but surely, confidence in the banking system is being restored.

Banking sector being restructured

With high unemployment, small and medium enterprises are leading economic growth

With unemployment at around 40% of the labor force in both Entities, there is little sign so far of any great dynamism in the economy. The main growth areas are services and light industry, with small and medium enterprises (SMEs) leading the way. Given that privatization of large enterprises is proceeding slowly, it is likely that SMEs will continue to be the driving force for growth in the medium term.

A new currency for both entities

One positive development in recent years has been the move to price stability. In July 1997 a new currency was issued by the Central Bank, the 'Konvertibilna Marka (KM, BAM internationally). The currency has gained rapid and widespread acceptance throughout the country. From October 1999, all non-cash transactions between the two entities and within the Federation have been in BAM only.



The Microfinance Environment

Microcredit organizations are the main suppliers of credit to micro and small entrepreneurs. Commercial banks were going through a process of banking reform and consolidation and had historically served only large enterprises.

Legal framework established

The LID in cooperation with the World Bank is engaged in a long-term effort to develop the legal and regulatory framework for different types of savings and loan institutional structures. Until now, only the law on microcredit organizations has been passed both by the Federation and RS Parliament. The law is simple and provides for registration of specialized credit-only, non-government, non-profit institutions with minimal regulation and no formal government supervision. There are different local interpretations as to the latitude of the law to provide microcredit beyond development of entrepreneurship loans.¹

Strong support from the World Bank to the sector, Prizma not a program recipient

The bulk of funds for the microfinance sector has been channeled through the World Bank financed Local Initiatives Project (LIP), the goal of which is to support and enable the development of financially strong microcredit programs. The LIP, which is implemented through the Local Initiatives Departments (LID) in the Employment & Training Foundations (ETF) in the Federation and RS, initially provided financing and technical assistance to 17 NGO microcredit service providers in both entities. A total of 21.7 million USD was allocated under Phase I of this project (1996-2000) and under Phase II (2001-2003) an estimated 18 million USD will be available for loans and technical assistance to participating MCOs. Note the Prizma never benefited from LIP. With support from the World Bank, the MFC and CGAP, the microfinance sector in BiH is highly professional, with most institutions adopting best practices.

Microfinance industry growing more competitive and is restructuring

After a mid-term review of the Project in 1998, the LIDs carried out a performance assessment of the institutions and decided to continue to finance only nine organizations. Institutions currently supported by LIP include in the Federation: LOK, Sunrise, EKI, MI-BOSPO, BOSVITA, and Partner; and in the RS: Benefit, Mikrofin and Sinergija. A reduction in the number of MCOs funded by this second phase spurred consolidation within the microfinance sector through takeovers/mergers. This consolidation trend is likely to continue.

In addition to World Bank funds, bilateral aid for microfinance has come predominantly from US sources (USAID, USDA, and BPRM), DFID (England), SIDA (Sweden), CIDA (Canada), as well as the Austrian, Italian, Dutch, Spanish, Swiss and Japanese Governments.

Banks are now competing

For a partial listing of MCOs currently operating in BiH, please refer to Appendix 4. In addition to this list, another important provider of microfinance in BiH is the locally registered Micro Enterprise Bank (MEB) with international shareholders (EBRD, IFC, KfW). Commercial banks have entered the market as suppliers of funds to MCOs and also as direct lenders to the local population. The competition among the MCOs is on the rise and their focus is on attracting and retaining clients.

¹ Article 2 of the Federation law states "Microcredit organization in the sense of this law is a non-deposit and non-profit organization whose basic activity is the provision of the microcredit to the socially jeopardized with a view to the development of entrepreneurship." Article 12 specifies that the activities of a microcredit organization include "provision of the microcredits to the socially jeopardized categories; provision of the credit consultation, business advice and the technical help which is consistent with the promotion of the credit activities of the microcredit organization; legal source of the financial and other means out of any legal source, including membership subscription, gifts, and the donations with microcredit provision." *Source: translation from local language by court certified translator.*

Presentation of the institution

Address: 56, Marsala Tita, 88 104 Mostar, Bosnia-Herzegovina
Telephone: 387 36 552 682
Email: HQ@prizma.ba
Site Internet: <http://www.prizma.ba>

Legal Form

Prizma registered in the Federation and RS

Prizma was started by the Swiss-based NGO International Catholic Migration Commission (ICMC) in 1997. It was registered officially as a Microcredit Organization as of September 3, 2001 by the Ministry of Social Affairs of the BiH Federation, under the Law on Microcredit Organizations (MCOs). In 2002, Prizma also received authorization to open branches in Republika Srpska. Until now, all operations have been located in the Federation.

Localization process now complete

The localization process, underway since autumn 2000, required various changes in the institution: appointment of a Board of Directors, change of status from international organization to a local MCO, replacement of the technical assistance by a local director, and transfer of assets from ICMC to Prizma. ICMC still monitors Prizma through its presence on the Board and a formalized three-year affiliation agreement that defines the additional support from ICMC (mainly in fundraising).

Prizma is a member of the Microfinance Centre for Central and Eastern Europe and the NIS and the institution holds membership in the local Bosnian association of microcredit institutions (AMFI). Its application to the Microfinance Network (MFN) is being considered.

Ownership

A committed but young Board

Being a non-profit entity, Prizma has no owners. The main stakeholders are the management team and the Board of Directors. The Board first met in February 2001, and has met quarterly since. Six members, among which are two ICMC staff members, comprise the Board. The Executive Director holds a seat but has no voting rights. Although on the Board for less than a year, three of the original seven members resigned end of 2001 due to lack of time or other activities having a potential conflict of interest with Prizma. Current Board members are listed below.

Members	Function	Date	Position
Amra Smailagic	President	Feb 01	Expert Advisor to Ministry of Transport and Communication
Albert Ramirez	Vice-president	Feb 01	Deputy Regional Director for ICMC
Mehmed Vreto	Treasurer	Nov 01	Finance and Administration Manager, ICMC BiH
Edina Hadziahmetovic	Secretary	March 02	Coordinator for the USAID-funded Starr Network of World Learning
Kemal Alekocic	Member	March 02	Lawyer
Samir Dikic	Member	May 01	Associate for Brunswick Group, a consultancy company in the field of strategic financial communication; served as Mostar Branch Manager for the Micro-enterprise Bank in BiH

Staff

The staff working for Prizma is listed below. Community coordinators working part time are included in these figures: 5 in Dec. 2001 and 3 in June 2002.

Human Resources	1999	2000	2001	June 2002
Total number of salaried staff (end of period)	29	32	36	44
<i>Loan officers</i>	9	10	14	17
Turnover	12.5%	16.4%	17.6%	2.0%
Number of branches	4	3	4	4

Clientele

A low-end market positioning

Prizma targets poor and low-income women in 34 municipalities of BiH. Most enterprise loan clients operate unregistered businesses (86%) in the retail/trade (42%) and service (30%) sectors. A large number of these low-income clients are home-based small-scale producers, market traders, or retail shop owners in the business district of small towns and villages. Prizma is currently operating only in the Federation but should soon open offices in Republika Sprska.

Services

A diversified range of services

Prizma's core loan product is a solidarity group loan called the Group Enterprise Loan, to serve the needs of clients operating unregistered businesses. Since 2001, three new products have been gradually developed after testing in pilot branches: Housing Loan (tested in Mostar and Zenica), Basic Needs Loan (tested in Bihac) and Individual Loan (tested in Bihac). Lobbying is underway to receive legal authorization for savings collection, although the situation is unlikely to change in the short term.

The **Basic Needs Loan**, primarily a consumer loan disbursed with minimum paperwork, is meant to help households meet exceptional needs (health, school, wage arrears). **Individual Enterprise Loans** are granted to solidarity loan clients who performed well during three loan cycles.

	Group Enterprise Loan - GEL	Basic Needs Loan - BNL	Housing Loan - HL	Individual Enterprise Loan - IEL
Creation Date	July 1997	March 2001	July 2001	April 2002
Type of Client	informal businesses, only women	formally employed women / unemployed women with guarantor		
Repayment Schedule	monthly	monthly	monthly	monthly
Collateral Requirements	Groups of 3 to 6 women	Guarantee (may be the client's salary)	Two guarantors (one can be the client)	
Other Conditions	-	-	Legal ownership or occupancy of the house/apartment	Formerly GE client who repaid 3 loans
Nominal Annual Interest Rate	20.28% 1st to 13.2% 6th and subsequent cycles	26.4%	15%	17.4% 1st to 13.2% 3rd and subsequent cycles
Flat or Declining ?	flat	flat	flat	flat
Annual Effective Interest Rate	38.39%	43.05%	27.67%	35.65%
Min / Max loan size	-	- / 500 BAM	2,000 / 10,000 BAM	- / 8,000 BAM
Average loan size	1,815 BAM	489 BAM	8,239 BAM	7,100 BAM
Min / Max loan term	6 / 12 months	3 / 5 months	6 / 36 months	6 / 18 months
Average loan term	9 months	5 months	34 months	18 months

Noteworthy Program Aspects

*Lower end market niche
turned into marketing
advantage*

One of Prizma's target clientele segments is the very poor, a harder to serve market segment. Prizma has turned this strategic choice for ethical reasons into a marketing advantage to attract clients and funds. This success is described further in this report.

Strategy

*A highly formalized and
forward-thinking
strategy*

The global strategy is described in the "Five year Strategic Framework," approved by the Board of Directors in February 2001 and detailed for year 2002 in the "Outline of 2002 Operating Plan." The reference document for the period is the very thorough and high quality Business Plan 2001-2003. This Business Plan provides details on all key issues regarding: the institution's past and present performance, an analysis of the market and target clientele, future goals in terms of service and outreach, and organizational and financial needs to fulfill these objectives. These plans are accompanied by financial simulations.

The main strategic objectives for 2001 – 2003 include:

- ❑ Diversification of loan products;
- ❑ Geographic expansion to 6 branches;
- ❑ Development of Prizma's competitive advantage: high quality service and products, product differentiation and down market focus;
- ❑ Seeking financial capacity from internal and external sources;
- ❑ Adapting the organizational structure: streamlining credit operations, introduction of new positions such as internal auditor, operations manager, human resource manager and information systems assistant; improvement in MIS;
- ❑ Obtaining the necessary technical assistance on human resources, BDS, Marketing, Credit Scoring, Activity Based Costing (ABC), External Rating, Board development; and
- ❑ Legal considerations such as registration in RS.

At present, most of the 2001 objectives have been met. Those areas still in development are the new accounting system, the launching of new products and the opening of new branches. The launching of BDS has been placed on standby. Financial projections have not been achieved in terms of activity volume (see Section A), but have been respected in terms of net income.

Legal Audit and External Supervision

*Prizma is eager for
external supervision*

Upon Prizma's request in 2001, PriceWaterhouseCoopers (Netherlands) audited the financial statements for 1998, 1999 and 2000. This firm currently audits 8 Bosnian MCOs. In 2002, Prizma selected Deloitte and Touche (BiH) to perform the audit of its 2001 financial statements. These audits are of high quality, providing all necessary details.

Beyond reporting to tax authorities, Prizma reports to its current donors (CORDAID, CGAP, UMCOR) while ICMC continues to play a supervisory role through its two formal designates on the Board of Directors. Furthermore, Prizma voluntarily seeks external supervision/audits including the external audits as well as rating missions in 2001 and 2002. The Microfinance Law in the Federation does not require any legal supervision.

Governance and Decision Making Process

Mission and Strategic Positioning

Strong low-end market positioning

Prizma's development mission and low-end market positioning are very clear. At the same time, institutional viability is a priority, including efficiency, quality and financial sustainability. The composition of the Board reflects these various dimensions, gathering financial, development and microfinance competencies.

Strong commitment to institutional mission an asset in a competitive context

This positioning is more focused on poverty eradication than most other MCOs in BiH, following from Prizma's strongly held social mission. This client focus is illustrated by Prizma's ongoing impact assessments and staff incentive system based on poverty indicators. Though this positioning may be challenging in terms of efficiency and operating expenses, it has become a market niche in a context of increasing competition for both clients and donor funds. This mission also enables Prizma to attract very high quality human resources that embody both professionalism and a social orientation.

Ownership and Leadership

Young Board monitoring objectives but bringing little in terms of strategy

Ownership

Prizma faces the typical challenges of an NGO-type institution that combines a social vision with financial objectives. The Board is composed of volunteers with no financial stake in Prizma's performance. As is common in microfinance, it is difficult to gather people with the requisite skills and time availability without remuneration.

Strong efforts to empower Board

Prizma management has made considerable effort to train and empower the new Board of Directors. These efforts include: participation in a staff retreat, a complete manual describing their role and duties, the institution of technical committees and regular updates on Prizma performance. Board member participation in quarterly meetings attests to their commitment. However, with a 50% turnover in 2001, the Board is at approximately the same level as last year. It is able to monitor the fulfillment of objectives and to help with specific technical issues related to individual member competencies but brings little in terms of strategy (market definition, selection of new products, relation with banks).

Departure of former ED poses no risk

The transition in 2002 for the Executive Director position from a technical assistant to local management has been smooth.

- ❑ Croatian citizen Maja Gizdic, though young, has already achieved an international reputation that supports her new role as Executive Director. She has in-depth knowledge of the institution, having been Prizma's Finance Manager for 2 years, and will develop a more strategic vision as she gains more experience. She is currently studying at the University of Economics in Split and serves as a trainer for the MFC. Ms. Gizdic was a Credit Manager and MIS assistant in another MFI before joining Prizma.
- ❑ Sean Kline, former Executive Director, will be leaving Prizma by the end of September 2002. He is now mainly involved in impact studies and poverty research. His departure does not represent a risk to Prizma.

Leadership

Shared leadership among the management staff

Although the Board remains committed, the management team provides the leadership. Thus, the management team takes responsibility for both operational and strategic issues. Although frequently MFI Boards do not drive strategy, Prizma's Board could strengthen its strategic role. The possible addition of the former technical assistant Executive Director to the Board would strengthen its strategic role.

It is worth noting that Prizma has succeeded in developing its internal human resource capacity so that its success is not contingent upon one or two individuals. Branch Managers and the headquarters team are very autonomous and actively engaged. Given their job satisfaction, it is unlikely that many will leave in the short term.

Strategy

Anticipation of internal needs coupled with reactivity to external changes

The strategic and operational planning process has been increasingly formalized since 2000. It is now decentralized to the branch level, following an increasingly participatory process from bottom to top and top to bottom. Final documents are of very good quality and are translated into financial budgets updated every month with actual performance.

One characteristic of Prizma's strategy is its high level of anticipation, in all respects: HR, MIS, internal audit and new products. The institution always plans its needs 6 to 12 months in advance. Though there is some delay in organizational changes and significant differences in planned versus actual performance for 2001, Prizma did meet its net income targets. The revenue and expense drivers of this net income are different than anticipated due to the unpredictable performance of loan products as discussed later in Section A. Prizma succeeded in addressing these results by being very reactive to market changes at both the branch and headquarters level. Prizma is able to respond quickly to changes given clear feedback from the field, frequent market studies and the support of external experts when needed.

Organizational Structure

Reinforcement of headquarters, as a support function, with strong decentralization and empowerment of staff at the branch level

Since last year, the organizational chart has changed considerably with the centralization of the headquarters team in Mostar and the creation of new job positions (Internal Audit, Operations Manager). The structure remains decentralized and relatively flat, but the growth in volume necessitated an Operations Manager to better manage operations and supervise the Branch Managers.

These organizational changes are appropriate but are still new and have yet to be tested. For example, the Operations Manager is new to Prizma and the position adds a layer of hierarchy. Although staff are still growing accustomed to these new roles, the new hierarchy is not perceived as problematic. Consistent with Prizma's decentralization philosophy, Branch Managers consider headquarters as a support rather than a control function.

High standardization and efficient communication

Decentralization has proven successful and empowers staff. This process is backed by competent human resources, formalized human resource procedures, a strong sense of team work and a new approach to risk control. Procedures are standardized with complete operations and administrative manuals. Internal communication is very efficient, with the use of a new intranet site, email among all staff and increasingly regular meetings.

Human resources

Highly skilled staff one of Prizma's main assets

Skills and training programs

Despite an exodus of qualified human resources both during and after the war, Prizma has managed to build a strong team. Indeed, human resources are one of Prizma's main assets, being capable of meeting current and presumably future needs. Transition from technical assistance to local management has posed no risk, since the already skilled team has been further strengthened in the past 6 months by highly competent and experienced people.

- ❑ Vesna Trpavec, new Operations Manager, brings a strong microfinance and development experience from Honduras. Her role is still being defined, but her profile is highly complementary to that of the Executive Director.
- ❑ Alija Ramovic, new Internal Auditor, highly qualified, has a strong experience in financial auditing and consulting, system analysis and development.
- ❑ Brigic Davor, new MIS manager, is also highly competent in computer science having nearly completed a university degree in computer science and having won national-level computer science awards.

Although many in the management team are post-war returnees and the Executive Director is from Croatia, this does not pose legitimacy problems. There is no ethnic discrimination either with clients or staff.

Prizma has not developed a procedure for training new staff for each position, although a formalized policy in this area is not critical. Specific training needs are identified and planned during the budgeting process, including external trainings as needed. To cross-train branch-level staff, Prizma will organize staff exchanges. To groom current operational staff for management positions, Prizma identifies appropriate candidates and trains them through the Deputy Branch Manager position.

Human resource management

New human resources procedures reward results at the branch level, therefore stressing the importance of strong team work. Human resource policy has advanced over the last year, thanks to a volunteer technical assistant on site from July 2001 to October 2002. To support this formalization, Prizma revised the employee handbook to support new strategic objectives and reflect local labor law. They also updated the recruitment process, hiring salary scale, and incentive pay policies. These policy changes are very appropriate, for they support Prizma's social and financial mission fulfillment by promoting team spirit, empowerment and autonomy. The impact of these policies on loan officer performance, notably promotion efforts by product, is being tested. Prizma plans to hire a permanent human resource manager to deal with the complex legal environment and to become a model institution in BiH.

HR procedures support decentralization, staff motivation and encourage the attainment of client and financial objectives

Information and Management tools

Systems and Software

Modern and numerous computing resources; New internal web site making internal communication very fluid

Computing resources are modern and numerous. Headquarters and each branch maintain a local area network, and Prizma is now considering to expand to a wide area network to link together all the branches. A new website was developed with a secured section for investors. In July 2002, Prizma launched a special restricted access website, functioning as an Intranet, that is very well designed and will greatly improve internal communication.

At the end of 2001, Prizma purchased the Kredits loan-tracking system, built by a US developer and used by other microfinance programs, including at least one other in BiH. Officers are getting accustomed to the new system, and will soon be able to use it to its full potential. This Access-based program provides Prizma a useful loan tracking tool. One technical weakness of the system is the consolidation process, as it is not possible to send incremental changes to the database. Therefore, each Prizma branch sends every two weeks the entire data file to headquarters where it is consolidated. Totals are verified by finance manager monthly. Over time, this limitation may become more problematic when branch databases become too large to download from the server, unless the systems are upgraded.

Prizma has yet to select a new accounting and financial system, therefore accounting is still performed in Excel spreadsheets. The selection of this software is being made according to very clear criteria.

Security

Security of information is a major concern of the new Internal Auditor. Storage of information is now very well secured, after a data loss last year in Zenica.² The latest version of the Kredits software installed after the rating mission addresses several of the prior security concerns. This new version has the capacity to generate an audit trail and will enable Prizma to restrict access to certain parts of the database with user passwords and profiles.

Maintenance

The MIS manager is well qualified to manage and upgrade the system, having had his own computer science consulting company in the past. He is assisted by an internal auditor with a long-term vision of information needs and MIS experience, having implemented more than 130 systems in companies. Therefore the institution does not need to rely entirely on external expertise for the loan tracking system or hardware maintenance.

Strong internal skills for maintenance and upgrading

² Branches perform daily backups and keep them for two weeks. Beyond two weeks, they keep a bi-weekly back up and send a copy to headquarters for storage and network-wide consolidation.

MIS plan

The team has all the necessary information technology resources. By the end of 2003, Prizma's MIS should be fully complete and secure with an accounting software and an upgraded loan tracking system.

Loan-tracking information

High quality and rapid information

Thanks to the new user-friendly loan-tracking system, information on the portfolio is reliable and quickly obtainable. The program allows numerous reports and statistics on loans, products and clients. These many data fields, particularly regarding client information, will provide a wealth of information to develop credit scoring and impact studies. Data is recorded at the branch level by the loan processor, and sent every two weeks to headquarters for consolidation. Daily reconciliation is done with cash by the branch accountant.

Accounting information

Good quality information, but lack of detail

Although recorded in Excel Spreadsheets, Prizma's accounting information is reliable. Accounting is done at the branch level, with consolidation at headquarters to convert from a cash to an accrual basis every month. Auditors made minor recommendations for improvement in their management letter and performed end of period adjustments to convert the flat interest rate calculation to a declining balance calculation. These adjustments have an impact on the values for the outstanding portfolio, interest revenues and provisions.

With an Excel based system, it is not possible to obtain significant accounting detail. While this is a drawback to financial analysis, it should soon be modified with the purchase of an accounting and financial software. The implementation of "Activity Based Costing" (ABC) will also enable Prizma to be more analytic with accounting information.

Strong financial monitoring

Strict budget follow-up and in-depth financial monitoring is a real asset for Prizma. Even Branch Managers are involved in this process. While the current Executive Director has very strong skills in financial analysis, her former post of Financial Manager was not immediately filled thereby leading to delays in financial monitoring. Given the importance of a Financial Manager, particularly as they test the profitability of new products, Prizma did fill this position in September 2002.

Management Information

Both internal and external information is closely monitored by management

Prizma obtains as much internal and external information as necessary to make management decisions.

- ❑ Knowledge of the market: Much has been done over the past two years to assess the market and client impact. To prevent bias, focus groups are followed by non-credit staff, including branch managers. New products have been launched based upon these research findings.
- ❑ Financial monitoring: Many reports generated by the current accounting and loan-tracking systems are used and adapted to management needs, although they could be more condensed. The ABC will help improve this financial monitoring.
- ❑ External information: The current technical assistant monitors the worldwide microfinance sector in addition to local BiH competition. The new Executive Director is already well known among practitioners and will play a greater role in collecting such information.

Risks : Analysis and Control

Starting in 2002 with the help of an external consultant and technical assistance, Prizma management began a serious and highly pertinent reflection about risk. Consequently, Prizma has instituted several initiatives to professionalize and standardize procedures, facilitating risk management control. Such changes include: creation of an Internal Audit Department; implementation of a new MIS that allows for easier monitoring and more explicit human resources policies that ensure closer adherence to Prizma's mission. These new procedures are currently being tested.

Integrated Control System Audit

A new internal audit process, very well conceived, is being tested

The one-person Internal Audit department was created in early 2002. Given the absence of legal supervision, this Internal Audit department is very necessary. The auditor benefited from a CGAP-financed technical assistance mission with Howard Brady, expert in auditing, internal controls and financial management.

This internal control function is highly professional and includes all necessary characteristics:

- ❑ direct reporting to the Board of Directors;
- ❑ work processes that assure segregation of duties with standardized procedures and checks by higher level staff;
- ❑ comprehensive internal audit responsibilities that cover not only credit operations and client satisfaction but also headquarters controls on accounting and finance information, management decisions and human resources; and
- ❑ close involvement of external auditors.

This audit process is described in-depth in the procedure manuals that are being tested until the end of this year. Procedures are highly detailed, including a suggested time allocation for each monitoring task. Until now, only two branches have been audited, with only one complete report available. The internal auditor has the task of proving that this demanding process is feasible given cost and time constraints.

Identification and Coverage of Risks

The main risks in both the short term and long term include:

Activity in Republika Sprska

In new regions where Prizma intends to expand operations, the target clientele is poorer and has less credit experience. Some staff, including the internal auditor, are particularly concerned about the potentially greater security issues given the weaker police/justice system and the greater prevalence of corruption relative to the Federation. Prizma is aware of these security risks and will monitor them very closely.

Complete restructuring of activities since end of 2001

The launching of new loan products has changed and will continue to change the structure of the portfolio, with different maturities (more than one year for housing loan), guarantees (individual guarantees) and credit purposes. This restructuring could have a negative consequence both on portfolio quality (insufficient training of loan officers, lack of experience with the product) and profitability, for revenues are more easily calculated than costs. Given the uncertainty associated with product development, it is important to carefully limit and control the phase-in of these products, especially in the new satellites or branches that will open in RS. Prizma is very aware of this necessity. The planned future expansion in rural zones also entails credit and profitability risks. The new ABC system will enable Prizma to monitor product costs more closely and to manage these changes.

Competition/Cross-indebtedness

Despite the closing and merger of several microfinance programs in BiH, competition continues to intensify, in the short term with other MFIs and potentially in the long term with banks. Even government programs have begun providing services to the unemployed, although in Tuzla canton where Prizma does not currently have operations. To preserve its competitive position, Prizma has made remarkable efforts to innovate and provide clients with a wider range of products, maintaining a focus on the low-end target market.

A corollary to increased competition is increased cross-indebtedness, which could cause a deterioration in portfolio quality. Further complicating the identification of cross-indebtedness is the fact that individuals may take a bank loan through a relative with a salary, thereby increasing an individual's actual debt burden without an official record. Prizma engages in informal list exchanges of delinquent clients with other MFIs on a regular basis. Although some field staff maintain that more could be done in this respect, this exchange of client names may not be appropriate in an increasingly competitive environment. Prizma also believes that the local Credit Bureau, still in development, should help control this risk in the medium term. For the moment, Prizma does not make use of the Credit Bureau as it is too young and it lacks data on the poorer clients that Prizma is seeking.

Security of cash

Prizma installed an infrared security system in all branches, notably in the Zenica office that was burglarized resulting in a minor loss of approximately 3,700 EUR. By matching the amounts disbursed and repaid each day, Prizma minimizes the risk of cash carrying and storing at the branch-level.

Target market and impact

Prizma believes that the Basic Needs Loan product is useful to address the needs and market demand for low income clients because it serves to smooth income during an exceptionally difficult period. Although the product has a higher interest rate and smaller loan size than that available with local banks, there is a potential that it will attract higher end clients given its rapid disbursement and less stringent guarantees. Prizma will closely monitor any potential market shifts via client focus groups and Loan Officer incentives.

Legal framework

The legal environment within the complex and fragmented administrative divisions of BiH is often unpredictable. There is important legal risk concerning the microenterprises themselves, as Prizma serves predominantly non-registered businesses (86% of its business loans). A crackdown on such non-registered businesses would significantly increase their tax burden and reduce their debt capacity. This risk, common to programs financing the informal sector, is more pronounced in transitional economies like Bosnia.

Secondly, the rigidity of the current microfinance legal framework is problematic. The MFI community relies on the World Bank for lobby efforts as AMFI, the local association, does not play an active role in shaping the legal environment. Housing and consumer loans, though developed by Prizma, are not overtly sanctioned by the law. Furthermore, Housing Loans for repair and reconstruction are granted to clients who possess legal title to the property but who may have constructed their homes without building permits. Given the displacements during and after the war, legal title for property is a major issue in BiH. This is a risk Prizma has identified and has chosen to take in order to serve un-banked and low income people.

Thirdly, being a local organization since Oct 2001, Prizma is now subject to governmental inspections, as any other local company or organization. These inspections may be conducted by officials who have authority to levy very high fines. Prizma's internal auditor is already prepared for a possible inspection; the first two tax inspections posed no problem.

Country Risks

The macroeconomic and political environment in BiH, although currently stabilized, could deteriorate with new presidential elections in 2003. It is anticipated that the local currency will remain linked with the Euro for several years. Prizma's 2% general risk provision could be used in the event that one of these country risks proves problematic for credit operations.

Activity and Loan portfolio

Markets and Marketing Strategy

A successful low-end market positioning that is closely monitored

Staying faithful to its clearly defined target, Prizma maintains a low average loan size that continues to decline: 624 EUR in June 2002, 682 EUR in 2001. However, the new Housing Loan and Basic Needs Loan might attract a more well off population than the existing clients. Currently, BNL seems to reach its target group as half of the clients consist of formally employed people with state or private firms but having low and intermittent salary, while the other half are unemployed with no salary. Donor-funded and staff intensive market research does help the institution focus on its target, justify its strategic choices and develop a secure market niche.

A target market difficult to grasp, even after careful analysis

Despite diligent efforts to monitor the market, Prizma has had difficulties planning its product growth given market unpredictability. For example, Prizma anticipated that the Housing Loan would be more popular in Zenica, while portfolio growth during the first semester 2002 was actually driven by the Group Enterprise Loan. Prizma's clients were sensitive to variations in interest rate, and after an increase of 0.15% flat, demand for the Group Enterprise Loan dropped even in absolute values (total outstanding amount for Group Enterprise Loan of 3,114,100 BAM in the beginning of 2001; 2,919,131 BAM at the end of 2001).

Competition

Competition is on the rise, with banks downscaling and offering consumer loans in the Federation while other Microcredit Organizations increase their outreach. This competition is mostly visible in cities, but is not yet critical for Prizma. Prizma's competitive advantages in an increasingly competitive market include: cash disbursements/repayments for groups in client villages; rapid disbursement for Basic Needs Loans; and Housing Loans that carry a higher interest rate but less stringent guaranty requirements than those of Banks.

In such a competitive market, external communication should be strengthened, using media such as radio and television, as was done successfully in Mostar and Zenica. Prizma notes that this media should be used carefully so as to remain focused on its low-end target clientele rather than attracting all potential clients.

Ethics and Clientele

Prizma is always trying to better meet its clients' needs with new and demand-driven products. It succeeds in disbursing loans with minimal delay.

Range of Services

A broadening range of services to serve and make loyal its target clients

Prizma strives to continuously improve its services and respond to the needs of its target clientele by expanding geographically (to reach un-served or underserved communities) and diversifying its range of services. These new demand-driven products are developed after careful field study using the latest microfinance tools. All new products are pilot tested before full phase-in. These new products show immediate success, although care must be used in the pricing (unexpected reaction to interest rate increase in GEL). Prizma carefully coordinates between products to build client loyalty. For example, the cross over-rate in Zenica between group products and the Housing Loan is 43%.

Lending Activities

Careful microenterprise selection

Credit methodology and portfolio management

The microentrepreneurs and their projects are carefully studied by loan officers through a business plan (Group and Individual Enterprise Loans) and an onsite visit upon completion of the plan. Loan officers use their intimate knowledge of the local economy to appraise the quality of the business.

Delinquency management appeared to be time consuming, especially for the Basic Needs Loan, after speaking with loan officers who reported that they spent up to 50% of their time on delinquency management. However, the ABC test conducted for the month of June reports that loan officers that month spent on average only 15% of their time on delinquency for the BNL product and 6% for all products. Prizma will be monitoring this ABC figure in the coming months. It would seem reasonable that Prizma devotes a greater percentage of time to delinquency management for the BNL product, as opposed to other products, as it develops a culture of credit in this new target population.

Lending activities

	1999	2000	2001	June 2002
Active loans/borrowers	1,778	2,755	3,647	6,084
% change		55%	32%	67%
Number of loans disbursed over the period	1,756	3,506	5,043	5,392
Outstanding portfolio*	(EUR)	1,123,707	1,592,213	1,921,217
	(Local currency)	2,197,779	3,114,099	3,757,574
% change		42%	20%	52%
Period average outstanding portfolio (EUR)*	783,435	1,342,625	1,801,011	2,427,612
	(Local currency)	1,532,265	2,625,947	3,522,471
Amount disbursed over the year	(EUR)	2,162,685	3,323,306	4,022,017
	(Local currency)	4,229,860	6,499,845	7,866,410
Average amount at disbursement (EUR)	1,232	948	798	613
	(Local currency)	2,409	1,854	1,560

* These figures are not adjusted for the flat interest rate method. Adjusted figures are disclosed in the financial statements presented in the appendix.

Market volatility and sensitivity to interest rates lead to mini-crisis at the end of 2001

In 2001, Prizma experienced a lower than usual portfolio growth compared to previous years: 80% from 1998 to 1999, 42% from 1999 to 2000, and 20% from 2000 to 2001. This slowed growth can be explained in part by an increase in the interest rate for the Group Enterprise Loan in May 2001 that resulted in a notable drop in loan demand.

A prompt recovery due to restructuring of loan products

By restructuring its loan products, Prizma has been able to rebound from this slow-down. Disbursements are now reaching record levels, and Prizma is the second leading Bosnian MFI for client growth between June 2001 and June 2002. This restructuring was the result of:

- **Quick development of satellite offices and the opening of a new branch.** The Sarajevo branch is expected to experience exponential portfolio growth.
- **Attracting and keeping clients.** Prizma has grown its client base by developing new products and implementing a graduation process for successful clients (sliding interest rate scale by loan cycle). As a direct and very positive consequence of these initiatives, the retention rate³ grew by 33% for the GEL and the cross-over rate⁴ similarly improved.

Activity expanding to new regions

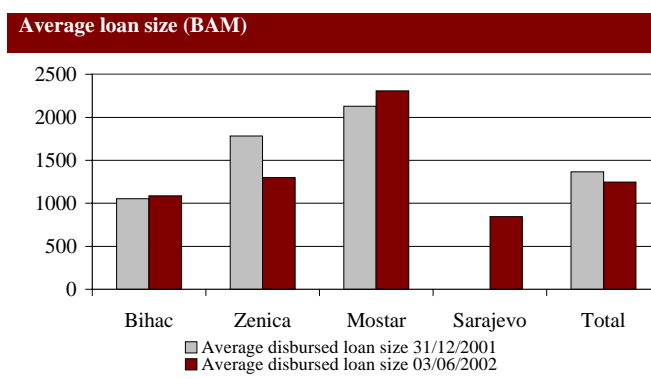
Attracting clients with new products

Despite a significant drop in its portfolio share, the Group product is still the most popular and the first offered in new municipalities. New products have met tremendous success in a short period of time: Housing Loans (launched July 2001) and Basic Needs Loans (launched March 2001) account for 30% of the total outstanding portfolio in June 2002.

Branch	Portfolio distribution		Product	Portfolio distribution	
	Dec. 2000	June 2002		Dec. 2001	June 2002
Zenica	25.9%	31.9%	Group Enterprise Loan	100%	69.1%
Mostar	29.0%	25.0%	Basic Needs Loan	0%	13.3%
Bihac	45.1%	39.4%	Housing Loan	0%	16.4%
Sarajevo	0%	3.7%	Individual Enterprise Loan	0%	1.2%

When considering the total amount disbursed, this dynamism is even more surprising given that the average loan size has actually declined due to the very rapid development of the Basic Needs Loan and the decrease of the average size of the Group Enterprise Loan (1,854 BAM to 1,783 BAM from Dec. 2000 to June 2002), due to a poor economic situation and the drop-off of clients in 2001 after the interest rate increase. This trend in lower average loan size is compensated by the development of the Housing Loan (7,300 BAM average disbursed loan size in 2002) and of the Individual Enterprise Loan (6,600 BAM) as well as improvements in the retention rates leading to renewal loans for higher loan amounts.

Average loan size declining



³ Prizma is calculating the retention rate using the number of clients who renewed their loan or took another loan less

Progressive saturation of markets makes geographic expansion necessary

According to branch managers, markets with existing clients for existing products is now more or less saturated by Prizma and its competitors. In these services areas, new markets are possible by serving a less well-off segment or expanding the range of products. To continue growing at the same pace, Prizma will need to cover new areas that are further away and less easy to serve. This type of expansion will have direct consequences on efficiency and profitability (Please refer to Section E).

Portfolio quality

Levels of delinquency rose, but are still at low levels

	Dec 1999	Dec 2000	Dec 2001	June 2002
PAR < 30 days	0.44%	0.27%	0.38%	0.87%
PAR 30-180 days	0.46%	0.31%	0.55%	0.64%
PAR > 180 days	0%	0%	0%	0%
Write off ratio	1.5%	1.2%	1.1%	0.4% non annualized

Although delinquency has increased, it remains at very good levels and better than the average for its MBB peer group.⁵ The increase can be partially explained as the indirect result of the interest rate increase in 2001, which deterred some clients from reimbursing on time. It may also be explained as the direct result of a management decision to tolerate a slightly higher PAR to allow gains in efficiency, client retention and depth of outreach.

Basic Needs Loans experience higher delinquency

Delinquency is more prevalent with the Basic Needs Loans. Serving a poorer clientele whose incomes are more intermittent (as per Prizma's impact survey), this loan is more subject to arrears from 1 to 30 days. Delinquency is the highest in Bihac, where this product has been in place for 1.5 years (PAR>30 days 0.79%). Prizma is working to screen out the clients who are able but not willing to repay on time to build this credit discipline. Although Prizma has a salaried guarantor for each of these loans to minimize potential losses, this issue should be – and is – closely monitored.

With little historical data, it is difficult to predict how the Individual Enterprise Loan and Housing Loan, still in a test phase, will evolve.

<i>Delinquency per loan product</i> <i>June 2002</i>	GEL	BNL	HL	IEL
PAR < 30 days	0.7%	2.8%	0%	0%
PAR 30 to 180 days	0.6%	1.8%	0%	0%

than 120 days after the final reimbursement of their previous loan.

⁴ Number of clients who take loan and previously repaid another loan product with Prizma / Total loans disbursed for the period.

⁵ MicroBanking Bulletin, November 2001; Eastern Europe Small group, including IM, Nachala, PRIZMA, AMK, OI-Russia, MI-BOSPO.

Other activities

The law remains vague on permissible microcredit activities. Business Development Services, Housing loans, and Consumer loans are being tolerated, but are not explicitly sanctioned by the law.

For years, Prizma has thought about promoting Business Development Services. Some training was offered free or to some degree on a fee basis to clients during the initial years of the program. Given the changing legal framework, concerns about the potential market for BDS, and its strategic relevance to Prizma's role, Prizma has researched and re-evaluated the rationale for its provision. Prospects of creating fee based BDS have been postponed for the moment.

Other assets

Non-centralized and non-systematic liquidity management

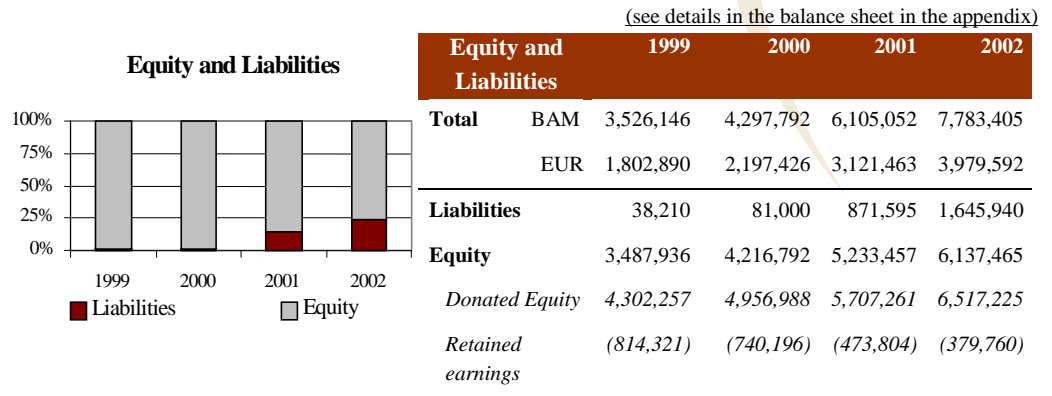
Liquidity management

Liquidity management has not been a priority for Prizma. The decentralized nature of the management further complicates matters. Accountants do coordinate disbursements and reimbursements for the same day, although this is to minimize cash carrying and not to maximize investment opportunities. In Dec. 2001, 24% of total assets was in the form of non-performing cash, with only partial improvement to 17 % in June 2002. Some branches have liquidity excess when new funds are received and have not yet been disbursed, leaving cash on hand. Prizma occasionally, but not systematically, invests in one-month time deposits, although at the minimal local rate of 2.5% annually.

Fixed assets

Prizma's fixed assets comprise only of 9.7% of all assets in Dec 2001, mainly computers and cars. Fixed assets are well tracked at the headquarters level and depreciated according to local accounting rules.

Funding: Equity and Liabilities



Equity

As an NGO, Prizma does not have paid-in capital. Its equity is composed of:

*Equity donor funded;
Negative retained earnings*

- ❑ **Total Retained Earnings:** Prizma has continued to increase its retained earnings, with positive Net Income Before Donations since 2000.
- ❑ **Donated Equity:** Donated equity continues to grow as Prizma continues to receive credit funds as well as minor operating grants from CGAP (65,000 USD over three years). Since inception, BPRM and UNHCR are the main donors. Note that in June 2002, some of the funds that appear in equity still carry restrictions: the 212,100 USD one-year loan granted by UMCOR will be converted to a grant if Prizma fulfills all requirements.

Liabilities

*First commercial loan
September 2001*

CORDAID gave Prizma its first commercial loan equal to 1.1 million USD with a 7% interest rate (80% of the commercial loan interest rate estimated at 9% for 2002). Prizma received the loan in tranches, the first in October 2001 for 410,000 USD, the same amount in early 2002 and the last 280,000 USD tranche in July 2002. Repayment begins after a 30-month grace period for principal repayment with a final term in September 2006. The second tranche of this loan has increased Prizma's total liabilities from 0.8 million BAM to 1.6 million BAM (21% of total assets) in June 2002.

Funding Needs

In its strategic plan, Prizma seeks to secure from 2001 to 2003 funds totaling 10.5 million BAM: capitalization of 2.1 million BAM and 8.4 million BAM from external diversified financing (including 5.5 million BAM concessional and 1.9 million BAM commercial loans).

Efficiency and Profitability

Adjustments

(details of calculations are included in the appendix)

We performed several adjustments to compare Prizma to its peers:

- ❑ The loan loss provision expense was calculated using GIRAFE standard percentages. Loan loss expense per Prizma calculation was higher than the GIRAFE calculated expense. Therefore the total in excess of the loan loss expense already recorded was an adjustment in Prizma's favor. GIRAFE percentages are as follows: 10% for PAR 31-60; 50% for PAR 61-90; 75% for PAR 91-180; and 100% for PAR 181-365, PAR > 1 year, or loans to write off.
- ❑ Adjustment for inflation was performed on fixed assets and equity.
- ❑ An adjustment for the cost of funds was performed for 2001 and 2002, for the CORDAID loan.
- ❑ An adjustment for in-kind donations was added for the TA salary (estimates: 2,500 BAM per month, up to April 2002) and for the external audits from 1999 to 2001 that were partially financed by ICMC.

Special adjustment for social benefits and taxes

A specific adjustment was made for the social benefits and taxes that Prizma should have paid had it been a local organization. We performed an adjustment through October 2001, for 50% of the total staff expense. This figure represents 69% of salaries less the estimated amount that Prizma paid as taxes being an international institution. Ratios are calculated before and after this special adjustment.

As evident from the table provided in the annexes, Prizma starts making a profit after adjustment in 2002.

Efficiency

	1999	2000	2001	June 2002 (annualized)
Operating Expense Ratio*	50.2%	36.7%	29.7%	31.1%
Active borrowers per staff, end of period	61	86	101	138
Active borrowers per loan officer, end of period	198	276	261	358
Operating expense per loan disbursed (2002=100)	160	100	76	100

* Operating expense / Average gross portfolio (based on monthly values, before adjustment for the flat interest rate calculation method)

Productivity

Improvements in productivity

Prizma greatly improved its productivity since 2000: the number of active borrowers per staff increased by 35% in 2001 and 19% in 2002 thanks to the efforts to streamline loan disbursement procedures and to the implementation of a new MIS. Prizma succeeded in covering the increased staffing of headquarters through efficiency gains at the field level. Although the percent of operational staff compared to total staff remains constant (38%), productivity continues to improve.

Stagnation in expense ratio, essentially due to increase of taxes and social benefits

Efficiency

These gains in productivity have a clear impact on efficiency. After a considerable improvement between 1999 and 2000, the operating expense ratio continues to improve but at a relatively slower rate until September 2001 and stagnates thereafter. An operating expense ratio of 29.7% in 2001 is close to the Bosnian MFI average of 31.9%, the all MFI average of 31.2%, and much better than the 37.4% for Eastern Europe Small Peer Group (figures from MBB – November 2001). Efficiency gains are partially constrained by Prizma’s strategic choice to target clients less well-off than its competitors with an increasing engagement in rural areas.

However, two factors diminish the impact of the productivity gains on efficiency:

- Staff expense per employee increased after Prizma localized in October 2001, given that local law requires Prizma to pay taxes and social benefits (69% of the total salary). These additional costs should not increase in the near future and have been compensated in 2001 by an increase in productivity.

BAM	1999	2000	2001	June 2002
Staff expense	418	564	595	415
Total number of salaried staff	29	32	36	44 ¹
Staff cost per employee in K BAM	14.4	17.6	16.5	18.9 ²
				Annualized

1. These figures include community coordinators (5 in 2001; 3 in 2002) who only work part time.

2. The overall compensation structure was modified in 2000 to replace annual increases with an annual performance based bonus. This leads to a one-time increase in personnel costs. These costs should be contained in the future and tied directly to the overall financial performance.

- Exclusive of Housing Loans, the average disbursed loan size decreased, especially in Zenica (please refer to Section A).

It is worth noting that the launching of the Basic Needs Loan has many different impacts on efficiency and productivity:

- Its simple application process (no business plan, no field visits) and high rotation (renewal every 5 months on average) helps to improve productivity (productivity ratios are based on the number of clients or number of loans disbursed).
- Its smaller loan size limits the efficiency (efficiency ratios are based on the outstanding portfolio or the amount disbursed).

Given the very rapid growth of this product, it is important that Prizma closely monitor its effect on profitability, targeted clientele and staff motivation.

Evolution of efficiency

Apart from the points discussed above, efficiency will be affected in 2002 by the following factors. On the whole, efficiency should improve.

Positive:

- ❑ Gains in maturity of new loan officers (20% of 2002 staff were hired during the year). Statistics show an important efficiency gap between the senior and the new loan officers monitoring the same loan product.
- ❑ Increased client retention will help save time on loan application and marketing. (Please refer to Section A)
- ❑ Productivity gains with the new MIS: as it was implemented less than 6 months ago in all the branches, the new MIS is not yet working at its full capacity. When loan processors gain experience in using it to its full potential, they should be able to increase their productivity.

Negative:

- ❑ Targeting remote areas: Prizma has to develop its activities in less saturated areas. Although Prizma currently has internal capacity to manage more loans on its current market, it might be necessary to hire additional loan officers to serve further away areas given additional transport time.
- ❑ The opening of new Service Centers (satellites, branches) is always time consuming. To limit this potential negative effect, Prizma planned not to open branches immediately, but rather to have loan officers from existing branches split their time between exiting and new satellite offices. Fully staffed branches would be opened only when the demand proves to be sufficient.

Profitability

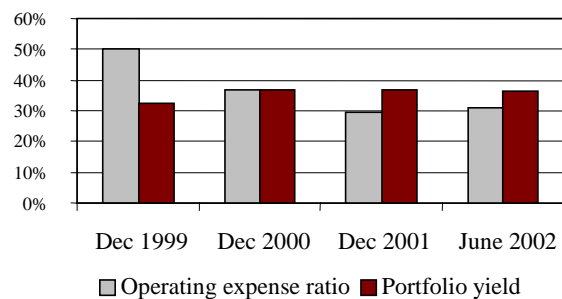
Profitability	1999	2000	2001	June 2002 (annualized)
ROE (Return on Equity)	(8.4)%	1.9%	5.6%	3.3%
Adjusted ROE	(12.3)%	(0.7)%	3.2%	0.8%
Adjusted with special adjustments	(20.4)%	(8.0)%	(1.5)%	0.8%
ROA (Return on Assets)	(8.3)%	1.9%	5.1%	2.7%
Adjusted ROA	(12.1)%	(0.7)%	2.9%	0.7%
Adjusted with special adjustments	(20.2)%	(7.9)%	(1.4)%	0.7%
Operational Self-sufficiency	76%	107%	125%	111%
Financial Self-sufficiency (FSS)	68%	97%	113%	103%
FSS with special adjustments	55%	77%	96%	103%
Profit margin	(31)%	6%	20%	10%

Prizma has shown an unusual trend in profitability (ROE) with an impressive increase through September 2001 and a decline in profitability thereafter, though profitability remains positive. These profitability ratios follow the same pattern as the Operating Expense Ratio discussed above. This trend is mainly due to the increase in staff expense and the launching of new products with lower interest rates. This trend disappears when looking at profitability figures after the special adjustments. In that case, a continuous improvement is observed.

Financial Revenue grew by 29% between 2001 and 2002, while the portfolio grew even more, 34%, resulting in a drop of 1% in the Portfolio Yield. This trend became more pronounced in 2002 and is mainly due to the development of new products⁶ (above all the Housing Loan) since 2001, whose interest rates are much lower than the existing Group Enterprise Loan.

Since these loans will represent an increasing part of the outstanding portfolio, it is important to monitor their effect on profitability. Until now, it appears that the costs for disbursing Housing Loans are much higher than for group loans, (ratio of 3.7:1 according to recent estimates by Prizma), because of the support needed from an external engineer and the greater time needed for application assessment. These up-front costs should be counterbalanced by a much lower loan monitoring cost and the much longer maturity of the loan. Moreover, now that loan officers have been trained, the additional cost of outside consultants will no longer be necessary. However, we lack historical data on these products, including delinquency.

Portfolio Yield and Operating Expense Ratio



Moreover, Prizma starts borrowing funds and paying interest in 2001. Interest expense increased from 12,162 BAM to 96,674 BAM from Dec 2001 to June 2002 (annualized for 2002). This figure is still low compared to total Financial Revenue.

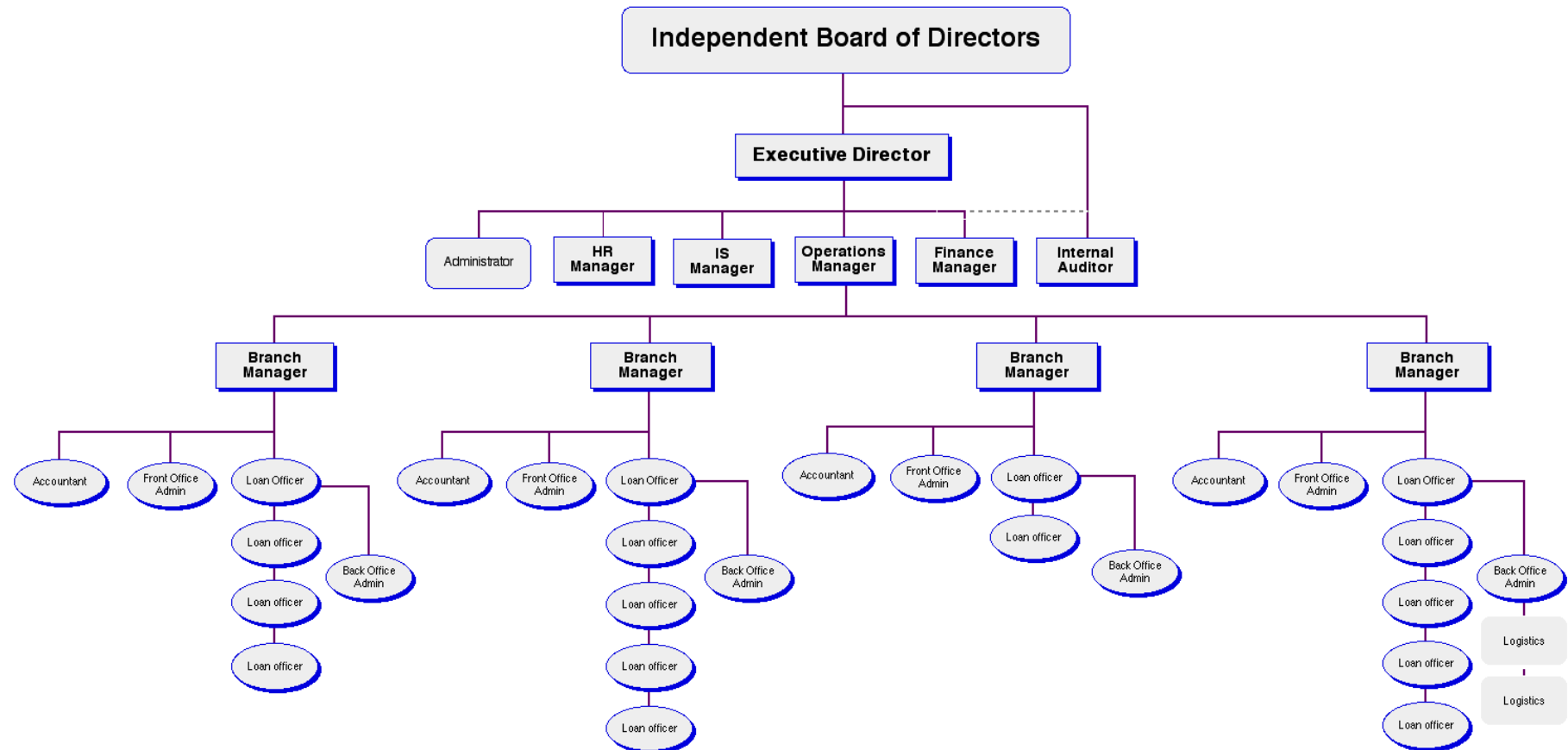
Evolution of Profitability

Prizma is very cost control oriented. The pilot of “ABC” (Activity Based Costing) will help better identify costly and time consuming aspects of their work so as to make their work processes more efficient and profitable.

Profitability should be positively and negatively affected in 2002 by the following factors:

- ❑ Gains and losses in efficiency, as described above, will have consequences for profitability. Above all, the opening/expansion of new Service Centers should first increase overall costs, although in a controlled manner, and then generate new revenue to help defray the fixed costs of headquarters.
- ❑ The anticipated investment of the surplus liquid assets will be more profitable, although the interest rate paid on short term deposits is minimal.
- ❑ Possible process improvements after implementing the ABC approach.

Appendix 1: Organizational chart



Appendix 2: Financial Statements

Prizma	Notes	BAM				Euro				P1-P2	P2-P3	P3-P4
		Dec. 1999	Dec. 2000	Dec. 2001	June 2002	Dec. 1999	Dec. 2000	Dec. 2001	June 2002	% Change	% Change	% Change
ASSETS		3 526 146	4 297 792	6 105 052	7 783 405	1 802 890	2 197 426	3 121 464	3 979 592	21.9%	42.1%	27.5%
Short Term Assets		3 182 931	3 976 477	5 754 509	7 404 352	1 627 407	2 033 140	2 942 234	3 785 785	24.9%	44.7%	28.7%
Cash and Bank Deposits	1	871 142	565 681	1 472 407	1 296 717	445 408	289 228	752 830	663 001	(35.1)%	160.3%	(11.9)%
Short Term Financial Assets	2	0	110 000	350 000	150 000	0	56 242	178 952	76 694		218.2%	(57.1)%
Net Short Term Loan Portfolio	3	2 243 825	3 189 651	3 849 902	5 837 841	1 147 250	1 630 843	1 968 424	2 984 841	42.2%	20.7%	51.6%
<i>Short Term Gross Loan Portfolio</i>		2 287 781	3 254 098	3 939 574	5 971 082	1 169 724	1 663 794	2 014 272	3 052 966	42.2%	21.1%	51.6%
<i>(Loan Loss Reserve)</i>		43 956	64 447	89 672	133 241	22 474	32 951	45 849	68 125	46.6%	39.1%	48.6%
Interest Receivable		35 000	50 000	55 000	70 000	17 895	25 565	28 121	35 790			
Other Short Term Assets	4	32 964	61 145	27 200	49 794	16 854	31 263	13 907	25 459		(55.5)%	77.3%
Long Term Assets		343 215	321 315	350 543	379 053	175 483	164 286	179 230	193 807	(6.4)%	9.1%	8.1%
Long Term Financial Assets												
Net Fixed Assets		343 215	321 315	350 543	379 053	175 483	164 286	179 230	193 807	(6.4)%	9.1%	8.1%
Other Long Term Assets												
LIABILITIES AND EQUITY		3 526 146	4 297 792	6 105 052	7 783 405	1 802 890	2 197 426	3 121 463	3 979 592	21.9%	42.1%	27.5%
Liabilities		38 210	81 000	871 595	1 645 940	19 536	41 415	445 639	848 024	112.0%	976.0%	90.3%
Short Term Liabilities		38 210	81 000	69 705	42 159	19 536	41 415	35 640	21 556	112.0%	(13.9)%	(39.5)%
Demand Deposits		0	0	0	0	0	0	0	0			
Short Term Deposits		0	0	0	0	0	0	0	0			
Short Term Borrowings		0	0	0	0	0	0	0	0			
Other Short Term Liabilities		38 210	81 000	69 705	42 159	19 536	41 415	35 640	21 556	112.0%	(13.9)%	(39.5)%
<i>Accrued expenses to employees</i>			2 300	24 189			1 176	12 368			951.7%	(100.0)%
<i>Tax payable</i>												
<i>Other accrued expenses</i>		38 210	78 700	45 516	42 159	19 536	40 239	23 272	21 556	106.0%	(42.2)%	(7.4)%
Long Term Liabilities		0	0	801 890	1 603 781	0	0	410 000	826 468			101.6%
Long Term Deposits		0	0	0	0	0	0	0	0			
Long term borrowings		0	0	801 890	1 603 781	0	0	410 000	820 000			100.0%
<i>commercial</i>	5			801 890	1 603 781			410 000	820 000			100.0%
<i>concessional</i>												
Other Long Term Liabilities												
Equity		3 487 936	4 216 792	5 233 457	6 137 465	1 783 353	2 156 012	2 675 824	3 138 036	20.9%	24.1%	17.0%
Paid In Capital												
Reserves												
Quasi equity		4 302 257	4 956 988	5 707 261	6 517 225	2 199 709	2 534 468	2 918 076	3 332 204	15.2%	15.1%	14.0%
Operational retained earnings		(814 321)	(740 196)	(473 804)	(379 760)	(416 356)	(378 456)	(242 252)	(194 168)			
<i>current year</i>		(215 053)	74 125	266 392	94 044	(109 955)	37 900	136 204	48 084	(134.5)%	259.4%	(64.7)%
<i>previous year</i>		(599 268)	(814 321)	(740 196)	(473 804)	(306 401)	(416 356)	(378 456)	(242 252)	35.9%	(9.1)%	(36.0)%

Appendix 2: Financial Statements cont.

Prizma	Notes	BAM				Euro				P1-P2	P2-P3	P3-P4
		Dec. 1999	Dec. 2000	Dec. 2001	June 2002	Dec. 1999	Dec. 2000	Dec. 2001	June 2002	% Change	% Change	% Change
Financial revenue (a)		615 563	1 081 653	1 393 200	943 708	314 732	553 040	712 332	482 510	76%	29%	(32)%
Revenue from portfolio		613 554	1 076 672	1 386 043	934 821					75%	29%	(33)%
<i>Interest received on loans</i>	1	508 670	922 181	1 237 138	828 437	260 079	471 504	632 539	423 573	81%	34%	(33)%
<i>Fees and commissions received on loans</i>		104 874	153 202	145 893	102 342	53 621	78 331	74 594	52 327	46%	(5)%	(30)%
<i>Penalty revenue on loans</i>	2	9	1 287	3 002	4 042	5	658	1 535	2 067		133%	35%
Revenue from other financial assets	3	2 009	4 981	7 157	8 887							
Financial Expense (b)		0	0	12 162	48 336	0	0	6 218	24 714			297%
Interest paid on borrowings	4	0	0	12 162	48 336							297%
Financial income [c=a-b]		615 563	1 081 653	1 381 038	895 372	314 732	553 040	706 114	457 796	76%	28%	(35)%
Operating expense (d)		768 516	963 644	1 046 942	738 171	392 936	492 703	535 293	377 421	25%	9%	(29)%
Staff expense		418 049	564 664	595 054	415 705	213 745	288 708	304 247	212 547	35%	5%	(30)%
<i>Credit officers salary, bonuses (including taxes)</i>	5			221 500				113 251				(100)%
<i>Taxes and social benefits</i>		47 269	64 699	124 828						37%	93%	(100)%
Administrative expenses	5	350 467	398 980	451 888	322 466	179 191	203 995	231 047	164 874	14%	13%	(29)%
<i>including depreciation and amortization</i>		48 263	70 562	87 233	54 500	24 676	36 078	44 602	27 865	46%	24%	(38)%
<i>including bank fees</i>		34 252	30 083	13 354	6 803	17 513	15 381	6 828		(12)%		(49)%
Operational income before provision [e=c-d]		(152 953)	118 009	334 096	157 201	(78 204)	60 337	170 820	80 376	(177)%	183%	(53)%
Net Loan Loss provision expense (f)		37 615	49 301	56 436	63 157	19 232	25 207	28 855	32 292	31%	14%	12%
Loan loss provision expense and write off		37 615	51 859	64 882	64 648	19 232	26 515	33 174	33 054	38%	25%	(0)%
Recovery from Loans written off		0	2 558	8 446	1 491							
Net operating income (g=e-f)		(190 568)	68 708	277 660	94 044	(97 436)	35 130	141 965	48 084	(136)%	304%	(66)%
Extraordinary revenue (h)	6		4 817	212			2 463	108			(96)%	(100)%
Extraordinary expense (i)	7	33 129		11 480		16 939		5 870		(100)%		(100)%
Non-operating revenue (j)	8	8 644	600			4 420	307			(93)%	(100)%	
Non-operating expense (k)												
Net Income Before Taxes and Donations (l=g+h-i+j-k)		(215 053)	74 125	266 392	94 044	(109 955)	37 900	136 204	48 084	(134)%	259%	(65)%
Income Taxes (m)	9											
Net Income Before Donations (n=l-m)		(215 053)	74 125	266 392	94 044	(109 955)	37 900	136 204	48 084	(134)%	259%	(65)%
Revenue From Donations (o)		2 039 961	654 731	750 273	809 964	1 043 015	334 759	383 608	414 128			
Net Income (p=n+o)		1 824 908	728 856	1 016 665	904 008	933 061	372 658	519 812	462 212	(60)%	39%	(12)%

Appendix 2: Financial Statements cont.

General notes:

The financial statements in this annex are derived from audited financial statements for 1999, 2000, and 2001. The June 2002 figures are unaudited. For the June 2002 figures, Prizma performed the same adjustments that auditors have performed for the previous years to convert from a flat interest rate calculation to a declining interest rate calculation.

Balance Sheet:

1. Cash includes a provision in 2000 for 15% of cash assets in Komercijalna Banka Tuzla to cover bankruptcy risks.
2. Time deposit are invested through monthly contracts renewed regularly.
3. PF value after the external auditor's adjustments for 1999, 2000, 2001, 2002, thus not corresponding to the values that appear in the Section A. Since 2001, Prizma has some loans with a term greater than one year (Housing Loans) but they represent less than 10% of the portfolio and are therefore included in the Short Term Portfolio.
4. Other accounts includes payments in advance, prepaid expenses and receivables.
5. In Oct 2001, Prizma received the first of three disbursements of the CORDAID loan (in Euros), secured by the lien of the loan portfolio without arrears: 7% annually, five-year term with two-year grace period on principal repayment. In Feb 2002, the second disbursement was received with a third and final tranche received July 2002.

Income Statement:

1. External auditors adjusted the interest income from a flat method interest rate calculation to a declining one. Accrued interest was also adjusted: in 1999 by 20,000 BAM, in 2000 by 15,000 BAM, in 2001 by 5,000 BAM and in June 2002 by 15,000 BAM.
2. Prizma started to separately track penalty fees in second quarter 2000.
3. Interest from current accounts and from national time deposits.
4. Interest paid on CORDAID loan.
5. From end 2001, staff expenses grew due to personnel taxes and social benefits paid as of September 2001 and the new compensation system (refer to section E).
6. In 2000, a 4,817 BAM provision recovery on provision for bank bankruptcy in Komercijalna Banka Tuzla. In 2001, sale of assets.
7. In 1999 provision of 33,129 BAM is made for bank bankruptcy risk in Komercijalna Banka Tuzla, and in 2001, sales of assets and expenses due to robbery in Zenica.
8. In 1999 and 2000, income from consultant fee (8,644 and 600).
9. Non-profit microcredit organizations are not required to pay tax on income.

Appendix 3: Adjustments

Adjustments	BAM				Euros			
	Dec. 1999	Dec. 2000	Dec. 2001	June 2002	Dec. 1999	Dec. 2000	Dec. 2001	June 2002
Prizma								
Adjusting for the effect of inflation = (a - b) X c	93 323	105 603	131 676	79 810	47 715	53 994	67 325	40 806
a. Average of equity	2 575 482	3 852 364	4 725 124	5 685 461	1 316 823	1 969 682	2 415 918	2 906 930
b. Average of fixed assets	242 418	332 265	335 929	364 798	123 946	169 884	171 758	186 518
c. Inflation rate	4.0%	3.0%	3.0%	1.5%	4.0%	3.0%	3.0%	1.5%
Adjusting for the cost of funds	0	0	3 876	17 820	0	0	1 982	9 111
= ((a X b) + (c X d) + (e X f) - g					0	0	0	0
a. Average borrowings	0	0	133 648	1 470 133	0	0	68 333	751 667
b. Shadow price of borrowings	12.0%	12.0%	12.0%	4.5%	12.0%	12.0%	12.0%	4.5%
c. Average savings	0	0	0	0	0	0	0	0
d. Shadow price of savings	na	na	na	na	na	na	na	na
g. Interests and fees previously paid	0	0	12 162	48 336	0	0	6 218	24 714
Adjusting for in-kind operating subsidies	43 000	43 000	30 000	10 000	21 986	21 986	15 339	5 113
a. staff and technical assistance	30 000	30 000	30 000	10 000	15 339	15 339	15 339	5 113
b. other	13 000	13 000			6 647	6 647	0	0
Adjusting loan loss provision	(35 217)	(47 652)	(51 721)	(36 826)	(18 006)	(24 364)	(26 444)	(18 829)
for loan losses	(35 217)	(47 652)	(51 721)	(36 826)	(18 006)	(24 364)	(26 444)	(18 829)
for other risks					0	0	0	0
Other adjustments	209 025	282 332	223 145	0	106 873	144 354	114 092	0
Social benefits and taxes	209 025	282 332	223 145	0	106 873	144 354	114 092	0
Net income before donations and before tax								
Unadjusted	(215 053)	74 125	266 392	94 044	(109 955)	37 900	136 204	48 084
Adjusted	(525 183)	(309 158)	(70 585)	23 240	(268 522)	(158 070)	(36 089)	11 883
Taxes Paid	-	-	-	-	-	-	-	-
Net Adjusted Income before donations and AFTER taxes	(525 183)	(309 158)	(70 585)	23 240	(268 522)	(158 070)	(36 089)	11 883

Appendix 4: Select MFIs in BiH

This table contains estimates from Planet Rating based on figures obtained from LID publications and meetings with MFIs. We cannot guarantee their accuracy.

MFI	Lending Methodology	Average Loan at Disbursement (BAM)			Total Outstanding Portfolio (BAM)			Active Borrowers			Date of info
		<2,000	2,000 to 4,000	>4,000	<2,500,000	2,500,000 to 6,000,000	6,000,000 to 15,000,000	<1,000,	1,000 to 4,500	4,500 to 7,000	
Malteser	Individual + Group	X (group)		X (indiv)	X			X			Dec 2001
MI-BOSPO	Individual + Group	X				X			X		March/June 2002
Mikra (CRS)	Village bk	X				X			X		March/June 2002
Prizma	Individual + Group	X				X				X	June 2002
Women for women	Group	X			X				X		March/June 2002
Benefit	Individual		X			X			X		March/June 2002
BOSVITA	Individual		X		X			X			March/June 2002
LOK micro	Individual + Group		X			X			X		March/June 2002
MIKRO ALDI	Individual + Group		X		X			X			Dec 2001
Mikrofin	Individual + Group		X				X		X		March/June 2002
Partner	Individual		X				X			X	June 2002
CeBEDA	Individual			X	X			X			Dec 2001
EDA-ILO	Individual			X	X			X			Dec 2001
EKI	Individual + Group			X			X			X	March/June 2002
MELAHA	Individual			X	X			X			March/June 2002
Micro Sunrise	Individual			X			X		X		March/June 2002
Mikro AMK	Individual			X		X		X			Dec 2001
SINERGIJA	Individual			X	X				X		March/June 2002
ALDI					X			X			March/June 2002

Appendix 5: How to Read a GIRAFE Rating

A GIRAFE rating must be analyzed on two levels:

- ❑ global rating, from G1 to G5*, and
- ❑ composite rating: scoring of the 6 areas of assessment from e to a.

The six-letter composite rating identifies the specific areas of weakness that might not be obvious from the global rating. Caution should be used when interpreting the global rating in isolation.

Global rating

G5*	Outstanding performance on all areas of assessment. The institution achieved total financial and operational self-sufficiency. Minimal risk. The institution should be able to address all risks.
G5	Excellent overall performance. The institution achieved a high level of professionalization (good technical and financial self-sufficiency). Risk is very limited.
G4*	High global performance. Nevertheless, one area of assessment may be weak. Advanced professionalization. Technically self-sufficient. Low risk, related to identified areas that can be controlled (see composite ratings)
G4	Satisfactory overall performance. Nevertheless, some areas of assessment may be weak. Advanced professionalization. The institution is technically self-sufficient, but still subject to problems. Moderate risk; related to several areas (see composite rating)
G3, G3*	Some weaknesses in several areas of assessment, but institutionalization and/or professionalization are under way; the institution has to strengthen its systems. Moderate to significant risk. Support investment, to be completed by technical assistance.
G2, G2*	Under performing institution, not mature enough to be refinanced. The predictability of activities is low. High risk.
G1, G1*	Serious weaknesses in all areas of assessment. Substantial risk, even in the short term (institutional and credit risks).

Composite rating

These component ratings distinguish fiduciary risk (G, I, R areas: analysis of governance, underperformance) and credit risk (loan portfolio management, counterparty risk) separately.

Each GIRAFE area is given a grade from e to a:

a	Excellent performance.
b	Good. Above average performance of the MFI in this dimension.
c	Average value in the sector, allowing the institution to drive its operations in the short and medium term, but without real predictability over the long term.
d	Strongly unfavorable situation, than can be harmful to the institution's health even in the short term.
e	Extreme cases, when performance in this area represents a real danger for the institution's sustainability, even in the short term.

Appendix 6: Definition of ratios

Portfolio yield:	Cash revenue from portfolio (excludes accrued interest) / Period Average Outstanding Portfolio (monthly values)
Return on assets:	Net income before donations / Average assets
Adjusted Return on Assets:	Net adjusted income before donations / Average assets
Return on equity:	Net income before donations / Average equity
Adjusted Return on Equity:	Net adjusted income before donations / Average equity
Profit margin:	Net operating income before donations / Total revenues
Leverage:	End of period assets / End of period equity
Operational self-sufficiency:	Financial Revenue / (Financial Exp + Net LL provision expense + Operating expense)
Financial self-sufficiency :	Adjusted Financial Revenue / (Financial Exp + Net LL provision expense + Operating expense + Adjustments)
Operating expense ratio:	Operating expenses / Period Average Outstanding Portfolio
Write-off ratio:	Amount written off / Period Average Outstanding Portfolio