Banco Solidario S.A.

Recovery Strategy, 2000 - 2004

Five years had passed since, in April 2000, Kurt Koenigsfest, took over as the Chief Executive Officer at Banco Solidario S.A. BancoSol, as the institution was known, had its headquarters in La Paz, Bolivia, and had become the top Latin American bank specializing in providing microbusiness services. Since its beginning in 1992, BancoSol had achieved excellent results and had become an international reference point in the microcredit area. In mid-2000, however, external and internal factors caused its performance to decline. Kurt and his management team set a strategy into motion that led the bank to be rated as the best institution in the Bolivian financial system in 2004.[1] The time had come to plan for the future; the management team had to establish BancoSol´s primary lines of action for the next three years.

Bolivia

Bolivia was one of the least developed countries in Latin America. Around 9.4 million people inhabited its 1,098,581 km.[2] Of these people 56% made up part of one of the 32 ethnic groups existing in the country. Within its territory the Andes Mountains were divided into two mountain ranges, the Western Volcanic and the Eastern. Both had dissimilar geography, characterized by the presence of very high altitude plateaus and severe weather conditions, temperate productive valleys and a vast jungle area. Bolivia was divided into nine departments, with La Paz the seat of government (see Appendix 1).

[1] Semanario Nueva Economía, February 27, 2005

This case study was written by Karina Caballero and Mauricio Melgarejo, under the supervision and direction of Professor Enrique Ogliastri. Its basic objective is to encourage in-class discussion rather than to illustrate how to correctly or incorrectly handle an administrative situation.

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Economic Situation

In 1985 Bolivia underwent one of the worst economic crises in its history. The budget deficit financed with monetary issues produced severe hyper-inflation, reaching levels of up to 11,700% in 1985. Between 1982 and 1986, economic activity decreased at an average rate of -3.4%, and the public sector deficit came to represent close to 25% of the GDP.

In August 1985 the government established a monetary stabilization program. A series of reforms was applied that included reducing the size of the primary state companies and the state itself, renegotiating or rescheduling external debt, establishing unique uniform tariffs, simplifying the taxation system, and stabilizing the exchange rate with full price liberalization. By 1988, inflation dropped to 20%.

During 1993 – 1998 economic growth reached an average 4.7% annually due in large part to a second wave of reforms that included changes in the pension system and the capitalization of the more important public companies. Direct foreign investment doubled during this period, and the fiscal deficit reached 4.7% of the GDP (see Appendix 2).

In 1998, the Bolivian economy entered a deceleration period as a consequence of various external and internal shocks. The international financial crisis in Southeast Asia in 1997 and in Brazil in 1998 produced a drop in export product prices and deterioration in the exchange terms, affecting national production. Several weather problems considerably affected the agricultural sector. The hydrocarbon sector experienced a contraction associated with the end of the gas export contract with Argentina and deferral of gas sales to Brazil. Internally, in 1998, the *Plan Dignidad* (Dignity Plan) was applied to eradicate the surplus coca crops in the country. This plan exposed the dependence the economy had reached on producing and marketing coca.[2] A new customs law went into effect in 1999, reducing contraband entering the country from Chile, primarily in the Department of Oruro.

In 2003 and 2004 the international context was favorable for Bolivia due to better prices and lower interest rates on the international market. Social and political conflicts, however, interrupted the normal economic activity rate and generated a climate of uncertainty that affected how the financial system functioned and the trust of external investors. A considerable increase in hydrocarbon sector exports occurred during these years, determined primarily by the increase in the volumes of natural gas[3] exported to Brazil and the renewal of natural gas exports to Argentina.

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[2] For 1990, coca production had contributed 1.3% of the GDP. For 1999, this percentage dropped to 0.37%

[3] Bolivia had the second largest natural gas reserves in South America after Venezuela. For 2004, the net reserves reached 52.3 trillion cubic feet.

Political Situation

After two decades of military dictatorships, democratic governments began to lead the country in 1982. These governments were characterized by social movements and governance crises, accentuated since 2003.

In February 2003, the then president of the republic, Gonzalo Sánchez de Lozada, supported by a political coalition that gave him the majority in Congress and the state security forces (military and policy), created a new wage tax to reduce the fiscal deficit that in 2002 had reached 9% of the GDP. Days later, the tax was canceled because of the public's irate rejection.[4]

The natural gas export project and the dispute over approving the surpluses generated by this resource caused a new political crisis. In August 2003, the government decided to go ahead with a natural gas export project, retaining the current legislation that only imposed 18% in taxes and royalties on the operating companies. An escalation in protests against this measure descended into a strike impelled by the neighborhood organizations in the city of El Alto (adjoining La Paz) in 2003. The strike paralyzed activities in the city and blocked access to the seat of government for the rest of the country. The government turned to using the military and police to try to overcome the conflict. The confrontations caused approximately 80 deaths and 400 people were wounded. The President was forced to step down, so Vice-President Carlos Mesa assumed the country's presidency.

In a national polling held July 18, 2004, the citizens backed the new government's policy in relation to natural gas exploitation.[5]

In January 2005, major protests occurred once again against a governmental decree that implied an increase in fuel prices. The protests became especially serious in Santa Cruz, where the so-called "Pro Santa Cruz Civic Movement," made up of business people, union sectors, and mayors' offices, announced the immediate election of an assembly to define departmental self-governance. The president of this committee proclaimed autonomy and announced that he would call for elections for the new governor and a referendum that would make Santa Cruz an autonomous state.

Faced with the continuing crisis, on March 7, 2004, Mesa extended an offer to the Congress to step down. His resignation was not accepted, and his presidential project was approved to reach a major social pact between the main political forces and put an end to the imbalance throughout the country by calling for a Constituent Assembly to modify the state's Political Constitution and to strengthen regional autonomy. In May, the

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[4] During the three days of protests and confrontations, 4 police officers, 3 military personnel, and 19 civilians lost their lives.

[5] The government policy included abrogating the Hydrocarbon Law proclaimed by Sánchez de Lozada, the recovery of public property for all hydrocarbons, re-founding a state company in charge of managing hydrocarbon resources, the strategic utilization of gas to gain a sovereign exit to the Pacific Ocean (the country had lost its seacoast in an armed conflict with Chile in 1879), and gas exports, so long as internal consumption was ensured. This encouraged industrialization and the funds generated were to be used for social development.

Hydrocarbon Law was declared, establishing increased taxes and royalties paid by foreign oil companies. The demonstrations returned in force at the end of the month since the new law did not satisfy the indigenous, *campesino*, and mining organizations. Faced with these obstacles, Mesa resigned and was replaced on June 9 by Eduardo Rodríguez, the President of the Supreme Court of Justice. On December 4, 2005, Bolivia would enter a new electoral process where eight candidates aspired for the presidency.

Social Situation

By 2004, Bolivia was one of most unequal countries in relation to distribution of wealth. The poorest 20% of the population received 4% of the country's income, while the richest 20% had 49.1%.[6] Some 63% of the population lived in urban areas while 37% lived in rural ones. Poverty affected 62.7% of Bolivians.

According to unofficial data, approximately 2,000,000 Bolivians lived abroad. Argentina was the country with the largest Bolivian community, 1,500,000 people, followed by the United States with 250,000, and Spain with 150,000.

The unemployment rate in the country reached 9.2% in 2005. The informal sector's contribution to the employed population was 83% so its contribution to the gross domestic product was approximately 25%. Appendix 3 shows some social indicators for Bolivia.

Microfinance in Bolivia

As a product of the economic policies applied in Bolivia in the mid-80s, a numerous contingent of unemployed people joined the so-called "informal sector" made up of micro, small, and medium enterprises (see Chart 1). This sector was not qualified for formal banking credit, fundamentally for three reasons: the lack of collateral, the non-existence of accounting records made it difficult to evaluate the customer economically and financially, and problems of scale, since lending very small amounts of money represented very little profitability because of the cost of each transaction. To face this situation at the end of the 80s the first non-profit NGOs arose in Bolivia. Their objective was to provide loans to micro enterprises, with donations and subsidized funds being their primary source of funding.

[6] United Nations Human Development Report, 2005.

Chart 1
Micro, Medium, and Small Enterprise Definitions in Bolivia

Enterprise Type	Assets	Equity	Monthly Sales	No. Employees
Micro	Up to US$ 3,000	Up to US$ 10,000	Up to US$ 1,250	Up to 10
Small	Up to US$ 150,000	Up to US$ 200,000	Up to US$ 8,250	Up to 30
Medium	Up to US$ 1,200,000	Up to US$ 800,000	Mayor a US$ 10,000	Up to 120

Source: Vice Minister of Micro Enterprise of Bolivia

In the mid-90s two facts marked the beginning of the process to incorporate regulated financial entities dedicated to the micro, small, and medium enterprise sector. First in 1992, Banco Solidario S.A., which had arisen from the PRODEM NGO, was incorporated as the first bank in Latin America dedicated exclusively to the micro enterprise sector. Second, in 1995, the government issued Supreme Decree No. 24,000, which set the norms for creating Private Financial Funds (PFFs) and how they would function as specialized financial brokers in providing services to micro and small borrowers.[7]

Taking advantage of the new norms, several NGOs went on to incorporate as a PFF (Caja los Andes, FIE, PRODEM and Ecofuturo). Other PFFs arose from totally private entrepreneurial initiatives (Fassil and Fortaleza). The main advantages of becoming a formal entity was access to larger financing sources for institutional financers through direct public funds deposit instruments and access to the information at the Central Risk Offices at the Superintendency of Banks and Financial Entities.

The PFFs kept the institutional mission of the NGOs from which they arose, where the main objective was to provide greater economic opportunities to the low-income population, but in a sustainable and permanent way, not as a short-lived achievement that depended on subsidies.

Between 1996 and 1998, several financial entities began to promote aggressively consumer loans.[8] The credit promoters at these institutions, who received a commission for increasing the portfolio, were mostly preoccupied with this benefit without properly measuring how the loan would be repaid. Since the consumer customer market was limited, they made contact with micro and small entrepreneurs and began to offer them large loans surpassing normal amounts. Many micro entrepreneurs went into excessive debt and over time could not pay for either their old or new debts.

The excessive indebtedness situation for many micro and small entrepreneurs would have been of no consequence if their income levels had remained stable. However, as a

[7] The norm empowered the PFFs to accept public funds only through savings and fixed term deposit accounts, to contract subordinate obligations and with external or internal financial entities, to issue guarantee tickets, and to issue drafts and payment orders within the country.
[8] Some Private Financial Funds entered the market targeting consumer credit (e.g., Acceso and Fassil).

product of the economic crisis the country began to suffer at the beginning of 1998, their income generation capacity was significantly decreased. Associations of small borrowers were created in several of the country's departments; they adopted pressure tactics and used them on the financial entities and the government (marches, blockades, etc.). These associations' objectives were the same. The microfinance entities held meetings with these associations and their legal advisors to clarify these situations and ask for lists of customers who were in arrears to negotiate with each of them to try to reach the most appropriate solution.

At the beginning of 1999, the Superintendency issued new regulations to limit excessive indebtedness. A key issue in the regulations was that debt service should be limited to 25% of verifiable income for salaried workers. Between 1999 and 2000, the more important consumer credit entities stopped financing micro entrepreneurs.

Despite Bolivia's political and economic crises continuing in the following years, the financial institution sector specializing in microfinance had been able to consolidate its market position. The credit portfolio for these institutions had shown major growth in 2002, 2003, and 2004 (see Appendix 4), as had the number of customers served and their service coverage (see Appendix 5). Several of these institutions had been able to attain delinquent loan rates that were lower than for the banking system, accompanied by greater solvency and profits (see Appendix 6).

Credit Methodologies. The primary credit methodologies used in relation to the informal sector were savings and loan associations, individual credit, and community banks.

The primary characteristic of solidarity groups was that they used an intangible guarantee. This type of guarantee is based on a commitment by all the group members, 3 to 6 people, to be liable for any possible default on payment by one of its members. The solidarity group as a whole became the borrower. The credit granted was sequential since the group started to receive small amounts of money that grew gradually as a function of meeting the group's obligations.

An individual loan used a variety of guarantees ranging from personal to mortgages, making it possible for the customer to create his or her own business plan in line with the activity being performed.

A community bank was a group of people who were responsible for managing and returning the funds that were granted. The Executive Institution (which granted the loan) organized the community association. Each community bank appointed a credit committee to handle an "external account," made up of funds granted by the Institution and an "internal account" with funds belonging to the bank members. The internal account funds were generated from two sources. The first consisted of savings made by members of the community bank, which was a requirement to be able to access credit. They were deposited into a bank account in the financial system in the community bank's name. The second source consisted of interest generated on the external account during the loan cycle, approximately four months. Once the Executive Institution funds were received, they circulated permanently among the community bank borrowers since they made weekly payments to principal and interest. These funds were loaned once again to customers, thus making it possible to capitalize the external account.

Primary Microfinance Institutions. The primary regulated microfinance institutions in Bolivia, along with BancoSol, were Banco Los Andes Procredit, FIE FFP and PRODEM FFP (see Appendix 7).

In 1995 Caja Los Andes was the first Private Financial Fund created in Bolivia. It began operations in July 1995 based on the Procredit NGO credit portfolio, activities, and technology. Its primary objective was to contribute to the economic and social development of the lower-income populace by providing financial services supporting micro, small, and medium enterprises and to improve the families' quality of life.

Beginning in January 2005, it operated as Banco Los Andes Procredit and had equity of approximately US$ 15 million. The bank was part of the Grupo Procredit, a financial institution network with 18 members in countries in Eastern Europe, Latin America, and Africa. As of mid-2005, the bank had various credit products, including micro enterprise loans from US$ 50, micro enterprise lines of credit for working capital up to US$ 12,000, loans for SMEs[9] up to US$ 750,000, housing loans, and loans backed by security instruments. Likewise, it offered non-credit services, such as national drafts and transfers, public utility and service payments, and a debit card. It had 37 branches spread out among the cities of La Paz, Santa Cruz, Cochabamba, Tarija, Sucre, Potosí, Trinidad and six intermediary cities. Close to 800 people worked at the bank.

The Private Financial Fund for Promoting Economic Initiatives (FIE FFP in Spanish) arose with the support of the FIE NGO belonging to COSUDE (the Swiss Agency for Aid and Development) and Bolivian investors. In 1998, it obtained a license to operate as a Private Financial Fund. At the end of 2004, it took care of the microfinance sector through 33 offices in the cities of La Paz, Santa Cruz, Cochabamba, Potosí, Tarija, Sucre, Oruro, and three intermediary cities. The main FIE PFF products were a line of credit for micro entrepreneurs, consumer loans, housing loans, and SME loans. The average portfolio term was approximately 16 months. The bank lending rate varied between 18% and 30% depending on the amount, guarantee, and term. The institution's primary funding sources were public and commercial banking obligations.

PRODEM FFP began operations as a Private Financial Fund in mid-1999. It had been created based on the 13 years of experience in the activity held by Fundación para la Promoción y el Desarrollo de la Micro Empresa (PRODEM – the Foundation for Micro Enterprise Promotion and Development), whose mission during the latter years had been to provide financial support to the nine Bolivian departments through 75 branches, 28 located in urban areas and 47 in the rural areas. The primary credit product was targeted at micro, small, and medium enterprises and professionals who worked on their own. The loans were for up to US$ 7,000, with terms of up to two years for working capital and three years for capital investment.

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[9] Small and medium enterprises

BancoSol

Origins

In 1984, ACCION International, an NGO with offices in the United States operating throughout Latin America, recruited a group of influential Bolivians to head the creation of a micro enterprise development program. As a result, it created PRODEM in 1986 as a co-investment among members of the Bolivian entrepreneurial community that provided the start-up capital and leadership and ACCION International, which provided the program with technology and methodology. Initially, it had 15 employees located at the headquarters in La Paz.

PRODEM offered loans to solidarity groups. The initial loans could be for up to $50 at a monthly 2.5% interest on loans in dollars (and 4% monthly on loans in Bolivianos) for a term of two months, payable weekly. When the loans were paid off, the subsequent limits in dollars and loan duration increased.

By 1991 the foundation was covering its costs, but growth was becoming increasingly difficult. As a non-profit institution financed by donors, PRODEM could not legally accept deposits or take out loans on the monetary market. This just left a few funding sources: donor contributions, loans subsidized by development organizations, and the earnings on the portfolio. The loan demand was growing at a rate of 50% and exceeded by far the donor organizations' capacity to finance them – PRODEM was forced to reduce its loans.

To face the financing challenge, the PRODEM Board of Directors proposed using a portion of the capital to launch a for-profit commercial bank. The bank would avoid the donor financing bottleneck by raising foreign investor capital, accepting deposits, and taking out loans on the monetary markets.

After lengthy discussions between PRODEM's management, the Board of Directors, and the donors (the most important was USAID) at the end of 1991, a decision was made to establish BancoSol with the following series of transactions:

- PRODEM transferred $1.4 million of its credit portfolio and six of its most developed branches to BancoSol in exchange for 41% of the new bank's capital position.
- BancoSol put together capital from foreign investor groups. They included the Inter-American Investment Corporation (IIC, with a 24% share) as the primary investor, and various international NGOs (ACCION, Calmeadow, FUNDES, the Rockefeller Foundation, and SIDI).[10] Several Bolivian business leaders and their companies acquired the remaining shares.

[10] Several NGOs consolidated their shares in August 1995, contributing them to Profund International, a share capital fund headquartered in Costa Rica concentrating on investing in microfinancing entities in Latin America and the Caribbean.

- Approximately half of the PRODEM staff went to BancoSol. During the transaction, PRODEM provided office space, ample technical training, and information technology support.

BancoSol officially opened its doors to the public on February 10, 1992, in La Paz.

BancoSol 1992 – September 2000

At the beginning, the bank only offered three products: joint loans, term deposits, and on-demand deposits. The products were designed to be simple, to facilitate quick decisions, and to be sufficiently flexible to grow with customer needs.

The joint loans were loans extended to groups made up of three to six borrowers. The joint guarantee encouraged customers to join together with others that had the same credit capacity, making it possible for the credit advisors to avoid the investigation process and to obtain real guarantees. The intent was to create homogenous groups in relation to the size of each of the businesses so the total amount to be disbursed was distributed equitably among the group members.

Initial loans were offered for $50 to $100 per customer for a two-month term. When this loan was paid off, the subsequent loan amount and term could be increased up to a maximum of $5,000 per solidarity group for a three-year term. The process began by identifying borrowers. The bank employees did broad field work, investigating the local neighborhoods, and got to know their potential customers. The loan documentation was minimal, but monitoring was intense and direct, since the credit advisors would meet weekly with each solidarity group. Payments were to be made on Monday and that same night the bank's information technology system identified any late payments. On Tuesdays, the groups that had not made their payments were visited to find out when they would do so.

Two-thirds of the credit advisors were women and most held university degrees in social science. The BancoSol salary structure was on a par with NGOs and other organizations in the development field. The commercial bank salaries were comparable to the BancoSol salaries, but incentive payments caused the commercial banking credit advisors to receive total compensation that was higher.

In 1992 the average loan size at BancoSol in dollars was $326, with a 35% interest rate (60% for loans in Bolivianos). At other commercial banks, the minimum loan was $5,000, the average loan was greater than $10,000, and the interest rates reached 15% on loans in dollars (30% on loans in Bolivianos).

BancoSol concentrated on the informal urban sector. The bank acted rapidly to establish branches in the largest cities in Bolivia, opening 12 branches in 1993, 9 in 1994, and 3 in 1995. With the passage of time, regional offices were opened in Santa Cruz, Cochabamba, Oruro, and Sucre. The National Bank Office organizational structure was made up of a general management and four functional management departments (see Appendix 8).

The bank had gained immediate acceptance in the market and great financial success, coming to be the reference point internationally for micro enterprise financing. The credit portfolio grew at compounded rates of close to 40% during the 1992 – 1997 period (see Appendix 9).

In the mid-90s some of the bank's most successful customers began to desert the PFFs that offered individual loans. Follow-up interviews held with the customers revealed that as the companies and the customer's credit needs grew, they were faced with various sorts of frustration at BancoSol, such as hitting the joint loan limit of $5,000. Approximately 30% indicated that they had left due to problems in their solidarity groups. As a response, an individual loan product was introduced in July 1999 that was available to the bank's best customers. The credit limit was set at $30,000 with a term of up to five years.

In 1997, founding shareholder IIC, which was explicitly an investor with a social purpose, had reached the five-year limit on its investment period so it decided to put up its shares in the bank for sale. That same year PRODEM decided to apply for a PFF license, becoming a direct BancoSol competitor, which meant that it had to liquidate its shareholder position. ACCION believed that BancoSol was its most successful example and was willing to increase its investment.

ACCION, the Commonwealth Development Corporation (CDC) and various local entrepreneurs acquired the shares. PRODEM reduced its share from 35% to 20% and resigned from its position on the Board of Directors (see Appendix 10).

During 1999 and 2000, the BancoSol performance deteriorated along with the performance of the rest of the financial sector. At the end of 1999, individual loans made up 31% of the bank's portfolio with a delinquency rate of just 2.9%. The solidarity loans, on the other hand, represented 69% of the loans with a delinquency rate of 9%.

The Board of Directors perceived that the bank was in crisis. The financial performance was deteriorating, the bank's distinctive product (the solidarity loan) was under pressure and the Board of Directors and upper management were divided over how to confront the situation. The new shareholders, attracted by the excellent returns that the bank had historically, supported the idea of climbing in the market by concentrating on the small and medium enterprise segment. Another group headed by ACCION and Profund advocated for improving the relationship with the microbusiness segment, doing more to grow with successful customers and introducing new products that were still not found in the informal sector. A group led by activists who remained in the middle management departments was in favor of keeping the original PRODEM formula; however, the Board members did not support this option.

After several months of discussion, the Board of Directors proceeded with replacing the bank's upper management. In April 2000, they hired Kurt Koenigsfest as CEO and asked him to prepare a strategy to improve BancoSol's performance.

When the new management group began to analyze the BancoSol situation in mid-2000, several problems came to light. The solidarity loan had been distorted. Several had real guarantees, the amounts granted within a group showed major differences in amounts, and a large number of these loans were being used for purposes that were not productive (e.g., to purchase vehicles, home repair, etc.). In addition, a large part of the individual loans placed since 1999 had repayment problems. "Most of our credit advisors did not have adequate knowledge to evaluate the customer's individual payment capacity. Between July 1999 and June 2000, the portfolio was placed with more problems than BancoSol had had in all its history," the CEO mentioned.

The new management found that each regional office was functioning as an independent bank. Each regional manager had total freedom in relation to purchases, hiring staff, and services. Accounting was totally decentralized and there was no uniform rate schedule -- each regional manager could set the bank borrowing and lending rates at will. The bank culture was fairly informal, "there was no staff vacation records and the staff that worked more than 10 hours one day could take half of the next day off. The bank employees thought that the bonanza that had existed at BancoSol would never stop, which made them very conformist. They thought the bank had reached the peak in the microfinance area," the CEO reflected.

The information system was "obsolete and out of proportion." As needs came up in the system, patches were programmed as a temporary solution.

"The image that people had of BancoSol was of a bank that gave loans. We were only using 10% of our bank license, the bank had stagnated with the three products it had begun with," commented a Chief Officer of the BancoSol management team.

BancoSol September 2000 - 2005

In September 2000, the shareholders, directors and new management team participated in a meeting where they analyzed the main problems that management had found and they created a new mission for BancoSol[11] (see Appendix 11). However, internal discussions continued about the path that the bank should follow.

In May 2001, the general shareholders' meeting decided to invite an independent person to be the President of the Board. "The three main challenges we had when I took charge of the Board of Directors was the governance problem affecting the bank, unifying all of the directors' visions, and establishing a monitoring mechanism for the task of administration," the new President of the Board mentioned.

[11] This mission was reformulated in 2003.

The CEO was convinced that the profitability goal could be reached by improving the relationship with the microbusiness segment, so he proceeded to prepare a strategic plan for the 2001 – 2005 period. "The main directives of the strategic plan that we brought up with the Board of Directors were to develop new products and services, improve portfolio quality, optimize and standardize the operating department, and to achieve cost efficiency," he mentioned. After several meetings, in July 2001, the Board of Directors decided to support the new strategy. They would remain in the microbusiness niche,[12] making long-term solvency a priority by sacrificing short-term profitability.

The Board of Directors decided, while a better monitoring and tracking tool was being found, to use the CAMEL[13] methodology to evaluate bank functioning monthly. During the Board of Directors' meeting, the administration had to present a report on how these indicators were changing, comparing the BancoSol performance with the institutions defined as the main competitors: Caja Los Andes, FIE and PRODEM.

Beginning in September 2000, several changes took place at the bank in all the functional departments.

Commercial Department. **"**One of the first tasks we carried out was to open up the bank product portfolio. For example, we also found that micro entrepreneurs needed loans to remodel their homes. Between the end of 2000 and 2001, we went from two to seven products targeting microcredit, consumption, housing, and commerce," the CEO mentioned (see Appendix 12). For the savings products, the savings account was re-launched and a new fixed term deposit was launched with interest to be paid monthly.

A series of non-credit services was developed, focusing on national and international remittances and transfers, public utility and service payments, tax collections, providing guarantee titles, issuing a debit card and installing an automatic teller network. BancoSol signed agreements with Banco Velox (2001) and Banco Columbia (2002) of Argentina to implement the service to send drafts and money transfers between Argentina and Bolivia. It also signed agreements with the companies Transfer Exact (2002) and CAIXA (2004) to implement transfers between Spain and Bolivia. In 2004, it began activities with two remittance agencies in the United States.

Due to the product and service portfolio diversification, at the beginning of 2001, the bank saw the need to redesign its branches, implementing customer service platforms to facilitate opening accounts, providing full information about the bank services, and being responsible for generating any type of transaction that did not involve handling cash (see Appendix 13).

From the beginning, commercial management opted for mass communications media such as radio and television to transmit different advertising campaigns to spread the new products and services offered by the bank. It also launched an institutional campaign

[12] What was specifically sought were leaders in the segment involving loans for less than US$ 20,000.

[13] CAMEL was a financial evaluation system that analyzed a set of indicators grouped into five areas: Equity Sufficiency, Asset Quality, Administration, Results, and Liquidity.

targeting changing the bank's image from a *single-product bank* to a *diversified bank*. "This was a revolutionary concept, nobody in the sector believed that massive advertising would have any effect on micro entrepreneurs; however, the campaigns got the desired results," the national Commercial Manager mentioned.

Loans. "One of the first measures taken in this department was to reclassify the loan portfolio to call each loan by its real name," indicated the Chief Credit Officer. By the end of 2000, the solidarity loan only represented 34% of the total portfolio (see Appendix 14).

Beginning in January 2001, the recently created Chief Credit Officer position, to improve portfolio quality, began changes in the credit policy guidelines. That year the autonomy margins for approving loans were modified; e.g., the branch managers were authorized to approve loans with a real guarantee for up to US$ 8,000 and without a real guarantee for up to US$ 6,000 (see Chart 2). Automatic and manual internal controls were also implemented to facilitate closer monitoring of how the funds from the loans granted were used and how they were performing.

Chart 2
Loan Approval Autonomous Positions

	Amounts (in US$)	
Position	**No Real Guarantee**	**Real Guarantee**
Branch Managers	Amounts less than 6,000	Amounts less than 8,000
Regional Credit Assistant Managers	Amounts less than 8,000	Amounts less than 15,000
Regional Credit Managers	Amounts less than 15,000	Amounts less than 25,000
National Credit Manager	Amounts less than 35,000	Amounts less than 100,000 (1)
General Manager		Amounts less than 150,000 (1)
Credit Committee		Amounts less than 250,000

(1) Only for single indebtedness. If the borrower has another loan, the autonomous position authority drops by US$ 50,000, and if the customer has three or more loans, including BancoSol their authority drops to US$ 35,000 for the National Credit Manager and US$ 50,000 for the General Manager.

One of the credit department's greatest achievements was to control the individual loan portfolio deterioration that had occurred between 1998 and 2000. It had been necessary to penalize almost US$ 14 million as part of the recovery strategy. This effort was achieved in the same commercial line of business without the need for any supporting loans or shareholder capitalization.

A new version of the credit policy manual was implemented nationally in 2002 to standardize the loan process and to introduce new risk evaluation tools. That same year, the credit scoring tool[14] was developed, oriented toward the new customer selection and old customer segmentation process and toward the collections process.

[14] A system that made it possible to evaluate the potential risk in granting a loan, using historical information and statistical techniques. The final result was a score that enabled rating the credit applications in terms of the likelihood of them defaulting on the loan or not.

In 2003, additional improvements were made to the credit manual. A new mechanism was implemented to evaluate loans by amount ranges, creating instruments to evaluate loans for less than US$ 1,000, for loans between US$ 1,000 and US$ 6,000, and loans above US$ 6,000, as well as analysis tools for SME loans.

The changes in the credit policy and product diversification led to making changes in the credit advisor profile. The new credit advisor had to have graduated or hold a degree from a university program, such as business administration, economics, commercial engineering, finance, or similar branches, with relevant experience in the area of between one and three years. In addition, an advisor had to have certain attributes such as sociability, entrepreneurialism, be personable, and have a talent for winning over customers, among others.

In 2004 the Credit Department was created to take care of ensuring compliance with the bank's credit policy, standardizing the credit processes and training the credit managers and advisors in the field. The Methodology Process Department was also created to check and verify that the technology tools and credit processes were properly applied in the field (branches).

In large part thanks to the changes made in the credit policy and the new credit risk analysis tools, BancoSol reduced its delinquent portfolio from 12.33% in 2000 to 4.21% in 2004. In addition to the efforts to improve the portfolio quality, the bank increased reserve coverage – in 2004, it achieved a one-day late payment coverage of 119.3%, which fully matched the objectives of preserving the bank's solvency in the long term.

Information Systems. "We found ourselves in possession of obsolete, totally decentralized equipment and systems, so the first job in the department was to centralize all the information system processes in 2002," mentioned the Chief Systems Officer. Two latest-generation servers were installed, making it possible to do away with the regional servers. The bandwidth was extended for data and communication flow, making it possible to consolidate and connect all operations on line nationally. The COBIS[15] asset and liability software was updated to the latest version existing on the market.

During 2004, the operating and direct customer contact departments were modernized and standardized. More than 350 leading edge personal computers were acquired, to the benefit of the operations departments, credit advisors, service platforms, and the branch teller area. "Since 2004, the technology department developed several projects to be able to provide products and services with more value added to our customers. We developed customer selection and segmentation scoring for our credit advisors and also provided them with portable electronic tools to facilitate promoting products and to collect and evaluate customer information. We also worked on improving connectivity with various institutions abroad to become a remittance headquarters for a large part of the national financial system. During all these years, we had to work on putting patches on the main

[15] COBIS (Cooperative Open Banking Information System) was a technological platform covering the financial institutions' different requirements.

software, since the bank's position would not allow for large-scale investment in this area. However, at the end of 2002, we began working on a general replacement for the bank's information technology system. This project will be finished in 2006," the Chief Officer mentioned.

Administration and Human Resources. In 2001, administration was faced with the challenge of reducing costs and standardizing the bank's administrative processes. "To reduce costs, limits were established for the regional offices' expense autonomy – any expense above US$ 300 had to be authorized by the Chief Operations and Financial Officer and the CEO," the Chief Officer mentioned. Payments for manager cellular telephones were also limited to Bs. 130 (less than US$ 20) per month.

Each of the institution's expense items was analyzed. " … For example, we found that the 37 branches were leased by the bank and that close to 30 were leased at prices above the market, so that they were renegotiated with the property owners and the expense for this item was reduced 30%," the Chief Operations and Financial Officer mentioned.

Due to the divergence among the regional processes, the customer service schedule, functions, roles, reporting structure, responsibilities, accounting process, and uniform chart of account application had to be standardized.

As part of the strategy, it was necessary to add new functional departments and reinforce the existing ones. For example, in January 2001, two new positions were created: a new Chief Credit Officer and a Deputy Chief of Credit Risk (see Appendix 15).

All the changes made in these years caused a deterioration in the operational climate, so the CEO organized a series of workshops at all the regional offices to communicate the bank's new strategies and values. These training workshops were high impact, vivid and dynamic, since they did not follow the typical formal academic routine by using low and high ropes courses and leadership and teamwork workshops.

The Human Resources Department put together a series of training sessions each year about customer service quality, financial analysis, scoring, BancoSol products and services, credit risk analysis, the bank's credit processes, and the new version of the credit policy. "We started training all of the staff members who wanted to continue with us so they could perform their duties in line with the changes," the CEO said.

Finance and Control. As for liquidity indices, BancoSol in the latter years had kept liquidity levels above the national banking system average. The decision to maintain these levels was in response to the strategy designed so the bank could be prepared in case of any contingency and to make it possible to provide an immediate response to customers withdrawing their funds.

"People thought that micro businesspeople did not save. Nevertheless, in the periods of the most crisis, they brought their money to the bank as a means of protection, while the rest of the banking system showed a major funds outflow," the Chief Operations and

Financial Officer mentioned. As part of the strategy, an attempt was made to reduce the bank's financial costs by changing the funding structure and in 2004 reaching 70% in public deposits in savings and term accounts (see Appendix 16).

The improvements in the operating, commercial, and credit departments bore fruit. Profits for 2003 reached US$ 2.23 million (see Appendix 17), reaching a return on equity of 13.3%, higher than for Caja los Andes and PRODEM (see Appendix 18).

At the beginning of 2004, the Board of Directors decided to use the *Balance Score Card* as a monitoring and tracking tool. Along with the administration, they proceeded to prepare a strategic map, suggesting the objectives and indicators to be evaluated from the perspective of learning and growth and internal, customer, and financial considerations (see Appendices 19 and 20).

Social Responsibility. In 2004, the BancoSol shareholders and upper management decided to complement the economic results with the social results the bank helped to create in Bolivian society. As part of this initiative, the following elements were introduced into the institutional culture: (a) ensure value in the products and services for the institutions' customers, manifested by satisfaction and quality, (b) maintain active participation in the community served throughout the country, contributing work and resources to be able to generate positive change opportunities, (c) participate actively in caring for the environment and creating an ecological awareness among our customers and employees to help with this effort, (d) facilitate and empower the development of all of BancoSol's employees, seeking more training and job satisfaction, but fundamentally to make it possible for the BancoSol project to be part of their life project, with equal opportunity and conditions for all.

As part of its social responsibility initiatives, the bank promoted professional development for its employees. For example, in 2004, seven employees received a post-graduate degree, five employees finished their graduate diploma, and three employees finished their Master's degrees.

With ACCION'S technical support, the bank was able to develop a report model called a Social Score Card. The purpose of the instrument was to monitor progress for poor customers and consisted of measuring customer poverty through the income and expense variables for customers' homes. This information was obtained during the credit evaluation process for each customer (see Appendix 21).

In addition, in mid-2004, the bank did follow-up on more than 9,000 customers who, in January 2002, had applied for microcredit to be used productively. The results of that study demonstrated that 41% of these customers improved their income level and 28% maintained it (see Chart 3).

Chart 3
Impact Results

Customer Evolution (January/02-June/05)	% Sample	% Annual Increase in Income
Improved substantially	11%	97.76%
Improved	30%	15.01%
Stayed the same	28%	0.00%
Decreased	24%	-9.24%
Decreased dramatically	7%	-26.82%

The bank also began to measure the impact of its income on the stakeholders (see Chart 4).

Chart 4
Income Distribution for 2004
(in thousands of US$)

Stakeholder	Amount	%
Savers	2,294	15%
Financers	1,901	13%
Taxes Paid	1,073	7%
Employees	5,137	34%
Reinvestment	1,322	9%
Donations to the community	165	1%
Goods and service suppliers	3,214	21%

As the next step, the bank's directors wanted to place some indicators on the Balance Score Card to be able to monitor the bank's social actions.

Future Challenges

In December 2004, the investment period for several shareholders ended, so their shares in the bank were put up for sale: ACCION Investments, Mi Banco del Perú, a group of Argentinean investors, and members of BancoSol management[16] acquired these shares (see Appendix 10).

The year 2005 brought major challenges for BancoSol. "We have to understand the setting where BancoSol operates very well and adapt to its changes. For example, the microfinancing industry is an industry that grows in periods of crisis. Several

[16] Through the company Finanzas Empresariales S.A.

opportunities appeared before us to increase our market share, we can grow in the rural area or in the SME segment, or find a way to provide credit to Bolivian emigrants abroad," the President of the Board of Directors reflected.

Kurt and his team had to come up with a strategy for the next three years for the next Board of Directors' meeting. How can you achieve leadership in the microcredit segment when the competition is more aggressive? How do you grow while maintaining your mission to serve the low-income sectors with a huge social impact and at the same time continue to be profitable? These where the main questions they had to answer.

Appendix 1

Map of Bolivia and Departmental Data

Departments	Estimated Population 2005	Contribution to GDP 2004
Beni	406,982	3.3%
Chuquisaca	601,823	5.0%
Cochabamba	1,671,860	17.5%
La Paz	2,630,381	24.5%
Oruro	433,481	5.1%
Pando	66,689	0.8%
Potosí	768,203	4.8%
Santa Cruz	2,388,799	30.6%
Tarija	459,001	8.6%

Source: Instituto Nacional de Estadísticas - Bolivia

Appendix 2

Economic Indicators – Bolivia

	1985	1990	1995	1998	1999	2000	2001	2002	2003	2004
	Economic Activity									
Growth in GDP	-1.7%	4.6%	4.7%	5.0%	0.4%	2.5%	1.7%	2.4%	2.8%	3.6%
Direct Foreign Investment (as % of the GDP)	0.2%	1.4%	5.6%	12.1%	12.2%	8.8%	8.7%	8.5%	2.4%	1.3%
	External Sector									
FOB Exports (in millions of US$)	623	845	1,075	1,104	1,051	1,246	1,285	1,299	1,598	2,146
Export Composition (in millions of US$)										
Minerals	264	401	480	436	401	425	335	348	369	456
Hydrocarbons	375	227	142	88	65	166	289	331	491	839
Non-Traditional Products	34	291	479	508	521	546	501	514	622	789
Other Goods	-	-	83	166	152	208	232	181	203	178
Adjustments	-49	-74	-108	-93	-88	-99	-71	-74	-88	-115
CIF Imports (in millions of US$)	691	687	1,385	1,983	1,755	1,830	1,708	1,775	1,615	1,844
	Prices									
Inflation	8170%	18.0%	12.6%	4.4%	3.1%	3.4%	0.9%	2.4%	3.9%	4.6%
Exchange Rate (Bolivianos per US$, as of 12/31)	1.9	3.36	4.91	5.63	5.97	6.36	6.81	7.45	7.79	8.03
Average Lending Interest Rate (Bolivianos)	N.A.	34.2%	51.0%	39.4%	35.4%	34.6%	20.1%	20.6%	17.7%	14.5%
Average Lending Interest Rate (Dollars)	N.A.	20.9%	16.9%	15.7%	16.0%	15.7%	14.5%	12.1%	10.3%	10.0%
	Public Finance									
Fiscal Deficit (as % of the GDP)	25.9%	2.6%	1.8%	4.7%	3.5%	3.7%	6.9%	9.0%	8.1%	6.1%
Foreign Debt (as % of the GDP)	N.A.	77%	67%	55%	55%	53%	54%	55%	64%	59%

Source: Banco Central de Bolivia.

Appendix 3

Social Indicators - Bolivia

	2001	2002	2003
Life expectancy at birth (in years)	63.3	63.7	64.1
Infant mortality rate (per 1,000 births)	60	56	53
Adult literacy rate	86.0%	86.7%	86.5%
Population surviving on US$1 daily	14.4%	14.4%	14.4%
Population under the poverty line	62.7%	62.7%	62.7%
GDP per capita (in US$)	2,300	2,460	2,587
Open unemployment rate	9.4%	8.8%	9.2%
Public investment in health (as % of the GDP)	3.66%	3.61%	3.70%
Public investment in education (as % of the GDP)	7.13%	7.86%	7.39%

Source: United Nations Development Program, Human Development Report, 2003

Appendix 4

Primary Microfinance Institution Portfolio
(in thousands of US$)

	1997	1998	1999	2000	2001	2002	2003	2004
BancoSol	**63,086**	**74,068**	**82,273**	**77,802**	**81,148**	**80,881**	**91,175**	**108,560**
Micro-Finance PFFs	**61,411**	**78,625**	**92,775**	**115,958**	**135,216**	**161,661**	**206,593**	**282,210**
Caja los Andes	20,431	28,614	35,852	46,760	52,634	64,609	82,179	113,700
FIE(1)	12,127	14,087	18,520	22,459	27,483	34,649	40,390	54,196
EcoFuturo	-	-	3,443	11,209	10,881	6,639	10,364	14,218
Prodem(2)	18,238	24,188	21,769	23,574	33,627	44,138	62,016	86,495
Agrocapital	10,615	11,736	13,191	11,956	10,591	11,626	11,644	13,601
Consumer PFFs	**95,136**	**114,436**	**59,868**	**35,939**	**29,492**	**22,658**	**27,562**	**32,074**
Acceso	80,128	92,710	32,409	5,433	2,003	46	-	-
Fassil	15,008	21,726	18,212	15,409	10,165	6,883	6,970	8,029
Fortaleza	-	-	9,247	15,097	17,324	15,729	20,592	24,045
NGOs	**28,904**	**42,208**	**48,197**	**52,437**	**56,162**	**66,461**	**68,349**	**77,809**
Cidre	919	2,805	3,338	2,913	4,705	5,910	6,269	5,928
Diaconía FRIF	-	4,436	4,974	5,854	5,335	6,534	8,353	9,788
Funbodem	1,414	1,732	1,839	2,476	2,319	2,734	2,857	2,924
Idepro	5,003	7,343	8,472	6,518	5,129	5,108	5,780	5,415
ProMujer	2,336	2,200	2,196	3,458	3,841	4,525	5,587	7,144
Aned	5,809	6,452	7,280	7,447	8,392	10,555	11,425	10,658
Crecer	1,334	2,117	2,842	3,538	4,405	5,808	7,025	8,741
Fades	6,512	9,047	10,413	11,670	13,158	14,996	17,092	18,319
Fondeco	3,017	2,983	3,523	3,547	4,165	5,101	1,165	5,704
Sartawi	2,560	3,093	3,320	5,016	4,713	5,190	2,796	3,187
Banking System (3)	**3,970,707**	**3,512,258**	**2,933,985**	**2,585,897**	**2,460,401**	**2,365,909**	**2,266,500**	**2,311,028**

(1) For 1997 the portfolio pertains to the FIE NGO.
(2) For 1997 and 1998 the portfolio pertains to the PRODEM NGO.
(3) Not including BancoSol

Source: Superintendencia de Bancos y Entidades Financieras de Bolivia and Finrural.

Appendix 5

Customer and Branch Number Evolution

	1998	1999	2000	2001	2002
Urban Customers	**206,869**	**259,258**	**206,984**	**212,010**	**198,281**
BancoSol & PFFs	165,872	217,982	165,418	165,795	144,970
Financial NGOs	40,997	41,276	41,566	46,215	53,311
Rural Customers	**144,661**	**159,270**	**145,298**	**130,780**	**137,049**
BancoSol and PFFs	5,121	6,364	34,196	29,178	27,822
Financial NGOs	139,540	152,906	111,102	101,602	109,227
Total	**351,530**	**418,528**	**352,282**	**342,790**	**335,330**
Urban Branches	**103**	**162**	**157**	**148**	**183**
BancoSol & PFFs	73	98	92	92	110
Financial NGOs	30	64	65	56	73
Rural Branches	**124**	**129**	**135**	**142**	**158**
BancoSol & PFFs	9	8	48	47	44
Financial NGOs	115	121	87	95	114
Total	**227**	**291**	**292**	**290**	**341**

Source: Superintendencia de Bancos y Entidades Financieras and Finrural

Appendix 6

Financial System Indicators of Delinquency, Solvency, and Profitability

	1999	2000	2001	2002	2003	2004
Portfolio in Arrears / Gross Portfolio						
PFFs	6.35%	9.14%	12.13%	7.20%	4.83%	3.06%
Banking System (1)	6.69%	11.55%	16.25%	17.94%	17.14%	14.50%
BancoSol	7.02%	12.33%	14.65%	9.46%	6.82%	4.21%
Reserve Created / Portfolio in Arrears						
PFFs	86.01%	85.27%	108.71%	132.84%	168.22%	159.61%
Banking System (1)	54.83%	54.09%	56.11%	64.38%	75.04%	85.51%
BancoSol	100.02%	78.62%	72.48%	91.2%	104.3%	119.3%
Return on Equity						
PFFs	N.A.	3.8%	1.0%	4.0%	12.7%	15.8%
Banking System (1)	8.35%	-9.60%	-4.26%	0.72%	2.83%	-1.18%
BancoSol	9.00%	3.95%	0.46%	1.71%	13.3%	20.9%
Total Public Deposits (in thousands of US$)						
PFFs and BancoSol	84,836	116,289	142,572	167,426	213,778	270,399
Banking System (1)	3,464,981	3,387,030	3,123,832	2,718,262	2,612,495	2,451,909

(1) Not including BancoSol

Source: Superintendencia de Bancos y Entidades Financieras

Appendix 7

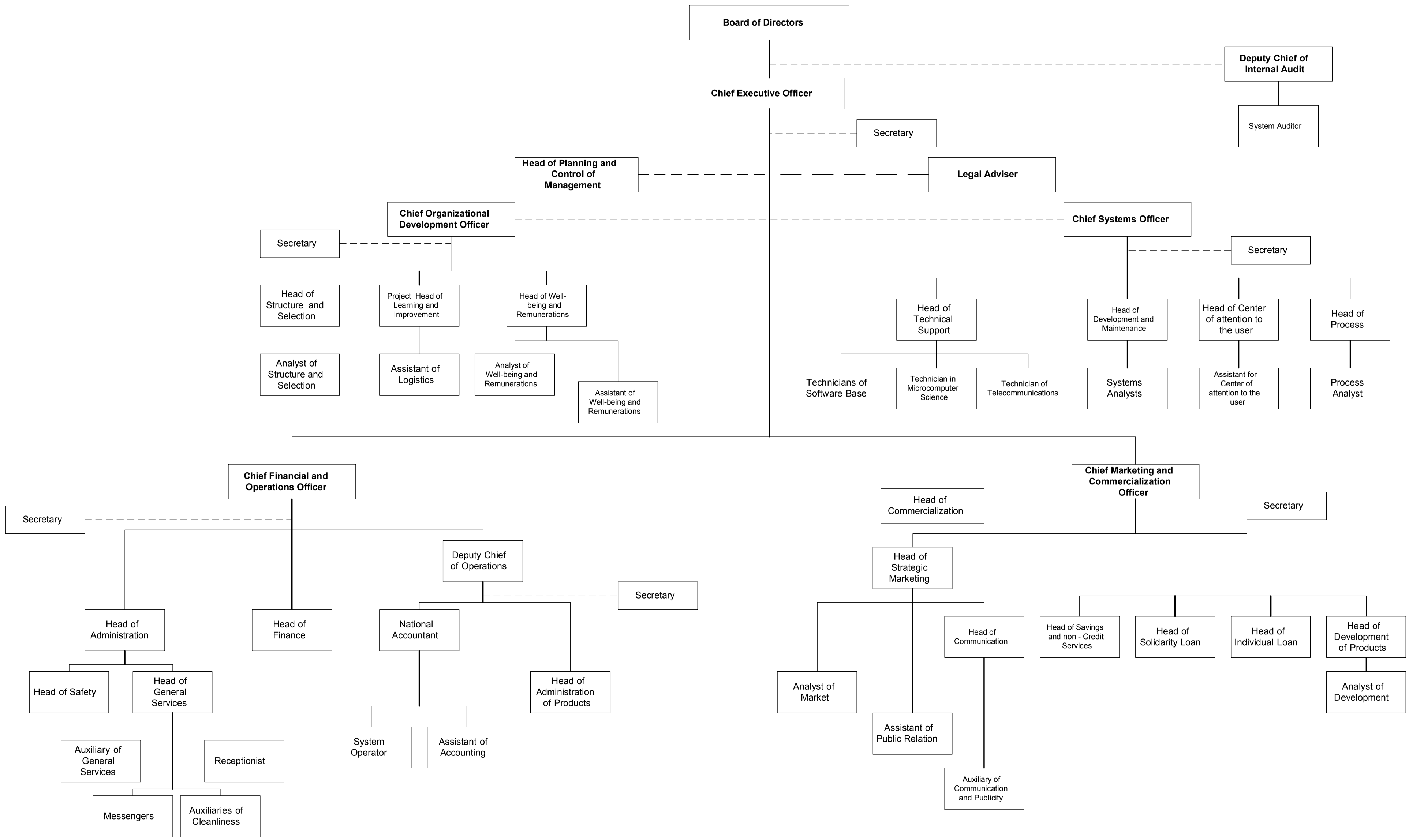
Portfolio Loan Amount in Thousands of US$

	Caja Los Andes			**FIE**			**PRODEM**			**BancoSol**		
Loan Amount in US$	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**
Less than 1,000	9,261	18,732	16,419	6,948	8,202	11,116	1,896	5,692	11,038	3,131	8,876	11,034
Between 1,001 & 5,000	22,811	15,422	32,146	13,124	15,332	20,318	18,082	22,611	32,379	32,535	43,278	52,321
Between 5,001 & 20,000	15,985	26,121	21,488	9,801	11,256	14,413	12,636	16,285	22,535	28,575	26,829	30,620
Between 20,001 & 50,000	7,591	9,620	11,677	3,018	2,899	5,291	7,315	9,399	11,592	11,577	9,726	10,548
Between 50,001 & 100,000	4,266	6,264	10,590	1,066	2,075	2,240	2,907	4,771	5,719	3,908	2,466	3,031
Above 100,000	4,306	6,020	21,380	692	626	818	1,302	3,258	3,232	1,155	-	1,006
Total Portfolio	**64,220**	**82,179**	**113,700**	**34,649**	**40,390**	**54,196**	**44,138**	**62,016**	**86,495**	**80,881**	**91,175**	**108,560**

Source: ASOFIN

Appendix 8

National Office Structure (1998)



Appendix 9

Some BancoSol Performance Indicators

	1992	1993	1994	1995	1996	1997	1998	1999	jun - 2000
Credit Portfolio (thousands of US$)	8,800	24,800	33,200	36,700	47,400	63,100	74,100	82,273	78,000
Average Loan Size (in US$)	326	506	544	583	658	830	904	1,127	1,276
Portfolio in Arrears	3.20%	2.90%	5.10%	3.10%	2.60%	2.10%	4.50%	7.00%	12.30%
Deposits (thousands of US$)	1,860	15,730	5,600	7,100	11,000	14,700	19,000	18,200	29,300
ROE	2.60%	4.40%	13.30%	9.20%	14.40%	23.80%	28.90%	9.00%	3.80%
Branches	12	20	29	32	33	35	40	42	37
Credit Advisors	107	217	213	238	284	346	272	344	330

Source: BancoSol

Appendix 10
Bank Ownership Structure

1998		2000		2004	
Shareholder	**Percent Ownership**	**Shareholder**	**Percent Ownership**	**Shareholder**	**Percent Ownership**
PRODEM	35.44%	Profund International S.A.	23.18%	ACCION Investments in Microfinance SPC	21.83%
Inter-American Investment Corp.	24.01%	Commonwealth Development Corp.	22.00%	PRODEM	20.16%
Profund International S.A.	23.18%	PRODEM	20.16%	Mi Banco, Banco de la Microempresa S.A.	13.99%
Inversiones América S.A.	4.33%	ACCION Internacional	13.31%	ACCION International	13.31%
Comsur S.A.	4.33%	ACCION GATEWAY FUND L.L.C.	10.63%	ACCION GATEWAY FUND L.L.C.	10.63%
Inbo S.A.	2.38%	Ramiro Freitas Ocampo	3.48%	Banco de Crédito de Bolivia S.A.	7.26%
Blanca A. de Larrea	1.58%	Ferber Realty	2.91%	Finanzas Empresariales S.A.	5.95%
Guillermo Rivero	1.58%	Compañía Boliviana de Inversiones S.A.	1.17%	Pachamama Holding S.A.	4.20%
Corbodi S.A.	1.17%	Roberto Capriles Tejada	1.16%	Other (seven parties)	2.67%
ACCION Internacional	0.79%	Metrocity Investment	0.87%		
Other (six parties)	1.21%	Other (five parties)	1.12%		

Source: BancoSol

Appendix 11

BancoSol Mission, Vision, and Values

	1999	2000	2003
Mission	We are a leading bank, solvent, efficient, and profitable, supporting micro and small enterprises since 1992, allowing easy, quick access to high-quality integral financial services. Our institutional culture, open to change, founded on people, and focused on the customer, provides incentives for professional development and self-realization for our employees.	We are the top bank in providing integral financial services within the reach of people, micro entrepreneurs and business initiatives in Bolivia's majority sectors with whom we take on a high degree of commitment.	We are the bank that provides the chance to have a better future to lower income sectors through access to high-quality integral financial services.
Vision		BancoSol will be the number one institution in microfinance in portfolio volume and number of customers in each of the country's regions where it operates. Its risk profile will be less than its direct competition's, with a stable loan portfolio based on a diversified product portfolio. The liability structure will be optimized through external, internal, and public funds deposits, maintaining appropriate asset/liability management. We will be the most profitable institution with the lowest operating expense against assets in the micro-finance system, supported by appropriate use of information technology. Our human resources will have the appropriate professional profiles and will have a high degree of motivation and commitment to the bank and the customer. The bank will provide incentives and develop a culture oriented toward performance and competitiveness.	Be an innovative microfinance leader and reference point nationally and internationally, favoring development, progress, and quality of life for lower income people.
Values			• Service • Integrity • Reciprocity • Responsibility • Coherence • Commitment

Appendix 12

Credit Products

Sol Individual
Individual loans targeting individuals whether or not they are a bank customer, who own an economic unit so they can generate sufficient cash flow to amortize the loan and enter the microcredit market. They may be businesspeople or goods or services producers.

Solidario
Joint loans granted to micro entrepreneurs with their own business in groups of 3 to 4 people, with a joint guarantee, shared by all and indivisible.

Sol Vivienda
Mortgage loans for housing, targeting purchasing, constructing, improving, and/or legalizing housing. The program is for individuals, whether or not they are a bank customer, who must have sufficient net income to regularly pay the loan.

Sol Efectivo
Loans for salaried workers targeting individuals, whether or not they are a bank customer, who work for stable companies.

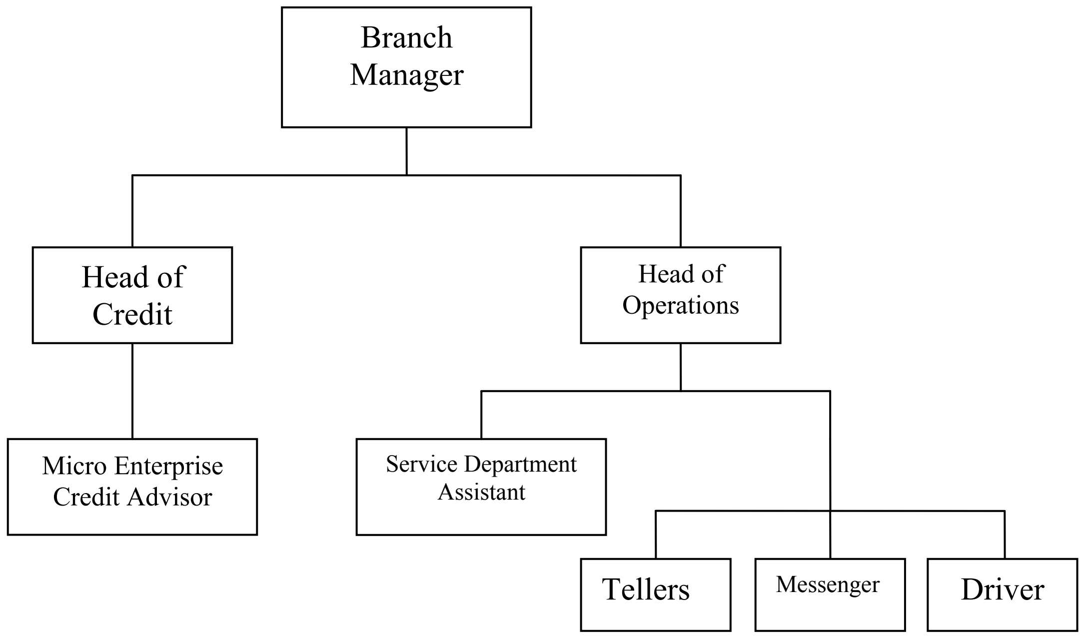
Sol Vehículo
Auto loans targeting individuals, whether or not they are a bank customer, who must have sufficient net income to regularly pay the loan.

Solicita
Commercial loans targeting small and medium enterprises, whether or not they are bank customers, who provide financial statements for their production, commercial, or services business. The purpose is to finance working capital and/or investments.

Sol de Oro
Loans backed by jewels or gold. Targeting individuals, whether or not they are bank customers, who need an immediate loan that they are free to use. The purpose is to satisfy unforeseen needs.

Appendix 13

Branch Structure



Source: BancoSol

Appendix 14

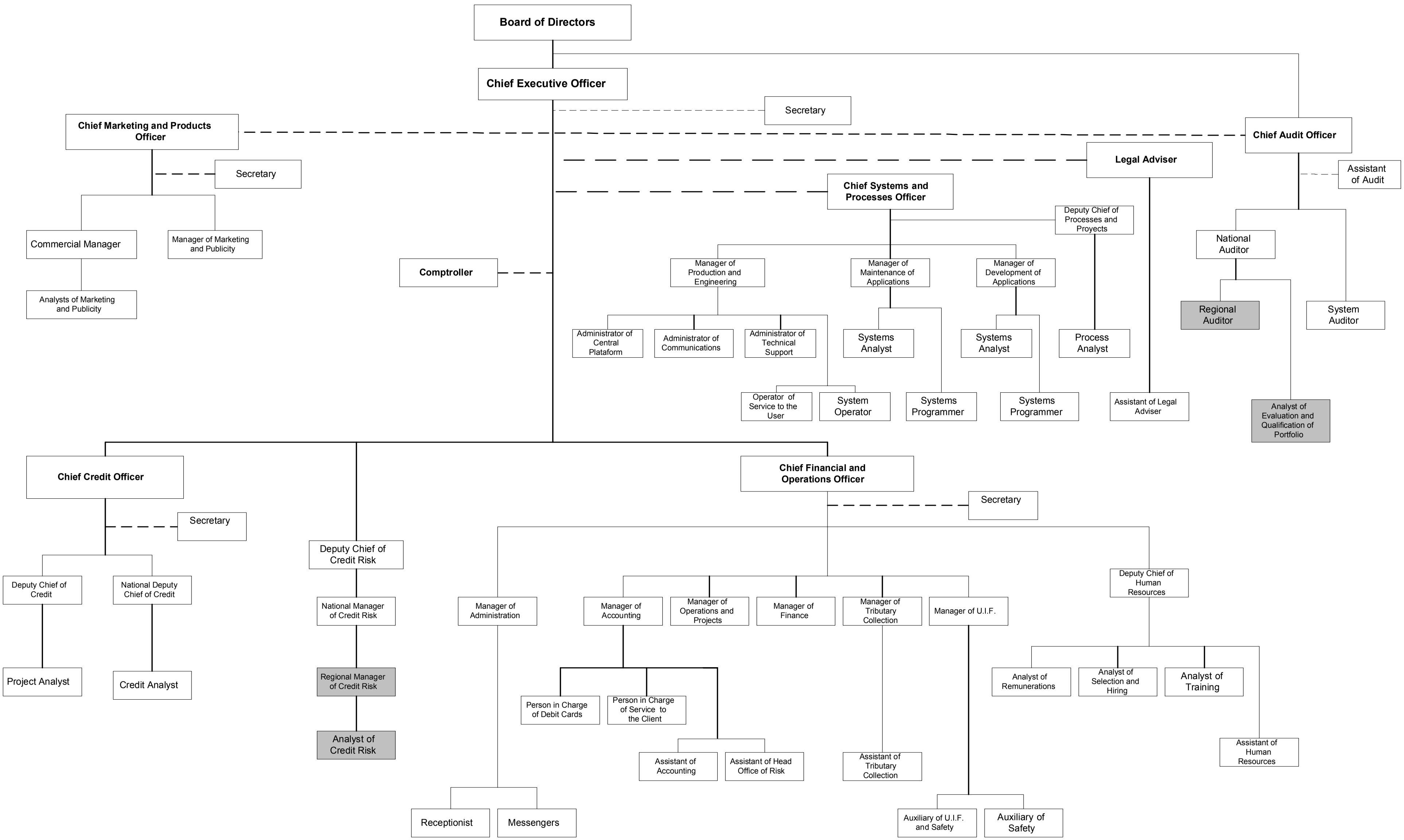
BancoSol Credit Portfolio Composition by Amount and Number of Customers (amounts in thousands of US$)

	2000		2001		2002		2003		2004	
	Amount	Customers	Amount	Customers	Amount	Customers	Amount	Customers	Amount	Customers
Solidario	26,371	37,931	10,703	21,758	3,903	9,646	2,120	5,652	1,359	3,783
Sol Individual	38,972	21,066	44,988	34,346	44,020	31,284	52,377	36,407	62,523	46,430
Solicita	7,333	344	10,457	586	8,131	644	4,536	397	2,702	237
Sol Vivienda	3,313	284	11,417	1,711	21,535	5,894	28,943	10,147	37,535	14,831
Sol Vehículo	210	19	780	82	1,138	176	763	135	689	156
Sol Efectivo	1,603	1,332	2,770	2,648	2,096	2,888	2,354	3,335	3,670	5,560
Sol de Oro	-	-	33	207	58	372	82	634	81	613
TOTAL	**77,802**	**60,976**	**81,148**	**61,338**	**80,881**	**50,904**	**91,175**	**56,707**	**108,560**	**71,610**

Source: BancoSol

Appendix 15

National Office Structure (2005)



Appendix 16

BancoSol Funding Structure

Expressed in Thousands of Dollars

	2002			2003			2004		
Funds Source	**Balances**	**Share**	**Average Weighted Rate**	**Balances**	**Share**	**Average Weighted Rate**	**Balances**	**Share**	**Average Weighted Rate**
On Demand & Savings	14,995	17.48%	2.99%	20,569	22.20%	2.37%	15,375	13.68%	2.52%
Fixed Term Deposit	47,408	55.27%	5.72%	49,394	53.32%	4.99%	65,715	58.48%	4.57%
Fondesif *	800	0.93%	6.50%	800	0.86%	6.50%	2,208	1.96%	5.50%
Reportos	850	0.99%	4.79%	-	0.00%	0.00%	-	0.00%	0.00%
Nafibo ** + Interbank + Foreign Financing	21,715	25.32%	6.77%	21,882	23.62%	7.10%	29,075	25.87%	7.02%
TOTAL	**85,768**	**100.00%**	**5.47%**	**92,646**	**100.00%**	**4.95%**	**112,374**	**100.00%**	**4.86%**

* Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo
** Nacional Financiera Boliviana

Appendix 17

BancoSol Performance Indicators

	1999	2000	2001	2002	2003	2004
Capital						
Equity (millions of US$)	14.3	14.6	14.5	14.8	16.8	18.6
Equity / Assets	14.5%	15.9%	14.8%	14.2%	14.7%	13.5%
Reserves / Overdue 1 day or more	100.0%	78.6%	72.5%	91.2%	104.3%	119.3%
Reserves / Overdue > 30 days	127.9%	101.1%	83.8%	104.6%	120.0%	136.2%
Overdue / Equity	40.2%	65.7%	81.7%	51.7%	37.0%	24.5%
Assets						
Branches (#) *	43	37	35	34	36	34
Employees (#)	629	554	506	503	581	592
Assets (millions of US$)	99.2	91.9	98.9	104.3	114.3	138.2
Portfolio (millions of US$)	82.3	77.8	81.1	80.9	91.2	108.6
Portfolio Growth	11.1%	-5.4%	4.3%	-0.3%	12.7%	19.1%
Overdue > 1 day / Portfolio	7.0%	12.3%	14.7%	9.5%	6.8%	4.2%
Overdue > 30 days / Portfolio	5.9%	9.6%	12.7%	8.2%	5.9%	3.7%
Goods in Use (millions of US$)	6.8	6.4	5.6	5.4	5.6	6.2
Administration						
Financial Income / Average Portfolio	33.9%	30.1%	26.8%	23.9%	22.8%	22.8%
Financial Expenses / Average Portfolio	9.6%	9.0%	7.2%	5.5%	5.1%	5.0%
Charges for Bad Debt / Average Portfolio	4.6%	5.0%	5.6%	6.4%	2.6%	1.7%
Administrative Expenses / Average Portfolio	18.2%	15.4%	14.8%	12.4%	14.0%	13.6%
Administrative Expenses / Average Assets	13.9%	12.8%	12.5%	10.0%	11.1%	10.9%
Productivity						
Number of Credit Advisors	242	195	159	192	217	218
Customers per Credit Counselor	302	313	338	265	261	304
Number of Loans	30,199	35,816	39,269	36,941	39,968	46,221
Portfolio Disbursed in the Year (millions of US$)	122.5	80.8	64.4	64.8	74.1	49.8
Income						
Service Fees (millions of US$)	0.4	0.6	0.9	0.9	1.0	1.2
Results (millions US$)	1.27	0.55	0.06	0.25	2.23	3.89
Liquidity						
Total Public Deposits (millions of US$)	54.8	54.9	61	61.9	69.7	80.8
Total Number of Accounts (Savings + Fixed Term Deposit)	30,050	32,728	46,665	53,341	53,600	61,823
Total Deposit Growth	1.1%	0.2%	11.1%	1.5%	12.5%	15.9%
Available + Temporary Investments / Assets	12.0%	11.2%	14.6%	17.2%	13.3%	16.4%

* Impact generated by closing six branches in the city of Oruro in 2000.

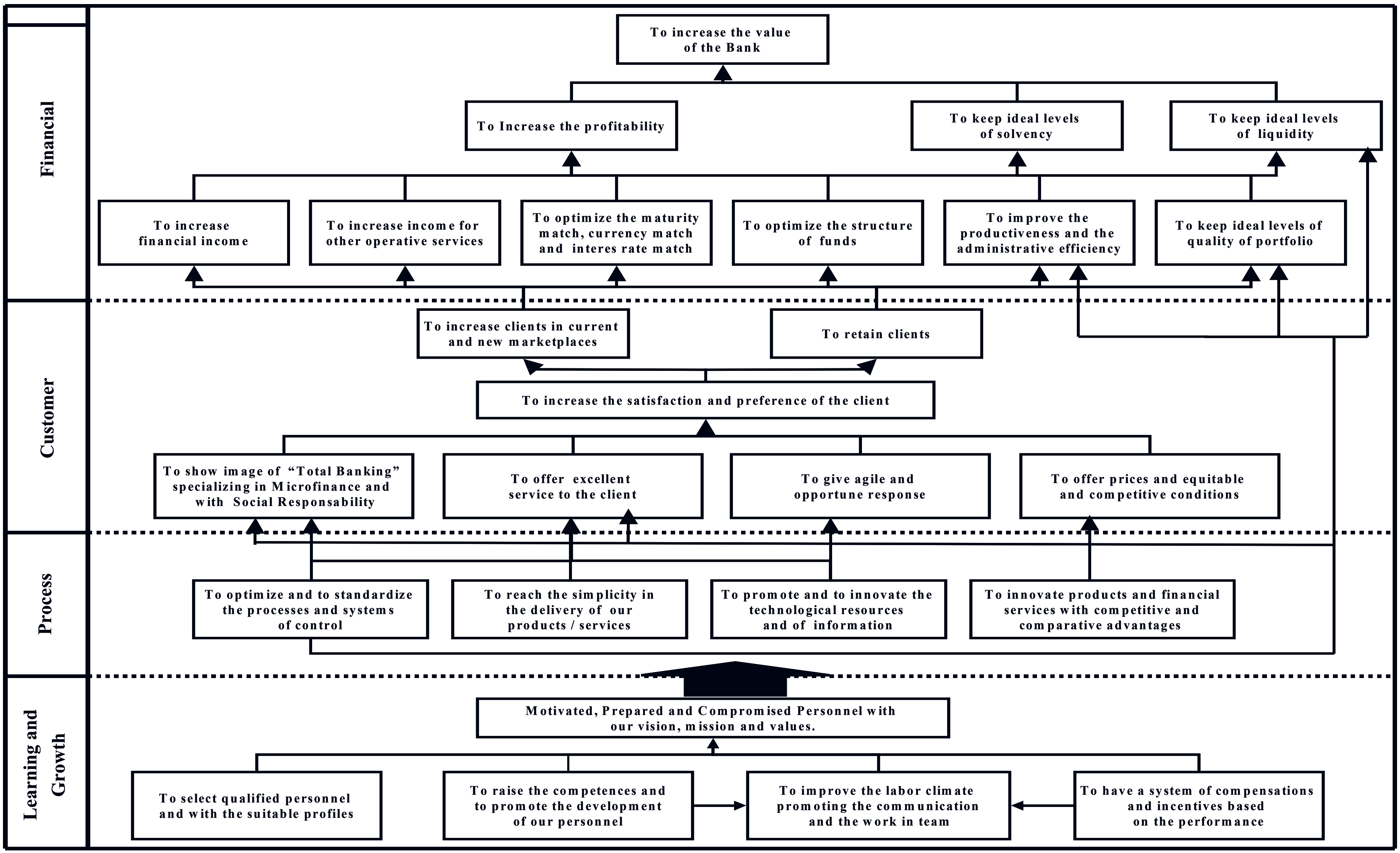
Source: BancoSol

Appendix 18

CAMEL Analysis
BancoSol Versus the Competition

	2002				2003				2004			
INDICES	**BANCOSOL**	**LOS ANDES**	**PRODEM**	**FIE**	**BANCOSOL**	**LOS ANDES**	**PRODEM**	**FIE**	**BANCOSOL**	**LOS ANDES**	**PRODEM**	**FIE**
CAPITAL												
(Net Overdue Portfolio) / Equity	-2.08%	18.67%	6.70%	-0.02%	-1.60%	11.40%	15.40%	-2.20%	-8.00%	-9.50%	-9.20%	-28.50%
(Net Overdue Portfolio+Marketable Goods) / Equity	8.75%	18.67%	6.80%	-0.02%	6.80%	15.10%	15.60%	-2.20%	-3.40%	-7.50%	-9.10%	-28.50%
Reserve / Equity	47.16%	55.11%	30.30%	53.33%	38.60%	22.40%	23.30%	29.30%	32.50%	33.10%	39.20%	50.10%
Marketable Goods / Equity	10.83%	0.00%	0.10%	0.00%	8.40%	3.70%	0.10%	0.00%	4.50%	2.00%	0.10%	0.00%
(Assets + Contingency) / Equity	7.1	10.4	8.6	7.4	6.8	8.5	11.0	7.3	7.5	9.4	12.7	8.1
ASSET												
Net Overdue Portfolio / Gross Portfolio	-0.38%	2.02%	1.00%	0.00%	-0.30%	1.60%	1.80%	-0.30%	-1.40%	-1.20%	-0.90%	-4.00%
(Net Overdue Portfolio+Marketable Goods) / Gross Portfolio	1.60%	2.02%	1.00%	0.00%	1.30%	2.20%	1.80%	-0.30%	-0.60%	-1.00%	-0.90%	-4.00%
Total Reserve / Gross Portfolio	8.63%	5.95%	4.40%	7.53%	7.10%	3.20%	2.70%	4.50%	5.60%	4.30%	3.90%	6.90%
Total Reserve / Overdue Portfolio	104.62%	74.69%	82.00%	100.03%	104.30%	66.20%	60.10%	108.10%	132.40%	140.00%	130.70%	232.40%
MANAGEMENT												
Administrative Expenses / (Assets + Contingency)	9.42%	10.98%	11.80%	9.50%	11.00%	10.10%	11.30%	9.90%	9.90%	10.90%	12.70%	10.70%
Administrative Expenses / Total Expenses	29.24%	39.36%	33.60%	20.68%	58.60%	60.90%	52.20%	57.60%	54.70%	59.40%	58.40%	54.60%
Administrative Expenses / Financial Income	51.91%	55.89%	63.20%	49.06%	61.40%	60.90%	73.10%	54.50%	54.40%	64.00%	70.00%	53.00%
EARNINGS												
Net Results / Financial Income	1.32%	7.38%	4.80%	12.25%	11.60%	11.00%	6.70%	15.30%	17.20%	8.50%	8.50%	15.80%
Financial Income / (Assets + Contingency)	18.14%	19.65%	18.70%	19.37%	18.00%	16.50%	15.40%	18.10%	18.20%	17.00%	18.20%	20.20%
Net Results / (Assets + Contingency)	0.24%	1.45%	0.90%	2.37%	2.10%	1.80%	1.00%	2.80%	3.20%	1.50%	1.60%	3.20%
Net Results / Equity	1.71%	15.13%	7.80%	17.63%	13.30%	15.50%	11.40%	20.30%	20.90%	12.40%	18.60%	24.70%
Other Net Operating Income/Financial Income	4.65%	4.34%	8.40%	4.47%	6.50%	3.00%	11.50%	7.20%	6.50%	4.10%	12.70%	7.60%
LIQUIDITY												
(Available + Temporary Investments) / Short-Term Liab.	119.86%	99.29%	62.60%	164.36%	73.40%	116.70%	56.20%	96.30%	147.90%	181.90%	99.70%	116.40%
Available / Public Liab.	9.18%	6.62%	7.20%	4.94%	4.90%	7.70%	7.10%	11.80%	8.40%	7.90%	9.30%	14.60%
(Available + Temporary Investments) / Liability	20.07%	9.45%	12.10%	8.76%	15.50%	13.70%	12.90%	13.10%	19.00%	14.30%	13.80%	12.60%

Appendix 19



Financial
Customer
Process
Learning and Growth
To increase the value of the Bank
To Increase the profitability
To keep ideal levels of solvency
To keep ideal levels of liquidity
To increase financial income
To increase income for other operative services
To optimize the maturity match, currency match and interes rate match
To optimize the structure of funds
To improve the productiveness and the administrative efficiency
To keep ideal levels of quality of portfolio
To increase clients in current and new marketplaces
To retain clients
To increase the satisfaction and preference of the client
To show image of "Total Banking" specializing in Microfinance and with Social Responsability
To offer excellent service to the client
To give agile and opportune response
To offer prices and equitable and competitive conditions
To optimize and to standardize the processes and systems of control
To reach the simplicity in the delivery of our products / services
To promote and to innovate the technological resources and of information
To innovate products and financial services with competitive and comparative advantages
Motivated, Prepared and Compromised Personnel with our vision, mission and values.
To select qualified personnel and with the suitable profiles
To raise the competences and to promote the development of our personnel
To improve the labor climate promoting the communication and the work in team
To have a system of compensations and incentives based on the performance

Appendix 20

BancoSol
Some Profit & Loss Indicators

OBJECTIVE	INDICATOR
Financial Perspective	
Increase profits	Net results / average equity (ROE)
Maintain optimum solvency levels	Net overdue portfolio / equity
Maintain optimum liquidity levels	Available / public liabilities
Increase financial income	Income per portfolio / average gross portfolio
Increase income from other operating services	Other net operating income / financial income
Optimize matching terms, currencies, and rates	Average match weighted by the term
Optimize funding structure	Financial expense / deposits with average cost
Improve productivity and administrative efficiency	Administrative expenses / average gross portfolio
Maintain optimum portfolio quality levels	Net overdue portfolio / gross portfolio
Customer Perspective	
Increase customers at current and new locations	Market share
Keep customers	Customer desertion index
Show the image of "Total Banking" specialized in micro finances and having social responsibility	Top of mind (with all mentions)
Provide excellent customer service	Ratio of perception about service in the teller area
Provide efficient, quick, and timely response	Number of days until disbursement for loans for less than US$ 1,000
Offer equitable, competitive prices and conditions	Ratio of perception about interest rate in relation to value received
Internal Perspective	
Optimize and standardize internal processes	Number of optimized processes
Attain unaffectedness and simplicity in delivering our products and services	Number of exclusive customers / total customers
Empower and innovate technological and information resources	Bank automation level
Innovate financial products and services with comparative and competitive advantages	Number of new products or services / total products and services
Learning and Growth Perspective	
Select qualified personnel with the appropriate profile	Number of staff members with degrees / number of employees
Elevate competencies and promote staff development	Average training time per employee
Improve the work climate, promoting communication and teamwork	Turnover index
Have a performance-based compensation system and incentives	Number of staff members under the floor

Source: BancoSol

Appendix 21

BancoSol Social Score Card

Statistics by Poverty Level	% Customers	% Portfolio Balance	% New Customers	Average Monthly Home Income (in US$)	Average Loan Amount (in US$)	% Portfolio at Risk (Overdue>30 days)	% Savers
Level 1 Poor Customers *	54.6%	50.3%	57.6%	336.69	3,411	3.5%	20.2%
Level 2 Vulnerable Customers **	16.1%	16.7%	16.0%	455.68	3,928	2.9%	25.5%
Level 3 Not Poor ***	29.3%	33.0%	26.4%	591.99	4,237	3.0%	30.7%

* Customers below the poverty line

** Customers up to 50% above the poverty line

*** Customers more than 50% above the poverty line

Source: BancoSol