

AgroInvest, Serbia and Montenegro

AgroInvest started as a microfinance program of World Vision International, disbursing its first loan in 1999 in Montenegro and in 2001 in Serbia. After two years of institutional transformation, AgroInvest is now comprised of three entities, namely one Montenegrin holding (owned by Vision Fund International) which owns the Montenegrin and Serbian MFIs (LLCs), respectively headquartered in Podgorica and Niš. AgroInvest offers four loan products in Montenegro and one loan product in Serbia through its Village Association methodology. As of April 2008, AgroInvest had a gross loan portfolio of 55.2 M EUR (73% in Montenegro, 27% in Serbia) and served 36,048 active borrowers through 17 branches.

GIRAFE Rating

Rating*

A-

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at www.planetrating.com

* Rating assigned to the AgroInvest Group.

Outlook

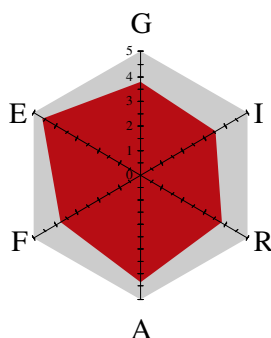
Stable

Date of the rating

June 2008

Valid until May 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- AgroInvest is highly profitable (ROA=5.2% in 2007). This excellent performance is fuelled by increased economies of scale in addition to continuous cost control and despite growing funding expenses and declining portfolio yield.
- Revenue quality is good as AgroInvest is the leading microfinance service provider in rural areas of Serbia and Montenegro. However, the recent change of bank partnership in Serbia has slowed down the institution's growth at the beginning of the year and made it difficult to achieve planned objectives.
- AgroInvest successfully handled its transformation, notably allowing its Serbian MFI to fund its growth through international sources. Liquidity management can be improved. AgroInvest is adequately capitalized (CAR=27.6%) and enjoys a well-diversified funding base.
- The well-mastered credit methodology and efficient delinquency management have led to an excellent portfolio quality (PAR 30=0.5% in April 2008), although Serbia has recently seen a slight increase (PAR 30 = 1.0%).
- The institution enjoys strong senior and middle-management teams and a very active HR department. The IT team has a good handle of the MIS but their efficiency and the level of detail provided remain suboptimal.
- Internal controls are good but the Internal Audit staff did not keep up with AgroInvest recent growth.

Outlook

The stable outlook reflects Planet Rating's opinion that AgroInvest will maintain its excellent portfolio quality and benefit from further economies of scale. The initiatives taken to establish a proper legal environment for Serbian non-banking MFIs are likely to only yield results in the medium term

Performance indicators

EUR	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Apr.2008
Assets	9,748,197	13,149,851	17,794,272	32,834,095	52,074,653	58,974,098
Growth	73.6%	34.9%	35.3%	84.5%	58.6%	13.2%
Loan portfolio	8,361,911	11,357,780	15,516,786	31,298,465	50,933,819	55,197,828
Growth	75.2%	35.8%	36.6%	101.7%	62.7%	8.4%
Active borrowers	10,863	12,967	14,679	22,655	33,194	36,048
Staff	61	77	95	113	148	150
ROE *	11.1%	14.8%	13.0%	16.0%	16.0%	7.6%
ROA *	8.1%	10.0%	8.7%	7.7%	5.2%	2.1%
Liabilities / Equity	0.50x	0.46x	0.52x	1.58x	2.49x	2.86x
Portfolio Yield *	27.8%	32.9%	33.7%	28.9%	22.7%	18.5%
Operating expense ratio	19.6%	17.6%	19.5%	13.0%	10.1%	9.1%
PAR 31-365	0.1%	0.2%	0.1%	0.3%	0.4%	0.5%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.2%	0.3%	0.1%	0.2%	0.1%

* April 2008 ratios underestimated due to the recognition of the interests on a cash-basis accounting.

Microfinance sectors

■ Montenegro

The microfinance sector in Montenegro was officially launched in 1998 with the support of international organizations including CIDA, the Danish Refugee Council (DRC), NOVIB, SIDA, UNHCR, USAID, and World Vision. As a result of the advocacy led by Alter Modus and Mercy Corps towards the establishment of a microfinance-friendly environment, MFIs were allowed to operate under the Government "Decree on the Way of Granting Credits by NGOs to Physical and Legal Entities in Montenegro" adopted in September 1998. This decree became inappropriate with the Law on the Central Bank adopted in November 2000 and promoting the Central Bank as the highest body to regulate all financial services on the market. Advocacy efforts led by the non-bank MFIs (AgroInvest and Alter Modus) and the recognition of microfinance by the Montenegrin government (notably in the National Strategy on Development of SMEs adopted in June 2002) contributed to the Central Bank decision to establish a proper legal framework for microfinance operations. Benefiting from KPMG consulting services, the Central Bank produced a first draft regulation in October 2002 and approved the "Decision on Microfinancing Institution" in December 2002.

According to the Central Bank regulation¹, MFIs are allowed to grant loans for specified purposes (consumption loans are not allowed), to invest in short-term securities, and to provide financial leasing and consulting services to micro-enterprises and individuals. Savings collection is an activity reserved to banks and credit unions. The decision defines the minimum requirements to establish an MFI (e.g. minimum capital requirement of 100,000 EUR) and to obtain a microfinance license. It requires MFIs to report monthly and quarterly to the Central Bank, and to have annual external audits by approved auditors. MFIs have to comply with the Central Bank's loan loss provisioning and connected lending policies, in addition to a 5x D/E maximum authorized level. The maximum loan size is 10,000 EUR for loans to individuals and 20,000 EUR for loans to SMEs. There is no cap on the interest rates but transparency of services is strongly promoted as the Annual Percentage Rate (APR) is to be stated in the loan contract and schedule. Supervision missions are conducted yearly and followed by relevant recommendations.

With 600,000 inhabitants the Montenegro microfinance market is structurally limited. Microfinance services are

¹ Since the Dec. 02 decision, the CB provisions have been amended several times, notably in February 2008 in the new Law on Banks (Official Gazette of the Republic of Montenegro, No. 17/08).

currently offered by five MFIs² and one bank (cf. table). According to the new Law on Banks, MFIs may be founded as a limited liability company (which four of them are) or a joint stock company. The remaining NGO (Alter Modus) has to transform within one year from February 2008. Opportunity Bank (OB) transformed into a full-service bank in 2002 thanks to a strong USAID support, allowing the institution to offer wide range of banking services and to access clients' savings as a funding source. It had a loan portfolio of 100 M EUR in December 07. OB competes with AgroInvest on loans to agriculture but operates in urban areas whereas AgroInvest mostly serves rural areas and requires softer collateral. Originally focused on refugees, Alter Modus now provides loans to financially-excluded clients in urban areas. In urban and close rural areas, commercial banks (e.g. CKB, Société Générale, Montenegro Bank) are providing consumer loans that serve as a substitute for microfinance loans. The Central Bank introduced a Credit Bureau in 2007, aiming at gathering clients' and guarantors' data from all banks and MFIs. MFIs started to submit monthly reports to the Credit Bureau since the fourth quarter of 2007 but have not been using it systematically (CB charges each consultation). MFIs have been granting loans mostly to agriculture activities (71%), services (10%), and households (9%)³.

December 2007	Loan Portfolio (M EUR)	Share (%)
AgroInvest	35.7	67%
Alter Modus	12.4	23%
Mont. Invest. credit	2.6	5%
Ozmont	1.2	2%
Klikloan	1.1	2%
Total MFIs	52.9	100%

Source: AgroInvest (Planet Rating), Other MFIs (CB⁴).

MFIs have had recourse to international commercial funding since 2005 and more significantly since 2006 when Euro became the official currency of Montenegro, preventing them from foreign exchange risks. MFIs have seen the cost of their borrowings increase with the sub-prime crisis but their availability has not been affected.

■ Serbia

There is no legal framework to regulate non-bank microfinance activities in Serbia. Despite the various political and economic reforms undertaken since 2000, microfinance has remained unregulated and the National Bank of Serbia (NBS⁵) has strictly limited the number of new licenses granted for banking operations. The NBS

² The three smallest MFIs have started operations only recently, in 2006 for Montenegro Investment Credit and Ozmont and in 2007 for Klikloan.

³ Central Bank of Montenegro statistics – March 2008.

⁴ Chief Economist's Annual Report for 2007 – Central Bank of Montenegro.

⁵ Formerly (until 2003) the National Bank of Yugoslavia (NBY).

historic lack of enthusiasm notably came from the NBY's bad experience with the deposit-taking financial institutions held responsible for the collapse of the financial system in the early 1990s. However, non-bank MFIs established in the late 1990s have never been deposit-taking institutions. The bilateral agreement between the Serbian government and UNHCR originally allowed these MFIs to grant loans. Once the agreement was ruled out by the NBS, non-bank MFIs had to establish partnerships with banks in order to deliver microfinance services. Following the publication of the survey commissioned by the MFC⁶ and outlining the legal constraints faced by Serbian MFIs, the Serbian Microfinance Policy Working Group⁷ was formed in 2002 to advocate for a proper legal environment. However, the banking law adopted in 2005 still does not recognize other financial institutions than banks, obliging non-bank MFIs to channel their microfinance operations through a registered bank.

The three non-banking MFIs in this situation (Micro Development Fund and MicroFinS registered as association of citizens and AgroInvest registered as a limited liability company) are not competing with each other. MicroFinS serves northern Serbia while MDF and AgroInvest respectively serve urban and rural areas of central and southern Serbia. AgroInvest, that now channels funds through its mother company in Montenegro, served as of Dec. 2007 69% of the non-bank MFIs clientele. The growth of MDF and MicroFinS is still severely constrained by the by-laws derived from the Banking Law that forbid them to borrow foreign funds⁸ and has thus compelled them to grow only from donations and retained earnings. Originally working with the Meridijan Bank, all three MFIs have been working with Komercijalna Banka AD (KB) since 2005. The commission-based model partnership (where KB perceived a commission at each disbursement) tolerated until Dec. 07 by the NBS was finally ended by KB (on NBS recommendation). In May 2008, non-bank MFIs have started to work with Privedna Banka Beograd AD under a deposit-based model partnership (where a reserve is made at the NBS⁹). Due to the implementation delays, shifting from one partnership to another has affected the disbursement of MFIs at the beginning of the year. It has also resulted in higher operating costs. This new partnership will be evaluated after the first six months (in October 2008). In July 2007, the NBS decision prescribing banks to provide cash loans over 24 months has naturally affected MFIs (up to an estimated 10% of their portfolio).

Two microfinance banks provide microfinance services to SMEs. ProCredit Bank, the former "MicroFinance Bank" established by EBRD and other international institutions, and Opportunity Bank, that could transform into a Savings Bank in 2002 and into a Bank in 2007 thanks to strong lobbying by USAID. Some traditional commercial banks such as Greek Bank and Société Générale have been providing consumer loans that serve as a substitute for microfinance loans. With dozens of banks present in main cities, competition in urban and close rural areas has become very strong, driving down interest rates. Besides, the state *Program for Stimulating Employment of Unemployed People* provided microcredits to unemployed people for SME creation¹⁰.

Banks are reporting clients' and guarantors' data to the NBS Credit Bureau in use since 2006. Providing exhaustive information, it is now systematically used by MFIs as required under the partnership with Privedna Banka Beograd. Its use is particularly valuable for urban clients where the bank offering has been significantly expanding over the last years. Most rural areas remain underserved and represent an important demand for the development of microfinance services.

Dec. 2007 M EUR	Loan Portfolio	%	Number of borrowers	%
AgroInvest	15.3	65%	14,967	69%
MicroFinS	5.6	24%	4,406	20%
MDF	2.6	11%	2,194	10%
Sub-total MFIs	23.5	100%	21,567	100%
ProCredit Bank	415.0	96%	101,999	96%
Opportunity Bank	18.4	4%	3,826	4%
Sub-total Banks	433.4	100%	105,825	100%

Source: AgroInvest (Planet Rating), other MFIs and banks (Mix Market).

In the coming years, the Serbian microfinance sector might offer a better legal framework for non-bank MFIs. Even though no consensus was found yet how to regulate the sector, several initiatives are underway to promote the establishment of a legal framework. A draft law was designed back in 2002 and studies are being conducted¹¹ to provide the required background information for decision-making. It is not clear yet whether the law will regulate non-banking MFIs and the government programs together or separately and which Ministry¹² will be in charge with putting forward a new draft law.

⁶ Microfinance Center for Central and Eastern Europe and NIS

⁷ The working group was made up of the non-bank MFIs, Opportunity Savings Bank, PRS advisor, UNHCR, other donors and stakeholders.

⁸ Study on Microfinance Support to Start-up in Serbia - Entrepreneurial Society Development Centre (ESDC) - 2007.

⁹ Refer to the Institutional Presentation for details.

¹⁰ 46,180 beneficiaries received micro-credits from the self-employed fund and 2,723 microcredits were disbursed through other programs (Second Progress Report on the Implementation of the PRS in Serbia - 2007).

¹¹ The ESDC study conducted in 2007 is complemented by an ILO-supported gap assessment.

¹² Potentially the Ministry of Economy and Regional Development or the Ministry of Finance.

Political & economic environments

■ Montenegro

Services, which generate nearly 60 per cent of GDP, drove growth in 2007 and remain the economic engine for 2008. Recent investments in the tourist sector have begun to produce results while the influx of foreign direct investment has spurred activity in the property sector. Financial services have experienced strong growth with the expansion of credit buoying consumption. Along with increases in energy prices and the minimum wage which contributed to the growth of inflation in 2007. The use of the euro as the national currency in conjunction with prudent fiscal policy has, however, limited inflationary pressures.

The rapid credit expansion, compounded by the upsurge in imports of equipment and construction products accompanying the influx of foreign direct investment, has caused external accounts to deteriorate sharply since 2006. Invisibles, including tourism, have only offset a small part of the trade deficit.

The country continues to suffer from a number of structural weaknesses: exports still lack diversification (with aluminum, steel and fuels representing 70 per cent of total sales abroad), major bottlenecks persist in the energy sector, the business climate remains difficult and the employment market lacks flexibility.

The social democratic coalition government won adoption by Parliament in October 2007, nearly a year and a half after the country proclaimed its independence, a constitution largely inspired by European principles. The country concluded a stabilization and association agreement the same month. Integration into the EU nonetheless seems a remote prospect due notably to the inadequacy of efforts to combat corruption and organized crime and modernize the civil service.

COFACE Country Rating: C - A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behaviour. Corporate default probability is high.

COFACE Business Climate Rating: D - The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in this highly risky environment.

(USD millions)	2005	2006	2007(e)	2008(f)
Economic growth (%)	4	6.5	6.5	6
Inflation (%)	3.4	2.1	3.5	3
Public sector balance (%GDP)	-1.6	1.3	0.5	1.5
Exports	574	646	841	1071
Imports	1,214	1,783	2,378	2,903
Trade balance	-640	-1,137	-1,538	-1,832
Current account balance (%GDP)	-8.8	-29.4	-32.2	-31.6
Foreign debt (%GDP)	29.6	26.1	24.9	25.2

Source: COFACE's Country Risk Rating Guidebook 2007. (e) estimates (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

■ Serbia

The economy continues to grow at a fast clip, driven by domestic demand and a dynamic services sector. The effects of the more restrictive monetary policy options - in a context of higher inflationary pressures - and the likely world demand slowdown should be offset by dynamic consumption spurred by the continuing rise of wages as well as by investments made in recently privatized companies and increased public capital spending.

Major imbalances, nonetheless, continue to mark that growth, epitomized by a nettlesome widening of the current account deficit, notably reflecting the slow pace of state-owned company restructuring. The sharp increase in wages and the loosening of fiscal discipline (linked to the 2008 elections) have intensified that unfavorable trend since 2006.

Despite the high volume of foreign direct investment inflows, private external debt has increased substantially, reducing the beneficial effect of the debt restructuring granted by official creditors in 2001 and the London Club in 2004.

Besides the risk of a hard landing for the economy, the sharp deterioration of external accounts has increased currency crisis risk despite the limited amount of short-term debt and the very comfortable levels of foreign exchange reserves.

Political risk has, moreover, improved. Indeed, a new pro EU coalition took office in July 2008 and should adopt a more pro EU line than its predecessor. In addition, Parliament is likely to ratify the stabilization and association agreement soon and Serbia will then seek EU candidate status. Regarding Kosovo's independence, Serbia's policy may eventually soften in tone and should focus, first and foremost, on supporting the interests of Serbs in Kosovo. Besides, the new government should continue the current economic and social policies. The key issues will remain

privatization, structural reform and improving the investment climate.

Strengths

- The political normalization and reforms undertaken since 2000 have allowed Serbia to win the backing of the international financial community and to consolidate its economic and financial situation.
- Debt relief sharply reduced the public sector debt burden, the banking system was restructured and privatized, and a suitable framework was established for investments.
- Foreign exchange reserves have reached very high levels.
- The country benefits from a skilled, low-cost work force.

Weaknesses

- An excessively large current account deficit has generated external financing needs at difficult-to-sustain levels.
- Private foreign debt has been growing rapidly.
- Many projects remain to be implemented or continued including the restructuring of state-owned companies, intensification of the anti-corruption campaign, and reform of legal and administrative institutions.
- The country continues to suffer from serious deficiencies in governance terms. Therefore, its business climate rating remains in C.

COFACE Country Rating: C - A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behaviour. Corporate default probability is high.

(USD millions)	2006	2007(e)	2008(f)	2009(f)
Economic growth (%)	5.7	7.5	5.5	6.0
Inflation (%)	6.6	10.1	9.5	6.5
Public sector balance (%GDP)	-1.5	-1.0	-1.8	-1.5
Unemployment (%)	19.5	18.8	17.4	18.4
Exports	6,442	8,858	11,515	13,243
Imports	12,713	17,689	23,173	25,606
Trade balance	-6,271	-8,831	11,658	-2,363
Current account balance	-3,967	-6,888	-8,882	-9,129
Current account balance (%GDP)	-12.5	-16.4	-16.6	-15.1
Foreign debt (%GDP)	61.6	62.7	62.1	67.9
Debt service (%Exports)	15.1	21.1	26.0	34.4
Foreign exchange reserves (in months of imports)	8.4	7.3	7.4	7.2

Source: COFACE's Country Risk Rating Guidebook 2008. (e) estimates (f) forecasts. [Disclosure Statement](#): Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

The institutional transformation of AgroInvest (AI) was finalized in 2007. AI is now comprised of three entities: one holding company based in Montenegro, one LLC in Montenegro, and one LLC in Serbia.

- AgroInvest started its operations in Montenegro in 1999 as a microfinance program of World Vision. It was established as a separate legal entity in 2003 as a locally registered NGO. It transformed in October 2005 into AgroInvest VFI Doo - Podgorica, an LLC registered and licensed by the Central Bank of Montenegro. The institution is subject to monthly reporting and yearly inspections. It is hereafter referred as AIM.
- AI started its operations in Serbia in 2001 as WVI microfinance program and partnered with the Meridijan Bank to provide its services as required by the law¹³. From 2005 to 2007, all its assets were transferred to the locally registered company AgroInvest Fond Doo Niš created in February 2005 by the holding company. As the Serbian Law authorizes only banks to provide credit and savings services, the company may not conduct credit activities directly but only through banks. It partnered in 2005 with Komercijalna Banka AD (KB) replaced in May 2008 by Privredna Banka Beograd AD (PBB) following the December 2007 NBS recommendation to KB. The company is hereafter referred as AIS.
- Vision Fund International¹⁴ (VFI) set up in November 2004 Vision Fund AgroInvest, the holding company for all AgroInvest MFIs (hereafter referred as AIH). Registered as an LLC in Montenegro and operating under the Montenegrin Business Organization law, AIH may borrow funds and subsequently transfer these to AIS that is not authorized borrow fund in foreign currencies according the Serbian law. AIH has one employee, the Executive Director.
- Since the LLCs may not receive any donations, the original Serbian and Montenegrin NGOs have been kept as potential fundraising entities for AI's social programs.

AgroInvest has been audited by KPMG since FY 2003¹⁵. The auditors produced consolidated financial statements for AI entities in 2003 and 2004 and separate financial statements by entity in 2005 and 2006 during AI's transformation process. 2007 audited financial statements are available for the LLCs. They might be consolidated once the increase in stake capital resulting from the ownership

¹³ AI initially operated independently of any banking structure. Despite successive attempts to get the Serbian government to approve its lending activities, AI did not get any favorable response (cf. Microfinance Sector).

¹⁴ VFI is a holding created by WVI that owns all WVI MFIs that have been transformed into LLC.

¹⁵ End of FY was September 30th until 2003 and Dec. 31st since then.

transfer from the Serbian and Montenegrin NGOs to AIH will be registered at the Central Registry of the Commercial Court. Financial statements were audited in accordance with the relevant legislations in Montenegro and Serbia. They have been approved without reserves except for 2005 where KPMG expressed reserves regarding the accounting of interests¹⁶. They are reported in EUR, generating foreign exchange losses when converting AIS financial statements from RSD to EUR.

Ownership

AIH is 100% owned by VFI and owns 100% of AIS and AIM. The Serbian and Montenegrin NGOs are owned by WVI. AIH is governed by a BOD temporarily made up of two members only (its chair, Mr. Petros Florides and AI's ED, Mr. Khyll Amosson). The BOD secretary is AI administrative officer. Most of the previous BOD members, moving to other positions and/or regions, have resigned from the BOD in 2006 and 2007. New BOD members are elected by the BOD for a mandate of three years once renewable. The current BOD intends to invite up to seven additional members by the end of the year and has in this regard already short-listed several individuals and sent some of their profiles to VFI for approval, the final approval being given by WVI. Mr. Petros Florides joined WVI in 2004 as head of the finance and administration department of WVI Cyprus, entered in AI's BOD in October 2007 and was elected as chairperson in April 2008. Prior to joining WVI, he held top-management positions in the private sector. Chartered Management accountant, Mr. Florides also holds a certificate in Risk Management.

Donations

Since inception, AI has received donations amounting to more than 7 M EUR that were progressively transformed into share capital in 2005 and 2006. Main donors included (as of Dec. 2004) SIDA Sweden (2.5 M EUR), CIDA Canada (1.7 M EUR), BPRM (226 K EUR), and World Vision (600 K EUR), in addition to (as of Dec. 2005) the Royal Netherlands Embassy (1.5 M EUR). AI has not received any donations since 2006.

Funding composition

As of April 2008, debt composed 74% of the funding structure. Main funders included EFSE with 9.8 M EUR (representing 23% of borrowings), Symbiotics with 9 M EUR (21%), Blue Orchard with 6.6 M EUR (15%), and VFI with 5.2 M EUR (12%). Other funders are Incofin, CKB

(the only local source), MicroVest and Deutsche Bank (managing the Global Commercial Microfinance Consortium fund). Concessional fund providers such as KFW and CORDAID represented only 3% of the borrowings as of April 2008. All borrowings are denominated in EUR and 19.6% of them have floating EURIBOR-based interest rates.

Management team

AI management team is headed by an expatriate Executive Director (ED), Khyll Amosson, who has held that position since 1999. The management team is divided into 1) the Corporate Office, including the ED, the Finance Manager and the Internal Auditor (not formally part of the senior management team but invited to their meetings) located in Belgrade as well as of the Human Resource Manager (HRM) located in Podgorica, 2) AIM management team comprising AIM Director (MD) and Finance Manager (MFM) located in Podgorica, and 3) AIS management team made up of AIS Director (SD) and Finance Manager (SFM) located in Niš. There are currently three management bodies: the strategic management team (SMT), made of the ED, FM, HRM, MD and SD, the finance management team (FMT) comprised of the finance managers, finance analyst and one bookkeeper from each region and the operational management teams (OMT) made up of the country directors, branch managers, regional finance managers and market research officers.

Mr. Amosson has fifteen years of experience in the NGO sector and twelve in top-management positions. He joined WVI in 1997 as program manager for WVI's microfinance program in Bosnia. Since 2002, he has been WVI country director for Serbia and Montenegro. He is also a member on the BOD of KosInvest, WVI MFI in Kosovo. Mr. Amosson holds a bachelor of business administration in finance and a master of public affairs in development. When he was on leave during two 6-month periods, the current FM (in 2005) and MD (in 2006) stood in for his position.

Organization

AI defines its organizational structure as articulated into four levels: the Corporate Office (CO), the Regional Offices (RO), the branch offices and the management bodies.

- The CO is responsible for leadership in alignment with directions set by the BOD and supports the ROs through the head office, finance, IT, HR and Communication offices. The CO staff is spread around the organization in order to be close to the operational activities (Belgrade, Niš, Podgorica, Kraljevo, Berane and Čačak)
- The Serbian and Montenegrin ROs, located in Niš and Podgorica respectively, are made of a regional director, a finance department and a market research officer. Legal

¹⁶ AI recognizes the originated interest and fee as income on a cash basis. Under the Montenegrin accounting standards these should be recognized on an accrual basis. Interest and fees are recognized on an accrual basis in the audited statements since 2006.

support is provided to each office through lawyers held on retainer.

- All credit decisions and loan tracking data entry are decentralized to the branches. In addition to the branch level staff (comprised of a Branch Manager, Loan Officers, Client Administrator (CA), cashier and, for full-fledged branches, receptionists), the Village Associations (VA) play an integral role in the service delivery. Clients form the VA (that usually groups around 150 households) and nominate respected members of the village to serve as community representatives, known as the Village Council and headed by a Village Councilor (VC). The VC facilitates the work the LO, particularly in remote and less populated areas. The VC members provide assistance with marketing, client selection, loan monitoring, repayment collection and delinquency management.

AI works with partner banks in both countries for disbursements and in Serbia only for all loan operations.

- In Montenegro, the partner bank is only used to disburse the loans in order to limit cash risk. Clients receive a document upon loan signature and must present this document with identification to the bank to receive the loan. Installments are collected by the Village Councilor who hands it over to the Loan Officer.
- In Serbia, the bank is a legal party to the contract, which is signed by the client and the bank. AIS has been working with Komercijalna Banka AD (KB) since 2005. It stopped disbursing loans under this partnership in March 2008
- In Dec. 2007, KB followed the NBS advice to stop disbursing loans under the commission-based model as it was considered as too risky. A new partnership was formed with Privedna Banka Beograd (PBB) under a deposit-model where AI makes a deposit at PBB for loan disbursement by the bank to AI's clients. An additional 5.3% deposit is made simultaneously to the NBS as required for the deposit-model (PBB gradually transfers the reserve back to AI at each client reimbursement). Under both partnerships, the bank maintains a separate account for each client and tracks repayments by client. Under KB partnership, the village councilor collects the installments for repayment when the LO comes to the village for collection. Under PBB partnerships, all loans will have to be repaid directly to the bank by the client.

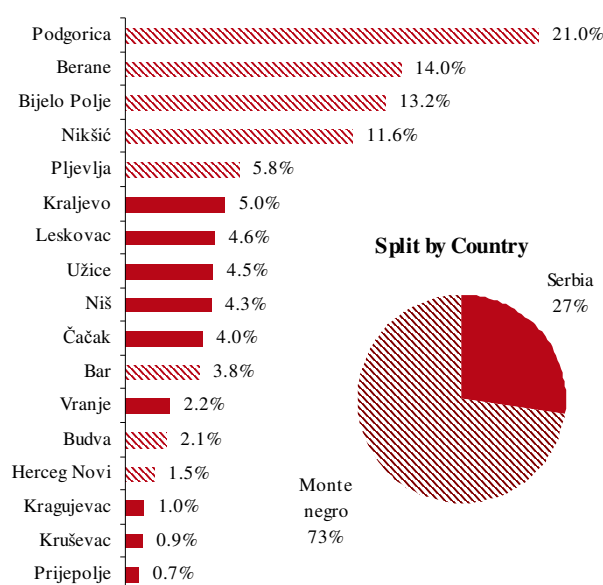
For loan tracking, AIM uses eMerge since 2004 along with a complementary internally-developed application while AIS uses its internally-developed Loan Tracking Software (LTS). Client Administrators (CA) process the data in each branch based on the client documentation received from LOs. Under the partnership with Privedna Banka Beograd, all the documentation is sent to the bank that sends back scanned copies to AIS. The eMerge and LTS servers are located in

Čačak. For accounting, each country's Finance department uses the internally designed Sun Systems. Accounting data is first processed at the branch level and then centralized at the RO. Sun Systems data is reconciled manually (daily) with eMerge and automatically (monthly) with LTS. The Sun Systems' servers are located in Podgorica and Niš.

Market penetration

AgroInvest mainly operates in rural areas through eight branches in Montenegro providing for a national coverage and nine branches located in Central and South Serbia. In 2008, AI plans to open five additional branches in the East, Center and North of Serbia.

Outstanding Loan Portfolio per branch - April 2008



Reported to total portfolio of the non-bank MFIs in December 2007, AgroInvest market share was 67% in Montenegro and 65% in Serbia.

Products and services

AgroInvest offers four loan products in Montenegro and one in Serbia to clients living in rural areas.

- The Loan for business activities (LBA) has been offered in Montenegro since inception in 1999 and represented 95% of the amounts disbursed by AIM in 2007¹⁷. It ranges from 250 EUR to 10,000 EUR (max. of 3,000 EUR for new clients) with terms of 3 to 72 months (max. of 9 months for new clients) and a grace period up to 9 months (6 for new clients). The nominal interest rate ranges from 9.6% to 14.4% flat annually, which (with the 2% application fee) yields an EIR ranging from 19.7% to 28%.
- The LBA has been offered as AIS sole loan product since inception in 2001. It ranges from 250 EUR to 5,000 EUR

¹⁷ The outstanding loan portfolio by product is not available.

(max. of 2,000 EUR for a new client) with terms of 3 to 24 months and a grace period up to 6 months. Under the partnership with Komercijalna Banka, the nominal interest rate ranges from 15.6% to 18% (flat) annually, which (with the 3% to 2.6% application fee¹⁸) yields an EIR ranging from 31.2% to 35.8%. Under the partnership with Privredna Banka Beograd, the application fee is of 1.6% while the nominal interest rate ranges from 33.6% to 34.8% per year and is charged on a declining basis. The EIR ranges then from 35.9% to 37.1%.

- The Fast Loan (FL) has been offered since 2005 and represented 3% of amounts disbursed by AIM in 2007. Designed to address short-term cash flow needs, the FL is disbursed in one day for amounts ranging from 100 EUR to 500 EUR and terms of 3 to 9 months. The nominal interest rate is of 19% annually and the application fee of 2.5% for existing clients (3% for new clients), yielding an EIR ranging from 39.9% to 47.6%.
- AIM also offers loans intended to develop the market channels used by its rural clients. The Market Development Loan for urban small businesses (MDL1) ranges from 3,000 EUR to 8,000 EUR for terms of 3 to 48 months and a maximum grace period of 9 months. The nominal interest rate ranges from 10% to 14.4% annually (depending on the client grade), which (with the 2% application fee) yields an EIR ranging from 24% to 28%. The Market Development loan is also offered to registered business (MDL2) under slightly different conditions: the maximum loan size is 4,000 EUR and the assets of the company are used as collaterals. The EIR is of 28%. Both MDL still represent a small – though increasing – portion of the value of loans disbursed (from 2% in 2007 to 7% in April 2008).

The average Effective Interest Rate (EIR) ranges from 23.2% to 30.3% depending on the client's grade¹⁹. Loans are to be repaid on a monthly basis. Collaterals are mainly made of administrative bans on salaries of the clients and/or of its guarantor(s). They can be complemented by promissory notes for bigger loans.

Networks

AgroInvest (AI) is a member of World Vision International (WVI) and Warsaw-based MFC (the Microfinance Center for Central and Eastern Europe and NIS).

¹⁸ KB deducts its 1% commission from this application fee.

¹⁹ The average has been computed based on the EIR of the LBA loans weighted by the share of AIM and AIS in the total portfolio. The impact of the FL's and MDLs' EIRs – however minimal – are not taken into account as their shares in the portfolio are not available.

■ Governance

Governance and Decision making is rated “b”

Decision making

The Board of Directors, despite being fragile by its current composition (it is currently made up of only its chair and AI's ED) has in practice been able to face AI recent challenges by taking timely decisions. The three BOD members leaving to other positions in 2007 and 2008 were not replaced in time, which has resulted in a too small BOD to supervise AI different activities in Serbia and Montenegro. AI could nevertheless face its most important challenges: it successfully finalized the transformation of its entities into companies at the end of 2007 and quickly built a new bank partnership with Privredna Banka Beograd in Serbia after the NBS decision. This was notably allowed by a sufficiently experienced management team and the constant information flow between the ED and the BOD members. The ED and BOD duties are clearly defined in a well-designed (though still being refined) BOD manual. Besides the ED, the successive BOD chairmen and members have been strong enough (i.e. bringing skills from the microfinance, finance and private sector) to ensure their independence of thinking. They have had access to well-detailed activity reports comprising most of the indicators needed for an adequate supervision. The BOD minutes are well-kept, allowing for a good follow-up of the decisions taken. Finally, VFI (requiring a monthly reporting) and WVI (performing a bi-annually audit) have provided for additional layers of supervision.

Aware of the current situation, AI has taken the necessary steps to strengthen the BOD in the coming months. A BOD development matrix, identifying the key skills needed in AI BOD (e.g. new skills in law, additional skills in microfinance and community development) is being used as a guidance tool to meet the target of seven additional members by the end of the year. Several individuals have already been proposed to the Vision Fund for approval. In addition, the BOD development plan includes workshops for future BOD members for them to get sufficient knowledge of the institution and complement their skills as board directors. The Audit Committee, currently made of the chairman only, is planned to be strengthened with additional members. A nomination committee²⁰ was built and other committee might be later on (e.g. legal, ALCO).

²⁰ The nomination committee is made up of four individuals: the Vision Fund director, the World Vision vice-president, AI's BOD chairman and ED.

Planning

The 2008-2010 Business Plan (BP) present relevant strategies for both entities: branch expansion in Serbia vs. product diversification in Montenegro. However, activity forecasts and related financial projections proved to be misstated in both countries.

- In Montenegro, the 2008 growth objectives have already proved largely understated (19,763 borrowers targeted by Dec. 2008 in the BP vs. already 20,377 in April 2008) due to too conservative underlying assumptions based on AIM strong market penetration (34% in Dec. 2007, 40% in April 08). On the other hand, AIM has not carried out its objectives in terms of new products expansion.
- In Serbia, the decisions taken by the NBS in 2007 have significantly hampered AIS capacity to perform in line with its BP objectives²¹: AIS reached its Dec. 2007 target of 15,000 borrowers only in May 2008. This is despite an active market research department and a good identification of the projects needed to carry out the plan.

The participatory planning process, involving each department and branch managers in the growth forecasts and starting in April to end in October for BOD approval, is relatively well designed. AI nevertheless plans to improve its planning capacity by providing better planning tools and training to branch managers (to avoid the previous mistakes, notably on the prevision of financial expenses) and decentralizing the use of the Microfin tool at the regional level. The latter provides for detailed financial projections over the next three years linked with the annual operational plans (detailing objectives by months, branches, and products) and budget. Both are tracked monthly. However, this has not been the case in 2008: as AI has not developed different scenarios, the forecasts are still being revised for Serbia due to the recent changes in the legal environment and in Montenegro due to the unexpected growth. The budget is not updated during the year, making tracking less useful. It might be in June in the next years.

AI strategy to create and/or support additional MFIs through the support of its Corporate Office, originally planned for 2008, has been postponed to 2010. AI priority is now first to sustain its activities in Serbia. In this regard, the institution ought to draw different scenarios for AIS to get a clearer view on its potential evolutions (e.g. multiplying partnerships with banks or transforming into a bank). For AIM, the option of transforming into a bank is already being investigated with the support of ING.

²¹ In August 2007, the NBS forbid cash loans over 24 months. In December, another NBS decision (cf. the Institutional Presentation) obliged AIS to find a new bank partner to continue its activities, which affected loan disbursement (partly in March and totally in April).

Management team

AgroInvest enjoys a strong and well-organized management team able to tackle both strategic and operational matters. At the Corporate Office (CO) level, the MT is made of three experienced and committed managers (namely the ED, FM and HRM), providing the adequate leadership and actively supporting both regional offices. As the AIM managers already demonstrate strong leadership skills in the strategic, operational and finance areas (the MD has been in place since inception), the CO support has been more directed towards AIS where the growing MT has had to face the various challenges arising from the difficult Serbian microfinance environment. Both managers (SD and SFM) have been in place for less than two years and are still consolidating their financial reporting and/or planning capacities. Overall, the key-person risk on the ED is adequately mitigated as both the FM and the MD have been acting ED during the ED leaves-of-absence for six months in 2005 and 2006, respectively. No succession plan was formalized yet but is expected to be soon as it is required in the BOD policies.

The management team is well-organized in various bodies (SMT, FMT, OMT) meeting regularly, thus ensuring a good communication and a collective decision-making despite its dispersion in Belgrade, Niš and Podgorica. Minutes of the meetings are well-kept allowing for a close follow-up of action points. The MT has proven able to execute the most important plans (such as the institutional transformation) and to adjust operational strategies when necessary (e.g. new partnership with Privredna Banka Beograd in Serbia). The country directors are assisted by good Branch Managers (BMs) benefiting from various trainings and the mentoring program where the strongest BMs are mentoring their colleagues. In Serbia, some of them could potentially become sub-region managers.

Human resource management

Human resources are managed in a highly professional way. The HR department, headed by the current HRM since 2003 and strengthened by the arrival of the HR officer in July 2007, benefits from a comfortable budget and importance within AI. It has successfully overcome AI transformation process (implying the transfer of all staff contract from the NGOs to the LLCs) after internalizing HR administrative tasks in 2005. It has also developed good HR processes allowing for the timely development and availability of skilled staff. Staff is recruited according to a well-defined process evaluating candidates' skills and commitment to AI values. Staff development has a great importance within AI (2.5% of revenues spent on capacity development) and is guided by a formal policy. It is made of trainings (internal, external and in-house), workshops, mentoring (for branch managers) and coaching. AI also uses "acting" positions as

an opportunity for LOs and senior management to gain field or management experience. Each employee receives an annual evaluation triggering promotions and salary increases.

Staff morale and commitment has been ensured by sufficiently competitive salaries, the development of a strong organizational culture led by the HR department (notably through frequent tribal gatherings), and the integration of AI values in most HR processes. The incentive systems (based on the individual and team performance) are considered rather as a reward to exceptional performance than a variable part of the salary. As qualifying criteria have been difficult to meet, the incentive system was readjusted in July 2007. It is currently further designed to find a good balance between social and financial performance objectives. As a result, AI has maintained a manageable staff turnover (6.1% in 2007, 6.7% in 2006) despite competitors' poaching and thanks to the implementation of staff satisfaction surveys.

■ Information

Information is rated "b"

The different loan tracking MIS used in each entity provide for complete monthly portfolio reports comprising interesting indicators and satisfying most information needs on a timely manner. However, both of them present some shortcomings that are overcome at the expense of time-consuming processing work.

- In Montenegro, the internally-developed application that compensates for eMerge weaknesses has allowed for the production of the required portfolio reports. However, the MIS efficiency remains suboptimal as 1) monthly reports require additional processing work by the Client Administrators (contrary to the daily reports), 2) eMerge and Sun Systems reconciliations are still done manually each day and 3) the number of simultaneous connections on eMerge is limited, slowing down the data processing work. Detailed reports by product (stating the outstanding portfolio and the PAR) are not available yet.
- In Serbia, the internally-developed LTS addresses most of the users' needs but ought to be more flexible (PAR by client or number of days late not available on daily request). It is more efficient than eMerge as it is automatically reconciled with Sun Systems and monthly reports are easily generated. Under the new partnership, PBB processes all the clients' data in its own MIS and will reportedly send it to AIS in a LTS-compatible format. Flexibility and/or efficiency issues may arise if AI is willing to collect more data on its clientele.

The quality of financial information is good although it still has some shortcomings. It is well-detailed, easily available to all authorized users (through the internal server) and

allows for a monthly tracking to budget by branch. However, fully-informed monthly financial statements are not available, making the tracking of the monthly income to the annual targets is quite difficult²². Finally, most of the monthly reports and key-ratios require additional work on Excel.

Systems ensuring data security are good. AI enjoys an adequate infrastructure with SQL databases domiciled on powerful enough servers located in separate rooms and under lock and key, antivirus in place, and computers equipped with UPS. Data is backed-up overnight between the different servers and every two weeks on DVDs. Security could nevertheless be enhanced by designing a crash recovery plan and locating the back-up server in a secured external location. In Montenegro, adequate mechanisms have been put in place to cope with eMerge potential crashes. The daily reconciliation between eMerge and Sun Systems brings an additional layer of security. In Serbia, LTS security has been improved by developing a less vulnerable (ASP-based) application. Accounting data (processed in Excel templates) is backed up weekly on the finance server and imported monthly in Sun Systems. The resulting risks of data loss are mitigated by the fact that the partner bank also processes the portfolio data.

AI has a good capacity to manage and improve its MIS thanks to a strengthened IT team, now comprising four employees and benefiting from WVI trainings. It has a satisfactory handle of eMerge, is able to answer most of the users' needs and rely less on Temenos (the developer) when problems arise. eMerge was finally not chosen for Serbia as WVI realized that most of its affiliates could not use it properly. WVI is currently selecting an integrated MIS to be adopted by the affiliates that cannot justify the use of an equally robust system.

■ Risk Management

Risk Management is rated "b"

Procedures and internal controls

Effective controls are presently in place to mitigate arising risks within AgroInvest. Procedures are formalized for existing key departments, some of them being updated (admin. and HR) and other in the process to be (finance and credit). They are available to all staff on the internal server. Basics of internal control are implemented as 1) incompatible tasks are handled by distinct persons (even though this is better ensured in important branches where cash handling is split between the cashier and the

²² At the end of the month, interests on the loan portfolio are accounted on a cash-basis. The accrual accounting of interests could reportedly be soon implemented in Serbia, but much later in Montenegro (2009).

receptionist) and 2) there are several layers of checks at the branch level (e.g. BM review of the cashier's reconciliations; systematic credit committee for new clients, LBA over 2,000 EUR, and all MDL; BM approval for smaller LBA and all FLs) and 3) sufficient limitations of power. Frequent trainings have allowed a good staff compliance culture. Data reliability is sufficiently ensured through eMerge & LTS embedded controls and reconciliation with Sun Systems.

AI credit methodology gives a key role to VCs who support LOs in several tasks (from clients' selection to delinquency management). Such implication of non-staff in the credit processes could be risky²³ but is closely monitored by LOs, BMs and RMs, and was formalized in 2006 by the signature of contracts with the VCs. Another level of internal control lies in staff rotation thanks to the "Acting BM" system (cf. the HR section).

Cash security is satisfactory. In the branch, the risk is limited due to the minimal amount of cash kept in the premises. However, security systems could be enhanced (e.g. two keys to open the safe, systematic cash count). There remains a risk in cash transit when the cashier brings the cash to the bank. In Montenegro, the repeated instances of theft (despite cashiers were never traveling alone), have brought AIM to hire in 2007 a security company and to subscribe to an insurance for cash transit. In Serbia, AIS has not taken similar measures although cashiers carry cash to the bank under the partnership with Komercijalna Banka. This will be gradually less the case with Privredna Banka Beograd as clients are to deposit their installment directly to the bank.

Internal audit

Although the scope of work of Internal Audit has been adequately designed to cover major departments (Credit, HR, MIS, and Finance), the institution's IA has not followed growth in terms of staffing. Most of the internal auditor checks have been related to the credit department since 2007 and have not been systematically covering all areas of risks. Besides, auditing the MIS require specific skills that the current IA does not have. Aware of the situation, AI has initiated the recruitment of two additional internal auditors, which should be sufficient to adequately cover the branches and headquarters. Several shortcomings in the IA reports have affected the clear picture that they ought to give on the staff compliance with procedures: they notably lack 1) a clear statement of the scope of the checks performed, 2) a prioritization of findings according to their level of risk, and 3) systematic management response. These reports nevertheless highlight the main risks faced by AI (e.g. on

²³ Since inception, only one case of fraud has been discovered in Kraljevo which resulted in a change in the VC and net loss for AI of 1,300 EUR.

cash transit, or on the reputation risk resulting from the repeated changes in bank partnership).

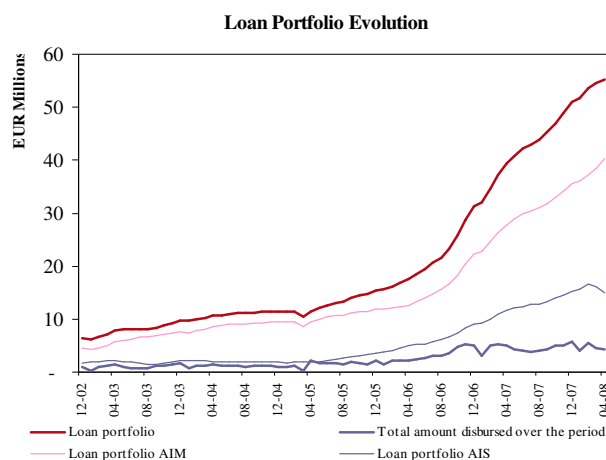
The institutional set-up guarantees IA independence as there is a direct line of reporting between the internal auditor and the BOD Audit Committee. The latter – currently made up of the BOD chairman only – is leading the internal auditors' recruitment process and is expected to strengthen AI Risk Management culture. Internal audit checks are complemented by the external audits by KPMG, the WVI audits and the yearly Central Bank of Montenegro visits, whose recommendations are taken into account. AI also receives frequent due diligence from its various funders.

■ Activities

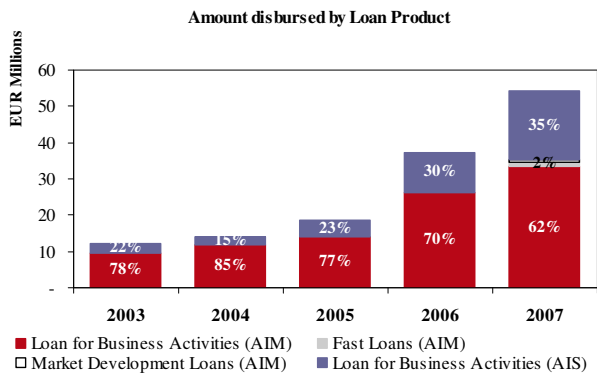
Activities: products and services is rated "a"

Evolution and composition of the portfolio

The fast growth of the loan portfolio over the past three years is driven by the increase of both the number of clients and average outstanding loan by client (larger amounts are lent to repeated clients). AIM still represents the majority of AI total loan portfolio due to 1) a higher loan size (in Dec. 2007, its average outstanding loan per client was 1,957 EUR vs. 1,020 EUR for AIS) and 2) more active clients despite AIS quicker growth rates over the last three years (yearly average growth rate of 90% for AIS vs. 20% for AIM). However, the repeated change in AIS bank partnership has affected its disbursements in January 2005 (transition from the Meridian Bank to the Komercijalna Banka partnership) and more importantly in March and April 2008 (transition from Komercijalna Banka to Privredna Banka Beograd). Seasonality is limited, even if the Orthodox holidays season (January) represents a slow down of activity.



In Montenegro, the Fast Loan and two Market Development Loans were introduced in 2006 but currently represent a minor part of the portfolio.



Loan portfolio management

AI Village Association lending methodology is well-designed, leading to appropriate credit decisions. It relies on the assessment of the client's reputation, capacity, cash flow and collaterals, where the VC assists the LO in reviewing the clients file and performing the field visits. Quasi-systematic credit committees (although the policy is less strict) ensure the consistency of the LO's analysis. The use of the credit bureaus' information, listing both clients and guarantors and thus providing a valuable additional layer of control, ought to be enhanced, particularly in Montenegro: AIM has not been using it systematically as 1) it was introduced only recently (all banks and MFIs have not been reporting the required information yet), 2) no clear policy regarding its use was adopted yet, and 3) its efficient use would require the IT team to install a specific application in each branch. In Serbia, where over-indebtedness is less common, AIS has been using the credit bureau for several years but only when deemed necessary by the LO or BM.

AI has an efficient delinquency management thanks to a general good compliance with procedures, LOs timely access to sufficiently detailed information, and an adequate scope including both active and written-off loans. However, delinquency has been increasing in Serbia. This can notably be explained by the fact that the collection procedure could not be implemented as stated in the credit manual (LO have been handing over the collection list to VC only two days prior the due date instead of ten²⁴, giving the VC a shorter time to collect installments). Delinquency management was also hampered by the fact that the caseload of LOs has significantly increased (AIS average LO productivity was of 476 clients in April 2008), pushing some LOs to rely too much on VCs and making it in some cases difficult to takeover the leaving LOs' portfolio (often of lower quality). Adequate measures were taken to address these problems with the setting up of a delinquency commission made up of 3 BMs.

²⁴ As loans are to be repaid in RSD indexed to EUR, the due amounts stated in a collection list provided ten days before the mission would not reflect the actual due amounts.

LOs are well-trained and mentored by more experienced staff. Each branch performance is monitored through the monthly branch ranking tool and discussed during the OMT meetings. The incentive system also contributes towards branch staff motivation to improve delinquency management but still benefit only to a minority of staff.

Credit risk

AI enjoys an excellent PAR 30 (0.5% as of April 2007), which is better than its regional peers (1.2%²⁵) and comparable to best Bosnian MFIs performance. However, the credit risk is higher in Serbia (1.1%²⁶ in April 2008) than in Montenegro (0.3%), due to less good performance in the Niš (3.21%) and Vranje (1.82%) branch offices. In Montenegro, maintaining such a good level might be a challenge in the future and will notably depend on AIM use of the credit bureau. The PAR ought to be monitored by product but cannot be due to the MIS limitations

The write-off ratio is excellent for both MFIs (0.2% in Dec. 2007), better than regional benchmarks (0.6%) and comparable to best Bosnian MFIs performance. Loans are written-off after 180 days, which is in line with international best practices. Rescheduling is not allowed and there is no connected lending.

The portfolio is concentrated in the agriculture sector (representing 86% in Serbia and 82% in Montenegro). The resulting risk is largely offset by the fact that most clients naturally diversify their investments (e.g. in seeds and cattle).

Credit risk coverage

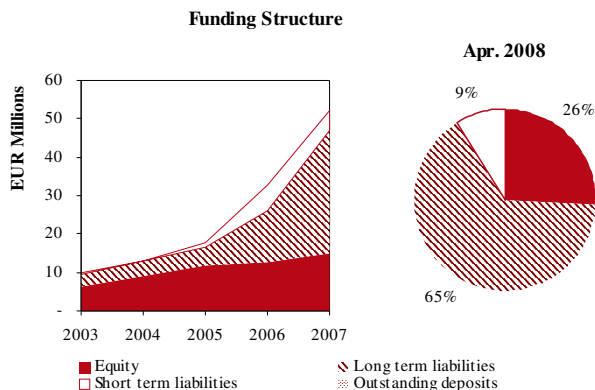
Credit Risk coverage is excellent as PAR 30 was, as of April 2008, covered at 319% by the loan loss reserve (at 419% for AIM and 250% for AIS), which is significantly above international standards. Such levels are due to the Central Bank of Montenegro requirement and KPMG recommendation to AIS to make general provisions (respectively 1% for Montenegro and 2% for Serbia). The general provision recommended by KPMG is meant to cover the risk related to conduct microfinance activities in the difficult Serbian environment (cf. Microfinance sector). AgroInvest requires stronger collaterals such as promissory note from legal entities benefiting from the Market Development Loan (representing less than 1.8% of disbursed loans as of April 2008).

²⁵ MiX 2006 benchmarks, ECA large FSS, Medians.

²⁶ The ratio has slightly increased since Dec. 2007 (0.8%) as the growth of the outstanding loan portfolio stopped in April due to the change of bank partnership. Refer to the Institutional Presentation.

■ Funding and liquidity

Funding and liquidity is rated “b”



Capitalization and funding strategy

AI has had increased recourse to debt over the last two years, where concessional borrowings have been replaced by commercial ones. The legal transformation has opened the possibility to channel funds through the Montenegrin holding to AIS, thus solving the issue faced previously in Serbia²⁷. AI remains adequately capitalized with a CAR standing at 29% in Dec. 2007 (29.2% for AIM, 34.6% for AIS), which is above minimum best practice for NBFIs at this stage of development (15%), and below VFI and the Central Bank of Montenegro D/E requirements (5x vs. 2.86x in April).

AI 2008-2010 funding needs (98.2 EUR, 42% for AIM and 58% for AIS) have been identified in the BP but ought to be updated for each region given the important gap between the 2008 actual and planned growth (cf. Planning). However, short-term funding needs are usually timely met thanks to capable finance managers and monthly FMT meetings allowing for a shared funding strategy. It mainly consists in having more recourse to local sources (30% targeted vs. 7.5% in April 2008) and building more long-term relationship by streamlining the already well-diversified funding base. This could help AI negotiate cheaper funds (cost of liabilities increased to 8.2% in Dec. 2007 from 5.9% in Dec. 2006), especially for Serbia where investors have been offering higher rates to compensate for the little-conductive microfinance environment.

As AI might hit some D/E covenants on the medium term²⁸, it is timely to consider other funding options. The search for new equity partners, which is to be initiated at the VF level, has not started yet. One of AI funding partner have already expressed its interest in providing subordinated debt.

²⁷ Borrowing in foreign currencies is forbidden by the NBS.

²⁸ D/E GCMC covenant is at 3x but is expected to be negotiable.

Liquidity risk

AI's Finance department is presently well organized and led by capable managers. The current funding structure efficiently reduces the risk of not being able to renew maturing liabilities as 1) there is no maturity risk as assets constantly exceeds liabilities (quick and current ratios are above 100%), and 2) AI has access to various funding sources and has built good relationships with its funders.

Despite adequate monthly cash flow projections at the branch and regional levels, AI liquidity management needs to be improved. There still lacks a well-disseminated policy stating the internally-accepted minimum and maximum level of liquidity. As a result, liquidity levels have been irregular, decreasing to quite low levels (LAR at 1% and operating expense coverage at 1.5 month in Dec. 2007 vs. 3% and 3 months minimum best practice). AI will reportedly borrow funds more regularly to limit instances of lack or excess of cash (LAR reached 14% for AIS in April and 6% for AIM in March despite its decision to keep it below 5% to avoid idle liquidities). The definition of internal limits and the potential recourse to overdraft and drawdown facilities to mitigate the liquidity risk is on AI agenda. This is expected to be easily handled by AI strong finance team.

Market risk

In Montenegro, AI is not exposed to foreign currency risks as it lends and borrows in EUR. In Serbia, loans granted in RSD have been indexed to EUR under the partnership with Komercijalna Banka. Yet, AIS has a generally limited²⁹ open position on assets as cash kept at the bank is in RSD. Under its new partnership with Privredna Banka Beograd (PBB), AIS loans are not indexed to EUR anymore, which will result in an increase of its open FX position (as its portfolio shifts from Komercijalna Banka to PBB³⁰). Aware of the situation, AI is contemplating borrowing funds in RSD from local banks (it already has loans in EUR from CKB) and has sought advice from ING about available hedging mechanisms.

AI is exposed to interest rate risk as open EURIBOR position represented in April 2008 55% of equity (66% for AIM and 23% for AIS). This is especially true given the EURIBOR upward trend over the last years. Aware of this risk, AI stopped borrowing variable interest loans in 2007 (the last one was taken in March 2007).

²⁹ AI open position was 2.1% in Dec. 2007 and 16.5% in April 2008 as loan disbursement was delayed in Serbia (cf. evolution of the portfolio).

³⁰ PBB loans represented 0.2% of the portfolio in May and are expected to increase around 9% in June.

■ Efficiency and Profitability

Efficiency and Profitability is rated “a”

Profitability analysis

AgroInvest has had quite good levels of profitability over the last years, with ROA standing at 5.2% in 2007, decreasing from even higher levels (10% in 2004) but still above regional benchmarks (3%³¹). AI profitability trend has been mostly mirroring the historically very good performance in Montenegro (ROA at 5.6% in Dec. 2007 decreasing from 13.7% in 2004). Such levels of profitability were reached later on in Serbia, with an ROA increasing from (3.3%) in 2005³² to 6.8% in 2006 and 10.9% in 2007³³. This performance was allowed in both countries thanks to decreasing operating expense ratios (from 2003 in Montenegro and 2006 in Serbia) and despite, since 2006, increasing funding costs and declining portfolio yields.

Thanks to the high portfolio quality, the portfolio yield (22.7% in 2007) is close to the estimated theoretical EIR³⁴. Declining interest rates as clients go from cycle to cycle, combined with lower rates offered in Serbia and Montenegro have resulted in a declining portfolio yield.

AI revenue quality remains good as the institution: 1) is the leading MFI operating in rural areas, 2) provides loans with significantly less collateral requirements than banks and 3) has proved able (in Montenegro only) to adjust its pricing to the growing competition of banks (although Opportunity Bank still offers cheaper loans). On the other hand, AIS interest rates remain higher than that of banks and were increased under PBB partnerships. AI loan product offering is still limited, particularly in Serbia where it offers only one product. This has not significantly affected AIS competitive position given the existence of large untapped rural areas. In Montenegro, where the market is close to saturation, AI has adequately opted for product diversification. However, the products launched in 2007 (FL and MDLs) have not been very successful so far. Reasons for this limited success include 1) the fiercer competition of banks in urban areas and close villages where the MDLs are provided, 2) the focus of LOs on rural areas and 3) the relatively higher cost of the Fast Loan.

³¹ MiX 2006 benchmarks, ECA large FSS, Medians.

³² 2004 and 2005 ratios were calculated based on the unaudited consolidated accounts for all AI activities in Serbia (LLC and NGO) and Montenegro (LLC and NGO).

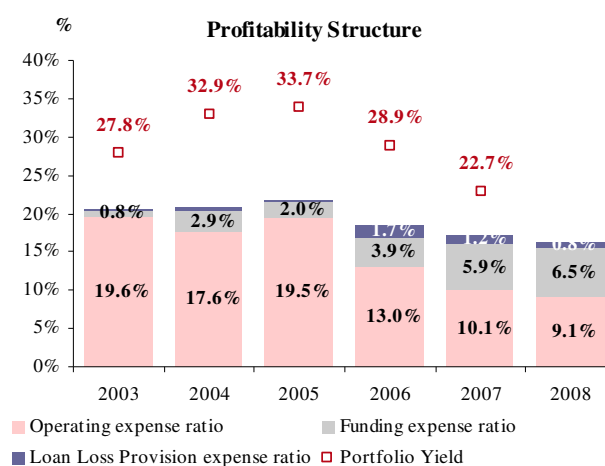
³³ AI ROA is lower than AIS and AIM ROA as it is computed based on AIS, AIM and AIH average assets.

³⁴ The average EIR ranges from 23.2% to 30.3%. The portfolio yield is lower notably due to the occurrence of early repayments (interests are charged on a flat basis).

The operating expense ratio is excellent. It decreased to 10.1% in 2007 from 19.5% in 2003, which is better than regional benchmarks (12.5%) and Bosnian MFIs (min. of 10.5%). In Serbia and Montenegro, the LO productivity (reaching 546 clients in April 2008) allowed by the Village Association methodology (where VCs assist LOs), has significantly contributed to this performance. It should be noted however, that the cost per borrower has slightly increased since 2006 (to 134 EUR in April 2008), reflecting the fact that VCs receive a compensation for their work. The operating expense ratio decreased to a very low 8.6% in Montenegro, as a result of the increasing average outstanding loan per client (1,957 EUR in Dec. 2007) and stabilized branch network from 2007. It is still naturally higher in Serbia (13.6%) as the average loan size is much lower (1,020 EUR³⁵) and the branch network still expanding (6 new branches are planned to be opened in 2008).

On the other expenses side, the funding expense ratio has been quickly increasing to 6.5% in April 2008 from 2% in 2005 due to AI's increased recourse to commercial funding. It is higher in Serbia (7.7%) than in Montenegro (6%) due to AIS more risky environment. The loan loss expense ratio increased to 1.7% in 2006 and 1.2% in 2007 due to the general provisions made on the healthy portfolio.

AI excellent profitability is also underpinned by its very good asset deployment ratio increasing to 96.3% in Dec. 2007 from 86.2% in Dec. 2004. This reflects the significant progress made in Serbia where the ratio increased to 93.8% in Dec. 2007 from 55.9% in Dec. 2004 due to excessive levels of idle liquidity at that time (LAR at 41.9%).



Note: April 2008 portfolio yield is not comparable to previous years (cash basis accounting) and is consequently not stated on this graph.

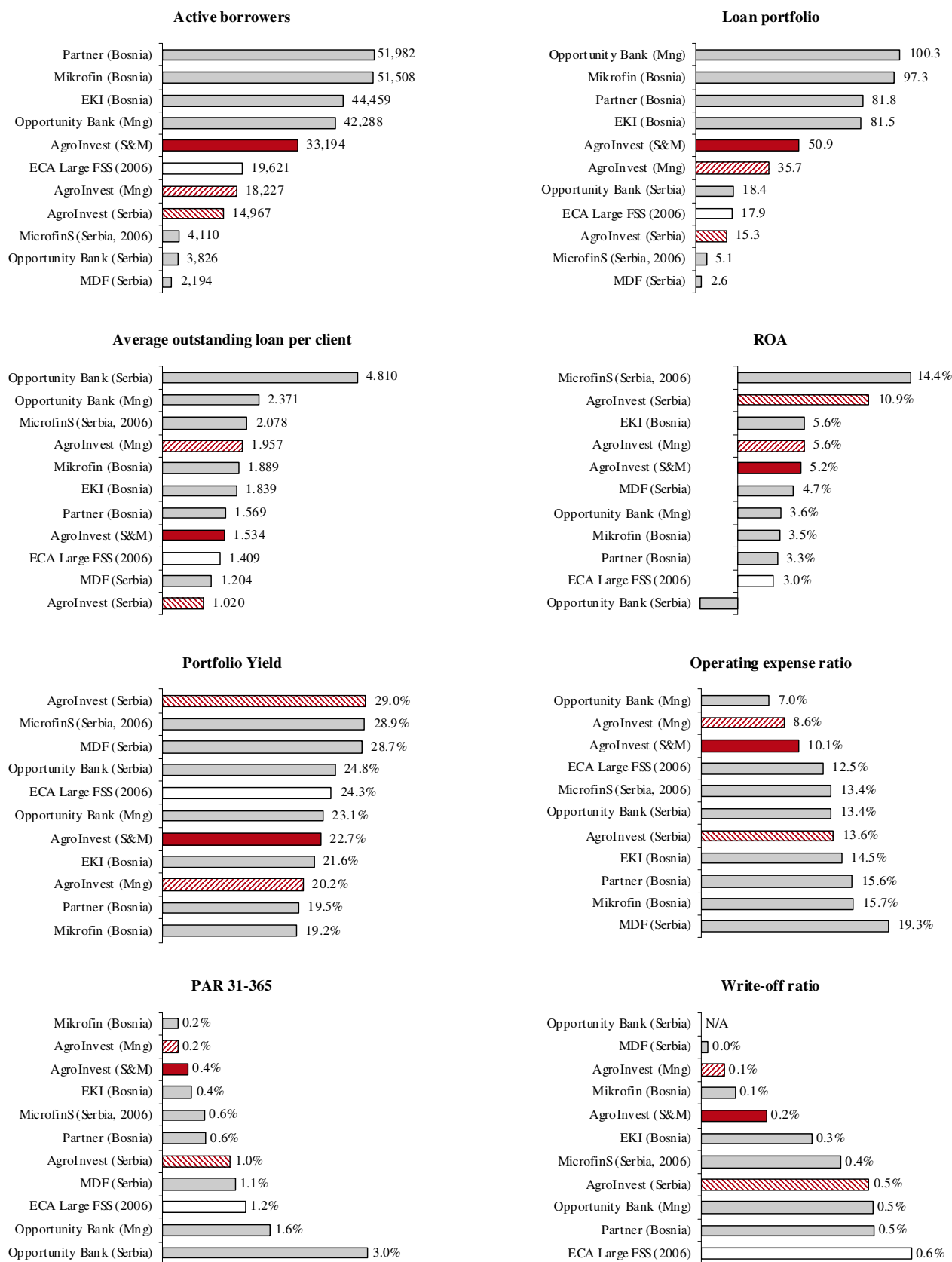
AgroInvest profitability outlook is stable. Despite being probably further squeezed by a declining portfolio yield and increasing funding expenses, AI profitability is expected to be maintained thanks to the decreasing operating ratio and

³⁵ In July 2007, NBS forbid banks to provide loans over 24 months in cash.

very good portfolio quality. Particularly, further economies of scale are expected in Serbia despite the slow down in disbursement at the beginning of the year and the fact that the branch expansion might yield more significant results on the medium term.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Benchmarking



Source: AgroInvest (Planet Rating); EKI, Partner, Mikrofin (AEMFI); other MFIs (the Mix Market); ECA benchmarks (MBB 2006, Medians).

■ Performance indicators

Data in EUR, unless otherwise stated

	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Apr.2008*
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	8,361,911	11,357,780	15,516,786	31,298,465	50,933,819	55,197,828
Evolution	75.2%	35.8%	36.6%	101.7%	62.7%	8.4%
Average outstanding loan portfolio	7,841,317	10,738,377	12,649,395	20,625,562	41,266,928	53,238,906
Active borrowers	10,863	12,967	14,679	22,655	33,194	36,048
Evolution	61.6%	19.4%	13.2%	54.3%	46.5%	8.6%
Average outstanding loan per client	770	876	1,057	1,382	1,534	1,531
% of GDP per capita	35.8%	33.9%	35.7%	43.3%	43.7%	39.1%
Average amount disbursed per loan	1,921	1,343	1,578	1,766	1,858	2,010
% of GDP per capita	89.2%	52.0%	53.4%	55.3%	52.9%	51.4%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.1%	0.2%	0.1%	0.3%	0.4%	0.5%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.2%	0.3%	0.1%	0.2%	0.1%
Credit risk coverage						
Risk coverage ratio (PAR 30)	48.7%	97.0%	94.0%	382.6%	421.0%	319.2%
PAR 31 net of loan loss provision / Equity	0.1%	0.0%	0.0%	(2.1%)	(4.1%)	(4.1%)
Staff						
Total number of staff	61	77	95	113	148	150
% Credit officers	49.2%	42.9%	36.8%	42.5%	45.3%	44.0%
Turnover	1.8%	0.0%	0.0%	6.7%	6.1%	1.3%
Profitability analysis						
ROE*	11.1%	14.8%	13.0%	16.0%	16.0%	7.6%
Liabilities / Equity	0.50x	0.46x	0.52x	1.6x	2.5x	2.86x
Capital adequacy ratio	75.5%	77.5%	74.0%	40.1%	29.0%	27.6%
ROA*	8.1%	10.0%	8.7%	7.7%	5.2%	2.1%
Profitability structure						
Portfolio Yield*	27.8%	32.9%	33.7%	28.9%	22.7%	18.5%
Operating expense ratio	19.6%	17.6%	19.5%	13.0%	10.1%	9.1%
Cost per borrower	141	182	168	118	125	134
Staff productivity	178	168	155	200	224	240
Loan officer productivity	362	393	419	472	495	546
Average outstanding loan per client	770	876	1,057	1,382	1,534	1,531
Funding expense ratio	0.8%	2.9%	2.0%	3.9%	5.9%	6.5%
Cost of liabilities	3.9%	3.9%	3.4%	5.9%	8.2%	8.2%
Loan Loss Provision expense ratio	0.1%	0.3%	0.2%	1.7%	1.2%	0.8%
PAR 31-365	0.1%	0.2%	0.1%	0.3%	0.4%	0.5%
Write-off ratio	0.1%	0.2%	0.3%	0.1%	0.2%	0.1%
Resource optimization						
Outstanding Loan Portfolio / Assets	85.7%	86.2%	87.1%	94.2%	96.3%	92.1%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	0.2%	0.2%	0.1%
Liquidity						
Liquidity / Total assets (LAR)	11.9%	11.8%	11.1%	3.4%	1.0%	6.1%
Exchange rate 1 EUR= xx RSD	68.3	78.9	85.5	79.0	79.2	80.1

Notes:

- 2004 ratios have been annualized for ease of comparison as the change in fiscal year resulted in a 15-month period.
- * April 2008 ratios are based on incomes from interests on the loan portfolio accounted for on a cash-basis. They are not comparable to full years' ratio based on incomes accounted for on an accrual-basis.
- ** Until 2005, the Gross Domestic Product per capita (current prices) used was that of Serbia and Montenegro. From 2006, it was calculated by making the average between the GDP per capita for Serbia and the GDP per capita for Montenegro. Source: International Monetary Fund.

AgroInvest Income Statement	EUR						Evolution			
	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008	2004/2003	2005/2004	2006/2005	2007/2006
Financial Revenue (a)	2,230,089	4,428,735	4,268,460	6,007,940	9,503,600	3,374,747	98.6%	(3.6%)	40.8%	58.2%
Financial Revenue from Loan Portfolio	2,181,963	4,418,425	4,267,157	5,961,995	9,387,300	3,286,516	102.5%	(3.4%)	39.7%	57.5%
Interest on Loan Portfolio	1,903,401	3,858,284	3,741,064	5,028,436	8,066,180	2,860,441	102.7%	(3.0%)	34.4%	60.4%
Fees and Commissions on Loan Portfolio	278,562	560,140	526,093	933,559	1,321,119	426,075	101.1%	(6.1%)	77.5%	41.5%
Penalty Revenue on Loan Portfolio	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	-	-	-	11,185	18,732	4,638	-	-	-	67.5%
Other Operating Revenue	48,126	10,311	1,303	34,760	97,569	83,593	(78.6%)	(87.4%)	2,567.3%	180.7%
Financial Expense (b)	66,390	386,202	255,745	805,153	2,435,236	1,155,090	481.7%	(33.8%)	214.8%	202.5%
Interest paid on borrowings	66,390	148,442	149,225	731,045	2,275,404	1,073,701	123.6%	0.5%	389.9%	211.3%
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	237,760	106,520	74,107	159,832	81,389	-	(55.2%)	(30.4%)	115.7%
Financial income [c=a-b]	2,163,699	4,042,533	4,012,715	5,202,788	7,068,364	2,219,658	86.8%	(0.7%)	29.7%	35.9%
Net Loan Loss provision expense (d)	8,028	37,068	19,747	360,428	475,587	134,572	361.7%	(46.7%)	1,725.2%	32.0%
Loan loss provision expense and write-off	10,398	41,965	28,300	371,200	504,678	147,938	303.6%	(32.6%)	1,211.7%	36.0%
Recovery from Loans written off	2,370	4,898	8,553	10,772	29,091	13,366	106.7%	74.6%	25.9%	170.1%
Operating expense (e)	1,535,696	2,358,226	2,462,284	2,673,717	4,156,162	1,609,914	53.6%	4.4%	8.6%	55.4%
Personnel Expense (includes fringe)	910,931	1,103,148	1,194,002	1,514,905	2,340,884	963,238	21.1%	8.2%	26.9%	54.5%
Administrative Expense (non-staff operating expenses)	624,765	1,255,078	1,268,282	1,158,812	1,815,278	646,676	100.9%	1.1%	(8.6%)	56.6%
Depreciation and amortization	71,435	108,215	106,710	96,740	158,307	56,533	51.5%	(1.4%)	(9.3%)	63.6%
Consulting fees	21,366	51,878	59,967	54,838	103,960	18,217	142.8%	15.6%	(8.6%)	89.6%
Travel and transportation	130,703	231,184	225,107	220,496	360,349	145,869	76.9%	(2.6%)	(2.0%)	63.4%
Training and technical assistance	160,624	325,891	335,896	97,581	178,399	49,065	102.9%	3.1%	(70.9%)	82.8%
Bank fees	32,444	211,175	139,260	150,776	230,172	82,361	550.9%	(34.1%)	8.3%	52.7%
Communication expense	46,978	96,770	100,059	97,696	141,281	36,103	106.0%	3.4%	(2.4%)	44.6%
Marketing & advertising	14,821	19,206	22,615	45,740	93,389	30,010	29.6%	17.7%	102.3%	104.2%
Insurance	-	-	-	-	67,223	27,493	-	-	-	-
Others	146,394	210,759	278,667	394,945	482,200	201,025	44.0%	32.2%	41.7%	22.1%
Net Operating Income Before Taxes and Donations [f=c-d-e]	619,975	1,647,240	1,530,684	2,168,643	2,436,614	475,171	165.7%	(7.1%)	41.7%	12.4%
Income Taxes (g)	-	219,967	185,017	218,557	221,126	90,915	-	(15.9%)	18.1%	1.2%
Net Operating Income Before Donations [h=f-g]	619,975	1,427,273	1,345,667	1,950,086	2,215,489	384,256	130.2%	(5.7%)	44.9%	13.6%
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	1,295	47,276	65,635	157,169	39,532	-	3,550.5%	38.8%	139.5%
Net Income Before Donations [k=h+i-j]	619,975	1,425,978	1,298,391	1,884,451	2,058,320	344,725	130.0%	(8.9%)	45.1%	9.2%
Donations (l)	229,729	79,555	158,434	-	-	-	(65.4%)	99.1%	(100.0%)	-
Net Income (after Taxes and Donations) [m=k+l]	849,704	1,505,533	1,456,825	1,884,451	2,058,320	344,725	77.2%	(3.2%)	29.4%	9.2%

Note:

1. In 2004, the change in fiscal year resulted in a 15-month period.
2. 2005, 2006 and 2007 consolidated statements were not audited. Each entity's financial statements were audited.

AgroInvest Balance sheet	EUR						Evolution				
	Sept.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Apr.2008	2004/03	2005/04	2006/05	2007/06	2008/07
ASSETS	9,748,197	13,149,851	17,794,272	32,834,095	52,074,653	58,974,098	34.9%	35.3%	84.5%	58.6%	13.2%
Short Term Assets	9,532,822	12,934,049	17,535,004	32,484,824	51,564,671	58,453,461	35.7%	35.6%	85.3%	58.7%	13.4%
Cash and Due from Banks	1,157,589	1,555,875	1,974,516	1,100,859	516,863	3,590,802	34.4%	26.9%	(44.2%)	(53.0%)	594.7%
Short Term Investments	-	-	-	-	98,687	98,687	-	-	-	-	0.0%
Short Term Net Loan Portfolio	8,355,218	11,334,092	15,498,294	30,930,572	50,139,063	54,291,188	35.7%	36.7%	99.6%	62.1%	8.3%
Short Term Gross Loan Portfolio	8,361,911	11,357,780	15,516,786	31,298,465	50,933,819	55,197,828	35.8%	36.6%	101.7%	62.7%	8.4%
(Loan Loss Reserve)	6,693	23,688	18,492	367,893	794,756	906,640	253.9%	(21.9%)	1,889.5%	116.0%	14.1%
Interest Receivable	-	-	2,576	354,398	541,929	5,898	-	-	13,657%	52.9%	(98.9%)
On loan portfolio	-	-	2,576	354,398	541,929	5,898	-	-	13,657%	52.9%	(98.9%)
On investments	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	-	44,082	59,618	98,996	268,129	466,886	120.2%	35.2%	66.1%	170.8%	74.1%
Long term assets	215,375	215,802	259,268	349,270	509,982	520,637	0.2%	20.1%	34.7%	46.0%	2.1%
Long Term Net Investments	-	585	585	-	29,858	35,650	-	0.0%	(100.0%)	-	19.4%
Long Term Gross Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets	215,375	215,217	258,683	349,270	480,124	484,988	(0.1%)	20.2%	35.0%	37.5%	1.0%
Other Long Term Assets	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY	9,748,197	13,149,851	17,794,272	32,834,095	52,074,653	58,974,098	34.9%	35.3%	84.5%	58.6%	13.2%
Liabilities	3,264,029	4,164,753	6,084,349	20,105,626	37,132,865	43,687,584	27.6%	46.1%	230.4%	84.7%	17.7%
Short term liabilities	133,690	293,626	1,073,161	6,950,088	5,143,479	5,258,198	119.6%	265.5%	547.6%	(26.0%)	2.2%
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	87,161	-	834,800	6,359,800	4,265,350	4,225,350	(100.0%)	-	661.8%	(32.9%)	(0.9%)
Interest payable	23,752	4,171	7,103	290,736	712,974	875,978	(82.4%)	70.3%	3,993.0%	145.2%	22.9%
Accounts Payable and Other Short Term Liabilities	22,777	289,455	231,258	299,552	165,154	156,870	1,170.8%	(20.1%)	29.5%	(44.9%)	(5.0%)
Long term liabilities	3,130,339	3,871,127	5,011,188	13,155,538	31,989,386	38,429,386	23.7%	29.5%	162.5%	143.2%	20.1%
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	2,600,203	3,340,993	4,481,055	13,116,255	31,971,433	38,411,433	28.5%	34.1%	192.7%	143.8%	20.1%
Other Long Term Liabilities	530,136	530,134	530,134	39,283	17,953	17,953	(0.0%)	0.0%	(92.6%)	(54.3%)	0.0%
Equity	6,484,168	8,985,098	11,709,923	12,728,469	14,941,789	15,286,514	38.6%	30.3%	8.7%	17.4%	2.3%
Tier 1 Capital	6,435,836	8,936,767	11,661,592	12,728,469	14,941,789	15,286,514	38.9%	30.5%	9.1%	17.4%	2.3%
Paid-In Capital	-	-	2,873,000	10,680,097	10,835,097	10,835,097	-	-	271.7%	1.5%	0.0%
Donated equity	5,718,373	6,793,327	5,346,761	-	-	-	18.8%	(21.3%)	(100.0%)	-	-
Retained earnings without donations and reserves	-	2,143,440	3,441,831	2,048,372	4,106,692	4,451,417	198.8%	60.6%	(40.5%)	100.5%	8.4%
Tier 2 Capital	48,332	48,331	48,331	-	-	-	(0.0%)	0.0%	(100.0%)	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts	48,332	48,331	48,331	-	-	-	(0.0%)	0.0%	(100.0%)	-	-

Note:

- 2005, 2006 and 2007 consolidated statements were not audited. Each entity's financial statements were audited

■ Formulas

Return on assets (ROA):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Debt (savings + debts) / Equity (end of period)
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
Staff productivity:	Active borrowers / Total personnel (end of period)
Funding expense ratio:	Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings ratio:	Interest and fees paid on deposits / Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / Average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / Total assets (end of period)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / Average gross outstanding portfolio

■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B++	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B+	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	
B	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	SPECULATIVE INVESTMENT
B-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	