

## Credit Consumer Cooperative Doveriye, Russia

Credit Consumer Cooperative Doveriye was established in 1999 as a branch of the Credit Consumer Cooperative First Far Eastern (FFECCC) in the city of Amursk in the Russian Far East. It became independent in 2001. It has the status of Credit Consumer Cooperative (CCC) and it is not subject to any prudential regulations. As of September 2007, CCC Doveriye served 2,707 active borrowers and 2,174 depositors in the cities of Amursk and Elban. The institution offers three individual loan products and two deposit products. It holds an outstanding loan portfolio of 3.8 M EUR and an outstanding deposit portfolio of 3.3 M EUR.

### GIRAFE Rating

Rating

**B-**

Outlook

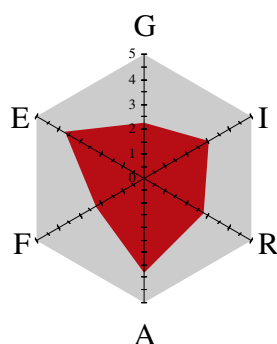
**Stable**

Date of the rating

**November, 2007**

Valid until October, 2008

Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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### Rating highlights

- The positive profitability trend in the last three years (ROA from -1.2% in 2005 to 2.8% in 2007) is underpinned by CCC Doveriye's success in reducing operational costs which compensated the steady decline in portfolio yield (from 50.4% in 2005 to 27.4% in 2007).
- Good asset quality with a PAR30 of 1.6% as of September 2007 based on a conservative creditworthiness analysis, systematic implementation of procedures and effective delinquency management methodology.
- CCC Doveriye has successfully filled the space left by commercial banks in consumer lending, through a more personalized and friendly approach to members, less documentation requirements and more flexible repayment schedules.
- As a fast growing cooperative collecting deposits from its members, CCC Doveriye faces risks related to the lack of a formalized planning process, streamlined information generation procedures, a sense of conservative liquidity management and a certified external audit. It also faces a strong key person risk, which is expected to be mitigated as the branch network develops.

### Outlook

- The "Stable" outlook is granted based on exceptionally low operational costs, which do not leave a large margin for improvements in efficiency. The expected downward trend on portfolio yield should be compensated by lower financial costs in the future.

### Performance indicators

#### Ratios based on non audited financial statements

| EUR, unless otherwise stated | Dec. 2004 | Dec. 2005 | Dec. 2006 | Sep. 2007 |
|------------------------------|-----------|-----------|-----------|-----------|
| Assets                       | 579,630   | 1,335,498 | 3,019,873 | 4,320,113 |
| Growth                       | 291.1%    | 107.2%    | 130.7%    | 46.1%     |
| Loan portfolio               | 523,435   | 1,327,123 | 2,785,311 | 3,865,416 |
| Growth                       | 265.6%    | 128.0%    | 114.1%    | 41.7%     |
| Outstanding deposits         | 485,522   | 1,175,345 | 2,470,161 | 3,317,038 |
| Growth                       | 236.9%    | 117.6%    | 114.4%    | 37.1%     |
| Active borrowers             | 1,465     | 2,112     | 2,477     | 2,707     |
| Active savers                | 551       | 990       | 1,818     | 2,174     |
| Staff                        | 9         | 10        | 13        | 17        |
| ROE                          | 154.5%    | (22.6%)   | 45.9%     | 56.3%     |
| ROA                          | 10.5%     | (1.2%)    | 1.9%      | 2.8%      |
| Liabilities / Equito         | 11.63x    | 23.28x    | 23.50x    | 16.61x    |
| Portfolio Yield              | 64.3%     | 50.4%     | 35.4%     | 27.4%     |
| Operating expense ratio      | 15.6%     | 12.6%     | 9.0%      | 7.3%      |
| PAR>30                       | 1.8%      | 1.4%      | 0.6%      | 1.6%      |
| Write-off ratio              | 0.0%      | 0.0%      | 0.0%      | 0.0%      |

## Microfinance sector

With a long history of mutual credit societies, microfinance in Russia represents a relatively new industry, starting in the early 1990's. Although the benefits of microfinance and micro enterprise development have become clear to policy makers, the microfinance industry remains underdeveloped. Fifty to seventy percent of micro and small enterprises use so-called "Partners' credit" via the informal sector for their financing needs.

The microfinance delivery system can be categorized into:

- Microlending institutions with an NGO status established with the assistance of donor programs, focusing primarily on microcredit delivery and financed predominantly with external funding.
- Credit unions and credit consumer cooperatives (CCCs), membership-based organizations with little access to external funding.
- Downscaling commercial banks sponsored by EBRD and KfW, serving a very wide range of clients, from micro loans to SME finance.
- Public funds (regional funds) operated under the auspices of the regional government and wholly or largely financed from the regional budget.

The microfinance portfolio was estimated to be around 875 M USD for the whole Russia/Belarus/Ukraine region at the end of 2004, serving around 818,606 active borrowers<sup>1</sup>. More than 60% of market operators are cooperatives. Funds are the second major type of MFIs - primarily state-sponsored funds that account for around 20% of all microfinance providers. Microfinance portfolio growth has been very strong in the last years. Portfolio quality has remained fairly good, with the average PAR>30 below 3%, while self sufficiency has been improving consistently every year<sup>2</sup>.

There is a clear trend towards higher formalization of the industry as shown by recent transformation processes: the Russian Women Microfinance Network (RWMN), a leading network of NGO-type MFIs, was transformed into a non-bank deposit and credit institution. Additionally, the largest microfinance fund –FORA Fund- established FORUS Bank, with microfinance as its main area of operation. Institutions that formerly operated as representative offices of international MFIs are currently in the process of re-registering as Russian commercial and non-profit organizations.

<sup>1</sup> 2004 *Microfinance Sector Development in Eastern and Central Asia*, Microfinance Centre, Justyna Pytkowska and Ewa Bankowska

<sup>2</sup> *Non-bank Financial development trends in Russia 2003-2004*, Moscow 2006, Russian Microfinance Center and Russian SME Center

Russia's banking sector remains weak and highly undercapitalized. Despite this situation and a serious lack of confidence stemming from the financial crisis of the late 1990's, banks are increasingly competitors of MFIs. Although they usually do not provide microloans from their own resources, many participate in externally funded credit programs for small enterprises and individual entrepreneurs. The most widely known bank lending program for this population is the "Russia Small Business Fund," a 300 million USD fund developed and financed jointly by the EBRD and G7 donors. EBRD, together with Endesa Holding International, is also a shareholder of KMB (Small Business Credit) Bank. With a network of branches and representative offices in 65 cities, over 240 M USD (Dec. 2004) in outstanding portfolio and best practice microfinance approaches, KMB has been the most serious competitor of most MFIs.

Public support to microfinance and SME development is growing. The government is involved in the funding of regional and municipal funds through the Federal Fund for SME Support. However, microfinance is currently an insignificant part of the credit activity of regional SME support funds. One of the main obstacles for the sector is the lack of a clear and favorable legal framework to support microfinance. Cooperatives are not supervised despite their activity of members' deposit collection. Several fiscal reforms have been passed, but the legislation on non-commercial organizations does not recognize microfinance explicitly as a non-commercial activity and local tax legislation, in addition to federal taxes, can be highly problematic.

## Political and economic environment

Despite a slight slowdown, economic growth is still robust. High raw material prices have caused real personal incomes to rise and that mechanism will continue to underpin the economy. In large cities, a growing middle class has been increasing its consumption buoyed by rising wages. Net exports have also increased, thanks mainly to the oil-price effect.

Industrial production has registered a slowdown. The extraction sector stagnated in 2005. In manufacturing, segments exposed to international competition have suffered from the real exchange-rate appreciation with machine tool and electronic products particularly affected by competition from imported goods. The food sector nonetheless performed well and sectors non exposed to international competition, like construction and retail, posted strong growth. The government moreover expanded its presence, directly and via state-owned companies, in the energy sector -to become the country's leading oil producer with control

over Rosneft and Sibneft- and in manufacturing – in the car industry, machine tools, and diamonds. That “state capitalism” could however prove to be not very efficient.

The country’s financial situation has continued to improve with large fiscal surpluses and a substantial reduction of public sector debt paving the way for a continued easing of sovereign risk and with foreign currency reserves continuing to rise.

Companies have restored their solvency since 1998 with domestic payment failures by companies now below 10% of GDP (down from 50% in 1998) according to official statistics. Corporate governance has nonetheless remained a problem area with financial and ownership transparency still very inadequate. Debtor-creditor law does not work in practice with vast reform of the judicial system still pending.

Russia is a medium human development country, occupying the 62<sup>nd</sup> position out of 177 in the 2005 Human Development Report of the UNDP.

### Strengths

- The country boasts many natural resources and a diversified industrial sector.
- Tax reform was an essential step in the consolidation of public sector finances.
- Russia has reasserted its regional power status since Vladimir Putin took office.
- Vladimir Putin’s re-election in 2004 and the federal government’s reassertion of authority over the Federation, Parliament, and the oligarchies have produced a level of political stability unprecedented in post-communist Russia.

### Weaknesses

- The industrial sector has not been very competitive due notably to the Ruble’s real appreciation.
- The government’s intention to exercise increasing control over the energy sector could jeopardize efficiency.
- Institutions intended to stabilize the business climate have been struggling to assert their authority.
- Substantial destabilization risks have persisted in the Northern Caucasus.

COFACE Country Rating: B - An unsteady political and economic environment is likely to affect further an already poor payment record.

| USD billions                                     | 2002 | 2003  | 2004  | 2005  | 2006p | 2007p |
|--|------|-------|-------|-------|-------|-------|
| Economic growth (%)                              | 4.7  | 7.3   | 7.1   | 6.4   | 7     | 6.1   |
| Inflation (%)                                    | 15   | 12    | 12    | 11.2  | 11.8  | 10    |
| Public sector balance (%GDP)                     | 1.9  | 1.7   | 4.4   | 7.3   | 5.5   | 0.9   |
| Exports  | 90.9 | 114.6 | 153.2 | 211.2 | 234.3 | 237.4 |
| Imports  | 49   | 60    | 76.9  | 101   | 124   | 158.5 |
| Trade balance                                    | 42.1 | 54.3  | 76.4  | 110.5 | 110.6 | 78.9  |
| Current account balance                          | 27.5 | 29    | 46.2  | 77.5  | 72.4  | 31.9  |
| Current account balance (%GDP)                   | 8    | 6.7   | 7.9   | 10    | 7.7   | 2.8   |
| Foreign debt (%GDP)                              | 41.6 | 41.7  | 36.2  | 28.5  | 25.3  | 23.6  |
| Debt service (%Exports)                          | 19.4 | 15.8  | 27.5  | 28.7  | 22.5  | 19.4  |
| Foreign currency reserves (in months of imports) | 6.8  | 8.6   | 11.4  | 13    | 14.3  | 13.2  |

Source: COFACE’s Country Risk Ratings Guidebook 2006. 2006 and 2007 data represents projections. Data is provided with authorization from COFACE - a shareholder of Planet Rating

Ratings: On December 14, 2005, Fitch assigned a long-term issuer default rating of “BBB” with a stable outlook to Russia.

## Institutional presentation

### Legal form, supervision and audit

CCC Doveriye is a Credit Consumer Cooperative (CCC) acting on the basis of the Article 166 of the Russian Federation Civil Code. It collects savings from its members, but it is not subject to prudential regulations and does not require to be audited. It reports to Tax Authorities.

CCC Doveriye does not hold an external audit.

### Ownership

As a cooperative, CCC Doveriye is owned by its members. The minimum cost of a compulsory share for any new member is 100 RUB (3 EUR). Shareholders meet annually in the General Assembly and elect the Board of Directors (BoD) and the General Manager. The current BoD consists of four members, who were all reelected during the last General Assembly in July 2007. The BoD is the main governance body, in charge of approving the cost of shares, characteristics of financial products and the institution’s overall strategy. It meets monthly.

CCC Doveriye also has a Loan Committee and a Supervisory Committee, elected by the General Assembly. The Loan Committee meets monthly to revise loans disbursed during the previous month. The Supervisory Committee meets annually to verify the institutional financial situation as well as relevant accounting documentation. It produces annual reports approved by the General Assembly.

### Donations

CCC Doveriye has never received grants from donors or subsidies from the regional or municipal budgets.

## Management team

The management team includes the General Manager, the Operations Manager, and the Branch Manager. Given the small scale of the institution, decision making is primarily concentrated on the General Manager.

The General Manager is an Economist with a long experience as the head of the Finance Department at a large-scale machinery company in Amursk and as the Chairman of the Amursk region Property Fund. She was one of the founding members of CCC Doveriye in 1999 and has led the institution since then. The Operations Manager has been with CCC Doveriye for four years and the Branch Manager joined the team in 2006 to prepare for the first branch opening in August 2007.

## Organization

CCC Doveriye was created in 1999 as a branch of FFECCC based in the nearby city of Komsomolsk, and it spun off in 2001 to become an independent cooperative with headquarters (HQ) in Amursk. The management team is based in the HQ. Loan applications are approved by the Branch Manager at the branch level, or the Operation Manager and General Manager at the HQ depending on the amounts. The branch is managed by the Branch Manager, who reports to the HQ senior staff members. The institution is also staffed with Loan Officers (LO) and cashiers.

## Market penetration

CCC Doveriye has only one branch located in Elban (40 Km away from Amursk), which was opened in August 2007. CCC Doveriye is one of the largest cooperatives in the Russian Far East and it is the only institution in the Amursk region covering the cities of Amursk, Elban and surroundings. The main competitor is FFECCC (the largest cooperative in the Khabarovsk region), although it does not have branches in the city of Amursk.

## Products and services

CCC Doveriye offers four individual loan products to its members: consumer loans, commercial loans, pension loans and housing loans. The loan portfolio's effective interest rate is approximately 30% as of October 2007. It is expected to be lower next year as interest rates decrease. Consumer and commercial loans' annual interest rates range from 28% to 42%, depending on the borrower's credit history; pension loans are offered at 26%; and housing loans, at 30%.

Consumer loans represent the largest part of the outstanding loan portfolio (70.7% as of September 2007), with maximum amounts of 300,000 RUR (8,500 EUR) and maximum terms of 18 months. Commercial loans represent 24% of the

outstanding portfolio as of September 2007, with maximum amounts of 500,000 RUB (14,000 EUR) and terms up to 30 months. Pension and housing loans represent 2.3% and 3.1% of the outstanding portfolio, respectively. The housing loan product was created in 2007 and is expected to grow next year. Its credit methodology is similar to a leasing contract<sup>3</sup>.

CCC Doveriye also offers demand deposits and fixed term deposits, whose terms range from 3 months to 5 years, offering annual interest rates up to 30%. CCC Doveriye has recently launched a new saving product for children, with a holding period of up to 18 years.

## Networks

CCC Doveriye is a member of the Interregional Association of Credit Unions in the Far East and Transbaikalia Region, and an associate of the National Partnership of Microfinance Market Stakeholders.

## ■ Governance

Governance and Decision making is rated "c"

### Decision making

CCC Doveriye's commitment to offering quality financial services to citizens otherwise underserved by local banks is unanimously shared by all governance bodies. The current governance is effective at pursuing its mission while combining non for-profit and self-sustainability values. The decision making process is led by the General Manager, and is monitored by a committed, although not yet fully autonomous BoD.

The BoD members have the necessary skills to follow up on the institution's performance, as the profiles are diversified and they are very familiar with the cooperative's context of operations. Yet, the role of the BoD as an autonomous monitoring governance body could still be enhanced by a larger number of members, higher rotation (the BoD composition has remained the same since the Cooperative's inception), more independent members (one member is part of the staff and reports to the General Manager and another is a relative of the General Manager) and specific financial analysis training. The BoD has adopted a leading role on decisions related to the incorporation of new members, loan approvals and interest rate policies. Its members do not receive any compensation for their contribution, although all governance bodies have access to loans at a lower price.

<sup>3</sup> The cooperative buys the property that the member wishes to buy, and its price (including taxes) represents the amount of the loan. The member then reimburses the loan through periodic installments that are assimilated to a rent. The property is transferred to the member when the loan has been fully repaid.

The decision making process is properly formalized in detailed minutes of the monthly Board meetings. The information provided to the Board is sufficient for the general overview of the cooperative's performance, although financial information is only provided on a quarterly basis and still lacks analysis on the main drivers of financial performance. The Internal Supervisory Committee and Loan Committee, although based on cooperative best practice, have mainly an honorary role. They effectively meet to comply with CCC Doveriye rules and regulations but do not provide specific inputs in terms of internal audit or loan analysis.

## Planning

The planning process needs still to be reinforced. Although there is permanent informal strategic thinking led by the General Manager, this has not yet been translated into a strategic plan. The annual budget does not contain enough detail and is not subject to monthly follow-up.

CCC Doveriye has identified access to funding at a lower cost as one of the main drivers of its financial performance in the future, and has started to actively search for funds. Access to cheaper funding will be necessary to attain its growth projections, uphold the trend of decreasing interest rates and continue to offer satisfactory services to its members. Although portfolio composition is not monitored to attain a target portfolio yield, an informal analysis based on the cost of funding and average spreads is done to establish interest rates and ensure the long-term sustainability of the cooperative.

CCC Doveriye's growth projections are realistic, although not yet formalised: it expects to increase its shareholder's base by 1,000 new members per year and its outstanding loan portfolio by 33% annually in the next three years. The cooperative expects to attain this target by leveraging its current infrastructure (the HQ office and one branch). It plans to broaden its current market in the Amursk region following the projected set up of two new industrial plants in the area. These projections will imply an upward trend in the average outstanding loan per borrower, which CCC Doveriye foresees as a way to increase economies of scale and as a natural evolution of its members' needs.

## Management team

There is a key person risk concentrated in the General Manager, as she leads the strategic planning, financial controlling, portfolio management and most of the internal control functions. The BoD, aware of this risk, has encouraged middle management enhancement by hiring an Operations Officer and an Accountant. The delegation process is still ongoing, and will become more effective as

the middle managers will be fully trained on their new responsibilities.

The small size of the team entails transparent and effective communications and the horizontal structure eases the prompt implementation of the decisions taken. Given the recent opening of the first branch, communication procedures and branch management support are currently being streamlined.

## Human resource management

CCC Doveriye has not yet implemented formal human resources procedures, but the General Manager has put special emphasis on staff satisfaction and has managed to create a friendly and motivating work environment. The overall high team morale and satisfaction has been reflected in a very low staff turn-over (almost nonexistent until 2006, and 6% since then). Yet, to maintain the low staff turn-over as the size of the team increases, it will be necessary to formalize currently missing procedures (recruiting procedures to ensure staff skills, training processes according to identified needs, career paths, etc.). Additionally, the lack of clarity on the recently implemented incentive scheme could generate a risk of misunderstandings and hinder its effectiveness in reaching its target results.

The salary grid is within the market range, and staff members count on additional social benefits such as life insurance and preferential access to loan conditions. These advantageous benefits and the inelasticity of the local labor market make CCC Doveriye an attractive recruiter.

## ■ Information

Information is rated "b"

CCC Doveriye uses one of the most popular accounting Management Information Systems (MIS) in Russia. The 1-C Accounting is a user-friendly MIS, very well known by all users. The portfolio, accounting and delinquency loans tracking modules are all integrated, ensuring information consistency and ease of use. It includes embedded controls such as frequent backups, personalized passwords with assigned user rights, audit tracking and updated antivirus, which ensure information integrity. The HQ at Amursk and the branch at Elban are interconnected in real time, providing timely data and avoiding time-consuming consolidation procedures. Software and hardware are up-to-date, licensed and complete. All staff has access to the necessary software and hardware at branch and HQ level. CCC Doveriye can count on an affordable and reactive IT technical assistance from the IC designers, in addition to the in-house programming skills of the Operation Officer.

The MIS provides all the basic information about loan and

savings activities to perform an overall portfolio evolution monitoring such as total outstanding portfolio, overall portfolio at risk (PAR), number of borrowers and number of savers. Information is well-presented through synthetic, relevant, complete and available reports. However, it fails to generate two key portfolio indicators to enhance portfolio planning such as the PAR per product, and the amount of write-offs.

The raw financial information produced by the system is generally reliable, however, the difficulties of transforming Russian Accounting Standards into international microfinance accounting standards and a lack of a qualified external audit, hamper the creation of financial statements following international best practices. This also limits the capacity to perform an accurate financial analysis.

## ■ Risk Management

Risk Management is rated “c”

### Procedures and internal controls

Most procedures are well documented, formalized and updated, and are well known by all staff members. Overall, there is a good compliance culture within the institution. Current controls are sufficient to cover major operational risks in the loan disbursement process. All loan borrowers must be formal members, there is a segregation of duties in the loan disbursement and repayment process, loan approvals are double-checked by a supervisor depending on the amount disbursed, and delinquent loan follow-up can eventually be performed at the HQ level.

Cash security is generally satisfactory at the HQ level, but it still needs to be improved at the branch level, where the transport and custody of cash are not entirely secured. The Branch Manager is allowed to take idle cash home when it exceeds certain limits or cannot be deposited in the bank. On the other hand, those who manage cash, including the General Manager, have signed a personal guarantee, which serves as an additional coverage for the institution, and also as a dissuasive control.

### Internal audit

The small size of the institution does not justify the presence of a full-time dedicated internal auditor. CCC Doveriye has implemented instead some basic supervision functions performed by the General Manager and the Operations Officer such as loan file verification, cash audits and sporadic branch visits. However, the institution lacks supervision of financial information by internal or external auditors.

The Supervisory Committee annually reviews cash balances

and verifies a sample of loan files. Although its functions are not as ample as those of a real internal audit body, the possibility of executing control mechanisms on an unannounced basis constitutes an additional supervision tool. Its members have a basic understanding on the accounting and audit techniques and their recommendations are formalized in detailed minutes of the annual meeting.

There is a general institutional commitment to transparency as CCC Doveriye participates in benchmarking programs and publishes its data in a microfinance internet site; however, no external audit has been performed yet. Although by law Consumer Credit Cooperatives are not subject to external prudential supervision, Tax Authorities can perform verification visits on a sporadic basis, adding an external layer of control.

## ■ Activities

Activities: products and services is rated “b”

### Market position

Given the lack of massive retail banking or other nearby cooperatives, CCC Doveriye has become a referential financial service provider in the Amursk region. CCC Doveriye has earned its current market share by paying permanent attention to member's satisfaction and meeting their needs. In spite of higher interest lending rates than local banks, CCC Doveriye attracts borrowers through a more personalized and friendly approach to members, less documentation requirements and more flexible repayment schedules. CCC Doveriye pays higher interest rates on deposits than local banks (5% spread on average). To compensate for the decreasing trend on deposit interest rates in the last three years (from 34.3% in 2004 to 25.6% in 2006), CCC Doveriye has initiated a marketing campaign focused on enhancing the cooperative's image as a trustful institution. It appears frequently in the local newspaper and on TV as an active economic player in the region and has recently created brochures for dissemination.

CCC Doveriye has moved up from its original market segment as evidenced by an upward trend in the average outstanding loan per borrower (from 357 EUR in 2004 to 1,428 EUR in 2007). As a result, the impressive portfolio growth since 2004 (at an average rate of 140% annually) has not been followed by the same pace of new borrowers (an average increase of 45% annually since 2004). CCC Doveriye has also experienced difficulties in expanding the shareholder base, which has impacted its funding structure mainly based on member's savings (see Funding section). As a result, portfolio growth slowed to 41% in the first 9 months of 2007, after particularly high growth rates in previous years (128% in 2005 and 114% in 2006). CCC Doveriye expects to overcome its difficulties in attracting

new members by leveraging the infrastructure of the new branch opened in August 2007 and the expected increase in the local population as new industrial factories are being settled in the city.

Portfolio composition has evolved towards a higher proportion of consumer loans (73% of the outstanding portfolio as of September 2007, up from 59% in 2004). CCC Doveriye estimates that consumer loans should not exceed 70%. To attract more entrepreneurs, the cooperative plans on launching a “special purpose business loan”, similar to the current business loan, with more flexible repayment schedules, although at a higher price.

### Loan portfolio management

CCC Doveriye has streamlined its consumer loan product methodology over the past years. The analysis of the repayment capacity relies on real collateral appraisal and on the evaluation of the borrower and his guarantor’s monthly salary. CCC Doveriye does not use special tools for real collateral evaluation such as market price tables or external experts; instead, CCC Doveriye conservatively discounts the collateral book value at a high rate below its real market value. CCC Doveriye has not developed a specific business loan methodology. It bases its business loan borrower’s repayment capacity analysis on the same parameters as the consumer loan product. Thus, it does not consider the entrepreneurs’ business cash flow projections. If CCC Doveriye plans on expanding its business loan client base, integration of business loan methodology best practices will be essential to maintain high portfolio growth with credit risk under control.

CCC Doveriye has managed to maintain a high level of standardization in portfolio management thanks to systematic revisions of loan application files by different supervision layers depending on the amount approved (Operations Officer, General Manager or Loan Committee). The standardised enforcement of procedures is also ensured by well trained LOs who follow a three month in-house training and have a clear understanding of the market.

CCC Doveriye follows effective delinquency management procedures based on diligent telephone calls and visits to borrowers. Delinquency management is the responsibility of LOs, although all staff members are encouraged to get involved in the process. Following the third month of delinquency, the file is outsourced to an external debt collector, which has been effective. Delinquent borrowers are taken to court on the fourth month of delinquency. Debt collection rates against pledged property are near 100%.

### Credit risk

CCC Doveriye has managed to maintain a very good

portfolio quality. PAR30 steadily decreased from 1.8% in 2004 to 0.6% in 2006, although it increased to 1.6% again in 2007 (still below the average of 1.9% of its peer Russian MFIs<sup>4</sup>). Reasons for the overall good portfolio quality are a conservative creditworthiness analysis, systematic procedures implementation guaranteed by regular supervision of loan application files and effective delinquency management procedures. It is not possible to determine the origin of the increase of PAR in the last year, given the lack of data on PAR per product. Loan rescheduling is permitted with the approval of the General Manager, although the amount remains insignificant.

CCC Doveriye has managed to maintain low PAR in spite of the lack of a formal write-off policy. The total amount of old delinquent loans has been increasing as a result, and could keep adding to PAR ratios in the future unless they are recovered or written-off. However, the total amount of delinquent loans over 365 days is still low (0.1% of total outstanding portfolio as of September 2007), which confirms the effectiveness of debt collection procedures.

CCC Doveriye’s loan loss provision expense policy based on 5% of the total savings instead of the actual portfolio quality, withholds its effectiveness as a credit risk coverage instrument and does not allow for the optimisation of the balance sheet structure (the excessive loan loss provision expenses restrain higher profits which could otherwise be capitalised and contribute to enhance the Cooperative’s capitalization levels). As a result, the loans loss reserve remains far above international standards (the risk coverage ratio reached its highest level in 2005 of 613.8%, and decreased to 270% in 2007 due to the slight increase in the PAR last year).

### ■ Funding and liquidity

Funding and liquidity is rated “c”

### Capital structure and leverage

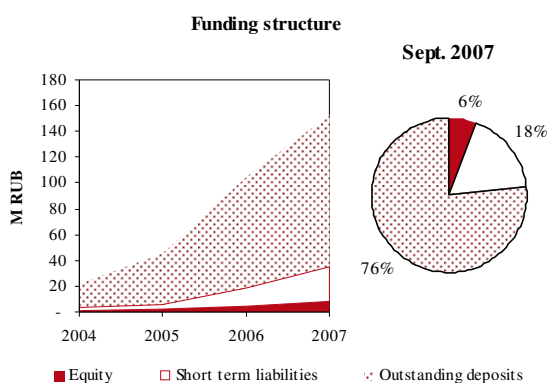
The primary source of CCC Doveriye’s funding is deposits from individual members. The remaining part is equity consisting of capital and retained earnings and since 2007, external debt which accounts for 18% of CCC Doveriye’s funding. The cooperative is a non-profit institution, so it does not distribute dividends.

CCC Doveriye’s capitalization remains low compared to international standards (equity only represents 5.7% of total

<sup>4</sup> According to the Russia Benchmarks Report 2006 (MIX-RMC), which includes: Alternativa, KVK, Alteya, Intellect, SBS, Sodeistvie Smolensk, CCC Doveriye, Sodeistvie Pyatigorsk, Rost, FFECC, EKPA, Aurora, Soyuz, Obereg.

assets, far below the international standard of 10%, but within the typical range for Russian cooperatives whose average is 7.25%). The leverage has reduced over the last year thanks to the capitalization of retained earnings (leverage ratio decreased to 16x in 2007 from 23x in 2005 and 2006). However it remains very high compared to regional benchmarks (leverage ratio for Non Bank Russian MFIs was 6.5x in 2006).

The funding sources are highly concentrated on savings, although recent access to commercial debt has allowed for diversification. CCC Doveriye has received three commercial loans totaling 6 M RUB (170,000 EUR) for a 2 year term at an interest rate of 23% with an upfront commission of 0.5%, from Centurion Capital, a Russian commercial microfinance fund whose shareholders are the Russian Microfinance Center and the Association of Russian Banks. It has also obtained a small second debt loan of 2 M RUB (50,000 EUR) from the League of Credit Unions. CCC Doveriye's savings base is well diversified (top 10 deposits represent 11.3% of total savings).



## Asset & Liability Management

CCC Doveriye faces a strong maturity risk. The liquidity to deposits ratio, at 3% in September 2007, is much lower than the international standards of 15%. Also, the loan to deposits ratio has increased from 107% in 2004 to 116.5% in September 2007, while regulated institutions financed by deposits usually try to limit this ratio to 80%. Overall, CCC Doveriye lacks a sense of conservative long term liquidity management for the protection of its deposits, as no prudential liquidity ratios have been put in place.

CCC Doveriye does not face interest rate risk as both deposits and loan interest rates are fixed. It does not face either foreign exchange risk as all funding (savings and external debt) and loan portfolio are in RUB.

## Funding strategy

Recent access to commercial local debt has been a momentous first step in CCC Doveriye's strategy of

diversifying its funding structure towards external debt. The next challenge for CCC Doveriye will be to improve the funding conditions of its current external liabilities, especially its maturity (currently not long enough to hedge the longer maturity of the new planned loan products) and the price (currently about the same interest rate as its saving funds).

## Liquidity management

Short term liquidity is adequately managed through monthly cash flow projections, which account for the upcoming deposits due dates and the amounts of loans planned for disbursement, although other inflows and outflows such as operating expenses, or estimated PAR are not yet being considered to enhance the tool's effectiveness.

## Efficiency and Profitability

Efficiency and Profitability is rated "b"

## Profitability analysis

CCC Doveriye has progressively become more profitable since 2005, as indicated by an increasing ROA of 1.9% and 2.8% in 2006 and 2007, respectively. ROE ratios are significantly higher (46% and 56% over the same period) due to the high financial leverage of the institution. This positive trend is underpinned by CCC Doveriye's success in reducing operational costs which compensated for the steady decline in portfolio yield. The decrease of loan loss provision expenses and financial expenses has also contributed to the strengthening of the profitability structure.

In line with its policy of working in its member's interest, CCC Doveriye has shown a clear commitment to bringing down interest rates on loan products. As a result, portfolio yield has significantly decreased from 64.3% in 2004 to 27.4% in September 2007. Interest rates are negotiated on a case-by-case basis depending on the amount and the borrower's credit history. The increase in the average outstanding loan per borrower and most of the borrowers being old members with a long term business relation with the cooperative have favored the overall decline of the average nominal interest rates.

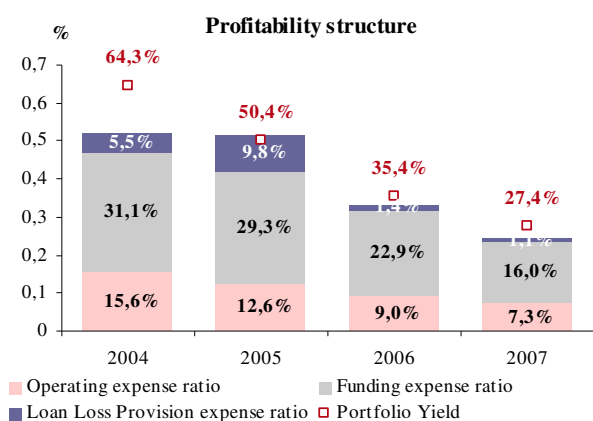
CCC Doveriye's noteworthy increase in efficiency (operating expenses decreasing from 15.6% in 2004 to 7.3% in 2007), is explained by a low cost lending methodology with automated straightforward processes of disbursement and collection, relatively low costs of the Amursk region compared to other more populated cities in Russia and especially, higher economies of scale based on a significant increase in the average outstanding portfolio per borrower (1,428 EUR in 2007 up from 357 EUR in 2004). Gains in efficiency have been possible in spite of the slight decrease

in productivity ratios due to CCC Doveriye's expansion and hiring in the past years. As the recently hired LOs in the Elban Agency become fully operational, productivity ratios are expected to improve.

Aware of the shrinking margins, CCC Doveriye has managed to decrease the interest rates paid on deposits while maintaining its savers' base (the cost of savings decreased from 34.3% in 2004 to 25.6% in 2006). This has positively contributed to reduce funding expenses (from 31.1% in 2004 to 23% in 2006). After high provision expenses in 2005, which negatively impacted CCC Doveriye's profitability that year, the loan loss reserve is sufficiently large to cover potential increases of PAR. Therefore, loans loss provision expenses should be expected to remain low in the upcoming years, even if CCC Doveriye changed its current unconventional loan loss provision expense policy to a PAR pegged one.

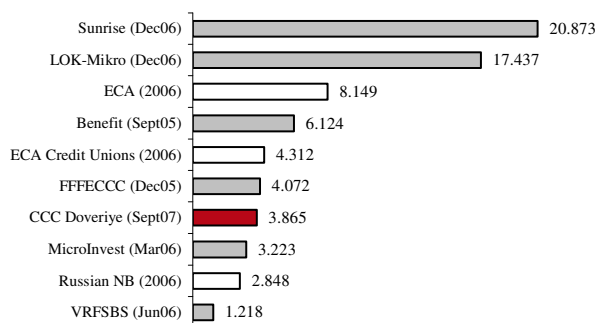
CCC Doveriye's profitability outlook is stable. The expected further decline in portfolio yield should be compensated by an increase in productivity through optimization of the recently opened branch, and lower funding expenses as the organization continues to reduce the cost of savings and the relation with external funders matures. Yet, the already very low operating expenses (below the two digits) do not leave a large margin for improvements in efficiency. Therefore, the cooperative's capacity to negotiate good conditions on external funding and the redesign of the loan loss provision policy will be crucial to determining CCC Doveriye's profitability evolution.

*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.*

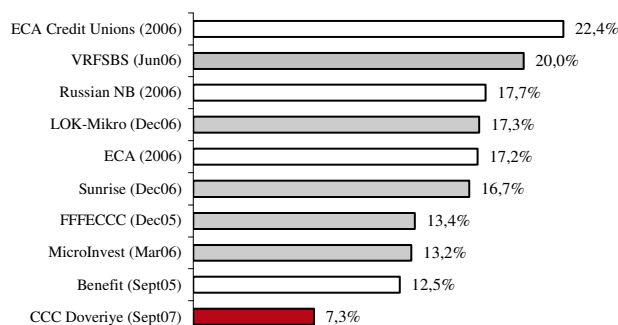


## Benchmarking

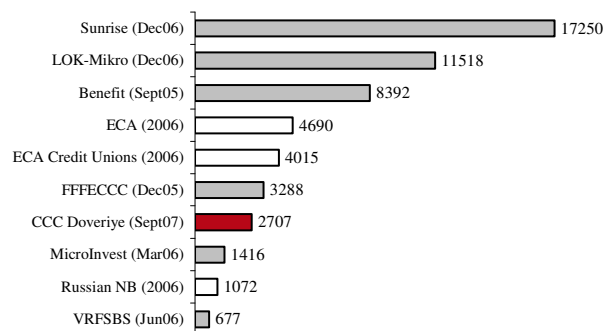
Loan portfolio (K EUR)



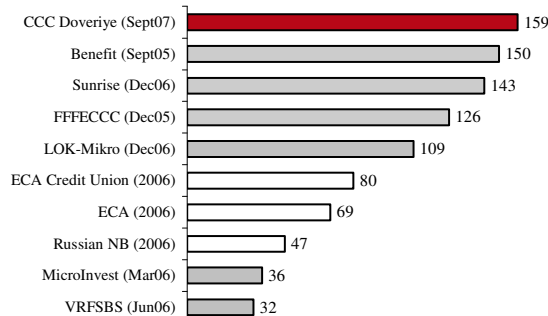
Operating expense ratio



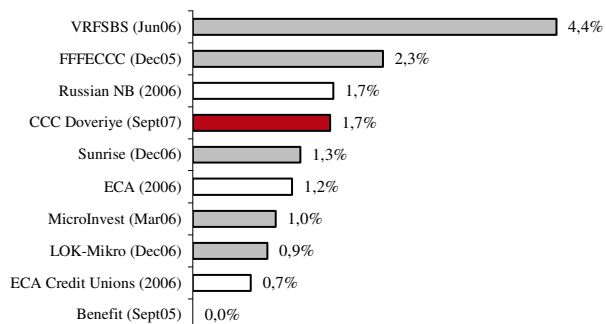
Active Borrowers



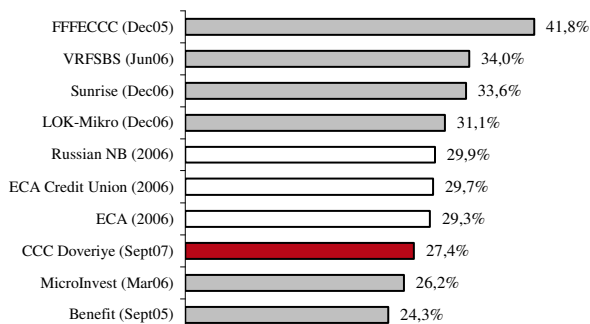
Staff productivity



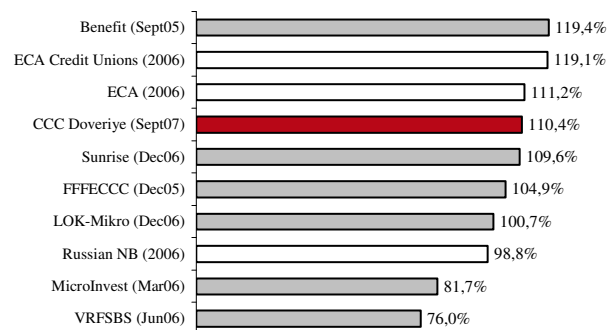
PAR>30



Portfolio Yield



Financial self-sufficiency



**Source:**

Mix Benchmarking Microfinance in Eastern Europe and Central Asia (ECA) 2006, medians  
Planet Rating reports

## ■ Performance indicators

Data in EUR, unless otherwise stated

### Ratios based on non audited financial statements

|  | Dec. 2004  | Dec. 2005  | Dec. 2006  | Sep. 2007   |
|--|------------|------------|------------|-------------|
| <b>Loan Portfolio</b>                                |            |            |            |             |
| <b>Loan portfolio evolution</b>                      |            |            |            |             |
| Loan portfolio                                       | 523,435    | 1,327,123  | 2,785,311  | 3,865,416   |
| Loan portfolio (RUB)                                 | 19,812,000 | 45,162,000 | 96,706,000 | 137,029,000 |
| Evolution  | 265.6%     | 128.0%     | 114.1%     | 41.7%       |
| Average outstanding loan                             | 319,498    | 903,842    | 1,992,099  | 3,440,180   |
| Active borrowers                                     | 1,465      | 2,112      | 2,477      | 2,707       |
| Evolution  | 111.7%     | 44.2%      | 17.3%      | 9.3%        |
| Average outstanding loan per client                  | 357        | 628        | 1,124      | 1,428       |
| % of GDP per capita                                  | 18.1%      | 28.7%      | 52.3%      | 67.9%       |
| Average amount disbursed per loan                    | 830        | 1,913      | 1,078      | 1,449       |
| % of GDP per capita                                  | 26.6%      | 43.2%      | 20.1%      | 0.0%        |
| <b>Portfolio quality</b>                             |            |            |            |             |
| Rescheduled loans                                    | 0.0%       | 0.0%       | 0.0%       | 0.0%        |
| PAR 31-365   | 1.7%       | 1.4%       | 0.6%       | 1.6%        |
| PAR > 365  | 0.1%       | 0.1%       | 0.0%       | 0.1%        |
| Write-off ratio                                      | 0.0%       | 0.0%       | 0.0%       | 0.0%        |
| <b>Credit risk coverage</b>                          |            |            |            |             |
| Risk coverage ratio                                  | 287.1%     | 613.8%     | 299.2%     | 269.4%      |
| PAR 31 net of loan loss provision / Equity           | (37.5%)    | (178.9%)   | (77.8%)    | (43.4%)     |
| <b>Savings</b>                                       |            |            |            |             |
| Outstanding deposits                                 | 485,522    | 1,175,345  | 2,470,161  | 3,317,038   |
| Outstanding deposits (RUB)                           | 18,377,000 | 39,997,000 | 85,764,000 | 117,589,000 |
| Evolution  | 236.9%     | 117.6%     | 114.4%     | 37.1%       |
| Mandatory savings (%)                                | 0.0%       | 0.0%       | 0.0%       | 0.0%        |
| Voluntary savings (%)                                | 100.0%     | 100.0%     | 100.0%     | 94.0%       |
| Active savers  | 551        | 990        | 1,818      | 2,174       |
| Evolution  | NA         | 79.7%      | 83.6%      | 19.6%       |
| Average outstanding deposit per saver                | 881        | 1,187      | 1,359      | 1,526       |
| Voluntary  | 881        | 1,187      | 1,359      | 1,433       |
| <b>Staff</b>   |            |            |            |             |
| Total number of staff                                | 9          | 10         | 13         | 17          |
| % Credit officers                                    | 33.3%      | 30.0%      | 46.2%      | 47.1%       |
| Turnover   | 0.0%       | 0.0%       | 0.0%       | 6.7%        |
| <b>Profitability analysis</b>                        |            |            |            |             |
| ROE  | 154.5%     | (22.6%)    | 45.9%      | 56.3%       |
| Liabilities / Equity                                 | 11.6x      | 23.3x      | 23.5x      | 16.6x       |
| ROA  | 10.5%      | (1.2%)     | 1.9%       | 2.8%        |
| <b>Profitability structure</b>                       |            |            |            |             |
| Portfolio Yield                                      | 64.3%      | 50.4%      | 35.4%      | 27.4%       |
| Operating expense ratio                              | 15.6%      | 12.6%      | 9.0%       | 7.3%        |
| Cost per borrower                                    | 34         | 54         | 72         | 93          |
| Staff productivity                                   | 163        | 211        | 191        | 159         |
| Loan officer productivity                            | 488        | 704        | 413        | 338         |
| Average outstanding loan per client (EUR)            | 357        | 628        | 1,124      | 1,428       |
| Funding expense ratio                                | 31.1%      | 29.3%      | 22.9%      | 16.0%       |
| Cost of savings                                      | 34.3%      | 33.9%      | 25.6%      | 45.2%       |
| Cost of liabilities                                  | 0.0%       | 30.5%      | 28.2%      | 17.7%       |
| Loan Loss Provision expense ratio                    | 5.5%       | 9.8%       | 1.4%       | 1.1%        |
| PAR 31-365   | 1.7%       | 1.4%       | 0.6%       | 1.6%        |
| Write-off ratio                                      | 0.00%      | 0.00%      | 0.00%      | 0.00%       |
| <b>Resource optimization</b>                         |            |            |            |             |
| Outstanding Loan Portfolio / Assets                  | 85.7%      | 90.6%      | 87.5%      | 85.6%       |
| Revenue from investment as a % of financial revenues | 0.0%       | 0.0%       | 0.0%       | 0.0%        |
| <b>Liquidity</b>                                     |            |            |            |             |
| Loans to deposits                                    | 107.8%     | 112.9%     | 112.8%     | 116.5%      |
| Liquidity / Total assets (LAR)                       | 7.7%       | 2.3%       | 4.2%       | 2.3%        |
| <b>Adjusted ratios</b>                               |            |            |            |             |
| Adjustment expense ratio                             | 0.9%       | 0.7%       | 0.4%       | 0.4%        |
| AROE   | 143.1%     | (34.4%)    | 36.8%      | 48.5%       |
| AROA   | 9.8%       | (1.8%)     | 1.5%       | 2.4%        |
| Financial self-sufficiency                           | 120.9%     | 96.2%      | 104.9%     | 110.4%      |
| Adjusted operating expense ratio                     | 15.6%      | 12.6%      | 9.0%       | 7.3%        |
| Adjusted funding expense ratio                       | 32.0%      | 30.0%      | 23.3%      | 16.5%       |
| Adjusted loan loss provision expense ratio           | 5.5%       | 9.8%       | 1.4%       | 1.1%        |
| Exchange rate 1 EUR= xx RUB                          | 37.9       | 34.0       | 34.7       | 35.5        |

**GIRAFE Rating – CCC Doveriye, Russia – November 2007**

| CCC Doveriye<br>Income Statement                                 | RUB              |                  |                   |                   |                   | EUR           |                |                 |                |                | Evolution     |                |               |
|--|------------------|------------------|-------------------|-------------------|-------------------|---------------|----------------|-----------------|----------------|----------------|---------------|----------------|---------------|
|  | Dec. 2003        | Dec. 2004        | Dec. 2005         | Dec. 2006         | Sep. 2007         | Dec. 2003     | Dec. 2004      | Dec. 2005       | Dec. 2006      | Sep. 2007      | 05/04         | 06/05          | 07/06         |
| <b>Financial Revenue (a)</b>                                     | <b>2,222,000</b> | <b>7,770,000</b> | <b>15,493,000</b> | <b>24,481,000</b> | <b>25,086,000</b> | <b>60,545</b> | <b>205,284</b> | <b>455,275</b>  | <b>705,098</b> | <b>707,645</b> | <b>99.4%</b>  | <b>58.0%</b>   | <b>2.5%</b>   |
| Financial Revenue from Loan Portfolio                            | 2,222,000        | 7,770,000        | 15,493,000        | 24,481,000        | 25,086,000        | 60,545        | 205,284        | 455,275         | 705,098        | 707,645        | 99.4%         | 58.0%          | 2.5%          |
| Interest on Loan Portfolio                                       | 1,855,000        | 6,769,000        | 13,689,000        | 21,665,000        | 22,859,000        | 50,545        | 178,838        | 402,263         | 623,992        | 644,824        | 102.2%        | 58.3%          | 5.5%          |
| Fees and Commissions on Loan Portfolio                           | 367,000          | 1,001,000        | 1,804,000         | 2,816,000         | 2,227,000         | 10,000        | 26,446         | 53,012          | 81,106         | 62,821         | 80.2%         | 56.1%          | (20.9%)       |
| Penalty Revenue on Loan Portfolio                                | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| Financial Revenue from Investments                               | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| Other Operating Revenue  | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| <b>Financial Expense (b)</b>                                     | <b>1,184,000</b> | <b>3,764,000</b> | <b>9,012,000</b>  | <b>15,835,000</b> | <b>14,673,000</b> | <b>32,262</b> | <b>99,445</b>  | <b>264,825</b>  | <b>456,077</b> | <b>413,907</b> | <b>139.4%</b> | <b>75.7%</b>   | <b>(7.3%)</b> |
| Interest paid on borrowings                                      | -                | -                | 106,000           | 527,000           | 742,000           | -             | -              | 3,115           | 15,179         | 20,931         | -             | 397.2%         | 40.8%         |
| Interest paid on deposits  | 1,184,000        | 3,764,000        | 8,906,000         | 15,308,000        | 13,931,000        | 32,262        | 99,445         | 261,710         | 440,899        | 392,976        | 136.6%        | 71.9%          | (9.0%)        |
| Net Inflation Adjustment Expense                                 | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| Other Financial Expenses   | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| <b>Financial income [c=a-b]</b>                                  | <b>1,038,000</b> | <b>4,006,000</b> | <b>6,481,000</b>  | <b>8,646,000</b>  | <b>10,413,000</b> | <b>28,283</b> | <b>105,839</b> | <b>190,450</b>  | <b>249,021</b> | <b>293,738</b> | <b>61.8%</b>  | <b>33.4%</b>   | <b>20.4%</b>  |
| <b>Net Loan Loss provision expense (d)</b>                       | <b>262,000</b>   | <b>662,000</b>   | <b>3,000,000</b>  | <b>1,000,000</b>  | <b>1,000,000</b>  | <b>7,139</b>  | <b>17,490</b>  | <b>88,158</b>   | <b>28,802</b>  | <b>28,209</b>  | <b>353.2%</b> | <b>(66.7%)</b> | <b>0.0%</b>   |
| Loan loss provision expense and write-off                        | 262,000          | 662,000          | 3,000,000         | 1,000,000         | 1,000,000         | 7,139         | 17,490         | 88,158          | 28,802         | 28,209         | 353.2%        | (66.7%)        | 0.0%          |
| Recovery from Loans written off                                  | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| <b>Operating expense (e)</b>                                     | <b>756,000</b>   | <b>1,892,000</b> | <b>3,887,000</b>  | <b>6,232,000</b>  | <b>6,666,000</b>  | <b>20,599</b> | <b>49,987</b>  | <b>114,223</b>  | <b>179,493</b> | <b>188,039</b> | <b>105.4%</b> | <b>60.3%</b>   | <b>7.0%</b>   |
| Personnel Expense (includes fringe)                              | 352,000          | 1,275,000        | 2,281,000         | 2,708,000         | 3,211,000         | 9,591         | 33,686         | 67,029          | 77,995         | 90,578         | 78.9%         | 18.7%          | 18.6%         |
| Administrative Expense (non-staff operating expenses)            | 404,000          | 617,000          | 1,606,000         | 3,524,000         | 3,455,000         | 11,008        | 16,301         | 47,194          | 101,498        | 97,461         | 160.3%        | 119.4%         | (2.0%)        |
| Depreciation and amortization                                    | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| Rental costs   | 99,000           | 51,000           | 275,000           | 149,000           | 1,114,000         | 2,698         | 1,347          | 8,081           | 4,291          | 31,425         | 439.2%        | (45.8%)        | 647.7%        |
| Travel costs   | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| Office supplies  | 265,000          | 390,000          | 588,000           | 713,000           | 931,000           | 7,221         | 10,304         | 17,279          | 20,536         | 26,262         | 50.8%         | 21.3%          | 30.6%         |
| Other administration expenses                                    | 40,000           | 176,000          | 743,000           | 2,662,000         | 1,410,000         | 1,090         | 4,650          | 21,834          | 76,671         | 39,774         | 322.2%        | 258.3%         | (47.0%)       |
| <b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b> | <b>20,000</b>    | <b>1,452,000</b> | <b>(406,000)</b>  | <b>1,414,000</b>  | <b>2,747,000</b>  | <b>545</b>    | <b>38,362</b>  | <b>(11,931)</b> | <b>40,726</b>  | <b>77,489</b>  | <b>(128%)</b> | <b>(448%)</b>  | <b>94.3%</b>  |
| Income Taxes (g)   | 1,000            | 1,000            | 1,000             | 3,000             | 6,000             | 27            | 26             | 29              | 86             | 169            | 0.0%          | 200.0%         | 100.0%        |
| <b>Net Operating Income Before Donations [h=f-g]</b>             | <b>19,000</b>    | <b>1,451,000</b> | <b>(407,000)</b>  | <b>1,411,000</b>  | <b>2,741,000</b>  | <b>518</b>    | <b>38,336</b>  | <b>(11,960)</b> | <b>40,639</b>  | <b>77,320</b>  | <b>(128%)</b> | <b>(446%)</b>  | <b>94.3%</b>  |
| Non Operating Revenue (i)  | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| Non Operating Expense (including related taxes) (j)              | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| <b>Net Income Before Donations [k=h+i-j]</b>                     | <b>19,000</b>    | <b>1,451,000</b> | <b>(407,000)</b>  | <b>1,411,000</b>  | <b>2,741,000</b>  | <b>518</b>    | <b>38,336</b>  | <b>(11,960)</b> | <b>40,639</b>  | <b>77,320</b>  | <b>(128%)</b> | <b>(446%)</b>  | <b>94.3%</b>  |
| Donations (l)  | -                | -                | -                 | -                 | -                 | -             | -              | -               | -              | -              | -             | -              | -             |
| <b>Net Income (after Taxes and Donations) [m=k+l]</b>            | <b>19,000</b>    | <b>1,451,000</b> | <b>(407,000)</b>  | <b>1,411,000</b>  | <b>2,741,000</b>  | <b>518</b>    | <b>38,336</b>  | <b>(11,960)</b> | <b>40,639</b>  | <b>77,320</b>  | <b>(128%)</b> | <b>(446%)</b>  | <b>94.3%</b>  |

**GIRAFE Rating – CCC Doveriye, Russia – November 2007**

| CCC Doveriye<br>Balance sheet                    | Notes | RUB              |                   |                   |                    |                    | EUR            |                |                  |                  |                  | Evolution     |               |               |
|--|-------|------------------|-------------------|-------------------|--------------------|--------------------|----------------|----------------|------------------|------------------|------------------|---------------|---------------|---------------|
|  |       | Dec. 2003        | Dec. 2004         | Dec. 2005         | Dec. 2006          | Sep. 2007          | Dec. 2003      | Dec. 2004      | Dec. 2005        | Dec. 2006        | Sep. 2007        | 05/04         | 06/05         | 07/06         |
| <b>ASSETS</b>                                    |       | <b>5,609,000</b> | <b>21,939,000</b> | <b>45,447,000</b> | <b>104,850,000</b> | <b>153,148,000</b> | <b>152,834</b> | <b>579,630</b> | <b>1,335,498</b> | <b>3,019,873</b> | <b>4,320,113</b> | <b>107.2%</b> | <b>130.7%</b> | <b>46.1%</b>  |
| <b>Short Term Assets</b>                         |       | <b>5,564,000</b> | <b>21,878,000</b> | <b>45,255,000</b> | <b>104,605,000</b> | <b>97,915,000</b>  | <b>151,608</b> | <b>578,018</b> | <b>1,329,856</b> | <b>3,012,817</b> | <b>2,762,059</b> | <b>106.9%</b> | <b>131.1%</b> | <b>(6.4%)</b> |
| Cash and Due from Banks                          |       | 124,000          | 1,697,000         | 1,059,000         | 4,424,000          | 3,591,000          | 3,379          | 44,835         | 31,120           | 127,419          | 101,298          | (37.6%)       | 317.8%        | (18.8%)       |
| Short Term Investments                           |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Short Term Net Loan Portfolio                    |       | 5,081,000        | 18,812,000        | 41,162,000        | 91,706,000         | 76,107,000         | 138,447        | 497,015        | 1,209,580        | 2,641,302        | 2,146,883        | 118.8%        | 122.8%        | (17.0%)       |
| Short Term Gross Loan Portfolio                  |       | 5,419,000        | 19,812,000        | 45,162,000        | 96,706,000         | 82,107,000         | 147,657        | 523,435        | 1,327,123        | 2,785,311        | 2,316,135        | 128.0%        | 114.1%        | (15.1%)       |
| (Loan Loss Reserve)                              |       | 338,000          | 1,000,000         | 4,000,000         | 5,000,000          | 6,000,000          | 9,210          | 26,420         | 117,543          | 144,009          | 169,252          | 300.0%        | 25.0%         | 20.0%         |
| Interest Receivable                              |       | 359,000          | 1,369,000         | 3,034,000         | 8,475,000          | 18,217,000         | 9,782          | 36,169         | 89,157           | 244,096          | 513,879          | 121.6%        | 179.3%        | 114.9%        |
| On loan portfolio                                |       | 359,000          | 1,369,000         | 3,034,000         | 8,475,000          | 18,217,000         | 9,782          | 36,169         | 89,157           | 244,096          | 513,879          | 121.6%        | 179.3%        | 114.9%        |
| On investments                                   |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Accounts receivable and other assets             |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| <b>Long term assets</b>                          |       | <b>45,000</b>    | <b>61,000</b>     | <b>192,000</b>    | <b>245,000</b>     | <b>55,233,000</b>  | <b>1,226</b>   | <b>1,612</b>   | <b>5,642</b>     | <b>7,056</b>     | <b>1,558,054</b> | <b>214.8%</b> | <b>27.6%</b>  | <b>22444%</b> |
| Long Term Net Investments                        |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Long Term Gross Loan Portfolio                   | 1     | -                | -                 | -                 | -                  | 54,922,000         | -              | -              | -                | -                | 1,549,281        | -             | -             | -             |
| Net Fixed Assets                                 |       | 45,000           | 61,000            | 192,000           | 245,000            | 311,000            | 1,226          | 1,612          | 5,642            | 7,056            | 8,773            | 214.8%        | 27.6%         | 26.9%         |
| Other Long Term Assets                           |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| <b>LIABILITIES AND EQUITY</b>                    |       | <b>5,609,000</b> | <b>21,939,000</b> | <b>45,447,000</b> | <b>104,850,000</b> | <b>153,148,000</b> | <b>152,834</b> | <b>579,630</b> | <b>1,335,498</b> | <b>3,019,873</b> | <b>4,320,113</b> | <b>107.2%</b> | <b>130.7%</b> | <b>46.1%</b>  |
| <b>Liabilities</b>                               |       | <b>5,468,000</b> | <b>20,202,000</b> | <b>43,575,000</b> | <b>100,571,000</b> | <b>144,453,000</b> | <b>148,992</b> | <b>533,738</b> | <b>1,280,488</b> | <b>2,896,630</b> | <b>4,074,838</b> | <b>115.7%</b> | <b>130.8%</b> | <b>43.6%</b>  |
| Short term liabilities                           |       | 5,468,000        | 20,202,000        | 43,575,000        | 100,571,000        | 68,955,691         | 148,992        | 533,738        | 1,280,488        | 2,896,630        | 1,945,153        | 115.7%        | 130.8%        | (31.4%)       |
| Demand Deposits                                  |       | 5,454,000        | 18,377,000        | 39,997,000        | 85,764,000         | 42,091,691         | 148,610        | 485,522        | 1,175,345        | 2,470,161        | 1,187,354        | 117.6%        | 114.4%        | (50.9%)       |
| Compulsory Deposits                              |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Short Term Time Deposits                         |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Short Term Borrowings                            |       | -                | 150,000           | 544,000           | 3,192,000          | 8,000,000          | -              | 3,963          | 15,986           | 91,935           | 225,670          | 262.7%        | 486.8%        | 150.6%        |
| Interest payable                                 |       | -                | 1,369,000         | 3,034,000         | 8,475,000          | 18,217,000         | -              | 36,169         | 89,157           | 244,096          | 513,879          | 121.6%        | 179.3%        | 114.9%        |
| Accounts Payable and Other                       | 2     | 14,000           | 306,000           | -                 | 3,140,000          | 647,000            | 381            | 8,085          | -                | 90,438           | 18,251           | (100%)        | -             | (79.4%)       |
| Short Term Liabilities                           |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Long term liabilities                            |       | -                | -                 | -                 | -                  | 75,497,309         | -              | -              | -                | -                | 2,129,684        | -             | -             | -             |
| Long Term Time Deposits                          |       | -                | -                 | -                 | -                  | 75,497,309         | -              | -              | -                | -                | 2,129,684        | -             | -             | -             |
| Long Term Borrowings                             | 3     | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Other Long Term Liabilities                      |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| <b>Equity</b>                                    |       | <b>141,000</b>   | <b>1,737,000</b>  | <b>1,872,000</b>  | <b>4,279,000</b>   | <b>8,695,000</b>   | <b>3,842</b>   | <b>45,892</b>  | <b>55,010</b>    | <b>123,243</b>   | <b>245,275</b>   | <b>7.8%</b>   | <b>128.6%</b> | <b>103.2%</b> |
| Paid-In Capital                                  |       | 122,000          | 267,000           | 613,000           | 805,000            | 967,000            | 3,324          | 7,054          | 18,014           | 23,185           | 27,278           | 129.6%        | 31.3%         | 20.1%         |
| Donated equity                                   |       | -                | -                 | -                 | -                  | -                  | -              | -              | -                | -                | -                | -             | -             | -             |
| Retained earnings without donations and reserves |       | 19,000           | 1,470,000         | 1,063,000         | 2,474,000          | 5,215,000          | 518            | 38,838         | 31,237           | 71,256           | 147,109          | (27.7%)       | 132.7%        | 110.8%        |
| Current year                                     |       | 19,000           | 1,451,000         | (407,000)         | 1,411,000          | 2,741,000          | 518            | 38,336         | (11,960)         | 40,639           | 77,320           | (128%)        | (446%)        | 94.3%         |
| Other equity accounts                            | 4     | -                | -                 | 196,000           | 1,000,000          | 2,513,000          | -              | -              | 5,760            | 28,802           | 70,889           | -             | 410.2%        | 151.3%        |

- Notes:**
- 1) Information on maturity of loans only available for 2007.
  - 2) Other liabilities including tax and salary liabilities, social withholdings, deferred income, other accounts payable.
  - 3) Information on maturity of deposits only available for 2007.
  - 4) An insurance reserve CCC Doveriye started to create from 2005.

## ■ Formulas

|                                   |  |
|-----------------------------------|--|
| Personnel productivity:           | $\text{Active borrowers} / \text{Total personnel (end of period)}$   |
| Loan officer productivity:        | $\text{Active borrowers} / \text{Total Loan Officers (end of period)}$                                       |
| Return on assets (ROA):           | $\text{Net operating income before donations} / \text{Average assets}$                                       |
| Adjusted return on assets (AROA): | $\text{Adjusted net operating income before donations} / \text{Average assets}$                              |
| Return on equity (ROE):           | $\text{Net operating income before donations} / \text{Average equity}$                                       |
| Adjusted return on equity (AROE): | $\text{Adjusted net operating income before donations} / \text{Average equity}$                              |
| Leverage:                         | $\text{Debt (savings + debts)} / \text{equity (end of period)}$  |
| Portfolio yield:                  | $\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$                             |
| Operating expense ratio:          | $\text{Operating expense} / \text{13-month average gross outstanding portfolio}$                             |
| Funding expense ratio:            | $\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$ |
| Cost of savings ratio:            | $\text{Interest and fees paid on deposits} / \text{Average deposits}$  |
| Cost of borrowings ratio:         | $\text{Interest and fees paid on borrowings} / \text{Average borrowing}$                                     |
| Loan loss expense ratio:          | $\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$                         |
| Adjustment expense ratio:         | $\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$                             |
| Net portfolio as a % of assets:   | $\text{Net outstanding portfolio} / \text{total assets (end of period)}$                                     |
| Financial self-sufficiency:       | $\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$  |
| Risk coverage ratio:              | $\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$  |
| Write-off ratio:                  | $\text{Loans written off} / \text{13-month average gross outstanding portfolio}$                             |

## ■ Rating scale

| Rating | Definition  |
|--------|---|
| A+     | <b>Excellent</b>  |
| A      | The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored. |
| A-     |   |
| B+     | <b>Good</b>   |
| B      | Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.   |
| B-     |   |
| C+     | <b>Minimum required</b>   |
| C      | Procedures are functional but with certain failings. There are minor risks in the medium term for operations.   |
| C-     |   |
| D      | <b>Insufficient</b>   |
|        | Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.  |
| E      | <b>Immediate risk of default or very insufficient</b>   |
|        | There are immediate or underlying risks for operations or an unacceptable under performance.  |