

## First Far Eastern Credit Consumer Cooperative, Russia

The First Far Eastern Credit Consumer Cooperative (FFECCC) was founded in 1995 by 25 individuals in the city of Komsomolsk, in the Khabarovsk region of Russia. It has the status of a Credit Consumer Cooperative (CCC) and is not subject to any prudential regulation. As of 31 December 2005, FFECCC served 3,109 active borrowers and 1,670 depositors in Komsomolsk and Khabarovsk. The institution offers three individual loan products and two deposit products, and maintains a loan portfolio of 4.1 M USD and an outstanding deposit portfolio of 3.9 M USD as of December 2005.

### GIRAFE Rating

#### Rating

**B**

#### Outlook

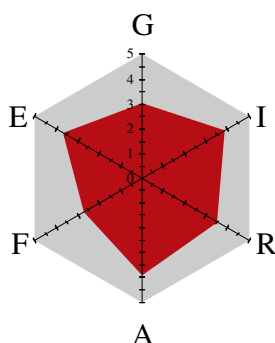
**Stable**

#### Date of the rating

**July, 2006**

Valid until June, 2007

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

#### Planet Rating Contact

Philippe Serres  
pserres@planetrating.com  
Tel.: + 33 1 49 21 26 30

#### MFI Contact

Ekaterina V. Ovchinnikova  
36/3 Oktyaborskiy Avenue,  
Komsomolsk,  
Khabarovsk Region, Russia  
Tel: +7 42172 550724  
credit@kmscom.ru  
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#### Rating highlights

- FFECCC has been successful in filling the space left by commercial banks in consumer lending, through a personalized approach, high interest rates on deposits and innovation in the design of financial products. Despite its relatively small size, the institution is today the leading cooperative in the Khabarovsk region.
- FFECCC's main challenge in the medium term will be to develop cheaper financing mechanisms, either through a redesign of its interest rates policy on deposits or through access to debt at a competitive cost.
- In an unregulated environment, the institution still lacks a sense of conservative liquidity management despite collecting deposits from its members.

#### Outlook

This grade has been given with a Stable trend. The access to debt or the redesign of FFECCC's financing strategy through deposits will determine its capacity to continue growing. However, if FFECCC maintains the current financing structure characterized by a high cost of deposits, it is likely that its growth and profitability will remain stable.

#### Performance indicators

USD , unless otherwise stated	Dec. 2003	Dec. 2004	Dec. 2005
Assets	1,982,472	4,422,371	4,543,134
Growth	97.9%	111.7%	6.3%
Loan portfolio	1,783,180	3,988,604	4,072,061
Growth	107.6%	112.3%	5.7%
Outstanding deposits	1,864,392	4,058,129	3,949,276
Growth	119.4%	106.6%	0.7%
Active borrowers	1,951	2,998	3,288
Active savers	921	1,614	1,678
Staff	11	22	26
ROE	140.6%	39.7%	25.2%
ROA	7.3%	2.6%	2.4%
Liabilities / Equity	15.93x	13.46x	7.58x
Portfolio Yield	49.2%	40.2%	41.8%
Operating expense ratio	18.5%	14.1%	13.4%
PAR 31-365	3.2%	1.8%	2.3%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.2%	1.6%

## 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. 50% to 70% 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 rouble’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

### Networks

FFECCC is a member of the Russian Federation of Consumer Cooperatives, the Association of Credit Unions of the Far East & Zabaikalye and WOCCU.

### Ownership

As a cooperative, the institution is owned by its members. Any new member must buy a share of 50 RUB (1.75 USD). The members meet annually in the General Assembly and elect the Board of Directors (BoD). The current BoD has 12 directors, most of whom were re-elected during the last General Assembly of August 2005. The BoD meets monthly and is the main governance body, in charge of approving the management reports and the financial statements.

Following the typical governance structure of a cooperative, FFECCC has an Internal Audit Committee and a Credit Committee that are also elected by the General Assembly.

### Management team

The management team of FFECCC includes the General Manager, Mrs. Ekaterina V. Ovchinnikova, the Deputy General Manager and Chief of Legal Services, the Chief of the Financial Department and the Chief of the IT Department. Given the small size of the institution, the decision making is primarily concentrated on the General Manager.

Ekaterina V. Ovchinnikova is an economist. She has a long experience as a top manager of a local building society. She was one of the founding members of FFECCC in

1995, and has managed the institution since inception. The other members of the management team have been with FFECCC for more than five years and have the appropriate skills for their respective tasks.

## Donations

FFECCC has received grants for 308,994 USD from the Euro-Asia Fund, USAID and the CGAP Pro Poor Innovation Challenge Award. Donations have been directed to finance the loan portfolio and some operating expenses.

## Legal form, supervision and audit

FFECCC is a Credit Consumer Cooperative (CCC), collecting deposits from its members. The institution is not supervised, as there is not yet a law for the regulation of cooperatives in Russia.

FFECCC has been audited since 2003 by Vostok Audit, a locally registered audit firm that became in 2005 an associate of the international firm BDO. The audits are mainly focused on financial statements and follow the Russian accounting standards. All audit reports have been issued without qualifications.

## Organization

The headquarters are in Komsomolsk, and share space with the largest branch of the cooperative. The management team is based at headquarters as well as accounting, IT management, human resources and legal services. Loan applications are approved by a “Loan Commission”, either at branch or headquarters level depending on their amount<sup>3</sup>. The Credit Committee elected by the General Assembly only checks some large loans each month. Branches are managed by a Branch Manager who is also a loan officer (LO) and reports directly to the General Manager. They are staffed with LOs, cashiers, operators (in charge of administrative support) and “Economic Security” officers (in charge of checking guarantees).

## Market penetration

FFECCC has four branches, three in Komsomolsk and one in Khabarovsk. It is the largest cooperative of the Russian Far East. There are around 1,000 cooperatives in the Khabarovsk region concentrating on very specific areas that do not represent a threat to FFECCC given their size. Regional banks are more serious competitors in terms of interest rates for consumer lending. They are also aggressive on interest rates for deposits, which has led the

institution to decrease its interest margin over the analyzed period.

## FFECCC’s main areas of operations



## Products and services

*Please see annexes for more details.*

FFECCC offers three individual products to its members: consumer loans, commercial and housing loans. Its average interest rate is 39.8% as of December 2005 and is expected to be lower in 2006 as interest rates decrease. With the interest rates charged in May 2006, the most expensive product is commercial loans with interest ranging from 32% to 34%, while consumer loans are offered at 26% to 30% and housing loans at 16% to 28%.

Consumer loans represent the largest part of the portfolio (71.5% as of December 2005). With loans going from 5,000 RUB (174 USD) to 500,000 RUB (17,395 USD), and terms of up to 60 months, this product is offered through various sub-products with differentiated interest rates:

- Consumer loans without specific aim.
- Loans for cars and garages.
- Loans for retired workers.

Commercial and housing loans have been created more recently but are representing an increasing part of the portfolio. With higher loan amounts -from 20,000 RUB (696 USD) to 2,000,000 RUB (69,580 USD) for commercial loans and from 200,000 RUB (6,958 USD) to 3,000,000 RUB (104,369 USD) for housing loans- and longer repayment periods -up to 8 years for housing loans-, these products have grown steadily in the loan portfolio. Given the absence of an adequate legal framework for

<sup>3</sup> All loans higher than 150,000 RUB (5,218 USD) must be approved by headquarters, in a “Loan Commission” with the Deputy General Manager. Loans of smaller amounts are approved at branch level.

mortgages, housing loans are granted through an innovative system, similar to a leasing contract<sup>4</sup>.

FFECCC also offers fixed and demand deposits. These products are marketed under various names with different interest rates. Fixed deposits interest rates are higher according to the length of the deposit (from 10% to 24%). Demand deposits are further categorized under deposits for students, retired workers and deposits for housing purposes. The average cost of savings is 23.2% as of December 2005, quite high for the Russian market and one of the main competitive advantages of FFECCC.

## ■ Governance

Governance and Decision Making is rated “b”

### Decision-making

FFECCC’s decision making is based on strong cooperative values. All the directors share the vision of a non-profit organization that needs to be self-sustainable to provide quality services to its members. The directors do not receive any compensation for their participation to the governance bodies meetings and do not have the right to apply for loans from the cooperative.

FFECCC’s governance structure has the typical strengths and weaknesses of a cooperative:

- The directors are committed with the cooperative, as shown by their active participation to the monthly meetings of the BoD. The chairman of the BoD establishes a particular relationship between the management team and the other directors, visiting the institution almost every week.
- The directors are very knowledgeable of the institution. Despite annual elections, there is little turnover among them. Some of them are part of the 25 founding members and have been sitting on the governance bodies since inception.
- The profiles are diversified. Directors have both secondary and higher education degrees and come from all kind of sectors, including local companies, retired workers, medical world and students.
- The governance bodies are however very reliant on the management team for the main strategic decisions. Their participation is voluntary and most of them do not have specific financial knowledge. They analyze and approve the strategic decisions proposed by the General Manager,

<sup>4</sup> FFECCC 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.

but do not bring their own technical input to the decision making process.

- The Internal Audit Committee and Credit Committee, although based on cooperative best practice, have mainly a honorary role. They effectively meet to comply with FFECCC’s rules and regulations but do not provide specific inputs in terms of internal audit or loan analysis.

FFECCC’s decision making is highly formalized. Rules and regulations are up-to-date and all meetings are adequately formalized in memorandums. The management team provides monthly management reports to the BoD with key information about portfolio and financial statements by branch and consolidated. However, detailed financial analysis explaining the main drivers and threats to self-sufficiency is missing.

### Planning

FFECCC has developed a fairly detailed planning process. The 2006-2010 strategic plan sets clear objectives and operational goals and is used as an input for monthly branch goals. The planning process is led by the General Manager; the Branch Managers and the Deputy General Manager are consulted for the budgeting and operational goals definition.

The business plan establishes realistic and consistent goals:

- The portfolio growth rate of 118% between 2006 and 2010 (22% per year) is feasible taking into account the lack of direct competition in FFECCC’s area of operations. The number of borrowers will grow by 90%, generating an increase in the average loan size in order to gain economies of scale. This growth is however very reliant on the capacity of the institution to collect deposits at a reasonable and competitive price.
- FFECCC will deepen its market penetration in its current areas of operations while expanding its regional presence by opening six new branches in the cities that have most potential (two branches in the Khabarovsk region, two in the Primorsk region and two in the Jewish Autonomous Region). The already high efficiency of the institution should allow the absorption of the cost of expansion and the flexibility of the MIS should avoid intercommunication problems.
- The product range will continue to be adapted to the needs of the clients by introducing changes to the existing categories of products. FFECCC is already thinking about specific loans for the military (there are many military bases in the region) and housing loans based on partnerships with banks.
- In the institutional front, the cooperative will reinforce the training of staff through exchange programs with other local and international networks. The cooperative also plans to create a fully fledged audit department.

However, the strategic planning presents some weaknesses:

- The product strategy regarding housing loans needs to be updated. Despite an important growth forecasted in the business plan, FFECCC is now considering a more conservative development of this product, to less than 30% of portfolio. The interest rate (average of 21%) is much lower than for the others, and it needs very long term resources to be financed (from 5 to 8 years). FFECCC is therefore planning to control its growth and to sell it through partnerships with banks. This will considerably affect the forecasted growth projections.
- The plan is based on the assumption that FFECCC will access commercial financing to fund its growth. It does not include different scenarios that would be helpful if access to commercial financing is not achieved. In particular, it does not address the specific problem of its unusually high cost of deposits.
- There is a financial plan with five year global revenues and expenses, but a detailed budget is missing.

### Management team

The small management team is led by a very capable and committed General Manager, who receives good support from the other members of the team. The hierarchical structure is very horizontal and communication flows are efficient. The structure is sufficiently staffed for its size but could gain from receiving the support of a fully fledged Financial Manager in charge of financial analysis and projections. The General Manager fulfills the role of Operations Manager.

Despite a permanent concern about training, there is a key person risk on the General Manager. She leads the strategic thinking, the relationships with the external parties and many aspects of operations. Additionally, she oversees various administrative issues. Yet, the Deputy General Manager is informed about many of these issues and could take the lead if the General Manager leaves the institution, as long as he receives sufficient training.

### Human resource management

FFECCC has quite developed human resources policies for its current size. The cooperative has established an internal career plan for all staff, despite the small number of job opportunities in the institution. All employees are offered the possibility to reach higher positions in the structure according to their professional and personal development, and following a clear salary grid. The main human resources procedures are formalized, with job descriptions and internal rules. The institution has also developed an incentive scheme for all operational staff. There are annual evaluations of all staff that can lead to promotions and

salary increases. All new LOs go through an intensive three-month practical training phase, under the supervision of a senior LO. At the end of this phase, an evaluation committee decides whether the LO can carry on with the institution.

Yet there is still space for improvements in human resource management:

- The incentive scheme does not favor maximum performance since bonuses are capped at a certain level. Therefore, LOs are not motivated to reach higher levels of performance. Additionally, operational staff can have negative incentives, affecting their net salary, which can lead to dissatisfaction.
- Training is mainly internal, due to the lack of capable local training centers. There is not a formalized training plan based on the evaluations.

Overall, there is a good work atmosphere, as shown by little staff turnover. Salary levels are considered within the market range for cooperatives, although lower than for banks. The 13% staff turnover of 2005 is related to three departures due to personal reasons. The General Manager has established a very personal relationship with personnel, leading to work relationships based on trust.

### Information

Information and equipment is rated “b”

### MIS and equipment

Software and hardware are up-to-date, licensed and complete. All staff have access to the necessary software and hardware at branch and headquarters level. The Management Information System (MIS) caters for adequate security measures, such as frequent backups, personalized passwords with assigned user rights, audit tracking and updated antivirus. There is an in-house IT maintenance officer who provides permanent assistance to users.

1-C Accounting is a user-friendly MIS, very well known by all users. It is one of the most popular accounting and management information systems in Russia. It has various modules, including a specific loan tracking system developed by FFECCC and integrated to the original software. All the modules are integrated, which guarantees information consistency and ease of use. Although Khabarovsk and Komsomolsk are not yet interconnected, the monthly consolidation is sufficient for follow up. In case of need, Khabarovsk can send at any time updated information to headquarters. Also, it is expected that all branches will be fully interconnected before the end of 2006.

FFECCC benefits from the presence of an internal developer who is very knowledgeable of 1-C Accounting. The licensed software allows for changes that can be performed by any skilled programmer. Thus, the software has been improved to include features such as new products or embedded internal controls.

### Information on activities

The MIS provides all the basic information about credit and savings activities. Information is well-presented through synthetic, relevant, complete and available reports, despite the non-integration of the Khabarovsk branch. The detail of reports varies according to the user, from LO level to management level.

The loan tracking module is solely based on the management of existing loans. Therefore, it does not provide typical banking loan tracking features such as loan evaluation or scoring. The module collects basic information about sector and activities financed by the loans, but it is not detailed enough for planning purposes or the implementation of a scoring system.

### Financial and accounting information

Financial and accounting information is reliable and available monthly at consolidated level. Portfolio information is automatically integrated in the accounting information. In case of need, the institution can generate consolidated financial statements before the end of the month by asking the Khabarovsk branch to send an updated database by email.

The financial statements follow the Russian Accounting Standards and have always been approved without qualifications by the external auditors. Additionally, the cooperative discloses its financial statements and main indicators in the Mix, although it still needs to be trained on best practice disclosure guidelines.

Financial analysis is not yet very sophisticated. Some key indicators are followed yearly through the PEARLS methodology, but this analysis is not frequent enough and does not come along with an explanation of ratios and trends.

### ■ Risk Management

Risk Management is rated “b”

### Procedures and internal controls

The institution has a good understanding of internal controls best practices. Despite a management style

characterized by trust between employees, various measures are in place to minimize risk:

- The cooperative has implemented adequate policies of separation of tasks and levels of approval in the loan management process. All loan applications must be analyzed and entered in the MIS by the LOs. The loan applications must then be analyzed by an “Economic Security” officer in the branch who checks the collaterals and the credit history of the member with banks. Large loans must also be reviewed by the Deputy General Manager for legal verification of collaterals. Loans are always approved by a “Loan Commission” either at branch or headquarters according to the amount. Finally, all cash management, from the disbursement to the collection of the loan repayments, is performed by cashiers in the premises of FFECCC.
- All key procedures are formalized and well known. The headquarters frequently update procedures, especially those related to financial products, and send them to the branches through standardized memos.
- The MIS includes various embedded controls that limit the risk of manual error. All products have programmed terms and interest rates that the LO cannot modify while entering the loan in the MIS. All application forms and documents related to financial products (contract, guarantee form, repayment schedule) are generated automatically by the MIS.

The cooperative takes also the necessary measures to protect cash. Daily cash checks of all tellers are performed by the Chief Cashier at all branches. Cash is deposited during day time in safes with all the necessary security features, and excess liquidity is transferred daily to banks through protected transportation<sup>5</sup>. Each branch has guards and modern alarm systems. So far, FFECCC has never experienced any cash related problems.

### Internal audit

FFECCC has not developed yet a dedicated internal audit department but has established a good system of internal checks that are instrumental for the overseeing of operations. Given that most loans are consumer loans that do not require onsite visits, the evaluation of clients is based on desk work. All members receive and pay back their loans at the branches. Therefore, the verification of loan procedures can be performed for the largest part of portfolio without field visits.

Overall, there is a strong control environment characterized by permanent cross-checks, although the institution has not

<sup>5</sup> According to internal rules and following the insurance contract of FFECCC, branches cannot hold more than 2 M RUB (69,580 USD) overnight. The excess should always be transferred to banks.

yet formalized this into a strategy aiming to control all risks:

- The Deputy General Manager checks all loan contracts before signature. This duty is performed besides his participation to the “Loan Commissions” for large loans and his verification of guarantees.
- Per internal procedures, all departments are permanently controlling each other. For instance, the “Economic Security” officers, who are under the supervision of the Deputy General Manager, check all the loans for guarantees and credit history. Likewise, for Housing Loans, the Chief Accountant is directly involved in the evaluation of the loan and the price of the property to be bought. However, the business of the members applying for commercial loans are only visited by the LO.
- Some internal audit functions are being carried out by the Executive Director herself. She is going back and forth between Khabarovsk and Komsomolsk every week, and visits all five branches at least once a month. However, as the network of branches expands, the cooperative will need a more sophisticated and formalized audit of branches.

The auditing of headquarters could be improved. The supervision functions of the Internal Audit Committee are mainly honorary, as often happens with cooperatives. The primary control of headquarters is conducted by the external auditor, who is mainly focused on accounting statements and respect of Russian fiscal regulations.

## ▪ Activities

Activities: products and services is rated “b”

## Marketing and competition

Due to the presence of mainly small and unprofessional cooperatives in the Far East, FFECCC is an industry leader despite its relatively small size. Its key competitors are banks that take deposits and offer consumer loans. In response to aggressive marketing policies of some, primarily local, banks seeking to attract depositors, the cooperative has adjusted its deposit interest rates. In addition, the cooperative has decided to include in its interest rates the effect of the income tax on deposits (13% of the interest revenue received), which is not applicable to banks. However, a better interest rate management that would limit the expansion of cheap housing loans and the development of expensive fixed deposit accounts could reduce the pressure on interest rate spread (from 30.3% in 2003 to 18.6% in 2005) without losing a very loyal membership.

Key competitive advantages of the cooperative include:

- Client-oriented approach and prompt decision-making: in the absence of external regulators, cooperatives are free to establish their own requirements for depositors and borrowers.
- The cooperative serves certain population groups which are rarely or never targeted by banks, such as pensioners, disabled, and small indigenous communities.
- High deposit interest rate (average of 23.2% as of December 2005), which currently exceeds the market standards<sup>6</sup>.
- A sound marketing strategy, with diversified products and good media promotion (print media ads, radio ads, booklets). The cooperative is now considering advertising on the local television.

## Credit methodology

The credit methodology on consumer and housing loans is based on best practices for consumer lending, primarily based on strong collateral:

- Creditworthiness of the member is assessed by evaluating his/her salary and estimated costs.
- The cooperative verifies the member’s income evidence, such as the workbook, salary certificate or bank statement.
- The institution requires a life insurance covering work disability for members borrowing more than 120,000 RUB (4,175 USD). Large loans also require the collateral to be insured. In housing loans, the house/apartment is insured for physical (fire, flood) and legal (title, insurance) risks.
- The appraisal of the property offered as collateral involves a detailed study of its quality and market value. In some instances, notably the assessment of houses/apartments, the appraisal is outsourced to specialized agencies.
- Housing loans are highly secure. The cooperative purchases the properties in its name and lease them out to the member under a rental agreement effective until full repayment of the principal and collateral. This policy minimizes the risk of non-repayment, while avoiding the complicated procedure of debt collection against pledged property.

Loan evaluation for commercial loans could be improved. The assessment methodology includes a visit of the member’s business, but no cash flow projections or costs analysis. The client’s risk profile is mainly evaluated through its repayment capacity. So far this product has not been a source of concern given its small share of total portfolio (64 borrowers as of May 2006). However, it is not designed yet for massive disbursement or for large loans.

<sup>6</sup> The interest rate on personal deposits from 181 days to 1 year was 10.1% for the same period, according to the Central Bank of the Federation of Russia.

LOs have a very deep knowledge of their respective markets. Per internal policies, they are recruited in the cities where they are going to work. Their training guarantees a good understanding of procedures. LOs are generally well-motivated. However, a more sophisticated policy of incentives would contribute to even better performance (see “G”).

## Evolution of the portfolio

The loan portfolio increased dramatically in 2002-2004: by 124 % in 2003, and by 110% in 2004. The substantially lower growth rate in 2005 (only 6%) was due to fewer new deposits –the main source of financing– over the same period.

Consumer loans are the main credit product, with 61.6% of the loan portfolio as of May 2006. They are followed by housing loans, which show fairly positive dynamics in 2006: from 19.8% of portfolio in December 2005 to 31.2% in May 2006. This growth is explained by the launching of a new program of housing loans with maturities of up to 15 years, which is very popular with the members, and also by the growing price of housing causing an increase of the average housing loan (from 21,553 USD to 25,406 USD between December 2005 and May 2006). The proportion of commercial loans is fairly stable and always below 10% of total portfolio (7.2% in May 2006).

In 2006, FFECCC experienced a decrease in the number of borrowers for the first time (-5% between December 2005 and May 2006). Portfolio grew slightly however, thanks to the increase of the average loan size.

The quality of the loan portfolio is fairly good, with a PAR>30 of 2.3% as of end-2005, below the average of 3.1% for institutions of this peer group according to the MicroBanking Bulletin<sup>7</sup>. This is related to the adequate credit methodology for consumer and housing loans.

The increase of the write-off ratio from 0.1% in 2003 to 1.6% in 2005 is due to a conservative change in the institution’s accounting policy. Starting from end-2005 loans are written off as they become 60 or more days past-due and not 120 days as before. In any case, this indicator is identical to FFECCC’s peer group in the MBB, which reports an average write-off ratio of 1.6%, despite adopting usually much less conservative writing-off policies.

<sup>7</sup> MicroBanking Bulletin 2004 Benchmarks. FFECCC peer group is ECA Medium Broad, that includes the following MFIs: AREGAK, CAPA, CHF - ROM, Constanta, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - Samara, FFECCC, Kamurj, KLF, MDF, MIKRA, Mikro ALDI, Nachala, NOA, OMRO, OIS, Rost, Sodeystviye, USTOI.

PAR>30 for commercial and housing loans is zero, due primarily to the small number of such loans (as of May 2006, 64 borrowers for commercial loans, 71 for housing loans). Nevertheless, there is a potential for more delinquent commercial loans due to increased loan portfolio if the current assessment methodology is not improved.

## Portfolio diversification and concentration

The cooperative does not have any internal rules concerning portfolio diversification by sector. However, given that the largest part of portfolio is directed to consumer or housing loans (93%) guaranteed by salaries and/or real assets, diversification by sector is not a major concern. The loan portfolio is quite diversified by social group: 33% of borrowers are white-collar workers, 25% are blue-collar workers, 8% are individual entrepreneurs, 33% are pensioners and around 1% are undergraduate students. Most borrowers live in cities.

Portfolio concentration is low compared to total portfolio, with the 20 largest outstanding loans representing just 9.9% of the total portfolio. However, given the low capitalization of the cooperative, these 20 loans represent a high 76.1% of equity and the largest outstanding loan represents 9.8% of equity (higher than the international standard of 5%).

The risk coverage ratio grew dramatically between 2004 and 2005 due to a change in the loan loss provisioning policy, mainly the early write off of delinquent loans. This decision has not created a risky situation, since written off loans are not abandoned and the write off ratio has remained stable. Since 2005, the loan loss reserve is slightly higher than the PAR>30, enabling a good credit risk coverage.

Pledged collateral covers effectively most credit risk. The cooperative requires that the market value of property offered as collateral for commercial loans should exceed the loan amount by 2 to 3 times. Guarantors with stable incomes are required for consumer loans.

Recovery of past-due loans is effective and involves strong pressure against the delinquent borrowers, such as visiting them at home and at work, plus out-of-court debt collection procedures, before the claim is taken to court. The litigation policy is well-developed and tested, so the courts usually rule in favor of the FFECCC. The litigation usually takes a month between the filing of complaint and the execution being served to the debtor.

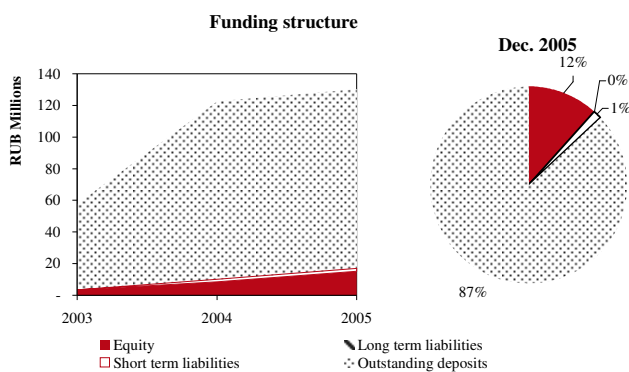
The concentration of deposits is low compared to total deposits, with the largest 20 deposit accounts representing only 7.8% of total outstanding deposits as of December 2005. However, as for portfolio, deposit concentration is strong compared to equity: the 20 largest deposits represent

58% of equity and the largest deposit represents 3.2% of equity. As of December 2005 98.7% of deposits were in short term fixed deposit accounts with interests ranging from 10% to 24%. The remaining deposits are in current accounts with a 3% interest.

Deposits grew dramatically between 2002 and 2004: by 120% between 2002 and 2003, and by 107% between 2003 and 2004. In 2005, however, the deposits dynamics came to a stall, with less than 1% increase from the previous year, due to the institution's internal policy of limiting deposits collection in favor of seeking cheaper sources of finance. This had a direct impact on portfolio growth.

## ■ Financing and Liquidity

Financing and liquidity is rated “c”



## Financing strategy

The main source of financing of FFECCC is deposits from individual members. The remaining part is equity consisting of capital and retained earnings. The cooperative is a non-profit institution, so that thus does not distribute dividends.

FFECCC is relatively undercapitalized although its equity structure has improved over the period under review. The leverage ratio has decreased from a high 15.93 to a more acceptable 7.58 between 2003 and 2005. The capital adequacy ratio was below the international standard of 10% in 2003 and 2004. In 2005 it increased to 14% thanks to some grants received over the period and the deliberate halt on savings growth decided by FFECCC. However, paid-in capital and retained earnings have been generally too low to accompany the average growth of the institution.

This weak capital structure and the high cost of savings have led the institution to attempt a shift in the financing structure. FFECCC is now actively looking for financing through debt, either commercial or concessional. So far this strategy has not been very successful as Russian banks are not very keen to lending to unregulated financial

institutions. The rating requested by FFECCC is part of its new financing strategy.

## Asset liability management procedures

Asset and liability management (ALM) risks are identified and monitored:

- **Low maturity risk:** The institution has a peculiar maturity structure for a cooperative, with long term assets representing 77% of total rate sensitive assets and long term liabilities representing 63% of total liabilities. The maturity mismatch as of December 2005 represented 91% of tier I capital, below the international maximum of 120%. However, as very long term loans develop (more than 5 year loans for housing), the institution might need to look for financing through long term debt instead of deposits.
- **No FX risk:** 100% of portfolio is in local currency, as well as 100% of deposits.
- **Low interest rate risk:** deposit interest rates are fix as are interest rates on loans (even for housing loans). Therefore there is no interest rate risk linked to variable rates. The high cost of savings (23.2% as of December 2005) is set off by an even higher portfolio yield (41.8%), although the margin between interest rates has decreased from 30.3% to 18.6% over the period under review.

## Liquidity management

Short term liquidity is adequately managed through monthly cash flow projections. Limits on lending and targets for collection of deposits are established for each branch monthly. In the event of a large loan, cash is transferred in advance to a bank located near the respective branch and then collected by the cooperative. Additionally, limits have been put in place on the amounts that can be claimed by depositors without a previous warning. Should a saver wish to claim an amount in excess of 100,000 RUB (3,479 USD), he must warn the cooperative at least seven days in advance.

However, there are no long term liquidity forecasts, necessary in an institution that collects deposits. Overall, the institution lacks a sense of conservative liquidity management for the protection of the deposits of its members, related to the absence of regulation. The liquidity to deposits ratio, at 10.3% as of December 2005, is lower than the international standards of 15%. Also, the loan to deposits ratio has evolved between 95% and 100%, and reached 103.1% in 2005. Note that regulated institutions financed by deposits usually try to limit this ratio at 80%.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “b”

### Overview of the profitability

FFECC is a profitable institution before and after adjustments. The institution has experienced a strong decrease in operational self-sufficiency in 2004 (107.8%) and 2005 (107.0%) compared to 2003 results (124.1%). The main reason of this performance has been the reduction of portfolio yield and the regular increase of the cost of savings. As such, the margin on interest rates has diminished from 30.3% in 2003 to 18.6% in 2005. However, the institution has continued generating economies of scale, which has secured self-sufficiency all over the period.

The ROE has decreased dramatically from 140.6% in 2003 to 25.2% in 2005 due to the double effect of lower leverage ratio and lower profitability.

The main drivers of present FFECCC performance are:

- Good efficiency that results in a low operating expense ratio.
- Good portfolio quality that ensures stability of portfolio yield and low loan loss provision expenses.
- Optimization of assets, which are mainly concentrated on portfolio (portfolio/assets ratio nearly 88%), although this can lead to a liquidity risk.

### Portfolio yield and effective interest rate

The portfolio yield follows a downward trend over the period 2003-2005 (from 49.2% in 2003 to 41.8% in 2005) due to an interest rate reduction and to the development of housing loans, which have a lower interest rate than consumer and commercial loans. According to Planet Rating estimates, the average APR of FFECCC as of December 2005 was 2% to 4% higher than its average interest rate of 39.8%, very similar to the reported portfolio yield, which reflects the good quality of portfolio.

### Operating expense ratio

The operating expense ratio has consistently decreased over the reviewed period, from 18.5% in December 2003 to 13.4% in December 2005. FFECCC has a much lower operating expense ratio than its peer group average according to the MBB, of 21.4%. Low operating costs related to the credit methodology are the main reason for this performance. Except for commercial loans, LOs are mainly concentrated on consumer loans that require a very quick analysis based on collateral and salaries. Therefore, they do not spend time and resources on field visits and cash flow projections. Additionally, the average outstanding portfolio has grown quite steadily, with a clear stall in 2005: 145.5% growth in 2004, 36.3% in 2005. It is

expected that in 2006 this rhythm of growth will be lower, and therefore the operating expense ratio will presumably remain stable.

Both staff and loan officer productivity have decreased over the period, although this trend has been largely compensated by an increase in the average outstanding loan per client, primarily related to the development of housing loans.

### Loan loss provision expense ratio

This ratio remains at a non significant level all over the period (below 2%), due to the good portfolio quality.

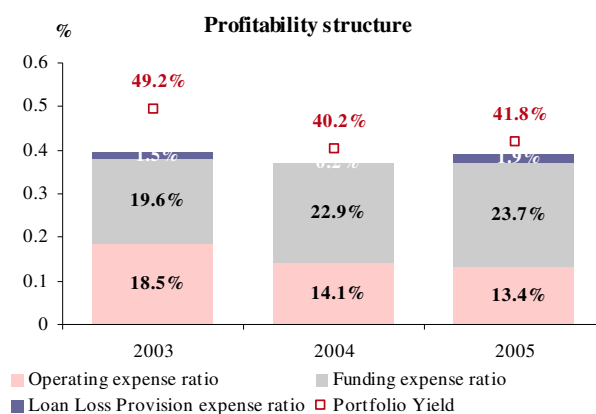
### Funding expense ratio

The funding expense ratio has grown steadily over the period (from 19.6% in 2003 to 23.7% in December 2005) due to a parallel increase of the cost of savings. This has contributed to a reduction of interest margins.

Note that FFECCC has started in 2004 capitalizing the interest rates due to depositors, which has increased substantially the amount of interest paid. This ratio could decrease in the coming years if the institution accesses commercial or concessional financing from foreign or domestic banks at lower rates. The cost of debt is null since the institution has not accessed to debt from external parties so far.

### Asset management

FFECCC has invested 88% of its assets in portfolio as of December 2005 (89% in 2003, 90% in 2004), which optimizes financial income given the current stress on financial margins. However, this is a risky structure of assets for an institution collecting deposits, with liquidity only representing 9% of total assets. Also, part of liquidity is not being directed to short term investments, which would reduce the net cost of deposits.



## Profitability outlook

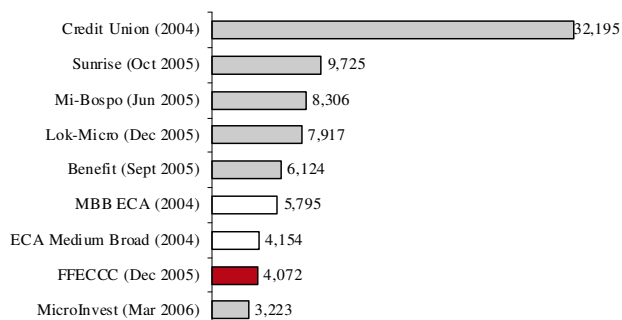
In the short and medium term, FFECCC's profitability looks strong and based on low operative costs, high efficiency and good portfolio quality. In the long run, FFECCC's profitability, as for all smaller MFIs in Russia, will depend largely on its capacity to cope with increased competition from banks while maintaining sufficient financial margins. Therefore, the good management of financing costs and portfolio yield will be key to FFECCC's profitability. Both on the financing side – reduction of certain deposit interest rates, accessing debt- and on the portfolio side –controlling the expansion of housing loans- the institution has leverage to effectively manage its financial margin.

Additionally, the institution will need to develop a more conservative management of liquidity to protect deposits and the loyalty of its members. A shortage of liquidity may generate doubts about the institution, favored by the current generalized lack of trust in the Russian financial sector, which could lead to massive outflow of deposits with very negative consequences.

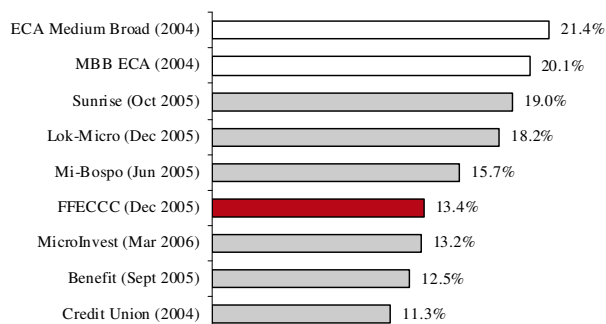
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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

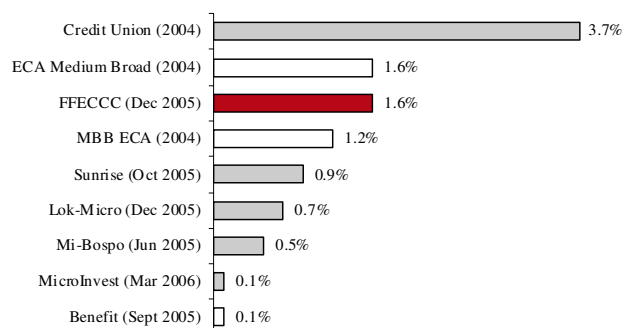
**Loan Portfolio**



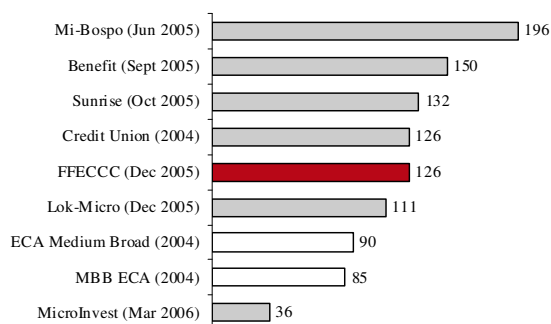
**Operating expense ratio**



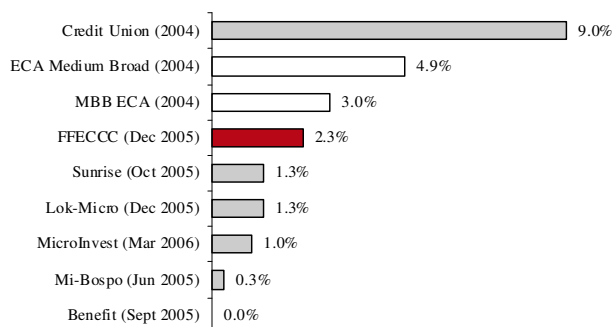
**Write-off ratio**



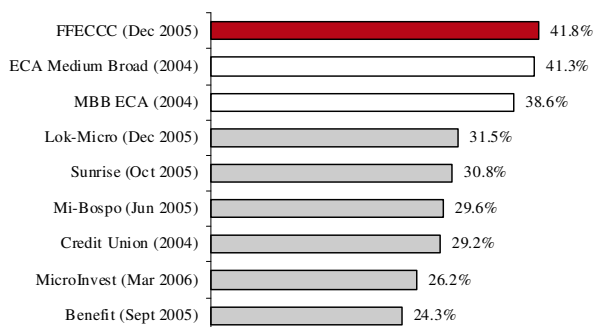
**Staff productivity**



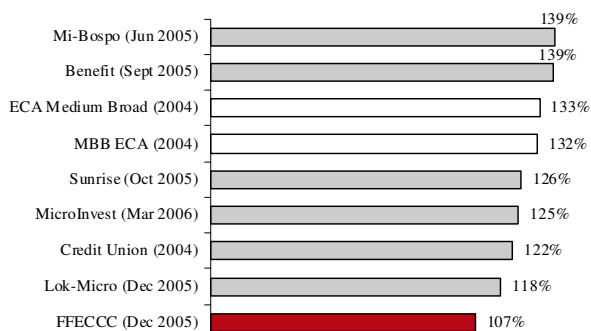
**PAR > 30**



**Portfolio Yield**



**Operational Self-Sufficiency**



Source: The Mix Market

MFIs: FFECCC, Lok-Micro, Credit Union, MicroInvest, Sunrise, Benefit, Mi-Bospo

MBB Peer groups; benchmarks 2005 (medians)

## ■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2003	Dec. 2004	Dec. 2005
<b>Loan Portfolio</b>			
<b>Loan portfolio evolution</b>			
Loan portfolio	1,783,180	3,988,604	4,072,061
Loan portfolio (RUB)	52,175,833	110,763,536	117,047,491
Evolution	107.6%	112.3%	5.7%
Average outstanding loan	1,134,137	2,934,140	3,862,844
Number of active borrowers	1,951	2,998	3,288
Evolution	16.2%	53.7%	9.7%
Average outstanding loan per client	914	1,330	1,238
% of GDP per capita	28.9%	31.8%	26.3%
Average amount disbursed	1,105	1,456	1,484
% of GDP per capita	34.9%	34.8%	31.5%
<b>Portfolio quality</b>			
PAR 31-365	3.2%	1.8%	2.3%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.2%	1.6%
<b>Credit risk coverage</b>			
Risk coverage ratio	30.3%	35.9%	102.3%
PAR 31 net of loan loss provision / Equity	34.5%	14.6%	(0.4%)
<b>Savings</b>			
Outstanding deposits	1,864,392	4,058,129	3,949,276
Outstanding deposits (RUB)	54,552,113	112,694,255	113,518,152
Evolution	119.4%	106.6%	0.7%
Mandatory savings (%)	0.0%	0.0%	0.0%
Voluntary savings (%)	100.0%	100.0%	100.0%
Active savers	921	1,614	1,678
Evolution	59.1%	75.2%	4.0%
Average outstanding deposit per saver	2,024	2,514	2,354
Mandatory	-	-	-
Voluntary	2,024	2,514	2,354
<b>Staff</b>			
Total number of staff	11	22	26
% Credit officers	72.7%	68.2%	57.7%
Turnover	0.0%	6.1%	12.5%
<b>Profitability analysis</b>			
ROE	140.6%	39.7%	25.2%
Liabilities / Equity	15.93x	13.5x	7.6x
ROA	7.3%	2.6%	2.4%
<b>Profitability structure</b>			
Portfolio Yield	49.2%	40.2%	41.8%
Operating expense ratio	18.5%	14.1%	13.4%
Cost per borrower	108	131	155
Staff productivity	177	136	126
Loan officer productivity	244	200	219
Average outstanding loan per client (USD)	914	1,330	1,238
Funding expense ratio	19.6%	22.9%	23.7%
Cost of savings	18.9%	22.0%	23.2%
Cost of liabilities	0.0%	0.0%	0.0%
Loan Loss Provision expense ratio	1.5%	0.2%	1.9%
PAR 31-365	3.2%	1.8%	2.3%
Write-off ratio	0.1%	0.2%	1.6%
<b>Resource optimization</b>			
Outstanding Loan Portfolio / Assets	89.1%	89.6%	87.5%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%
<b>Liquidity</b>			
Loans to deposits	95.6%	98.3%	103.1%
Liquidity / Total assets (LAR)	7.0%	6.2%	8.9%
<b>Adjusted ratios</b>			
Adjustment expense ratio	0.6%	0.5%	0.8%
AROE	132.1%	33.5%	17.7%
AROA	6.8%	2.2%	1.7%
Financial self-sufficiency	122.3%	106.5%	104.9%
Adjusted operating expense ratio	18.5%	14.1%	13.4%
Adjusted funding expense ratio	20.1%	23.4%	24.5%
Adjusted loan loss provision expense ratio	1.5%	0.2%	1.9%
Exchange rate 1 USD= xx RUB	29.3	27.8	28.7

FFECCC Balance sheet	Notes	RUB			USD			Evolution	
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2003	Dec. 2004	Dec. 2005	2004/2003	2005/2004
<b>ASSETS</b>		<b>58,007,135</b>	<b>122,809,242</b>	<b>130,588,031</b>	<b>1,982,472</b>	<b>4,422,371</b>	<b>4,543,134</b>	<b>111.7%</b>	<b>6.3%</b>
<b>Short Term Assets</b>		<b>56,316,870</b>	<b>119,798,243</b>	<b>26,269,680</b>	<b>1,924,705</b>	<b>4,313,945</b>	<b>913,917</b>	<b>112.7%</b>	<b>(78.1%)</b>
Cash and Due from Banks		4,063,294	7,585,974	11,649,896	138,869	273,172	405,298	86.7%	53.6%
Short Term Investments		-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		51,661,880	110,067,338	11,289,240	1,765,614	3,963,534	392,751	113.1%	(89.7%)
Short Term Gross Loan Portfolio		52,175,833	110,763,536	14,096,373	1,783,180	3,988,604	490,410	112.3%	(87.3%)
(Loan Loss Reserve)		513,953	696,198	2,807,133	17,565	25,070	97,660	35.5%	303.2%
Interest Receivable		493,849	1,231,478	1,602,448	16,878	44,346	55,749	149.4%	30.1%
On loan portfolio		493,849	1,231,478	1,602,448	16,878	44,346	55,749	149.4%	30.1%
On investments		-	-	-	-	-	-	-	-
Accounts receivable and other assets		97,847	913,453	1,728,096	3,344	32,894	60,120	833.6%	89.2%
<b>Long term assets</b>		<b>1,690,265</b>	<b>3,010,999</b>	<b>104,318,351</b>	<b>57,767</b>	<b>108,426</b>	<b>3,629,217</b>	<b>78.1%</b>	<b>3,364.6%</b>
Long Term Net Investments		-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio	1	-	-	102,951,118	-	-	3,581,651	-	-
Net Fixed Assets		1,690,265	3,010,999	1,367,233	57,767	108,426	47,566	78.1%	(54.6%)
Other Long Term Assets		-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>58,007,135</b>	<b>122,809,242</b>	<b>130,588,031</b>	<b>1,982,472</b>	<b>4,422,371</b>	<b>4,543,134</b>	<b>111.7%</b>	<b>6.3%</b>
<b>Liabilities</b>		<b>54,581,810</b>	<b>114,314,859</b>	<b>115,359,220</b>	<b>1,865,407</b>	<b>4,116,488</b>	<b>4,013,327</b>	<b>109.4%</b>	<b>0.9%</b>
Short term liabilities		54,581,810	114,314,859	42,652,859	1,865,407	4,116,488	1,483,885	109.4%	(62.7%)
Demand Deposits		445,983	3,264,915	1,492,380	15,242	117,570	51,920	632.1%	(54.3%)
Compulsory Deposits		-	-	-	-	-	-	-	-
Short Term Time Deposits		54,106,130	109,429,340	39,319,411	1,849,150	3,940,560	1,367,915	102.2%	(64.1%)
Short Term Borrowings		-	-	-	-	-	-	-	-
Interest payable		1,237	1,160	4,864	42	42	169	(6.2%)	319.3%
Accounts Payable and Other Short Term Liabilities		28,460	1,619,444	1,836,204	973	58,316	63,881	5,590.2%	13.4%
<b>Long term liabilities</b>		<b>-</b>	<b>-</b>	<b>72,706,361</b>	<b>-</b>	<b>-</b>	<b>2,529,441</b>	<b>-</b>	<b>-</b>
Long Term Time Deposits	2	-	-	72,706,361	-	-	2,529,441	-	-
Long Term Borrowings		-	-	-	-	-	-	-	-
Other Long Term Liabilities		-	-	-	-	-	-	-	-
<b>Equity</b>		<b>3,425,325</b>	<b>8,494,383</b>	<b>15,228,811</b>	<b>117,065</b>	<b>305,883</b>	<b>529,808</b>	<b>148.0%</b>	<b>79.3%</b>
Paid-In Capital	3	529,825	869,347	919,347	18,107	31,305	31,984	64.1%	5.8%
Donated equity		242,299	3,981,043	5,801,743	8,281	143,358	201,842	1,543.0%	45.7%
Retained earnings without donations and reserves		2,653,201	3,643,993	8,507,721	90,677	131,220	295,982	37.3%	133.5%
Current year		3,171,311	2,379,698	3,124,927	108,384	85,693	108,716	(25.0%)	31.3%
Other equity accounts		-	-	-	-	-	-	-	-

Notes: 1) Information on maturity of loans only available for 2005; 2) Information on maturity of deposits only available for 2005; 3) Social capital of members. 50 RUB each

FFECCC Income Statement	Notes	RUB			USD			Evolution	
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2003	Dec. 2004	Dec. 2005	2004/2003	2005/2004
<b>Financial Revenue (a)</b>		<b>16,313,530</b>	<b>32,739,059</b>	<b>46,399,642</b>	<b>557,537</b>	<b>1,178,936</b>	<b>1,614,235</b>	<b>100.7%</b>	<b>41.7%</b>
Financial Revenue from Loan Portfolio		16,313,530	32,739,059	46,399,642	557,537	1,178,936	1,614,235	100.7%	41.7%
Interest on Loan Portfolio		14,599,215	27,974,344	40,004,062	498,948	1,007,358	1,391,734	91.6%	43.0%
Fees and Commissions on Loan Portfolio		1,714,315	4,764,715	6,395,580	58,589	171,578	222,501	177.9%	34.2%
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-
Financial Revenue from Investments		-	-	-	-	-	-	-	-
Other Operating Revenue		-	-	-	-	-	-	-	-
<b>Financial Expense (b)</b>		<b>6,488,510</b>	<b>18,663,863</b>	<b>26,350,774</b>	<b>221,754</b>	<b>672,087</b>	<b>916,739</b>	<b>187.6%</b>	<b>41.2%</b>
Interest paid on borrowings		-	-	-	-	-	-	-	-
Interest paid on deposits		6,488,510	18,663,863	26,350,774	221,754	672,087	916,739	187.6%	41.2%
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-
<b>Financial income [c=a-b]</b>		<b>9,825,020</b>	<b>14,075,196</b>	<b>20,048,868</b>	<b>335,783</b>	<b>506,849</b>	<b>697,497</b>	<b>43.3%</b>	<b>42.4%</b>
<b>Net Loan Loss provision expense (d)</b>		<b>513,953</b>	<b>182,245</b>	<b>2,110,935</b>	<b>17,565</b>	<b>6,563</b>	<b>73,439</b>	<b>(64.5%)</b>	<b>1,058.3%</b>
Loan loss provision expense and write-off		539,334	315,704	3,906,161	18,432	11,369	135,895	(41.5%)	1,137.3%
Recovery from Loans written off		25,381	133,459	1,795,226	867	4,806	62,456	425.8%	1,245.2%
<b>Operating expense (e)</b>		<b>6,139,756</b>	<b>11,527,109</b>	<b>14,911,969</b>	<b>209,834</b>	<b>415,092</b>	<b>518,785</b>	<b>87.7%</b>	<b>29.4%</b>
Personnel Expense (includes fringe)		4,035,024	4,819,528	3,893,179	137,902	173,552	135,443	19.4%	(19.2%)
Administrative Expense (non-staff operating expenses)		2,104,732	6,707,581	11,018,790	71,932	241,541	383,342	218.7%	64.3%
Depreciation and amortization	4	45,388	787,612	-	1,551	28,362	-	1,635.3%	(100.0%)
Consulting fees		-	-	-	-	-	-	-	-
Rent and Utilities		289,100	3,234,672	3,469,957	9,880	116,481	120,719	1,018.9%	7.3%
Transportation		172,172	299,010	240,003	5,884	10,767	8,350	73.7%	(19.7%)
Office Supplies		1,001,780	2,326,128	3,339,371	34,237	83,764	116,176	132.2%	43.6%
Others		596,292	60,159	3,969,459	20,379	2,166	138,097	(89.9%)	6,498.3%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>3,171,311</b>	<b>2,365,842</b>	<b>3,025,964</b>	<b>108,384</b>	<b>85,194</b>	<b>105,273</b>	<b>(25.4%)</b>	<b>27.9%</b>
Income Taxes (g)	5	-	-	31,253	-	-	1,087	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>3,171,311</b>	<b>2,365,842</b>	<b>2,994,711</b>	<b>108,384</b>	<b>85,194</b>	<b>104,185</b>	<b>(25.4%)</b>	<b>26.6%</b>
Non Operating Revenue (i)	6	-	2,339,127	5,423,989	-	84,232	188,700	-	131.9%
Non Operating Expense (including related taxes) (j)		-	2,325,271	5,293,773	-	83,733	184,169	-	127.7%
<b>Net Income Before Donations [k=h+i-j]</b>		<b>3,171,311</b>	<b>2,379,698</b>	<b>3,124,927</b>	<b>108,384</b>	<b>85,693</b>	<b>108,716</b>	<b>(25.0%)</b>	<b>31.3%</b>
Donations (l)		242,299	3,738,744	1,820,700	8,281	134,632	63,342	1,443.0%	(51.3%)
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>3,413,610</b>	<b>6,118,442</b>	<b>4,945,627</b>	<b>116,665</b>	<b>220,326</b>	<b>172,057</b>	<b>79.2%</b>	<b>(19.2%)</b>

Notes: 4) In 2005 change in tax code, by which non profit organizations can not do amortizations  
5) Tax on selling properties to borrowers of housing loans with a small margin needed for local regulations  
6) Buying and selling costs of properties for housing loans

## ■ Formulas

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