

Bank Eshkata, Tajikistan

Bank Eshkata was created in 1994 and incorporated in 2002 as an Open Joint Stock Company (OJSC) based in Khujand, in the northern part of Tajikistan. It offers the traditional banking services ranging from loans and savings to money transfers and currency exchange. Loan products include both productive and consumption loans, as well as letters of credit. As of February 2008, Bank Eshkata had an outstanding portfolio of 90 M TJS (26 M USD) for 6,570 active borrowers, and outstanding deposits of 46.7 M TJS (13.5 M USD) for 7,238 active savers.

GIRAFE Rating

Rating

A-

Outlook

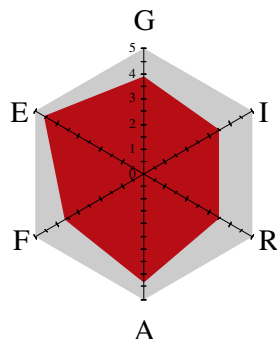
Positive

Date of the rating

March 2008

Valid until February 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

The GIRAFE methodology was modernized. Changes have no impact on the meaning of the rating. More information on www.planetrating.com

Planet Rating Contact

Nadine Chehade
nchehade@planetrating.com
+ 33 1 49 21 26 30

MFI Contact

Mr. Khurshed Nasirov
credreport@eshkata.sugdien.com
+ 992 3422 4 39 45

REF: NC/100608

Rating highlights

- Bank Eshkata is a highly profitable institution with 3-year average ROA and ROE respectively at 8.9% and 29.9%.
- This profitability is underpinned by high yields historically deriving from remittances and foreign exchange transactions, which are on a declining trend but still contributed to half of the financial revenues as of December 2007.
- The bank is relatively small, but enjoys solid competitive advantages on its traditional financial service.
- As a result of shifting activities towards loans, portfolio has been doubling over the past years. Thanks to skilled staff and excellent credit methodology, fast growth has not harmed portfolio quality (3-year PAR 30 at 0.8%, write-off at 0.01%).
- Strong management and committed and knowledgeable BOD have properly guided the bank so far, counter balancing a high turnover.
- Upcoming challenges include reinforcing both planning and liquidity management, growing Internal Audit and Human Resources to their strategic dimension, migrating to a new IT system, and completing the deployment of the new organizational structure with front and back offices.

Outlook

The grade is assigned with a “Positive” trend based on the expectation that Bank Eshkata will sustain its excellent profitability levels and successfully carry out its IT and organizational migrations, which should lead to significant productivity gains.

Performance indicators

USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Assets	5,138,780	8,550,773	13,401,054	27,097,753	43,094,173
Growth	102.3%	70.9%	65.1%	97.5%	76.4%
Loan portfolio	1,636,786	3,767,148	4,949,916	12,039,558	22,854,628
Growth	313.0%	136.4%	38.4%	137.5%	110.5%
Outstanding deposits	2,573,313	3,739,988	4,924,820	7,396,481	11,540,423
Growth	231.9%	49.3%	38.7%	46.7%	73.1%
Active borrowers	212	746	1,215	2,080	5,174
Active savers	2,432	3,163	3,721	4,655	5,291
Staff	180	240	324	446	677
ROE	11.3%	25.4%	32.8%	31.6%	25.3%
ROA	4.7%	7.7%	10.7%	9.0%	6.8%
Liabilities / Equity	1.80x	2.71x	1.75x	3.06x	2.55x
Portfolio Yield	24.1%	29.2%	30.0%	28.8%	29.4%
Cost to income ratio	43.3%	44.8%	35.7%	40.7%	38%
PAR 31-365	4.4%	1.3%	0.5%	1.8%	0.9%
PAR > 365	0.0%	0.1%	1.1%	0.3%	0.4%
Write-off ratio	0.00%	0.00%	0.00%	0.00%	0.04%

Microfinance sector

The banking industry in Tajikistan is led by six main actors (Amonatbank, Orienbank, Tojiksodorot, Tajprombank, Bank Eshkhat, and AgroInvest) accounting for 85% of total deposits and 74% of the outstanding loans. This is the result of the development of unsustainable banking institutions in the early 1990's, in an economic environment impacted by the crisis faced by the Newly Independent States (NIS) countries. Five years of civil war ended the collapse of the banking industry, and led to a wave of privatizations and bankruptcies that left only one major state bank (Amonatbank, still one of the largest banks in terms of assets though small in terms of business volume). Due to their predominance in the economy, agriculture and cotton culture represent a significant portion of the country's outstanding loans, but are often coupled with poor loan performance¹. If financial services offering remains limited, confidence in the banking system has increased over the past two years as evidenced by a higher volume of savings.

Microfinance started in late 1990's to early 2000's, with the support of international donors such as Mercy Corps, ACIDI/VOCA and Aga Khan Foundation. In addition, and similarly to other NIS countries², EBRD started its TMSEF³ project in 2003, providing assistance to banks downscaling into microfinance and delivering financial services to SMEs. The Sugd region in the north concentrates the most important amount of disbursed loans with close to 50% of the total micro lending distribution, whereas Dushanbe has a proportion of 26%⁴.

Fin. Institutions As of Dec. 2007	Portfolio in USD	%	Active clients	%
AgroInvest	117,570,802	48.1%	18,000	62.3%
Tojsodirot	75,000,000	30.7%	5,700	19.7%
Tajprom	29,000,000	11.9%	n.a.	0.0%
Bank Eshkhat	22,854,628	9.4%	5,174	17.9%
Sub-Total	244,425,430	100%	28,874	100%
FMFB	20,036,344	36.4%	17,778	23.5%
IMON	15,226,818	27.7%	19,696	26.0%
MicroInvest	5,266,826	9.6%	10,435	13.8%
FINCA	4,695,298	8.5%	11,096	14.6%
OXUS	3,945,931	7.2%	6,805	9.0%
HUMO	2,484,938	4.5%	4,302	5.7%
Other	3,393,016	6.2%	5,672	7.5%
Sub-Total	55,049,171	100%	75,784	100%

Source: MiX, Planet Rating, EBRD. Note: Bank Eshkhat is the only banking institution with over 50% of its portfolio in SME lending.

The National Bank of Tajikistan (NBT) regulates the entire financial system, including banks, credit societies, non-

banking and microfinance institutions. Microfinance activities fall under two laws distinct laws:

- The 1998 law "On banks and banking activities", applicable to all banks, including those involved in microfinance;
- The 2004 law "On microfinance organization", applicable to microfinance institutions (MFIs), which are allowed to collect deposits as well as to deal with foreign exchange transactions and remittances.

There are 3 different legal forms of MFIs: 1) Microcredit and deposit organizations (MDO); 2) Microlending organizations (MLO); 3) Microlending foundations (MLF). The first two need a licence delivered by the NBT, the last one is non-commercial and only needs a certificate. There is no cap on interest rates, but by law micro-loans cannot exceed 50,000 USD. MFIs are required to have a General Assembly, a Board of Directors, and an audit commission. The law also sets prudential norms, such as the requirement that the non-monetary portion of the initial capital do not exceed 20%, or compliance to rules regarding provisioning, liquidity level, deposit to capital ratio, capital adequacy, and exposure to market risks. For banking and deposit-taking institutions such as Bank Eshkhat, 9% of deposits in TJS and 11% of those in USD are to be kept as a reserve within NBT⁵, in addition to a 2% reserve on the healthy portfolio⁶. Minimal capital requirements for new banks have been raised to 10 M USD, whereas existing banks only require 5 M USD⁷. Up to 1% of capital can be held in USD by non-resident shareholders.

A credit bureau has been created in 2007 for the Sugd region but the information it provides is not yet fully reliable. EBRD and IFC are supporting the establishment of a formal credit bureau, and a feasibility study has already been undertaken in that regard. In the meantime, EBRD has set an information sharing platform between banks and MFIs offering TMSEF products, which is presently used as a non-official credit bureau. 46 out of 74 financial institutions are members of the Association of Microfinance Organizations of Tajikistan (AMFOT), established in 2001 to provide training and legal support.

Over the years, the commercial financial sector has been supplemented by the microfinance sector, and is now booming due to: 1) the success of TMSEF; 2) the new regulatory framework established in 2004 with the support of donors such as USAID or IFC; 3) a relative political stability; 4) and the end of the hyper-inflationist cycle. Nevertheless, demand for financial services is still not satisfied and even if competition starts heating up the low

¹ Source: "The financial sector in Tajikistan", LFS Financial Systems, 2006.

² Kazakhstan, Kyrgyzstan and Uzbekistan.

³ Tajikistan Micro and Small Enterprises Finance Facility.

⁴ Source: National Bank of Tajikistan.

⁵ Policy 127, "Minimum Reserve Requirements", Dec. 2002.

⁶ Held as non-distributable reserves in capital.

⁷ Including subordinated debts.

level of supply results in high interest rates. Microcredit offer is estimated to 10% to 25% of the potential market, whereas banks hardly cover 15% of the SME needs. It is estimated that 50% to 70% of micro-entrepreneurs actually rely on so-called “partners” for their financing needs⁸, giving a huge space for banking services improvement.

Political & economic environment

After a long decline due in part to the civil war that lasted from 1992 to 1997, the economy has been growing strongly, up to 9% a year on average from 2000 to 2006. But only in 2008 will GDP returns to its level of 1992 with Tajikistan remaining the poorest country in the NIS, where the majority of population lives below the poverty line. Tajikistan is classified as a middle-income developing country with a per capita income of 522 USD⁹, and ranks 122 over 177 countries in terms of Human Development Index (HDI)¹⁰.

Growth exceeded 7% in 2007. Transfers from expatriate workers, the country’s main source of foreign exchange representing 20% of GDP, has underpinned consumption and investment. The country has moreover benefited from the demand for aluminum, its main export. Cotton production has been flat, however, hovering around 900,000 metric tons a year, only two-thirds as large as the pre-independence harvest due to both a lack of investment in irrigation and severe droughts in recent years. Growth should remain high in 2008 but remain dependent on sales of aluminum, cotton, and electricity.

In office since 1992, President Emomalii Rahmon (formerly Rahmonov), re-elected for seven years in November 2006, has tightened his grip on power with the opposition weak and divided.

COFACE Country Rating: D - A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behavior. Corporate default probability is very high.

USD millions	2005	2006	2007(e)	2008(f)
Economic growth (%)	7.5	7	7.2	7.4
Inflation (%)	7.1	12.7	9.8	8.5
Public sector balance (%GDP)	0.5	0.8	0.4	0.4
Exports	1,108	1,512	1,736	1,783
Imports	1,431	1,955	2,357	2,491
Trade balance	-323	-443	-621	-708

⁸ Small short term amounts borrowed from an entrepreneur to another.

⁹ Source: International Monetary Fund, 2007.

¹⁰ Source: Human Development Report, United Nations, 2007/2008.

Current account balance (%GDP)	-0.8	-0.8	-3	-3.5
Foreign debt (%GDP)	38.4	30.6	40.3	50.5
Debt service (%G&S exports)	17.4	13.1	16.2	16.4
Foreign currency reserves (in months of imports)	2.1	2	2.1	2.3

Source: COFACE’s Country Risk Rating Guidebook. (e) estimates (f) forecasts. Note: COFACE is a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

Bank Eshkata operates as an Open Joint Stock Company (OJSC), the regular institutional set up of banks in Tajikistan. It is regulated by the NBT under the law “On banks and banking activities”. Bank Eshkata obtained its license from the NBT in 1994, and was reorganized as Joint-Stock Commercial Bank in May 1999. In September 2002, the bank was re-registered as an OJSC. It has been supported on the early stage of its lending activities by the EBRD.

Bank Eshkata has been audited by Deloitte & Touche for the past 5 years. Financial Statements were issued without qualification. Nevertheless, and in accordance with IAS 29 on “Financial Reporting in hyperinflationary Economies”, emphasis is made on the hyperinflation prevailing in the country until 2003¹¹, which future effects cannot be determined.

Ownership

Since 2005, two international investors, EBRD and ShoreCap, each hold 21% of capital. 29% of capital belongs to members of the Nasirov family who are the historical owners of the bank. The remainder is held by individuals and by Javoni (3%), a local company.

Shareholder	Dec. 05	Dec. 06	Dec. 07
Nasirov Family	29%	29%	29%
EBRD	21%	21%	21%
ShoreCap International	21%	21%	21%
Z. Nabijonova	-	4%	4%
F. Shukurova	4%	-	-
Joint-Stock Company “Javoni”	3%	3%	3%
I. Hakimova	3%	3%	3%
Others (less than 3% each)	19%	19%	19%
Total	100%	100%	100%

Bank Eshkata is governed by a Board of Directors (BOD) whose 5 members represent the different shareholders and are elected for 5 years. BOD comprises a dedicated audit sub-committee. Current BOD is chaired by Mr. Ruslan Karimov, manager of Diloar, a local company. Other members have solid management, banking, and

¹¹ Cumulated inflation rate for 3 consecutive years above 100%.

microfinance experiences. International members have an excellent knowledge of the region.

Donations

Bank Eshkata never received any grants, apart from computer equipments donated by EBRD in 2005, which net book value was of 64,000 TJS (18,471 USD) as of December 2007.

Funding composition

As of December 2007, Bank Eshkata was funded by equity (28%), savings (32%) and both short and long term liabilities (40%, including subordinated debt). The latter mainly consists of borrowings from international investors such as EBRD, ShoreCap, IFC, Impulse Microfinance Investment fund, ASN Novib, Dexia (through Blue Orchard), and the Global Commercial Microfinance consortium. Short term funding includes a 3.5 M USD loan from Spaarbank. In addition, since July 2007, Bank Eshkata has a 7-year subordinated debt of 4.1 M USD from Deutsche Bank.

Management team

The management team comprises the CEO of the bank, the Head of Front Office (HFO) and Deputy Chairman, the Head of Finance & Support, the Head of Back Office, the Head of Risk, and the Head of Human Resources (HR). Internal Audit's Head reports straight to the audit committee, which in turn reports to BOD.

Mr. Khurshed Nosirov has been the CEO of the bank since it was set up in 1994. He graduated in Economics from the Tajik State University, and has attended several international trainings in banking and finance.

Organization

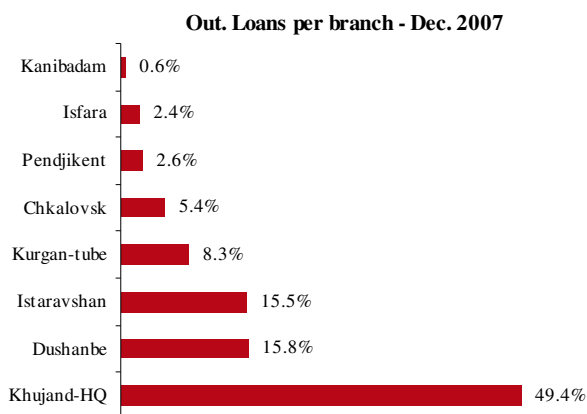
Bank Eshkata headquarters (HQ) in Khujand centralizes all top managers. The bank was reorganized starting mid-2007 to adopt a classical banking structure dividing the operations between a front and a back office. The new organization is already in place at HQ and at the Dushanbe branch, and is expected to be fully implemented in the other branches by year-end. Loan approvals are made by the Credit Committee (CC) after the Loan Officer (LO) has received the client and filled in the application form (front office). The file is checked by lawyers before being submitted to the CC, and sent to the back office for double-checking, data entry and archiving. Depending on the loan amount, the LO in charge attends or not the CC, which is composed of the Chairman, the HFO, the HR, and 3 to 4 LOs on a rotating basis. Branches are run by Branch Directors, and hold their own CCs for loans up to 20,000 USD (100,000 USD for the Dushanbe branch).

Cash handling is typical of banking institutions, with clients dealing straight with the cashiers for any operation, from cash withdrawal, money transfer, and savings deposit, to collection or repayment of loans. LOs never handle any cash. Cash transportation between branches is ensured by specialized armed staff with dedicated cars.

Bank Eshkata presently uses a FoxPro-based software developed in-house, with 3 separate modules for accounting, loan and savings tracking. Branches are not connected to HQ, and consolidation is done manually. The bank is migrating to a new banking software developed by the Center of Financial Technologies (CFT) and commonly used in Russian banks.

Market penetration

Bank Eshkata operates through a network of 9 branches, mostly located in the Sugd region (North). Atop of the HQ, Khujand counts a separate branch since January 2008. The bank is planning to further expand in the South, where the capital Dushanbe is located. Bank Eshkata also holds 6 satellites and 91 cash offices across the country.



Products and services

On top of money transfers, currency exchange, and loans to local MFIs, Bank Eshkata presently offers 7 loan and 3 savings products. Loans to micro, small and medium businesses were designed with EBRD's assistance under the TMSEF program. Loans are mostly disbursed in US dollars. Interest rate is charged on a declining basis, except for some consumer loans. For all loans, maximum exposure to a single borrower is set at 15% of the bank's capital.

Loan products developed under TMSEF are listed below:

- Micro loans range from 100 to 10,000 USD, with terms from 1 to 24 months and a potential grace period of 3 months. Average disbursed loan is of 3,000 USD for 8 months. Two guarantors are required for loans up to 1,000 USD, and liquid collaterals (jewelleries, household equipment, etc.) equivalent to 100% of the loan for all

amounts above. Annual interest rate varies between 26% for repeated clients and 30% for new ones.

- SME loans range from 10,001 to 100,000 USD, with terms from 1 to 36 months and a potential grace period of up to 6 months. Average disbursed loan is of 20,205 USD for 18 months. 100% collateral is required, preferably in real estate. Annual interest rate is of 30% for loans in USD and 36% for loans in TJS.
- Agriculture loans range from 100 to 20,000 USD with terms from 1 to 24 months and a potential grace period of 9 months. Average disbursed loan size is of 3,000 USD for 9.5 months. Two guarantors are required for loans up to 1,000 USD, and hard or liquid collaterals equivalent to 100% of the loan for all amounts above. Crops may also serve as collateral. Interests are reimbursed on a monthly basis, but capital repayment may consist of only two installments. Annual interest rate is of 30% in USD and 36% in TJS.

Loan products developed internally include the following:

- Consumer loans range from 100 to 3,000 USD with terms varying from 1 day to 24 months. Average loan disbursed is of 1,460 USD for 11 months. Two guarantors are required for loans up to 1,000 USD, and hard or liquid collaterals equivalent to 100% of the loan for all amounts above. Annual interest rate is of 26% for loans in TJS and 25% for loans in USD, sometimes charged on a flat rate basis.
- Consumer multipurpose loans start at 100 USD and are capped by internal policy. Terms vary between 1 day and 60 months. Average loan disbursed is of 1,182 USD for 13 months. One guarantor is required for loans up to 500 USD, two guarantors and 30% of the loan amount in liquid collaterals for loans up to 1,000 USD, and 150% of collateral for loans above 1,001 USD. Annual interest rate is of 30% in USD and 36% in TJS, sometimes charged on a flat rate basis.
- Commercial, credit, and investment loans also start at 100 USD and are capped by the internal policy. Terms vary from 1 month to 5 years, with a potential grace period of 1 to 12 months. Average disbursed loan is of 72,000 USD for 15 months. For loans above 1,000 USD, 150% collateral is required, out of which 100% should be liquid. Reimbursement is done on a monthly or quarterly basis. Annual interest rates vary from 22% to 30% in USD, and from 28 to 36% in TJS.
- Trade finance loans range from 100,000 to 500,000 USD with terms from 6 to 12 months. 100% of the loan has to be covered by hard collaterals. Repayment schedule is flexible, but usually consists of 3 repayments at the end of the financing period with 3 to 10 days between the payments. Annual interest rate is of 18% to 22%.

Bank Eshkata also offers savings products:

- “Demand” and “savings” deposits bear no interest rate and are respectively available on demand and 3 times a month.
- Term deposits are available every 1 to 36 months and bear an interest rate of 19% in TJS.

Networks

Eshkata is a member of AMFOT, the Association of Microfinance Institutions in Tajikistan, and of the Warsaw-based Microfinance Center (MFC) for Central and Eastern Europe and NIS.

Governance

Governance and Decision making is rated “b”

Decision making

The decision-making process within Bank Eshkata is clear and efficient thanks to committed and professional BOD members with strong technical skills and diversified experiences, especially since ShoreCap and EBRD joined in. There is a clear exercise of ownership by all shareholders with the aim of rendering the bank one of the dominant players in Tajikistan, though some minor discrepancies remain regarding the way to translate that objective into the bank’s operations and strategy. Quarterly BOD meetings are well prepared and allow for quality decisions: agenda is sent in advance, along with minutes of the last meeting, forms following up on previous decisions, and relevant monitoring information. Although it can still be improved, quality of BOD information has evolved over the past two years to become exhaustive enough: it now includes quarterly financial statements, detailed reports on the loan portfolio and asset and liabilities, as well as audit findings. It still holds some weaknesses since 1) audit reports have been too detailed and operations-focused so far, though they were recently improved, and 2) standard financial indicators could still be gathered into a more at-a-glance scorecard to ease the evolution monitoring. For the latter, a format was suggested at the latest BOD meeting.

Planning

Established for the first time for 2007-2009, the overall planning of Bank Eshkata requires some strengthening. Although strategy and medium term goals are based on a fair understanding of the market, with targets detailed by branch and LO, they do not derive from a thorough analysis and rely on uneven assumptions (e.g. competitors identified for each product but SWOT analysis only performed for some, growth targets set for three global types of loans, etc.). Present analysis has been enough so far due to little competition coupled with high demand, but it needs to become much more precise at a time when EBRD’s

technical assistance to Tajik banks is about to phase out, thus leaving much more room for competing institutions to maneuver. Planning process follows a top-down approach (BOD, Management, departments' heads): participation down to the LO / Specialist level and good communication would ensure a stronger buy-in of strategic goals.

In the business plan, growth is to derive from increased remittances, loans to SMEs and expansion to the South. Mainly driven by consumption loans and trade finance (+120%) forecasted portfolio growth is of more than 80% in 2008 and goes down to 50% in 2009. Institutional projects needed to carry out such plan (e.g. new software, new organizational structure, staff training, etc.) have been correctly identified, but they are not formalized, nor translated into an operational plan detailing the actions to be carried out by every department / branch with associated deadlines and man-days. This hinders the bank's capacity to make precise predictions. Growth objectives were already exceeded by 37% in 2007, which generates a risk of not being able to secure all the required funding throughout the year, especially given the growing size of the bank and the difficulty to access resources locally (cf. section "F"). This is despite the financial statements' projections that are monitored on a quarterly basis and the budget that is updated once a year, and even truer in the absence of cash flow projections that would allow a good anticipation of the financing needs. EBRD's new reporting requirement of a 12-month rolling funding plan to be submitted semi-annually is expected to improve focus on funding.

Management team

Having been within the bank for several years, most of the management team is skilled and experienced, though some positions are relatively new and have room to grow (e.g. IA, HR). Key-person risk is partly addressed through a clear succession plan (a Deputy Chairman is designed) as well as identified number twos in most of the divisions, collective decision-making and on-going communication through formal Board of Management meetings. Nevertheless, some risk persists as there is little cross-knowledge between the different divisions and the comprehensive view of the whole institution is concentrated at top management level: well-organized and regular meetings documented in minutes smooth internal communication but do not spread it to middle management. Due to the planning weaknesses and to the on-going support of external consultants over the past two years, it is difficult to predict the institution's capacity to execute plans on its own and/or to adjust operational strategies to accomplish fixed goals. So far, the management team has a good track-record in implementing the new organizational structure, moving from a traditional rigid bank to a more client-oriented institution.

Human resource management

Though it has improved over the past years, human resources (HR) management has not yet reached the strategic dimension that is required for an institution of Bank Eshkhat's size and speed of growth (700+ employees, nearly doubling in size every year). Basic HR procedures and policies are in place: job descriptions were recently drafted for all positions (under the new structure), contracts were signed and all staff evaluated for the first time. But despite some recent efforts (e.g. new incentive scheme), the main processes to improve staff skills, such as clear career path for new-comers or regular and systematic evaluation, are not set up. Training is in place and has a dedicated budget line, but it is still decentralized at the departments' level where the needs are neither formalized nor continuously updated. A comprehensive and formal LO training has nevertheless been developed lately (3 modules over 1 to 2 years).

Despite a good staff morale, turnover has been high since 2004 (10%) and has grown to almost 20% in 2006 and 2007. This is partly explained by the departure of the Dushanbe branch manager and all his team to another bank (34 people in 2007). It is also partly explained by the high rate of emigration to Kazakhstan and surrounding NIS countries, which equally affects all Tajik banks. The bank is trying to address this issue and has notably increased the base salaries and developed a salary grid with attractive incentives as compared to the market (e.g. bonus scheme, access to loans at a cheaper rate, cell phone, increased vacations, etc.). Nevertheless, turnover remains a matter of concern that ought to be tackled more seriously (e.g. analysis of the turnover rate by position, analysis of the competition salary levels, etc.) to come up with contingency plans if needed, especially as the portfolio growth requires staff with specific financial skills that are hard to find in Khujand and are thus being internally gained after at least one year of training.

Information

Information is rated "b"

Because the modules are not integrated and branches not connected in real time, the IT system presently in place for accounting and loan / savings tracking is not efficient and does not automatically generate all the required monitoring information (e.g. total portfolio, data by branch or by LO, total PAR, financial ratios, etc.). This requires numerous and tedious extractions to ensure data is consolidated and appropriate indicators generated on time (daily basis for portfolio and savings, monthly basis for accounting), which greatly decreases staff efficiency and comes as a strong constraint to develop common banking services such as plastic cards. This could also impede proper monitoring in a period of fast growth.

All the needed information to follow up on the activities is nevertheless available (e.g. portfolio and savings by product, region, and industry, detailed PAR, etc.) and decision-making has not been hindered so far. The institution has already started migrating to a proven financial software (CFT) that has been selected after a proper and documented request for proposal, based on needs adequately assessed with the help of an external consultant. The new system should be in place at HQ by July 2008, thus putting under better control 50% of the total activities, which are concentrated at HQ. Implementation risk is properly mitigated thanks to a dedicated and skilled team within the bank, working along with CFT's consultants. Security is adequate, with anti-virus and passwords in place, twice-a-day back-ups atop of weekly copies on external disks, and regularly performed crash and recovery tests.

Branches are monitored as distinct profit centers thanks to accurate financial statements (income statement and balance sheet). Proper cost analysis is in place, which allows setting the interest rates (loans and savings) according to the cost of funds and desired margin. Yet, financial analysis could still be more developed to include all standard ratios (e.g. cost of funds, operating expenses, yield, etc.) as well as the detail by product or branch. Besides, there are presently several reporting formats with different standards (e.g. NBT, BOD, investors). As the bank grows and pressure on margins increases, it will become more and more important to gain a deeper understanding of international standards, agree and rely on the most significant data for decision making.

■ Risk Management

Risk Management is rated "b"

Procedures and internal controls

Thanks to the reorganization plan, the bank has adopted a new structure with effective internal controls. Back and front office have been separated, thus splitting incompatible tasks previously handled by the same person (e.g. filling application forms and entering operational as well as accounting data). Limitation of power is now in place, with strong hierarchical control, clear working rules (e.g. big loans to be approved at HQ level, files reviewed by at least 2 superiors) and policies to address poor performance for LOs and other specialists, notably thanks to the new incentive scheme. Procedures are now formalized for all divisions and staff shows satisfactory compliance after less than a year of transition. But given that the new structure is only effective at HQ and the Dushanbe branch so far, other branches are still exposed to risks arising from a poor segregation of duties: the new structure should apply to the entire bank by year-end, and presently covers half of the activities.

Processes are also in place to guarantee data is reliable. Electronic and paper data may only be accessed by authorized staff, and though not systematically switched on the IT system comprises an audit trail function. Multiple checks are performed at all levels (front office, back office, risk management, loan committee). Accounting and loan tracking information is reconciled on a monthly basis, with bank statements (accounts held at other banks) checked on a daily basis. Furthermore, staff in charge of verification and reconciliation materializes the controls with a signature. Cash security is ensured thanks to dedicated armed guards and vehicles, cameras, limited access to the main safe as well as daily checks on opening and closing cash balances.

Internal audit

The Internal Audit (IA) presently covers the main operational risks within the bank, but it has not yet reached the full strategic dimension that would allow a global vision of risks, pro-active thinking of arising issues, and constant improvement of existing procedures. Core requirements for an exhaustive IA are well in place, detailed procedures having been drafted with the assistance of an external consultant according to Basel I&II rules. IA follows a yearly plan that covers all the branches as well as HQ and delivers reports with clear recommendations that are properly followed upon. There are no specific targets in terms of number of checks, but present file checks and clients' visits are within the industry norms (respectively 20% and 5% vs. a minimum of 10% and 1% – in addition to 10% of remittances and 20% of FX transactions).

Remaining IA components need to be further strengthened: though it reports straight to a BOD's Audit Committee that meets regularly, IA does not yet include governance or management's audits; IA reports to BOD do not highlight issues according to their level of priority; IA team is skilled and knowledgeable but needs to be reinforced in some areas (e.g. IT, plastic cards). Besides, the department is presently composed of only four staff, which is not sufficient to cover all of the bank's operations (100+ remittance points): the recruitment of an additional staff is planned by year-end, but it is unlikely to be enough to cope with the expected increase of activities.

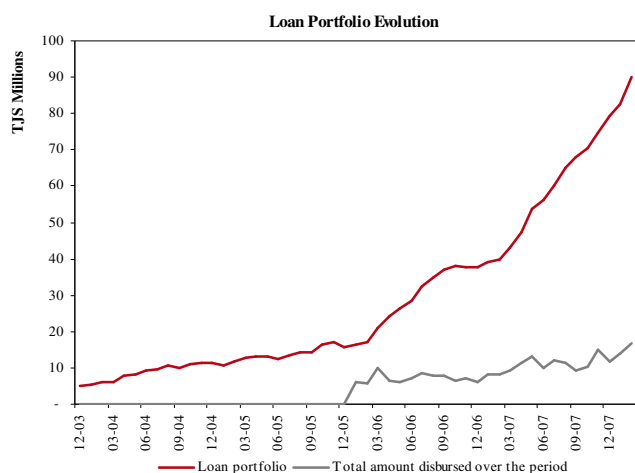
IA controls are supplemented by Deloitte's external audits, reporting to NBT every 10 days, as well as regular reporting to EBRD and other strategic partners / investors.

■ Activities

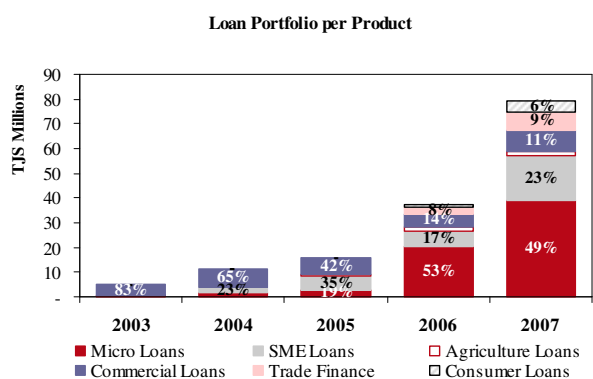
Activities: products and services is rated “a”

Evolution and composition of the portfolio

Apart from a setback in 2005 where Bank Eshkata's portfolio only grew by 38%, which remains valuable, the loan portfolio has been doubling every year since 2003 and peaked at +128% in 2006. Such evolution is typical of the early stages of a lending activity in a context of high unmet demand. Over the years, the bank shows a fluctuating average loan size per client, but a steadily decreasing loan disbursed (from 7,721 USD in 2003 to 3,968 USD in February 2008) due to the launch of the SME program.



Portfolio growth is underpinned by the Micro and SME loans that took off starting 2006 (respectively +576% and +241%) and now represent over 70% of the loan portfolio. 2006 also saw the launch of new products, such as agriculture or consumer loans, as well as trade finance.



Bank Eshkata's growth is also supported by an increased geographical coverage starting 2004, which consolidated its leadership in the Sugd region and reinforced its network by 7 new branches on top of the Khujand HQ. Sugd branches represented 36% of the total loan portfolio as of February 2008.

Financial services management

The credit methodology is well designed and has evolved over a 4-year time to ensure appropriate credit decisions. Coupled with proper monitoring, it has contributed to improve the portfolio quality. The methodology relies on a solid internal scoring coupled with numerous checks at the different stages of the credit process (LO, Risk department, CC, Back office). Upon reception of the loan application, LOs conduct an exhaustive business analysis followed by a visit to the client, and the final loan amount is set by the CC. Collaterals are strong, and mainly consist of real estate and liquid assets (e.g. jewelry or cash), which creates a good incentive to repay on time. The process allows a good assessment of the clients' repayment capacity, although cross-indebtedness is tolerated and collateral evaluation is made by LOs, which does not guarantee a precise assessment. To deal with the latter, a specialized collateral team is to be created under the Risk Management division. With the support of EBRD under the TMSEF programme, Bank Eshkata greatly focused on developing LOs' technical skills through various trainings. Linked with a close supervision by the management, this has fostered quality of service and respect of procedures. Loan disbursement is swift, notably thanks to several types of forms, adapted to the loan product and amount.

Delinquency management is efficient thanks to a follow up on late loans starting day one, as well as appropriate bonus scheme. If rescheduling is not possible, the case is filed in court during the following week. The legal procedure is reasonably fast and usually leads to a reimbursement within 3 to 6 months. Yet, PAR>365 and write-offs remain, due to a few loans granted without collateral, which makes the court decision hard to enforce. Such loans are still followed upon. Portfolio monitoring is presently adequate (PAR is followed on a daily basis down to the branch level), but remains time consuming and could hamper appropriate decision in a period of very fast growth (cf. section "I"). Most important issues should be solved with the introduction of the new software.

Other financial services are properly managed, clients having a secure but easy access to their savings, which has allowed the bank to grow the level of its deposits in a country where bankruptcies of financial institutions has made it particularly difficult to collect savings. Money transfers as well as foreign exchange transactions are both fast and safe.

Credit risk

PAR 31-365 and PAR>365 have been fluctuating over the years, but total PAR has been brought down to an acceptable level by international standards (1.3% in 2007 vs. ECA large FSS at 1.2%). Since the bank does not follow international

best practices in terms of write-off, the resulting ratio is as low as 0.04% as of December 2007: in spite of an improved repayment rate and effective collaterals, it would be timely to adopt international standards on that matter. Both PAR and write-offs are solely due to agriculture and large commercial loans. Rescheduled loans are properly monitored and subject to a new business analysis for a better risk assessment. No loans individually exceed 10% of equity. Loans to related parties cannot exceed 5% of the capital with a maximum of 2% exposure on a single party, which keeps the overall weight at acceptable levels (e.g. 1.3% of loan portfolio in 2006).

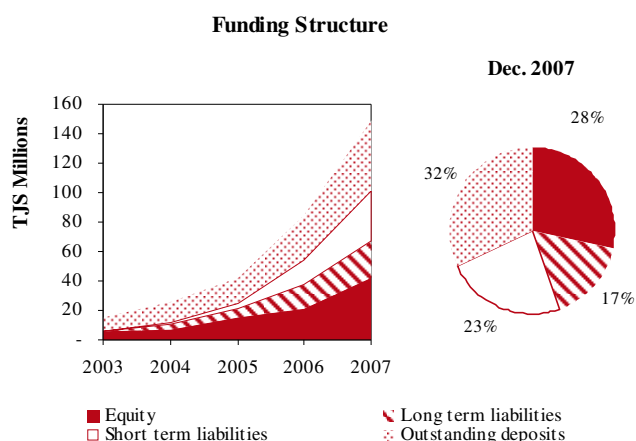
Bank Eskhata's plans on improving portfolio diversification by sector and by region, notably by expanding to the South. Targets are defined in the business plan, even though it remains demand driven rather than risk-approach based. For now, and out of more than eight sectors of activities, portfolio is historically concentrated on trade, which represented 72% of the outstanding loan portfolio as of December 2007. Geographical diversification is already underway, although HQ still represents roughly 50% of the loan portfolio.

Credit risk coverage

Anticipated losses are fully covered by an adequate loan loss reserve, leading the risk coverage ratio to consistently stand above 100%. There is no specific insurance that would cover important risks such as natural disaster or agricultural risks, which are important to consider in the country. The latter is nevertheless reduced given that agriculture and cotton only represent 3.2% of the total portfolio, and that hard collateral and liquid assets are required to cover up to 150% of loans above 1,000 USD.

■ Funding and liquidity

Funding and liquidity is rated "b"



Capitalization and funding strategy

Bank Eskhata has a well diversified funding structure, holding several international investors either as shareholders or as lenders. Due to high level of profits, the bank is a very attractive target and regularly receives investment offers. Yet, the cost of liabilities remains quite high with a peak at 12.8% in 2007, which is not fully justified by the sovereign risk: despite good relationship management with fund providers, negotiation skills are still to be improved and communication further enhanced. The management is aware of the situation and trying to negotiate new loans at cheaper rates. Due to the planning weaknesses (cf. section "G") there is only a general prediction of the funding needs for the years to come, which are estimated at 100 M TJS for 2008 (29 M USD).

Leverage is relatively low (3x in 2007), thus ensuring minimum capital requirements are met, as evidenced by core and total CAR respectively standing at 27% and 43% as of December 2007. NBT has recently increased the minimum capital for newly established banks to 10 M USD and though existing banks are presently unaffected by this measure, legislation may be subject to further change. Bank Eskhata is ready to face such a potential increase in capital requirement, notably thanks to both its cumulated retained earnings and the Deutsche Bank subordinated debt that qualifies as capital according to the NBT rules. In addition, the bank can rely on its existing partners (EBRD, ShoreCap), who are willing to fund it if needed.

Liquidity risk

The finance department is well organized with competent staff and management. Nevertheless, rapid growth coupled with insufficient planning remains a matter of concern and liquidity management is not yet efficient, as evidenced by minor liquidity gaps on the short run. This is despite a properly mitigated maturity risk (quick and current ratios above 100%) and the set up of an ALCO Committee regularly reporting to BOD. At present, liquidity levels are driven by the remittances volume (cf. section "E"), but bare no clear rules or indicators that would allow precise predictions, making it difficult to properly judge the adjusted coverage of deposit and operating expenses (respectively at 143% in 2007 and over 2 years since 2003). Until accurate cash movements are monitored, it is difficult to assess the bank's capacity to avoid potential disruptions.

Market risk

Bank Eskhata has a limited exposure to FX risk given that its total open position labeled in foreign currencies (USD, EUR, RUB) is limited to 6% of the capital. Most liabilities and assets are actually labeled in hard currencies (85% of the loan portfolio in USD) and FX risk transferred to the end

client. Given the portfolio concentration of the retail trade sector, borrowers would be more readily able to adjust pricing to compensate for exchange fluctuations, but this would nevertheless pose serious limits in case a severe devaluation is to occur.

The bank is exposed to interest rate risk with an open position representing over 50% of Tier I Capital and no hedging mechanisms in place or internal rules to mitigate it. This is despite the ALCO Committee that is also in charge of monitoring market risks. This risk is reduced on the short run given the downward trend of the LIBOR, but it could have a significant impact in case of a future increase, especially as some loans will not mature before 2011.

■ Efficiency and Profitability

Efficiency and Profitability is rated “a”

Profitability analysis

Bank Eshkhat shows excellent profitability by international standards, as evidenced by solid ROA and ROE levels, respectively standing at 6.8% and 25.3% as of December 2007, as compared to 0.9% and 7.5% for Eastern Europe and Central Asia peer banks. Both ROA and ROE are on a declining trend given the shrinking net margin (from 36% in 2005 to 25% in 2007). This is due to the larger contribution of loans in the financial revenues, which are less profitable than remittances and foreign exchange: in 2007, and for the first time, revenue from portfolio has outgrown that of other financial services (50% vs. 48%, respectively). The improving portfolio quality and the decreasing operating expenses – resulting mainly from higher economies of scale – did not offset the tendency given the increased expenses paid on borrowings (from 5% in 2004 to 13% in 2007), which are needed to fuel the growth.

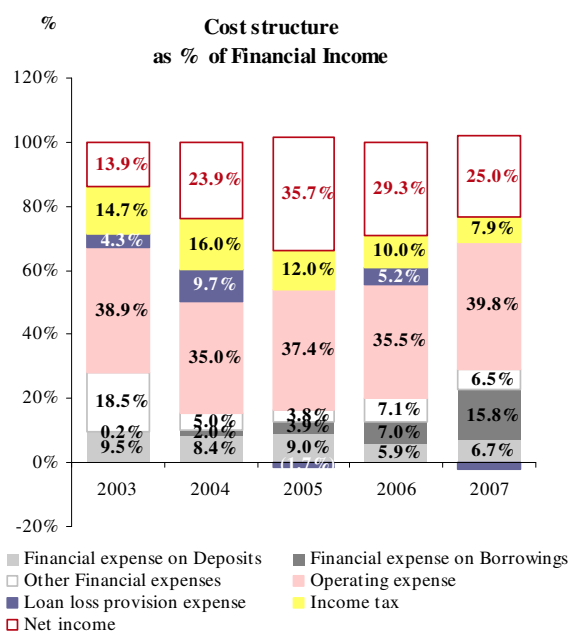
Given its profitability structure, Bank Eshkhat still has room to maneuver and adjust its prices if needed. But all banks are starting to focus on loan products and money transfer, which will tend to reduce the overall rates and require additional efficiency gains to maintain the present ROA level. Due to NBT’s recent capital requirements, some small banks have merged with foreign banks while others have entered the market, leading competition in the Tajik banking system to intensify¹². Besides, money transfers have been increasing since 1999 and are expected to keep on growing for the coming 5 years, though at a much slower rate, which should lastingly revert the bank’s financial revenue composition. As

¹² In 2006, two major commercial banks were set up in Tajikistan, “Tajikistan Development Bank” and “First Microfinance Bank” (created with foreign capital). Besides, ATF-Bank (Kazakhstan) is now the controlling shareholder of Tajik Sohibkorbank, which should result in a better quality of services and intensify competition.

a result, after benefiting from a highly profitable market for a long while, the bank is now shifting its activities on the faster growing lending market. In this context, Bank Eshkhat can rely on strong competitive advantages in the North, where it faces no serious competition, and on its position of national market leader for remittances gained thanks to faster international transfers than competitors (30% of all Tajik remittances are made through Bank Eshkhat – the percentage goes up to 50% in the North). But the bank remains small as compared to AgroInvest, Amonat and Orientbank, which enjoy much larger networks in the South, and it is also smaller than peer banks supported by EBRD. So far, it has successfully managed to dedicate a bigger share of its portfolio to microfinance and SME, but still needs to prove it is able to grow while sustaining solid comparative advantages on that segment. The product development process will thus play a crucial role in the future: it is presently in place but not yet based on demand analysis or on serious competition studies.

Cost to income ratio is at the good level, standing at 38% as of December 2007, which is lower than most other banks in both the country and the region. This is mainly due to a stable combination of loan loss provisioning and operating expenses. The latter is expected to decrease once the new IT system is in place, thus leading to substantial productivity gains.

Asset deployment ratio remains very low at 52.4% as of December 2007 due to the remittances that are presently the highest income-generating service the bank can offer, thus leading to a considerable amount of cash not invested in the loan portfolio.

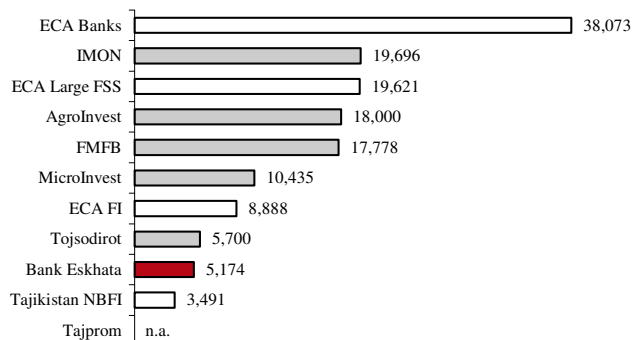


Profitability outlook is positive on the medium run. The bank is presently going through important changes (IT migration and new organizational structure) that will not be fully in place before year-end, but it is still expected to exceed its operational targets and generate additional profit.

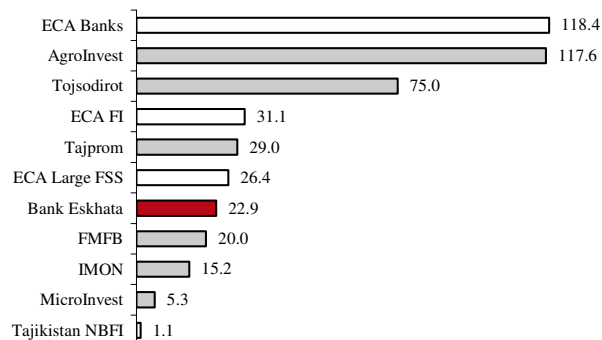
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

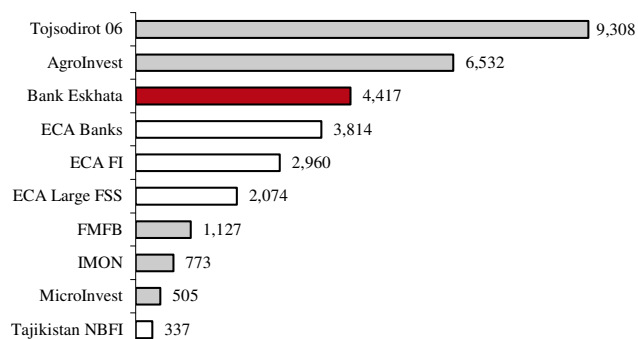
Active borrowers



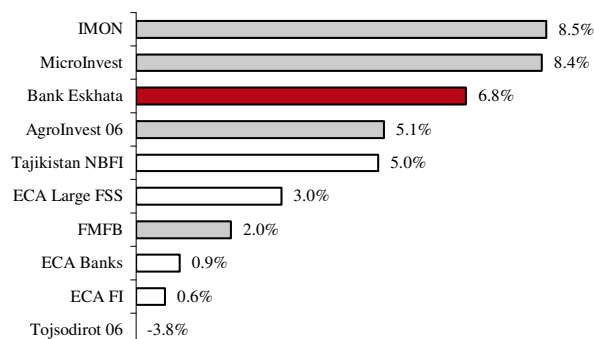
Loan portfolio (M USD)



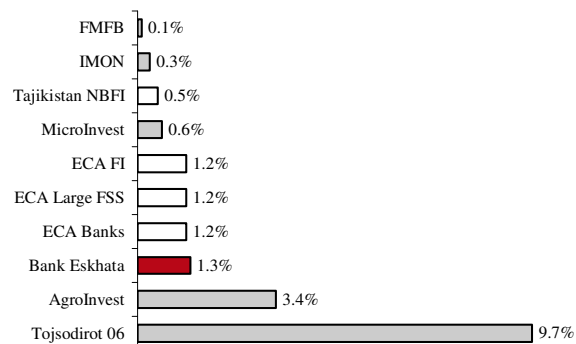
Average outstanding loan per client



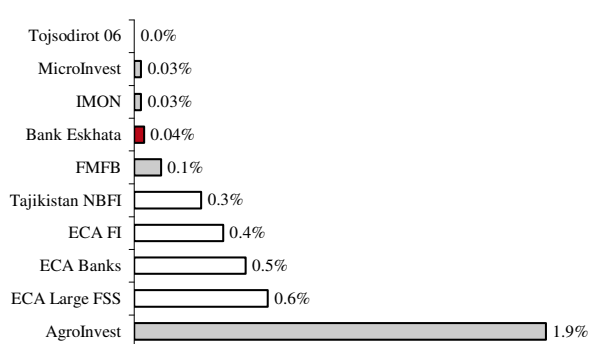
ROA



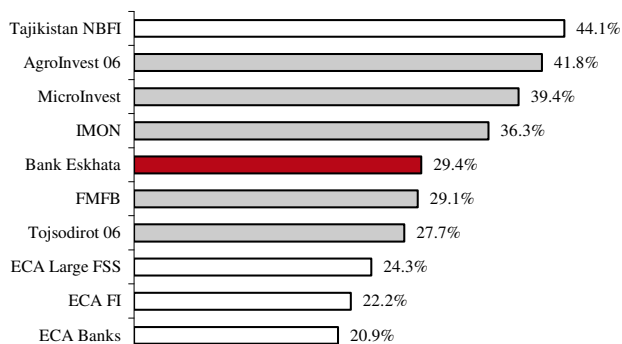
PAR > 30



Write-off ratio



Portfolio Yield



Source: Planet Rating, individual MFIs, MIX; MBB 2006 Median benchmarks; Data as of December 2007 unless otherwise stated; ECA=Eastern Europe & Central Asia; NBFI=Non-Bank Financial Institution; FSS=Financial Self-Sufficiency>100%.

Data in USD, unless otherwise stated

■ Performance indicators

Loan Portfolio	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Loan portfolio evolution					
Loan portfolio	1,636,786	3,767,148	4,949,916	10,976,676	22,854,628
Loan portfolio (TJS)	4,839,975	11,440,828	15,834,781	37,611,580	79,189,000
Evolution	313.0%	136.4%	38.4%	137.5%	110.5%
Average outstanding loan	1,016,533	2,843,833	4,248,301	8,278,621	16,262,731
Active borrowers	212	746	1,215	1,958	5,174
Evolution	-	251.9%	62.9%	61.2%	164.2%
Average outstanding loan per client	7,721	5,050	4,074	5,606	4,417
% of GDP per capita	3,006.2%	1,570.4%	1,148.0%	1,322.0%	847.0%
Average amount disbursed per loan	-	-	11,717	7,745	5,889
% of GDP per capita	0.0%	0.0%	3,301.7%	1,826.4%	1,129.2%
Portfolio quality					
Rescheduled loans	9.9%	15.7%	2.5%	1.1%	0.0%
PAR 31-365	4.4%	1.3%	0.5%	1.8%	0.9%
PAR > 365	0.0%	0.1%	1.1%	0.3%	0.4%
Write-off ratio	0.0%	0.0%	0.00%	0.00%	0.04%
Credit risk coverage					
Risk coverage ratio (PAR 30)	144.0%	595.1%	318.6%	230.8%	118.6%
PAR 31 net of loan loss provision / Equity	(1.8%)	(11.4%)	(3.4%)	(4.9%)	(0.4%)
Savings					
Outstanding deposits	2,573,313	3,739,988	4,924,820	6,743,501	11,540,423
Outstanding deposits (TJS)	7,609,287	11,358,343	15,754,499	23,106,606	39,986,410
Evolution	231.9%	49.3%	38.7%	46.7%	73.1%
Mandatory savings (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Voluntary savings (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Active savers	2,432	3,163	3,721	4,655	5,291
Evolution	-	30.1%	17.6%	25.1%	13.7%
Average outstanding deposit per saver	1,058	1,182	1,324	1,449	2,181
Mandatory	-	-	-	-	-
Voluntary	1,058	1,182	1,324	1,449	2,181
Staff					
Total number of staff	180	240	324	446	677
% Credit officers	0.0%	0.0%	0.0%	13.2%	18.0%
Turnover	4.3%	10.0%	9.6%	17.7%	16.4%
Profitability analysis					
ROE	11.3%	25.4%	32.8%	31.6%	25.3%
Liabilities / Equity	1.80x	2.71x	1.8x	3.1x	2.5x
Capital adequacy ratio	n.a.	37.1%	54.7%	33.5%	36.5%
Loans / Deposits	63.6%	100.7%	100.5%	162.8%	198.0%
ROA	4.7%	7.7%	10.7%	9.0%	6.8%
Profitability structure					
Portfolio Yield	24.1%	29.2%	30.0%	28.8%	29.4%
Cost Income ratio*	43.3%	44.8%	35.7%	40.7%	38%
Cost per borrower	2,385	1,023	998	1,039	707
Staff productivity	1	3	4	4	8
Loan officer productivity	n.a.	n.a.	n.a.	33	42
Average outstanding loan per client (USD)	7,721	5,050	4,074	5,606	4,417
Funding expense ratio	22.9%	11.8%	12.8%	13.8%	16.5%
Cost of savings	5.8%	4.7%	5.8%	4.8%	5.5%
Cost of liabilities	9.6%	7.0%	6.7%	7.0%	12.8%
Loan Loss Provision expense ratio	5.6%	7.5%	(1.3%)	3.6%	(1.0%)
PAR 31-365	4.4%	1.3%	0.5%	1.8%	0.9%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.04%
Resource optimization					
Outstanding Loan Portfolio / Assets	29.8%	40.4%	35.1%	42.3%	52.2%
Revenue from investment as a % of financial revenues	2.8%	0.6%	0.6%	1.6%	2.2%
Liquidity					
Cash to demand deposits	68.5%	54.4%	80.2%	75.0%	220.4%
Liquidity / Total assets (LAR)	26.1%	19.1%	19.7%	19.0%	36.3%
Exchange rate 1 USD= xx TJS	3.0	3.0	3.2	3.4	3.5

* Operating Expenses + Net Loan Loss Provisioning Expenses / Financial Income

GIRAFE Rating – Bank Eskhata, Tajikistan – March, 2008

Bank Eskhata Income Statement	Notes	TJS					USD					Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	05/04	06/05	07/06
Financial Revenue (a)		3,841,811	6,614,920	10,372,651	19,630,636	31,885,000	1,299,226	2,178,110	3,242,467	5,729,063	9,202,286	56.8%	89.3%	62.4%
Financial Revenue from Loan Portfolio		725,592	2,524,735	4,077,033	8,178,168	16,578,000	245,381	831,325	1,274,471	2,386,741	4,784,554	61.5%	100.6%	102.7%
Interest on Loan Portfolio		725,592	2,524,735	4,077,033	8,178,168	16,578,000	245,381	831,325	1,274,471	2,386,741	4,784,554	61.5%	100.6%	102.7%
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	1	105,721	42,233	63,501	314,442	696,000	35,753	13,906	19,850	91,768	200,872	50.4%	395.2%	121.3%
Other Operating Revenue	2	3,010,498	4,047,952	6,232,117	11,138,026	14,611,000	1,018,092	1,332,878	1,948,145	3,250,555	4,216,861	54.0%	78.7%	31.2%
Financial Expense (b)		1,082,469	1,017,346	1,733,453	3,921,322	9,274,000	366,070	334,984	541,873	1,144,410	2,676,556	70.4%	126.2%	136.5%
Interest paid on borrowings	3	7,654	131,726	407,732	1,372,465	5,043,000	2,588	43,374	127,456	400,544	1,455,453	209.5%	236.6%	267.4%
Interest paid on deposits		364,820	553,574	932,508	1,160,871	2,147,000	123,375	182,277	291,500	338,792	619,643	68.5%	24.5%	84.9%
Net Inflation Adjustment Expense	4	394,939	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	5	315,056	332,046	393,213	1,387,986	2,084,000	106,546	109,334	122,917	405,074	601,460	18.4%	253.0%	50.1%
Financial income [c=a-b]		2,759,342	5,597,574	8,639,198	15,709,314	22,611,000	933,156	1,843,126	2,700,593	4,584,653	6,525,729	54.3%	81.8%	43.9%
Net Loan Loss provision expense (d)		167,099	643,572	(180,781)	1,021,651	(576,000)	56,510	211,910	(56,512)	298,162	(166,239)	(128.1%)	(665.1%)	(156.4%)
Loan loss provision expense and write-off		167,099	643,572	(180,781)	1,028,083	(576,000)	56,510	211,910	(58,522)	300,039	(166,239)	(129.1%)	(649.2%)	(156.0%)
Recovery from Loans written off		-	-	(6,432)	6,432	-	-	-	(2,011)	1,877	-	-	(200.0%)	(100.0%)
Operating expense (e)		1,495,415	2,318,485	3,880,192	6,969,213	12,683,000	505,720	763,413	1,212,939	2,033,916	3,660,423	67.4%	79.6%	82.0%
Personnel Expense (includes fringe)	6	435,850	987,794	2,027,358	3,639,164	7,860,000	147,396	325,253	633,747	1,062,064	2,268,464	105.2%	79.5%	116.0%
Administrative Expense (non-staff operating expenses)		1,059,565	1,330,691	1,852,834	3,330,049	4,823,000	358,324	438,160	579,192	971,851	1,391,959	39.2%	79.7%	44.8%
Depreciation and amortization		136,513	228,731	351,333	534,055	699,000	46,166	75,315	109,826	155,860	201,737	53.6%	52.0%	30.9%
Consulting, legal & audit fees		115,541	150,647	146,110	535,339	296,000	39,074	49,604	45,674	156,235	85,428	(3.0%)	266.4%	(44.7%)
Communication		110,087	155,760	303,933	349,977	481,000	37,229	51,287	95,009	102,138	138,821	95.1%	15.1%	37.4%
Advertising		23,440	60,523	210,685	169,221	383,000	7,927	19,929	65,860	49,386	110,537	248.1%	(19.7%)	126.3%
Sponsorship		1,643	9,382	196,815	312,684	489,000	556	3,089	61,524	91,255	141,130	1,997.8%	58.9%	56.4%
Rent & Utilities		37,297	23,829	48,491	93,009	276,000	12,613	7,846	15,158	27,144	79,656	103.5%	91.8%	196.7%
Business trips		131,128	130,304	193,001	275,137	496,000	44,345	42,905	60,332	80,297	143,150	48.1%	42.6%	80.3%
Office expenses		53,277	67,247	143,561	111,253	180,000	18,017	22,143	44,877	32,468	51,950	113.5%	(22.5%)	61.8%
Taxes (other than income tax)		135,299	74,237	89,895	553,108	726,000	45,755	24,444	28,101	161,421	209,530	21.1%	515.3%	31.3%
Others	7	315,340	430,031	169,010	396,266	797,000	106,642	141,597	52,832	115,647	230,021	(60.7%)	134.5%	101.1%
Net Operating Income Before Taxes and Donations [f=c-d-e]		1,096,828	2,635,517	4,939,787	7,718,450	10,504,000	370,926	867,803	1,544,166	2,252,576	3,031,545	87.4%	56.3%	36.1%
Income Taxes (g)		564,362	1,057,468	1,239,828	1,970,145	2,531,000	190,856	348,195	387,567	574,973	730,468	17.2%	58.9%	28.5%
Net Operating Income Before Donations [h=f-g]		532,466	1,578,049	3,699,959	5,748,305	7,973,000	180,070	519,608	1,156,599	1,677,603	2,301,077	134.5%	55.4%	38.7%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		532,466	1,578,049	3,699,959	5,748,305	7,973,000	180,070	519,608	1,156,599	1,677,603	2,301,077	134.5%	55.4%	38.7%
Donations (l)		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]		532,466	1,578,049	3,699,959	5,748,305	7,973,000	180,070	519,608	1,156,599	1,677,603	2,301,077	134.5%	55.4%	38.7%

Notes: 1) Interest on loans and advances to banks, and on securities; 2) FX gains, Fees & commissions on settlements, cash operations, letters of credit and account opening, and other income; 3) Interest on loans and advances from financial institutions; 4) In 2003, loss on net monetary position due to inflation; 5) Expenses on settlements, cash operations, letters of credit, and other expenses; 6) Including taxes and social security expenses; 7) Including net provision expenses and write-off on loans to banks (+21,842 TJS, +56,138 TJS and -37,360 TJS in 2003, 2004 and 2005)

GIRAFE Rating – Bank Eskhata, Tajikistan – March, 2008

Eskhata Bank Balance sheet	TJS					USD					Evolution			
	Notes	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	05/04	06/05	07/06
ASSETS		15,195,372	25,968,697	42,869,973	84,653,381	149,317,000	5,138,780	8,550,773	13,401,054	24,705,496	43,094,173	65.1%	97.5%	76.4%
Short Term Assets		12,989,822	22,771,234	37,750,055	75,423,442	122,023,000	4,392,906	7,497,937	11,800,580	22,011,803	35,216,889	65.8%	99.8%	61.8%
Cash and Due from Banks	1	7,382,403	9,420,398	18,447,692	33,591,403	54,249,000	2,496,585	3,101,876	5,766,706	9,803,415	15,656,729	95.8%	82.1%	61.5%
Short Term Investments	2	1,306,733	2,107,041	2,474,581	2,801,903	4,326,000	441,912	693,790	773,548	817,716	1,248,521	17.4%	13.2%	54.4%
Short Term Net Loan Portfolio		4,076,803	10,432,986	14,805,679	32,681,671	59,121,000	1,378,696	3,435,293	4,628,221	9,537,917	17,062,830	41.9%	120.7%	80.9%
Short Term Gross Loan Portfolio		4,389,975	11,389,730	15,575,210	34,479,285	60,317,000	1,484,604	3,750,323	4,868,775	10,062,538	17,408,006	36.7%	121.4%	74.9%
(Loan Loss Reserve)		313,172	956,744	769,531	1,797,614	1,196,000	105,909	315,029	240,554	524,621	345,176	(19.6%)	133.6%	(33.5%)
Interest Receivable		7,375	160,843	238,967	648,300	1,240,000	2,494	52,961	74,701	189,202	357,875	48.6%	171.3%	91.3%
On loan portfolio		7,375	160,843	238,967	648,300	1,240,000	2,494	52,961	74,701	189,202	357,875	48.6%	171.3%	91.3%
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		216,508	649,966	1,783,136	5,700,165	3,087,000	73,219	214,016	557,404	1,663,553	890,935	174.3%	219.7%	(45.8%)
Long term assets		2,205,550	3,197,463	5,119,918	9,229,939	27,294,000	745,874	1,052,836	1,600,475	2,693,693	7,877,284	60.1%	80.3%	195.7%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		450,000	51,098	259,571	3,132,295	18,872,000	152,181	16,825	81,141	914,138	5,446,622	408.0%	1,106.7%	502.5%
Net Fixed Assets	A	1,755,550	3,146,365	4,860,347	6,097,644	8,422,000	593,693	1,036,011	1,519,333	1,779,555	2,430,662	54.5%	25.5%	38.1%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		15,195,372	25,968,697	42,869,973	84,653,381	149,317,000	5,138,780	8,550,773	13,401,054	24,705,496	43,094,173	65.1%	97.5%	76.4%
Liabilities		9,773,071	18,969,971	27,292,399	63,801,605	107,209,000	3,305,063	6,246,286	8,531,541	18,620,051	30,941,441	43.9%	133.8%	68.0%
Short term liabilities		9,600,019	15,785,762	21,220,372	47,286,342	81,568,000	3,246,540	5,197,814	6,633,439	13,800,187	23,541,228	34.4%	122.8%	72.5%
Demand Deposits		5,779,811	9,113,242	10,543,651	21,507,402	24,616,000	1,954,620	3,000,738	3,295,921	6,276,784	7,104,390	15.7%	104.0%	14.5%
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		3,300,115	5,307,468	6,655,037	9,035,345	22,249,000	1,116,035	1,747,602	2,080,349	2,636,902	6,421,253	25.4%	35.8%	146.2%
Short Term Borrowings		125,153	550,000	1,807,538	10,883,041	29,590,000	42,324	181,100	565,032	3,176,139	8,539,929	228.6%	502.1%	171.9%
Interest payable		35,513	129,231	182,907	346,121	1,076,000	12,010	42,552	57,176	101,013	310,543	41.5%	89.2%	210.9%
Accounts Payable and other short term liabilities	3	359,427	685,821	2,031,239	5,514,433	4,037,000	121,551	225,822	634,961	1,609,349	1,165,113	196.2%	171.5%	(26.8%)
Long term liabilities		173,052	3,184,209	6,072,027	16,515,263	25,641,000	58,523	1,048,472	1,898,102	4,819,864	7,400,214	90.7%	172.0%	55.3%
Long Term Time Deposits		143,232	147,209	424,857	227,483	841,000	48,438	48,472	132,809	66,389	242,720	188.6%	(46.5%)	269.7%
Long Term Borrowings		-	3,037,000	5,310,838	15,487,780	23,100,000	-	1,000,000	1,660,156	4,520,000	6,666,859	74.9%	191.6%	49.1%
Other Long Term Liabilities	4	29,820	-	336,332	800,000	1,700,000	10,085	-	105,137	233,474	490,635	-	137.9%	112.5%
Equity		5,422,301	6,998,726	15,577,574	20,851,776	42,108,000	1,833,717	2,304,487	4,869,514	6,085,445	12,152,732	122.6%	33.9%	101.9%
Tier 1 Capital		5,422,301	6,998,726	15,577,574	20,851,776	27,903,000	1,833,717	2,304,487	4,869,514	6,085,445	8,053,046			
Paid-In Capital		4,221,700	4,805,371	14,962,082	14,962,082	14,962,000	1,427,697	1,582,276	4,677,112	4,366,579	4,318,162	211.4%	0.0%	(0.0%)
Donated equity	5	-	-	89,561	85,558	64,000	-	-	27,997	24,970	18,471	-	(4.5%)	(25.2%)
Retained earnings without donations and reserves	6	1,200,601	2,193,355	525,931	5,804,136	12,877,000	406,020	722,211	164,405	1,693,896	3,716,413	(76.0%)	1,003.6%	121.9%
Tier 2 Capital		-	-	-	-	14,205,000	-	-	-	-	4,099,685			
Subordinated debt		-	-	-	-	14,205,000	-	-	-	-	4,099,685	-	-	-
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 1) Cash, due from banks maturing within 30 days net of allowance for losses, current accounts held at NBT; 2) Loans and advances to banks, net of allowance for losses, including obligatory reserves with NBT; 3) Including due to banks and income tax liabilities; 4) Since 2005, including additional reserve for loan losses of 2% on healthy loan portfolio, amounting for 329,900 TJS in 2005, 800,000 TJS in 2006, and 1,700,000 TJS in 2007; 5) Net book value of EBRD donated fixed assets (computer equipments); 6) Paid dividends: 312,722 TJS for 2002 paid in 2003; 585,295 TJS for 2003 paid in 2004; 935,902 TJS for 2004 and 4,101,581 TJS for 2005 paid in 2005; none in 2006 and 2007.

■ Formulas

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

■ Rating scale

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