

## Credit Consumer Cooperative of Citizens Narodnyi Kredit, Russia

Headquartered and operating in the city of Birobijan in the Russian Far East, Narodnyi Kredit was created in 2002. Registered as a not-for-profit Credit Consumer Cooperative of Citizens (CCCC) under the Russian law, it is not subject to prudential regulations. It offers several savings products, as well as a wide variety of individual loans, mainly destined for consumption purposes. As of December 2007, Narodnyi had an outstanding portfolio of 37.3 M RUB (1.05 M EUR) for 594 active borrowers, and outstanding deposits of 38.3 M RUB (1.08 M EUR) for 258 active savers.

### GIRAFE Rating

#### Rating

**C-**

#### Outlook

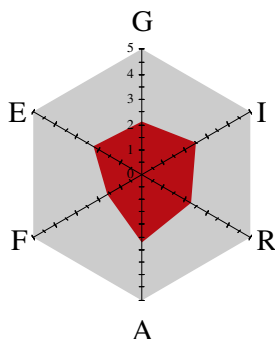
**Stable**

#### Date of the rating

**February 2008**

Valid until January, 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](http://www.planetrating.com)

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REF: NC/030408

#### Rating highlights

- Narodnyi is a profitable institution with extremely low margins since it broke even in 2005, with an ROA standing at 0.3% as of December 2007. Being funded mainly through savings, ROE is very high at 26.3% in 2007.
- This profitability would be negative if adjusted to take into account loan loss provisioning expenses according to standard microfinance principles.
- Key-person risk at management level is strong given the size of the institution.
- Portfolio quality was successfully improved starting 2007, thanks to systematic checks prior to disbursement and effective delinquency management.
- Thanks to fast and flexible disbursements, the institution enjoys good competitive advantages on consumption loans, its core lending business.
- Upcoming key challenges include formalizing a clear business plan, developing strong financial analysis, improving liquidity management, and accessing cheap sources of funding to compensate for high interest rates on members' savings and become sustainable.

#### Outlook

The "Stable" outlook is underpinned by low operating expenses, which leaves little room for efficiency gains, and a decrease in funding costs that is not expected on the short run, the spread between portfolio yield and cost of savings remaining constant.

#### Performance indicators

Below figures are indicative and based on non-audited financial statements

EUR	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Assets	111,907	276,882	605,907	822,638	1,109,055
Growth	686.8%	155.2%	96.7%	38.5%	37.7%
Loan portfolio	84,714	262,219	563,003	787,385	1,051,763
Growth	628.1%	219.2%	93.0%	42.7%	36.4%
Outstanding deposits	105,777	261,110	543,785	768,059	1,081,157
Growth	749.5%	154.6%	87.2%	44.1%	43.7%
Active borrowers	184	418	457	614	594
Active savers	57	110	154	193	258
Staff	4	5	6	6	7
ROE	(1,964.9%)	(110.1%)	25.9%	17.5%	26.3%
ROA	(24.2%)	(1.9%)	0.4%	0.2%	0.3%
Liabilities / Equity	96.79x	50.12x	76.52x	89.10x	94.20x
Portfolio Yield	70.6%	71.6%	44.1%	39.7%	36.6%
Operating expense ratio	67.4%	31.2%	12.7%	11.9%	12.4%
PAR 31-365	10.2%	9.8%	7.4%	11.1%	0.6%
PAR > 365	3.4%	2.5%	6.2%	5.0%	5.6%
Write-off ratio	0.00%	0.00%	0.03%	0.00%	0.32%

## Microfinance sector

With a long history of credit unions, microfinance in Russia represents a relatively new industry that started in the early 1990's. Although the benefits of microfinance have become clear to policy makers, the industry remains underdeveloped, and 50% to 70% of micro and small enterprises recourse to informal private lenders (called "partners' credit") for their financing needs.

The microfinance delivery system can be categorized into:

- Credit unions and credit consumer cooperatives (CCCs), membership-based organizations with little access to external funding. More than 60% of market operators consist of cooperatives.
- Public funds operating under the auspices of local governments, wholly or largely financed through the municipal or regional budget. These are the second major type of MFIs and are primarily state-sponsored. They account for around 20% of all microfinance providers.
- Micro-lending institutions with an NGO status established with the assistance of donor programs, focusing primarily on microcredit delivery and financed predominantly with external funding.
- Commercial institutions, relying mainly on debt or equity, and notably banks downscaling into microfinance with the technical assistance of EBRD and KfW, serving both micro enterprises and SME.

The Russian microfinance portfolio has been growing steadily over the past few years (20% per year between 2003 and 2006<sup>1</sup>) and estimated at around 745 M USD as of December 2006. There are no precise figures available regarding the number of clients, which probably stands over one million<sup>2</sup>. Portfolio quality remains fairly good, with an average PAR 30 below 3%, while self-sufficiency improved consistently<sup>3</sup>. Yet, only 5% of MFIs in Russia can be considered as mature, and the vast majority still has less than 500 borrowers.

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,

<sup>1</sup> Microfinance in Russia, MiX & RMC, 2007.

<sup>2</sup> Estimated growth since 2004, where the number of clients was evaluated at 818,606 active borrowers for the whole Russia/Belarus/Ukraine region according to the Microfinance Center. cf. "2004 Microfinance Sector Development in Eastern and Central Asia", Justyna Pytkowska and Ewa Bankowska.

<sup>3</sup> Non-bank Financial development trends in Russia 2003-2004, Moscow 2006, Russian Microfinance Center and Russian SME Center.

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.

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 "Russian Small Business Fund," a 300 M 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 750 M USD in outstanding portfolio (as of December 2006), 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. Different laws apply depending on the legal status<sup>4</sup>, none of which relates to international standards commonly known in microfinance. Unlike banks and commercial institutions, cooperatives are not supervised by the Central Bank, despite collecting members' deposits. Several fiscal reforms have been passed, but the legislation does not explicitly recognize microfinance as a non-commercial activity and local tax legislation, in addition to federal taxes, can be highly problematic. A specific microfinance law is presently being drafted by the Ministry of Finance, but it might be a long while before it is actually applicable.

## Political & economic environment

The economy has remained buoyant thanks to dynamic household consumption and more expansionary fiscal policy in the run-up legislative elections in December 2007 and presidential in March 2008. Investment has been growing at an accelerated rate but still remains low in relation to GDP.

<sup>4</sup> For cooperatives: requirements regarding the founders, limitation on the number of members, etc.

The increased demand has benefited the retail trade, construction, and industry, whose performance has been good. Oil-sector production, meanwhile, should be relatively flat. In this context, the Coface payment experience on Russian companies remains good, with domestic payment failures still easing. Corporate ownership and financial transparency is still, however, very inadequate with limited application of the law and extensive corruption continuing moreover to undermine the business climate.

The external financial situation remains healthy despite the growth of imports and the slowdown of non-oil exports. Massive inflows of foreign direct investment have, however, offset the shrinkage in the current account surplus. Russia continues to accumulate foreign exchange reserves – the world's third largest in value terms after China and Japan. Liquidity crisis risk is thus very limited at this juncture. And the government has entirely repaid its debt. The exponential growth of corporate and bank debt constitutes, however, a vulnerability. Credit risk – in a context of unstable relations between the government and the private sector – could be underestimated. With the rapid expansion of credit moreover, particularly to households, risks in the banking system remain substantial.

In the political arena, the government has reasserted, sometimes with vehemence, Russia's regional power status, which has stoked tensions, particularly with neighbouring countries. Domestic political stability, meanwhile, rests on a far-reaching recentralization of power. The large majority won by the United Russia Party in the December legislative elections last year will allow Vladimir Putin to preserve his central role in the Russian political system, even after the election of Dmitri Medvedev as President in March 2008.

#### Assets

- Russia is endowed with a wealth of natural resources and a skilled labor force.
- Clearing public sector debt has given the government greater leeway for action.
- The 2014 Winter Olympic Games in Sochi offer a new opportunity to develop infrastructure and enhance the country's attractiveness to tourists.
- Benefiting from notable political stability, Russia has strengthened its regional and energy status.

#### Weaknesses

- The investment rate is among the lowest for major emerging countries.
- The industrial sector lacks competitiveness due to pressures exerted by the real exchange rate and the obsolescence of capital equipment.
- Government direct or indirect takeovers of an increasing number of companies could harm their development and foster management ineffectiveness.

- Reforms adopted are generally not implemented or, when implemented, often perverted from their original purpose to serve special business interests.

#### COFACE Country Rating: B

Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behaviour. Corporate default probability is appreciable.

USD billions	2005	2006	2007(e)	2008(f)
Economic growth (%)	6.4	6.7	7	6.8
Inflation (%)	10.9	9	11.9	9.3
Public sector balance (%GDP)	7.5	7.4	4.7	2.5
Exports	243.6	303.9	315.2	332.6
Imports	125	165	210.3	249.2
Trade balance	118.1	139.2	104.9	83.4
Current account balance (%GDP)	83.6	94.5	61.7	42.8
Foreign debt (%GDP)	10.9	9.6	5.1	2.9
Debt service (%G&S exports)	30.6	28.7	30.1	30.1
Foreign currency reserves (in months of imports)	22.5	18.2	11.8	12.6

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

Narodnyi Kredit is a Credit Consumer Cooperative of Citizens (CCCC) acting under Article 166 of the Civil Code and Russian Federal law N°117 on CCCCs, which limits the number of its members to a maximum of 2,000. It collects savings but is not subject to prudential supervision. It reports to the Tax Authorities. Narodnyi does not hold an external audit.

### Ownership

As a cooperative, Narodnyi is owned by its members. Members meet annually in the General Assembly (GA) and elect the Board of Directors (BOD), which in turn appoints the Executive Director. The current BOD consists of three members, all re-elected during the last GA meeting in July 2007. The BOD meets monthly and is the main governing body, in charge of approving the cost of shares for the members, terms of savings and loan products, and the institution's overall development strategy.

Narodnyi also has a Loan Committee (LC) and Revision Committee (RC), both elected by the GA. The LC meets monthly to verify decisions on all loans disbursed during the previous month. The RC meets annually and checks the financial situation as well as all relevant accounting

documentation. It produces annual reports approved by the GA.

### Donations

Narodnyi received grants of 886,000 RUB (25,000 EUR) from the Eurasia Foundation to cover part of its operating expenses (mainly trainings and participation in microfinance conferences). Narodnyi has never received subsidies from regional or municipal budget.

### Funding composition

Narodnyi's growth is essentially funded through members' deposits (98%). In 2005, it received a 2-year loan of 1.2 M RUB (0.33 M EUR) from Zenturion Capital, at the rate of 22%, which was fully reimbursed by December 2007. Equity accounts for less than 1% of the funding structure.

### Management team

The management team includes the Executive Director (ED), a Chief Accountant, a Loan Manager and a Branch Manager. Taking into consideration the small scale of the institution, the decision making is primarily concentrated on the Executive Director.

The ED, Mrs. Elena Volynitseva, is an economist and has a 5-year experience in wholesale and retail trade. She is one of the founding members of the cooperative, which it leads since 2002. Her microfinance knowledge is drawn from on-the-job experience and a couple of related trainings.

### Organization

Narodnyi's management team is based at the headquarters (HQ). All loan applications are approved by the ED and checked on a monthly basis by the LC. The branch comprises the Branch Manager and a Loan Officer (LO), and reports to the HQ. Loan disbursements and reimbursements as well as savings deposits are made in cash and handled by the LOs.

Narodnyi uses a popular Russian accounting software called 1-C. FoxPro-based, it includes two integrated modules for accounting and loan / savings tracking. Disbursed loans are also tracked separately on an Excel file. Branch and HQ are connected in real time but their accounts cannot be tracked separately.

### Market penetration

Atop of its HQ operations, Narodnyi has another branch also located in Birobijan that opened in August 2007 and accounts for 20% of disbursed loans. Narodnyi is planning to expand to Khabarovsk, the closest major city.

### Products and services

Narodnyi offers a broad spectrum of loan products to its members. Initial membership fee is of 250 RUB (7 EUR), 50 of which (1.4 EUR) is kept on a compulsory savings account and paid back in case the member leaves the cooperative.

Loans are essentially destined for consumption purposes, which accounted for 95% of the institution's portfolio as of December 2007, but may also be destined to small businesses. Housing loans represent an insignificant part of the portfolio (3%), with a credit methodology similar to a leasing contract<sup>5</sup>. Repeated borrowers with a proven credit history benefit from discounted interest rates.

- Consumption loans, amounts range from 1,000 to 500,000 RUB (28 to 14,100 EUR) with a 60-month maximum term. Nominal interest rates vary from 16% to 22% per year with a 2% to 4% upfront fee. Consumer loans are the most expensive with an effective interest rate ranging from 36% to 48%, while Pension loans are offered at 30% to 36% effective rate. Effective rate for Housing, On purpose, Education, Health, Trust, New Year, and Anniversary loans varies between 36% and 42%. Ritual loans are the cheapest product with an effective rate of 30%.
- Business loans' maximum amount is of 500,000 RUB (14,100 EUR) and term is up to 24 months. Annual interest rate is of 20% to 22% with a 3% upfront fee. Effective annual rate varies between 36% and 42%.

Narodnyi also offers various types of fixed and demand deposits. Fixed savings products range from 3 months up to 5 years and bear interest rates of up to 20% per annum.

### Networks

Narodnyi is a member of the Inter-regional Association of Credit Unions in the Far East and Transbaikalia Region, and an associated member of the National Partnership of Microfinance Market Stakeholders.

### Governance

Governance and Decision making is rated "c"

### Decision making

Though collective, decision-making process at Narodnyi remains too informal to be optimal. Exercise of ownership through the GA and governing bodies (BOD, LC, RC) could be more strict, with strategic goals formally discussed and relevant monitoring information sent to BOD on a regular

<sup>5</sup> The cooperative buys the property. Purchase value, including taxes, represents the amount of the loan. The member reimburses the loan through monthly installments. Property rights are transferred to the member once the loan has been fully repaid.

basis to enable timely and quality decisions (cf. section “I”). As a result, and atop of a too general planning (cf. Planning infra), control over decisions’ execution is loose. Control over budget is nevertheless well done and there is a good implementation of discussed changes. The remaining components of the decision-making process are adequate given the cooperative’s size: Narodnyi’s mission of providing financial services to its members is well understood and shared among decision-makers; potential conflicts of interest (LC members entitled to take loans, Branch Manager being a BOD member) are appropriately mitigated by written internal rules and joint approvals. Members of BOD, LC and RC show good implication and diversified skills, which has allowed them to offer sufficient input so far. As the institution grows, more specific microfinance and cooperative knowledge would be helpful to provide all the needed insight.

Narodnyi still has some room to grow under its present legal structure, but it may only scale up to 2,000 members/clients due to the Russian legislation constraints on CCCCs. So far, other cooperatives have easily bypassed this restriction by creating new legal entities every time the 2,000 cap is reached.

## Planning

Narodnyi only has a one-pager guideline describing its 2008-2011 strategy, which is insufficient to stand for an effective plan and might hamper the institution’s capacities to reach its stated goals. Narodnyi aims at doubling its size by 2011 to reach a portfolio of 70 M RUB (2 M EUR, +88%) and 3,000 clients (borrowers and savers). These targets are both realistic and achievable since they rely on informal but fairly good assumptions related to competition and potential market: governing bodies and management have most of the needed information, although it is not systematically shared nor formalized in a document thoroughly analyzing the current situation. Similarly, institutional and operational projects needed to carry out the plan are well identified (e.g. IT upgrade, staff needs, funding structure), but are not formalized and agreed upon, nor translated into precise targets with clear tasks and deadlines. On top of these weaknesses, the budget is very basic and comprises only the financial expenses, income, and operating costs of the present year (2008). There is no regular follow up and RC only reviewed previous budgets once a year.

## Management team

With 7 staff in total, Narodnyi’s present management team is de facto reduced. It is strongly led by the ED on all key decisions, which generates an important key-person risk. Despite existing ongoing discussions, a systematic collective decision-making on all important issues (including strategy)

is still needed to effectively mitigate such risk. This is especially true since staff in charge of accounting, operations and dealing with legal / delinquency issues is skilled and experienced in its own domain, even when relatively new to the cooperative, and has much room to grow in his / her position. The institution enjoys on a good division of tasks and team-work, enhanced by permanent informal communication, cohesiveness and respect.

Due to limited planning capacities and the relatively young age of the cooperative, it is difficult to judge the capacities of the management team to execute plans and adjust strategies to accomplish fixed goals.

## Human resource management

Given its small size, Narodnyi presently does not need a dedicated Human Resources (HR) Manager. As commonly encountered in young organizations, HR are professionally administered by the Chief Accountant, with rules of work being properly formalized. Focus on HR has allowed senior staff to develop appropriate skills: done both internally and externally, training has been systematic for all new employees; evaluation is done regularly, especially for new LOs who go through an evaluation committee made up of BOD and Management. Turnover is not an issue: it has been null from 2004 until 2006 when adjusted by netting out probation periods and security guards; it only goes up to 15% in 2007 because of a single departure in a reduced team. Narodnyi plans on developing an incentive scheme to boost performance, maintain an already good morale, and retain its staff as it grows.

## Information

Information is rated “c”

Narodnyi’s information system provides basic information about the loan portfolio, number of clients and delinquent loans by type of product, but does not automatically generate all the indicators needed to properly manage the institution (e.g. portfolio by LO or by branch, PAR by product, PAR by LO): in that intent, LOs produce additional reports either manually or by using Excel spreadsheets (e.g. to track all details related to disbursed loans). Due to the small size of the operations, these limitations have been manageable so far. Narodnyi is planning to upgrade 1-C during the first semester of 2008<sup>6</sup>, which should resolve most of the present issues, the new version providing all the needed details and including a scoring system that automatically analyzes the expenses of the borrower and his family.

<sup>6</sup> New version was under test at the time of the visit.

Data is available in a timely manner thanks to the integrated 1-C accounting and tracking modules, and real-time connection between HQ and the branch. Financial statements are nevertheless produced according to the Russian Accounting Standards, which leads to tedious manual conversions according to IAS and microfinance principles<sup>7</sup>. This, in turn, limits the capacity of developing an accurate financial analysis, especially when related to long term sustainability and interest rate spread.

Data security is adequate: every staff member has its own login and password to the system with different levels of access; anti-virus and firewalls are in place; back-ups are done on daily basis on the server and on a monthly basis on DVDs. Narodnyi does not have a dedicated IT manager but relies on an efficient and cost-effective technical assistance provided by a local IT company.

## ■ Risk Management

Risk Management is rated “c”

### Procedures and internal controls

Current internal controls are not yet comprehensive or optimal, but they still cover major risks given the small size of the operations. Main operational procedures are documented, formalized, well-known by all staff members, and updated once per quarter, while others are still to be created (e.g. Finance and Accounting, MIS) or completed (HR). There is no separation of incompatible tasks since LOs handle all cash transactions, fill in the application forms and enter data into the system. This is mitigated by appropriate hierarchical controls and several layers of checks, done by almost all staff (LO, Lawyer, Chief Accountant, ED, LC), which also ensures data is reliable, especially when coupled with the audit trail function that tracks all MIS operations. The institution is aware of potential risks, and planning to hire dedicated cashiers at HQ and branch level to start addressing such issues.

Cash security is generally satisfactory but needs to be improved as the institution expands. Daily reconciliations of bank statements ensure money is deposited on time, and cash is kept in a safe under the limit of 230 K RUB (6,500 EUR). Checks are not frequent enough since they are only performed by RC on an annual basis, and precise rules on cash transportation (e.g. voucher signature) are not in place. But every employee dealing with cash, including the ED, has

<sup>7</sup> Figures in this report are based on non-audited financial statements that were not produced according to International Accounting Standards. Planet Rating has translated Narodnyi's financial statements following the microfinance principles. All figures and indicators calculated in this report are thus only indicative.

signed a personal guarantee, which presently serves both as a good coverage and a dissuasive control.

## Internal audit

The small size of the institution does not require a full-time dedicated internal auditor. LC and RC partly serve this function at the moment, but their checks are not yet effective enough to cover all risks. LC and RC members have a basic understanding of accounting and audit techniques and their recommendations are formalized in short minutes. Documents related to financial operations (revenues and expenses) and planned vs. actual budget are reviewed on an annual basis, but controls do not include visits to clients or unexpected verifications throughout the year and do not cover enough borrowers and savers' files (less than 2% loan file checks vs. at least 10% in best practice).

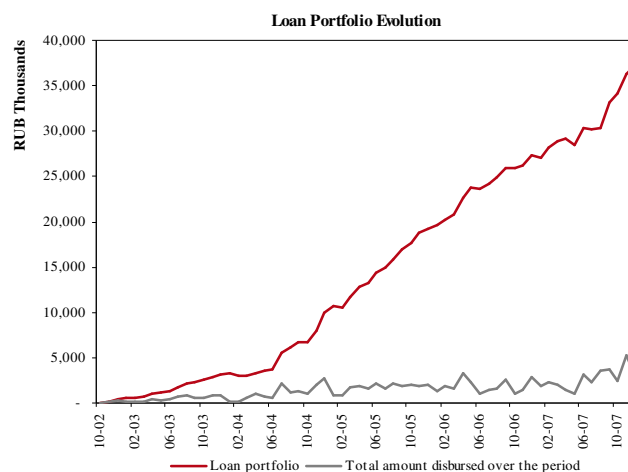
So far, no external audit of Narodnyi's accounts has been performed due to the lack of experienced and affordable auditors for small MFIs. By law, CCCCs are not subject to prudential norms, but Tax Authorities can perform visits on a sporadic basis, thus adding an external eye to the supervision chain.

## ■ Activities

Activities: products and services is rated “c”

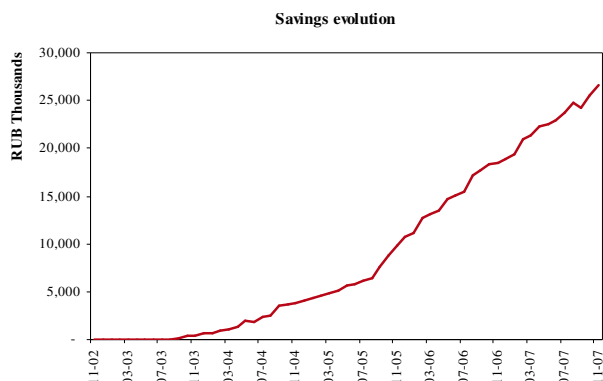
### Evolution and composition of the portfolio

Narodnyi's portfolio took off in late 2004, as a result of a concomitant increase in members deposits.

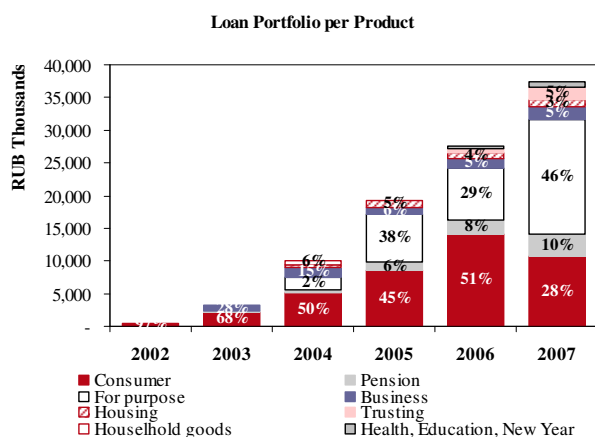


The institution still shows important growth figures (+36% for portfolio and +44% for savings as of December 2007), though declining as it becomes increasingly difficult to double its size by strictly relying on savings mobilization. The number of borrowers has actually decreased in 2007 (-3%), while the gross loan portfolio has kept its upward

trend due to the increase in the average loan size (+38%). This is in turn the result of an increase in the maximum authorized loan amounts, especially for the “For purpose” loan, which was capped at 300 K RUB (8,500 EUR) until 2006, but which average disbursed loan now stands at 330 K RUB (9,300 EUR).



As of December 2007, the portfolio was mainly composed of consumption loans (95%), half of which aimed for a special purpose (“For purpose” loans, destined to acquiring a specific good that can be used as loan collateral). Along with the regular “Consumer” loan, it has historically contributed to the vast majority of the loan portfolio. Business loans have a growing but still limited portion (5%). In 2007, Narodnyi has restructured its loan offer by replacing unsuccessful products (such as “Household goods”) with new ones (e.g. “Ritual” or “Anniversary”).



Due to attractive rates as compared to banks, long term deposits account for the majority of savings: as of December 2007, 58% of outstanding savings had terms between 12 and 24 months, while 6-month terms represented another 26%.

### Financial services management

Essentially dealing with consumption loan, Narodnyi has improved its methodology over time, notably by comprising a systematic and efficient check on the client prior to disbursement (personal information, cross-indebtedness and

cross-guarantees systematically checked by the Lawyer), which led to simple yet appropriate and well-informed credit decisions, primarily based either on the client’s salary and credit history or on a collateralized good. As the number of borrowers and the average loan size grow, it is timely to opt for the more formal assessment of borrowers’ expenses and subsequent repayment capacity that is included in the new 1-C version. As more frequently encountered in MFIs, a cash flow analysis is required for Business loans and a client visit performed prior to disbursement: if the cooperative is to increase the Business loans share in the portfolio, the present methodology will need to be refined and LOs properly trained to handle larger loan amounts and assess small businesses.

All loan decisions are presently taken at the ED level, with LC members support for big amounts, all of whom have sufficient skills to properly make informed decisions based on the relevant recommendations provided by operational staff. Since the recruitment of a dedicated Lawyer in March 2007, in charge of dealing with loans in arrears, delinquency management has drastically improved to become very efficient and total PAR 30 was cut down to an acceptable level by international norms (cf. Credit Risk infra). Follow up on delinquent loans could still be tighter on the LOs’ side, notably by individually assigning specific clients to every LO. Though it has not dramatically endangered the institution, this has probably harmed it in the past, especially since portfolio evolution could not be as closely monitored as it should be in a period of fast growth due to the absence of some important reports and indicators.

### Credit risk

Narodnyi has successfully managed to decrease its PAR 30-365 from an average of 10% over the 2002-2006 period, with a peak at 16% in 2006, to less than 1% in 2007. Standing at 6.2% as of December 2007, total PAR>30 remains above both international and regional standards (ECA median at 1.2%). This is partly due to the fact that the institution does not write off loans except in case of a client’s death, which results in a very low write-off ratio and an important PAR>365 (respectively at 0.3% and 5.6% in 2007). Narodnyi does not follow standard write-off procedures because it expects a 100% recovery on its late loans thanks to an efficient Lawyer and a legal framework effectively leading to a full reimbursement of late loans within 6 to 24 months (including interest and additional legal penalties). Furthermore, present guarantees (salary, bought product, guarantor) are effective in protecting the institution against clients’ unwillingness to repay.

Rescheduling is done on exceptional basis and only if additional guarantees are provided. It presently represents an insignificant part of the portfolio (2 loans). Rules regarding

lending to connected parties (staff and governing bodies) are clear and total outstanding amount kept at the reasonable level of 3.1% as of December 2007. Portfolio concentration is presently not monitored with two products historically accounting for over 75% of the portfolio, but this structure is expected to change with the introduction of new products. Targets have nevertheless been set for regional diversification between the two Birobidjan branches (60% for HQ and 40% at the branch).

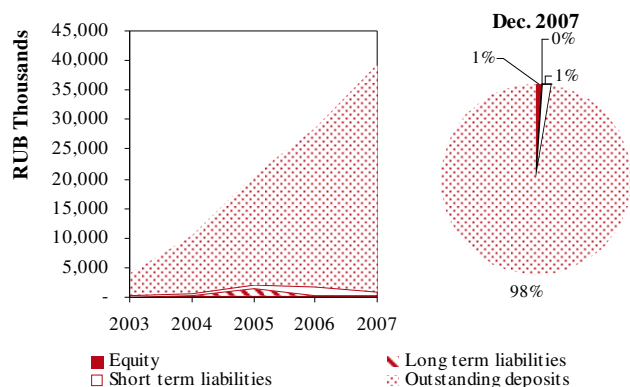
### Credit risk coverage

Coverage is almost null since there is no provisioning methodology, which could endanger the institution's viability if the PAR is to increase again to its previous levels. Even when adjusted to take the "Insurance Fund" into account, credit risk coverage barely represents 10% of PAR 30 and remains very far below the minimum of 90% in best practice. As commonly encountered in Russian MFIs, the cooperative would actually have negative results if appropriate provisioning expenses were made according to international standards.

### ■ Funding and liquidity

Funding and liquidity is rated "d"

Funding Structure



### Capitalization and funding strategy

Narodnyi has been relying on its members' savings to fund its growth, which has been sufficient though expensive (cost of savings at 22% in 2007) and mainly short term. In the absence of a prospective detailed budget, funding needs are not well identified, but amount for a minimum of 30 M RUB (850 K EUR), equivalent to the estimated cost of a branch opening in Khabarovsk. So far, Narodnyi has benefited from a single loan from Zenturion Capital, and has rightly identified access to cheaper sources of funding as a key success factor for its future growth. In that regard, it has started investigating international microfinance investors, but little communication and weak financial planning might

hinder its capacity to obtain the much needed funds on the short term. This is especially true as its core Capital Adequacy ratio (CAR) has always stood below 3%, which is far below the minimum required of 20% for a young institution of its size.

### Liquidity risk

Liquidity is not properly managed within the institution. There are no cash-flow projections and the daily provisions on amounts disbursed and reimbursed are not sufficient to mitigate liquidity risks: liabilities constantly exceeds assets throughout the year, thus exposing the institution to a potential liquidity crisis at any time, especially in case of an important withdrawal of savings, which are the main component of liabilities. This is particularly true since deposit withdrawal coverage has drastically fallen from over 600% in 2006 to less than 15% in 2007, rendering ineffective internal liquidity management measures such as the 14-day notice required before any cash withdrawal. During a period of increased withdrawal activity, such as year-end, tensions on liquidity are evidenced by a very low Liquidity to Assets ratio (LAR) that dropped down to 0.4% in 2007. The Current ratio is critically low 24% (vs. minimum of 75%), despite 1-month and 3-month Quick ratios above 100%. Operating expenses coverage has fallen to 0.5 month, also critically below the 3-month minimum best practice.

### Market risk

Narodnyi is not exposed to market risks as it does not have any loan in foreign currency or with a floating interest rate.

### ■ Efficiency and Profitability

Efficiency and Profitability is rated "c"

Below figures are indicative and based on non-audited financial statements

### Profitability analysis

Narodnyi broke even in 2005, two years after it truly began its operations. On unadjusted basis, it has been a profitable institution with a very low margin ever since, as evidenced by an average ROA of 0.3%. When adjusted by taking into account loan loss provisioning expenses, the margin is null to negative. This is comparable to the performance of Credit Unions (ROA=0.3%) but much lower than ECA sustainable peers (ROA=6%). Since the cooperative has virtually not equity, its leverage ratio is very high (close to 100x in 2007 vs. a maximum of 35x for Credit Unions) and results in a very high ROE (26% in 2007 vs. a 2.5% median for Credit Unions and 11.8% for ECA sustainable peers).

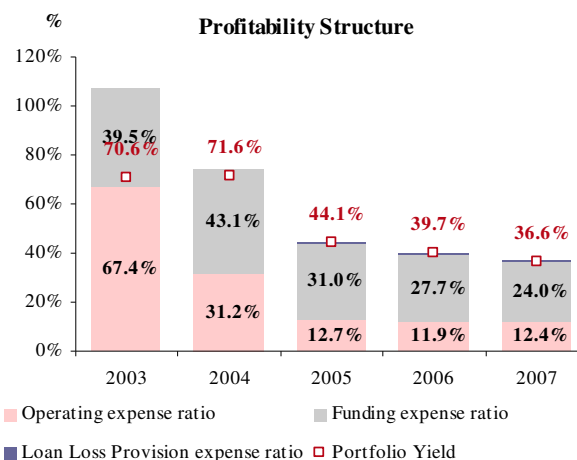
These figures reflect Narodnyi's present interest rate structure and position on the market: it attracts members by offering higher interest rates on deposits than banks, and borrowers by providing cheaper loans. Cost of savings as well as effective rates on loans have decreased over the years, but remain at a spread level that allows practically no room to maneuver once the operating expenses are netted out. Located next to the big town of Khabarovsk, Birobijan is the first natural place of expansion of all major commercial banks: Narodnyi thus faces increased competition, with over 10 retail banks providing similar financial services (including the large KMB Bank), atop of loans to SME, and 2 MFIs offering a very close range of products (including Counterpart<sup>8</sup>). It has managed to maintain good competitive advantages so far, not only by privileging an individual approach, but also by providing faster disbursements as compared to banks, flexible schedule of reimbursement (vs. fixed days for both banks and MFIs), attractive rates on savings (22% vs. a maximum of 18%), potential rescheduling as well as free payment services (e.g. members' bills settlement). Narodnyi is nevertheless penalized by its very low capitalization and, though dynamic, remains a small actor on the market. Through LOs, customer feedback is at the base of the development of new products, which are approved by BOD after reflection upon the proper interest rate. Limited financial analysis capacities do not allow fine-tuning these rates at the moment, but this should be resolved once the new version of 1-C is installed.

Operating expenses ratio have gone down to 12.4% as of December 2007, which is slightly better than Credit Unions and best performing ECA peers (respectively standing at 14% and 13.2%). Until 2006, this was the result of increased productivity (peaking at 102 clients/LO), but is mainly due to an increase of the average loan size in 2007, which offsets the increased cost per borrower and the productivity drop to 85 clients/LO, resulting from an overall decrease in the number of clients. Operating expenses are expected to remain stable, as it will be hard to increase productivity under the current structure, especially since LOs do not directly manage the client relationship and that new administrative staff will be hired to better address segregation of duties.

Financial expenses have been trending downward with the reduction in rates offered to members'. Cost of savings stands at 22% in 2007, close to the cost of the Zenturion loan, which bore a 22% interest rate. Cost of savings is expected to remain stable, while cost of liabilities might fluctuate, depending on Narodnyi's capacities to attract external funding.

<sup>8</sup> Counterpart Enterprise Fund is a not-for-profit institution based in Khabarovsk and created in 1998 with the support of USAID. It has managed to become an important regional player since, and benefits from cheap sources of funding (international grants as well as local and regional funds).

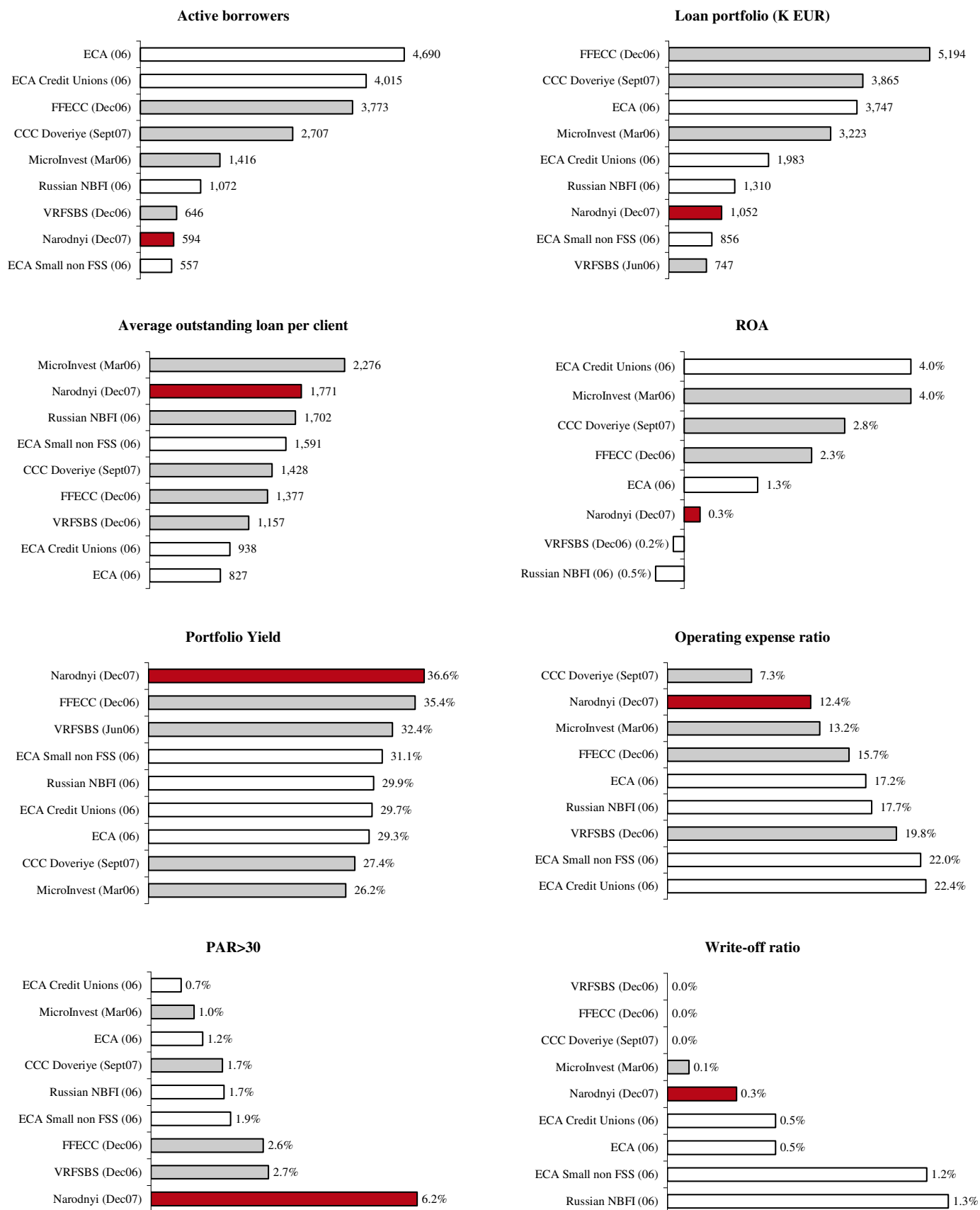
With an average of 95% over the past few years, asset deployment ratio is excellent and allows Narodnyi to maximize profits generated by its portfolio.



Narodnyi's profitability outlook is stable given that the institution faces many major challenges, such as accessing cheaper funds and finding the appropriate interest structure that would allow it to build its equity, as well as become and remain sustainable.

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

## Benchmarking



Source: MiX Benchmarking Microfinance in Eastern Europe and Central Asia (ECA) 2006, medians; Planet Rating reports; exchange rate of 1.5 USD/EUR.

Data in EUR, unless otherwise stated

## ■ Performance indicators

Below figures are indicative and based on non-audited financial statements

Loan Portfolio	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
<b>Loan portfolio evolution</b>						
Loan portfolio	11,635	84,714	262,219	563,003	787,385	1,051,763
Loan portfolio (RUB)	427,000	3,109,000	9,925,000	19,159,000	27,338,000	37,285,000
Evolution	-	628.1%	219.2%	93.0%	42.7%	36.4%
Average outstanding loan	891	42,032	130,665	421,606	675,193	865,577
Active borrowers	35	184	418	457	614	594
Evolution	-	425.7%	127.2%	9.3%	34.4%	(3.3%)
Average outstanding loan per client	332	460	627	1,232	1,282	1,771
% of GDP per capita	16.4%	18.5%	20.1%	27.8%	23.9%	29.5%
Average amount disbursed per loan	351	632	712	1,057	1,166	1,895
% of GDP per capita	17.3%	25.4%	22.8%	23.9%	21.7%	31.6%
<b>Portfolio quality</b>						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	13.1%	10.2%	9.8%	7.4%	11.1%	0.6%
PAR > 365	0.0%	3.4%	2.5%	6.2%	5.0%	5.6%
Write-off ratio	0.00%	0.00%	0.00%	0.03%	0.00%	0.32%
<b>Credit risk coverage</b>						
Risk coverage ratio (PAR 30)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31 net of loan loss provision / Equity	373.3%	1,033.3%	601.5%	986.5%	1,396.5%	561.0%
<b>Savings</b>						
Outstanding deposits	12,452	105,777	261,110	543,785	768,059	1,081,157
Outstanding deposits (RUB)	457,000	3,882,000	9,883,000	18,505,000	26,667,000	38,327,000
Evolution	-	749.5%	154.6%	87.2%	44.1%	43.7%
Mandatory savings (%)	2.0%	1.2%	0.7%	0.5%	0.4%	0.3%
Voluntary savings (%)	98.0%	98.8%	99.3%	99.5%	99.6%	99.7%
Active savers	12	57	110	154	193	258
Evolution	-	375.0%	93.0%	40.0%	25.3%	33.7%
Average outstanding deposit per saver	1,038	1,856	2,374	3,531	3,980	4,191
Mandatory	7	7	5	6	5	5
Voluntary	1,017	1,834	2,356	3,382	3,787	4,115
<b>Staff</b>						
Total number of staff	2	4	5	6	6	7
% Credit officers	0.0%	25.0%	20.0%	33.3%	33.3%	42.9%
Turnover	0.0%	33.3%	22.2%	18.2%	0.0%	46.2%
<b>Profitability analysis</b>						
ROE	200.0%	(1,964.9%)	(110.1%)	25.9%	17.5%	26.3%
Liabilities / Equity	33.80x	96.79x	50.1x	76.5x	89.1x	94.2x
Capital adequacy ratio	2.9%	1.1%	2.1%	1.4%	1.2%	1.1%
ROA	5.7%	(24.2%)	(1.9%)	0.4%	0.2%	0.3%
<b>Profitability structure</b>						
Portfolio Yield	107.0%	70.6%	71.6%	44.1%	39.7%	36.6%
Operating expense ratio	0.0%	67.4%	31.2%	12.7%	11.9%	12.4%
Cost per borrower	-	154	98	117	131	181
Staff productivity	18	46	84	76	102	85
Loan officer productivity	-	184	418	229	307	198
Average outstanding loan per client (EUR)	332	460	627	1,232	1,282	1,771
Funding expense ratio	61.1%	39.5%	43.1%	31.0%	27.7%	24.0%
Cost of savings	8.8%	28.1%	31.0%	31.3%	27.6%	22.0%
Cost of liabilities	-	-	-	0.0%	21.9%	34.2%
Loan Loss Provision expense ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
PAR 31-365	13.1%	10.2%	9.8%	7.4%	11.1%	0.6%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	81.8%	75.7%	94.7%	92.9%	95.7%	94.8%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Liquidity</b>						
Cash to demand deposits	-	34,500%	-	4,593%	618%	10.9%
Liquidity / Total assets (LAR)	0.0%	8.4%	2.5%	3.3%	2.3%	0.4%
Exchange rate 1 EUR= xx RUB	36.7	36.7	37.9	34.0	34.7	35.5

Narodnyi Kredit Income Statement	Notes	RUB					EUR					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
<b>Financial Revenue (a)</b>		<b>1,089,000</b>	<b>3,542,000</b>	<b>6,328,000</b>	<b>9,329,000</b>	<b>11,361,000</b>	<b>29,673</b>	<b>93,580</b>	<b>185,954</b>	<b>268,692</b>	<b>320,480</b>	<b>78.7%</b>	<b>47.4%</b>	<b>21.8%</b>
Financial Revenue from Loan Portfolio		1,089,000	3,542,000	6,328,000	9,301,000	11,242,000	29,673	93,580	185,954	267,886	317,123	78.7%	47.0%	20.9%
Interest on Loan Portfolio	1	959,000	3,268,000	5,811,000	8,709,000	10,072,000	26,131	86,341	170,761	250,835	284,118	77.8%	49.9%	15.7%
Fees and Commissions on Loan Portfolio		130,000	274,000	517,000	592,000	1,170,000	3,542	7,239	15,192	17,051	33,004	88.7%	14.5%	97.6%
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Other Operating Revenue	2	-	-	-	28,000	119,000	-	-	-	806	3,357	-	-	325.0%
<b>Financial Expense (b)</b>		<b>609,000</b>	<b>2,134,000</b>	<b>4,445,000</b>	<b>6,493,000</b>	<b>7,356,000</b>	<b>16,594</b>	<b>56,380</b>	<b>130,620</b>	<b>187,010</b>	<b>207,504</b>	<b>108.3%</b>	<b>46.1%</b>	<b>13.3%</b>
Interest paid on borrowings		-	-	-	259,000	202,000	-	-	-	7,460	5,698	-	-	(22.0%)
Interest paid on deposits		609,000	2,134,000	4,445,000	6,234,000	7,136,000	16,594	56,380	130,620	179,551	201,298	108.3%	40.2%	14.5%
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	3	-	-	-	-	18,000	-	-	-	-	508	-	-	-
<b>Financial income [c=a-b]</b>		<b>480,000</b>	<b>1,408,000</b>	<b>1,883,000</b>	<b>2,836,000</b>	<b>4,005,000</b>	<b>13,079</b>	<b>37,199</b>	<b>55,334</b>	<b>81,682</b>	<b>112,976</b>	<b>33.7%</b>	<b>50.6%</b>	<b>41.2%</b>
<b>Net Loan Loss provision expense (d)</b>		-	-	<b>4,000</b>	-	<b>98,000</b>	-	-	<b>118</b>	-	<b>2,764</b>	-	<b>(100.0%)</b>	-
Loan loss provision expense and write-off		-	-	4,000	-	98,000	-	-	118	-	2,764	-	(100.0%)	-
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>		<b>1,040,000</b>	<b>1,544,000</b>	<b>1,818,000</b>	<b>2,785,000</b>	<b>3,811,000</b>	<b>28,338</b>	<b>40,793</b>	<b>53,423</b>	<b>80,213</b>	<b>107,504</b>	<b>17.7%</b>	<b>53.2%</b>	<b>36.8%</b>
Personnel Expense (includes fringe)		447,000	596,000	565,000	1,124,000	1,366,000	12,180	15,746	16,603	32,373	38,533	(5.2%)	98.9%	21.5%
Administrative Expense (non-staff operating expenses)		593,000	948,000	1,253,000	1,661,000	2,445,000	16,158	25,046	36,820	47,840	68,970	32.2%	32.6%	47.2%
Depreciation and amortization		3,000	1,000	39,000	98,000	76,000	82	26	1,146	2,823	2,144	3,800.0%	151.3%	(22.4%)
Rent		61,000	228,000	480,000	520,000	560,000	1,662	6,024	14,105	14,977	15,797	110.5%	8.3%	7.7%
Advertising		61,000	32,000	71,000	211,000	515,000	1,662	845	2,086	6,077	14,528	121.9%	197.2%	144.1%
Training	4	96,000	57,000	33,000	128,000	-	2,616	1,506	970	3,687	-	(42.1%)	287.9%	(100.0%)
Security		-	60,000	141,000	249,000	362,000	-	1,585	4,143	7,172	10,212	135.0%	76.6%	45.4%
IT		110,000	73,000	80,000	91,000	181,000	2,997	1,929	2,351	2,621	5,106	9.6%	13.8%	98.9%
Travel		98,000	66,000	56,000	104,000	55,000	2,670	1,744	1,646	2,995	1,551	(15.2%)	85.7%	(47.1%)
Maintenance		46,000	114,000	169,000	138,000	298,000	1,253	3,012	4,966	3,975	8,406	48.2%	(18.3%)	115.9%
Others		118,000	317,000	184,000	122,000	398,000	3,215	8,375	5,407	3,514	11,227	(42.0%)	(33.7%)	226.2%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>(560,000)</b>	<b>(136,000)</b>	<b>61,000</b>	<b>51,000</b>	<b>96,000</b>	<b>(15,259)</b>	<b>(3,593)</b>	<b>1,793</b>	<b>1,469</b>	<b>2,708</b>	<b>(144.9%)</b>	<b>(16.4%)</b>	<b>88.2%</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>(560,000)</b>	<b>(136,000)</b>	<b>61,000</b>	<b>51,000</b>	<b>96,000</b>	<b>(15,259)</b>	<b>(3,593)</b>	<b>1,793</b>	<b>1,469</b>	<b>2,708</b>	<b>(144.9%)</b>	<b>(16.4%)</b>	<b>88.2%</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>(560,000)</b>	<b>(136,000)</b>	<b>61,000</b>	<b>51,000</b>	<b>96,000</b>	<b>(15,259)</b>	<b>(3,593)</b>	<b>1,793</b>	<b>1,469</b>	<b>2,708</b>	<b>(144.9%)</b>	<b>(16.4%)</b>	<b>88.2%</b>
Donations (l)	5	587,000	299,000	-	-	-	15,995	7,900	-	-	-	(100.0%)	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>27,000</b>	<b>163,000</b>	<b>61,000</b>	<b>51,000</b>	<b>96,000</b>	<b>736</b>	<b>4,306</b>	<b>1,793</b>	<b>1,469</b>	<b>2,708</b>	<b>(144.9%)</b>	<b>(16.4%)</b>	<b>88.2%</b>

Notes: 1) Including the application fees and the fees on savings deposits; 2) Rent to Counterpart; 3) Commission paid on the Zenturion loan (on closing); 4) Trainings included in "others" for 2007; 5) Eurasia Foundation donation for Operating Expenses.

Narodnyi Kredit Balance sheet	Notes	RUB					EUR					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
<b>ASSETS</b>		<b>4,107,000</b>	<b>10,480,000</b>	<b>20,619,000</b>	<b>28,562,000</b>	<b>39,316,000</b>	<b>111,907</b>	<b>276,882</b>	<b>605,907</b>	<b>822,638</b>	<b>1,109,055</b>	<b>96.7%</b>	<b>38.5%</b>	<b>37.7%</b>
<b>Short Term Assets</b>		<b>4,058,000</b>	<b>7,194,000</b>	<b>3,504,000</b>	<b>3,570,000</b>	<b>2,526,000</b>	<b>110,572</b>	<b>190,066</b>	<b>102,968</b>	<b>102,823</b>	<b>71,255</b>	<b>(51.3%)</b>	<b>1.9%</b>	<b>(29.2%)</b>
Cash and Due from Banks		345,000	265,000	689,000	649,000	173,000	9,401	7,001	20,247	18,692	4,880	160.0%	(5.8%)	(73.3%)
Short Term Investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		3,109,000	6,753,000	2,333,000	2,666,000	890,000	84,714	178,415	68,557	76,786	25,106	(65.5%)	14.3%	(66.6%)
Short Term Gross Loan Portfolio		3,109,000	6,753,000	2,333,000	2,666,000	890,000	84,714	178,415	68,557	76,786	25,106	(65.5%)	14.3%	(66.6%)
(Loan Loss Reserve)		-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Receivable		72,000	107,000	105,000	189,000	154,000	1,962	2,827	3,086	5,444	4,344	(1.9%)	80.0%	(18.5%)
On loan portfolio		72,000	107,000	105,000	189,000	154,000	1,962	2,827	3,086	5,444	4,344	(1.9%)	80.0%	(18.5%)
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		532,000	69,000	377,000	66,000	1,309,000	14,496	1,823	11,078	1,901	36,925	446.4%	(82.5%)	1,883.3%
<b>Long term assets</b>		<b>49,000</b>	<b>3,286,000</b>	<b>17,115,000</b>	<b>24,992,000</b>	<b>36,790,000</b>	<b>1,335</b>	<b>86,816</b>	<b>502,939</b>	<b>719,816</b>	<b>1,037,800</b>	<b>420.8%</b>	<b>46.0%</b>	<b>47.2%</b>
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	3,172,000	16,826,000	24,672,000	36,395,000	-	83,804	494,446	710,599	1,026,657	430.5%	46.6%	47.5%
Net Fixed Assets		49,000	114,000	289,000	320,000	395,000	1,335	3,012	8,493	9,217	11,142	153.5%	10.7%	23.4%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>4,107,000</b>	<b>10,480,000</b>	<b>20,619,000</b>	<b>28,562,000</b>	<b>39,316,000</b>	<b>111,907</b>	<b>276,882</b>	<b>605,907</b>	<b>822,638</b>	<b>1,109,055</b>	<b>96.7%</b>	<b>38.5%</b>	<b>37.7%</b>
<b>Liabilities</b>		<b>4,065,000</b>	<b>10,275,000</b>	<b>20,353,000</b>	<b>28,245,000</b>	<b>38,903,000</b>	<b>110,763</b>	<b>271,466</b>	<b>598,090</b>	<b>813,508</b>	<b>1,097,405</b>	<b>98.1%</b>	<b>38.8%</b>	<b>37.7%</b>
Short term liabilities		1,322,000	1,900,000	9,237,000	13,241,000	15,962,000	36,022	50,198	271,437	381,365	450,268	386.2%	43.3%	20.5%
Demand Deposits		1,000	-	15,000	105,000	1,588,000	27	-	441	3,024	44,795	-	600.0%	1,412.4%
Compulsory Deposits		46,000	74,000	93,000	109,000	111,000	1,253	1,955	2,733	3,139	3,131	25.7%	17.2%	1.8%
Short Term Time Deposits		1,092,000	1,434,000	8,463,000	11,449,000	13,687,000	29,755	37,886	248,692	329,752	386,093	490.2%	35.3%	19.5%
Short Term Borrowings		-	-	-	1,182,000	-	-	-	-	34,044	-	-	-	(100.0%)
Interest payable		93,000	332,000	635,000	344,000	441,000	2,534	8,771	18,660	9,908	12,440	91.3%	(45.8%)	28.2%
Accounts Payable and Other Short Term Liabilities		90,000	60,000	31,000	52,000	135,000	2,452	1,585	911	1,498	3,808	(48.3%)	67.7%	159.6%
Long term liabilities		2,743,000	8,375,000	11,116,000	15,004,000	22,941,000	74,741	221,268	326,653	432,143	647,137	32.7%	35.0%	52.9%
Long Term Time Deposits		2,743,000	8,375,000	9,934,000	15,004,000	22,941,000	74,741	221,268	291,919	432,143	647,137	18.6%	51.0%	52.9%
Long Term Borrowings		-	-	1,182,000	-	-	-	-	34,734	-	-	-	(100.0%)	-
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>		<b>42,000</b>	<b>205,000</b>	<b>266,000</b>	<b>317,000</b>	<b>413,000</b>	<b>1,144</b>	<b>5,416</b>	<b>7,817</b>	<b>9,130</b>	<b>11,650</b>	<b>29.8%</b>	<b>19.2%</b>	<b>30.3%</b>
<b>Tier 1 Capital</b>		<b>42,000</b>	<b>205,000</b>	<b>211,000</b>	<b>145,000</b>	<b>175,000</b>								
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity		587,000	886,000	886,000	886,000	886,000	15,995	23,408	26,036	25,518	24,993	0.0%	0.0%	0.0%
Retained earnings without donations and reserves		(545,000)	(681,000)	(675,000)	(741,000)	(711,000)	(14,850)	(17,992)	(19,835)	(21,342)	(20,056)	(0.9%)	9.8%	(4.0%)
<b>Tier 2 Capital</b>				55,000	172,000	238,000			1,616	4,954	6,714		212.7%	38.4%
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts	1	-	-	55,000	172,000	238,000	-	-	1,616	4,954	6,714	-	212.7%	38.4%

Notes: 1) Death Insurance Fund reserve.

## ■ 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-		
D	<b>High risk:</b> Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	