

## VisionFund Mongolia, Mongolia

Established in 2004 as a non-bank financial institution (NBFI), VisionFund Mongolia (VFM) serves the economically active poor as an integral part of the operations of World Vision Mongolia (WVM), the largest NGO in the country. Based in Ulaan Baatar, VFM operates out of nine branches and leverages the partnership with WVM to provide microfinance services to its Area Development Programs (ADPs). With a staff of 87, VFM offers both group and individual loans. As of July 2009, the NBFI maintained a gross loan portfolio of 2.6 B MNT (1.8 M USD) from 3,636 active borrowers.

### GIRAFE Rating

#### Rating

**C++**

#### Outlook

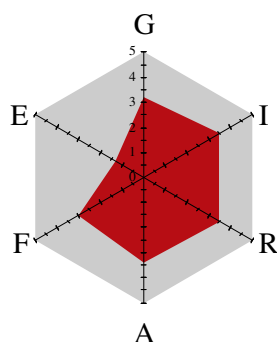
**Stable**

#### Date of the rating

**September 2009**

Valid until August 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Since its first full year of operations (2005), VFM has failed to reach profitability, with negative return on assets (ROA of -5.0% at the end of 2008) and high operating expense (Opex) ratios in comparison to its peers.
- The Management Team (MT) demonstrates sufficient execution capacity (e.g. controlling delinquency) and appears eager to adjust operational strategies to the changing economic and microfinance landscape of Mongolia.
- An efficient and reliable Management Information System (MIS) allows VFM to monitor the loan portfolio in real-time.
- The conservative focus on delinquency management has come at the general expense of growing the loan portfolio.
- Marketing efforts are currently limited due to the lack of client-orientation by staff and a head of the marketing department (still to be hired).
- The global financial crisis has partly contributed to a contraction of the loan portfolio and high client dropouts, although portfolio at risk (PAR 30) has remained within internally defined targets (of 3.0%) and industry standards.

#### Outlook

Planet Rating assigns VFM a stable outlook. In the current economic downturn, VFM has emphasized portfolio quality over expanding the loan portfolio and has consolidated its operations in preparation for future growth. To the extent economic recovery quickly takes hold in Mongolia, VFM should generally benefit from increased stability and confidence in the financial sector.

#### Performance indicators

USD	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jul. 2009
Assets	427,717	752,488	1,298,456	2,817,384	2,773,096
Loan portfolio	265,695	473,453	920,287	2,229,674	1,810,901
Active borrowers	2,395	2,820	3,903	4,808	3,636
Average outstanding loan per client	111	168	236	464	498
Staff	12	30	66	81	87
ROE	0.2%	(5.8%)	(15.9%)	(5.7%)	(5.5%)
ROA (without donations)	0.2%	(5.6%)	(15.1%)	(5.0%)	(4.4%)
Liabilities / Equity	0.01x	0.06x	0.05x	0.20x	0.30x
Portfolio yield	67.0%	56.3%	40.5%	35.1%	34.9%
Operating expense ratio	62.5%	56.0%	53.3%	44.0%	40.5%
Funding expense ratio	(2.6%)	0.6%	(0.0%)	(0.5%)	0.6%
Loan Loss Provision expense ratio	3.6%	2.1%	8.7%	0.0%	1.5%
PAR 31-365	0.0%	3.7%	8.4%	0.3%	3.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	3.0%	0.0%	0.7%

## Microfinance sector

In the 1990s, a series of banking crises accompanied Mongolia's transition to a market economy. By the end of the 1990s, a highly fragmented banking sector began to consolidate. NBFIs filled the gaps created by the absence of banking services to the middle and lower-income segments of the population, along with the rural countryside.<sup>1</sup>

Over the past decade, the banking sector in Mongolia has stabilized and strengthened, growing vigorously in the recent past. As a consequence, Mongolia enjoys an extremely high rate of financial services penetration. Given the country's low population density,<sup>2</sup> this achievement is significant, particularly in the absence of a microfinance enabling environment.

Out of Mongolia's population of 2.7 million, as much as 70% of all households qualify as clients of microfinance in Mongolia.<sup>3</sup> The Government of Mongolia considers microfinance as an important tool in the fight against poverty.<sup>4</sup> The Bank of Mongolia (BOM) stated that demand for loans remains high and that microfinance is becoming an important source of self-employment that deserves policy and financial support. Micro-loans are used for trading and service businesses, with a significant portion going to agriculture-related businesses, such as animal herding/husbandry and growing crops/vegetables.

Formal microfinance providers include commercial banks, NBFIs, and Saving and Credit Unions (SCUs). While BOM oversees banks, NBFIs and SCUs fall under the control of the Financial and Regulatory Commission (FRC), set up by the Parliament to regulate all non-bank financial activities, which also encompasses the insurance industry and securities markets.<sup>5</sup> Over 1,500 financial institutions currently operate in Mongolia, and about 132 are registered with the FRC. Oversight of financial institutions by the BOM and FRC appear sufficient,<sup>6</sup> focusing on preventing systemic risks in the financial sector. Only commercial banks can mobilize savings from the public, with SCUs limited to serving their members. NBFIs must submit

monthly reports showing compliance with prudential ratios and quarterly financial statements. With a track record of suspending licenses, the FRC uses this information to actively police NBFIs.

Currently, 17 commercial banks, 162 NBFIs, and over 100 SCUs serve Mongolia's geographically dispersed population. Among the commercial banks, two clearly stand out as premier microfinance banks: Khan Bank (gross loan portfolio of 477 M USD and 320,190 active borrowers) and Xac Bank (gross loan portfolio of 119 M USD and 62,788 active borrowers), both with extensive coverage throughout the country.<sup>7</sup> Mongol Post Bank has recently made strides into the microfinance market as well. Of the NBFIs, over 50 are donor-funded NGOs engaging in microfinance. The most prominent NBFIs working in microfinance include VFM, Credit Mongol, and Transcapital Financial Services. Despite growing outreach to rural areas, upwards of four-fifths of microfinance loans outstanding are still concentrated in the capital city and larger towns.

All financial institutions contribute to the Credit Information Bureau (CIB) set up by the BOM in 1996. Computerized and accessible to all financial institutions, the CIB provides real-time credit information (such as loan, borrower, and collateral) via secure internet links.

## Political & economic environment

### Significant growth slowdown

Economic growth remained strong in 2008, driven by the rise of prices for gold and copper until September, which represent 54% of exports. The surge of inflation (attributable to expansionary monetary and fiscal policies and to the increase in raw material prices) had a substantial social impact with the poverty (36%) and unemployment rate (14%) already high.

In 2009, the decline of copper prices is expected to undermine growth significantly. Monetary and fiscal policy is moreover expected to grow tighter to make it possible to reduce inflation, an objective facilitated by the downturn of raw material prices.

### Deterioration of the financial situation

Despite increasing exports, the current account deficit widened in 2008 amid the growth of imports of capital goods for investments in the mining sector and increases in oil and foodstuff prices. And the deficit will likely widen further in 2009 as a result of the decline in copper prices. Financing needs will thus increase in 2009 and won't be entirely covered by foreign direct investment. Indeed, the political

<sup>1</sup> World Bank Mongolia Country Brief.

<sup>2</sup> The fourth lowest in the world, at 1.5 people per square km. About half the population lives in rural remote areas.

<sup>3</sup> Sub-Sector Review of the Legal Environment of Microfinance in Mongolia, United Nations Development Programme Mongolia, 2004.

<sup>4</sup> According to a survey of public opinion published by the BOM in 2005, 67.3% of the 5,341 surveyed participants have a general idea of microfinance. Of these, 60% stated that they have access to micro-loans.

<sup>5</sup> As promulgated in the Law on the Legal Status of The Financial Regulatory Commission, November 2005.

<sup>6</sup> To receive licenses by the BOM and FRC, banks and non-bank financial services must comply with four main prudential ratios on: capital adequacy, loan risk, liquidity, and foreign exchange ratio.

<sup>7</sup> MixMarket data as of December, 2008.

crisis and the growing risk aversion have led to capital outflows (portfolio investments and FDI). In this context, Mongolia has funded its growing financing needs with FX reserves. Facing a liquidity crisis, the country has obtained a facility of 224 M USD in March 2009.

Besides, the banking sector remains fragile, undercapitalized and highly dollarized. In the final quarter 2008, banks were suffering as nervous depositors rushed to withdraw funds. In this context, the government announced that all deposits at the country's commercial banks would be guaranteed for three years, in an effort to shore up confidence. In a further effort to stabilize the situation, Parliament approved a 300 M USD bailout package for the banks. This costly support to several banks could, moreover, impede the public finance reforms.

### A tense political situation

The Democratic Party disputed the outcome of the June 2008 elections — officially won by the Mongolian People's Revolutionary Party (MPRP) — and refused to sit in Parliament until August 2008. The two parties ultimately agreed to form a coalition government headed by Sanjaagiin Bayar of the MPRP. Profound divisions will nonetheless likely continue to mark the new government and hamper the reform process. Governance shortcomings have moreover remained the country's Achilles heel.

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.

COFACE Business Climate Rating: C - The business environment is difficult. Corporate financial information is often unavailable and when available often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Inter-company transactions run major risks.

(USD billions)	2006	2007	2008(e)	2009(f)
Economic growth (%)	8.6	10.2	8.9	2.7
Inflation (%)	4.5	8.2	26.8	10.1
Public sector balance (%GDP)	8.1	2.2	1.5	0.6
Exports	1545	1952	2163	2237
Imports	1516	2170	3002	3362
Trade balance	29	-218	-839	-1125
Current account balance (%GDP)	2.7%	-1.3%	-11.8%	-14.6%
Foreign debt (%GDP)	45.8%	42.6%	39.1%	39.0%
Debt service (%G&S exports)	3.2%	4.2%	3.2%	4.0%
Foreign currency reserves (in months of imports)	4.3	4.5	4.3	4.3

**Source:** COFACE's Country Risk Rating Guidebook 2009. (e) estimates, (f) forecasts. **Disclosure Statement:** Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

A limited liability company under the Company Law of Mongolia, VFM originally received an NBFi license in 2004 from the BOM. On March 2005, this license and regulatory control was transferred to the FRC. Newly opened branches of VFM also require the approval of FRC, which generally insists that MFIs show a profit before expanding operations. To date, VFM has obtained an exemption to this general requirement because of the poverty focus of WVM. For the years under review, both the NIMM Audit Company (2005-2007) and the Ulaanbaatar Audit Corporation (2008) have provided audited financial statements to VFM. At no time have the auditors qualified their opinions. Although its audited financials follow the calendar year, the fiscal year for VFM starts on October 1<sup>st</sup> and ends on September 30<sup>th</sup>.

### World Vision Area Development Program

VFM acts as the microfinance service provider to WVM and its ADPs, which implement a variety of development projects aimed at reducing the poverty rate in specific regions. Over a 10-15 year lifespan, ADPs enact activities focused on children, their well-being, and corresponding community needs. Consolidating the growth of ADPs, VFM increases the range of services available to these targeted areas. Currently, VFM provides microfinance services to 14 of the 32 ADPs throughout Mongolia.

### Ownership

As a member of World Vision International (WVI), VFM benefits from funding and technical assistance provided by its microfinance arm, Vision Fund International (VFI). Fully owned by WVM, VFM plays an integral part to its parent's development objectives. VFM's governance body comprises a six-member Board of Directors (BOD), appointed by WVM in consultation with VFI. Four members belong to WVM, one from VFI, and another from WV New Zealand. Members of the BOD are elected to one three-year term - except for the Chairperson, by design the Country Director of WVM. Meeting quarterly in its governance role, the BOD also assists the MT in raising funds. Over the next two years, VFM expects to be integrated into VFI.<sup>8</sup> The BOD has two sub-committees, Audit and Risk Management.

<sup>8</sup> As stipulated in the Board Resolution of World Vision International on April 19, 2007 and based on WV Partnership Policy on Microfinance Governance, VFM plans to be majority owned by VFI. By expanding outside the WV network, this transformation provides VFM and VFI with more flexibility to source funds in the capital markets.

## Donations

Since its establishment, VFM has received a total of 4.0 B MNT (roughly 2.7 M USD) from various World Vision Partner Offices (WVPOs), which include: America, Canada, Germany, Hong Kong, Mongolia, New Zealand, and Switzerland. This donated capital has been provided for on-lending to specific ADP communities and VFM in its operations.

## Funding composition

As of July 2009, equity made up 77% of VFM's funding structure, with liabilities making up the remaining 23%. Drawn from international sources, its long-term liabilities reached 549 M MNT, offered on concessionary terms from various WVPOs and sourced in hard currency (377 K USD).

## Management team

The MT comprises an expatriate Executive Director (ED) and local Senior Managers, made up of the Head of Operations (HO), the Manager of Internal Controls and Assessment Division (MICAD), a Finance Manager (FM), and Credit Risk Manager (CRM). Rounding out the MT in the near future, VFM expects to hire a full-time Marketing Manager and MIS Coordinator.

- The ED, Mr. Timothy Hooper, Ph.D., took up his current position at VFM in July 2006. Having worked for commercial and central banks, donor organizations, and multilateral agencies, he boasts over 40 years of experience as an international financial development specialist. Mr. Hooper holds a Bachelor of Science in Economics from the London School of Economics (1958) and a Doctor of Philosophy from Tennessee State University (2002).

## Organization

From its headquarter (HQ), in Ulaan Baatar, VFM oversees a network of nine branches throughout the country. Headed by the Branch Manager (BM), field operations include a Branch Accountant (BA) for bookkeeping, Data Entry Officer for data processing and loan disbursements, a Customer Service Officer (CSO) to initiate clients, and a series of Loan Officers (LOs) to manage loan portfolios from 100-150 clients. At HQ, VFM outsources its IT and part of its Human Resources Management (HRM) to WVM, conveniently located in the same office building.

A credit committee composed of the BM, BA, CSO, and LOs approves loan amounts up to 5 M MNT (3.4 K USD). Loans of larger sizes require the approval of HQ Credit Committee, composed of the HO, CRM, and the Quality Assurance Coordinator (QAC). As an NBFI, VFM cannot

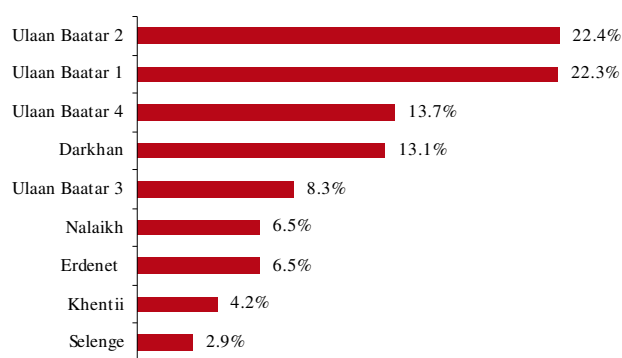
collect savings and performs its financial intermediation through an agreement with Khan Bank, where clients maintain accounts for deposits and withdrawals. As such, VFM follows a zero-cash on hand policy; and any branch cash from clients must be deposited within the next business day.

For its MIS, WVM relies on an off-the-shelf software called Achid Banker, developed by GrapeCity Inc. in Ulaan Baatar. This integrated MIS supplies real-time accounting and portfolio information through a Virtual Private Network (VPN).<sup>9</sup> Financial data from the branches are reconciled daily at both the branches and the HQ. For monthly financial consolidation in English, VFM uses the SunSystem program common to WV data management/accounting reports and Internet Banking systems.

## Market penetration

As of July 2009, VFM maintained a network of nine branches throughout the sparsely populated country. Its four branches in the capital city account for two-thirds of its outstanding loan portfolio. Future expansion focuses on both urban (Ulaan Baatar, Erdenet, and Darkhan) and rural areas (Khuvsgul and Uvurkhangai). Over the next few years, VFM hopes to cover a larger portion of the ADPs. Its main competitors include Credit Mongul, Transcapital Financial Services, and Xac Bank.

Outstanding loan portfolio per branch - Jul. 2009



## Products and services

VFM provides two loan products to the economically active poor, offered with a 1% commission and interest rates on declining balances:

- Group Solidarity Loan: Requiring a compulsory deposit equal to 30% of the loan amount and group guarantees, this product has disbursements of 30 - 750 K MNT (21 - 515 USD), depending on the cycle. With interest rates of 2.5-3.0% per month, this group loan carries an effective interest rate (EIR) of about 32.5-39.5% and 64.2-78.1%,

<sup>9</sup> Through its accounts with Khan Bank, VFM has real-time access to client and business transactions for daily reconciliation by its accountants.

without and with the cost of savings, respectively. Repayments occur once/twice monthly for loans of four to eight months.

- **Individual Loan:** Requiring collateral, this product offers loans in the range of 200 K - 20 M MNT (137 - 13.7 K USD), at 2.3-3.0% interest per month (EIR of about 29.0-43.5%). Repayments occur once/twice monthly for loans up to two years. Overtime, clients can graduate from the group loan to the individual loan.

In addition, VFM (with Habitat for Humanity Mongolia and some ADPs of WVM) has piloted a low cost housing loan in some of the ADPs. Interest rates fall in the range of 1.6-1.8% per month for loans up to four years.

## Networks

VFM belongs to World Vision International (WVI) and its local subsidiary WVM. As a WVI partner, VFM has membership with the SEEP Network and also actively cooperates with WVI's microfinance arm, VFI. The organization also holds membership in the Warsaw-based MFC (the Microfinance Centre for Central and Eastern Europe and NIS) and the recently formed Microfinance Institutions' Association of Mongolia.

## ■ Governance

Governance and Decision making is rated "b"

### Decision making

VFM has an adequate decision making process and weighs both social and financial objectives. Since its establishment, VFM has articulated a clearly established social mission and works in communities surrounding ADPs. Through regular quarterly meetings, the BOD provides good governance of VFM. Members of the BOD show a strong dedication to the mission of VFM and complement the strategic vision and mission of its parent organization, WVM.

As a subsidiary of WVM, VFM nonetheless adheres to a separate and independent governance structure, although staff from WVM sits on the board (four of the current six members) of VFM. Yet, the shared strategic vision under the umbrella of WVI assures a general congruence of organization interests and mission goals to the benefit of all organizations. Related party transactions are kept to a minimum, and diverging objectives – to the extent microfinance priorities of VFM conflict with the social outreach of WVM – appear manageable.

Drawn from backgrounds in social development and business, board members offer sufficient capacity, oversight,

and thoughtful guidance to VFM's operations.<sup>10</sup> With all current board members from the WV family, experience invariably leans towards social development; and stronger backgrounds in microfinance are required to improve overall governance. Moreover, a fresh infusion of external input would also benefit the organization's effective exercise of ownership.<sup>11</sup>

The BOD receives relevant and timely information that sufficiently details operational performance and financial indicators. In the past, board meetings have been adequately documented in minutes, although the most recent meetings (in April and July 2009) have yet to be recorded. Moreover, board minutes could also be better formalized to identify main organization issues and challenges to be addressed (with responsible tasks and deadlines). Such a prioritization would allow systematic follow-up of board decisions, in order to track their effective implementation.

## Planning

Recently revised (in April 2009), the current business plan (covering FY07-FY11) provides a coherent roadmap to reach operational self-sufficiency in the medium-term. Emphasis has been placed on consolidating the loan portfolio quality, strengthening its management capacity, and further supporting WV's ADP communities. However, the underlying environmental and institutional analysis of the plan could be complemented with an assessment of the macro-economic conditions of Mongolia, stronger review of market competition, and scenario analysis. Financial projections are based on a detailed analysis of specific portfolio and financial information, although major targets through July 2009 have yet to be met and require additional downward revisions.<sup>12</sup> The impact of the global financial crisis has severely impacted Mongolia in 2008 and early 2009, and VFM has not been immune. In terms of adjusting its strategy, planning, and projections, VFM's has not anticipated economic changes sufficiently.

Operational action plans per branch and department are produced but have yet to contribute to realistic goals and targets overall. Budgets per branch are monitored monthly but indicate a need to reevaluate basic assumptions underlying growth forecasts. Undertaken in June-September before the new fiscal year, the annual planning process involves good communication and a participatory, bottom-up approach to ensure staff buy-in of VFM's strategy and, thus, increases the likelihood of producing more achievable targets and realistic projections moving forward.

<sup>10</sup> All current board members hold MBA degrees.

<sup>11</sup> WV hopes to include one local, external board member in the near future.

<sup>12</sup> Through July 2009, for example, the number of clients and outstanding gross loan portfolio reached only 51.0% and 56.8% of their targets, respectively.

## Management team

The MT shows strong dedication and commitment to VFM's mission. Promoted through the ranks, the MT possesses longstanding industry experience and strong backgrounds in accounting and finance. Overseen by the HO, senior management applies an appropriate division of tasks, shows good team-work, works diligently, and promotes an overall culture of respect. As a result, the MT has sufficient execution ability (e.g. controlling delinquency) and appears eager to adjust operational strategies to the changing economic and microfinance landscape of Mongolia. Moving forward, more strategic thinking by the MT will be required to change the current focus on portfolio quality to growing the overall business (e.g. effective marketing and controlling expenses). Outsourced partially to WVM, the IT department and HRM provide administrative support to the MT.

Key-person risk is mitigated by a forward-looking ED who has appropriately empowered his management staff to take initiative and project leadership skills through collective decision making. Overall, the MT possesses sufficient operational experience with adequate assistance from field staff, whose skills could nonetheless be improved with focused training on marketing and client-orientation. Documented in minutes, monthly management meetings allow for smooth internal communication at HQ.

## Human resource management

Partially outsourced to WVM, the administration of human resources functions professionally, with staff contracts, job descriptions, and updated HR manuals. Each department assesses its own staffing and training requirements, which could ideally be centralized into a formal HR department to address broader strategic needs of VFM as a whole (e.g. evaluation of incentive scheme, training plan, staff appraisal, productivity, among many others). Recognizing this importance, VFM expects to develop its own HR department to meet its specific organizational requirements in microfinance.

A lengthy recruitment process for LOs (six-month probationary period, on-the-job training, and testing) enables the organization to identify appropriate financial skills and profiles. In addition, quarterly exams continuously re-assess LOs skills.

Continuous training is available to staff (most recently with the hiring of a microfinance consultant and English trainer), although formal processes to assess staff skills (as undertaken by a dedicated HR department to conduct yearly staff appraisals) would also contribute to motivating staff to work in the organization's best interests. In general, staff exhibit good morale, with a work environment conducive to teamwork, motivation, and performance. In the recent past,

staff turnover has remained manageable (below 10%), although an efficient staff retention mechanism remains elusive.<sup>13</sup>

## Information

Information is rated "b"

VFM relies on an efficient and reliable MIS for loan tracking and accounting. Installed in 2007, the Achid Banking system allows HQ and field staff to monitor the loan portfolio in real-time through a VPN, with daily reconciliation to ensure data consistency.

IT maintenance is outsourced to WVM, and VFM's use of the Achid Banking system receives sufficient support from the local MIS provider. Nonetheless, additional staff training will be required for additional systems upgrade or changes in the product offerings.

Data security is sufficient. Password security is adequately maintained with access based upon staff position and a minimum password complexity. Effective security for legal files are standardized and followed, ensuring proper storage and safeguard of loan documents. With daily back-up of information at the HO (via CD-Roms), systems are in place to ensure data security. In addition, the processing of loan data by its partner bank also mitigates the risk of data loss. Adequate anti-virus software is being used and updated weekly by the IT team at WVM.

Portfolio data is quite comprehensive and detailed, even at the branch level (e.g. active borrowers; portfolio information by sector, product, and LO; PAR and past dues by client and LOs, and client profile; among many others). Consolidated at HQ, monthly financial statements are available by branch, although some data discrepancies exist (e.g. depreciation of assets). Moreover, the accounting for donations and liabilities from various WVPOs has some limitations.<sup>14</sup> In addition, branch profitability cannot be accurately analyzed since HQ costs are not allocated to field operations.

## Risk Management

Risk Management is rated "b"

### Procedures and internal controls

VFM has instituted good standardized procedures for most areas of operations. Internal controls include separation of tasks, limitation of power, and hierarchical control. Regular

<sup>13</sup> Local staff work on yearly but renewable contracts.

<sup>14</sup> In 2006-2008 audited financial statements, for example, donations amounting to 768 M MNT failed to pass through the Income Statements. Long term liabilities require a permit from the FRC.

and mandatory checks by HQ staff (CRM, FM, MICAD) place effective controls on operational risks. Overall, the internal control system appears effective, with continual modifications to address changing risks. For example, management has placed additional internal controls to address incidences of cash fraud at the branches. VFM may also introduce staff rotation of BMs in the near future.

Its policies and procedures are adequately documented, with manuals sufficiently updated. Staff has a general awareness of organizational practices and mode of operations. Throughout the organization, formalized procedures are adequately observed. With limited cash transactions at the branches, cash security is sufficient, with branch safes providing storage of cash transactions available for deposit at its partner bank.

Daily reconciliation of bank accounts and accounting/portfolio information at the branches and HQ together guarantee data reliability.

### Internal audit

VFM has a moderately effective Internal Audit (IA) function with audits occurring sufficiently frequent but the scope of the checks could be improved, particularly as VFM becomes larger. Each branch can expect to be inspected twice yearly (one complete and one partial) on a random basis. Currently, IA falls under the auspices of the Internal Controls and Assessment Division (ICAD), which performs meaningful due diligence, with in-depth checks and detailed report findings of the branches, including client visits. HQ audits are also planned. For the most part, the ICAD provides mostly a procedural check of field operations, while broader institutional concerns (e.g. financial, legal, reputation risks) have escaped systematic inspection.

There is sufficient staff capacity to undertake the necessary audits. The QAC supports the operations of the MICAD. The ICAD staff possesses relevant skills and experience to carry out their current duties but will need more training to examine the broader risk profile. Complementing the work of the IA department, external auditors and WVI have provided opinions on the internal controls. And some recommendations have been implemented.

In terms of content, audit reports summarize detailed findings, with the scope of the checks, follow-up on recommendations for corrective measures (with deadlines), and management's response. Reporting to the ED instead of the BOD directly, the ICAD lacks an adequate institutional set-up to guarantee the independence of internal auditors, although VFM plans to set up such a line of authority in the

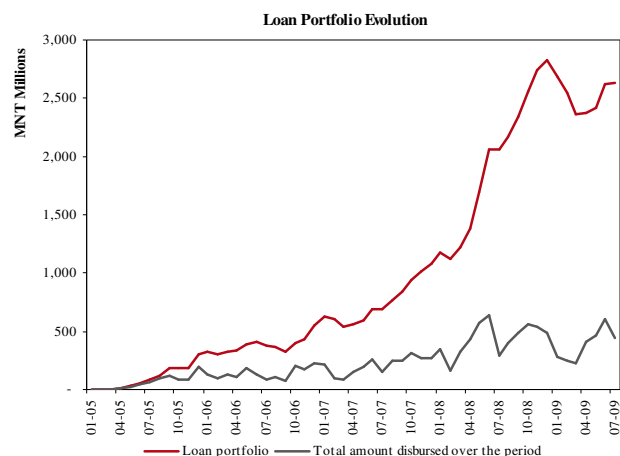
near future.<sup>15</sup> Moreover, WVM's internal audit team performs independent audits of VFM and reports to the BOD. WVM next plans to audit VFM before the end of the year; and ICAD expects to transform into as a proper Internal Audit Department, replacing WVM's Internal Audit role sometime in 2010.

## ■ Activities

Activities: products and services is rated "b"

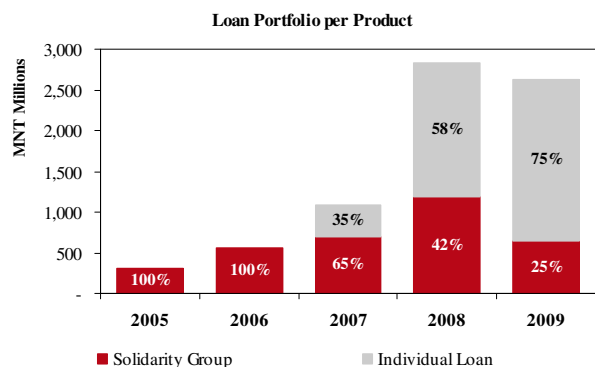
### Financial services evolution

Offering both group solidarity and individual loans, VFM has shown strong growth since its establishment. In 2005-2008, VFM grew its loan portfolio from 297.7 M MNT (265.7 K USD) to 2.8 B MNT (2.2 M USD), equivalent to a compound annual growth rate (CAGR) of 75.6%. During the same period, the number of active borrowers also measurably grew (from 2,395 to 2,808), but not to the extent as the portfolio (only by a CAGR of 19.0%). By July 2009, however, the loan portfolio contracted by 6.7% from the end of 2008, in part due to (i) the global economic crisis that infected Mongolia and (ii) the subsequent effort to consolidate the loan portfolio. During the same period, the number of clients contracted by -24.4%. In the recent past, VFM has reduced loan disbursements to new client, while existing clients began graduating into individual loans.



In terms of product offering, the introduction of individual loans in 2007 has made a strong contribution to the gross loan portfolio. With average outstanding loan size over four times the group loan, the individual loan accounts for the major growth in the portfolio. By July 2009, this product accounted for three-quarters of the portfolio. As for number of clients, however, the group solidarity loan accounts for 58.4% of active borrowers during the same period.

<sup>15</sup> At which time, the audit reports (or their summary findings) will need to be translated into English regularly as well.



### Financial services management

For its financial intermediation, VFM provides both solidarity group and individual loans to the entrepreneurial poor. On the whole, the financial services management applies an appropriate credit methodology to the product offerings. Approval of both loan products follows broadly similar procedures:

- loan application to determine a sufficient capacity to repay;
- due diligence to verify client businesses and/or collateral;
- credit check with the Credit Bureau of the BOM;
- computer calculation of credit rating for clients;
- credit committee submission for review; and
- loan approval and disbursement into client accounts.

LOs maintain a portfolio for both product offerings, which might ideally be segregated for specialized credit analysis. On the whole, individual loans are riskier and require more due diligence to determine credit-worthiness of clients. Still, a comprehensive credit review process ensures an adequate selection of suitable clients.

Field staff possesses the necessary tools for efficient delinquency management and follow-up on written-off loans. The MIS produces a daily list of clients expected to repay, as well as delinquent clients requiring phone call follow-ups. This focus on delinquency management has come at the general expense of growing the loan portfolio, however. Moving forward, a greater effort should be focused on marketing and client-orientation to grow the overall business.

### Credit risk

VFM has respectable PAR 30 at 3.0%, just in line with internally defined targets (< 3%) in July 2009 and in line with industry standards. At the end of 2008, VFM maintained even better PAR 30 (0.3%) than the industry leaders, Khan Bank (3.94%) and XacBank (1.67%). The global economic crisis has severely impacted the financial sector in Mongolia, and credit risk for the sector as a whole

has increased since 2007.<sup>16</sup> With PAR 30 of 4.2% in July 2009, group loans are performing less well than individual loans (PAR 30 of 2.7%) and account for the overall slowdown in loan disbursements. Further increase in PAR is expected to be mitigated by the following factors: continued strong focus on delinquency management, and general improvements of the economic conditions in Mongolia.

Implemented twice a year, VFM writes off loans that are late by 365 days or more. Rescheduled loans are allowed only under extreme circumstances. VFM plans and tracks specific portfolio diversification targets (e.g. trade, services, agriculture, housing) at the branches.

### Credit risk coverage

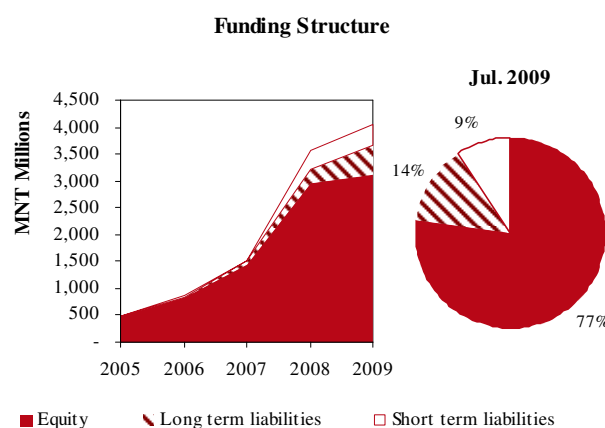
With PAR 180 covered at only 50%, the loan loss provisioning policy does not adequately cover potential losses. As a result, the loan loss provision reserve covers only PAR 30 at 37.0% as of July 2009, which is below the level of 90-100% defined as best practice. This decrease is due to the spike in PAR 91 from December 2008 to July 2009, particularly for individual loans. There is currently no insurance to cover risks related to specific sectors (e.g. agriculture).

### Funding and liquidity

Funding and liquidity is rated “b”

### Capitalization and funding strategy

With a Capital Adequacy Ratio of 96.9% (as of July 2009), VFM remains well capitalized. Compliance with minimum capital requirements is ensured for the years to come.



<sup>16</sup> According to the World Bank, bank lending to the private sector has come to a virtual standstill in 2009. Non-performing loans (plus loans with their principal in arrears) have continued to increase, reaching 20.4% of total loans outstanding in July 2009 (as compared to 5.2% from a year earlier, when the amount of loans outstanding was the same. Mongolia Monthly Brief, World Bank, August 2009.

VFM has a simple funding structure, which relies mostly on the support of WVPOs in the form of share capital, donated equity, or long-term debt<sup>17</sup> offered on concessionary terms. In the past, VFM has leveraged the network of WVI and VFI to raise needed share capital and donations. As concessionary funding are expected to be less available in the future, VFM plans to turn more to commercial funding and has taken necessary steps to tap the capital markets. Both the ED and the HO are in charge of securing funds and have sufficient knowledge about market rates. As VFM grows and professionalizes, this role could ideally be placed within the finance department. A proper funding strategy also needs to be developed.

In the coming fiscal year, funding needs are projected to reach 1.5 M USD, of which 1 M USD have already been secured from WVPOs. The remaining 500 K USD is expected to come from commercial sources.

### Liquidity risk

Because of the basic funding structure, liquidity risk is limited; and adequate liquidity management is in place. With current ratio over 100%, maturity risk is low, particularly with the short-term nature of its assets (such as client loans of maturities less than one year) and the longer-term liabilities and equity. Taking into account cash deposit at the bank, the Liquid to Asset Ratio currently stands at 12.5%, as compared to the best practice range of 5-10% for institutions not collecting voluntary savings. VFM currently covers over four months of operating expenses with cash, where best practices demands only three months.<sup>18</sup> As a policy, branches reserve 10% of their yearly expenses in cash, with HQ covering 20% of its yearly expenses.

The Finance Department focuses on accounting and production of financial information and conducts basic treasury management, with targets for financial management ratios (e.g. liquid ratio, cash management ratio). VFM has yet to monitor ALM risks in detail, however. Given the relatively straightforward financial structure of VFM, delayed focus on ALM management has thus far not affected VFM. Staff will need proper training in ALM risk, particularly when the funding structure becomes more diversified.

### Market risk

Foreign exchange risks are limited since VFM is exposed mostly through its USD dollar liabilities. As of July 2009, VFM holds an FX open position on liabilities of 7.9% of

Tiers 1 capital, within best practice limits of 15% maximum. In the context of a volatile exchange rate, however, this exposure is nonetheless worth monitoring. A 20% appreciation of the USD against the MNT would result in a 1.3 percentage point decrease of the ROA, which is significant given VFM's lack of profitability. With all liabilities subject to fixed rates, VFM has no interest rate risks.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “d”

### Profitability analysis

Since its first full year of operations (in 2005), VFM has failed to reach profitability, with negative ROA (-5.0% at the end of 2008). Decreasing over the years, the portfolio yield closely resembles the theoretical yield. However, the yield remains insufficient to cover operating costs.

VFM possesses moderate revenue quality for its two main lending products. Current pricing is estimated at slightly below market rates. As the only NBFI to offer solidarity group loans, VFM can effectively market its products to poorer clients who lack collateral. Moreover, integration with WV provides additional soft competitive advantages. Future product development focuses on agricultural loans and production development loans. Marketing efforts are currently limited due to the lack of (i) client-orientation by staff and (ii) a head of the marketing department (still to be hired).

On the expense side, VFM has room for major improvements. At the end of 2008, the Opex ratio stood at 44.0%, more than double its peer group in 2007 (ECA NBFI, Central Asia MFI, and Mongolia MFIs). At the same time, cost per borrower continues to grow, from a low of 20 USD in 2005 to 135 USD in 2008. VFM's productivity (59 borrowers/staff and 155 borrowers/LO at the end of 2008) was generally in line with Central Asia MFIs (68 and 159, respectively for the latest figures in 2007) but could nevertheless be improved, especially given the increasing average outstanding loans per client (from 111 USD in 2005 to almost 500 in July 2009).

At 78.5% (in December 2008), resource optimization is in line with best practices (80%), although the general contraction of the loan portfolio has recently reduced this figure (to 64.6% in July 2009).

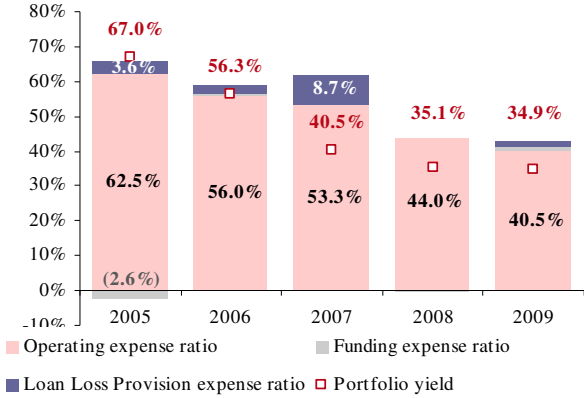
The profitability outlook for VFM is uncertain. The global financial crisis has partly contributed to a general contraction of the loan portfolio and client dropouts. Yet, VFM could also have been more proactive in reducing costs in such a

<sup>17</sup> These long-term debt may, in turn, transform into share capital upon regulatory approval by FRC.

<sup>18</sup> Still this cash position has gradually improved over the years, where cash has covered over ten months of operating expenses.

difficult business environment. To the extent economic recovery quickly takes hold in Mongolia, VFM should generally benefit from growing stability and confidence in the financial sector. Nonetheless, room for improvements could be made in the following areas: reducing expenses, optimizing resources, marketing the VFM brand, and improving overall productivity.

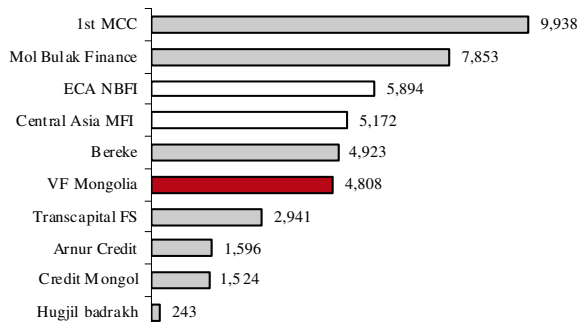
**Profitability Structure**



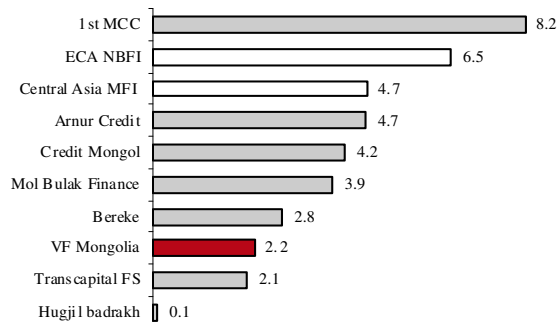
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

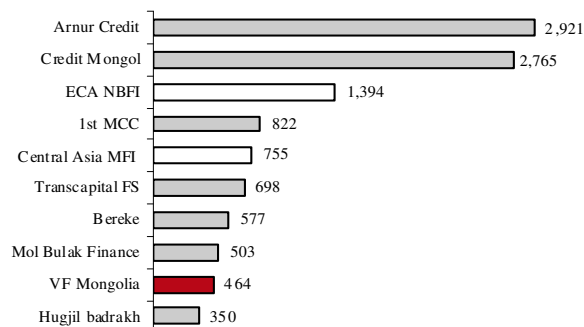
Active borrowers



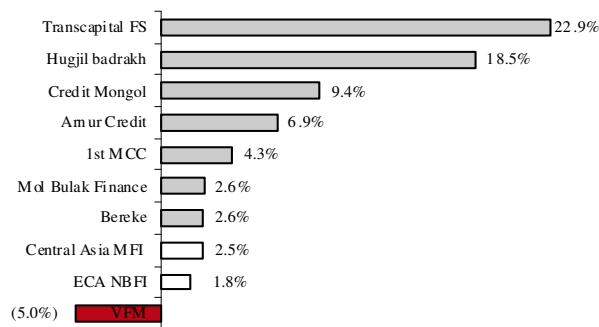
Loan portfolio (M USD)



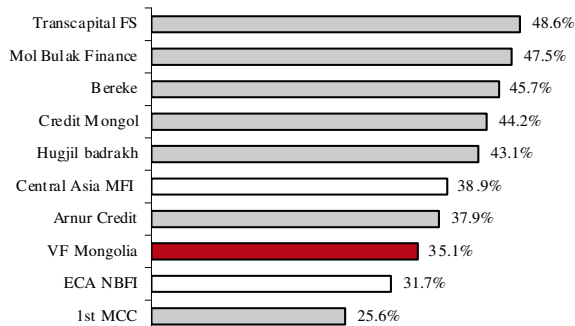
Average outstanding loan per client (USD)



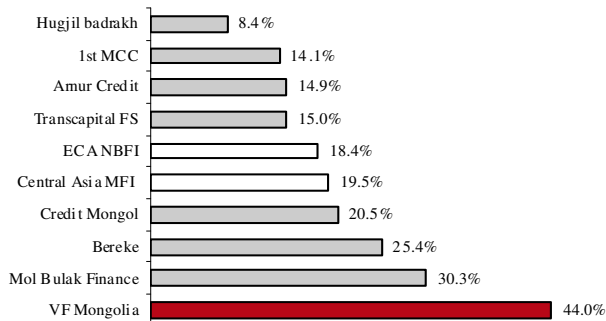
ROA



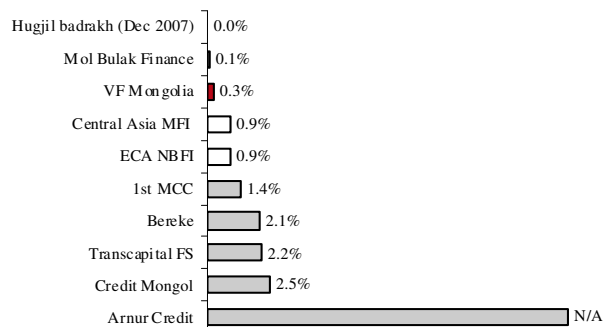
Portfolio Yield



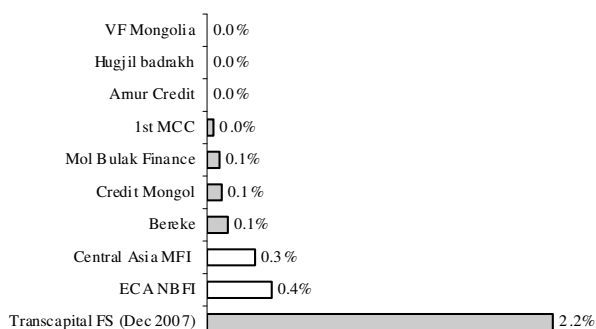
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Planet Rating data as of December 2008 for VF Mongolia; MixMarket MFI figures as of Dec 2008, except for Hugjil badrakh (2007) or otherwise stated; MIX peer group: Central Asia MFIs and ECA (Eastern Europe and Central Asia) NBFI. Benchmarks refer to median MFIs for 2007.

Note: VF Mongolia's peer group includes MFIs from Mongolia (Credit Mongol, Hugjil badrakh, and Transcapital Financial Services), Kazakhstan (Bereke, Mol Bulak Finance), and Kyrgyzstan (1<sup>st</sup> MCC: First Micro Credit Company and Amur Credit).

## ■ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jul. 2009
<b>Loan portfolio evolution</b>					
Loan portfolio	265,695	473,453	920,287	2,229,674	1,810,901
Loan portfolio (MNT)	297,676,700	551,572,900	1,076,708,700	2,826,134,700	2,635,404,385
Growth	-	85.3%	95.2%	162.5%	(6.7%)
Active borrowers	2,395	2,820	3,903	4,808	3,636
Growth	-	17.7%	38.4%	23.2%	(24.4%)
Average outstanding loan per client	111	168	236	464	498
% of GDP per capita	11.4%	13.6%	15.7%	25.4%	31.0%
Average amount disbursed per loan	144	201	294	304	619
% of GDP per capita	14.8%	16.2%	19.5%	16.7%	38.6%
<b>Portfolio quality</b>					
Rescheduled loans	0.0%	0.0%	0.5%	0.7%	0.0%
PAR 31-365	0.0%	3.7%	8.4%	0.3%	3.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	3.0%	0.0%	0.7%
<b>Credit risk coverage</b>					
Risk coverage ratio (PAR 30)	-	53.1%	57.8%	308.5%	37.0%
PAR 30 net of loan loss provision / Equity	(0.6%)	1.1%	2.7%	(0.6%)	1.6%
<b>Staff</b>					
Total number of staff	12	30	66	81	87
% Credit officers	66.7%	66.7%	54.5%	38.3%	35.6%
Turnover	0.0%	0.0%	16.7%	8.2%	9.5%
<b>Profitability analysis</b>					
ROE	0.2%	(5.8%)	(15.9%)	(5.7%)	(5.5%)
Liabilities / Equity	0.01x	0.06x	0.05x	0.20x	0.30x
Core capital adequacy ratio	136.3%	118.3%	105.7%	90.3%	96.9%
Total capital adequacy ratio	136.3%	118.3%	105.7%	90.3%	96.9%
ROA	0.2%	(5.6%)	(15.1%)	(5.0%)	4.7%
ROA (without donations)	0.2%	(5.6%)	(15.1%)	(5.0%)	(4.4%)
ROA (microfinance operations)	1.4%	(1.9%)	(12.7%)	(6.1%)	(4.4%)
<b>Profitability structure</b>					
Total revenue ratio	72.3%	57.2%	41.0%	35.2%	36.0%
Portfolio yield	67.0%	56.3%	40.5%	35.1%	34.9%
Operating expense ratio	62.5%	56.0%	53.3%	44.0%	40.5%
Cost per borrower	20	62	84	135	194
Staff productivity	200	94	59	59	42
Loan officer productivity	299	141	108	155	117
Average outstanding loan per client (USD)	111	168	236	464	498
Funding expense ratio	(2.6%)	0.6%	(0.0%)	(0.5%)	0.6%
Cost of savings	n/a	n/a	n/a	n/a	n/a
Cost of borrowings	n/a	n/a	0.0%	0.0%	0.0%
Loan Loss Provision expense ratio	3.6%	2.1%	8.7%	0.0%	1.5%
PAR 31-365	0.0%	3.7%	8.4%	0.3%	3.0%
Write-off ratio	0.0%	0.0%	3.0%	0.0%	0.7%
<b>Resource optimization</b>					
Outstanding Loan Portfolio / Assets	61.5%	61.7%	67.4%	78.5%	64.6%
Revenue from investment as a % of financial revenues	7.3%	1.7%	1.3%	0.4%	3.0%
<b>Liquidity</b>					
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	33.8%	25.1%	12.2%	9.9%	12.5%
Current ratio (1 year)	17,476.9%	1,641.4%	5,838.7%	873.8%	1,002.6%
Exchange rate 1 USD= xx MNT	1,120	1,165	1,170	1,268	1,455

## ■ Financial statements – MNT

Income Statement (MNT '000)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jul. 2009
Interest and fee income on loan portfolio	-	56,542	206,091	292,732	657,567	516,520
Interest and fee income on investments	2,178	4,466	3,492	3,777	2,370	15,985
Interest and other financial expenses	-	-	-	-	-	-
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	281	2,184	(2,029)	263	8,950	(9,202)
<b>Net financial income</b>	<b>2,459</b>	<b>63,192</b>	<b>207,554</b>	<b>296,772</b>	<b>668,888</b>	<b>523,303</b>
Fees and commissions on other financial services	-	-	-	-	-	-
Other operating income	165	-	-	-	-	-
Operating expenses	13,605	52,743	205,093	385,265	824,060	598,318
<i>Personnel expenses</i>	8,488	39,322	114,420	218,262	444,647	333,582
<i>Administrative and other expenses</i>	4,119	9,854	80,633	118,505	319,297	227,551
<i>Depreciation</i>	999	3,567	10,040	48,498	60,116	37,185
Non operating income (net)	(1,167)	(4,012)	(25,410)	(28,946)	29,633	-
<b>Gross operating income</b>	<b>(12,149)</b>	<b>6,438</b>	<b>(22,949)</b>	<b>(117,439)</b>	<b>(125,540)</b>	<b>(75,015)</b>
Net loan loss provision expense	-	2,994	7,759	63,172	740	22,583
<b>Net operating income</b>	<b>(12,149)</b>	<b>3,444</b>	<b>(30,709)</b>	<b>(180,611)</b>	<b>(126,280)</b>	<b>(97,598)</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>(12,149)</b>	<b>3,444</b>	<b>(30,709)</b>	<b>(180,611)</b>	<b>(126,280)</b>	<b>(97,598)</b>
Income Tax	-	2,651	7,262	-	18	-
<b>Net income before donations</b>	<b>(12,149)</b>	<b>793</b>	<b>(37,970)</b>	<b>(180,611)</b>	<b>(126,298)</b>	<b>(97,598)</b>
Donations	-	-	-	-	-	202,539
<b>Net Income</b>	<b>(12,149)</b>	<b>793</b>	<b>(37,970)</b>	<b>(180,611)</b>	<b>(126,298)</b>	<b>104,941</b>
<b>Balance Sheet (MNT '000)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jul. 2009</b>
<b>ASSETS</b>	<b>221,117</b>	<b>479,202</b>	<b>876,648</b>	<b>1,519,154</b>	<b>3,571,063</b>	<b>4,035,687</b>
Liquid assets	196,363	161,977	219,837	185,119	353,590	506,266
Net loan portfolio	-	294,682	540,819	1,024,157	2,801,707	2,605,767
<i>Gross loan portfolio</i>	-	297,677	551,573	1,076,709	2,826,135	2,635,404
<i>(Loan loss reserve)</i>	-	2,994	10,754	52,552	24,428	29,638
Interest receivable	-	879	9,464	21,407	45,979	45,704
Financial investments	-	-	-	-	-	518,523
Net fixed assets	19,197	19,542	88,023	248,059	331,000	311,683
Intangible assets	-	-	6,658	12,893	6,500	-
Other assets	5,558	2,121	11,847	27,519	32,288	47,743
<b>LIABILITIES AND EQUITY</b>	<b>221,117</b>	<b>479,202</b>	<b>876,648</b>	<b>1,519,154</b>	<b>3,571,063</b>	<b>4,035,687</b>
<b>Liabilities</b>	<b>1</b>	<b>2,630</b>	<b>47,640</b>	<b>70,429</b>	<b>602,811</b>	<b>920,193</b>
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-
Borrowings	-	-	-	48,880	232,746	548,760
Subordinated debt	-	-	-	-	-	-
Other liabilities	1	2,630	47,640	21,550	370,064	371,433
<b>Equity</b>	<b>221,116</b>	<b>476,572</b>	<b>829,009</b>	<b>1,448,725</b>	<b>2,968,252</b>	<b>3,115,493</b>
Core capital	221,116	476,572	829,009	1,448,725	2,968,252	3,115,493
<i>Paid-in capital</i>	120,435	120,435	631,000	1,557,620	2,079,790	2,079,790
<i>Donated equity</i>	112,830	367,493	247,336	121,043	1,244,699	1,447,243
<i>Retained earnings</i>	(12,149)	(11,357)	(49,327)	(229,938)	(356,237)	(411,540)
Other equity accounts	-	-	-	-	-	-
<b>Off Balance Sheet Accounts</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jul. 2009</b>
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	21,374	-	18,810
Guarantees	-	-	-	-	-	-
<b>Balance Sheet Averages</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jul. 2009</b>
Gross loan portfolio	-	84,343	366,258	723,093	1,872,982	2,534,897
Assets	110,559	350,160	677,925	1,197,901	2,545,109	3,803,375
Deposits	-	-	-	-	-	-
Borrowings and subordinated debt	-	-	-	24,440	140,813	390,753
Equity	110,558	348,844	652,790	1,138,867	2,208,488	3,041,873

## ■ Financial statements – USD

Income Statement (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jul. 2009
Interest and fee income on loan portfolio	-	50,467	176,902	250,205	518,786	354,923
Interest and fee income on investments	1,944	3,986	2,997	3,228	1,870	10,984
Interest and other financial expenses	-	-	-	-	-	-
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	251	1,949	(1,741)	225	7,061	(6,323)
<b>Net financial income</b>	<b>2,195</b>	<b>56,403</b>	<b>178,158</b>	<b>253,658</b>	<b>527,718</b>	<b>359,584</b>
Fees and commissions on other financial services	-	-	-	-	-	-
Other operating income	147	-	-	-	-	-
Operating expenses	12,144	47,076	176,046	329,295	650,141	411,130
<i>Personnel expenses</i>	7,576	35,097	98,215	186,554	350,804	229,219
<i>Administrative and other expenses</i>	3,677	8,795	69,213	101,289	251,909	156,360
<i>Depreciation</i>	891	3,184	8,618	41,452	47,429	25,551
Non operating income (net)	(1,042)	(3,581)	(21,811)	(24,741)	23,379	-
<b>Gross operating income</b>	<b>(10,843)</b>	<b>5,746</b>	<b>(19,699)</b>	<b>(100,378)</b>	<b>(99,045)</b>	<b>(51,546)</b>
Net loan loss provision expense	-	2,673	6,660	53,995	584	15,518
<b>Net operating income</b>	<b>(10,843)</b>	<b>3,074</b>	<b>(26,359)</b>	<b>(154,373)</b>	<b>(99,629)</b>	<b>(67,064)</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>(10,843)</b>	<b>3,074</b>	<b>(26,359)</b>	<b>(154,373)</b>	<b>(99,629)</b>	<b>(67,064)</b>
Income Tax	-	2,366	6,233	-	14	-
<b>Net income before donations</b>	<b>(10,843)</b>	<b>708</b>	<b>(32,592)</b>	<b>(154,373)</b>	<b>(99,643)</b>	<b>(67,064)</b>
Donations	-	-	-	-	-	139,173
<b>Net Income</b>	<b>(10,843)</b>	<b>708</b>	<b>(32,592)</b>	<b>(154,373)</b>	<b>(99,643)</b>	<b>72,109</b>
<b>Balance Sheet (USD)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jul. 2009</b>
<b>ASSETS</b>	<b>197,361</b>	<b>427,717</b>	<b>752,488</b>	<b>1,298,456</b>	<b>2,817,384</b>	<b>2,773,096</b>
Liquid assets	175,266	144,575	188,701	158,225	278,964	347,877
Net loan portfolio	-	263,022	464,223	875,370	2,210,402	1,790,536
<i>Gross loan portfolio</i>	-	265,695	473,453	920,287	2,229,674	1,810,901
<i>(Loan loss reserve)</i>	-	2,673	9,230	44,917	19,272	20,365
Interest receivable	-	784	8,124	18,297	36,275	31,406
Financial investments	-	-	-	-	-	356,300
Net fixed assets	17,134	17,443	75,556	212,022	261,142	214,171
Intangible assets	-	-	5,715	11,020	5,128	-
Other assets	4,961	1,893	10,169	23,521	25,474	32,807
<b>LIABILITIES AND EQUITY</b>	<b>197,361</b>	<b>427,717</b>	<b>752,488</b>	<b>1,298,456</b>	<b>2,817,384</b>	<b>2,773,096</b>
<b>Liabilities</b>	<b>1</b>	<b>2,348</b>	<b>40,892</b>	<b>60,198</b>	<b>475,586</b>	<b>632,305</b>
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-
Borrowings	-	-	-	41,779	183,625	377,077
Subordinated debt	-	-	-	-	-	-
Other liabilities	1	2,348	40,892	18,419	291,962	255,228
<b>Equity</b>	<b>197,360</b>	<b>425,370</b>	<b>711,596</b>	<b>1,238,258</b>	<b>2,341,798</b>	<b>2,140,791</b>
Core capital	197,360	425,370	711,596	1,238,258	2,341,798	2,140,791
<i>Paid-in capital</i>	107,496	107,496	541,631	1,331,333	1,640,847	1,429,114
<i>Donated equity</i>	100,708	328,010	212,305	103,458	982,003	994,464
<i>Retained earnings</i>	(10,844)	(10,137)	(42,341)	(196,533)	(281,052)	(282,787)
Other equity accounts	-	-	-	-	-	-
<b>Off Balance Sheet Accounts</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jul. 2009</b>
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	18,269	-	12,925
Guarantees	-	-	-	-	-	-
<b>Balance Sheet Averages</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jul. 2009</b>
Gross loan portfolio	-	75,281	314,384	618,044	1,477,686	1,741,838
Assets	98,681	312,539	581,910	1,023,874	2,007,959	2,613,464
Deposits	-	-	-	-	-	-
Borrowings and subordinated debt	-	-	-	20,889	111,094	268,504
Equity	98,680	311,365	560,335	973,415	1,742,383	2,090,203

## ■ Formulas

Return on assets (ROA):	$\text{Net operating income} / \text{Average assets}$
ROA (without donations):	$\text{Net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Liabilities} / \text{Equity (end of period)}$
Capital adequacy ratio:	$\text{Capital} / \text{Risk weighted assets (end of period)}$
Total revenue ratio:	$\text{Total revenue} / \text{Average gross outstanding portfolio}$
Portfolio yield:	$\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{Average gross outstanding portfolio}$
Cost per borrower:	$\text{Operating expense} / \text{Active borrowers (end of period)}$
Staff productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{Average gross outstanding portfolio}$
Cost of savings:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
Loan loss provision expense ratio:	$\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$
Write-off ratio:	$\text{Loans written off} / \text{Average gross outstanding portfolio}$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk} > 30 \text{ days}$
Cash to demand deposits:	$\text{Instantly available liquid assets} / \text{Demand deposits (end of period)}$
Current ratio (1 year):	$\text{Short term assets} / \text{Short term liabilities (end of period)}$

## ■ 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-	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.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	SPECULATIVE INVESTMENT
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	TECHNICAL ASSISTANCE REQUIRED
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+	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	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-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	<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.	
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.	