

GIRAFE

Rating

A+
A
A-
B+
B
B-
C+
C
C-
D
E

Minimum required

Procedures are functional but with certain failings. There are minor risks in the medium term for operations.

Trend

Positive

Stable

Uncertain
Negative

A dramatic increase of performance and outreach will depend in the access to financing with better conditions, which is not guaranteed with the current legal status.

Performance indicators

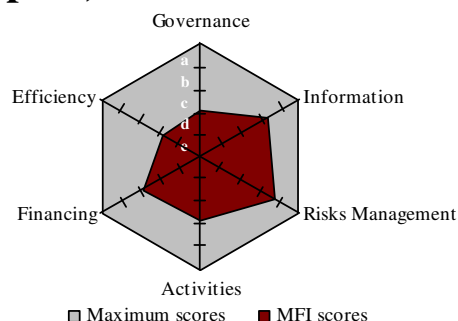
(USD, unless otherwise noted)

| | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|-----------------------|--------------|--------------|--------------|--------------|
| ACTIVITY | | | | |
| Total number of staff | 24 | 21 | 25 | 26 |
| Assets | 421,668 | 667,519 | 797,487 | 920,155 |
| Assets (K RUB) | 12,338 | 18,537 | 22,923 | 24,927 |
| Loan portfolio | 354,956 | 595,823 | 749,164 | 840,199 |
| Outstanding deposits | - | - | - | - |
| Active borrowers | 388 | 629 | 678 | 677 |
| Active savers | - | - | - | - |
| APR | NA | NA | NA | 34.4% |
| PAR 31-365 | 0.2% | 1.4% | 2.4% | 2.3% |
| PAR > 365 | 0.0% | 0.2% | 1.2% | 2.1% |
| Write-off ratio | 0.0% | 0.0% | 0.0% | 0.0% |
| Risk coverage ratio | 0.0% | 0.0% | 0.0% | 0.0% |
| PERFORMANCE | | | | |
| ROE | 0.6% | 10.6% | 0.8% | 3.7% |
| Liabilities / Equity | 1.47x | 1.16x | 0.94x | 1.05x |
| ROA | 0.2% | 4.7% | 0.4% | 1.8% |
| OSS | 108.2% | 130.8% | 112.1% | 109.7% |
| FSS | 86.4% | 102.7% | 81.4% | 76.0% |
| Portfolio Yield | 33.0% | 37.4% | 35.4% | 34.0% |
| Op. expense ratio | 19.4% | 16.7% | 20.7% | 20.0% |
| Staff productivity* | 20 | 39 | 34 | 32 |
| Fund. expense ratio | 11.1% | 11.9% | 10.8% | 11.0% |
| GROWTH | | | | |
| Portfolio growth | 49.5% | 59.3% | 30.1% | 5.7% |
| Saving port. growth | - | - | - | - |
| Asset growth | 35.8% | 50.2% | 23.7% | 8.7% |
| USD/RUB | 29.26 | 27.77 | 28.74 | 27.09 |

Note: June 2006 ratios have been annualized.

* Prorata temporis adjustments have been made to account only for the time effectively dedicated to the institution by staff (See "E" for details).

Voronezh Regional Fund for Small Business Support, Russia October 2006



Description of the institution

The Voronezh Regional Fund for Small Business Support (VRFBS) was established in 1998 by the Voronezh Regional Administration with the status of a non-governmental organization (NGO) to provide financial services to small businesses in the Voronezh Region, in the framework of the regional policy for small business support. The institution is financed through donations from the Regional Administration and short term commercial loans. It offers three individual loan products, out of which two are directed to micro-entrepreneurs. As of June 2006, VRFBS has a loan portfolio of 840,199 USD for 677 active borrowers in eight sub-regions of the region.

Rating summary

VRFBS has been assigned a global rating of C. This rating reflects the main weaknesses of the fund, including a decision-making process depending on the Regional Administration to a great extent, a range of products that does not consider all the financing needs of small entrepreneurs and an over-reliance on public financing. Growth is presently constrained due to financing limitations which prevent further economies of scale. Yet, VRFBS has clear strengths, including a suitable institutional set up to develop and supervise similar funds in other sub-regions of the Voronezh region, its proven capacity to mobilize local resources although with tight conditions and a conservative lending methodology.

This grade has been given with a **Stable** trend. The Regional Administration is committed to support VRFBS in the long run. However, a dramatic increase of performance and outreach will depend in the access to international financing with better conditions and lower rates, which is not guaranteed with the current legal status.

Financing needs

VRFBS has forecasted financing needs of 60,000,000 RUB (2.2 M USD) for 2007 to be directed to the financing of Micro Loans, preferably with a long term maturity and an interest rate of 10% maximum. Planet Rating believes that the institution has the appropriate procedures and profitability to manage external financing, as shown by the good track record with local institutions. However, any interested investor will need to pay special attention to the absorption capacity of the institution and its legal status.

Planet Rating

13 rue Dieumegard 93400 Saint Ouen France
Tel.: 33 1 49 21 26 30 Fax: 33 1 49 21 26 27
rating@planetrating.com www.planetrating.com

Voronezh Regional Fund for Small Business Support – Aleksey A. Nehaev
30, ul. Teatralnaya, Voronezh, Russia
Tel.: +7(4732) 512130 Fax.: +7 (4732) 519628
nekhayev@vcpm.comch.ru

PS281206

■ Microfinance sector

With a long history of mutual credit societies, microfinance in Russia represents a relatively new industry with a strong growth potential, starting in the early 1990's with donor support. According to a 2003 study of the SME Resource Center¹, the potential demand from existing small businesses alone was estimated between 7.7 and 19.4 billion USD for about 2 million small businesses, leading to a market coverage of less than 1%.

The microfinance delivery system can be categorized into:

- Microfinance institutions (MFIs) with an NGO status.
- Cooperatives and credit unions.
- Downscaling and greenfield commercial banks.
- Regional funds.

NGO-type MFIs are predominantly donor funded. While pilot operations have been established in Siberia and the Far East, the majority remain concentrated in the Western part of the country. The overwhelming majority of their clients are low income micro-entrepreneurs concentrated in the retail trade and services sectors with a large number of women. There is a clear trend towards higher formalization of this segment. The Russian Women Microfinance Network (RWMN), a leading network of NGO-type MFIs, transformed into a non-bank deposit and credit institution. FORA, the largest microfinance NGO, established FORUS Bank. MFIs that formerly operated as branches of international networks are registering as Russian commercial (i.e. FINCA Samara) or non-profit institutions.

Cooperatives and in particular rural cooperatives have emerged as a complement or even a substitute to the banking sector. The ongoing retreat of banks from already under-served rural areas and small communities has deprived increasing numbers of family farms and rural-based entrepreneurs from access to finance. With about 265,000 members for a population of 144 million, the penetration of cooperative finance is far below 1%. Yet the sector has experienced significant growth. The number of rural credit cooperatives increased 12 times and membership 50 times since 1998. The sector still faces various challenges that hamper its growth potential: no specific regulation, limited access to external finance, small membership related to the strong local roots of each cooperative.

Russia's banking sector remains weak and undercapitalized. Few Russian banks are organizationally geared towards micro and small enterprise lending. However, the recent boom in consumer lending may reflect an increase in small

¹ SME Resource Center, *Analysis of Microfinance Development in Russia*, Moscow, 2003.

business lending. A portion of the small scale loans booked as consumer loans are actually micro-enterprise loans in disguise. The most widely known bank lending program is the Russia Small Business Fund (RSBF), a 480 million USD fund developed and financed jointly by the EBRD and G7 donors. This program serves the high end of the micro and small enterprise market. Up to 2001, at different stages, about 21 domestic banks had participated in the program. But the financial sector crisis created massive financial and operational difficulties for the partner banks. In order to continue with the program, in 1999 EBRD established KMB Bank, a specialized microfinance bank. KMB Bank has since become the program's primary engine of growth. With seven branches, around 50 representative offices, over 240 M USD (Dec. 2004) in outstanding portfolio and best practice microfinance procedures, KMB has become the most serious competitor of most MFIs.

The government is involved in the funding of regional and municipal funds through the Federal Fund for SME Support. However, their outreach is limited (from a handful to 6,600 clients) and loan conditions are not very competitive (small loan sizes, short maturities). According to the Federal Fund, regional funds had an outstanding portfolio of 356 M RUB (12.8 M USD) as of December 2004.

One of the main obstacles for the sector is the lack of a clear and favorable legal framework to support microfinance. Several fiscal reforms have been passed, but the legislation on non-commercial organizations does not recognize microfinance explicitly as a non-commercial activity and local tax legislation, in addition to Federal taxes, can be highly problematic. But discussions between the industry and the Government are taking place. The Russian Microfinance Center (RMC) has been instrumental in analyzing the legal environment and organizing discussions in various events.

■ Political and economic environment

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

Industrial production has registered a slowdown. The extraction sector stagnated in 2005. In manufacturing, segments exposed to international competition have suffered from the real exchange-rate appreciation with

machine tool and electronic products particularly affected by competition from imported goods. The food sector nonetheless performed well and sectors non exposed to international competition, like construction and retail, posted strong growth. The government moreover expanded its presence, directly and via State-owned companies, in the energy sector – to become the country’s leading oil producer with control over Rosneft and Sibneft and in manufacturing – in the car industry, machine tools and diamonds. The “State capitalism” could however prove to not very efficient.

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

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

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

Strengths

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

Weaknesses

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

COFACE Country Rating: B - An unsteady political and

economic environment is likely to affect further an already poor payment record.

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

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

Ratings: On July 25, 2006, Fitch assigned a long-term issuer default rating “BBB+” with stable outlook to Russia.

▪ Institutional presentation

Networks

VRFSBS is an active partner of the Russian Microfinance Center (RMC), which provides support and advocacy services for the microfinance sector in Russia. The fund is also a member and the main donor of two Associations: the Association of Consumer Cooperatives of the Black-Soil Region and the Business-Incubator Association Voronezh-Orbita-Service.

Ownership

Member of the Management and Supervisory Committee listed in annexes.

As a NGO, VRFSBS has no real owner. However, being the founder and the main source of financing, the Voronezh Regional Administration is the actual decision-maker. As a part of the regional strategy for small business support, VRFSBS has a specific line in the regional budget, which is voted every year by the Regional Parliament.

VRFSBS is supervised by a Management Committee acting as a Board of Directors including four civil servants of the Regional Administration and one civil servant of the Federal Fund for Small Business Support, all nominated every year by the Governor of the Voronezh Region. Since 2002 the members of the Management Committee have been confirmed in their positions every year. The Management Committee does not meet regularly. It is responsible for the review of the main management decisions (like the approval of loans), which leads to a permanent circulation of documents between the fund and the Regional Administration.

The Management Committee reports to the Supervisory Committee, which acts as a General Assembly. It consists of eight civil servants of the Voronezh Regional Administration and the Account Chamber of the Voronezh Region. The Supervisory Committee is responsible for approving financial reports and the strategic plan. It meets annually.

Management team

The management team of VRFSBS includes the General Director, Mr. Aleksey A. Nehaev. He is supported by a Chief Financial Officer (CFO), a Chief Accountant, a Deputy Director/Chief of the Loan and Finance direction, a Head of the Loan Department, and a Chief of the Legal Services. Given the small size of the institution, the operational decision-making is primarily concentrated on the General Director, who is under the supervision of the Management Committee.

Aleksey A. Nehaev, the General Director, is appointed by the Management Committee. He has an economics degree and is a certified specialist in many areas of microfinance like financial management, budgeting, legal and tax issues. The other members of the management team have been with the institution for 3 to 5 years. All of them have at least a university degree and are appointed by the General Director.

Donations

Up to June 2006, the fund has received grants for the support of its financial services amounting to 11,387,000 RUB (420,340 USD), mainly from the budget of the Voronezh Region. Other donors are DAI, the Eurasia Foundation, SwissContact and the Federal Fund for Small Business Support. The fund is also responsible for the financing of various promotional activities for small businesses, like workshops, fairs and trainings. The donations for these activities, stemming mainly from the regional budget, transit through the fund but are not included in the financial statements relating to financial activities.

The State and Federal support to VRFSBS is expected to increase dramatically in the following years. According to the Regional Program for Small Business Support, VRFSBS will receive grants for 8.5 M USD between 2006 and 2009 from the regional budget. These amounts have already been voted by the Regional Parliament. Less than half of these grants are expected to finance the microfinance activities of VRFSBS. The rest will be directed to the other promotional activities for small businesses.

Legal form, supervision and audit

VRFSBS's activities are regulated by the Federal Law on non-commercial organizations and the Russian Civil Code. As a NGO, the fund is not subject to banking regulation.

The institution is audited every year, which is required by the Federal Law. VRFSBS has been audited since 2001 by AFK-Audit, a locally registered audit firm. The audit company has been chosen through an external tender. The audits are focused on financial statements, with a particular verification of tax compliance, and follow the Russian accounting standards. All audit reports have been issued without qualifications.

Organization

VRFSBS has established a three-tier structure geared towards the replication of its model in other towns of the region.

- **VRFSBS:** For clients located in Voronezh, VRFSBS has one loan officer (LO) fully paid by the institution. Credit operations and all revenues and expenditures stemming from these clients are registered in VRFSBS books.
- **Consulting centers:** There are 16 consulting centers for small business based in middle-size towns of the region. These centers are created and financed by local municipalities to provide technical assistance, training, legal advice, etc. Among these consulting centers, VRFSBS has identified 12 with a good potential for small business financing. In these 12 centers there is one trained LO who disburses loans with VRFSBS resources. In six out of these 12 consulting centers, the LO is paid through a mechanism by which the center collects 25% of the interests charged to the clients. In the six remaining centers, part of the salary of the LO is paid by VRFSBS and the rest by the centers themselves, since they are also involved in other activities.
- **Municipal funds:** Among these six last cases where LOs are partially paid by the fund, VRFSBS has financed the creation of four municipal funds through long term loans called Infrastructure Loans. Municipal funds belong to the municipalities and manage their own portfolio. They receive Infrastructure Loans of VRFSBS to finance their portfolio but can also raise their own resources from local authorities or banks. They disburse their own loans in compliance with VRFSBS credit methodology, which they learn through intensive training from the fund.

The management team of VRFSBS is based in Voronezh, as well as accounting, IT management, human resources and legal services. Loan applications are approved by a Credit Committee including the General Director, the Head of the Loan Department and the LO proposing the loan. All loans approved must afterwards be reviewed and validated by the members of the Management Committee.

The consulting centers are managed by local directors who are also in charge of the municipal funds. LOs report to the local director for loans of the municipal fund and to the Head of the Loan Department for loans of the consulting center with VRFSSBS resources.

All loans are disbursed and paid through bank transfers to clients' bank accounts. VRFSSBS, consulting centers and municipal funds do not deal with cash directly.

Market penetration

The fund is located in Voronezh, 500 km south of Moscow. The Voronezh Region has around 2.5 million inhabitants, with over 1 million living in Voronezh. According to official statistics, around 25% of the active population (more than 120,000 people) is involved in small businesses. But only 9% of the demand for microfinance is covered². With less than 1,000 active clients, the penetration of VRFSSBS among small businesses is very low. Its main competitor, FORUS Bank, has barely more 2,000 active clients in the whole region. Other commercial banks are starting to serve the largely unmet demand for microfinance, but they are not operationally geared towards microfinance.

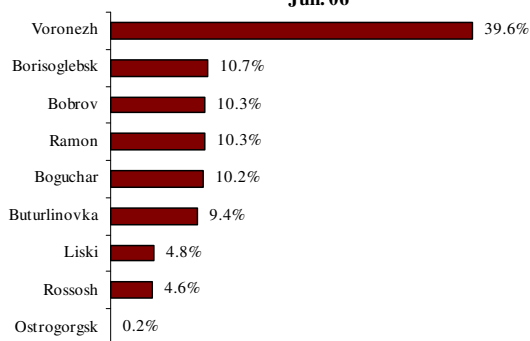
As of June 2006, VRFSSBS has an outstanding portfolio of 22.8 M RUB (840,199 USD) in Voronezh and in 8 sub-regions of the Voronezh Region, either through consulting centers (VRFSSBS portfolio managed by local LOs) or through the municipal funds (outstanding Infrastructure Loans).

VRFSSBS area of operations



² Source: *The conception of the system for Small Business Development and Support in the Voronezh Region from 2005 to 2008*

Portfolio by region
Jun. 06



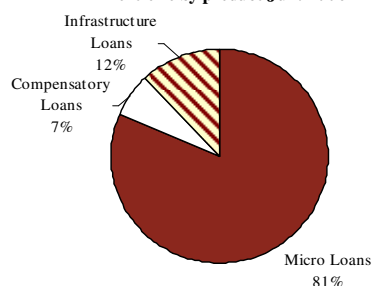
Products and services

Please see annexes for more details

VRFSSBS microfinance program offers three credit products to small business entrepreneurs:

- Micro Loans:** Micro Loans are the most popular product of the fund (81% of portfolio as of June 2006). They are capped at 90,000 RUB (3,300 USD) and have a maximum term of six months. The interest rate ranges from 15% to 60% per year, with an APR of 40.1% as of June 2006. Micro Loans are offered under various sub-products based on the sector, the maturity of the business, and the collateral, which lead to different interest rates. However, maximum maturity and amounts do not vary.
- Compensatory Loans:** VRFSSBS has established an agreement with Sberbank and Vneshtorgbank to promote the disbursement of long term investment loans to small business entrepreneurs. Under this agreement, the bank provides loans to the entrepreneurs with special conditions: annual interest rate from 13% to 15%, minimum amount of 300,000 RUB (11,100 USD), maximum term of three years. When the bank disburses the loan, VRFSSBS disburses a loan to the same borrower to cover part of the interests generated by the bank loan. When the borrower has totally reimbursed the bank, it starts reimbursing the loan of VRFSSBS at a rate of 5% per year.
- Infrastructure Loans:** This is a product specially tailored to support the launching of municipal funds trained by VRFSSBS. Interest rates vary from 9% to 25% per year, with an APR of 13.5% as of June 2006. The highest loan amount disbursed so far is 400,000 RUB (14,800 USD) although loans can go up to 1,250,000 RUB (46,100 USD).

Portfolio by product Jun. 2006



■ Governance

Governance and Decision Making is rated « c »

Decision-making

VRFSBS works strictly under the strategic framework and mission established by the Regional Administration, generating a political risk³. As a fundamental part of the regional policy for small business support, the fund is an operational tool of the local authorities. The Management Committee reviews the main operational decisions such as the disbursement of loans. The capitalized donations of the fund, including primarily grants from the regional budget, represent 46% of the financing structure of the fund as of June 2006, generating a strong dependency on public resources.

However, this strategic and financial dependency on the Regional Administration needs to be put into perspective. The support of the Regional Administration seems to be guaranteed in the long run, as shown by the grants approved by the Regional Parliament until 2009 for promotional but also for financial activities. The members of the Management Committee are civil servants involved in local economic development and not political appointees. The political stability of the region and the country as a whole seems to be stronger today than some years ago, which minimizes the risks related to potential political changes.

Overall, the governance structure suffers from various drawbacks:

- The members of the Management Committee are not familiar with microfinance best practice even if they have a valuable experience in small business support and some have background in banking and law.
- The Management Committee can not provide effectively the strategic monitoring expected from a governance body, as it is mainly concentrated on the approval of documents without face to face meetings.
- The decision-making process, involving a permanent flow of documents, can be cumbersome. It allows however for a smooth communication between the fund and the Regional Administration.
- Management information to the governance bodies includes financial statements, budget versus actual analysis and detailed reports on activities. However, the management team does not generate an analysis of performance based on financial or portfolio ratios.

The fund decision making is highly formalized. Rules and regulations are up-to-date and all meeting are adequately formalized in minutes.

³ Political risk is twofold: risk of change of priorities with the arrival of a new political party or group; risk of use of resources of VRFSBS for political interests.

Planning

VRFSBS strategic planning is highly interrelated with the regional strategy for small business support, and as such is designed as an element of other government initiatives. The 2005-2008 business plan provides a clear picture of the current situation of the fund and the regional policies for small business development. It includes an interesting thinking about a possible transformation of the fund into a non-banking credit institution, which will encourage access to additional commercial financing and eventually institutional savings.

However, the planning process has some weaknesses:

- The thinking on the main issues that have historically constrained VRFSBS growth is not thorough. It fails to mention key risks such as the limited access to financing with flexible conditions and the small products' range. The increasing competition from banks through consumer lending programs is not mentioned.
- The business plan does not consider the costs and the implications in terms of human resources of transforming into a non-banking credit institution. No precise timetable has been established yet. Given the size, the market and the products limitations of the institution, a transformation process does not seem to be the most relevant decision in the medium term.
- There are not projections for financial or portfolio performance based on conservative and/or optimistic scenarios. The plan only includes short term (monthly) projections related mostly to cash-flow forecasts.
- There is not a clear expansion strategy in terms of regions or product diversification.

The General Director conducts a permanent informal thinking about some strategic issues faced by the institution and their potential solutions. One key issue that he attempts to tackle is the lack of financing. The General Director is fully aware of the current financial limitations of the institution, with local banks being reluctant to lend more than the fund's equity. In that sense, he is attempting to access international financing, and the rating is a first step in this process.

The fund has established a detailed budget based on State rules, that is monitored on a frequent basis. It is focused on complying with the budget allocations provided by the Regional Parliament rather than on monitoring the achievement of operational goals.

Management team

The institution is led by a very capable and committed General Director, who receives good support from his colleagues and is very informed of the evolutions of the Russian microfinance sector. He was the CFO until 2005, and has therefore a deep knowledge of the financial

situation of the fund. He also maintains very good relationships with the Regional Administration, in particular the Management Committee. The CFO and the middle management have been working in the institution for three to five years and perform their duties satisfactorily.

Yet, the team is not ready to face the challenges of becoming a regulated, non-banking credit institution. The fund has not developed yet the corporate culture of a private institution and could gain from more innovation and management capabilities. Also, the institution does not have the skills for a strategic financial management that would follow financial performance on a permanent basis. The General Director, although very knowledgeable of the institution, has not developed the skills to manage with more independence a private institution.

There is a good horizontal communication between all members of the team, and the key person risk on the General Director is low given the experience of the other members of the management team. The strategic decisions, although proposed by the General Director, must all be approved by the Management Committee, which also minimizes the key person risk.

The support of consulting centers and the creation of municipal funds are based on a flexible mechanism for developing well managed and decentralized entities. Local directors are highly committed to the fund and follow its rules. All LOs managing loans of VRFSBS in the consulting centers have been previously trained by the fund. When demand is considered sufficient and the local authority shows cooperation, the fund brings financing through Infrastructure Loans and technical assistance for the creation of a municipal fund. As such, the same management culture is developed everywhere.

Human resource management

Human resources are fundamental to VRFSBS in the process of creating local microfinance capacities. Despite being a tool of public policy on small business support, it has a strong autonomy to manage its staff:

- There are formalized recruitment and evaluation procedures for staff in Voronezh and for LOs of consulting centers and municipal funds. Although, the assessment of new staff for consulting centers is made by local authorities of sub-regions, the final decision of hiring an employee has to be approved by the fund.
- There is a strong focus on training for LOs at Voronezh and in the regions, including a three-month probationary period and a final certification.
- The institution has developed an incentive scheme for all LOs based on performance. The policy is applied to the

LO in Voronezh and to the LOs of the regions, only on the portion of their salary paid by the fund.

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

- The incentive scheme has not been updated. Incentives represent today 53% of total revenues of LOs, leading to excessive instability of revenues and to a general negative perception of income levels. The General Director is currently developing a new incentive scheme which will address those weaknesses and take into account market evolutions.
- There is not yet a salary scale for all staff, and the level of salaries is not competitive compared to banks due to budgetary constraints. This has a direct impact on staff satisfaction and motivation.
- The Management Committee is not being trained to deal with microfinance issues. It does not have yet the capabilities to manage a private institution, despite the objective of creating a non-banking credit institution.

Staff turn over has been high in the previous years due to the departure of staff that was hired by the fund to work both on specific promotional projects and on financial services and some maternity leaves. It has stabilized in 2006.

| | Dec. 03 | Dec. 04 | Dec. 05 | Jun. 06 |
|-----------------------|---------|---------|---------|---------|
| Total number of staff | 24 | 21 | 25 | 26 |
| % loan officers | 29% | 29% | 32% | 31% |
| Turnover | 40% | 22% | 30% | 0% |

Note: this table includes staff working both on other promotional projects and on financial services and part time LOs in the sub-regions. Adjusted prorata temporis, the actual number of staff working for VRFSBS as of June 2006 is estimated to 21 as of June 2006.

Information

Information and equipment is rated « b »

Description of the MIS

| | |
|------------|---|
| Equipment | <ul style="list-style-type: none"> ▪ Hardware and network equipment up-to-date and complete. ▪ Around 12 computers and 1 server. ▪ Limited access to Internet. ▪ All consulting centers have connection through the internet with VRFSBS. |
| Accounting | <ul style="list-style-type: none"> ▪ 1-C Accounting: very popular, Russian, off-the-shelf accounting and management information system. Developed in C+ language on an SQL database. ▪ Accounting centralized in VRFSBS for VRFSBS clients. Disbursement orders are exported to banks through online system. Payments are imported from banks through online system. ▪ Daily reconciliation of bank accounts. ▪ Monthly financial statements. |

| | |
|-----------------------|--|
| Portfolio information | <ul style="list-style-type: none"> ▪ 1-C Accounting. ▪ Portfolio information is entered by LOs in VRFSBS and in the consulting centers. Information from consulting centers is sent by email to VRFSBS (extract of the database of the system). ▪ Consulting centers dealing with VRFSBS portfolio receive information on payments and disbursements on a daily basis from VRFSBS. ▪ Special analytical department responsible for day-to-day portfolio reports, like disbursements and loan payments. ▪ Frequent portfolio information exchange between the fund and the regions |
|-----------------------|--|

Management Information System (MIS) and equipment

VRFSBS has sufficient software and hardware for its current needs. The hardware and network equipment is modern both in Voronezh and in the consulting centers and municipal funds working with VRFSBS portfolio. The institution is doing permanent efforts to improve its MIS and equipment, as shown by the forecasted investments in the telecommunications system. All computers work with updated operating systems. Both in Voronezh and in the regions work is done in a network environment thanks to the use of servers. The institution has developed adequate security measures, like frequent backups, personalized passwords with assigned user rights and updated antivirus. The database is copied on a weekly basis on CDs and in an external hard drive stored in the institutional safe.

1-C Accounting, the integrated software used for both accounting and portfolio tracking, is user-friendly and very well known by its users. It is one of the most popular accounting and management systems in Russia. It consists of different modules linked to each other, which enables to export parts of the database for its use either at VRFSBS or in the consulting centers. The CFO and the General Director have made basic adjustments to the software to respond to their reporting needs. Indeed, despite being a commercial package, the code sources of the software are open. For the time being, the institution does not require additional programming skills given the low complexity of operations.

Information circulates easily within the institution and is readily available. All municipal funds and consulting centers have an email connection with VRFSBS, leading to good communication flows. The analytical department, in charge of producing managerial and external reports, makes an additional work on the information generated by the MIS to transform it in customized management reports.

Information on activities

With about 15 different managerial reports programmed, the MIS provides all the necessary information for an effective follow-up of portfolio. Information is well-presented, relevant, complete and available daily. The MIS produces critical reports for all kinds of users. The

analytical department provides additional reports useful for the management team. VRFSBS collects and analyzes the information about its own portfolio but also about the municipal funds portfolio, since it has a direct interest in them (it is their main lender).

The reports on PAR generated by the MIS tend to understate the indicator due to the policy for partial payments accounting. In the case of partial payments, the accounting system registers first the principal and after the interests and penalty fees. However, partial payments are very rare so the impact on total PAR is not significant.

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

Financial and Accounting Information

Financial and accounting information is reliable and available at consolidated level. Portfolio information is automatically integrated in the accounting information. However, the writing-off and provisioning of past-due loans is not conducted for fiscal reasons (such expenses are not tax deductible). Therefore, the cost of credit risk is not expressed in the financial statements and portfolio is slightly overstated⁴.

Financial analysis based on microfinance ratios is not yet frequent and complete enough to enable a monitoring of the self sufficiency of the institution. The institution and the Management Committee study the financial statements in detail to oversee the main accounts, but do not translate them into a complete financial analysis.

Financial statements follows Russian accounting standards and are audited annually. There is a valuable effort of the management team to meet international transparency standards by disclosing information in the Mix following CGAP accounting standards.

▪ Risk

Risk Management is rated « b »

Procedures and internal controls

VRFSBS shows a strong culture of risk management. Despite the existence of relationships of trust between the

⁴ PAR>365 is 2.1% as of June 2006. Therefore, considering that usually loans past-due more than 365 days should be written-off, portfolio is overstated by 2.1%. This percentage has increased over the years (0.2% in December 2004, 1.2% in December 2005).

management team and employees, various internal controls are implemented and followed to minimize human error and fraud.

Almost all procedures are formalized and well known by staff. There are updated manuals about credit, financial and accounting and administrative procedures. The design of these procedures seeks to establish an integrated control chain in all the activities of the fund. As such, even administrative procedures like procurement and hiring are detailed and standardized. So far, the institution has never suffered from fraud.

The institution follows tight procedures in its credit methodology. All loans, including those proposed by consulting centers with resources from VRFSBS must go through a credit committee in Voronezh headed by the General Director, the Deputy General Director and the LO in charge of the loan (who comes to Voronezh specifically for the credit committee if it is necessary). All loans approved must be electronically registered in the MIS by the Head of the Loan Department, the Head of the Analytical Department and the Chief Accountant. No LO can replace them in this process. Also, the MIS includes various embedded controls that limit the risk of manual error. Application forms and documents related to financial products are generated automatically by the MIS.

Cash security is full thanks to the use of bank tellers for all lending operations. The same procedures are followed by the consulting centers and the municipal funds in the management of their own portfolio. In each of the small towns where consulting centers and municipal funds operate there is at least one branch of Sberbank, thus access to resources in the sub-regions is not an issue.

Internal audit

The fund does not have a dedicated full time internal auditor but has implemented several internal audit functions that cover the primary operational risks. There are formalized and compulsory visits of consulting centers and municipal funds financed by VRFSBS and clients at least once per year by management staff of the fund. Yet, VRFSBS is still audited like a public program, with a strong focus on budget and procedures monitoring rather than on risk management.

The fund itself is subject to frequent external controls. Both Federal and Regional authorities perform audits of the institution as they both finance it. Moreover, the permanent follow up performed by the Management Committee, even though it involves time consuming flows of documents, means that the management team is permanently being monitored by the Regional Administration. The institution

is audited annually by a local firm that checks compliance with Russian accounting standards.

■ Activities

Activities: products and services is rated « c »

| USD, unless otherwise stated | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|------------------------------|-----------|-----------|-----------|-----------|
| Loan portfolio | 354,956 | 595,823 | 749,164 | 840,199 |
| Loan portfolio (K RUB) | 10,386 | 16,546 | 21,534 | 22,761, |
| Evolution | 49.5% | 59.3% | 30.1% | 5.7% |
| Av. outst. portfolio | 306,844 | 492,795 | 604,713 | 794,250 |
| Active borrowers | 388 | 629 | 678 | 677 |
| Evolution | NA | 62.1% | 7.8% | (0.1%) |
| Av. outst. loan per client | 915 | 947 | 1,105 | 1,241 |
| % of GDP per capita | 29.1% | 22.2% | 21.0% | 18.0% |
| Av. amount disbursed | 1,027 | 1,207 | 1,259 | 1,302 |
| % of GDP per capita | 32.7% | 28.3% | 23.9% | 18.9% |
| PAR 31-365 | 0.2% | 1.4% | 2.4% | 2.3% |
| PAR > 365 | 0.0% | 0.2% | 1.2% | 2.1% |
| Write-off ratio | 0.0% | 0.0% | 0.0% | 0.0% |

Marketing and competition

The fund has tried to develop its market niche by filling the gaps left by banks in small business lending in regions underserved by the financial sector with various sub-products for different kinds of small entrepreneurs. However, its limited funding capacity and the rigid conditions of Micro Loans (capped at 90,000 RUB, 6 months maturity) have not favored portfolio growth. This has forced the institution to implement a low profile marketing strategy with little incentives to develop new financial products.

Direct competition is not harsh. About a half of the commercial banks operating in the region (more than 50) have announced the launching of small and medium business lending programs. But they have not been able to expand them as they have not developed yet real microfinance expertise and commitment. FORUS Bank (former FORA Fund) is the only bank dedicated solely to microfinance present in the region. It offers more flexible products and larger amounts than VRFSBS, but with barely more than 2,000 clients as of June 2006 it has not achieved a significant outreach in the region yet.

Indirect competition from consumer programs of banks is actually of much stronger concern. Many small entrepreneurs finance their activities through consumer loans, which are disbursed very quickly and without a business evaluation, as long as the borrower provides sufficient collateral. This is a source of over indebtedness for the financial sector as a whole, which can not be monitored efficiently due to the absence of a reliable credit bureau. Furthermore, the fund does not offer competitive rates. Its APR of 40% for Micro Loans is higher than the average interest rates charged by banks for consumer loans, which range from 20% to 35% (even if commissions mean

that their APR is usually higher than their nominal interest rate).

The main competitive advantages of the fund are:

- Speed of disbursement. Despite the cumbersome loan approval process, loans in VRFSBS can be disbursed in one week and for some repeat loans in 24 hours. This is particularly quick, taking into account that banks can take more than one week for the disbursement of loans with the same characteristics.
- Presence in sub-regions with little bank penetration. Small business lending from banks in the sub-regions is underdeveloped. In some towns banks are represented only by Sberbank which is too bureaucratic and slow for the needs of small business entrepreneurs.
- Innovation through products like Compensation Loans and Infrastructure Loans for municipal funds. However, these products represent still a very small size of portfolio and only represent 16 active borrowers as of June 2006.

Credit methodology

The credit methodology for Micro Loans is based on commercial lending best practices, with a strong focus on collateral. Traditional microfinance techniques like character assessment are also followed but are less necessary in a market where all borrowers are formalized businesses.

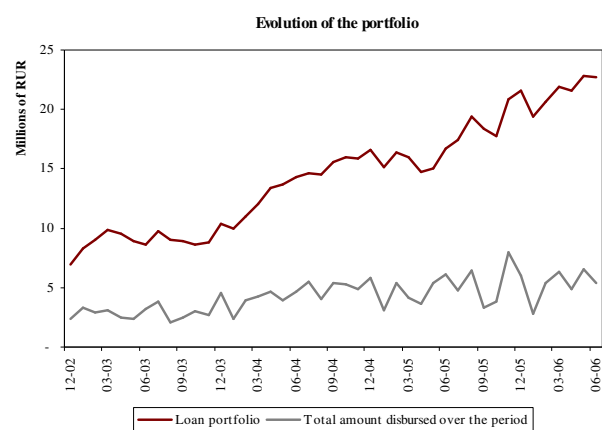
- Clients are assessed through a good analysis of their business, including cash flow projections, home visits and evaluation of their reputation. LOs use an Excel-based format, which enables them to generate evaluation tools such as balance sheets, income statements, cash-flow projections and maximum loan amounts per client.
- All income sources and fixed assets are checked through various official documents (tax payments, business registration, invoices).
- The indebtedness of clients is verified through contacts with some institutions such as FORUS Bank and credit cooperatives. However, this is not always possible with other commercial banks that are more reluctant to share this type of information.
- All loans are systematically guaranteed either through collateral or group guarantee. Due to the small average loan amount (1,300 USD for Micro Loans), most pledges are made on cars. Very rarely an external appraisal is conducted by a specialized agency. The market value of the collateral has to be at least 200% of the requested loan. The fund may ask the borrower to ensure the collateral when it is considered necessary.
- In group loans of more than 50,000 RUB (1,850 USD) each group member must provide a real collateral besides the group guarantee.

In consulting centers, there is a good separation of activities between LOs and staff dedicated to consulting services. As

such the distinction between both activities is clear to clients and LOs can dedicate their time to managing their portfolio. LOs have a very deep knowledge of their respective markets. They are recruited in the cities where they are going to work. They are trained and supported by their management. The training provided by VRFSBS to LOs in consulting centers and municipal funds ensures a standardized quality level. However, their work is not based on specific objectives and their incentives are not optimal (see “G”).

The lending methodology for the other two products is straightforward and the evaluation process is led by the management team. Given their small number their management is still very simple and does not require the specialization of staff. They are approved as well by the Management Committee.

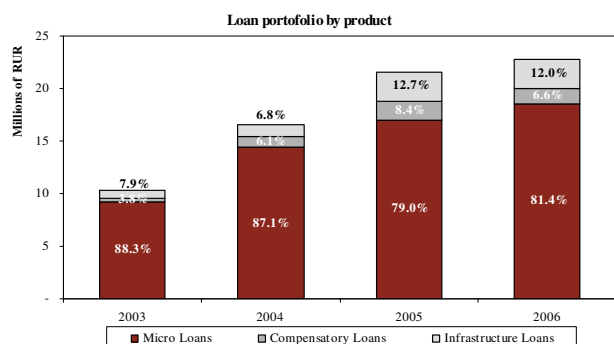
Evolution of the portfolio



Portfolio growth has been strong up to 2005, between 60% and 30% per year. Between December 2005 and June 2006 the loan portfolio has displayed a clear stall, reporting only a 5.7% growth. Similarly, the number of active borrowers has increased during the whole period, but each year slower: 62.1% growth in 2004, 7.8% in 2005, no growth in the first half of 2006. Grants from the regional budget have diminished: they grew around 50% per year in 2004 and 2005, and only 3% in the first half of 2006. Stronger competition from banks and a maximum level of indebtedness (leverage ratio higher than 1x) have led the institution to a structural growth ceiling. It is also expected that loan portfolio will grow at a quicker pace between June and December 2006 as commercial activities increase by the end of the year, but this will be highly dependent on the inflow of additional resources.

Micro Loans are the main credit product, representing 81.4% portfolio as of June 2006. Their share in total loan portfolio has slightly decreased over the period (88.3% as of December 2003). They are followed by Infrastructure Loans, which show a positive trend up to June 2006 (12.0% of portfolio in June 2006 compared to 3.8% in December

2003). This growth is related to the expansion of activities to the regions: in June 2006, 60% of portfolio was concentrated outside Voronezh, either through Micro Loans or through Infrastructure Loans to launch new municipal funds. In December 2004 the share of Voronezh was 50%.



Quality of the portfolio

PAR>30 is acceptable, although it has increased over the period from 0.2% in 2003 to 4.4% as of June 2006. This trend is explained both by the increase of PAR 31-365, which grew from 1.4% in 2004 to 2.3% in June 2006, and PAR>365, which increased from 0.2% in 2004 to 2.1% in June 2006. Indeed, VRFSBS does not write-off loans or makes loan loss provisions of past-due loans for fiscal reasons, which leads to an increasing PAR>365 while the write-off ratio remains at 0%. The median PAR>30 is 1.4% for VRFSBS' peers according to the MicroBanking Bulletin (MBB)⁵.

PAR may be slightly understated due to the policy for partial payments accounting (see "I"). However, partial payments are very rare so the impact of this policy in total PAR is not significant.

In terms of quality of portfolio by products, 90% of PAR>30 is concentrated in Micro Loans since they represent 81.4% of portfolio. However, Compensatory Loans report a high PAR>30 of 5.5% as of June 2006 while Micro Loans report 4.9% for the same date. This is related to an old Compensatory Loan to an entrepreneur that is not financed anymore by VRFSBS due to its bad payment record. Without this loan (past-due more than 365 days), PAR>30 for Compensatory Loans reaches only 0.2%. Infrastructure Loans report a PAR>30 of only 0.5% as of June 2006.

⁵ MicroBanking Bulletin 2005 Benchmarks. VRFSBS peer group is ECA Small Broad High, which includes the following MFIs: Alternativa, BAI, CEF, Crystal Fund, ECLOF - ARM, FINCA - TJK, FINCA - UZB, FinDev, HOPE Ukraine, Horizon, Horizonti, Imkoniyat, Intellekt, KosInvest, MLF HUMO, MLF Microinvest, Normicro, SBDF, SEF - ARM, TFS, VRFSBS.

Portfolio diversification

There is not a formal policy of portfolio diversification despite the concentration of more than 70% of portfolio on trade and services. To tackle this, the fund has worked hard to reach entrepreneurs involved in production. But the characteristics of Micro Loans (6 months maximum term, capped at 90,000 RUB) are not adapted to their needs. Compensatory Loans can be interesting for small entrepreneurs seeking to acquire fixed assets, but lack of funding has not favored the development of this product. Portfolio is increasingly spread in various sub-regions of the Voronezh Region, following a clear policy to penetrate these areas.

The institution faces a relative concentration of portfolio in terms of amounts, with the 20 largest outstanding loans representing 18.4% of portfolio and 33.4% of equity as of June 2006 (most of these are Compensatory and Infrastructure Loans). The largest outstanding loan represents 5.6% of equity, which is higher than the international standard of 5%.

Credit risk coverage

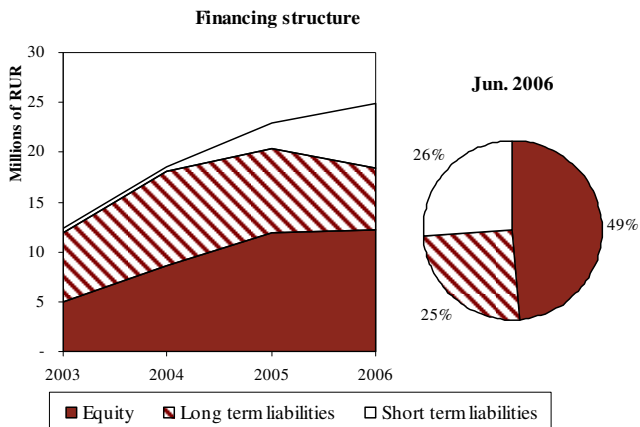
| | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|--|-----------|-----------|-----------|-----------|
| Risk coverage ratio | 0.0% | 0.0% | 0.0% | 0.0% |
| PAR>30 net of loan loss provision / Equity | 0.5% | 3.1% | 6.6% | 8.3% |

The institution does not make loan loss provisions for fiscal reasons. As such, PAR is not covered, even partially, by provisions. With the accumulation of past-due loans which are neither written-off nor provisioned, 8.3% of equity could be threatened if PAR>30 is not repaid entirely. The absence of a write-off policy does not lead yet to a substantial overvaluation of portfolio due to the small PAR>365 (2.1% of gross portfolio).

Collaterals allow for good credit risk coverage and compensate partially the absence of loan loss provisions. The market value of pledged assets usually covers more than the loan amount. Court procedures are relatively efficient and decisions are always favorable to the fund. Recovery of delinquent loans is effective and involves strong pressure against the delinquent borrowers, such as visiting them at their place of living and business, plus out-of-court debt collection procedures, before the claim is taken to court. Presently, there are 19 delinquent loans under Court examination. Their number has slightly decreased over the years (23 loans on Court as of December 2005).

■ Financing and liquidity

Financing and liquidity is rated « c »



| | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|----------------------|-----------|-----------|-----------|-----------|
| Liabilities / Equity | 1.47x | 1.16x | 0.94x | 1.05x |

Financing strategy

The financing structure of VRFSBS is well balanced between equity and external debts. Yet, this is an expensive and not very flexible strategy as the institution accesses exclusively short term, commercial loans from banks and companies that do not desire to lend more than its equity. Therefore, with a leverage of 1.05 as of June 2006 and a "record" leverage of 1.47 in December 2003, VRFSBS has reached its maximum indebtedness capacity locally.

The outlook for growth is complicated as it is based either on the absorption of new grants from the regional budget or on the negotiation of loans with other sources of funding, especially international ones. The fund is working on both strategies but they encounter shortfalls:

- Although the commitment of the Regional Administration is clear and confirmed by the Regional Parliament (see "Institutional presentation"), it can lead to a strong dependency from the authorities. Moreover, the regional budget, although not in deficit, has been under pressure over the last year. In 2006, the level of grants has diminished dramatically, reporting a growth of only 3% in the first half, while in the previous years it grew by 50% annually.
- International contacts have been scarce so far, as VRFSBS unclear ownership and State linkages are not appealing to international investors. The rating exercise as well as the regular reporting to the Mix is a first step in that direction.

At the local level, the fund has developed a good track record, but lacks a clear financial strategy based on a thorough reflection on financing costs. The conditions of the loans are usually too astringent and interest rates too

high. The institution has received loans from more than 10 entities, including banks (Sberbank, VoronezhPromBank, AkiBank, MezBusinessBank, Bank for Foreign Trade), local corporations (Orion, VoronezhSnab, Centurion Capital), State institutions (Federal Fund for SME support, Interregional Fund for Microfinance Services, Financial Department of the Administration of the Voronezh Region, Municipal Fund for SME Support) and even one MFI (Russian Women Microfinance Network). As of June 2006, VRFSBS had loans outstanding with five Russian organizations amounting to 12.2 M RUB (452 K USD), with interest rates ranging from 18% to 23%, and 75% of the amount due within one year.

Asset and liability management (ALM)

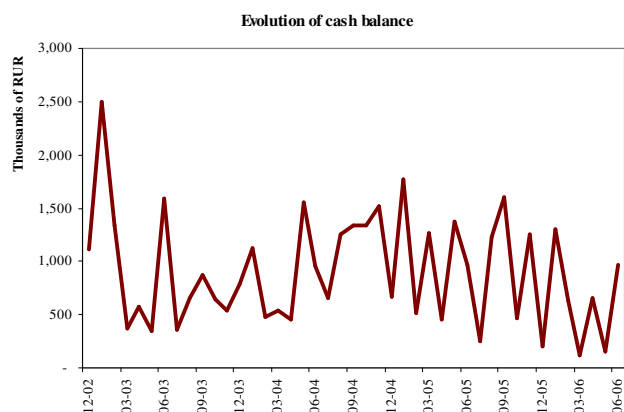
Asset and liability risks are under control, but the institution has not developed yet ALM tools that will be necessary if the funding structure becomes more sophisticated:

- No foreign exchange risk: 100% of portfolio and financing is in local currency.
- No interest rate risks: 100% of portfolio and external financing has fixed interest rates.
- Maturity risk is not yet an issue given the strong equity base of the fund and the short term nature of the portfolio. As of June 2006 short term assets represent 85.3% of assets (mainly Micro Loans) while short term liabilities only represent 26.0% of total assets. However, if the institution starts leveraging more short term debt, it will need to pay attention to their maturity as 50.7% of liabilities are already short term.

Liquidity management

The institution has set up an adequate system of cash flow management with weekly and monthly liquidity projections. These projections have enabled an optimization of cash in a period of shortage of resources (cash only represents 3.9% of assets as of June 2006). However, there is a lack of long term projections of funding needs.

The centralized bank accounts allow for an efficient management of resources. All loans, even those monitored by LOs of consulting centers, are disbursed by the accounting department at VRFSBS through transfers to the clients' bank accounts. As such, the institution conducts all its activities through only three active bank accounts.



■ Efficiency and Profitability

Efficiency and Profitability is rated « d »

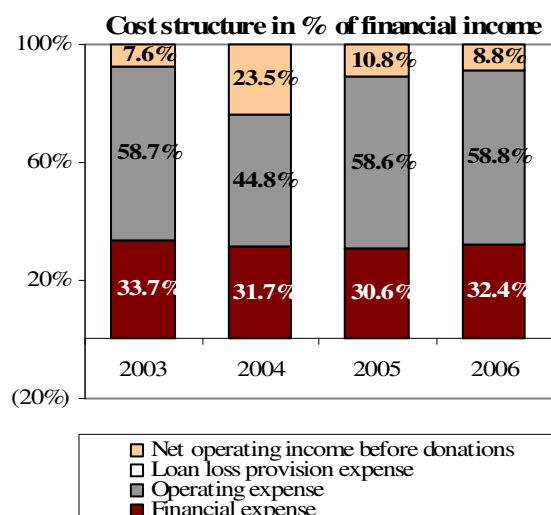
| Profitability analysis | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|---|-----------|-----------|-----------|-----------|
| ROE | 0.6% | 10.6% | 0.8% | 3.7% |
| Liabilities / Equity | 1.47x | 1.16x | 0.94x | 1.05x |
| ROA | 0.2% | 4.7% | 0.4% | 1.8% |
| Profit generation | | | | |
| Operational self-sufficiency | 108.2% | 130.8% | 112.1% | 109.7% |
| Portfolio Yield | 33.0% | 37.4% | 35.4% | 34.0% |
| Operating expense ratio | 19.4% | 16.7% | 20.7% | 20.0% |
| Staff productivity | 16 | 30 | 27 | 26 |
| Staff productivity (prorata temporis) ⁽¹⁾ | 20 | 39 | 34 | 32 |
| Loan officer productivity | 55 | 105 | 85 | 85 |
| Loan officer productivity (prorate temporis) ⁽¹⁾ | 97 | 180 | 151 | 150 |
| Average outstanding loan per client (USD) | 915 | 947 | 1,105 | 1,241 |
| Funding expense ratio | 11.1% | 11.9% | 10.8% | 11.0% |
| Cost of liabilities | 15.8% | 19.7% | 18.8% | 20.8% |
| Loan Loss Provision expense ratio | 0.0% | 0.0% | 0.0% | 0.0% |
| PAR 31-365 | 0.2% | 1.4% | 2.4% | 2.3% |
| Write-off ratio | 0.0% | 0.0% | 0.0% | 0.0% |
| Asset management | | | | |
| Outstanding Loan Portfolio / Assets | 84.2% | 89.3% | 93.9% | 91.3% |
| Non-portfolio income as a % of financial revenues | 0.0% | 0.0% | 0.0% | 0.0% |

(1) Prorate temporis adjustments have been made to account only for the time effectively dedicated to the institution by staff. LOs from regions paid half of their salary by VRFSBS account for 0.5 staff. Some other administrative workers account for less since they dedicate a larger part of their time to activities which are not part of VRFSBS financial services.

Overview of profitability

VRFSBS is a self-sufficient institution, although with a low profitability. Its operational self-sufficiency oscillates around 110%, with an unusual peak of 130.8% in 2004. ROE is not particularly higher than ROA, as the leverage ratio is low and remains around 1x all over the period. With an ROA of 0.4% as of December 2005 and 1.8% as of June 2006 (annualized), VRFSBS has a similar profitability than its peers of the MBB, which report a median ROA of 0.2% according to the 2005 Benchmarks.

The self-sufficiency of VRFSBS is based on a stable differential between the portfolio yield on one side, and the operating expense ratio and the funding expense ratio on the other side. Portfolio growth has been too weak to generate economies of scale while the funding structure and interest rates have remained the same over the time. In addition to that, the institution is not allowed to make loan loss provisions nor does it write-off loans past-due more 365 days, which substantially increases profitability.



Portfolio yield and effective interest rate

The portfolio yield remained relatively stable between 33% and 37% throughout the analyzed period. Interest rates have not changed in the last three years despite the increasing competition from commercial bank. Indeed, the current size of portfolio does not generate sufficient economies of scale to absorb a decrease of interest rates. The estimated APR as of June 2006 was 34.4%, very similar to the portfolio yield of 34.0%, displaying a modest effect of PAR on revenues.

Operating expense ratio

The operating expense ratio remains around 20% over the period (with an exception of 16.7% in 2004), which reflects the lack of economies of scale. VRFSBS has a lower operating expense ratio than its peers of the MBB, reporting a median operating expense ratio of 24.9%. This performance results mainly from low operating costs and does not reflect high efficiency.

VRFSBS light cost structure can be related to a tight management of expenses and to a convenient sharing of LOs costs between consulting centers and VRFSBS. The back office cost of consulting centers and municipal funds is fully assumed at the regional level, reducing operating costs for the fund. Also, the institution does not pay the rent in Voronezh. Staff expenses represent 66 % of total operating expenses as of June 2006, which illustrates the low weight of other operating costs in the costs structure.

Staff productivity is weak and emblematic of an institution that has not generated economies of scale yet. It has decreased between December 2004 and June 2006, as a result of the stall in the number of clients. The median staff productivity for VRFSBS' peer group is 63, much higher than the adjusted staff productivity of 32 reported by the institution in June 2006. However, the median LO productivity of the same peer group reaches 130, less than the adjusted LO productivity of VRFSBS, of 150. This is a good performance for an institution with such a small portfolio, and results from the share of workload between consulting centers and VRFSBS LOs.

Loan loss provision expense ratio

Due to absence of loan loss provisions, this ratio is equal to zero. The adjustments on provisions show that VRFSBS would actually not be self sufficient if it applied a conservative provisioning policy on loan losses (see below).

Funding expense ratio

The funding expense ratio has been stable over the period, oscillating around 11%, which is high for a NGO. This evolution, related to the parallel growth of portfolio, hides a clear increase in the cost of liabilities. These have grown from 15.8% in 2003 to 20.8% as of June 2006, following the increase of the commercial interest rates charged by banks. The evolution of the funding expense ratio in the coming years will depend on the type of financing that the institution will be able to negotiate.

Asset management

Almost 91.3% of VRFSBS assets are concentrated in the loan portfolio. This proportion has increased since 2003 when loan portfolio represented 84.2% of total assets. This financial structure is typical of a credit-only institution and has favored self-sufficiency.

Adjusted performance

Details concerning the specific adjustments are included in the annexes

| | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|--|--------------|--------------|--------------|--------------|
| Adjustment expense ratio | 7.7% | 7.8% | 11.9% | 13.7% |
| AROE | (20.9%) | (12.3%) | (25.1%) | (22.7%) |
| AROA | (6.2%) | (2.3%) | (9.6%) | (10.5%) |
| Financial self-sufficiency | 86.4% | 102.7% | 81.4% | 76.0% |
| Adjusted operating expense ratio | 21.7% | 18.2% | 21.9% | 21.8% |
| Adjusted funding expense ratio | 16.4% | 16.6% | 17.6% | 16.1% |
| Adjusted loan loss provision expense ratio | 0.1% | 1.6% | 3.9% | 6.8% |

VRFSBS is not self-sufficient after adjustments. Adjustments were performed for inflation (37.1% of adjustments as of June 2006), for in-kind donations and more specifically for the rent that is being paid by the

Regional Administration (13.2%), and for loan loss provisions (49.6%), following the GIRAFE provisioning standards. There were no adjustments for cost of funds as the institution is already paying commercial interest rates. The highest adjustments were for provisions, since the intuition does not make loan loss provisions. As PAR accumulates and loans past-due more than 365 days are not written-off, the adjustment for provisions increases year after year. As such, the adjustment expense ratio has a clear upward trend, evolving from 7.7% in December 2003 to 13.7% in June 2006.

Profitability outlook

VRFSBS is self-sufficient thanks to low operating costs and good productivity, and despite a high cost of debts. The absence of loan loss provisions is also of tremendous help, since the institution is not profitable after adjustments on loan loss provisions. But the financial performance of VRFSBS seems stagnant. This is related to the financing limitations faced by the institution, which have not allowed an increase of portfolio. Additionally, VRFSBS products' range is too rigid for the needs of small entrepreneurs, which has a direct impact on its capacity to grow and ultimately to offer competitive interest rates. As such, in the long term VRFSBS will need to overcome the following challenges to improve its profitability:

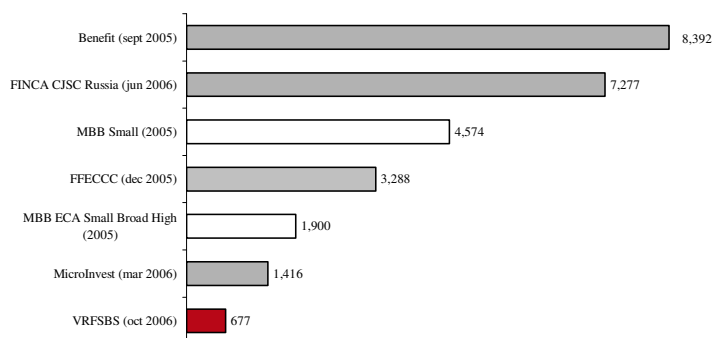
- To ensure a higher growth of portfolio through additional financing at competitive rates and more flexible conditions.
- To be more innovative in terms of product development, in particular for small entrepreneurs.

The possible transformation of VRFSBS into a non-banking credit institution may strongly hamper self-sufficiency in the short run for such a small institution, despite the obvious positive effects in the long run. This project is still at an initial stage; no timetable or study on the costs and adjustments involved has been established yet. However it will very likely lead to higher operating costs and many organizational changes before its advantages are felt. Thus, such transformation seems to generate too many challenges in a period in which other priorities must be addressed.

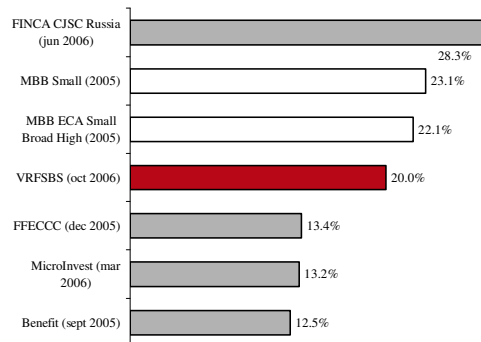
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

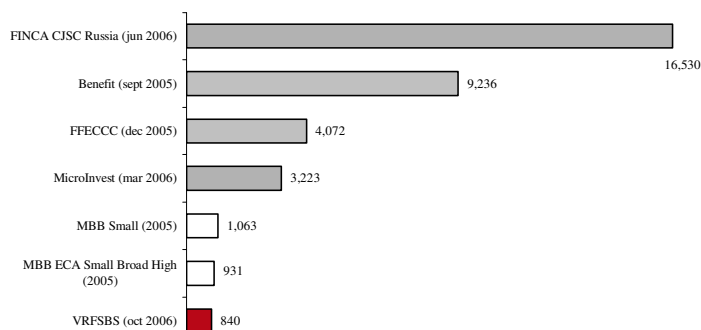
Number of active clients



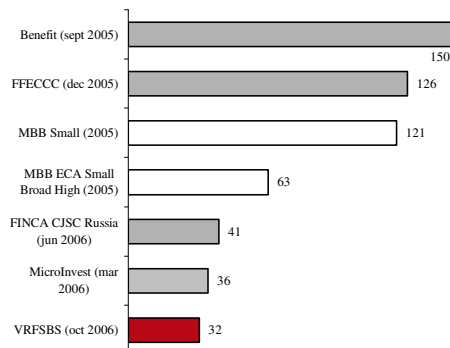
Operating expense ratio



Gross portfolio outstanding in K USD

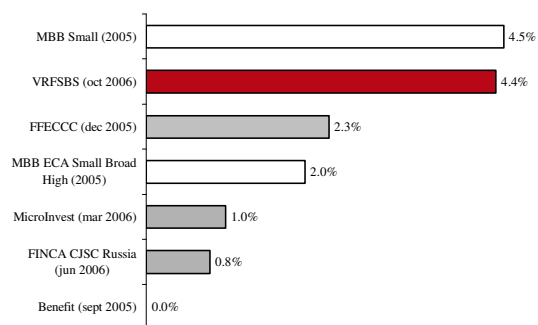


Staff productivity

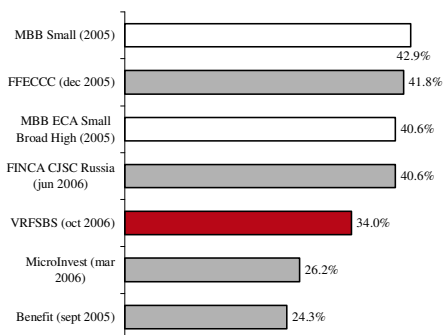


PAR>30

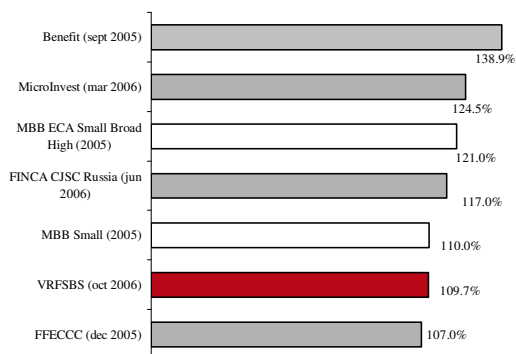
PAR 31 -365 days



Portfolio Yield



Operational self-sufficiency



Classification based on MBB criteria

| | |
|---------------------|--|
| Area | ECA |
| MBB peer group | ECA Small Broad High (ECA; GLP < 2 M USD; outst. loan per client > 20% and < 250% of GDP per capita) |
| Maturity | Young (5 to 8 years) |
| Scale of operations | Small (GLP < 2 M USD) |
| Target population | Broad (outst. loan per client > 20% and < 250% of GDP per capita) |

■ Annexes

Acronyms

| | |
|--------|---|
| ALM | Asset/Liability Management |
| CFO | Chief Financial Officer |
| EBRD | European Bank for Reconstruction and Development |
| FY | Fiscal Year |
| HR | Human Resources |
| GDP | Gross Domestic Product |
| IT | Information technology |
| KfW | German Development Bank |
| LO | Loan officer |
| MBB | MicroBanking Bulletin |
| MIS | Management Information System |
| MFI | Microfinance institution |
| MFC | Microfinance Center for Central and Eastern Europe and the Newly Independent States |
| NA | Not Applicable |
| NBCI | Non Banking Credit Institution |
| NGO | Non Governmental Organization |
| PAR | Portfolio at risk |
| RMC | Russian Microfinance Center |
| ROA | Return on assets |
| ROE | Return on equity |
| SME | Small and medium sized enterprise |
| USAID | United States Agency for International Development |
| USD | United States Dollar |
| VRFSBS | Voronezh Regional Fund for Small Business Support |

Formulas and ratios

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

Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

0 VRFSBS does not follow the CGAP disclosure guidelines for its audited financial statements. It follows Russian Accounting Standards.

1 The Financial Statements presented include a balance sheet, an income statement and accompanying notes. Given the specificities of Russian Accounting Standards, Planet Rating has used the financial statements sent by the institution to the Mix (with various accounting adjustments) and not the audited financial statements.

2 The financial statements provided include 3.5 years of data.

3 Segment Reporting for Multiservice Microfinance Institutions: the institution only provides financial services.

4 Portfolio reporting

4.1 Loan loss provision expense: VRFSBS is not allowed to make provisions for loan losses.

4.2 Write-off: VRFSBS does not write-off delinquent loans out of outstanding portfolio.

4.3 Accrual vs. Cash accounting: the MFI recognizes interests on an accrual basis and therefore revenue is recognized when earned and expenses are recognized when incurred.

5 Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

5.2 Rescheduling of loans: VRFSBS does refinance/reschedule loans.

5.3 Insider loans: VRFSBS does not provide loans to its staff.

6 Donations

6.1 Revenue from donations is shown separately from income generated by operations in the income statement.

6.2 Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income statement. All grants for operating expenses are then transferred to the balance sheet in accumulated donations, and are not included in the operating net income. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet.

6.3 In-kind donations: In kind donations amounting to 600 USD per month for the rent of the apartment where VRFSBS operates were passed in the adjustments. They are not included in the financial statements.

6.4 Main donations received:

| Grants | Amount granted, K RUB | Restrictions and Comments |
|---|-----------------------|-----------------------------|
| Budget of Voronezh Region | 7,122 | For portfolio |
| Grant DAI | 1,392 | For portfolio |
| Federal Fund for Small Business Support | 100 | For portfolio |
| Fund "EuroAsia" | 2,539 | For microfinance activities |
| Budget of Voronezh Region | 1,589 | Operating expenses |
| Fund Swisscontact | 187 | Operating expenses |
| Federal Fund for Small Business Support | 166 | Operating expenses |

6.5 Cumulative amount of all donations received since the beginning: 11,387,000 RUB (420,340 USD with the exchange rates of June 2006).

7 Details of liabilities

7.1 Loans in a table at the end of this report.

7.2 Deposits: the institution does not collect savings.

8 Other significant Accounting Policies

8.1 Accrual or deferral income/expense accounting: all incomes and expenses are accrued.

8.2 Depreciation of fixed assets: The depreciation of fixed assets is on a flat basis.

8.3 Inflation accounting: none

8.4 Currency mismatch: none.

8.5 Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: none.

Specific notes to the financial statements

Balance sheet

- Investment in bonds of a commercial company. It was written off in 2005 due to bad results.

Income statement

- Revenue from reserved tax assets.
- As of 2003 all the fixed assets were bought with grants, so there were not amortizations and depreciations.

Adjustments

| | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 |
|---|-----------------|------------------|------------------|------------------|
| Adjustment for the cost of funds = (a*b)-c | - | - | - | - |
| Average amount of borrowings (a) | 6,304,000 | 8,228,500 | 9,981,500 | 11,352,000 |
| Shadow price of borrowings (b) | 12.4% | 10.8% | 11.2% | 10.4% |
| Interest expense on borrowings (c) | 998,000 | 1,622,000 | 1,880,000 | 1,183,000 |
| Adjustment for inflation = (d-e)*f | 470,732 | 644,463 | 1,180,746 | 547,323 |
| Avg. Equity (d) | 4,152,000 | 6,791,500 | 10,208,500 | 11,993,000 |
| Average fixed assets (e) | 716,000 | 879,000 | 837,500 | 708,000 |
| Inflation rate (f) | 13.7% | 10.9% | 12.6% | 9.7% |
| Adjustment for in-kind donations | 210,672 | 199,944 | 206,957 | 195,048 |
| Staff and technical assistance | | | | |
| Other | 210,672 | 199,944 | 206,957 | 195,048 |
| Adjustments for provisions | 8,055 | 224,158 | 680,915 | 731,764 |
| Loan losses | 8,055 | 224,158 | 680,915 | 731,764 |
| Other risks | | | | |
| Other adjustments | | | | |
| Total adjustments | 689,459 | 1,068,565 | 2,068,618 | 1,474,135 |
| Net income before donations | 24,000 | 719,000 | 84,000 | 219,000 |
| Adjusted net income before donations | (665,459) | (349,565) | (1,984,618) | (1,255,135) |
| Adjusted net income before donations (USD) | (22,743) | (12,588) | (69,045) | (46,332) |

Notes:

- The shadow price of borrowings is the interest rates on ruble-denominated loans to enterprises and organizations and household deposits.
- The adjustment for in-kind donations relates to the rent that is being paid by the Regional Administration. A monthly rent of 600 USD was used for this purpose.

| Voronezh Fund for Small Business Support Balance sheet | | RUB | | | | USD | | | | Evolution | | | |
|---|--|-------|-------------------|-------------------|-------------------|-------------------|----------------|----------------|----------------|----------------|--------------|--------------|---------------|
| | | Notes | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 | 2004/2003 | 2005/2004 | 2006/2005 |
| ASSETS | | | 12,338,000 | 18,537,000 | 22,923,000 | 24,927,000 | 421,668 | 667,519 | 797,487 | 920,155 | 50.2% | 23.7% | 8.7% |
| Short Term Assets | | | 11,013,965 | 15,997,619 | 19,070,104 | 21,272,350 | 376,417 | 576,076 | 663,445 | 785,247 | 45.2% | 19.2% | 11.5% |
| Cash and Due from Banks | | | 784,000 | 673,000 | 207,000 | 970,000 | 26,794 | 24,235 | 7,201 | 35,807 | (14.2%) | (69.2%) | 368.6% |
| Short Term Investments | | 1 | 160,000 | 160,000 | - | - | 5,468 | 5,762 | - | - | 0.0% | (100.0%) | - |
| Short Term Net Loan Portfolio | | | 9,875,965 | 14,950,619 | 18,412,104 | 19,791,350 | 337,524 | 538,373 | 640,554 | 730,578 | 51.4% | 23.2% | 7.5% |
| Short Term Gross Loan Portfolio | | | 9,875,965 | 14,950,619 | 18,412,104 | 19,791,350 | 337,524 | 538,373 | 640,554 | 730,578 | 51.4% | 23.2% | 7.5% |
| (Loan Loss Reserve) | | | - | - | - | - | - | - | - | - | - | - | - |
| Interest Receivable | | | 45,000 | 159,000 | 308,000 | 228,000 | 1,538 | 5,726 | 10,715 | 8,416 | 253.3% | 93.7% | (26.0%) |
| On loan portfolio | | | 45,000 | 159,000 | 308,000 | 228,000 | 1,538 | 5,726 | 10,715 | 8,416 | 253.3% | 93.7% | (26.0%) |
| On investments | | | - | - | - | - | - | - | - | - | - | - | - |
| Accounts receivable and other assets | | | 149,000 | 55,000 | 143,000 | 283,000 | 5,092 | 1,981 | 4,975 | 10,447 | (63.1%) | 160.0% | 97.9% |
| Long term assets | | | 1,324,035 | 2,539,381 | 3,852,897 | 3,654,651 | 45,251 | 91,443 | 134,042 | 134,908 | 91.8% | 51.7% | (5.1%) |
| Long Term Net Investments | | | - | - | - | - | - | - | - | - | - | - | - |
| Long Term Gross Loan Portfolio | | | 510,035 | 1,595,381 | 3,121,897 | 2,969,651 | 17,431 | 57,450 | 108,610 | 109,622 | 212.8% | 95.7% | (4.9%) |
| Net Fixed Assets | | | 814,000 | 944,000 | 731,000 | 685,000 | 27,820 | 33,994 | 25,431 | 25,286 | 16.0% | (22.6%) | (6.3%) |
| Other Long Term Assets | | | - | - | - | - | - | - | - | - | - | - | - |
| LIABILITIES AND EQUITY | | | 12,338,000 | 18,537,000 | 22,923,000 | 24,927,000 | 421,668 | 667,519 | 797,487 | 920,155 | 50.2% | 23.7% | 8.7% |
| Liabilities | | | 7,336,000 | 9,956,000 | 11,087,000 | 12,777,000 | 250,718 | 358,516 | 385,715 | 471,650 | 35.7% | 11.4% | 15.2% |
| Short term liabilities | | | 379,000 | 456,000 | 2,624,000 | 6,477,000 | 12,953 | 16,421 | 91,288 | 239,092 | 20.3% | 475.4% | 146.8% |
| Demand Deposits | | | - | - | - | - | - | - | - | - | - | - | - |
| Compulsory Deposits | | | - | - | - | - | - | - | - | - | - | - | - |
| Short Term Time Deposits | | | - | - | - | - | - | - | - | - | - | - | - |
| Short Term Borrowings | | | - | - | 2,000,000 | 5,941,000 | - | - | 69,580 | 219,306 | - | - | 197.1% |
| Interest payable | | | 179,000 | 131,000 | 235,000 | 96,000 | 6,118 | 4,717 | 8,176 | 3,544 | (26.8%) | 79.4% | (59.1%) |
| Accounts Payable and Other Short Term Liabilities | | | - | 325,000 | 389,000 | 440,000 | 6,835 | 11,703 | 13,533 | 16,242 | 62.5% | 19.7% | 13.1% |
| Long term liabilities | | | 6,957,000 | 9,500,000 | 8,463,000 | 6,300,000 | 237,765 | 342,096 | 294,426 | 232,558 | 36.6% | (10.9%) | (25.6%) |
| Long Term Time Deposits | | | - | - | - | - | - | - | - | - | - | - | - |
| Long Term Borrowings | | | 6,957,000 | 9,500,000 | 8,463,000 | 6,300,000 | 237,765 | 342,096 | 294,426 | 232,558 | 36.6% | (10.9%) | (25.6%) |
| Other Long Term Liabilities | | | - | - | - | - | - | - | - | - | - | - | - |
| Equity | | | 5,002,000 | 8,581,000 | 11,836,000 | 12,150,000 | 170,950 | 309,003 | 411,772 | 448,505 | 71.6% | 37.9% | 2.7% |
| Paid-In Capital | | | - | - | - | - | - | - | - | - | - | - | - |
| Donated equity | | | 4,967,000 | 7,641,000 | 11,055,000 | 11,387,000 | 169,754 | 275,153 | 384,601 | 420,340 | 53.8% | 44.7% | 3.0% |
| Retained earnings without donations and reserves | | | - | 925,000 | 781,000 | 763,000 | 1,196 | 33,309 | 27,171 | 28,165 | 2,542.9% | (15.6%) | (2.3%) |
| Current year | | | 23,000 | 890,000 | (144,000) | (18,000) | 786 | 32,049 | (5,010) | (664) | 3,769.6% | (116.2%) | (87.5%) |
| Other equity accounts | | | - | 15,000 | - | - | - | 540 | - | - | - | (100.0%) | - |

| Voronezh Fund for Small Business Support | | RUB | | | | USD | | | | Evolution | | |
|--|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Income Statement | Notes | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 | Dec. 2003 | Dec. 2004 | Dec. 2005 | Jun. 2006 | 2004/2003 | 2005/2004 | 2006/2005 |
| Financial Revenue (a) | | 2,961,000 | 5,118,000 | 6,147,000 | 3,655,000 | 101,196 | 184,300 | 213,853 | 134,921 | 72.8% | 20.1% | (40.5%) |
| Financial Revenue from Loan Portfolio | | 2,961,000 | 5,118,000 | 6,147,000 | 3,655,000 | 101,196 | 184,300 | 213,853 | 134,921 | 72.8% | 20.1% | (40.5%) |
| Interest on Loan Portfolio | | 2,901,000 | 4,997,000 | 5,963,000 | 3,524,000 | 99,146 | 179,942 | 207,452 | 130,085 | 72.3% | 19.3% | (40.9%) |
| Fees and Commissions on Loan Portfolio | | 60,000 | 121,000 | 184,000 | 131,000 | 2,051 | 4,357 | 6,401 | 4,836 | 101.7% | 52.1% | (28.8%) |
| Penalty Revenue on Loan Portfolio | | - | - | - | - | - | - | - | - | - | - | - |
| Financial Revenue from Investments | | - | - | - | - | - | - | - | - | - | - | - |
| Other Operating Revenue | 1 | - | - | - | - | - | - | - | - | - | - | - |
| Financial Expense (b) | | 998,000 | 1,622,000 | 1,880,000 | 1,183,000 | 34,108 | 58,408 | 65,405 | 43,669 | 62.5% | 15.9% | (37.1%) |
| Interest paid on borrowings | | 998,000 | 1,622,000 | 1,880,000 | 1,183,000 | 34,108 | 58,408 | 65,405 | 43,669 | 62.5% | 15.9% | (37.1%) |
| Interest paid on deposits | | - | - | - | - | - | - | - | - | - | - | - |
| Net Inflation Adjustment Expense | | - | - | - | - | - | - | - | - | - | - | - |
| Other Financial Expenses | | - | - | - | - | - | - | - | - | - | - | - |
| Financial income [c=a-b] | | 1,963,000 | 3,496,000 | 4,267,000 | 2,472,000 | 67,088 | 125,891 | 148,448 | 91,251 | 78.1% | 22.1% | (42.1%) |
| Net Loan Loss provision expense (d) | | - | - | - | - | - | - | - | - | - | - | - |
| Loan loss provision expense and write-off | | - | - | - | - | - | - | - | - | - | - | - |
| Recovery from Loans written off | | - | - | - | - | - | - | - | - | - | - | - |
| Operating expense (e) | | 1,738,000 | 2,292,000 | 3,603,000 | 2,149,000 | 59,398 | 82,535 | 125,348 | 79,328 | 31.9% | 57.2% | (0) |
| Personnel Expense (includes fringe) | | 1,268,000 | 1,763,000 | 2,356,000 | 1,432,000 | 43,336 | 63,486 | 81,965 | 52,861 | 39.0% | 33.6% | (39.2%) |
| Administrative Expense (non-staff operating expenses) | | 470,000 | 529,000 | 1,247,000 | 717,000 | 16,063 | 19,049 | 43,383 | 26,467 | 12.6% | 135.7% | (42.5%) |
| Depreciation and amortization | 2 | 25,000 | 52,000 | 108,000 | 9,000 | 854 | 1,873 | 3,757 | 332 | 108.0% | 107.7% | (91.7%) |
| Consulting fees | | - | - | - | - | - | - | - | - | - | - | - |
| Rent and Utilities | | 101,000 | 54,000 | 72,000 | 206,000 | 3,452 | 1,945 | 2,505 | 7,604 | (46.5%) | 33.3% | 186.1% |
| Transportation | | 43,000 | 21,000 | 19,000 | 18,000 | 1,470 | 756 | 661 | 664 | (51.2%) | (9.5%) | (5.3%) |
| Office Supplies | | 51,000 | 57,000 | 72,000 | 25,000 | 1,743 | 2,053 | 2,505 | 923 | 11.8% | 26.3% | (65.3%) |
| Others | | 250,000 | 345,000 | 976,000 | 459,000 | 8,544 | 12,423 | 33,955 | 16,944 | 38.0% | 182.9% | (53.0%) |
| Net Operating Income Before Taxes and Donations [f=c-d-e] | | 225,000 | 1,204,000 | 664,000 | 323,000 | 7,690 | 43,356 | 23,100 | 11,923 | 435.1% | (44.9%) | (51.4%) |
| Income Taxes (g) | | 201,000 | 485,000 | 580,000 | 104,000 | 6,869 | 17,465 | 20,178 | 3,839 | 141.3% | 19.6% | (82.1%) |
| Net Operating Income Before Donations [h=f-g] | | 24,000 | 719,000 | 84,000 | 219,000 | 820 | 25,891 | 2,922 | 8,084 | 2,895.8% | (88.3%) | 160.7% |
| Non Operating Revenue (i) | | 319,000 | 434,000 | 563,000 | 68,000 | 10,902 | 15,628 | 19,587 | 2,510 | 36.1% | 29.7% | (87.9%) |
| Non Operating Expense (including related taxes) (j) | | 320,000 | 263,000 | 791,000 | 305,000 | 10,936 | 9,471 | 27,519 | 11,259 | (17.8%) | 200.8% | (61.4%) |
| Net Income Before Donations [k=h+i-j] | | 23,000 | 890,000 | (144,000) | (18,000) | 786 | 32,049 | (5,010) | (664) | 3,769.6% | (116.2%) | (87.5%) |
| Donations (l) | | 1,796,000 | 2,674,000 | 3,414,000 | 332,000 | 61,381 | 96,291 | 118,772 | 12,255 | 48.9% | 27.7% | (90.3%) |
| Net Income (after Taxes and Donations) [m=k+l] | | 1,819,000 | 3,564,000 | 3,270,000 | 314,000 | 62,167 | 128,340 | 113,763 | 11,591 | 95.9% | (8.2%) | (90.4%) |

Outstanding debts

| Loan Providers | Initial amount (in RUB) | Loan outstanding as of June 2006 (in RUB) | Interest rate | Maturity date, repayment schedule and conditions. |
|--|-------------------------|---|---------------|---|
| Interregional Fund for Microfinance Services, Moscow | 4,300,000 | 3,300,000 | 23% | 04/05/2007 |
| CJSC IC "Orion", Moscow | 500,000 | 500,000 | 23% | 29/09/2006 |
| CJSC "VoronezhSnab" | 2,500,000 | 850,000 | 18% | 13/07/2006 |
| OJSC "VoronezhPromBank", Voronezh | 6,000,000 | 4,591,000 | 22% | 18/05/2007 |
| CJSC "Centurion Capital", Moscow | 3,000,000 | 3,000,000 | 22% | 27/12/2007 |

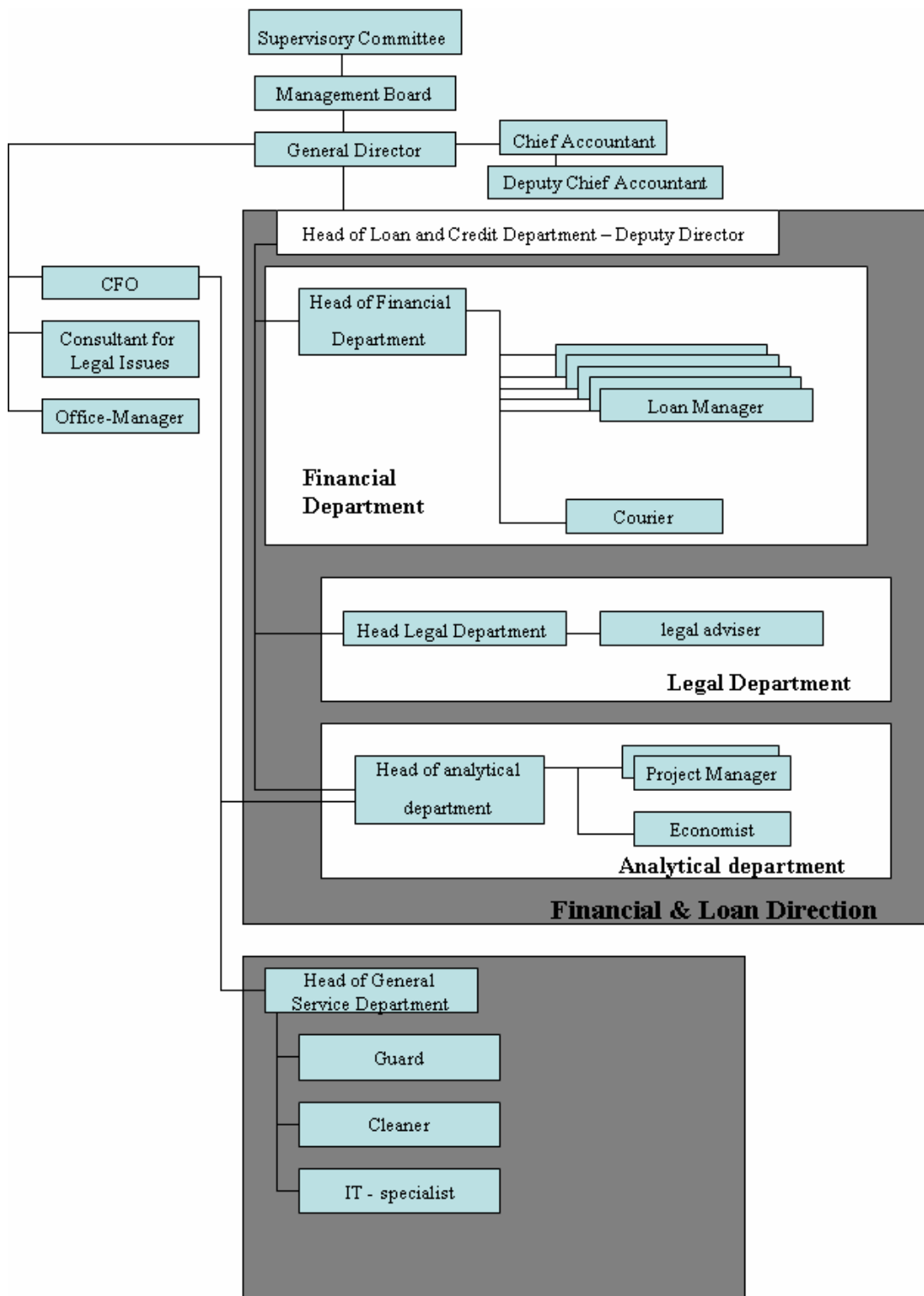
Supervisory Committee

| Name | Job | Position in the Committee |
|-------------------------|---|---------------------------|
| Naumov Sergey M. | Head of the Administration of the Voronezh Region | Chairman |
| Shahov Oleg F. | Administration of the Voronezh Region, Head of Economic Department | Deputy Chairman |
| Mozaitov Arkadiy R. | Administration of the Voronezh Region, Head of Business and consumer markets development department | Deputy Chairman |
| Selitrennikov Leonid I. | Administration of the Voronezh Region. Head of Economic development direction | Member |
| Erihonov Ylja I. | Head of Property and Privatization committee of the Voronezh Regional parliament | Member |
| Dubikov Anatoliy. F | Head of Inspection Chamber of Voronezh Region. | Member |
| Safonova Nadezhda G. | Administration of the Voronezh Region. Head of Financial direction | Member |
| Goshko Aleksandr I. | Consulter of analytic department for Business development of Voronezh region | Member |

Management Committee

| Name | Job | Position in the Committee |
|---------------------------|--|---------------------------|
| Mozaitov Arkadiy R. | Administration of the Voronezh Region, Head of Business and consumer markets development department | Deputy Chairman |
| Novikov Viktor V. | Administration of the Voronezh Region, Deputy Head of Business and consumer markets development department | Deputy Chairman |
| Lisin Viktor V. | Deputy Chairman of Federal Fund for small business support | Member |
| Nikolenko Nikolay N. | Deputy Head of external economic activities and international partnership department of Voronezh Region | Member |
| Zavjalov Uriy Alekseevich | Deputy Head for Business development department of Voronezh region | Member |

Organizational chart



Loan products

| Name of the product | Micro Loans | Compensatory Loans | Infrastructure Loans |
|---|--|--|--|
| Creation Date | 2000 | 2002 | 2002 |
| Client type (rural, urban, etc.) | For increasing working capital of small business entrepreneurs | For offsetting interests on loans for investments received from commercial banks | For Municipal Funds set up by VRFBS |
| Authorised loan size (minimum and maximum) | 5,000-90,000 RUB | 1-1,000,000 RUB | 3,000 - 1,250,000 RUB |
| Average disbursed loan size | 35,088 | 160,000 | 69,830 |
| Authorised loan length (minimum and maximum) | 1 week - 6 month, in accordance with lending methodology | 1 month - 36 month, in accordance with lending methodology | 1 month - 24 month with possibility for further prolongation |
| Average loan length | 164 days | 781 days | 648 days |
| Grace period | From one to several installments | During and after the term of the investment bank loan | Yes, upon mutual consent |
| Collateral requirements and other conditions | Pledges on movable assets | Pledges on movable assets | Pledges on movable assets |
| Repayment Schedule (ex. weekly, monthly) | From daily to every 6 months | Monthly | Monthly, quarterly |
| Nominal annualized interest rate | 20%-60% | 0 | 9%-25% |
| Flat or declining? | Flat or Declining - under mutual consent | Declining | Declining |
| APR | 40.1% | 5.0% | 13.5% |
| Fees and penalties | 0.5% of arrears | 0.5%-1% of arrears | 0.5%-1% of arrears |
| Major changes since creation (rate, size, term) | No | No | No |