

JV MFO MicroInvest LLC, Moldova

MicroInvest was created in April 2003 and registered as a Limited Liability Corporation by the Moldova Microfinance Alliance as a technical provider and the Soros Foundation Moldova as sole equity investor. In December 2007, new shareholders entered MicroInvest's capital, the Balkan Financial Sector Equity Fund becoming the largest one. As of June 2008, MicroInvest served 3,204 clients (including 67 Savings and Credits Associations of Citizens representing 8,152 final beneficiaries) in rural and urban areas through a network of twelve branches spread over Moldova. It had a gross loan portfolio of 21.2 M USD and offered six loan products based on both individual and group methodologies.

GIRAFE Rating

Rating

B++

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at www.planetrating.com

Outlook

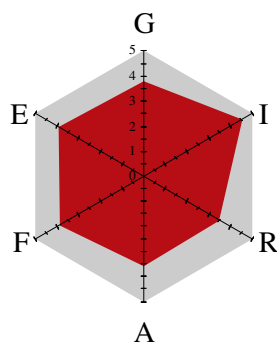
Positive

Date of the rating

August 2008

Valid until July 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- MicroInvest broke even in 2007 with a ROA* and ROE respectively standing at 0.7% and 1.7% in December 2007, a positive trend that is confirmed as of June 2008 (ROA=3.3% and ROE=8.6%). This has been achieved thanks to the higher pricing as well as economies of scale and despite the high funding expense ratio (15.6% in December 2007) and deteriorating portfolio quality (PAR 30=2.1%).
- MicroInvest is well-capitalized with a Capital Adequacy Ratio standing at 37.8% resulting from the timely equity increase carried out in December 2007. It has a sound and dynamic funding strategy and closely monitors market risks but remains nevertheless exposed to the interest rate risk with an open position of (96%).
- Governance has been strengthened thanks to the arrival of new shareholders allowing for a closer supervision and the set up of an Audit Committee. The management team concentrates all the required skills but is still exposed to the key-person risk and could improve in strategic planning. Internal Audit does not cover all departments of the Head Office yet.
- All staff has access to the required information for decision-making thanks to the efficient and cost effective integrated information system.
- As MicroInvest's growth accelerates, its main challenge ahead is to make the required adjustments to its branch organization in order to improve internal controls and loan portfolio management.

Outlook

The Positive outlook reflects our opinion that MicroInvest will keep strengthening its governance, consolidate its profitability and improve internal controls and loan portfolio management due to adjustments being made to its branch organization.

Performance indicators

USD	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Jun.2008
Assets	234,449	1,075,772	3,770,679	6,893,867	24,200,390	34,715,304
Growth	-	332.5%	261.0%	83.9%	207.9%	25.7%
Loan portfolio	186,502	796,837	2,677,989	4,125,556	10,804,863	21,194,371
Growth	-	302.7%	246.1%	54.9%	129.7%	71.9%
Active borrowers	219	399	1,287	1,546	2,697	3,204
Staff	8	37	53	68	79	101
ROE	(31.5%)	(46.5%)	(26.1%)	(5.5%)	1.7%	8.6%
ROA *	(21.1%)	(31.5%)	(11.2%)	(1.7%)	0.7%	3.3%
Liabilities / Equity	0.49x	0.47x	2.50x	3.64x	2.24x	2.97x
Portfolio Yield	16.4%	25.7%	24.9%	27.6%	27.0%	31.6%
Operating expense ratio	29.1%	49.7%	28.8%	16.4%	9.6%	8.4%
PAR 31-365	0.6%	0.8%	1.1%	1.5%	2.1%	2.9%
Write-off ratio	0.0%	0.0%	0.3%	0.6%	0.6%	0.7%

Note: * ROA is adjusted to exclude back-to-back loans from assets

Microfinance sector

The microfinance sector was launched in Moldova in 1997 when the first Savings and Credit Associations (SCAs) were created as part of the Rural Finance Project funded by the World Bank and Soros Foundation Moldova. Since then, other international institutions have supported the development of microfinance in Moldova through funding and/or technical assistance, including DFID, EBRD, GTZ, KfW, the Open Society Institute, and USAID. Microfinance services have been subsequently offered by non-banking microfinance organizations (MFOs) such as MicroInvest, ProCredit (that received a banking license in Dec. 2007) and the Rural Finance Corporation (RFC) and more recently by downscaling banks (e.g. Moldova Agroindbank, Banca Sociala and FinComBank). In December 2007, the 456 licensed SCAs and 13 MFOs had a total loan portfolio of 119 M USD.

Previously regulated by the 1998 Law on Savings and Credits Associations of Citizens, SCAs now have to comply with a more restrictive law enacted in January 2008. MFOs are regulated under the Law on Microfinancing Organizations (No 280-XV) adopted on July 2004 which is even less strict than that of SCAs, in spite of the prohibition on savings collection. MFOs and SCAs were originally monitored by the State Supervisory Body (SBB) that merged in September 2007 with the National Commission of the Financial Market (NCFM), within the Collective Placements and Microfinance Department. However, the NCFM is rather collecting statistics on MFOs and SCAs (quarterly financial and portfolio reports) rather supervising them: no supervision visits have been performed on MFOs and, historically, the SSB lacked resources to control SCAs. On a more positive note, it is a good thing that a credit bureau is being established by a private entity to better mitigate the risk of clients' over-indebtedness.

The new law on Savings and Credits Associations of Citizens aims at better regulating SCAs' deposit-taking activity notably through: 1) the establishment of three levels of licenses allowing for different scopes of activities, 2) the abolition of geographical restrictions on the SCAs' areas of operations (previously limited to one village) and 3) the introduction of adequate prudential norms (standard provisioning policy, loan disbursement limits, minimum capital reserves and level of liquidity), varying according to each category of license. These provisions are expected to mitigate the risks related to the SCAs deposit-taking activity, especially as their members' deposits are still not covered by any insurance or guarantee. A significant number of SCAs, still relatively small, are not complying with the licenses' requirements and might therefore be prohibited from collecting savings and even granting loans. Many of them

are likely to merge in order to survive. Importantly, the new law has also resulted in the end of the National Federation of SCAs that provided technical support to its members. SCAs still receive support from the two MFOs that have also been financing them, namely RFC and MicroInvest. In 2007, the number of SCAs slightly decreased by 6%, but their activity was on a positive trend with a significant rise in their loan and savings portfolio respectively standing at 28.9 M USD (+30.6%) and 7.3 M USD (+86%) at the end of the year. The loans granted by SCAs are mostly short term (74.2% with maturity lower than one year in 2007) despite the longer term financing needs of rural clients' involved in agriculture and the food industry (representing 76.3% of their portfolio).

According to the 2004 Law on Microfinancing Organizations, MFOs may be established as limited liability or joint stock companies and are allowed to grant and manage loans, provide guarantees for clients to get loans from banks, and invest or take participations in formal businesses. MFOs are also authorized to fund through national and international financing sources such as borrowings and grants. The main rule MFOs have to comply with is a strict provisioning policy on the non-performing portfolio. There are no minimum capital requirement, no cap on interest rates, and no prudential ratios. The MFOs' growth is on an accelerating trend (their portfolio grew by 32.7% in 2007). The historical leading MFOs (ProCredit, RFC and MicroInvest) are facing the arrival of an increasing number of new entrants such as Prime-Capital (involved in mortgages and recently in SMEs lending) and Easy Credit (providing consumer lending). The market is nevertheless still highly concentrated with the four biggest MFOs representing 91% of the total loan portfolio as of December 2007.

Dec. 2007	Start Year	Loan (M USD)	%	ROA
ProCredit	1999	37.7	42%	1.0%
RFC	1998	20.3	22%	4.9%
Prime-Capital	2005	13.9	15%	0.7%
MicroInvest	2003	10.8	12%	0.4%
Easy Credit	2005	5.6	6%	9.5%
Elat Profit	2004	0.8	1%	6.7%
Credit Profit	2007	0.5	1%	5.4%
Six other MFOs	2003-2007	0.9	1%	(0.7%)
MFOs		90.5	100%	1.3%

Source: NCFM, Annual Report 2007.

MFOs are serving both urban areas (ProCredit, MicroInvest, new entrants and downscaling banks) and rural areas (as RFC, MicroInvest and Moldova Agroindbank have been granting loans to SCAs and rural individuals). As of December 2007, the market remained nevertheless underserved, as the five main MFOs totaled no more than 30,000 clients while SCAs gathered 110,303 members.

Political & economic environment

Strong investment and private consumption more than offset the negative impact of the drought on the farm and food sectors in 2007. Robust domestic demand and the lifting end 2007 of trade restrictions imposed by Russia on the sale of wine, a primary source of revenue for Moldova, should boost growth in 2008.

Despite the recovery of wine exports to Russia and the extension in 2008 of autonomous trade preferences by the European Union, Moldova should continue to run a substantial trade deficit representing nearly 50 per cent of GDP due to the strong demand for consumer goods and the rising cost of energy spurred notably by the gradual raising of the prices for imported Russian gas. Although increases in expatriate worker remittances and international financial aid should partly offset that deficit, the current account deficit will remain high.

The limited diversification of both the economy and exports (centered on food products, vegetable products, and textiles) continue to cloud the growth outlook. And there is still widespread poverty despite continuing wage growth.

Divisions within Communist Party in power and tensions with the opposition could grow in the run-up to the legislative and presidential elections scheduled in the 2009 first half. The government will nonetheless have to proceed with implementation of the action plan negotiated with the European Union especially as regards media freedom, anti-corruption measures, judicial reform, and the business environment. Government officials have been moving closer to Moscow again and, in the conflict with Transnistria, although the Moldovan president and the officials representing the secessionist region have apparently adopted more flexible positions, a resolution of the conflict is not yet on the horizon.

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 behaviour. 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. Intercompany transactions run major risks in the difficult environments rated C.

(USD millions)	2005	2006	2007(e)	2008(f)
Economic growth (%)	7.5	4	6	6.3
Inflation (%)	11.9	12.7	12.5	12.8
Public sector balance (%GDP)	1.3	0.3	-0.5	-0.5
Exports	1,105	1,054	1,430	1,670
Imports	2,296	2,644	3,590	4,150
Trade balance	-1,192	-1,591	-2,160	-2,480
Current account balance (%GDP)	-8.8	-12	-13.2	-10.5
Foreign debt (%GDP)	53.4	53.3	49.6	47.1
Debt service (%Exports)	12	8.4	6.1	5.8
Foreign exchange reserves (in months of imports)	2.5	2.8	2.9	3

Source: COFACE's Country Risk Rating Guidebook 2007. (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

MicroInvest was established in April 2003 as a microfinance Limited Liability Company by the Soros Foundation Moldova (SFM) and the Moldova Microfinance Alliance (MMA). The latter was providing consulting services and partnered with local banks to channel funds to SCAs. As it could not become self-sufficient¹, MMA executive team, its founders and the SFM (who had provided financial support to MMA) decided to create a non-banking financial institution (MicroInvest), authorized to disburse loans directly to microentrepreneurs. MicroInvest has taken over the regional staff and branch network of MMA.

MicroInvest is regulated by the Law on Microfinancing Organizations no 280-XV of 22 July 2004 and is monitored by the Collective Placements and Microfinance Department of the National Commission of Financial Market (NCFM). MicroInvest sends to the NCFM microfinance department quarterly reports (notably made of financial statements, portfolio reports and A&L matching table) but has not received any visit from the latter. E&Y has audited MicroInvest since 2003 and approved its financial statements without reserve in accordance with international accounting standards. The financial year of MicroInvest starts on January 1st and ends December 31st.

Ownership

MicroInvest is now a Joint Venture with nine shareholders. At inception, the Soros Foundation Moldova was the sole shareholder. Since then, MicroInvest has diversified its

¹ MMA's only revenues were SCAs memberships and donations. Commercial banks did not want to pay for the services and SCAs clients.

shareholding structure with the arrival in the capital of the International Solidarity for Development and Investment company (SIDI) in 2005, and of three members of the management team (through bonuses), the Balkan Financial Sector Equity Fund (BFSE), Oikocredit, Soros Economic Development Fund, Richard H. Driehaus in December 2007. All shareholders have ordinary shares. New statutes have been drafted to comply with the new LLC law. They will be submitted and registered with the State Registry Chamber once approved by the BOD and translated.

Shareholders	Share Value (MDL)	%
BSFS Holding B.V.	29,356,467	39.7%
Soros Foundation Moldova	15,136,654	20.5%
Oikocredit	13,200,000	17.9%
Soros Economic Development Fund	8,250,000	11.2%
Richard H. Driehaus	3,643,533	4.9%
SIDI	2,607,079	3.5%
Munteanu Artur	1,353,738	1.8%
Lupascu Tudor	169,077	0.2%
Mirzac Veronica	169,077	0.2%
Total	73,885,625	100%

The Board of Directors is composed of seven members (including the CEO as non-voting member), elected by the Associates' General Assembly for a one-year mandate (members can be re-elected). BSFS Holding B.V. is represented by two BOD members while the Soros Foundation is represented by two other members, including Mr. Victor Ursu, who has been the BOD chairman since inception. He is also the Executive Director of Soros Foundation Moldova (SFM). The two other voting BOD members are representatives of SIDI and Oikocredit. The BOD performs quarterly ordinary meetings and extraordinary ones as necessary.

Donations

Since inception, MicroInvest has received 18.4 M MDL in grants from the Soros Foundation Moldova (SFM), Novib Netherlands, the Open Society Institute (member of the Soros Foundation Network), MMA and EFSE. The biggest part of grants were offered by the Soros Foundation and in 2007 converted in shares. Grants were used for on-lending purposes and for covering operating expenses.

Funding composition

As of June 2008, MicroInvest's funding structure was composed for 25% of equity and 75% of debt. Most of the borrowings are long term (74%) and commercial (98.4%). 66% of the borrowings are priced at floating interest rates. Loans are granted into MDL (41%), USD (33%) and EUR (25%). Some of the foreign currency loans can be repaid in MDL, bringing the share of loans to be repaid in local currency at 60%. Most of them are granted under back-to-

back arrangements² by local banks such as Banca de Economii SA, Fincombank SA and BC Moldindconbank SA. Main international fund providers include GCMC, FMO, EFSE and Oikocredit.

Management team

The Senior Management team is made of the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Loan Officer (CLO). The team has different and complementary backgrounds, as well as good expertise in microfinance and in agriculture. The team is assisted by the Credit Risk Manager, Fund Raising Manager, part-time manager for the SCA credit department, and back office managers (Marketing, HRM, and Legal). The CEO, Mr. Artur Munteanu, has been in place since inception and has over ten years of experience in Microfinance. He previously worked for FIDES (as development credit officer) and MMA (successively as branch manager, financial manager). He is now also Executive Director of MMA.

Organization

The head office (HO) in Chişinău centralizes most management and administrative staff, except the legal department located in Buiucani. All branches are staffed with Branch Managers (BM), Loan Officers (LO), and in the coming weeks with cashiers. The two biggest branches also have a Branch Credit Risk Manager (BCRM) notably approving the loans, a duty handled by the BM in the other branches. BMs are also in charge with the branch administration, marketing, HO reporting and LO supervision. Senior Loan Officers (SLO) are located in the HO and head the Regional Credit Committees (RCC). LO, SLO, and BM manage their own loan portfolio. Most of the credit activities are decentralized as 1) loans below 70,000 MDL (7 K USD) are approved by the LO and signed by the BM (or BCRM), 2) loans between 70 K MDL and 300 K MDL (7 K USD and 30 K USD) are approved during the RCC (made up of the BM, SLO, and LOs), and 3) loans between 300 K MDL and 1.2 M MDL (30 K USD and 121 K USD) are approved during the Central Credit Committees (CCC) headed by the HO Credit Risk Manager and also made up of the CFO, CLO, and lawyer. SCAs loans are approved by RCC up to 1 M MDL³ (0.1 M USD) and by CCC up to 4 M MDL (0.4 M USD). The BMs' portfolio loans are approved by SLOs and inversely. Loans may be disbursed and reimbursed through banks or through the branch cash desk, depending on the loan product and size of the branch.

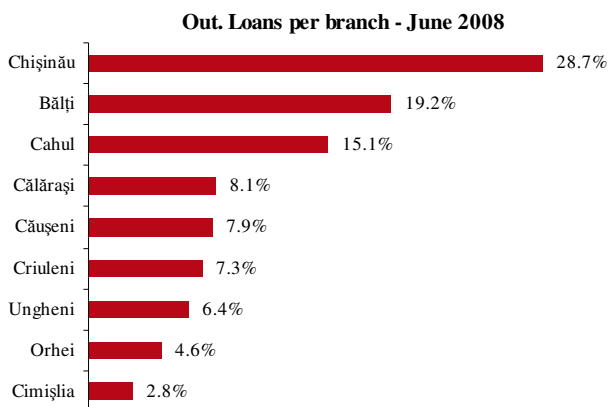
² In the report, the ratios based on assets are adjusted (back-to-back loans are excluded from the assets).

³ 2 M MDL (0.2 M USD) in Chişinău.

MicroInvest is using an integrated MIS (1C8.1) developed in Russia for the Banking sector and then adapted to the Moldovan legislation and the Microfinance industry by MicroInvest and its local service provider. The HO and most of the branches are connected on-line to the software's server. Portfolio data is processed at the branch level by branch staff. Similarly, cash operations are recorded instantly in the MIS and reconciled with bank statements (usually by cashiers). Accounting is centralized at the HO.

Market penetration

MicroInvest is headquartered in Chişinău and covers almost all of the Moldovan territory through its network of twelve branches (three of them being located in the capital city). Rural areas account for 70% of the portfolio even though some loans for rural clients (e.g. for SCAs) are granted in urban-based branches (Chisinau, etc).



Products and services

In June 2008, MicroInvest offered five main loan products targeting both individuals and groups and to be repaid mostly monthly. The average Effective Interest Rate (EIR) ranges from 27.9% to 35%.

- Direct loans (DL), designed for individuals are divided into 3 categories: START for business launch, FORTE for business expansion and SIMPLUS, with faster disbursements and basic conditions. DLs have a maximum loan size of 2.4 M MDL (0.2 M USD), an average disbursed loan size of 54 K MDL (5.5 K USD) and an average term of 20 months. Grace periods are granted up to eight months on principal and six months on interests. The annual nominal interest rate ranges from 15.6% to 31.5% on a flat basis for loans below 70 K MDL (7 K USD) granted to new clients and on a declining basis for higher amounts disbursed to repeated clients, yielding an average EIR ranging from 33.1% to 45.7%.
- SCAs loans range from 50 K MDL to 8 M MDL (5.1 K USD to 809 K USD) and the average disbursed loan size is 432 K MDL (43.7 K USD) for a 15-month average term. Grace periods range from three to eleven

months. The average nominal interest rate is 21% per year. Interests are calculated on a declining basis, yielding an EIR of 23%. It increases to 28% if taken into account the 10% deposit of the loan amount required as collateral.

- USD/EUR indexed loans (IL)' maximum size is 2.4 M MDL (0.2 M USD) for an average disbursed loan size of 8,600 MDL (870 USD) and an average term of 27 months. Grace periods are similar as for the DL. The nominal interest rate ranges from 15% to 24.5% per year, on a flat basis for loans up to 4,300 EUR / 7,000 USD and on a declining basis above, yielding EIR ranging from 27.7% to 36.1%.
- Informal Groups loans (GL)⁴ range from 1,000 to 60,000 MDL (101 to 6,074 USD). The average disbursed loan size is of 7,000 MDL (709 USD) for an average term of 12 months. Grace periods are granted up to eleven months. The average nominal interest rate is 24% per year and can be flat or declining. EIR is 30.4%.
- Consumer loans (CL), still under pilot phase, are designed for MicroInvest's current good clients and can be granted in MDL, EUR or USD for a maximum loan size of 356 K MDL (36,036 USD). The average disbursed loan size is 35 K MDL (3,543 USD) for an average term of 28 months. The grace period is granted up to three months on the principal. Nominal interest rate ranges from 16% to 31.5% and are flat or declining depending on the amounts granted.

For Direct, Indexed and Consumer loans below 70 K MDL, guarantors can be used as collateral. Above this amount, financial guarantees (securities, deposits) and/or physical assets (e.g. stocks, real estate) are required, covering 100% of the amount for loans between 70,000 and 300,000 MDL (7,086 and 30,368 USD), and at least 120% above.

MicroInvest offers three other kinds of financial products: 1) staff loans with an average disbursed loan size of 195 K MDL (19,739 USD) and an EIR of 11%; 2) community venture capital (for small companies) and 3) financial guarantees (to enable individuals to borrow from commercial banks⁵). The part of staff loans is stable since Dec. 05 (around 2.5% of the portfolio) while the part of the other products continuously decreased to represent together 0.5% of the portfolio as of June 2008.

Networks

MicroInvest is affiliated to the Soros Foundation's network (Open Society Institute) involved in microfinance in Eastern Europe. MicroInvest is also a member of Warsaw-based MFC (Microfinance Centre for CEE and NIS) network.

⁴ Informal Group loans, designed for informal rural groups were launched in 2003 when MMA won the CGAP "Pro-Poor Innovation Challenge Award".

⁵ Partner banks are MAIB, Moldindconbank and FinComBank.

■ Governance

Governance and Decision making is rated “b”

Decision making

MicroInvest’s decision making process is adequate and efficient, ensuring that decisions are taken in its best interest. The arrival of new shareholders has further strengthened the Board of Directors (BOD) and allowed the institution to finance its growth. New BOD members (particularly BFSE) have brought strong skills from the finance and banking sector in addition to a valuable closer BOD supervision since January 2008 (monthly reporting and extra on-site meetings). The social mission of providing services to SMEs is shared by all stakeholders. Profitability objectives were not set in the shareholder agreement but were submitted to the BOD with the financial plan.

Decision making is well-balanced with the management preparing most strategic initiatives, submitting them to the BOD that will finally delegate its authority to the CEO for execution. The duties of each body (General Assembly, BOD, Executive body) have been adequately refined in the new statutes to be adopted in November. The BOD members meet frequently (formal meetings are held quarterly) and receive reliable and very complete monthly financial and activity reports. They nevertheless ought to be more concise to better suit the BOD information needs. BOD minutes are well-formalized but still lack a follow-up of previous decisions. An Audit Committee was recently set up but has not formally met yet.

Planning

MicroInvest has adopted a relevant strategy for the coming years but has not formalized it yet in a sufficiently detailed narrative plan identifying the key risks and opportunities. The institution plans to develop a strategic plan during the next planning process starting in October. It should be noted that key decision-makers already provide a long-term vision for MicroInvest as they have already been investigating MicroInvest potential long-term strategies such as bank transformation or acquisition. Projects needed to carry out the yearly objectives have been well-identified, formalized in action plans for each department, and are closely followed-up. However, a narrative plan would help link all the targets together and better identify the potential bottlenecks.

MicroInvest’s planning documents are made of well-detailed short term and long term financial projections in addition to yearly action plans, according to three potential scenarios. However, the annual financial plan lacks of monthly targets in terms of number of active borrowers to complement those in terms of outstanding and disbursed portfolio. The 2007-

2015 financial projections are well-detailed and notably include interest spread analysis. However, they have not been updated since July 2007 despite the recent significant evolutions (for example in the cost of liabilities and pricing), depriving MicroInvest of realistic medium term targets. MicroInvest will most probably exceed its 2008 optimistic targets in terms of gross loan portfolio as it reached 21 M USD in June 2008 vs. 16 M USD planned. This is notably thanks to MicroInvest’s improved fundraising capacities, allowing the institution to meet more of the market demand than expected but making it difficult for HO departments such as HR and IT to keep-up with growth.

The planning process is participative and dynamic: there is a good balance between input from operational staff, HO department managers and top managers in the setting of targets. During the year, branch staff and HO departments closely follow-up their portfolio targets and action plans respectively. Budget control is very well detailed (by branch and HO department) and monitored monthly. It is still centralized at HO.

Management team

MicroInvest enjoys an adequate management team concentrating all the required skills for an institution of that size. The three top-managers are backed by growing HO department managers, particularly in the areas of fund raising and credit risk management. Most of them have benefited from frequent trainings and have thus been exposed to international best practices. The key-person risk on the ED is somewhat mitigated by the collective decision-making, the fact that he has been delegating more tasks and the good retention mechanisms (top-management has equity shares). The ED nevertheless still concentrates MicroInvest’s strategic leadership and vision within the management team. No succession plan has been designed.

The middle-managers have still some room to grow in their position. Branch Managers are too much involved in lending operations and present uneven leadership skills throughout the institution. They have nevertheless started to benefit from adequate trainings (e.g. on branch profitability) and the scope of their work is currently being refined in the two main branches.

The frequent management meetings (A&L and Risk Management committee, credit committee), formalized into detailed minutes, allow for a good internal communication within the institution. Overall, MicroInvest has demonstrated a good ability to execute plans and adjust operational strategies to accomplish fixed goals.

Human resource management

Satisfactory HR policies in recruiting, training, and evaluation have been put in place to ensure staff development. The HR department has been significantly strengthened with the recruitment of the HR Manager in 2006 but has not followed MicroInvest recent accelerated growth.

- The HRM has taken over the recruitment and capacity building of non-management staff in addition to administrative duties, leaving the ED with the management team's capacity building. However, due to insufficient capacity for interviewing candidates, the HRM is late on the recruitment of loan officers (and therefore considers organizing collective interviews).
- All categories of staff received a good mix of internal and external trainings. LOs and BMs recently benefited from trainings from Business and Finance consulting (BFC) for induction and branch profitability analysis respectively while managers have benefited from various external trainings (e.g. MFT, Frankfurt school of Finance, EFSE, BFC, MFC, IFF).
- Employees are evaluated each year collectively by branch and individually to decide of salary increases and evolution within MicroInvest. Branch staff performance is quarterly reviewed by and discussed with the CEO, HRM and CLO.

MicroInvest displays good staff morale as evidenced by the low turnover (5.6% in June 2008, 2.7% in Dec. 2007). A positive work atmosphere has been developed within the institution thanks to a satisfactory remuneration level, sufficient capacity building, and annual staff meetings. There are efficient retention mechanism such as the possibility to take equity shares for top-management, the effective bonus system for branch staff and branch career path (LO-SLO-BM).

Information

Information is rated "a"

MicroInvest uses an efficient and cost effective integrated system which provides all the information needed for an optimal management of the portfolio as well as a well-informed strategic decision-making. The MIS is based on powerful servers which capacity is to be extended soon to support MicroInvest's current growth. The suboptimal telecommunication infrastructure in Moldova will nevertheless keep slowing down the connection in some branches.

Adequate security procedures are in place but their efficiency and comprehensiveness can still be improved. Data loss and manipulation risks are well mitigated through

adequate password, antivirus and firewall protection, licensed softwares⁶ and an audit trail. Adequate back-up procedures are in place (it is done daily on hard disks for 1C8 and weekly on CDs for other important data). Security will reportedly be enhanced in the coming months with the implementation of a Virtual Private Network (allowing for a centralized storage of all data), and the investment in a generator to prevent power cuts. Looking forward, MicroInvest plans to invest in a back-up server secured in an alternative location, thus decreasing the data loss risk (hard disks and CDs are currently sent only weekly to the bank) and to design a disaster recovery plan. Paper data (e.g. related to collaterals) are properly stored though drawers are not systematically locked.

The adequately-skilled IT team (Cisco and Microsoft certified) and good relationships with the current external developer have allowed for timely upgrades. The dependence on the latter is low since MicroInvest bought the software license in 2007. Further needs are well-identified and discussed during the Software Development Committees. The IT team will reportedly be strengthened and partially decentralized to keep pace with MicroInvest's growth and ambitious projects such as the set up of foreign currency cash desks.

The portfolio information is instantly available at the required level of detail (e.g. outstanding portfolio, non-performing clients, PAR, disbursed loans available per branch, product, and sector), thus ensuring the effective monitoring of the portfolio at all levels (LOs, BMs, SLOs, management team). Financial information generated by 1C8.1 is very comprehensive (e.g. fully-informed monthly financial statements, indicators computed according to international standards, integrated budget control) and complemented by an additional application providing for Activity-based Costing (ABC) reports and allowing for a profitability analysis per branch and product. Next upgrades include the integration of the ABC system into 1C8, the automatic production of more fund providers reports, and the generation of IFRS Financial Statements.

Risk Management

Risk Management is rated "b"

Procedures and internal controls

MicroInvest has developed an adequate risk management policy stated in a well formalized dedicated manual. The monthly Risk/A&L Management committees and the

⁶ As Microsoft partner since February 2008, MicroInvest benefits from a certain number of free licenses. HO are fully equipped with licensed softwares while branches are underway (should be completed by the end of 2009).

creation in June 2008 of a credit risk department have notably allowed a good identification, measurement and monitoring of risks. Procedures are well-formalized for all key departments (credit, accounting, HR) and broadly disseminated to staff through updated manuals. Reliability of data has been ensured thanks to the integrated MIS and frequent bank reconciliations.

However, MicroInvest does not efficiently mitigate all potential risks that have arisen from its increased growth. MicroInvest's branches organization, originally adopted to optimize operating costs and efficiency (LOs, SLOs and BMs manage their own loan portfolio), has resulted in a partial respect of the procedure. This is particularly the case in the main branches where branch managers' hierarchical controls are hampered as they are too busy managing their own loan portfolio in addition to performing their other duties, to sufficiently supervise LOs and perform cross-checks. Moreover, the segregation of duties is not yet in place in all branches as LOs are in charge with loan data processing and, in some cases, are also cashiers. Aware of these deficiencies, MicroInvest will reportedly soon have cashiers in all the branches, and recruit data processing officers in the biggest ones, thus reducing the number of incompatible tasks handled by the same person. On the other side, the limitation of power is sufficiently conservative (two levels of credit committee, HO approval on expenditures) and adapted to arising risks (limited approval power for poorly performing LOs).

Cash security is satisfactory. Branches are well equipped with safes and cash drawers and adequate physical limitations are in place as opening the safe requires a key and a code, kept by different employees. Cash records are reconciled daily on-line with bank statements and checked by the BM at the end of the day. In this regard, there nevertheless lacks an alternative written procedure to ensure their systematic double-check in case of absences.

Internal audit

The Internal Audit department covers the most important risks within the institution and is currently being reinforced. The departure on maternity leave of the previous internal auditor in June 2008 has been adequately managed. The two new internal auditors first received a field training of one month, adequately complemented by the joint supervision of the CEO and the BOD Audit Committee (AC). Various AC recommendations are being implemented as the two internal auditors grow in their position. Despite being late on its plan, the IA department has so far been able to conduct complete quarterly audits of the branches and of the HO accounting department. However, IA has not yet customized its checks to the two biggest branches and does not cover other HO departments, which is planned for the end of the year. In

order to meet its targets, it adequately intends to refine the scope of its work by better identifying the riskiest areas (e.g. branches, products) and therefore gain in efficiency. The IA methodology is well defined and formalized in a manual that was recently approved by the BOD. The AC's inputs have also contributed to improving the formalization of the IA reports. Findings are now prioritized, and followed by adequate recommendations and management response. However, their follow-up has not been formalized yet. The IA plan is adequately kept confidential.

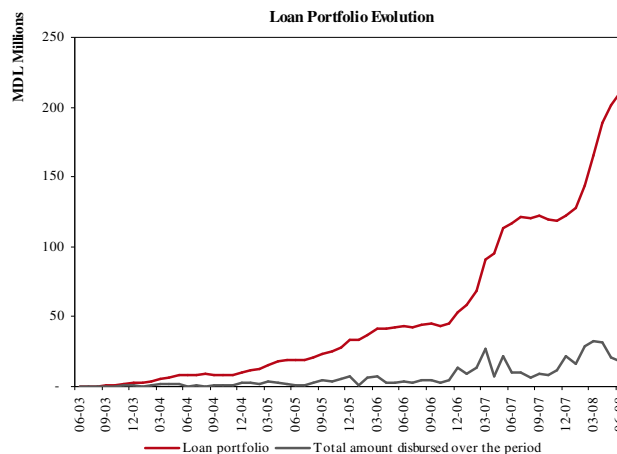
The institutional set-up guarantees IA independence as IA is reporting to members of the recently-set up BOD Audit Committee. The AC members have been strongly involved in 2008 (several working sessions were conducted with staff in 2008), which is appropriate to maintain IA transparent relationships with the BOD as the CEO has been reviewing the reports of the new IA staff before they are sent to the BOD. IA is adequately supplemented by external evaluations (Perfect Point Partners), audits and the lenders due diligence, whose recommendations have been implemented up to now.

■ Activities

Activities: products and services **is rated "b"**

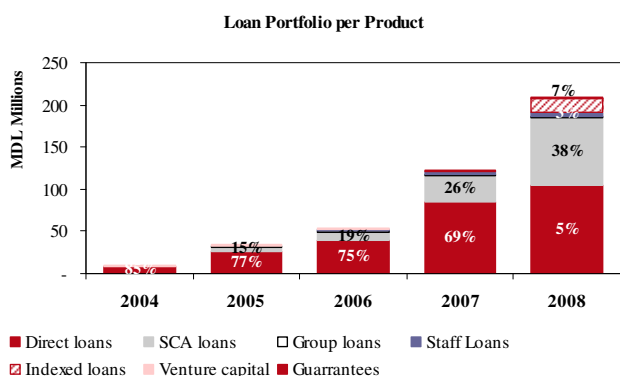
Financial services evolution

MicroInvest has experienced a significantly high portfolio growth since inception with annual growth rates exceeding 100%, except in 2006, which was a result of liquidity shortages. Such a growth results from 1) the increase in the average loan size from 1,957 USD in 2004 to 4,012 USD in 2008 for DLs and from 43,467 USD to 119,219 USD for SCAs; 2) the continuous rise in the number of active borrowers (from 1,296 as of Dec. 05 to 3,204 as of June 08). Portfolio growth accelerates at the beginning of the year as a significant share of MicroInvest's portfolio is invested in agriculture or related seasonal activities.



The portfolio is dominated by the Direct and SCAs loans, making up together almost 90%. Since the introduction of

SCAs Loan in 2005, its share has constantly increased to represent 38% of the portfolio as of June 2008. The Indexed Loan product has quickly increased since its launch at the end of 2007 to represent 7.5% of the portfolio as of June 08.



Financial services management

MicroInvest demonstrates a satisfactory portfolio management. Its credit methodology, relying on an in-depth evaluation of the client's creditworthiness has generally led to appropriate credit decisions. The credit appraisal is adapted to the loan size: it includes a thorough analysis of the client's character and business based on reputation, credit history, business plan and financial forecasts (particularly on cash flow). The upcoming use of the credit bureau will provide an additional layer of control.

The loan approval process is well-designed and sufficiently conservative (three levels of approval) but has not been systematically well implemented. BMs (in the main branches) have recently had difficulties to properly perform their checks as the scope of their work (including managing their own loan portfolio) is not adapted to the size of their team anymore. Similarly, LOs are somewhat hampered in the monitoring their portfolio as they are also in charge with data processing and – in some rare cases – with cash handling. Aware of these deficiencies, MicroInvest had already taken good steps to improve the organization of the main branches: in Cahul and Bălți, MicroInvest already hired credit risk managers (notably to take over the BMs' control of credit files) and plan to hire operations officers who will be in charge with data processing. All branches will reportedly have dedicated cashiers in the coming months.

Delinquency management on both active and written-off loans is adequate thanks to: 1) well-defined monitoring rules up to 90 days of delay (although they are less strict under 30 days as evidenced by the significant increase in the PAR<30 from 0.9% in Dec. 2004 to 4.5% in June 2008); 2) easy access to customized PAR data; 3) good coordination between LOs, BMs and the legal staff (decentralized when needed) and 4) a motivating monthly incentive scheme based on PAR 30.

LOs have the required skills to implement the credit methodology thanks to the recruitment of LOs with former relevant experience and strong induction trainings. However, branch-level trainings are not systematic enough to ensure that all LOs apply the new procedures received by email.

The SCA portfolio management is very good thanks to MicroInvest's good monitoring (historical close relationships with SCAs, sufficiently frequent visits), easy access to information (quarterly NCFM-approved financial statements) and conservative enough repayment capacity analysis (MicroInvest requires higher level of liquidity and capital than the NCFM).

Credit risk

MicroInvest's credit risk shows an increasing trend over the last years. PAR 30 increased to 2.9% as of June 2008 from 0.8% in Dec. 2004, which is slightly higher than the 2007 regional benchmark (2.5%). PAR 30 reaches its highest levels 1) on the Direct Loan product (5.5%) and 2) in the main branches (Cahul, Chişinău, Bălți) where the current lending processes are being reviewed so as to bring down PAR 30. Loans are written off after 180 days since 2006 (previously after 365 days) and the write-off ratio (0.6% in Dec. 2007) is excellent despite a slight increase over the years. It is lower than regional benchmarks (1.3% in 2007).

Although MicroInvest adequately strives to diversify its portfolio into different sectors of activity, the concentration on agriculture (21% directly and 38% through SCAs) and rural areas (70%) remains significant. Adverse climate conditions and the Russian embargo on Moldovan wines in 2006-2007 have indeed affected MicroInvest's portfolio quality (in direct lending). On the other side, the portfolio invested in SCAs (mostly lending to agriculture) has been of excellent quality up to now. The recent launch of the Consumer and Indexed Loans has already contributed to the diversification of MicroInvest's portfolio. It should be noted however that consumer loans usually bear a higher credit risk.

Other factors likely to trigger an increase in the credit risk are well mitigated: 1) rescheduling is restricted (0.02% of the portfolio in June 2008); 2) connected lending (2.7% as of June 2008) is adequately monitored and collateralized by salaries and 3) product launch and branch network development, involving staff at all levels, are well-managed.

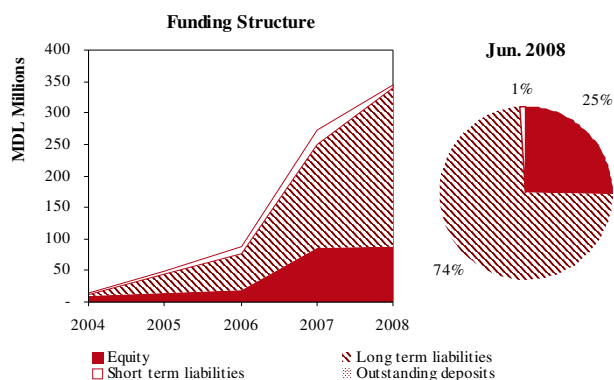
Credit risk coverage

MicroInvest gradually increased its loan loss reserve since January 2008 to adequately cover 99.7% of PAR 30 in June

2008⁷ (versus 75% in Dec. 2007), thus complying with its fund providers' covenants. Credit risk is also covered by collaterals such as pledge on assets, securities or financial deposits required for loans over 70 K MDL⁸. Although MicroInvest's collaterals can be used in front of a court, the recovery rate after court decision is estimated at only 30%⁹. MicroInvest chose not to take additional financial guarantees to cover the risks related to the agriculture sector based on an adequate analysis of the related cost and benefit.

■ Funding and liquidity

Funding and liquidity is rated "b"



Capitalization and funding strategy

MicroInvest is well-capitalized with a Capital Adequacy Ratio (CAR) standing at 37.8% in June 2008 thanks to the timely equity increases in Dec. 2007 and Feb. 2008. MicroInvest used a subordinated debt from Oxfam Novib from March 2007 to July 2008 (it was transformed back into senior debt then), in order to avoid hitting CAR covenants at 20% in 2007. Current shareholders might consider injecting new equity or inviting new shareholders in 2009/10 if required by MicroInvest's accelerating growth.

MicroInvest has developed a sound and dynamic funding strategy thanks to an active fund raising department aware of the key risks and opportunities (monthly follow-up of all the covenants and participation to ALM committees) and building transparent relationships with fund providers. MicroInvest now benefits from a well-diversified funding base and subsequent improving negotiation power as negotiation are held with several fund providers at the same time. Moreover, MicroInvest has recently been able to better leverage its FX deposits (up to 1:2) and get MDL loans. Funding needs are well-identified (weekly updated with the

⁷ Financial statements are presented under the IFRS only at the end of the year. The reserve was calculated in June 2008 according to the National Accounting standard.

⁸ As of June 2008, these loans represented 27% of the portfolio and were covered for 155% by such collaterals.

⁹ According to MicroInvest, this is notably due to the under-staffing of the National State Execution Department.

cash flow forecasts) for the on-going year (2008 is already secured) but are not sufficiently frequently updated for the following years: the last update was made in July 2007 in the 2008-2015 Strategic Plan.

Liquidity risk

Treasury functions are carried out by experienced and capable staff of the finance department. Maturity risk is adequately monitored on a monthly basis. MicroInvest does not experience any maturity risk as assets constantly exceeds liabilities in the short term as underlined by a Current Ratio and Quick Ratio's of well over 100%. MicroInvest's well-diversified funding base further reduces the refinancing risk.

Adequate and dynamic liquidity management is in place. Cash flow projections are updated weekly during the cash flow committee for the next month, quarter and year ahead. Minimum and maximum liquidity levels ($5% < LAR < 10%$) have been defined to avoid shortage or excess of cash. MicroInvest 2008 easy access to external funding contrasts with the previous years' liquidity shortages, and the use of adequate tools (overnight deposits, promissory notes and overdrafts) have allowed for a good cash optimization: on average liquidity levels fluctuate around 7% of total assets which comfortably covers operating expenses (7.6 months in June 2008). The temporary high level of the Liquidity to Asset ratio (e.g. at 31.3% in Dec. 2007) is due to the disbursement of new credit lines that are quickly pooled across the various branch bank accounts. MicroInvest has rightly adopted a contingency plan to better manage potential liquidity crisis. It details steps to be taken at different stages but could nevertheless be refined with clear alarm-raising indicators.

Market risk

Exposed to market risks, MicroInvest has been closely monitoring those. The skilled finance department monitors market trends on a daily basis and has put in place the necessary tools (interest spread analysis, stress-testing scenarios) to allow informed and therefore adequate decision-making during the monthly Asset & Liability committees.

- MicroInvest is exposed to interest rates risks as its open floating interest position represented as of June 2008 (96%) of its equity. Interest rates are partially linked to international floating rates (more to LIBOR than to the recently more volatile EURIBOR) and partially to domestic floating rates. A 2% increase in the floating rates would result in a 0.6% decrease of the ROA, which is significant for Microinvest as its ROA only recently increased to 3.3%. An increase in the domestic rates

would be more easily passed on the clients¹⁰. However, such an increase would likely increase the credit risk of MicroInvest.

- MicroInvest exposure to FX risks is limited as its open FX position (on EUR and USD) represents only 13.3% of its equity. This was allowed by the extensive recourse to back-to-back loans and the recent introduction of EUR/USD indexed loans in its product offering.

Efficiency and Profitability

Efficiency and Profitability is rated “b”

Profitability analysis

MicroInvest reached profitability after five years of operations in 2007 with an ROA¹¹ standing at 0.7%. This trend is continued in 2008 with an annualized ROA of 3.3%. ROE follows a similar positive trend and reached 8.6% as of June 2008 as a result of MicroInvest’s leverage of 1.99x¹². This has been achieved thanks to the increased portfolio yield resulting from MicroInvest’s new pricing policy, the declining trend of the operating expense ratio (down to 8.4% in June 2008), and despite the increase in the funding and loan loss reserve expense ratios. Thanks to the good portfolio quality, the portfolio yield is close to the estimated theoretical EIR.

Despite the increasing competition from downscaling banks, the continued competition of ProCredit and the arrival of new entrants (e.g. Prime Capital), MicroInvest’s revenue quality remains good.

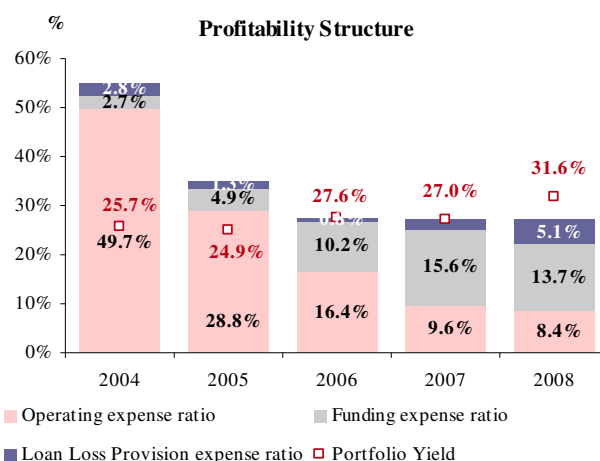
- In direct lending, MicroInvest has been facing a fiercer competition in urban areas, where the institution is now more expensive than its main competitor (ProCredit Bank) as it recently increased its interest rates. Marketing efforts have been enhanced through more advertisement but LOs are not sufficiently on the field. MicroInvest nevertheless still benefits from soft competitive advantage typical of MFIs, such as service flexibility, quick disbursement, and proximity to the client. It has also developed new attractive products such as IL and CL. However, such competitive advantage might not prove strong enough in the future as competition heats up.
- MicroInvest enjoys a very good revenue quality in SCA lending thanks to its good historical relationship with the village banking organizations, the continued provision of consulting services and competitive interest rates. Importantly, if some SCAs were to be disbanded

according to the new Law (cf. microfinance sector), MicroInvest could retain clients through a group loan.

The operating expense ratio is excellent. It decreased to 8.4% in June 08 from 49.7% in 2004, which is better than regional benchmarks (at 18.3% in 2007). The main reasons for this declining trend have been the increase in the average loan size (for all loan products) and the growing share of SCA lending. MicroInvest has also improved its staff and LO productivity (the latter reaching 79 clients in 2007 vs. 21 in 2004). Productivity remains low in comparison with international benchmarks but is partially explained by the fact that the important amounts granted require deeper analysis and some LOs take some time for consulting to SCAs. Productivity slightly decreased in 2008 (which was also reflected in the growing cost per borrowers) as a large number of LOs were recruited and are not yet fully efficient.

The funding expense ratio shows an increasing trend from 2003 (4.0%) to 2007 (15.6%), reflecting MicroInvest’s increased recourse to commercial borrowings, and notably to expensive back-to-back loans. The trend was slightly reversed in 2008 (the ratio reached 13.7% in June 2008) thanks to MicroInvest’s improved negotiation power. The loan loss provision ratio has increased to 1.9% in 2007, reflecting the slight increase in PAR 30, and to 5.1%¹³ in June 2008 due to the general provisions made on the healthy portfolio.

When adjusted for back-to-back loans, MicroInvest’s resource optimization is good but slightly below international standards. The share of the outstanding loan portfolio in the assets fluctuates around 80% over the years (84.4% as of Dec. 05; 78.5% as of June 08¹⁴) except in Dec. 07 (63.5%) as MicroInvest received a new credit line.



¹⁰ As specified in the contract between MicroInvest and its clients, MicroInvest may pass any evolution of the floating rates on the client.

¹¹ ROA was adjusted for back-to-back loans. The ratio before adjustments was 0.5% as of Dec. 07. Refer to the Performance Indicators section.

¹² The leverage ratio was also adjusted. It is 2.97x before adjustment.

¹³ The loan loss reserve was calculated in June 2008 according to the National Accounting Standard (instead of IFRS). The ratio would probably be lower if the loan loss reserve was calculated in IFRS.

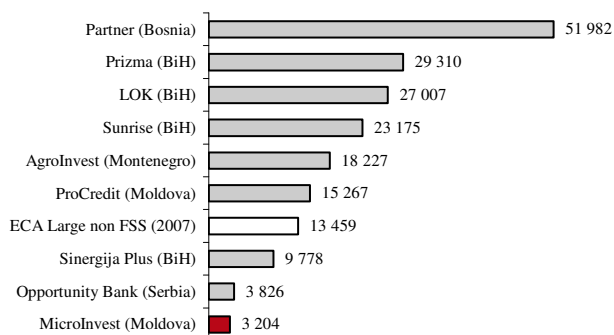
¹⁴ This ratio was adjusted for back-to-back loans. The ratio before adjustments was 70% in Dec. 05, 59.2% in Dec. 06, 43.9% in Dec. 07 and 59.3% as of June 08.

MicroInvest's profitability outlook is positive as the institution is expected to gain further economies of scale from its growth. It is also expected to gain in productivity thanks to the reorganization of its main branches, though this might yield results only on the medium term. Funding expense should be maintained around the same level thanks to MicroInvest's growing negotiation power.

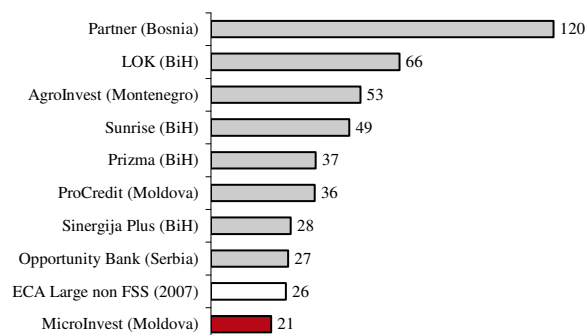
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

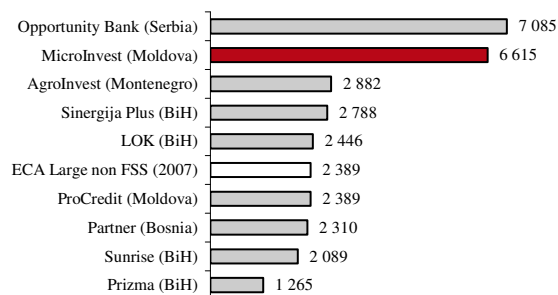
Active borrowers



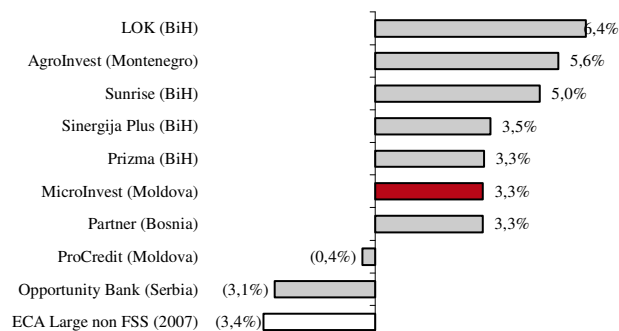
Loan portfolio (M USD)



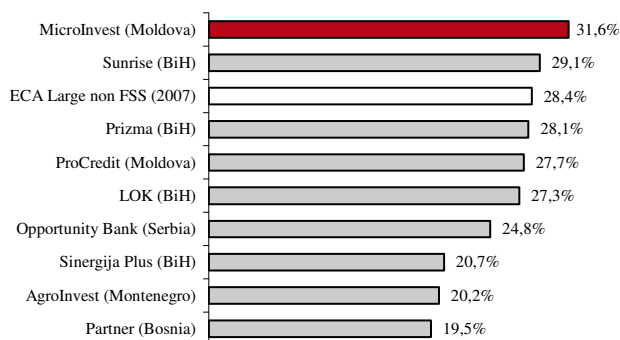
Average outstanding loan per client (USD)



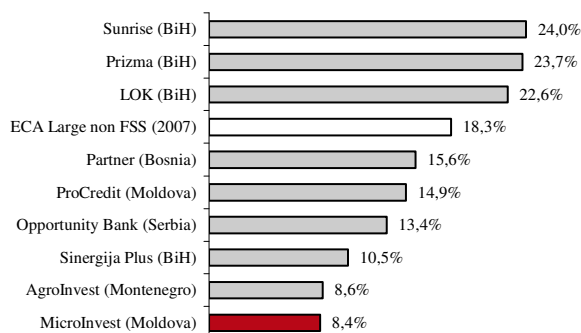
ROA



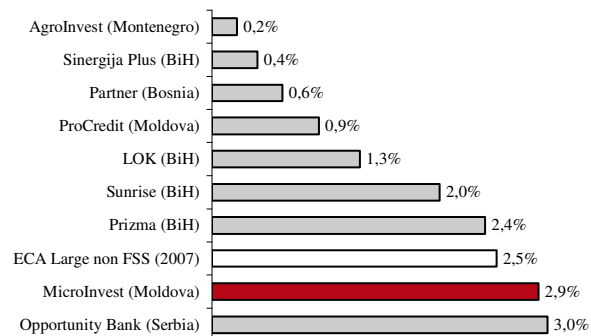
Portfolio Yield



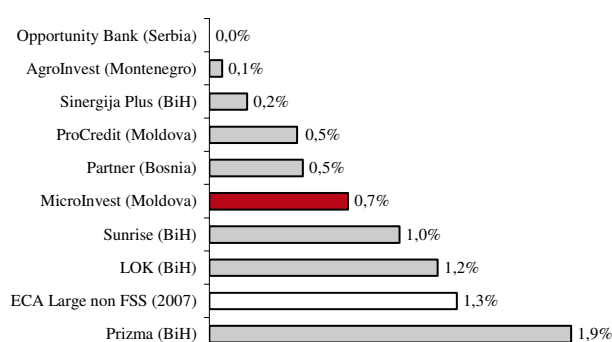
Operating expense ratio



PAR 31-365



Write-off ratio



Source: MicroInvest, AgroInvest, SinergijaPlus (Planet Rating); Partner, Prizma, Sunrise, LOK (AMFI); other MFIs (the Mix Market); ECA benchmarks (MBB 2007, Medians). Data refers as of June 2008 for MicroInvest and Dec. 2007 for other MFIs.

■ Performance indicators

Data in USD, unless otherwise stated

	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Jun.2008
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	186,502	796,837	2,677,989	4,125,556	10,804,863	21,194,371
Loan portfolio (MDL)	2,465,558	9,928,592	34,363,960	53,240,304	122,302,407	210,277,836
Evolution	-	302.7%	246.1%	54.9%	129.7%	71.9%
Average outstanding loan portfolio	93,251	543,570	1,508,958	3,244,706	9,078,509	16,699,259
Active borrowers	219	399	1,287	1,546	2,697	3,204
Evolution	-	82.2%	222.6%	20.1%	74.5%	18.8%
Average outstanding loan per client	852	1,997	2,081	2,669	4,006	6,615
% of GDP per capita	147.5%	280.2%	240.1%	264.6%	299.2%	377.9%
Average amount disbursed per loan	887	2,081	2,211	3,094	4,733	8,274
% of GDP per capita	153.6%	291.9%	255.2%	306.8%	353.5%	472.6%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	2.9%	1.1%	0.4%	0.0%
PAR 31-365	0.6%	0.8%	1.1%	1.5%	2.1%	2.9%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.3%	0.6%	0.6%	0.7%
Credit risk coverage						
Risk coverage ratio (PAR 30) ²	587.9%	321.1%	126.9%	76.2%	75.6%	99.7%
PAR 31 net of loan loss provision / Equity	(3.2%)	(2.0%)	(0.7%)	1.0%	0.7%	0.0%
Staff						
Total number of staff	8	37	53	68	79	101
% Credit officers	25.0%	51.4%	41.5%	33.8%	43.0%	41.6%
Turnover	-	0.0%	6.7%	6.6%	2.7%	5.6%
Profitability analysis						
ROE	(31.5%)	(46.5%)	(26.1%)	(5.5%)	1.7%	8.6%
Liabilities / Equity	0.49x	0.47x	2.50x	3.64x	2.24x	2.97x
Liabilities / Equity Adjusted ¹	0.49x	0.47x	1.90x	2.32x	1.24x	1.99x
Capital adequacy ratio	84.2%	86.9%	38.1%	33.3%	65.1%	37.6%
ROA ¹	(36.03%)	(31.5%)	(11.2%)	(1.7%)	0.7%	3.3%
Profitability structure						
Portfolio Yield	16.4%	25.7%	24.9%	27.6%	27.0%	31.6%
Operating expense ratio	29.1%	49.7%	28.8%	16.4%	9.6%	8.4%
Cost per borrower	72	677	337	344	323	439
Staff productivity	27	11	24	23	34	32
Loan officer productivity	110	21	59	67	79	76
Average outstanding loan per client	852	1,997	2,081	2,669	4,006	6,615
Funding expense ratio ¹	4.0%	2.7%	4.9%	10.2%	15.6%	13.7%
Cost of liabilities	2.9%	9.3%	6.2%	9.4%	15.6%	12.7%
Loan Loss Provision expense ratio ²	11.2%	2.8%	1.3%	0.8%	1.9%	5.1%
PAR 31-365	0.6%	0.8%	1.1%	1.5%	2.1%	2.9%
Write-off ratio	0.0%	0.0%	0.3%	0.6%	0.6%	0.7%
Resource optimization						
Outstanding Loan Portfolio / Assets ¹	76.9%	72.1%	84.4%	82.7%	63.5%	78.5%
Revenue from investment as a % of financial revenues ¹	2.1%	1.8%	0.5%	0.2%	0.1%	0.1%
Liquidity						
Liquidity / Total assets (LAR) ¹	14.5%	19.9%	8.8%	2.4%	31.3%	3.4%
Exchange rate 1 USD= xx MDL	13.2	12.5	12.8	12.9	11.3	9.9

Notes:

- From 2005 to June 2008, ratios were adjusted to offset the effects of the back to back loans that artificially increased assets, financial revenues from investments, and interests paid on borrowings.
- In June 2008, the financial statements are not audited and the loan loss reserve was calculated according to the Moldovan Accounting Standards (instead of IFRS). The loan loss provision expense and risk coverage ratios are not comparable with previous years.

JV MFO Microinvest LLC	MDL							USD							Evolution		
	Notes	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Jun. 08	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Jun. 08	2006/05	2007/06	2008/07	
Income Statement																	
Financial Revenue (a)		120,818	1,864,433	5,116,643	13,269,330	32,067,708	29,336,196	9,139	149,633	398,741	1,028,232	2,833,037	2,956,861	159.3%	141.7%	(8.5%)	
Financial Revenue from Loan Portfolio		118,284	1,740,701	4,823,733	11,572,724	27,745,069	26,214,346	8,947	139,703	375,914	896,763	2,451,151	2,642,202	139.9%	139.7%	(5.5%)	
Interest on Loan Portfolio		112,508	1,626,480	4,539,438	9,744,854	23,742,453	19,402,134	8,510	130,536	353,759	755,122	2,097,538	1,955,584	114.7%	143.6%	(18.3%)	
Fees and Commissions on Loan Portfolio		5,776	53,978	52,583	1,025,802	1,790,883	4,139,495	437	4,332	4,098	79,489	158,216	417,229	1,850%	74.6%	131.1%	
Penalty Revenue on Loan Portfolio		-	60,243	231,712	802,068	2,211,733	2,672,717	-	4,835	18,057	62,152	195,397	269,389	246.1%	175.8%	20.8%	
Financial Revenue from Investments		2,534	33,021	149,989	1,500,444	4,031,379	3,116,573	192	2,650	11,689	116,268	356,154	314,126	900.4%	168.7%	(22.7%)	
Other Operating Revenue	1	-	90,711	142,921	196,162	291,260	5,278	-	7,280	11,138	15,200	25,732	532	37.3%	48.5%	(98.2%)	
Financial Expense (b)		28,994	182,478	1,063,041	5,753,341	19,989,745	14,479,765	2,193	14,645	82,843	445,823	1,766,003	1,459,448	441.2%	247.4%	(27.6%)	
Interest paid on borrowings		6,552	182,478	1,063,041	4,620,068	19,732,137	13,915,648	496	14,645	82,843	358,006	1,743,245	1,402,589	334.6%	327.1%	(29.5%)	
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other Financial Expenses	2	22,442	-	-	1,133,273	257,608	564,117	1,698	-	-	87,817	22,758	56,859	-	(77.3%)	119.0%	
Financial income [c=a-b]		91,824	1,681,955	4,053,602	7,515,989	12,077,963	14,856,431	6,946	134,988	315,898	582,409	1,067,033	1,497,413	85.4%	60.7%	23.0%	
Net Loan Loss provision expense (d)		80,839	186,478	253,900	353,700	1,910,943	4,206,651	6,115	14,966	19,786	27,408	168,823	423,998	39.3%	440.3%	120.1%	
Loan loss provision expense and write-off		80,839	186,478	275,497	371,868	1,910,943	4,420,014	6,115	14,966	21,470	28,816	168,823	445,503	35.0%	413.9%	131.3%	
Recovery from Loans written off		-	-	21,597	18,168	-	213,363	-	-	1,683	1,408	-	21,505	(15.9%)	(100%)	-	
Operating expense (e)		209,207	3,367,134	5,569,325	6,863,129	9,846,879	6,969,649	15,825	270,235	434,018	531,819	869,927	702,486	23.2%	43.5%	(29.2%)	
Personnel Expense (includes fringe)		133,077	1,944,707	2,523,765	3,412,598	4,191,607	3,363,734	10,066	156,076	196,677	264,440	370,309	339,038	35.2%	22.8%	(19.8%)	
Administrative Expense (non-staff operating expenses)		76,130	1,422,427	3,045,560	3,450,531	5,655,272	3,605,915	5,759	114,159	237,341	267,379	499,618	363,448	13.3%	63.9%	(36.2%)	
Depreciation and amortization		4,396	60,226	155,361	239,134	479,531	365,358	333	4,834	12,107	18,530	42,364	36,825	53.9%	100.5%	(23.8%)	
Consulting fees		60,283	241,514	202,395	563,141	328,224	51,174	4,560	19,383	15,773	43,637	28,997	5,158	178.2%	(41.7%)	(84.4%)	
Office supplies		2,478	116,040	110,404	79,060	122,227	59,986	187	9,313	8,604	6,126	10,798	6,046	(28.4%)	54.6%	(50.9%)	
IT maintenance expenses		2,685	95,912	39,542	33,756	24,470	17,360	203	7,698	3,082	2,616	2,162	1,750	(14.6%)	(27.5%)	(29.1%)	
Business trip expenses		152	94,921	168,514	133,190	-	103,664	11	7,618	13,132	10,321	-	10,449	(21.0%)	(100%)	-	
Bank charges		4,195	81,121	381,562	227,126	324,631	208,892	317	6,511	29,735	17,600	28,680	21,055	(40.5%)	42.9%	(35.7%)	
Public utilities, security		-	67,345	115,056	153,876	309,100	203,656	-	5,405	8,966	11,924	27,308	20,527	33.7%	100.9%	(34.1%)	
Marketing / telephone expenses		975	57,037	127,853	147,899	282,257	539,222	74	4,578	9,964	11,461	24,936	54,349	15.7%	90.8%	91.0%	
Fuel expenses		-	89,546	133,963	161,206	202,295	239,702	-	7,187	10,440	12,492	17,872	24,160	20.3%	25.5%	18.5%	
Provision for penalty receivables		-	-	-	-	798,625	-	-	-	-	-	-	-	-	-	(100%)	
Others		966	518,765	1,610,910	1,712,143	2,783,912	1,816,901	73	41,634	125,538	132,673	245,946	183,130	6.3%	62.6%	(34.7%)	
Net Operating Income Before Taxes and Donations [f=c-d-e]		(198,222)	(1,871,657)	(1,769,623)	299,160	320,141	3,680,131	(14,994)	(150,213)	(137,907)	23,182	28,283	370,929	(117%)	7.0%	1,049%	
Income Taxes (g)	3	129,477	727,403	1,221,395	1,206,970	(554,438)	-	9,794	58,379	95,184	93,527	(48,982)	-	(1.2%)	(145.9%)	(100.0%)	
Net Operating Income Before Donations [h=f-g]		(327,699)	(2,599,060)	(2,991,018)	(907,810)	874,579	3,680,131	(24,788)	(208,592)	(233,091)	(70,346)	77,265	370,929	(69.6%)	(196.3%)	320.8%	
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Income Before Donations [k=h+i-j]		(327,699)	(2,599,060)	(2,991,018)	(907,810)	874,579	3,680,131	(24,788)	(208,592)	(233,091)	(70,346)	77,265	370,929	(69.6%)	(196.3%)	320.8%	
Donations (l)		717,436	5,638,872	9,943,936	1,379,018	130,860	-	54,269	452,558	774,933	106,859	11,561	-	(86.1%)	(90.5%)	(100%)	
Net Income (after Taxes and Donations) [m=k+l]		389,737	3,039,812	6,952,918	471,208	1,005,439	3,680,131	29,481	243,966	541,842	36,514	88,826	370,929	(93.2%)	113.4%	266.0%	

Notes: 1. Including other operating incomes, recovered income, foreign exchange gains, phone card sales and financial guarantees; 2. Foreign exchange losses; 3. Income tax rates was 18% in 2005, 15% in 2006 and 2007, and 0% in 2008; Credit of income tax in 2007 because of adjustments made in respect of current income tax of previous years.

GIRAFE Rating – MicroInvest, Moldova – August, 2008

JV MFO Microinvest LLC	MDL						USD						Evolution		
	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Jun.2008	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Jun.2008	2006/05	2007/06	2008/07
Balance sheet	3,099,416	13,404,124	48,385,358	88,965,348	273,929,049	344,424,419	234,449	1,075,772	3,770,679	6,893,867	24,200,390	34,715,304	83.9%	207.9%	25.7%
ASSETS	2,426,904	7,536,229	21,169,096	35,979,168	123,505,491	141,044,008	183,578	604,834	1,649,711	2,788,002	10,911,150	14,216,140	70.0%	243.3%	14.2%
Short Term Assets	449,960	2,673,821	3,543,308	1,549,911	59,320,444	8,780,668	34,036	214,592	276,131	120,102	5,240,692	885,023	(56.3%)	3,727.3%	(85.2%)
Cash and Due from Banks	181,000	-	641,600	8,724,635	10,525,349	27,280,063	13,691	-	50,000	676,066	929,867	2,749,618	1,259.8%	20.6%	159.2%
Short Term Investments	1,715,449	4,471,441	15,786,334	23,730,842	48,176,845	88,232,819	129,762	358,864	1,230,232	1,838,887	4,256,206	8,893,182	50.3%	103.0%	83.1%
Short Term Net Loan Portfolio	1,796,288	4,738,758	16,275,264	24,340,228	50,126,052	94,250,090	135,877	380,318	1,268,334	1,886,108	4,428,409	9,499,676	49.6%	105.9%	88.0%
Short Term Gross Loan Portfolio	80,839	267,317	488,930	609,386	1,949,207	6,017,271	6,115	21,454	38,102	47,221	172,204	606,494	24.6%	219.9%	208.7%
(Loan Loss Reserve)	67,256	254,943	867,592	1,184,742	840,958	9,111,589	5,087	20,461	67,612	91,805	74,295	918,377	36.6%	(29.0%)	983.5%
Interest Receivable	64,722	251,956	865,084	1,159,473	635,001	9,111,589	4,896	20,221	67,416	89,847	56,099	918,377	34.0%	(45.2%)	1,334.9%
On loan portfolio	2,534	2,987	2,508	25,269	205,957	-	192	240	195	1,958	18,195	-	907.5%	715.1%	(100.0%)
On investments	13,239	136,024	330,262	789,038	4,641,895	7,638,869	1,001	10,917	25,737	61,142	410,090	769,939	138.9%	488.3%	64.6%
Accounts receivable and other assets	672,512	5,867,895	27,216,262	52,986,180	150,423,558	203,380,411	50,871	470,939	2,120,968	4,105,864	13,289,239	20,499,165	94.7%	183.9%	35.2%
Long term assets	-	252,480	7,904,864	21,154,760	74,272,475	77,305,003	-	20,263	616,027	1,639,269	6,561,636	7,791,743	167.6%	251.1%	4.1%
Long Term Net Investments	669,270	5,189,834	18,088,696	28,900,076	72,176,355	116,027,746	50,626	416,520	1,409,655	2,239,448	6,376,454	11,694,695	59.8%	149.7%	60.8%
Long Term Gross Loan Portfolio	3,242	425,581	1,222,702	2,759,397	3,974,728	10,047,662	245	34,156	95,285	213,824	351,149	1,012,726	125.7%	44.0%	152.8%
Net Fixed Assets	-	-	-	171,947	-	-	-	-	-	13,324	-	-	-	(100.0%)	-
Other Long Term Assets	3,099,416	13,404,124	48,385,358	88,965,348	273,929,049	344,424,419	234,449	1,075,772	3,770,679	6,893,867	24,200,390	34,715,304	83.9%	207.9%	25.7%
LIABILITIES AND EQUITY	1,021,692	4,297,453	34,563,197	69,800,563	189,418,195	257,588,632	77,284	344,900	2,693,516	5,408,800	16,734,239	25,962,932	102.0%	171.4%	36.0%
Liabilities	237,587	1,164,434	7,123,784	25,630,559	40,692,925	43,810,233	17,972	93,454	555,158	1,986,095	3,595,035	4,415,731	259.8%	58.8%	7.7%
Short term liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	6,552	-	3,993,455	22,258,445	37,547,400	39,662,254	-	-	311,211	1,724,792	3,317,143	3,997,647	457.4%	68.7%	5.6%
Interest payable	231,035	1,164,434	2,868,777	2,920,361	1,084,885	1,587,577	17,476	93,454	223,564	226,297	95,845	160,015	1.8%	(62.9%)	46.3%
Accounts Payable and Other	784,105	3,133,019	27,439,413	44,170,004	148,725,270	213,778,399	59,312	251,446	2,138,358	3,422,705	13,139,203	21,547,201	61.0%	236.7%	43.7%
Short Term Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	784,105	3,133,019	27,439,413	44,170,004	148,725,270	213,778,399	59,312	251,446	2,138,358	3,422,705	13,139,203	21,547,201	61.0%	236.7%	43.7%
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	784,105	3,133,019	27,439,413	44,170,004	148,725,270	213,778,399	59,312	251,446	2,138,358	3,422,705	13,139,203	21,547,201	61.0%	236.7%	43.7%
Other Long Term Liabilities	2,077,724	9,106,671	13,822,161	19,164,785	84,510,854	86,835,787	157,165	730,872	1,077,163	1,485,067	7,466,151	8,752,372	38.7%	341.0%	2.8%
Equity	2,077,724	9,106,671	13,822,161	19,164,785	77,805,014	86,835,787	157,165	730,872	1,077,163	1,485,067	6,873,720	8,752,372	38.7%	306.0%	11.6%
Tier 1 Capital	5,400	1,248,312	2,772,994	7,622,969	70,247,239	74,017,780	408	100,186	216,100	590,699	6,206,025	7,460,417	174.9%	821.5%	5.4%
Paid-In Capital	2,400,023	10,775,866	16,957,692	18,358,151	18,363,838	18,363,838	181,545	864,837	1,321,516	1,422,561	1,622,362	1,850,932	8.3%	0.0%	0.0%
Donated equity	(327,699)	(2,917,507)	(5,908,525)	(6,816,335)	(10,806,063)	(5,545,831)	(24,788)	(234,150)	(460,452)	(528,193)	(954,667)	(558,977)	15.4%	58.5%	(48.7%)
Retained earnings without donations and reserves	-	-	-	-	6,705,840	-	-	-	-	-	592,431	-	-	-	(100.0%)
Tier 2 Capital	-	-	-	-	6,705,840	-	-	-	-	-	592,431	-	-	-	(100.0%)
Subordinated debt	-	-	-	-	6,705,840	-	-	-	-	-	592,431	-	-	-	(100.0%)
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

■ Formulas

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

■ Rating scale

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