

## Azeri Star Microfinance, Azerbaijan

In 1999, Azeri Star Microfinance (ASM) started as a pilot program by Save the Children to target rural women and impoverished micro entrepreneurs. ASM became a dedicated program in 2003 and spun-off in March 2006 to become a non-bank financial institution regulated by the National Bank of Azerbaijan. ASM is now 100% owned by Save the Children and remains a non-profit company. Its three branches and one sub branch office reach rural and urban clients in central Azerbaijan. ASM offers group solidarity and individual loan products for livestock, micro businesses, and consumption purposes. As of March 2009, ASM serves 5,680 borrowers with a total loan portfolio of 2.0 M AZN (2.5 M USD).

### GIRAFE Rating

#### Rating

**B-**

#### Outlook

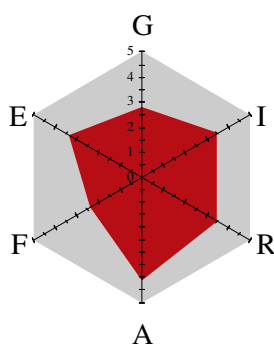
**Stable**

#### Date of the rating

**April 2009**

Valid until March 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- ASM's demonstrates a strong profitability, with a consistent high ROA between 13% and 16% since 2005. ROE increased to 23.5% in FY08 as a result of increasing leverage.
- Credit risk continues to be low with PAR 30 at 0.3% as of Dec. 2008.
- ASM has an adequate management team in place for the size of the institution but key-person risk remains on the Executive Director. The team will need further strengthen to manage the growth and expansion of ASM.
- The Board of Directors has elected a new member with specific microfinance expertise. This is expected to bring a needed strengthening to the governance and provide a better balance in decision making with the management team.
- ASM has a moderate revenue quality. As other MFIs encroach on its previously strong rural market position, its products with high pricing and low loan amounts will put ASM at a competitive disadvantage.
- The funding strategy and liquidity management remain a challenge for ASM. Too much uncertainty in its funding strategy remains and liquidity management is lacking the appropriate tools for cash flow planning.

#### Outlook

The stable outlook reflects Planet Rating's opinion that ASM will strengthen its operations, but these improvements will not surpass the increasing complexity of the institution as it further expands; resulting in an expected stable risk profile.

#### Performance indicators

USD	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Assets	623,719	732,128	881,448	1,314,915	2,468,181
Loan portfolio	535,839	676,508	866,203	1,309,949	2,409,007
Active borrowers	3,744	3,815	4,179	4,541	5,973
Average outstanding loan per client	143	177	207	288	403
Staff	38	39	37	39	36
ROE	(1.5%)	17.0%	15.2%	17.2%	23.5%
ROA (without donations)	(1.5%)	15.9%	13.3%	14.5%	15.4%
Liabilities / Equity	0.00x	0.14x	0.14x	0.33x	0.85x
Portfolio yield	67.2%	69.2%	68.3%	61.6%	54.4%
Operating expense ratio	67.5%	49.2%	46.8%	40.0%	27.2%
Funding expense ratio	0.0%	0.5%	1.3%	1.1%	6.6%
Loan Loss Provision expense ratio	1.4%	1.7%	2.6%	0.9%	1.2%
PAR 31-365	0.38%	0.19%	0.15%	0.16%	0.21%
PAR > 365	0.02%	0.13%	0.17%	0.02%	0.05%
Write-off ratio	0.31%	0.24%	0.21%	0.30%	0.06%

Note: financial data prior to March 2006 is not considered to be fully reliable. 2006 data is based on 2 months of non-audited data (January and February) and 10 months of audited data.

## Microfinance sector

The beginning of microfinance in Azerbaijan may be linked to the perestroika period, around the 1980s, when Soviet Authorities started providing loans to small businesses. Microfinance further developed with the arrival of international relief organizations around 1994, due to the humanitarian crisis following the war with Armenia over Nagorno-Karabakh. However, it was only from 1997 that traditional microfinance began when international NGOs such as FINCA and ADRA entered the sector. Over the past few years, the microfinance sector has evolved with remarkable growth in outreach, scale and increased competition among MFIs. The number of active borrowers has increased 6 fold since 2004 and the outstanding portfolio close to 10 times. In most recent years this has also led MFIs to expand outside of Baku into the rural areas which initially had been less served. Currently, MFIs serve around 320,000 clients throughout 60 of the 77 districts in the country, with an outstanding portfolio of around 550 M USD.

Microfinance services are offered through three types of institutions: commercial banks, non-bank financial institutions (NBFIs) and credit unions. AccessBank (a Bank) and Finca (an NBFI) together dominated the market with a combined market share of 48% in active borrowers and 50% in outstanding loan portfolio. In total NBFIs make up about 50% of all clients, whereas banks account for 60% of the outstanding portfolio. Credit unions still play a limited role in the sector.

MFI	MFI Type	Active clients	%	Portfolio (M USD)	%
AccessBank	Bank	69,144	21.6%	208.1	37.6%
Bank Respublika	Bank	21,730	6.8%	24.9	4.5%
Parabank	Bank	14,462	4.5%	10.8	2.0%
AzerDemiryolBank	Bank	10,863	3.4%	44.8	8.1%
Others	Bank	21,330	6.7%	44.1	8.0%
<i>Sub-total</i>	<i>Banks</i>	<i>137,529</i>	<i>43.1%</i>	<i>332.9</i>	<i>60.1%</i>
Finca AZE	NBFI	83,817	26.2%	66.7	12.1%
Azercredit	NBFI	21,509	6.7%	17.1	3.1%
Normicro	NBFI	14,638	4.6%	14.3	2.6%
CrediAgro	NBFI	13,754	4.3%	50.9	9.2%
Viator	NBFI	9,751	3.1%	4.5	0.8%
FinDev	NBFI	6,086	1.9%	6.5	1.2%
<b>Azeri Star</b>	<b>NBFI</b>	<b>5,973</b>	<b>1.9%</b>	<b>2.4</b>	<b>0.4%</b>
Mikromaliyye	NBFI	4,150	1.3%	0.7	0.1%
Agrarcredit	NBFI	2,512	0.8%	21.0	3.8%
Komak Credit	CU	1,889	0.6%	1.5	0.3%
Nakhchivan Credit	NBFI	1,428	0.4%	1.5	0.3%
Agroinvest	CU	1,279	0.4%	2.6	0.5%
Others		15,113	4.7%	31.1	5.6%
<i>Sub-total</i>		<i>181,899</i>	<i>56.9%</i>	<i>220.9</i>	<i>39.9%</i>
<b>Total</b>		<b>319,428</b>	<b>100%</b>	<b>553.8</b>	<b>100%</b>

Source: AMFA Matrix, December 2008

Banks are regulated by the National Bank of Azerbaijan (NBA) under the Law on Banks and Banking Activities.

Prudential ratios are in place for banks on areas such as capital adequacy, liquidity and provisioning. As compared to international standards the prudential ratios are not necessarily conservative, although loan loss provision standards have been increased in the wake of the international financial crisis. Banks report monthly to NBA although supervisory visits are not frequent. Banks have access, and are obliged to report to, the Central Credit Registry.

NBFIs are regulated under the same law but no prudential ratios have been set and NBFIs are restricted from taking deposits. NBFIs report quarterly to NBA but supervision is generally weak. Since 2007, the NBA has been working on a draft law for better regulation of NBFIs. If this law is approved, it should introduce prudential standards for NBFIs, more monitoring from the NBA, options for NBFIs to accept collateral deposits and a formal access to the Centralized Credit Registry, amongst other improvements. The enactment of the law is not expected any time soon.

The Azerbaijan Micro-Finance Association (AMFA) has been in place since 2001, following the Microfinance Conference held in Baku. Its strength as an organization was tested in March 2009, when the NBA issued a statute requesting that all NBFIs declare themselves non- or for-profit within ten days. Choosing the non-profit option would mean transformation to an NGO status limiting the possibility of raising equity in the future. MFIs choosing to be a for-profit entity would be subject to back taxes; the height of which was not specified. AMFA sent a formal response to the NBA to postpone this request of status change until the Microfinance legislation was complete.

Around 95% of MFIs' funding resources come from foreign sources, as terms and rates have been better overall than those offered locally. In the local market, banks are reluctant to lend to NBFIs as they are often treated as competitors. MFIs may also finance their activities from other local sources like governmental funds, but terms and covenants are often strict.

To date the global economic recession has had limited impact on the credit risk levels in Azerbaijan, especially in the rural areas outside of Baku, as public spending has continued to fuel the economy (cf. Political and economic environment). However, the sector is not expected to remain fully immune during 2009.

## Political & economic environment

Economic growth (7.1 per cent) is slowing in 2009, slipping below 10 per cent for the first time since 2002. This is due to the decline of world prices for hydrocarbons, whose sales

abroad represent 80 per cent of GDP and 90 per cent of exports. Volume growth has also been less spectacular than it was between 2003 and 2008, when production underwent a threefold increase.

Oil-export revenues now allow the country to run very large external-account and fiscal surpluses that provide ample room for maneuvering, even in a context of falling hydrocarbon prices. The foreign debt that had financed oil installations has declined substantially. Inflation has, however, been a source of concern, bloated in 2008 by a massive increase in public spending earmarked for wages, infrastructure, and armament. The current decline of prices for oil products and food will likely foster a gradual easing of inflationary pressures.

The re-election in October 2008 of Ilham Aliev, son of the preceding president, is expected to ensure the stability of an authoritarian regime. The legal and regulatory framework has not been conducive to the emergence of a competitive private sector except for consulting services associated with hydrocarbon extraction. Although oil export revenues have nonetheless fostered the dynamism of services, telecommunications, transport, and construction, the local currency appreciation has choked off a private manufacturing sector suffering from a lack of competitiveness.

The conflict between Russia and Georgia during the summer of 2008 unnerved the operators of pipelines that carry Azerbaijani crude to Europe via Georgia. The risk of hostilities will likely deter investors from building new pipelines beyond the BTC (Baku, Tbilisi, and Ceyhan), the only one that has avoided transit via Russia. And although Russia's return to the region reduces the likelihood of a new war with Armenia in the near term, the lack of a conclusive settlement of the dispute over Nagorno-Karabakh continues to weigh on the regional geopolitical environment.

(USD millions)	2006	2007	2008	2009(e)
Economic growth (%)	30.5	23.4	13.1	7.1
Inflation (%)	8.4	16.6	19.6	13.3
Public sector balance (%GDP)	-0.2	2.4	29.1	30.6
Exports	13,015	21,230	33,398	22,322
Imports	5,269	6,010	7,840	7,805
Trade balance	7,746	15,220	25,558	14,517
Current account balance (%GDP)	17.7	28.6	57.3	21.2
Foreign debt (%GDP)	28.2	22.3	19.2	17.5
Debt service (%G&S exports)	2.1	1.8	1.0	1.0
Foreign currency reserves (in months of imports)	2.8	3.5	5.8	5.6

**Source:** COFACE's Country Risk Rating Guidebook 2008. (e) estimates (f) forecasts. **Disclosure Statement:** Data is provided with authorization from COFACE - a shareholder of Planet Rating.

COFACE Country Rating: C - A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behavior. Corporate default probability is 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 environment.

## Institutional presentation

### Legal form, supervision and audit

AzeriStar Microfinance (ASM) was registered as a non-banking Limited Liability Company with the Ministry of Justice in May 2003 and registered with the National Bank of Azerbaijan (NBA) in August 2005. In March 2006, when the Save the Children grant program ended, Save the Children transferred all assets of the program to the LLC. As an NBFI, ASM falls under the supervision of the NBA and ASM reports quarterly to the NBA. However, no supervisory visits have been conducted to date by NBA.

The 2008 external audit was conducted by Kapital Karden, a member of RSM International, in accordance with IAS and IFRS. For the period March to December 2006 and the full financial year 2007 the external audit was conducted by Smart Audit LLC. Prior to this, financial statements were not audited, since ASM was a program under Save the Children.<sup>1</sup> The financial year of ASM starts on January 1<sup>st</sup> and ends December 31<sup>st</sup>.

### Ownership

ASM is 100% owned by Save the Children Inc. based in the USA. The powers of the General Assembly have been delegated to Mr. George Giacomini who is currently the Country Director for Save the Children in Azerbaijan. Mr. Giacomini has the power to appoint and or remove other board members. Mr. Giacomini has been a member of the Board of Directors (BOD) since July 2006, and has been Chairman of the BOD since September 2006. The BOD consists of a total of 6 members, after the appointment of a sixth member in December 2008 who joined the BOD in Q1 2009. Three BOD members are employed by Save the Children and there are three external members. BOD

<sup>1</sup> The financial data in this report for the year 2006 is based on two months of unaudited data for January and February 2006; and on audited data for the remainder of the year. The financial data prior to March 2006 is not considered to be fully reliable.

members have a strong background in social development as well as a background in business. The latest BOD member was chosen to provide additional microfinance expertise and is an associate banker with EBRD in Azerbaijan focusing on infrastructure and financial sector projects.

As required by law, an Audit Committee exists on paper and is composed of three members. However, this committee is not operational and has not met to date. The Internal Auditor reports directly to the BOD. Otherwise, there are no BOD committees.

## Donations

USAID has been the biggest donor to ASM, with a net grant of 551 K AZN (602 K USD) which was donated during its separation from Save the Children in 2006.<sup>2</sup> Since its separation, ASM received a total of 58 K AZN, of which 58 K USD from Save the Children, mostly dedicated to its loan portfolio.

## Funding composition

As of March 2009 the funding structure of ASM is composed of 57% equity and 43% debt. All loans are on a fixed interest rate<sup>3</sup> and have a maturity between 18 to 48 months, with 31.3% of the debt portfolio maturing in the coming 12 months. 51.8% of the debt is denominated in USD with the remainder denominated in AZN.

## Management team

The management team consists of the Executive Director (ED), the Finance Manager (FM), the MIS Manager and the Internal Auditor (IA). The management team also counts on the services of 3 Branch Managers (BM) reporting directly to the ED.

- The ED, Rufat Abas, has led ASM for the last eight years. He has an additional five years of experience in community and economic development, with a focus on microfinance programs. Mr. Abas holds a M.A. in Linguistics from Azerbaijan State Institute of Languages and has completed several microfinance trainings.

## Organization

The Head Office (HO) is located in Barda in South Central Azerbaijan. The management team is based here, along with Barda branch staff. The ED and IA work partly from Baku. As soon as the newest branch in Goychav is fully operating, it is expected to become the new base for the management team.

<sup>2</sup> The initial amount granted could not be traced by Save the Children. The amount granted was higher but was partly consumed by operating losses.

<sup>3</sup> One lender reserves the right to increase its interest rate by a maximum of 200 basis points based on a change in the national average deposit rates.

The branches are headed by a Branch Manager (BM), who is supported in the management of the credit activities by a Credit Manager (CM). Besides Loan Officers (LOs) branches are staffed with an accountant, IT officer and cashier.

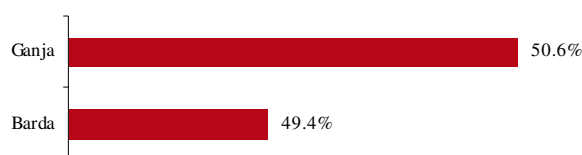
For group loans cash is collected by the LO during group meetings and brought back to the branch cashier. Individual loan clients make repayments directly at the branch. Disbursements are made by the cashier in the branch office, with oversight by LO and BM. For group loans, the loan applications are reviewed by the BM and/or CM. For individual loans, loan applications are reviewed and approved by a Credit Committee consisting of the BM, CM and LO.

The loan tracking system – PMS – was internally developed and is managed by the MIS Manager. This system uses a cash module for cashiers to enter in repayments. As of January 2009 ASM started using an internally developed accounting module which is linked to, but not fully integrated with PMS. Branches work on a stand-alone basis and information is consolidated on a global level on a monthly basis.

## Market penetration

ASM has its HO in Barda, and covers fourteen districts in Eastern Azerbaijan. It has an additional existing branch office in Ganja and is currently opening a third branch in Goychav. Barda is the city closest to the disputed Nagorno-Karabakh region and its IDP<sup>4</sup> population. Most of the clients in the Barda branch are rural. A satellite office was established in the urban area of Mingachevir in 2003 to reduce client travel for disbursements and collections.

Loan portfolio per branch - Mar. 2009



## Products and services

ASM specializes in group loan products, having only introduced individual loans in 2007. They offer five different client products and one individual staff loan. The average Effective Interest Rate (EIR) ranges from 48% to 71%, with monthly repayments.

- Group Business Loans are designed for micro-entrepreneurs and range from 150 to 420 AZN, with an average of 400 AZN (498 USD). Terms range from 4-12 months, averaging 10. Solidarity groups must be a

<sup>4</sup> Internally Displaced Persons

minimum of 7 members for new groups and 5 members in subsequent loan cycles. The loan has a flat interest rate of 3.5% per month with an EIR of 71%.

- Group Livestock Loans are designed for livestock purchases and maintenance. The terms are identical to Group Business Loans with the only difference being the availability of a two month grace period. The loan has a flat interest rate of 3.5% per month with an average EIR of 61%.
- Group Graduated Standard Loans are designed for mature solidarity groups that are beyond a minimum of three loan cycles of the standard group loans. They range from 500-800 AZN, with an average of 638 AZN (794 USD). The interest rate is 48% on a declining basis.
- Group Graduated Grace Loan is the same as the Group Graduated Standard Loan, but with a two month grace period.
- Individual Consumer Loans are designed for personal consumption and ranges from 300-1000 AZN, with an average of 919 AZN (1144 USD). Terms are from 6-18 months, with an average of 12 months. Registered employment is a necessary requirement for both client and guarantor. The interest rate is 48% declining.
- Individual Staff Loans were created in 2007 as an additional staff benefit. They start at 500 AZN and can be up to 50% of employee's annual salary. Average amount is 2,933 AZN (3,650 USD). Terms range from 8-24 months, with an average of 20 months. Another ASM employee is required as guarantor, and the rate is 18% on a declining basis.

## Networks

ASM is a member of the Save the Children network and the Azerbaijan Microfinance Finance Association (AMFA). The ED of ASM is a trainer for AMFA, having provided workshops and tailored training to its members and affiliates on several occasions. ASM is also a member of the Warsaw-based MFC (the Microfinance Centre for Central and Eastern Europe and NIS).

## ▪ Governance

Governance and Decision making is rated "c"

### Decision making

The decision-making process within ASM's BOD and with ASM's management team is well-functioning, with an informal consensus-based tradition and clear communication. However, the designation of the BOD Chair as the main shareholder (Save the Children) representative leaves a risk that power is formally concentrated in a single vote. So far, this has not presented a problem, as there is a

shared strategic vision which is shared amongst all stakeholders.

To date the capacity of the BOD was lacking in microfinance expertise, which has resulted in an imbalance in decision making between BOD and management team. In Q1 2009 a sixth BOD member joined with a specific microfinance background. This is expected to increase BOD capacity but it is too early to determine its impact. Financial training for the BOD members was planned but has not yet been conducted, except for a one-day presentation by the ED, despite the fact that most other BOD members have little financial expertise related to MFIs. Overall the BOD requires further capacity building to provide a better balance in decision making with the management team.

BOD meetings are held quarterly, with frequent informal communication between the ED and the BOD Chairman. Reporting for BOD meetings has been timely, although management reports do not supply BOD with qualitative summaries in addition to financial information, except for the ED's year-end presentation. BOD meetings are well documented in clear minutes with detailed actions points, allowing for good follow-up on decisions taken.

## Planning

Strategic planning at ASM is strong with clear analysis and follow-up, but there is a lack of detail and accuracy in financial projections and budgeting. ASM has a focused and relevant strategy in place with a conservative portfolio management, focus on growth and client targeting in rural areas. Medium-term goals were created during staff off-site for 2008 and revised for 2009. Technical assistance from Triple Jump in 2008 professionalized the strategic planning process, increasing the relevance of objectives. ASM's well-written Business Plan explicitly outlines methods to achieve institutional goals

Financial projections have been developed in Microfin, but are neither consistent nor completely relevant. For example, the year end 2009 target has already been achieved by end of 2008. Adjustments had not been made at the time of the rating. Furthermore, some inconsistencies in the projections further undermine its relevance (e.g. a flaw in planning of fixed assets). Multi-scenario projections are also not included in the financial plan, specifically in relation to global economic financial crisis or potential funding leading to different growth rates.

There is a participatory annual budgeting process which starts at the branch level, with input from BM, Accountants, then FM and ED. There is adequate budget follow-up on a monthly basis.

## Management team

ASM's management team has a strong leader, which relays into a high key person risk as there is a definitive gap in the experience of other senior personnel. Altogether, the team is competent and efficient for ASM's size, but the team will need further strengthening to be able to manage the growth of ASM. The FM is a competent accountant, but has yet to take a leading role in developing financial projections and participate in sourcing funding. The MIS Manager and IA are sufficiently competent for the current size of ASM. However, as only the ED speaks English fluently, and has sufficient leadership experience and training in microfinance management, there is no other clear leader in line to succeed the ED. Key-person risk has been acknowledged by BOD and Management, who have begun developing a successor plan.

There are no designated Operations or HR Managers. This leads to an overlap between administrative, operational and HR tasks amongst the management team's other responsibilities. Although acceptable for the current size of ASM, with further growth this overlap between duties will continue to reduce management efficiency.

Official management team meetings were discontinued due to work load as a result of growth and the new branch opening. There is frequent informal contact, but no formal documented meetings. Management team has repeatedly demonstrated its ability to reach operational goals and execute plans. In addition, the management team has fostered a culture of open communication and respect among all employees.

## Human resource management

There is a professional and detailed administration of human resources. Files, documents, and evaluation forms are complete, relevant, and streamlined. The recruitment exam and interview procedure allow efficient identification of talent. The only main concern is the lack of qualified candidates, specifically female, willing to work in the rural Barda HO.

Orientation and evaluation is effective and efficient. There is a good LO induction, with a formal month of mentoring overseen by the BM, which includes specific tasks and trainings. Probation for new employees lasts three months. Annual evaluations for all employees rigorously test financial and procedural knowledge, providing clear standards for staff. Previous year goals are reviewed and scored and new goals are set in participatory way. The multi-step evaluation takes into consideration exam and supervisor recommendations for awarding bonuses.

Both internal and external training is budgeted, planned and provided to staff. Senior staff participates in financial and management trainings externally whenever available in the region. LOs and middle management receive training from senior staff on a bi-monthly basis.

Staff turnover has on average been 20% over the past four years with a high of 37% in 2008. Staff morale is high, although staff retention mechanisms are not very effective due to offers from commercial banks. ASM salaries are competitive, but positions at commercial banks offer additional financial incentives and local prestige.

## Information

Information is rated "b"

ASM has an efficient and cost-effective MIS in place which provides all relevant data for managing its operations. The internally developed system is well managed and easily adapted by the MIS Manager. However, key person risk exists as there is limited support possible for the system in his absence.

Electronic data protection is sufficient, although physical security is not completely optimal. The MIS system does have user-level access with medium password complexity. Daily back-ups on USB and monthly back-ups on optical discs are enacted. However, storage of these back-ups is taken home with employees rather than stored in a more secure location. Anti-virus software is not optimal either, with only the free software in use. Paper data (loan contracts) are stored relatively securely (with cashier) and copies exist, but are not stored fire or water proof.

The system is sufficiently scalable to increase the number of branches (as they work off-line with monthly consolidation at global level). All staff have access to all relevant portfolio monitoring data available in different break downs (per product, LO, sector, branch, etc.). PAR is not easily available as % figure, only in absolute figures.

Financial statements are available monthly and key indicators are computed monthly for analysis. The external auditors have adopted accrual accounting for the first time in 2008. However, internally ASM is still in the process of fully implementing accrual accounting. As at the time of the rating interest receivable on loan portfolio and payable on debt was not yet being accrued. Further financial analysis in terms of product costing or branch profitability is not available.

## Risk Management

Risk Management is rated “b”

### Procedures and internal controls

ASM has made a solid investment in developing its internal controls, which is reflected in its clear identification of risks and well-developed procedures. There are a full set of detailed manuals to document all required policies and procedures. Key operational risks have been effectively outlined and policies and procedures contain sufficient internal controls to mitigate risks.

The internal controls developed have established a clear separation of tasks, limitation of powers, hierarchical control and good focus on under-performance and non-compliance. Staff has a high level of adherence to procedures and deviations are appropriately and timely addressed. There are good controls on data reliability with appropriate reconciliation between cash and bank statements and accounting and between accounting and loan tracking data.

In relation to financial risks, such as liquidity or market risk, ASM has not optimally identified all risk factors. (c.f. Funding and Liquidity)

### Internal audit

For its current size, ASM has a sufficient IA department consisting of just the Internal Auditor. At present, audits are conducted sufficiently frequent, but if ASM grows beyond its current three branches in 2010, there will be a need to increase capacity to properly audit the institution.

The IA has outlined and does monitor a large scope of risks within ASM, focusing on credit operations, cash handling, as well as accounting and HR processes. However, some weaknesses are apparent in the IA coverage. A fraud test of the internally developed MIS is necessary, which would likely need to be outsourced as there is insufficient internal capacity for this. There is also not a strong enough focus on senior management team functions.

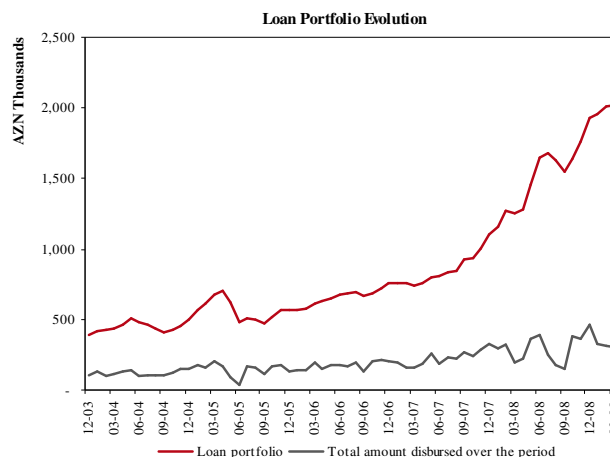
The IA is sufficiently independent, with direct reporting to the BOD, both through attending formal BOD meetings as well as informal meetings with BOD Chair. ASM has received limited support for review of internal controls: the NBA does not carry out on-site supervisory visits and external auditors did not strongly verify the internal control system nor present a management letter.

## Activities

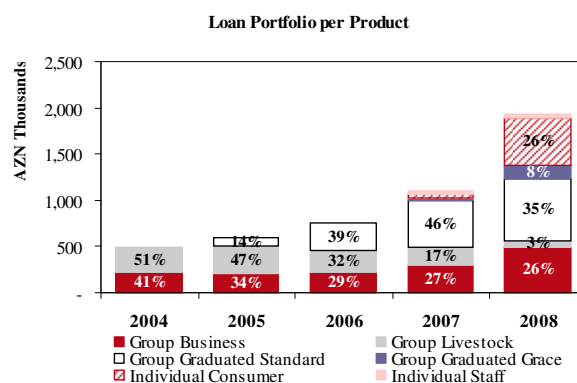
Activities: products and services is rated “a”

### Financial services evolution

ASM has experienced an increasing rate of portfolio growth, culminating in 74.3% in 2008 (21.5% in 2006 and 46.7% in 2007), which was made possible through an increased access to funding. The number of active borrowers showed lower growth rates with 31.5% in 2008 and below 10% in prior years.



With the introduction of the ‘graduated’ loans for older clients this loan product has come to dominate the loan portfolio, representing 46% of the portfolio in 2007. The individual loans introduced in 2007 have grown significantly in 2008 representing over half of the growth for the year and now represent 26% of the total portfolio.



### Financial services management

ASM demonstrates excellent portfolio management, with a very conservative methodology and detailed delinquency procedures. Loans are disbursed to clients according to strict guidelines, with supervision on several levels

Group methodology mandates that clients pass through each loan cycle before receiving a slightly higher disbursement, and start at the base amount again when new members join. Client information is checked at each cycle by the LO, with

documentation checked by the BM during participation in the group bylaw (approval) meetings onsite. This is a good risk management tool for newer groups, but not an efficient use of time for the BM. BMs, besides the LOs, also visit all first-time client businesses. The CMs do share some of these responsibilities with the BM. As CMs also manage their own client portfolios, the distribution of responsibilities between the CM and BM are not efficient.

Repayment capacity analysis for individual loans is limited and, besides salary, does not include other sources of income. The individual credit methodology allows loan amounts whose monthly repayments are at maximum 80% of monthly salary. Unless additional income is documented, monthly repayments of 80% are not sufficiently conservative.

Delinquency management is excellent, with immediate action by LOs in the rare case of default, thanks to very detailed guidelines and preventive measures. Clients and group members are questioned repeatedly on cross-indebtedness and loans within their families. No official credit bureau exists, but informal discussions with competitors and an internal MIS blacklist is consistently used to check credit histories, which is supported by the use of national ID cards.

LOs clearly understand the businesses and lifestyles of clients, showing knowledge of the markets they operate in and the risks they face. LOs are organized, professional, and are perceived by clients as transparent and helpful. LOs will need to learn how to analyze PAR in %, so that they are prepared if and when PAR increases.

### Credit risk

Credit risk is minimal, as ASM continues to maintain a low PAR. Overall, the Azeri market does have a trend of low PAR and ASM was in line with its peers with PAR 30 at 0.2% for 2008. A detailed trend analysis per product is hardly possible as delinquency is sporadic. The individual loans did see an increase from 0.3% as of December 2008 to 0.7% in March 2009. No rescheduling is permitted.

ASM has an adequate write-off policy in place with loans with terms of 4-6 months that have a PAR > 270, and 8-18 month loans with PAR > 360 days are written-off. Most of the write-offs are related to death of group members, which caused ASM to change its policy towards clients. Now only the interest for deceased members is forgiven, with group members being held responsible for the principle. Write-offs are low at 0.1% for 2008, down from 0.3% in 2007.

Concentration risk has not posed a problem to date, as geographic targeting in Ganja and Barda diversifies the

portfolio into rural/urban, commercial/agro incomes. However, no diversification policy is in place and concentration risk is not strictly monitored. Large proportion of rural clients involved in livestock trade, rely on market price of sheep, feed, etc. Discussions have begun on BOD level to minimize riskier individual loans but no limitation has been put in place yet. Connected lending to staff is well formalized and appropriately managed.

### Credit risk coverage

There is no legal provisioning for MFIs in Azerbaijan. In January 2009 ASM changed its provisioning policy as it discontinued a 2% provisioning policy on its healthy portfolio. As a result the credit risk coverage for PAR 30 dropped from 812% in December 2008 to 66% as of March 2009, although PAR 90 remains well covered at 266%.

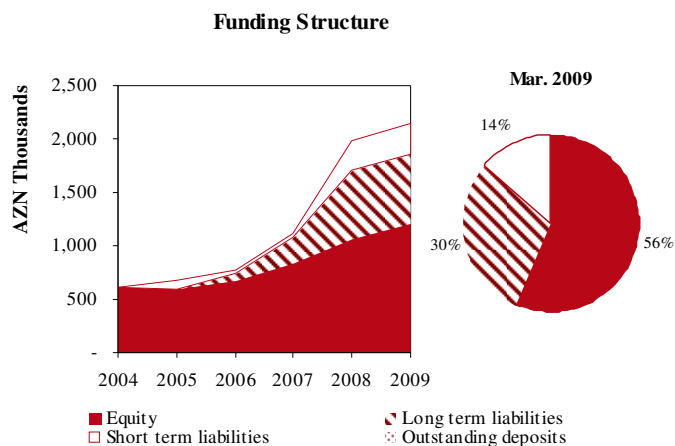
Other than group collateral and guarantors, there are no financial guarantees for clients for external risks (death, flood, draught, prolonged illness, etc.).

### Funding and liquidity

Funding and liquidity is rated “c”

### Funding strategy and capitalization

ASM is well capitalized with a CAR of 55.7% at FYE 08, but funding remains a point of weakness for the institution. The ED has been managing all funding relationships to date, due to his English fluency and relative experience. ASM did receive funding in both 2007 and 2008, and built up a small debt portfolio with basic diversification from three international investors and one local fund. Funding needs for 2009 have not yet been met, with additional funding needed until December 2009. At present only one potential loan application is in the pipeline.



Too much uncertainty remains in ASM’s funding strategy. Identifying their funding needs has been a weakness for ASM. Funding needs have been detailed only on an annual

basis but timing of repayments with new disbursements has not been optimal. Discussions with potential funders needs to be more proactive and requires further planning ahead. Furthermore ASM will target parallel loans from existing funders. Future plans for contacting and negotiating with lenders are planned, although not yet started. Negotiation skills with lenders have improved with experience, although ASM will soon be tested on this as they develop new relationships.

### Liquidity risk

Liquidity management is basic and no longer adequate for the current size and complexity of the institution. Current liquidity, as well as in and outflows are monitored on a monthly basis by the FM through the use of several spreadsheets. However, there is no single tool to precisely project cash flows for several months into the future on a rolling basis. The FM is competent enough to manage liquidity, but has had neither the capacity nor the mandate to develop the necessary tools.

Liquidity levels are low and vary considerably from month to month. Operating expenses are only covered by 1.1 months at FYE08 and at 1.7 months as of March 2009. There are few, if any, short-term financial instruments available to ASM in Azerbaijan, so idle cash is invested in the portfolio.

Maturity risk is absent at ASM, as there is good maturity matching given the short-term nature of the portfolio and the long-term nature of the liabilities and equity. Maturity matching is monitored on a semi-annual basis.

### Market risk

There is significant foreign exchange exposure, with over 52% of funding in USD denominated loans contributing to an open position of 37% on Tier 1 Capital. FX risk is not hedged, although USD/AZN rate has been kept stable by government monetary policy. The significant offshore sovereign wealth fund can be used as reserves if necessary, although the rate is not expected to move significantly. 49% of ASM's funding does have a floating interest rate, although it can only increase from 14% to 16% alongside the Azeri national rate

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “b”

### Profitability analysis

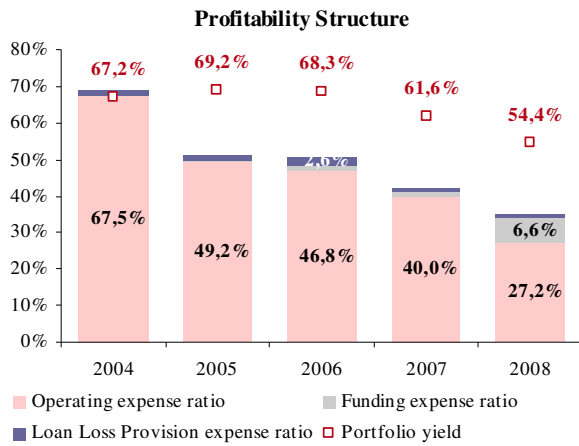
ASM's demonstrates a strong profitability, with a consistent high ROA between 13% and 16% since 2005. ROE increased to 23.5% as a result of increasing leverage. The profitability is driven by a high portfolio yield, which is the highest amongst its peers, the closest of which is 8 percentage points lower. Even if portfolio yield has decreased slowly over the past four years, from a high of 69.2% in 2005 to 54.4% in 2008, profitability has been sustained due to a matching reduction in operating costs. The yield closely matches the theoretical yield and the reduction is mostly due to a change in portfolio composition seeing an increase of graduated and individual loans with a lower effective interest rate.

ASM has a moderate revenue quality. To date ASM has benefited from low competition in its operating area in central Azerbaijan. However, other MFIs are strengthening their operations in the area and competition is likely to increase. The products of ASM do not provide a competitive advantage over its peers due to the high cost and low loan amounts with only minor increases per loan cycle. There is basic capacity in-house to modify and adapt loan products, although this task is not attributed to one specific person. In the past two years ASM has been able to more or less maintain its market position due to an increase in funding. Potential for growth remains limited given current weaknesses in the funding strategy (cf. Funding and liquidity).

Over the past years ASM has greatly improved its operating efficiency and as of 2008 has brought it close to its peers in the market with an operating expense ratio of 27.2%. This is a positive achievement especially given its lower average loan outstanding to clients as compared to its peers. LO productivity continues to remain high at around 350. However, ASM could further benefit from an increase in efficiencies of its back-office staff as the ratio of LOs to total staff is low at 45%.

The funding expense ratio has increased with the increase of leverage, and is expected to further increase.<sup>5</sup> Due to high portfolio quality the loan loss provision expense ratio has remained low over the years. Asset deployment has been consistently high in the past years and has been hovering around 95%. This is however due to low liquidity levels as well as a low level of fixed assets.

<sup>5</sup> When introducing accrual accounting in 2008 the external auditors did not restate 2007 income statement. As a result the 2007 funding expense ratio and cost of borrowings is understated and overstated for 2008.



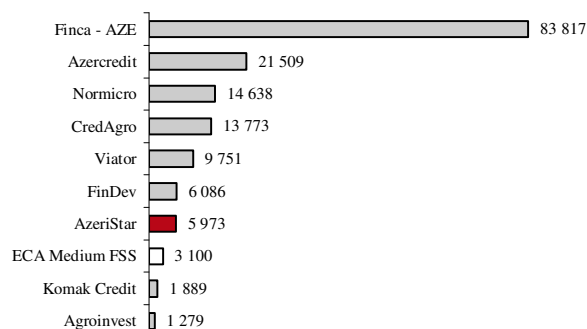
ASM has a positive profitability outlook. With the expansion of their network, wide margins and a well-performing portfolio, there is a strong likelihood that they will continue their trend of high profitability. Furthermore, it will benefit from a one time gain in 2009 due to a reduction of its provisioning policy.

*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.*

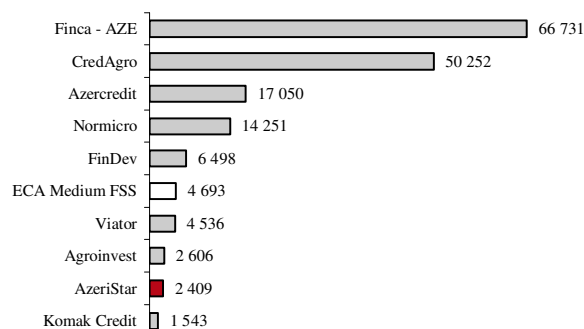
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## Benchmarking

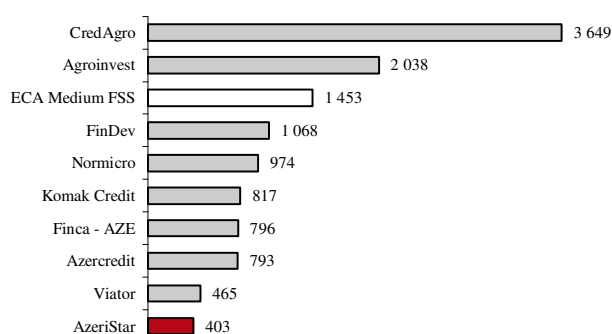
Active borrowers



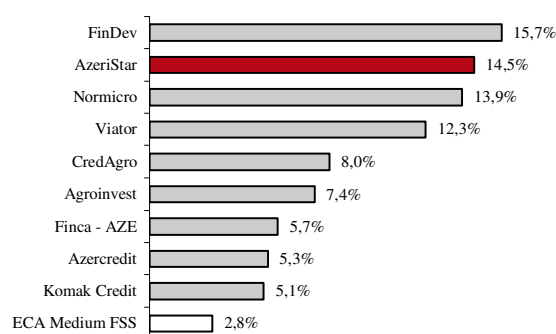
Loan portfolio ('000 USD)



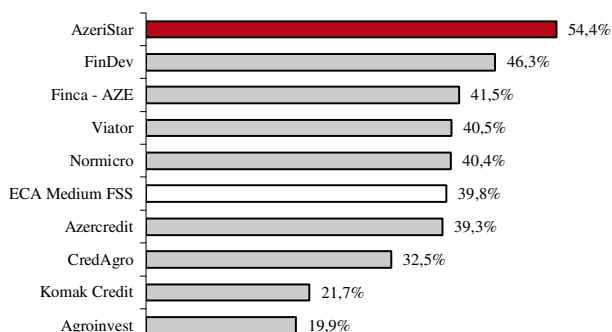
Average outstanding loan per client (USD)



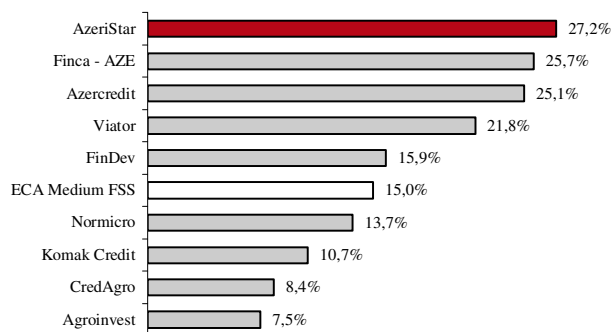
ROA



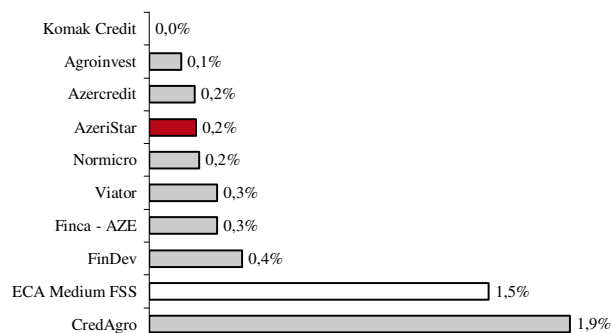
Portfolio yield



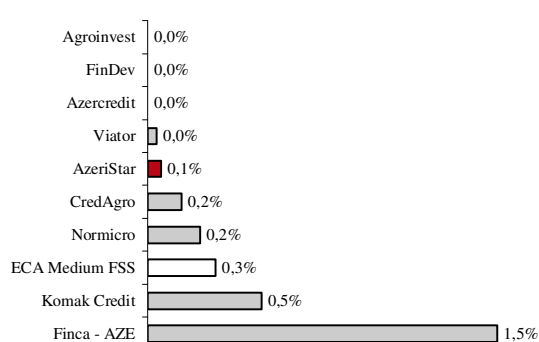
Operating expense ratio



PAR 31-365



Write-off ratio



Sources: AzeriStar is Planet Rating own data as of 2008; all other MFIs: www.mixmarket.org, loan portfolio, active borrowers and average outstanding loan amount is 2008 data, the remaining indicators are for 2007. ECA Medium FSS: 2007 Mix benchmarks

## ■ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
<b>Loan portfolio evolution</b>					
Loan portfolio	535,839	676,508	866,203	1,309,949	2,409,007
Loan portfolio (AZN)	525,443	621,440	754,809	1,107,300	1,929,615
<i>Growth</i>	31.2%	18.3%	21.5%	46.7%	74.3%
Active borrowers	3,744	3,815	4,179	4,541	5,973
<i>Growth</i>	18.0%	1.9%	9.5%	8.7%	31.5%
Average outstanding loan per client	143	177	207	288	403
<i>% of GDP per capita</i>	13.7%	11.0%	8.2%	7.8%	6.4%
Average amount disbursed per loan	189	228	300	397	616
<i>% of GDP per capita</i>	18.1%	14.1%	11.9%	10.8%	9.8%
<b>Portfolio quality</b>					
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.38%	0.19%	0.15%	0.16%	0.21%
PAR > 365	0.02%	0.13%	0.17%	0.02%	0.05%
Write-off ratio	0.31%	0.24%	0.21%	0.30%	0.06%
<b>Credit risk coverage</b>					
Risk coverage ratio (PAR 30)	995.2%	1,248.8%	697.6%	1,127.2%	812.3%
PAR 31 net of loan loss provision / Equity	(3.1%)	(3.9%)	(2.2%)	(2.5%)	(3.3%)

Staff	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Total number of staff	38	39	37	39	36
% Credit officers	39.5%	41.0%	32.4%	35.9%	44.4%
Turnover	n/a	13.0%	23.7%	7.9%	37.3%

Profitability analysis	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
ROE	(1.5%)	17.0%	15.2%	17.2%	23.5%
Liabilities / Equity	0.00x	0.14x	0.14x	0.33x	0.85x
Core capital adequacy ratio	112.3%	93.4%	86.2%	76.7%	56.8%
Total capital adequacy ratio	112.3%	93.4%	88.0%	76.7%	56.8%
ROA	(1.5%)	15.9%	13.3%	14.5%	15.4%
ROA (without donations)	(1.5%)	15.9%	13.3%	13.8%	14.5%
ROA (microfinance operations)	(1.5%)	15.9%	13.3%	13.8%	14.5%
<b>Profitability structure</b>					
Financial revenue ratio	67.2%	69.2%	68.8%	61.6%	54.4%
Portfolio yield	67.2%	69.2%	68.3%	61.6%	54.4%
Operating expense ratio	67.5%	49.2%	46.8%	40.0%	27.2%
Cost per borrower	85	81	84	88	85
Staff productivity	99	98	113	116	166
Loan officer productivity	250	238	348	324	373
Average outstanding loan per client (USD)	143	177	207	288	403
Funding expense ratio*	0.0%	0.5%	1.3%	1.1%	6.6%
Cost of savings	n/a	n/a	n/a	n/a	n/a
Cost of borrowings*	n/a	7.1%	11.6%	5.8%	18.8%
Loan Loss Provision expense ratio	1.4%	1.7%	2.6%	0.9%	1.2%
PAR 31-365	0.38%	0.19%	0.15%	0.16%	0.21%
Write-off ratio	0.31%	0.24%	0.21%	0.30%	0.06%
<b>Resource optimization</b>					
Outstanding Loan Portfolio / Assets	82.5%	88.7%	96.0%	97.6%	95.6%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Liquidity</b>					
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	11.0%	5.7%	0.5%	0.4%	1.8%
Current ratio (1 year)	n/a	794%	2,918%	3,201%	712%
<b>Exchange rate 1 USD= xx AZN</b>	<b>0.98</b>	<b>0.92</b>	<b>0.87</b>	<b>0.85</b>	<b>0.80</b>

Note: financial data prior to March 2006 is not considered to be fully reliable. 2006 data is based on 2 months of non-audited data (January and February) and 10 months of audited data.

\*When introducing accrual accounting in 2008 the external auditors did not restate the 2007 income statement. As a result the 2007 funding expense ratio and cost of borrowings is understated and overstated for 2008.

## ■ Financial statements – AZN

<b>Income Statement (AZN)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
Interest and fee income on loan portfolio	311,200	396,733	445,949	518,196	808,910
Interest and fee income on investments	-	-	-	-	-
Interest and other financial expenses	-	2,838	8,695	9,092	104,881
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	(40)	(125)	7,169
<b>Net financial income</b>	<b>311,200</b>	<b>393,895</b>	<b>437,214</b>	<b>508,979</b>	<b>711,198</b>
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	-	-	3,352	-	-
Operating expenses	312,337	282,203	305,768	336,074	404,645
<i>Personnel expenses</i>	<i>151,507</i>	<i>198,136</i>	<i>213,640</i>	<i>221,825</i>	<i>254,110</i>
<i>Administrative and other expenses</i>	<i>154,722</i>	<i>74,412</i>	<i>75,132</i>	<i>106,102</i>	<i>142,551</i>
<i>Depreciation</i>	<i>6,108</i>	<i>9,655</i>	<i>16,997</i>	<i>8,147</i>	<i>7,984</i>
Non operating income (net)	-	-	-	-	-
<b>Gross operating income</b>	<b>(1,137)</b>	<b>111,692</b>	<b>134,798</b>	<b>172,905</b>	<b>306,553</b>
Net loan loss provision expense	6,600	9,598	17,079	7,972	17,751
<b>Net operating income</b>	<b>(7,737)</b>	<b>102,094</b>	<b>117,719</b>	<b>164,933</b>	<b>288,802</b>
Extraordinary income (net)	-	-	-	-	-
<b>Net income before tax</b>	<b>(7,737)</b>	<b>102,094</b>	<b>117,719</b>	<b>164,933</b>	<b>288,802</b>
Income Tax	-	-	21,795	35,580	65,597
<b>Net income before donations</b>	<b>(7,737)</b>	<b>102,094</b>	<b>95,924</b>	<b>129,353</b>	<b>223,205</b>
Donations	-	-	-	6,888	14,355
<b>Net Income</b>	<b>(7,737)</b>	<b>102,094</b>	<b>95,924</b>	<b>136,241</b>	<b>237,560</b>

<b>Balance Sheet (AZN)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
<b>ASSETS</b>	<b>611,619</b>	<b>672,533</b>	<b>768,094</b>	<b>1,111,498</b>	<b>1,977,013</b>
Liquid assets	67,066	38,360	3,618	4,055	36,193
Net loan portfolio	504,426	596,582	737,461	1,084,475	1,889,917
<i>Gross loan portfolio</i>	<i>525,443</i>	<i>621,440</i>	<i>754,809</i>	<i>1,107,300</i>	<i>1,929,615</i>
<i>(Loan loss reserve)</i>	<i>21,018</i>	<i>24,858</i>	<i>17,349</i>	<i>22,825</i>	<i>39,698</i>
Interest receivable	-	-	-	-	15,649
Financial investments	-	-	-	-	-
Net fixed assets	40,127	37,591	27,016	22,968	34,383
Intangible assets	-	-	-	-	-
Other assets	-	-	-	-	871
<b>LIABILITIES AND EQUITY</b>	<b>611,619</b>	<b>672,533</b>	<b>768,094</b>	<b>1,111,498</b>	<b>1,977,013</b>
<b>Liabilities</b>	<b>-</b>	<b>80,000</b>	<b>95,112</b>	<b>278,664</b>	<b>906,619</b>
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	-	-	-	-	-
Borrowings	-	80,000	69,712	245,328	870,946
Subordinated debt	-	-	-	-	-
Other liabilities	-	-	25,400	33,336	35,673
<b>Equity</b>	<b>611,619</b>	<b>592,533</b>	<b>672,983</b>	<b>832,834</b>	<b>1,070,394</b>
Core capital	611,619	592,533	658,628	832,834	1,070,394
<i>Paid-in capital</i>	<i>-</i>	<i>-</i>	<i>32,229</i>	<i>32,229</i>	<i>32,229</i>
<i>Donated equity</i>	<i>1,073,045</i>	<i>950,865</i>	<i>551,000</i>	<i>588,964</i>	<i>588,964</i>
<i>Retained earnings</i>	<i>(461,426)</i>	<i>(358,332)</i>	<i>75,399</i>	<i>211,641</i>	<i>449,201</i>
Other equity accounts	-	-	14,355	-	-

<b>Off Balance Sheet Accounts</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
Portfolio under management	-	-	-	-	-
Written-off loans under collection	n/a	n/a	n/a	n/a	n/a
Guarantees	-	-	-	-	-

<b>Balance Sheet Averages</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
Gross loan portfolio	462,967	573,442	652,812	840,944	1,487,271
Assets	515,623	642,076	720,314	939,796	1,544,256
Deposits	-	-	-	-	-
Borrowings and subordinated debt	-	40,000	74,856	157,520	558,137
Equity	515,623	602,076	632,758	752,908	951,614

## ■ Financial statements – USD

<b>Income Statement (USD)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
Interest and fee income on loan portfolio	317,356	431,889	511,761	613,032	1,009,875
Interest and fee income on investments	-	-	-	-	-
Interest and other financial expenses	-	3,089	9,978	10,756	130,938
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	(46)	(148)	8,950
<b>Net financial income</b>	<b>317,356</b>	<b>428,799</b>	<b>501,737</b>	<b>602,128</b>	<b>887,888</b>
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	-	-	3,847	-	-
Operating expenses	318,516	307,210	350,893	397,580	505,175
<i>Personnel expenses</i>	<i>154,504</i>	<i>215,693</i>	<i>245,168</i>	<i>262,422</i>	<i>317,241</i>
<i>Administrative and other expenses</i>	<i>157,783</i>	<i>81,006</i>	<i>86,219</i>	<i>125,520</i>	<i>177,966</i>
<i>Depreciation</i>	<i>6,228</i>	<i>10,511</i>	<i>19,505</i>	<i>9,638</i>	<i>9,968</i>
Non operating income (net)	-	-	-	-	-
<b>Gross operating income</b>	<b>(1,160)</b>	<b>121,589</b>	<b>154,691</b>	<b>204,549</b>	<b>382,713</b>
Net loan loss provision expense	6,730	10,449	19,599	9,431	22,161
<b>Net operating income</b>	<b>(7,890)</b>	<b>111,141</b>	<b>135,092</b>	<b>195,118</b>	<b>360,552</b>
Extraordinary income (net)	-	-	-	-	-
<b>Net income before tax</b>	<b>(7,890)</b>	<b>111,141</b>	<b>135,092</b>	<b>195,118</b>	<b>360,552</b>
Income Tax	-	-	25,012	42,092	81,894
<b>Net income before donations</b>	<b>(7,890)</b>	<b>111,141</b>	<b>110,080</b>	<b>153,026</b>	<b>278,658</b>
Donations	-	-	-	8,149	17,921
<b>Net Income</b>	<b>(7,890)</b>	<b>111,141</b>	<b>110,080</b>	<b>161,175</b>	<b>296,579</b>

<b>Balance Sheet (USD)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
<b>ASSETS</b>	<b>623,719</b>	<b>732,128</b>	<b>881,448</b>	<b>1,314,915</b>	<b>2,468,181</b>
Liquid assets	68,393	41,759	4,151	4,797	45,185
Net loan portfolio	514,405	649,447	846,294	1,282,947	2,359,447
<i>Gross loan portfolio</i>	<i>535,839</i>	<i>676,508</i>	<i>866,203</i>	<i>1,309,949</i>	<i>2,409,007</i>
<i>(Loan loss reserve)</i>	<i>21,434</i>	<i>27,061</i>	<i>19,909</i>	<i>27,002</i>	<i>49,561</i>
Interest receivable	-	-	-	-	19,537
Financial investments	-	-	-	-	-
Net fixed assets	40,921	40,922	31,003	27,171	42,925
Intangible assets	-	-	-	-	-
Other assets	-	-	-	-	1,087
<b>LIABILITIES AND EQUITY</b>	<b>623,719</b>	<b>732,128</b>	<b>881,448</b>	<b>1,314,915</b>	<b>2,468,181</b>
<b>Liabilities</b>	<b>-</b>	<b>87,089</b>	<b>109,148</b>	<b>329,663</b>	<b>1,131,859</b>
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	-	-	-	-	-
Borrowings	-	87,089	80,000	290,226	1,087,323
Subordinated debt	-	-	-	-	-
Other liabilities	-	-	29,148	39,437	44,536
<b>Equity</b>	<b>623,719</b>	<b>645,039</b>	<b>772,301</b>	<b>985,253</b>	<b>1,336,322</b>
Core capital	623,719	645,039	755,828	985,253	1,336,322
<i>Paid-in capital</i>	<i>-</i>	<i>-</i>	<i>36,985</i>	<i>38,127</i>	<i>40,236</i>
<i>Donated equity</i>	<i>1,094,274</i>	<i>1,035,124</i>	<i>632,316</i>	<i>696,751</i>	<i>735,286</i>
<i>Retained earnings</i>	<i>(470,555)</i>	<i>(390,085)</i>	<i>86,527</i>	<i>250,374</i>	<i>560,800</i>
Other equity accounts	-	-	16,473	-	-

<b>Off Balance Sheet Accounts</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
Portfolio under management	-	-	-	-	-
Written-off loans under collection	n/a	n/a	n/a	n/a	n/a
Guarantees	-	-	-	-	-

<b>Balance Sheet Averages</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>
Gross loan portfolio	472,126	624,256	749,153	994,846	1,856,767
Assets	525,824	698,972	826,616	1,111,790	1,927,909
Deposits	-	-	-	-	-
Borrowings and subordinated debt	-	43,545	85,903	186,348	696,800
Equity	525,824	655,428	726,139	890,700	1,188,032

## ■ 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-	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B++	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	INVESTMENT GRADE
B+	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.	
B	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	
B-	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	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+	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	TECHNICAL ASSISTANCE REQUIRED
C	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	<b>High risk:</b> Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	