

Microfinance Organization Alliance Group, Georgia

Microfinance Organization Alliance Group (MFO-AG) was established in October 2006 as a 100% subsidiary of Alliance Group Holding (AGH), a privately owned Georgian company. MFO-AG is currently registered as a Limited Liability Company (LLC) Microfinance Organization, under regulation by the National Bank of Georgia. MFO-AG offers both consumption and business loans. Its operations are concentrated in Tbilisi, with a first branch opening in the Western city of Kutaisi in February 2009. As of March 2009, MFO-AG had 1,058 clients and a gross loan portfolio of 6.7 M GEL (4 M USD).

GIRAFE Rating

Rating

C-

Outlook

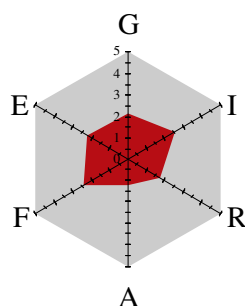
Uncertain

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

- Following an important fraud, MFO-AG's credit risk level raised dramatically starting April 2008, with a PAR 30 standing at 47% as of March 2009.
- As a result, profitability is trending downward, with ROA and ROE halving over two consecutive years (ROA=5.4% and ROE=15.3% as of March 2009).
- After a thorough audit in late 2008, a new and motivated management team is carrying out an in-depth restructuring process and setting internal controls according to the industry best practices.
- As many fraudulent loans were collateralized, the new team expects to recover most of the PAR through legal actions, while resuming growth by expanding to new geographical districts where competition is less intense.
- Upcoming challenges include setting up an efficient organization that properly mitigates arising risks, effectively reducing the PAR to an acceptable level, and migrating to a more robust information system to cope with the desired growth.

Outlook

The grade is assigned with an "Uncertain" outlook as additional time is needed to resume growth and revert to a healthy financial situation. MFO-AG still has to demonstrate its ability to build and sustain the internal capacities required to achieve its ambition of becoming one of the strong microfinance players in Georgia.

Performance indicators

USD	Dec. 2006	Dec. 2007	Dec. 2008*	Mar. 2009*
Assets	777,216	4,431,132	4,088,182	4,153,650
<i>Evolution</i>	13,874.4%	429.6%	(3.4%)	1.8%
Loan portfolio	750,050	4,381,969	4,090,367	4,013,382
<i>Evolution</i>	13,385.9%	442.7%	(2.2%)	(1.7%)
Active borrowers	532	880	969	1,058
Average outs. loan / client	1,410	4,980	4,221	3,790
Staff	9	16	29	25
ROE	(5.6%)	81.7%	40.8%	15.3%
ROA	(1.1%)	13.1%	10.1%	5.4%
Liabilities / Equity	3.78x	5.59x	1.89x	1.84x
Portfolio Yield	38.6%	43.2%	44.2%	31.5%
Operating expense ratio	27.2%	7.2%	8.7%	12.6%
PAR 31-365	0.0%	2.3%	35.6%	44.0%
PAR > 365	0.0%	0.0%	0.8%	3.3%
Write-off ratio	1.1%	0.0%	0.0%	0.0%

(*) Not audited.

Microfinance sector

Microfinance was initiated in Georgia in the late nineties by the development of NGO MFIs that benefited from the support of different donors such as World Vision, UNHCR and USAID. It was further developed with the opening of ProCredit Bank¹ in 1999 and the downscaling of large commercial banks supported by EBRD². The Georgian market currently counts 30 Microfinance Organizations (MFOs), up from less than 10 at the end of 2006, atop of 20 regulated commercial banks and 18 Non-Bank Depository Institutions (Credit Unions)³.

The Georgian Banking Regulatory Authority (GBRA), a division of the National Bank of Georgia (NBG), and local stakeholders estimate that the total potential market for microfinance loans is between 500-700 M GEL (300-400 M USD). This would be at least four times more than the consolidated portfolio of Georgian MFOs at the end of 2008, ProCredit and other banks excluded. The industry experienced significant growth in the last few years, with the total portfolio increasing four-fold since 2005 and competition heating up in urban areas. Among the traditional microfinance players, three institutions operate on a national level and serve over 70% of the market (Constanta, Credo, FINCA). Constanta is the only one to have transformed into a bank in 2008 and has distanced its closest competitors by focusing on higher loan amounts. ProCredit remains by far the market leader, with a 505 M USD loan portfolio as of December 2008, out of which around 30% is dedicated to microloans⁴, with roughly 15,000 clients benefiting from loans below 1,000 USD as of December 2007⁵.

MF provider As of Dec. 2008	Type	Portfolio in USD	%	Active clients	%
Constanta	Bank	34,715,419	31.6%	11,549	16.6%
Credo	MFO	25,888,642	23.6%	21,857	31.5%
FINCA	MFO	17,210,965	15.7%	20,587	29.7%
Lazika Capital	MFO	4,712,041	4.3%	6,264	9.0%
Crystal	MFO	4,924,500	4.5%	4,104	5.9%
MFO-AG	MFO	4,090,367	3.7%	969	1.4%
FinAgro	MFO	2,081,147	1.9%	594	0.9%
Others	MFO	16,101,373	14.7%	> 3,000	5.0%
Total		94,087,869	100%	69,424	100%

Source: MiX Market, MFI, National Bank of Georgia, Planet Rating.

MFOs are regulated by the GBRA, who was awarded oversight of the microfinance sector by a 2008 amendment to the July 2006 microfinance law setting registration and operating guidelines. According to this law, an MFO is

either a Limited Liability or a Joint Stock company (LLC or JSC) registered at the NBG, and carrying out microfinance activities under its supervision. MFOs are required to have an initial paid-in capital of 250,000 GEL (150,000 USD) and can disburse loans up to 50,000 GEL (30,000 USD) but are not allowed to collect savings. Provisioning requirements are only compulsory for Banks and Credit Unions, with no prudential rules for MFOs. Besides, provision and write-off expenses are not deductible from the taxable profit, while writing off is only possible in the fiscal year following the court's decision. Last, interest and penalties accruals are compulsory until the case is filed in court. The two-person division of GBRA responsible for the microfinance sector also regulates Credit Unions, Foreign Exchange Bureaus, and Money Transfer Services. This team conducts annual visits to every MFO, collects quarterly updates, and makes recommendations to Parliament for new legal amendments. Credit Unions are allowed to provide loans and to take deposits from their members only. The increased oversight for Credit Unions, established by a 2002 regulation, was the reason for a decline in the number of these non-banking depository institutions.

Georgia's credit bureau, Creditinfo, was established in 2005, by the Creditinfo Group, the National Credit Information Bureau of Georgia (NCIB)⁶, and several banks⁷. All of the leading MFOs now report their positive and negative information to Creditinfo, though such reporting is not compulsory by law.

The Georgia-Russia conflict in August 2008, coupled with the financial crisis, has tightened the credit market in Georgia. Since then, commercial banks have begun decreasing their microfinance activities, but competition for good clients remains quite fierce in Tbilisi and the main urban centers. Other microfinance players are facing slower disbursements and rising PAR, which was estimated at around 3-4% as of December 2008⁸.

The Association of Georgian Microfinance Organizations (MFO-AGO) was set up in 2005⁹ but has not been very active since 2006, when it lobbied for the microfinance law and developed a system to receive and submit its members' information to Creditinfo. Issues to discuss within the sector remain the mandatory use of Creditinfo and the lobbying for a more comprehensive regulation.

¹ Formerly Microfinance Bank of Georgia.

² Bank of Georgia, United Georgian Bank and Tbiluniversal.

³ Source: Georgian Banking Regulatory Authority, as of March 2009.

⁴ Source: ProCredit website; loans below 10,000 USD.

⁵ 38,000 clients when including loans below 10,000 USD.

⁶ NCIB is a business information company, 20% owned by the Alliance Group Holding (AGH).

⁷ Creditinfo is owned by the Creditinfo Group, NCIB, TBC Bank, Bank of Georgia, ProCredit, and the Bank Republic (Société Générale).

⁸ Based on the MiX information.

⁹ By Constanta, Credo, FINCA, Crystal and Lazika Capital.

Political & economic environment

The conflict with Russia disrupted the growth dynamic

The shock resulting from the military conflict with Russia in summer 2008 drove growth down to just 3.5% that year from 12.4% in 2007. To cushion the negative effects of the conflict on a country with a strong dependency on foreign capital – reflected by a current account deficit representing 21% of GDP in 2008 and very low foreign exchange reserves barely covering two months of imports – Georgia has benefited from a stand-by agreement concluded with the IMF in September 2008, which will remain in force until March 2010. At the October 2008 conference, donors moreover promised 4.55 billion USD in aid.

In 2009, the economy is nonetheless expected to remain weakened by the effects of the conflict. In a particularly difficult local and international context Georgia will likely have to overcome major hurdles to attract foreign investors particularly when privatizations are involved. Foreign exchange earnings, whether from tourism affected by the political situation or exports (iron, cement, wine), will be far from sufficient to cover the capital goods purchases needed for reconstruction, thus making Georgia very dependent on international aid.

Tense relations with Russia still cloud the outlook

The country could capitalize on its geographic position as a regional crossroads between Western and Central Asian countries, moreover benefiting from a business environment relatively hospitable to foreign investors. Georgia has also succeeded in reorienting its exports toward Turkey and Europe since 2007. The persistence of very tense relations with Russia despite the cease fire agreement continues to weigh on the economic outlook. Moscow's recognition of the two secessionist regions (with the European Union reiterating its firm intention not to follow suit) in conjunction with the Georgian president's weakened position (with his role in the war criticized by the opposition as an error of judgment) augur the possibility of new destabilizing incidents. Georgia has to contend with an influx of refugees with episodes of mounting tensions occurring and likely to occur again in the near term.

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 this difficult environment.

USD millions	2006	2007	2008(f)	2009(f)
Economic growth (%)	9.4	12.4	3.5	4
Inflation (%)	8.8	11	8	8
Public sector balance (%GDP)	-3	-4.7	-6.3	-3.8
Exports	1,667	2,104	2,485	2,750
Imports	3,686	4,981	5,976	6,270
Trade balance	-2,019	-2,877	-3,491	-3,520
Current account balance (%GDP)	-15.9	-20	-20.8	-18.7
Foreign debt (%GDP)	30	30.7	34.6	41.1
Debt service (%G&S exports)	6.2	5.4	11	11.7
Foreign currency reserves (in months of imports)	1.9	2.3	2.1	2.6

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

Institutional presentation

Legal form, supervision and audit

Microfinance Organization Alliance Group (MFO-AG) was registered as a for-profit Limited Liability Company (LLC) in October 2006. MFO-AG is one of six subsidiaries of Alliance Group Holding (AGH), which was created as a Joint Stock Company (JSC) in 2006. As a Microfinance Organization (MFO), MFO-AG falls under the direct supervision of the GBRA.

AGH issues financial statements for all of its subsidiaries. AGH and MFO-AG's 2006 and 2007 financial statements were audited by Baker Tilly Georgia, the local counterpart of Baker Tilly International, who certified the accounts without reserve. The financial year starts on January 1st and ends on December 31st. In the present report, 2008 and 2009 figures are based on non-audited financial statements.

Ownership

MFO-AG is 100% owned by AGH. It has its own Supervisory Board, made up of three permanent members and one consultant. It is chaired by Mr. Aieti Kukava, the founder and CEO of AGH. The permanent members are the Legal Advisor for AGH and the CFO of the co-subsidiary Alliance Group Leasing. The consultant used to work for Constanta as an internal auditor. An additional fifth member was recently dismissed due to suspicion of fraud. The Board members do not get a salary or financial benefits from MFO-AG. Their backgrounds are in Management, Finance and Law.

AGH is 90% owned by international investors. Mr. Aieti Kukava holds the remaining 10%. The majority shareholder (58%) is Mr. Stephan Pinter in person, Director at the UK-based private investment banking firm, GML International Limited.

Donations

As of March 2009, MFO-AG had never received any donations. In April 2009, it received a 150 K USD grant from UNDP, dedicated to conflict-affected regions.

Funding composition

MFO-AG funds its activities through equity (35%) and borrowings (65%), out of which 97% derives from AGH at an average fixed cost of 18%, without specific duration and denominated in local currency.

Fraud

After an important fraud was discovered in mid-2008, AGH contracted an external firm, BFC Consulting¹⁰, to conduct a thorough risk-based audit. The audit took place in December 2008. Based on the recommendations, MFO-AG started a complete restructuring process that was still undergoing at the time of the rating mission.

Management team

Following the fraud, MFO-AG's Executive Director (ED) and Credit Manager (CM) were dismissed. MFO-AG now has a new management team in place, consisting of the ED, the CM (starting April) and the Internal Audit head (IA – starting January). The new ED was hired in October 2008 as a Finance Manager before being promoted to his present position in March 2009. While undergoing restructuring, the ED is still taking on the role of Finance Manager. Just after the rating mission, in April 2009, an MIS/IT manager was recruited.

The ED, Mr. Lasha Khonelidze, has a 14-year experience in finance, within both for- and not-for-profit organizations. He was the Finance & Administration Director at World Vision Georgia and gained management and operational expertise there and at the Danish Refugee Council.

Organization

MFO-AG is currently under restructuring. After the fraud was discovered, disbursements were slowed and oversight increased. In January 2009, disbursements were restricted to a near halt until a new credit methodology was finalized. At the time of the rating, the new loan manuals had been drafted but were still pending Board's approval.

¹⁰ Company based in Germany and specialized in microfinance.

The management team and central functions staff (IT, accounting, legal) are based in Tbilisi, with the ED and IA manager at head office and the CM at the main branch. Prior to restructuring, loans applications were filled by the Loan Officer (LO), following a visit either to the client's business or to his home. Credit decisions were taken by the Credit Committee (CC), made up of the CM and several LOs. All loans were to be reviewed and approved by the CC, with documentation checked again by the CM and final approval co-signed by the ED. Disbursements and repayments were and are still made through banks¹¹.

For loan tracking and accounting, MFO-AG uses two separate systems, developed by external individual consultants. A third software, Bank Client, is also used to access and download the bank account information from Société Générale. LOs input client information into the loan tracking system during the application process. On a daily basis, the Financial Assistant downloads repayment information from Bank Client and inputs it into the loan tracking system. A printout of this input is cross-checked by the Accountant. The Accountant then inputs the data into the Accounting System. Reconciliations between the loan tracking, the accounting system and Bank Client are made on a daily and monthly basis. AGH's internal audit has recently created a module to view MFO-AG's systems. MFO-AG has already decided to migrate to LMS, an integrated system developed by Alta software and presently in use at Constanta and FINCA.

Market penetration

MFO-AG operates through two branches, located in Tbilisi and Kutaisi, the latter having opened in February 2009. Two former branches in Tbilisi were closed during the restructuring process. As three branches were just combined into one in the capital city, nearly 99% of the total portfolio is in the Tbilisi branch.

Products and services

MFO-AG entered the microfinance market in Georgia by offering Consumer loans, adding Business loans at a later stage. Both loan products were on offer until the restructuring process began in early 2009. Currently, Business loans are and will continue to be on offer, while Consumer loans will only be disbursed on a case-by-case basis to the best customers. Agriculture loans will also be offered in Kutaisi. All loans will bear a 2% upfront fee.

- Business loans are for informal and formal micro, small and medium enterprises and represented 62% of the

¹¹ Via checks. New plans include disbursing loans without checks thanks to the Alta software, which is also used by the bank and will allow MFO-AG to generate an online disbursement document.

portfolio as of March 2009, with an average disbursed loan of 2,144 GEL (1,284 USD) over 19 months. New business loans amounts will range from 500 to 50,000 GEL (256 to 25,565 USD), with a maximum term of 36 months. Interest rate will vary from 40% to 28% on an annual declining basis.

- Consumer Express Micro loans are for individual or household consumption purposes and amount to 31% of the portfolio New Family loans amounts will be capped at 3,000 GEL (1,796 USD) with terms up to 24 months and a 38% annual interest rate on a declining basis.
- As of March 2009, the remaining 7% of the portfolio consisted of loans to staff members of varying terms.

Networks

MFO-AG is a member of the AGMO.

▪ Governance

Governance and Decision making is rated “c”

Decision making

Despite an ownership clearly exercised by AGH, the decision-making process at MFO-AG is not yet very efficient. Indeed, despite the support of a consultant with microfinance experience and sound legal and financial skills, the Supervisory Board members still lack specific technical expertise to have enough independence of thinking on some key issues (microfinance, IT, banking), which led to a relatively slow reaction to the PAR increase.¹² Although follow up on decisions has become closer, it is not yet formalized in the Board minutes, which does not ensure a systematic control. Lastly, the mission and strategic vision of MFO-AG, as well as its overall fit within AGH strategy are not clearly defined. In this context, and although potential conflicts of interest are presently limited, it remains important to set rules and/or limits for MFO-AG (vs. leasing or plastic cards for instance).

The Board members are nevertheless supportive and in close relationship with the new management team, which proves helpful under the present circumstances. The latest decisions are thus consensus-based, alternatively led by ones or the others, with a regular flow of formal and informal sets of information. But in the absence of specific by-laws, the level of involvement of AGH shareholders is not clear, although the new management team’s language skills allow for a closer and direct contact.

¹² PAR started increasing in April 2008 whereas effective measures were only taken starting Q4 2008.

Planning

The 2009-2010 business plan is outdated as it was drafted before the reorganization process began. It aimed at reaching a 10% market share by 2010¹³, which does not seem realistic given the present economic slowdown, the increased competition, and the ongoing restructuring efforts. The plan is expected to be revised in Q2 2009, especially as its SWOT analysis proved to be weak. The new plan is expected to comprise a deeper study of the current situation (both external and internal) and lay ground for a more relevant strategy. The latter is still to be clearly defined, but comprise an outreach to less competitive geographical areas such as Kutaisi. The new planning process should also benefit from Board and staff input to ensure a good buy-in of strategic and operational goals, which are presently not known by all. Microfin financial projections are available for 2009 and 2010, but they also need to be revised. Detailed annual budgets are usually available, though they have not always been followed upon. The 2009 budget is not yet available.

Although the existing plans (2008-2010 and 2009-2010) show a fair understanding of the microfinance market, both lacked a clear identification of all the institutional and operational projects needed to carry them out. This classically leads to delays in executing the different tasks, potentially generating staff demotivation and/or looser controls, especially when aggressive growth is sought prior to institutional capacity building. Having already experienced such situation, MFO-AG is expected to act more cautiously in the future.

Management team

With only three members already in position (ED, CM, IA), the new management team is still being put in place. So far, they clearly instill a positive drive and have been eager to learn and work according to best practices. However, they have not all had a lengthy background in microfinance. Since January 2009, the team has worked together to achieve some important milestones in the restructuring process (e.g. operational audits, firing and recruitment, delinquency management, new software, new loan procedures, etc.). Important challenges remain ahead, but the team has so far shown good communication, cohesiveness and respect.

The management structure is still to be completed, with both a Finance Manager and the MIS/IT manager having been recently recruited. Due to their its young age, and in the absence of middle managers, such a management structure does not yet allow a proper division of tasks (e.g. ED/CM, ED/CFO, IA/CM). It also generates an important key-person risk, especially as power is still concentrated at the ED

¹³ Microfinance market, banks excluded.

level¹⁴. Being aware of this situation, MFO-AG now focuses on collective decision-making, ongoing informal meetings and permanent communication to foster polyvalence. In addition, a Management Board has been recently formalized. But even if it is already adapting to constantly arising operational issues, the management team still needs to demonstrate its longer term ability to execute plans and adjust strategies when needed.

Human resource management

Prior to January 2009 when the new Head of Security was appointed at AGH, there was little to no administration of HR, as well as an absence of qualified professionals throughout the institution. Since then, a complete audit and restructuring of personnel and HR procedures was conducted both for AGH and MFO-AG, resulting in a more professional approach. Job descriptions and salary grids are now available, along with the specific requirements for each position. After analyzing all staff on their knowledge and professionalism, poorly performing and/or unqualified staff were dismissed¹⁵, with the portfolios transferred to remaining LOs. As a result, turnover increased to 40% in 2009, from an already high average of 30%. The newly established hiring policy includes standardized testing and multiple interviews, which should now lead to the recruitment of personnel with appropriate skills. And although no formal study was conducted in that regard, salaries are believed to be competitive in the market.

Despite such improvements in organization, HR management could still be more effective. Complete HR files are not stored in a centralized place, with personnel files at the AGH offices and employee contracts at MFO-AG. In addition, no formal training has been offered to new or existing employees, nor are there regular evaluation procedures in place. MFO-AG is working on addressing the situation and new recruits will now be formally assessed at the end of their 90-day probation. Further plans include a comprehensive training library, budget for external education at local universities, and training on the new IT system and loan procedures. On the longer run, a dedicated HR management would be instrumental in better adapting AGH procedures to MFO-AG's own activities (e.g. specific bonus schemes or evaluation criteria) and ensuring continuous improvement of staff skills. Shortly after the onsite rating mission, in May 2009, MFO-AG has reported hiring an HR Officer.

So far, the remaining employees show good morale. They are positive and supportive of both the restructuring process and the new management, which is mainly attributed to the

best-practice approach that has been adopted and to clear communication.

Information

Information is rated “c”

The current loan tracking system is not efficient and requires several levels of manual input and computation to generate either the main indicators or the consolidated data. Although the system is designed in a proper way, loans were rescheduled under the form of new disbursements, which prevented them from being identified and tracked separately¹⁶. Portfolio analysis tools cannot be readily accessed, but it is still possible to generate the needed information in a timely manner at all levels given the limited size of the database (1,000 entries). LOs notably have all the required information to monitor their portfolio and are proficient in using the system. Until very recently, the system had relied on external developers who were able to swiftly adapt the MIS as needed. Anticipating future growth, MFO-AG has decided to opt for an integrated and more efficient system developed by Alta, a local company, and already proven within other Georgian MFIs. Though the study was not fully documented, this system was selected after a careful analysis of the minimum and recommended MIS requirements for microfinance.

The main financial indicators and portfolio information are produced on a monthly basis and sent to Board and management (ROA, ROE, expense ratios, self-sufficiency, PAR, etc.). Financial statements are also available on a monthly basis. Producing them according to the industry best practices has just started and should be fully in place once a dedicated Finance Manager is recruited. In the meantime, a systematic use of all the standard ratios and in-depth financial analysis is still missing to properly monitor progress and profitability by branch and/or product.

So far, and though handled by AGH, there has been no clear IT infrastructure or security. AGH IT department was recently dismissed, as it had never created firewalls, backups, or installed effective anti-virus software. AGH Head of Security is currently designing a new and more sustainable IT infrastructure, from which MFO-AG should benefit and that should include scanning all paper documents and storing them on a backup server abroad. Prior to January 2009, paper files were neither kept in cabinets, nor organized or accounted for, which resulted in some missing documents. New file cabinets with locks have now been added. MFO-AG has also just hired an IT Manager and former Alta employee. In the past, and in the absence of an internal IT staff at MFO-AG, the former ED had full administrator

¹⁴ At the time of the rating, the CM had been in place for only one week.

¹⁵ 10 LOs, 2 IT staff, the HR head, CM, and ED.

¹⁶ Potentially done on purpose in order to hide the frauds.

rights and there were no proper UserIDs. Following his dismissal, and over a short period of time in March 2009, administrator access was given to several employees, further increasing the risk of data manipulation. This situation has now been addressed, with the ED and CM temporarily having the administrator's rights until the migration is completed.

■ Risk Management

Risk Management is rated "d"

Procedures and internal controls

Internal controls were practically inexistent before the restructuring process began, with no procedures formalized and only basic written instructions for the Credit department, which resulted in a high level of operational risk. Coupled to poor hierarchical controls and little limitation of power, this actually led to numerous frauds and significantly contributed to the PAR level. Indeed, new LOs were not provided with any formal initial orientation, mentoring or code of conduct. Fraudulent loans were thus routinely approved, sometimes without going through the CC. LOs were asked to submit loans for other employees and Board members without completing proper applications. CC meetings were informal and did not sufficiently check application completeness or repayment capacity calculation, which led to critically missing elements (e.g. guarantees, signatures). No disciplinary process existed for breaches of conduct.

A recent employee audit resulted in numerous dismissals and showed new dedication to address performance and reduce fraud risk. At present, IA is identifying all potential risks and designing the related control mechanisms according to the industry standards, while the loan manual and the financial procedures are being finalized. The new procedures are expected to include BFC Consulting's recommendations.¹⁷ Though it could still be improved at management level, separation of tasks is acceptable (e.g. IA involved in operations vs. separate data entry and loan approval, loan approval and disbursement or reimbursement). Data is reliable, notably thanks to double checks enforced throughout the entry process and to frequent reconciliation. Yet, additional checks such as physical inventory or general ledger checks are not in place. Cash risk is limited as all disbursements and reimbursement are made through banks, although poor application of procedures led LOs to accept cash payment without the use of vouchers.

¹⁷ cf. Institutional Presentation.

Internal audit

MFO-AG's IA was created in January 2009 with the help of BFC Consulting and is currently focused on operational auditing related to the PAR level.¹⁸ During this process, the IA is an active participant in the management board, but is expected to become more independent, report directly to the Board and cover HQ functions. In addition to the current restructuring, IA aims to improve existing procedures throughout the institution and has already begun a risk mapping exercise (cf. supra).

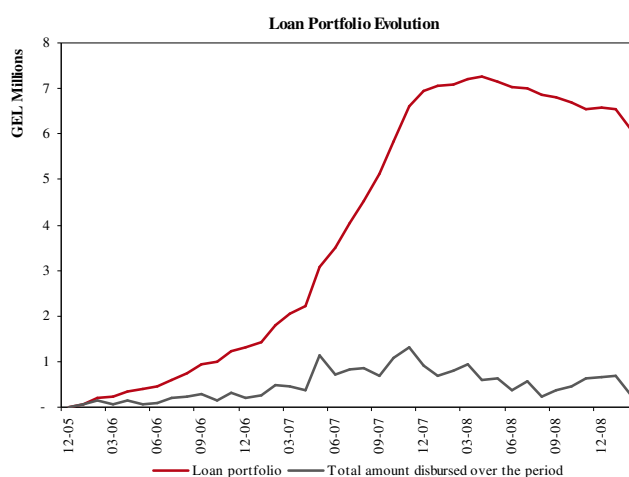
Given the size of MFO-AG, IA staff is currently sufficient. The IA is organized and efficient, despite a lack of specific experience. The five reports already submitted to the Board are clear, highlighting the main issues and giving solid recommendations, although those are not prioritized according to the risk level. Audits of loans disbursed in 2009 and continued focus on delinquency unit is planned. IA's short term planning is expected to become yearly once restructuring is complete, but no targets have yet been set in terms of number of file checks, client visits, or frequency of branch and HQ audits. IA is supplemented by AGH audits, external audits, yearly visits from the GBRA, and consultants like BFC and the World Bank.

■ Activities

Activities: products and services is rated "d"

Evolution and composition of the portfolio

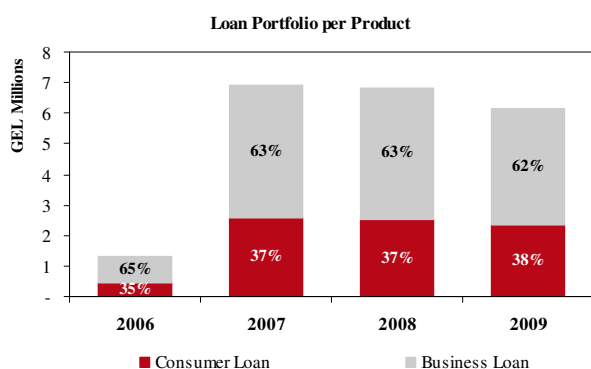
Starting in 2006 and continuing all through 2007, MFO-AG's portfolio experienced tremendous growth of over 400%.



¹⁸ A thorough portfolio audit resulted in the dismissal of several LOs and the uncovering of frauds related to the disbursement of over 70 loans in effect collected by a single individual, and numerous cases of circular or missing guarantees.

The bulk of this growth was fuelled by increasing loan amounts rather than new borrowers, with an average outstanding loan up from 1,410 to 4,980 USD between 2006 and 2007. A slight decreasing trend began in Q3 2007 and extended throughout 2008. This trend continued strongly and resulted in negative growth of -2.2% in 2008 and -1.7% for Q1 2009. Growth declined more rapidly at the discovery of the first fraud in mid 2008, especially as disbursements practically ceased in Q1 2009.

The portfolio composition has been very stable since inception, with barely any movement. It remains with a majority of business loans, at 62% of the portfolio. Consumer loans make up the rest of the portfolio. Previously considered as the entry point on the microfinance market by MFO-AG, they have recently been discontinued as a general offering; only under specific circumstances will clients be able to request a consumer loan after April 2009.



Loan portfolio management

Before January 2009, the loan methodology was either not comprehensive or not sufficiently utilized. There was also a very poor monitoring of the portfolio evolution during the rapid growth in 2007-2008, with the CM not accurately reporting the portfolio health to the ED or to the Board. The former management did not meet regularly enough with the Credit Department or with LOs to identify emerging problems.

Starting January 2009, LOs who remained employed after the audit (cf. section “R”) have been closely monitored, with all loans approved by the ED or the CM ever since, along with the IA as a temporary observer. And though it remains to be proven, a more rigorous procedure has been developed, including new business loan applications with proper financial projections and a thorough analysis of the client’s business. LOs will also have to visit the places of residence as well as business. In addition, cross-indebtedness is now checked not only for applicants, but for their relatives and guarantors, which has proven to be a rising issue in Georgia. Starting April, the new methodology was also to include a specific procedure for post-disbursement client monitoring.

Necessary procedures for delinquency have also been created, and should be instrumental in reducing the PAR. LOs now have clearer guidelines for managing delinquent loans below 30 days and a delinquency committee will manage the late loans after 30 days. In addition, a temporary delinquency group has been created to handle the large proportion of fraudulent delinquent loans that remain in the portfolio. This group has formalized procedures and is under the supervision of the legal department. In turn, the latter has focused intensely on analyzing all delinquent loans and is undertaking either arbitration or prosecution whenever possible: though the amount effectively recovered is still low (10% of the total amount in court), MFO-AG expects a high success rate in recovering payments or collateral¹⁹. The legal department has started tracking loans in courts and sending regular reports to the ED in that regard.

Credit risk

MFO-AG accumulated its extremely high PAR 30 level of 47.3% (2.9 M GEL or 1.7 M USD in amount) by growing very fast in 2007 (+440%) in a weak institutional context. The current objective is to clean the portfolio by year-end. Should the legal actions turn out less efficient than expected, other options such as the sale of bad loans at a discounted rate (50-70% actual value) or the outsourcing of delinquency management might be considered. Credit risk level is entirely reflected in the PAR as loans are not written off. Despite the absence of legal incentives to do so (cf. “Microfinance sector”), writing off loans would deliver a clearer picture of MFO-AG’s actual financial health, especially as 48% of delinquent loans are late by more than 180 days.

After nearly 18 months of fraudulent activities, MFO-AG was finally able to identify its truly delinquent loans and appropriately categorize its portfolio. The PAR breakdown shows that poor credit methodology, lack of control and fraud were its main contributors.

- 19% of the PAR comes from one single LO, who was recently fired.
- 66% is related to LOs who left or were fired.
- 67% comes from insufficient evaluations of Business loans, including 6% of insider loans for which there were no clear rules or defined levels.

It has already been decided that insider loans would be refinanced at a lower rate through Société Générale, which should mitigate related risks. But although the portfolio’s

¹⁹ 70 cases are already filed in court, totalling 1.1 M GEL (671 K USD) or 39% of the PAR 30 amount. 34% of the cases were won out of which 7 have been restructured. MFO-AG plans to deal with an additional 300 cases through arbitrage, which is usually faster (2 weeks). It is also planning to increase its capacity to deal with 50 cases per month up from 20, which should allow handling all existing cases by year-end.

repartition by type (business, consumer), by use (car, home appliances, etc.) or by activity (transport, agriculture, etc.) is available and followed upon, portfolio concentration is not managed as no limitations are set on any area.

So far, rescheduling was done without any formal procedure or close monitoring, which has probably contributed to the revenues drop and allowed continued potential for fraud. A rescheduling procedure has now been drafted. It includes a renewed analysis of the client's business.

Credit risk coverage

MFO-AG currently has no formal provisioning policy, but it plans to put one in place once the Alta software is running. A first provisioning methodology, classically based on the categories of late loans²⁰, was suggested in October 2008: it led to a provision of 1.4 M GEL (840 K USD), equivalent to a credit risk coverage of 48%, but was found overly conservative and was not adopted. A second provisioning, conceived according to the different types of delinquent loans (e.g. with mortgage or movable collateral, subject to fraud) is well designed, but still leads to a low coverage (28% of PAR 30 and 42% of PAR 180 as of March 2009) whereas potential losses net of the loan loss reserve represent 85% of equity.

Collateral provided for loans of high amounts should prove helpful in recovering late amounts over 4,000 GEL, but MFO-AG still lacks financial guarantees to cover particularly important risks (e.g. agriculture or tourism related loans). Talks have been engaged with AIG in that regard, but have not yet resulted in any action.

■ Funding and liquidity

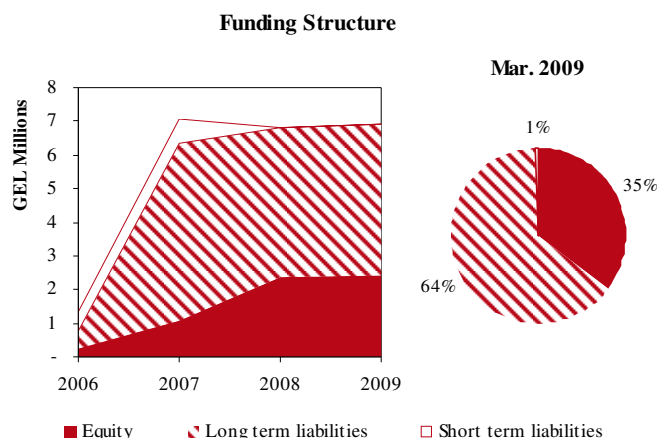
Funding and liquidity is rated "c"

Capitalization and funding strategy

Leverage and CAR have come back to low levels in 2008 (1.9x and 34%, respectively), which should make MFO-AG an attractive target once it has dealt with its present PAR and that growth has resumed.²¹ AGH and its shareholders are committed to supporting MFO-AG until other sources of funding are secured. Given its outdated planning, MFO-AG does not have a precise identification of its funding need for the coming 3 years. Yet, funding available through AGH (1-3 M GEL or 600 K-1.8 M USD) should be sufficient for

the year to come, given the ongoing reorganization and the market slowdown²².

Being aware that it could significantly lower its cost of funds by relying on international investors and/or donors (18% vs. 10%-14% on the Georgian market), MFO-AG has initiated funding contacts, but its PAR level and decreased profitability will most probably hinder access to commercial loans in the short to medium run. As these contacts are the first it is establishing, MFO-AG communication and negotiation skills are still to be demonstrated.



Liquidity risk

The liquidity level of MFO-AG is extremely low, with less than a month of operating expenses coverage as of December 2008 and a LAR ratio of 0.2%. Although this does not generate any immediate risk or cash shortage thanks to AGH's support, the overall funding structure is not designed to reduce liquidity risk as MFO-AG essentially relies on a single source of funds: 97% of the borrowings are intercompany loans. Furthermore, there are presently no tools in place to efficiently mitigate potential maturity risks. Such tools will probably not be introduced before a new Finance Manager is recruited.

Market risk

MFO-AG is not exposed to interest rate risk as all its liabilities are on fixed basis. It is nevertheless exposed to FX risk with an open position in USD on assets representing 26% of tier 1 capital and no hedging mechanisms in place. Given the latest GEL fluctuations, this exposure could have a negative impact on the profitability. Total exposure to FX risk has nevertheless been voluntarily and significantly reduced in 2009, with the conversion of all loans labeled in EUR into GEL loans in December 2008. Outstanding liabilities in USD now represent 2% of total borrowings, whereas the 12% outstanding portfolio (11% of total assets) labeled in USD is driven by clients' demands.

²⁰ 10% for loans late between 30 and 60 days, 30% between 61 and 90, 50% between 91 and 120, 70% between 120 and 150 and 100% over 151 days.

²¹ If adjusted by standard loan loss provisioning expenses, CAR would go down to 25%, which is still acceptable given the shareholding structure.

²² A loan of 300 K GEL (180 K USD) is already under negotiation.

■ Efficiency and Profitability

Efficiency and Profitability is rated “c”

2008 and 2009 figures in the profitability analysis below are based on unaudited financial statements.

Profitability analysis

MFO-AG witnessed a drastic drop of its profitability level as it acknowledged the multiple fraud cases and saw its PAR rise dramatically. As a result, ROA was halved from 10.1% in December 2008 to 5.4% in March 2009, while ROE declined from 40.8% to 15.3% over the same period. If adjusted, the profitability could be even lower as financial revenues are inflated due to: 1) compulsory interest and penalties accruals regardless of delinquency²³; 2) accrued penalties calculated on the outstanding loan amount instead of the overdue installment. Furthermore, if adjusted with the standard loan loss provisioning expenses, the 2008 profitability would be negative.²⁴

Due to the PAR level, the portfolio yield does not reflect the theoretical one in 2009 (standing at 32% and 44%, respectively). But before the revenue losses generated by its PAR level, MFO-AG had sufficient latitude to define a sustainable rate on the market (cf. “Benchmarking” section). Such rate is nevertheless relatively high given the size of the disbursed loans, thus leading to a poor revenue quality with the highest average loan size and yield (4,221 USD and 44% respectively vs. 3,746 USD and 27% for ProCredit or 3,568 USD and 32% for Constanta). In a competitive market that includes two banks as well as solid national and regional players, MFO-AG totals only 4% of market share in terms of portfolio and has limited room to maneuver, especially in the urban centers where 99% of its portfolio is presently concentrated. The new product development strategy to customize offerings per branch and focus on rural regions has been set, as evidenced by the recent opening in Kutaisi where agriculture loans are offered. Additional time is needed to prove their product strategy is indeed appropriate and sustainable.²⁵

Expenses have mechanically gone up with the portfolio decrease. In absolute annualized numbers, operating

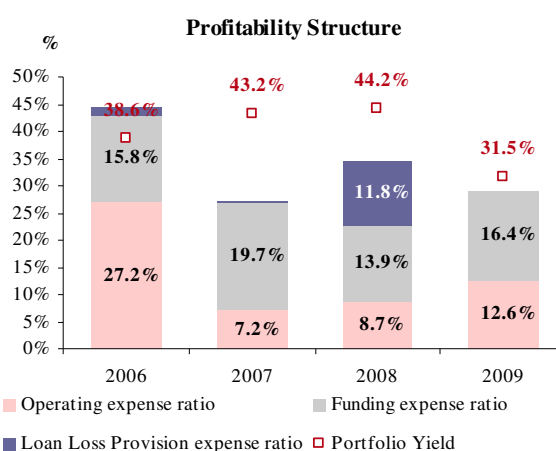
²³ Starting May 2009, MFO-AG’s loans late by more than 30 days will be automatically transferred to court in order to avoid interest and penalty accruals.

²⁴ In 2008, the standard loan loss reserve would stand at 1.6 M GEL, thus requiring an additional provision expense of 791 K GEL whereas the net income is of 698 K GEL.

²⁵ A team comprised of a Project Manager and Assistant has been hired on a volunteer basis to work on the Dutch government grant project “Promoting Rural Development through Mesofinance for SME in Georgia”. Before the project actually starts (October 2009), the team will assist MGO-AG in its product development and marketing, as well as in helping the management design a Business Plan for 2009-2010 (expected from June 2009).

expenses increased by 30% in 2009 as the reorganization process began and disbursement stopped, despite the numerous dismissals. As the number of LOs was halved (from 12 in 2008 to 6 as of March 2009), the productivity automatically doubled from 81 to 177 loans per LO. The financial expenses also went up, with the cost of funds leveraged through AGH remaining higher than that of the competitors (cf. section “F”), thus generating a competitive disadvantage for MFO-AG.

After a continued decrease, asset deployment is at 85%, down from 99% in 2007. With disbursements currently reduced, it remains to be seen what level of asset deployment MFO-AG will be able to reach in the coming year.

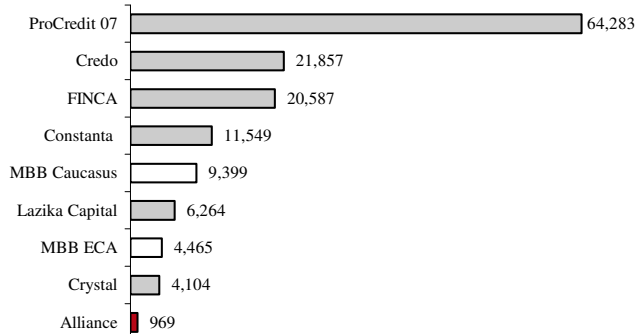


MFO-AG’s profitability outlook remains uncertain, especially in the absence of proper provisioning, with the operating expenses probably increasing and portfolio yield remaining low on the short run. The active measures taken by new management team should stabilize the PAR, but their effects will only become truly tangible once the organization resumes growth.

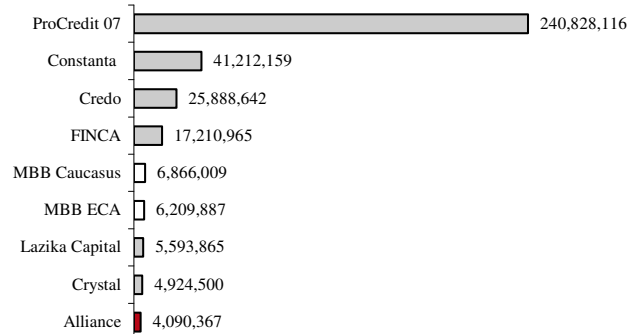
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution’s performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

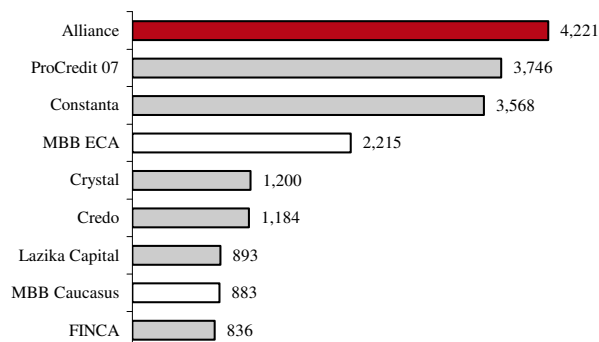
Active borrowers



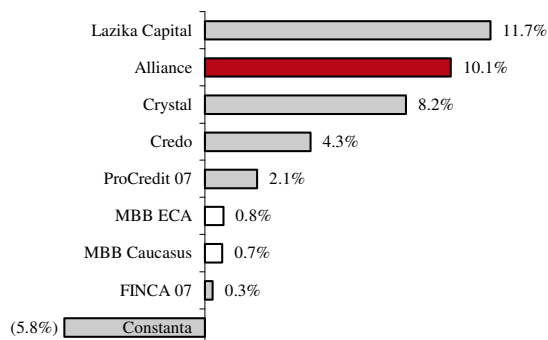
Loan portfolio (USD)



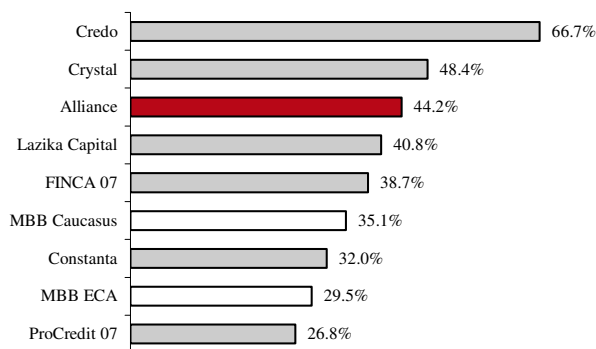
Average outstanding loan per client (USD)



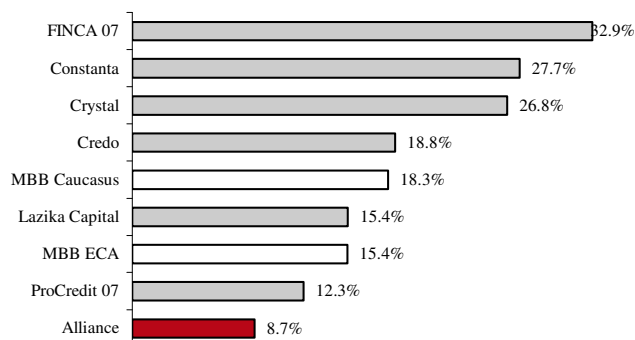
ROA



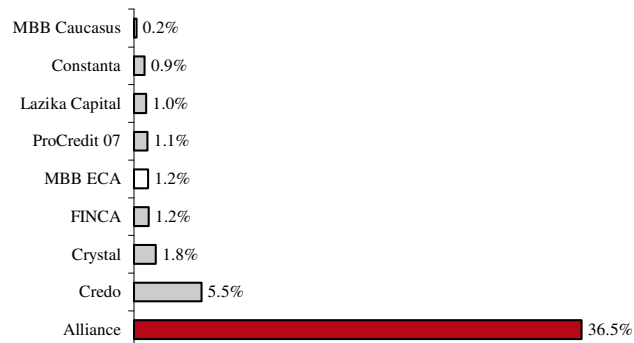
Portfolio Yield



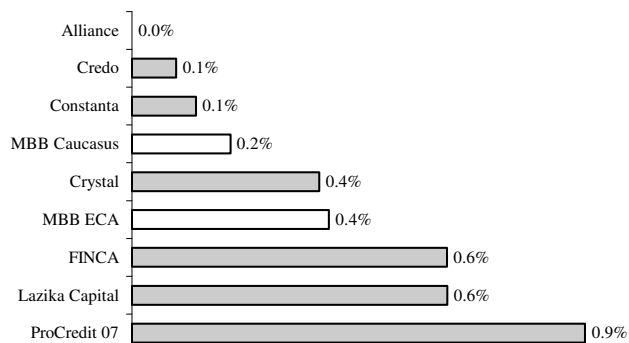
Operating expense ratio



PAR 30



Write-off ratio



Data as of December 2008 unless otherwise stated.

Source: MiX, MFI; “2007 MBB Benchmarks” for ECA (Median); “2008 ECA Microfinance Analysis and Benchmarking Report” for Caucasus.

Data in USD, unless otherwise stated

■ Performance indicators

Loan Portfolio	Dec. 2006	Dec. 2007	Dec. 2008*	Mar. 2009*
Loan portfolio evolution				
Loan portfolio	750,050	4,381,969	4,090,367	4,013,382
Loan portfolio (GEL)	1,285,211	6,974,342	6,818,641	6,702,347
Evolution	13,385.9%	442.7%	(2.2%)	(0.7%)
Average outstanding loan portfolio	332,955	2,318,673	4,169,856	3,797,250
Active borrowers	532	880	969	1,058
Evolution	4,736.4%	65.4%	10.1%	9.3%
Average outstanding loan per client	1,410	4,980	4,221	3,790
% of GDP per capita	77.1%	203.8%	157.8%	125.4%
Average amount disbursed per loan	1,711	2,679	4,866	5,612
% of GDP per capita	93.6%	109.6%	181.9%	185.7%
Portfolio quality				
Rescheduled loans	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.0%	2.3%	35.6%	44.0%
PAR > 365	0.0%	0.0%	0.8%	3.3%
Write-off ratio	1.3%	0.0%	0.0%	0.0%
Credit risk coverage				
Risk coverage ratio (PAR 30)	-	11.1%	32.9%	28.2%
PAR 31 net of loan loss provision / Equity	(3.0%)	13.2%	70.9%	85.1%
Staff				
Total number of staff	9	16	29	25
% Credit officers	44.4%	43.8%	41.4%	24.0%
Turnover	125.0%	40.0%	31.1%	40.7%
Profitability analysis				
ROE	(5.6%)	81.7%	40.8%	15.3%
Liabilities / Equity	3.78x	5.59x	1.89x	1.84x
Capital adequacy ratio	-	15.5%	33.6%	-
ROA	(1.1%)	13.1%	10.1%	5.4%
Profitability structure				
Portfolio Yield	38.6%	43.2%	44.2%	31.5%
Operating expense ratio	27.2%	7.2%	8.7%	12.6%
Cost per borrower	170	188	377	452
Staff productivity	59	55	33	42
Loan officer productivity	133	126	81	177
Average outstanding loan per client (USD)	1,410	4,980	4,221	3,790
Funding expense ratio	15.8%	19.7%	13.9%	16.4%
Cost of liabilities	17.2%	16.8%	18.4%	19.4%
Loan Loss Provision expense ratio	1.5%	0.2%	11.5%	0.0%
PAR 31-365	0.0%	2.3%	35.6%	44.0%
Write-off ratio	1.3%	0.0%	0.0%	0.0%
Resource optimization				
Outstanding Loan Portfolio / Assets	95.9%	98.6%	88.1%	84.8%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.1%	0.2%
Liquidity				
Liquidity / Total assets (LAR)	1.5%	0.4%	0.2%	1.5%
Exchange rate 1 USD= xx GEL	1.71	1.59	1.67	1.67

(*) Not audited.

MFO-AG Income Statement	GEL				USD				Evolution			
	Notes	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009	07/06	08/07	09/08
Financial Revenue (a)		247,948	1,685,438	3,074,399	551,518	144,703	1,058,958	1,844,270	330,251	580%	82%	(82%)
Financial Revenue from Loan Portfolio		220,342	1,593,555	3,071,555	499,579	128,592	1,001,228	1,842,564	299,149	623%	93%	(84%)
Interest on Loan Portfolio		204,260	1,437,255	2,424,110	372,348	119,206	903,025	1,454,175	222,963	604%	69%	(85%)
Fees and Commissions on Loan Portfolio		16,082	156,300	109,112	18,332	9,385	98,203	65,454	10,978	872%	(30%)	(83%)
Penalty Revenue on Loan Portfolio		-	-	538,334	108,899	-	-	322,936	65,209	-	-	(80%)
Financial Revenue from Investments		-	-	2,844	1,060	-	-	1,706	635	-	-	(63%)
Other Operating Revenue		27,606	91,883	-	50,879	16,111	57,730	-	30,466	233%	(100%)	-
Financial Expense (b)		90,232	725,958	967,798	259,644	52,659	456,118	580,563	155,475	705%	33%	(73%)
Interest paid on borrowings		90,232	580,671	948,776	216,842	52,659	364,835	569,152	129,846	544%	63%	(77%)
Interest paid on deposits	1	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	145,287	19,023	42,801	-	91,284	11,411	25,630	-	(87%)	125%
Financial income [c=a-b]		157,716	959,480	2,106,600	291,875	92,043	602,840	1,263,707	174,775	508%	120%	(86%)
Net Loan Loss provision expense (d)		8,478	9,160	800,362	-	4,948	5,755	480,121	-	8%	8,638%	(100%)
Loan loss provision expense and write-off		8,478	9,160	800,362	-	4,948	5,755	480,121	-	8%	8,638%	(100%)
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)		155,134	263,994	608,180	199,903	90,536	165,867	364,835	119,702	70%	130%	(67%)
Personnel Expense (includes fringe)		95,452	154,555	318,272	105,640	55,706	97,107	190,925	63,257	62%	106%	(67%)
Administrative Expense (non-staff operating expenses)		59,682	109,439	289,908	94,263	34,830	68,760	173,910	56,445	83%	165%	(67%)
Depreciation and amortization		6,889	10,050	24,877	7,487	4,020	6,314	14,923	4,483	46%	148%	(70%)
Consulting fees		-	-	-	-	-	-	-	-	-	-	-
Administrative Expenses		45,854	84,055	-	-	26,760	52,812	-	-	83%	(100%)	-
Rent & Utilities		-	-	77,434	30,653	-	-	46,451	18,355	-	-	(60%)
Service fee		-	-	68,600	21,460	-	-	41,152	12,850	-	-	(69%)
Communication expenses		-	-	21,003	4,444	-	-	12,600	2,661	-	-	(79%)
Transportation expenses		-	-	18,181	5,104	-	-	10,906	3,056	-	-	(72%)
Office & Stationery expenses		-	-	19,770	9,653	-	-	11,860	5,780	-	-	(51%)
Legal services		-	-	10,620	615	-	-	6,371	368	-	-	(94%)
Others		6,939	15,334	49,423	14,847	4,050	9,634	29,648	8,891	121%	222%	(70%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		(5,896)	686,326	698,058	91,972	(3,441)	431,218	418,751	55,073	(11,741%)	2%	(87%)
Income Taxes (g)		1,591	135,746	-	-	929	85,289	-	-	8,432%	(100%)	-
Net Operating Income Before Donations [h=f-g]		(7,487)	550,580	698,058	91,972	(4,369)	345,929	418,751	55,073	(7,454%)	27%	(87%)
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		(7,487)	550,580	698,058	91,972	(4,369)	345,929	418,751	55,073	(7,454%)	27%	(87%)
Donations (l)		-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]		(7,487)	550,580	698,058	91,972	(4,369)	345,929	418,751	55,073	(7,454%)	27%	(87%)

Note: 2008 and 2009 not audited; 1) Including interest paid to physical persons investing in MFO-AG.

Alliance Group (MFO-AG) Balance sheet	GEL				USD				Evolution			
	Notes	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009	07/06	08/07	09/08
ASSETS		1,331,760	7,052,590	6,814,999	6,936,596	777,216	4,431,132	4,088,182	4,153,650	430%	(3%)	2%
Short Term Assets		858,764	4,189,477	6,745,806	6,844,895	501,175	2,632,242	4,046,674	4,098,739	388%	61%	1%
Cash and Due from Banks		19,601	31,702	13,956	103,687	11,439	19,918	8,372	62,088	62%	(56%)	643%
Short Term Investments		-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		831,548	4,129,585	6,000,641	5,884,347	485,292	2,594,612	3,599,665	3,523,561	397%	45%	(2%)
Short Term Gross Loan Portfolio	1	840,026	4,147,223	6,818,641	6,702,347	490,240	2,605,694	4,090,367	4,013,382	394%	64%	(2%)
(Loan Loss Reserve)		8,478	17,638	818,000	818,000	4,948	11,082	490,702	489,820	108%	4,538%	0%
Interest Receivable		-	-	430,829	433,156	-	-	258,446	259,375	-	-	1%
On loan portfolio		-	-	430,829	433,156	-	-	258,446	259,375	-	-	1%
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		7,615	28,190	300,379	423,704	4,444	17,712	180,192	253,715	270%	966%	41%
Long term assets		472,996	2,863,113	69,193	91,702	276,041	1,798,890	41,508	54,911	505%	(98%)	33%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		445,185	2,827,119	-	-	259,810	1,776,275	-	-	535%	(100%)	-
Net Fixed Assets		22,149	28,426	68,869	91,581	12,926	17,860	41,313	54,839	28%	142%	33%
Other Long Term Assets	2	5,662	7,568	324	121	3,304	4,755	194	72	34%	(96%)	(63%)
LIABILITIES AND EQUITY		1,331,760	7,052,590	6,814,999	6,936,596	777,216	4,431,132	4,088,182	4,153,651	430%	(3%)	2%
Liabilities		1,052,868	5,983,118	4,460,889	4,490,514	614,455	3,759,184	2,675,998	2,688,931	468%	(25%)	1%
Short term liabilities		575,480	725,419	1,714	39,142	335,851	455,780	1,028	23,438	26%	(100%)	2,184%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		574,076	585,309	-	8,498	335,031	367,749	-	5,089	2%	(100%)	-
Interest payable		-	-	1,495	1,969	-	-	897	1,179	-	-	32%
Accounts Payable and Other Short Term Liabilities		1,404	140,110	219	28,675	819	88,031	131	17,171	9,879%	(100%)	12,994%
Long term liabilities		477,388	5,257,699	4,459,175	4,451,372	278,604	3,303,405	2,674,970	2,665,492	1,001%	(15%)	(0%)
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		477,388	5,257,699	4,459,175	4,451,372	278,604	3,303,405	2,674,970	2,665,492	1,001%	(15%)	(0%)
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		278,892	1,069,472	2,354,110	2,446,082	162,762	671,948	1,412,184	1,464,720	283%	120%	4%
Tier 1 Capital		278,892	1,069,472	2,354,110	2,446,082	162,762	671,948	1,412,184	1,464,720	283%	120%	4%
Paid-In Capital		300,000	540,000	1,700,000	1,700,000	175,080	339,281	1,019,796	1,017,964	80%	215%	0%
Donated equity		-	-	-	-	-	-	-	-	-	-	-
Retained earnings without donations and reserves		(21,108)	529,472	654,110	746,082	(12,319)	332,666	392,388	446,756	(2,608%)	24%	14%
Tier 2 Capital		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

Note: 2008 and 2009 not audited; 1) Excluding advance payments; 2) Software.

■ 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.	INVESTMENT GRADE
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B		
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.	