

## Nor Horizon UCO LLC, Armenia

The origins of Nor Horizon date from an Oxfam GB Armenia microcredit program that was launched in 1995 in Yerevan. In October 2002 the program was transformed into a local non-profit named Horizon Fund. In March 2006, in accordance with the Law on Credit Organizations, Nor Horizon was created as a licensed Universal Credit Organization (UCO) with the status of Limited Liability Company. Horizon Fund became the 100% shareholder of the institution and stopped all microcredit activities. As of December 2007 Nor Horizon had a loan portfolio of 1.4 M EUR for 1,747 borrowers, served through four branches and two sub-branches (called representations). It offers business, consumer, agriculture and housing loans.

### GIRAFE Mini Rating

#### Mini-Rating

**C+**

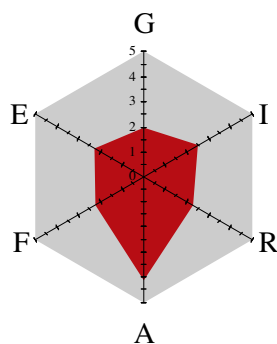
The GIRAFE methodology has been revised as of January 2008. The changes do not affect the signification of the grades. For more info see: [www.planetrating.com](http://www.planetrating.com)

#### Date of the rating

**May 2008**

Valid until April 2009

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- With a positive ROA from 2006, Nor Horizon reached profitability in less than one year of operations, taking advantage of the experience and client base of Horizon Fund. Portfolio quality is excellent, based on excellent portfolio management.
- The management team has the relevant skills for operational management, but still lacks risk and financial management capabilities.
- Nor Horizon has completed its registration into a regulated institution and established the relevant governance structure. Yet, the Chairman is too involved in day-to-day decisions, which reduces his independence from operations.
- Nor Horizon has diversified its funding structure, although exposure to foreign exchange risks is high and funding needs for the current year are not yet fully covered.
- The market position among former clients of Horizon Fund is good and has allowed for quick portfolio growth during the first years of operations, but is being challenged by larger institutions with more aggressive marketing policies and disbursement capacities.

#### Areas for improvement

- Strengthen the independence of the Chairman from operations.
- Build financial and risk management capacities of management team.
- Improve strategic human resource management.
- Secure sufficient funding for 2008 and 2009 to reach growth projections, while improving negotiation skills and cost-benefit analysis.

#### Performance indicators

EUR	Dec. 2006	Dec. 2007
Assets	782,944	1,789,167
Growth	NA	113.2%
Loan portfolio	595,185	1,406,325
Growth	NA	120.5%
Active borrowers	747	1,747
Staff	14	29
ROE	0.3%	1.1%
ROA	0.2%	0.4%
Liabilities / Equity	0.79x	2.78x
Portfolio Yield	32.7%	29.6%
Operating expense ratio	23.5%	21.1%
PAR 31-365	0.0%	0.0%
PAR > 365	0.0%	0.0%
Write-off ratio	0.0%	0.1%

Note: Nor Horizon operated for 9 months in 2006. The ratios for that year have been annualized

## Institutional presentation

### Legal form, supervision and audit

The origins of Nor Horizon date from an Oxfam GB Armenia microcredit program that was launched in 1995 in Yerevan. In October 2002 the program was transformed into a local non-profit named Horizon Fund. In March 2006, in accordance with the Law on Credit Organizations, Nor Horizon was created as a licensed Universal Credit Organization (UCO) with the status of Limited Liability Company. All former clients of Horizon Fund signed new contracts with Nor Horizon and the entire portfolio was progressively transferred to the new organization.

As a regulated institution, Nor Horizon is supervised by the Central Bank of Armenia (CBA). Such supervision requires frequent reporting to CBA (daily, weekly, monthly, annually) and at least one on-site supervisory visit every two years. The first supervisory visit of CBA after the registration of Nor Horizon took place in April 2008. The regulatory capital for an UCO is of 150,000,000 AMD (336,000 EUR). Nor Horizon has been audited for the nine months of operation in 2006 and for 2007 by the auditing company Grant Thornton Amyot. Both audits were issued without qualifications.

### Ownership

Horizon Fund is the 100% owner of Nor Horizon. The ownership structure of Nor Horizon includes the General Assembly (GA) of five members that meets ordinarily every year to approve the financial statements and a Board of Directors (BoD) of three members that meets every two months to approve the main strategic decisions. The Chairman is the Executive Director of Horizon Fund and the two other members are members of the Board of Trustees of Horizon Fund.

The Chairman of the BoD, Gor Movseyan, is graduated in Management. He has more than ten years experience in the field of development. He has worked since 1998 for Oxfam GB Armenia, where he held various positions until becoming Executive Director of Horizon Fund in 2002.

### Donations

Nor Horizon has not received any donation since its creation. However, its initial financing comes mainly from various donations received from Horizon Fund that were transferred to Nor Horizon as equity and borrowings<sup>1</sup>.

<sup>1</sup> The donations of Horizon Fund were either transferred by Oxfam GB Armenia as liability or given directly to Horizon Fund. They came mainly from OxfamNovib and UNHCR.

### Funding composition

As of December 2007 the financing structure of Nor Horizon is composed of 72% liabilities and 28% equity. The institution has received borrowings from Horizon Fund (64% of borrowings, two loans with interest rates of 8% and 5%, one loan with 0% interest rate that was partially capitalized in 2008), Triple Jump (26% of borrowings, denominated in EUR, 8.9% fixed interest rate), and Armeconombank (10% of borrowings, credit line at 16% interest rate).

### Management team

The Management Team of Nor Horizon includes the Executive Director (ED), the Loan Manager (LM), the Chief Accountant (CA), the Deputy Chief Accountant (DCA) and the Internal Auditor (IA). The middle management includes the four Branch Managers (BMs), the Legal Advisor and the IT manager.

The ED, Khoren Kerobyan, graduated as Goods Manager at the Yerevan State Economics Institute. He has working experience in banking as branch manager and internal auditor. He joined Oxfam GB Armenia in 2000 (where he reached the position of Chief Accountant) and became ED of Nor Horizon since its creation in March 2006.

### Organization

- The Head Office (HO) in Yerevan hosts the decision making process and the management team. The lending mechanism is centralized: all loan applications are first completed by Loans Officers (LOs), reviewed by the BM, and then sent to the HO for credit committee. The credit committee is composed of the Chairman of the BoD, the ED and the LM. Once loans are approved they are computed by the MIS Operator in the MIS. Loan contracts are generated and sent to the branches for signature. In the case of sub-branches (called representations by CBA), when the contracts are signed, the HO sends a disbursement order to the bank.
- Each branch is composed of one BM, a certain number of LOs and one cashier/accountant. All loans in branches are disbursed and reimbursed in cash through the cashiers.
- The two sub-branches are mainly operating units. They only comprise LOs that receive clients, fill the application forms and send them to the HO for approval. Clients of sub-branches collect their loans and pay them in the banks working with Nor Horizon.

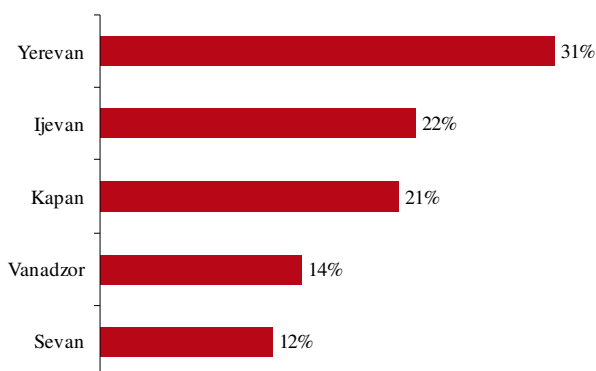
ArmSoft, the MIS used by NorHorizon, is an off-the-shelf software developed by the local IT company Armenian Software. It is used by various banks and Universal Credit Organizations (UCOs) in Armenia. The loan tracking and

accounting modules are integrated. The information flow for credit operations is centralized and online: disbursement and payment transactions done by cashiers at branches are registered online in the database at the HO through a Virtual Private Network (VPN). In sub-branches, LOs receive every day the listing of disbursements and payments done in the banks and send them by fax to the HO, where they are entered into the MIS by the MIS operator.

## Market penetration

Nor Horizon has a network of four branches (Vanadzor, Kapan, Ijevan and Sevan) and two sub-branches (Yerevan and Dilijan), covering the capital city and the most populated towns of Armenia. With only 1,747 borrowers, it is one of the smallest microfinance UCOs of Armenia. Its main competitors are Arekag, FINCA Armenia, Kamurj and ACBA-Credit Agricole Bank

Out. loans per branch - March 2008



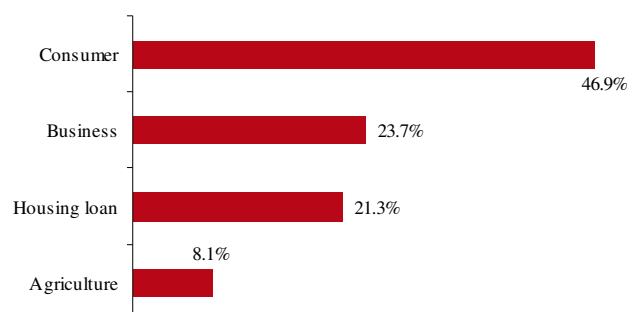
## Products and services

Nor Horizon has continued with the loan offering of Horizon Fund, composed of four products. All products can be disbursed through individual or group loans, although individual loans represent more than 95% of portfolio:

- **Business loans:** These loans are directed to registered businesses in urban areas. Loan amounts range from 200,000 AMD (448 EUR) to 5,000,000 AMD (11,200 EUR) and terms range from 3 to 36 months. Loans can be repaid weekly, semiweekly and monthly, although most clients choose the monthly option. The nominal interest rate is 22% declining, plus a 3% upfront fee, leading to an effective interest rate of 28.2%<sup>2</sup>. Most business loans are covered by collateral (real estate, moveable assets, cars) or salaries.

- **Consumer loans:** The denomination of consumer loans is requested by the law for all loans that are not granted to registered businesses. As a matter of fact, most consumer loans are granted to informal businesses, while approximately 15% are really directed to consumption. Loan amounts range from 50,000 AMD (112 EUR) to 2,000,000 AMD (448 EUR) and terms range from 3 to 24 months. Repayment frequency and interest rates are the same as for business loans. Consumer loans can be uncollateralized for loans up to 300,000 AMD (670 EUR).
- **Agriculture loans:** Agriculture loans are granted to registered agro-businesses and to farmers. Loan amounts range from 100,000 AMD (225 EUR) to 3,000,000 AMD (6,720 EUR) and terms range from 12 to 36 months. Agriculture loans are repaid monthly with a 4 months grace period. Interest rates and collateral requirements are the same than for business loans.
- **Housing loans:** These loans have been financed partially with the resources of a KfW program. However, they have been faced out due to the lack of long term resources and disbursements have stopped. Loan amounts range from 1,000,000 AMD (2,240 EUR) to 7,000,000 AMD (15,680 EUR) and terms can go up to 10 years. Loans are repaid monthly. The nominal interest rate is 14% declining, plus a 2% upfront fee, leading to an effective interest rate of 20%.

Portfolio per product - March 2008



## Networks

Nor Horizon is a member of the Microfinance Centre for CEE & NIS (MFC).

<sup>2</sup> The product offering of UCOs in Armenia is highly determined by the limitations on interest rates established by CBA. According to the law, UCOs cannot charge more than twice the interbank interest rate. As such, over the last years the interest rates of UCOs have decreased along with the reduction of interbank rate from 13% (2006) to 12% (2007) and finally 11% (2008). Most UCOs mitigate this by charging fees and commissions that are not considered in the regulation.

## ■ Governance

Governance and Decision making is rated “d”

### Decision making

- + Nor Horizon has successfully completed its registration into an UCO, with all the requirements in terms of governance, management team and statutory capital.
- + This process has not generated a mission drift: the only shareholder, Horizon Fund, supervises the evolution of the institution through the Chairman. Also, most staff of Nor Horizon worked previously for Horizon Fund and shares the same mission and vision.
- The strong involvement of the Chairman in operations has been necessary during the launching phase, due to his experience and skills, but does not provide him with sufficient distance to exercise his governance duties adequately. Indeed, the Chairman leads most of the planning process (in coordination with the ED) and the financing strategy. He is also a member of the credit committee.
- The other members of the BoD boast clear competencies in finance and management, but are not yet sufficiently involved in the decision-making process. They play mainly an approval role in the BoD.
- The BoD has only three members, thus reducing the diversity of opinions in the decision-making process. This small size does not allow the BoD to work through specialized committees, in particular an internal audit committee.
- + The meetings of the BoD have been more frequent than required by statutes, which has allowed for a quick re-engineering of the institution during the registration process.
- Information to the BoD is produced by the Chairman and includes key portfolio data, financial statements and documents to be discussed. It could be improved with profitability and efficiency ratios.

### Planning

- Nor Horizon has established a 5-year Business Plan (2008-2012) with a brief description of past performance, environment and global objectives.
- However, the plan is too general. There is not a precise description of the desired evolution in terms of governance, management structure, network of branches, product diversification, employees and internal procedures. Also, the institution still lacks detailed operational plans per year. Planning has been done mainly with the goal to succeed in the registration process as a regulated UCO.
- Planning has been performed by the Chairman and the Executive Director. Both have brought their long-

standing knowledge of the institution, but the process has not sufficiently involved field staff.

- As a matter of fact, employees do not work according to specific objectives and are not aware of the main goals of the institution.
- + Ambitious although feasible financial projections have been established in Microfin. They are revised annually according to achievements. The first results show that projections for 2007 have been achieved and that those of 2008 are in good way to be met
- Yet, financial projections do not provide objectives per branch or staff.
- + Budgets are done every year and updated annually. The level of detail is quite global but suitable for the size of the institution.

### Management team

- + The management team meets all the requirements of CBA in terms of staffing and certification<sup>3</sup>.
- + Most members of the team, with the exception of the IA, have a long-standing experience with Horizon Fund and then Nor Horizon, bringing a good knowledge of the market and internal procedures.
- The management team has the sufficient skills for the daily management of operations. However, it still lacks important skills in view of the planned growth, in particular in financial and risk management. Indeed, accounting operations are properly done but all financing planning and external negotiations are done by the Chairman. Also, the IA is still very new and inexperienced (see “Risk Management” below).
- The Chairman brought his experience to management during the registration process but has now to take distance and transfer skills to the rest of the team. He is involved in new activities of Horizon Fund, which will let him little time to dedicate to Nor Horizon. The ED has all the skills and experience to assume the functions performed by the Chairman.
- + There is a good communication between members of the team, based on long term relationships. The communication with BMs is smooth thanks to the small size of the network and frequent field visits performed by management.

### Human resource management

- Human resources strategic management is still nascent:
  - Initial training procedures are not formalized.
  - Most trainings are performed by an external provider and are not adapted to microfinance.

<sup>3</sup> CBA requires the ED, the CA and the IA to be certified. The certification process involves an evaluation of their CV and a specific test.

- The quarterly bonus system, which is currently being redesigned, is too subjective and is not designed to motivate field staff performance.
- There is no formalized annual evaluation that could lead to identification of training needs and salary increases.
- There is no salary scale, although salaries are generally based on experience, age and performance.
- + Some valuable human resource management policies have been put in place, like annual tests of key staff, specific trainings by professional institutes and annual training seminars. The institution has worked hard in the training/certification of management in preparation for the regulation.
- + The administration of staff (payroll, filing of contracts, etc) is professionally done by the DCA.
- + Despite this, the working ambience is good due to the fact that most staff has more than five years experience with Horizon Fund/Nor Horizon. Staff morale is high, as shown by a very low turnover (only 1 staff has left since the creation of the UCO).

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#### Areas for improvement

- Separate Chairman from operations to strengthen decision-making and give independence to management team.
- Develop a more detailed and participative planning process.
- Strengthen financial and risk management skills.
- Develop a more strategic human resource management.

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#### Information

Information is rated “c”

- + Hardware and software equipment are adequate. All branches are computerized, have access to the Internet and benefit from strong support of the IT Manager.
- + Data security is ensured through online backups of the database in the HO server, daily backups of data in various hard drives and weekly backups in DVDs stored in the bunker of the HO. All computers with access to the Internet are protected with a firewall and an automatically updated antivirus. Access to the MIS is granted through personalized passwords.
- + The generation of information is efficient and has processes that ensure data reliability: integrated portfolio and accounting modules; online connection of cashiers to the database in the HO; automatic transfer of CBA reports through the CBANET communication system.
- The centralization of the computing of loans does not hamper the efficiency of the institution given its size but will need to evolve to a more decentralized mechanism as activities grow.

- The software is relatively slow in the production of reports but has almost never experienced bugs or breakdowns.
- + ArmSoft has the required features for an adequate day to day management of operations: generation of clients’ profiles and contracts, daily listings of past due loans, automatic cash reconciliation forms.
- + Armenian Software, the MIS developer, brings an adequate support and provides online updates of the software.
- However, ArmSoft does not produce all the best practice microfinance indicators and is essentially designed to meet CBA reporting requirements. The production of various reports requires an export to Excel and the creation of filters.
  - Summarized reports on portfolio volume or quality are not available (always long listings per branch);
  - PAR information is only generated according to CBA provision standards;
  - Financial performance indicators are not produced;
  - Portfolio breakdown by sector is not available.
- Tracking of key portfolio and financial indicators is not systematic: LOs and BMs do not follow global indicators of portfolio quality or volume; the management team is more focused in CBA reports.

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#### Areas for improvement

- Improve reporting features of ArmSoft to make it more user-friendly and generate automatically best practice indicators.
- Promote among staff a more systematic use and analysis of portfolio and financial indicators.

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#### Risk Management

Risk Management is rated “c”

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#### Procedures and internal controls

- Nor Horizon has established various procedures and manuals requested by CBA.
- Yet, some manuals need to be updated (credit manual) and others still need to be developed (human resource management, fixed assets).
- + Overall, there is a good compliance to procedures within the institution, based mainly on the corporate culture.
- + Internal procedures follow best practices despite the small size of the institution:
  - Division of tasks in the assessment, approval and MIS entry of loans.
  - LOs do not handle cash, as all disbursement and repayment operations are done either through cashiers (in branches) or through banks (in sub-branches).
  - Security of cash is guaranteed by regulatory norms such as alarms, protected transportation of cash from

- branches to banks, maximum amounts of cash in hand authorized in branches, safes in all branches and a bunker in the HO.
- Cash reconciliations between MIS reports and cash in hands are conducted every day by the cashier and signed by the BM.
- The MIS lacks however some controls that could reduce operational risk: interest rates and loan amounts are not parameterized according to procedures; contracts are generated in Word and not in a protected version (e.g. PDF).
- Management staff performs frequent monitoring visits but these are not yet sufficiently formalized through reports or monitoring forms.

### Internal audit

- The internal audit function has been created recently (January 2008): an IA has been trained and certified along with the requirements of CBA.
- The position is still very new and has not assumed yet its various duties:
  - The IA is freshly graduated from University and does not have any previous experience in audit.
  - Internal audit procedures and forms still need to be developed.
  - Since his certification, the IA has only started the audit of the HO and has not visited yet the branches and sub-branches of Nor Horizon.
  - Even if in the organizational chart the IA reports to the BoD, such reporting has not happened yet and the BoD has not created a committee that would analyze internal audit reports.
  - The internal audit schedule was just finalized in May 2008. He plans to visit each branch and sub-branch 1 and up to 2 times per year This frequency of visits could be increased given the small size of the network.
- + The IA has done some efforts to prepare his work like preliminary visits of branches in 2007 and the creation of an audit report format<sup>4</sup>.
- The IA still needs to develop a stronger culture of risk management and prevention, beyond pure operational and credit risk.
- The external auditors bring a strong supervision layer in the certification of financial statements but do not compensate for the weaknesses of the IA as they do not conduct field visits of clients.
- + Off-site and on-site supervision by CBA is robust and should bring through time important recommendations for the compliance to regulation<sup>5</sup>.

<sup>4</sup> The IA was hired in May 2007 as an accountant. From May 2007 to January 2008 he was trained to obtain the internal audit certification and did some visits to branches with the support of management staff.

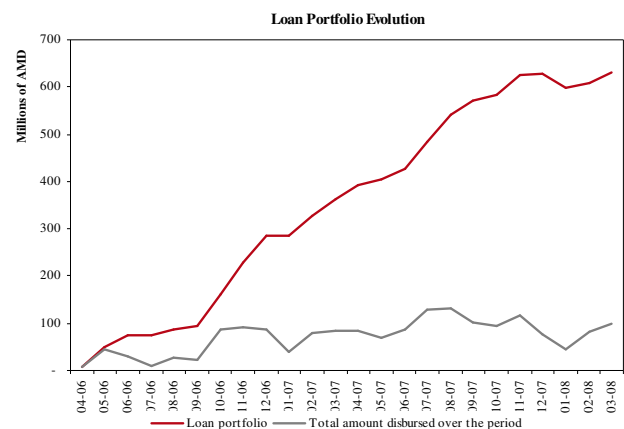
### Areas for improvement

- Finalize and update all manuals requested by CBA.
- Improve parameterized controls in the MIS.
- Create a fully fledged internal audit function, with the appropriate skills and tools, with direct reporting to the BoD and sufficient coverage of all the areas of risk.

### Activities

Activities: products and services is rated “a”

### Loan portfolio evolution



- Loan portfolio has grown strongly since the creation of the UCO as all previous clients of Horizon Fund renewed their contracts with Nor Horizon. In 2007 alone, portfolio grew by 121% and the number of borrowers by 134%. By the end of 2007 all the portfolio of Horizon Fund had been recovered and Nor Horizon had reached the same outstanding portfolio than Horizon Fund two years before.
- Portfolio growth has stagnated since January 2008 due to seasonal effects and low promotion of financial services, in a context where liquidity levels are diminishing.
- The outstanding loan per client has remained stable, showing that the institution has not started granting larger loans after its registration as for-profit.

### Loan portfolio management

- + The credit methodology is adapted to the products disbursed and leads to good portfolio quality:
  - All clients' repayment capacity is properly assessed through field visits.
  - The long-standing presence of the institution in some areas allows for a very personal relationship with borrowers and a good knowledge of the market.

<sup>5</sup> Nor Horizon was inspected for the first time by CBA at the beginning of 2008. The team of inspectors remained for almost one month in the HO and in the field. The final report was not available at the time of the rating mission.

- All loan applications are checked prior to disbursement in the CBA credit bureau, in particular to verify whether the client has delinquent loans in other institutions.
- Despite the centralization of the loan approval process, loans are disbursed in only three days for old customers and in seven to ten days for new customers.
- All outstanding loans are followed up by LOs through formalized monitoring visits.
- Clients in arrears are contacted from the first day of delinquency. This is helped by the fact that the workload of LOs is still manageable (159 borrowers per LO) and by their knowledge of the market.
- There is not yet a formalized and systematic induction process for new LOs as almost all are old recruits. Such policy will be needed as the institution grows and new LOs are hired<sup>6</sup>.
- The lack of specific objectives per LO or branch does not allow for a supervision based on performance or the establishment of performance-based bonuses.

### Credit risk

- + With still a small portfolio and good credit procedures, portfolio quality is excellent, with a PAR>30 of 0% until December 2007. PAR>30 only reached 0.01% in March 2008 after one loan became past-due. There are cases of delinquency every month but always below 30 days and they are usually recovered by the end of month.
- + Write-off procedures follow CBA regulation (all PAR>365 is written off). As of December 2007, only two loans had been written-off related to cases of deceased clients, leading to a write-off ratio of 0.1%.
- There is not yet a formalized policy of diversification of portfolio by sector or geographic area. This is somehow mitigated by the good knowledge of the market by LOs, BMs and the LM.
- Nor Horizon does not reschedule loans but may decide to grant exceptionally to a client more time to pay a past-due loan.

### Credit risk coverage

- + Nor Horizon follows CBA provisioning rules, which are sufficiently conservative given the low PAR of the industry<sup>7</sup>. With a PAR>30 of 0% as of December 2007, provisions are largely sufficient for Nor Horizon.

<sup>6</sup> As of May 2008, only one LO did not come from Horizon Fund. This new LO used to work in FINCA and did not require specific training for the job.

<sup>7</sup> All outstanding portfolio must have a 1% generic provision, which leads to high coverage ratios when portfolio quality is good. PAR 1-30 is provisioned 10%, PAR 91-180 20%, PAR 181-365 50%, and PAR >365 100% and written off.

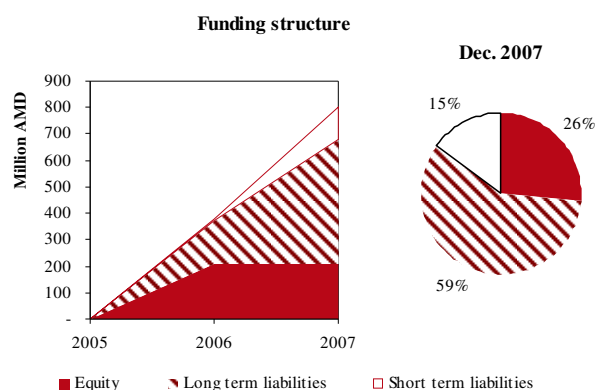
- + Following CBA regulations, most loans are collateralized with real estate, cars, moveable assets or salaries according to their size and nature. Less than 5% of portfolio is not collateralized but is guaranteed by the interest-free borrowing of Horizon Fund<sup>8</sup>.
- + Given the good portfolio quality no loans are currently on Court; but the policy of Nor Horizon is to use collateral more as a pressure than as an enforceable tool.

### Areas for improvement

- Develop formalized induction process for new LOs to be hired in the upcoming years.
- Develop performance-based bonuses for LOs taking into account portfolio quality and volume and according to institutional objectives.
- Introduce diversification policies by sector or geographic area.

### Funding and liquidity

Funding and liquidity is rated “c”



### Market risk

- + Nor Horizon is not exposed to interest rate risks as all borrowings and loans have fixed interest rates.
- Since 2007 the institution is exposed to a foreign exchange risk with the loans of Triple Jump amounting to 350,000 EUR. This leads the institution to an open position in EUR of 45% of its equity as of December 2007.
- Although this has not brought losses given the appreciation of the AMD against the EUR over the last years, Nor Horizon has not established policies to face such risks. With new loans to be negotiated in 2008 with international funds, the institution will be increasingly exposed to a foreign exchange risk.

<sup>8</sup> The interest free borrowing of Horizon Fund to Nor Horizon, of 190 M AMD, out of which 100 M were capitalized in 2008, has a clause by which all non-collateralized loans written-off by Nor Horizon are covered by this borrowing.

## Liquidity risk

- Nor Horizon has not developed yet precise cash flow projections that would allow to forecast liquidity shortages. Given the frequent lack of resources for lending such a tool is highly necessary.
- + However, the credit line of Armeconombank contracted in 2007 has allowed for covering liquidity needs, although it is expensive (16% interest rate).
- + The institution is not exposed to maturity risks, with a 1-year current ratio of 433% by December 2007.
- With liquidity representing 10% of assets and 10 months of operational costs as of December 2007, the institution has sufficient liquidity, but this situation is bound to change as portfolio continues growing quickly.

## Capitalization and funding strategy

- + Nor Horizon has diversified progressively its funding base, and counts as of March 2008 three external lenders (Triple Jump, Millennium Challenge Account, Armeconombank) in addition to the loans granted by the parent institution Horizon Fund.
- However, all financing needs for 2008 are still not met (200,000 to 300,000 USD still to be raised) and the institution is negotiating new borrowings.
- + Nor Horizon has adopted a clear policy to increase its international visibility as shown by its decision to contract a microfinance rating and to participate in international conferences.
- Yet, negotiation skills and cost-benefit analysis will need to improve as the institution receives new lending proposals. For instance, the new borrowing from the Millennium Challenge Account introduces very strict rules where a thorough analysis of their profitability has not been conducted (borrowings must be directed only to certain farmers, the interest rate differential is only of 7%).
- + The capital adequacy ratio (CAR), at 30% as of December 2007, is adequate and leaves room for additional borrowings. The ratio should increase in 2008 despite the introduction of new borrowings thanks to the capitalization of 100 M AMD out of the 190 M AMD initially lent by Horizon Fund at 0% interest rate (CAR at 43% as of March 2008).
- However, the capacity of financial support of Horizon Fund has reached its limits and new capital increases will need to come from external investors. Horizon Fund is ready to dilute its participation in the capital of Nor Horizon by 2009 or 2010 but has not yet established the levels nor the type of investors.
- + With a capital of 180 M AMD, increased in 2008 to 280 M AMD, Nor Horizon meets the minimum capital requirements of CBA of 150 M AMD.

## Areas for improvement

- Improve market risk management, in particular for foreign exchange risks and potentially interest rate risks that could arise from on-going lending negotiations.
- Develop cash flow projections.
- Improve negotiation skills and cost-benefit analysis for new borrowings.

## Efficiency and Profitability

Efficiency and Profitability is rated “c”

### Profitability analysis

Nor Horizon has been able to reach profitability from the first year of operations thanks to a quick transfer of portfolio from Horizon Fund, good cost management and an excellent portfolio quality. Its ROA of 0.4% as of December 2007 is still lower than the benchmark for MFIs in ECA of 1.3% according to the MicroBanking Bulletin (MBB) with 2006 figures but is high for a young institution

The market positioning of Nor Horizon is good, based on long term relationships with former clients of Horizon Fund, quick loan disbursement and transparent interest rates. However, in the long term it will be challenged by larger institutions that boast stronger marketing and disbursement capacities, like Kamurj, FINCA, ACBA Credit Agricole and the new comer ProCredit. It is also not certain that portfolio will continue growing at the same pace now that all former clients have been transferred to Nor Horizon. Given its shortages of liquidity, the institution does not conduct marketing campaigns and relies mainly on informal contacts between customers to grow its client base.

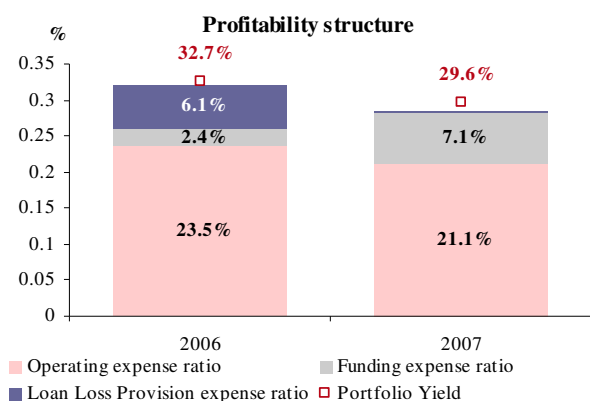
Profitability is constrained by limitations in the establishment of interest rates. The long term trend has been towards a reduction of interbank interest rates, limiting the capacity of MFIs to generate profits. As such, the portfolio yield has had a decreasing trend over the period under review, from 32.7% in 2006 to 29.6% in 2007. However, the excellent portfolio quality of Nor Horizon means that the institution is able to maximize the income it can generate from its loan portfolio.

Economies of scale are being reached thanks to quick portfolio growth (+100% in 2007). With an operating expense ratio of 21.1% as of December 2007, Nor Horizon is still above the benchmark for ECA of 14.3%, but is going in the right direction (operating expense ratio of 23.5% in 2006). With the planned access to external resources, Nor Horizon will need to oversee carefully the increase of the funding expense ratio. It has already increased from 2.4% in 2006 to 7.1% in 2007. Negotiation skills and a good calculation of cost and benefits from funding opportunities

will have a fundamental impact in the evolution of this ratio. The loan loss provision expense ratio is expected to remain low given the good portfolio quality and will only be determined by the 1% generic provision on outstanding portfolio<sup>9</sup>.

The outstanding portfolio is increasingly optimized having reached 77.8% of assets in 2007. This share is expected to increase as liquidities are invested and fixed assets are depreciated<sup>10</sup>.

The short and medium term trend of profitability is positive, based on additional economies of scale, although it will be highly dependent on the evolution of regulatory interest rates and on the capacity of the institution to manage its funding expense ratio.



### Areas for improvement

- Economies of scale can still be reached with higher portfolio growth and LO productivity.
- The funding expense ratio has to be overseen carefully, since it will most probably grow as new borrowings are contracted.

*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.*

<sup>9</sup> The loan loss provision expense ratio was high in 2006 (6.1%) as it was the first year of operations and the entire outstanding portfolio had to be provisioned 1% according to regulations.

<sup>10</sup> Nor Horizon is owner of the building where the HO is based.

## ■ Performance indicators

Data in EUR, unless otherwise stated

	Dec. 2006	Dec. 2007
<b>Loan Portfolio</b>		
<b>Loan portfolio evolution</b>		
Loan portfolio	595,185	1,406,325
Loan portfolio (AMD)	284,803,000	627,958,000
Evolution	NA	120.5%
Average outstanding loan	160,276	1,019,219
Active borrowers	747	1,747
Evolution	NA	133.9%
Average outstanding loan per client	797	805
% of GDP per capita	48.5%	41.3%
Average amount disbursed per loan	982	1,079
% of GDP per capita	59.8%	55.3%
<b>Portfolio quality</b>		
Rescheduled loans	0.0%	0.0%
PAR 31-365	0.0%	0.0%
PAR > 365	0.0%	0.0%
Write-off ratio	0.0%	0.1%
<b>Credit risk coverage</b>		
Risk coverage ratio	NA	NA
PAR 31 net of loan loss provision / Equity	NA	NA
<b>Staff</b>		
Total number of staff	14	29
% Credit officers	7.1%	37.9%
Turnover	NA	4.7%
<b>Profitability analysis</b>		
ROE	0.3%	1.1%
Liabilities / Equity	0.8x	2.8x
ROA	0.2%	0.4%
<b>Profitability structure</b>		
Portfolio Yield	32.7%	29.6%
Operating expense ratio	23.5%	21.1%
Cost per borrower	70	123
Staff productivity	53	60
Loan officer productivity	747	159
Average outstanding loan per client (EUR)	797	805
Funding expense ratio	2.4%	7.1%
Cost of liabilities	1.5%	7.7%
Loan Loss Provision expense ratio	6.1%	0.3%
PAR 31-365	0.0%	0.0%
Write-off ratio	0.0%	0.1%
<b>Resource optimization</b>		
Outstanding Loan Portfolio / Assets	74.7%	77.8%
Revenue from investment as a % of financial revenues	0.0%	0.2%
<b>Liquidity</b>		
Liquidity / Total assets (LAR)	2.4%	10.1%
Exchange rate 1 EUR= xx AMD	478.5	446.5

Note: Nor Horizon operated for 9 months in 2006. The ratios for that year have been annualized

GIRAFE Mini-Rating – Nor Horizon, Armenia – May, 2008

Nor Horizon Income Statement	Notes	AMD		EUR		Evolution 2007/2006
		Dec. 2006	Dec. 2007	Dec. 2006	Dec. 2007	
<b>Financial Revenue (a)</b>		<b>26,059,000</b>	<b>135,594,000</b>	<b>54,458</b>	<b>303,666</b>	<b>420.3%</b>
Financial Revenue from Loan Portfolio		26,025,000	134,814,000	54,387	301,919	418.0%
Interest on Loan Portfolio		22,429,000	134,544,000	46,872	301,314	499.9%
Fees and Commissions on Loan Portfolio		3,596,000	270,000	7,515	605	(92.5%)
Penalty Revenue on Loan Portfolio		-	-	-	-	-
Financial Revenue from Investments		13,000	270,000	27	605	1,976.9%
Other Operating Revenue		21,000	510,000	44	1,142	2,328.6%
<b>Financial Expense (b)</b>		<b>1,909,000</b>	<b>32,217,000</b>	<b>3,989</b>	<b>72,151</b>	<b>1,587.6%</b>
Interest paid on borrowings		899,000	28,678,000	1,879	64,225	3,090.0%
Interest paid on deposits		-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-
Other Financial Expenses		1,010,000	3,539,000	2,111	7,926	250.4%
<b>Financial income [c=a-b]</b>		<b>24,150,000</b>	<b>103,377,000</b>	<b>50,469</b>	<b>231,515</b>	<b>328.1%</b>
<b>Net Loan Loss provision expense (d)</b>		<b>4,850,000</b>	<b>1,430,000</b>	<b>10,136</b>	<b>3,203</b>	<b>(70.5%)</b>
Loan loss provision expense and write-off		4,850,000	1,430,000	10,136	3,203	(70.5%)
Recovery from Loans written off		-	-	-	-	-
<b>Operating expense (e)</b>		<b>18,746,000</b>	<b>95,987,000</b>	<b>39,176</b>	<b>214,965</b>	<b>412.0%</b>
Personnel Expense (includes fringe)		3,496,000	57,363,000	7,306	128,466	1,540.8%
Administrative Expense (non-staff operating expenses)		15,250,000	38,624,000	31,870	86,499	153.3%
Depreciation and amortization		946,000	5,514,000	1,977	12,349	482.9%
Consulting fees		3,500,000	4,000,000	7,314	8,958	14.3%
Rental costs and lease		2,150,000	5,525,000	4,493	12,373	157.0%
Office supplies		598,000	1,980,000	1,250	4,434	231.1%
Bank fee		-	-	-	-	-
Representation expenses		176,000	1,200,000	368	2,687	581.8%
Accrued interest written off		-	-	-	-	-
Marketing costs		280,000	693,000	585	1,552	147.5%
Communications		1,943,000	6,079,000	4,061	13,614	212.9%
Others		5,657,000	13,633,000	11,822	30,531	141.0%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>554,000</b>	<b>5,960,000</b>	<b>1,158</b>	<b>13,348</b>	<b>975.8%</b>
Income Taxes (g)		291,000	3,685,000	608	8,253	1,166.3%
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>263,000</b>	<b>2,275,000</b>	<b>550</b>	<b>5,095</b>	<b>765.0%</b>
Non Operating Revenue (i)		-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>263,000</b>	<b>2,275,000</b>	<b>550</b>	<b>5,095</b>	<b>765.0%</b>
Donations (l)		-	-	-	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>263,000</b>	<b>2,275,000</b>	<b>550</b>	<b>5,095</b>	<b>765.0%</b>

GIRAFE Mini-Rating – Nor Horizon, Armenia – May, 2008

Nor Horizon Balance sheet	Notes	AMD		EUR		Evolution 2007/2006
		Dec. 2006	Dec. 2007	Dec. 2006	Dec. 2007	
<b>ASSETS</b>		<b>374,648,000</b>	<b>798,906,000</b>	<b>782,944</b>	<b>1,789,167</b>	<b>113.2%</b>
<b>Short Term Assets</b>		<b>276,219,000</b>	<b>526,210,000</b>	<b>577,246</b>	<b>1,178,458</b>	<b>90.5%</b>
Cash and Due from Banks		8,928,000	80,983,000	18,658	181,363	807.1%
Short Term Investments		-	-	-	-	-
Short Term Net Loan Portfolio		263,610,000	438,866,000	550,895	982,850	66.5%
Short Term Gross Loan Portfolio		268,460,000	445,146,000	561,031	996,914	65.8%
(Loan Loss Reserve)		4,850,000	6,280,000	10,136	14,064	29.5%
Interest Receivable		2,906,000	5,844,000	6,073	13,088	101.1%
On loan portfolio		2,906,000	5,844,000	6,073	13,088	101.1%
On investments		-	-	-	-	-
Accounts receivable and other assets		775,000	517,000	1,620	1,158	(33.3%)
<b>Long term assets</b>		<b>98,429,000</b>	<b>272,696,000</b>	<b>205,698</b>	<b>610,708</b>	<b>177.0%</b>
Long Term Net Investments		-	-	-	-	-
Long Term Gross Loan Portfolio		16,343,000	182,812,000	34,154	409,411	1,018.6%
Net Fixed Assets		79,116,000	87,229,000	165,338	195,351	10.3%
Other Long Term Assets		2,970,000	2,655,000	6,207	5,946	(10.6%)
<b>LIABILITIES AND EQUITY</b>		<b>374,648,000</b>	<b>798,906,000</b>	<b>782,944</b>	<b>1,789,167</b>	<b>113.2%</b>
<b>Liabilities</b>		<b>165,355,000</b>	<b>587,338,000</b>	<b>345,561</b>	<b>1,315,356</b>	<b>255.2%</b>
Short term liabilities		4,385,000	117,509,000	9,164	263,164	2,579.8%
Demand Deposits		-	-	-	-	-
Compulsory Deposits		-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-
Short Term Borrowings		-	111,627,000	-	249,991	-
Interest payable		899,000	-	1,879	-	(100.0%)
Accounts Payable and Other Short Term Liabilities		-	-	7,285	13,173	68.7%
Long term liabilities		160,970,000	469,829,000	336,397	1,052,192	191.9%
Long Term Time Deposits		-	-	-	-	-
Long Term Borrowings		160,970,000	469,829,000	336,397	1,052,192	191.9%
Other Long Term Liabilities		-	-	-	-	-
<b>Equity</b>		<b>209,293,000</b>	<b>211,568,000</b>	<b>437,383</b>	<b>473,811</b>	<b>1.1%</b>
Paid-In Capital		180,000,000	180,000,000	376,166	403,114	0.0%
Donated equity		-	-	-	-	-
Retained earnings without donations and reserves		-	-	550	5,684	865.0%
Current year		263,000	2,275,000	550	5,095	765.0%
Other equity accounts		29,030,000	29,030,000	60,667	65,013	0.0%

## ■ Formulas

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

## ■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-		
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	INVESTMENT GRADE
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-		
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.	