Planet Rating
THE GLOBAL MICROFINANCE RATING AGENCY

Constanta Foundation, Georgia

Launched by Save the Children in 1997, Constanta Foundation received initial funding from UNHCR and USAID. The institution is currently registered as a Microfinance Organization and according to the new microfinance law is required to transform into a for-profit company and register as an NBFI during the course of 2007. Constanta Foundation serves clients throughout Georgia via a network of 18 branches. As of November 2006 Constanta has a gross loan portfolio of 18 M USD and serves 19,051 borrowers with both group and individual loans. 65% of the clients are women.

GIRAFE Rating

Rating

B+

Outlook

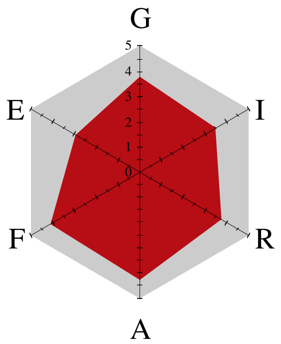
Positive

Date of the rating

Dec. 2006

Valid until Nov. 2007

Performance composition



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Rating highlights

- Financial performance and portfolio quality indicators back to very good levels in 2006 (ROA>5%; PAR30<1%); impact of 2004 fraud episode fully absorbed in 2004 and 2005 financial years.
- Skilled management team led by experienced microfinance specialists; several new hires with banking backgrounds in 2005 and 2006.
- Board yet to play a real balancing power; Board enhancement even more necessary given upcoming transformation into a for-profit company due in 2007.
- Strong market position being challenged. Strategy in place to cope with increased competition including interest rate cuts, increased flexibility, higher loan amounts.
- Internal controls adequately reinforced based on weaknesses identified after the fraud episode; new off-the-shelf MIS currently being implemented; transition well-advanced with software already operating in several branches.
- Financial structure presenting limited risks that are well monitored and managed.

Outlook

- Financial performance likely to be maintained at comfortable levels thanks to expected efficiency gains.
- Weaknesses adequately addressed by organizational changes already underway.
- Well-prepared transformation process. One-year timeframe should leave sufficient time to finalize and optimize new legal set-up and ownership structure. Execution risk cannot be excluded for Georgia's first-ever foundation to for-profit transformation, but considered to be limited.

Performance indicators

In USD	Dec. 2003	Dec. 2004	Dec. 2005	Nov. 2006
Assets	4,784,453	6,031,233	8,741,216	31,165,809
Growth (%)	*32.4%*	*10.9%*	*42.4%*	*244.3%*
Loan portfolio	3,536,047	5,204,932	7,727,273	18,034,151
Growth (%)	*19.3%*	*29.5%*	*45.9%*	*125.4%*
Active borrowers	18,588	18,657	16,578	19,051
Staff	208	230	236	262
ROE (%)	12.2	3.6	0.6	15.0
ROA (%)	12.0	3.6	0.5	7.3
Liabilities / Equity	0.0	0.0	0.4	1.6
Portfolio Yield (%)	81.6	76.4	52.6	45.5
Operating expense ratio (%)	59.0	48.1	42.5	27.6
PAR 31-365 (%)	3.3	19.4	1.3	0.6
PAR > 365 (%)	0.0	0.0	0.0	0.0
Write-off ratio (%)	1.0	1.2	15.6	1.0

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 and was further developed with the opening of ProCredit Bank (formerly Microfinance Bank of Georgia) in 1999. Currently the microfinance market is made up of 4 regulated banks, 11 Non-Bank Financial Institutions (NBFIs) and 41 Non-Bank Depository Institutions or Credit Unions.

The banks are regulated by the National Bank of Georgia (NBG). With the assistance of EBRD and TACIS, 3 commercial banks (Bank of Georgia, United Georgian Bank and Tbiluniversal) have been downscaling their lending activities and are entering the segments usually served by the NBFIs (loans starting as low as 500 GEL). This comes in addition to the services offered by the microfinance bank, ProCredit Bank of Georgia. A new law on NBFIs was adopted in July 2006. According to the new law, a company will be considered a NBFI if it is a limited liability organization or a joint stock company registered at the NBG that carries out microfinance activities under the supervision of the NBG. To create a microfinance organization, it is necessary to have an initial capital in the amount of GEL 250,000 and provide loans that are no bigger than GEL 50,000. NBFIs are allowed to offer lending products, but are not allowed to collect savings. With the new law it is expected that supervision will improve and that NBFIs will be able to further finance their growth with equity investments and greater leverage on their capital base. Since 2002, Credit Unions fall under supervision of NBG which caused a decline in their numbers. As of September 2006 41 are registered with NBG. Credit Unions are allowed to provide loans to and take deposits from their members only.

A 2004 study by USAID[1] evaluates the market size for microfinance loans at 210,000 potential clients where it is estimated that 136,000 would actually take a loan with an average loan size of 3,500 USD, for a total loan demand of 482 M USD. The microfinance service providers currently serve approximately 90,000 clients. ProCredit Bank is the clear market leader with around 30,000 micro loans (< 10,000 USD) and a micro loan portfolio of close to USD 50M (Jun. 06). The two largest non-banking financial institutions are Constanta and Finca with a respective number of clients and portfolio of 19,051 / 15.5 M USD (Nov.06) and 18,120 / 9.7M USD (Sep.06). In total there are 11 NBFIs serving in total around 45,000 clients with a portfolio of 39 M USD. The commercial banks are estimated to be serving about 70,000 clients with a total portfolio of 145 M USD. Although there is still room for growth in the sector, competition has been heating up due to the rapid growth of ProCredit Bank and the NBFIs while commercial banks where starting their downscaling. Competition is especially fierce in Tbilisi and other urban centers.

In June 2005 the Association of Georgian Microfinance Organizations (AGMO) was set up by Constanta, Credo, Finca, Crystal and SBDF. Its main focus up to now has been the lobbying for the microfinance law that was finally implemented July 2006. In 2006 AGMO also developed a special software application to receive and store the negative and positive credit history information from MFIs to be submitted to CreditInfo (Credit bureau established in 2005 by commercial banks). Five MFIs – Constanta, Credo, Finca, Crystal and SBDF – are now involved in the information exchange process. CreditInfo however currently only provides negative information and AGMO is lobbying for the inclusion of positive information.

Political & economic environment

Over three years since the Rose Revolution economic growth is still robust exceeding 7% again in 2006, driven mainly by the financial services, communications, food, metals (mainly copper), and construction industries. Buoyant domestic demand and rising energy costs have, however, generated a significant inflationary spike and a large external account deficit. An initial doubling of the price of Russian gas was partly responsible for the upsurge of imports in 2006, a trend that should get even worse in 2007 with Gazprom imposing another 100% price increase.

Public sector finances have, however, improved markedly with the significant debt reduction achieved partly attributable to a restructuring of Paris Club debt. As for the business environment, Georgia registered the most improvement among CIS countries according to the World Bank even if corruption is still extensive.

That undeniable improvement in the economic environment has, however, been upstaged by repeated clashes with the separatist Abkhazia and South Ossetia republics and especially by the troubling deterioration of relations with Russia. After four Russian officers accused of spying were detained briefly for questioning in Tbilisi end September, Moscow suspended all transport and postal links with Georgia. The country is nonetheless still very dependent on its powerful neighbor not only for its energy supply but also as an export outlet and for the transfer of expatriate earnings.

[1] USAID / GMSE Georgia Microfinance Demand Survey, implemented by Chemonics International / Gary Woller; June 2004.

COFACE Country Rating: D - The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.

USD millions	2003	2004	2005	2006 (e)
Economic growth (%)	11.1	5.9	9.3	7.5
Inflation (%)	4.8	5.7	8.3	9.6
Public sector balance (%GDP)	-2.5	-0.2	-2.4	-2.5
Exports	730	1,272	1,589	1,912
Imports	1,328	1,991	2,521	3,324
Trade balance	(598)	(719)	(923)	(1,412)
Current account balance/ PIB (%)	(7.2)	(8.4)	(5.4)	(9.9)
Foreign debt (%GDP)	46.4	36.2	27.1	23.0
Debt service (%Exports)	8.0	8.3	6.3	6.8
Foreign currency reserves (in months of imports)	1.2	1.7	1.7	3.1

Source: COFACE's Country Risk Rating Guidebook. (e) estimates.

Institutional presentation

Legal form, supervision and audit

Constanta Foundation is registered as a non-profit foundation with the Ministry of Justice of Georgia after reregistering twice in 1999 and 2005. Constanta is currently not subject to any banking supervision. A new law on microfinance organizations was passed in July 2006 which will require Constanta to transform into a Limited Liability Company or Joint-Stock Company by January 2008 and be registered by the National Bank of Georgia.

Over the years 2003 and 2004 the accounts have been audited by Georgian Audit & Consulting Company (GACC) which is an associate of Deloitte & Touche. For 2005 the accounts were audited by Deloitte & Touche Georgia (not related to GACC).

Ownership

Being a foundation, Constanta does not have formal owners. Georgian law vests the highest authority in the founders of a Foundation. Constanta's initial founders have definitively transferred their authority to a Governing Board (Board of Directors equivalent) via Charter amendments. Board members do not have a financial claim to the dividends or assets, which upon liquidation would be taken by the State and possibly granted to another Foundation with similar purpose.

The Board currently consists of five members – all Georgian nationals – with backgrounds in economics, business, law and microfinance, which have all been recruited by Constanta. Two board members were requested to leave in August 2006 due to inactivity. The Board members get benefits (insurance, fitness, sports clubs) as a compensation for their participation in the Board.

Donations

Up to date Constanta received approx. 10 M GEL in donations, USAID and UNHCR being the main donors with contributions of 6.9 M GEL and 2.9 M GEL respectively. These funds have mostly been dedicated to loan capital, while a smaller portion was given for technical assistance. Some funds were specifically earmarked to subsidize the launch of certain branches notably the ones located along the BTE pipeline (Akhaltsikhe, Akhalkalaki). The amount of donations gradually decreases with only 300 K USD received for 2006, 100 K USD planned for 2007 and no donations expected for subsequent years.

Management team

The Executive Board includes the Executive Director (ED), Head of Finance Department and Head of Credit Department. The management team also includes the Head of IT Department, the Head of Marketing Department, the Head of Human Resources Department and the Head of Legal Department. The Head of Internal Audit Department directly reports to the Board and is not a member of the management team.

- The Executive Director, Levan Lebanidze, took on the position in July 2004. He has worked with Constanta since 1999 as Program Manager and as of 2002 as Operations Manager. His prior work experience was with humanitarian organizations. He holds an MA from the Central European University in Budapest and an MBA (completed in 2004) from ESM Tbilisi.

Organization

- The headquarters (HQ) in Tbilisi centralize all management and core admin staff.
- The 18 offices are being reorganized to move from the previous differentiated model (offices were either service points, outlets or branches depending on their sizes, the first two being supervised by a branch and having less administrative staff or non-permanent supervision staff). All branches are/ will be[2] staffed with: a Branch Manager, in charge of the management of the profit center (budgeting, planning, HR) who directly reports to the Executive Board; a Loan Manager in charge of LO supervision; Loan Officers and Cashiers. The accounting process is currently decentralized in the branches but will be centralized at HQ by mid-2007. Current branch accountants will thus be relocated or redeployed on other tasks.

[2] The process should be completed by March 2007.

- Cash transactions are carried out through properly secured cash desks located in each branch, with strict, monthly updated levels of cash allowed to stay at the branch overnight.

Market penetration

With its 18-branch network Constanta currently covers the main urban areas of Georgia as well as the main rural centers.

Products and services

Group loans were for several years the only product offered by Constanta. The product offering was expanded in 2001 with the introduction of an individual loan product. In 2004 an agricultural loan product was launched in the rural branches. In the coastal branches Constanta also introduced group or individual loans geared specifically to the tourism industry that is widely developed along the Black Sea shores. In March 2005 the loan products have been reviewed with increases in loan amounts and interest rates cuts. It is now also possible for clients with individual loans to make use of parallel loans and an overdraft facility.

- Group loans are provided to groups of 2-8 members and capped at 5,000 GEL (2,888 USD) per person, with terms ranging from 4 weeks to 18 months. The interest rate is 2-3% flat per month with weekly, bi-weekly or monthly equal repayments. Group loans use a group guarantee, however for some loans collateral may be required. The effective interest rate varies from 47% to 97% depending on the duration of the loan.
- Individual loans range from 1,000 to 50,000 GEL (578-28,877 USD), with terms ranging from 3-48 months and grace period (6 months maximum) and monthly repayments. The interest rates vary from 20 to 33% declining per year depending on the loan amount. Loans above 5,000 GEL should have a third party guarantee or be collateralized with physical collateral. The effective interest rate varies from 22 to 45%.
- Agro loans are individual and range from 1,000 to 20,000 GEL (578-11,551 USD), with 3-36 months terms and 12 months maximum grace period. The interest rate is 18-36% declining per year with monthly flexible repayments. All loans should have a third party guarantee or be collateralized with physical collateral.
- Tourism loans are either individual, capped at 10,000 GEL (5,775 USD) or in groups, capped at 2,500 GEL (1,444 USD) per person with terms ranging from 12-25 weeks and grace period adapted to the business. The interest rate varies from 2.25-3% flat per month for group loans and 1.5-2.75% flat per month for individual loans. Group loans use group guarantee whereas individual loans should have a third party guarantee or be collateralized with physical collateral. Tourism loans are not tracked separately in the MIS but are taken up as either group or individual loans.

Fraud – Khashuri Branch

In June 2004 Constanta detected a major fraud case in its Khashuri branch. The fraud involved loans to phantom clients and included virtually all of the branch staff except the branch manager. The fraud had been ongoing for about 9 months but came to light due to remaining high levels of PAR after the ban on street vending by Georgian Government early 2004. Soon after the discovery the branch was set on fire destroying all loan documentation making loan recovery extremely difficult. Constanta estimates a loss related to the fraud of GEL 400,000. This fraud also led to the firing of the Internal Auditor and subsequent strengthening of internal audit department and audit procedures.

Networks

Constanta is a founding member of the AGMO since 2005 and, Tamara Lebanidze, Constanta's former director and current board member, is AGMO's Executive Director. The MFI has been a member of the Microfinance Centre for Central and Eastern Europe and the Newly Independent States (MFC) since 2003 and is also a member of the Microfinance Network. Constanta is also a member of the Save the Children Network, which involves information and experience sharing and regular data reporting.

Governance

Governance and Decision Making is rated "b"

Decision-making

The decision-making process at Constanta is swift and based on relevant financial and operational data, critical input from an experienced Management Team as well as contributions from a Board with interesting skills (legal, business, microfinance) and good connections, but that lacks specific banking or microfinance background (except for the former director of Constanta, Mrs. Tamar Lebanidze). The Board, that has shown its commitment to the preservation of the institution's assets during the Khashuri fraud case, however has a limited balancing power and relies on the Executive Director and Executive Board for key initiatives.

Constanta's Board of Directors, Executive Board and management team share a common vision that the Foundation needs to transform into a full-fledged bank in order to carry out its mission in the most effective way. Now that the new Microfinance Law has been issued, Constanta plans to go for the first step of that process and transform into an NBFI as soon as possible, which could be as early as Q3 2007. The Board is active in this process and participates along with the lawyers in the investigation on possible legal and ownership set-up. Some of the key issues that need to be clarified before the process can be launched are: Whether the Foundation should be kept as a legal entity alongside the new commercial company? Whether Board members and/or Management team members will become shareholders?

Constanta is well positioned for the upcoming transformation even if a concrete plan still needs to be drafted and execution risk is a factor. The new Company status should provide Constanta with the tools/resources to stay competitive and remain a market leader. It will attract private investors who will bring both money and technical assistance critical to the success of any transformation. In this regard, Constanta has already received expression of interest from current fund providers but did not yet enter into any shareholders' agreement negotiation.

The Board does not yet operate in a sufficiently formalized way (minutes are being kept but are very succinct and do not inform on discussions that took place; no sub-committees exist yet) which will need to be revised in the course of 2007 given the important decisions to be taken and the potential introduction of Board Members nominated by new shareholders.

Planning

Constanta has an efficient and participatory planning process that involves all HQ managers as well as Branch Managers. The institution's situation is thoroughly analyzed with specific attention given to the identification of internal and external risks related to its operations.

The current[3] plan (2006-2010) sets the clear goal to transform Constanta from a good NGO MFI to "a professional, commercial financial institution able to offer competitive microfinance services to customers all over Georgia having a significant market share". The organizational and institutional challenges related to such a transformation are well identified and addressed with relevant organizational projects that are currently being implemented (legal transformation, development of middle management positions, improvement of Branches' infrastructure and management, new MIS acquisition, strengthening of internal audit and controls). Evolutions are also planned to improve the product mix, brand recognition and client satisfaction, even if their implementation is less advanced due to the vacancy of the Marketing position during the whole of 2006.

[3] The updated plan (2007-2011) due in February 2007 sets more ambitious goals in terms of organizational growth.

Constanta plans for a very sharp increase (from 36% as of Dec. 2005 to 74% in 2010) in the proportion of individual loans in the loan portfolio in order to better respond to clients' demand, which is confirmed by the results of the first year of execution of the business plan (59% as of Nov. 2006). The financial and operational targets are based on conservative assumptions (+37% average annual portfolio growth to reach a portfolio of more than 60 M GEL – 35 M USD– by Dec. 2010) but are based on a market analysis that remains pretty vague due to a lack of valid national data. Growth rates for 2005 and 2006[4] that stand at +50% and +130% respectively indicate that these goals are achievable and could even be surpassed, but enhanced market data would be desirable to validate the medium-term projections.

Constanta has a good budgeting process as well as efficient budget tracking and monitoring. Financial projections are based on realistic assumptions in terms of costs, productivity and interest rates and result in a projected ROE of 20% in 2010. The main performance targets for 2006 have been reached, be it with a different composition than what was planned (higher financial costs compensated by higher portfolio yield), demonstrating a good monitoring of the financial performance.

Management team

The three-person Executive Board is adequate and well-run, with good technical skills and all the necessary positions in place as of December 2006. The members ensure an efficient and well-informed decision making process as well as a common vision for the future of the institution. Both the Executive Director and Finance Manager have worked with Constanta almost from the beginning, building up experience in microfinance through practice and external trainings. The Credit Manager joined Constanta at the end of 2004 bringing in banking experience. The positions of Marketing and HR Manager have been vacant for the major part of 2006 and have recently been filled with managers that have relevant experience for their position in banks but still have to grow in their position within Constanta.

There has been a high turnover in management positions during the past three years (both voluntary and involuntary). However this has strengthened the institution rather than weakened it with inflow of new management staff with banking background, which makes the institution better prepared for its target banking status. This transformation creates a dynamic environment and interesting challenges for management which is likely to foster management retention despite the very competitive HR market.

[4] Nov. 2006 YTD

Human resources management

Basic HR policies and procedures are in place and applied but the implementation of some HR tools (training program; staff evaluation) has been delayed by the vacancy of the HR manager position.

- The training of LOs through a 6-month internship is adequate, but there is need for a more precise identification of the training needs of existing staff to be converted into a structured training program for LOs as well as other positions.
- The sophisticated LO bonus scheme fosters a good LO performance and is in line with the credit department goals, although the high percentage of bonus in the total salary entails a slight risk of de-motivation.
- The vacancy of the HR manager position has led to a delay in implementation of a performance evaluation of staff, which is currently lacking.

Staff turnover has constantly been high during the past three years (15 to 27%) which lead to a wide renewal of staff and increase in staff qualification levels. This process was partly sought by the management since 40% to 50% of turnover is made up of dismissals for 2005 and 2006 respectively. Staff turnover has also in part been due to the outsourcing of support functions. Salary levels are adequate despite a competitive HR market, but better training and career planning could be necessary to increase staff retention levels. The transformation into a for-profit company and ultimate goal of transition to bank status seems to be well understood and accepted by current staff and is actually considered to foster staff motivation.

▪ Information

Information and equipment is rated "b"

MIS and equipment

The current system is relatively convenient and adequately organized but has some weaknesses (uneasy consolidation and transfers with between accounting and portfolio data, lack of flexibility, inadequate calculation of accruals) which led the management to decide to upgrade to a new MIS.

The current MIS is instrumental in the loan process with automated generation of all loan documentation. It also provides appropriate reporting and information and is well mastered by staff. Excel spread sheets are however used for consolidation and indicator calculation. They contain limited information and retrieving more detailed information from the system is tedious.

Current data security is reasonable but not sufficient due to limitations of the current Loan Tracking System (LTS):

- The Excel system used for data consolidation implies an inherent risk of errors, which is reasonably well mitigated by several check points.
- There is risk of data manipulation as the current system allows short and easy passwords that undermine the efficiency of the separation in access levels. The risk is minimized by an effective separation of duties and daily reconciliations between portfolio tracking and accounting data.
- The LTS produces occasional errors in the calculation of interests charged. This problem is known and well managed through regular reconciliation.
- The risk of data loss is reasonably well mitigated by back-up and storage procedures and virus protection: back-ups are made daily on optical disks both at branch level and at HQ and kept in safe storage, but occasional problems in databases transfer to HQ can undermine the back-up system efficiency. Anti-virus software is not fully rolled out nor always automatically updated, which poses a threat as all branches have access to the internet[5].

The new LTS is currently being implemented[6] and the accounting software will also be changed by the end of the year. The new MIS, developed by Alta Software, a Georgian software company that is the software provider of several Georgian banks, will be centralized and integrated, providing instant access to up-to-date and detailed information at branch level as well as consolidated. It should also reinforce general data security level[7].

The IT department is well staffed but does require extension in staffing which is already planned for. Key person risk remains with the prior IT manager who developed the current LTS and left in Q2 2006. Daily operations are handled by IT staff but the prior IT manager, despite his other commitments, still gives a hand for end-of month data queries or maintenance. This risk will remain until the new LTS has been fully implemented.

Information on activities

Accurate and up-to-date portfolio information is instantly available. There is monthly consolidation of branch data at HQ which is discussed intensively at management level. With the branches reorganization, BMs have more time available for reporting and analysis which results in an enhanced use and analysis of portfolio data.

The MIS provides information by loan officer, geographic region/branch and product type, but the current system is not easily adapted to new products (e.g. tourism loan) and

[5] Anti-virus implemented in January 2007.

[6] Already running in 3 branches at the time of the mission and 6 at the end of January) of the 18 branches.

[7] Automated back-up system and disaster recovery site, secure password policy and centralized anti-virus software which is automatically updated

cannot track data by cycle, gender, business sector, etc. These restrictions are known and these basic features will be included in the new system but the formatting of the main reports is still to be finalized.

Financial and accounting information

Financial information is timely and of reasonable quality. Constanta produces monthly financial statements with calculations of reserves, loan write-offs and amortization expenses. The financial statements facilitate performance ratio calculations and analysis.

Financial performance is closely monitored by the finance department and discussed during management team meetings. This includes calculation of key ratios and monthly comparisons of actual performance vs. targets. An analysis of performances by branch has been added in 2006, but does not yet include the allocation of head office and financial costs, which hinders its accuracy and usefulness for decision making. The tools are however being refined and BM are getting more and more involved in the analysis process.

A more detailed analysis of the profitability per product would now be necessary given the development of products with different yields and cost structures in order to be able to define with more precision the optimal level of interest rates for each product.

The external auditors always certified the accounts without reserve. However, there exist significant differences between the non-audited and audited statements for 2004 and 2005. The audit for 2005 indeed involved a restatement of the 2004 accounts and adjustments to the 2005 financial statements to correct incompliance with international accounting standards (specifically IAS 18: interests computed on a flat basis; provisioning not calculated based on estimations of future cash flows) and related adjustments in taxable income and income tax payable. The implementation of the new MIS should allow Constanta to comply with the auditors requirements regarding revenue recognition. However, Constanta is not planning to change its provisioning policy to adopt the one suggested by the auditor, since the one currently in use is in line with widely accepted microfinance practices.

Risks

Risks Management is rated “b”

Procedures and internal controls

Constanta staff has a good understanding of key risks and sound procedures in place for all areas of operations although some procedures[8] still need to be formalized in clear and up-to-date manuals. There is a good separation of duties both at HQ and branch level and a good delegation of lending power to the branches based on their capacity and performance.

Several measures (reorganization of branches, transition to a new MIS, centralization of accounting and creation of the 6-staff credit department controlling unit in charge of field controls) have been taken to increase the level of supervision of HQ over the branches, and have/will be implemented over 2006 and 2007. This should reduce the instances of incompliance to procedures noted by internal auditors (notably in the credit process and in the cash management process), and partly compensates for the lack of systematic rotation mechanisms for field staff, which is difficult to implement given Constanta’s current branch network.

Constanta has adequate cash security measures in place with reasonably secured infrastructures, relevant separation of tasks, daily cash transfers to/from banks operated by the banks and monthly updated maximum cash positions allowed overnight at each branch.

Internal audit

The Internal Audit department has been reinforced during 2006 with increased number and quality of staff, improved procedures and IA manual. The team now has a complete yearly audit plan, adequate report templates, and produces reports with good recommendations and follow-up of findings. The internal audit however still needs to be enhanced with the addition of audit of HQ and audit of the MIS (portfolio and accounting data) which will require more staff. A more sophisticated evaluation of risks and their evolution, notably through performance indicator analysis and analysis of market data, is also needed with related update of audit plan to cover arising risks.

The external audit provides a good level of audit for the financial information and review of internal controls and includes valuable recommendations.

[8] Manuals for ALCO and controlling unit need to be drafted.

Activities

Activities: products and services is rated "a"

All microfinance service providers have been improving the characteristics of their loan products (higher loan amounts, longer terms and lower rates) to better serve a wider range of clients which lead to an expansion of the real demand for microfinance services. The fast growth of Constanta and its competitors' portfolio during the past two years provides empirical evidence of an existing untapped market potential, and the market survey conducted with USAID funding in 2004[9] suggests that the market penetration currently stands at around 66% (90,000 clients served for 136,000 potential clients). In the Georgian context of fast economic growth, updated market data would be welcome to support/ challenge microfinance service providers and identify potential market saturation risks.

The Georgian microfinance sector is indeed getting more and more competitive, mostly in urban areas where MFIs have been operating for years and commercial banks have become active in the recent years. Competition is also increasing in rural areas even if there the commercial banks are less active. With the increased competition, over-indebtedness and cross-indebtedness becomes an issue. Currently "negative info" can be obtained from CreditInfo, whereas "positive info" would also be necessary to manage this risk adequately. With the lack of will from the commercial banks this is however not foreseen in the near future on a national level.

The major trends in the Georgian microfinance sector are:

- Successful downscaling of the commercial banks into the urban microfinance market with some starting as low as 500 GEL (290 USD), even though they do not offer group loans;
- NBFIs extending loan terms up to 48 months and for higher amounts (max 50,000 GEL);
- Increase in requested loan volumes by clients due to economic growth and inflation;
- Downward trend on interest rates due to increased competition which might see a one time increase in 2007 due to inflation;
- Increase in demand for USD loans by entrepreneurs & businesses involved in import/export.

Market position and strategy

Constanta is the second microfinance service provider behind ProCredit GEO, and among the Georgian NBFIs continues to be the market leader both in number of active clients as well as in loan portfolio. Finca GEO has however almost caught up in terms of number of clients, but not in portfolio volume. Constanta currently has a market share of 22% by number of active clients and 15% by gross loan portfolio.

For the higher loan amounts (above 10,000 GEL) Constanta is competitive in terms of interest rates compared to both ProCredit and the commercial banks. For the lower loan amounts Constanta relies on its faster and more customer friendly service. Given the extensive growth in the past year this strategy has so far proven to be effective.

Constanta has ambitious plans in terms of marketing, but due to the vacancy of the position of marketing manager for almost the whole of 2006 (position filled mid-December 2006) most projects were on hold or delayed (product development, branding, communication). So far, marketing and promotion activities were mainly done through basic channels, such as word-of-mouth or brochures distribution, and Constanta's branch infrastructure is not yet up to the image of a professional financial institution that it wants to convey.

New products are being piloted (consumer loans, pawn loans) and other product developments are planned (USD loans, foreign exchange and money transfer) that are now permitted by the new microfinance law. Constanta can still gain by further improving the appropriateness of its products to customer needs, which would be facilitated by institutionalizing product development and enhancement in an R&D unit.

Credit methodology

Constanta's credit methodology proved to be both efficient and adapted to the Georgian market as evidenced by its strong growth rate and its ability to maintain excellent portfolio quality.

- LOs usually have university degrees and are well trained. The recruitment of new LOs is preceded by a 6-month internship concluded with a one-week theoretical course with assessment.
- Constanta has a well established bonus system for LOs with key performance indicators balancing growth with portfolio quality.
- Constanta is exposed to a minor operational risk due to its rapid growth and notably to the hiring of 47 new LOs in 2006. Nevertheless this risk is reduced by systematic training, well documented procedures and frequent internal controls.
- Credit risk analysis is adequate as all loan products use a well developed business analysis. The analysis is performed taking into account existing business revenues, both business and family expenses and owned assets. There is an active focus on improving business analysis of group loans and the recently established controlling unit in credit department conducts in-depth

[9] See « Microfinance Sector »

validations of the quality of the analysis conducted by LOs. It is planned to conduct these checks on individual loan analysis in the near future.

- Branch Managers have all the tools necessary to monitor their branch performance. Detailed monthly reports are sent to the Credit Manager, with all necessary indicators. Due to the restructuring of the branches, BMs are allocated more time for analysis and follow-up. The differentiation of tasks between the BM and Loan Manager should lead to more systematic supervision when fully implemented.

Constanta does have to develop a deeper thinking on caseload per LO in order to equilibrate workload and reduce key person risk, especially taking into account the high staff turnover. Even when excluding new LOs significant differences remain in loan officer productivity as some Group LOs manage up to 600 clients whereas the average for Group LOs stands at around 300.

Portfolio Evolution

After showing moderate growth rates in 2003 and 2004 (19.3% and 29.5%) the portfolio grew stronger in 2005 (45.9%) and more than doubled in 2006 (growth rate of 125%) as a result of stronger market demand and more flexible / less expensive loan products. Since 2003 the growth has mainly been due to increasing loan amounts as the yearly evolution in number of active borrowers varied between (-11%) and +15%, while the average outstanding loan per borrower increased from 190 USD in 2003 to 947 USD at present.

The growth in loan amounts is both due to a shift from group loans (82% of portfolio in 2003) to individual loans (59% of portfolio as of Nov. 2006), as well as a general increase in loan amounts (average group loan per client doubled from 2003 to present). The shift towards individual loans is in part caused by new clients, but also to a large extent by group loan clients who have shifted to individual loans as their businesses have expanded. To facilitate this and to avoid competition between Group LOs and Individual LOs, Group LOs have been allowed to offer individual loans to their current clients since 2006. The Agro Loan, started in 2004, has been growing relatively slowly and now accounts for 4% of portfolio.

Portfolio diversification

Constanta has a natural geographic diversification in both rural and urban areas as it is working on a national level. However, Constanta does not have a specific portfolio diversification policy either by geographic or business sector, nor is it able to track outstanding portfolio by type of business. In 2004 high concentration on street vending which was banned by government overnight resulted in a significant decrease in portfolio quality. Constanta does monitor government regulations closely and has since made the decision to limit or prohibit exposure to certain business sectors that are considered risky (e.g. grains, second hand clothing and unregistered taxi business).

Portfolio quality and write-off

After several years of stable portfolio quality PAR saw a spike in 2004 which is due to both the fraud case at the Khashuri outlet (see “Presentation of the institution” for more details) as well as the overnight ban on street vending decided by the Georgian government in February 2004. The portfolio quality was back to its very good historic levels by Dec. 2005 and was further improved in 2006. It needs to be said that there is a possible understatement of PAR due to the rapid growth of the loan portfolio in 2006. The potential influence of grace periods is expected to be minimal but has not been analyzed by Constanta. PAR<30 does show a slight increase from 1.0% in 2005 to 1.5% at present. However, PAR>31 ranges between 0.0% and 1.3% per product or per branch showing the underlying strength of the portfolio quality. The only exception is the Insider Loan (PAR>31 of 9.2%) which is due to staff turnover, but this loan product has been suspended and currently only represents 0.2% of total portfolio.

The good portfolio quality is due to effective and expedient management of delinquent loans by LOs which is closely monitored by the BM and LM. It is further supported by the active intervention of the legal department. Legal action is mainly used to put pressure on clients as the legal processes in Georgia are slow and lengthy and recovery of late payments through legal action remains low.

Due to the fraud case and the ban on street vending in the second half of 2004 the write-off ratio shows a significant increase in 2005, when the bulk of the fraudulent loans were written-off (for a total amount of 890,000 USD, 688,000 related to the fraud case, 202,000 USD to the evolution of the economic/legal environment). With current portfolio quality the write-off ratio is expected to remain low as already evidenced by the preliminary data for 2006. Written-off loans are actively followed up, and remain in off-balance sheet accounts for a minimum of five years.

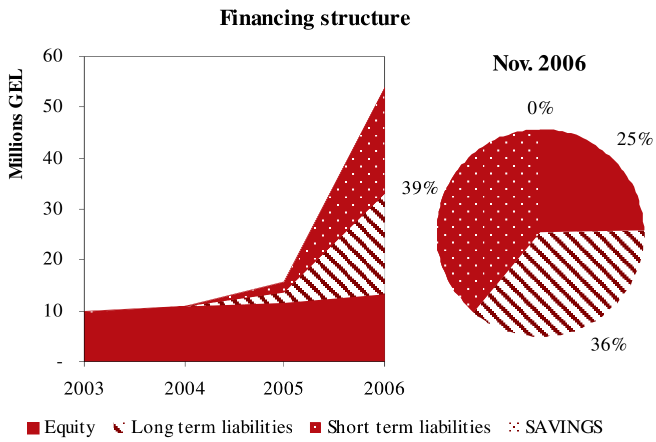
Credit risk coverage

Starting from 2005, Constanta has implemented a new provisioning policy that leads to adequate risk coverage ratios. The internal policy is based on a classic provisioning of loans according to their age of lateness, with levels of provisioning increased for loans that have no hard collateral. The reserve for 2005 was even increased by Deloitte that bases its calculations on estimations of future cash-flows on loans in arrears[10]. This methodology, that is compliant with IAS, will certainly be refined over the years as management and the auditors will be able to judge its accuracy based on effective collection rates on the provisioned loans. Given our rough estimations, this should lead to a decrease in the provision amount for the years to come.

Constanta makes effective use of different forms of hard and soft collateral. Group loans require a group guarantee, but can also contain other forms of collateral. For individual loans a mix of co-guarantor, hard collateral and pawn items is often chosen. With the new LTS Constanta will be able to better check for cross-guarantees of guarantors.

Financing and liquidity

Financing and liquidity **is rated** "a"



Capital structure and leverage

Since inception and until 2004, Constanta has been funding its activities exclusively on retained earning and grants (6.1 M USD received since inception originating mainly from USAID (65%) and UNHCR (28%) – see details in the Presentation of the Institution). The institution started diversifying its funding sources in 2005 and contracted mostly long term loans (average term of 28 months) in EUR, USD and GEL from 10 different foreign investors and one local bank for a total amount outstanding of 13 M USD as of Nov. 2006. The balance sheet now displays a leverage ratio of 3 that is however inflated by back-to-back loans used to hedge the foreign currency risk of most of the hard currency loans. The effective leverage ratio currently stands at 1.6. The average effective cost of these loans stands at 11%.

ALM risks

The management team has rapidly developed a good understanding of ALM risks and a good knowledge of the control mechanisms. ALM risks are well identified and have been taken into account in the negotiations with fund providers. Most risks are currently well controlled, except for some open foreign exchange currency positions that are however kept at manageable levels and are to be closed by the end of 2007.

- Constanta is exposed to foreign exchange risk with some open positions both in USD and EUR, on the first foreign currency loans that have not been hedged. EUR and USD exposure respectively represent 3% and 12% of equity[11]. The institution has however now put in place adequate hedging mechanisms with back-to-back loans for all loans negotiated in 2006. It is planned to hedge all loans contracted from Nov. 2006 with USD swaps. The extension of USD loans to clients, planned for 2007, will also reduce the open positions in the near future.
- The maturity risk is currently limited with a widely short term portfolio funded by mostly long term liabilities and no gaps in the short term bands.
- Constanta is mostly funded with fixed rates loans which, combined with a wide financial margin, efficiently limits its exposure to interest rate risk.

Financing strategy

The fast growth experienced during the past year and a half was only made possible by the active and successful fund search led by the ED and the Finance Manager. Despite their limited experience of that type of transaction, the team has rapidly developed good negotiations skills and built a diversified fund base with potential for subsequent deals with most fund providers. The team has a good analysis of its areas for improvement in terms of fund search and is likely to reach better conditions in its next round of negotiations and should avoid lag times in disbursement experienced once in March 2006. General funding needs are well defined and the institution has the strategy to be prepared at any time for an increase in the demand for loans, by maintaining close relationships with its fund providers at all times.

Several of current fund providers have expressed interest in becoming equity partners once the institution has transformed into a for-profit private company and it is likely that new shareholders will be introduced in 2007 or 2008. The strategy related to the introduction of new shareholders was still being drafted at the moment of this mission, and was to be issued by March 2007. It is however to be noted that, given its relatively low leverage ratio, the institution still has some room for growth through debt financing.

Liquidity management

Liquidity management is adequately organized to avoid cash shortages but has not yet been optimized due to external and internal factors. On the one hand, the limitations of the

[10] Using a sampling of historical loan data for 25 different groups (grouped by different geographic and business areas)

[11] The most important portion of these open positions will be closed by the end of 2007.

Georgian banking sector hinder the efficiency of liquidity management due to delays in transfers from bank to bank, decentralized infrastructures, lack of on-line services. On the other hand, Constanta has made the choice to keep high levels of liquidity on branches bank accounts in order to allow very fast disbursements (within one-day in some cases). This policy is considered essential to face the active competition but comes at a cost that is not yet calculated by Constanta and has increased greatly now that the institution is widely funded on commercial sources. The institution however plans to build on one of its staff experience in treasury management to introduce more sophisticated liquidity management procedures, such as transfer pricing for branches, which should foster more efficient allocation of funds.

Efficiency and Profitability

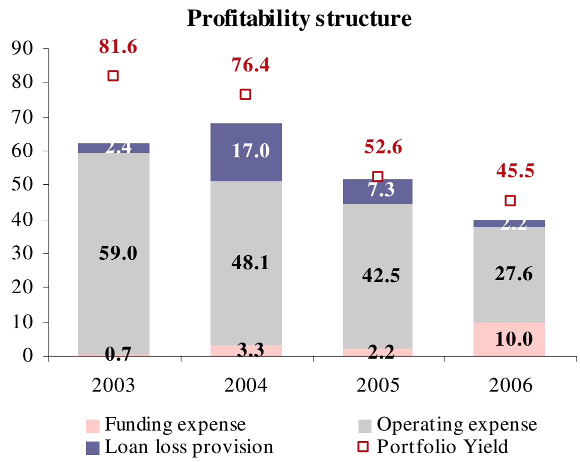
Efficiency and Profitability **is rated** "c"

Profitability analysis

After several years of solid profitability, indicators show a significant dip in 2004 and 2005 which is, to a large extent, due to important loan loss provision expenses made necessary by the effect of the fraud in the Khashuri outlet and the government ban on street vending. Interest rate cuts implemented in 2005 and changes in portfolio composition (close to 60% of portfolio now invested in individual loans with significantly lower APR than group loans) have led to an important decrease in portfolio yield that has however been compensated by economies of scale. These economies of scale, boosted by increases in average amount lent (from 271 USD in 2003 to more than 1,000 USD in 2006), have also been sufficient to cover for increased funding costs. Partial results for 2006 show that profitability indicators are back up to comfortable levels even if it should be noted that income tax for 2006 (approx. 20% of net profit) has not yet been taken into account as it is not accrued on a monthly basis by Constanta.

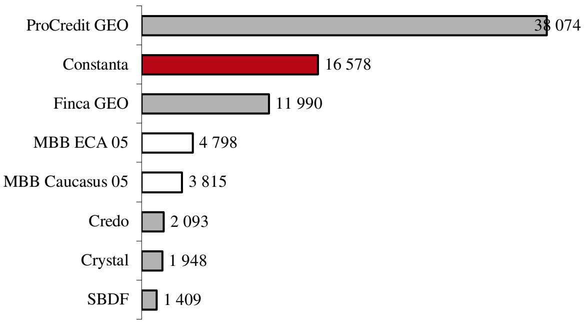
With loan loss provision expenses back to usual levels, Constanta should be able to maintain comfortable profitability levels over the years to come.

- Individual loans' weight in the loan portfolio should further increase to reach approx. 70% by the end of 2008, putting a downward trend on portfolio yield that the institution intends to stabilize at approx. 35%.
- The operational expense ratio should further decrease and stand below the 20% mark by the end of 2008. This trend is attributable to the planned continued increase in average loan amount and the use of untapped production capacity of the current loan officers (due to the important number of new hires in 2006): the current number of LOs is indeed already sufficient to manage the number of clients planned for 2010 if all LOs perform at the average performance standard.
- The current hedging mechanism (back-to-back loans) will not be available during 2007 and will be replaced by SWAPs which will temporarily increase the funding costs by an expected 1% interest points. The institution however plans to start issuing most of its loans in USD (which is common practice in Georgia and supported by the demand from some clients who have to use USD for their important payments) to avoid incurring the costs of FX risk coverage.
- Under the new microfinance law Constanta will not be allowed to collect savings, and will thus have to wait until it transforms into a bank to make use of the cheaper funding costs born by savings.

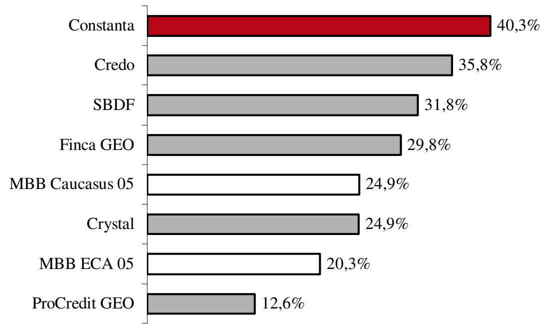


Benchmarking

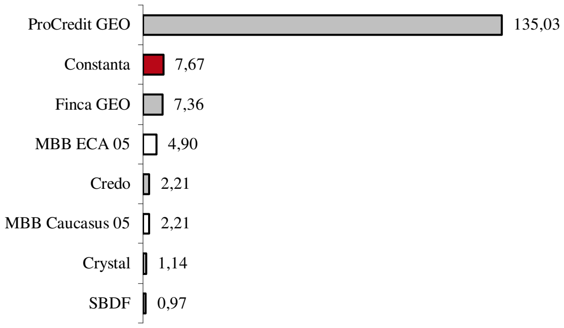
Number of active borrowers



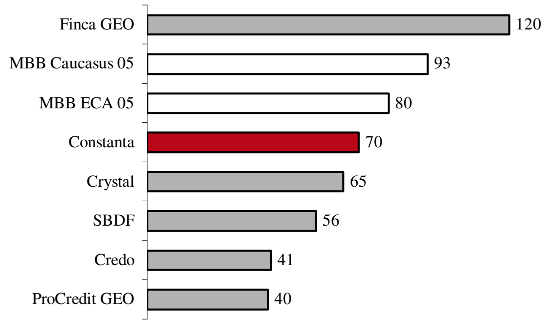
Operational expense ratio



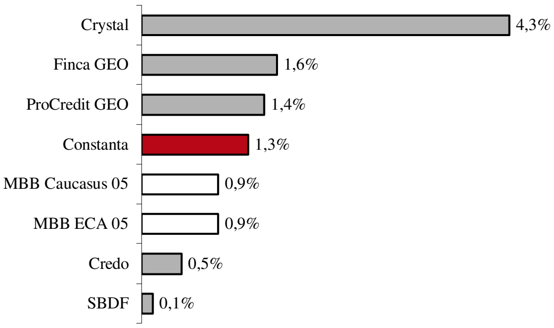
Gross Portfolio (in M USD)



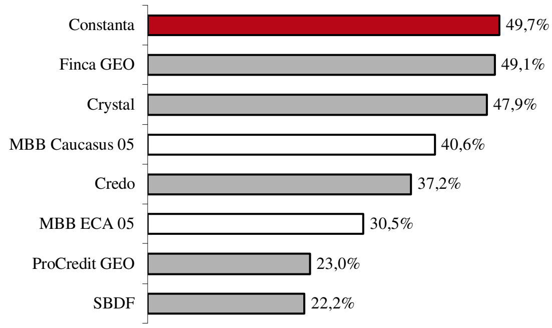
Staff productivity



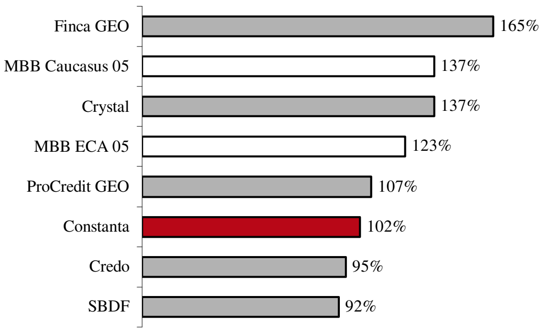
PAR > 30 days



Portfolio yield



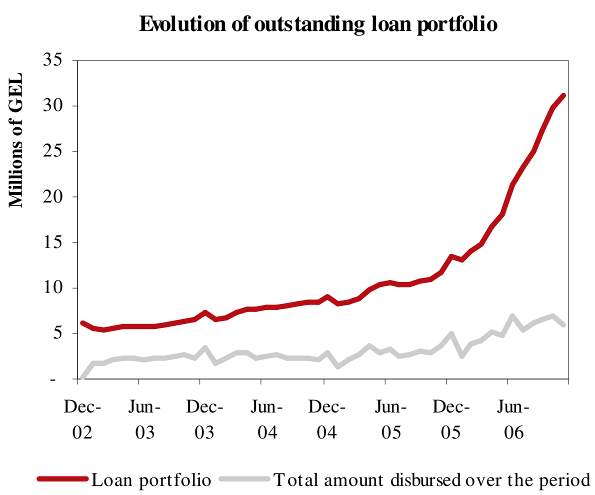
Operational Self Sufficiency

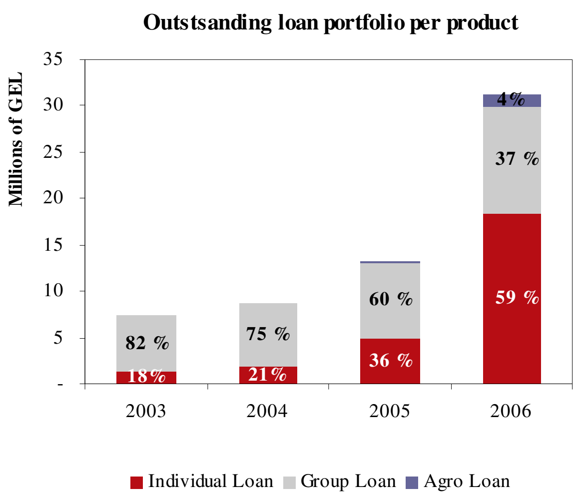


Performance indicators

Data in USD, unless otherwise stated

LOAN PORTFOLIO	Dec. 2003	Dec. 2004	Dec. 2005	Nov. 2006
Loan portfolio	3,536,047	5,204,932	7,727,273	18,034,151
Loan portfolio (GEL)	7,337,297	9,499,000	13,855,000	31,226,132
Evolution	*19.3%*	*29.5%*	*45.9%*	*125.4%*
Active borrowers	18,588	18,657	16,578	19,051
Evolution	15.2%	0.4%	(11.1%)	14.9%
Average outstanding loan per client	190	279	466	947
% of GDP per capita	20.0%	22.4%	31.2%	52.6%
Average amount disbursed	271	372	530	1,020
% of GDP per capita	28.5%	29.8%	35.4%	56.7%
PAR 31-365 (%)	3.3	19.4	1.3	0.6
PAR > 365 (%)	0.0	0.0	0.0	0.0
Write-off ratio (%)	1.0	1.2	15.6	1.0
Risk coverage ratio (%)	119.1	88.3	277.1	398.7
PAR 31 net of loan loss provision / Equity (%)	(0.5)	1.9	(2.6)	(3.9)
STAFF	**Dec. 2003**	**Dec. 2004**	**Dec. 2005**	**Nov. 2006**
Staff	208	230	236	262
% Credit officers	41%	39%	43%	49%
Turnover	2%	15%	27%	23%
PROFITABILITY ANALYSIS	**Dec. 2003**	**Dec. 2004**	**Dec. 2005**	**Nov. 2006**
ROE (%)	12.2	3.6	0.6	15.0
Liabilities / Equity	0.02x	0.01x	0.36x	1.64x
ROA (%)	12.0	3.6	0.5	7.3
Portfolio Yield (%)	81.6	76.4	52.6	45.5
Operating expense ratio (%)	59.0	48.1	42.5	27.6
Staff productivity	89	81	70	73
Loan officer productivity	219	210	163	148
Average outstanding loan per client (USD)	190	279	466	947
Funding expense ratio (%)	0.7	3.3	2.2	6.8
Cost of liabilities (%)	N/A	N/A	13.6	12.1
Loan Loss Provision expense ratio (%)	2.4	17.0	7.3	2.2
Outstanding Loan Portfolio / Assets (%)	71.0	72.2	85.4	56.6
Revenue from investment as a % of financial revenues (%)	2.3	1.3	0.2	6.5





Constanta		GEL			s	USD				Evolution		
Income Statement	Notes	Dec. 2003	Dec. 2004	Dec. 2005	Nov. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Nov. 2006	04/03	05/04	06/05
Financial Revenue (a)		**5,051,353**	**6,222,988**	**5,649,043**	**9,259,107**	**2,434,387**	**3,409,856**	**3,150,609**	**5,347,449**	**23.2%**	**(9.2%)**	**63.9%**
Financial Revenue from Loan Portfolio		4,925,137	6,131,917	5,596,229	8,629,551	2,373,560	3,359,955	3,121,154	4,983,859	24.5%	(8.7%)	54.2%
Interest on Loan Portfolio		4,507,447	5,523,000	4,817,000	7,284,431	2,172,264	3,026,301	2,686,559	4,207,006	22.5%	(12.8%)	51.2%
Fees and Commissions on Loan Portfolio		332,972	390,000	677,000	1,122,050	160,468	213,699	377,579	648,022	17.1%	73.6%	65.7%
Penalty Revenue on Loan Portfolio		84,718	218,917	102,229	223,070	40,828	119,955	57,016	128,830	158.4%	(53.3%)	118.2%
Financial Revenue from Investments		116,442	81,494	12,194	606,234	56,117	44,654	6,801	350,121	(30.0%)	(85.0%)	4,871.7%
Other Operating Revenue		9,774	9,576	40,620	23,322	4,710	5,247	22,655	13,469	(2.0%)	324.2%	(42.6%)
Financial Expense (b)		**39,697**	**268,000**	**238,000**	**1,892,097**	**19,131**	**146,849**	**132,738**	**1,092,750**	**575.1%**	**(11.2%)**	**695.0%**
Interest paid on borrowings		-	-	177,000	1,998,121	-	-	98,717	1,153,983	-	-	1,028.9%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-							
Other Financial Expenses		39,697	268,000	61,000	(106,024)	19,131	146,849	34,021	(61,232)	575.1%	(77.2%)	(273.8%)
Financial income [c=a-b]		**5,011,656**	**5,954,988**	**5,411,043**	**7,367,010**	**2,415,256**	**3,263,007**	**3,017,871**	**4,254,698**	**18.8%**	**(9.1%)**	**36.1%**
Net Loan Loss provision expense (d)		**142,867**	**1,362,988**	**775,043**	**423,428**	**68,852**	**746,843**	**432,260**	**244,544**	**854.0%**	**(43.1%)**	**(45.4%)**
Loan loss provision expense and write-off		142,867	1,375,000	858,000	508,221	68,852	753,425	478,528	293,515	862.4%	(37.6%)	(40.8%)
Recovery from Loans written off		-	12,012	82,957	84,793	-	6,582	46,267	48,971	-	590.6%	2.2%
Operating expense (e)		**3,559,574**	**3,860,000**	**4,520,000**	**5,232,814**	**1,715,457**	**2,115,068**	**2,520,915**	**3,022,128**	**8.4%**	**17.1%**	**15.8%**
Personnel Expense (includes fringe)		2,359,554	2,255,000	2,559,000	3,145,648	1,137,134	1,235,616	1,427,217	1,816,718	(4.4%)	13.5%	22.9%
Administrative Expense (non-staff operating expenses)		1,200,020	1,605,000	1,961,000	2,087,166	578,323	879,452	1,093,698	1,205,409	33.7%	22.2%	6.4%
Depreciation and amortization		157,300	196,000	257,000	265,874	75,807	107,397	143,335	153,551	24.6%	31.1%	3.5%
Consulting fees		81,904	104,000	87,000	185,351	39,472	56,986	48,522	107,047	27.0%	(16.3%)	113.0%
Rent, utilities, office supplies and others		960,816	1,305,000	1,617,000	1,635,941	463,044	715,068	901,840	944,812	35.8%	23.9%	1.2%
Net Operating Income Before Taxes and Donations [f=c-d-e]		**1,309,215**	**732,000**	**116,000**	**1,710,768**	**630,947**	**401,096**	**64,696**	**988,026**	**(44.1%)**	**(84.2%)**	**1,374.8%**
Income Taxes (g)		261,843	360,000	51,000	-	126,189	197,260	28,444	-	37.5%	(85.8%)	(100.0%)
Net Operating Income Before Donations [h=f-g]		**1,047,372**	**372,000**	**65,000**	**1,710,768**	**504,758**	**203,836**	**36,252**	**988,026**	**(64.5%)**	**(82.5%)**	**2,532.0%**
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		**1,047,372**	**372,000**	**65,000**	**1,710,768**	**504,758**	**203,836**	**36,252**	**988,026**	**(64.5%)**	**(82.5%)**	**2,532.0%**
Donations (l)		1,170,002	890,000	560,000	497,122		487,671	312,326	287,105	-	(37.1%)	(11.2%)
Net Income (after Taxes and Donations) [m=k+l]		**2,217,374**	**1,262,000**	**625,000**	**2,207,890**	**504,758**	**691,507**	**348,578**	**1,275,131**	**20.5%**	**(50.5%)**	**253.3%**

Constanta	GEL					USD				Evolution		
Balance sheet	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Nov. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Nov. 2006	04/03	05/04	06/05
ASSETS	**7,499,754**	**9,927,740**	**11,007,000**	**15,673,000**	**53,963,597**	**4,784,453**	**6,031,233**	**8,741,216**	**31,165,809**	**10.9%**	**42.4%**	**244.3%**
Short Term Assets		**8,905,427**	**9,217,000**	**11,773,000**	**44,277,990**	**4,291,772**	**5,050,411**	**6,566,090**	**25,572,042**	**3.5%**	**27.7%**	**276.1%**
Cash and Due from Banks		1,356,658	909,000	215,000	1,978,858	653,811	498,082	119,911	1,142,857	(33.0%)	(76.3%)	820.4%
Short Term Investments		400,000	137,000	-	14,977,231	192,771	75,068	-	8,649,859	(65.8%)	(100.0%)	-
Short Term Net Loan Portfolio	5,944,692	7,049,054	7,418,000	10,895,000	26,220,065	3,397,134	4,064,658	6,076,408	15,142,977	5.2%	46.9%	140.7%
Short Term Gross Loan Portfolio	6,152,587	7,337,297	8,968,000	11,364,000	26,906,342	3,536,047	4,913,973	6,337,981	15,539,326	22.2%	26.7%	136.8%
(Loan Loss Reserve)	207,895	288,243	1,550,000	469,000	686,277	138,912	849,315	261,573	396,348	437.7%	(69.7%)	46.3%
Interest Receivable		-	438,000	268,000	483,706	-	240,000	149,470	279,357	-	(38.8%)	80.5%
On loan portfolio		-	438,000	268,000	95,290	-	240,000	149,470	55,033	-	(38.8%)	(64.4%)
On investments		-	-	-	388,416	-	-	-	224,323	-	-	-
Accounts receivable and other assets		99,715	315,000	395,000	618,130	48,055	172,603	220,301	356,991	215.9%	25.4%	56.5%
Long term assets		**1,022,313**	**1,790,000**	**3,900,000**	**9,685,607**	**492,681**	**980,822**	**2,175,125**	**5,593,767**	**75.1%**	**117.9%**	**148.3%**
Long Term Net Investments		-	-	-	3,845,319	-	-	-	2,220,802	-	-	-
Long Term Gross Loan Portfolio	-	-	531,000	2,491,000	4,319,790	-	290,959	1,389,292	2,494,825	-	369.1%	73.4%
Net Fixed Assets	881,191	1,022,313	1,259,000	1,409,000	1,520,499	492,681	689,863	785,834	878,139	23.2%	11.9%	7.9%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		**9,927,740**	**11,007,000**	**15,673,000**	**53,963,597**	**4,784,453**	**6,031,233**	**8,741,216**	**31,165,809**	**10.9%**	**42.4%**	**244.3%**
Liabilities		**219,669**	**74,000**	**4,115,000**	**40,663,128**	**105,865**	**40,548**	**2,295,036**	**23,484,336**	**(66.3%)**	**5,460.8%**	**888.2%**
Short term liabilities		219,669	74,000	1,952,000	20,992,384	105,865	40,548	1,088,678	12,123,814	(66.3%)	2,537.8%	975.4%
Short Term Borrowings	-	-	-	1,917,000	20,077,587	-	-	1,069,158	11,595,488	-	-	947.3%
Interest payable	-	-	-	12,069	846,307	-	-	6,731	488,771	-	-	6,912.0%
Accounts Payable and Other Short Term Liabilities		219,669	74,000	22,931	68,489	105,865	40,548	12,789	39,555	(66.3%)	(69.0%)	198.7%
Long term liabilities		-	-	2,163,000	19,670,744	-	-	1,206,358	11,360,522	-	-	809.4%
Long Term Borrowings	-	-	-	2,163,000	19,670,744	-	-	1,206,358	11,360,522	-	-	809.4%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity	**7,499,754**	**9,708,071**	**10,933,000**	**11,558,000**	**13,300,469**	**4,678,588**	**5,990,685**	**6,446,180**	**7,681,472**	**12.6%**	**5.7%**	**15.1%**
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity	7,458,751	8,628,753	9,519,000	10,079,000	10,575,730	4,158,435	5,215,890	5,621,305	6,107,843	10.3%	5.9%	4.9%
Retained earnings without donations and reserves		1,079,318	1,414,000	1,479,000	2,724,739	520,153	774,795	824,875	1,573,629	31.0%	4.6%	84.2%
Current year		1,047,372	372,000	65,000	1,710,768	504,758	203,836	36,252	988,026	(64.5%)	(82.5%)	2,532.0%
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

Formulas

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

Rating scale

Rating	Definition
A+ A A-	**Excellent** The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
B+ B B-	**Good** Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
C+ C C-	**Minimum required** Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
D	**Insufficient** Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	**Immediate risk of default or very insufficient** There are immediate or underlying risks for operations or an unacceptable under performance.

The opinions expressed in 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.