

## GIRAFE

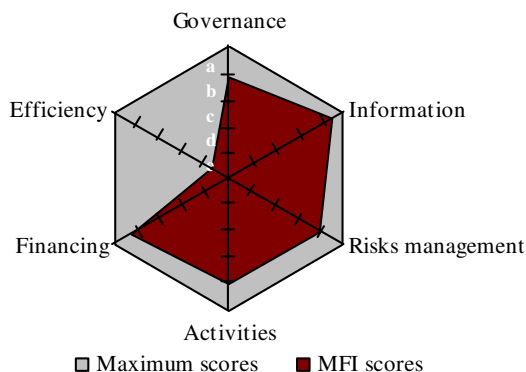
## MicroInvest, Moldova

June, 2006

### Rating

A+
A
A-
<b>B+</b>
B
B-
C+
C
C-
D
E

**Good:** Procedures are well developed, effective, and incorporate a long-term perspective. Medium-term and long-term risks exist but are identified by the institution. Some improvements could be made to efficiency and risk management.



### Trend

<b>Positive</b>	Clearly improving financials in 2006 explain the positive trend. MI is a young institution that will reach self sustainability while growing
Stable	
Uncertain	
Negative	

### Description of the institution

MicroInvest was created in April 2003 and registered as a Limited Liability Corporation (LLC) by the Moldova Microfinance Alliance (MMA) as technical provider and the Soros Foundation Moldova as sole equity investor to provide financial services to Micro and Small Enterprises (MSE) in rural and urban areas. As of March 2006, MicroInvest served 1,416 clients through a network of eight regional offices widely spread over the Moldovan territory, but it is more active in southern areas. In March 2006, MicroInvest had a gross loan portfolio of 3.2 M USD and was offering six loan products based on both individual and group methodologies.

### Performance indicators (K USD, otherwise stated)

	Dec. 2003	Dec. 2004	Dec. 2005	March 2006
<b>ACTIVITY</b>				
Number of staff	8	31	38	39
Total assets (K MDL)	234	1,082	3,771	4,230
Loan portfolio	3,099	13,483	48,385	55,052
Active borrowers	187	785	2,615	3,223
APR <sup>(*)</sup>	219	399	1,297	1,416
PAR 31-365	(*)	(*)	(*)	(*)
PAR > 365	0.6%	0.9%	1.1%	1.0%
Write-off ratio	0.0%	0.0%	0.3%	0.1%
Risk coverage ratio	588%	321%	126.9%	66.3%

### Rating summary

**The MFI has been assigned / received a global rating of B+.** MI's Board of Directors and management team are composed of experienced and dedicated persons allowing for a regular and efficient decision-making and the setting of clear and realistic goals. Procedures and control processes have been well thought at and risks are well identified and monitored. Moreover, the institution has developed an on-scale and impressive MIS for an institution of that size, generating extensive information and easing the follow-up of activities. Adequate portfolio management procedures and a range of products flexible and competitive result in a portfolio of strong quality, backed by high provisions and strong collaterals. Being a very young institution, MI does not benefit from economies of scale for now and next challenges are linked to the funding and the profitability of the structure, as MI needs to increase the staff productivity and to find less expensive funds.

### PERFORMANCE

ROE	(31%)	(48%)	(26.9%)	9.5%
Liabilities / Equity	49.2%	49.2%	267.5%	144.1%
ROA	(12.8)	(22.5)	(5.7%)	4.0%
Op self-sufficiency	37.9%	49.9%	74.3%	124.5%
Fin. self-suff.	18.7%	39.8%	50.3%	81.7%
Portfolio Yield	9.6%	25.8%	24.6%	26.2%
Operat. exp. ratio	17.0%	49.5%	28.5%	13.2%
Staff productivity	27	13	34	36
Fund. exp. ratio	2.4%	3.2%	5.4%	9.3%

### GROWTH

Loan portfolio growth	NA	297%	243.0%	23.3%
Assets growth	NA	335%	258.9%	13.8%
<b>Ex. rate 1 USD= xx MDL</b>	<b>13.22</b>	<b>12.46</b>	<b>12.832</b>	<b>13.0147</b>

<sup>(\*)</sup>See details of APR per product / sector financed in the annexes.

For ease of comparison, data as of March 2006 have been annualized.

This grade has been given with a **Positive** trend. The introduction of new fees and the growth resulted in positive results before donations for the first time in the first quarter 2006. Funds needed to finance growth are available, though expensive, and Moldovan untapped market is still huge.

### Financing needs

Funds to finance growth in 2006 are secured, but MI anticipates new needs for the coming years. Planet Rating believes that MI is a solid institution, able to absorb more funds and grow further.

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## ▪ **Microfinance sector**

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The microfinance sector in Moldova dates back to 1997, when the first Savings and Credit Associations (SCAs) were established. It is predominantly composed of these credit unions or SCAs. Currently, there are approximately 530 SCAs and 3 other MFIs operating in the country serving about 85,000 clients and 37,000 borrowers. Banks and SCAs each represent 40% of the total MF portfolio while MFIs represent the remaining 20%. Despite the impressive number of SCAs and other microfinance institutions existing in Moldova the estimated market penetration for microfinance stands at 15%.

The microcredit system in Moldova is a three-tiered system.

- The first tier is that of SCAs, which primarily targets rural areas (as of 2005, 80% of SCA members are involved in agriculture related businesses - private farmers or village entrepreneurs). The average loan extended by SCAs is 200 USD, with a maximum amount of 2,500 USD. The total loan portfolio for SCAs is 22 M USD.
- The second tier is comprised of MFIs such as MicroInvest, Rural Finance Corporation and ProCredit. Clients from this group are usually new business entrants, which do not hold fixed assets and lack proper management skills. Most do not have a credit history, but they do need long-term funding to purchase assets. The credit portfolio for MFIs is above 12 M USD.
- According to the Moldova's National Agency for Attracting Investment there are 16 commercial banks in the country. Three banks are a 100% foreign-owned; eleven banks have joint share capital; and two banks have a share capital formed by residents of Moldova, with the state holding interest in one of the two banks.

Among the institutions that supported and/or are supporting microfinance development in Moldova are the World Bank, the Department for International Development of the United Kingdom (DFID), the European Bank for Reconstruction and Development, KfW, Finance and Investments for Social Development, Soros-Moldova Foundation, the German Technical Cooperation, the Open Society Institute, and USAID.

## ▪ **Political and economic environment**

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Having suffered one of the deepest recessions among transition economies following Russia's collapse and despite recent periods of growth, Moldova remains the poorest country in Europe and is ranked 115 out of 177 countries in the 2005 PNUD Human Development Report. From 1991 to 2000 Moldova's economic output fell by 50%

forcing 700,000 people to leave in search of jobs. In 2000 the country's economy turned around growing at an average 5% per year due to a period of structural adjustment, an increase in domestic and neighboring countries' consumer demand and a sharp rise in remittances sent back by Moldavians working abroad (about 1/4 of the population).

Despite the turnaround, which saw average growth of 6.4% per year between 2001 and 2004, the country continues to face severe challenges such as a high poverty, a high rate of unemployment, and a rising foreign debt. For the great majority of the population, real salaries have remained stagnant partly due to the unexpectedly high rate of inflation experienced in 2003 (15%). Moldova specializes in low value-added agricultural products (22% of GDP) and is thus heavily dependent on exogenous factors such as market prices for food and weather conditions. Despite extensive land privatization, the typical rural household is not producing for the market but for subsistence. Growth remained strong in 2005, fuelled mainly by consumption and construction, stimulated in turn by transfers from Moldavian workers residing abroad. The government's financing difficulties have kept the public sector deficit at moderate levels. In 2006, the economy could falter due notably to inadequate investment still hampered by a lack of reforms and an unfavorable business environment.

External accounts have continued to deteriorate amid buoyant domestic demand. They continue to depend on the Russian market and sales of low value-added food products, while Moldavia has to rely on imports to cover almost all its energy products needs. New restrictions imposed by Russia, the continued rise of spending on energy, a decline of food prices, or deterioration of weather conditions could cause a greater-than-expected widening of an already-gaping trade deficit. Moreover, the external debt burden, although declining, has remained large for Europe's poorest economy.

The Communist Party, which won the elections of March/April 2005, continues to dominate the political scene. Implementation of the Action Plan agreed with the European Union in February 2005 should remain one of its main objectives. And the EU could get more actively involved particularly in efforts to resolve the conflict with the virtually autonomous region of Transnistria. However, the government's limited appetite for reform, already depriving the country of IMF financial aid, could hamper implementation of the agreed Action Plan.

### **COFACE Country Rating for Moldova: D**

The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.

(USD millions)	2001	2002	2003	2004	2005(e)	2006(f)
Economic growth (%)	6.1	7.8	6.3	7.3	7.5	5.5
Inflation (%)	9.8	5.3	11.6	12.4	12.0	10.0
Public sector balance (%GDP)	-0.3	-0.9	0.2	-1.5	-2.5	-2.0
Exports	567	660	805	995	1,040	1,180
Imports	880	1,038	1,429	1,754	2,230	2,700
Trade balance	-313	-378	-623	-758	-1,190	-1,520
Current account balance (%GDP)	-2.3	-4.3	-6.7	-4.4	-5.8	-5.2
Foreign debt (%GDP)	105.6	101.1	89.5	63.3	54.4	48.8
Debt service (%Exports)	16.4	18.5	13.2	13.2	10.2	10.0
Foreign currency reserves (import months)	2.3	2.3	2.0	2.5	2.4	2.4

(e) estimate

(f) forecast

Source: COFACE's Country Risk Ratings Guidebook 2006. Data is provided with authorization from COFACE - a shareholder of Planet Rating SAS.

## ■ Institutional presentation

### History of the institution

MicroInvest is a non-banking financial institution established by the Soros Foundation Moldova in April 2003. Soros Foundation had provided financial support to the Moldova Microfinance Alliance (MMA), an institution created by a consortium of SCAs that offered consulting services to these SCAs (accounting and loan application analysis) and channeled funds to local banks for on-lending to SCAs (with complete files including cash flows projections, balance sheet assets and income statements). MMA's only revenues were SCAs memberships and donations (the services were not charged to the local banks) and the institution couldn't become self-sufficient. As a consequence, MMA executive team, its founders and Soros Foundation Moldova decided to create a non-banking financial institution (MI), authorized to disburse loans directly to microentrepreneurs that would be able to reach profitability. MI has taken over the regional staff and branch network of MMA<sup>1</sup>.

### Networks

MicroInvest is a member of MFC (Microfinance Centre for Central and Eastern Europe and the New Independent States). Soros Foundations network (Open Society Institute) is very active in microfinance in Eastern Europe; and can thus provide a valuable experience to MicroInvest, as well as financial support.

### Ownership

MicroInvest's Assembly and Board of Directors have been widened with the entry of a new shareholder (SIDI<sup>2</sup>) in the

<sup>1</sup> These staff had trained more than 200 SCAs and analyzed, supervised and monitored over 20,000 loans. MMA is still active as MicroInvest' LOs keep on supporting SCAs by providing consulting services (less than 10% of their time).

<sup>2</sup> SIDI entered MI's capital in 2005 and owns approximately 10% of the institution's shares

institution's capital. The bylaws of the "Administrative Board" sets its responsibilities and tasks: it has to be composed of seven members, elected by the Associates' General Assembly for a one-year mandate (members can be re-elected), many of them having been invited by the only shareholder in 2003. All members seem involved in their role, as shown by the meetings presence ratio and the support they provide to MI. Victor Ursu is the President of this BOD since inception of MI in 2003 and is also the Executive Director of Soros Foundation Moldova (SFM). SIDI is represented by Alka Couet, who has been a member of the BOD since 2005 (*see details in appendices of the composition of the BOD*).

### Mission

The mission of MI is "to offer consultancy services and financial products in order to create and develop micro and small enterprises, as well as cooperatives; to stimulate private initiative, social and economic development and life standards increase; to identify and develop the segments uncovered by banking services (financing services) applying efficient marketing strategies and permanently adjusting services to market demand."

### Management team

Given the youth and small size of MI, its management team is only comprised of three positions, Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Loan Officer (CLO). The team that has different and complementary backgrounds, as well as great expertise in microfinance, and particularly agriculture, brings all the skills needed to properly manage MI.

### Donations

MI has received around 21 MDL (1.6 M USD) in grants from the Open Society Institute (OSI), Soros Foundation Moldova (SFM), Alianta de Microfinantare din Moldova (MMA), and NOVIB.

### Legal form, supervision and audit

The regulation that governs the country's extensive Savings and Credit Association network does not apply to Moldova's three microfinance institutions. In 2005, a microfinance law has been adopted allowing international and local grants, as well as loans and equity as financing sources (the collection of savings is not allowed). No minimum capital is needed. The MFI-related legislation remains basic and adjustments to the fiscal code related to provision, grant capital tax and profit tax shall be made to better fit the MFIs' activity. A State Supervisory body has been introduced to whom the MFIs have to report quarterly (financial statements and portfolio report including provisions and A&L matching table).

E&Y began auditing MicroInvest's financial statements in 2003 and approved them without reserve, acknowledging that they give a fair picture in all material aspects of the financial position of the institution, and that they are in accordance with international accounting standards. In 2005, the external auditors have certified the financial statements without reserve, but raised two points without qualifying their opinion (the first one was linked to the stated instability of Moldovan legislation, the second one to the use of the funds dedicated to the ASPA project).

### Organisation

In March 2006, MicroInvest had 23 loan officers from which 4 located in HQ (Chisinau) and 19 in the 8 regional offices, and 16 staff in HQ. All accounting entry is centralized in HQ and loan tracking data is progressively decentralized to the branches<sup>3</sup>. Credit decisions are taken by different Credit Committees according to the amount lent and disbursements and reimbursements are channelled through banks. Loan officers take the credit decision without presenting the file to the Credit Committee for loans up to 25,000 MDL. Senior LOs supervise the branches and check all files above this amount that are then submitted to the Central Credit Committee. All loans requests above 150,000 MDL are analysed at HQ by the Credit Department (chaired by the CLO) and by the Senior Management Team (SMT) for amounts above 300,000 MDL. Branch Managers have been empowered through time: they now cumulate basic LO tasks (manage a portfolio of clients) with administrative duties (management of branch expenses; transfer of documents to accountants, data entry, etc.) and LO supervision tasks.

### Market penetration

MicroInvest covers almost all of the Moldovan territory through its network of eight branches (the Ungheni branch opened in 2005) and its HQ located in Chisinau. Rural areas account for 70.6% of the portfolio and 78.8% of the clients. On its market niche, MI does not meet many competitors since the Rural Finance Corporation essentially deals with SCAs, and ProCredit is mainly active in the urban areas.



### Products and services

A detailed description is provided in appendix

MicroInvest offers five different loan products, its direct loan product representing the main part of the portfolio:

- Direct loans for both working capital and fixed assets can go up to 600,000 MDL (50,000 USD), with a declining annual percentage rate (APR) of 25% for non-agricultural businesses (services and trade), 24% for production, 22% for agricultural activities; and 16% for the ASPA (Alliance for Support Agricultural Markets) project. An upfront fee of 2% has been introduced in January 2006. No tangible assets are required but the borrower must be covered by at least one guarantor; disbursements of loans up to 150,000 MDL (11,500 USD) must be 100% covered by tangible assets, the coverage rate being 125% for loans above 150,000 MDL. Repayment schedules are defined depending on the activity that is being financed.
- Group loans target clients of rural villages for amounts of up to 15,000 MDL. 2% interests are charged per month, and a commission of 6% of the amount disbursed is charged before the first instalment (APR is of 37.2%). Interest is paid quarterly and the principal in one balloon repayment at maturity.
- Loans to SCAs have been launched at the beginning of 2005, for amounts ranging from 70,000 to 2,000,000 MDL (5,379 to 153,672 USD) and the maximum per member of the SCA is 25,000 MDL) and duration of up to 18 months. Nominal annualized interest rate is of 18 to 20% declining (18 to 19% for short term investments, 20% for long-term), with flexible repayment schedule according to the client's cash flows. MicroInvest requires the cession of rights over SCAs deposits as collateral, representing 10% of the loan and SCA portfolio (sub-loans and subdocuments) cession.
- Guarantees aim at expanding bank loans. The amount of the guarantee does not exceed 140,000 MDL (10,700 USD) and covers up to 50% of the loan amount granted by the bank. The price of a guarantee ranges between 4% and 7% annually. The guarantee funds are deposited with a bank in the national currency. If the client does not reimburse the loan in time, the debt is paid from the guarantee fund to the respective bank. At the moment of warranty issuance, the client makes an upfront payment of its first year premium (4.5%). For the subsequent years, the client is bound to make the fixed monthly or quarterly premium payments calculated on the initial warranty balance<sup>4</sup>.
- Venture capital targets young entrepreneurs contributing to SME development. The equity and convertible debt structures investment goes up to 50,000 USD with a nominal annualized interest rate of 25%. The interest repayment scheme is flexible, while the invested capital

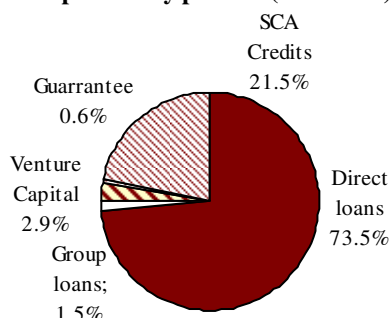
<sup>3</sup> Senior LOs located in Chisinau were until end of 2005 in charge of keying in all data on portfolio, task that has been transferred to BM.

<sup>4</sup> 0.33% of the warranty value twice per year for the agricultural businesses and quarterly 0.43% for the non-agricultural businesses.

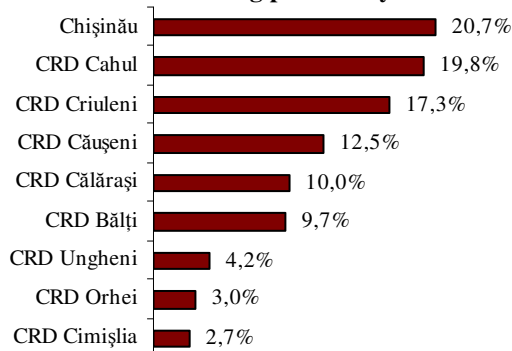
is reimbursed at the 5-year maturity. Conditions stipulate that MicroInvest shall hold a majority share (or no less than 60%) of the debtor's stock.

Since January 2005, MicroInvest also offers consumptions and mortgage loans to its staff as part of its motivation scheme, amounting for max. 70% of salary and up to 5-year terms. Reimbursements are directly drawn from salaries and the interest rate is of 15% declining (it dropped from 18%).

**Loan portfolio by product (March 06)**



**Outstanding portfolio by branch**



## ■ Governance

**Governance and Decision Making** is rated « b »

### Decision-making

MI is very aware of the need to reconcile its mission and vision (support entrepreneurs' development in rural and periurban world) with its goal of reaching financial sustainability, and this clearly drives the institution's strategy. All staff and decision-makers share these goals.

The decision-making process is well defined and efficient. The entry of a new shareholder in 2005 (SIDI) has been an opportunity for MI to formalize the responsibilities of the BOD (by-laws and policies) which strengthened the decision-making process. This BOD is comprised of committed and experienced local and international members who have all necessary skills to guide MI strategy. The seven members have various backgrounds (*see details in annexes*), good expertise in microfinance

(notably the person representing SIDI) and have a good knowledge of the Moldavian microfinance and agriculture sectors (some members have been working with MMA prior to their involvement with MI).

The levels of empowerment set in the by-laws are clear and allow for a fluid decision-making process: initiatives are in management team's hands and BOD remains the final decision-maker and asks for deeper analysis when needed. Strategic issues such as capital structure, entry of new shareholders, and loans conditions are deeply debated and final decisions clearly stated. Once they have been adopted, implementation of decisions is the responsibility of the management team. Meetings are regular (quarterly formal meetings and regular informal communication notably with the Chairman of the BOD on funding matters) and relevant subjects are discussed. The BOD receives all necessary information (pertinent qualitative and quantitative data on portfolio, budget vs. actual) and the quality of reports has been improving over time. Strategy, budgets and action plans are discussed before being approved and previous decisions are closely followed-up. At the end of each year, actual results are compared to what was planned, discrepancies have to be explained and potential solution proposed to the BOD. The minutes are well-documented.

### Planning

The management team has been defining medium-term and long-term plans for the first time in 2003 via a process that involved all relevant staff. Since then, financial projections have been regularly reviewed but the core strategy has not changed (target its historical clientele with a national network). The main target for 2006 is to reach self-sustainability, noticeably through increase of staff productivity, costs control and high portfolio quality.

Two scenarios for 2006 have been approved by the BOD, based on the availability of financial resources. Ambitious growth goals have been set in both cases and the availability of funds has been identified as the key to growth since large under-served markets remain in many areas of Moldova.

- The targets of the optimist version are a loan portfolio of 5.3 M USD, total assets of 7 M USD, 2,668 clients and 49 staff vs. a loan portfolio of 4.3 M USD, total assets of 5.5 M USD, 2,164 clients and 42 staff for the conservative one. As of June 2006, the conservative plans and budgets were being followed, and first-quarter results were very promising.
- Annual financial plan and budgets are defined at the institutional level and detailed at the branch and LO level. Action plans are defined for each department with clear objectives and strong follow-up.
- Budget follow-up is eased by the availability of extensive data generated by the MIS. The approved budget and

action plan are regularly updated with realizations; global cash-flow projections are made and updated with achievements and new funds.

The size of the portfolio and number of clients targeted seem realistic given the very large untapped demand, but the financial model has shortfalls regarding the incomes assumptions. The budget follow-up is indeed not used to update the planning: actual data are compared to plans, but the medium-term planning remains unchanged (even if new available funds are registered in the financial model). Moreover, the forecasts of the portfolio yield need to be refined in the financial model to give a better picture of future results as it is the basis for the profitability of MI. Currently crucial data are missing or not used for the computation of the portfolio yield, such as the newly introduced commissions on direct loans, the share of repeated clients, the weight of each product in the portfolio.

### Management team

MI's Senior Management Team (SMT) provides effective leadership and has a good understanding of the key challenges of the institution. The main responsibilities are concentrated on three persons (CEO, CFO and CLO) with different and complementary backgrounds. Their responsibilities are clearly defined and are adequate to the size and activities of the institution. The organizational chart has been reviewed and will be updated as the size of operations grows to progressively integrate new positions to deals with key functions previously under the group responsibility of the SMT (Internal Audit, HR Management). There is no IT Department for now, the MIS issues being under the supervision of the CFO.

The SMT is comprised of well-educated, dynamic and motivated persons, who communicate well and succeeded in creating a confident mindset among staff. Meetings are frequent and address pertinent issues, with all important decisions being formally kept and widely communicated among staff. Despite the youth of top and middle management, trainings, studies, MBA day-to-day experiences and exposure to international experiences allowed them to acquire the required operational skills and considerably lowered the key-person risk. Thanks to the creation of new positions and progressive empowerment of field staff (starting from the BM), the SMT starts to delegate some operational tasks which allows them to focus on strategic issues.

### Human resource management

The hiring of a HR Manager has been scheduled for the coming months to take into account the growing size of the MFI. Appropriate HR policies (recruitment and training) and clear carrier paths within the organization, are designed

to get the best staff possible and result in well-trained staff for both administrative and lending activities:

- A general policy for HR defined by the management and approved by CEO clearly states the main HR rules and procedures.
- The administrative tasks of HR are performed by the Finance department and facilitated by the fully integrated MIS; recruitments and evaluations are still managed by the CEO.
- Bonus policies for LOs are coherent with financial objectives and seem to be motivating. Empowerment of LOs with decentralization of credit decisions for small amounts is another factor of motivation.
- A basic evaluation system has been developed to identify areas for improvement and define adapted training plans. The process should be improved with the hiring of a HR manager.
- Salary levels are close to usual market levels and staff commitment (common roots with MMA) should prevent staff from leaving to competitors (one person only has left since inception).
- The possibility to take equity stakes should be a great way to further motivate management staff.

	Dec. 2003	Dec. 2004	Dec. 2005	Mar. 2006
Total number of staff	8	31	38	39
% Credit officers	25%	61%	58%	59%
Turnover	ND	0%	3%	0%

## Information

Information and equipment is rated « a »

### Description of the MIS

Equipment	<ul style="list-style-type: none"> <li>▪ 36 computers equipped with Windows Professional 2000, Office software is not licensed.</li> <li>▪ Modern equipment with internet access in HQ as well as all branches.</li> </ul>
Accounting	<ul style="list-style-type: none"> <li>▪ 75% of branches are connected to the internal network</li> <li>▪ Software 1C version 7.7 designed in Russia and adjusted to Moldovan legislation by a national provider. Fully integrated with portfolio information.</li> <li>▪ Software works on the DBF. Its internal language is similar to C++ and Visual Basic.</li> <li>▪ Centralized accounting in HQ. Access to bank accounts allows real time follow-up with banks statements and portfolio information.</li> <li>▪ Complete monthly financial statements and real-time bank reconciliation thanks to Internet access to bank statements.</li> </ul>
Portfolio information	<ul style="list-style-type: none"> <li>▪ Software 1C version 7.7 designed in Russia and adjusted to Moldovan legislation by a national provider.</li> <li>▪ The BMs of integrated branches enter all data directly in the LTS. For non-integrated offices, the BMs send information three times per week in Excel databases which are consolidated in the system by a Senior LO in Chisinau.</li> <li>▪ Very comprehensive reports are issued monthly for the management team.</li> </ul>

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### **Management Information System (MIS) and equipment**

One of MI's main priorities during the last years has been the development of an efficient and scalable MIS. In order to achieve this goal, MI has constantly invested in its MIS and set an implementation calendar that is closely monitored. The MIS is user friendly and a very comprehensive manual has been developed. The hardware is modern and sufficient with Internet access in all branches. Although there are no parameters in the loan tracking system (maximum amounts, interest rates) the equipment has appropriate security features that mitigate any risk of errors or manipulation of information and lower the risk of loss of data:

- Weekly backups in a CD Rom and updated antivirus,
- Controlled access levels set by HQ with quarterly modified passwords,
- Emergency plans and follow-up of users in real time.

The MIS is fully integrated with a system adapted to the Moldovan legislation. It includes accounting, loan tracking, and modules such as pay-rolls (with bonuses being automatically computed based on the portfolio data), cash handling and budget follow-up. This very flexible system evolved with the institution processes, such as decentralization of credit decisions. It allows for a very efficient flow of information within the local network. Field staff has real time access to comprehensive information that greatly supports them in the monitoring of their portfolio. By the end of 2006, all branches will have been integrated within the local network<sup>5</sup>.

MI has not set a dedicated MIS department yet, the IT specialist being part of the Financial and IT Department. The information needs are defined at the SMT level, and the IT specialist, together with the external developer, is in charge of implementing the changes. The database is very flexible and thus can be easily enriched: the product design allows for ease of use and there is no limitation for integration of new tailor-made products. Next functionalities to be integrated in the MIS are currency handling modules (in order to better manage forex risk) and ABC accounting.

Property of source codes is not settled which results in high dependence on the external developing firm, though a confidentiality agreement has been signed<sup>6</sup>. This matter is being closely monitored by the SMT and the developing firm has until now always respected all contract clauses and has always been very available.

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<sup>5</sup>Only two branches are not connected to the central database as of June 2006.

<sup>6</sup> The external developing firm is not allowed to sell or rent the MIS developed for MI.

### **Information on activities**

Portfolio information is accurate, complete and of excellent quality, and available both at HQ and in the branches:

- There are numerous checkpoints, both automatically handled by the MIS and manually made to guarantee a good quality of the information.
- The MIS automatically provides numerous useful reports and indicator calculations allowing fast follow-up of portfolio information (PAR per branch, LO, product, restructured loans).
- This is complemented by extensive statistics (portfolio per type of client, per activity, per loan size, per loan maturity) for an in-depth analysis (by branch, client, loan officer, products, etc) and quick feedback.
- In order to provide external donors with comprehensive data on the clientele served, MI has integrated statistics such as, PAR per loan officers and sectors, percentage of female clients, portfolio distribution by sectors of the economy, portfolio distribution by type of client<sup>7</sup>.
- The portfolio information is widely disseminated to field staff thanks to a decentralized MIS, to the SMT through well-designed reports, and to the BOD in a synthetic monthly report.
- Competition is closely monitored by the marketing staff, with information on the range of products and conditions offered to the clients being frequently updated.

Some statistics are not included in the automatically generated reports, such as the composition of portfolio in terms of interest rates and information on repeated clients (those clients are offered preferential interest rates and such information would be interesting to follow).

### **Financial and accounting information**

The integrated and comprehensive MIS results in regular and accurate accounting information:

- Disbursements and reimbursements are channelled by banks and easy to follow through Internet access to bank statements, all transactions are registered at HQ and reconciled monthly.
- Complete financial statements are produced on a monthly basis, including depreciation, provision and writing-off of late loans.
- The MIS includes a budget follow-up module which eases the monitoring of MI's achievements (annual projections are typed in and automatically compared with realisations).
- Maturity and currency mismatches tables are automatically generated on a monthly basis and analysed by the CFO.

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<sup>7</sup> New reports are on their way (portfolio per education levels, number of jobs created...)

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Financial and accounting staff has sufficient skills to manage all financial and accounting data and developed impressive monitoring tools and very comprehensive reports:

- Income statements and balance sheets are complemented by a regular financial analysis, including a basic assessment of profitability per branch (direct expenses and revenues are allocated to each branch, but HQ costs are not distributed to branches based on an internally defined allocation key).
- A basic analysis had been made in order to assess each product's profitability (mainly based on the time spent by LOs for the loans monitoring), but some assumptions and the computation model have to be reviewed to refine the analysis.
- Financial indicators generated by the Finance and IT Department also include comparison with international microfinance benchmarks and reports to donors (specific requests of each donor have been entered in the MIS, which automatically generate specific tables and indicators).

## ▪ Risk

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**Risk Management** is rated « a »

### **Procedures and internal controls**

The SMT and BOD have a good understanding of institutional, operational and financial risks and have set several policies and rules to properly manage those risks:

- Procedures have been formalized in comprehensive and very detailed manuals (internal audit and cash-handling are currently being developed) and are regularly updated (notably the credit manual) through memos widely disseminated among field staff.
- The segregation of duties is effective at the branch level (signatures procedures, restricted access to MIS, supervision of all operations by Finance and Credit departments, clients seen by at least 2 staff members) as well as at HQ level (cross-checking among Financial and Credit departments, double signatures, follow-up of changes in the MIS ...).
- Hierarchical controls are regularly performed and the portfolio management is closely checked for compliance to defined procedures before and after the loan disbursements<sup>8</sup>. This tight management of activities is eased by the availability of information.
- Approval levels are set according to skills and results, and are regularly reviewed according to the PAR and outstanding portfolio levels.

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<sup>8</sup> The credit manual clearly defines all rules to be followed for each product, type of client (type of collateral accepted, key ratios to analysis, field visit to check loan utilization, etc.);

Disbursements and reimbursements are channelled through banks which thus limits the cash handling risk and allows for more internal control points to avoid fraud and fictitious clients (disbursement made on the client's bank account identified by its ID number). The recent introduction of cashiers (two are currently being tested) to better serve the clients and reduce the bank charges creates a new cash-handling risk within the institution. Nevertheless, all measures have been taken to ensure the physical security of funds (follow-up of activities through MIS, strict control of the cashier, alarm button, 24-hour presence of a guard from a private security company, armed and permanently connected to his firm).

### **Internal audit**

As stated before, MI has a good risk management culture with great implication of the SMT/BOD on key risks. Given the institution's growth, MI has recently introduced an Internal Auditor function to support the SMT (who was until then performing the usual internal audit tasks) who reports to BOD.

- The hired IA is new to the organization but has a deep knowledge of MI's activities<sup>9</sup> and her planned trainings are adequate. The 2006 audit plan is adequate and covers the main operational areas<sup>10</sup>. The internal audit manual and reports templates are underway and the IA has already begun her first visits.
- The IA's mandate covers the supervision of both branches and HQ (notably the Finance and Credit Department). For now the IA reports to the CEO, but the plan is to have her report directly to the BOD and also perform audits of the MIS starting from 2007.
- Together with the SMT, the IA conducts field visits, both planned and unannounced. Complete reports including weaknesses and recommendations are produced and sent to the controlled staff (standardized templates still need to be finalized by the IA). These visits are followed by an effective monitoring to check that improvements have been made. Visits are planned twice a month for cashiers.
- During these on-site missions, it is planned that the IA visits some clients (as was done before by the SMT) and notably checks the loan utilization and the validity of the information mentioned in the client's file (3 to 5 files for each LO). Particular attention will be given in 2006 to small loans, as credit decision is made by LOs (during the previous years a sample of approx. 8% of all clients had been visited by the SMT).

Each year, the marketing team leads a satisfaction study, thereby visiting some more clients (10% in 2004, a little

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<sup>9</sup> She worked before with the Soros Foundation as a supervisor of the Rural Development Program.

<sup>10</sup> IA checks as well all data in the quarterly report before sending to donors and BOD.

less in 2005). External partners also contribute to the control: EY performs each year an audit of the MIS and internal control on top of the regular audit of financial statements, ratings are performed on a regular basis, and due diligences are frequent.

## ■ Activities

**Activities: products and services** is rated « a »

USD , unless otherwise stated	Dec. 03	Dec. 04	Dec. 05	Mar. 06
Loan portfolio	186,502	785,131	2,614,776	3,223,390
Loan portfolio (MDL)	2,465,558	9,782,730	33,552,806	41,362,544
Evolution	NA	296.8%	243.0%	23.3%
Average outstanding loan	93,251	539,565	1,525,269	2,878,105
Numb. of active borrowers	219	399	1,297	1,416
Evolution	NA	82.2%	225.1%	9.2%
Av. out. loan per client	852	1,968	2,016	2,244
% of GDP per capita	3,059%	5,250 %	5,749%	6,491%
Average amount disbursed	887	2,081	2,200	3,452
% of GDP per capita	3,186%	5,551%	6,274%	9,984%
PAR 31-365	0.6%	0.9%	1.1%	1.0%
Rescheduled	ND	ND	3.3%	0.3%
PAR > 365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.3%	0.1%

### Marketing and competition

The Moldovan microfinance sector is not very competitive in both rural and urban areas and overall the demand has been expanding over the past few years (mainly in southern areas due to economic growth in these areas). As of end of 2005, the total potential market was estimated to be 128,000 small scale entrepreneurs and 503,000 agricultural individual enterprises, mostly concentrated on commerce, industry and construction. MI targets businesses with a set of products that meets clients' requirements. As mentioned above, MI does not deal with a high competition on its target niches as only 3 MFIs operate in Moldova (the main competitors are RFC, Procredit and AgroIndBank) and downscaling process in banks is not a very active trend yet, though EBRD started a downscaling experience with Mobias Bank recently. Nevertheless, some parts of the country are becoming more competitive, notably Chisinau, the Moldovan capital city, whereas large rural areas remain untapped.

The main competitive edges of the institution are:

- Interest rate lower with 1-2% compared to main MFIs.
- Flexibility of services: MI recently introduced a commission for disbursement for its direct loans (which is partially compensated by decrease of interest rates for repeated clients and agricultural businesses). Moreover,

each loan is precisely adapted to the clients' businesses based on detailed financial projections.

- Decentralization of loan decision results in faster disbursements. Additionally, cashiers will allow easier repayment process for clients and lower commissions charged by banks and borne by MI<sup>11</sup>. MI is quicker than banks when it comes to micro loans disbursements.
- Better quality of service. Closer to the clients by its offices and by out of the office concept.
- Free cash flow projections. Consulting services are well appreciated by clients (LOs spend lots of time planning activities with their individual clients and MMA's heritage is still very present, as LOs keep on supporting 100 SCAs<sup>12</sup> which will receive loans in near future, including non-clients ones).

MI pays great attention to marketing as shown by its dedicated staff conducting market research with improved tools and techniques (on competition, clients' satisfaction, etc.) and defining MI promotion ways. Nevertheless, word-of-mouth remains the main promotion mean as historic lack of funds has until now prevented the institution from launching aggressive promotion campaigns. Even though less true during these last months, MI has suffered from the negative impact of "stop and go" periods when some clients were refused because of lack of funds or had to wait for their loans for long periods. Nevertheless, clients' loyalty is one of the priorities of the institution and several financial advantages are given to repeated clients (decrease of up to 3% of the interest rate). Their satisfaction is annually evaluated through a comprehensive questionnaire asked to a panel of around 200 clients, and retention rate is evaluated above 75%.

### Credit methodology

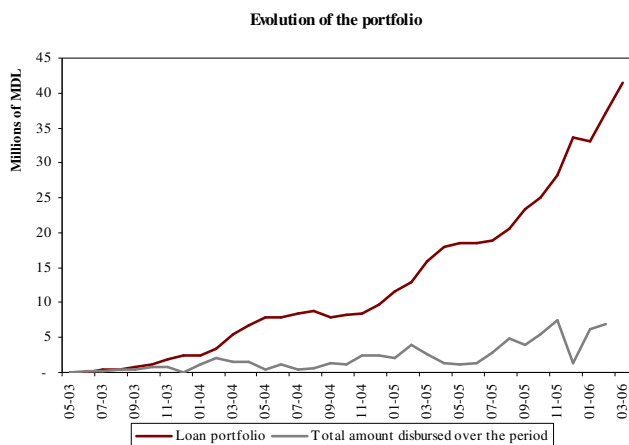
MI has adequate and standardized procedures that have proved efficient as shown by the low levels of PAR, rescheduled and written-off loans:

- Clever use of the LOs experience with SCAs and MMA's database to identify prospects.
- For direct loans, client selection is based on in-depth assessments of their businesses, considering qualitative (morality) and quantitative elements (cash flows, financial statements, collaterals, family revenues and assets owned). LOs spend lots of time on the financial data and ask for the support of the BM or senior LOs when needed. Files are standardized (they were reviewed in 2006 to be simpler and easier to fill) and include all necessary information for the analysis of the business to be pertinent.

<sup>11</sup> 2 cashiers are currently being tested in 2 branches and are greatly appreciated by the clients.

<sup>12</sup> Services offered to SCAs are mainly linked to the financial statements and other documents needed according to the Moldovan regulation

- For the Group Lending product, the procedure is simpler and no formulas are used to analyse the group's activity. The credit decision is based on the group cohesion and solidarity. No promotion is made for this product which accounts for a tiny part of the whole portfolio (1.4% of outstanding amount), but is used as an incubator for future potential clients.
- Credit committees are partially decentralized with appropriate authorization levels according to skills and experience<sup>13</sup>. Each quarter, the SMT meets and defines the authorization levels of each LO and branch (some Regional Committees and Senior LOs are given higher authorization levels).
- The monitoring of files at HQ is carried out by senior LOs with daily follow-up of portfolio (systematic on-site visits to check the loan utilization, no renewal for clients having used their loan for other purposes than the one that was agreed upon). Field visits shall be more documented in order to ease the follow-up of loans.
- Rigorous response to delinquency by both branch staff and HQ: senior LO goes along with the LO to recover delinquent loans. The SMT is also involved in the field, and a lawyer is in charge of taking the files to court if needed.



Well-trained and committed LOs provide a good follow-up of MI's credit processes and the bonus scheme effectively motivates the staff (PAR above 3% eliminates the whole bonus). The very low turnover ratio has helped skills retention and MI benefits from the extensive experience of its staff, most of them having previously worked with MMA. LOs have a very good knowledge of their region and clients, as many have been working with SCAs for

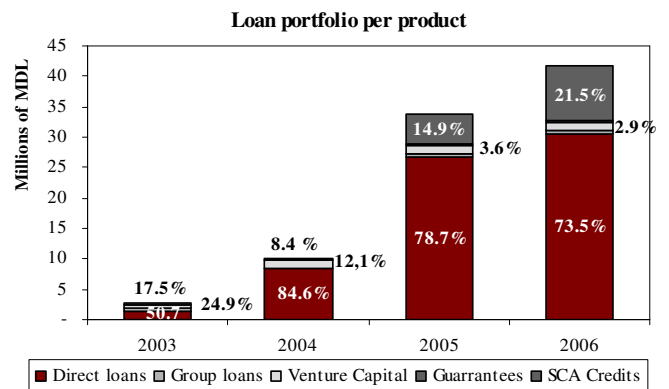
<sup>13</sup> Loans up to 25,000 MDL can be disbursed upon decision of the LO. Above 25,000 MDL, a regional credit committee is being held at the branch level, which can approve loans up to 150,000 MDL. Credit department committee (comprised of the CLO and the Senior LOs) approves loans ranging from 150,000 to 300,000 MDL. All loans above 300,000 MDL are analysed by the central Credit Committee comprised of the SMT and one lawyer.

several years<sup>14</sup>. Additionally, BMs and LOs have a clear vision of their role of both supervision and support.

### Evolution and composition of the portfolio

As a young institution, MI's loan portfolio has experienced a sustainable upward trend (close to 300% in 2004, 250% in 2005 and 25% for the first quarter 2006). Nevertheless, the concentration on agricultural loans results in seasonality of activities.

Direct loans remain the star product of the institution even if their share was reduced from 85% in 2004 to 74% in 2005. SCAs loans have experienced the strongest growth as they represented 15% of the portfolio as of end 2005, and 22% in March 2006). Group loans have been quite stable over the period, and neither new guarantees nor venture capital products have been granted in 2005 and 2006<sup>15</sup>. The objectives of MI SMT is to maintain direct loans above 60% of the whole portfolio and SCAs are planned to account for an average 15% of portfolio (with seasonal variations).



### Portfolio diversification

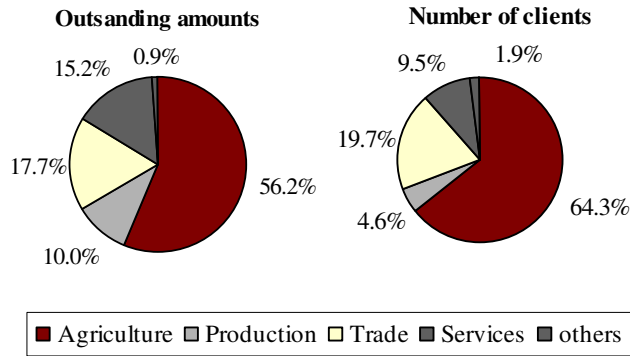
The various tenures of the portfolio and the different sectors financed by the institution are derived from the strong will expressed by the SMT to achieve diversification in order to mitigate the credit risks and to reach a certain level of profitability, as different rates are given based on the sector financed (*see annexes for enhanced details*)

- MI's portfolio is mainly rural (70.6% of the outstanding amounts and 78.8% of the active clients as of March 2006) but this proportion has been decreasing over the period (used to be 79.2% in 2005). This trend is anticipated to persist so that the rural portfolio eventually represents 60% of the portfolio, since MI is willing to reduce its exposure in rural areas.

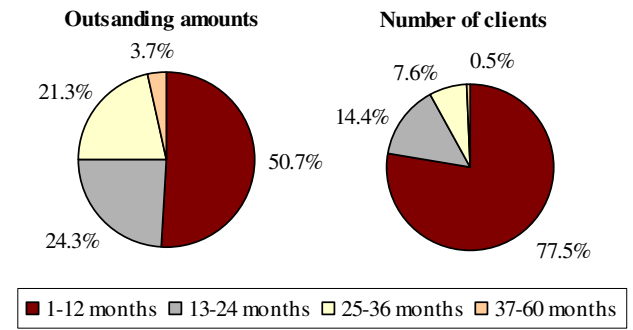
<sup>14</sup> Members of SCAs tend to become individual clients of MI as amounts lent by SCAs aren't large enough to allow investments, and the loan product designed for SCA is successful.

<sup>15</sup> Dedicated funds were used for this credit and other investments in new firms will be made when MI has sold its shares in the first two ones.

### Portfolio by sector (31/03/06)



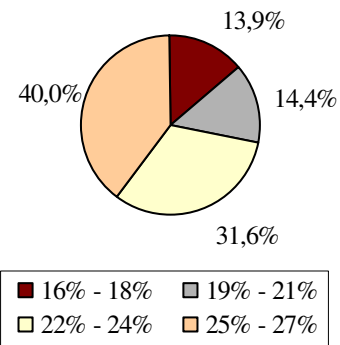
### Portfolio by tenor (31/03/06)



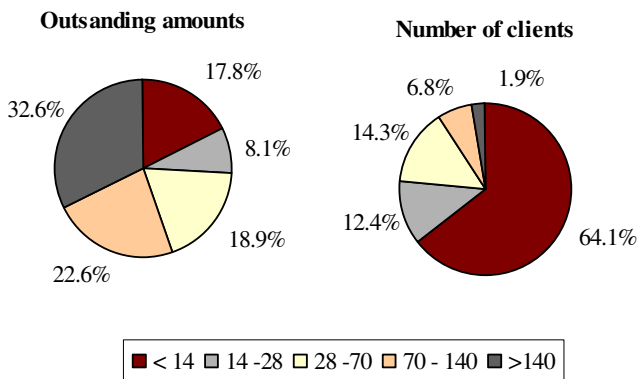
Being essentially rural, MI logically finances many activities linked to agriculture. Close to 65% of the clients invest their credit in an agricultural business and 56.2% of the portfolio is dedicated to such activities. Trade and services account for around 30% of all loans<sup>16</sup>. In order to minimize risks and increase the profitability (agriculture and long-term investments are given lower rates), the SMT has set the maximum target of 50% of portfolio to be invested in agriculture and has disseminated memos in all branches stating the obligation to first finance services and trade for an average 2,500/3,000 USD for a LO's individual portfolio. The wide range of products and simplification of processes for small loans result in a great diversification of the portfolio in terms of amount, as shown per the graph below.

- These different targets in terms of portfolio composition allow to manage its profitability as loans bear different rates according to the sector financed, the duration of the loan and clients loyalty. As of March 2006, more than 70% of all loans bear an interest higher than 22%.

### Outstanding portfolio by interest rate



### Portfolio by amount (KMDL, 31/03/06)



The portfolio is mainly short term (50.7% of outstanding amounts, 77.5% of clients) with less than 4% of the portfolio with tenure superior to 36 months. The proportion of short term loans should grow up to 60% (of amounts) according to the goals defined in the Strategy and procedures

### Quality of the portfolio

MI has experienced high quality of portfolio over the last years with its PAR>30 remaining around 1%, well below international benchmarks.

- All risks are concentrated on direct loans (PAR>30 of 1.4%). The first loans have been written-off in 2005 (loans are automatically written-off in the MIS after 365 days in arrears) and write-off ratio reached 0.3% in March 2006 (0.5% in December 2005). Recovery on such loans is high (half of loans having been written-off in 2005 were recovered as of June 2006).
- PAR>1 is sometimes overestimated because of the banks: clients might not have been late, but the time needed to transfer the instalment from one account to the other might make them appear late. Nevertheless PAR>1 is at a very reasonable level of 1.7% as of end of 2005.
- In 2005, MI has rescheduled 3.3% of its all portfolio. Loans can be rescheduled upon decision of the Central Credit Committee, after a negotiation between the LO and its client<sup>17</sup>. When these rescheduled loans are

<sup>16</sup> Before 2005, agricultural businesses were registered in trade, services or production, according on the type of activity undertaken by the farmers in the MIS. In 2005, agriculture began to be followed as an independent sector, which eases SMT strategy of diversification definition.

<sup>17</sup> Clients asking for rescheduling after having been late 60 days are not given a new loan. Only those having warned in advance that the business is active but a temporary cash problem is forecasted and they won't be able to pay the instalments might see their loan being rescheduled.

included in the PAR amount, the PAR>30 rises to 4.4% as of Dec. 05. The MIS allows for a close follow-up of such loans, and the PAR is not drastically higher on those loans (around 3% in March 06).

Portfolio per product, 03/06	Dir.	Group	Vent. Cap.	Guar.	SCAs	Emp. loans
Loan portfolio (K MDL)	30,580	606	1,214	441	8,963	1,055
Number of active borrowers	1,197	183	2	8	12	14
Av. outs. loan per client (KMDL)	26	3	607	55	747	75
% of outstanding portfolio (volume)	71.3%	1.4%	2.8%	1.0%	20.9%	2.5%
% of outstanding portfolio (number)	84.5%	12.9%	0.1%	0.6%	0.8%	1.0%
PAR 31-365	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%

### Credit risk coverage

MicroInvest had been carrying out a very conservative policy regarding its credit risk coverage before 2006, as shown by a high risk coverage ratio (126% of PAR >31 as of Dec. 05). The Healthy portfolio used to be provisioned after audit recommendation. In 2006, MI will introduce a 1% provision for healthy portfolio and overdue between 1 and 30 days loans.

This coverage per the provisions is complemented by very strong collateral policies (collaterals up to 150% of the loan are legally registered, typically 125% even for small amounts, if potential clients seem to be very risky) and although their actualization is not easy and expensive, these guarantees help MI put more pressure on delinquent clients or serve as an actual source of payments. MI has an internal legal department who is in charge of recovering the written-off amounts, initiating legal actions when there is no mutual consent (given the difficult Moldovan legal framework, executing collaterals takes a lot of time and staff tends to look for mutual agreement with clients before going to court).

	Dec. 03	Dec. 04	Dec. 05
Risk coverage ratio	587.9%	321.1%	126.9%
PAR 31 net of loan loss provision / Equity	(3.2%)	(2.0%)	(0.8%)

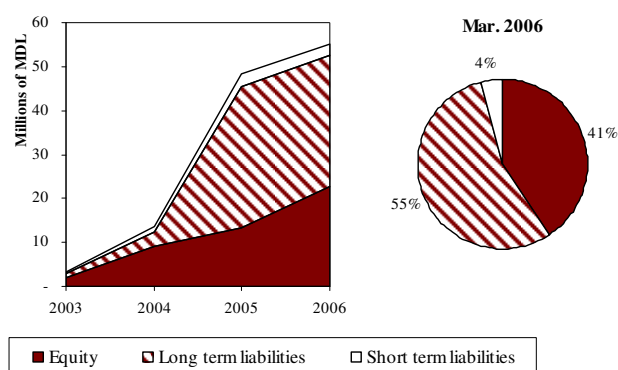
### Savings Activities

According to Moldovan regulation, MI is not allowed to collect savings.

## ■ Financing and liquidity

Financing and liquidity is rated « a »

Funding structure graph



	Dec. 03	Dec. 04	Dec. 05	March 06
Liabilities / Equity	49.2%	49.2%	267.5%	144.1%

### Evolution of funding structure

MI does not take deposits from the public, financing its activities with equity (41%, mainly via the historical support of Soros Foundation Moldova), and loans (59%):

- Being a very young institution, MI does not benefit from capitalization of positive retained earnings to finance its growth (ROA and ROE before donations have remained negative since inception). Nevertheless, preliminary results of the first quarter have shown for the first time MI being operationally sustainable before donations.
- Subsidies have been received from Soros Foundation Moldova, Alianta de Microfinantare din Moldova, Foundation Open Society Institute and NOVIB for a total amount of around 1.6 MUSD (21 MMDL) since inception (for both operations and investments). Recent support includes NOVIB for the creation of an internal audit department (total budget of 18,500 EUR).
- SIDI became a shareholder in 2005 (Soros owns 89.98% of MI and SIDI 10.02%) and MI raised capital again from Soros Foundation and SIDI in 2006<sup>18</sup> (the amount are paid but not registered as of March 06 as shown by the financial statements). The option to have other actors entering the institution's capital is envisaged in the coming years<sup>19</sup>, and staff shall be offered shares in a close future. The main founder (Soros Foundation) closed its financial support to MI. At the same time we see Soros Economic Development Fund contributing with concessional loans

<sup>18</sup> SIDI brought 50,000 EUR in 2005 (18,500 EUR and then 31,500 EUR) and Soros Foundation Moldova has invested 500,000 USD (a raise in capital of 300,000 USD will be registered in 2006). In order to avoid dilution of its shareholding, SIDI has paid an additional contribution of 30,000 EUR in 2006.

<sup>19</sup> This matter has been discussed in BOD meetings but no clear objectives have been stated.

- Loans have been contracted from FinComBank (1,262,000 MDL and 15,000,000 MDL), Consorzio Etimos (200,000 EUR), Deutsche Bank Development Fund (50 000 USD) and OikoCredit (100,000 EUR) with interest rates ranging from 12% to 20% in local currency and 8.1% to 9% in EUR, and terms up to 5 years (*see details of all liabilities in the annexes*). At the time of the field mission, negotiations were being finalized with Triodos Bank, Symbiotics and GCMC managed by Deutsche bank for a total amount above 1 M EUR and interest rates between 8.5% and 9% in foreign currency.
- Concessionary loans include funds coming from AgroInform (120,000 EUR, 5 years, 5%), Contact (100,000 USD, 3.3 years, 11%), Deutsche Bank (50,000 USD, 3 years, 2%), SIDI (50,000 EUR, 3 years, 6%; 120,000 EUR, one year, 7%), NOVIB (325,000 EUR, 5 years, 6%) and SEDF (175,000 EUR, 5 years, 2%).

### Financing strategy

The SMT pays great attention to fundraising and successfully diversified its lenders and shall benefit in a close future from its credit history. MI has been under tough illiquidity periods during last years/months, but funds needed to finance MI's growth in 2006 are close to be 100% secured (pending signature of contract with Deutsche Bank). For next years, the financing needs are regularly assessed and the SMT (notably the CEO) and the Fundraising Officer are in charge to secure new funds<sup>20</sup>. However, resources from Soros Foundation shall cease in 2006 (the recent raise of capital shall be the last financial support to be received, apart from free use of HQ office) and with concessional loans and grants becoming very rare, MI has no choice but to deal with expensive commercial lenders and to bear high currency exchange exposure. Good credit history and reasonable leverage ratio, though high for such a small institution (2.68 as of Dec. 05) shall allow MI to negotiate with several founders and maintain its financial expenses ratio at a reasonable level.

### Asset Liabilities Management Procedures (ALM)

ALM risks exist but are properly identified and managed, though via costly tools. The MIS provides all needed reports to properly manage the institution's assets and liabilities.

- No Maturity risk: more than 50% of the portfolio is in short term and 95% of liabilities are long term, either equity or long terms borrowing.
- Controlled FX risk: when borrowings are denominated in foreign currency (USD or EUR) they are used as collateral with a local bank in order to issue a loan in MDL; all loans and commissions receivable are granted

<sup>20</sup> Given the importance of fundraising for MI, one person of the Marketing Department dedicates around 60% on fundraising (identifying potential funders, drafting proposal...) Final negotiations are handled by the CEO after approval of the BOD.

in MDL; grants are received in either USD or EUR, but are subsequently translated into MDL. Such coverage is expensive and MI is actually working on the use of new tools in order to manage this FX risks<sup>21</sup>.

- Low interest risk : all MI's borrowings are bearing a fix interest rate, except Oikocredit loan<sup>22</sup>, with interest rate of 16% for the first year, and the refunding rate of the National Bank of Moldova (+ 3% for the three following years). This interest rate risk is partially covered by the spread between the funding expense ratio and the portfolio yield.

### Liquidity management

Liquidity management is centralized at HQ based on annual projections and updated on a weekly basis thanks to a very efficient MIS (liquidity forecasts are made based on installments and disbursements agenda) and a skilled team. It has proven efficient even during the lack of funds periods, as the SMT had time to warn its field staff and to have the files handling slowed down. Such periods are not as frequent as they have been before, since new, though expensive, funds have been accessed. MI has also shown over time its high capacity to absorb and deploy funds thanks to its wide network and ample HR in the field, as shown by the graph below.

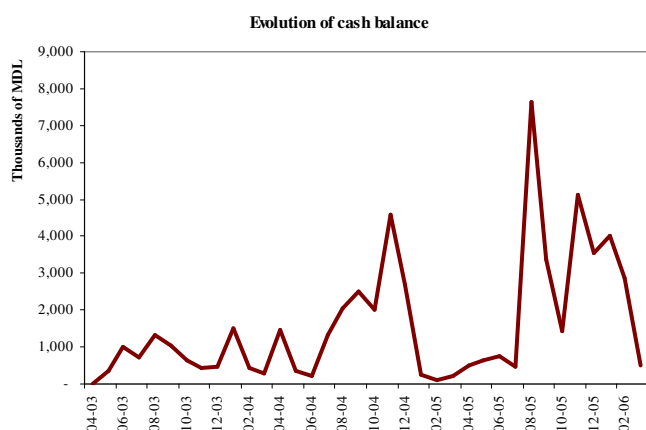
Resource mobilization is not very high (portfolio typically accounts for 73% of the assets over the 2003-2006) mainly because of the deposits made to hedge foreign risks<sup>23</sup>. Adoption of a new hedging strategy shall result in a higher mobilization of funds.

- 246,000 MDL are placed for a 5-year period with Moldova Agroindbank (interest rate 14.5%) and serve as guarantee provided by MI to its clients for loans taken by the latter from Moldova Agroindbank.
- Others deposit include investments with FinComBank of 500,000 EUR (3 years) and 50,000 USD (1 year). Both deposits bear an interest rate of 6% and serve as security for the two loans provided by FinComBank.
- In 2005, MI became a member of the Etimos Consortium and had to subscribe to its share capital in the form of a returnable deposit. MI invested in 14 shares for a total amount of 3,612 EUR, and received a loan of 200,000 EUR.

<sup>21</sup> This would be very innovative for the Moldovan market. Discussions with FinComBank have begun, and tools being studied include forwards.

<sup>22</sup> This loan accounts for less than 4% of MI's debts, and less than 2.5% of all liabilities and equity

<sup>23</sup> Guarantees are not registered as portfolio in the Balance Sheet, and neither are the employee loans. Including those amounts in the portfolio, resource mobilization reaches 71.5% as of end 2005 versus 69.9% without and 77.5% versus 74.6% as of March 2006



## ■ Efficiency and Profitability

Efficiency and Profitability is rated « e »

Profitability analysis	Dec. 03	Dec. 04	Dec. 05	Mar. 06
ROE	(31.5%)	(47.8%)	(26.9%)	9.5%
Liabilities / Equity	49.2%	49.2%	267.5%	144.1%
ROA	(12.8%)	(22.5%)	(5.7%)	4.0%
<b>Profit generation</b>				
Operational self-sufficiency	37.9%	49.9%	74.3%	124.5%
Portfolio Yield	9.6%	25.8%	24.6%	26.2%
Operating expense ratio	17.0%	49.5%	28.5%	13.2%
Staff productivity	27	13	34	36
Loan officer productivity	110	21	59	62
Average outstanding loan per client (USD)	852	1,968	2,016	2,244
Funding expense ratio	2.4%	3.2%	5.4%	9.3%
Cost of liabilities	1.7%	9.3%	6.1%	11.0%
Loan Loss Provision expense ratio	6.6%	2.8%	1.3%	0.3%
PAR 31-365	0.6%	0.9%	1.1%	1.0%
Write-off ratio	0.0%	0.0%	0.3%	0.1%
<b>Asset management</b>				
Outstanding Loan Portfolio / Assets	76.9%	70.6%	69.9%	74.6%
Non-portfolio income as a % of financial revenues	2.1%	1.8%	2.9%	5.0%

### Overview of the profitability

Being a fast-growing young institution, MI has not been a profitable institution before grants on the 2003-2005 period, though ratio have been improving greatly (ROE raised from -31.5% to -26.9% and ROA from -12.8% to -5.7%). Operational self-sufficiency has been reached for the first time during the first quarter 2006 (124.5%, ROE and ROA of 9.5% and 4.0% respectively). In 2005, several debts contracted to finance the growth explain the quick rise of the leverage ratio (from 49.2% to 267.5%), which was reduced below 150% in 2006 thanks to capital increase. Nevertheless, this leverage ratio is expected to grow further in the coming months and years as MI won't be able to

finance its growth on its equity (retained earnings were still negative in 2005).

This quick improvement of the profitability level has been possible thanks to the recent introduction of an upfront commission on the direct loans (see portfolio yield §), the economies of scale allowed by the portfolio growth and resulting in a decreasing operating expenses ratio, and the change of provisioning methodology. Those trends more than compensate the growth of the funding expenses. However, in 2006, operational costs do not take into account several expenses (such as audit, rating, and other consulting expenses) that could understate the operational self-sufficiency ratio in the next quarters.

### Portfolio yield and effective interest rate

Portfolio yield is close to the theoretical weighted APR of the institution, which ranges from 20.8% to 29.4% for direct loans, from 18% to 20% for SCAs and is of 37.2% for group loans. The growth of the portfolio yield can be explained by several factors:

- In 2005, the growing number of repeated clients (who are given preferential rates) explain the drop of the ratio (from 25.8% to 24.6%).
- During the first quarter 2006, MI introduced an upfront fee of 2% on the direct loans product, resulting in higher APR, and therefore yield (such loans account for approx. 75% of all portfolio).
- MI has also modified the instalments calculation in the MIS (now computed on 360 days) which results as well in higher APR.

### Operating expense ratio

MI's operating expenses ratio has shrunk over the period, going from 49.5% in Dec. 04 to 28.5% in Dec. 05 and 13.2% in March 06<sup>24</sup>. For the first quarter the ratio went down to 13.2% but as mentioned above some expenses have not yet been registered. Nevertheless the downward trend is real and it is likely that MI will confirm its operational self-sufficiency in 2006, with funds being available to finance the growth that shall result in economies of scale:

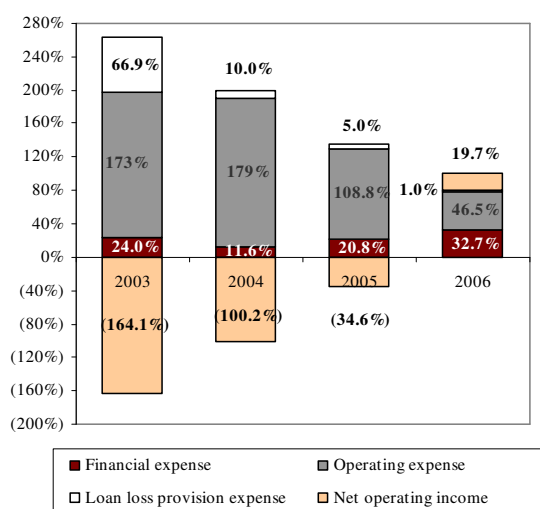
- The staff productivity has gradually increased, going from 27 clients per employee in 2003 to 36 in March 06, together with the LO productivity (21 in Dec.04, 62 in March 06) although it remains low in comparison with international benchmarks (cf. benchmarking section for enhanced details).
- This low LO productivity is linked to the clients targeted: the average outstanding amount is equivalent to close to 6,500% of the GDP/capita and justifies a deep analysis of the clients' businesses. When analyzed based on the active portfolio, productivity has greatly grown between

<sup>24</sup> This ratio has been annualized for ease of comparison

2004 and 2005 (from 40,000 USD in 2004 to 110,000 USD in 2005).

- Moreover, some LOs inherited from MMA a consulting approach and still spend a non-negligible part of their time working with non-clients SCAs. This is justified by the SMT as an investment (such SCAs or their members might become MI's clients).
- MI's procedures are quite prudent as the collateral formalization is compulsory for all loans above 25,000 MDL. Nevertheless, the simplification of the procedures for small loans shall quickly result in an increase of LO's productivity. Gains in efficiency would allow MI to increase its portfolio with the same HR.
- The average outstanding loan per client has climbed (852 to 2,244 USD between 2003 and 2005), mainly because of the launch in 2005 of the SCAs loan. Even though APR on SCAs' loans is lower, the study made by the FM on the profitability per product showed that operational costs are much lower on this product<sup>25</sup>.
- Operating expenses who were accounting for close to 110% of financial revenues in 2006 only represent 46% of these revenues for the first quarter 2006. MI's has been investing a lot in its MIS and the training of its staff during its first years of activities and will now benefit from all the efforts made to be able to grow serenely.

Cost structure in % of financial income



### Funding expense ratio

Funding expense ratio has grown regularly over the period (from 2.4% in 2003 to 9.3% in 2006) with concessional funds and grants becoming rare. These financial expenses account for more than 32% of the financial revenues in 2006, versus less than 12% in 2006. The cost of funds is particularly high because of the hedging strategy of MI (see F section), and is partially compensated by the interest borne by the deposits accounts used to guarantee debts contracted with local banks (in 2006, such non-portfolio incomes account for 5% of all financial revenues).

<sup>25</sup> Nevertheless, the model used wasn't taking into account the time spent by staff on non-clients SCAs.

### Loan loss provision expense ratio (cost of risk)

Provisions expenses had a non negligible weight (14.2% in 2003, 2.8% in 2004) because of the recommendation by the external auditor to provision for the healthy portfolio, which was not really representative of the actual level of credit risk of MI (PAR>30 of only 0.6% and 0.9% in 2003 and 2004, loan loss provision expense ratio of 6.6% and 2.8% respectively. In 2005, MI stopped to provision its healthy portfolio which resulted in much lower provision expenses (ratio of 1.3% and 0.3% in 2005 and 2006).

### Asset management

MI manages adequately its productive resources; loan portfolio represents around 73% of total assets over the period. As explained in the F section, MI has to freeze some cash to guarantee its loans and hedge its currency risks. Ample HR resources on the field and wide network guarantee a quick deployment of the funds when received (cf. graph of evolution of cash balance in the F section).

### Adjusted performance

Details are included in the annexes

In order to compare MI with other institutions, Planet Rating applies several GIRAFE adjustments to all institutions rated:

- Adjustment for inflation: to neutralize the effect of inflation on equity and fixed assets;
- Adjustment for cost of funds: to estimate the cost that the institution would have paid if using commercial financing. This adjustment accounts for the cost savings received from donated funds or concessional loans;
- Adjustments for in-kind donations: support received from Soros Foundation regarding the HQ office.
- Adjustments to provisions in compliance with the international standards fixed by the MicroBanking Bulletin for the sake of homogenization. Given the conservative provisioning policy of MI on the 2003-2005 period, no such adjustments have been made.

MI has an adjustment expense ratio of 16.7% in 2005, which is attributable to the standard adjustments of the cost of funds (57.9% of all adjustments) and inflation (37.7%), as the current loan loss provisioning policies did not require any adjustments and the adjustments for in-kind donations were minimal.

Adjusted ratios	Dec. 2003	Dec 2004	Dec . 2005
Adjustment expense ratio	26.6%	14.2%	16.7%
AROE	(75.6%)	(79.3%)	(67.5%)
AROA	(42.3%)	(43.6%)	(20.3%)
Financial self-sufficiency	18.7%	39.8%	50.3%

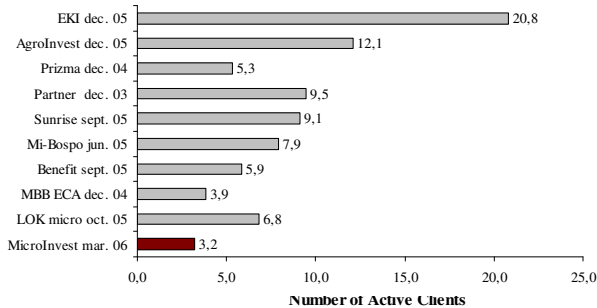
## Benchmarking

### Classification based on MBB criteria

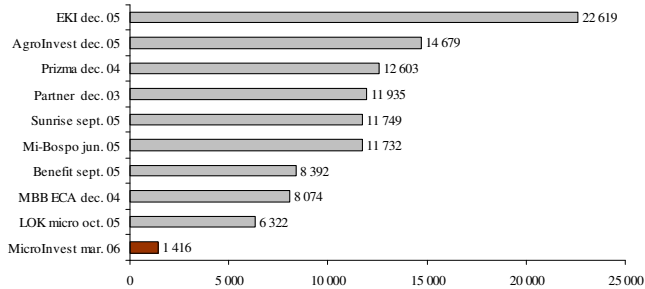
Area	Europe and Central Asia (ECA)
MBB peer group	ECA Large Broad: AgroInvest (Serbia and Montenegro), EKI (Bosnia and Herzegovina), Fundusz Mikro (Poland), FOR A (Russia), Opportunity Microfinance Bank, Inc (Philippines), Sunrise, Partner (Bosnia and Herzegovina), XacBank (Mongolia).
Maturity	Young
Scale of operations	Large
Target population	Broad

Source: MBB August 2005

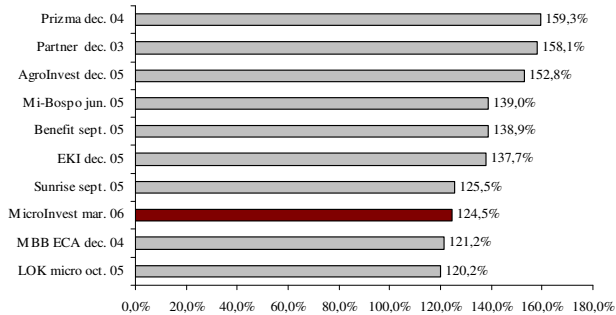
Gross Loan Portfolio M USD



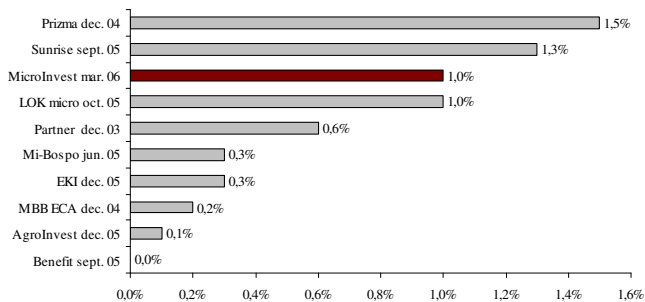
Number of Active Clients



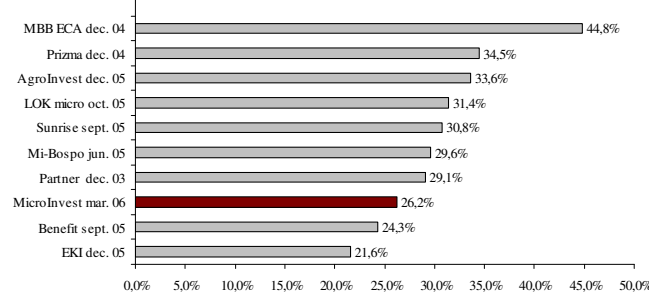
Operational self-sufficiency



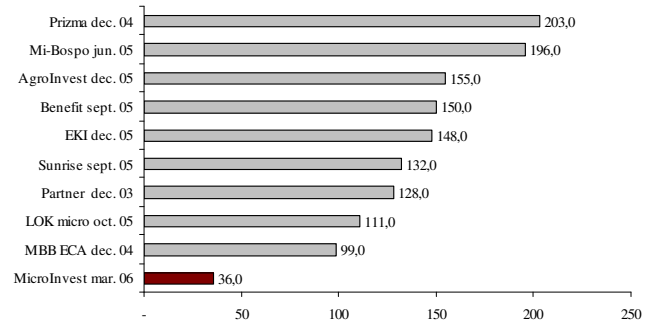
PAR > 30 days



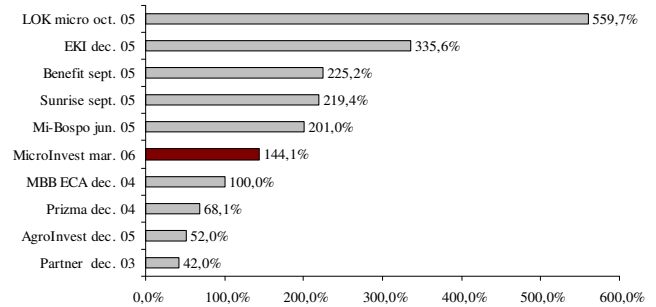
Portfolio Yield



Staff Productivity



Liabilities/Equity Ratio



*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.*

## ■ Annexes

### Acronyms

ALM	Asset/Liability Management
APR	Annual Percentage Rate
ASPA	Alliance for Support Agricultural Markets
BM	Branch Manager
BOD	Board of Directors
BPRM	Bureau of Population, Refugees and Migration
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLO	Chief Loan Officer
E&Y	Ernst and Young
EBRD	European Bank for Reconstruction and Development
EIR	Effective Interest Rate
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FY	Fiscal Year (October 1st to September 30th)
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
IA	Internal Auditor
IAS	International Accounting Standards
IFC	International Finance Corporation
IRC	International Rescue Committee
IT	Information technology
LLC	Limited Liability Corporation
LO	Loan officer
MBB	MicroBanking Bulletin
MFC	Microfinance Center for Central and Eastern Europe and the Newly Independent States
MFI	Microfinance institution
MIS	Management Information System
MMA	Moldova Microfinance Alliance
MSE	Micro and Small Enterprises
NA	Not Applicable
NGO	Non Governmental Organization
PAR	Portfolio at risk
ROA	Return on assets
ROE	Return on equity
SCA	Savings and Credit Associations
SME	Small and medium sized enterprise
SMT	Senior Management Team
USD	United States Dollar

### Formulas and ratios

- 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 outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio
- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio

- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding 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)
- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio

### Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

0 The MFI follows the CGAP disclosure guidelines.

1 The Financial Statements presented include a balance sheet, income statement, and accompanying notes.

2 The financial statements provided include 3.25 years of data.

3 Only microfinance activities are included in these financial statements

4 Portfolio reporting

4.1 Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement ("loan loss expense").

4.2 The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated each month by the MIS according to the methodology described in the table.

Provisioning methodology		
Provision	31 - 60	25,0%
	61 - 90	50,0%
	91 - 180	75,0%
	181 - 365	100,0%

Write-off After 365 days in arrears

4.3 Loans are written off automatically in the system from the loan loss reserve and the loans outstanding (all loans with more than 365 days in arrears).

4.4 The following table reconciles these movements:

	déc. 2003	déc. 2004	déc. 2005
Loan loss reserve, January 1st	-	80 839	267 317
+ Loan loss provision expense for the year	80 839	186 478	253 900
+ Loan loss provision expenses	80 839	186 478	253 900
- Provision reversal			
- Loans written off during the year			53 884
<b>Loan loss reserve, Decembre 31st</b>		<b>80 839</b>	<b>267 317</b>

4.5 Accrual vs. Cash accounting: the MFI accrues interest

5 Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

5.2 Renegotiation of loans: the MFI does /reschedule loans. Such loans are not tracked separately in the loan software (Cf. A).

5.3 Insider loans: the MFI does allow employees to borrow funds. These amounts total 1,055,315 MDL in March 2006. Loans to employees are formalized in a contract between the MFI and the employee that state the amount granted and repayment schedule. Loans repayments are automatically withdrawn from salary.

Employee loans are interest bearing (15% declining). This amount is not a material percent of the outstanding portfolio (2.5%).

## 6 Donations

**6.1** Revenue from donations is shown separately from income generated by operations in the income statement.

### 6.2 Current period donations:

Donor	Amount	Conditions and comments
NOVIB Netherlands	50,814	Implementation of the "Microfinance and Entrepreneurship" project, both for re-lending the grant funds and operating expenses / trainings / development of internal audit department

**6.3** Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income statement. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet. Please note that the financial statements disclosed in this report have been modified for presentation to better reflect donations.

**6.4** In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.

**6.5** Cumulative amount of all prior period donations: MI has received around 21 MDL (1.6 M USD) in grants from the Open Society Institute (OSI), Soros Foundation Moldova (SFM), Alianta de Microfinantare din Moldova (MMA), and NOVIB

## 7 Details of liabilities

**7.1** Loans that account for more than 10% of total liabilities are listed in a table at the end of the report

**7.2** Deposits: Please refer to the presentation of the institution for more details on the savings products offered by the MFI.

## 8 Other significant Accounting Policies

**8.1** Accrual or deferral income/expense accounting: none.

**8.2** Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

Asset type	years
Buildings	40
Furniture	5-6
Computers	3-5
Equipment and other	4-7

**8.3** Inflation accounting: none

**8.4** Currency mismatch: please refer to the F area for more information on potential mismatch.

Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: foreign currency transactions are recorded at the exchange date on the date of the transaction. At the BS sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Gain/loss from exchange rate differences is recognized in the income statement.

## Specific notes to the financial statements

### Income statement

1. Including guarantee fee revenues
2. Exchange gains / Interests on loans to employees
3. Including exchange losses

### Balance sheet

4. Comprised of deposits pledged as guarantee for loans granted by MI to its clients and deposits placed with finance providers
5. Guarantees excluded (deposits made at the banks are registered as short term investments)
6. prepaid rent expenses (first three months), inventory, receivable from employees, from grantors, penalty receivable, others
7. Employees loan
8. deferred revenues (guarantee fee 4% in the first year, and 0,33 -> 1,3% in subsequent years)
9. audit fees, advertising, payables to budget mainly includes income tax payable
10. Unused grants (Foundation Open Society Institute, Moldovan Microfinance Alliance)
11. Soros Foundation (not registered en capital yet).
12. Additional equity, paid but not registered

Name of the product	DIRECT LENDING	GROUP LENDING	VENTURE CAPITAL	LOAN GUARANTEES	Savings and Credit Associations (SCA) LENDING	Staff Loans
Creation Date	June 2003	June 2003	June 2003	June 2003	January 2005	January, 2005
Client type (rural, urban, etc.)	Rural/urban	Rural	Rural/Urban	Rural/Urban	Rural	70% of average salary
Authorized loan size (minimum and maximum)	up to 600 000	up to 5000 - 1st year up to 10000 - 2nd year up to 15000-3rd year	141 000 - 625 000	40 000 -140 000	70 000 - 2 000 000	78,000
Average disbursed loan size	54,352	n/a	n/a	n/a	n/a	up to 5 years
Authorized loan length (minimum and maximum)	up to 60 months	up to 12 months	up to 60 months	up to 60	up to 18 months	36 months up to 8 months
Average loan length	304 days	n/a	n/a	n/a	11-12 months	
Grace period	up to 8 months		up to 60 months for the invested capital	not available	from 3 to 11 months	
Collateral requirements and other conditions	For loans up to 25 000 lei - no tangible assets are required, but instead the borrower must bring at least 1 guarantor who will warrant for the debtor. Disbursal of loans up to 150 000 lei should be covered 100% by tangible assets, and 125% for loans above	1-3 guarantors	Holding the major share (or not less than 60%) of debtor's stock	not available	Cession of rights over SCAs deposits, that represents 10% of granted loan and SCAs portfolio cession	salary base
Repayment Schedule (ex. weekly, monthly)	The repayment may have a different scheme, depending on a client's cash-flow.	Interest is paid quarterly. Balloon principal repayment at maturity	Flexible repayment, while the invested capital is reimbursed at the 5-year maturity.	At the moment of warranty issuance, the client makes an upfront payment of its first year premium (or price). For the subsequent years, the client is bound to make the fixed monthly or quarterly premium payments. 1	Flexible; repayment may have a different scheme, depending on a client's cash-flow.	Monthly
Nominal annualized interest rate	25% - non-agricultural (service and trade) 22% - agricultural 16% - ASPA project	24%	25%	n/a	19%-20%	15%
Flat or declining?	Declining	Declining	Declining	n/a	Declining	Declining
Fees and penalties	2% upfront commission 0,3% penalty for past-due amounts	6% up front commission 0,3% penalty for past-due amounts	0,2% penalty for past-due amounts		0,3% penalty for past-due amounts	0,2%
Major changes since creation (rate, size, term)	*The number of guarantors has been changed from 3 to at least one for loans that do not exceed the amount of 25 000 lei * Loan officers takes personally the decision of crediting, without presenting the file to the Credit Committee				* interest rate for long-term investments is of 20%	Interest rate decreased from 18% to 15%.

MicroInvest Balance sheet	Notes	MDL				USD				Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Mar. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Mar. 2006	2004/2003	2005/2004	2006/2005
<b>ASSETS</b>		<b>3,099,416</b>	<b>13,482,888</b>	<b>48,385,358</b>	<b>55,052,418</b>	<b>234,449</b>	<b>1,082,094</b>	<b>3,770,679</b>	<b>4,230,018</b>	<b>335.0%</b>	<b>258.9%</b>	<b>13.8%</b>
<b>Short Term Assets</b>		<b>1,469,420</b>	<b>8,218,735</b>	<b>47,156,176</b>	<b>50,298,642</b>	<b>111,151</b>	<b>659,610</b>	<b>3,674,889</b>	<b>3,864,756</b>	<b>459.3%</b>	<b>473.8%</b>	<b>6.7%</b>
Cash and Due from Banks		449,960	2,673,821	3,543,308	499,053	34,036	214,592	276,131	38,345	494.2%	32.5%	(85.9%)
Short Term Investments	4	181,000	246,000	8,542,492	8,660,515	13,691	19,743	665,718	665,441	35.9%	3,372.6%	1.4%
Short Term Net Loan Portfolio		757,965	4,829,183	33,830,674	41,079,059	57,335	387,575	2,636,430	3,156,358	537.1%	600.5%	21.4%
Short Term Gross Loan Portfolio	5	838,804	5,096,500	33,552,806	41,362,544	63,450	409,029	2,614,776	3,178,140	507.6%	558.3%	23.3%
(Loan Loss Reserve)		80,839	267,317	488,930	283,485	6,115	21,454	38,102	21,782	230.7%	82.9%	(42.0%)
Interest Receivable		67,256	257,846	909,440	-	5,087	20,694	70,873	-	283.4%	252.7%	(100.0%)
On loan portfolio		64,722	254,859	906,932	-	4,896	20,454	70,677	-	293.8%	255.9%	(100.0%)
On investments		2,534	2,987	2,508	-	192	240	195	-	17.9%	(16.0%)	(100.0%)
Accounts receivable and other assets	6	13,239	211,885	330,262	60,015	1,001	17,005	25,737	4,611	1,500.5%	55.9%	(81.8%)
<b>Long term assets</b>		<b>1,629,996</b>	<b>5,264,153</b>	<b>1,229,182</b>	<b>4,753,776</b>	<b>123,298</b>	<b>422,484</b>	<b>95,790</b>	<b>365,262</b>	<b>223.0%</b>	<b>(76.6%)</b>	<b>286.7%</b>
Long Term Net Investments		-	6,480	6,480	-	-	520	505	-	-	0.0%	(100.0%)
Long Term Gross Loan Portfolio		1,626,754	4,686,230	-	-	123,052	376,102	-	-	188.1%	(100.0%)	-
Net Fixed Assets		3,242	425,581	1,161,678	1,281,682	245	34,156	90,530	98,480	13,027.1%	173.0%	10.3%
Other Long Term Assets	7	-	145,862	61,024	3,472,094	-	11,706	4,756	266,782	-	(58.2%)	5,589.7%
<b>LIABILITIES AND EQUITY</b>		<b>3,099,416</b>	<b>13,482,887</b>	<b>48,385,358</b>	<b>55,052,418</b>	<b>234,449</b>	<b>1,082,094</b>	<b>3,770,679</b>	<b>4,230,018</b>	<b>335.0%</b>	<b>258.9%</b>	<b>13.8%</b>
<b>Liabilities</b>		<b>1,021,692</b>	<b>4,445,498</b>	<b>35,220,645</b>	<b>32,502,045</b>	<b>77,284</b>	<b>356,782</b>	<b>2,744,751</b>	<b>2,497,333</b>	<b>335.1%</b>	<b>692.3%</b>	<b>(7.7%)</b>
Short term liabilities		237,587	1,312,479	2,874,177	2,353,185	17,972	105,335	223,985	180,810	452.4%	119.0%	(18.1%)
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	-	1,891,880	-	-	-	145,365	-	-	-
Interest payable	8	6,552	-	370,283	461,304	496	-	28,856	35,445	(100.0%)	-	24.6%
Accounts Payable and Other Short Term Liabilities	9	231,035	1,312,479	2,503,894	-	17,476	105,335	195,129	-	468.1%	90.8%	(100.0%)
Long term liabilities		784,105	3,133,019	32,346,468	30,148,860	59,312	251,446	2,520,766	2,316,524	299.6%	932.4%	(6.8%)
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		784,105	3,133,019	31,694,420	29,614,516	59,312	251,446	2,469,952	2,275,467	299.6%	911.6%	(6.6%)
Other Long Term Liabilities	10	-	-	652,048	534,344	-	-	50,814	41,057	-	-	(18.1%)
<b>Equity</b>		<b>2,077,724</b>	<b>9,037,389</b>	<b>13,164,713</b>	<b>22,550,373</b>	<b>157,165</b>	<b>725,312</b>	<b>1,025,928</b>	<b>1,732,685</b>	<b>335.0%</b>	<b>45.7%</b>	<b>71.3%</b>
Paid-In Capital		5,400	1,248,312	2,772,994	2,772,994	408	100,186	216,100	213,066	23,016.9%	122.1%	0.0%
Donated equity	11	2,400,023	10,775,865	16,369,526	20,961,443	181,545	864,837	1,275,680	1,610,597	349.0%	51.9%	28.1%
Retained earnings without donations and reserves		(327,699)	(2,986,788)	(5,977,807)	(5,554,504)	(24,788)	(239,710)	(465,852)	(426,787)	811.4%	100.1%	(7.1%)
Current year		(327,699)	(2,659,089)	(2,991,019)	423,303	(24,788)	(213,410)	(233,091)	32,525	711.4%	12.5%	(114.2%)
Other equity accounts	12	-	-	-	4,370,440	-	-	-	335,808	-	-	-

MicroInvest Income Statement	Note	MDL				USD				Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Mar. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Mar. 06	04/03	05/04	06/05
<b>Financial Revenue (a)</b>		<b>120,818</b>	<b>1,864,433</b>	<b>5,116,643</b>	<b>2,652,524</b>	<b>9,139</b>	<b>149,633</b>	<b>398,741</b>	<b>203,810</b>	<b>1,443.2%</b>	<b>174.4%</b>	<b>(48.2%)</b>
Financial Revenue from Loan Portfolio		118,284	1,733,316	4,823,733	2,457,068	8,947	139,110	375,914	188,792	1,365.4%	178.3%	(49.1%)
Interest on Loan Portfolio		112,508	1,619,095	4,539,438	2,079,784	8,510	129,943	353,759	159,803	1,339.1%	180.4%	(54.2%)
Fees and Commissions on Loan Portfolio	1	5,776	53,978	52,583	377,284	437	4,332	4,098	28,989	834.5%	(2.6%)	617.5%
Penalty Revenue on Loan Portfolio			60,243	231,712			4,835	18,057		-	284.6%	(100.0%)
Financial Revenue from Investments		2,534	33,021	150,507	133,777	192	2,650	11,729	10,279	1,203.1%	355.8%	(11.1%)
Other Operating Revenue	2		98,096	142,403	61,678		7,873	11,097	4,739	-	45.2%	(56.7%)
<b>Financial Expense (b)</b>		<b>28,994</b>	<b>216,517</b>	<b>1,063,041</b>	<b>868,171</b>	<b>2,193</b>	<b>17,377</b>	<b>82,843</b>	<b>66,707</b>	<b>646.8%</b>	<b>391.0%</b>	<b>(18.3%)</b>
Interest paid on borrowings		6,552	182,478	1,063,041	868,171	496	14,645	82,843	66,707	2,685.1%	482.6%	(18.3%)
Interest paid on deposits										-	-	-
Net Inflation Adjustment Expense												
Other Financial Expenses	3	22,442	34,039			1,698	2,732			51.7%	(100.0%)	-
<b>Financial income [c=a-b]</b>		<b>91,824</b>	<b>1,647,916</b>	<b>4,053,602</b>	<b>1,784,353</b>	<b>6,946</b>	<b>132,257</b>	<b>315,898</b>	<b>137,103</b>	<b>1,694.6%</b>	<b>146.0%</b>	<b>(56.0%)</b>
<b>Net Loan Loss provision expense (d)</b>		<b>80,839</b>	<b>186,478</b>	<b>253,900</b>	<b>27,786</b>	<b>6,115</b>	<b>14,966</b>	<b>19,786</b>	<b>2,135</b>	<b>130.7%</b>	<b>36.2%</b>	<b>(89.1%)</b>
Loan loss provision expense and write-off		80,839	186,478	253,900	27,786	6,115	14,966	19,786	2,135	130.7%	36.2%	(89.1%)
Recovery from Loans written off										-	-	-
<b>Operating expense (e)</b>		<b>209,207</b>	<b>3,329,737</b>	<b>5,569,326</b>	<b>1,234,549</b>	<b>15,825</b>	<b>267,234</b>	<b>434,019</b>	<b>94,858</b>	<b>1,491.6%</b>	<b>67.3%</b>	<b>(77.8%)</b>
Personnel Expense (includes fringe)		133,077	1,944,707	2,523,765	748,324	10,066	156,076	196,677	57,498	1,361.3%	29.8%	(70.3%)
Administrative Expense (non-staff operating expenses)		76,130	1,385,030	3,045,561	486,224	5,759	111,158	237,341	37,360	1,719.3%	119.9%	(84.0%)
Depreciation and amortization		4,396	60,226	155,361	32,929	333	4,834	12,107	2,530	1,270.0%	158.0%	(78.8%)
Audit fees		60,283	241,514	202,395		4,560	19,383	15,773		300.6%	(16.2%)	(100.0%)
Office supplies/rent/maintenance		2,478	116,040	883,672	197,281	187	9,313	68,865	15,158	4,582.8%	661.5%	(77.7%)
IT maintenance expenses		2,685	95,912	39,542		203	7,698	3,082		3,472.1%	(58.8%)	(100.0%)
Business trip expenses		152	94,921	168,514	4,041	11	7,618	13,132	311	62,348%	77.5%	(97.6%)
Bank charges		4,195	81,121	470,708	55,136	317	6,511	36,682	4,236	1,833.8%	480.3%	(88.3%)
Public utilities, security, insurance			67,345	115,056	5,353		5,405	8,966	411	-	70.8%	(95.3%)
Marketing / Telephone/ internet expenses		975	148,367	450,773	40,708	74	11,907	35,129	3,128	15,117%	203.8%	(91.0%)
Transportation and car rent			89,546	186,621	49,794		7,187	14,543	3,826	-	108.4%	(73.3%)
Others		966	390,038	372,919	100,983	73	31,303	29,062	7,759	40,276%	(4.4%)	(72.9%)
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>(198,222)</b>	<b>(1,868,299)</b>	<b>(1,769,624)</b>	<b>522,018</b>	<b>(14,994)</b>	<b>(149,944)</b>	<b>(137,907)</b>	<b>40,110</b>	<b>842.5%</b>	<b>(5.3%)</b>	<b>(129.5%)</b>
Income Taxes (g)		129,477	790,790	1,221,395	98,715	9,794	63,466	95,184	7,585	510.8%	54.5%	(91.9%)
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>(327,699)</b>	<b>(2,659,089)</b>	<b>(2,991,019)</b>	<b>423,303</b>	<b>(24,788)</b>	<b>(213,410)</b>	<b>(233,091)</b>	<b>32,525</b>	<b>711.4%</b>	<b>12.5%</b>	<b>(114.2%)</b>
Non Operating Revenue (i)										-	-	-
Non Operating Expense (including related taxes) (j)										-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>(327,699)</b>	<b>(2,659,089)</b>	<b>(2,991,019)</b>	<b>423,303</b>	<b>(24,788)</b>	<b>(213,410)</b>	<b>(233,091)</b>	<b>32,525</b>	<b>711.4%</b>	<b>12.5%</b>	<b>(114.2%)</b>
Donations (l)		717,436	5,638,872	9,943,936		54,269	452,558	774,933		686.0%	76.3%	(100.0%)
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>389,737</b>	<b>2,979,783</b>	<b>6,952,917</b>	<b>423,303</b>	<b>29,481</b>	<b>239,148</b>	<b>541,842</b>	<b>32,525</b>	<b>664.6%</b>	<b>133.3%</b>	<b>(93.9%)</b>

## Financing sources (Dec. 2005)

	Maturity date	Interest rate	Original currency	Amount granted in original currency	2005 MDL	2005 USD
Soros Economic Development Fund	31-déc-10	2,0%	EUR	175 000	2 659 124	207 226
NOVIB Netherlands	12-juil-10	6,0%	EUR	325 000	4 938 375	384 848
Consorzio Etimos S.C.	01-nov-08	8,1%	EUR	200 000	3 039 000	236 830
National Federation AGROinform	30-oct-08	5,0%	EUR	1 935 339	1 935 339	150 822
Banca de Finante si Comert	15-août-08	15,5%	MDL	15 000 000	15 000 000	1 168 954
SIDI	01-mars-08	6,0%	EUR	50 000	759 750	59 207
Contact	26-juin-07	11,0%	MDL	1 197 680	1 197 680	93 335
Deutsche Bank Microcredit Development	20-mai-06	2,0%	USD	50 000	641 600	50 000
Banca de Finante si Comert	19-mai-06	20,0%	MDL	1 262 000	1 262 000	98 348
					<b>31 432 868</b>	<b>2 449 570</b>
Add: interest payable					261 552	20 383
					<b>31 694 420</b>	<b>2 469 953</b>

## Board of Directors

Name	Position on Board	Education	Current position	Date elected to Board
Victor Ursu	President	Engineer, PhD Physics 10 years experience in economic development and microfinance	Executive Director, Soros Foundation Moldova	2003
Alexandru Muravschi	Member	Doctor of Economy, economist. Former Minister of Economy More than 10 years experience in policy and development for SMEs and agriculture	Private Farmers Assistance Program, Chief of Policy and Advocacy Department	2003
Igor Padure	Member	PhD mathematics Master of Public Administration. Harvard University, Kenedy School. More than 10 years experience in Microfinance	Moldova Microfinance Alliance, Founder. Moldova	2003
Liliana Cazacu	Member	Economist. More than 8 years managerial experience in agro-food industry	CEO, NATUR BRAVO fruit processing company, Moldova	2005
Neal Delaurentis	Member	Economist More than 10 years in SMEs development and microfinance	Open Society Institute. Vice director economic development program USA.	2005
Alka Couet	Member	Experienced in Microfinance in Eastern Europe and Latin America	SIDI, France	2005
Vitalie Iurcu	Member	MBA	Economist	2006
Artur Munteanu	Member	Economist, MBA University of Hull, The UK. More than 8 years in microfinance	CEO, Microinvest. Moldova	2003

## Organizational chart

