MicroRate
The Rating Agency for Microfinance

CAPA Finance SA

Limited by shares

2nd Rating **ROMANIA**

Raport as of December 2006

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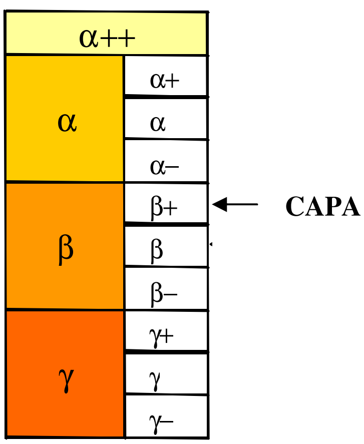
PERFORMANCE RATING	β +
Date of rating	**May 2007**
Date of previous rating	**September 2004**
Previous rating	β +.



Main Performance Indicators

	Dec '05	Dec '06
Gross Portfolio* ('000's)	$14,778.0	$22,838.5
Number of active borrowers	5,138	6,825
ROE	9.1%	6.0%
Portfolio Yield	16.8%	20.0%
Portfolio at Risk	2.5%	3.0%
Operating Expense Ratio	10.6%	12.5%
Average Out. Loan Size	$2,876.2	$3,346.3
Borrowers per staff	80	86

Synopsis

CAPA started operations as a project of World Vision in 1996 with technical support from the Mennonite Economic Development Association (MEDA) and with funds from the Romanian American Enterprise Fund (RAEF). The institution became a separate not for profit entity in 1999, but was transformed into a for-profit finance company in 2004. As a non-bank entity, CAPA Finance SA is regulated by the recently enacted Law for Non-Bank Financial Institutions (NFIs). CAPA exclusively makes individual loans, in urban and rural markets, and at December 2006, had a loan portfolio of $22.8 million (roughly $9.1 million of which are funds under administration), and had 6,825 active borrowers.

CAPA's Funds Under Administration

About 40% of CAPA's loan portfolio consists of funds under administration from the Romanian American Enterprise Fund. While CAPA makes and collects these "RAEF loans", the institution does not own them and does not bear the risk for them. CAPA maintains separate accounts for its "RAEF operations" and its "non-RAEF operations"; however, income and expenses related to the RAEF loans are included in CAPA's financial statements. It is thus complicated to have a clear breakdown of what exclusively relates to CAPA and RAEF respectively. However, to the extent that CAPA has been able to desegregate its information, MicroRate has adjusted the relevant ratios.

Highlights

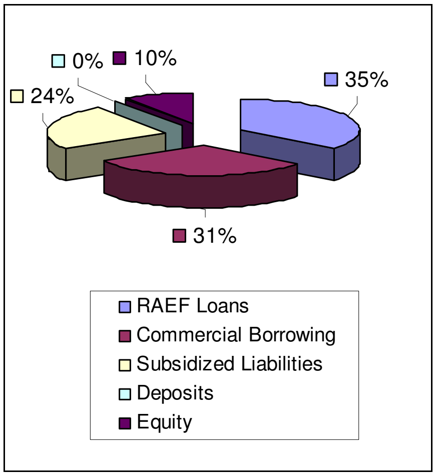
POSITIVE

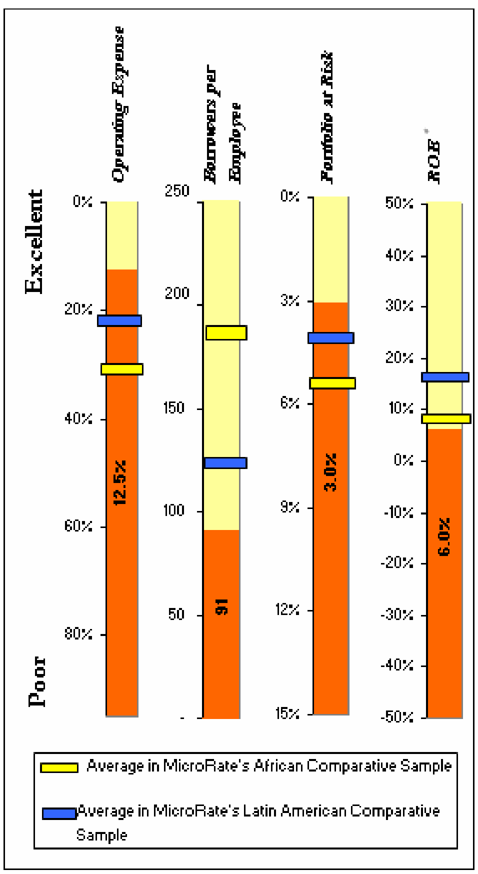
- Good Methodology and well-designed loan products
- Competent staff
- Good portfolio quality
- Strong market positioning

NEGATIVE

- Weak Governance
- Foreign Exchange and Interest rate risk exposure
- No formal risk management framework
- Funding Mobilisation is a challenge
- Declining profits

CAPA Finance SA	ROMANIA	December 2006
Sources of Funding	**Rating Rationale**	





Good methodology - CAPA's methodology and its loan approval process are well thought.

Good Portfolio Quality - Over the last 4 years, the main indicator for portfolio quality, Portfolio at Risk over 30 days (PAR30), has increased. While this is essentially due to the greater move towards rural lending, which is more risky, it remains low at 3%.

Strong Management and staff - The majority of senior staff have all been with the institution since inception and demonstrate a high level of competence.

Good efficiency levels - The growing trend of productivity levels has greatly contributed to higher efficiency levels. Although the operating expense ratio has slightly increased in 2006, manly due to expansion, it remains low at 12.5% (2005: 10.6%).

Weak Governance - Although all board members have an array of business experience among them, MicroRate's opinion is that governance is weak. As an example, in light of CAPA's 5 year business plan, the shareholders have not been responsive to CAPA's position regarding equity levels and funding needs.

No formal Risk Management framework - There is no formal risk management framework in place to deal with risks such as exchange rate and interest rate risks, audit, credit, counter-party etc. Given CAPA's portfolio size of nearly $23 million, it is essential to manage these risks on a systematic basis.

Strong Market positioning - The segment CAPA targets, micro-small entrepreneurs with a strong focus on rural areas, is well defined and still underserved by competition.

Declining profits - Although CAPA has been profitable since 2002, Net income has constantly decreased since 2004 and was at $142.2 thousand in December 2006 (2004: $319.7 thousand).

Funding mobilisation is a challenge - CAPA has not always been able to satisfy its clientele and even had to place clients on waiting lists, preventing the institution to further grow.