

March 2009

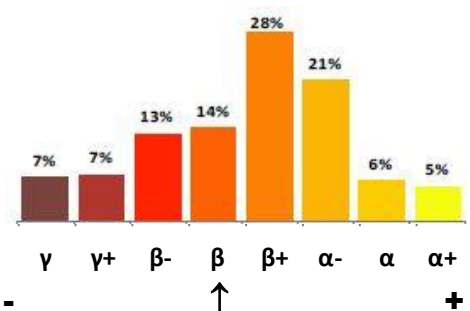
NDCO WMN

Russia

β

Sound lending practices, strong institutional organization but low efficiency and not profitable. Moderate credit risk.

Financial Sub-Rating¹
Future Rating Outlook
Social Rating
γ+
Stable

 ★★☆☆☆²


Date of Visit	Dec-08
Previous Rating	n.a
Date of Previous Rating	n.a.
Number of MicroRate Ratings	1

Principal Performance Indicators

	Dec-06	Dec-07	Sep-08
Gross Loan Portfolio*	2,604	10,027	13,292
Number of Clients	71	3,256	3,415
ROE**	-30.5%	-33.3%	-17.2%
Portfolio Yield	7.7%	27.0%	37.4%
Portfolio at Risk	2.5%	4.4%	4.6%
Operating Expenses	10.4%	23%	26.6%
Average Loan Size (\$)	36,682	3,079	3,892
Borrowers per Staff	5	32	32

*(‘000\$) ** Adjusted

¹ See Annex

² See Social Report Mar-09

Summary Description

Initially a network of local microfinance funds (NGOs) founded in 1998 with a central office in Moscow, the Russian Women’s Microfinance Network transformed into a for-profit Non-Bank Deposit-Credit Organization (NDCO) licensed and supervised by the Central Bank of Russia in September 2005. Operations of the fully consolidated entity had effectively started in mid-2007.

Operating in the region of Moscow and its surroundings, it has a loan portfolio of approximately US\$13.2 million and serves around 3,400 borrowers, two thirds of which are women.

Rating Rationale

NDCO WMN demonstrates sound lending practices and a good portfolio quality backed up by a strong organizational structure. Nevertheless, compliance with extensive government regulation impacts negatively on efficiency and productivity and operating expenses are consequently high. As a result of the heavy regulatory burden and of the relatively small scale on which WMN operates, the institution is not yet profitable. Moreover, WMN is exposed to high interest rate risk and to funding shortages in the light of the world economic crisis. Its borrowing capacity is however continuously reinforced by strong shareholders committed to the MFI’s success.

WMN has not yet been able to prove that it is possible for a small MFI to operate as a regulated financial institution in Russia. The answer to that will depend on whether the MFI succeeds in substantially expanding its operations while holding its operating expenses steady. On the positive side, WMN serves a clearly identified market niche where demand is strong and competition is all but inexistent. The institution’s strong organization, extensive branch network and good lending methodology place it in a good position to expand successfully.

Strengths

- + Competent lending practices and methodology
- + Strong Board and shareholders
- + Well managed and organized
- + Large potential market niche
- + Strong support by Women’s World Banking

Risk Factors

- Not yet profitable
- High interest rate risk exposure
- Low efficiency and productivity mainly due to non-conducive environment
- Funding shortage to grow

ANNEX

Rating	Microfinance Rating Scale Definitions
$\alpha++$	Those MFIs with an <i>ongoing stable relationship</i> among the financial, operational and strategic considerations of sound microfinance practices as compared to an international set of similar companies and standards of the microfinance industry. Optimal efficiency and effectiveness. Very Low Risk / Risk very well managed , leaving company minimally susceptible to variability during economic cycles.
$\alpha+$ α $\alpha-$	Those MFIs that have <i>successfully balanced</i> the financial, operational and strategic considerations of sound microfinance practices as compared to an international set of similar companies and standards of the microfinance industry. Excellent efficiency and effectiveness. Low Risk / Risk well managed , leaving the company minimally susceptible to variability during economic cycles.
$\beta+$ β	Those MFIs <i>working to define</i> a relationship among the financial, operational and strategic considerations of sound microfinance practices as compared to an international set of similar companies and standards of the microfinance industry. Good efficiency and effectiveness. Moderate Risk / Incipient Risk Management , leaving the company subject to some variability during economic cycles.
$\beta-$	Those MFIs <i>lacking</i> a clear relationship among the financial, operational and strategic considerations of sound microfinance practice as compared to an international set of similar companies and standards of the microfinance industry. Acceptable efficiency and effectiveness. Moderate Risk / Inadequate Risk Management , leaving the company subject to significant variability during economic cycles.
$\gamma+$ γ	Those MFIs <i>with financial, operational or strategic weaknesses that have the potential to threaten their viability, now or in the future</i> , as compared to an international set of similar companies and standards of the microfinance industry. Poor efficiency and effectiveness. High Risk , with high variability during economic cycles.

Financial Sub-rating

- Using the same rating scale described above, MicroRate's Financial Sub-rating measures the MFIs financial health based on its financial structure, profitability, operating margins and financial risk management.
- Whereas the MFIs Performance Rating indicates the overall excellence of its microfinance operations, the Financial Sub-rating is only concerned with the financial condition of [the MFI. As such, the latter allows investors to differentiate MFIs along purely financial criteria.
- The Financial Sub-rating is an integral consideration of the Rating Committee's assignment of the Performance Rating.

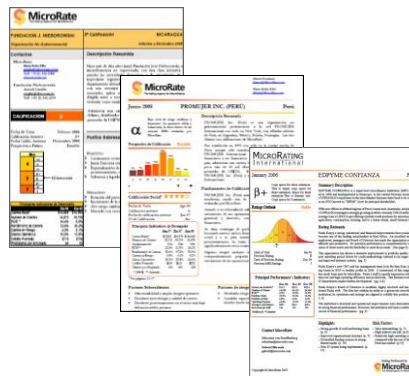
Interested in the full report?

The full Performance Rating includes detailed information on the following:

- Context
- Financial Situation
- Microcredit Operations
- Portfolio Quality
- Organization and Management
- Governance and Strategic Positioning

This performance report is available for purchase. If you are interested in purchasing a report, please contact MicroRate at 1-703-243-5340 or email info@microrate.com.

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<p>MicroRate Latin America Mayor Armando Blondet 261 San Isidro, Lima, 27 Lima – Peru Phone: (511) 628-7054 Fax: (511) 628-8729</p>	<p>MicroRate Headquarters 3300 North Fairfax Drive Suite 202 Arlington, VA 22201 United States Phone: (703) 243-5340 Fax: (703) 243-7380</p>	<p>MicroRate Africa Espace A11-10ème étage 357 Boulevard Mohammed V Casablanca-Morocco Phone/Fax: +212 5 22 49 10 94</p>
<p>info@microrate.com</p>		<p>www.microrate.com</p>

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