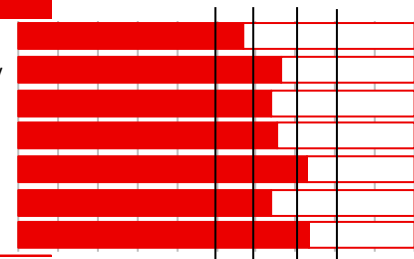


# AzerCredit - Azerbaijan

<b>FINAL RATING</b>	<b>BBB+</b>	<b>RATING SCORING BY AREA</b> Microfinance Sector and R&S Mission, Governance and Strategy Systems and Controls Client Protection Assets quality and structure Capital Adequacy and ALM Financial and operational results	
<b>OUTLOOK</b>	<b>Stable</b>		
<b>Mission date:</b>	Feb 2014		
<b>Date Rating Committee :</b>	09/05/2014		
<b>Validity:</b>	1 year if no relevant changes in operations or in the external context occur		
<b>Previous Rating :</b>	BBB+ , Mar 2012		

D C CC CCC B **BB** BBB A AA AAA

## RATING RATIONALE

### FINANCIAL ANALYSIS AND CAPITAL ADEQUACY

The institution has been performing very well in terms of profitability during the three years analysed, mainly due to the high loan portfolio yield (higher than regional benchmarks), to low loan loss provisions, adequate operating expenses, even if with room for improvement. Portfolio quality is very good. A relevant portion of the outstanding portfolio is denominated in USD which could expose to higher credit risk in case of exchange rate instability. Despite the very good capitalization capacity (agreed no-dividend distribution in the medium term) due to the high levels of profits, the capital adequacy ratio stands at moderate levels although with a projected positive trend.

### GOVERNANCE, RISK MANAGEMENT AND CLIENT PROTECTION

Corporate governance at AzerCredit looks good and even more balanced with the participation of the new shareholders. Board members and managers are committed to the institutional mission. Risk management and internal control systems are adequate to current size and nature of the operations. Despite the upgrade of the hardware and software, the management information system's functionality and reporting have not improved since the previous version. AzerCredit performance in client protection is overall adequate with some room for improvement especially in terms of privacy dissemination policy and responsible pricing. Competition and over-indebtedness are high in urban areas.

<b>Legal form</b>	NBFI
<b>Ownership</b>	Vision Fund, Incofin, Triple Jump
<b>Year of inception</b>	1996 as a microfinance program, 2003 as LLC NBFCO
<b>Regulator / Supervisor</b>	Central Bank of Azerbaijan
<b>Networks of reference</b>	Vision Fund
<b>Area of intervention</b>	Rural and Urban
<b>Financial Services</b>	Credit
<b>Credit methodology</b>	Individual/Solidarity

Indicators	Dec11	Dec12	Dec13
<b>Credit risk ratio</b>	0.2%	0.7%	0.4%
<b>PAR 30</b>	0.4%	0.3%	0.5%
<b>PAR 90</b>	0.3%	0.2%	0.3%
<b>Risk coverage ratio</b>	70.9%	162.7%	121.6%
<b>ROE</b>	38.2%	45.1%	39.3%
<b>ROA</b>	5.8%	7.3%	7.3%
<b>Portfolio yield</b>	41.9%	41.9%	42.0%
<b>Operating expense ratio</b>	24.0%	21.1%	21.0%
<b>Provision expense ratio</b>	0.3%	0.8%	0.5%
<b>Financial expense ratio</b>	7.8%	8.4%	8.1%
<b>LO productivity (borrow.)</b>	283	232	237
<b>Cash Ratio</b>	28.6%	40.4%	40.0%
<b>Capital Adequacy Ratio (MFR)</b>	14.5%	17.9%	20.9%
<b>Equity to Assets Ratio</b>	15.2%	17.1%	19.4%
<b>Client drop-out ratio</b>	42.1%	48.5%	27.6%
<b>Average annual percentage rate (APR) Individual Micro-loans (USD)</b>			42.4%
<b>Average annual percentage rate (APR) Individual Micro-loans (AZN)</b>			44.8%
<b>Average annual percentage rate (APR) Family Loans (USD)</b>			41.4%
<b>Average annual percentage rate (APR) Family Loans (AZN)</b>			42.7%
<b>Average transparency index Individual Micro-loans (USD)</b>			84%
<b>Average transparency index Individual Micro-loans (AZN)</b>			82%
<b>Average transparency index Family Loans (USD)</b>			87%
<b>Average transparency index Family Loans (AZN)</b>			84%
<b>Average loan balance/GDP pc</b>	15.5%	15.4%	13.8%
<b>Average disbursed loan size, USD</b>	23.3%	20.3%	19.8%

Institutional data	Dec11	Dec12	Dec13
<b>Active borrowers (#)</b>	45,625	50,717	67,134
<b>Active loans (#)</b>	47,232	59,751	74,372
<b>Branches (#)</b>	8	11	39
<b>Satellites (#)</b>	15	18	0
<b>Total staff (#)</b>	360	456	590
<b>Loan officers (#)</b>	161	219	283
<b>Gross outstanding portfolio (USD)</b>	42,434,492	56,023,660	69,127,508
<b>Total assets (USD)</b>	46,589,533	64,708,943	85,905,403
<b>Female borrowers</b>	34.4%	33.5%	34.6%

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The final rating grade does not consider the Country Sovereign Rating Risk, but it takes into account the effects of the political and economic context on MFI's performance.

<b>Microfinance Rating PLUS</b>		<b>Common rating grade classification for all microfinance rating agencies</b>	
<b>Grade</b>	<b>Definition</b>	<b>Classification</b>	<b>Definition</b>
<b>AAA</b>	Excellent capacity to manage risks. This capacity is not expected to be affected by a foreseeable deterioration of the operations or economic conditions. Extremely strong and stable fundamentals. Excellent client protection systems.	<b>EXCELLENT</b>	Low or well-managed short-medium term risk. Strong performance
<b>AA+, AA, AA-</b>	Very strong capacity to manage risks. This capacity may be slightly affected by a deterioration of the operations or economic conditions. Very strong and stable fundamentals. Excellent client protection systems.		
<b>A+, A, A-</b>	Strong capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Strong and stable fundamentals. Good client protection systems.		
<b>BBB+, BBB, BBB-</b>	Good capacity to manage risks. However, this capacity is likely to be affected by a deterioration of the operations or economic conditions. Good fundamentals. Adequate client protection systems.	<b>GOOD</b>	Modest or well-managed short- medium term risk. Good to moderate performance
<b>BB+, BB, BB-</b>	Adequate capacity to manage risks. However, this capacity may be significantly affected by a deterioration of the operations or economic conditions. Adequate fundamentals. Adequate client protection systems.		
<b>B+, B, B-</b>	Moderate capacity to manage risks. This capacity is vulnerable to a deterioration of the operations or economic conditions. Moderate fundamentals. Moderate client protection systems.	<b>FAIR</b>	Moderate to moderate-high risk Moderate performance
<b>CCC+, CCC, CCC-</b>	Modest capacity to manage risks. This capacity is highly vulnerable to a deterioration of the operations or economic conditions. Modest fundamentals. Modest client protection systems.		
<b>CC+, CC, CC-</b>	Weak capacity to manage risks. Modest fundamentals. Poor client protection systems.		
<b>C</b>	Weak capacity to manage risks. Weak fundamentals. Poor client protection systems.	<b>POOR</b>	High risk Poor performance
<b>D</b>	Extremely weak capacity to manage risks. Extremely weak fundamentals. Poor client protection systems.		

**MODIFIERS**

The modifiers "+" or "-" may be assigned to a rating to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" and below "CC" grades.

**OUTLOOK**

indicates the direction a GRADE is likely to move over a one year period

**POSITIVE** Probable upgrade of the rating grade

**STABLE** Rating grade is not likely to change

**NEGATIVE** Probable downgrade of the rating grade

**UNDER OBSERVATION**

The rating grade and/or outlook cannot be assigned, due to unexpected internal/external events or to insufficient information provided and it may be assigned only after a monitoring to be held in the short term.

**If you are interested in the full report, please do not hesitate to contact us at [info@microfinanzarating.com](mailto:info@microfinanzarating.com) and learn more about the availability of rating reports to purchase.**

The information used in the current rating has been partly provided by the institution subject to the evaluation process and partly collected during the meetings with the head executives. The analysis is based on audited financial statements and other official sources. MicroFinanza Rating cannot guarantee the reliability and integrity of the information, as it does not conduct auditing exercises, and therefore does not bear responsibility for any mistake or omission coming from the use of such information. The rating has to be considered as an external and independent opinion and it has not to be considered as a recommendation to realize investments in a specific institution.