20 June 2022

Financial Institutions

JSC MFO Micro Business Capital Issuer Rating Report

STABLE

B+

Scope's credit view (summary)

The B+ issuer credit rating on JSC Micro Business Capital (MBC) reflects the following rating considerations:

MBC ranks among the largest Georgian microfinance organisations, with a business model mainly focused on collateralised micro and agro loans. Its market share has been resilient in recent years. MBC's business model could benefit from the possible introduction of microbank licenses targeted at the largest Georgian microfinance organisations.

An increasing access to international financial institutions offering funding in foreign currency is enhancing MBC's funding profile by reducing its reliance on a few commercial banks. Foreign currency mismatch is material, with 48% of long-term funding in US dollars and a small portion of foreign currency loans. Hedges are in place but their cost weighs on earnings generation. They represented 20% of MBC's net revenue before foreign exchange costs in 2021.

Solvency and liquidity metrics are still reassuring. As of March 2022, the company held comfortable but shrinking buffers to both minimum capital and liquidity requirements, with a capital adequacy ratio of 24.5% (end-March 2021: 28.9%), which is 6pp above the requirement, and a liquidity ratio of 37.1% (end-March 2021: 54.6%), 19pp above the requirement.

Profitability indicators improved in 2021, driven by larger loan volume growth, as the economy bounced back from the Covid-19 crisis. The company continues to have sound asset quality metrics compared to its peers. At end-2021, loans that were past due by over 30 days amounted to 1.8% of gross loans (69% of which were covered). Restructured loans amounted to 2.4% of the gross loan portfolio at the same date.

MBC continues to actively engage in environmental, social and governance areas and in its preparedness for a digital transition (ESG factor), especially in the social and governance areas. This is still work in progress. Scope acknowledges the role of microfinance organisations in empowering local communities, improving financial inclusion, developing the domestic economy and increasing their relevance for the local economy. Further, the clear alignment of interests between MBC's shareholders and managers indicates a commitment to long-term company value.

Outlook – rating change drivers

The Outlook is Stable and reflects Scope's view that MBC's performance will remain resilient in 2022. Scope expects earnings to be sufficient to absorb potential credit losses.

What could move the credit rating up:

- Transformation into a microbank, leading to improved product diversification, additional layers of safer and more predictable funding inflows (e.g. deposits), and stricter regulation.

What could move the credit rating down:

- Larger foreign exchange losses that negatively affect earnings.
- Material deterioration in portfolio credit quality
- Higher competition in the domestic agro loan market reducing the profitability of one of MBC's key products.

Ratings & Outlook

Issuer rating	B+
Outlook	Stable

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Issuer profile

MBC is one of the largest microfinance organisations in Georgia ranked by total assets, founded as a joint stock company in December 2012. It operates only in the Georgian domestic market and it is regulated by National Bank of Georgia.

It lends to micro and small business, self-employed individuals operating in trade, services, production and crafts, and households for mortgage and consumer purposes.

As of March 2022, the company employs 237 people in 16 branches in the main regions of Georgia.

Recent events:

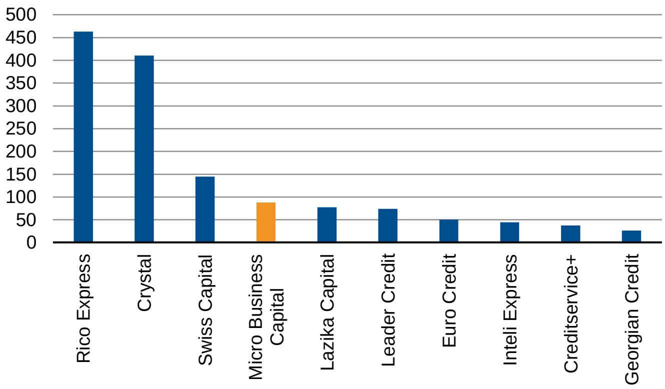
- October 2021: MBC launched a new product, unsecured business and agro loans up to GEL 10,000.
- March 2022: 1 new service centre was opened in the city of Samtredia.
- April 2022: 2 new service centres were opened in the cities of Telavi and Zestaponi.
- Russo-Ukrainian war impact on MBC: Very limited effect as MBC's clients are too small to have direct business with Russia or Ukraine.

One of the leading microfinance organisations in Georgia by total assets with a strong and solid market share

Fourth largest microfinance organisation in Georgia by total assets

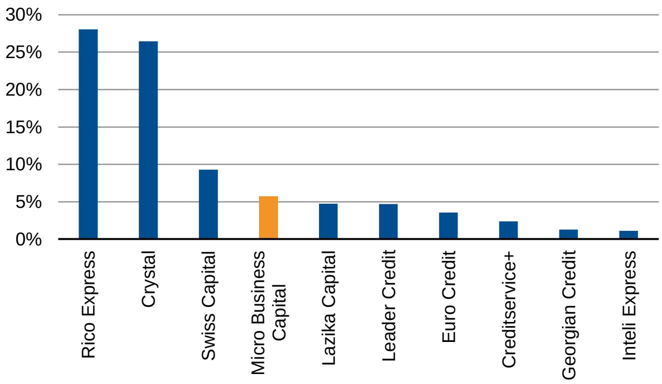
JSC MFO Micro Business Capital (MBC) is the fourth largest microfinance organisation in Georgia, after Rico Express, Crystal and Swiss Capital. It has GEL 97.2m in total assets and a 5.8% market share in net loans as of December 2021.

Figure 1: Georgian MFOs ranked by total assets (Q1 2022, GEL m)



Source: NBG, Scope Ratings

Figure 2: Georgian MFOs ranked by market share of net loans (Q1 2022)



Source: NBG, Scope Ratings

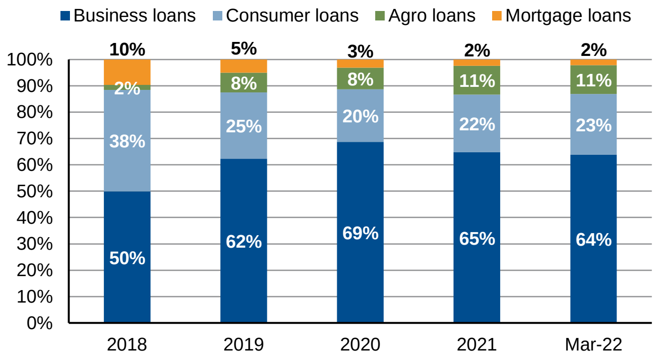
Georgia has 38 MFOs and the sector is highly concentrated: the five largest MFOs hold 72% of total assets and 74% of total net loans in the sector as of March 2022. In terms of loan book composition, Crystal and Micro Business Capital (MBC) have a high product diversification among the largest microfinance organisations in Georgia (Figure 4).

MBC's main financial products include trade and service loans, production and craft activity loans (business loans), consumer loans, agro loans and housing loans.

Business loans: 64% of gross lending as of March 2022

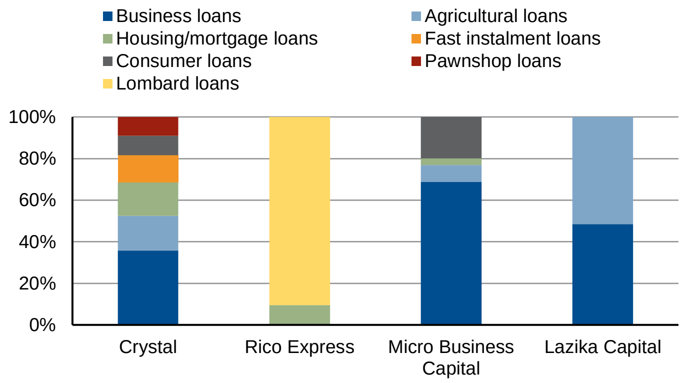
Most of MBC's lending consists of business loans, which represented 64% of gross loans as of March 2022 (Figure 3).

Figure 3: MBC's gross loan portfolio breakdown by product (2018- March 2022)



Source: Company data, Scope Ratings

Figure 4: Loan book composition among the largest Georgian MFOs by total loans (2020)



Notes: i) Swiss Capital has been excluded in this comparison as its loan book composition was disclosed by collateral and not by product. ii) Crystal's business loans are the sum of SME loans and micro business loans

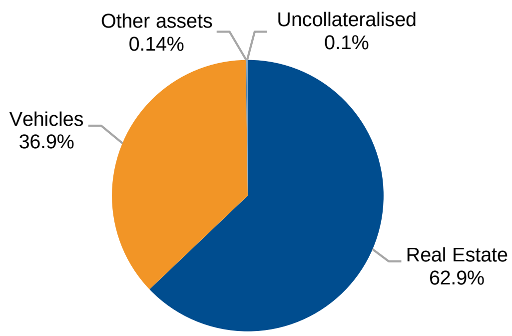
Source: Company data, Scope Ratings

In recent years, the share of business loans has well surpassed that of consumer and housing loans. This is due to the strategic focus on lower-risk borrowers as well as tighter regulation on loan-to-value and payment-to-income ratios. Since 2019, MBC has been growing its agro loan business by expanding into the rural areas of Georgia.

Practically the entire portfolio of MBC is collateralised

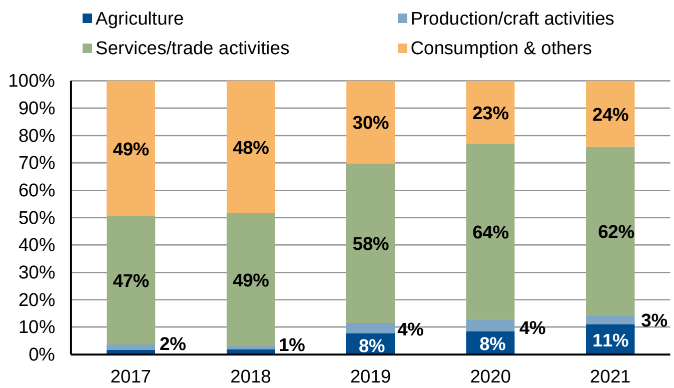
As of December 2021, over 99% of MBC's gross loans were collateralised by either real estate (approx. 63%) or vehicles (approx. 37%). MBC's internal controls and systems assess collateral quality as part of its loan approval process, which is divided into an inspection and a benchmarking phase.

Figure 5: MBC's gross loans by collateral (December 2021)



Source: Company data, Scope Ratings

Figure 6: MBC's gross loan by sector (2017-2021)



Source: Company data, Scope Ratings

Agro loans constitute the cornerstone of MBC's medium-term strategy

MBC's short-term strategy until 2022 targets: i) significant growth in agro loans to 16% of gross lending; ii) moderate growth in business loans to about 55% of gross lending; iii) temporary growth in consumer and other loans to 23% of gross lending; and iv) material expansion in the branch network across Georgia.

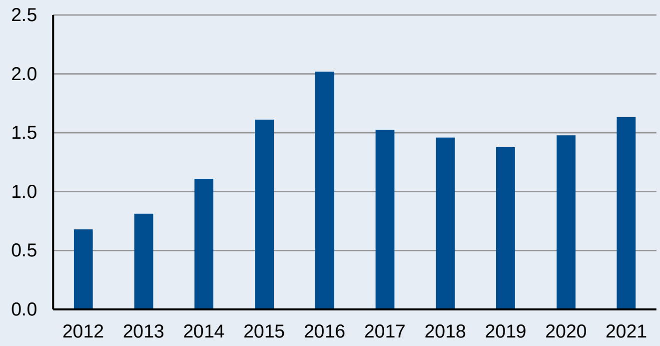
Box A: Overview of the role of microfinance organisations (MFOs) in Georgia

Microfinance organisations (MFOs) are gradually continuing to play a more important role in the development of the financial sector, as well as in the economy, in Georgia.

MFOs play a key role providing loans and other financial services to people generally excluded from the traditional banking channels such as lower income individuals, self-employed, micro businesses and SMEs to help them to prosper and gain access to the financial system.

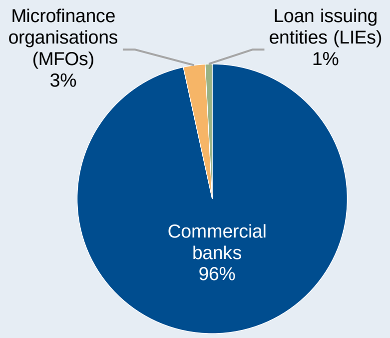
Despite microfinance organisations still accounting for a very limited share in the Georgian financial system (3% as of December 2021), the sector's total assets have grown approximately 2.5x since 2012, amounting to GEL 1.6bn as of December 2021.

Figure 7: Georgian MFO sector total assets (GEL bn, 2012-2021)



Source: NBG, Scope Ratings

Figure 8: Georgian financial sector structure by total assets (2021)



Source: NBG, Scope Ratings

Box B: National Bank of Georgia's draft bill on future framework for microbanks

1) Minimum capital of GEL 10m.
2) 70% of its portfolio must be business or agriculture loans.
3) Loan limit up to GEL 1m.

Box C: The economic and MFO operating environment in Georgia

Economic assessment - Key credit considerations:

- Georgia is a small, open and emerging market economy with a GDP per capita of USD 5,015 as of December 2021. Georgia is a net importer, with Turkey as the largest trading partner (15% of total foreign trade turnover), followed by Russia (11.4%), China (10.3%), Azerbaijan (7.9%) and the US (5.7%) in 2020. Georgia's main exporting sectors were manufacturing (41%), wholesale and retail trade (22%), transportation and storage (21%) and mining (6%) as of February 2022.
- Georgia grew at an average pace of 3.9% during the 2010-2020 period, higher than the average of geographically close countries and several eastern European nations[1] (3%) mainly driven by the government's economic reforms tilted to business-friendly policies such as low taxes and free market-oriented economy, higher domestic consumption, higher exports and a significant rise in tourism.
- On the negative side, continuous domestic political tensions between the government and the opposition, structural unemployment, high dollarised banking system, material dependence on tourism and historical geopolitical tensions with Russia due to self-proclaimed independent regions of South Ossetia and Abkhazia should be seen as credit weaknesses.
- According to preliminary estimates published by Geostat, Georgia's real GDP growth amounted to 10.4% in 2021.
- Georgia's weighted-average unemployment rate rose to 20.6% in 2021 from 17.6% in 2019 due to pandemic social distance measures and lockdowns in 2020 and early in 2021. Nonetheless, the job market situation in the country has improved moderately in the last two consecutive quarters with the national unemployment rate decreasing to 19% in Q4 2021, lower than the levels seen during the period 2010-2018.

Selected economic indicators	2018	2019	2020	2021E	2022F
GDP per Capita ($)	4,397	4,373	3,972	4,507	5,130
Real GDP Growth (%)	4.84	4.98	-6.76	10.60	1.00
Public Debt / GDP (%)	40.39	41.76	60.10	51.50	54.10
Current Account Balance / GDP (%)	-2.60	-3.39	-9.78	-7.30	-8.10
Consumer Prices Growth (%)	2.63	4.84	5.22	9.57	12.10

Source: SNL, Scope Ratings

Soundness of the Georgian financial sector - Key credit considerations:

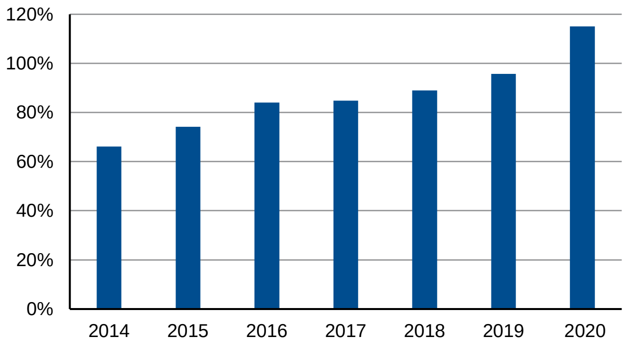
- Commercial banks in Georgia play a major role in the domestic financial sector as they held approximately 97% of total financial sector assets as of December 2021. Within the non-banking sector, MFOs represent the largest segment amounting to approx. 3% of total financial assets in 2021. Loan issuing entities' (LIEs) contribution to the domestic financial sector is still very limited (<1% of total assets in 2021).
- After 2012, the Georgian microfinance sector significantly accelerated and kept a positive trend until 2016. This year represented the tipping point where the sector started to downsize due to continuous material regulatory changes, forcing more than half of the players to exit the market (42 MFOs have left the market since 2016) There are 38 MFOs operating in Georgia as of December 2021.
- Despite 10 Georgian microfinance organisations leaving the market in the last two years, total MFO assets increased approx. 11% YoY to about GEL 1.6bn, with net lending growing at a 18% rate to GEL 1.3bn as of December 2021. It is worth mentioning that the 8 MFOs who left the microfinance market in 2020 and 2021 were among the smallest players.
- With regards to the whole domestic market portfolio, consumer loans stood as the main contributor representing 77% of the total portfolio as of December 2021, followed by trade and services loans (13%), agriculture and forestry loans (7%) and other loans (3%). It should be noted that consumer loans just represented 34% of the total portfolio in 2012, with agriculture and forestry loans (28%) and trade and services loans (27%) as the remaining contributors of the total portfolio that year.
- The microfinance organisation sector in Georgia was largely unregulated until 2017. Main regulatory changes since then include: i) loans up to GEL 200k can only be issued and extended in GEL, ii) minimum threshold of GEL 100k for borrowings from each individual when there are more than 20 individual investors, iii) effective interest rates capped to 50% from previous 100%, iv) minimum regulatory capital of GEL 1m, v) implementation of minimum capital and liquidity coefficients of 18% each, vi) macroprudential policy instruments such as PTI and LTV encouraging responsible lending practices, vii) development of a new regulatory framework for a new entity called a microbank.

Banking system indicators	2017	2018	2019	2020	2021
ROAA (%)	2.82	2.66	2.85	1.35	2.98
ROAE (%)	19.84	18.57	20.26	10.14	21.73'
Net Interest Margin (%)	5.81	5.99	5.30	4.40	4.74
CET1 ratio (%)	9.46	13.89	13.27	12.53	14.22
Problem Loans/ Gross Customer Loans (%)	3.98	5.95	4.62	5.98	4.38

Source: SNL, Scope Ratings

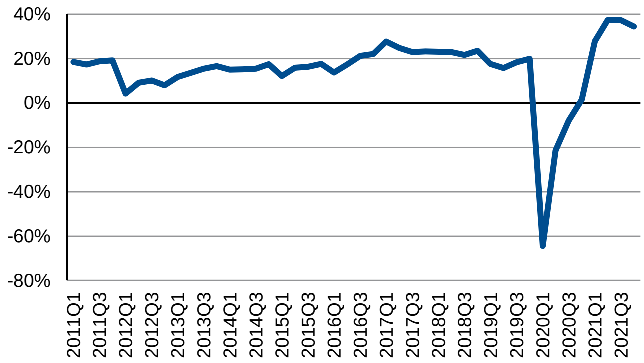
[1] Countries included in the sample: Albania, Armenia, Azerbaijan, Belarus, Bosnia & Herzegovina, Bulgaria, Georgia, Kazakhstan, North Macedonia, Russian Federation, Turkey, Turkmenistan, Ukraine and Uzbekistan

Figure 9: Georgian banking sector assets as a % of GDP (2014-2020)



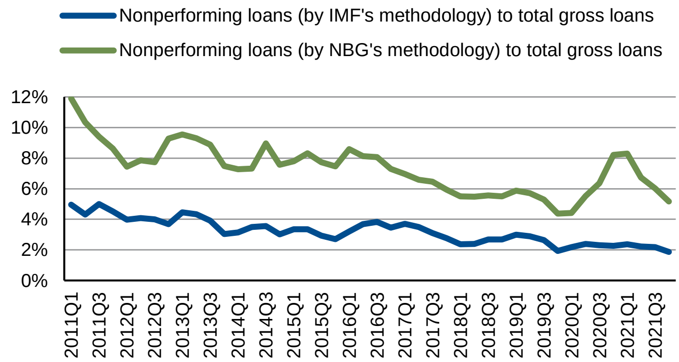
Source: NBG, Scope Ratings

Figure 10: Georgian commercial banks' RoE (Q1 2011-Q4 2021)



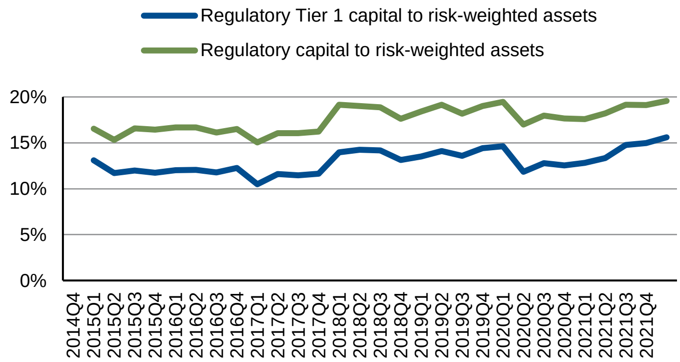
Source: NBG, Scope Ratings

Figure 11: Georgian commercial banks' NPLs (Q1 2011-Q4 2021)



Source: NBG, Scope Ratings

Figure 12: Georgian commercial banks' capital adequacy metrics (Q4 2014-Q4 2021)



Source: NBG, Scope Ratings

Positive and well-aligned governance model with continuous improvements in social factors, digitalisation and IT

Scope considers governance (G) and digital (D) transition to generally be the most relevant credit factors for financial institutions. Environmental (E) and social (S) factors are gaining momentum, with much more precise expectations for the E factor, in relation to climate risk.

MBC was one of the first innovators in the Georgian MFO sector to include a CSR report

Among MFOs, MBC is well positioned with respect to several of these factors. That notwithstanding, Scope does not believe ESG-D factors currently provide an uplift to the credit profile.

Unlike most of its domestic peers, MBC has been publishing a Corporate and Social Responsibility (CSR) report since 2019 and taking its first steps into the ESG area, by placing a fairly solid emphasis on the social factor.

Social and digital factors improving over recent years

In addition, Scope highlights the societal role played by MFOs to empower local communities, improve financial inclusion and develop the domestic economy.

Scope positively assesses MBC's governance model: all members of the top management also hold shares in the company, indicating a commitment to long-term company value. Scope also deems its stable and diversified shareholder structure, made up of 12 individuals and one company, to be favourable, with no material changes in the company's ordinary shares since 2016.

Over recent years, MBC has made major investment in technological development, digital services, new software, licenses, cybersecurity and online and external channels. The company's Alta software, considered one of the most sophisticated banking software packages in Georgia, allows it to reduce operational risks and provide transparent reporting.

Resilient profitability over recent years coupled with limited asset quality metrics compared to main peers

Adequate returns in past years compared to peers. This trend, however, has been reverted

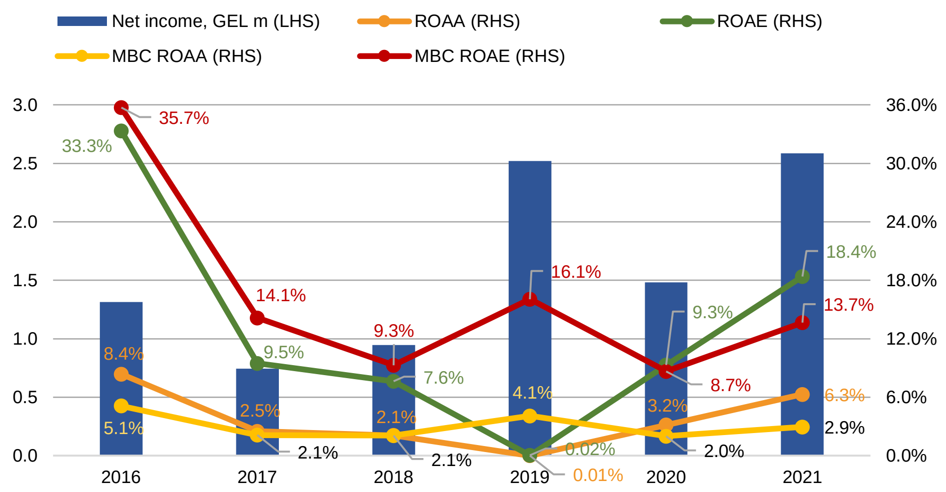
Operating income increased during 2016-19, driven by significantly higher loan volumes. In 2017, increased expenses hit the bottom line. In 2020, profitability indicators worsened, a result of the increased hedging costs, provisions and expenses that could not be offset by the increase in net interest income, especially from business loans (+GEL 9.7m YoY).

Profitability indicators recovered in 2021, showing better results than pre-pandemic levels (2019)

MBC's profitability metrics bounced back in 2021, showing a better bottom line than pre-pandemic levels (2019). The material increase in 2021 was driven by a positive performance on net interest income, up by a quarter due to larger volume growth experienced during the year. Other factors supporting the positive annual profitability included an increase in fee and commission income and lower impairments.

In 2021, the return on average equity was 13.7%, the return on average assets was 2.9%, and the net profit margin was 17.5%. These are below the sector averages of 18.4%, 6.3% and 37.1%, respectively.

Figure 13: Profitability metrics, MBC vs MFO sector (GEL m, 2016-2021)



Source: Company data, NBG, Scope Ratings

Asset quality

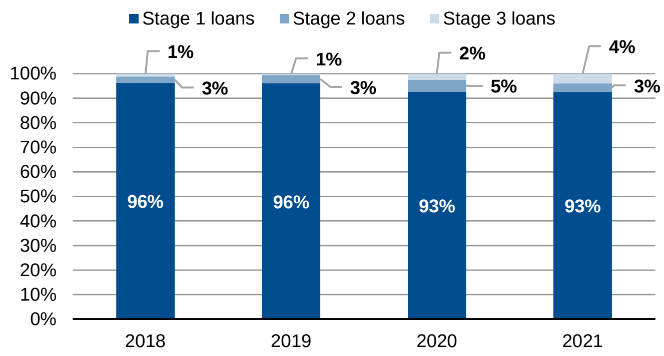
Low asset quality metrics compared to its main peers

Asset quality indicators improved in 2021 by a moderate amount: loans past due by more than 30 days decreased to 1.8% of gross loans, from 3% in 2020, with coverage on past due loans by more than 30 days strengthened.

As of March 2022, coverage on all past-due loans was around 40% and was around 69% on loans past due by more than 30 days. As of March 2022, restructured loans amounted to 2.4% of gross loans. The reserve coverage ratio of Stage 3 loans decreased to 42% in 2021 versus 44% in 2020.

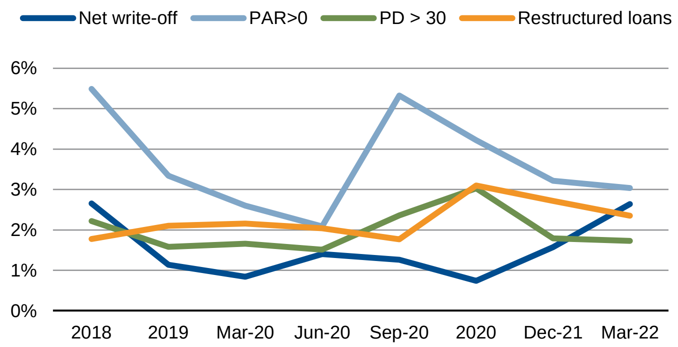
Current portfolio losses are limited. Net write-offs were 2.6% of gross loans in March 2022, up from 1.1% in 2019 and 0.7% in 2020.

Figure 14: Gross loan portfolio by stage (%, 2018-2021)



Source: Company data, Scope Ratings

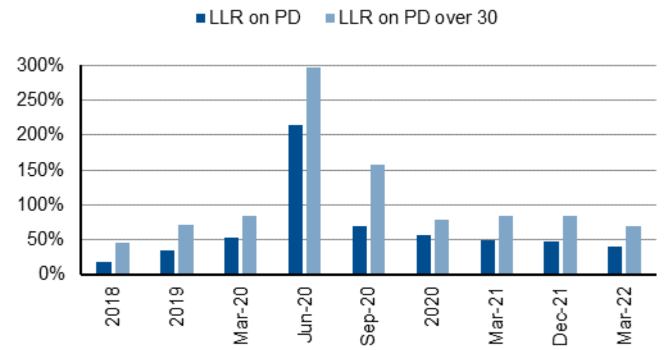
Figure 15: Asset quality metrics (%, 2018-March 2022)



Source: Company data, Scope Ratings

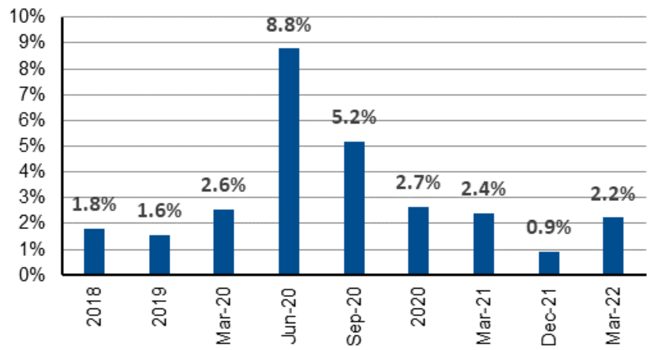
The cost of risk peaked in June 2020 at 8.8%. This was due to the National Bank of Georgia requiring 5% of general provisions raised on the loan portfolio, though this declined to 2.6% because the central bank aknowledged MBC's lower risk profile compared to peers. Since June 2020, MBC's cost of risk has materially decreased and stood at 2.2% as of March 2022.

Figure 16: Coverage on past due loans (2018 to March 2022)



Source: Company data, Scope Ratings

Figure 17: Provision expenses (included on foreclosed loans) to gross loans (cost of risk, %, 2018 to March 2022)



Source: Company data, Scope Ratings

Restructurings stemming from the Covid-19 crisis caused Stage 3 loans to increase to 4% of gross loans as of December 2021, against 2% in 2020, as shown in Figure 14.

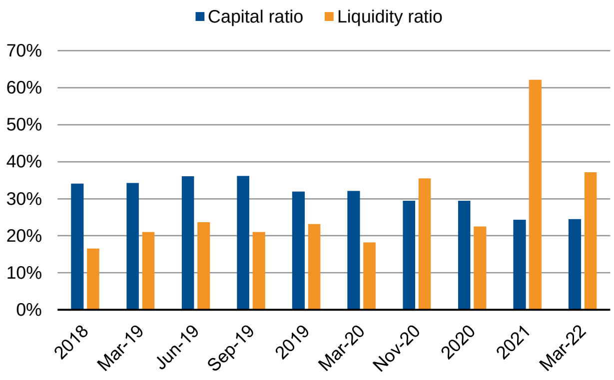
Diversified funding profile, with continuously increasing support from international financial institutions. Sound capital and liquidity position with wide buffers to NBG's regulatory requirements

Comfortable buffers to both capital and liquidity requirements

Solvency and liquidity metrics continue to be reassuring. As of March 2022, MBC held comfortable buffers to both minimum capital and liquidity requirements, with a capital adequacy ratio of 24.5% (+6.5 pp above the requirement) and a liquidity ratio of 37.1% (+19 pp above the requirement). Under the National Bank of Georgia's regulation, MFOs must hold at least 18% of cash against debt maturing within six months.

The temporary spike seen in MBC's liquidity ratio (Figure 18) in 2021 was driven by the receipt of funds at the end of the year from an international financial institution. This peak decreased during the first months of 2022 due to several funding maturities.

Figure 18: MBC's capital and liquidity ratio (2018 to March 2022)



Source: Company data, Scope Ratings

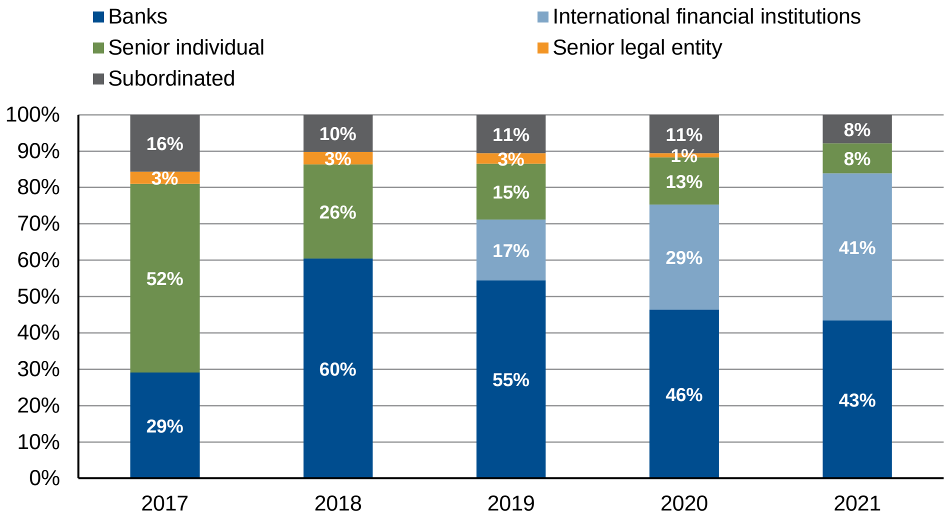
Figure 19: Regulatory ratios (2018-March 2022)

	NBG requirement	2018	2019	2020	2021	Mar-22
Capital coefficient	Min 18%	34.1%	31.9%	29.5%	24.3%	24.5%
Liquidity coefficient	Min 18%	16.5%	23.2%	22.5%	62.2%	37.1%
Property investment coefficient	Max 40%	13.1%	13.2%	13.0%	14.3%	15.7%
Investment coefficient	Max 15%	0%	0%	0.0%	0.0%	0.0%
Insider coefficient	Max 15%	0%	0%	0.0%	0.0%	0.0%
Pledged asset coefficient	Max 90%	205.8%	209.8%	175.7%	106.0%	108.3%

Source: Company data, Scope Ratings

MBC has had to diversify funding in recent years after Georgian legislation prohibited MFOs from taking deposits and limited individual borrowings to above GEL 100,000 in 2017 (the minimum threshold for borrowings from each individual when there are more than 20 investors).

Figure 20: MBC's funding structure (2017-21)



Source: Company data, Scope Ratings

As of December 2021, most major Georgian banks are providing secured lending to MBC. International financial institutions have become increasingly important, lending around GEL 28.4m to MBC, which represents approx. 41% of its funding as of December 2021, as shown in Figure 20.

A Georgian regulatory regime for microbanks is currently in the legislative process and expected to be approved by 2022 year end. This licence will allow microbanks to raise deposits, which would benefit MBC by adding a source of funds.

Foreign currency risk

Due to the Georgian government's larisation programme started in 2017, the share of US dollar loans in MBC's portfolio fell to just 4% in 2021 from 35%. Its balance sheet is now mismatched, with 48% of longer-term funding in US dollars as of March 2022 with the associated foreign exchange risk.

Pricing on Euro and US dollar funding has improved on average since late 2019, with the company decreasing its reliance on US dollars (-600 bps since end of October 2019).

Figure 21: MBC's funding and average interest rate split by currency (March 2021 vs March 2022)

	Mar-21		Mar-22	
Currency	Average interest rate	% of outstanding in GEL	Average interest rate	% of outstanding in GEL
EUR	4.8%	0%	3.3%	0%
GEL	13.8%	50%	14.7%	52%
USD	7.4%	50%	6.7%	48%

Source: Company data, Scope Ratings

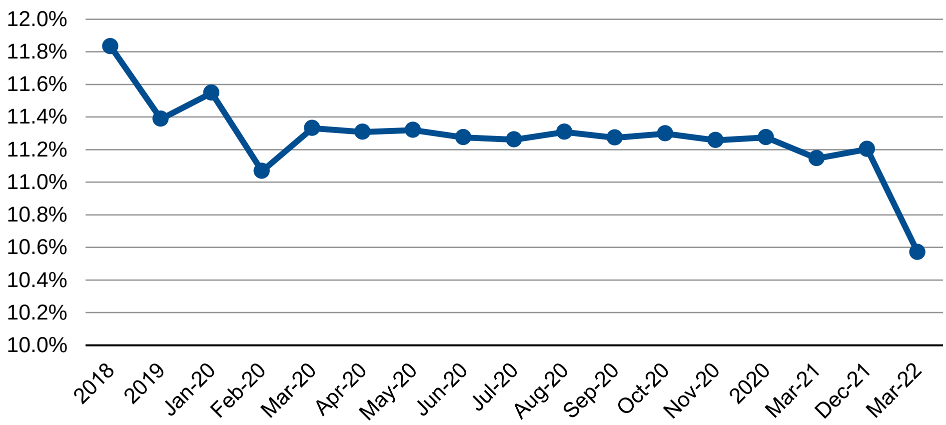
Scope views positively Micro Business Capital fully hedging all its liabilities via domestic bank swaps or back-to-back loans to avoid any potential short-term risk.

Foreign exchange volatility has increased hedging costs, now equivalent to 20% of net revenues before foreign exchange income in 2021. In 2022, MBC expects these costs to be balanced by a lower interest rate on US dollar borrowings from international financial institutions.

Scope considers that obtaining a license in the future microbank project, enabling Micro Business Capital to take deposits and receive funds in the domestic currency, alongside the use of alternative sources of funding (e.g. issuance of bonds in domestic currency) will represent key milestones to reduce the company's balance sheet mismatch and consequent hedging costs.

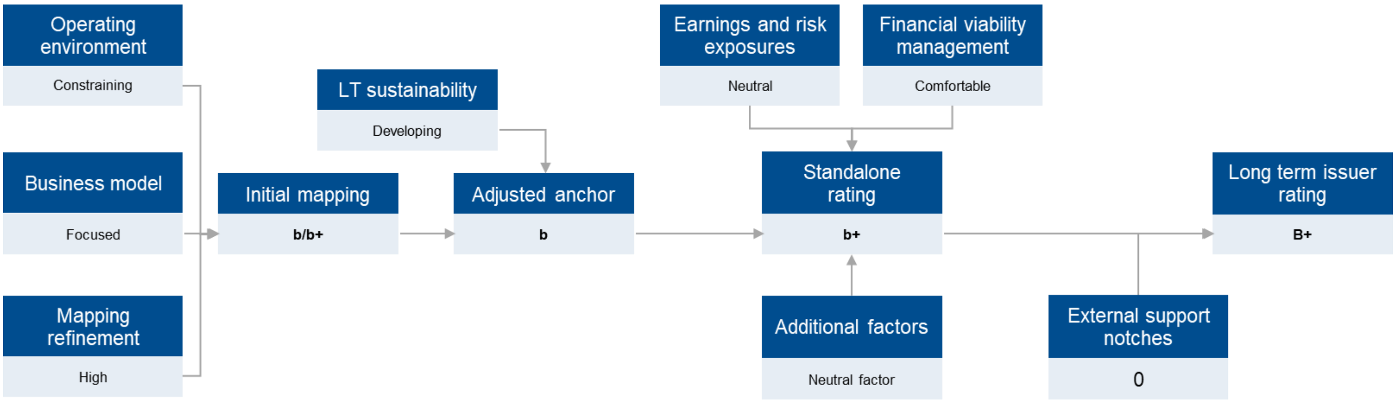
MBC's cost of funding remained fairly stable during the period between March 2020 and December 2021, amounting to an average level of 11.3%, after the decrease in 2019 and the volatility in the first quarter of 2020. Lower interest rates on US dollar financing have helped MBC to drive its cost of funding down during Q1 2022, decreasing to 10.6% as of March 2022.

Figure 22: MBC's cost of funding (2018 to March 2022)



Source: Company data, Scope Ratings

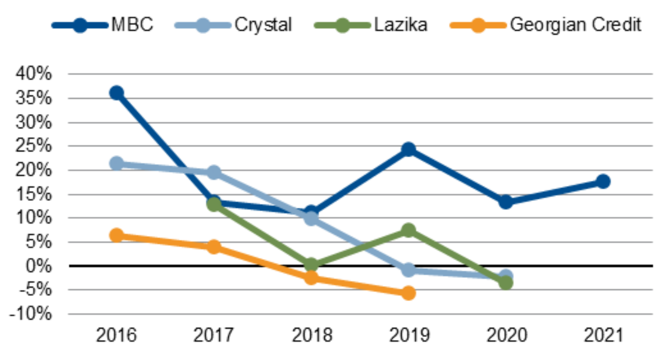
I. Appendix: Overview of the rating process



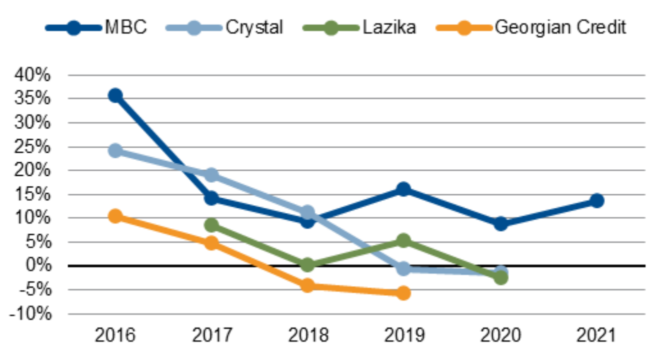
Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	• Small emerging market that still lags regional peers for most economic indicators, despite gradual improvements and reforms in previous years • MFO market is concentrated and started to be regulated in 2017
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	• Purely domestic activities • Well-diversified business model focused on growing micro and agro loans • Stable market share
		Resilient	
		Consistent	
		Focused	
		Narrow	
	Mapping refinement	High	• Higher product diversification than peers
		Low	
	Initial mapping	**b/b+**	
	Long-term sustainability	Best in class	• MFO role to develop domestic economy is positive for MBC • MBC's governance shows clear alignment of interests between shareholders and managers, indicating commitment to long-term value • Continuous improving steps in environmental and digitalisation areas, but further disclosure on specific environmental targets, processes and strategy needed
		Advanced	
		Developing	
		Lagging	
	Adjusted anchor	**b**	
STEP 2	Earnings capacity & risk exposures	Very supportive	• Solid and resilient profitability in recent years • Good asset quality metrics compared to main peers • Essentially fully collateralised portfolio
		Supportive	
		Neutral	
		Constraining	
		Very constraining	
	Financial viability management	Ample	• Increasing financing from international institutions, contributing to safe and stable long-term foreign currency funding and reducing reliance on a few commercial banks • Healthy buffers to both capital and liquidity requirements
		Comfortable	
		Adequate	
		Limited	
		Stretched	
		At risk	
	Additional factors	Significant support factor	• No additional factor considered
		Material support factor	
		Neutral	
		Material downside factor	
		Significant downside factor	
	Standalone	**b+**	
STEP 3	External support	Not applicable	
Issuer rating		**B+**	

II. Appendix: Peer comparison

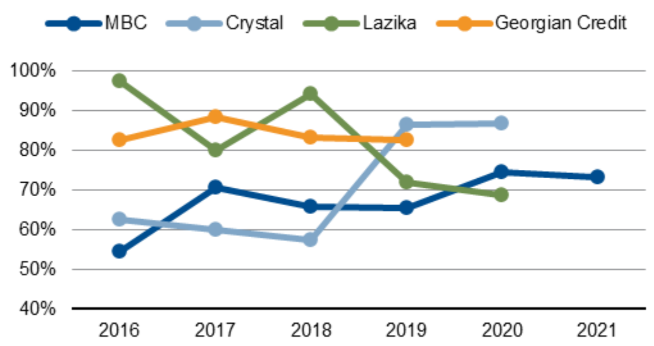
Net profit margin (%)



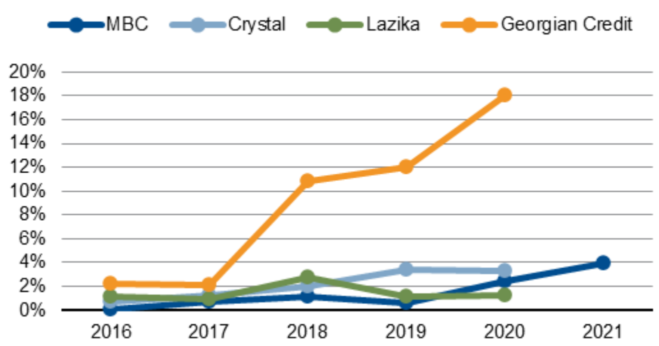
Return on average equity (%)



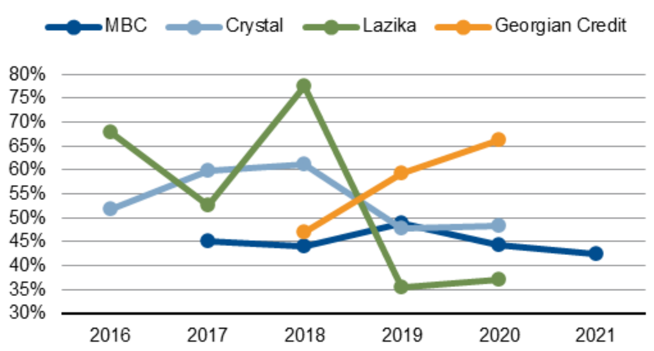
Cost-to-income (%)



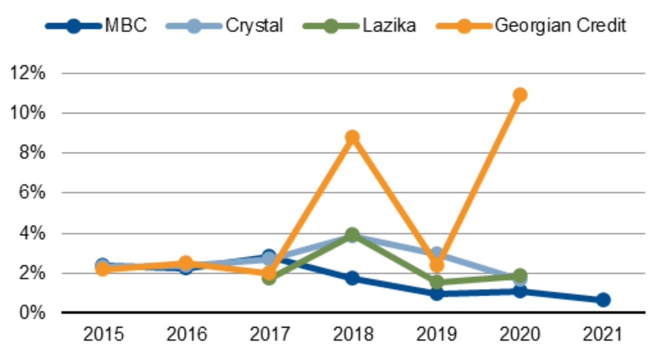
Stage 3 ratio (%)



Stage 3 coverage ratio (%)



Loan-loss provisions/gross loans (%)



National peers: Crystal, Lazika Capital, Georgian Credit

Source: Company data

III. Appendix: Selected financial information – JSC MFO Micro Business Capital

	2017Y	2018Y	2019Y	2020Y	2021Y
Balance sheet summary (GEL '000)					
Assets					
Cash and cash equivalents	1,134	1,771	3,046	2,673	13,879
Loans to customers	33,464	48,348	58,219	66,858	72,817
Property and equipment	1,363	1,933	2,262	2,404	2,880
Intangible assets	228	236	262	237	327
Deferred tax assets	167	346	194	356	394
Right-of-use assets	0	0	4,483	4,050	5,328
Current tax assets	151	0	0	0	0
Other assets	1,554	1,020	1,391	1,624	1,545
Total assets	**38,061**	**53,654**	**69,857**	**78,202**	**97,170**
Liabilities					
Subordinated borrowings and other borrowed funds	31,946	38,429	48,084	54,928	70,146
Subordinated debt	0	0	0	0	0
Lease liabilities	0	0	4,700	4,947	5,941
Current tax liability	0	186	19	0	0
Other liabilities	411	370	355	765	790
Total liabilities	**32,357**	**38,985**	**53,158**	**60,640**	**76,877**
Share capital	2,155	2,185	2,200	2,225	2,250
Share premium	795	852	900	996	1,117
Preference shares	0	7,347	7,347	7,347	7,347
Retained earnings	2,754	4,285	6,252	6,994	9,579
Accumulated deficit	0	0	0	0	0
Current year profit/loss	0	0	0	0	0
Total equity	**5,704**	**14,669**	**16,699**	**17,562**	**20,293**
Total liabilities and equity	**38,061**	**53,654**	**69,857**	**78,202**	**97,170**
Income statement summary (GEL '000)					
Interest income	8,243	11,284	14,080	15,858	20,123
Interest expense	-3,439	-4,172	-4,971	-6,290	-7,270
Net interest income	4,804	7,112	9,109	9,568	12,853
Fee and commission income	830	1,293	1,658	1,647	1,923
Net foreign exchange income/(loss)	-797	-458	-853	-3,776	1,356
Net (loss)/ income from trading in foreign currency	239	-213	480	1,955	-3,515
Operating income	**5,076**	**7,734**	**10,394**	**9,394**	**12,617**
Impairment losses on debt financial assets	-601	-1,523	-554	-748	-458
Personnel expenses	-2,034	-2,988	-4,187	-4,238	-5,836
General administrative expenses	-1,545	-2,095	-2,605	-2,773	-3,388
Profit before income tax	**896**	**1,128**	**3,048**	**1,635**	**2,935**
Income tax expense	-151	-182	-528	-152	-350
Profit for the year	**745**	**946**	**2,520**	**1,483**	**2,585**

Source: SNL, Scope Ratings

IV. Appendix: Selected financial information – JSC MFO Micro Business Capital

Earnings and profitability	2017	2018	2019	2020	2021
Yield on gross loans (%)	24.0%	22.9%	23.9%	23.1%	26.8%
Cost of funding (%)	10.8%	10.9%	10.3%	11.5%	10.4%
Net interest income/ operating income (%)	94.6%	92.0%	87.6%	101.9%	101.9%
Net fees & commissions/ operating income (%)	16.4%	16.7%	16.0%	17.5%	15.2%
FX income / operating income (%)	-15.7%	-5.9%	-8.2%	-40.2%	10.7%
Trading income / operating income (%)	4.7%	-2.8%	4.6%	20.8%	-27.9%
Cost/ income ratio (%)	70.5%	65.7%	65.3%	74.6%	73.1%
Impairment on financial assets / pre-impairment income (%)	40.1%	57.5%	15.4%	31.4%	13.5%
Loan loss provisions / average gross loans (%)	3.0%	2.0%	1.4%	2.7%	3.1%
Return on average assets (%)	2.1%	2.1%	4.1%	2.0%	2.9%
Return on average equity (%)	14.1%	9.3%	16.1%	8.7%	13.7%
NBG covenants	**2017**	**2018**	**2019**	**2020**	**2021**
Capital adequacy ratio (%)	26.6%	34.1%	31.9%	29.5%	24.3%
Liquidity ratio (%)	NA	16.5%	23.2%	22.5%	62.2%
Pledged assets to equity ratio (%)	NA	205.8%	209.8%	175.7%	106.0%
Asset mix, quality and growth	**2017**	**2018**	**2019**	**2020**	**2021**
Net loans/ assets (%)	87.9%	90.1%	83.3%	85.5%	74.9%
Past due > 30 / tangible equity & reserves (%)	11.4%	18.6%	11.1%	29.4%	28.0%
Past due > 30 / total gross loans (%)	1.8%	2.7%	1.7%	3.0%	1.8%
Loan loss allowance for stage 2 & 3 loans / Past due > 30	25.2%	34.4%	30.3%	35.1%	40.3%
Net loan growth (%)	20.6%	44.5%	20.4%	14.8%	8.9%

Source: SNL, Scope Ratings

Note: Ratio calculation

a) Yield on gross loans (%) = interest income/total gross loans to customers

b) Cost of funding (%) = interest expense/total borrowings

c) Capital adequacy ratio (%) = (total equity - asset revaluation reserve - intangible assets - investments in subsidiaries) / (total assets - asset revaluation reserve - intangible assets - investments in subsidiaries)

d) Liquidity ratio (%) = cash and cash equivalents / (total liabilities - debts maturing after six months)

e) Return on average assets (%) = net income/average assets

f) Return on average equity (%) = net income/average equity

g) Profit margin (%) = net income/gross financial margin

h) Leverage (%) = debt/equity

i) Stage 3 ratio (%) = Stage 3 loans (or past due over 90 days)/total gross loans

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