MFO Rico Express LLC
Issuer Rating Report

SCOPE B+ STABLE

Scope's credit view (summary)

The B+ issuer rating on Rico Express reflects the following credit rating considerations:

Rico Express is the largest microfinance organisation (MFO) in Georgia by total assets. Its loans represent around 28% of the MFO sector's net loans as of September 2022, a proportion that has been steadily increasing since 2016. Among MFOs, Rico Express stands out with a profitable business model focused on pawn loans secured by gold, precious metals and jewellery, as well as currency trading and international money transfers. We expect that Rico Express will maintain its business focus and preserve its leading market share in its niche.

The maintenance of conservative capital and liquidity metrics is a rating strength. Georgian MFOs are regulated by the National Bank of Georgia. Rico Express operates with large buffers above regulatory minimum requirements (respectively 54% and 28.1%) at end-September 2022, broadly in line with levels in previous quarters.

Rico Express' profitability metrics are solid and better than the sector average, which is an adequate first line of defence given its risk profile. About 75% of revenues stem from interest income. The company's loan book has nearly doubled since 2017, benefiting from dynamic credit demand.

The Stage 3 loan ratio is low (e.g. below 2% at end-2021) but reflects the company's active management of problem loans. We estimate that about 8% of the loan book at September 2022 was either past-due, restructured or subject to write-offs. The company has a good record of recovery on repossessed collateral.

The granularity of the loan book, the high interest rates and the asset-backed nature of the loans are important risk mitigants. The company is highly exposed to gold price volatility because its underwriting criteria allow pawn loans to be granted at around 100% of collateral value, mainly against gold, and this risk is not hedged. It is a key competitive advantage but also a key source of risk. Operational risk is also material because the company has to manage physically the collateral provided and is therefore exposed to the risk of fraud, theft or robbery. The company's ability to continuously benefit from insurance covering these risks is an important mitigating factor.

The governance framework needs improvement in relation to key person risk, management oversight and the separation of functions, and the definition of an articulated risk appetite framework. The company has started addressing these issues, which is likely to be a lengthy process. It includes putting in place an audit and risk committee as well as hiring two independent members for its supervisory board.

Outlook

The Stable Outlook reflects our view that Rico Express' credit profile will remain resilient during the next 12-18 months despite more challenging operating conditions stemming from high inflation and geopolitical tensions.

What could move the rating up:

- A reduction of the company's risk profile, along with an improved governance framework

What could move the rating down:

- Pressure on profitability due to a lower ability to generate sustained revenue, higher funding costs and/or higher impairment charges
- Asset quality issues stemming from rising problem loans or less effective risk mitigants

Ratings & Outlook

Issuer rating	B+
Outlook	Stable
Short-term debt rating	S-4
Short-term debt rating Outlook	Stable

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Bloomberg: RESP SCOP

- A change in strategy, including capital and liquidity management, which materially increases the company's risk profile

Issuer profile

MFO Rico Express LLC (Rico Express) is a financial institution established in 2004 in Georgia, focused on microfinance lending, specifically secured pawn shop loans, also called Lombard loans. In 2007, Rico Express was registered as an MFO by the National Bank of Georgia and in 2013 obtained the status of a qualified credit institution. Today, Rico Express is the leading MFO in Georgia in terms of both assets and net loans and counts around 1.5m customers. Its business model is focused on Lombard loans collateralised by gold and other precious metals. This segment represents more than 95% of the loan portfolio and generates above 70% of revenues. Complementing this business are currency exchange and money transfer services, the latter done through a subsidiary that is present in five countries (Georgia, Greece, Spain, Italy and Israel).

Rico Express operates exclusively in Georgia and has 52 branches (22 in Tbilisi and 30 in other regions) and 610 employees.

Recent events:

- For 2022, the company's net profit[1] grew by around a third YoY to GEL 56m (about EUR 20m). Foreign currency trading income increased materially YoY, a result of increased foreign exchange transactions related to the migration of Russian citizens to Georgia as well as Georgians living abroad transferring money to Georgian relatives. Higher net interest income due to larger volume growth also contributed.
- Rico Express' board strengthened its corporate governance with the incorporation of independent directors and the establishment of a risk and audit committee and its respective manual of operations. The board has already approved the establishment of the committees, and they will implement once the independent board members are appointed (pending approval by the National Bank of Georgia).
- The company is in final stages towards signing an agreement with Mastercard to develop a debit card used for loan disbursement. Subsidiary Rico Pay will develop the concept of the payment services and facilitate the management of loans. The eventual aim is to create a wallet used by the broader client base.

[1] Preliminary non-audited information quarterly reported to National Bank of Georgia

Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	• Small emerging market that still lags regional peers on some economic indicators (e.g. unemployment rate, GDP per capita), despite gradual improvements and reforms in recent years • MFO sector is concentrated and only started to be regulated in 2017
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	• Largest Georgian MFO by total assets and market leader, with a growing market share since 2016 • Diversification beyond pawn loans (secured by gold, other precious metals and jewellery) into currency trading and international money transfers • Purely domestic activities; a large portion of the balance sheet matures within a year
		Resilient	
		Consistent	
		Focused	
		Narrow	
	Mapping refinement	High	• Higher market share than peers with adequate product diversification
		Low	
	Initial mapping	**b/b+**	
	Long-term sustainability	Best in class	• Governance and lack of risk management policies are weaknesses • Areas for improvement include a high key person risk and the absence of a well-articulated risk appetite definition
		Advanced	
		Developing	
		Constrained	
		Lagging	
	Adjusted anchor	**b**	
STEP 2	Earnings capacity & risk exposures	Very supportive	• Strong profitability, with the company's metrics materially exceeding recent past MFO sector levels • Low level of non-performing loans (Stage 3 loans) • Pawn loans granted against the full nominal value of collateral (gold mainly), with open exposure to the volatility of gold price
		Supportive	
		Neutral	
		Constraining	
		Very constraining	
	Financial viability management	Ample	• Healthy buffers to both capital and liquidity minimum requirements • Diversified funding, with a resilient component from third-party investors through issuance of promissory notes (Golden bonds), reducing the reliance on a few commercial banks and contributing to stable and cheaper foreign currency funding
		Comfortable	
		Adequate	
		Limited	
		Stretched	
		At risk	
	Additional factors	Significant support factor	• Not applicable
		Material support factor	
		Neutral	
		Material downside factor	
		Significant downside factor	
	Standalone	**b+**	
STEP 3	External support	Not applicable	
Issuer rating		**B+**	

Largest microfinance organisation in Georgia by total assets, leading position in Lombard loans and broad domestic geographic coverage

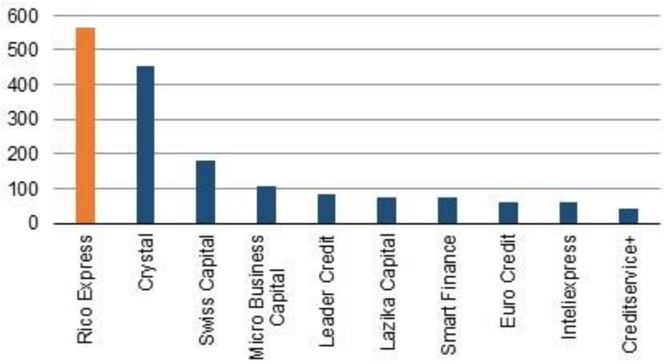
The business model is assessed as 'focused', reflecting our view that Rico Express has a defined strategy to concentrate the business on Lombard loans and currency exchange in its home country, which has allowed the entity to increase market share by total assets and net loans.

The operating environment is assessed as 'constraining' and reflects our view that Georgia is a small emerging market that still lags regional peers on some economic indicators (e.g. unemployment rate, GDP per capita), despite gradual improvements and reforms in recent years. We note the MFO sector in Georgia still represents a small part of domestic financial assets (around 3% in 2021) and is less strictly regulated compared to the banking sector.

Largest MFO in Georgia by market share on net loans

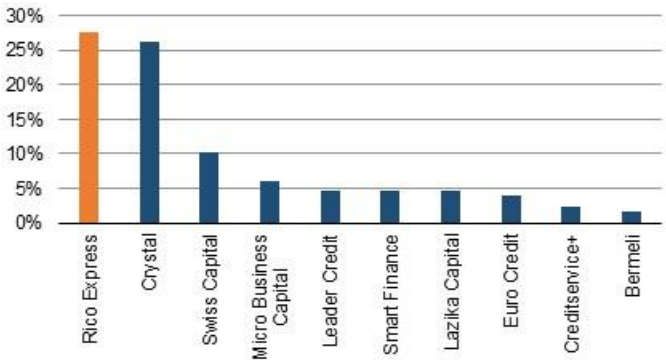
Rico Express is the largest MFO in Georgia. It had GEL 567m (roughly EUR 200m) in total assets and a 28% market share in terms of net loans as of December 2022.

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



Source: NBG, Scope Ratings

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



Source: NBG, Scope Ratings

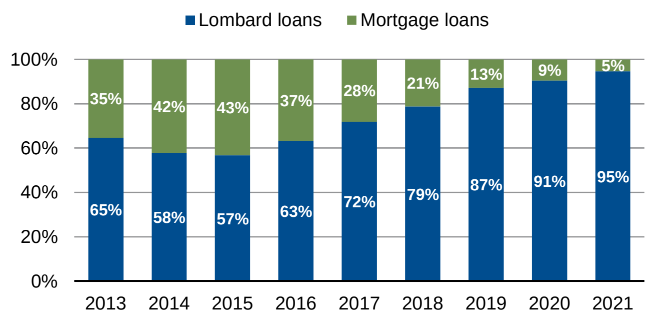
Business model focused on lending, followed by currency trading and money transfers

Rico Express' business model almost exclusively targets pawn shop loans backed by gold and other precious metals. It also provides currency exchange services and international money transfers. The company's mortgage portfolio has been in run-off since 2017 after an unfavourable change in the property repossession regulation prompted Rico Express' decision to exit the market.

Rico Express' loan book consists mostly of Lombard loans, which represented around 95% of gross loans as of September 2022 (Figure 3). Geographic diversification is limited to its home country, though coverage across regions is relatively large, with 30 branches in regions out of total of 52. Rico Express is more geographically diversified than most of its competitors, including Swiss Capital, Lazika Capital, Leader Credit and Eurocredit.

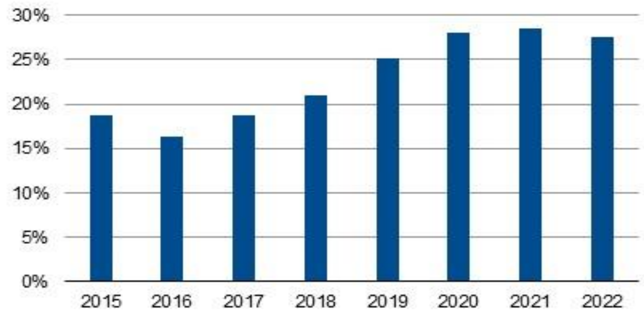
In terms of market share, Rico Express has maintained its leadership in the niche market of Lombard loans. Rico accounts for approx. 28% of the MFO sector in terms of net loans, or GEL 414m in net loans as of December 2022. Its share of MFO lending has also grown at a cumulative annual rate of around 9% during 2016-2022 (16% share in terms of net loans in 2016). The company has also outperformed the MFO sector's growth since 2016, supporting its strategic focus.

Figure 3: Rico Express' gross loan portfolio breakdown by product (2013 to 2021)



Source: Company info, Scope Ratings

Figure 4: Rico Express' share of MFOs net loans (2015 to 2022)



Source: Company info, NBG, Scope Ratings

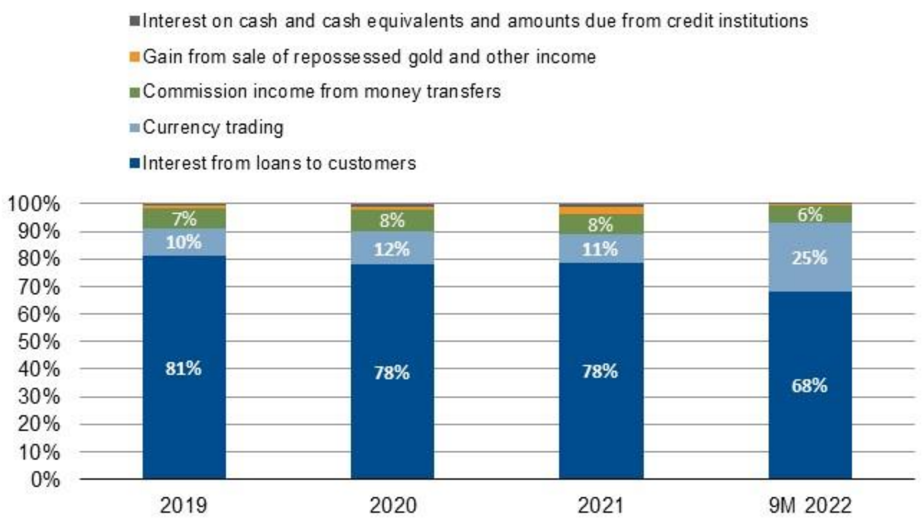
Practically entire portfolio is collateralised

Rico Express provides small ticket, short-term loans. There is no requirement to prove income, but collateral is set at 100% of the loan's value at origination. This strategy has made the entity into the leading MFO in Georgia. It has also resulted in a highly granular loan portfolio with an average loan amount of GEL 1,200 (about EUR 425) and an average maturity of 18 months.

The expertise developed by Rico Express has been the main factor in its growth and success in this sector. Its process is based on giving a fast answer to the potential client, evaluating on site the quality of the collateral (gold and jewellery) and providing a fixed interest rate with no additional costs, commissions or repayment charges. According to management, this differentiates Rico Express and allows it to support clients to repay loans and continue to use the collateral for new loans.

Consistent with its business model, Rico Express' main source of revenue is interest from loans to customers, accounting for around 79% on average for the last three years. The large increase in currency trading revenues during the first nine months of 2022 is largely driven by an exceptional inflow of citizens from a neighbouring country.

Figure 5: Rico Express' gross revenue breakdown (GEL m, 2019-9M 2022)



Source: Company info, Scope Ratings

Lombard loans constitute the cornerstone of Rico Express' medium-term strategy

Rico Express' medium-term strategy (until 2024) targets i) material growth in Lombard loans by 40% against the 2021 level; ii) a substantial decline in legacy mortgage loans by more than half against the 2021 level; iii) the expansion of the branch network across Georgia.

In our view, the medium-term plan is coherent with Rico Express' recent narrative and, overall, sensible. Most projections are conservative compared to recent trends but still reasonable given the current geopolitical tensions in neighbouring countries and slower economic growth in the near future. Credit-positive aspects are the focus on Lombard lending, the continuous reduction of riskier mortgage loans on the balance sheet and the aim to have more balanced volume growth.

We expect that Rico Express will maintain its business focus and leading market share in this sector due to its strong franchise and well-developed expertise.

Box A: Rico Express' country of domicile: Georgia

Macroeconomic 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 2021. Its main exporting sectors were wholesale and retail trade (31%), manufacturing (27%) and transport and storage (14%) as of August 2022.
- Georgia's GDP grew by 3.9% during 2010-2020, higher than that of neighbouring countries and several eastern European nations[2] (3%). This was mainly driven by the government's economic reforms, tilted towards business-friendly policies (low taxes, free market-oriented economy), higher domestic consumption, higher exports and a significant rise in tourism. According to Geostat, Georgia's real GDP grew by 10.4% in 2021.
- Credit weaknesses stem from the continuous domestic political tensions between the government and the opposition, structural unemployment, the highly dollarised banking system, a material dependence on tourism and historical geopolitical tensions with Russia due to the self-proclaimed independent regions of South Ossetia and Abkhazia.
- Georgia's weighted-average unemployment rate rose to 20.6% in 2021 from 17.6% in 2019 due to the pandemic and lockdowns in 2020 and early 2021. Nonetheless, the job market improved moderately in the last two quarters with unemployment decreasing to approx. 16% in Q3 2022, lower than during 2010-2018.
- Worth noting is the country's shrinking population, now below 3.7m from the peak of 5m in 1993. This is due to emigration to countries with better economic conditions that has not been compensated by immigration.

Soundness of banking and microfinance sector – key credit considerations

- Commercial banks in Georgia play a major role in the domestic financial sector as they held around 97% of financial sector assets as of December 2021. MFOs represent around 3% of financial assets in 2021. Loan-issuing entities still contribute very little (less than 1% of total assets in 2021).
- As of December 2022, 36 MFOs operate in Georgia. The sector comprises a diverse set of players, some concentrated in specific products like Rico Express and others covering a broader product range.
- MFO loans include consumer loans, representing 79% of the total as of September 2022, followed by trade and services loans (12%), agriculture and forestry loans (7%) and other types (2%).
- The share of consumer loans has been growing: in 2012 they were just 34% of the total portfolio, with agriculture and forestry loans (28%) and trade and services loans (27%) as the remaining contributors of the total portfolio.
- The MFO sector is highly concentrated: the five largest MFOs hold 74% of total assets and 75% of total net loans of the sector as of December 2022. Since 2016, the number of active MFOs has more than halved due to continual, material regulatory changes largely introduced from 2017 onwards

Key regulations introduced since 2017 include: i) loans up to GEL 200,000 can only be issued and extended in GEL; ii) a minimum threshold of GEL 100,000 for borrowings from each individual when there are more than 20 individual investors; iii) a higher cap on the effective interest rate to 50% from 100%; iv) a minimum regulatory capital of GEL 1m; v) minimum capital and liquidity coefficients of 18% each; vi) macroprudential policy instruments such as payment to income and loan to value encouraging responsible lending practices; and vii) the development of a new regulatory framework for new entities defined as microbanks.

Key economic indicators	2019	2020	2021	2022E	2023F
GDP per capita (USD '000s)	4.6	4.2	5.0	NF	NF
Real GDP, % change	5.0	-6.8	10.4	10.0	6.8
Unemployment rate, %	17.6	18.5	20.6	17.1	14.5
CPI, % change	4.8	5.2	9.6	11.9	5.7
Policy rate, %	9.00	8.00	10.50	11.00	8.50

Source: SNL, Scope Macroeconomic Board's forecast, IMF, Scope Ratings
NF: Not forecasted

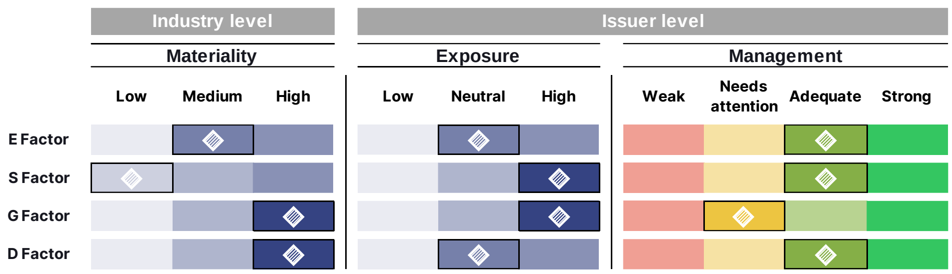
Banking sector	2017	2018	2019	2020	2021
ROAA (%)	2.8	2.7	2.9	1.3	3.0
ROAE (%)	19.8	18.6	20.3	10.1	21.9
Net interest margin (%)	5.8	6.0	5.3	4.4	4.8
CET1 ratio (%)	9.5	13.9	13.3	12.5	14.3
Problem loans/gross customer loans (%)	2.3	4.8	3.6	5.6	3.9
MFO sector	**2017**	**2018**	**2019**	**2020**	**2021**
ROAA (%)	2.5	2.1	0.01	3.2	6.3
ROAE (%)	9.5	7.6	0.02	9.3	18.4
Net loan growth (%)	-23.3	-4.2	2.1	3.7	17.7

Source: SNL, NBG, Scope Ratings

Governance and internal policies being improved

The 'constrained' long-term sustainability assessment reflects our view that the lack of a proper governance framework and risk management policies are weaknesses. Areas for improvement include a reduction of key person risk, the incorporation of independent supervisory board members and the implementation of a corporate governance code.

Figure 6: ESG-D heatmap for MFO Rico Express[3]



Source: Scope Ratings

Fully privately owned company, with a single shareholder

We acknowledge the fact that Rico Express is privately owned by a single shareholder. However, governance remains a weakness. Notwithstanding the operating structure is simple and the business is regulated following the MFO framework defined by the National Bank of Georgia, we consider that for the size and importance of the entity in the Georgian MFO sector, the existing governance practices and structure are behind what we expect as best practices.

We observe high key person risk considering the overlapping roles: the heads of IT and operations are also supervisory board members. The supervisory board also has no independent members, though this has been addressed and two independent members should join in early 2023.

In terms of governance, the company is still looking to establish an audit and a risk committee, which we consider necessary based on the nature of the business.

Partnership with Mastercard to implement a debit card which will allow loan disbursements

Given the nature of the business, we don't see an immediate challenge stemming from digital transition. However, to anticipate and improve the accessibility and use of the services, the entity is transitioning to digital services, signing a partnership with Mastercard to implement a debit card that will allow the automatic disbursement of loans in order to reduce the use of cash, and engaging in partnerships. We expect this will consolidate Rico Express' market leadership.

Social factors do not pose a material risk. As an MFO, Rico Express is oriented to supporting the financial development of its clients and environment by offering tailored financial services. However, despite all the initiatives supporting employees, clients and the community, Rico Express has no corporate social responsibility report or takes part in any international initiative or agreement related to sustainable finance reporting.

[3] The ESG-D heatmap is not a scorecard but rather an illustration of how each factor informs our overall assessment. The Materiality table shows how we currently assess the credit relevance of each factor for the entire European banking industry. Banks are generally materially exposed to governance issues and we also view digital transition as a critical issue for them. The E-factor is becoming increasingly relevant for bank ratings because of the rising stakeholder demand, from regulators in particular. The Exposure table shows to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operations. The Management table shows how we view the bank's navigation through transitions.

Solid bottom line growth and sound asset quality supported by a fully collateralised loan portfolio

The 'neutral' earnings and risk exposures assessment reflects: i) strong profitability with metrics materially exceeding the levels of the sector due to its lower cost of funding; ii) historically sound asset quality metrics compared to its main peers, explained by its almost fully collateralised portfolio; and iii) operational risks related to the safe storage and management of high-value collateral.

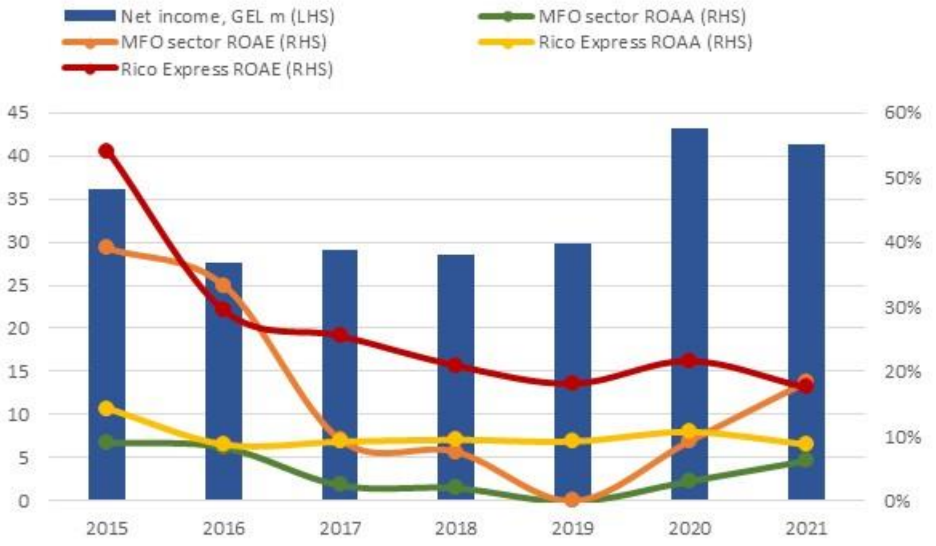
In contrast to the continued decline in the sector's bottom line during 2016-2019, a result of lower lending volume growth after regulations were tightened, Rico Express has kept a solid profitability, not even reporting any financial loss since 2011.

Stable and steadily increasing operating income, supported by foreign exchange and money transfer income

After a bumper 2020, in which strong loan production drove revenue and profit growth, net income declined slightly in 2021 (Figure 7). 2021 revenues were supported by strong loan volumes, NII and FX revenues, but higher operating expenses, larger hedging costs and lower gains from the sale of repossessed gold more than offset the positives.

For the first nine months of 2022, the company's net profit grew by around 30% YoY to GEL 43m (about EUR 15m), mainly driven by income stemming from foreign exchange trading due to the increase in foreign exchange currency transactions, supported by higher net interest income due to continued volume growth.

Figure 7: Profitability metrics, Rico Express vs MFO sector (IFRS, GEL m, 2015-2021)



Source: NBG, Company info, Scope Ratings

Rico Express' three-year average net interest margin, net of hedging costs, was 12% as of December 2021. We highlight that revenues from other business lines, namely international money transfers and currency trading, have also been increasing considerably.

Best-in-class cost efficiency versus main peers on a historical basis

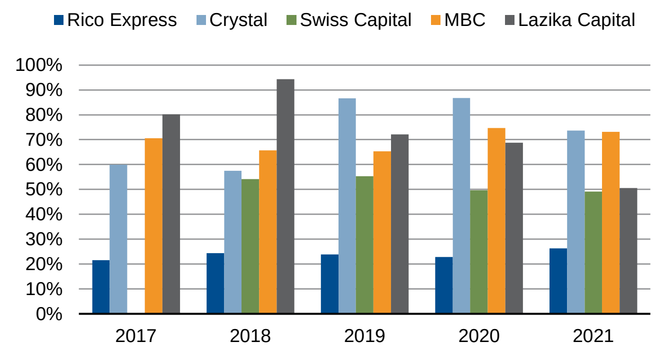
Operating expenses mainly comprise employee compensation. Operating expenses also include costs related to security and insurance coverage of operations and gold storage, a peculiarity of Rico Express' business. This represents 3% of operating expenses and we expect these to increase as volumes continue growing. We also acknowledge the insurance coverage for political violence and war, international conflict risk and robbery risk. Efficiency metrics are outstanding. The cost income ratio historically ranges between 20% and 30% and is lower than that of peers.

96% of Rico's credit risk exposure consists of Lombard loans backed by gold, other precious metals or jewellery. The main underwriting policy is to ensure collateral covers 100% of the loan value at origination. Therefore, the portfolio is kept largely collateralised with a current LTV of around 97% for Lombard loans. The LTV on the runoff real estate portfolio stands at a low 17%.

Risk exposure mostly from Lombard loans fully backed by precious metals or jewellery

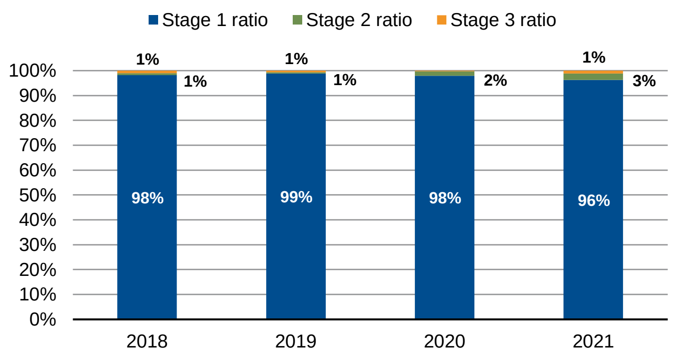
The main underwriting standards for Lombard loans are: i) a maximum set amount at GEL 100,000; ii) an initial maturity of up to one year; iii) a fixed interest rate; and iv) collateral at 100%. There is no prepayment fee if the client is willing to anticipate and prepay the loan as this allows to the company to engage with the client with a new loan later in the year or to provide a new loan using the same collateral with the value at 100%. It is also the reason for the very low level of non-performing loans compared to both the sector and peers.

Figure 8: Main domestic MFOs cost/income ratio (2017-2021)



Source: Company info, Scope Ratings

Figure 9: Rico Express' Lombard loan portfolio breakdown by loan staging (2018-2021)



Source: Company info, Scope Ratings

Operational risks related to the management and storage of precious metals kept as collateral is centralised. To ensure safe storage, these are transported daily to a central location, audited and checked for discrepancies. The storage facility is said to be 'best in class' and insured by a local insurance company. As of today, the company has not suffered losses related to the robbery of precious metals. Operational risks have little potential for large losses given the insurance coverage, which we expect will remain key to operational risk management if the company maintains its focus on Lombard loans backed by precious metals.

Strong capitalisation with large buffer to requirements; solid liquidity and well-diversified funding structure

The 'comfortable' financial viability management assessment reflects our view that Rico Express has supported the growth of its business with solid capital levels, holding a healthy buffer to the minimum requirement, strong liquidity and diversified funding, with a resilient component of funding from third-party investors through promissory notes as part of its business strategy (short-term loans).

Capitalisation and buffer above requirements well above peers

Capitalisation metrics have been historically high and above those of peers. As of September 2022, Rico Express held a comfortable buffer to minimum requirements, with a capital adequacy ratio of 54% (equity to assets) largely above the required 18%.

The high capitalisation and the use of own funds to support growth (average payout of less than 30% in the past five years) are in line with the strategy of keeping margins high and limit dependency on bank funding to support growth.

Liquidity supported by sound buffer above requirements

Rico holds a solid liquidity buffer, with a coefficient of about 28% as of September 2022, above the regulatory minimum of 18%. The liquidity ratio is lower than the peak of 54% in December 2020, when Rico had raised its liquidity reserves in response to pandemic related uncertainty.

Liquidity is primarily cash on hand, current accounts with banks and deposits with banks, for a total of GEL 71.4m. Current liquidity (cash and cash equivalents) can easily cover the 33% of financial liabilities and 59% of the short-term promissory notes.

Well-diversified funding through access to Georgian commercial banks and short-term promissory notes

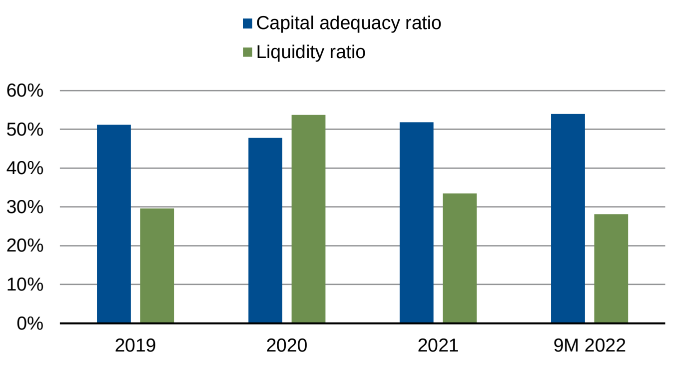
Funding is well diversified by type and counterparty (Figure 11): as of September 2022, Rico Express' funding is composed 50% of promissory notes, 49% of funds from local commercial banks and 1% of related-party sources. Funding from domestic commercial banks comes from a mix of major, mid-sized and small Georgian banks.

Promissory notes have been part of the funding strategy since the early years and allows better management of interest rate changes and better matching of the relatively short-term loan portfolio.

It is worth noting that since 2017 Georgian legislation has prohibited MFOs from taking deposits and limited individual borrowings to above GEL 100,000 (the minimum threshold for borrowings and an investor base of more than 20 individuals). Under this regulatory limitation, Rico Express has been using promissory notes, mostly denominated in US dollar and with maturity of less than one year. Around 78% of Rico Express' promissory notes were issued to individuals; more than 80% had an interest rate lower than 10%; and 75% had a maturity of between three months and one year.

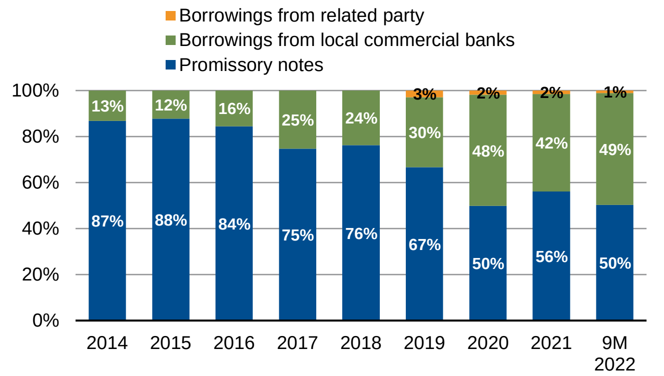
This funding strategy is a key part of the business model, which also benefits from the well-known franchise and success of the business in the local financial market.

Figure 10: Rico Express' capital and liquidity regulatory ratios (2019 to 9M 2022)



Source: Company info, Scope Ratings

Figure 11: Rico Express' funding structure (2014 to 9M 2022)



Source: Company info, Scope Ratings

Figure 12: Rico Express' regulatory ratios (2019 to 9M 2022)

Ratio	Limit	2019	2020	2021	9M 2022
Capital coefficient	Min. 18% / Min. 24% (If non FI lending > 50% of capital)	51%	48%	52%	54%
Liquidity coefficient	Min. 18% / Min. 24% (If non FI lending > 50% of capital)	30%	54%	34%	28%
Property investment coefficient	Max. 40%	7.7%	7.4%	6.4%	5.7%
Investment coefficient	Max. 15%	0.0%	0.0%	0.0%	0.0%
Insider coefficient	Max. 15%	0.1%	0.1%	0.1%	0.0%
Pledged asset coefficient	Max. 90%	77.8%	57.5%	49.3%	56.6%

Source: Company info, Scope Ratings

Due to the Georgian larisation programme since 2017, the share of loans in foreign currency (US dollar and euro) in Rico Express' portfolio fell to just 7% in 2021, from 53% in 2017. This programme has reduced the sector's need to access foreign currency funding. However, Rico Express, like many in the MFO sector, continues to access funding in foreign currencies, mostly US dollar, to take advantage of favourable rates. As of December 2021, 47% of total funding is denominated in foreign currency (related to the promissory notes). We view positively Rico Express' strategy to fully hedge its liabilities via currency swaps to mitigate currency risk. However, hedging also represents an increasing cost that added to the cost of funding, has averaged 1.7% in the past five years (2.3% for the first nine months of 2022).

However, the potential effect related to foreign currency risk has decreased from 2017, since Rico Express has reduced by almost half its reliance on foreign exchange funding (down 24pp on total funding since December 2017).

Short term ratings

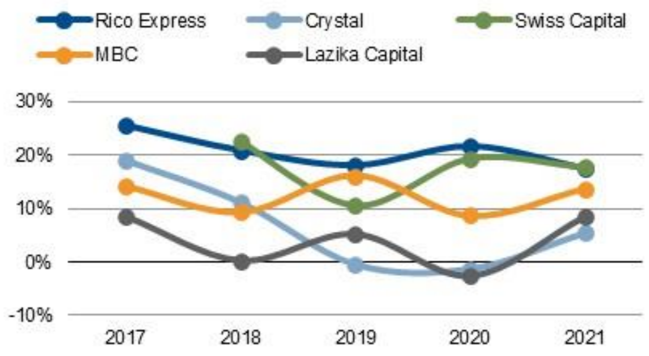
The short-term rating is S-4, in accordance with Scope's rating definitions.

We note Rico Express' historically high liquidity. Liquidity is in our view of high quality, primarily handled through cash and current accounts in banks and a minority part in deposits with banks, for a total of GEL 71.4m, which can cover 33% of financial liabilities and 59% of the short-term promissory notes.

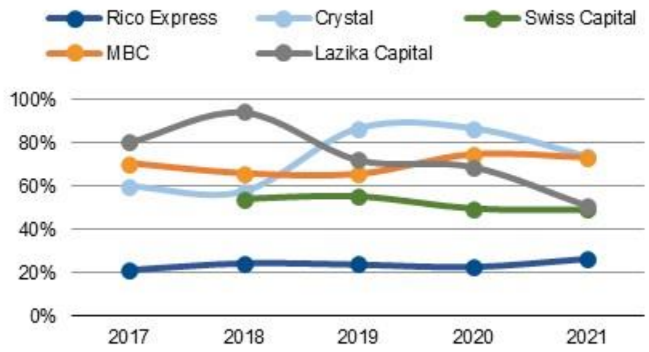
I. Appendix: Peer comparison

Net profit margin (%)

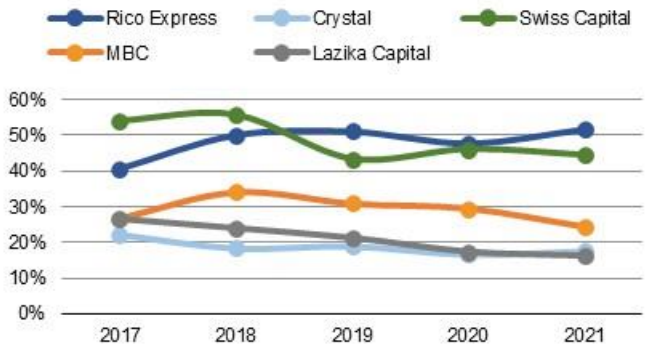
Return on average equity (%)



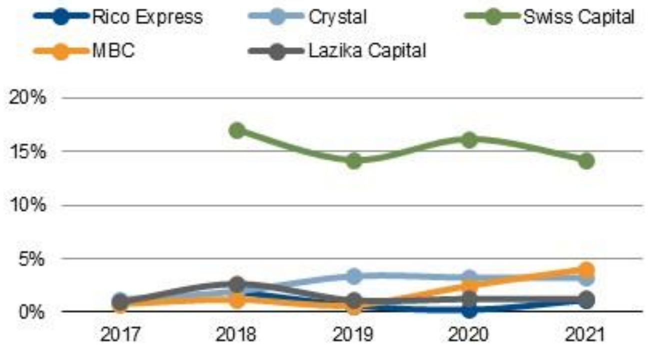
Cost/income ratio (%)



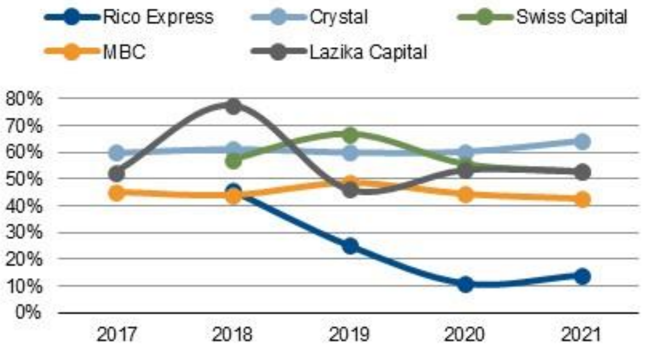
Capital adequacy ratio (%)



Stage 3 ratio (%)



Stage 3 coverage ratio (%)



National peers: Crystal, Swiss Capital, MBC, Lazika Capital

Source: Company data

II. Appendix: Selected financial information – MFO Rico Express LLC

	2017	2018	2019	2020	2021
Balance sheet summary (GEL '000)					
Assets					
Cash and cash equivalents	74,969	50,475	63,473	115,464	69,923
Amounts due from credit institutions	0	0	0	4,639	1,549
Derivative financial assets	585	242	0	0	0
Loans to customers (net)	201,354	215,491	264,702	305,997	366,416
Current income tax asset	715	647	0	883	0
Right-of-use assets	0	0	1,889	5,695	6,829
Property and equipment	11,020	11,807	14,229	16,072	15,284
Intangible assets	66	43	31	57	154
Other assets	14,236	19,192	5,371	11,745	22,842
Total assets	**302,945**	**297,897**	**349,695**	**460,552**	**482,997**
Liabilities					
Derivative financial liabilities	701	226	426	2,178	358
Promissory notes issued	134,156	111,305	109,882	112,590	121,448
Current income tax liabilities	0	0	99	0	1,095
Borrowed funds	45,652	34,860	55,164	113,584	95,444
Lease liability	0	0	1,967	5,670	7,014
Deferred income tax liability	0	0	377	2,027	2,765
Other liabilities	1,459	2,110	2,754	4,277	4,565
Total liabilities	**181,968**	**148,501**	**170,669**	**240,326**	**232,689**
Total equity	**120,977**	**149,396**	**179,026**	**220,226**	**250,308**
Total equity and liabilities	**302,945**	**297,897**	**349,695**	**460,552**	**482,997**
Income statement summary (GEL '000)					
Net interest income	40,872	41,292	44,816	47,298	57,788
Non-interest income	5,476	4,792	12,445	21,119	13,415
Personnel expenses	-6,950	-7,954	-9,565	-11,371	-13,638
Depreciation and amortisation	-1,173	-1,223	-2,078	-2,621	-3,736
Impairment of other financial assets	0	0	-4,081	0	0
Other general and administrative expenses	-2,626	-3,387	-3,714	-4,304	-5,120
Non-interest expense	-10,749	-12,564	-19,438	-18,296	-22,494
Profit before income tax expense	**33,851**	**33,944**	**36,240**	**50,451**	**48,760**
Income tax expense	-4,785	-5,358	-6,421	-7,209	-7,484
Profit for the year	**29,066**	**28,586**	**29,819**	**43,242**	**41,276**
Total comprehensive income for the year	**29,066**	**28,586**	**29,819**	**43,242**	**41,276**

Source: Rico Express LLC Annual Reports, Scope Ratings

III. Appendix: Selected financial information – MFO Rico Express LLC

Earnings and profitability	2017	2018	2019	2020	2021
Yield on gross loans (%)	27.5%	24.6%	20.5%	19.7%	20.3%
Net interest margin (net of hedging costs) (%)	13.6%	14.1%	13.4%	10.5%	12.0%
Cost of funding (%)	10.3%	11.0%	6.4%	6.9%	10.0%
Net interest income % operating income	87.7%	89.7%	77.6%	69.3%	81.2%
Net fees & commissions % operating income	7.5%	8.4%	8.9%	8.8%	10.1%
Foreign exchange income % operating income	4.1%	1.2%	10.4%	17.0%	5.4%
Cost/income ratio (%)	21.5%	24.4%	23.8%	22.8%	26.3%
Total impairments % pre-impairment income	5.7%	-1.5%	16.0%	-0.8%	-0.1%
Total impairments % gross loans	0.9%	-0.2%	2.1%	-0.1%	0.0%
Total impairments & gold repossession % gross loans	1.0%	0.0%	2.7%	1.0%	0.6%
Return on average assets (%)	9.2%	9.5%	9.2%	10.7%	8.7%
Return on average equity (%)	25.5%	20.9%	18.2%	21.7%	17.5%
National Bank of Georgia covenants					
Leverage ratio (equity % assets)	40.5%	50.2%	51.2%	47.8%	51.8%
Liquidity ratio (%)	NA	NA	29.6%	53.7%	33.5%
Pledged assets to equity ratio (%)	NA	NA	77.8%	57.5%	49.3%
Funding and liquidity					
Funding in GEL % total funding	29.4%	29.7%	43.7%	54.6%	52.6%
Funding in foreign currency % total funding	70.6%	70.3%	56.3%	45.4%	47.4%
Short-term funding % total funding	74.6%	76.2%	66.6%	49.8%	56.0%
Long-term funding % total funding	25.4%	23.8%	33.4%	50.2%	44.0%
Promissory notes % total funding	74.3%	76.0%	66.4%	49.3%	55.9%
Financial liabilities % equity	149.2%	98.0%	92.4%	103.7%	86.8%
Cash and cash equivalents % promissory notes	55.9%	45.3%	57.8%	102.6%	57.6%
Liquid assets % total assets	24.7%	16.9%	18.2%	25.1%	14.5%
Asset mix, quality and growth					
Net loans % assets	70.3%	72.3%	75.7%	66.4%	75.9%
Stage 3 loans % gross loans	NA	2.0%	0.6%	0.2%	1.2%
Stage 3 loans % tangible equity and reserves	NA	2.8%	1.0%	0.3%	1.7%
Coverage ratio on Stage 3 loans (%)	NA	45.9%	25.3%	11.1%	14.2%
Gross loan growth (%)	-12.0%	6.7%	22.0%	15.5%	19.8%
Asset growth (%)	-6.0%	-1.7%	17.4%	31.7%	4.9%
Capital and shareholder's distribution					
Dividend payout ratio	28.3%	1.5%	2.3%	4.7%	27.1%
Adjusted capitalisation ratio (deducted intangible assets, other assets and property & equipment)	35.4%	46.1%	48.6%	46.3%	50.2%

Source: Rico Express LLC Annual Reports, Scope Ratings

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