

JSC MICROFINANCE ORGANIZATION
“Micro Business Capital”



ANNUAL REPORT 2016

www.mbc.com.ge

investors@mbc.com.ge

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STATEMENT OF THE GENERAL DIRECTOR

2016 has been a remarkable year for JSC Microfinance Organization “Micro Business Capital” (MBC), during which the company experienced significant expansion and growth. All major financial indicators have grown rapidly. In particular, assets have been increased by 56 % y-o-y, loan portfolio by 46% y-o-y, liabilities by 54% y-o-y. The company has been profitable since the second year from its inception (2013).

With the help and joint effort of the supervisory board and the directorate, MBC has undergone some fundamental changes, such as: strengthening organizational structure, opening new service centers and introducing new products.

In 2016, MBC’s management and entire team successfully managed to solve every issue facing them and set new goals. In the future we will be even more focused on implementing new products, raising social responsibility and improving service quality.

The company aims to establish its reliability and reputability on the Georgian microfinance market, with the help of an experienced management team, highly qualified personnel, solid financial partners and proper organizational structure.

MBC’s mission is to increase financial inclusion and engage more individuals in economic activities by offering customer oriented accessible financial services. The aim is to contribute to Georgia’s economic and social development, fight poverty and reduce unemployment.

The success that has been achieved, clearly demonstrates the company’s future growth potential and progress. Shareholders and the management team efforts will be directed towards offering more novelty and strengthening positions on financial market. The company aims to achieve a leading position on the Georgia’s MFI market.

RESULTS ACHIEVED

Last year marked significantly important for MBC, in terms of both financial and institutional development. The company launched new products, extended the service center network, added new units to organizational structure and made significant investments in IT technologies; all these contributed to acceleration of growth and expansion rate and strengthened positions on Georgia's microfinance market.

The company's development dynamics for the last four years are shown below. MBC is facing steady growth in all major financial indicators on yearly basis.

Loan Portfolio Structure

By the end of 2016 loan portfolio growth was significant reaching 10.7 million USD, which is 3.4 million USD (46%) greater in comparison to the previous financial year. By the end of 2016, 65% of loan portfolio consisted of mortgage loans, business loans accounted 20% of total portfolio, this product is the main priority of MBC's credit policy, thus its share in total portfolio is expected to grow rapidly in the future.

60% of loan portfolio is made up by loans less than 10 000 USD, meaning that portfolio is well diversified.

By the end of 2016, 25% of loan portfolio had remaining contractual maturity less than 1 year, weighted average contractual maturity of the portfolio is around 4.7 years. However, it should be noted that most of the loans are prepaid ahead of the schedule, which makes actual average maturity of the portfolio much smaller than average contractual maturity.

By the end of the 2016 weighted average life for loan actual lifetime was around 6.4 months.

Assets' structure

In 2016 MBC's total assets grew considerably and amounted to 12.5 million USD, what is greater than the same figure for previous year by 4.5 million USD (56%).

The largest portion of total assets (more than 84%) consists of net loans. MBC tries to maintain high net loan share to total assets ratio, while keeping fixed asset to total asset ratio below 3%.

Equity and Liability Structure

In 2016 MBC's liabilities increased significantly. Borrowed funds from customers and banks have been increased producing 54% y-o-y growth in total liabilities, which in absolute terms is 3 million USD. The major source of borrowings, from customers mostly includes the funds attracted from qualified investors (business people).

By the end of the 2016 equity surged by 70% y-o-y. Subordinated debt increased by 55% compared to the previous year reporting period. It is important to mention that MBC attracts subordinated debt only from shareholders. Opposed to ordinary loans this type of debt is characterized by longer maturity period and is ranking below with regard to claim on assets or earnings. These features make subordinated debt very similar to preferred stock, thus sum of equity and subordinated debt form Tier 2 capital. Capital adequacy is ratio of Tier 2 capital to total assets. By the end of 2016 capital adequacy ratio was 27.2%, while debt to equity ratio amounted to 2.6.

Income and Expenses

By the end of 2016 MBC's total income before taxes surged 67% y-o-y and amounted to 503 thousand USD.

In 2016 interest income grew substantially. Net income amounted to 395¹ thousand USD, which is 66% increase y-o-y. In 2016 profit margin amounted to 27%, which is 0.8% higher than in previous year. Interest income to interest expense ratio increased to 2.21, while the same ratio was 2.16 last year.

Net non-interest income reached 337 thousand USD which is 40% y-o-y increase, although its share in total net income is still small and unsatisfactory for the company, thus MBC plans to implement specific measures in order to increase non-interest income.

MBC's profitability measures have been increasing per annum. In 2016 ROA (Return on Assets) was 4.1%, which is 0.4% increase compared to last year's ratio. ROE (Return on Equity) has also increased and amounted to 27.8%, which is 3.4% greater compared to 2015 figure.

The company found additional sources of funding. The enhanced and diversified sources of borrowings led to reduced average cost of funds.

Net interest income to average loan portfolio amounted to 13.9%, while net non-interest income to average loan portfolio was 3.7%.

¹ Does not include revaluation of share capital

Risk Management

Management was focused on reducing risks and improving quality of credit portfolio. MBC was successful in this regard.

2016 was a challenging year for Georgia's financial market. A major economic event was an unstable and unprecedentedly volatile FX market. Even under these conditions the company managed to preserve low risk levels.

In 2016 portfolio at risk (more than 30 days overdue loans to loan portfolio) was 0.7%, while net loss on loan portfolio was only 0.52% of total portfolio. The risk indicators once again demonstrate high quality, soundness, and adequate credit risks management of MBC's loan portfolio.

In managing risk of loan losses MBC carries out its operations according to the National Bank of Georgia's (NBG) regulations. Although the above mentioned regulation is obligatory for commercial banks and not for microfinance organizations, MBC's internal policy supports following NBG's guidelines and conservative risk management approach. By the end of 2016, loan loss reserve amounted to 2.3% of total loan portfolio.

Liquidity management

In terms of liquidity management, several important steps forward were made, such as: creation of a treasury unit, opening credit lines in several commercial banks, improving collection service. All these significantly enhanced liquidity management. In 2016, average annual liquidity ratio (liquid assets to total assets) was 7.5%.

SERVICE CENTER NETWORK DEVELOPMENT

MBC follows internationally recognized corporate governance standards and ethical norms. The core of the company success is its highly qualified team. By the end of 2016 MBC's staff included more than 80 professionals, providing high quality service and promoting development and growth of the company.

In 2013 MBC had 2 service centers. By 2016, 4 additional service centers were opened. The first service center outside the capital city was based in Rustavi. MBC plans to expand the service center network in regions.

Owing to the expansion of the service center network, outstanding loans increased by 60% in 2016.

SIGNIFICANT NEWS OF Y2016

- Two new service centers were opened, one in Tbilisi and other – the first regional service center – in Rustavi;
- Organizational structure was refined and new structural units, including: Credit Risk Management Unit, Operational Risk Management Unit, Marketing Unit and 10 new positions were added;
- Important investments were made in IT technologies, such as: implementation of well approved banking software programs, credit card module, AML module, attracted loans module, SMS service and online service system;
- MBC continues successful cooperation with two leading banks in Georgia – “Bank of Georgia” and “BasisBank”. The total funding from these banks exceeds 2.8 million USD;
- Products like: business loans, consumer loans and auto loans were developed and updated.

Main Indicators	2014	2015	2016
Total Assets (thousand \$)	\$ 4,870	\$ 7,997	\$ 12,484
Loan Portfolio (thousand \$)	\$ 4,280	\$ 7,337	\$ 10,721
Borrowed Funds (thousand \$)	\$ 4,409	\$ 6,620	\$ 10,203
Equity (thousand \$)	\$ 378	\$ 1,145	\$ 1,949
Net Income (thousand \$)	\$ 63	\$ 238	\$ 395
Average Loan Size (\$)	\$ 4,376	\$ 4,263	\$ 3,799
Active Loans #	978	1,721	2,822
Personnel #	30	52	81
Offices #	3	4	6
Profit Margin	17.0%	26.2%	26.9%
Net interest Margin	14.1%	14.3%	13.9%
Net Non-interest Margin	4.3%	4.0%	3.7%
Return On Assets (ROA)	1.7%	3.7%	4.1%
Return On Equity (ROE)	17.3%	24.4%	27.8%
Overhead Ratio	38.4%	33.5%	33.6%
PAR>30 to GLP	1.5%	0.7%	0.7%
Net Loan Loss	1.6%	0.4%	0.5%

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