Planet Rating
THE GLOBAL MICROFINANCE RATING AGENCY

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Agaru SACCO, Uganda March, 2007

Rating

D+ **Insufficient**
Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.

Description of the institution

Agaru Savings and Credit Co-operative, Ltd. (Agaru SACCO) was registered as a co-operative under the under the 1991 Co-operatives Statute in 2001 and started its operations in June 2002. Agaru SACCO is located in the town of Kalongo in Pader District where the initiative for Agaru was taken by Dr. Ambrosoli Memorial Hospital. It approached people with banking experience originating from Kalongo as there was no financial institution in the district and there was a felt need to secure savings of the local population and salary payments of the hospital and schools given the insurgent activities of the Lord's Resistant Army in the area. The Head Office of Agaru is located inside the safe compound of Dr. Ambrosoli Memorial Hospital. Since its inception Agaru has grown to 1,834 members and total assets of 1,75 M UGS (979 k USD). Agaru serves 132 active borrowers with an outstanding portfolio of 97.7 M UGS (54 k USD) as of December 2006.

Evaluation summary

Agaru has been assigned a global rating of D+. This grade reflects significant underlying weaknesses in governance and decision making where there is limited devolution of authority to the management team and a business plan guiding the future operations of the institution is lacking. It also reflects the weaknesses in risk management with lack of an investment policy of liquid assets critical to Agaru and no active internal audit function. Information management and efficiency and profitability do reach the minimum required although future profitability is no guarantee. In Kalongo, Agaru has limited its lending activities as a result of the security situation and is showing excellent portfolio quality; overall portfolio quality however is significantly reduced by the low quality of the loan portfolio disbursed in Kampala. Agaru is likely to overcome the above mentioned weaknesses and shows a will to improve the situation, although there is an urgent need to increase its capitalization. TA is likely to have a positive impact.

Improvements needed to reach minimum requirements on specific evaluation areas

- Balance decision making between BOD and management team and increase timely involvement of members in governance.
- Draft a business plan for the three to five years to come.
- Develop and implement an investment policy for liquid assets.
- Train Supervisory Committee members and develop internal audit policy.
- Increase capitalization to an adequate level.

Strategic goals

In the short term Agaru is planning to strengthen its management team – in April 2007 the treasurer of the board will take up the position as Managing Director – and to expand its outreach in Pader District with two new branches: Pader town (2nd quarter 2007) and Patongo (4th quarter 2007). In the medium term Agaru is planning to transform into an MDI.

Performance indicators
(K USD, ***unless otherwise stated*****)**

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
ACTIVITY				
Total number of staff	6	7	7	7
Total assets (USD)	277,550	504,951	737,188	979,231
(K UGS)	537,614	872,555	1,342,420	1,748,907
Loan portfolio (USD)	28,439	37,759	28,040	54,709
Deposits (USD)	244,755	450,673	655,540	882,140
Nb. of active borrowers	137	120	120	132
Nb. of savers	1,101	1,384	1,615	1,974
APR*	N/A	N/A	N/A	78%
PAR 31-365	38.1%	3.0%	4.1%	6.3%
Write-off ratio	6.4%	25.6%	5.1%	2.7%
Risk coverage ratio	0.0%	0.0%	32.7%	0.0%
PERFORMANCE				
ROE	17.9%	18.5%	(7.0%)	11.5%
Liabilities / Equity	14.9x	15.2x	15.1x	17.2x
ROA	1.0%	1.1%	(0.4%)	0.7%
OSS	105.6%	107.5%	96.6%	106.0%
FSS	104.5%	102.0%	93.9%	95.0%
Portfolio Yield	50.9%	49.5%	47.1%	47.4%
Operating expense ratio†	11.9%	10.3%	9.1%	8.0%
Staff productivity	23	17	17	19
Funding expense ratio†	3.1%	4.6%	3.9%	3.6%
GROWTH				
Loan portfolio growth	78.1%	18.4%	(21.7%)	91.4%
Savings portfolio growth	117.9%	64.3%	53.3%	32.0%
Assets growth	129.3%	62.3%	53.8%	30.3%
1 USD = xx UGS	1,937	1,728	1,821	1,786

* Estimate.
† Average calculated over average assets.

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▪ Institutional presentation

Networks
Agaru Savings and Credit Co-operative, Ltd. is a member of the Association of Microfinance Institutions of Uganda (AMFIU) and of the Uganda Cooperative Savings and Credit Union (UCSCU).

Ownership
As a SACCO Agaru is a member owned and governed institution which currently has 1,834 shareholders/ members and 2,254 outstanding shares as of Dec. 2006. The institution is governed by its Board of Directors (BOD), which comprises members with experience in banking (management, legal, internal audit) as well as community members of Kalongo. The BOD reports yearly to its shareholders/members through the Annual General Meeting (AGM). However, in 2003 and 2004 no AGMs were held due to security reasons in Pader District. During the AGMs of 2005 and 2006 a Supervisory Committee was elected directly by its members. The BOD itself is not sub-divided into committees. The current BOD was elected in October 2006 and BOD members serve a maximum of two two-year terms.

Legal form, supervision and audit
Since its inception Agaru has been operating as a SACCO registered under the 1991 Co-operatives Statute and governed by the Co-operatives Regulations Act of 1992. As a SACCO, Agaru falls under the Tier IV category of microfinance institutions, as established by the Financial Institutions Categorization in 2003, and hence is not subject to any direct supervision by the central bank (Bank of Uganda). Nevertheless, SACCOs are supposed to provide periodic reports to the District Co-operative Officer (DCO) under the district commercial division for general supervision and overseeing of their activities.

For the years 2003 and 2004 Agaru has been audited by the Assistant Registrar of Co-operative Societies for Kitgum and Pader Districts. In 2005 Agaru was audited by Kisaka & Company, a professional audit firm located in Kampala. Both accountants have certified the accounts without qualifications. The fiscal year of Agaru SACCO begins on January 1st and ends on December 31st.

Donations
Until December 2003 Agaru received a total of 26.7 M UGS (14,972 USD) from the World Council of Credit Unions (WOCCU) for staff salaries and benefits. In 2005 Agaru received a grant from SUFFICE of 18 M UGS (10,078 USD) for capacity building and another 12.7 M UGS (7,133 USD) for fixed assets (a.o. PC's, motorbikes). The costs of the external audit for the year 2005 was covered for 80% by DfID's Financial Sector Deepening project Uganda in the amount of 13.6 M UGS (7,588 USD).

Funding

Loan provider	Interest rate*	Duration	Initial amount	Initial amount (USD)	Outstanding amount
MSCL	6.4%	36 month	5 M UGS	2,800 USD	5 M UGS

*APR, nominal rate is 9% per annum.

Management team
The management team of Agaru is made up of the Manager, Loan Officer and Supervisor. The Manager is a Certified Public Accountant and had brief management experience of two other SACCOs before joining Agaru in June 2003. The manager also serves as Accountant of Agaru. The Loan Officer informally acts as Credit Manager and holds a Diploma in Banking. The Supervisor holds a Diploma in Business Studies and supports the Manager in accounting and supervises the operations in the banking hall. All three of have received specific training in microfinance while working with Agaru.

Pader district and the LRA
The Lord's Resistance Army (LRA) has been fighting a war in northern Uganda for over two decades where Pader district is one of the hardest hit areas. The rebels have attacked and burned down numerous villages laying waste to vast tracts of the north leading many villagers to move to the relative security of IDP camps run by international NGOs. A recent cease fire and peace talks have improved the security in Pader district and some people are slowly returning to their villages although lasting peace is by no means a certainty as of yet.

Organization
Agaru has its head office inside the safe compound of Dr. Ambrosoli Memorial Hospital in the town of Kalongo. In 2003 a branch was opened in the nearby town of Patongo but closed after only two weeks of operations as the town was overrun by the LRA.

Deposits, disbursements and repayments are made in cash at both the branch and head office with the cashiers. Cash is transported by air between Agaru head office and its bank accounts in Kampala and Kitgum.

Market penetration
Agaru SACCO is the only financial institution active in Pader district besides a recently opened Stanbic ATM in Pader town. Agaru offers both financial intermediation to the local population of Kalongo as well as banking services to Dr. Ambrosoli Memorial Hospital, local schools and NGOs working in Kalongo.

Products and services
Agaru offers four loan products where the three main products are Commercial, Agriculture and Salary loans

with loan amounts between 50,000 and 5 M UGS. All have a maximum term of 6 month, 2% loan commitment fee, 2% fee for Loan Protection Fund and a standard 10,000 UGS administration fee. Commercial loans have a 3% flat interest rate per month where this is 2.5% flat per month for the other two products. The fourth product is an Emergency loan product with a maximum term of one month and a flat rate of 10% below 100,000 UGS or the same rates as salary loans above the said amount.

The main business of Agaru stems from the savings however as the loan portfolio is consciously limited given the insecurity in the area. Agaru offers both regular savings (2% per annum over 50,000 UGS) and fixed deposits with terms between 3 and 12 months (1% per month).

To institutional members Agaru also offers an investment service in Treasury Bills where it receives 15% of interest as a commission. Besides the above savings and credit services Agaru also offers salary payments for NGOs, schools and medical institutions in Kalongo town.

▪ Governance

Governance and Decision Making is rated **"d"**

Decision-making

- ✚ The BOD members have appropriate backgrounds for governing Agaru with a good mix of both banking experience as well as social backgrounds. The treasurer of the BOD participated in the Boulder Microfinance Training Program in 2006.
- ▪ BOD meets irregularly but at least quarterly, however BOD is not divided into sub-committees limiting efficient and effective decision making by BOD.
- – Limited input into decision making process from management regarding operational realities as official management reports to BOD stopped at end 2005. Currently only ad hoc information is provided to BOD.
- – Main strategic and operational decisions taken by the BOD with limited devolution of authority to the management team.
- – Limited involvement of members as shown in delayed AGMs in both 2005 and 2006[1].

Planning

- – Agaru has not developed a business plan preventing adequate guidance of future operations of Agaru. Decisions for major expansion (opening of two new branches in Pader town and Patongo) taken without prior detailed financial and market analysis.
- – Delayed budgeting process (2006 budget only approved in Oct 2006; 2005 budget in Sep 2005) and budget for 2007 prepared in March but not yet approved. Budgets are of good quality given the size of Agaru's operations. Adequate budget tracking not possible due to late approval of budgets.

Management team

- ✚ Small and committed management team headed by the same Manager since June 2003 adequate for the size of Agaru.
- ✚ The members of the management team have adequate skills in accounting, financial analysis and portfolio management.
- ▪ Despite the size of the team, good division of duties between the Manager, the Supervisor and the Loan Officer. Strong reliance on manager, especially as the Accountant left in Sep 2003 and has not been replaced.
- – Key person risk on management team as they do not originate from Pader district.

Human resource management

- ✚ Agaru has adequate recruitment procedures, with interviews adapted to the desired profile. Recruitment process does experience delays.
- ▪ The salary levels are in line with market conditions, and higher than in other SACCOs of the region, but below levels of international NGOs active in the region leading to dissatisfaction with staff.
- – High staff turnover in 2005 and 2006 due to underperformance of staff and leaving of staff due to family commitments.
- ✚ Staff has benefited from various trainings in microfinance that were based on the need of Agaru and funded by a grant from SUFFICE. Future training of staff is planed to be limited due to lack of significant training budget.
- – HR policy has been drafted but needs finalization and has not yet been effectuated. Lack of an HR policy in the past has led to a lack of: staff evaluation, incentive schemes and career plans for staff.

Area for improvement

- ✱ Balance decision making between BOD and management team.
- ✱ Draft a business plan for the three to five years to come that takes into account the expansion of the institution.
- ✱ Develop and approve yearly budget on time and instill monthly budget tracking.

[1] In 2003 and 2004 no AGMs were held due to the prevailing security situation in Pader district.

▪ Information

Information and equipment is rated **"c"**

Description of the MIS	
Equipment	▪ IT equipment consists of 6 PC's of which 5 are linked to an internal network and one is linked to the internet. ▪ External PC is provided with up to date anti-virus software.
Accounting	▪ Manual, double entry accounting process. MS Excel used to track and store accounting information. ▪ Monthly reconciliation with bank statements.
Portfolio and savings information	▪ Monthly information on loan disbursement, repayment and portfolio performance (including ageing) is recorded and generated manually by LO in Excel.

Management Information System (MIS) and equipment

✚ Manual loan tracking and savings system using ledger cards, which is well designed with appropriate checks to prevent errors or fraud (proper receipts, double entries by both Cashier and Assistants, daily balancing by Supervisor).

▪ Agaru is currently in the process of installing Finance Solutions (by Sigma D&C Ltd. of Kampala, Uganda) an integrated accounting and loan tracking MIS. The system is not yet online due to errors in the software.

– Decision for MIS system taken without adequate institutional assessment of IT needs. In 2005 this led to the write-off of the then purchased MIS as it did not suffice Agaru's needs driving net income before donations below zero.

– Electronic data saved separately on internal network and stand-alone PC, but not backed up otherwise. A virus attack in March 2006 destroyed partial Excel information and caused to Agaru to stop using LPT[2] to track its loan portfolio.

– Paper information is not sufficiently protected: ledger cards and loan contracts stored at workplace and are not secured nor protected against possible fire damage.

Information on activities

✚ Portfolio information is produced in a timely manner with adequate quality and accuracy of data and calculation of key indicators.

✚ The limited size of the loan portfolio allows it to be easily managed by the LO.

– Late consolidation of monthly savings information with a recurring discrepancy between ledger card totals and the balance sheet.

– Past overdrawn savings accounts stemming from 2003 still being brought forward as of today.

[2] LPT: Loan Portfolio Tracking is an MS Excel based tool developed by WOCCU to track the loan portfolio.

Financial and accounting information

✚ Financial information generated based on the WOCCU accounting standard that is understood well and applied consistently by management including movements in the Loan Loss Reserve.

▪ Monthly financial statements are largely reliable and produced timely where analysis of financial indicators can be further improved.

▪ External auditors (Kisaka & Company) provided valuable insights to Agaru to improve its accounting process although not all recommendations followed up.

Areas for improvement

✱ Increase data security: safe storage of paper data, improved back-up security and regularly updated virus protection software for all PCs.

✱ Draft IT needs assessment and IT implementation plan.

✱ Improve reconciliation of savings data and write-off past overdrawn savings accounts.

▪ Risk

Risk Management is rated **"d"**

Procedures and internal controls

✚ Key policies are in place (Accounting, Credit, Operations) although mostly originating from WOCCU with limited adaptation to the specific needs of Agaru.

▪ Adequate, tiered loan approval limits in place. Approval by BOD members occurs via email but with delays and without proper signatures.

– Lack of investment policy for investments of liquid assets into treasury bills and fixed deposits.

✚ Good control procedures in place for cashiers with daily balancing of cash by the Supervisor.

– Insurance of cash and cash transport is currently not available in Pader district as a result of the security situation. High cash amounts kept at the head office at times with limited cash security, although head office is located inside the hospital compound protected by the army. Cash is transported by air, but at times unaccompanied.

Internal audit

– The internal audit function remains a major weakness as Agaru has yet to have an actively operational Supervisory Committee. The present committee is still to undergo training and begin its duties. There is no internal audit policy.

▪ BOD members perform spot checks of cash balances during their visits but their overall control is limited. The BOD has not shown a sense of urgency to identify and address the risks related to the operations of Agaru.

✚ The external audit of Kisaka & Company has been an asset to Agaru.

Area for improvement

- ✱Increase cash security and limited exposure at head office and during transport.
- ✱Develop and implement an investment policy for liquid assets.
- ✱Train Supervisory Committee members and develop an internal audit policy.

▪ Activities

Activities: products and services is rated **"d"**

	Dec. 03	Dec. 04	Dec. 05	Dec. 06
Loan portfolio (USD)	28,439	37,759	28,040	54,709
Loan portfolio (K UGS)	55,087	65,248	51,060	97,710
Evolution (%)	78.1%	18.4%	(21.7%)	91.4%
Average outstanding gross loan portfolio	27,553	30,382	24,929	40,858
Nb of active borrowers	137	120	120	132
Evolution (%)	NA	(12.4%)	0.0%	10.0%
Average outstanding loan per client	208	315	234	414
Av. amount disbursed	228	316	338	641
PAR 31-365 (%)	38.1%	3.0%	4.1%	6.3%
PAR > 365 (%)	6.4%	25.6%	5.1%	2.7%
Write-off ratio (%)	0.0%	0.0%	32.7%	0.0%

Marketing and competition

As earlier revealed, Agaru is presently the only actively operational financial institution on the ground in Pader district. A few SACCOs operated within the district a few years back but collapsed at the height of the insurgent activities. The nearest financial institutions are located in Kitgum town which is a considerable distance from any of the towns in Pader district. Although Stanbic bank recently introduced a stand-alone ATM service in Pader town, it nonetheless offers only cash withdrawal services from this service point. In effect therefore, Agaru faces almost no competition at all within its present areas of operation, particularly the areas around and including Kalongo, Pader and Patongo towns.

On account of the above, Agaru enjoys key advantages over its nearest competitors the most apparent being proximity to its members and almost exclusive access to large organizations such as Dr. Ambrosoli Memorial hospital and several schools and international NGOs.

However as Agaru plans to expand its services and set up branches beyond Kalongo, and as peace slowly returns to northern Uganda, the institution is likely to face stiffer competition particularly from the more aggressive Tier III financial institutions which are bound to arrive into Pader district at some point in the future. Furthermore member interviews have already revealed some discontent with certain loan term and restrictions which could easily be exploited by competitors seeking to make in-roads in Pader district.

Credit methodology

- ✚Agaru has significantly thorough credit policies, contained in a formalized credit manual that was developed in conjunction with WOCCU in 2004, which clearly spell out procedures for client appraisal, loan approval as well as portfolio monitoring and delinquency management.
- ✚The institution also uses loan a appraisal tool, CREST[3], which is clearly comprehended and consistently applied by the LO which enhances and standardizes client appraisal.
- –However the loan approval process, in particular for larger loan amounts exceeding 3 M UGS, is impeded as a result of the requirements that the BOD scrutinizes these loans prior to approval and disbursement.
- –Manual loan monitoring and recovery system significantly increases the workload on the LO as a lot of paperwork is involved in maintaining related subsidiary ledger accounts.

Quality of the portfolio

For the analysis of Agaru's portfolio quality a distinction needs to be made between the parts of the portfolio appraised and disbursed at the head office and those appraised and disbursed by BOD members in Kampala. As of Dec. 2006 they comprise 85% and 15% of the portfolio respectively.

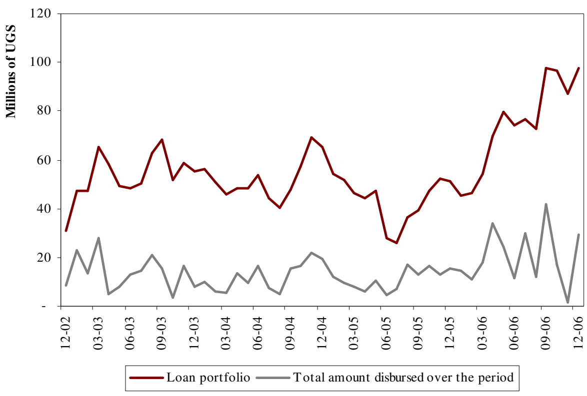
- ✚The portfolio quality at the head office is excellent with PAR 31-365 at 0.29% and PAR > 365 at 0.77% as of Dec. 2006; 1.18% and 0.29% respectively as of Dec. 2005. This quality is due to extremely cautious portfolio growth and stringent loan terms (particularly guarantor terms, see risk coverage below) to tighten portfolio management as well as strong delinquency management by the LO.
- –The portfolio quality of the loans disbursed from Kampala is poor with PAR 31-365 at 6.05% and PAR > 365 at 1.05% as of Dec. 2006; 2.94% and 4.78% as of Dec. 2005. The poor quality is due to the fact that loan appraisal is undermined by the political nature of the loans. Furthermore, BOD members lack time for sufficient follow-up and follow-up from Pader is difficult due to the long distance and limited influence of management on political figures.
- –Agaru has a formalized write-off policy for loans in arrears over 365 days. However this policy has only been applied once in June 2005 when 14.8 M UGS was written-off. Over 90% of this volume was related to loans disbursed in Kampala to political figures.
- ▪ This one time write-off is the sole reason for the improvement of portfolio quality from 2004 to 2005.
- ✚Active follow-up of these loans after write-off saw a recovery of 14.5 M UGS.

[3] CREST: Credit Scoring Tool developed by WOCCU

Portfolio composition and evolution

- Agaru's portfolio volume has been quite erratic over the period of analysis. Needless to say the volatile security situation in the area has played a significant role in holding back the portfolio growth as both the BOD and management took extra precautions in approving loans.
- Although the institution does not keep track of its portfolio composition, business loans continue to take up the largest portion of the portfolio (2005: 77% and 2006: 78%) followed by salary loans (2005: 22% and 2006: 16%). 2006 did see an increase of agricultural loans from 0.1% in 2005 to 5.3% of portfolio.

Portfolio Evolution



Portfolio diversification

Agaru presently has no deliberate strategy aimed at diversifying its portfolio. Nevertheless, management tries to avoid the over-concentration of its loan portfolio in any particular area.

Credit risk coverage

	Dec. 03	Dec. 04	Dec. 05	Dec. 06
Risk coverage ratio (%)	44.4%	74.6%	35.8%	54.5%
PAR 31 net of loan loss provision / Equity (%)	40.3%	8.8%	3.6%	4.2%

✚ For the years 2004 and 2005 Agaru did not have a sufficient loan loss provision, but it corrected this situation in 2006. In 2006 Agaru did follow its own policy which provides the institution with a more then adequate provision.

✚ Consistent use is made of appropriate collateral requirements particularly personal guarantors and / or letters of undertaking as well as the pledging of movable assets or property.

- Personal guarantees that are relatively high – requiring guarantors to have at least 150% of loan principal outstanding on their accounts at any one time – is rigorously enforced and to date remains Agaru's chief recovery tool for in the case of business loans.
- Hard collateral remains mainly used as a last resort to coerce loan defaulters into meeting their obligations. The institution generally lacks effective means of legally enforcing lenders' rights to collateral in cases of default.

Savings Activities

	Dec. 03	Dec. 04	Dec. 05	Dec. 06
Deposits (USD)	244,755	450,673	655,540	882,140
Deposits (K UGS)	474,090	778,763	1,193,738	1,575,503
Evolution (%)	117.9%	64.3%	53.3%	32.0%
Total number of depositors	1,101	1,384	1,615	1,974
Evolution (%)	83.8%	25.7%	16.7%	22.2%
Ave. balance per depositor (USD)	222	326	406	447

- Overall Agaru continues to register steady growth in the number and size of both depositors and deposits. This is mainly as a result of the monopoly Agaru continues to enjoy in its area of operation.
- The savings consist for 51% of regular savings and for 3% of term deposits that can be used for on-lending. The other 46% consists of savings of two institutional members that Agaru invest in treasury bills on their behalf and thus cannot be used for onlending.

– The proportion of term deposits also remains quite minute in comparison to regular savings, even dropping by 12% in 2006. This could pose a potential risk for the institution particularly as the demand deposits are of a volatile nature.

Area for improvement

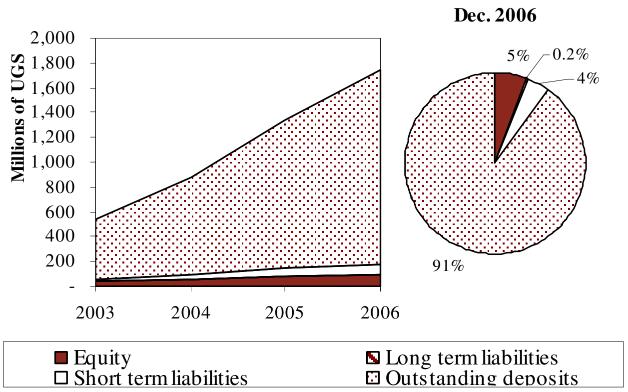
✱ Limit loans disbursed by the BOD in Kampala and institute adequate follow-up of these loans when late.

✱ Put write-off policy into practice.

▪ Financing and liquidity

Financing and liquidity is rated **"d"**

Financing Structure



	Dec. 03	Dec. 04	Dec. 05	Dec. 06
Liabilities / Equity	14.9x	15.2x	15.1x	17.2x

- Agaru's capital structure shows a steady growth over the years with relatively stable composition of equity and liabilities. Its financial structure is dominated by members' savings which compose 91% of total assets.

– However, Agaru has been under capitalized for the past years endangering its members' equity, especially as profitability is not a certainty as shown in FY 2005. No significant action has been taken by Agaru to increase its capitalization in the past years.

- It should be noted however that the investment service in treasury bills for two of its members compose 41% of assets without which Agaru's leverage would be 9.7x at end of 2006. Furthermore, a total yearly turnover at 202% of equity reduces the immediate risk of bankruptcy.
- Agaru currently only has one external loan with MSCL which is less then 1% of assets and is only taken on because of political reasons at a discounted rate.

Asset and liability management

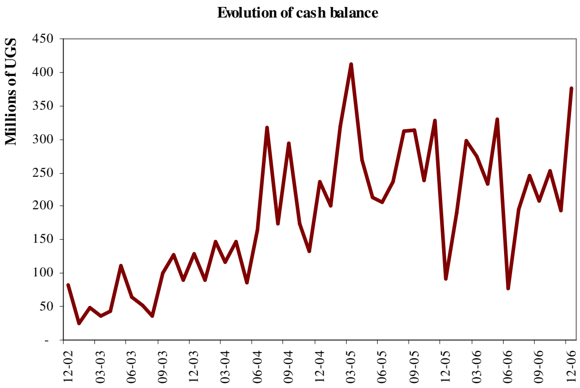
Asset and liability management (ALM) risks are currently limited.

– Maturity risk: Agaru does not actively manage its maturity risks of its investments in treasury bills and fixed deposits. Given the volatility of members' savings maturity risk does exist. However, it is limited to some extent as investments are made in small amounts and at differing intervals and maturities.

+ No interest rate risk: The interest rate of the MSCL loan is fixed as are returns on treasury bills and fixed deposits.

+ No Foreign Exchange (FX) risk: Agaru does not borrow or issue loans in foreign currencies.

Liquidity management



– Liquidity management is inefficient and is a major challenge as shown by the position of liquid assets. Part of this can be explained by the insecurity situation in Pader district which restricts movements of cash. However, no liquidity management strategy is in place, nor are liquidity projections made. This has led to a less than optimal investment of liquid assets in treasury bills and fixed deposits.

– Agaru has not instituted a prudential ratio for cash on hand to ensure availability of cash for withdrawals of members' savings. Lack of adequate cash projections for the head office result in either emergency cash deliveries or excess cash given the limitations in transporting physical cash to and from the head office.

▪ Efficiency and Profitability

Efficiency and Profitability is rated **"c"**

Profitability analysis	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**
ROE (%)	17.9%	18.5%	(7.0%)	11.5%
Liabilities / Equity	14.9x	15.2x	15.1x	17.2x
ROA (%)	1.0%	1.1%	(0.4%)	0.7%
Profit generation				
OSS (%)	105.6%	107.5%	96.6%	106.0%
Portfolio Yield (%)	50.9%	49.5%	47.1%	47.4%
Operating expense ratio (%)[4]	11.9%	10.3%	9.1%	8.0%
Staff productivity	23	17	17	19
Loan officer productivity	137	120	120	132
Average outstanding loan per client (USD)	208	315	234	414
Funding expense ratio (%)[4]	3.1%	4.6%	3.9%	3.6%
Cost of savings	3.7%	5.0%	4.2%	4.0%
Cost of liabilities (%)	0.0%	0.0%	0.0%	0.0%
Loan Loss Provision expense ratio (%)	20.4%	5.9%	(2.2%)	(10.6%)
PAR 31-365 (%)	38.1%	3.0%	4.1%	6.3%
Write-off ratio (%)	0.0%	0.0%	32.7%	0.0%
Asset management				
Outstanding Loan Portfolio / Assets (%)	8.2%	5.9%	3.7%	5.3%
Non-portfolio income as a % of financial revenues (%)	49.5%	53.3%	67.9%	64.5%

Overview of the profitability

Except for 2005 the return on assets (ROA) has been around 1%. The negative result for 2005 with an ROA of (-0.4%) is due to underperformance of loan portfolio and reduced income from administrative fees on savings activities that was not compensated by additional income from other sources. Furthermore a one time increase in operational expenses of 5.2 M UGS due to investment in an MIS that had to be written off and increased expenses as a result of the AGM also increased expenses. The negative result in 2005 is understated due to inadequate Loan Loss Provisioning in that year.

The increased profitability of 2006 is for the largest part due to a one time extraordinary income from recovery from loans written off in June 2005. Without this recovery income prior to donations would have been just below zero. Given its high leverage ROE shows either high figures in 2003: 17.9%, 2004: 18.5% and 2006: 11.5% and a low figure in 2005: (-7.0%).

Portfolio yield and effective interest rate

Portfolio yield shows a stable, slightly decreasing pattern over the years. There is a reasonable yield gap which until the write-off in June 2005 could be explained by the poor portfolio quality. However, the current yield gap can only in part be explained by the limited portfolio quality but also indicates an ineffective recovery of interest income and penalties.

[4] Operating expense ratio and funding expense ratio calculated over average assets due to the low percentage of loan portfolio over assets.

Operating expense ratio
The operating expense ratio shows a positive (declining) trend from 11.9% in 2003 to 8.0% in 2006. However, the ratio is understated due to the low level of lending activity of Agaru. One of the main contributing factors in the decreasing trend is the investments in treasury bills made on behalf of two of its members which significantly contributed to the growth of assets but incur limited operational costs.

The location of Agaru's head offices within the hospital compound at Kalongo – more specifically the close co-operation between the two institutions – has to date enabled the institution to make considerable savings on operational costs such as electricity, security, transport and communication.

Funding expense ratio
Agaru's funding expense ratio shows a relatively stable trend over time and is relatively low at 3.6% (2006) as its main source of funding is its members' deposits. The funding expense ratio has been decreasing due to the fact that Agaru has reduced its interest on institutional accounts.

Loan loss provision expense ratio
The loan loss provision expense ratio shows a declining trend over the years, even becoming negative as a result of improving loan portfolio quality. However, it was not until 2006 that Agaru had an adequate loan loss provisioning. The recovery of loans written off in June 2005 is the main reason for the negative loan loss provisioning expense ratio (-10.6%) in 2006.

Asset management
Agaru has 41% of its assets tied up in investments in treasury bills that it makes on behalf of two of its institutional members. Besides that, Agaru has consciously limited its loans activities because of the prevailing security situation in Pader district. As of Dec. 2006 Agaru only deploys 5.3% of its assets to the loan portfolio.

Profitability outlook
The profitability outlook in the short term is negative based on the experience of the past two years which is further exacerbated by the investments that need to be made in 2007 for the new MIS and the opening of 2 new branches which will weigh heavily on the 2007 budget. However, Agaru is expecting to cover part of these expenses by donor funding. Due to the lack of a business plan the medium to long term profitability outlook is uncertain.

Formulas and ratios
- Personnel productivity: Active borrowers / Total personnel (end of period)
- Loan officer productivity: Active borrowers / Total Loan Officers (end of period)
- Return on assets: ROA: Net operating income before donations / Average assets
- Adjusted return on assets: AROA: Adjusted net operating income before donations / Average assets
- Return on equity: ROE: Net operating income before donations / Average equity
- Adjusted return on equity: AROE: Adjusted net operating income before donations / Average equity
- Leverage: Debt (savings + debts) / equity (end of period)
- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio
- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding portfolio
- Net portfolio as a % of assets: Net outstanding portfolio / total assets (end of period)
- Operational self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio

Rating Scale

Factors	Area Rating	Global Rating	Explanation
4 to 5	a	A+ A A-	**Excellent** The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
3 to 4	b	B+ B B-	**Good** Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
2 to 3	c	C+ C C-	**Minimum required** Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
1 to 2	d	D+ D D-	**Insufficient** Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
0 to 1	e	E	**Immediate risk of default or very insufficient** There are immediate or underlying risks for operations or an unacceptable under performance.

▪ Appendices

Agaru SACCO Income Statement	Notes	UGS Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	USD Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Evolution 2004/ 2003	2005/ 2004	2006/ 2005
Financial Revenue (a)		**72,557,500**	**116,129,814**	**137,187,351**	**182,890,704**	**37,459**	**67,205**	**75,336**	**102,402**	**60.1%**	**18.1%**	**33.3%**
Financial Revenue from Loan Portfolio		27,146,109	26,007,852	21,397,000	34,578,249	14,015	15,051	11,750	19,361	(4.2%)	(17.7%)	61.6%
Interest on Loan Portfolio		20,061,974	18,647,234	16,389,000	25,342,999	10,357	10,791	9,000	14,190	(7.1%)	(12.1%)	54.6%
Fees and Commissions on Loan Portfolio		6,294,289	5,549,676	4,125,000	7,750,700	3,250	3,212	2,265	4,340	(11.8%)	(25.7%)	87.9%
Penalty Revenue on Loan Portfolio		789,846	1,810,942	883,000	1,484,550	408	1,048	485	831	129.3%	(51.2%)	68.1%
Financial Revenue from Investments		35,900,658	61,854,184	93,153,000	117,932,967	18,534	35,795	51,155	66,032	72.3%	50.6%	26.6%
Other Operating Revenue		9,510,733	28,267,778	22,637,351	30,379,488	4,910	16,359	12,431	17,010	197.2%	(19.9%)	34.2%
Financial Expense (b)		**11,969,880**	**32,475,856**	**42,641,000**	**56,083,606**	**6,180**	**18,794**	**23,416**	**31,402**	**171.3%**	**31.3%**	**31.5%**
Interest paid on borrowings		-	-	-	-	-	-	-	-	-	-	-
Interest paid on deposits		11,477,492	31,776,283	42,641,000	53,430,921	5,925	18,389	23,416	29,917	176.9%	34.2%	25.3%
Net Inflation Adjustment Expense		-	-	-	-							
Other Financial Expenses		492,388	699,573	-	2,652,685	254	405	-	1,485	42.1%	(100.0%)	-
Financial income [c=a-b]		**60,587,620**	**83,653,958**	**94,546,351**	**126,807,098**	**31,279**	**48,411**	**51,920**	**71,001**	**38.1%**	**13.0%**	**34.1%**
Net Loan Loss provision expense (d)		**10,878,995**	**3,076,322**	**(1,010,649)**	**(7,765,657)**	**5,616**	**1,780**	**(555)**	**(4,348)**	**(71.7%)**	**(132.9%)**	**668.4%**
Loan loss provision expense and write-off		10,878,995	3,076,322	2,556,000	3,144,290	5,616	1,780	1,404	1,761	(71.7%)	(16.9%)	23.0%
Recovery from Loans written off		-	-	3,566,649	10,909,947	-	-	1,959	6,109	-	-	205.9%
Operating expense (e)		**45,865,477**	**72,486,195**	**100,348,000**	**124,279,485**	**23,679**	**41,948**	**55,106**	**69,585**	**58.0%**	**38.4%**	**23.8%**
Personnel Expense (includes fringe)		23,247,000	32,798,800	36,120,000	42,048,367	12,002	18,981	19,835	23,543	41.1%	10.1%	16.4%
Administrative Expense (non-staff operating expenses)		22,618,477	39,687,395	64,228,000	82,231,118	11,677	22,967	35,271	46,042	75.5%	61.8%	28.0%
Depreciation and amortization		2,583,338	6,060,937	6,165,000	12,036,200	1,334	3,507	3,386	6,739	134.6%	1.7%	95.2%
Consulting fees		-	-	-	-	-	-	-	-	-	-	-
Utilities, maintenance & transport		19,910,139	31,079,558	37,334,000	42,420,300	10,279	17,986	20,502	23,752	56.1%	20.1%	13.6%
Marketing expenses		-	406,800	3,294,000	1,035,100	-	235	1,809	580	-	709.7%	(68.6%)
Staff Training		-	1,899,100	6,184,000	8,215,768	-	1,099	3,396	4,600	-	225.6%	32.9%
BOD allowances and costs		125,000	241,000	3,371,000	6,374,150	65	139	1,851	3,569	92.8%	1,298%	89.1%
AGM		-	-	7,880,000	12,149,600	-	-	4,327	6,803	-	-	54.2%
Others		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Taxes and Donations [f=c-d-e]		**3,843,148**	**8,091,441**	**(4,791,000)**	**10,293,270**	**1,984**	**4,683**	**(2,631)**	**5,763**	**110.5%**	**(159%)**	**(314%)**
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		**3,843,148**	**8,091,441**	**(4,791,000)**	**10,293,270**	**1,984**	**4,683**	**(2,631)**	**5,763**	**110.5%**	**(159%)**	**(314%)**
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		**3,843,148**	**8,091,441**	**(4,791,000)**	**10,293,270**	**1,984**	**4,683**	**(2,631)**	**5,763**	**110.5%**	**(159%)**	**(314%)**
Donations (l)		11,559,330	-	8,344,000	10,641,500	5,968	-	4,582	5,958	(100.0%)	-	27.5%
Net Income (after Taxes and Donations) [m=k+l]		**15,402,478**	**8,091,441**	**3,553,000**	**20,934,770**	**7,952**	**4,683**	**1,951**	**11,722**	**(47.5%)**	**(56.1%)**	**489%**

Agaru SACCO Balance sheet	Notes	UGS Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	USD Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Evolution 2004/ 2003	2005/ 2004	2006/ 2005
ASSETS		**537,613,722**	**872,554,693**	**1,342,420,000**	**1,748,907,101**	**277,550**	**504,951**	**737,188**	**979,231**	**62.3%**	**53.8%**	**30.3%**
Short Term Assets		**529,259,112**	**853,829,229**	**1,306,892,000**	**1,722,488,556**	**273,237**	**494,114**	**717,678**	**964,439**	**61.3%**	**53.1%**	**31.8%**
Cash and Due from Banks		140,063,285	236,929,495	90,847,000	377,176,647	72,309	137,112	49,889	211,185	69.2%	(61.7%)	315.2%
Short Term Investments	1	314,207,000	532,322,400	1,076,165,000	1,131,784,500	162,213	308,057	590,975	633,698	69.4%	102.2%	5.2%
Short Term Net Loan Portfolio		44,208,011	51,292,825	49,380,000	92,886,026	22,823	29,683	27,117	52,008	16.0%	(3.7%)	88.1%
Short Term Gross Loan Portfolio		55,087,006	65,248,142	51,060,000	97,710,038	28,439	37,759	28,040	54,709	18.4%	(21.7%)	91.4%
(Loan Loss Reserve)		10,878,995	13,955,317	1,680,000	4,824,012	5,616	8,076	923	2,701	28.3%	(88.0%)	187.1%
Interest Receivable		17,035,532	20,527,913	40,359,000	52,225,654	8,795	11,880	22,163	29,242	20.5%	96.6%	29.4%
On loan portfolio		-	-	-	-	-	-	-	-	-	-	-
On investments		17,035,532	20,527,913	40,359,000	52,225,654	8,795	11,880	22,163	29,242	20.5%	96.6%	29.4%
Accounts receivable and other assets		13,745,284	12,756,596	50,141,000	68,415,729	7,096	7,382	27,535	38,307	(7.2%)	293.1%	36.4%
Long term assets		**8,354,610**	**18,725,464**	**35,528,000**	**26,418,545**	**4,313**	**10,836**	**19,510**	**14,792**	**124.1%**	**89.7%**	**(25.6%)**
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		8,354,610	18,725,464	35,528,000	26,418,545	4,313	10,836	19,510	14,792	124.1%	89.7%	(25.6%)
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		**537,613,722**	**872,554,693**	**1,342,420,000**	**1,748,907,101**	**277,550**	**504,951**	**737,188**	**979,231**	**62.3%**	**53.8%**	**30.3%**
Liabilities		**503,739,479**	**818,722,951**	**1,258,815,000**	**1,652,902,095**	**260,062**	**473,798**	**691,277**	**925,477**	**62.5%**	**53.8%**	**31.3%**
Short term liabilities		503,739,479	818,722,951	1,258,815,000	1,649,068,764	260,062	473,798	691,277	923,331	62.5%	53.8%	31.0%
Demand Deposits		330,685,080	553,528,222	634,172,000	804,814,747	170,720	320,329	348,255	450,624	67.4%	14.6%	26.9%
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	2	150,000,000	225,234,327	559,566,000	770,688,177	77,439	130,344	307,285	431,516	50.2%	148.4%	37.7%
Short Term Borrowings		-	-	-	1,166,669	-	-	-	653	-	-	-
Interest payable		4,789,165	9,000,511	8,409,000	12,543,482	2,472	5,209	4,618	7,023	87.9%	(6.6%)	49.2%
Accounts Payable and Other Short Term Liabilities		18,265,234	30,959,891	56,668,000	59,855,689	9,430	17,917	31,119	33,514	69.5%	83.0%	5.6%
Long term liabilities		-	-	-	3,833,331	-	-	-	2,146	-	-	-
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	-	3,833,331	-	-	-	2,146	-	-	-
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		**33,874,243**	**53,831,742**	**83,605,000**	**96,005,006**	**17,488**	**31,153**	**45,912**	**53,754**	**58.9%**	**55.3%**	**14.8%**
Paid-In Capital		19,424,500	26,039,500	29,700,000	33,774,500	10,028	15,069	16,310	18,911	34.1%	14.1%	13.7%
Donated equity		1,100,000	11,564,800	34,010,000	37,862,390	568	6,693	18,677	21,200	951.3%	194.1%	11.3%
Retained earnings without donations and reserves		13,349,743	16,227,442	19,895,000	24,368,116	6,892	9,391	10,925	13,644	21.6%	22.6%	22.5%
Current year		3,843,148	8,091,441	(4,791,000)	10,293,270	1,984	4,683	(2,631)	5,763	110.5%	(159.2%)	(314.8%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

Notes: 1: Fixed deposits at Orient Bank, Allied Bank, CERUDEB, Pride Microfinance and investments in Treasury Bills; 2: Represents both time deposits as well as investments in Treasury Bills held for 2 institutions.