

## Rating

**D-**

### Insufficient

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



## Performance indicators

(K UGS, unless otherwise stated)

	Dec. 2003	Dec. 2004	Dec. 2005	June 2006*
<b>ACTIVITY</b>				
Total number of staff	6	6	6	8
Total assets (USD)	93,241	140,620	173,298	204,655
(K UGS)	180,609	243,108	315,576	372,472
Loan portfolio (USD)	71,149	104,212	128,729	155,789
Deposits (USD)	73,120	117,886	139,944	168,517
Nb. of active borrowers	170	239	507	ND
Nb. of savers	1,345	22	21	1,819
APR				
PAR 31-365	NA	NA	NA	52.7%
Write-off ratio	NA	NA	NA	14.9%
Risk coverage ratio	0.0%	0.0%	6.1%	0.6%
<b>PERFORMANCE</b>				
ROE	54.5%	(3.4%)	31.7%	20.9%
Liabilities / Equity	652.7%	594.8%	463.3%	505.0%
ROA	6.3%	(0.5%)	5.2%	3.6%
OSS	130.4%	97.9%	127.1%	119.0%
FSS	130.4%	97.9%	127.1%	25.9%
Portfolio Yield	28.2%	22.1%	25.9%	23.7%
Operating expense ratio	21.2%	25.1%	20.5%	19.9%
Staff productivity	28	40	85	-
Funding expense ratio	6.7%	6.1%	4.8%	4.4%
<b>GROWTH</b>				
Loan portfolio growth	31.9%	30.7%	30.1%	21.0%
Savings portfolio growth	NA	43.9%	25.0%	20.4%
Assets growth	37.9%	34.6%	29.8%	18.0%
<b>1 USD = xx UGS</b>	<b>1,780</b>	<b>1,830</b>	<b>1,830</b>	<b>1,850</b>

\*June 2006 financial data not audited

## NADDANGIRA, Uganda

November 2006

### Description of the institution

Naddangira Agali Awamu (Naddangira) is a Savings and Credit Co-operative Society (SACCO) operating within Wakiso district, about 8 miles outside Kampala. Created out of a development initiative by the Catholic Archdiocese of Kampala in 1988, it began its operations in December of the same year. Its primary aim was to alleviate poverty and elevate the socio-economic condition of area residents through provision of funding and technical advice, particularly to micro-entrepreneurs within the subsistence agricultural sector. As of June 2006, Naddangira's outstanding loan portfolio stood at 283 M UGS (155k USD) while it held just over 306 M UGS (168k USD) in clients' savings.

### Evaluation summary

Naddangira has been assigned a global rating of D underlined by several identified weaknesses that have negatively impacted on the institution's operations, particularly its portfolio performance. While possessing a clear mission, a dedicated and involved BOD as well as a reasonably qualified management team; severe weaknesses are identified within its portfolio and risk management operations as well as the planning mechanisms. There is thus an evident need for the institution to address these core inadequacies before fully embarking on its current expansion attempts; which include new product development and increased geographical outreach. The latter will be crucial in ensuring that the institution is able to attain and maintain operational sustainability and profitability.

### Improvements needed to reach minimum requirements

- Improvement of skills among the BOD and management team with regard to strategic planning and microfinance best practices.
- Establish feasible MIS plan, paying particular attention to HR and software requirements to improve performance.
- Implement thorough risk management procedures; with particular attention to portfolio monitoring and fraud detection.
- Use standard best practices in PAR calculation, correct provisioning and write-off procedures.

### Strategic goals

Naddangira hopes to establish itself as one of the leading microfinance institutions within its present area of operation, particularly among the low income earners and the farming communities. The institution aims to increase its client base through the provision of appropriate financial services at affordable costs and has thus embarked on new product development and a marketing campaign.

## ▪ Institutional presentation

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### Networks

Naddangira is a registered member of the Association of Microfinance Institutions of Uganda (AMFIU) albeit bearing a more substantial and reciprocally beneficial association with Uganda Credit and Savings Cooperative Union (UCSCU), a local affiliate of the World Council of Credit Unions.

### Ownership

Originally initiated by Kampala Catholic Archdiocese in collaboration with local leaders in the present day Wakiso sub-county, Naddangira is presently fully owned by its shareholders/members and governed by a 7-member Board of Directors (BOD). The BOD reports periodically to the owners/members during the Annual General Meeting (AGM) and primarily oversees the institution's strategic direction. The latter is in turn implemented by the management team which is directly accountable to the BOD. Both the BOD and management meet regularly to review the institution's performance and direction. Presently the BOD serves for a three-year term (with a maximum two-term limit) during which time it formulates sub-committees to oversee various activities including loan approval, supervisory and audit functions (among others) within the institution.

### Legal form, supervision and audit

Naddangira formally registered as a SACCO in 1994 under the Co-operatives Statute (1991) and is subsequently governed by the Co-operatives Regulations Act (1992). As such the institution is obliged to provide periodic activity reports and audited financial statements to the relevant district commercial officer (DCO) who, under the mandate of the Ministry of Tourism, Trade and Industry, is responsible for registration and supervision of SACCOs, as well as ensuring their adherence to the Co-operative Law. As an institution falling under tier IV of Uganda's financial institutions' categorization (established in 2003), Naddangira is not subject to direct supervision by the Central Bank (Bank of Uganda). Nevertheless, its legal supervision, monitoring and audit are duly carried out by the Wakiso district's DCO.

### Donations

Naddangira's donations to date have been mainly in form of technical support and capacity building grants from the EU - GoU SUFFICE program as well as UCSCU. As recently as November 2006, the institution secured a product development grant worth 20 M UGS from the SUFFICE program.

### Management team

The present management team at Naddangira comprises a Manager and Accountant both of whom are founder members of the institution, having been in their present positions since institution's inception. The team also has a Treasury manager (who is at present a BOD member employed on part-time basis; responsible for co-authorizing cash related transactions) as well as the loans and human resources committees of the BOD. While the manager and the BOD committees mainly oversee the credit and operational procedures of the institution, the Accountant and his team undertake and oversee the finances component including book keeping, budgeting and financial management.

### Market penetration

Naddangira operates in Wakiso district and is headquartered in Kakiri town within Wakiso sub-county, serving the sub-counties of Namayumba, Kakiri, Masulita as well as Wakiso itself; and while the institution has no branch network, it runs two collection centers at Namayumba and Masulita trading centers through agents. The target clientele comprises members of the SACCO that are primarily engaged in some form of agricultural production, petty trade and basic services provision e.g. hair saloons and restaurants.

### Products and services

The institution currently offers a number of savings products to its members. The Regular Savings product earns a minimum 5% interest p.a. with no obligatory requirements on members. The Sight Deposit is similar to the regular savings product except that any withdrawals prior to agreed time are charged a 1% fee. Finally a fixed deposit product allows members to keep their savings over fixed periods up to 12 months and earn interest between 5-12% p.a.

Naddangira also offers group, individual and institutional loans and includes products such as working capital loans, development loans and asset acquisition loans. The institution has a loan ceiling of 3M UGS for both individuals and institutions with amounts starting at UGS 50,000. All the institution's loans bear a flat interest rate of 3% per month. Additional charges include application fees of 5,000 UGS and processing fees of 1% of the approved loan amount. All loan applicants are also required to hold a minimum number of shares and maintain a regular savings account with the institution. The latter account should hold not less than 20% - 25% of the approved amount over the entire loan period. Repayment periods vary from 3 to 12 months, while APRs range from 55% to 60% depending on loan product.

## ■ Governance

**Governance and Decision Making** is rated “d”

### Decision making

- + Naddangira has a clearly outlined mission that targets improving the livelihoods of its members through the provision of savings and loan services that complement their income generation activities. This mission remains the main driving force behind the institution’s growth and outreach strategy and related decisions taken by the BOD and management team.
- + The BOD is actively involved in, and informed about, the institution’s activities. Regular meetings with the management team and within BOD sub-committees ensure that most critical decisions are sufficiently discussed and sanctioned by the BOD.
- Despite the significant level of commitment exhibited by the BOD, an evident lack of crucial skills in areas such as performance reviews and analysis exacerbated by incomprehensive reports provided by management, often render the BOD decisions and strategies ill-informed and flawed.
- A blurred line of authority and lack of clarity regarding accountability channels hampers effective implementation and follow-up of the BOD recommendations and ultimately undermines good governance within the institution. This lack of coherent implementation mechanisms is clearly evidenced by a persistent poorly performing portfolio and recurrent deficient audit findings.

### Planning

- With lack of a comprehensive business plan or planning procedure, Naddangira carries out planning on an ad hoc basis, relying mostly on production of short term work plans that often fail to consolidate the institution’s operational and growth strategies with its well intended mission and vision.
- The present work plan, covering a two-year period between January 2006 to December 2007, despite showing noteworthy institutional ownership is not much more than a to-do list that attempts to set growth and operational targets, thus remaining largely sub optimal to the institution’s needs.
- The overall planning process lacks in-depth analysis of the institution’s business growth targets and strategies and remains devoid of a clear action plan or timeframe within which to address the specific needs of the institution in various operational areas such as such the MIS or human resource development.
- While budgeting is done and budget tracking performed against actual expenditures on a regular basis (as evidenced by periodic financial reports), insufficient analysis for overruns as well as poor liquidity

management continue to render the entire practice deficient.

### Management team

- + The institution’s management team is sufficiently competent and experienced, with both the manager and accountant possessing relevant formal training and previous experience prior to joining the institution. The latter is buoyed by their significant local knowledge of the SACCO’s area of operation and a demonstrated commitment to the institution’s mission and vision.
- However with certain skills’ sets still lacking amongst the management team, particularly IT, financial analysis and human resource management, the team’s overall effectiveness, dependability and ability to advance the institution beyond its present state, remain questionable.
- There is lack of a clear line of authority or pattern of duties’ delegation at top level management which manifests in slowed decision-taking and often stagnated action plans; which in turn negatively affect the team’s efficiency, despite a relatively reasonable degree of polyvalence.

### Human resource management

- HR management, particularly training and compensation policies, is still significantly below minimum standards required to have a qualified and motivated staff.
- The notable absence of a comprehensive human resource policy continues to be a major hindrance to the institution’s human resource development.

### Areas for improvement:

- \* Need to establish clarity regarding authority lines and accountability channels within the management team and between BOD, supervisory and management teams
- \* Develop and adopt a clear planning process; setting strategic targets; merging the latter with the institution’s goals and enabling efficient tracking and monitoring
- \* Identify and systematically address skills gaps among management and the BOD, particularly related to good governance and microfinance best practices

## ■ Information

**Information and equipment** is rated “e”

### Description of the MIS

Equipment	<ul style="list-style-type: none"> <li>■ Limited IT infrastructure or use of the available equipment</li> <li>■ Hardware includes; desktop computer, power backup system and printer</li> </ul>
Accounting	<ul style="list-style-type: none"> <li>■ Manual accounting system characterized by extensive use of ledger books</li> <li>■ Present but limited use of MS Excel to prepare periodic financial reports;</li> <li>■ No in depth financial analysis, forecasting or management tools in place</li> </ul>

Portfolio information	<ul style="list-style-type: none"> <li>▪ Portfolio management software, <i>Loan Performer</i> recently installed but still in very limited use.</li> <li>▪ Performance indicators computed, recorded and analyzed manually.</li> </ul>
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### Management Information System (MIS) and equipment

- MIS operations are largely manual; characterised by inadequate resource levels both in terms of competent personnel and basic equipment.
- Manual system currently in place seriously undermines authenticity and security of data, intensifying the potential risks of data loss or manipulation.
- The lack of a concrete MIS strategy and continued reliance on a system of ad hoc interventions have resulted in an inept system that falls short of the minimum required standard (failing to generate accurate, timely and reliable).

### Information on activities

- Data collection and reporting is heavily lagged, often error-laced and frequently misleading, with barely any in depth analysis. Performance and portfolio status reports are thus incomplete, often unreliable and hence of little value to the institution.

### Financial and accounting information

- ✦ A reasonably thorough and relatively well-organized set of procedures in place for collection and reporting of financial and accounting data.
- While information quality considerably meets minimum standards, it could be improved to incorporate better financial analysis and facilitate subsequent decision-making.

### Areas for improvement:

- ✦ Develop a clear plan to fully optimise the existing IT infrastructure, paying particular attention to staff IT training needs as well as improving data generation, storage and protection
- ✦ Improve the reporting format to provide clear, precise and timely information to management and the Board so as to facilitate decision-making and strategic planning

## ▪ Risk

**Risk Management** is rated “d”

### Procedures and internal controls

- Internal control is relatively comprehensive on the cash transactions side exemplified by systematic reconciliation procedures; this however remains extremely shallow and inadequate vis-à-vis loan portfolio management.
- The lack of a formalized risk policy, compounded by ambiguity in appraisal, approval and default-handling

procedures, heighten risk of and exposure to fraud within the institution; more disturbingly however is the lack of a systematic mechanism to detect the latter.

### Internal audit

- Supervision and audit activities are present but not formalized and only performed on an ad hoc and voluntary basis by the supervisory committee of the BOD. The result is a deficient system whose findings are often incomprehensive and technically inept.
- Furthermore, the audit methodology is skewed towards the cash-based operations of the institution performing little, if any, loan portfolio audit leaving the institution highly exposed to loan fraud risks.
- The institution continues to use unqualified external auditors to verify its financial statements and as such places doubt on the reliability of these reports.

### Areas for improvement:

- ✦ Formalise and implement a comprehensive risk management policy, clearly spelling out audit procedures, internal controls and checks against fraud
- ✦ Ensure the internal audit team is fully aware of their duties, technically sound enough to perform them and reasonably available to ensure regular and timely audits

## ▪ Activities

**Activities: products and services** is rated “e”

	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
Loan portfolio (USD)	702	3,112	14,836	24,903
Loan portfolio (K UGS)	1,299	5,7574	27,448	46,070
Change (%)	NA	343.1%	377%	67.9%
Average outstanding gross loan portfolio	128	2,182	12,444	19,513
Number of active borrowers	10	33	105	154
Change (%)	NA	230.0%	218.2%	46.7%
Average outstanding loan per client	70	94	141	162
Average amount disbursed	97	117	216	255
PAR 31-365*	0.0%	0.0%	0.0%	4.0%
PAR > 365*	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%	0.0%

\* PAR data not reliable.

### Marketing and competition

- Naddangira’s Management defines its central competitive advantage as the lack of strong competitors or bank branches within 35 miles of its area of operations. However, this advantage is dubious as strong competitors have or are planning to expand in the region (Advance Microfinance already nearby, FINCA, UFT, and other MDIs interested) and 5 competing SACCOs are already operating nearby. This trend is likely to

accelerate, and poses a significant risk to Naddangira in the near term.

- Although client mobilization is focused on peri-urban and rural micro businesses, mobilization is not strategic, with new clients targeted in an ad hoc manner. Marketing is conducted largely by the single loan officer, who has limited time for marketing activities due to a large number of loans to follow up.
- The current products are limited in range and poorly adapted to the target clientele. Product features such as monthly repayments add significantly to the risk of the portfolio, particularly for loans to agricultural enterprises where product terms are not appropriate for the underlying crop cycles.
- Although product development through market research for the planned “Bull Fattening” product is a positive development, there are still no plans for pilot testing/rollout, or financial planning for new products. The process also relies heavily on consultants from SUFFICE and other donor programs, with BoD and Management capacity remaining extremely limited.

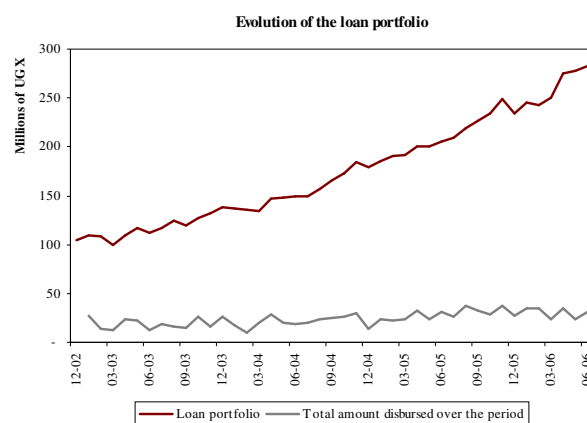
### Portfolio Management

- Overall there is very little awareness of portfolio risk among Naddangira’s BoD, Management team, or staff. The credit methodology is undefined, with a distinct lack of procedures and policies or appropriate authorization levels and approval processes. In cases where policies do apply, such as maximum loan size or tenor, they are not consistently followed.
- The existing limited credit analysis tools – primarily the loan application form - are not used to their full potential due to weak analysis and frequent mistakes. The loan approval process is seriously flawed, with the credit committee sometimes approving loans which have been rejected by the LO, or approving new loans for clients with very poor repayment histories.
- Although the single LO is relatively committed she is overburdened, under trained, and has a limited knowledge of the portfolio. She receives only limited assistance from the loans committee. Loan monitoring and follow-up has been very limited, in part due to the difficulty of reaching remote clients. This contributes significantly to the unacceptable levels of arrears (see below).
- Exposure to over-indebtedness or concentration risk is not managed by any formal means. There are also no portfolio diversification policies to limit credit risk by loan sector or product, which has resulted in an increasing concentration risk in agricultural loans
- Collateral security is weak and personal guarantees are taken as the primary layer of security. However, guarantors are often borrowers in arrears themselves, rendering these guarantees ineffective in case of default.

- Although initially client training focused on building a savings culture as well as practical training on improved business practices. Client orientation and training in proper loan use is now extremely limited.

### Quality of the portfolio

- Due to the lack of a portfolio aging policy, it is impossible to perform a trend analysis of PAR. However, an informal calculation for 2006 made by dividing late loans into less than or greater than 1 year in arrears produced estimated PAR of 52.7% and 14.9% respectively. Although the much lower PAR>365 indicates some eventual recovery of overdue payments, the overall PAR level is still unacceptably high, and could potentially be much higher. In practice, the monitoring and recovery process is limited and ad hoc.
- There is a clear concentration of risk in the long term portfolio, with long term (> 1 year) PAR 31- 365 estimated at 56.5% versus 43.5% for the short term portfolio. This reflects both the generally higher risks of long term lending, but also the poorly evaluated and monitored agricultural loans which are generally long term.



### Portfolio composition and evolution

- Naddangira’s portfolio has grown in absolute terms (albeit weakly) every year during the period of analysis, with 21% growth over FYE 2005 in the first six months of 2006. However, the rate of growth in the portfolio has also declined in every year, from a high of 31.9% in 2003 to 21% between 2005 and June 2006. This is at least partly due to the fact that the LO must spend large amounts of time on loan recovery instead of origination.
- Moreover, the gross portfolio is heavily inflated with non-performing loans that should be provisioned and written off. This is partly due to remaining outstanding RMSP loans disbursed in 2003 and not written off, which, despite ongoing recoveries and remain at 3% of outstanding portfolio as of June 2006.

– The slowing rate of loan portfolio growth despite continuing growth in demand is partly due to funding shortfalls (see Financing and liquidity below). This lack of funds can lead to waiting times of several months once loan applications are approved, which ultimately makes managing portfolio growth difficult.

**Portfolio diversification**

▪ Naddangira’s loan clients are involved in various economic activities, including petty trade, agricultural production, as well as services provision and salaried work. This should lend a natural risk diversification in the portfolio, although the GM does not follow a specific diversification policy. However, there is a clear need to focus on the concentration risk of agricultural lending, with its higher associated credit risk in the overall portfolio.

**Credit risk coverage**

– As there is no formal provisioning policy yet implemented, risk coverage relies on personal guarantees (mostly by guarantors with loans in arrears) and on member savings. Despite a requirement for 20% of loan amount in savings, this money is not tracked against the loan and can be withdrawn, and is also regularly on-lent. This means that covering losses in the loan portfolio from required savings would not be feasible.

– The estimated risk coverage ratio of 0.5% through June 2006 is inadequate. There is no formal write-off policy and write-offs are not done systematically: Although the BoD and Management recently decided to provision and write off bad RMSSP portfolio, the write offs do not match the movement in the loan loss reserve, making it difficult to evaluate the sufficiency of the provisioning and write-off procedures.

**Savings Activities**

	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
Outstanding deposits (USD)	73,120	117,886	139,944	168,517
Outst. deposits (UGS)	141,634	203,805	254,839	306,700
Change (%)	NA	43.9%	25.0%	20.4%
Number of depositors	1,345	NA	21	1,819

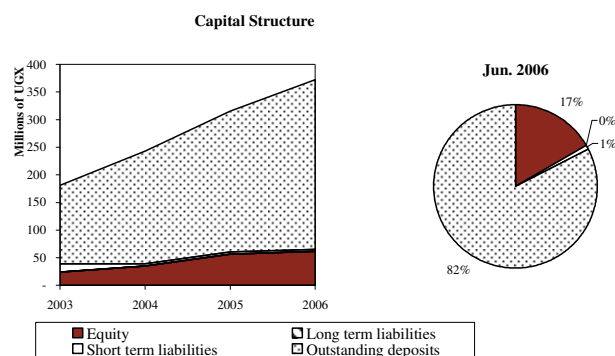
Note: missing and unreliable information

– Although savings grew overall from 2003 to June 2006 growth has slowed. Because outstanding deposit balances are only available for the first two months of 2006, it is impossible to evaluate the trend in 2006. However, the overall trend could be the result of a client perception of weakness due to Naddangira’s liquidity constraints (see Liquidity Management).

– The inability to continue to grow the savings portfolio strongly represents a serious risk as client deposits are the primary means of funding the loan portfolio. Although the number of fixed depositors has grown slightly (33%) in the first 6 months of 2006, their relatively small savings balances are not sufficient to fund the longer term assets in the portfolio (see Financing and liquidity below)

**Financing and liquidity**

Funding and liquidity is rated “e”



**Financing strategy**

– Naddangira is largely financed by member savings, with shares as the second most important source of capital. This structure presents serious risks, as member savings are not stable (mostly demand) and term deposits are currently not sufficient to meet loan demand (only 1.5% of outstanding deposits at June 2006). The equity base is thin (liabilities over 5x equity) in comparison to the high level of arrears in the portfolio, and this could result in the loss of member savings if bad loans were correctly written off.

– Despite a clear need for funding support, no efforts have yet been made at attracting external funding for on-lending. There is no overall strategy to diversify funding sources, leading to a dependence on continuing client mobilization for deposits and share capital.

**Asset and liability management**

Asset and liability management (ALM) risks are present, due to maturity risk arising from asset/liability term mismatches:

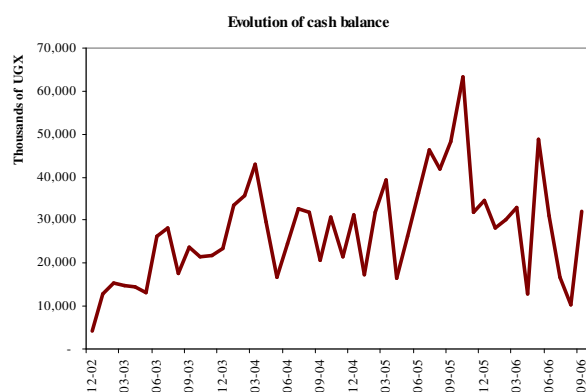
– **Potential maturity risk:** Mostly short term liabilities in the form of unstable depositor funds are used to fund longer term loans to clients (up to 12 month term), while long term resources (equity and long term liabilities) are limited at just over 104% of long term assets.

+ **No interest rate risk:** Naddangira does not borrow on a floating rate basis.

**+No FX risk:** Naddangira has not borrowed or issued loans in foreign currency.

### Liquidity management

- Liquidity management is a major challenge for Naddangira. No liquidity projections are done, resulting in tight liquidity followed by periods of excess liquidity. Fast assets deployment results in low cash balances when liquidity is available for on-lending.
- With unstable savings rates and the client's ability to withdraw term deposits early without interest, Naddangira faces serious liquidity risk to meet client withdrawal demands. Although 20% liquidity reserve rule is in place, it is not followed.



## Efficiency and Profitability

Efficiency and Profitability is rated "c"

Profitability analysis	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006
ROE	54.5%	(3.4%)	31.7%	20.9%
Liabilities / Equity	652. %	594. %	463. %	505. %
ROA	6.3%	(0.5%)	5.2%	3.6%
<b>Profit generation</b>				
Operational self-sufficiency	130. %	97.9%	127. %	119. %
Portfolio Yield	28.2%	22.1%	25.9%	23.7%
Operating expense ratio	21.2%	25.1%	20.5%	19.9%
Staff productivity	28	40	85	-
Loan officer productivity	170	239	507	-
Avg out loan/ client (USD)	419	436	254	NA
Funding expense ratio	6.7%	6.1%	4.8%	4.4%
Cost of savings	3.9%	4.6%	4.0%	9.8%
Cost of liabilities	12.8%	5.5%	0.0%	0.0%
LLP expense ratio	0.0%	0.0%	0.0%	0.7%
PAR>31 (nov. 06)	NA	NA	NA	67.6%
Write-off ratio	0.0%	0.0%	6.1%	0.6%
<b>Asset management</b>				
Out LP / Assets	75.8%	74.1%	74.3%	75.9%
Non-portfolio income as a % of financial revenues	0.1%	0.0%	0.5%	0.0%

### Overview of the profitability

While Naddangira has been profitable for 3 out of 4 periods under analysis, this profitability is the product of improper accounting practices, including a lack of loan loss provisioning and write-off of bad loans. When

adjusted for the true size of the gross portfolio and loan loss provisioning, these ratios show a very negative picture. For example, a simple adjustment applying provisioning of 50% of loans 31-365 days late, and 100% over 365 days late shows an adjusted ROE of negative 373.6% and an adjusted ROA of negative 63.8% for the first 6 months of 2006.

### Portfolio yield and effective interest rate

There is a large gap between actual portfolio yield and the effective interest rates charged by Naddangira. Short term 3 month loans, for example, carry an effective interest rate of over 70%, with an overall theoretical yield of around 60%. However, the actual portfolio yield is less than 30%, reflecting the serious problems with delinquency.

### Operating expense ratio

- Operating costs are currently following a downward trend, which is surprising given the client follow up required, based on the level of arrears. However, while OSS is above 100% this is due to the fact that bad loans are not provisioned and operating expenses are paid out of member savings, which are growing. However, Financial Self Sufficiency for the first 6 months of 2006 is only 25% indicating the non sustainability of Naddangira's operations when adjusted for true financial and provisioning costs.
- Productivity is technically high at over 500 clients per LO, but results in an overly burdened single LO, and difficulties with client follow up and new client mobilization. This caseload is unlikely to remain sustainable as the portfolio grows.

### Funding expense ratio

- The funding expense of Naddangira remains extremely low and has declined since 2003 thanks to the transition to the exclusive use of equity and savings to fund operations. However, as noted earlier, most of this financing presents a real maturity risk and is not a stable source of funds. Thus, the low funding expense is at the expense of a higher level of ALM risk.

### Loan loss provision expense ratio

- Loan loss provision was zero for the period 2003 - 2005 as loan loss provisioning was not calculated, contributing to the false impression of profitability for the institution. Although provisions were made in 2006 the ratio is far too low compared to the level of PAR for the same period.

### Asset management

Naddangira's portfolio has remained at about 75% of total assets. Although this is relatively high by international standards and indicates fast movement of liquidity into the income-generating portfolio, this level of asset deployment is risky given the limited and poorly formalized liquidity policy that Naddangira maintains.

### Profitability Outlook

Naddangira's profitability outlook is extremely poor unless drastic improvements are made in portfolio quality, particularly through better credit administration and risk management policies and procedures.

### 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-	<b>Excellent</b> 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-	<b>Good</b> 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-	<b>Minimum required</b> 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-	<b>Insufficient</b> 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	<b>Immediate risk of default or very insufficient</b> There are immediate or underlying risks for operations or an unacceptable under performance.

## ■ Appendices

NADDANGIRA AGALI AWAMU SACCO Income Statement	UGX				USD				Evolution		
	Dec. 2003	Dec.2004	Dec.2005	Jun.2006	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006	2004/2003	2005/2004	2006/2005
<b>Financial Revenue (a)</b>	<b>42,416,284</b>	<b>46,888,333</b>	<b>67,549,507</b>	<b>38,395,828</b>	<b>21,898</b>	<b>27,121</b>	<b>37,095</b>	<b>21,097</b>	<b>10.5%</b>	<b>44.1%</b>	<b>(43.2%)</b>
Financial Revenue from Loan Portfolio	32,926,282	33,958,036	54,362,984	30,646,900	16,999	19,642	29,853	16,839	3.1%	60.1%	(43.6%)
Interest on Loan Portfolio	30,840,367	31,359,636	48,648,334	26,782,400	15,922	18,139	26,715	14,716	1.7%	55.1%	(44.9%)
Fees and Commissions on Loan Portfolio	2,035,915	2,598,400	5,714,650	3,864,500	1,051	1,503	3,138	2,123	27.6%	119.9%	(32.4%)
Penalty Revenue on Loan Portfolio	50,000	-	-	-	26	-	-	-	(100.0%)	-	-
Financial Revenue from Investments	59,149	-	347,620	-	31	-	191	-	(100.0%)	-	(100.0%)
Other Operating Revenue	9,430,853	12,930,297	12,838,903	7,748,928	4,869	7,479	7,050	4,258	37.1%	(0.7%)	(39.6%)
<b>Financial Expense (b)</b>	<b>7,812,174</b>	<b>9,364,607</b>	<b>10,163,768</b>	<b>5,655,044</b>	<b>4,033</b>	<b>5,417</b>	<b>5,581</b>	<b>3,107</b>	<b>19.9%</b>	<b>8.5%</b>	<b>(44.4%)</b>
Interest paid on borrowings	3,083,565	451,390	-	-	1,592	261	-	-	(85.4%)	(100.0%)	-
Interest paid on deposits	4,308,042	8,051,396	9,319,759	5,527,044	2,224	4,657	5,118	3,037	86.9%	15.8%	(40.7%)
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	420,567	861,821	844,009	128,000	217	498	463	70	104.9%	(2.1%)	(84.8%)
<b>Financial income [c=a-b]</b>	<b>34,604,110</b>	<b>37,523,726</b>	<b>57,385,739</b>	<b>32,740,784</b>	<b>17,865</b>	<b>21,705</b>	<b>31,513</b>	<b>17,989</b>	<b>8.4%</b>	<b>52.9%</b>	<b>(42.9%)</b>
<b>Net Loan Loss provision expense (d)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>883,705</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>486</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loan loss provision expense and write-off	-	-	-	883,705	-	-	-	486	-	-	-
Recovery from Loans written off	-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>	<b>24,717,731</b>	<b>38,535,213</b>	<b>42,978,569</b>	<b>25,726,050</b>	<b>12,761</b>	<b>22,290</b>	<b>23,602</b>	<b>14,135</b>	<b>55.9%</b>	<b>11.5%</b>	<b>(40.1%)</b>
Personnel Expense (includes fringe)	14,726,650	20,678,520	25,068,800	16,800,300	7,603	11,961	13,767	9,231	40.4%	21.2%	(33.0%)
Administrative Expense (non-staff operating expenses)	9,991,081	17,856,693	17,909,769	8,925,750	5,158	10,329	9,835	4,904	78.7%	0.3%	(50.2%)
Depreciation and amortization	848,318	1,318,464	1,710,376	1,243,520	438	763	939	683	55.4%	29.7%	(27.3%)
Consulting fees	482,663	612,609	784,743	-	249	354	431	-	26.9%	28.1%	(100.0%)
Travelling	1,087,900	1,192,600	921,900	-	562	690	506	-	9.6%	(22.7%)	(100.0%)
Stationary and printing	1,718,400	1,960,020	1,307,150	-	887	1,134	718	-	14.1%	(33.3%)	(100.0%)
Technical services	1,000,000	100,300	-	-	516	58	-	-	(90.0%)	(100.0%)	-
AMFIU & UCSCU contribution	980,000	700,000	1,100,000	-	506	405	604	-	(28.6%)	57.1%	(100.0%)
Insurance	455,000	450,000	450,000	-	235	260	247	-	(1.1%)	0.0%	(100.0%)
Office rent	960,000	1,020,000	1,080,000	-	496	590	593	-	6.3%	5.9%	(100.0%)
Court fees / Loan Recovery expenses	901,600	46,100	135,500	-	465	27	74	-	(94.9%)	193.9%	(100.0%)
Others	1,557,200	10,456,600	10,420,100	7,682,230	804	6,048	5,722	4,221	571.5%	(0.3%)	(26.3%)
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>	<b>9,886,379</b>	<b>(1,011,487)</b>	<b>14,407,170</b>	<b>6,131,029</b>	<b>5,104</b>	<b>(585)</b>	<b>7,912</b>	<b>3,369</b>	<b>(110.2%)</b>	<b>(1,524.4%)</b>	<b>(57.4%)</b>
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>	<b>9,886,379</b>	<b>(1,011,487)</b>	<b>14,407,170</b>	<b>6,131,029</b>	<b>5,104</b>	<b>(585)</b>	<b>7,912</b>	<b>3,369</b>	<b>(110.2%)</b>	<b>(1,524.4%)</b>	<b>(57.4%)</b>
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>	<b>9,886,379</b>	<b>(1,011,487)</b>	<b>14,407,170</b>	<b>6,131,029</b>	<b>5,104</b>	<b>(585)</b>	<b>7,912</b>	<b>3,369</b>	<b>(110.2%)</b>	<b>(1,524.4%)</b>	<b>(57.4%)</b>
Donations (l)	-	8,200,000	2,885,500	-	-	4,743	1,585	-	-	(64.8%)	(100.0%)
<b>Net Income (after Taxes and Donations) [m=k+l]</b>	<b>9,886,379</b>	<b>7,188,513</b>	<b>17,292,670</b>	<b>6,131,029</b>	<b>5,104</b>	<b>4,158</b>	<b>9,496</b>	<b>3,369</b>	<b>(27.3%)</b>	<b>140.6%</b>	<b>(64.5%)</b>

NADDANGIRA AGALI AWAMU SACCO Balance sheet	UGX				USD				Evolution		
	Dec.2003	Dec.2004	Dec.2005	Jun.2006	Dec. 2003	Dec. 2004	Dec. 2005	Jun. 2006	2004/2003	2005/2004	2006/2005
<b>ASSETS</b>	<b>180,608,709</b>	<b>243,107,960</b>	<b>315,575,513</b>	<b>372,472,211</b>	<b>93,241</b>	<b>140,620</b>	<b>173,298</b>	<b>204,655</b>	<b>34.6%</b>	<b>29.8%</b>	<b>18.0%</b>
<b>Short Term Assets</b>	<b>160,861,619</b>	<b>213,493,834</b>	<b>269,008,813</b>	<b>313,805,321</b>	<b>83,047</b>	<b>123,490</b>	<b>147,726</b>	<b>172,421</b>	<b>32.7%</b>	<b>26.0%</b>	<b>16.7%</b>
Cash and Due from Banks	23,982,453	31,329,230	34,594,137	31,152,201	12,381	18,122	18,997	17,117	30.6%	10.4%	(9.9%)
Short Term Investments	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio	136,879,166	180,164,604	234,414,676	282,653,120	70,666	104,212	128,729	155,304	31.6%	30.1%	20.6%
Short Term Gross Loan Portfolio	137,814,816	180,164,604	234,414,676	283,536,825	71,149	104,212	128,729	155,789	30.7%	30.1%	21.0%
(Loan Loss Reserve)	935,650	-	-	883,705	483	-	-	486	(100.0%)	-	-
Interest Receivable	-	-	-	-	-	-	-	-	-	-	-
On loan portfolio	-	-	-	-	-	-	-	-	-	-	-
On investments	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	-	2,000,000	-	-	-	1,157	-	-	-	(100.0%)	-
<b>Long term assets</b>	<b>19,747,090</b>	<b>29,614,126</b>	<b>46,566,700</b>	<b>58,666,890</b>	<b>10,195</b>	<b>17,130</b>	<b>25,572</b>	<b>32,235</b>	<b>50.0%</b>	<b>57.2%</b>	<b>26.0%</b>
Long Term Net Investments	1,600,050	1,600,050	1,600,050	1,590,050	826	926	879	874	0.0%	0.0%	(0.6%)
Long Term Gross Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets	18,147,040	28,014,076	44,505,600	57,076,840	9,369	16,204	24,440	31,361	54.4%	58.9%	28.2%
Other Long Term Assets	-	-	461,050	-	-	-	253	-	-	-	(100.0%)
<b>LIABILITIES AND EQUITY</b>	<b>180,608,709</b>	<b>243,107,510</b>	<b>315,575,513</b>	<b>371,949,411</b>	<b>93,241</b>	<b>140,620</b>	<b>173,298</b>	<b>204,368</b>	<b>34.6%</b>	<b>29.8%</b>	<b>17.9%</b>
<b>Liabilities</b>	<b>156,612,962</b>	<b>208,116,115</b>	<b>259,549,896</b>	<b>310,469,577</b>	<b>80,853</b>	<b>120,380</b>	<b>142,532</b>	<b>170,588</b>	<b>32.9%</b>	<b>24.7%</b>	<b>19.6%</b>
Short term liabilities	156,612,962	208,116,115	259,549,896	310,469,577	80,853	120,380	142,532	170,588	32.9%	24.7%	19.6%
Demand Deposits	119,276,406	175,726,459	221,081,491	268,995,421	61,578	101,645	121,407	147,800	47.3%	25.8%	21.7%
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	22,357,660	28,078,169	33,757,317	37,705,068	11,542	16,241	18,538	20,717	25.6%	20.2%	11.7%
Short Term Borrowings	13,761,113	2,650,000	2,650,000	3,150,000	7,104	1,533	1,455	1,731	(80.7%)	0.0%	18.9%
Interest payable	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term	1,217,783	1,661,487	2,061,088	619,088	629	961	1,132	340	36.4%	24.1%	(70.0%)
Liabilities	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	-	-	-	-	-	-	-	-	-	-	-
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	-	-	-	-	-	-	-	-	-	-	-
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>	<b>23,995,747</b>	<b>34,991,395</b>	<b>56,025,617</b>	<b>61,479,834</b>	<b>12,388</b>	<b>20,240</b>	<b>30,766</b>	<b>33,780</b>	<b>45.8%</b>	<b>60.1%</b>	<b>9.7%</b>
Paid-In Capital	12,313,631	17,493,845	23,006,079	26,142,079	6,357	10,119	12,634	14,364	42.1%	31.5%	13.6%
Donated equity	6,102,055	18,729,295	20,505,306	29,190,780	3,150	10,834	11,260	16,039	206.9%	9.5%	42.4%
Retained earnings without donations and reserves	5,580,061	(1,231,745)	12,514,232	6,146,975	2,881	(712)	6,872	3,377	(122.1%)	(1,116.0%)	(50.9%)
Current year	9,886,379	(1,011,487)	14,407,170	6,131,029	5,104	(585)	7,912	3,369	(110.2%)	(1,524.4%)	(57.4%)
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-