

Specialized Financial and Promotional Institution S.C., Ethiopia

Specialized Financial and Promotional Institution (SFPI) was established in 1997 in Addis Ababa as a share company by 4 NGOs and one individual and started its operations in June 1998. Commercial Bank of Ethiopia and Dashen Bank joined as shareholders in 1999 and 2002 respectively. SFPI is licensed as a Micro-Financing Institution under Proclamation 40/1996 on the regulation and supervision of microfinance institutions. SFPI serves micro entrepreneurs in urban Addis Ababa and its surrounding rural areas as well as farmers. As of June 2007 SFPI has an outstanding loan portfolio of 2.7 M USD, outstanding deposits of 1.1 M USD, and was serving 22,221 active borrowers through a network of six branches and 4 satellite offices.

GIRAFE Rating

Rating

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Outlook

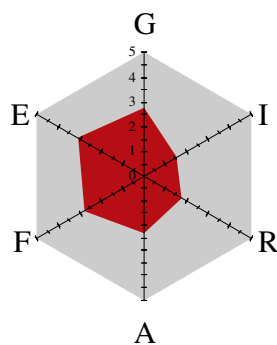
Positive

Date of the rating

July 2007

Valid until June 2008

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- After modest ROA levels from 2003-2005 between 0.4% and 0.6% ROA came up to a more solid 3.1% in 2006 due to a steady decline in operating expense ratio (12.4% in 2006) and reducing loan loss provision expenses although PAR>30 has remained stable between 6.9% and 8.4% over the past three years..
- Strong and diversified board of directors provides adequate balance in decision making to a relatively new and committed management team although initiative for strategic directions is left with the management team.
- Over the past years SFPI has been targeting its areas for growth in the peri-urban and rural areas around Addis Ababa although more thought is needed on its specific competitive advantages and market niche.
- SFPI faces its main challenges with its MIS system, where loan tracking and accounting data contain large unreconciled differences; an internal audit function that is not fully efficient and lapses in adherence to policy by branch staff.

Outlook

The positive outlook for SFPI is based on:

- Reaming steady levels of ROA and an expected increase in portfolio quality, partly through application of its write-off policy, should further close the yield gap.
- Additional staff has been contracted to reconcile accounting and loan tracking data and clean-up TMS data to use it as an integrated MIS.
- Recently developed manuals will be implemented increasing internal controls which combined with strengthening of internal audit should improve adherence to policy of staff.

Performance indicators

USD , unless otherwise stated	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Assets	1,276,336	1,600,455	2,131,190	2,841,130	3,381,590
<i>Growth</i>	30.3%	25.9%	31.8%	38.8%	19.5%
Loan portfolio	847,854	1,156,457	1,590,772	2,311,017	2,691,400
<i>Growth</i>	34.5%	36.9%	36.2%	51.2%	17.0%
Outstanding deposits	438,509	483,816	610,835	818,621	1,149,160
<i>Growth</i>	31.8%	10.7%	25.0%	39.5%	41.0%
Active borrowers	9,552	11,604	14,345	19,856	22,221
Staff	53	65	75	88	86
ROE	0.7%	1.0%	1.1%	5.8%	4.9%
ROA	0.4%	0.5%	0.6%	3.1%	2.4%
Liabilities / Equity	0.91x	1.03x	0.81x	0.90x	1.22x
Portfolio Yield	23.9%	22.2%	19.9%	18.5%	21.8%
Operating expense ratio	19.8%	17.6%	13.5%	12.4%	14.3%
PAR 31-365	2.9%	3.3%	3.9%	3.0%	2.9%
PAR > 365	1.5%	3.6%	4.5%	4.0%	5.3%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Microfinance sector

The Ethiopian microfinance sector is relatively young but has grown rapidly in recent years. Informal microfinance (including informal group-based credit associations) and NGO credit programs have existed for many years. In 1996 the Government introduced a legal framework intended to professionalize the industry and encourage sustainability through the Proclamation 40/1996. In addition to a minimum capital requirement, liquidity level, reporting requirements and annual inspection by the National Bank of Ethiopia (NBE), the law specifically endorses deposit mobilization, which is a primary source of funds for the sector. Although the law presented some limitations at inception, much progress has been made to improve it, like the liberalization of interest rates on loans, the softening of the cap on loans (established first at 5,000 ETB, around 550 USD) and the possibility to offer loan products different from group loans. In this context, Ethiopian MFIs have made impressive strides in their financial and operational performance with a focus on increased efficiency and sustainability.

MFI	Loan portfolio (M USD)	Active clients	Avg. outst. loan per client	Deposits (M USD)
DECSI	82.1	392,693	209	22.0
ACSI	75.3	515,686	146	40.1
OCSSCO	25.5	181,403	140	9.1
ADSCI	15.6	83,000	188	4.8
OMO	12.5	106,460	118	5.6
Wisdom	5.3	44,165	120	1.4
PEACE	3.0	20,546	145	0.7
Eshet	2.7	23,734	114	0.3
SFPI	2.3	19,856	116	0.8
Benshangul	2.2	NA	NA	0.7
Wasasa	2.0	22,752	89	0.6
Sidama	2.0	26,567	74	0.5
Gasha	1.4	10,337	140	0.6
Meket	1.1	7,426	151	0.5
Buusaa	1.1	18,208	61	0.3
Gonofaa				
AVFS	0.7	5,931	121	0.2
Others	5.1	39,389	NA	1.3

Data as of December 2006, according to AEMFI or data taken from MFI financial statements when available.

As of December 2006, 28 MFIs licensed by the NBE served approximately 1.5 million clients through more than 500 branches and sub-branches and accounted for 3% of total financial sector assets. The industry is heavily concentrated in six large MFIs affiliated to regional governments. These MFIs are among the largest in Africa - the largest, ACSI, serving as many as 500,000 borrowers - and represent over 80% of both sector assets and total clients. The remaining MFIs are generally linked to indigenous or international

NGOs. Savings and credit cooperatives (SACCOs) also play a large role in the provision of financial services. The approximately 700 SACCOs operating in Ethiopia are usually urban, employee-based cooperatives¹.

In general, Ethiopian MFIs serve both urban and rural areas. Although the outreach of the Government-supported MFIs is broader, NGO MFIs and new WOCCU-supported rural SACCOs have made efforts to increase rural outreach. The range of products offered by regulated MFIs is limited, but some Government supported MFIs have begun to offer products other than credit and savings, including payment and remittance services. Government-supported MFIs also offer agricultural input supply loans using Government credit lines. These loans have been criticized by international donors and NGO partners as constituting inappropriate government influence in competition.

Both bilateral and multilateral donor agencies are active in the Ethiopian microfinance sector, offering grants and technical assistance. The sector has been strongly supported in the past few years by the Rural Financial Intermediation Program (RUFIP), financed by IFAD, ADB, Development Bank of Ethiopia and Government of Ethiopia. The program includes a package of almost 95 M USD broken down in various components of capacity building, grants, equity and credit funds for a period of seven years. The industry benefits from a very dynamic national network organization, the Association of Ethiopian Microfinance Institutions (AEMFI), which serves as a channel for policy dialogue and a driver of industry transparency.

Despite the rapid growth of the Ethiopian microfinance sector and the large scale of the dominant MFIs, there is still a huge gap between supply and demand. Access to finance is still primarily through informal means: current estimates indicate that microfinance providers meet just 10-12% of demand, and rural areas, that concentrate more than 80% of the 70 million Ethiopians, are particularly underserved². Instances of over-indebtedness and cross indebtedness have however already been observed in some areas, even if they remain pretty scattered. Given the high vulnerability of the target clientele and the difficulties lying ahead for the implementation of any credit bureau (lack of efficient national identity system; clients living in remote areas making it difficult to visit all client's homes), it seems important to discuss measures at sector level to prevent such risk or monitor its rise.

Other challenges include the ongoing reliance on and influence of the Government on the largest institutions and

¹ *Short Study on Microfinance, Ethiopia*. February 2003, background documents country strategy 2003-2007, Jennifer Sebstad.

² *Regulating Microfinance in Ethiopia*, Gobezi: 2005

the heavy concentration of the industry in these institutions. The remaining market remains fragmented among smaller and weaker MFIs. The regulatory framework still has some scope to improve: loan loss provisioning requirements are too loose, accounting policies are not standardized and supervisory visits tend to concentrate only on the largest institutions. Finally, the lack of liberalization of the financial markets mean that foreign participation and direct lending from foreign sources in MFIs is forbidden, leading to growth limitations for private institutions.

Political & economic environment

After the high agriculture production of 2005, growth has kept a reasonable level in 2006, but is still insufficient to reduce the widely spread poverty (Ethiopia is ranked 170 out of 177 countries in the 2006 Human Development Index of UNDP). Additionally, the various infrastructure works launched in rural areas (roads, electricity) have contributed to boost the economy and should enable the development of the country in the long run. The economy will however remain very vulnerable to climate hazard, reducing the capacity to forecast for 2007. Inflation remains high and the national balances are heavily negative. Social and capital investments affect the State budget and public companies, while the tax base is still very narrow. The dramatic increase of exports (coffee, oleaginous, gold) is however inferior to that of imports (mainly oil). Although debt cancellations granted within the HIPC and MDRI frameworks will reduce the financing needs of the country, these will remain high and will need to be covered by international cooperation.

(USD millions)	2004	2005	2006 (e)	2007 (f)
Economic growth (%)	11.1	8.8	5.2	5.4
Inflation (%)	8.6	6.8	10.5	8.0
Public sector balance (%GDP)	-10.2	-10.7	-10.7	-11.1
Exports	600	818	1,044	1,139
Imports	2,587	3,633	4,047	4,215
Trade balance	-1,987	-2,815	-3,033	-3,076
Current account balance (%GDP)	-10.9	-15.8	-13.1	-10.8
Foreign debt (%GDP)	76.0	53.8	47.4	14.7
Debt service (%G&S exports)	11.4	6.9	2.8	2.8
Foreign currency reserves (in months of imports)	5.0	4.2	3.1	3.1

However, political evolutions could threaten international support. The domestic situation is characterized by the consequences of the strong repression of post-electoral demonstrations in June and November 2005, which led to the decapitation of opposition and the revival of ethnic rivalries in various regions. Also, the border disagreement with Eritrea is not resolved, and there is a risk that war will

resume. Since the summer of 2006 the risk of a generalized conflict in the Horn of Africa has increased with the deterioration of the political situation in Somalia, where Ethiopian military support to the provisional government has triggered war declarations from Islamic militias that control most of the territory.

Source: COFACE's Country Risk Ratings Guidebook 2006. (e) is estimated and (f) forecasted.

Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

SFPI is a share company registered from inception in 1998 as a Micro-Financing Institution under the terms of Proclamation 40/1996. The supervisory body of SFPI is the National Bank of Ethiopia through its Micro-Finance Supervision Department. Such supervision includes the adherence to regulatory norms, monthly, quarterly and yearly reporting, and inspection visits. SFPI has been audited since 2003 by the local auditing company, Aweke Gebre Selassi & Co. who have certified the accounts with unqualified opinions for all years.

Ownership

SFPI is owned by its shareholders where the current share capital is 405,000 ETB (44,178 USD), and comprises seven shareholders. All five founding shareholders, four NGOs and one individual purchased 40,000 ETB in shares each, where two of the four NGOs transferred their shares to other NGOs with similar mission in 2002. In 1999 Commercial Bank of Ethiopia, the largest government owned bank in the Ethiopia and later on in 2002 Dashen Bank, a privately owned bank, joined as shareholders. SFPI is currently pursuing the sale of its remaining subscribed capital of 395,000 ETB^{3,4}.

Shareholder	Shares	%
Commercial Bank of Ethiopia	200,000	49.4
Agri-Service Ethiopia	40,000	9.9
Ethiopian National Association for the Blinds	40,000	9.9
Ethiopian Women Entrepreneurs Association	40,000	9.9
National Women Association for Development	40,000	9.9
Mr. Hailu Wondafrash	40,000	9.9
Dashen Bank	5,000	1.2
Total	405,000	100

³ SFPI has received leniency from NBE regarding its ownership for one as SFPI should have all its capital paid up already and two as no individual shareholder is allowed to own more than 20% where CBE currently owns 49.4% of shares and would own 25% if all capital is paid up.

⁴ In the audited financial statements share-capital is shown as 406,000 ETB as the NGO Agri-Service Ethiopia paid 41,000 ETB although in the official registration documents its shares are shown as 40,000 ETB.

The board size is five where one position is currently vacant. The board is presided by a representative of Commercial Bank of Ethiopia and the other four members are representatives of Agri-Service Ethiopia (NGO), Ethiopian National Association for the Blind (NGO), Addis Ababa Women Entrepreneurs Association and Dashen Bank.

Donations

Donations to date accumulate to 14.2 M ETB (1.6 M USD) with the largest donations coming from SOS FAIM, Belgium (4.8 M ETB), ICCO, Netherlands (2.9 M ETB) and the European Development Fund (1.6 M ETB). The donations contain a mix of grants for capacity building as well as funds for on-lending.

Funding composition

SFPI's main source of funding is the Ethiopian Rural Financial Intermediation Program (RUFIP) from which it has received 7.3 M ETB (799 K USD) in loans that have a 12 year term, seven year grace period and carry 6% interest. SFPI also attracts funds held in trust from five different NGOs totaling 423 K ETB (46,109 USD).

Management team

The current management team is composed of the General Manager (GM), Finance and Admin Manager (FAM), Operations Manager (OM). The Monitoring and Evaluation Officer (M&EO) is included in the management team meetings as an observant for the purpose of information sharing. The General Manager, Mizan Kidane, joined SFPI in 2001 as FAM and assumed the position of GM in March 2006 after three months as acting GM. Mizan Kidane holds a BA in Accounting from Addis Ababa University and is in its final stages of completing his ACCA (Association of Chartered and Certified Accountants) in Glasgow Scotland. In April 2007 he participated in the Harvard Business School Strategic Leadership for Microfinance program. The FAM has been in position since May 2006 and is also responsible for Human Resources Management. The position of Operations Manager has been vacant for most of 2006 and was filled only in January 2007.

Organization

The management team is based at the head office (HO) together with the internal audit team and the accounts assistant. The branches are staffed with a branch manager (BM), accountant, accounts assistant, cashier and loan officers (LOs). There are also satellite offices that are managed by the branches and supervised by a senior LO. Loan approval up to 5,000 ETB is done by branch managers whereas larger loans are approved by a loans committee at HO consisting of the GM, FAM and OM.

Each branch has its own bank account although only the management team can sign checks for withdrawals centralizing all disbursement approvals at HO. Cashiers are allowed to carry up to ETB 30,000 for disbursements and are accompanied by the Branch Manager. When higher disbursements need to be made the cashier is accompanied by a management team member from HO. Monthly collections and mandatory savings below ETB 30,000 are made by LOs and brought to the cashier for deposit but larger collections (e.g. of term loans) are collected together with a management team member from HO.

For accounting a computerized MIS is used: Total Microfit Solutions (TMS) with stand alone applications in the branches that send their database on a monthly basis to HO for consolidation. TMS does have the capability for loan tracking but this is currently not used by SFPI. A manual system is still in place with loan tracking data sent to HO on a monthly basis where it is consolidated using Excel.

Market penetration

SFPI has six full branches and another four satellite offices. Three branches are located within Addis Ababa (Cherkos, Merkato and Sholla) whereas the other three (Debrezeit, Holeta and Fitcha) are based in the rural areas as well as the four satellite offices. By the end of 2007 SFPI plans to outfit another two satellite offices as branches coming to a total of 8 branches. Currently it is estimated that there is about a 50-50 division between urban and rural clients. As of December 2006 SFPI's market share in terms of active clients and gross loan portfolio is estimated at 1.3% and 0.9% respectively.

Products and services

SFPI offers five types of loan products as well as voluntary savings. The three loan products SFPI has had since its inception are loans for petty trade, services and processing & manufacturing. The first two have the same terms where it is only the business focus that differs. The loan amounts range from 500-15,000 ETB (55-1,636 USD), have a term of 6 to 18 months and have monthly repayments. The loan is based on group guarantee. Long standing clients can also avail of these loans on an individual basis requiring a personal guarantor or other hard collateral if available. The processing & manufacturing loan only varies in relation to the loan amounts which range from 1,500-50,000 ETB (164-5,454 USD). There is a specific loan targeting cooperatives of specific craftsmen (e.g. carpenter, construction) with support of the European Development Fund which can go up to 200,000 ETB (21,816 USD) for the whole cooperative. This requires a signed sales agreement as collateral. All three carry a 16% flat interest rate without commission resulting in an average effective interest rate of 27.5%.

In 2001 SFPI introduced an agricultural loan product ranging from 1,000-5,000 ETB (109-545 USD) in rural areas and 2,000-15,000 ETB (218-1,636 USD) in peri-urban areas. There is a single bullet payment at the end including all interest but monthly meetings are held to collect compulsory savings of 6 ETB. The effective interest rate is 16% per annum.

2004 saw the introduction of a salary loan for consumption purposes ranging from 500-5,000 ETB (xx-xx USD) at 16% flat backed by a personal guarantor and an employers letter. Although since inception the offering has been limited.

From all disbursements compulsory savings are withheld, 10% for loans below 5,000 ETB and 5% for loans above. Also voluntary savings are offered. Both savings receive 4% interest per annum paid out semi-annually. SFPI also offers non-financial services (free of charge) to its client in the form of business skills training.

Networks

SFPI is a member of the Association of Ethiopian Microfinance Institutions (AEMFI).

■ Governance

Governance and Decision Making is rated “c”

Decision-making

SFPI is characterized by a diversified ownership structure (NGOs, Banks and an individual) that also caters for a diversified and strong Board of Directors (BOD). There is high quality input from BOD members, comprising both bank and NGO representatives, into strategic issues of SFPI. BOD capacity could be further strengthened with true microfinance knowledge which could speed up the decision making process on certain issues such as set-up of the internal audit department and write-offs.

This diversified set-up of SFPI has the disadvantage that the institutions owning SFPI are not as fully committed as one would be if one is the full owner or when there is a significant financial stake for the shareholders.⁵ The latter is not the case as the share capital is a minor ‘expense’ for the shareholders and SFPI is not allowed to pay dividends. Furthermore, the fact that board members are seconded by their institutions has caused some to have less than full commitment in the past. It should be noted though that all board members do participate on a voluntary basis. This set-

⁵ It should be noted that both CBE and Dashen Bank see SFPI as part of their corporate social responsibility policy rather than as a possible extension of their own financial services.

up leaves the initiative for strategic directions with the management team.

BOD meetings are held sufficiently frequent (quarterly) and BOD members are easily accessible to management in between meetings when needed. Adequate information is available to the BOD but it lacks depth and detail as not all information is available in the institution (see ‘Information’ section). More diligent follow-up by board members should be taken on decisions made and issues discussed to avoid recurring discussions and to speed-up their implementation. The vision and mission of SFPI is shared throughout the institution including BOD, management and staff.

Planning

The current strategy of SFPI is to consolidate their operations in the urban areas of Addis Ababa and to focus their growth and further expansion in the peri-urban and rural areas around Addis Ababa. This is in line with a basic risk assessment of the respective markets and the fact that the rural markets are largely underserved. Geographical outreach is in part dependent on available donor funding but SFPI is able to find a good balance with its own strategy. Market assessments prior to entering an area can be further strengthened.

The expansion to the rural areas goes hand in hand with an increase in term loans in the total portfolio. To date no consideration has been given to the potential mismatch between earned income and expenditures, i.e. term loans have a lower effective interest rate compared to the loans on installment basis although operational costs in the rural areas are higher. Also other strategic directions such as growth per loan product, growth per target group are still to be defined. The current business plan (2002-2005) is outdated and is currently in the process of being updated with a 2008-2010 business plan. For the years 2006 and 2007 only annual plans are available. The annual planning process is based on a participatory process with the branch staff and has good buy-in of staff in annual goals. There is however limited target setting for the focus on specific loan products and specific target groups. There is an adequate quarterly budget follow-up which allows good cost control and overall there is good cost awareness in SFPI.

Management team

The management team of SFPI is relatively new in its current composition but forms a very committed and cohesive team allowing smooth internal communication with frequent albeit somewhat irregular meetings. The management team has adequate capacity for managing SFPI. The operations manager still needs growing into the job as

he is only in position for 6 months without having prior microfinance experience.

The team is planned to be strengthened in key areas with a Business Development & Marketing manager and a Human Resources manager. The management team could use further strengthening from an IT manager (see 'Information' section).

Over the past 18 months the new management team has carried out many urgent projects and others are planned for (updating of manuals, reconciliation of finance and operational data, clean-up of MIS, etc.). However, the sense of urgency to make the necessary improvements could still be stronger.

Human resource management

SFPI has a good recruitment process in place giving priority to internal promotion but when necessary hires external staff. There is adequate initiation of new LOs with on the job-training. This training could further benefit from centralized training to ensure equal and good understanding and application of policies and procedures throughout the institution. Staff performance is well monitored through standardized semi-annual staff evaluation. Further staff performance monitoring and guidance could benefit from a monthly incentive system.

Staff training is a priority for SFPI as it allows continued formal education for staff and specific microfinance training of the management team. Internal training of staff is less well applied with only a rough capacity gap analysis in place and partially dependent on donor offering. Nevertheless SFPI wide training has been held in December 2006 and is again planned for in August of this year to address issues not covered by donor offered trainings.

Staff retention can become an issue for SFPI as the staff turnover ratio has increased to close to 10% in 2006 and the first six months of 2007 show similar levels. A new and higher staff compensation policy has been approved but is still to be implemented which will reduce the likelihood that staff will leave because of low salary levels. Furthermore, only recently has support for formal education of staff been tied to retention at SFPI so that SFPI will not risk losing staff members who graduate.

■ Information

Information is rated “d”

The computerized MIS TMS works efficiently for SFPI to manage its accounting data. On the other hand SFPI has by far outgrown its manual system for loan tracking. Tracking

and especially ageing of loans is a burden to the institution causing significant delays in timely availability of information. At times data is not available one month after the closing of the month. Furthermore, un-reconciled differences remain both between the manual loan tracking system and TMS portfolio data (401,197 ETB [43,763 USD] as of December 2006) as well as in inter-branch balances. These discrepancies combined with human error in the manual loan tracking data with limited checks disallow full reliability of data. SFPI has planned action to fully reconcile these differences before the end of 2007.

Data security is also not fully ensured as paper data is stored unsecured at branches with risk of data manipulation and loss of data (fire, water) as documents are only transferred to safe storage at HO on an annual basis. For digital data frequent back-ups are made, but PCs are not adequately protected with up to date anti-virus software.

Currently the manual loan tracking system is not designed to provide adequate information on loan activities. While data per LO and per Branch area available this is lacking for data per product (e.g. loan portfolio, number of active borrowers, PAR). For SFPI this is highly necessary as term loans cause an understatement of actual PAR in portfolio that cannot be analyzed with the current information. On financial data only a limited number of financial indicators are used and are only available on a yearly basis. A good initiative has been taken to use the SEEP Frame Tool to develop appropriate indicators for SFPI with more frequent monitoring.

To date the TMS software has not been used for loan tracking as it contains contaminated data from past years. SFPI has planned action to clean up TMS which is urgently needed. This is also a precursor to using TMS for loan tracking which would solve most of the above problems. However, SFPI has limited internal ability to manage and improve the MIS and branch staff would need substantial training in the use of TMS for loan tracking.

It should be noted that accounting procedures in branches are not fully standardized throughout SFPI with inconsistencies noted in accounting of prepayments as well as interest calculation on prepayments. Furthermore, until January 2007 interest continued to be accrued on late loans indefinitely. TMS has been modified to stop accruing interest when a loan is 6 month late but accrued interest is still to be written-off

■ Risk Management

Risk Management is rated “d”

Procedures and internal controls

Current procedures contain adequate internal controls with sufficient separation of tasks, hierarchical limitation of powers (approval of loans) and centralized control of disbursements. The outdated manuals⁶ have recently been updated (Finance, Admin, IA, Operations) and are well designed. However, the first three still need to be approved by the BOD and all are still to be implemented.

In the branches adherence to procedures and policies is less than desired. For example monthly group meetings with term loans take place infrequently, pass-books of clients are often not up to date especially regarding registering interest on savings and application of penalty procedure is often omitted. In part this has been due to a long absence of the internal audit but also internal controls should be strengthened.

Cash security is adequate with low levels of cash kept overnight in branches and good policies in place. However, the cash limit carried by individual staff is high (up to four yearly salaries) and has proven to be tempting, although SFPI does protect itself against this through requiring personal guarantors for its staff. Overall SFPI can be characterized by a limited pre-emptive assessment of risks (e.g. loan targeting, data reliability, fraud cases) but adequate follow-up when risks do emerge although action could be faster.

Internal audit

The internal audit (IA) department has only recently been staffed (September 2006) after being vacant for about a year. In June 2007 the auditor was joined by a junior auditor. To date IA focused mainly on basic, but necessary, procedural checks (cash counts, reconciliation of passbooks) and minor fraud investigations.

The internal audit team is understaffed for the task at hand and needs additional strengthening. Concurrently, much of their time is taken up by daily control of routine disbursements reducing their effectiveness. The internal audit team also needs additional training to be able to do a full risk assessment of SFPI including audits of the head office functions, MIS, regulatory compliance, etc. which is lacking in the current scope of work.

In the current set-up the internal audit department is not fully independent as the auditor is appointed by and receives his

⁶ The previous manuals date back to the inception of the institution.

salary from the GM but there is a direct and open line of reporting to the BOD.

The external auditors have provided adequate support to the accounting process but SFPI has been slow to act on the auditors recommendations in the past years.

■ Activities

Activities: products and services is rated “c”

Market position

SFPI traditionally only served the urban market in Addis Ababa. However, it has changed its focus gradually to the peri-urban and rural areas around Addis Ababa as these markets remain largely untapped and under served. This is further caused by growing challenges in the urban market, including competition from government supported MFIs, client relocation and under performance of specific business sectors as a result of changing economic conditions.

Competition in the market where SFPI operates remains limited. As such there has not been much pressure on SFPI to define exactly the scope of its competitive advantage. SFPI regards its customer service (short loan processing times and flexibility of loan repayment terms) as its main competitive advantage. Nevertheless, the institution’s pricing and product range have remained largely unchanged since 2003, this despite changing client demands.

SFPI is already in advanced stages of initiating two new client-specific products (the “youth loan” and the “savings product”). However, it is also important that, going forward, the present marketing approach, product pricing and related loan conditions are reviewed for the current loan products. The growth of SFPI will also further depend on its ability to raise additional sources of funding.

Loan portfolio management

Overall the institution’s credit methodology is appropriately designed, with sufficient analysis to back credit decisions. The institution’s operation’s manual and lending procedures were recently reviewed to further improve their effectiveness, although the new manual is still to be implemented and staff trained on its use. A few gaps continue to hinder efficient management and monitoring of the institution’s portfolio:

- Monitoring and supervision of LOs is not consistently followed through to ensure strict compliance at all levels, allowing occasional disregard of policy.
- The absence of a performance based incentive system currently complicates the translation of portfolio growth and quality targets into the daily operations of LOs.

- Client follow-up and delinquency management is hindered by the present loan tracking system that is both time-consuming and error-prone.
- Appraisal of individual loan applicants relies more on LO experience and does not incorporate a systematic evaluation of client's risks and repayment capacity.

SFPI has continued to post steady growth figures over the last few years, with a significant increase in 2006: 36.9% (03/04), 36.2% (04/05) and 51.2% (05/06). The latter can be primarily attributed to SFPI's growth and outreach strategy that has seen it expand services into the rural areas. Portfolio composition nevertheless remains dominated by group loan products clearly highlighting the preference for group lending, despite the presence of individual loans and related demand by the institution's clients. Furthermore, there are no specific targets set for loan portfolio per product (except for consumption loans) which allows limited control on its expansion of agricultural loans vis-à-vis the instalment based loans.

Credit risk

Credit risk remains reasonable with PAR31-365 figures for the last three years fluctuating between 3-4%: 3.3% (Dec 04), 3.9% (Dec 05), 3.0% (Dec 06) and coming down to 2.9% at June 2007. Nevertheless, it is important to note the following:

- SFPI's portfolio comprises a large and increasing percentage of term loans which hide the actual, poorer, performance of the instalment based loans.⁷
- Accounting for late and partial payments is not standardized throughout SFPI with inconsistencies noted to favour principle over interest.

SFPI tracks PAR per LO and branch with current figures indicating higher delinquency levels in the urban and peri-urban areas. However, the institution does not track PAR per product disallowing it to adequately monitor its portfolio quality, although it is presently recognized that cooperative loans have been under-performing. Presently there is also no specific portfolio diversification policy in place for either geographic or economic sectors. The above would also hinder the monitoring of concentration risk in specific areas / economic sectors. Presently though, due to the dual focus on rural and urban areas and focusing on different sectors concentration risk is expected to be low.

Although SFPI has a write-off policy, the latter is yet to be effectively implemented. PAR > 365 has been growing over the years: 3.6% (Dec. 04), 4.5% (Dec. 05), 4.0% (Dec. 06) and 5.3% (Jun. 07). The reduction in 2006 is due to the

⁷ As SFPI does not track portfolio per product it is not possible to analyze PAR per product.

growth in portfolio as absolute levels of PAR > 365 have continued to rise.

SFPI allows informal loan re-scheduling on an incidental basis. However, no new repayment schedule is agreed upon with the client and rescheduled loans are included in ageing of the portfolio according to their original repayment schedule.

SFPI employs the National Bank of Ethiopia's provisioning policy which is less conservative than international best practice for MFIs. Furthermore the 'rescheduled' loans are not provided for leading to an overall low credit risk coverage ratio (45.5% in June 2007).

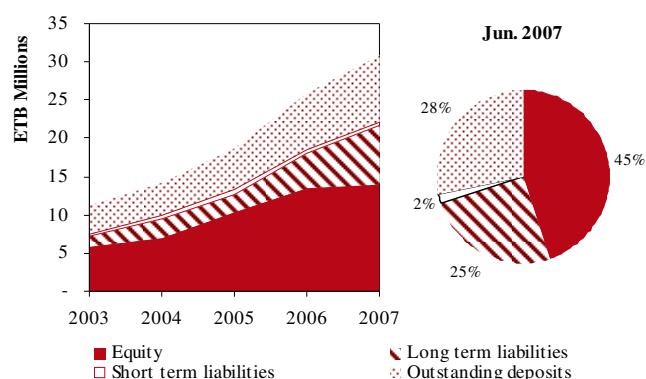
Loans are effectively guaranteed through group or personal guarantees where also mandatory savings can be used to recover late loans.

Funding and liquidity

Funding and liquidity is rated "c"

SFPI is well capitalised and its present funding structure is typical of a non-profit MFI. Equity comprises the bulk of its current capital structure (45%), followed by outstanding deposits at 28% and long term liabilities at 25%. The trend over the last few years indicates that SFPI has actively pursued and, to a reasonable level, achieved a diversified funding base comprising a mix of donated equity, long term loans and compulsory deposits. The institution however remains lowly leveraged at 1.22x (June 2007).

Funding structure



Asset Liability Management

SFPI faces low exposure to ALM risks:

- Maturity risk is low and manageable as the long term nature of its borrowings exceeds the terms in the loan portfolio and 88% of its savings are compulsory savings.
- RUFIP loan contracts include the possibility for the DBE to revise interest rates during the course of the loan, but

the fact that most Ethiopian MFI have contracted that type of loan and the social mission of RUFIP make it unlikely that the fund provider will exercise this clause in a way that could hurt the MFIs.

- No FX risk: SFPI has no liabilities nor assets in foreign currency.

Funding strategy

Despite its present reasonably diversified funding base further diversification is necessary as its current main source of funding (RUFIP) has only limited funds left and is set to close in 2009. SFPI has taken a strategic initiative to improve active voluntary savings mobilisation with the plan to open two savings mobilization centres in Addis Ababa. Also the training of LOs to focus more on voluntary savings is a step in the right direction. SFPI has further been in discussion with Grameen Foundation and Terrafina to use guarantees to obtain loans from Ethiopian commercial banks. To date the local banks have been reluctant however.

Liquidity management

Simple cash flow projections are done and liquidity management procedures are carried out centrally by the FAM. Improvement in optimization of liquid assets is seen in 2006 (liquidity/assets stood at 8.7% as of Dec. 2006, down from 16.4% in 2005) but further improvement is possible.

▪ Efficiency and Profitability

Efficiency and Profitability is rated “b”

Profitability analysis

SFPI has registered slow but steady improvements in profitability over the last three years with a more significant increase in 2006 (ROA was up at 3.1% from 0.6% in 2005 and ROE at 5.8% from 1.1%).

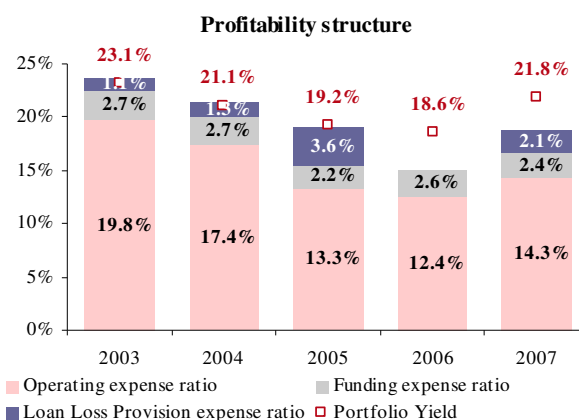
Slow but steadily declining yield levels (22.2% in 2004 to 18.6% in 2006) have been compensated for by even faster reducing total costs. The decline in yield is caused by a change in portfolio composition as the percentage of term loans in the portfolio is increasing. A yield gap does remain as the estimated theoretical yield for 2006 is 21.5%. This is mostly due to poor portfolio quality of the instalment based loans and the inconsistent accounting treatment of partial payments as well as inconsistent application of its interest policy on pre-payments by LOs.

On the cost side the operating expense ratio has shown a steady decline over the years down to a low 12.4% in 2006. This reduction is due to an increased efficiency as indicated by improved staff and LO productivity levels as well as a

reduction in cost per borrower and an increasing average outstanding loan balance per borrower.

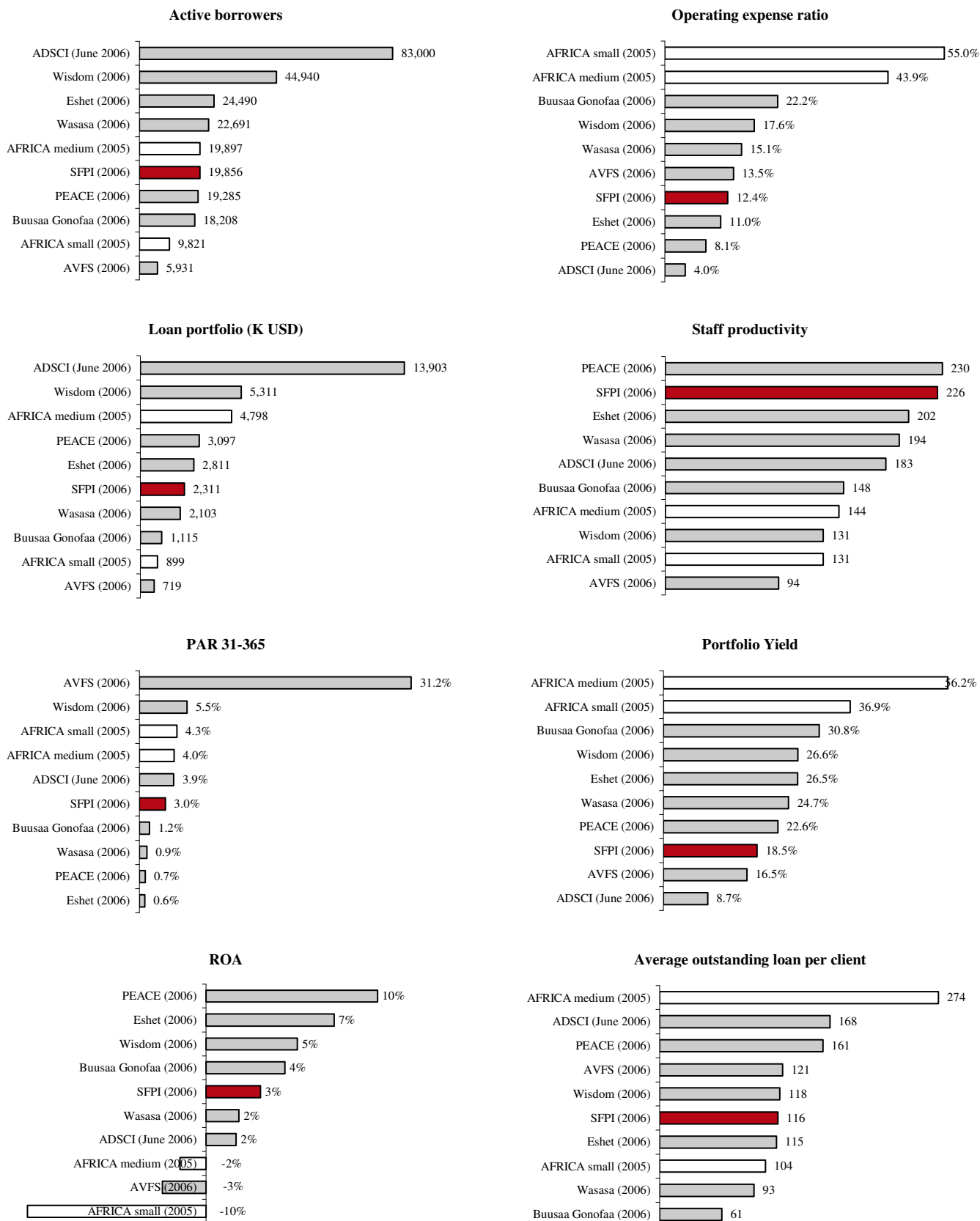
The funding expense ratio on the other hand has remained relatively stable over the past years varying between 2.2% and 2.8%. The absence of loan loss provision expenses in 2006 has been the main contributor to SFPIs increased profitability. Overall SFPI has shown an improving portfolio to asset deployment (78.6% in Dec 2006 compared to 64.8% in 2003) where additional improvements are still possible.

The profitability outlook for SFPI remains uncertain for the coming years. Yields are expected to further decline with a growing percentage of term loans in the portfolio even though operating expenses in rural areas are higher. This and the increase in staff remuneration are likely to have a negative effect on the operating expense ratio as underlined by the 2007 partial year figures. The funding expense ratio is expected to rise as well in the coming years with increasing leverage and increasing cost of funds as commercial sources of funding are likely to be more expensive than the current subsidised rates SFPI is enjoying. This can be partially compensated if SFPI is able to increase voluntary savings in its funding structure. These effects can be mitigated through further increasing economies of scale, a further improvement in portfolio quality to reduce loan loss provision expenses and when SFPI is able to close its yield gap. More thorough thought on product pricing by SFPI is essential.



The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Benchmarking



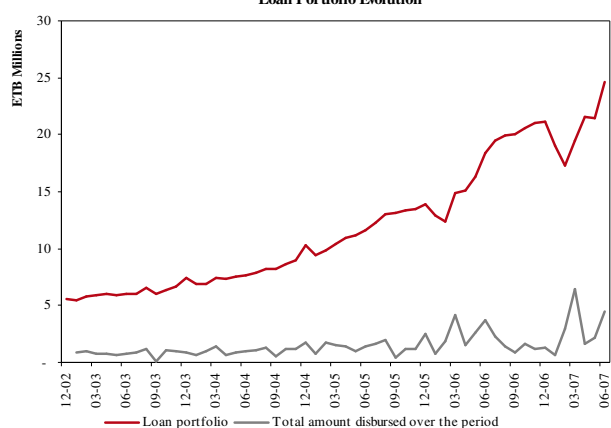
Source: MFI financial statements for MFIs rated by Planet Rating; Mix Market for other MFIs; MBB Africa 2005 for benchmarks

■ Performance indicators

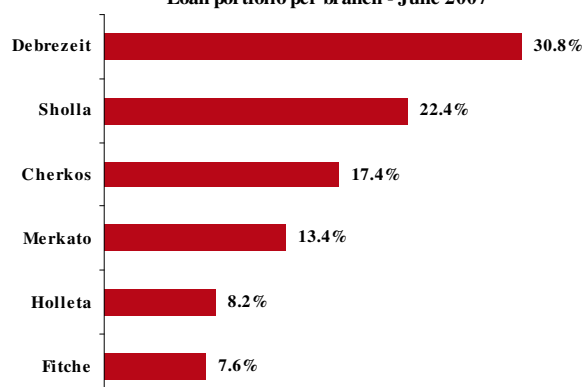
Data in USD, unless otherwise stated

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Loan Portfolio					
Data in USD, unless otherwise stated					
Loan portfolio	847,854	1,156,457	1,590,772	2,311,017	2,691,400
Loan portfolio (ETB)	7,479,772	10,240,538	13,946,297	21,092,883	24,673,414
<i>Evolution</i>	34.5%	36.9%	36.2%	51.2%	17.0%
Average outstanding loan	691,548	876,790	1,323,135	1,917,110	2,213,307
Active borrowers	9,552	11,604	14,345	19,856	22,221
<i>Evolution</i>	N/A	21.5%	23.6%	38.4%	11.9%
Average outstanding loan per client	89	100	111	116	121
% of GDP per capita	82.9%	93.5%	103.0%	112.5%	117.6%
Average amount disbursed per loan	160	168	190	181	173
% of GDP per capita	141.5%	128.9%	123.3%	107.4%	84.7%
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	2.9%	3.3%	3.9%	3.0%	2.9%
PAR > 365	1.5%	3.6%	4.5%	4.0%	5.3%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Risk coverage ratio	54.5%	39.9%	60.6%	47.6%	45.5%
PAR 31 net of loan loss provision / Equity	2.5%	6.1%	4.5%	5.7%	7.9%
Savings					
Data in USD, unless otherwise stated					
Outstanding deposits	438,509	483,816	610,835	818,621	956,901
Outstanding deposits (ETB)	3,868,522	4,284,237	5,355,194	7,471,639	8,772,391
<i>Evolution</i>	31.8%	10.7%	25.0%	39.5%	17.4%
Mandatory savings (%)	88.5%	89.2%	88.1%	88.1%	86.2%
Voluntary savings (%)	11.5%	10.8%	11.9%	11.9%	13.8%
Active savers	9,552	11,604	14,345	19,856	22,221
<i>Evolution</i>	N/A	21.5%	23.6%	38.4%	11.9%
Average outstanding deposit per saver	46	42	43	41	43
Staff					
Total number of staff	53	65	75	88	86
% Credit officers	0.0%	44.6%	45.3%	46.6%	45.3%
Turnover	N/A	1.7%	2.9%	9.8%	6.9%
Profitability analysis					
Data in USD, unless otherwise stated					
ROE	0.7%	1.0%	1.1%	5.8%	4.9%
Liabilities / Equity	0.91x	1.03x	0.81x	0.90x	1.22x
ROA	0.4%	0.5%	0.6%	3.1%	2.4%
Portfolio Yield	23.1%	21.1%	19.2%	18.6%	21.8%
Operating expense ratio	19.8%	17.4%	13.3%	12.4%	14.3%
Cost per borrower	14	13	12	12	14
Staff productivity	180	179	191	226	258
Loan officer productivity	434	400	422	484	570
Average outstanding loan per client (USD)	89	100	111	116	121
Funding expense ratio	2.7%	2.7%	2.2%	2.6%	2.4%
Cost of savings	4.1%	2.0%	1.9%	1.9%	3.7%
Cost of liabilities	5.5%	3.8%	3.7%	6.7%	4.8%
Loan Loss Provision expense ratio	1.1%	1.3%	3.6%	0.0%	2.1%
Outstanding Loan Portfolio / Assets	64.8%	70.3%	70.9%	78.6%	76.6%
Revenue from investment as a % of financial rev.	1.2%	1.6%	0.7%	0.3%	0.0%
Loans to deposits	193.3%	239.0%	260.4%	282.3%	281.3%
Liquidity / Total assets (LAR)	23.4%	18.9%	16.4%	8.7%	13.2%
Exchange rate 1 USD= xx ETB	8.8	8.9	8.8	9.1	9.2

Loan Portfolio Evolution



Loan portfolio per branch - June 2007



GIRAFE Rating – SFPI, Ethiopia – July 2007

SFPI Income Statement	ETB					USD					Evolution				
	Notes	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Jun.2007	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Jun.2007	2004/ 2003	2005/ 2004	2006/ 2005	2007 /2006
Financial Revenue (a)		1,480,373	1,752,366	2,338,535	3,301,361	2,239,510	167,805	197,893	266,743	361,710	244,288	18.4%	33.5%	41.2%	(32.2%)
Financial Revenue from Loan Portfolio		1,410,841	1,661,959	2,255,867	3,232,629	2,213,839	159,923	187,684	257,313	354,179	241,488	17.8%	35.7%	43.3%	(31.5%)
Interest on Loan Portfolio		1,410,841	1,661,959	2,255,867	3,167,505	2,170,539	159,923	187,684	257,313	347,044	236,765	17.8%	35.7%	40.4%	(31.5%)
Fees and Commissions on Loan Portfolio		-	-	-	32,473	13,061	-	-	-	3,558	1,425	-	-	-	(59.8%)
Penalty Revenue on Loan Portfolio		-	-	-	32,651	30,239	-	-	-	3,577	3,298	-	-	-	(7.4%)
Financial Revenue from Investments		17,471	27,389	16,315	10,578	-	1,980	3,093	1,861	1,159	-	56.8%	(40.4%)	(35.2%)	(100.0%)
Other Operating Revenue		52,062	63,018	66,353	58,155	25,672	5,901	7,117	7,569	6,372	2,800	21.0%	5.3%	(12.4%)	(55.9%)
Financial Expense (b)		165,944	214,538	256,574	444,521	241,485	18,810	24,228	29,266	48,703	26,341	29.3%	19.6%	73.3%	(45.7%)
Interest paid on borrowings		27,534	56,466	74,795	199,989	137,047	3,121	6,377	8,531	21,912	14,949	105.1%	32.5%	167.4%	(31.5%)
Interest paid on deposits		138,409	158,072	181,780	244,531	104,438	15,689	17,851	20,735	26,792	11,392	14.2%	15.0%	34.5%	(57.3%)
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]		1,314,429	1,537,828	2,081,960	2,856,841	1,998,025	148,994	173,666	237,477	313,006	217,947	17.0%	35.4%	37.2%	(30.1%)
Net Loan Loss provision expense (d)		69,880	105,664	420,773	-	215,436	7,921	11,933	47,995	-	23,500	51.2%	298.2%	(100.0%)	-
Loan loss provision expense and write-off		69,880	105,664	420,773	-	215,436	7,921	11,933	47,995	-	23,500	51.2%	298.2%	(100.0%)	-
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)		1,206,271	1,369,885	1,562,907	2,161,328	1,447,777	136,734	154,700	178,272	236,803	157,925	13.6%	14.1%	38.3%	(33.0%)
Personnel Expense (includes fringe)		665,729	799,146	822,567	1,061,215	715,363	75,462	90,247	93,825	116,271	78,033	20.0%	2.9%	29.0%	(32.6%)
Administrative Expense (non-staff operating expenses)		540,541	570,739	740,340	1,100,113	732,414	61,272	64,453	84,446	120,533	79,892	5.6%	29.7%	48.6%	(33.4%)
Depreciation and amortization		141,413	132,720	202,214	254,566	132,524	16,030	14,988	23,065	27,891	14,456	(6.1%)	52.4%	25.9%	(47.9%)
Consulting fees		40,667	-	8,815	37,000	114,325	4,610	-	1,005	4,054	12,471	(100.0%)	-	319.7%	209.0%
Rent and utilities		207,142	230,025	254,235	287,423	189,526	23,480	25,977	28,999	31,491	20,674	11.0%	10.5%	13.1%	(34.1%)
Travel costs		55,115	80,093	135,691	168,287	100,788	6,247	9,045	15,477	18,438	10,994	45.3%	69.4%	24.0%	(40.1%)
Bank fee		2,473	4,895	5,249	13,615	-	280	553	599	1,492	-	97.9%	7.2%	159.4%	(100.0%)
Insurance		28,429	29,028	33,388	19,119	32,299	3,222	3,278	3,808	2,095	3,523	2.1%	15.0%	(42.7%)	68.9%
Education and training		9,509	34,939	21,840	206,797	81,345	1,078	3,946	2,491	22,658	8,873	267.5%	(37.5%)	846.9%	(60.7%)
Repair and maintenance		24,460	23,146	31,470	39,037	26,132	2,773	2,614	3,590	4,277	2,851	(5.4%)	36.0%	24.0%	(33.1%)
Audit and legal fees		10,000	17,289	16,087	34,918	6,779	1,134	1,952	1,835	3,826	739	72.9%	(7.0%)	117.1%	(80.6%)
Others		21,335	18,605	31,352	39,350	48,697	2,418	2,101	3,576	4,311	5,312	(12.8%)	68.5%	25.5%	23.8%
Net Operating Income Before Taxes and Donations [f=c-d-e]		38,278	62,279	98,280	695,513	334,812	4,339	7,033	11,210	76,203	36,522	62.7%	57.8%	607.7%	(51.9%)
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		38,278	62,279	98,280	695,513	334,812	4,339	7,033	11,210	76,203	36,522	62.7%	57.8%	607.7%	(51.9%)
Non Operating Revenue (i)	1	50,976	-	-	-	-	5,778	-	-	-	-	(100.0%)	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		89,254	62,279	98,280	695,513	334,812	10,117	7,033	11,210	76,203	36,522	(30.2%)	57.8%	607.7%	(51.9%)
Donations (l)		1,077,897	1,028,304	3,240,949	2,542,071	-	122,183	116,126	369,676	278,519	-	(4.6%)	215.2%	(21.6%)	(100.0%)
Net Income (after Taxes and Donations) [m=k+l]		1,167,151	1,090,584	3,339,228	3,237,585	334,812	132,300	123,159	380,886	354,722	36,522	(6.6%)	206.2%	(3.0%)	(89.7%)

Notes: 1) Income from training of LOs from other MFIs.

SFPI Balance sheet	Notes	ETB					USD					Evolution			
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	2004/ 2003	2005/ 2004	2006/ 2005	2007/ 2006
ASSETS		11,259,836	14,172,185	18,684,143	25,931,277	31,000,730	1,276,336	1,600,455	2,131,190	2,841,130	3,381,590	25.9%	31.8%	38.8%	19.5%
Short Term Assets		10,749,314	13,753,063	17,770,715	24,799,165	29,816,208	1,218,467	1,553,123	2,027,001	2,717,091	3,252,382	27.9%	29.2%	39.6%	20.2%
Cash and Due from Banks		2,637,268	2,679,499	3,065,340	2,246,608	4,077,294	298,942	302,594	349,645	246,147	444,755	1.6%	14.4%	(26.7%)	81.5%
Short Term Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		7,301,241	9,956,343	13,241,328	20,387,914	23,753,009	827,617	1,124,363	1,510,360	2,233,778	2,591,002	36.4%	33.0%	54.0%	16.5%
Short Term Gross Loan Portfolio		7,479,772	10,240,538	13,946,297	21,092,883	24,673,414	847,854	1,156,457	1,590,772	2,311,017	2,691,400	36.9%	36.2%	51.2%	17.0%
(Loan Loss Reserve)		178,531	284,195	704,969	704,969	920,405	20,237	32,094	80,412	77,239	100,399	59.2%	148.1%	0.0%	30.6%
Interest Receivable		616,845	877,033	1,221,495	2,081,075	1,823,726	69,921	99,043	139,329	228,011	198,934	42.2%	39.3%	70.4%	(12.4%)
On loan portfolio		616,845	877,033	1,221,495	2,081,075	1,823,726	69,921	99,043	139,329	228,011	198,934	42.2%	39.3%	70.4%	(12.4%)
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		193,960	240,188	242,552	83,568	162,180	21,986	27,124	27,666	9,156	17,691	23.8%	1.0%	(65.5%)	94.1%
Long term assets		510,523	419,122	913,428	1,132,112	1,184,521	57,869	47,331	104,189	124,038	129,209	(17.9%)	117.9%	23.9%	4.6%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		510,523	419,122	753,258	971,942	1,184,521	57,869	47,331	85,920	106,490	129,209	(17.9%)	79.7%	29.0%	21.9%
Other Long Term Assets		-	-	160,170	160,170	-	-	-	18,270	17,549	-	-	-	0.0%	(100.0%)
LIABILITIES AND EQUITY		11,259,836	14,172,185	18,684,143	25,931,277	31,000,730	1,276,336	1,600,455	2,131,190	2,841,130	3,381,590	25.9%	31.8%	38.8%	19.5%
Liabilities		5,370,513	7,193,371	8,381,763	12,311,961	17,046,601	608,764	812,342	956,058	1,348,946	1,859,460	33.9%	16.5%	46.9%	38.5%
Short term liabilities		4,102,450	4,713,050	5,959,060	7,889,258	9,295,020	465,025	532,241	679,715	864,377	1,013,910	14.9%	26.4%	32.4%	17.8%
Demand Deposits		444,214	462,359	639,071	891,913	1,209,276	50,353	52,214	72,895	97,721	131,909	4.1%	38.2%	39.6%	35.6%
Compulsory Deposits		3,424,308	3,821,878	4,716,123	6,579,726	7,563,115	388,156	431,602	537,940	720,900	824,992	11.6%	23.4%	39.5%	14.9%
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest payable		22,027	27,616	50,301	99,123	137,047	2,497	3,119	5,738	10,860	14,949	25.4%	82.1%	97.1%	38.3%
Accounts Payable and Other		211,900	401,197	553,565	318,496	385,582	24,020	45,307	63,142	34,896	42,060	89.3%	38.0%	(42.5%)	21.1%
Short Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities		1,268,063	2,480,321	2,422,703	4,422,703	7,751,581	143,739	280,101	276,343	484,568	845,550	95.6%	(2.3%)	82.6%	75.3%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		1,000,000	2,000,000	2,000,000	4,000,000	7,328,878	113,353	225,859	228,128	438,255	799,441	100.0%	0.0%	100.0%	83.2%
Other Long Term Liabilities	2	268,063	480,321	422,703	422,703	422,703	30,386	54,242	48,215	46,313	46,109	79.2%	(12.0%)	0.0%	0.0%
Equity		5,889,323	6,978,815	10,302,380	13,619,316	13,954,129	667,572	788,112	1,175,132	1,492,184	1,522,130	18.5%	47.6%	32.2%	2.5%
Paid-In Capital		406,000	406,000	406,000	406,000	406,000	46,021	45,849	46,310	44,483	44,287	0.0%	0.0%	0.0%	0.0%
Donated equity		7,436,791	8,465,096	11,706,044	14,248,116	14,248,115	842,982	955,957	1,335,239	1,561,078	1,554,198	13.8%	38.3%	21.7%	(0.0%)
Retained earnings without donations and reserves		(1,953,468)	(1,892,281)	(1,834,645)	(1,129,332)	(828,000)	(221,431)	(213,694)	(209,267)	(123,734)	(90,319)	(3.1%)	(3.0%)	(38.4%)	(26.7%)
Current year		89,254	62,279	98,280	695,513	334,812	10,117	7,033	11,210	76,203	36,522	(30.2%)	57.8%	607.7%	(51.9%)
Other equity accounts	3	-	-	24,981	94,533	128,014	-	-	2,849	10,357	10,312	-	-	278.4%	35.4%

Notes: 2) Funds held in trust; 3) Legal reserve required by NBE.

■ Formulas

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

■ Rating scale

Rating	Definition
A+	Excellent
A	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.
A-	
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.
B-	
C+	Minimum required
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	Insufficient
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	Immediate risk of default or very insufficient
	There are immediate or underlying risks for operations or an unacceptable under performance.