

Ahli Microfinancing Company, Jordan

Ahli Microfinancing Company (AMC) started its operations in August 1999, as a for-profit company with limited liability, 100% owned by the Jordan Ahli Bank (JAB). Since inception, AMC received financial support from JAB and from USAID through the Achievement of Market Friendly Initiatives and Results (AMIR) program. Headquartered in Amman, AMC serves 2,685 clients through a network of 8 branches, totalling 3.9 M USD of loan portfolio as of December 2006.

GIRAFE Rating

Rating

B+

Outlook

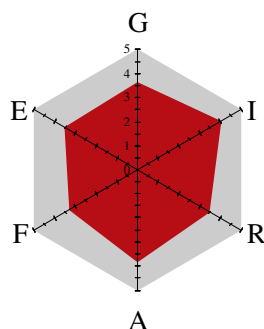
Stable

Date of the rating

February 2007

Valid until January 2008

Performance composition



Governance – Information – Risk
Activities – Funding – Efficiency

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Rating highlights

- AMC's financial condition is solid, underpinned by strong capitalization (leverage of 0.18x) and high profitability (ROA=7.9%, ROE=8.9% in 2006).
- Profitability jumped significantly in 2006 thanks mainly to higher portfolio yield and despite a slight increase of the operating expense ratio.
- AMC enjoys clear, strong and supportive ownership from its wholly-owned parent company JAB. Many of its Board and staff members have banking background and they are clearly focused on institutional sustainability.
- AMC targets the upper segment of the market but have launched smaller loan products to increase outreach. Despite strong competitive advantages and appropriate credit methodology, AMC has only an average portfolio quality compared to its Jordanian and MENA peers.
- The main challenges for AMC are to define a clearer and more aggressive market strategy, to further build the capacity of its middle management, to create its own internal audit capability, to diversify its funding base and to better manage its liquidity.

Outlook

- AMC is expected to keep its good profitability levels in the years to come. Pressure on margins is unlikely to come in the short term whereas AMC currently controls many levers to increase operational efficiency and staff productivity.
- Good opportunities can be obtained by formalizing the product development process and by finding a better way to cross-sell JAB's products.

Performance indicators

In USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
Assets	2,883,869	3,175,591	4,426,675	5,335,035
Growth (%)	-	9.9%	39.2%	20.7%
Loan portfolio	2,517,674	2,892,775	3,566,014	3,913,008
Growth (%)	13.4%	14.7%	23.1%	9.9%
Active borrowers	1,090	1,269	2,003	2,685
Staff	45	39	53	66
ROE (%)	(3.8%)	4.9%	2.7%	8.9%
ROA (%)	(3.4%)	4.7%	2.5%	7.9%
Liabilities / Equity	0.02x	0.07x	0.07x	0.18x
Portfolio Yield (%)	24.3%	24.7%	22.1%	29.3%
Operating expense ratio (%)	23.8%	18.4%	16.8%	18.3%
PAR 31-365 (%)	5.4%	5.6%	4.9%	2.0%
PAR > 365 (%)	3.6%	1.2%	0.8%	3.9%
Write-off ratio (%)	6.6%	0.0%	0.0%	0.0%

Microfinance sector

The microfinance sector in Jordan is characterized by the presence of both market oriented and subsidized credit providers. Through the AMIR program, USAID has played a leading role in supporting a sustainable microfinance environment: AMIR program has supported microfinance and other services for small businesses by providing financing, technical assistance, and advocacy as well as engaging in broader economic development activities. The initial program, started in 1998 and renewed in 2002 and 2004, ended in 2006. The approved budget for the program over the years exceeded 70 million USD, with over 10 million USD allocated specifically to micro-entrepreneur support¹. USAID has launched a new program called Sustainable Achievement of Business Expansion and Quality (SABEQ), but its microfinance component solely targets micro-enterprises. Other bilateral and multilateral organizations have been active in the sector, including IFAD (International Fund for Agriculture Development) that has also provided funding for NGOs and government providers for agricultural loans.

The four MFIs² funded by the USAID/AMIR program all began operations in the mid-to-late 1990s. As of December 2006, these four providers were serving 50,915 clients for an outstanding portfolio of 19 M JD (26.8 M USD). According to CGAP, the four AMIR-funded and sustainability-oriented microlenders had disbursed over 110,000 loans totalling more than 45 M JD (64 M USD) as of December 31st, 2004. Other sustainability-oriented loan providers include the United Nations Relief and Works Agency (UNRWA), who works with Palestinian refugees, and the private banking sector, who has been making consumer loans increasingly accessible to those with a salary.

Subsidized providers include the National Assistance Fund (NAF), a governmental program aimed at unemployed poor, and the Industrial Development Bank (IDB), a private bank in operation for several decades authorized under special laws with a mixed public/private sector Board. Funded by the Jordanian government, KfW and the EU, the Development and Employment Fund (DEF) was created in 1991, with a vocation of providing microfinance for poverty alleviation: it currently provides loans at rates substantially lower than other MFIs. To avoid market distortion³, the 2005 National Strategy for Microfinance⁴ recommended all governmental retail programs be shut down: in accordance,

¹ 2005 figures.

² JMCC, MFW (WWB affiliate), MEMCO (CHF affiliate), and AMC.

³ DEF has not received any external funding since 2004 and claims it does not subsidize loans.

⁴ Drafted by MOPIC (Ministry of Planning and International Cooperation) with CGAP's technical assistance, it states that all government agencies will "withdraw from microfinance lending activities".

and despite its good performance, DEF was to start acting as a wholesale provider; yet, in 2007, it remains unclear whether it will truly stop all direct lending and act as an Apex institution. Funding for agriculture is served by government organizations such as the Agricultural Credit Corporation. A myriad of other smaller government and quasi-government players also exist. Little information is available regarding these institutions: their total portfolio was estimated at 64 M JD in 2001, albeit this figure includes many loans long overdue and never written off⁵.

The National Microfinance Bank (NMB), a government initiative funded by AGFUND⁶ and also known as the "Bank for the Poor", was launched in March 2006. This institution is promoted as another "sustainable lender" offering loans ranging from 200 JD (300 USD) to 15,000 JD (21,000 USD). NMB currently serves over 10,000 clients, and broke even after only 9 month of operation. It plans on reaching 50,000 clients by 2010 and has stated the ambition of becoming number one, thus introducing tremendous competition on the market. When initially passed, the authorizing law for NMB also provided numerous tax exemptions, since extended to all MFIs.

MFI	Portfolio in USD	%	Number of clients	%
DEF	37,398,564	51%	14,476	19%
MFW	8,803,185	12%	23,501	31%
JMCC	8,155,034	11%	17,729	23%
NMB	7,633,042	10%	9,048	12%
MEMCO	6,000,000	8%	7,000	9%
AMC	3,913,008	5%	2,685	4%
UNRWA (Jordan)	1,029,644	1%	1,400	2%
Total	72,932,476	100%	75,839	100%

DEF 2005, MEMCO 2006 estimates, UNRWA as of February 2006

The total microfinance sector in Jordan was estimated at around 150,000 potential clients⁷ before the Iraqi war: since then, immigrants' influx could have raised the number of potential clients up to 250,000.

Legal and regulatory environment

Although publicly microfinance is a concept that receives government support, Jordan's regulatory environment does not explicitly recognize the industry. This lack of formal recognition, along with other sector-specific issues, leads to policy constraints within which local MFIs must operate, notably the inability to collect savings. Microfinance stakeholders are working to address these issues, but the National Microfinance Strategy did not result in any concrete measures to provide a better legal environment for

⁵ "Microfinance/Microenterprise Assessment" April 2001, Graham Perrett.

⁶ Arab Gulf program For United Nations Development Organizations.

⁷ 2002 AMIR estimates.

MFIs. Among the current constraints enumerated in a 2003 study by AMIR program⁸, the most significant are:

- A legal structure (limited liability company) that is not specific to lending activities;
- An ambiguous sales tax regime until official tax exemption has been extended to all MFIs on March 30th, 2004;
- The lack of a Credit Bureau, still waiting for official authorization although talks have been going on for years. Current efforts concentrate on creating an Information Sharing Center.

Political & economic environment

Jordan is classified as a middle-income developing country with a 2006 per capita income of 2,530 USD according to the International Monetary Fund. Lacking significant natural resources, Jordan relies primarily on human capital for development.

- The war in Iraq has had a significant negative impact on Jordan's economy, as Iraq has been the second most important trade partner for Jordan. But Jordan has benefited from 210 MEUR of financial assistance granted by the European Commission in order to moderate the negative effects of the war. International aid flow, a rise in exports, shrinking external debt, and accelerated structural reform present a favourable economic outlook in the short term.
- Jordan's economy experienced strong recovery in 2004: GDP per capita has been growing at around 9% since. From the early 1970s to 2004, Jordan's population grew from about 1.8 million to 5.0 million. The official unemployment rate remains fairly high at 12%, (around 25% unofficial) and given a labor force that is growing at 4% a year, new job creation is imperative. The country ranks 86 (out of 177 countries) in the UNDP 2006 Human Development Report and the population below the national poverty line is estimated at 12%.
- Despite advances in women's development through improvements in education and public health services, female empowerment and inclusion remain a challenge. Women's participation in the formal labour force grew from 15% in 1980 to 27% in 2004, but still remains low.

Economic growth is notably due to dynamic domestic consumption and sharply higher foreign investment inflows. The country has benefited from its role as rear base to Iraq and an influx of regional capital. In that context, most

economic sectors (manufacturing, construction, transport, and communication) posted good performance. Surging oil prices in conjunction with the decline of grants from the international community caused a sharp deterioration of external accounts, however, accompanied by increased fuel subsidies that widened the fiscal deficit. Although greater fiscal discipline and particularly the elimination of fuel subsidies by March 2007 should allow Jordan to contain the public sector deficit, those measures will undermine private consumption, which has been the main economic driver.

External accounts continue to be vulnerable to a possible crisis of confidence that would make the JD/USD peg unsustainable. The country should nonetheless be able to count on international aid to avert a major crisis. By virtue of its geographic position and population mix (with mostly Palestinian origins), the political and economic scene has been very sensitive to regional geopolitical tensions. Although Jordan's political stability should not be in jeopardy, the success of Islamist parties in neighbouring countries could encourage the Islamic Action Front to organise itself politically with legislative elections scheduled in 2007.

COFACE Country Rating: B (uncertain to negative trend)

USD millions	2003	2004	2005	2006
Economic growth (%)	4.1	8.4	7.2	5.0
Inflation (%)	1.6	3.4	3.5	6.9
Public sector balance (%GDP) (*)	-12.7	-12.5	-10.7	-8.0
Exports	3,100	3,900	4,300	4,600
Imports	5,100	7,300	9,200	9,800
Trade balance	-2,000	-3,400	-5,000	-5,200
Current account balance (%GDP)	-2.2	-11.7	-24.5	-20.9
Foreign debt (%GDP)	84.1	72.0	65.7	61.1
Debt service (%Exports)	15.8	13.7	9.4	8.6
Foreign exchange reserves (import months)	8.0	5.9	4.6	4.1

Source: COFACE's Country Risk Ratings Guidebook 2006. 2005 data is estimated and 2006 forecasted. (*) Excluding grants.

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

Institutional presentation

Legal form, supervision and audit

AMC is a private for-profit company with limited liability, registered in Jordan on July 21st, 1999. As a microfinance institution, AMC is not directly supervised by the Central Bank, but indirectly through JAB.

AMC is audited by the same firm than JAB: Deloitte & Touche in 2004 and 2005; Saba & Partners, member of the Deloitte's network, in 2006. AMC accounts are consolidated into JAB's at year-end.

⁸ "MFI Policy Constraint Review: Final Report" June 2003. AMIR program funded by U.S. Agency for International Development, Deliverable for MEI Component Task No. 319.1 Contract No. 278-C-00-02-00210-00.

Ownership

AMC is fully owned by JAB, which in turn is a privately-owned commercial bank. The Board of Directors (BOD) is composed of 4 members, all of whom are senior managers within JAB, with investment and retail banking, finance, treasury management, marketing and IT backgrounds. It is chaired by JAB's Deputy Executive Director for Marketing and Retail.

Donations

Since inception, AMC received 2.2 M JD (3.1 M USD) in donation from the AMIR program, mainly for its loan portfolio. Most of these grants were capitalized in 2006, and no donations are expected for the coming years.

Management team

The management team includes the General Manager (GM), the Deputy General Manager (DGM), the Commercial Lending Unit Manager (CM) and the Islamic Lending Unit Manager (IM). All of them have attended several trainings on both microfinance, financial analysis, and other specific topics related to their field of work.

- The GM, Ghassan Abu Yaghi, took on the position in August 1999. He has previously worked with JAB for a year as a Credit Manager. His prior work experience was in the financial industry. He holds an MA from the Schiller International University in London and a Doctorate in Philosophy Management (completed in 2005) from the Amman Arab University.

Organization

- Saqf El-Sail headquarters (HQ) in Amman centralize all management and administrative staff.
- All branches comprise a Branch Manager (BM) and several Loan Officers (LOs), and report straight to the Commercial Lending Unit (CLU) Manager. In order to comply with Shari'a rules, the Islamic Lending Unit (ILU) has a distinct staff which comprises dedicated LOs, Accounting and Back office clerks, all located at Saqf El-Sail and reporting straight to the ILU Manager.
- Cash transactions are minimal and only involve repayments for loans under 1,000 JD. Money is either deposited straight at JAB or, for the few payments received after banking hours, stored overnight in a safe and deposited the following day.

Market penetration

As of December 2006, AMC operates through 11 business units, with a network of 8 branches located in greater Amman as well as in the northwestern region (Salt and Zarqa, up to Irbid), where most of the Jordanian population

is concentrated. A 9th branch is currently operational in Baq'aa.

Products and services

AMC solely offers individual loans for business purposes. One or two guarantors are required, according to the loan amount, without any physical collateral. Repeated clients showing good credit record are provided up to 2% interest discount.

All loans are subject to:

- 3‰ on the closest thousand amount of Government revenue stamp, repaid to the Ministry of Finance;
- 1 JD of administrative fees;
- 5 to 15 JD of application fees;
- 1.75% to 3.25% of one-shot commission fees;
- 1.125% to 1.5% of monthly flat interest, computed per day on a 360-day year basis;
- 5 to 45 JD in addition to 12% per day of penalties for late payments.
- Existing projects loans are aimed at established businesses and range from 700 to 10,000 JD, with a 4 to 24-month term and no grace period. Commission fees range from 1.75% to 3.25%, and repayments are made on a monthly basis with a 1.125% to 1.5% flat interest rate. The effective annual rate varies between 25% and 55%.
- Start-up loans are for starting activities and have identical amounts, term, fees and interest rates. The grace period ranges from 3 to 6 months, and is subject to a 1% flat fee per graced month.
- Household loans are aimed at activities conducted from home and range from 500 to 2,000 JD, with a 4 to 12-month term and no grace period. Commission fees are of 2.5% and the monthly flat interest rate of 1.5%. The effective annual rate varies between 36% and 55%.
- Bedaya loans are smaller loans, ranging from 120 JD to 400 JD, with a 4 to 10-month term. There are no commission fees and yearly flat interest rates range from 20% to 42%.
- Vehicle loans are aimed at financing professional vehicles, through a partnership with a local dealer. Amount ranges from 3,000 to 15,000 JD, with a 12 to 48-month term and no grace period. Monthly interest rate is of 9% flat, 1% of which is paid to the dealer at year-end. An additional 6.5% fee on the total amount is charged to the client and feeds an insurance pool that is used in case of payment default: this fee is fully reimbursed once the loan is settled.

The ILU was launched in August 2006 and is currently under pilot test within two units (Quraish / Saqf El-Sail and Vehicle Lending): it offers the 5 main Islamic products, but

mainly focuses on Murabaha. As Shari'a principles forbid interests on loans, Islamic lending consists in buying a good and selling it to the client with a profit.

- Murabaha loan ranges from 120 to 10,000 JD with 4 to 24-month term. In order for it not to compete with other commercial products, profit made on Murabaha loans is equivalent to a 1.5% flat interest on a monthly basis. As stipulated by the Shari'a rules, there are no penalties on late loans. Only legal duties and application fees are charged to the client. The effective annual rate is estimated at 36%.
- Islamic vehicle loan is similar to the commercial one, and done through the same dealer. The profit charged is equivalent to a 9% monthly flat interest rate. The vehicle ownership is temporarily transferred from the dealer to AMC, then from AMC to the end client, usually within the same day. The additional 6.5% fee is also charged to the client.

Networks

AMC is a founding member of Sanabel (microfinance network of the Arab world) and of the Microfinance Association of Jordan (MAJ).

■ Governance

Governance and Decision Making is rated "b"

Decision-making

AMC enjoys clear, strong and supportive ownership from its wholly-owned parent company JAB. Its decision-making process is fluid, autonomous and effective, driven by common goals and strategies between the BOD and management. There is a clear commitment to commercial sustainability and best practices thanks in part to years of capacity building training from AMIR and others. AMC continues to be a good fit within JAB's overall business strategy, although synergies between the two entities are low and can be enhanced through more systematic coordination, linkage and cross-selling efforts. AMC is expected to graduate mature clients to JAB's new SME unit although this graduation process still needs to be clearly mapped out.

JAB, as the sole shareholder, acts appropriately as an involved party providing sufficient decision-making autonomy to management despite retaining the final word on major decisions. AMC's BOD is made up of JAB representatives who are all experienced bankers with different backgrounds and skills set. They are well-informed, meet regularly and display a high level of commitment. In time, AMC could gain from having independent directors joining the BOD. AMC's BOD is both business-oriented and open-minded regarding potentially welcoming other shareholders into AMC's capital structure or exploring

various other strategic options. Regardless, JAB is highly likely to retain control in the foreseeable future.

Planning

AMC has an efficient planning process, primarily done by the GM and DGM with input and participation from other HQ and branch managers. The current 3-year Strategic Plan is heavily operational in nature rather than strategic. This Plan addresses main business risks, but could elaborate more on issues such as product pricing, MIS, branch expansion, market positioning, product strategy and HR issues. One weak point of the Plan is its lack of bold competitive strategies given the increased competition coming from existing players and new ones. Another under-explored theme is how AMC can better leverage JAB's reputation and wide product range to its own advantages; and how it can better manage some image/branding confusion between AMC and JAB among its clients, given that many of its branches are located inside JAB's premises. On that last issue, AMC currently has a plan to re-branch outside JAB.

AMC's priority is given to conservative steady growth despite having the potential to grow even faster. The Plan is accompanied by detailed and realistic projections generated from Microfin. AMC has also a good budgeting process in place as well as an adequate budget tracking and monitoring.

Management team

AMC's qualified and stable management team is anchored around the GM and DGM. The committed management team is made up of professionals with good microfinance skills thanks to AMIR training and best practices exposure over the years. Many of them had worked for JAB beforehand. Key person risk at AMC is limited on the back of the harmonious relationship between the managers and the resource strength of JAB. Nevertheless, AMC management team could be further strengthened as some managers (e.g. Finance Manager) still need to take more time to fully master their job, broaden their responsibilities and fully realize their potential. As AMC grows in size and complexity, it also needs to further boost a number of competency areas including HR, IT and financial management. Many of AMC branches are headed by internally promoted, young, well-trained and dynamic managers.

Human resources management

Basic HR policies and procedures are in place and applied. HR management at AMC is essentially run by the two top managers. Systematic recruitment and training practices are being used to hire best qualified staff. Staff morale is good overall thanks to the competitive salary structure, the sophisticated bonus system and the security feeling of working part of a larger banking group. Despite these

positive features, AMC has long suffered from high turnover rates among its field staff which is also an industry-wide problem. Part of the explanation is the cultural preference for desk jobs among Jordanians. Going forward, AMC would benefit from having more formalized HR functions, to ensure that critical HR issues such as recruitment, training, performance management (including productivity measurement) and staff retention be given dedicated and focused attention while freeing up senior management's time for other more strategic tasks.

■ Information

Information and equipment is rated "a"

MIS and equipment

The Delta Oracle-based software in place is of high quality and ensures fast and efficient information processing: it is well designed and user-friendly, and integrates both loan tracking and accounting. Having been locally developed for the MFIs supported by the AMIR program, it has solid vendor technical and maintenance support and is easily adaptable. It is customizable upon request to meet AMC's specific needs, such as ILU which required the development of a separate module. The software is currently upgraded on a yearly basis throughout the industry. AMC continuously upgrades its hardware and software and has recently installed two new servers. IT staff has all the required skills and is currently drafting an IT manual, but IT strategy is not formalized and critical decisions are still made at top management level. An IT plan is available for 2007 but only partially followed, priority being given to arising matters. Longer term plans are being discussed and should include all necessary rationales.

Both system and data security are adequate. Data input has all necessary checks and controls to avoid any loss or manipulation. Information is adequately protected through regular back-ups made on a daily, weekly and monthly basis, stored on both servers and DVDs, the latter being kept in a safe. The system is further protected with passwords, firewalls and anti-virus, and has already undertaken several "crash & recovery" tests. Paper data is properly stored in a dedicated room where all client files are available.

Information on activities

The system in place has rich reporting tools and provides timely, complete and accurate information: detailed data is available for all products, branches and units in real-time, allowing BMs and LOs to properly monitor their portfolio. Branches performance reports are discussed on a monthly basis with the CLU and ILU Managers. Activity analysis and follow up is frequent and in use at all levels of the institution: monthly portfolio information reports contain all appropriate data and include microfinance indicators such as

PAR; further details may be obtained, such as loan by gender or by sector of activity. Nevertheless, the system is not yet being used to its full potential, and some standard information is not easily available (particularly the outstanding loan net of interests perceived in advance) or still requires time to be extracted (loans in arrears by age, largest clients, APR, etc.).

Financial and accounting information

Financial information is accurate, easily available and thoroughly detailed. Financial statements are produced on a monthly basis, along with analytical reports prepared by the Finance Manager and discussed with top management. Yet, financial analysis could be further enhanced: by refining cost allocation, in order to better price the loan products; and by tracking some essential data, such as productivity and profitability indicators (ROA, ROE, APR). It is understood that AMC is actively looking for an "intelligence" software that would produce relevant financial reports. Since ILU needs to have its own and separate system according to Shari'a principles, the accounting information now needs to be extracted and consolidated on separate Excel sheets for the institution as a whole: being easy, that process does not harm the overall data quality.

AMC's accounts have always been certified without reserve by reputable external audit firms, specializing in banking though not in microfinance. As of 2005, loan portfolio accounting was modified to comply with international accounting standards: net loan portfolio now excludes interests perceived in advance, which are accrued on a monthly basis in the Income Statement. Being a for-profit company, fully owned by a private bank, AMC also has to follow Central Bank regulations and dedicate a 1% reserve on its healthy portfolio: since 2006, this reserve is included in its equity accounts.

■ Risks

Risks Management is rated "b"

Procedures and internal controls

There is a good understanding of operational and financial risks throughout the institution thanks to AMIR trainings but also because AMC operates as a fully-owned subsidiary of a regulated bank subject to prudential requirements. Essential procedures and policies are documented in various manuals. In general, good segregation of duties at HQ and branch levels further reinforces a strong compliance culture backed by formalized training and various check levels within AMC. Limited cash handling along with adequate cash security procedures and infrastructure (partially leveraging on JAB branches) do not represent major cash risks to AMC.

Internal audit

Since its inception, AMC has relied on JAB to conduct its internal audit (IA) functions. This unusual and non-optimal set up underscores the crucial point that AMC should have its own IA with a dedicated audit plan customized toward microfinance risks subject to regular and direct reporting to the BOD. Having JAB staff performs IA functions for AMC is a structural weakness despite the fact that JAB's Internal Auditors are experienced, perform relevant controls, write detailed reports and provide in most cases appropriate recommendations. The core issue stems from their lack of understanding of microfinance as a business and its inherent risks different from those of traditional banking. JAB normally audits AMC once a year without any client visit which is both infrequent and inappropriate with regard to microfinance best practices' standards. As AMC has now entered the Islamic lending arena, it will need to extend future visits to the suppliers as well as to the clients. A reputable firm (Deloitte) performs regular external audits using international accounting standards and has provided unqualified opinions for AMC's financial statements.

■ Activities

Activities: products and services is rated "b"

Market position and strategy

It is estimated that 50% to 60% of the microfinance market remains untapped: MFIs thus have room to grow and currently operate within their comfort zone. Yet, competition is increasing, with new comers such as NMB rapidly growing, rumors of FINCA entering the market or banks such as Cairo-Amman Bank downscaling into microfinance. Originally serving different market segments, the four AMIR-supported MFIs, are slowly starting to diversify their target clientele and products: AMC targets the upper segment of the market (1,000 JD average loan) but have launched smaller loan products and; JMCC concentrated on the lower segment (300 JD average loan) but currently offers loans up to 25,000 JD; MFW targets women, but recently opened its loan programs to men; MEMCO is a middle-market player, with a loan average at 800 JD. NMB also acts a middle-market player with loans at around 600 JD, and was the first to introduce Islamic lending on the Jordanian market (Murabaha, representing 30% of its portfolio). But despite impressive growth, its threat is not yet fully perceived on the ground: this could be explained by a high level of cross-indebtedness in the market, which is not measurable in the absence of a Credit Bureau. As all major players (except DEF) operate within the same geographical area, cross-indebtedness is expected to have exceeded 30%, while less populated areas remain poorly served: such a level could represent a serious industry-wide issue as long as the long-discussed information sharing system is not in place.

In this context, AMC enjoys a natural competitive advantage by benefiting from JAB's national network, which makes it possible to quickly establish a new branch within the banks' premises. Also, aside from its traditional productive loans, AMC has developed two innovative products:

- Islamic lending, launched with a very rigorous respect of Shari'a principles, meets a real market demand and comes as an advantage to face future competitiveness from NMB; ILU is expected to grow and contribute to an increased profitability once running in all branches;
- Vehicle lending methodology is quite unique on the market and remains unchallenged; although the resale agreement still needs to be formalized in a contract between AMC and the car dealer, the portfolio is fully secured through a built-in insurance pool.

Yet, despite those strong advantages and some room on the microfinance market, AMC needs to better define its own marketing strategy: although regularly reviewed, current pricing does not reflect true transactional costs and will only do when detailed financial analysis properly allocates costs per product; new product's development process is to be formalized, as it should be more strategic and integrated with a better cross-selling of JAB's products.

Credit methodology

AMC has a very thorough credit methodology, with documented procedures and a regularly updated manual. Over the past year, it has accelerated its centralized loan processing by using the Workflow software, which is also Oracle-based and developed locally. The overall process proved to be flexible enough to allow LOs to adapt it to their clients if needed, while checks at different levels ensure its critical points are rigorously followed:

- Due both to AMIR trainings and to JAB's banking culture, credit application is very comprehensive and comprises all the necessary fields; business analysis is very meticulous and detailed, including market studies as well as client's personal and professional expenses; documentation is extremely complete;
- Loan application is reviewed at all levels (LO, BM, CLU or ILU Manager, DGM, GM), and finally approved by top management;
- Follow up on late loans is systematic, and done by both loan officers and delinquency officer; there is a "zero-tolerance" culture, and defaulting client are sued despite long Jordanian legal procedures (2001 loans are still being collected);
- LOs are well trained and have a good compliance culture; Branch Managers have all necessary tools to monitor their branch performance: on top of the Delta reports, monthly reports are provided by HQ and include relevant indicators.

Portfolio evolution

Over the last few years, AMC's loan portfolio evolved positively, enjoying a double digit growth rate although remaining under the overall market growth (15% vs 19% on average). In 2006, portfolio growth significantly dropped to 10%, down from 23% in 2005. Such evolution could be explained by a) the combined effect of high turnover and low productivity, and b) the lack of funding, both due to Central Bank's caps on JAB's loans (cf. section F) and to a very long loan application process with DEF, from which all MFIs except AMC obtained cheap funding.

Since inception, AMC has adopted the individual lending methodology. It started with an average loan size at around 3,500 JD and 15-month average loan length, which first resulted in a lower number of clients but higher portfolio than competitors. Over the years, AMC gradually reduced both the average loan size and maturity to increase its market outreach: 2005 active clients thus grew by 57.8%, but growth was slowed down to 34% in 2006 due to the lack of funding (cf. F section); lately, priority was given to loans ranging from 120 JD to 1,000 JD. AMC aims at further reducing its average loan size to tackle its main competitors.

Portfolio diversification

AMC's portfolio is appropriately diversified per region, product and type of activities, although specific HQ targets are only set for the loan products:

- The biggest part of the portfolio historically consists of loans for existing projects, but their percentage has decreased to stabilize at around 60%; as a result from management plans, household loans have increased to reach 17% of the portfolio, while vehicle loans have decreased from 26% in 2005 to 14% in 2006, being capped at 500,000 JD in total. Islamic loans (both Murabaha and Islamic Vehicle loans) are expected to grow in 2007, but currently represent only 5% of the total portfolio;
- 50% of the portfolio is concentrated in the capital city, this figure going up to 65% when including Vehicle and Islamic loans, both only available at Saqf El-Sail branch;
- As of December 2006, loans over 10,000 clients only represented 4.2% of the total portfolio.

Portfolio quality and write-off

Despite strong competitive advantages, appropriate methodology and high portfolio management practices, AMC has only an average portfolio quality, showing a 4-year average PAR 31-365 at 4.5%. Although this level improved by dropping to 2% in 2006, it remains significantly higher than its Jordanian and MENA peers, both at excellent levels and under 1%. This is explained by PAR calculations, usually inflated for AMC due to

rescheduled loans inclusion, and potentially underestimated for other Jordanian players who write off loans several times a year. It is also explained by AMC's higher average loan amount, a single default thus resulting in a higher PAR.

AMC has very few rescheduled loans (included in the PAR) and has not written off any loan since 2003, in accordance with the "zero-tolerance" culture it wants to foster. This 100%-recovery policy contributed to a significant decrease of the total PAR > 31 over the last few years (from 9.0% in 2003 to 5.9% in 2006), but AMC would nevertheless benefit from putting a formal write-off policy in place, which would deflate its PAR > 365.

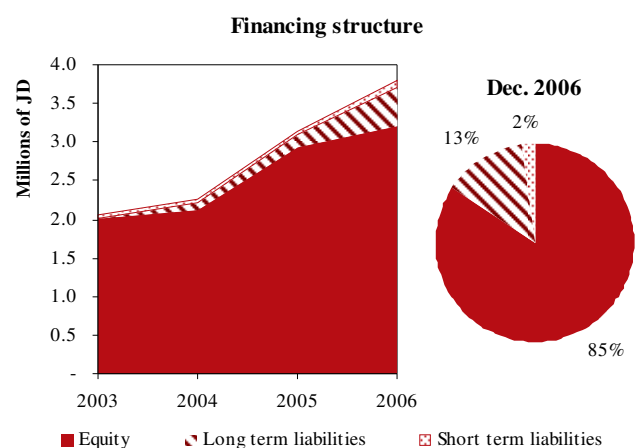
Credit risk coverage

AMC has a conservative provisioning policy, which provides a more than adequate coverage level (over 100% over the past 3 years). Provisioning methodology classically depends on the aging of past-due loans with an additional 1% reserve on the healthy portfolio, as required by the Central Bank's regulations. On top of the provisions, there is also a specific coverage for Vehicle loans, thanks to the extra 6.5% guarantee fund. Along with a solid guarantee process, such policies prevent AMC from being exposed to credit risks.

Although cross-indebtedness level remains unclear for the microfinance industry as a whole, cross guarantors and/or clients are tracked, both within AMC and JAB's database.

Financing and liquidity

Financing and liquidity is rated "b"



Capital structure and leverage

Despite being a non-bank, private and for-profit financial institution, AMC capital structure resembles that of a NGO (i.e. very low leverage; major equity build-up due to grants' capitalization, heavy reliance on one funder, heavily concessional cost of funding, etc). Being part of JAB, AMC has had access to relatively easy and cheap (5.5%) "internal"

funding source which could have explained its lack of a more active funding strategy. Also, and as opposed to other MFIs, AMC did not benefit from DEF's even cheaper funding (4.5%), despite repeated attempts. Since the capitalization of retained earnings and donations in late 2006, 97% of AMC capital structure is now made up of equity as of the end of 2006 giving a very low leverage ratio of 0.18x and a funding expense ratio of 0.5%.

ALM risks

ALM risks are very low and non material at AMC given that it does not have any hard currency loans (no FX risk), that it finances its loan portfolio with either equity or no-termed JAB loans (very low maturity risk), the latter being based on a below-market fixed rate (no variable interest rate risk).

Financing strategy

Having borrowed the maximum that it can from JAB (500,000 JD or 700,980 USD) under the Central Bank's 20% maximum of capital prudential requirement, AMC has been further thinking about how to raise additional funds. While AMC is aware of its dependence of JAB and the need to diversify its funding sources, it does not have yet a clear funding strategy. Nevertheless, it has already had some discussions with various external sources/funding agencies: today, it contemplates various scenarios including extra capital from JAB, opening up its capital to investors and seeking international funding. While it is comfortable to stay with the current capital structure set up, AMC will gain from securing commercial funding despite its higher cost. Such "market cost discipline" would heighten AMC managers' existing awareness when it looks at product pricing or cost structure issues and would remove funding constraints on expansion.

Liquidity management

Liquidity is conservatively managed to avoid cash shortages based on an internal goal of having at least 6 months worth of salaries and operating expenses. In part as a result of this policy and in part due to the obligation of keeping some loan fund totally separate for the ILU (a Shari'a-compliant procedure), AMC liquidity has not yet been optimized as evidenced by the high cash or near cash levels on the balance sheets (which peaked at 27% by end of 2006). It would be beneficial to examine whether AMC really needs a 6-month salary and operating expenses cushion. Tighter liquidity management in both CLU and ILU would enhance existing relatively low asset deployment rate (68.6%) and increase profitability. Finally, AMC could leverage JAB's experience in treasury management to introduce more sophisticated liquidity management procedures and foster a more efficient allocation of funds.

Efficiency and Profitability

Efficiency and Profitability is rated "b"

Profitability analysis

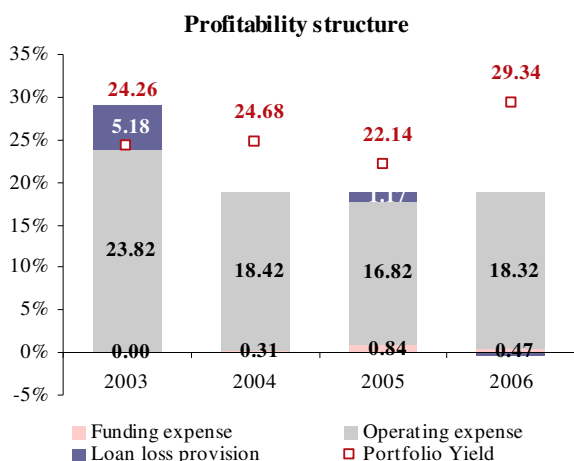
Due to combined rich yields, a controlled operating expense ratio and cheap funding, AMC has evolved to become a very profitable institution, as shown by its latest ROA and ROE (7.9% and 8.9% respectively), both standing at very good levels when compared to MENA indicators (2.8% and 6.8% respectively).

- In the absence of market pressure on the interest rates, interest rates are high and still increasing, leading to high yields on the loan portfolio.
- Overall cost structure has been stable over the past three years.
- Though growing in 2006, operating expense ratio is excellent and kept below 20%. This level is partially under-estimated due to quasi-free rent and other JAB facilities currently provided to AMC: but even when adjusted, the operating expense ratio proves to remain very good (19,2%).
- On adjusted basis, this result is nevertheless mitigated by a financial self-sufficiency fluctuating above and below the 100% level.

When benchmarked, AMC's profitability indicators remain challenged by major Jordanian competitors such as MFW (ROA 10.4%) or JMCC (ROE 10.4%), and fall lower than regional peers on adjusted basis. This relatively lesser profitability could be explained by a low productivity level that could be significantly improved:

- AMC's productivity is the lowest in Jordan, and up to four times lower than its MENA peers, although some of its competitors' level derive from the group lending practices;
- This low productivity is partially explained by a high turnover, experienced at industry-level, and the resulting need to permanently train new staff;
- It might also be explained by the centralized credit administration and current procedures that require important documentation;
- It might finally explained by the bonus system, which was reviewed to boost productivity, but currently gives LOs more incentive to focus on loan repayments rather than on new clients.

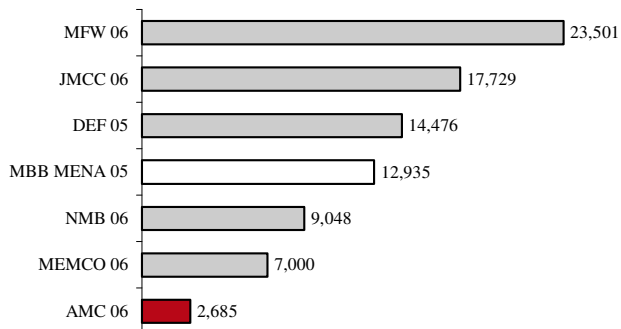
AMC is expected to keep its good profitability levels in the years to come. Should increased competition finally result in decreasing interest rates, profitability could be maintained either by increased leverage or by less conservative liquidity management, the latter leading to a better asset deployment ratio (despite the Islamic lending methodology limitations). In all cases, AMC would benefit from increased experience and better adequacy between ILU costs and expenses.



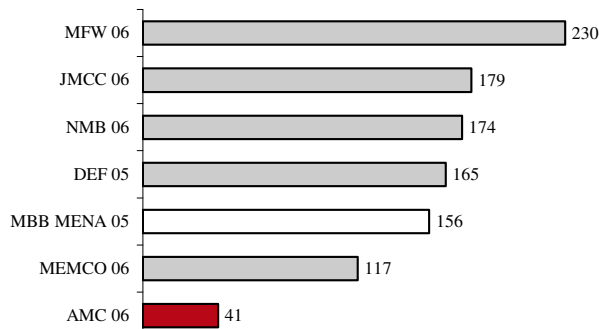
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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

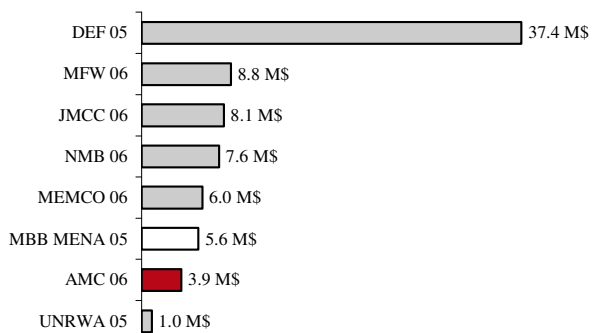
Number of active borrowers



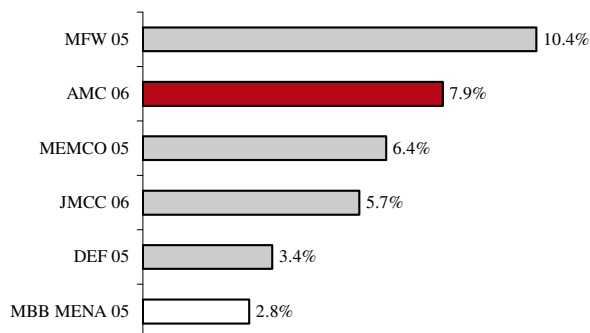
Staff productivity



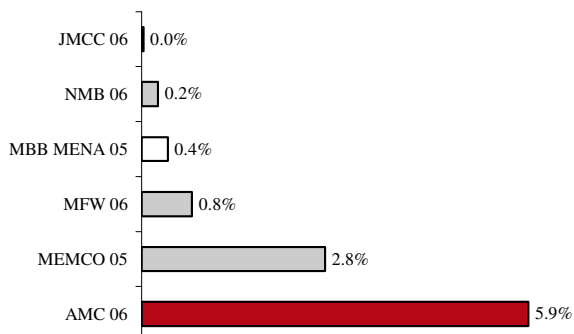
Gross Portfolio



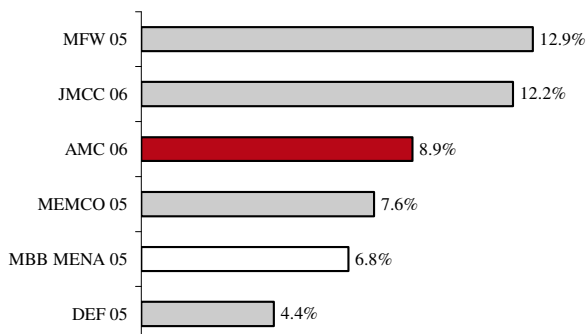
ROA



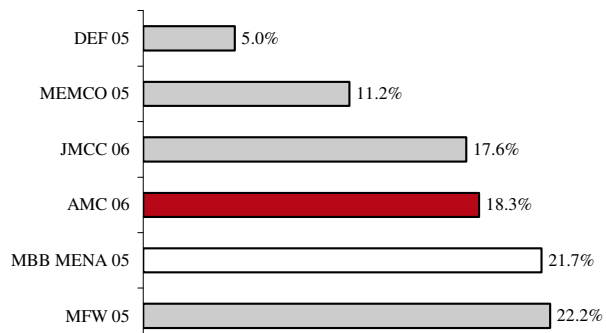
PAR > 30 days



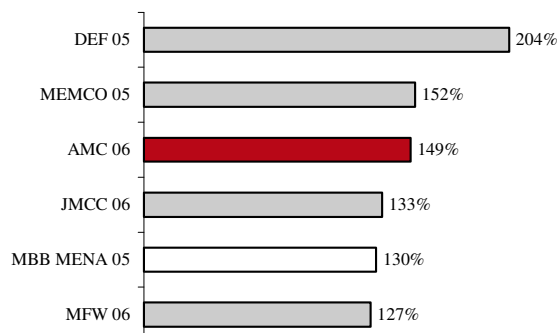
ROE



Operating expense ratio



Operational self-sufficiency

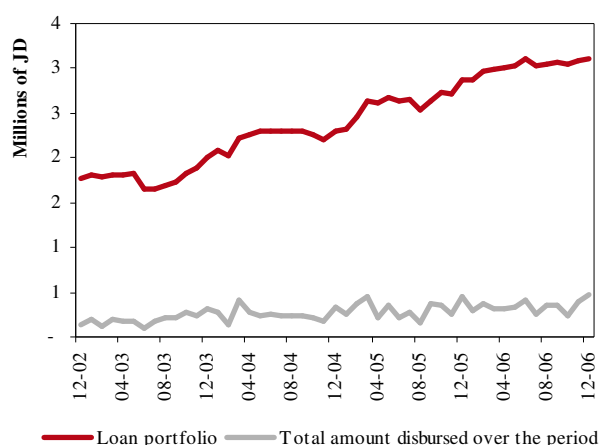


■ Performance indicators

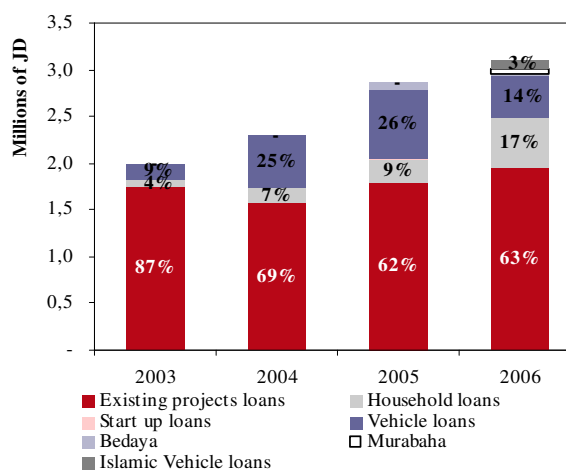
Data in USD, unless otherwise stated

LOAN PORTFOLIO	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
Loan portfolio	2,517,674	2,892,775	3,566,014	3,913,008
Loan portfolio (JD)	1,797,339	2,061,964	2,539,123	2,791,097
Evolution	13.4%	14.7%	23.1%	9.9%
Active borrowers	1,090	1,269	2,003	2,685
Evolution	-	16.4%	57.8%	34.0%
Average outstanding loan per client	2,310	2,280	1,780	1,457
% of GDP per capita	118.6%	107.6%	77.2%	57.6%
Average amount disbursed	4,403	4,047	2,869	2,434
% of GDP per capita	226.1%	191.0%	124.4%	96.2%
PAR 31-365 (%)	5.4%	5.6%	4.9%	2.0%
PAR > 365 (%)	3.6%	1.2%	0.8%	3.9%
Write-off ratio (%)	6.6%	0.0%	0.0%	0.0%
Risk coverage ratio (%)	89.2%	101.8%	116.2%	105.3%
PAR 31 net of loan loss provision / Equity (%)	1.0%	(0.1%)	(0.9%)	(0.3%)
STAFF	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
Staff	45	39	53	66
% Loan officers	44%	44%	55%	62%
Turnover	41%	76%	46%	40%
PROFITABILITY ANALYSIS	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
ROE (%)	(3.8%)	4.9%	2.7%	8.9%
Liabilities / Equity	0.02x	0.07x	0.07x	0.18x
ROA (%)	(3.4%)	4.7%	2.5%	7.9%
Portfolio Yield (%)	24.3%	24.7%	22.1%	29.3%
Operating expense ratio (%)	23.8%	18.4%	16.8%	18.3%
Staff productivity	24	33	38	41
Loan officer productivity	55	75	69	65
Average outstanding loan per client (USD)	2,310	2,280	1,780	1,457
Funding expense ratio (%)	0.0%	0.3%	0.8%	0.5%
Cost of liabilities (%)	0.0%	13.8%	17.4%	4.4%
Loan Loss Provision expense ratio (%)	5.2%	(0.0%)	1.2%	(0.3%)
Outstanding Loan Portfolio / Assets (%)	79.5%	84.0%	74.5%	68.6%
Revenue from investment as a % of financial revenues (%)	4.2%	0.6%	3.0%	1.9%

Evolution of outstanding loan portfolio



Outstanding loan portfolio per product



AMC	Notes	JD				USD				Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	04/03	05/04	06/05
Income Statement												
Financial Revenue (a)		442,931	515,932	557,925	832,590	620,448	723,813	783,565	1,167,258	16.5%	8.1%	49.2%
Financial Revenue from Loan Portfolio		410,425	476,305	509,240	781,934	574,914	668,219	715,191	1,096,241	16.1%	6.9%	53.5%
Interest on Loan Portfolio		410,425	476,305	509,240	781,934	574,914	668,219	715,191	1,096,241	16.1%	6.9%	53.5%
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		18,648	3,049	16,867	15,668	26,122	4,278	23,688	21,966	(83.6%)	453.2%	(7.1%)
Other Operating Revenue		13,858	36,578	31,818	34,988	19,412	51,316	44,686	49,052	163.9%	(13.0%)	10.0%
Financial Expense (b)		-	6,906	21,764	14,323	-	9,689	30,566	20,080	-	215.1%	(34.2%)
Interest paid on borrowings		-	6,906	21,764	14,323	-	9,689	30,566	20,080	-	215.1%	(34.2%)
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]		442,931	509,026	536,161	818,267	620,448	714,124	752,999	1,147,178	14.9%	5.3%	52.6%
Net Loan Loss provision expense (d)		92,730	(244)	30,469	(9,954)	129,894	(342)	42,791	(13,955)	(100.3%)	(12,587%)	(132.7%)
Loan loss provision expense and write-off	1	98,506	5,309	37,757	531	137,985	7,448	53,027	744	(94.6%)	611.2%	(98.6%)
Recovery from Loans written off		5,776	5,553	7,288	10,485	8,091	7,791	10,236	14,700	(3.9%)	31.2%	43.9%
Operating expense (e)		426,228	408,515	437,214	553,169	597,051	573,115	614,035	775,521	(4.2%)	7.0%	26.5%
Personnel Expense (includes fringe)		n.a.	244,842	283,047	346,794		343,494	397,519	486,191	-	15.6%	22.5%
Administrative Expense (non-staff operating expenses)		426,228	163,673	154,167	206,375	597,051	229,621	216,516	289,330	(61.6%)	(5.8%)	33.9%
Depreciation and amortization		n.a.	44,667	37,649	31,148	n.a.	62,664	52,875	43,668	-	(15.7%)	(17.3%)
Legal costs		n.a.	29,127	11,233	17,525	n.a.	40,863	15,776	24,569	-	(61.4%)	56.0%
Rent, utilities, office supplies and others		426,228	89,879	105,285	157,702	597,051	126,093	147,865	221,092	(78.9%)	17.1%	49.8%
Net Operating Income Before Taxes and Donations [f=c-d-e]		(76,027)	100,755	68,478	275,052	(106,497)	141,351	96,172	385,612	(232.5%)	(32.0%)	301.7%
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		(76,027)	100,755	68,478	275,052	(106,497)	141,351	96,172	385,612	(232.5%)	(32.0%)	301.7%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		(76,027)	100,755	68,478	275,052	(106,497)	141,351	96,172	385,612	(232.5%)	(32.0%)	301.7%
Donations (l)				751,158				1,054,947		-	-	(100.0%)
Net Income (after Taxes and Donations) [m=k+l]		(76,027)	100,755	819,636	275,052	(106,497)	141,351	1,151,119	385,612	(232.5%)	713.5%	(66.4%)

1) Recalculated by Planet Rating to include recovery from loans written off

AMC Balance sheet	Notes	JD					USD				Evolution		
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	04/03	05/04	06/05
ASSETS		2,466,666	2,058,762	2,263,554	3,151,943	3,805,410	2,883,869	3,175,591	4,426,675	5,335,035	9.9%	39.2%	20.7%
Short Term Assets			1,829,848	1,773,305	2,575,891	3,187,325	2,563,211	2,487,809	3,617,652	4,468,504	(3.1%)	45.3%	23.7%
Cash and Due from Banks			126,451	24,606	80,486	72,115	177,130	34,520	113,037	101,102	(80.5%)	227.1%	(10.4%)
Short Term Investments			104,307	192,343	558,232	952,584	146,111	269,842	783,996	1,335,485	84.4%	190.2%	70.6%
Short Term Net Loan Portfolio		1,398,406	1,558,775	1,519,303	1,860,996	2,085,233	2,183,498	2,131,464	2,613,634	2,923,414	(2.5%)	22.5%	12.0%
Short Term Gross Loan Portfolio	1	1,585,556	1,719,791	1,680,075	2,052,237	2,266,520	2,409,046	2,357,015	2,882,218	3,177,572	(2.3%)	22.2%	10.4%
(Loan Loss Reserve)		187,150	161,016	160,772	191,241	181,287	225,548	225,551	268,584	254,157	(0.2%)	19.0%	(5.2%)
Interest Receivable			-	-	-	-	-	-	-	-	-	-	-
On loan portfolio			-	-	-	-	-	-	-	-	-	-	-
On investments			-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets			40,315	37,053	76,177	77,393	56,472	51,982	106,985	108,502	(8.1%)	105.6%	1.6%
Long term assets			228,914	490,249	576,052	618,085	320,658	687,781	809,023	866,531	114.2%	17.5%	7.3%
Long Term Net Investments			-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		n.a.	77,548	381,889	486,886	524,577	108,628	535,761	683,796	735,436	392.5%	27.5%	7.7%
Net Fixed Assets		135,684	151,366	108,360	89,166	93,508	212,030	152,021	125,227	131,095	(28.4%)	(17.7%)	4.9%
Other Long Term Assets			-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY			2,058,762	2,263,554	3,151,943	3,805,410	2,883,869	3,175,591	4,426,675	5,335,035	9.9%	39.2%	20.7%
Liabilities			37,693	141,730	210,483	588,898	52,800	198,836	295,608	825,612	276.0%	48.5%	179.8%
Short term liabilities			37,693	41,730	60,483	88,898	52,800	58,544	84,944	124,631	10.7%	44.9%	47.0%
Short Term Borrowings			-	-	-	-	-	-	-	-	-	-	-
Interest payable		218	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities			37,693	41,730	60,483	88,898	52,800	58,544	84,944	124,631	10.7%	44.9%	47.0%
Long term liabilities			-	100,000	150,000	500,000	-	140,292	210,664	700,980	-	50.0%	233.3%
Long Term Borrowings		291,668	-	100,000	150,000	500,000	-	140,292	210,664	700,980	-	50.0%	233.3%
Other Long Term Liabilities			-	-	-	-	-	-	-	-	-	-	-
Equity		1,958,886	2,021,069	2,121,824	2,941,460	3,216,512	2,831,070	2,976,754	4,131,067	4,509,423	5.0%	38.6%	9.4%
Paid-In Capital			750,000	750,000	750,000	2,500,000	1,050,584	1,052,192	1,053,321	3,504,901	0.0%	0.0%	233.3%
Donated equity			-	-	-	-	-	-	-	-	-	-	-
Retained earnings without donations and reserves			1,271,069	1,371,824	2,191,460	716,512	1,780,486	1,924,563	3,077,746	1,004,522	7.9%	59.7%	(67.3%)
Current year			(76,027)	100,755	68,478	275,052	(106,497)	141,351	96,172	385,612	(233%)	(32.0%)	301.7%
Other equity accounts			-	-	-	-	-	-	-	-	-	-	-

1) Loan portfolio excluding interest perceived in advance (accrued interest); 2002 loan portfolio split between short and long term is not available.

■ Formulas

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 savings ratio:	Interest and fees paid on deposits/Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings/Average borrowing
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)
Financial self-sufficiency:	Revenue from operations / (Expenses (financial, loan loss, operating) + Adjustments)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / 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.