

## Al Tadamun, Egypt

Al Tadamun started in 1996 as a microfinance program developed by the Egyptian field office of Save the Children, in partnership with Women's Health Improvement Association (WHIA), a local NGO. Since July 2003, Al Tadamun is a fully independent program running under the legal structure of WHIA. It offers group loans solely intended to women micro entrepreneurs, throughout the urban neighborhoods of the Cairo, Giza and Qalioubiya governorates. As of September 2007, Al Tadamun had a total outstanding loan portfolio of 20.8 M EGP (3.6 M USD) and 32,724 active borrowers.

### GIRAFE Rating

#### Rating

**B+**

#### Outlook

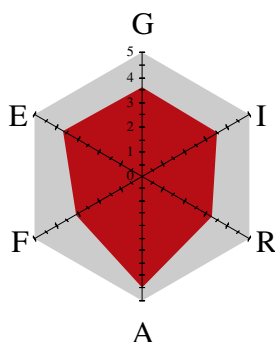
**Stable**

#### Date of the rating

**November 2007**

Valid until October 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Al Tadamun is a highly profitable institution with steadily increasing returns since it has become an independent program (3-year average ROE=22.1%, ROA=9.1%).
- This profitability is underpinned by stable portfolio yields with decreasing operating expenses and impeccable portfolio quality, resulting from a good loan product and immediate follow up on late loans (PAR > 30 historically kept at 0%).
- The Internal Audit department is still too young to be effective, but is expected to grow to properly complement the sound internal controls presently in place.
- Thanks to a capable and motivated management team, the institution enjoys a solid market position in Egypt and has become one of the strongest players in Cairo, if not the largest in terms of portfolio or number of borrowers.
- The business plan clearly highlights the upcoming challenges, namely spinning off from WHIA, recruiting a Human Resources manager, building an effective Internal Audit department, developing financial analysis, reorganizing the operations and reassessing the MIS needs to cope with the expected growth.

#### Outlook

The grade is assigned with a “Stable” outlook based on expectation that Al Tadamun will maintain a good profitability level as well as an outstanding portfolio quality despite the numerous challenges posed by its rapid growth.

#### Performance indicators

In USD	Dec. 2003*	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007
Assets	527,297	1,885,777	2,720,906	3,154,383	4,248,638
Growth (%)	-	252.7%	36.1%	15.4%	34.7%
Loan portfolio	489,326	839,878	1,268,127	2,153,663	3,638,527
Growth (%)	-	69.3%	42.4%	69.1%	68.9%
Active borrowers	7,203	9,232	11,028	18,463	32,724
Staff	37	38	45	70	143
ROE	(1.7%)	19.0%	23.4%	23.9%	24.1%
ROA	(1.9%)	7.4%	8.9%	11.0%	12.7%
Liabilities / Equity	0.43x	2.30x	1.31x	1.05x	0.79x
Portfolio Yield**	50.8%	59.6%	59.6%	58.5%	57.4%
Operating expense ratio	52.4%	40.3%	36.4%	33.1%	33.2%
PAR 31-365	0.00%	0.00%	0.00%	0.00%	0.00%
PAR > 365	0.00%	0.00%	0.00%	0.00%	0.00%
Write-off ratio**	0.00%	0.00%	0.004%	0.12%	0.33%

\* Partial year, starting in July; \*\* Ratios adjusted to account for the Client's Solidarity Scheme movements (see Information section for more details).

REF: NC / 041308

## Microfinance sector

Egypt is the most populous Arab country with a population of 76 million, 44% of which is estimated to live below the poverty line of 2\$ per day<sup>1</sup>. Based on 2 to 3 million non-agricultural private businesses and 11 million postal savings accounts held at the National Postal Authority (NPA), local microfinance practitioners estimate that the potential microfinance clientele could be as high as 20 million. In contrast with that number and even when counting in local commercial banks, no more than 700,000 clients (3.5%) are currently being served<sup>2</sup>, leaving behind a huge underserved potential market. The Egyptian microfinance sector is still largely underdeveloped, especially when compared to similar markets in Morocco and Jordan, which also started in the 1990s but have reached over 30% of the local markets.

Microfinance in Egypt essentially means microcredit services provided through two main channels: 1) the credit-only specialized NGOs, often under the form of Businessmen's Associations (e.g. ABA and DBACD), and 2) the public and private banks (e.g. Banque du Caire / Banque Misr and National Bank for Development). The NGOs are registered with and regulated by the Ministry of Social Solidarity (MSS) whereas the banks are regulated by the Central Bank of Egypt. A myriad of smaller non-specialized NGOs also have lending programs while providing other non-financial services: many of them are linked within local networks, but there is very little data available regarding their activities.

MFI As of Dec. 2006	Portfolio in USD	%	Number of clients	%
Banque du Caire*	35,372,853	30%	93,516	15%
ASBA	20,078,052	17%	164,533	26%
ESED	16,276,284	14%	81,316	13%
ABA	15,696,684	13%	59,526	9%
DBACD	11,380,402	10%	68,911	11%
Lead Foundation	4,579,848	4%	57,143	9%
SBACD	5,102,872	4%	26,679	4%
CEOSS	2,037,204	2%	20,618	3%
<b>Al Tadamun</b>	<b>2,153,663</b>	<b>2%</b>	<b>18,463</b>	<b>3%</b>
FMF	1,855,417	1%	13,796	2%
YMMA	1,266,915	1%	11,856	2%
Known others	3,908,187	3%	25,754	4%
<b>Total</b>	<b>119,708,382</b>	<b>100%</b>	<b>642,111</b>	<b>100%</b>

\*As of June 2006

The Social Development Fund (SFD), a governmental body in charge of translating country-level policies into operational programs, acts as an Apex institution that supports the creation and development of Egyptian MFIs, channelling funds from the Egyptian government, EU, KfW, Arab Fund and UNDP. It is also responsible for the planning

and coordination functions of the microfinance sector<sup>3</sup> under the framework of the National Microfinance Strategy launched in December 2005. USAID<sup>4</sup>, together with other foreign donors, has been instrumental in providing loan funds and technical assistance to Egyptian MFIs.

One of the reasons for the under-development of the microfinance sector is Egypt's unfavourable legal framework. The MSS has no regulatory authority and its reporting requirements are not adapted to MFI activities. It oversees all NGOs more or less the same way, which is compounded by the lack of a specific microfinance law: it does routine checks on MFIs' financial statements, but MSS auditors often lack understanding and knowledge of microfinance; it may attend General Assembly and Board meetings, receives Board minutes, and has the power to disapprove decisions taken and to change the Board and management in the event of unsatisfactory results, which affects MFIs' ability to change their lending rules as they see fit. Other impediments to efficiency include the requirements that all checks be signed by the Chairman (or a delegate) and the Treasurer of the Board, and that all transactions be recorded manually on hand-written general ledgers which slow down large MFIs with big number of routine transactions.

Efforts are being made by various stakeholders to lobby for a more conducive regulatory environment. In this regard, the newly created Egyptian Microfinance Network should provide advocacy, technical and information services for MFIs and potentially create a self-regulatory organization for the sector. The creation of a microfinance specific credit bureau is also being discussed. USAID-funded Egypt Micro-enterprise Finance project (EMF) is presently working on providing local MFIs various services including funding and assistance (e.g. IT, product development).

*Additional source:* "Regulatory and Supervision of Microfinance in Egypt", Magdy Moussa, January 2007.

## Political & economic environment

Egypt is classified as a middle-income developing country with a 2006 per capita income of 1,104 USD according to the International Monetary Fund. Egypt enjoys diversified sources of foreign currency including the Suez Canal, tourism, private transfers, and oil and gas exports. The level of foreign currency reserves has been comfortable amid moderate foreign debt. The government has undertaken a structural reform program intended to consolidate the

<sup>3</sup> Law No. 141 of June 2004 (or SME law).

<sup>4</sup> USAID developed a microfinance model through several businessmen associations registered as NGOs with off-site technical assistance from Environmental Quality International (EQI).

<sup>1</sup> Source: UNDP, Human Development Report, 2006.

<sup>2</sup> Source: Planet Rating's estimates, September 2007.

conditions for economic growth. With its regional mediator role, Egypt has been a privileged interlocutor and can thus rely on political and financial backing of Western countries.

The tourism sector, a crucial source of revenues for the country's current account balance and economic activity, has been vulnerable to the terrorism threat. Inelastic fiscal spending – on debt interest, wages, and subsidies – has undermined public sector finances and generated increasing debt. The level of domestic debt has limited the country's capacity for infrastructure development. The investment rate remains low in relation to Egypt's development needs.

Reforms implemented since 2004 have restored consumer and investor confidence. A bright outlook has been shaping up for 2006 and 2007. Despite the terrorist attacks, tourism has been holding up well. Progress on the reform program should continue to foster a propitious business climate. New increases in gas production capacity have benefited the oil and manufacturing sectors. The external financial situation has been buoyant amid the favorable trend of traditional foreign currency earnings and the increase in foreign direct investment spurred by privatizations. In that context, the corporate environment has been improving with the Coface payment incident index below the world average. The mining, manufacturing and construction sectors should continue to outperform the rest of the economy.

With the fiscal deficit and public sector debt continuing to be a source of concern, public sector financial consolidation has become imperative. The need to broaden the ruling NPD party's electoral base and check the Islamic current's progress could, however, limit the government's capacity to control spending and thus to undertake unpopular measures. The region is subject to an extreme geopolitical instability risk and the country has repeatedly been prey to terrorist acts that could ultimately affect tourism and investment.

### Country Rating: B

An unsteady political and economic environment is likely to affect further an already poor payment record.

USD billions	2003/04	2004/05 (e)	2005/06 (e)	2006/07 (f)
Economic growth (%)	4.1	4.9	5.6	5.6
Inflation (%)	16.6	4.7	5.0	6.0
Public sector balance (%GDP)	-9.3	-9.43	-8.8	-8.6
Exports	10.5	13.8	18.5	20.8
Imports	18.3	24.2	28.7	32.8
Trade balance	-7.8	-10.4	-10.3	-12.0
Current account balance (%GDP)	3.2	2.1	2.4	0.6
Foreign debt (%GDP)	37.9	32.3	30.2	26.4
Debt service (%G&S exports)	9.5	8.1	7.8	7.8
Foreign currency reserves (in months of imports)	7.4	7.4	7.3	7.3

Source: COFACE's Country Risk Ratings Guidebook 2006. (e) is estimated and (f) forecasted. Disclosure: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

Al Tadamun began its activities as a Group Guaranteed Lending and Savings pilot program, created in September 1996 by Save the Children, in partnership with Women's Health Improvement Association (WHIA). The program expanded until July 2003, when the three existing branches merged to create Al Tadamun Microfinance Program, as an autonomous program under the legal umbrella of WHIA. As such, and by written agreement, Al Tadamun has distinct management and board as well as separate financial statements. WHIA is an Egyptian NGO registered under the MSS since October 1966, and providing health-related services to women.

Since 2003, Al Tadamun's accounts are audited by "KPMG Hazem Hassan" certified accountants. Accounts have always been certified without reserve.

### Ownership

Al Tadamun is fully owned by WHIA, which in turn has no shareholders as a non-profit organization. Al Tadamun's Board of Directors (BOD) is ruled by its own statutes, requiring it to be composed of 5 to 9 members for three years, whose term is extendable once and might be renewed after one vacant term. BOD presently comprises 6 members and is due to meet once every two months. Al Tadamun's Executive Director is a non-voting BOD member.

The current BOD is chaired by Mrs. Mona Salah Zulficar, a lawyer with a historical family involvement in WHIA, who has been re-elected in July 2006 for a second mandate. Other BOD members have experiences in microfinance<sup>5</sup>, banking, corporate finance, NGOs, and information systems, and were all extended in their position as well.

### Donations

Since inception, Al Tadamun has received both cash and non-cash donations for a total of 7.9 M EGP (1.4 M USD), mainly from Save the Children<sup>6</sup>, EFG Hermes and private Egyptian businessmen. As of September 2007, Al Tadamun had 2.7 M EGP (0.5 M USD) of donations registered in its Income Statement. In-kind donations comprise yearly

<sup>5</sup> Magdy Moussa, PlaNet Finance's Director for the Middle East. PlaNet Finance is a shareholder of Planet Rating. Inter-company relationships are governed under the rules of the Conflicts of Interest Policy.

<sup>6</sup> Channeled through WHIA, Save the Children grants included funds received from Rockdale Foundation and the Morgridge family Foundation. Unused funds are reimbursed at the end of each period, sometimes resulting in negative donation transfers in the Financial Statements notes.

external audit and legal fees (the latter until 2006) as well as office space rent from WHIA for the Abdeen branch.

### Funding composition

As of December 2006, Al Tadamun's growth was equally funded through equity and long term liabilities. In 2007, increased retained earnings and newly received donations have shifted this balance towards equity (55%). Long term liabilities (5 to 7 years) mainly consist of a 6 M EGP (1 M USD) loan from SFD bearing a 8% interest rate, and five smaller concessional loans from Grameen Foundation totalling 2.3 M EGP (0.4 M USD) with a 2% interest rate and bullet capital repayment. In addition, Al Tadamun has recently signed a 1 M EGP and 7% interest rate overdraft facility with National Société Générale Bank (NSGB).

### Management team

The management team includes an Executive Director (ED), an Operations Manager (OM), a Finance & Administration Manager (FM), an IT Manager, a Chief Internal Controller (hereafter referred to as Chief of Internal Audit – IA) and a Communications Manager. A Human Resources (HR) Manager is currently being recruited.

The ED, Reham Farouk, has led the institution since April 2000. Her microfinance knowledge is drawn from on-the-job experience and was complemented by several international microfinance trainings led by Save the Children, MicroSave, ILO/Boulder, CGAP and Sanabel (network of MFIs of the Arab World). She holds a MBA in Marketing & Management of Information Systems from the American University of Cairo, and is a certified Sanabel trainer. She has prior work experience in NGOs, consultancy and management.

### Organization

Al Tadamun's headquarters (HQ) centralize all top managers. Each branch comprises a Branch Manager (BM), five to ten Field Coordinators (hereafter referred to as Loan Officers – LO), in addition to one Finance & Administration assistant (accountant). Every four branches will be grouped under an area office, which reports straight to the OM and comprises an Area Manager (AM), a Finance & Administration officer, two internal auditors, one MIS officer, and four administrators. Al Tadamun's 2008 organizational target is composed of five areas offices. As of September 2007, the first area office was under creation.

Credit decision is taken at the branch level, after which an internal control function of documentary review and completeness is undertaken centrally at HQ. All related checks being signed by 2 out of the ED, OM and FM, in compliance with the prevailing Egyptian NGO law.

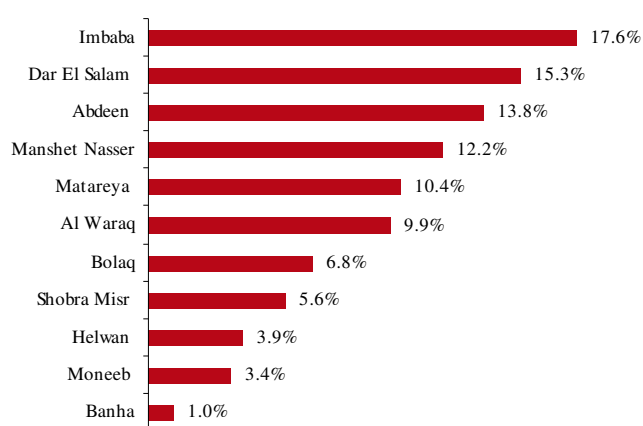
Applications are initially approved at the branch level by all of the LO, BM and accountant, before all related documents are checked at HQ by both the MIS department (data entry and file reviewers). Starting last quarter of 2007, areas offices will gradually provide such support services instead of HQ. The disbursement check is handed by the branch accountant to the group's President, who's in charge of cashing it at the bank and dividing it among the group members back at the branch and in presence of the LO. Reimbursements are made in cash at the branch level by the group's President and handled by dedicated staff. A specialized cash-transport company is in charge of transferring the cash from branches to nearby banks on a daily basis, while small amounts are kept in a safe overnight.

All loan-related data is entered into Al Faten<sup>7</sup> loan tracking system by dedicated staff at HQ. Branches use a simple Excel sheet to follow up on loan transactions, receive weekly data on reimbursement and disbursement from HQ and a monthly consolidated report. Accounting information is recorded in Al Motammem, an off-the-shelf software commonly found in Egypt. Cash reconciliations and loan data reconciliation with HQ are performed on a weekly basis.

### Market penetration

Al Tadamun presently operates through a network of 11 branches covering the regions of South Cairo (Abdeen, Dar El Salam, Manshet Nasser, Helwan), East and Central Cairo (Matareya, Shobra Misr), South Giza (Moneeb), North Giza (Al Waraq, Imbaba, Bolaq), and Qalioubiya (Banha). It plans to reach 20 branches by the end of 2008.

Out. Loans per branch - Sept. 2007



### Products and services

Al Tadamun loan offering is divided into two group loans products organized in cycles.

<sup>7</sup> Developed by the Palestinian MFI Al Faten, the software is also in use at Enda (Tunisia).

- Solidarity Group Loans (GL), which account for 99% of the outstanding loan portfolio: target groups of 7 to 15 women, with a minimum of 5 women in higher loan cycles, all with existing businesses for at least 6 months. Amounts range from 500 up to 5,000 EGP (88 to 880 USD) with a 30 to 50-week term and bi-monthly repayments. Depending on the loan cycle, nominal interest rate varies from 24% to 36% on an annual flat basis, equivalent to a 47% to 65% effective rate.
- Seasonal Loans (SL): are destined for seasonal events such as beginning of school or religious feasts and target groups of women at least in their second loan cycle. Amounts range from 300 up to 1,000 EGP (53 to 175 USD) with a 50% cap on the initial GL amount, a fixed 1-month term and two repayments. Interest rate is of 120% on a flat basis, equivalent to an effective annual rate of 190%.

## Networks

Al Tadamun is a member of Sanabel, Save the Children (USA) – Economic Opportunities, and Grameen Foundation networks.

## ■ Governance

Governance and Decision-making is rated “b”

### Decision-making

The decision-making process at Al Tadamun is clear, well balanced and consensus-based among both BOD and management, thanks to a shared vision and mission, further enhanced after a specialized Save the Children governance workshop. It has nevertheless been slowed by somehow irregular meetings, which resumed in April 2007 after a 10-month break and did not, in turn, allow a systematic follow up on all decisions: though this has not impeded the institution, notably thanks to ongoing informal contacts between BOD members and management, it could become problematic as the institution grows. The remaining components of the decision-making process are effective, with an agenda being sent in advance, and minutes being documented and agreed upon. Information sent to the BOD comprises relevant basic microfinance indicators as well as a comparison of the actual vs. planned growth figures: though it could be more elaborated to resemble a scorecard and include portfolio and financial performance, it presently allows a proper monitoring given Al Tadamun’s excellent performance and portfolio quality (cf. section “A”). This is especially true since decision makers have a strong combined knowledge in various fields and include a microfinance expert, which provides them with independence of thinking and allow for useful input.

Thanks to a written agreement with WHIA on the fact that Al Tadamun has separate BOD, management, operations and financials, Al Tadamun’s particular institutional set up does not endanger its activities<sup>8</sup>. This is further ensured by the involvement of the Chairman in the mother NGO. Potentially resulting conflicts of interest are appropriately mitigated by a non-voting rule specified in the by-laws. Ownership is thus clear and properly exercised by the BOD. Furthermore, the legal status has been investigated and Al Tadamun’s stated objective is to spin off into a separate NGO by 2011.

## Planning

Al Tadamun’s business plan (2007-2011), drafted with the assistance of Grameen-Jameel and an external consultant, shows a realistic growth strategy focusing on outreach (100,000 clients by 2011) and based on a network of 20 branches covering the Cairo and Greater Cairo areas starting 2008. The plan includes an accurate analysis of the current market (clients and competition), as well the institutions strength and weaknesses. Although some internal changes might be slowed by the lack of a formal operational plan (e.g. MIS needs, improvement of existing products), institutional projects needed to carry out the business plan are well identified: the target organizational structure is clear, branch openings and staff hiring being detailed per quarter. Furthermore, the participatory process (all HQ and field staff, BOD’s approval) has ensured a good buy-in of the strategic goals. Precise financial projections, developed on Microfin, are available for the whole duration of the plan and followed upon on a quarterly basis (SEEP Framework tool), while the annual budget is monitored on a monthly basis and updated once per year.

Similarly to other Egyptian MFIs, growth figures can be considered as conservative given the huge untapped market (internally estimated at 85% of the potential market). This is particularly true for Al Tadamun, whose targets are regularly exceeded and sometimes re-set at the branch level (e.g. +50% planned annual growth in terms of active clients until 2011 vs. +67% in 2006 and +77% as of September 2007). While such over-performance was not easily predictable and has not generated additional risks thanks to an early and active fund raising practice (cf. “F” section), it requires more frequent updates (new targets are sent to the OM on a quarterly basis) to allow a precise prediction of financing needs and financial performance, as well as timely adoption of revised plans.

<sup>8</sup> On the contrary, WHIA historical track record has allowed delegating BOD’s signature power to the ED. Egyptian NGO law requires BOD to play a very active role in management, including the signature of all checks and hiring approvals.

## Management team

Al Tadamun's management team comprises skilled managers with sound experience in their respective fields. Microfinance specific knowledge is drawn from several years of on-the-job experience and numerous trainings. Atop of management's stability over time (4 to 7 years for all key positions), basic polyvalence is ensured thanks to ongoing meetings, all issues being shared, discussed and documented in written memos. Internal communication is therefore presently smooth: as the institution matures, more formal meetings will be needed to ensure such good communication is maintained. The management team has shown a good ability to execute plans and accomplish set goals, targets having been constantly exceeded.

The institution is led by a strong ED, whose key-person risk is efficiently mitigated thanks to: 1) an identified n°2 (OM), who has been running the operations for several years, 2) collective decision-making and 3) joint attendance of external meetings. Yet, in the absence of a strong middle-management, there still is a general person risk at HQ level. The institution is aware of this risk, and plans to hire assistants for all departments to build a solid middle-management within the coming two years.

## Human resources management

HR are professionally administered within the institution. Documented procedures are in place to ensure appropriate recruitment, training and retention of staff:

- Procedures comprise salary grids, job descriptions, recruiting and evaluation processes, etc.;
- Regular trainings at all levels (field staff & HQ) allow for skills improvement through both in-house modules and external classes (sales, time management, etc.), a training budget being included in the business plan;
- Though not yet linked to a career path and partially linked to salary increase (5% per year), evaluations are done regularly (yearly or quarterly basis) and allow a close monitoring of staff performance.

It is probable that higher-than-the-market salaries, benefits and incentives are presently efficient to retain staff and foster good morale: though turnover remains high and peaks at 17% in 2006, it still is one of the lowest achieved among best-practice institutions in the MENA region<sup>9</sup>. An HR manager should be recruited by year-end to cope with the expected staff growth (+75% in 2008, +120% by 2011). In

<sup>9</sup> Al Tadamun's HR figures do not include staff on "casual contract", i.e. on a 3-month pre-probationary period, potentially renewable. For cultural reasons, especially when related to women's work, turnover is generally high in the MENA region (in Egypt, 25% for DBACD, estimated at 15% for ABA on adjusted basis, and over 20% for Lead Foundation on adjusted basis; in Jordan, 25% for MFW and 33% for JMCC, both on adjusted basis).

the mean time, trainings are handled by the Communication department and HR administration by the FM.

## Information

Information is rated "b"

Although it could pose some limitations in the future, the current MIS is adequate given Al Tadamun's size, and provides accurate, up-to-date and relevant information. Multiple cross-checks of the data entry, customized authorization levels and frequent reconciliations (weekly and monthly basis) ensure data is reliable. Al Faten generates useful reports on activities, including the main microfinance indicators (available at institutional level, by branch, zone, area, loan officer, product, etc.), and has helpful features to track black-listed clients and manage client's history. Precise financial statements are available on a monthly basis (global and per branch), thus allowing a close monitoring of the financial performance using the SEEP Framework tools. Yet, financial analysis ought to be further developed to allow appropriate product and loan cycle definition / fine-tuning, especially as competition is starting to increase in Cairo (e.g. regular analysis of operating expenses, cost analysis by product and by cycle, etc.). For this purpose, Al Tadamun plans to hire a full time Financial Analyst by the end of 2007.

Both Al Faten and Al Motammem are cost effective and enjoy good support. Systems are well designed and Al Tadamun's staff is proficient in their use. Moreover, the IT department has access to Al Faten's source code, which makes changes easy to implement, particularly regarding the introduction of new products or the modification of existing ones. Additional in-house modules have been added to produce some customized reports (e.g. branch performance comparison). Data security standards are met with an anti-virus in place, crash and recovery tests, as well as daily and monthly back-ups on CDs, copies of which are kept in a safe and outside the office. Management plans to reassess its MIS needs, but has not yet investigated the scalability of the present systems.

Parts of the information process / analysis could nevertheless be improved, in order to ensure the institution will still easily access all the needed information for an optimal management once its activities scale up:

- Accounting and loan tracking systems are not integrated, which requires manual transfers and induces risks of human errors, thus requiring tedious checks and slowing down the consolidation processes;
- Branches do not have access to the system and presently use Excel files for loan tracking, which are weekly reconciled with HQ database; data should be available faster once the decentralized area offices are in place;

- Some information requires time to be computed and/or need specific queries to be developed (e.g. outstanding portfolio concentration, drop-out / retention rates);
- The management rules and accounting treatment of the Client Solidarity Scheme<sup>10</sup> and other pending accounts (e.g. end of service benefits) ought to be clarified to better reflect the actual use and allow a proper monitoring / allocation of excesses.

## ■ Risk Management

Risk Management is rated “b”

### Procedures and internal controls

Al Tadamun’s comprehensive and effective internal controls help mitigate potential risks. Procedures still need to be completed / created for nascent departments (IA, Communication), but they are formalized and regularly updated for all key functions (Operations, Finance, IT, HR). Strict discipline and performance monitoring have led to an excellent compliance culture, and incompatible tasks are handled by distinct persons (e.g. loan application and data entry, loan approval and disbursement). Multiple layers of checks ensure procedures are consistently applied and have been instrumental in limiting the risks at a time of fast growth (LO, BM, accountant at the branch level, data entry / file reviewers at HQ). As the level of activities increases, the administrative component (55% LO to total staff) should be monitored to avoid negative impact on staff’s productivity and/or operating expenses given the institution’s relatively higher salary grid: in that intent, the institution plans to increase the LO to total staff ratio from the present 55% to 66% starting 2009; when counting in LOs on “casual” contracts, this ratio is already at 62% as of September 2007.

Cash security is high since all disbursements are made through local banks and reimbursements handled by distinct staff, cash being deposited at the bank on a daily basis by a specialized company and reconciled with the bank statements on a weekly basis.

### Internal audit

Created in January 2007, the IA department is still too young to effectively cover all areas of risks: with only one staff so far, the IA scope of work is de facto not sufficient. Nevertheless, a first draft of the IA manual has already been issued, covering the main control points and aiming at

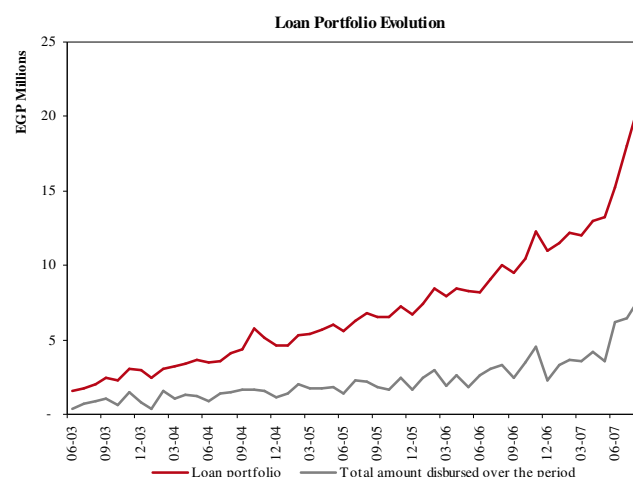
<sup>10</sup> Part of the application fees collected by Al Tadamun is accounted directly in the Balance Sheet into a “Client Solidarity Scheme” account (under “Other short term liabilities”), considered as a life insurance reserve: in case of a client’s death, this reserve is used to reimburse the remaining loan balance and to contribute to the funeral expenses. Planet Rating has made the necessary adjustments to the Income Statement and write-offs to reflect such movements.

mitigating arising risks: even if it does not list all types of risks (e.g. institutional, legal, financial, environmental), nor specify the required number of audits per year (e.g. visits per branch, clients checks, file reviews, etc.), it includes all the basic requirements of an IA department (IA plan, audit of branches and HQ, comprehensive IA forms, follow-up measures, etc.). Moreover, IA reports straight to and is actively supported by the BOD’s audit committee, which comprises a microfinance expert. Two comprehensive branch IA reports have been issued so far: findings are shared with the ED and BOD then transmitted to the branch with clear recommendations. IA department is fully aware of its present limitations and actively working on tackling them, notably by planning to grow to five auditors by the end of 2008.

## ■ Activities

Activities: products and services is rated “a”

### Evolution and composition of the portfolio



Since July 2003, Al Tadamun’s portfolio has been steadily increasing. Growth has taken off starting July 2007, boosted by: 1) five new operating branches, which opened at the beginning of the year and have now reached a good maturity level; 2) a better loan product, redesigned in terms of size, length and rate. Portfolio is expected to keep its upward trend as the institution doubles its size, by growing from 11 to 20 branches by the end of 2008. From 2003 to 2005, the portfolio increased relatively faster than the number of active clients, due to an increase in the average outstanding loan per client: this average has now stabilized at 650 EGP (115 USD) and should fluctuate around that level. Al Tadamun’s portfolio is almost exclusively composed of group loans (98.7% as of December 2006 and 99.8% as of September 2007). Seasonal loans are insignificant both in terms of amount and number of clients, and should keep on representing a very marginal share of the total portfolio (target of less than 2% by management decision).

## Market position

The Egyptian microfinance sector is becoming more dynamic, with commercial banks moving to tap into the vast microfinance market – but especially targeting the SME segment, which is not Al Tadamun's client base. The potential market remains largely underserved and is not very competitive yet. Therefore, both banks and NGOs have no problems in finding new clients. Microfinance NGOs tend to stay within their original governorate and none has a national scope or coverage. Al Tadamun's main competitors are the NGOs involved in group lending and operating in greater Cairo, more specifically Lead Foundation, ESED and CEOSS. Al Tadamun is the only NGO exclusively focusing on group lending, and presently ranks N°3 in Cairo, having most probably surpassed CEOSS in 2007. Its portfolio growth (+69% as of September 2007) has outpaced by far that of major established Egyptian MFIs such as ABA, DBACD or ESED, and only compares to the dynamism of its most direct competitor, namely Lead Foundation (+91% as of September 2007).

Good awareness of competition practices and informal collection of clients needs has allowed Al Tadamun to maintain its competitiveness, notably by adapting its loan characteristics in July 2007. Some competitive advantages being easy to copy (e.g. loan range, repayment frequency), they are complemented by specific in-house distinctive advantages and innovations (e.g. Client Solidarity Scheme, the first "life insurance" product in Egypt, Ramadan gifts, thorough explanation of the products' specificities, field promotional campaigns, etc.). Such advantages should be sufficient in the short to medium term on the group loan segment of the market, especially once completed with formal studies to assess clients needs (to be handled by the Communication department once fully staffed in early 2008). Ultimately, these market studies ought to be linked to the product development process – so far limited to the seasonal loan, which success is hard to assess given its very restricted outreach.

## Loan portfolio management

Al Tadamun has an appropriate credit methodology that, in addition to tight portfolio monitoring, has led to an excellent portfolio quality. Although client's business evaluation forms could be more precise (e.g. account for household expenses when applicable, determine the amount of the installment as compared to the net repayment capacity), the present methodology allows proper credit decisions by comprising:

- Forms with all the required fields (expenses detailed by type, revenues, frequency);
- Several meetings explaining the solidarity mechanisms;
- Field visits before and after the disbursement;

- Client's history and black list review, although cross-indebtedness is tolerated and no informal contact is made with other MFIs to also ban their black listed clients;
- Loan offer organized by cycles, with small amount differences within each cycle to ensure proper group guarantee mechanisms;
- Rigorous approval rules (file review by at least four people before disbursement).

Besides, LOs have the appropriate skills to handle their portfolio and receive proper training upon hiring. Apart from a few specific cases, they have good local market knowledge since they serve the areas where they reside. Immediate follow up on not-even-late loans (cf. "Credit risk" below) has led to an excellent repayment discipline, further fostered by the incentive scheme that focuses on both outreach and portfolio quality. In a period of fast growth, portfolio quality is further maintained through: 1) close monitoring of portfolio evolution at all levels, formally on a monthly basis and informally on a weekly basis by both branch staff and management; 2) systematic comparison with the planned objectives; 3) on-hand available procedure manuals in the branches for newly recruited LOs; and 4) close supervision of LOs by Branch and Area Managers.

## Credit risk

PAR and write-off ratios are outstanding by both local and international norms. PAR > 30 exceptional level (0% over the past 4 years) is due to the iron-strict discipline of cashing the loan on time and to instant follow-up in case of lateness. Al Tadamun reports a 0% write-off, since it does not register payment defaults of deceased clients as write-offs and uses the Client Solidarity Scheme to reimburse the loan balance (cf. section "I"). But even on adjusted basis, write-off ratio remains excellent (0.1% as of December 2006 and 0.3% as of September 2007). These ratios truly reflect the actual situation given there are neither loan rescheduling, nor refinancing. Anticipated losses are properly provisioned for (2% of healthy portfolio atop of the Solidarity Scheme), which induces extraordinary high levels of risk coverage ratio given the null PAR. Credit risk is also limited by appropriate guarantees (group solidarity and promissory notes), as well as a small maximum loan amount (5,000 EGP or 880 USD).

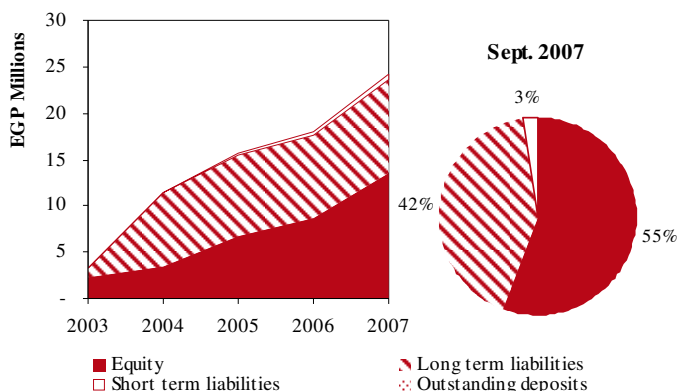
In the absence of specific targets in terms of areas, economic sector of activity or loan range, portfolio concentration is presently not managed. Besides, data is only available for disbursed loans, which does not allow an accurate evaluation of potential concentration risks. Nevertheless, geographic diversification is underway (the three historical branches account for less than 50% of the 2007 outstanding portfolio vs. almost 80% in 2006) This potential concentration risk has obviously not threatened the portfolio quality so far, but

appropriate monitoring mechanisms will be needed as the institution's portfolio grows.

## ■ Funding and liquidity

Funding and liquidity is rated "b"

Funding structure



## Asset & Liability Management

Al Tadamun's ALM risks are limited.

- No maturity risk: Al Tadamun mainly has long term resources (97% of combined equity and long term liabilities) while the majority of its assets (84%) consists of short term loans with a 10-month average length.
- Limited FX risk: Al Tadamun is not exposed to FX risk. Although 25% of its liabilities are labeled in hard currency (USD, as of December 2006), the related risk is appropriately mitigated thanks to a special contractual clause, allowing the institution to reimburse its loan either in US dollars or in local currency, and in all cases at the best prevailing exchange rate between the closing date of the loan contract and the reimbursement date.
- No interest rate risk: all lending and borrowings are done on a fixed rate basis.

A large equity base and a low leverage (1.1x as of December 2006) ensures minimal capital requirements are met. As the institution matures and accesses additional loans, a more formal follow up on the aging assets and liabilities will be needed, especially since the maturity of the present liabilities mostly fall within the same 2-year period (2009-2011).

## Funding strategy

After relying on SFD (the largest fund provider) and Grameen<sup>11</sup> for several years, Al Tadamun has actively started diversifying its funding sources to avoid being dependent on a single provider. Newly contacted funders

<sup>11</sup> Grameen-Jameel has agreed to support Al Tadamun throughout the duration of its business plan, but it would not meet the full funding needs.

include several local banks as well as international microfinance investors such as ResponsAbility<sup>12</sup> and Blue Orchard, the latter having recently agreed on a 90 K USD loan. Funding needs are clearly identified for the years to come:

- 4.5 M EGP in 2007 (800 K USD), fully secured;
- 8 M EGP for 2008 (1.4 M USD);
- 21 M EGP for 2009.

Given that the institution historically outperforms its plans, a more frequent reevaluation of the financing needs is important to avoid liquidity shortages. So far, resulting risk has been mitigated thanks to a pro-active investigation of funding (sought 3 to 6 months in advance), good relationship with current fund providers, as well as additional resources secured by BOD members through their personal contacts (often grants, not accounted for in the business plan). Communication with new funders should be enhanced once professionally handled by dedicated staff within the Communication department, while the year-end budget update will shed new light on the 2008-2011 funding needs.

## Liquidity management

There are presently no rules to precisely monitor liquidity and optimize its management within the institution. Minimal cash management is ensured by weekly pooling of resources across branches and repayment schedules to creditors. Idle cash is also actively invested in short term financial instruments when not deployed in the loan portfolio. As a result, after a peak in 2004 due to the SFD loan disbursement, cash level was kept at low levels in 2005 and 2006 (3.6% and 1.7% respectively)<sup>13</sup>. Yet, projections are only available on a yearly basis in the business plan, which is especially not sufficient given the targeted sophistication of the funding base. Besides, Al Tadamun will have to carefully manage its creditors due date since the loans conditions plan a bullet repayment in 2009/2011. It would thus be timely to update and follow up the cash movements more frequently even if, on the short run, the recently negotiated NSGB overdraft facility should help avoid major liquidity crisis.

<sup>12</sup> Through PlaNet Finance Investment Advisors & Managers (PFIAM). PFIAM and Planet Rating are two distinct legal entities, operating in a strictly independent manner. Planet Rating does not disclose to PFIAM any information that is not publicly available to all other investors or fund providers. Planet Rating's internal Rating Committee is fully independent, private, and confidential.

<sup>13</sup> The September 2007 increase to 6% is due to the fact that the closing date for that month coincided with a reimbursement day.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “b”

### Profitability analysis

Al Tadamun has been an increasingly profitable institution since 2004, as evidenced by growing ROA and ROE, respectively standing at 11% and 24% as of December 2006. This result shows a good performance by international standards and is well above that of best performing larger MENA institutions (ROA of 3.8% and ROE of 13.7%<sup>14</sup>). This upward trend can be explained by a portfolio yield that has remained quite stable, with no yield gap thanks to an outstanding portfolio quality, while the operating expense ratio decreased from 40% in 2004 to 33% in 2006 and 2007. The slight drop in the portfolio yield starting December 2006 is not due to a fall in interest rate: given the excellent portfolio quality, it can most probably be attributed to an increasing number of clients in higher loan cycles, which annual effective rates are lower (Al Tadamun reports a retention rate of 70%). The yield is expected to remain on a slight declining slope since the products have been redefined in July 2007 and now show lower effective rates in the higher cycles (to be combined with a target retention rate of 80%-85%). Fiercer competition could potentially lead to a faster drop in the portfolio yield, especially since Al Tadamun records a significantly higher interest rate than its Egyptian peers, and more particularly than Lead Foundation, which has an effective annual rate of 48% on its group loan product, equivalent to the minimal rate presently charged by Al Tadamun (47% to 65%, cf. “Institutional Presentation” and “Benchmarking”).

Operating expense ratio has been trending downward since 2003 thus reflecting the first economies of scale. But it is still more than 10 points above the 21% median for the MENA region, which results from two major factors: 1) the smaller outstanding loan size for Al Tadamun (115 USD on average as compared to a median of 263 USD for MENA MFIs); and 2) the relatively higher salary and benefits structure. Staff productivity is high (245 and 264 clients per staff as of December 2005 and 2006) and favorably compares to both MENA and solidarity-lending peers (respectively at 245 and 222). It is nevertheless biased for 2006 and 2007, since employees on “casual” contracts<sup>15</sup> with virtually no portfolio are not included in the headcount: in a period of fast growth, a massive recruitment of new LOs normally burdens the productivity ratios, while Al Tadamun’s 2007 figure of 229 clients per staff drops but remains very good by international standards. Given that

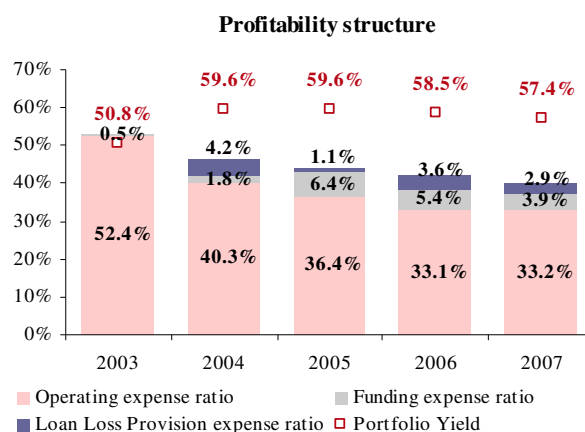
<sup>14</sup> Source: MiX 2006 Benchmarks, MENA Large, 75<sup>th</sup> percentile.

<sup>15</sup> 36% of total staff as of September 2007 (or 52 out of 143, among which 42 “casual” LOs). When counting in the “casual” contracts, 2007 productivity drops to 168 clients per staff.

“casual” contract staff are included in the operating expenses, and combined with the above-mentioned higher salaries, this bias explains why such high productivity does not induce more important economies of scale.

The funding expense ratio increased until 2005 because of the new loans obtained in 2004 and 2005. Since 2006, it has started decreasing as the portfolio has been growing relatively faster than the liabilities. On the contrary, the cost of liabilities has regularly increased, as a sign of larger recourse to borrowed funds: though peaking at 5.8% as of September 2007, it is lower than what major Egyptian MFIs have achieved so far (8.3% for ABA, 10.3% for DBACD and 10.6% for Lead Foundation). When netted out with the revenues from investments, the cost of liabilities barely exceeds 2%. Such a low cost is due to the concessional rates obtained by Al Tadamun on Grameen and the SFD’s loans (respectively 2% and 8% vs. market commercial rate of 12%): this cost is expected to increase, especially as the institution plans to strictly rely on commercial loans to fund its growth.

The asset deployment ratio has significantly increased from 43.2% in 2004 to 83.7% as of September 2007 but remains low by regional standards (around 90% for best practice MFIs in the MENA region): this is largely due to the SFD loan that was kept as a short term deposit for several years. Although this constraint has not penalized the ROA level, a better funding mix should lead to more favorable lending agreements, thus ensuring a more efficient use of the allocated resources and contributing to further decreasing the above mentioned funding expense ratio.



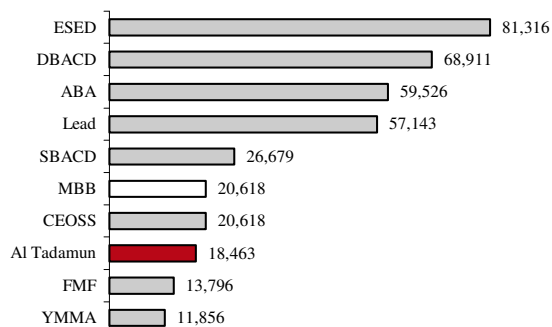
Al Tadamun’s profitability outlook is positive, underpinned by its planned growth strategy and its demonstrated ability to successfully and rapidly expand into new areas. The institution is expected to maintain an excellent portfolio quality while growing and to benefit from additional efficiency gains once all the branches are set up and properly running. The institution presently has an ample interest

margin to maneuver, either to adjust its rates according to competition and/or increase its funding expenses to attain its desired growth targets.

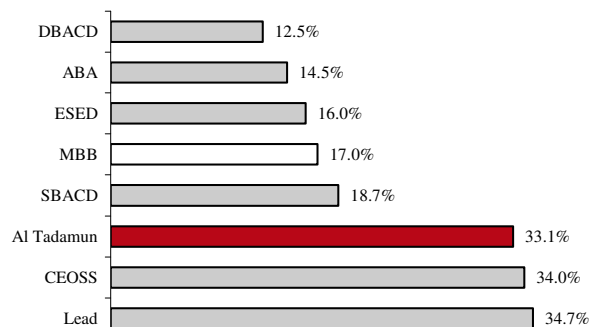
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

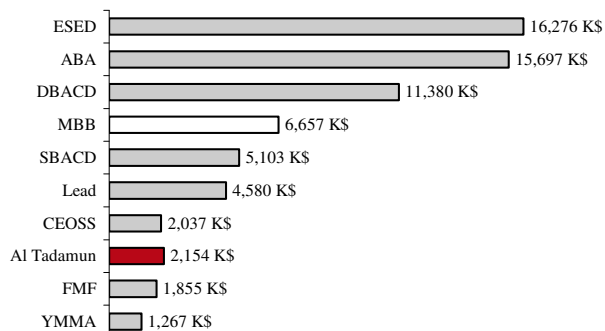
Active borrowers



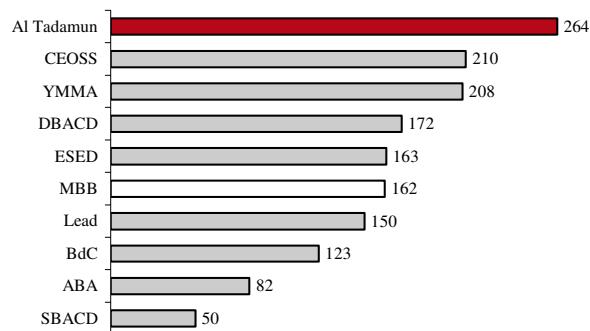
Operating expense ratio



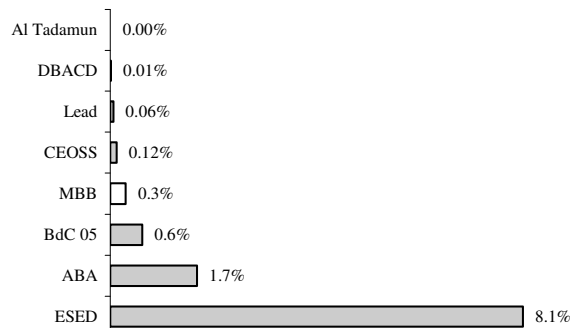
Loan portfolio



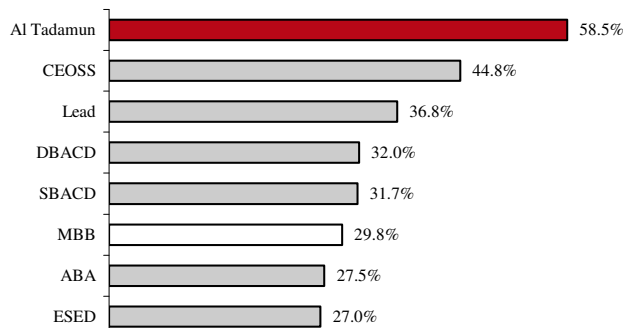
Staff productivity



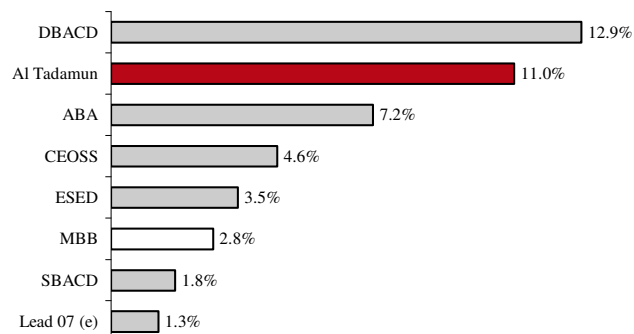
PAR > 30



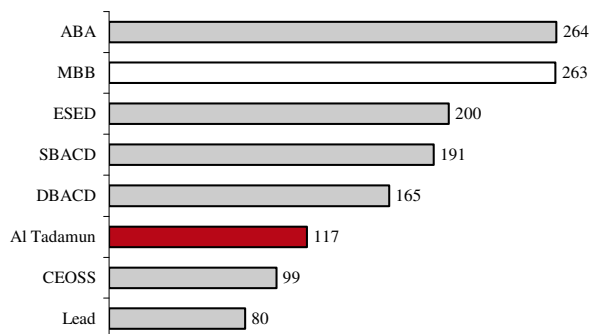
Portfolio Yield



ROA



Average loan per borrower



Source: MIX, Planet Rating, individual MFIs; MBB MENA Medium Peer group, 2006 benchmarks, 75<sup>th</sup> percentile, 25<sup>th</sup> for PAR and OpEx ratio, Median for Portfolio Yield and Average loan per borrower; Adjusted ROA & ROE for Lead and DBACD; adjusted ROA, ROE, PAR, OpEx and Staff productivity ratios for ABA; adjusted OpEx and Portfolio Yield for Al Tadamun; Data as of December 2006, BdC as of June 2006, Lead 2007 ROA is estimated. MFIs: ACAD, Al Majmoua, Al Tadamun, Alwatani, AMC, Ameen, AMSSF, ARDI, CEOSS, FATEN, Lead Foundation, MEMCO, SBACD, UNRWA.

Data in USD, unless otherwise stated

## ■ Performance indicators

	Dec. 2003*	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007
<b>Loan Portfolio</b>					
<b>Loan portfolio evolution</b>					
Loan portfolio	489,326	839,878	1,268,127	2,153,663	3,638,527
Loan portfolio (EGP)	3,014,250	5,102,257	7,267,634	12,286,648	20,754,160
Evolution	-	69.3%	42.4%	69.1%	68.9%
Average outstanding loan	244,663	603,359	1,010,502	1,521,907	2,389,058
Active borrowers	7,203	9,232	11,028	18,463	32,724
Evolution	148.6%	28.2%	19.5%	67.4%	77.2%
Average outstanding loan per client	68	91	115	117	111
% of GDP per capita	7.7%	10.2%	12.2%	12.3%	11.7%
Average amount disbursed per loan	-	142	184	185	168
% of GDP per capita	0.0%	14.7%	17.6%	16.8%	14.6%
<b>Portfolio quality</b>					
Rescheduled loans	-	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.0%	0.00%	0.00%	0.00%	0.00%
PAR > 365	-	0.00%	0.00%	0.00%	0.00%
Write-off ratio**	0.0%	0.00%	0.004%	0.12%	0.33%
<b>Credit risk coverage</b>					
Risk coverage ratio	0.0%	n.s.	n.s.	n.s.	n.s.
PAR 31 net of loan loss provision / Equity	0.0%	n.s.	n.s.	n.s.	n.s.
<b>Staff</b>					
Total number of staff	37	38	45	70	143
% Credit officers	0.0%	47.4%	46.7%	51.4%	54.5%
Turnover	0.0%	10.7%	0.0%	17.4%	16.0%
<b>Profitability analysis</b>					
ROE	(1.7%)	19.0%	23.4%	23.9%	24.1%
Liabilities / Equity	0.43x	2.3x	1.3x	1.1x	0.8x
ROA	(1.9%)	7.4%	8.9%	11.0%	12.7%
<b>Profitability structure</b>					
Portfolio Yield**	50.8%	59.6%	59.6%	58.5%	57.4%
Operating expense ratio	52.4%	40.3%	36.4%	33.1%	33.2%
Cost per borrower	18	26	33	27	24
Staff productivity	195	243	245	264	229
Loan officer productivity	-	513	525	513	420
Average outstanding loan per client (USD)	68	91	115	117	111
Funding expense ratio	0.5%	1.8%	6.4%	5.4%	3.9%
Cost of liabilities	1.6%	1.5%	4.1%	5.3%	5.8%
Loan Loss Provision expense ratio**	0.0%	4.2%	1.1%	3.6%	2.9%
<b>Resource optimization</b>					
Outstanding Loan Portfolio / Assets	92.8%	43.2%	45.2%	66.2%	83.7%
Revenue from investment as a % of financial revenues	0.0%	0.2%	4.4%	6.6%	3.4%
<b>Liquidity</b>					
Liquidity / Total assets (LAR)	3.0%	14.7%	3.6%	1.7%	6.1%
<b>Adjusted ratios</b>					
Adjustment expense ratio	5.4%	13.7%	12.1%	5.7%	10.9%
AROE	(6.2%)	1.6%	9.7%	17.5%	10.7%
AROA	(6.9%)	0.6%	3.7%	8.1%	5.7%
Financial self-sufficiency	87.3%	102.1%	115.3%	132.7%	117.2%
Adjusted operating expense ratio	52.4%	41.6%	37.2%	33.6%	33.9%
Adjusted funding expense ratio	5.9%	14.2%	17.8%	10.6%	14.2%
Adjusted loan loss provision expense ratio	0.0%	4.2%	1.1%	3.6%	2.9%
Exchange rate 1 USD= xx EGP	6.2	6.1	5.7	5.7	5.7

n.s. = not significant.

\* Partial year, ratios not annualized.

\*\* Adjusted ratios.

Al Tadamun Balance sheet	EGP					USD					Evolution			
	Notes	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007	2005/2004	2006/2005	2007/2006
<b>ASSETS</b>		<b>3,248,147</b>	<b>11,456,095</b>	<b>15,593,515</b>	<b>17,995,757</b>	<b>24,234,229</b>	<b>527,297</b>	<b>1,885,777</b>	<b>2,720,906</b>	<b>3,154,383</b>	<b>4,248,638</b>	<b>36.1%</b>	<b>15.4%</b>	<b>34.7%</b>
<b>Short Term Assets</b>		<b>3,137,699</b>	<b>11,172,028</b>	<b>15,234,981</b>	<b>17,631,402</b>	<b>23,323,407</b>	<b>509,367</b>	<b>1,839,017</b>	<b>2,658,346</b>	<b>3,090,517</b>	<b>4,088,956</b>	<b>36.4%</b>	<b>15.7%</b>	<b>32.3%</b>
Cash and Due from Banks		97,557	1,682,525	567,162	302,572	1,482,636	15,837	276,959	98,964	53,036	259,929	(66.3%)	(46.7%)	390.0%
Short Term Investments		-	4,470,902	7,552,333	5,363,177	1,388,843	-	735,951	1,317,804	940,084	243,486	68.9%	(29.0%)	(74.1%)
Short Term Net Loan Portfolio		3,014,250	4,949,197	7,049,856	11,918,050	20,287,191	489,326	814,683	1,230,127	2,089,053	3,556,660	42.4%	69.1%	70.2%
Short Term Gross Loan Portfolio		3,014,250	5,102,257	7,267,634	12,286,648	20,754,160	489,326	839,878	1,268,127	2,153,663	3,638,527	42.4%	69.1%	68.9%
(Loan Loss Reserve)		-	153,060	217,778	368,598	466,969	-	25,195	38,000	64,610	81,867	42.3%	69.3%	26.7%
Interest Receivable		-	-	-	-	-	-	-	-	-	-	-	-	-
On loan portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	1	25,892	69,404	65,630	47,603	164,737	4,203	11,425	11,452	8,344	28,881	(5.4%)	(27.5%)	246.1%
<b>Long term assets</b>		<b>110,448</b>	<b>284,067</b>	<b>358,534</b>	<b>364,355</b>	<b>910,822</b>	<b>17,930</b>	<b>46,760</b>	<b>62,560</b>	<b>63,866</b>	<b>159,681</b>	<b>26.2%</b>	<b>1.6%</b>	<b>150.0%</b>
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		110,448	284,067	358,534	364,355	910,822	17,930	46,760	62,560	63,866	159,681	26.2%	1.6%	150.0%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>3,248,147</b>	<b>11,456,095</b>	<b>15,593,515</b>	<b>17,995,757</b>	<b>24,234,229</b>	<b>527,297</b>	<b>1,885,777</b>	<b>2,720,906</b>	<b>3,154,383</b>	<b>4,248,638</b>	<b>36.1%</b>	<b>15.4%</b>	<b>34.7%</b>
<b>Liabilities</b>		<b>973,628</b>	<b>7,982,147</b>	<b>8,830,105</b>	<b>9,232,340</b>	<b>10,721,684</b>	<b>158,056</b>	<b>1,313,934</b>	<b>1,540,762</b>	<b>1,618,289</b>	<b>1,879,678</b>	<b>10.6%</b>	<b>4.6%</b>	<b>16.1%</b>
Short term liabilities		32,323	107,089	98,345	308,425	627,166	5,247	17,628	17,160	54,062	109,952	(8.2%)	213.6%	103.3%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term	2	32,323	107,089	98,345	308,425	627,166	5,247	17,628	17,160	54,062	109,952	(8.2%)	213.6%	103.3%
Liabilities														
Long term liabilities		941,305	7,875,058	8,731,760	8,923,915	10,094,518	152,809	1,296,306	1,523,601	1,564,227	1,769,726	10.9%	2.2%	13.1%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		913,230	7,789,894	8,550,828	8,617,607	9,630,315	148,252	1,282,287	1,492,031	1,510,536	1,688,344	9.8%	0.8%	11.8%
Other Long Term Liabilities	3	28,075	85,164	180,932	306,308	464,203	4,558	14,019	31,571	53,691	81,382	112.5%	69.3%	51.5%
<b>Equity</b>		<b>2,274,519</b>	<b>3,473,948</b>	<b>6,763,410</b>	<b>8,763,417</b>	<b>13,512,545</b>	<b>369,240</b>	<b>571,843</b>	<b>1,180,145</b>	<b>1,536,094</b>	<b>2,368,960</b>	<b>94.7%</b>	<b>29.6%</b>	<b>54.2%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity		2,305,579	2,959,301	5,048,714	5,193,339	7,928,481	374,282	487,128	880,948	910,314	1,389,986	70.6%	2.9%	52.7%
Retained earnings without donations and reserves		(31,060)	514,647	1,714,696	3,570,078	5,584,065	(5,042)	84,716	299,197	625,781	978,973	233.2%	108.2%	56.4%
Current year		(31,060)	545,707	1,200,049	1,855,382	2,013,987	(5,042)	89,828	209,396	325,220	353,083	119.9%	54.6%	8.5%
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 1) Prepaid expenses and checks under collection; 2) As of 2006, including Clients Solidarity Scheme; 3) End of service benefits provision.

Al Tadamun Income Statement	Notes	EGP					USD					Evolution		
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007	2005/2004	2006/2005	2007/2006
<b>Financial Revenue (a)</b>		<b>766,307</b>	<b>2,243,231</b>	<b>3,746,753</b>	<b>5,504,660</b>	<b>6,107,820</b>	<b>124,400</b>	<b>369,256</b>	<b>653,769</b>	<b>964,883</b>	<b>1,070,796</b>	<b>67.0%</b>	<b>46.9%</b>	<b>11.0%</b>
Financial Revenue from Loan Portfolio		765,221	2,183,668	3,454,198	5,078,741	5,863,744	124,224	359,452	602,722	890,226	1,028,006	58.2%	47.0%	15.5%
Interest on Loan Portfolio		705,871	2,033,727	3,237,876	4,707,427	5,536,290	114,589	334,770	564,976	825,141	970,598	59.2%	45.4%	17.6%
Fees and Commissions on Loan Portfolio		58,620	149,495	215,818	371,077	327,359	9,516	24,608	37,658	65,044	57,391	44.4%	71.9%	(11.8%)
Penalty Revenue on Loan Portfolio		730	446	504	237	95	119	73	88	42	17	13.0%	(53.0%)	(59.9%)
Financial Revenue from Investments		-	4,714	165,533	361,358	205,197	-	776	28,884	63,341	35,974	3,411.5%	118.3%	(43.2%)
Other Operating Revenue	1	1,086	54,849	127,022	64,561	38,879	176	9,029	22,164	11,317	6,816	131.6%	(49.2%)	(39.8%)
<b>Financial Expense (b)</b>		<b>7,523</b>	<b>65,537</b>	<b>372,341</b>	<b>466,572</b>	<b>398,649</b>	<b>1,221</b>	<b>10,788</b>	<b>64,970</b>	<b>81,783</b>	<b>69,889</b>	<b>468.1%</b>	<b>25.3%</b>	<b>(14.6%)</b>
Interest paid on borrowings		7,523	65,537	336,988	458,799	398,649	1,221	10,788	58,801	80,421	69,889	414.2%	36.1%	(13.1%)
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	2	-	-	35,353	7,773	-	-	-	6,169	1,362	-	-	(78.0%)	(100.0%)
<b>Financial income [c=a-b]</b>		<b>758,784</b>	<b>2,177,694</b>	<b>3,374,412</b>	<b>5,038,088</b>	<b>5,709,171</b>	<b>123,179</b>	<b>358,468</b>	<b>588,800</b>	<b>883,100</b>	<b>1,000,907</b>	<b>55.0%</b>	<b>49.3%</b>	<b>13.3%</b>
<b>Net Loan Loss provision expense (d)</b>		<b>-</b>	<b>153,060</b>	<b>64,968</b>	<b>309,789</b>	<b>298,085</b>	<b>-</b>	<b>25,195</b>	<b>11,336</b>	<b>54,301</b>	<b>52,259</b>	<b>(57.6%)</b>	<b>376.8%</b>	<b>(3.8%)</b>
Loan loss provision expense and write-off		-	153,060	64,968	309,789	298,085	-	25,195	11,336	54,301	52,259	(57.6%)	376.8%	(3.8%)
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>		<b>789,844</b>	<b>1,478,927</b>	<b>2,109,395</b>	<b>2,872,917</b>	<b>3,397,099</b>	<b>128,221</b>	<b>243,445</b>	<b>368,068</b>	<b>503,579</b>	<b>595,564</b>	<b>42.6%</b>	<b>36.2%</b>	<b>18.2%</b>
Personnel Expense (includes fringe)	3	629,872	1,079,122	1,519,650	2,108,023	2,579,568	102,252	177,633	265,163	369,504	452,238	40.8%	38.7%	22.4%
Administrative Expense (non-staff operating expenses)		159,972	399,805	589,745	764,894	817,531	25,969	65,812	102,904	134,074	143,326	47.5%	29.7%	6.9%
Depreciation and amortization		25,748	56,828	119,740	137,625	162,117	4,180	9,354	20,893	24,124	28,422	110.7%	14.9%	17.8%
Consulting fees		1,150	-	-	32,393	81,984	187	-	-	5,678	14,373	-	-	153.1%
Rent, Utilities, Maintenance		50,494	140,886	196,204	244,006	221,804	8,197	23,191	34,236	42,771	38,886	39.3%	24.4%	(9.1%)
Telecommunication		6,972	16,736	18,893	18,095	30,992	1,132	2,755	3,297	3,172	5,433	12.9%	(4.2%)	71.3%
Transportation		3,549	13,199	10,007	37,804	52,837	576	2,173	1,746	6,626	9,263	(24.2%)	277.8%	39.8%
Training		35,863	73,121	125,926	163,177	42,659	5,822	12,036	21,973	28,602	7,479	72.2%	29.6%	(73.9%)
Stationeries		-	-	-	58,352	58,569	-	-	-	10,228	10,268	-	-	0.4%
Insurance		-	-	-	28,922	31,909	-	-	-	5,070	5,594	-	-	10.3%
Client Solidarity Scheme burial expenses		-	-	-	3,750	10,500	-	-	-	657	1,841	-	-	180.0%
Others		36,196	99,035	118,975	40,770	124,160	5,876	16,302	20,760	7,146	21,767	20.1%	(65.7%)	204.5%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>(31,060)</b>	<b>545,707</b>	<b>1,200,049</b>	<b>1,855,382</b>	<b>2,013,987</b>	<b>(5,042)</b>	<b>89,828</b>	<b>209,396</b>	<b>325,220</b>	<b>353,083</b>	<b>119.9%</b>	<b>54.6%</b>	<b>8.5%</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>(31,060)</b>	<b>545,707</b>	<b>1,200,049</b>	<b>1,855,382</b>	<b>2,013,987</b>	<b>(5,042)</b>	<b>89,828</b>	<b>209,396</b>	<b>325,220</b>	<b>353,083</b>	<b>119.9%</b>	<b>54.6%</b>	<b>8.5%</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>(31,060)</b>	<b>545,707</b>	<b>1,200,049</b>	<b>1,855,382</b>	<b>2,013,987</b>	<b>(5,042)</b>	<b>89,828</b>	<b>209,396</b>	<b>325,220</b>	<b>353,083</b>	<b>119.9%</b>	<b>54.6%</b>	<b>8.5%</b>
Donations (l)		945,059	653,722	2,089,413	144,625	2,735,142	153,419	107,609	364,581	25,351	479,513	219.6%	(93.1%)	1,791.2%
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>913,999</b>	<b>1,199,429</b>	<b>3,289,462</b>	<b>2,000,007</b>	<b>4,749,128</b>	<b>148,376</b>	<b>197,437</b>	<b>573,977</b>	<b>350,571</b>	<b>832,596</b>	<b>174.3%</b>	<b>(39.2%)</b>	<b>137.5%</b>

Notes: 1) FX gain; In 2005 & 2006, office space rent; fees on undisbursed loans; 2) FX loss; 3) Including End of Service benefits expenses.

## ■ 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:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
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+	<b>Excellent</b>
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+	<b>Good</b>
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+	<b>Minimum required</b>
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	<b>Insufficient</b>
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	<b>Immediate risk of default or very insufficient</b>
	There are immediate or underlying risks for operations or an unacceptable under performance.