

## CETZAM Financial Services Ltd., Zambia

CETZAM Financial Services Limited, a company limited by shares, took over the operations of the Christian Enterprise Trust of Zambia (CETZAM), a company limited by guarantee as of January 1<sup>st</sup> 2008. CETZAM was founded in 1996 and initially operated predominantly in the urban and peri-urban areas of the copper-belt of Zambia before opening branches in Lusaka and Livingstone. CETZAM targets micro-entrepreneurs through both group and individual loans. As of December 2007, CETZAM is serving 3,219 active borrowers through five branches with a loan portfolio of 7.7 billion ZMK (2.0 M USD).

### GIRAFE Rating

#### Rating

**D**

The GIRAFE methodology has been revised as of January 2008. The changes do not affect the signification of the grades. For more info see: [www.planetrating.com](http://www.planetrating.com)

#### Outlook

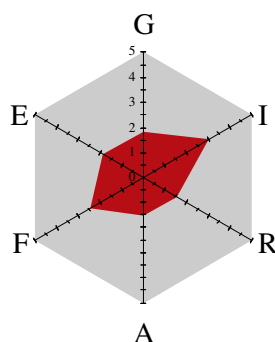
**Positive**

#### Date of the rating

**February 2008**

Valid until January 2009

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- CETZAM shows a positive trend in ROA and has posted a positive ROA of 3.8% for the first time in the nine month financial year up to December 2007, up from (3.6%) for the financial year ending March 2007.
- A similar positive trend is shown in portfolio quality with PAR>30 improving to 5.2% as of December 2007, although partly due to an aggressive write-off policy.
- These improvements have been achieved under the strong guidance of the present CEO. The finance and operations management positions have however remained below standard, partly as a result of the frequent turnover in these positions.
- The market position remains fragile as a move to larger individual loans has made CETZAM more susceptible to competition of downscaling commercial banks leaving a virtually untapped low-end microfinance market behind.
- CETZAM still faces further challenges in adequate supervision and management of branches, compliance of staff to policies & procedures, an ineffective internal audit and making staff and loan officers fully productive.

#### Outlook

The positive outlook on CETZAM reflects the expectation of Planet Rating that the improvements in profitability and portfolio quality will be sustained even though they remain fragile. Additionally, further strengthening of the management team and improvements in risk management are planned for.

#### Performance indicators

USD , unless otherwise stated	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007
Assets	1,549,001	1,300,725	2,298,799	2,159,136	2,840,554
Growth	(3.3%)	(16.0%)	28.7%	21.9%	16.0%
Loan portfolio	348,510	675,042	2,029,685	1,509,100	1,975,940
Growth	(46.6%)	93.8%	119.0%	(3.5%)	15.5%
Outstanding deposits	65,554	99,654	245,405	310,659	464,836
Growth	(59.2%)	52.1%	79.4%	64.3%	32.0%
Active borrowers	4,811	4,742	5,496	2,410	3,219
Active savers	5,711	5,169	2,766	2,894	5,069
Staff	77	71	68	58	58
ROE	(20,868.3%)	(9,642.9%)	(7,465.4%)	(9.0%)	5.0%
ROA	(86.2%)	(44.0%)	(32.6%)	(3.6%)	3.8%
Liabilities / Equity	237.10x	199.02x	256.47x	0.37x	0.28x
Portfolio Yield	55.7%	75.5%	85.3%	80.6%	82.1%
Operating expense ratio	314.0%	216.8%	112.2%	72.8%	76.9%
PAR 31-365	n/a	n/a	19.9%	10.2%	5.2%
PAR > 365	n/a	n/a	0.0%	0.0%	0.0%
Write-off ratio*	26.5%	8.9%	8.6%	25.7%	5.1%

\* Estimates: it was not possible for CETZAM to adequately separate principal and interest write-offs.

REF:OW/220408

## Microfinance sector

The Zambian financial sector is broadly made up of commercial banks (13), credit unions and non-bank financial institutions (NBFIs) consisting of: building societies, leasing companies, consumer finance companies and microfinance institutions. Commercial banks comprise close to 95% of financial sector assets. A 2005 survey showed that 14.6% of the Zambian population is formally banked, an additional 7.8% uses other formal sources (e.g. NBFIs), 11.3% uses informal sources (e.g. money lenders) and 66.3% is financially excluded. It should be noted however that the majority of the 7.8% using other formal sources are clients of consumer finance companies such as Microfin Africa Zambia, Bayport, Blue or Capital Solutions.

The majority of the Zambian MFIs were founded in the nineteen nineties but to date the Zambian microfinance sector remains largely underdeveloped. At present only an estimated 50,000 clients out of a potential 2 million are being served by microfinance institutions. The main MFIs in Zambia are:

MFI	Gross Loan Portfolio		Active Borrowers
	(M ZMK)	(M USD)	
CETZAM	7,402	1.88	2,894
FINCA Zambia	5,357	1.36	12,217
PRIDE Zambia	3,297	0.84	4,529
Pulse Financial Services	3,088	0.78	3,356
Micro Bankers Trust	2,663	0.68	5,519
Harmos	1,626	0.41	3,170
Total	23,433	5.95	31,685

Source: AMIZ; data as of September 2007

The commercial banks are regulated by Bank of Zambia (BOZ) under the Banking and Financial Services Act (BFSA). The act does allow NBFIs to become licensed by BOZ. In January 2006 specific microfinance regulations were issued as a supplement to the BFSA. The microfinance institutions were given a two year grace period to meet the criteria and apply for a license. By the time of the deadline (January 2008) 8 institutions were licensed under the microfinance regulations, all of whom are consumer finance companies. The large microfinance institutions (see table above) have all applied but at the time of writing (March 2008) the BOZ still has the applications under review. A significant number of smaller MFIs have not applied and they will continue to be regulated under either the Cooperative Societies Act or the Money Lenders Act without supervision of BOZ.

The microfinance regulations differentiate between deposit taking and non-deposit taking MFIs both of which are required to be share companies requiring a paid up capital of 250 M ZMK (64 K USD) and 25 M ZMK (6,400 USD) respectively. The MFIs will be required to submit prudential

reports on a monthly basis and are subject to an inspection by the Bank of Zambia at least once a year. The microfinance regulations do not contain any specific regulations on areas such as loan loss provision and minimum liquidity requirements. In such cases, the regulations under the BFSA will prevail. One of the main bottlenecks observed by MFIs is the fact that NGOs, trusts and companies limited by guarantees are not allowed as shareholder under the microfinance regulations.

Another development in the Zambian financial sector is the launch of a credit bureau in January 2007. At present only the commercial banks use the bureau and it is not yet mandatory for NBFIs to participate. It is expected that by the end of 2008 it will be possible for NBFIs and MFIs to join.

The Association of Microfinance Institutions in Zambia (AMIZ) is the umbrella body of MFIs in Zambia and takes a leading role in advocating for new legislation, setting of industry standards, and training of staff of new institutions.

Sources: Interview NBF department Bank of Zambia, February 2008; Chiumya, Chiara. (2006) *"The Regulation of Microfinance" Essays on Regulation And Supervision*. Paper No. 18; Finmark Trust (2006) *Finscope Zambia 2005*; de Luna Martínez, José (2006) *Access to Financial Services in Zambia*. World Bank Policy Research Working Paper 4061; Microfinance Regulation and Supervision Resource Center on [www.microfinancegateway.com](http://www.microfinancegateway.com) (updated Sept. 2006).

## Political & economic environment

Despite strikes and floods hampering copper mine operations, economic growth was still strong in 2007, spurred by soaring ore prices, and should exceed six percent in 2008 underpinned by the dynamism of the building and public works sector and the expansion of production capacity. The bright outlook for raw material prices is conducive to investment in extraction and prospecting for deep copper and cobalt.

Despite prudent macroeconomic policy, hailed by international financial backers, a fiscal crisis is likely to persist due to an excessively narrow tax base, particularly favorable to foreign investors. Zambia's external position has improved, meanwhile, thanks to cancellation of USD 3.3 billion in debt under the HIPC and MDRI programs. Its financing needs are nonetheless still large with the country remaining dependent on international aid to cover them.

Although re-elected in September 2006 with 43 percent of the votes cast, President Mwanawasa has been contending with protests by the urban population in areas as strategic as the capital Lusaka and the main copper-producing region, known as the "copper belt". And the government will have

to meet the challenge of achieving an equitable redistribution of the fruits of growth. The tensions should not, however, jeopardize the reforms supporting modernization of the financial sector and improvement of the business environment.

## Strengths

- Endowed with extensive mining resources, Zambia is the world's largest cobalt producer and Africa's largest copper producer.
- The country's agricultural and tourist potential has been the focus of development policy that will facilitate the necessary economic diversification.
- Zambia has enjoyed the support of the international financial community that resulted in a substantial cancellation of its foreign debt
- In addition to tension-free relations with neighboring countries the domestic political situation has been stable despite considerable ethnic diversity.

## Weaknesses

- With its continuing dependency on the extraction of copper, the economy remains vulnerable to exogenous shocks – not only swings in copper prices but also the impact of weather conditions on the food supply.
- The high 67% poverty rate afflicting the population is compounded by a 16% HIV/AIDS prevalence rate.
- The exports of this landlocked country have suffered from a lack of transport infrastructure and have been sensitive to rising shipping costs.
- The business environment has been undermined by major shortcomings.

COFACE Country Rating: D – A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behavior.

(USD millions)	2005	2006	2007(e)	2008(f)
Economic growth (%)	5.2	5.9	6.0	6.2
Inflation (%)	18.3	9	11.3	5.7
Public sector balance (%GDP)	-8.2	-7.1	-7.5	-6.4
Exports	2,221	3,819	3,793	3,268
Imports	2,211	2,636	3,063	3,311
Trade balance	10	1,183	730	-43
Current account balance (%GDP)	-11.8	-1.4	-7.8	-5.5
Foreign debt (%GDP)	81	12	12	14
Debt service (%G&S exports)	6.7	4.0	5.0	6.0
Foreign currency reserves (in months of imports)	1.5	1.7	2.4	2.7

**Source:** COFACE's Country Risk Ratings Guidebook 2007. (e) is estimated and (f) forecasted.

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

## Institutional presentation

### Legal form, supervision and audit

CETZAM Financial Services Limited is a company limited by shares registered under the Companies Act of 1994. As of January 1<sup>st</sup> 2008 it has taken over the business of the Christian Enterprise Trust of Zambia Limited, a company limited by guarantee. Twelve individuals provided a guarantee of 300,000 ZMK (77 USD) each.<sup>1</sup>

The transfer to a company limited by shares was necessitated by the Microfinance Regulations that came into effect on January 2006. CETZAM did apply for a license to become a deposit taking MFI prior to the deadline of the two year grace period (January 2008). Bank of Zambia (BOZ) is currently reviewing the application.

The financial year of Christian Enterprise Trust of Zambia runs from April 1<sup>st</sup> to March 31<sup>st</sup> and the financial year of CETZAM Financial Services Limited runs from January 1<sup>st</sup> to December 31<sup>st</sup>. For the financial years ending March 2004 and 2005 Christian Enterprise Trust of Zambia has been audited by Deloitte & Touche who did not qualify their opinions. For the years ending March 2006 and 2007 the institution was audited by Grant Thornton who qualified their opinion for both years.<sup>2</sup> The audit of the nine month financial year April 2007 through December 2007 is still to be carried out.

### Ownership

For CETZAM Financial Services Limited a total of 1,000,004 shares have been subscribed at 10,000 ZMK (2.5 USD) each. A transfer agreement has been signed by Christian Enterprise Trust of Zambia and CETZAM Financial Services on March 7<sup>th</sup> 2008 effectively transferring all assets and business operations from the former to the latter. The trust in return will receive 50,000 shares in the latter. Furthermore, the twelve founding members of Christian Enterprise Trust of Zambia – who were also the guarantors of the trust – have agreed to distribute the remaining reserves as bonus shares equally. The exact number of bonus shares is to be finalized when the nine month financial year has been audited. Based on the unaudited financial statements as of December 2007 this would mean that each of the twelve shareholders would receive approximately 70,000 shares. This would result in a

<sup>1</sup> CETZAM was originally founded as a company limited by shares in 1996 where the same twelve individuals were shareholders. In 1998 the company became a limited by guarantee to comply with requirements to accept donor funding.

<sup>2</sup> The qualification was based on movements of historical grants received in the amounts of 356 M ZMK (91 K USD) in 2006 and 590 M ZMK (151 K USD) in 2007 for which insufficient documentation was available.

tentative shareholding structure where each of the 12 founding members owns 7.9% and the trust would own 5.6%.

CETZAM Financial Services has allocated 100,000 shares to a staff share option scheme and any residual shares to be retained for future expansion. The ownership of Christian Enterprise Trust of Zambia in CETZAM Financial Services is still to be approved by BOZ as the regulations state that a company limited by guarantee cannot be an owner of a deposit taking MFI. A solution is expected to be found.

CETZAM Financial Services Ltd. has a six member board of directors (BOD) including two founding members (of which the CEO is one) and two board members that joined in October 2007. Except for two individuals there is a full overlap with the board of directors of Christian Enterprise Trust of Zambia. During a board meeting on February 8<sup>th</sup> 2008 the BOD selected 4 committees: executive, credit, finance and audit, and personnel and remuneration.

## Donations

It is estimated that since inception CETZAM received a total of 31.6 billion ZMK (8.1 M USD) in grants from DfID (through Opportunity International UK) for both loan capital and operational expenses. At present there are two ongoing grant contracts: one with Hivos of the Netherlands for a total of 269 K EUR for loan capital, operational losses and fixed assets; the other contract with USAID (through OI-US) amounting to 209 K USD supports TA and loan capital focused on households with orphans and vulnerable children.

## Funding composition

The funding structure as of December 2007 is composed for 78% of equity, contains a further 16% of compulsory deposits and does not include debt.

## Management team

The management team includes the CEO, Operations & Marketing Manager, Finance Manager, HR Manager, IT Manager and Head of Internal Audit. The position of Finance Manager has been vacant since August 2007 and the Management Accountant is currently acting Finance Manager until the new Finance Manager will come in at the end of May 2008. Ms. Irene Mutalima, the present CEO is one of the founding members of CETZAM and was the BOD chair until she left in 1999 to come back in 2003 as CEO. Ms. Mutalima has worked in banking in Zambia between 1975 and 1999 before joining the microfinance field in 2000 as interim CEO of Pulse Holdings and later as Africa Regional Manager for OI-US. As of April 1<sup>st</sup> 2008 Mr. Dyson Mandivenga will take over as CEO. Mr. Mandivenga joined Commercial Bank of Zimbabwe in 1986

at the age of 21 and rose through the ranks to become the Executive in charge of the SME and Microfinance Division in 2003; a position held to date. He holds an MBA from Nottingham Trent University, UK and attended several international microfinance courses.

## A brief history

CETZAM has long since been a member of the Opportunity International Network and it received its main support from DfID through OI-UK. During the years 2000-2002 CETZAM embarked on an ambitious growth strategy that was made possible by a significant inflow of donor funding. At its peak CETZAM had over 15,000 active borrowers. However, the management team at that time did not have the required strength to manage the scale-up sufficiently and combined with a weak MIS this led to significant non-compliance to procedures by staff, frauds and poor portfolio quality. A diagnostic mission led by Ms. Mutalima, then an employee of OI, revealed the troublesome situation of the institution. As a result Ms. Mutalima was then appointed by OI to become the acting CEO and became full-time CEO in October 2004.

## Organization

The management team is based at the head office (HO) in Lusaka. The branches are staffed with a branch manager (BM), teller and loan officers (LOs). Loan approval up to 15 M ZMK (3,846 USD) for group loans and 10 M ZMK (2,564 USD) for individual loans is done by branch managers above which they are approved by a credit committee at HO consisting of the CEO, Operations Manager and Finance Manager.

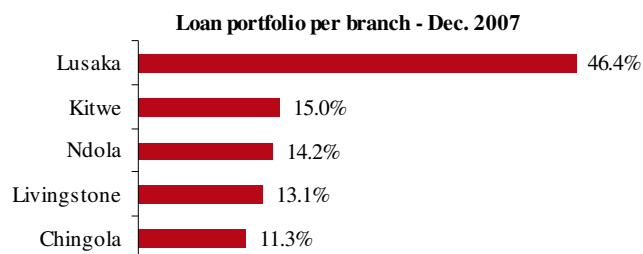
Tellers receive loan repayments, deposits and fees from clients and deposit the daily receipts the following morning at a bank. Loan disbursements for trust bank loans are done in cash by the teller after withdrawing the money from the bank. For the other loans clients receive a check from the teller. LOs do not handle any cash.

CETZAM uses eMerge by Temenos of Geneva, Switzerland for its loan tracking only. For accounting CETZAM uses PASTEL separately. Loan tracking data is fed into Pastel on a daily basis through an automated interface. Branches have a real time connection to HO through a virtual private network (VPN) but have access to eMerge only. Financial data is submitted in excel to the finance department at HO where accounting is centralized.

## Market penetration

CETZAM has its origins in the “copper belt” where it had its head office in Kitwe until it moved to Lusaka in 2005. CETZAM has reduced its number of branches from seven in

2005 to five at present. Three branches are located in the “copper belt”: Ndola, Kitwe and Chingola, with the other two branches located in Lusaka and Livingstone. As of September 2007 the market share of CETZAM, among the top 6 MFIs is 32% in terms of loan portfolio outstanding and 9% in terms of active borrowers.



## Products and services

CETZAM currently offers three main loan products: trust bank loans, solidarity group loans and individual loans. The trust bank loans are group loans offered to groups of 15-30 members and are based on a group guarantee. The loan amounts range from 50,000 – 1.5 M ZMK (13-385 USD) with a fixed 16 week term, weekly repayments and a flat 60% interest per annum. The solidarity group loan is offered to groups of 5-7 members and is based on a group guarantee but also requires collateral in the form of chattel. The loan amounts range from 1-5 M ZMK (256-1,282 USD) with a loan term between 3-12 months, bi-weekly or monthly repayments and a flat 54% interest per annum. Individual loans range from 2-50 M ZMK (513-12,820 USD) with a loan term between 3-13 months, monthly repayments and a flat 60% interest per annum. Individual loans require a co-guarantor and hard collateral. All three loan products carry a 3% commission fee and require 20% compulsory savings that does not attract interest. The average effective interest rates are 125%, 98% and 105% respectively.

CETZAM has recently finished a pilot for salaried loans at Lusaka branch and is currently rolling the product out to all branches. The loan is secured through a guarantee by the employer with the same terms as the individual loan product where the interest rate is a flat 120% per annum. The effective interest rate is 200% on average.

CETZAM does not allow rescheduling or refinancing of loans. For individual loans CETZAM does allow early settlement of the loan where the remaining interest is forfeited for a charge of 7% of the final principal payment.

## Networks

CETZAM is a member of the Association of Microfinance Institutions of Zambia (AMIZ) – where Ms. Mutalima is the Vice Chairman – and of the Opportunity International Network.

## Governance

Governance and Decision making is rated “d”

### Decision making

As a result of the new microfinance regulations CETZAM needed to transform to a company limited by shares. As such it first had negotiations with its main partner, OI, to become a main shareholder. The negotiations lasted from April 2006 to March 2007 and had a destabilizing effect on operations. The take over by OI would mean that a new management team would be put in place which significantly demotivated the management team of CETZAM. This also meant that the ambitious turn around strategy outlined in the 2005-2008 business plan could not be met. In March 2007 a decision was taken not to pursue a majority ownership by OI which stabilized the situation.<sup>3</sup> The current ownership structure of CETZAM Financial Services is still to be finalized (see Ownership above) which entails a risk to the institution. Furthermore, the BOD is still to further decide on the entrance of future shareholders.

The BOD has recently been strengthened by two new members with a stronger business background where the board already contained members with relevant development background as well as two members with banking background. The BOD does receive adequate information from management in a timely fashion. However, given the weaknesses in the management team (see below) the analysis of information has not been strong. The decision making process has been less than efficient, partly due to the situation above. There is a need for the BOD to become more proactive to follow-up on strategic decisions taken.

### Planning

The present business plan of CETZAM (2005-2008) has become outdated as the targets therein are no longer valid for the current operations (see above). A new business plan for CETZAM Financial Services (2008-2012) has been drafted which has been provisionally approved by the BOD pending further refinements. The draft business plan outlines a relevant growth strategy for the coming years. However, the strategy remains superficial and is only based on a basic internal and external analysis. The plan does not include key projects to be carried out to improve the performance of CETZAM. A stronger focus is needed on:

- improving management strength and supervision;
- improving profitability & portfolio quality;
- establishing a clear market focus based on a more thorough market and competitor analysis.

<sup>3</sup> The main reason not to pursue the majority ownership by OI was the reason that this was only possible if CETZAM would become wholly owned by OI which would exclude the founding members.

Realistic projections are available for the growth of number of clients and the loan portfolio. However they need to be better underpinned by stronger financial projections which require further analysis, especially the balance sheet projections. The projections do not yet include the possible equity investments nor attracting debt. The plan was developed by a local consultancy company which used a basic participatory planning process including the branches. However, CETZAM is still to take full ownership of the plan.

The 2008 budget is not yet in line with the projections in the business plan as there are significant differences. There is adequate follow-up of the budget throughout the year.

### Management team

The management team has been led by a skilled CEO since 2003 but has seen several turnovers in the past years in all other positions. The present management team requires strengthening in finance and operations. The position of finance manager has been vacant since August 2007<sup>4</sup> and the position of operations manager was filled by a branch manager in September 2007 who still needs to grow further into the job. HR, IT and Audit are headed by adequately skilled managers. The recruitment of the new CEO has been well planned. However, key person risk on the position of the CEO will remain. It will require stronger management in finance and operations as well as increased polyvalence in the management team to effectively mitigate the key person risk.

Weekly management team meetings allow for adequate internal communication and the meetings are well documented in minutes. The follow-up of one meeting to the next can be stronger to prevent issues from lingering on. With the recent turnover in several management team positions the team is lacking cohesiveness to solve the issues at CETZAM together. Speedy implementation of activities has been weak and only recently some improvements have been noted. The management team as a whole needs to become more pro-active to tackle issues head on and move CETZAM forwards.

### Human resource management

CETZAM employs an adequate recruitment process using both head-hunting and open advertisements and there is a balance between internal promotions and external hiring. Other HR processes such as administration of staff files and monitoring of staff loans need to be improved. A basic induction process of LOs is in place with a two week

training. However, on-the-job training is very short and reduces the ability of new LOs to fully understand all aspects of the job.

To monitor staff performance, staff evaluations are done annually but focus mostly on qualitative areas and there is a limited focus on quantitative goals. The incentive system does focus on quantitative aspects but does not generate its desired effect as a low percentage of LOs receives a bonus which only represents a low percentage of their salary. A more in-depth skills gap analysis would be needed for CETZAM to fully understand the training needs of staff and develop a proper training plan for 2008. The budget for staff training for 2008 is limited.

Staff turnover has been very high – close to or over 40% in recent years – which is both due to staff leaving as well as letting go of staff due to underperformance. As staff salaries are at market level CETZAM should investigate more thoroughly how staff turnover can be reduced.

### Information

Information is rated “b”

The MIS in place is neither optimal in its efficiency nor the most cost effective system for CETZAM. eMerge is a relatively expensive system for the size of the institution and the VPN links are quite expensive in Zambia as well. However, the system in place will easily be able to grow with CETZAM for the coming years. Efficiency is on the one hand hindered by the slow speed of the system in the branches (a higher band-width would be even more costly). On the other hand running the accounting separately in Pastel requires a significant effort in data reconciliation between the two systems as the automated interface is not able to process all transactions automatically. Data reconciliation has been a burden on the operations of CETZAM (see Risk Management section).

Digital data security is well guaranteed with a daily, automated back-up system in place with off-site storage as well as automatically updated anti-virus software that can be monitored at HO. A back-up server is in place at HO and a disaster recovery site is planned to be implemented in 2008. Storage of paper data needs to be improved as loan contracts are not stored securely and are at risk of loss. Collateral documents are stored safely in branch safes. Management of filing of loan contracts and collateral documents needs to be improved as in several cases they could not be traced.

To monitor and manage activities all relevant information is available in the MIS which is available real time at HO and in branches. CETZAM does make sufficient use of information available in the system, e.g. PAR per LO,

<sup>4</sup> A candidate had been recruited but experienced a significant delay in obtaining a work permit for Zambia. A new candidate has been recruited who will start at the end of May 2008.

Branch and product are monitored regularly. The analysis of financial data should become more in-depth to obtain a better overview of specific expenditures to identify areas for cost savings; as well as a product costing exercise to determine the pricing levels for each product. Allocation of HO costs to branches should be reviewed in order to be better able to monitor branches as profit centers.<sup>5</sup>

## ■ Risk Management

Risk Management is rated “d”

### Procedures and internal controls

Risk management at CETZAM is weakened by inadequate supervision on compliance to procedures and lacks an active process on identification of risks and related control mechanisms.

Policies and procedures are well documented in manuals. Updates in procedures are communicated to branch staff via internal email. However, the manuals themselves have not been updated recently and some have become outdated. The manuals for the different loan products tend to over documentation further reducing their usability by LOs.

The procedures that are documented contain sufficient internal controls, with good separation of tasks, dual controls and limitation of powers. However, compliance to procedures is weak both at HO and in the branches although improvements have been noted in the past year. There is a significant variance in implementation of procedures throughout the branches (e.g. in portfolio management). The main weakness stems from inadequate supervision from the top management level down to LO level in branches. Increased supervision is urgently needed. This situation has resulted in poor performance in portfolio management (see Activities) and leaves room for fraud to occur. However, the known instances of fraud have been insignificant in the past year.

Processes that guarantee data reliability are there in theory but require further strengthening in implementation. Especially bank reconciliation and reconciliation of eMerge and Pastel data (e.g. loan portfolio, prepayments, deposits) are not adequately carried out. Unreconciled differences have reduced in the past two years. However, there are still long standing unreconciled items that have been pending for long periods of time (at least up to one year).

<sup>5</sup> At present costs are allocated based on how close a branch is to achieving its set objectives. The reason behind this is that the actual bonus in incentive system of LOs is based on the net-profit of the branches.

## Internal audit

The internal audit (IA) function of CETZAM has an adequate scope of risk but is mostly focused on internal controls rather than a global overview of potential risks that the institution could face. Audits of HO departments that are part of the scope have not been carried out in the past two years, but are planned for 2008. The scope of the IA at present does not include liquidity risk, market risk, regulatory risk and reputation risk.

The head of internal audit has sufficient skills but the IA department needs strengthening in staff after the assistant auditor left in December 2007. At the time of the rating the recruitment process for this position was still to be initiated.

Even though the head of IA is appointed by, and reports directly to the BOD, the internal audit department did not have sufficient independence as it did not have full control of its budget. This has led to a less than optimal functioning of the IA in the past. Furthermore, there has been insufficient follow-up on audit reports in the past and it has been possible that both finance and operations departments did not act on audit findings or responded sufficiently to audit reports as a result of insufficient follow-up by both BOD and management as well as the IA department themselves. Furthermore, the effectiveness of the IA work is significantly hindered by an audit policy where the branches need to be notified prior to the audit visit (except for snap cash checks and fraud investigations). As a result also the IA plan is not kept sufficiently confidential at present.

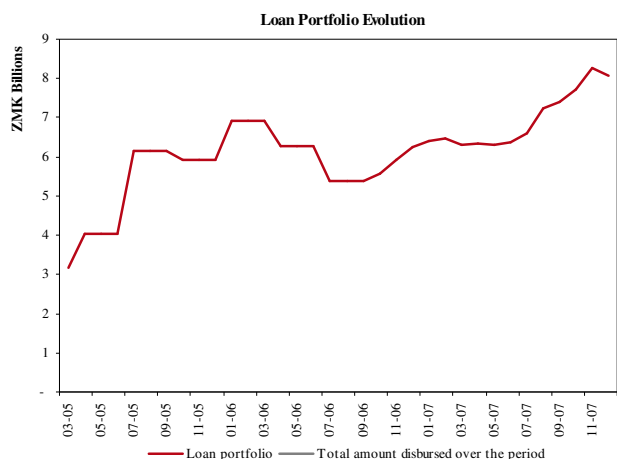
The internal audit has only had limited support from the external auditors, e.g. the management letter for the financial year ended March 2007 is still pending. However, also CETZAM has been lax in following-up on all recommendations of the external auditors in previous years.

## ■ Activities

Activities: products and services is rated “d”

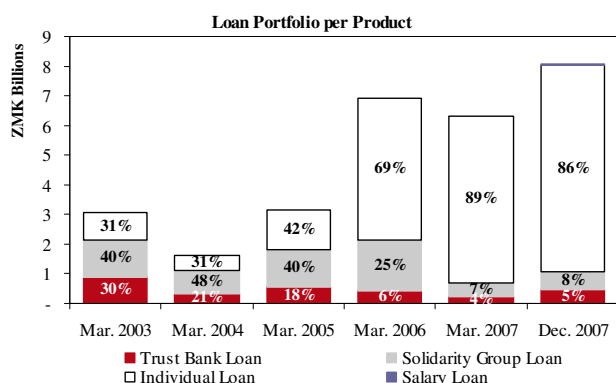
### Evolution and composition of the portfolio

The loan portfolio shows an increasing trend since 2004. This is because at that time only 21% of assets was invested in the loan portfolio due to the restructuring of CETZAM. Since then the portfolio has increased to about 80% of assets where the main growth in the past two years was as a result of donations for loan capital.



Note: prior to September 2006 only quarterly data was available; prior to March 2005 only yearly data is available.

The loan portfolio composition has changed significantly in the past three years where the individual loans have taken up the majority of the loan portfolio increasing in both percentage of total loan portfolio as well as in actual volume. The trust bank and solidarity group loans were not performing well in 2006 and a large part of their reduction in volume was due to write-offs. Since, they have shown a slight increase in both volume and percentage of total portfolio.



### Loan portfolio management

CETZAM employs a well designed credit methodology for the different loan products but faces significant challenges in adequate implementation of the products.

The credit methodologies contain an adequate business analysis which is well adapted in depth of analysis to fit the loan amounts of the different loan products. For the group loans there is a well developed training phase of six to ten weeks to form strong groups and introduce the prospective clients to the group guarantee mechanism. The capacity of LOs to do an adequate business analysis is variable throughout the institution although on average most LOs have sufficient capacity.

Monitoring of the portfolio evolution is adequate but stronger focus is needed on evolution per product as this has not been well managed in the past. The management of this will be made easier as CETZAM has recently introduced LOs who will work specifically on trust bank loans.

Delinquency management is a weakness of CETZAM and shows a significant variance in performance between the different branches. This highlights the weakness of supervision of the branches by the operations department at HO. The main weakness is a laxity in immediate follow-up of late payments as indicated by a PAR1-30 which has fluctuated between 9-11% in the past two years.

Adequate procedures are in place to follow-up on written-off loans. However, these procedures are not implemented effectively across branches and recoveries from loans written-off have been low.

### Credit risk

Credit risk at CETZAM shows a declining trend over the years with PAR31-365 at 19.9% in March 2006, 10.2% in March 2007 and 5.2% in December 2007. The trust bank and solidarity group loans show the most significant improvements as PAR31-365 stood at 53% and 42% respectively as of March 2006 which reduced to 8.2% and 1.8% as of December 2007. Individual loans show a more gradual improvement from 9.2% as of March 2006 to 5.3% in December 2007.

It should be noted however that PAR levels are kept low due to an aggressive write-off policy. All loans over 120 days late are written off on a quarterly basis. This has led to significantly high write-off ratios of 8.6% for FY05/06; 19.9% for FY06/07 and 5.1% for the 9 month financial year in 2007.<sup>6</sup>

CETZAM employs clear rules for loans to staff members, although monitoring of staff loans by the HR department has shown weaknesses.

Concentration risk is expected to be moderate at CETZAM as it has 40.5% of its loan portfolio outstanding in the copper belt. This part of the portfolio is easily affected by a potential downturn in the mining industry. At present concentrations risk is not monitored at CETZAM and no rules are in place to limit exposure to certain geographic areas or economic sectors. Although lending is prohibited to the agricultural sector (crops only).

<sup>6</sup> The ratio's are estimates as it was not possible for CETZAM to adequately separate principal and interest in the amounts written-off.

## Credit risk coverage

Credit risk coverage is inadequate at CETZAM with a risk coverage ratio at a low 20.2% as of December 2007. The loan loss provision policy, based on arrears rather than portfolio at risk, does not lead to a sufficient provisioning level. Furthermore, the group guarantee on trust bank loans remains difficult to enforce by CETZAM as indicated by a high PAR1-30 of 17.5%. Hard collateral on individual loans is mostly used as a deterrent as it is a cumbersome process to sell off the assets.

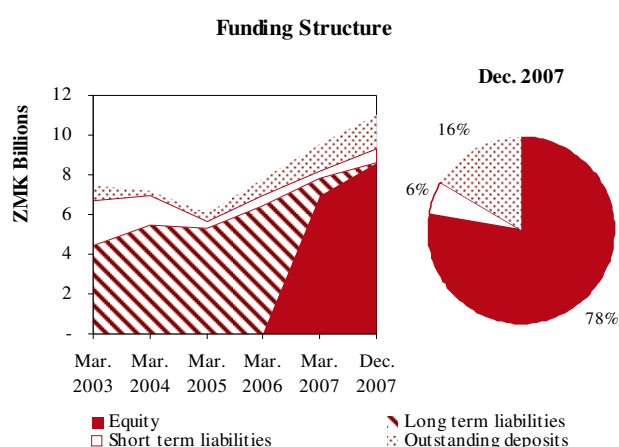
## ■ Funding and liquidity

Funding and liquidity is rated “c”

### Funding strategy and capitalization

CETZAM has a solid funding structure typical of an NGO with a significant portion of donated equity (78%) and a minor share of compulsory deposits (16%).<sup>7</sup> As of December 2007 CETZAM has a CAR of 96.7% and a leverage of only 0.28x.

Having transformed into a company limited by shares CETZAM is still to develop its funding strategy. Currently the consequences of taking on additional equity investment of new shareholders and attracting debt are not fully understood by CETZAM and there is limited internal capacity at CETZAM to negotiate with fund providers to ensure appropriate funding conditions for the institution. CETZAM has negotiated for its first loan from a local commercial bank (the ZMK equivalent of 250 K EUR) backed by a guarantee from Cordaid of the Netherlands. CETZAM is still to decide whether to take up this loan.



<sup>7</sup> The long term liabilities shown in prior years are grants received but not yet expensed through the income statement.

## Liquidity risk

CETZAM has at present insufficient capacity, as the position of Finance Manager has been vacant for some time, for liquidity and maturity management.

Cash flow projections are only available with a very short time frame of one week. The main method of managing liquidity is by keeping a buffer which as of December 2007 stood at 5.6% of assets.<sup>8</sup> Combined with the short term nature of the loan portfolio the liquidity risk is expected to be low. Maturity risk is currently not managed at CETZAM. However, maturity risk is expected to be close to non-existent due to the high percentage of equity.

## Market risk

At present CETZAM does not face any interest rate risk or foreign exchange risk. However, CETZAM does need strengthening to be able to understand and manage both risks when it does start attracting debt.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “d”

### Profitability analysis

CETZAM has made great strides over the past years to become profitable and has been able to increase ROA from (86%) in FY03/04 to (33%) in FY05/06 and (3.6%) in FY06/07. In the nine month financial year of 2007 a provisional positive ROA of 3.8% has been noted.

The yield has seen an increase from 56% in FY03/04 to just over 80% for the past two years. However, this has remained well below the theoretical yield which is estimated at 105%. The main reason is the poor portfolio quality, which has seen improvements but remains below standard, as well as the early settlement of the loans which on average reduce the effective interest rates of the individual loans by 10 percentage points.

CETZAM enjoys a moderate revenue quality based on its market position where the majority of its portfolio is in individual loans. This makes CETZAM more vulnerable to increasing competition of downscaling of commercial banks in Zambia which offer individual loans to SMEs at far lower interest rates. This will put pressure on the interest rate levels of CETZAM. Furthermore, its capacity to respond to the changing market is limited. The product development process is not strongly embedded within the institution as indicated by the slow development and roll out of the salary

<sup>8</sup> Adjusted to exclude restricted cash for compulsory deposits. CETZAM keeps all compulsory deposits in cash or in investments that can be made liquid within a week as it is not allowed to on-lend these deposits.

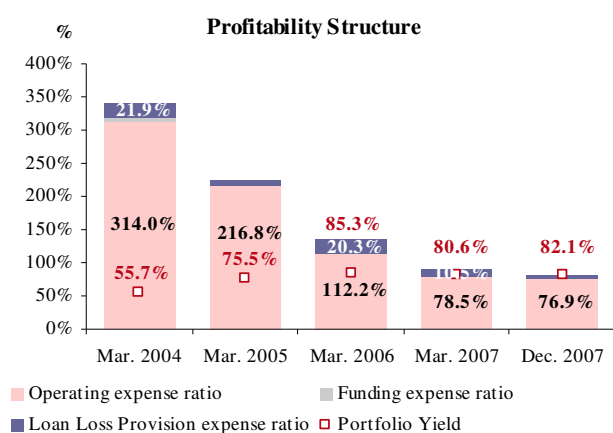
loans. A recent focus to again increase the trust bank and solidarity groups will allow CETZAM to enter into a largely untapped market.

The operating expense ratio has seen a significant downward trend in recent years from 300+ percent to 78.5% in FY06/07. The main driver has been an almost ten fold increase in average outstanding loan balance between 2004 and 2007. Staff productivity as well as loan officer productivity have remained very low in recent years. This entails a potential for CETZAM to further reduce its operating expense ratio if it were able to improve staff productivity. In the nine-month financial year in 2007 to operating expense ratio seems to have stabilized. The achievement of break even during this nine-month period is due to the reduction in the loan loss provision expense ratio from 10.5% in FY06/07 to 4.5% in the nine-months.

CETZAM could further improve its resource optimization as at present 82.3%<sup>9</sup> of the assets are invested in the loan portfolio. However, before an increase of the ratio is considered CETZAM would need to improve its poor liquidity management first.

The profitability outlook for CETZAM is uncertain. On the one hand there are several possibilities to increase the yield on portfolio as a result of improving portfolio quality as well as a reduction of costs through increasing economies of scale and increasing staff productivity. With the present branch network, MIS and staffing CETZAM could double the number of clients and grow its loan portfolio by at least 50%. However, such improvements will require strengthening of management in both finance and operations departments which is still to be realized by CETZAM. Furthermore, CETZAM will need to attract debt to fund this growth which will significantly increase the funding expense ratio.

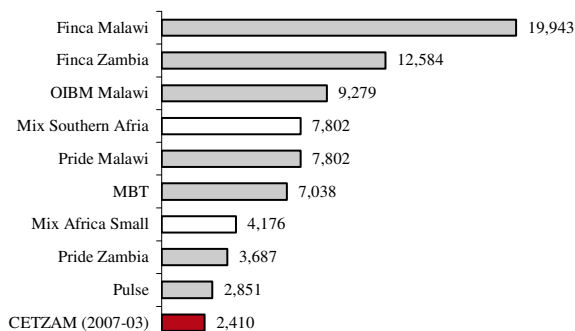
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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



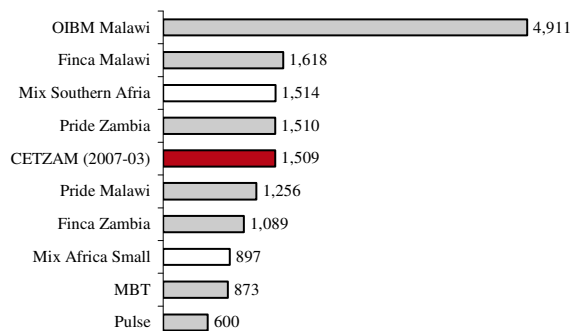
<sup>9</sup> Ratio adjusted to exclude restricted cash for compulsory deposits. The unadjusted ratio is 66.9% for March 2007 and 68.8% for December 2007.

## Benchmarking

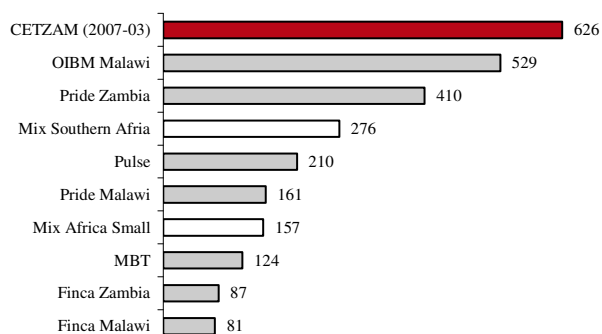
Active borrowers



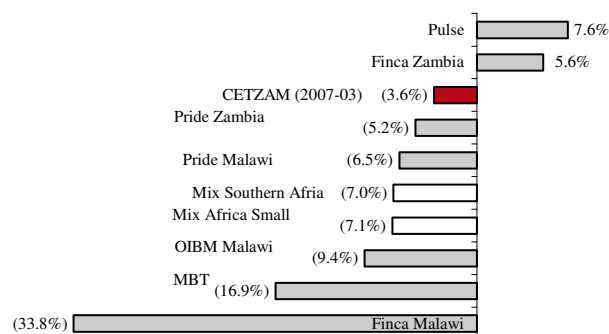
Loan portfolio ('000 USD)



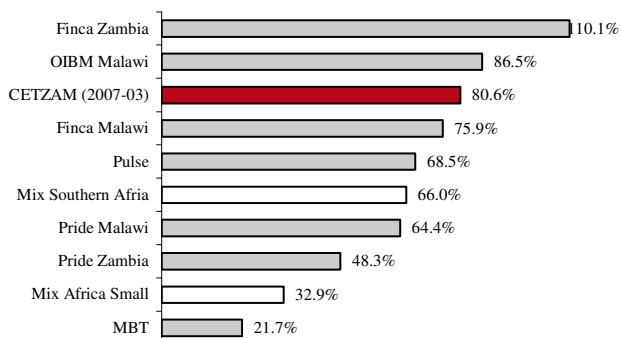
Average outstanding loan per client



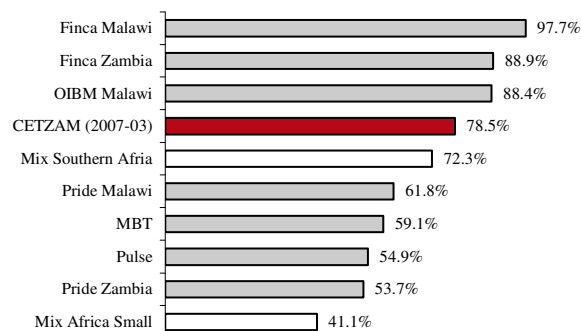
ROA



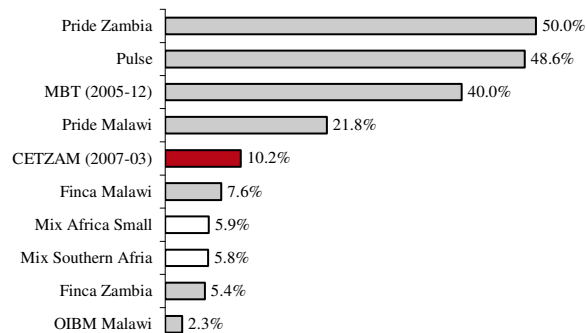
Portfolio Yield



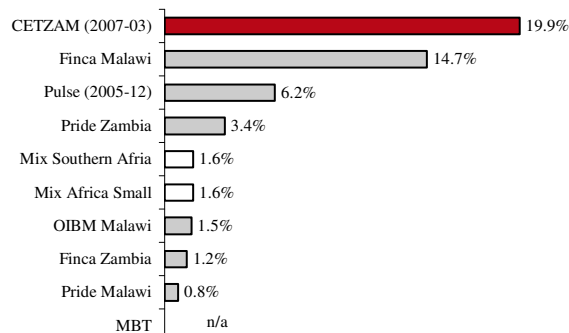
Operating expense ratio



PAR 31-365



Write-off ratio



Source: www.mixmarket.org, data as of December 2006 unless stated otherwise.

## ■ Performance indicators

Data in USD, unless otherwise stated

	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007
<b>Loan Portfolio</b>	<b>USD , unless otherwise stated</b>				
<b>Loan portfolio evolution</b>					
Loan portfolio	348,510	675,042	2,029,685	1,509,100	1,975,940
Loan portfolio (ZMK)	1,629,285,000	3,157,172,000	6,913,898,000	6,672,757,000	7,706,461,911
Evolution	(46.6%)	93.8%	119.0%	(3.5%)	15.5%
Average outstanding loan	500,392	511,702	1,478,261	1,536,368	1,807,573
Active borrowers	4,811	4,742	5,496	2,410	3,219
Evolution	(64.0%)	(1.4%)	15.9%	(56.1%)	33.6%
Average outstanding loan per client	72	142	369	626	614
% of GDP per capita	14.8%	23.8%	37.9%	73.5%	63.5%
Average amount disbursed per loan	n/a	n/a	480	1,032	1,022
% of GDP per capita	n/a	n/a	49.2%	121.1%	105.7%
<b>Portfolio quality</b>					
Rescheduled loans	n/a	n/a	0.0%	0.0%	0.0%
PAR 31-365	n/a	n/a	19.9%	10.2%	5.2%
PAR > 365	n/a	n/a	0.0%	0.0%	0.0%
Write-off ratio*	26.5%	10.0%	8.6%	19.9%	5.1%
<b>Credit risk coverage</b>					
Risk coverage ratio (PAR 30)	n/a	n/a	53.8%	44.4%	20.2%
PAR 31 net of loan loss provision / Equity	n/a	n/a	2,097.8%	5.1%	3.9%
<b>Savings</b>	<b>USD , unless otherwise stated</b>				
Outstanding deposits	65,554	99,654	245,405	310,659	464,836
Outstanding deposits (ZMK)	306,466,000	466,080,000	835,943,481	1,373,634,206	1,812,928,623
Evolution	(59.2%)	52.1%	79.4%	64.3%	32.0%
Mandatory savings (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Voluntary savings (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Active savers	5,711	5,169	2,766	2,894	5,069
Evolution	(63.4%)	(9.5%)	(46.5%)	4.6%	75.2%
Average outstanding deposit per saver	11	19	89	107	92
Mandatory	11	21	139	133	92
Voluntary	-	-	-	-	-
<b>Staff</b>					
Total number of staff	77	71	68	58	58
% Credit officers	49.4%	53.5%	48.5%	51.7%	43.1%
Turnover	48.4%	48.6%	38.8%	71.4%	37.9%
<b>Profitability analysis</b>					
ROE	(20,868.3%)	(9,642.9%)	(7,465.4%)	(9.0%)	5.0%
Liabilities / Equity	237.10x	199.0x	256.5x	0.4x	0.3x
Capital adequacy ratio	1.1%	0.7%	0.4%	95.7%	96.7%
ROA	(86.2%)	(44.0%)	(32.6%)	(3.6%)	3.8%
<b>Profitability structure</b>					
Portfolio Yield	55.7%	75.5%	85.3%	80.6%	82.1%
Operating expense ratio	314.0%	216.8%	112.2%	78.5%	76.9%
Cost per borrower	327	234	302	501	432
Staff productivity	62	67	81	42	56
Loan officer productivity	127	125	167	80	129
Average outstanding loan per client (USD)	72	142	369	626	614
Funding expense ratio	4.7%	(0.7%)	2.2%	0.0%	0.0%
Cost of savings	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of liabilities	0.0%	0.0%	0.0%	0.0%	0.0%
Loan Loss Provision expense ratio	21.9%	6.8%	20.3%	10.5%	4.5%
PAR 31-365	n/a	n/a	19.9%	10.2%	5.2%
Write-off ratio	26.5%	10.0%	8.6%	19.9%	5.1%
<b>Resource optimization</b>					
Outstanding Loan Portfolio / Assets**	21.1%	54.2%	88.2%	78.2%	82.3%
Revenue from investment as a % of financial revenues	14.7%	5.0%	3.0%	3.4%	4.1%
<b>Liquidity</b>					
Cash to demand deposits	-	-	-	-	-
Liquidity / Total assets (LAR)**	53.8%	5.4%	4.5%	13.3%	5.6%
<b>Exchange rate 1 USD= xx ZMK</b>	<b>4,675</b>	<b>4,677</b>	<b>3,406</b>	<b>4,422</b>	<b>3,900</b>

\* Estimates: it was not possible for CETZAM to adequately separate principal and interest write-offs.

\*\* The ratio is adjusted to exclude compulsory deposits from assets.

CETZAM		'000 ZMK					USD					Evolution			
Income Statement	Notes	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	05/04	06/05	07/06	07/08
<b>Financial Revenue (a)</b>		<b>1,623,475</b>	<b>2,401,479</b>	<b>4,513,616</b>	<b>5,732,248</b>	<b>4,593,996</b>	<b>347,267</b>	<b>513,466</b>	<b>1,325,044</b>	<b>1,296,396</b>	<b>1,177,902</b>	<b>47.9%</b>	<b>88.0%</b>	<b>27.0%</b>	<b>(19.9%)</b>
Financial Revenue from Loan Portfolio		1,303,188	1,806,362	4,293,473	5,475,791	4,341,025	278,757	386,222	1,260,417	1,238,396	1,113,041	38.6%	137.7%	27.5%	(20.7%)
Interest on Loan Portfolio		1,154,719	1,494,908	3,810,079	5,042,508	3,888,490	246,999	319,630	1,118,509	1,140,405	997,010	29.5%	154.9%	32.3%	(22.9%)
Fees and Commissions on Loan Portfolio		109,436	237,217	411,516	306,176	333,922	23,409	50,720	120,807	69,244	85,618	116.8%	73.5%	(25.6%)	9.1%
Penalty Revenue on Loan Portfolio		39,033	74,237	71,878	127,107	118,614	8,349	15,873	21,101	28,746	30,413	90.2%	(3.2%)	76.8%	(6.7%)
Financial Revenue from Investments		238,191	119,858	134,448	195,078	190,029	50,950	25,627	39,469	44,119	48,724	(49.7%)	12.2%	45.1%	(2.6%)
Other Operating Revenue		82,096	475,259	85,695	61,379	62,942	17,561	101,616	25,157	13,881	16,138	478.9%	(82.0%)	(28.4%)	2.5%
<b>Financial Expense (b)</b>		<b>110,400</b>	<b>(16,763)</b>	<b>112,281</b>	-	-	<b>23,615</b>	<b>(3,584)</b>	<b>32,962</b>	-	-	<b>(115.2%)</b>	<b>(769.8%)</b>	<b>(100.0%)</b>	-
Interest paid on borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	1	110,400	(16,763)	112,281	-	-	23,615	(3,584)	32,962	-	-	(115.2%)	(769.8%)	(100.0%)	-
<b>Financial income [c=a-b]</b>		<b>1,513,075</b>	<b>2,418,242</b>	<b>4,401,335</b>	<b>5,732,248</b>	<b>4,593,996</b>	<b>323,652</b>	<b>517,050</b>	<b>1,292,082</b>	<b>1,296,396</b>	<b>1,177,902</b>	<b>59.8%</b>	<b>82.0%</b>	<b>30.2%</b>	<b>(19.9%)</b>
<b>Net Loan Loss provision expense (d)</b>		<b>513,356</b>	<b>162,189</b>	<b>1,024,211</b>	<b>712,365</b>	<b>237,931</b>	<b>109,809</b>	<b>34,678</b>	<b>300,674</b>	<b>161,107</b>	<b>61,006</b>	<b>(68.4%)</b>	<b>531.5%</b>	<b>(30.4%)</b>	<b>(66.6%)</b>
Loan loss provision expense and write-off		513,356	187,068	1,062,061	896,517	285,886	109,809	39,997	311,785	202,755	73,301	(63.6%)	467.7%	(15.6%)	(68.1%)
Recovery from Loans written off	2	-	24,879	37,850	184,152	47,955	-	5,319	11,111	41,648	12,296	-	52.1%	386.5%	(74.0%)
<b>Operating expense (e)</b>		<b>7,346,604</b>	<b>5,188,858</b>	<b>5,647,649</b>	<b>5,335,876</b>	<b>4,063,943</b>	<b>1,571,466</b>	<b>1,109,442</b>	<b>1,657,957</b>	<b>1,206,753</b>	<b>1,041,997</b>	<b>(29.4%)</b>	<b>8.8%</b>	<b>(5.5%)</b>	<b>(23.8%)</b>
Personnel Expense (includes fringe)		2,997,799	2,289,876	3,049,456	2,732,121	2,266,663	641,240	489,604	895,216	617,892	581,173	(23.6%)	33.2%	(10.4%)	(17.0%)
Administrative Expense (non-staff operating expenses)		4,348,805	2,898,982	2,598,193	2,603,755	1,797,280	930,226	619,838	762,741	588,861	460,823	(33.3%)	(10.4%)	0.2%	(31.0%)
Depreciation and amortization		1,137,253	702,328	507,301	323,859	206,007	243,263	150,166	148,926	73,243	52,820	(38.2%)	(27.8%)	(36.2%)	(36.4%)
Consulting fees		236,370	171,837	82,816	62,338	86,937	50,560	36,741	24,312	14,098	22,291	(27.3%)	(51.8%)	(24.7%)	39.5%
Rent & Utilities		516,459	460,385	495,995	492,607	306,079	110,473	98,436	145,607	111,407	78,479	(10.9%)	7.7%	(0.7%)	(37.9%)
Office costs and communication		508,094	448,754	516,853	414,600	315,836	108,683	95,949	151,730	93,765	80,980	(11.7%)	15.2%	(19.8%)	(23.8%)
Travel		854,450	635,378	519,020	554,529	325,617	182,770	135,852	152,367	125,411	83,488	(25.6%)	(18.3%)	6.8%	(41.3%)
Bank charges		132,301	126,804	65,487	61,418	34,326	28,300	27,112	19,225	13,890	8,801	(4.2%)	(48.4%)	(6.2%)	(44.1%)
Insurance		163,779	143,065	102,444	76,928	48,069	35,033	30,589	30,074	17,398	12,325	(12.6%)	(28.4%)	(24.9%)	(37.5%)
Staff training & Board costs		96,508	63,490	102,081	72,475	98,318	20,643	13,575	29,968	16,391	25,209	(34.2%)	60.8%	(29.0%)	35.7%
Accrued interest written off		-	-	-	392,290	160,794	-	-	-	88,720	41,228	-	-	-	(59.0%)
Others		703,591	146,941	206,196	152,711	215,296	150,501	31,418	60,532	34,537	55,202	(79.1%)	40.3%	(25.9%)	41.0%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>(6,346,885)</b>	<b>(2,932,805)</b>	<b>(2,270,525)</b>	<b>(315,993)</b>	<b>292,123</b>	<b>(1,357,622)</b>	<b>(627,070)</b>	<b>(666,549)</b>	<b>(71,464)</b>	<b>74,900</b>	<b>(53.8%)</b>	<b>(22.6%)</b>	<b>(86.1%)</b>	<b>(192.4%)</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>(6,346,885)</b>	<b>(2,932,805)</b>	<b>(2,270,525)</b>	<b>(315,993)</b>	<b>292,123</b>	<b>(1,357,622)</b>	<b>(627,070)</b>	<b>(666,549)</b>	<b>(71,464)</b>	<b>74,900</b>	<b>(53.8%)</b>	<b>(22.6%)</b>	<b>(86.1%)</b>	<b>(192.4%)</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>(6,346,885)</b>	<b>(2,932,805)</b>	<b>(2,270,525)</b>	<b>(315,993)</b>	<b>292,123</b>	<b>(1,357,622)</b>	<b>(627,070)</b>	<b>(666,549)</b>	<b>(71,464)</b>	<b>74,900</b>	<b>(53.8%)</b>	<b>(22.6%)</b>	<b>(86.1%)</b>	<b>(192.4%)</b>
Donations (l)		6,346,885	2,932,805	2,270,525	7,272,243	1,866,709	1,357,622	627,070	666,549	1,644,679	478,625	(53.8%)	(22.6%)	220.3%	(74.3%)
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>6,956,250</b>	<b>2,158,832</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,573,214</b>	<b>553,525</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(69.0%)</b>

Notes: 1) Exchange rate gains / losses only; 2) For 2004 no data was available.

CETZAM Balance sheet	Notes	'000 ZMK					USD					Evolution			
		Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	05/04	06/05	07/06	07/08
<b>ASSETS</b>		<b>7,241,582</b>	<b>6,083,490</b>	<b>7,830,606</b>	<b>9,547,010</b>	<b>11,078,586</b>	<b>1,549,001</b>	<b>1,300,725</b>	<b>2,298,799</b>	<b>2,159,136</b>	<b>2,840,554</b>	<b>(16.0%)</b>	<b>28.7%</b>	<b>21.9%</b>	<b>16.0%</b>
<b>Short Term Assets</b>		<b>6,302,423</b>	<b>5,324,580</b>	<b>7,469,306</b>	<b>9,361,253</b>	<b>10,625,953</b>	<b>1,348,112</b>	<b>1,138,461</b>	<b>2,192,734</b>	<b>2,117,126</b>	<b>2,724,499</b>	<b>(15.5%)</b>	<b>40.3%</b>	<b>25.3%</b>	<b>13.5%</b>
Cash and Due from Banks		3,895,295	329,765	349,791	1,374,892	1,441,579	833,218	70,508	102,687	310,943	369,622	(91.5%)	6.1%	293.1%	4.9%
Short Term Investments		837,131	1,616,098	860,051	1,086,028	885,909	179,065	345,542	252,482	245,614	227,147	93.1%	(46.8%)	26.3%	(18.4%)
Short Term Net Loan Portfolio		1,461,187	3,042,140	6,171,453	6,387,535	7,621,869	312,553	650,447	1,811,728	1,444,595	1,954,250	108.2%	102.9%	3.5%	19.3%
Short Term Gross Loan Portfolio		1,629,285	3,157,172	6,913,898	6,672,757	7,706,462	348,510	675,042	2,029,685	1,509,100	1,975,940	93.8%	119.0%	(3.5%)	15.5%
(Loan Loss Reserve)		168,098	115,032	742,445	285,222	84,593	35,957	24,595	217,957	64,505	21,690	(31.6%)	545.4%	(61.6%)	(70.3%)
Interest Receivable		-	-	-	307,121	184,629	-	-	-	69,458	47,339	-	-	-	(39.9%)
On loan portfolio		-	-	-	307,121	184,629	-	-	-	69,458	47,339	-	-	-	(39.9%)
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		108,810	336,577	88,011	205,677	491,967	23,275	71,964	25,837	46,516	126,140	209.3%	(73.9%)	133.7%	139.2%
<b>Long term assets</b>		<b>939,159</b>	<b>758,910</b>	<b>361,300</b>	<b>185,757</b>	<b>452,633</b>	<b>200,890</b>	<b>162,264</b>	<b>106,065</b>	<b>42,011</b>	<b>116,055</b>	<b>(19.2%)</b>	<b>(52.4%)</b>	<b>(48.6%)</b>	<b>143.7%</b>
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		939,159	758,910	361,300	185,757	452,633	200,890	162,264	106,065	42,011	116,055	(19.2%)	(52.4%)	(48.6%)	143.7%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>7,241,582</b>	<b>6,083,490</b>	<b>7,830,606</b>	<b>9,547,010</b>	<b>11,078,586</b>	<b>1,549,001</b>	<b>1,300,725</b>	<b>2,298,799</b>	<b>2,159,136</b>	<b>2,840,554</b>	<b>(16.0%)</b>	<b>28.7%</b>	<b>21.9%</b>	<b>16.0%</b>
<b>Liabilities</b>		<b>7,211,168</b>	<b>6,053,076</b>	<b>7,800,192</b>	<b>2,560,346</b>	<b>2,446,796</b>	<b>1,542,496</b>	<b>1,294,222</b>	<b>2,289,871</b>	<b>579,044</b>	<b>627,359</b>	<b>(16.1%)</b>	<b>28.9%</b>	<b>(67.2%)</b>	<b>(4.4%)</b>
Short term liabilities		1,776,859	777,410	1,389,481	1,698,287	2,446,796	380,077	166,220	407,904	384,082	627,359	(56.2%)	78.7%	22.2%	44.1%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		306,466	466,080	835,943	1,373,634	1,812,929	65,554	99,654	245,405	310,659	464,836	52.1%	79.4%	64.3%	32.0%
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	6,449	19,453	-	-	-	1,893	4,399	-	-	-	201.6%	(100%)
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		1,470,393	311,330	547,089	305,200	633,867	314,523	66,566	160,607	69,023	162,524	(78.8%)	75.7%	(44.2%)	107.7%
Long term liabilities		5,434,309	5,275,666	6,410,711	862,059	-	1,162,419	1,128,002	1,881,966	194,962	-	(2.9%)	21.5%	(86.6%)	(100%)
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Long Term Liabilities	3	5,434,309	5,275,666	6,410,711	862,059	-	1,162,419	1,128,002	1,881,966	194,962	-	(2.9%)	21.5%	(86.6%)	(100%)
<b>Equity</b>		<b>30,414</b>	<b>30,414</b>	<b>30,414</b>	<b>6,986,664</b>	<b>8,631,790</b>	<b>6,506</b>	<b>6,503</b>	<b>8,929</b>	<b>1,580,093</b>	<b>2,213,194</b>	<b>0.0%</b>	<b>0.0%</b>	<b>22,872%</b>	<b>23.5%</b>
<b>Tier 1 Capital</b>		<b>30,414</b>	<b>30,414</b>	<b>30,414</b>	<b>6,986,664</b>	<b>8,631,790</b>	<b>6,506</b>	<b>6,503</b>	<b>8,929</b>	<b>1,580,093</b>	<b>2,213,194</b>	<b>0.0%</b>	<b>0.0%</b>	<b>22,872%</b>	<b>23.5%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity	4	20,764,437	23,697,242	25,967,767	33,240,010	35,106,719	4,441,591	5,066,761	7,623,251	7,517,507	9,001,377	14.1%	9.6%	28.0%	5.6%
Retained earnings without donations and reserves		(20,734,023)	(23,666,828)	(25,937,353)	(26,253,346)	(26,474,929)	(4,435,085)	(5,060,258)	(7,614,323)	(5,937,414)	(6,788,182)	14.1%	9.6%	1.2%	0.8%
<b>Tier 2 Capital</b>		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 3) This pertains to donated equity which is posted as a liability in the audited financial statements. Only in 2007 was a large portion transferred to equity when a confirmation letter from DfID was received that there was no obligation to refund the grants; 4) The donated equity is only an approximation as not all historic data could be traced. The actual amount received is likely to be higher. Therefore, also the retained earnings are likely to be lower. The sum of the two does reflect the total equity as stated in the balance sheet.

## ■ 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 borrowings
Loan loss expense ratio:	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / 13-month average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / Total assets (end of period)
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	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	INVESTMENT GRADE
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	SPECULATIVE INVESTMENT
C++	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C+	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	<b>High risk:</b> Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	