

## CUMO, Malawi

CUMO Microfinance Limited (CUMO) was established as a project in 2000 following a decision by Concern Universal (CU), a UK-based charity, to segregate its microfinance operations from the rest of its charity projects in Malawi. In May 2007, CUMO was registered as a company limited by guarantee in order to further streamline its micro finance operations. CUMO has a presence in 11 districts in Malawi, with its headquarters based in the district township of Dedza. CUMO's product offering includes agriculture loans, small enterprise loans, micro-insurance, enterprise training and market linkage services. As of 30 June 2009, CUMO had a loan portfolio of USD1.1 million and served 29,504 active borrowers.

### GIRAFE Rating

#### Rating

**D**

#### Outlook

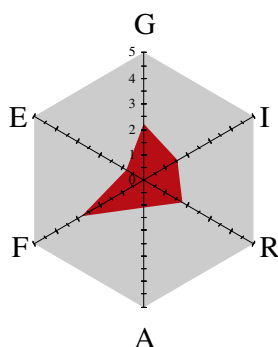
**Stable**

#### Date of the rating

**August 2009**

Valid until July, 2009

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- CUMO achieved profitability for the first time in 2008, with an ROA of 3.4%. This was a significant improvement from 2007, where it was still at (-10%).
- However, the portfolio yield continues its decline from 99% in 2006 to 81% in 2008 mainly because of the significant increase of the PAR 31-365 (2.8% in 07, 11.5% in 08, 15.6% as of June 09).
- The capacity of CUMO's competent CEO is absorbed by sourcing grant funding, leaving a void in the management of senior staff and analysis of operations. Key person risk is still a major concern for CUMO, as no other management team member has sufficient leadership experience and training in microfinance to fulfil, even temporarily, this role.
- CUMO's market position is strong in the short term as the institution remains focused on the untapped rural market in Malawi. However, this strategy is threatened by the competition the institution will face against established microfinance institutions in the country.
- CUMO's main challenge will be to finalize its MIS migration between its regional office and the Head Office as well as the strengthening of its internal controls in order to ensure the full reliability of the data collected.

#### Outlook

The Stable Outlook reflects our opinion that despite further economies of scale, the strengthening of risk management and the improvement of the loan tracking system will require significant investments that could potentially delay the institution's return to self sufficiency.

#### Performance indicators

| USD                                 | dec. 2005 | dec. 2006 | dec. 2007 | dec. 2008 | June, 2009 |
|-------------------------------------|-----------|-----------|-----------|-----------|------------|
| Assets                              | 1 196 122 | 1 940 965 | 2 570 109 | 3 416 755 | 3 432 298  |
| Loan portfolio                      | 195 624   | 357 857   | 725 462   | 1 274 671 | 1 145 091  |
| Active borrowers                    | 8 592     | 15 369    | 18 003    | 28 997    | 29 548     |
| Average outstanding loan per client | 23        | 23        | 40        | 44        | 39         |
| Outstanding deposits                | 29 937    | 50 800    | 98 456    | 159 312   | 169 477    |
| Active savers                       | 12 741    | 17 300    | 22 830    | n/a       | n/a        |
| Staff                               | 63        | 81        | 106       | 125       | 133        |
| ROE                                 | (46,5%)   | (38,9%)   | (13,7%)   | 3,7%      | (0,0%)     |
| ROA (without donations)             | (23,6%)   | (18,2%)   | (10,0%)   | 3,4%      | (0,0%)     |
| Liabilities / Equity                | 1,08x     | 1,16x     | 0,07x     | 0,08x     | 0,09x      |
| Portfolio yield                     | 117,3%    | 98,6%     | 91,7%     | 76,8%     | 63,9%      |
| Operating expense ratio             | 276,5%    | 246,3%    | 141,3%    | 85,7%     | 76,3%      |
| Funding expense ratio               | 5,5%      | 10,4%     | (8,4%)    | (4,4%)    | 0,0%       |
| Loan Loss Provision expense ratio   | 0,0%      | 12,2%     | 13,3%     | (1,5%)    | (0,3%)     |
| PAR 31-365                          | n/a       | 15,9%     | 2,8%      | 11,5%     | 15,6%      |
| PAR > 365                           | 0,0%      | 0,0%      | 0,0%      | 0,0%      | 0,0%       |
| Write-off ratio                     | 0,0%      | 0,0%      | 17,9%     | 0,0%      | 0,0%       |

## Microfinance sector

The formal financial sector in Malawi is fairly small and limited in scope and depth. As of 2004, fewer than 6% of small and medium enterprises (SMEs) had access to credit.<sup>1</sup> Malawi is a pre-dominantly rural economy with more than 85% of the population living in rural areas conducting agricultural activities. Consequently, the MFI market is driven by seasonal agricultural and related economic activities.

At present there is one commercial bank active in microfinance, Opportunity International Bank of Malawi (OIBM) which is regulated by the Reserve Bank of Malawi (RBM) under the Banking Act of 1989. OIBM is privately owned, but was financed largely by USAID and DFID. Two other entities regulated by RBM are the government owned Malawi Savings Bank (MSB) and Malawi Rural Finance Company (MRFC). Credit Unions and Savings & Credit Cooperatives are regulated by the Registrar of Cooperatives under the Cooperative Societies Act of 1946 but its supervision is generally weak. One credit union exists, the Malawi Union of Savings and Credit Cooperatives (MUSCCO) which has 71 affiliated SACCOs. Besides MUSCCO an estimated 70 individual Savings & Credit Cooperatives exist.

The other main microfinance providers are not regulated by RBM and are either Companies – regulated under the Companies Act of 1986; NGOs –regulated under the NGO Act of 2000; and Trusts – regulated under the Trustees Incorporation Act of 1962. The largest four include FINCA, PRIDE, CUMO and FITSE. The main players in the Malawi microfinance sector are listed in the table below:

| MFI    | Loan Portfolio (M USD) | Active Borrowers | Total Savings (M USD) | Active Savers |
|--------|------------------------|------------------|-----------------------|---------------|
| OIBM   | 22.5                   | 33,835           | 12.2                  | 919,883       |
| MUSCCO | 11.6                   | 246,891          | 7.4                   | 62,745        |
| MRFC   | 18.5                   | 31,999           | 2.4                   | 211,335       |
| MSB    | 2.9                    | 629              | 12.2                  | 184,604       |
| FINCA  | 2.2                    | 14,133           | 1.02                  | 20,090        |
| PRIDE  | 1.7                    | 9,470            | 0.38                  | 14,483        |
| CUMO   | 1.3                    | 28,997           | 0.09                  | 15,980        |
| FITSE  | 0.4                    | 6,458            | 0.12                  | 6,173         |
| Total  | 60.7                   | 116,706          | 35.81                 | 607,393       |

Source: Loan Portfolio and Active Borrowers from MAMN Statistics 2009, Total Savings and Active Savers (and all FITSE information) from DMS Study 2007

Involvement of the Government of Malawi (GoM) remains one of the main hindrances to the development of the microfinance sector. MRFC and MSB are both highly

subsidy dependent<sup>2</sup> and have substantial weaknesses and need to rationalize operations. Given their subsidized nature MRFC and MSB distort the microfinance industry. Another limitation is the weak regulatory environment for the majority of the actors which are either not regulated or receive limited supervision (SACCOs).

The GoM is conscious of these different limitations to the development of the sector and is starting to take appropriate measures. In October 2002, the government introduced the Microfinance Policy and Action Plan. It set out ambitious objectives, including: improving the legal/regulatory framework; capacity building; promotion of best practices (including charging sustainable interest rates); and improving coordination between stakeholders. It has also endorsed the formation of the Malawi Microfinance Network, which was tasked with disseminating industry best practices and to regulate the industry. In the same vein, an MFI bill that was drafted in 2007 is currently awaiting approval in parliament. Precise time lines for the passing of the bill are yet to be set. However, several MFIs are already initiating various forms of reorganization in anticipation of the passing of the bill by Parliament, which is expected to be finalized by the end of 2009. The government has also stated its intention to privatize and/or restructure parastatals.

The evolution of the industry in the short-term will be largely dictated by developments relating to passing of the MFI bill, the growing prominence of the Malawi Microfinance Network and capacity building support from the GoM and development partners. Financial sector deepening initiatives gained increasing visibility in 2008 where the GoM teamed up with UNCDF, UNDP, DFID and other development partners to set up the Financial Inclusion in Malawi (FIMA) fund. The main objective of the fund is to increase financial services outreach in Malawi.

## Political & economic environment

Good weather and higher fertilizer price subsidies fuelled a moderate recovery in 2007. The trend continued in 2008 with the development of uranium extraction, which has attracted the lion's share of foreign investment. The growth will still not suffice to significantly reduce poverty. Ranked 166th of 177 countries based on its human development index Malawi is among the world's poorest countries. The economy, largely underpinned by an agricultural sector, which employs 90 per cent of the population, is vulnerable to external shocks.

<sup>1</sup> Microfinance Sector Assessment in the Republic of Malawi, Luboyeski, USAID 2004

<sup>2</sup> Expanding Access to Financial Services in Malawi, Kiendel Burritt, UNCDF Malawi – March 2006

Despite prudent macroeconomic policy, which resulted in September 2006 in cancellation of public foreign debt under the HIPC and MDRI programmes, the fiscal situation is still shaky. The government has been struggling to limit public spending and maintain economic policy within the limits of the program concluded with the IMF in June 2005. The current account moreover will doubtless remain deeply in deficit since rising export revenues supported by the development of tourism and the recovery of agriculture are not proving sufficient to offset increasing capital goods imports and a growing oil bill. In this context financing needs remain largely covered by international aid.

Implementation of reforms undertaken with international community backing has come up against stiff resistance from parliament with the priority given by President Mutharika to combating corruption even causing a split in the majority party. However, President Mutharika was sworn into office for a second five-year term in May 2009, having won a landslide victory. The opposition contested the election results and boycotted the inauguration.

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. Corporate default probability is very high.

COFACE Business Climate Rating: D -- The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in the highly risky environments.

| (USD millions)                                   | 2005  | 2006  | 2007(e) | 2008(f) |
|--|-------|-------|---------|---------|
| Economic growth (%)                              | 5.3   | 2.3   | 3.4     | 5.1     |
| Inflation (%)                                    | 15.5  | 14    | 8.4     | 7.5     |
| Public sector balance (%GDP)                     | -17.6 | -19.3 | -16.8   | -20.4   |
| Exports  | 505   | 463   | 462     | 480     |
| Imports  | 1070  | 889   | 836     | 877     |
| Trade balance                                    | -565  | -426  | -374    | -398    |
| Current account balance (%GDP)                   | -29.8 | -22.2 | -18.0   | -17.0   |
| Foreign debt (%GDP)                              | 137   | 20    | 24      | 25      |
| Debt service (%G&S exports)                      | 7.6   | 6.3   | 0.8     | 0.9     |
| Foreign currency reserves (in months of imports) | 1.1   | 1.4   | 2.6     | 3.3     |

Source: COFACE's Country Risk Ratings Guidebook 2009. (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

Concern Universal Microfinance Organization (CUMO) was established as a project in 2000 following a decision by Concern Universal (CU), a UK-based charity, to segregate its microfinance operations from its Sustainable Livelihood Project (SLP) in Malawi. CUMO operated under Concern Universal Malawi (CUM), a branch of CU, until May 2007 when it was established as CUMO Microfinance Limited, a company limited by guarantee. It is therefore governed by the Companies Act of Malawi, 1989, and is not regulated by the Reserve Bank of Malawi (RBM).

Since 2004, CUMO has been audited by KPMG who have produced audited accounts specifically for CUMO (i.e. separate from Concern Universal Malawi) up to 2008. CUMO's financial year commences in January and ends in December.

### Ownership

As a company limited by guarantee, the subscribers of CUMO Microfinance limited are CU and Dr. Ian Williams, who is the Charity Director of CU. Their combined liability is 11,000 MWK (77 USD) in the ratio of 10:1 for CU and Dr. Ian Williams respectively. CU, as the majority subscriber, is authorized to appoint and remove the chair person of the board of directors (BOD) and also determines the number of directors of the company.

Every year, during the Assembly General Meeting (AGM) one-third of the directors are required to retire. This is determined by the length of service as BOD members. Retiring directors are eligible for immediate re-election in which the subscribers of CUMO Microfinance Limited vote the new members of the BOD in. The BOD usually consists of 9 members, but one member representing CU has recently resigned. The ninth member will be appointed from CU as a replacement in the near future. The current BOD of 8 members consists of professionals from diverse backgrounds including development work, agriculture, accounting, law and economics. 4 of the BOD members represent CU and are based in Malawi under CUM while the remaining 4 external members are local professionals in Malawi. Currently the BOD propagates its role through 3 committees, namely: Nomination, Appointment and Remuneration committee, Credit & Risk committee and the Finance & Audit committee.

### Donations

Since 2004 CUMO's principal donor has been DfID who has extended support in the form of operational income to a tune

of about 4.8 M USD. However, CUMO did not receive a renewal of their DfID grant, as hoped for in 2008, and DfID funding came to an end on March 31, 2008. For their IT review and needs assessment, CUMO benefited from a grant of 10,000 USD from the CGAP Information System Fund in 2007. They used it in 2008 to conduct a review of their MIS needs and their current system Kredits, and to purchase an upgrade of the system. In Q3 2008, CUMO was accepted into USAID's Deepening Malawi project, for the last year of their program. They received technical assistance, funding for training, and a subsidization of this rating. A grant of 100,000 EUR from Irish Aid was also received in 2008, used for CEO's salary, impact assessment and knowledge documentation..

### Funding composition

Since formation, CUMO's major source of funding has been equity and long-term liabilities in the form of capital grants from DfID. At present CUMO does not have any debt on its balance sheet.

### Management team

The management team consists of the CEO, the Finance and Administration Manager (FAM), the Operations Manager (OM), and the MIS manager (MISM). The Internal Audit manager recently left CUMO in June 2009, with the Deputy Internal Auditor managing his role in the interim. Additionally, Human Resources falls under the management of the FAM, with a Human Resource Officer (HRO) hired in Q2 08 to assist. Management decisions are guided by the following management committees namely: Management Committee, Operations Committee, Product Development Committee, Credit Committee and Procurement Committee.

- The CEO, Mr. Bola Garbadeen, is a banker by profession, and holds a Masters Degree in Accounting & Finance. Prior to joining CUMO, Mr. Garbadeen served in an advisory role for Pride Africa's Microfinance projects in Kenya between 2001 and 2004. In 2004, Mr. Garbadeen was hired by CU as a Technical Advisor (TA) for their rural finance activities, assuming informally the role of CEO for these activities. This function was formalized in December, 2007, even if he remains on the payroll of CU to date.

### Organization

CUMO employs a unique business model in which there are no physical branch offices. The LOs and their respective supervisors must reside in the respective areas they cover. LOs are assigned territories covering a radius of 10 km from their residences. Business Area Supervisors, whose range of supervision covers a radius of 100 km, manage and provide oversight for around 10 LOs. There are currently 13 Business Area Supervisors (BAS) at CUMO representing

each of the 13 districts in which CUMO operates in Malawi. In turn, the two Regional Managers supervise the BAS in their region (Central or South) and carry out field spot as a form of monitoring. At the Head Office level, bi-weekly meetings chaired by the OM and involving the Regional Managers and BAS are used for higher level monitoring.

Credit decisions at the field level are decided by the groups within the minimum and maximum allowed by cycles of each product. The loan application forms go through the entire hierarchy of field supervision staff before finally reaching the OM for approval. The lead time for loan approvals and disbursement is two weeks. Once the OM has approved a loan, the loan contract is prepared and forwarded to the BAS to pass on to the clients. The money is remitted to the respective accounts (individual commercial bank accounts) of the different groups and the assigned group representatives withdraw the money from their accounts.

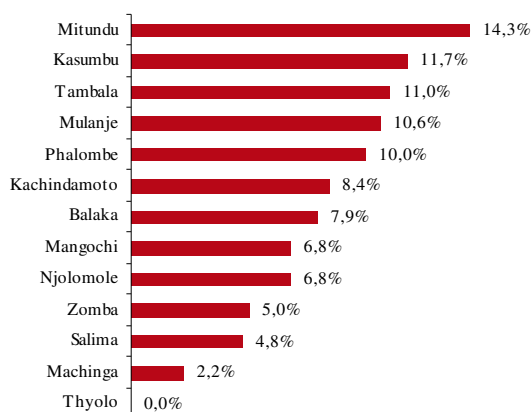
Repayments are done using two channels. The first option is for the group representatives to deposit the repayments directly in the commercial bank accounts of CUMO. The other option is to make use of two major farming input distributorships – Farmers' World and Agora. In the latter option, CUMO has an agreement with these collection agents who earn a commission on the money collected. CUMO clients are able to deposit their repayments directly with these agents and the payments are receipted in 3 copies for the client, the agent's Head Office, and one to stay in the receipt book. Currently, BAS visit the agents to copy down receipt information in the interim before the agent Head Office sends payment confirmations to CUMO. In the future, MIS officers will go to gather this information. The agents are required to submit the official receipts and collections to CUMO once a fortnight. The commercial bank also submits receipts and payment confirmations to CUMO, but there has been a history of frequent error in their receipts. Occasionally, CUMO clients are unable to make use of either of the two repayment channels and in such circumstances, CUMO allows the LOs to accept limited amounts of cash from clients. This is subject to written authorization from the Regional Managers and the money must be banked within 24 hours. This policy is usually applied to clients in arrears where the need to accept repayments is more urgent.

CUMO maintains two major information systems: one for accounting and one for loan tracking. Repayment or disbursement information is first entered into Kredits, the loan tracking software by Technical Development Solutions, USA. This data is then exported to Excel and reconciled with the Bank statements before being posted into Sage 50 accounting system. In 2008, CUMO decided against the purchase of an integrated MIS system and instead upgraded Kredits.

## Market penetration

CUMO currently has a presence in 11 Districts in the central and southern regions of Malawi. The regional office in central region is located in Dedza, which also doubles as the HO, while the regional office for the southern region is situated at Zomba. Each region has five or six business areas with Ntcheu, Kachindamoto, Salima, Mangochi, Kasumbu, and Mitundu in central and Zomba, Phalombe, Mulanje, Balaka, Thyolo, and Machinga in the south. The newest area of operations is Thyolo, whose portfolio only began in 2009. Operations are predominantly rural in terms of outreach with the only direct competition coming from MRFC

Loan portfolio per business area - Dec 08



## Products and services

CUMO offers both financial and non-financial products. The financial products essentially consist of three variations of group loans namely: Masika, Fumba and Kasupe. The Masika loan is designed to accommodate groups of between 10 and 20 members with each group having access to loans ranging from 5,000-50,000 MWK (35-352 USD) divided into 4 cycles of graduation. This is CUMO's oldest and most prominent product targeting micro-enterprises in rural Malawi. Loan terms range from 1 month to 6 months and interest charged is 48% flat per annum. Clients are required to deposit 5% of the loan amount as cash collateral as well as upfront payments of 2% insurance and a processing fee of 3% of the loan amount. Loan repayments are carried out either on a monthly or bi-weekly basis.

The Fumba loan is an add-on loan and is available to Masika clients. It is an agriculture loan and is designed to fit in with the harvest season of Malawi. Loan sizes range from 10,000 - 40,000 MWK (70-282 USD) with loan terms ranging between 3 and 6 months. The interest rate is 60% flat per annum and clients are entitled to a 3-month grace period to commence payment of interest. The principal is paid in a balloon installment at the end of the loan term. Processing, insurance and cash collateral are identical to the Masika loan. The Kasupe loan, which is now officially a product after a long pilot program; differs from the above two in that

it has an urban target and, as such, loan sizes are larger ranging from 15,000 - 200,000 MWK (105- 1,408 USD). Group sizes are small, accommodating 5 to 7 members. Loan terms range from 1 to 6 months and the interest rate is 54% flat per annum. An upfront cash collateral payment of 15% of the loan amount is required in addition to insurance and processing fees similar to Masika. Loan repayments are done on a monthly basis. The non-financial products offered to clients include enterprise training as well as market linkage services to help clients to access markets for their goods.

## Networks

CUMO is a member of the Malawi Microfinance Network (MAMN).

## ■ Governance

Governance and Decision making is rated “c”

## Decision making

CUMO's decision making is not yet optimal as reliable information is not provided in a timely manner and some important skills are still missing at the BOD. The mission and vision of serving the non-banked poor is clearly defined and shared by BOD and management. A healthy debate has taken place as to whether expansion into new districts or the deepening of services in existing operational areas is the best method to implement this mission. There is a culture of discussion within the BOD, as the eight (usually nine but one recently left) members are of varied background and experience.

Concern Universal (CU) retains clear ownership of CUMO, with its Malawi Country Director as BOD Chairman since inception, and a further five of nine BOD positions reserved for CU employees. The CU BOD members do not have experience in microfinance, although they are experts in various areas of development. While their development experience is good, it does not provide for enough technical expertise to sufficiently monitor the management of CUMO. CU's presence in the BOD is balanced by four external members, who are all senior experts in finance, microfinance, and Malawi private sector development. Decisions are made by consensus without a formal vote. A risk remains that the presence of the CU Country Director as BOD Chair might infringe upon the independence of opinion expressed by the CU BOD members, who report to him in their capacity at CU. Additionally, turnover of CU BOD members has been high, as they have given up their BOD responsibilities when leaving their post at CU Malawi. The issue to restructure the BOD composition was raised at BOD-level, but a decision has yet to be taken.

The speed of the decision-making process at CUMO needs to be improved. The 2008-2012 strategic plan, which included the 2008 budget, was not approved until June 2008 and the revised Operational Plan for 2008-2009 was not passed until November 2008. The inefficiencies in the MIS continue to contribute to delays, where the Credit Committee must ensure the integrity of operational data prior to presentation to the BOD. BOD minutes are very detailed and the implementation and follow-up of decisions is adequately managed. This is further backed by the specialized committees, which meet regularly.

CUMO operates as a non-profit company limited by guarantee. They will remain as a non-deposit-taking institution when the Malawi Microfinance Bill becomes a law, as is expected by year-end 2009. This decision was made so that CUMO can focus on its current operational activities, although transformation into a deposit-taking institution is planned for 2011-2012.

## Planning

The 2008 to 2012 Strategic Business Plan (SBP) was developed prior to the expiration of the previous one (2006 – 2010) to facilitate additional grant funding from DFID. The plan received approval in June 2008 from the BOD shortly before the expected DFID funding was not received. An Operational Plan 2008-2009, created from the SPB was eventually approved in November 2008. Scenario planning needs to be created so that effects on operations are better anticipated and prepared for formally.

The planning documents that were approved are very detailed, with environmental overviews and clear implementation schedules, but timeliness remains an issue as nearly the entire year passed without an applicable 2008 budget. However, the November Operational Plan did include the 2009 budget, so there has been improvement.

Planning could benefit from more statistical analyses to determine the current outreach of CUMO to its target clients and determine the potential growth in each region. Detailed profitability analysis is also needed to support the thesis that grant income is a necessity and more beneficial than taking on commercial loans.

Detailed financial projections have been developed until 2009, but accuracy needs to be improved in the monitoring process. Currently, budgets are not analyzed on a year-to-date basis. This is not an effective method of monitoring intra-year expenditures, as it does not show relative variance.

The SBP and the budgeting process result from a participative process involving the BOD and staff of CUMO.

However, the current budgets were not being used by the FAM in his monitoring or reporting activities.

## Management team

The CEO of CUMO is a competent leader, providing the anchor point of the institution. However, his capacity has been absorbed by sourcing grant funding, leaving a void in the management of senior staff and analysis of operations. The issue has been acknowledged by the BOD, who has discussed creating a new position of “Funding Manager.” The management team has continued its expansion, adding an MIS and HR Officer in Q3 2008, although it has also recently lost its Internal Audit Manager.

Overall, the management team is competent at supervising their respective departments, but needs to increase its analytical capacity and organization. Department heads are not producing detailed analysis of their segments and using this synthesis to make informed decisions. Key information, such as PAR by product, general portfolio information, or essential documents were not easily available or known by management team members. The planned addition of a Marketing & Product Development manager will be key to discovering areas of potential growth within existing regions and new product offerings.

Key person risk is still a major concern for the CEO, as no other management team member has sufficient leadership experience, as extensive training in microfinance, or knowledge of operations outside their own department. The issue has been acknowledged by the BOD, but no succession plan has been developed.

Formal management team meetings do occur monthly, but follow-up from previous meetings could be better addressed to ensure that decisions are implemented. Communication between staff could be improved, as portfolio and client information is not always shared between departments.

## Human resource management

In Q2 2008, the HR Officer was hired to increase capacity and provide some more organization to HR at CUMO, but is not yet ideal. The FAM still has extensive supervision responsibilities over the HR Officer, interviewing all senior staff, managing all senior staff evaluations, and deciding all bonus payments and salary scales. With responsibility split between the FAM, who already has limited capacity, and the HR Officer, there is a risk that HR duties will not be efficiently managed. Currently, the organization of files, documents and evaluation forms needs more attention so that staff performance can be identified and monitored. Currently, evaluation forms were not within employee files, nor were employee targets, performance, or incentives paid.

Recruitment has been very active, resulting in the training of fifty new LOs, who will now be officially hired and dispatched to the field over the next few months. Educational requirements increased and starting bonuses are now disbursed to new LOs. There are two weeks of initial training and another two with a mentor. All new staff have probation periods, which last three months for junior and six months for senior staff. Following probation, staff must be confirmed before becoming permanent. Staff training is planned and budgeted for, although the training plan needs to be further detailed and has to include the timeframe of each training. Staff evaluations to set targets are done monthly for LOs by BAS, and annually for senior staff.

Turnover decreased from 10.7% in 2007 to 7.8% in 2008, but can still be improved. The incentive scheme of up to 100% bonus, paid quarterly, could be determined more transparently and based on qualitative as well as quantitative factors. CUMO benefits and salaries are high, but still slightly lower than competitors.

## ■ Information

Information is rated “d”

Despite the technical upgrade carried out in 2008, the structure of CUMO’s MIS hampers its efficiency and cost-effectiveness. As CUMO management does not rely on the computerized system (Kredits) despite the fact that it is the institution’s official source of information, an informal manual MIS is run on a parallel basis. Cross checks between both systems result in delaying the data production. It also mobilizes important resources in CUMO.

Kredits provides a wide range of reports for data analysis but their use is hampered by the poor timeliness of data. Monthly reports are not accurate due to delay in data posting and quarterly reports need important reconciliation and scrutiny. For up to date follow-up, LOs have to fill-in an indicator sheet, aggregated by the BAS and the regional managers. Delays in posting the information come from the way CUMO organizes the collection of the transactions’ evidences. The listing of the transactions realized through Standard Bank (bank slips) and Farmers World (manual list of transactions) are now collected and entered in the MIS on a bi-monthly basis, although management plans to increase this to weekly collections with the additional hiring of new MIS staff. However, a significant proportion of bank slips are lost by the bank and receipts from FW are sent to CUMO’s HO on a bi-monthly basis delaying the final entry made by the MIS officers.

Given these limitations, the institution has difficulties to provide timely and relevant information to all employees and

management use. Tracking of all aspects of individual, branch and institutional portfolios from different angles (LO, branch, product, sector, etc.) is not efficient and limits the timely analysis of the institution’s situation. Quarterly reports provide detailed financial and portfolio information as well as statistics covering a wide range of indicators (outreach, PAR, Operating Expense Ratio, Operating self-sufficiency and Capital to Asset Ratio). However, further financial analysis needs to be carried out, notably in terms of product costing and profitability.

In-house capacity to run Kredits is adequate and has improved over the last year through the recruitment of an MIS Manager with IT development skills. Yet, MIS officers remain confined to data entry role and cannot provide the needed technical support to their manager. In addition, complex operations still require the intervention of the supplier, based in the US, leading to important costs and hampering the institution’s reactivity to new challenges.

Security of digital data is adequate with daily back up kept in the safe and weekly back up kept in the bank. Anti-virus software was under the process of being installed at the time of visit. Sufficient limitation to data access through passwords is also implemented. The MIS Manager was about to transfer the Kredits database in a protected server (already acquired at time of the visit) instead of his own computer. Paper data security, however needs to be improved as the clients’ files are stored in open access shelves at HO, some repayments receipts are kept on the floor and lack sufficient protection. Data filing also needs to be improved to ease the access to the information. In addition, occurrences of data being kept by LOs at their residence for a limited period of time before bringing them to the head and regional office have been noticed. This process strongly increases the risk of loss or theft of clients’ files.

## ■ Risk Management

Risk Management is rated “d”

### Procedures and internal controls

Procedures and internal controls at CUMO have improved and are documented since an external consultant updated all its credit’s related manuals and policies; however, the data reliability of the manual MIS is hampered by important weaknesses. Procedures are adequately formalized as CUMO has a full set of detailed manuals. In addition, cash related risks are very limited as the cashless system has been fully implemented.

Data reliability remains an issue at CUMO. The progressive implementation of the computerized MIS and its recent

update from TDS improved the level of reliability of the information. However, additional stress tests of the system and automatic checks still need to be developed to fully ensure the reliability of the data. Furthermore, the manual MIS used by the management for the daily follow-up hinders the institution's efficiency and does not ensure a sufficient level of reliability. The undergoing process of the split of the Kredits' database between the HO and the regional office can also contribute to data discrepancy.

Fraud risks remain due to both the lengthy process of reconciliation (between bank statements and Kredits, between bank statements and accounting and finally between accounting and manual loan tracking system) as well as the insufficient separation of tasks (LOs are in charge of checking the loan repayments and provide the information to the management). Even though the new mode of data collection should improve the reliability of data, it still needs time to be completely implemented and management decisions are mostly based on data from less reliable operations reports.

Despite an increased supervision, the implementation of the procedures is not adequately ensured. Sport-checks have been conducted but remain insufficient to fully ensure the staff compliance to procedures. Reconciliations between computerized and manual system are not done on a regular basis and credit related procedures also suffer from insufficient application.

### Internal audit

The IA department is currently understaffed with only one officer who joined CUMO in August 2007 with no prior audit experience. CUMO is currently on the process of recruiting 2 other Internal Auditors. A new manager has been identified but his contract is yet to be signed.

To date, the IA department strongly focuses on the operational risks. The Audit Plan does not cover some important risks such as systemic risk, reputation risk, liquidity risk, market risk, and solvency risk. Reports are not detailed enough with clear recommendations and do not include prioritization. Further development in the funding structure and full use of the MIS will require the audit department to acquire specific financial and information system skills. The independence of the IA department is not optimal since the IA manager reports administratively to the CEO but operationally to the BOD who also had an important influence on its selection. In addition, IA reports are primarily sent to the management for comments and clarifications and secondly to the BOD. The role of the BOD in ensuring the full IA independence could be improved in ensuring the existence of the Audit Committee.

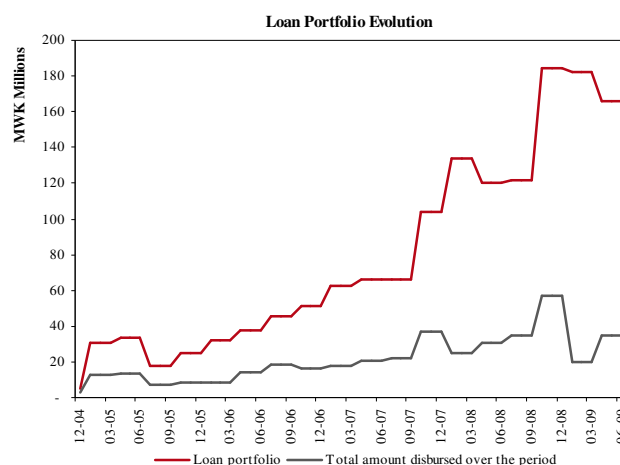
Qualitative external audits have partially complemented the role of the IA function.

## ■ Activities

Activities: products and services is rated "d"

### Evolution and composition of the portfolio

CUMO experienced strong growth of its loan portfolio from 2004 to 2008. The growth figure for 2008 shows a high +78%. This was nevertheless a slight decrease from the previous year where the portfolio had more than doubled having increased by +101% compared to 2006. CUMO's portfolio is linked to the agricultural seasons in Malawi whereby before harvest clients will focus more on the Masika loan while the Fumba loan gains more demand at the beginning of the planting season.



Note: for both the outstanding loan portfolio as well as for loan disbursements only quarterly data is available.

### Loan portfolio management

The recently updated and documented group credit methodology is adapted to CUMO's predominantly rural-based lending activities. The branchless organization needs to be refined for CUMO to fully benefit from it. CUMO lends small amounts and the graduation system ensures the efficiency of the self evaluation of the groups. The loan appraisal form for Kasupe (larger loans) has been revised and includes clients' income and expenses. However, credit approval process involves the entire operation department for successive approvals. The process is lengthy and can lead to low compliance to procedures. No credit committee is held which reduces the sense of responsibility of each level of decision.

The branchless organization can still be improved as it makes procedures difficult to enforce. Asking the clients to pay their installments after the group meetings not only delays the repayment check by LOs, it also allows clients to

make uncontrolled partial repayments on contradiction from the procedure.

Delinquency management remains a weakness despite further supervision of LOs. The delinquency management manual still does not portray sufficient depth to guide CUMO's LOs. However it is under revision and the management expects it to be available in September in order to set-up a training session for the staff. Late repayment follow-up is hampered by the poor information provided to LOs as well as supervisors. Late repayments are not immediately identified, indeed, with almost 300 clients per LO, despite a heavy involvement in the field and without an efficient MIS, it is difficult for an LO to precisely know which clients are late.

At an institutional level, there is inadequate monitoring of portfolio quality which further hampers the delinquency management. Portfolio analysis is not sufficiently developed through specific indicators of disbursements, growth per region, LO's, as well as a more detailed portfolio quality analysis. LOs and their supervisors have a good knowledge of the market and basic skills to manage their portfolio. However, additional trainings are needed for more complex operations (on-going group trainings) or appraisal for Kasupe loans not withstanding the fact that additional training for Kasupe has begun to be provided to best LOs.

CUMO requires 5% of the loan amount as a deposit for all loans except Kasupe, where 15% is asked. The group guarantees have generally been effective for CUMO. To reinforce their effectiveness, household items are pledged as collateral within the groups amongst members themselves. No household items are guaranteed to CUMO. Life Insurance is also offered to clients, with health insurance being developed as a new product but not operational to date. Connected lending with staff loans are adequately guaranteed by salary and pension.

### **Credit risk**

Credit risk at Cumo is high and follows an increasing trend. PAR data is not fully reliable (see Procedures and Internal Controls) but Kredits provides relatively accurate information on Cumo's portfolio quality. PAR data show very different picture from the field reports and from the Kredits system. Field reports show a PAR 31-365 as of December 2008 standing at 1.2 % when Kredits shows a high 11.5%. The increasing trend from the low 2.8% PAR 31-365 as of December 2007 shown by Kredits is confirmed in 2009 with a PAR 31-365 standing at 15.6% as June 2009. It also has to be noted that the low PAR figures exhibited in 2007 also result from the significant write-off of accumulated impaired loans of 18% dating from 2006. CUMO has a write-off policy for loans over 90 days,

however, this policy is not implemented and the write-off is discretionary and upon BOD decision.

No rescheduling is permitted. Connected lending to staff is adequately formalized and managed by CUMO.

CUMO does not manage and monitor the diversification of its portfolio. A large proportion of rural clients is involved in maize production and CUMO portfolio quality has been affected twice by severe droughts in the country in 2006 and in 2008. The increasing proportion of Masika loans, which include fish and animal husbandry, compensates to little extent the concentration risk.

### **Credit risk coverage**

Credit risk coverage at CUMO is low as provisioning is linked to the underestimated PAR figures provided by the field reports. As of December 2008, Loan Loss Reserves covered only 20% of PAR 31 and 26% of PAR 91. CUMO has a general 2% provision for the healthy portfolio and developed in 2006 a provisioning method based on aging of the portfolio.

## **■ Funding and liquidity**

Funding and liquidity is rated "c"

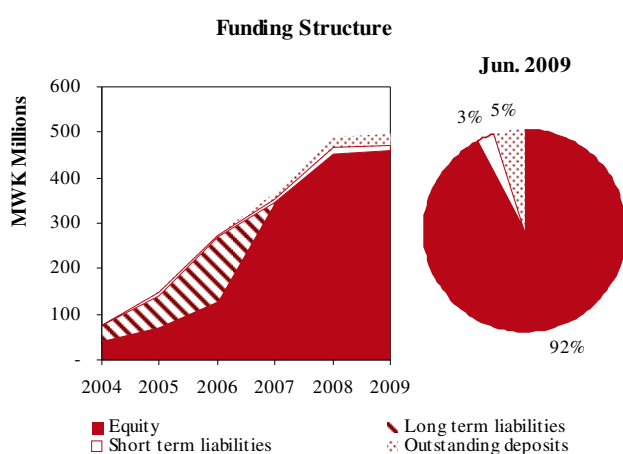
### **Funding strategy and capitalization**

CUMO is sufficiently capitalized with a core capital adequacy ratio of 208% as of June 2009. The strong increase from the last years (91% as of December 2007) is mainly due to the conversion into equity of the capital grant from DfID. This grant formed the only long term liability from Cumo which has its capital structure composed at 92% from equity as of December 2009. Compulsory deposits are held by CUMO and count for 4.7% of the total liabilities and equity.

In mid-2008, CUMO discovered they would not receive any further funding from DfID, who had been its primary funder since inception. Having counted on renewal, although they knew it was possible that they would not be approved, CUMO had to reissue its strategic business plan in Q3 2008 to begin a new funding strategy. It was decided that they will now focus on funding portfolio growth internally, and only consider applying for commercial funding when 75% of their short-term investments (at 3.7M USD in Dec 08) has been utilized. Expansion into new regions and new product launches will only occur if grant funding is secured. Existing internal funds should sustain operations until 2011, although a detailed analysis has not been conducted by the FAM.

To date, the CEO and FAM participate in proposal writing for new funding, although only the CEO negotiates and manages relationships. The CEO has proved skilled at obtaining funding, as CUMO has just been approved to receive a 500K USD grant from USAID to provide “mobile client entrepreneurship training”. An additional application of funding to FIMA for 200K USD is currently under review.

Future funding needs have not been identified by FAM for the next three years. Exact calculations on the number of months that can be supported by internal funds and analysis on the level of growth achievable internally remain to be conducted by the FAM. These projections are even more important now that CUMO has decided to not start mobilizing deposits nor open itself to commercial funding.



## Liquidity risk

The current liquidity position is well monitored by the FAM, with a weekly excel spreadsheet tracking investments and bank account activity. Potential upcoming disbursements and projected cash flows still need to be developed, although risk is low due to the cash buffer of the large short-term investment portfolio. The FAM, in collaboration with the Investment Committee chaired by the CEO, concentrates on managing the portfolio of fixed deposit and treasury bill investments, with both the FAM and head accountant have become skilled at negotiating short-term investment rates. However, this investment portfolio is less profitable than a loan portfolio, which should be more of a priority. Regardless, the short-term investments continue to offer quite a lot of liquidity to CUMO. In June 2009, operating expenses were covered at 25 months, which surpassed the already very high coverage of operating expenses in 2007 and 2008.

Maturity risk is absent at CUMO, as there are no commercial liabilities. However, there are no monitoring tools currently in use.

## Market risk

There is no foreign exchange exposure, as grants are converted into MWK immediately upon disbursement. There is, however, an interest rate exposure of 243.3M MWK (1.5M USD), which is invested in treasury bills and fixed deposit instruments. While providing near daily liquidity, there is a rare possibility that the interest rate could fall dramatically before investments could be converted to cash.

## Efficiency and Profitability

Efficiency and Profitability is rated “e”

### Profitability analysis

CUMO achieved profitability for the first time in 2008, with an ROA (without donations) of 3.4%. This was a significant improvement from 2007, where it was still at (-10%). However, as portfolio yield continues its decline from 99% in 2006 to 92% in 2007 and 81% in 2008, it proves that profitability is being strongly supported by the gains from CUMO’s short-term investment portfolio as well as some gains in efficiency. The decrease in the portfolio yield is attributed to the significant increase of the PAR as well as the change in the interest rate policy.

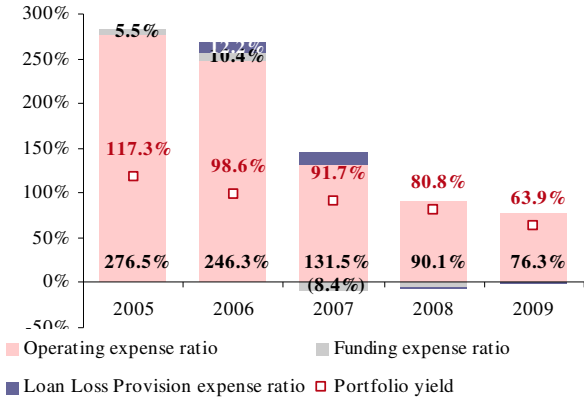
Short term revenue quality at Cumo remains strong as the institution remains focused on the untapped rural market in Malawi. However, Cumo plans to increase its semi-urban outreach in order to decrease its operations costs. This strategy is threatened by two main constraints, Cumo’s LOs capacity to manage adapted loans for urban clients and the competition the institution will face against established microfinance institutions in the country. In addition, microfinance leaders are developing strategies (mainly mobile banking) to penetrate rural areas.

The OpEx ratio has continued its decline as well, dipping to 90% in 2008 from the high 141% in 2007 and very high 246% in 2006. This notable evolution is not sufficient for the OpEx ratio to be lower than the portfolio yield. Cost control remains an issue, due to the rural location of CUMO’s clients, but can be improved if a more efficient supervision schedule is applied to BAS and LO so that travel is minimized. Asset deployment is very low at 36.5% in 2008, having increased somewhat from 27.9% but still not close to industry best practices.

Going forward, the profitability outlook for CUMO is positive, as there is a large increase in asset deployment still possible. There is a definite need to analyze the drivers of profitability and cost within the institution and use that analysis to make appropriate management decisions. A

major concern for CUMO has always been the loan absorption capacity of its bottom-of-the-pyramid clients. The new USAID grant focused on delivering entrepreneurial training should address this issue and increase the deployment capacity for CUMO within its already existing client base.

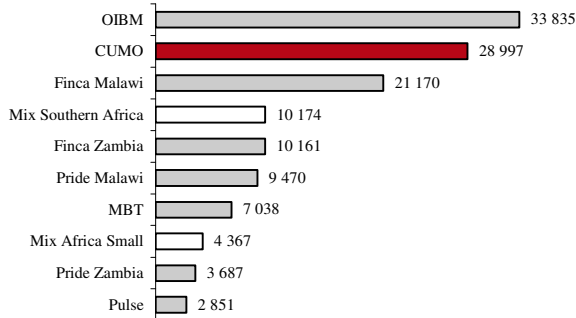
**Profitability Structure**



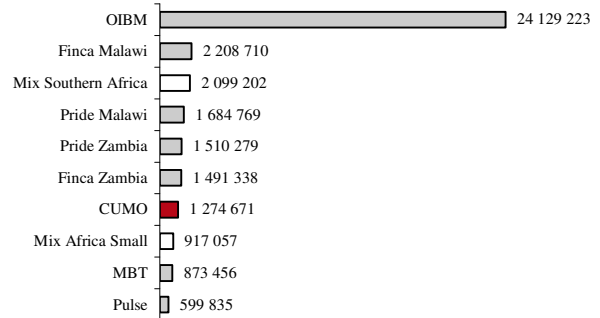
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

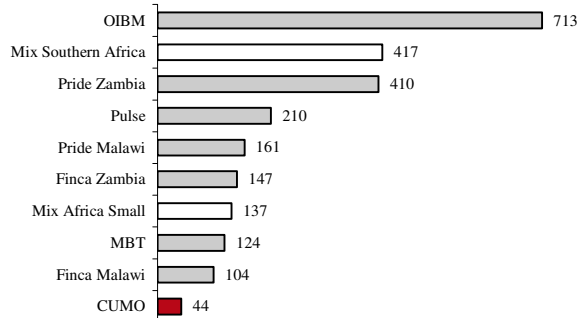
Active borrowers



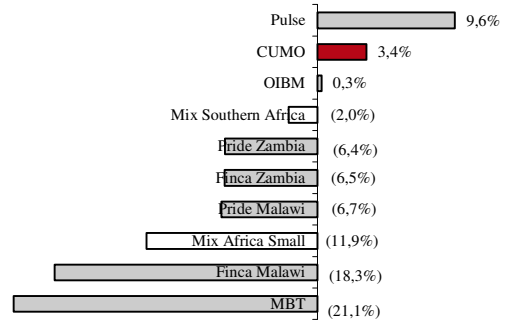
Loan portfolio ()



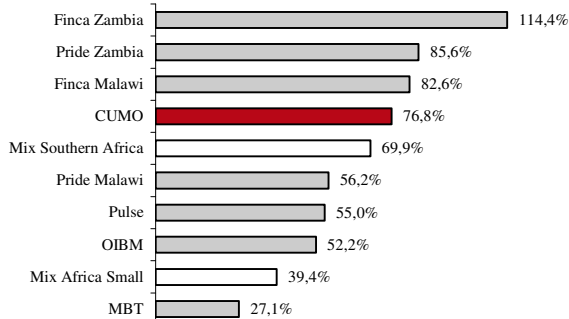
Average outstanding loan per client ()



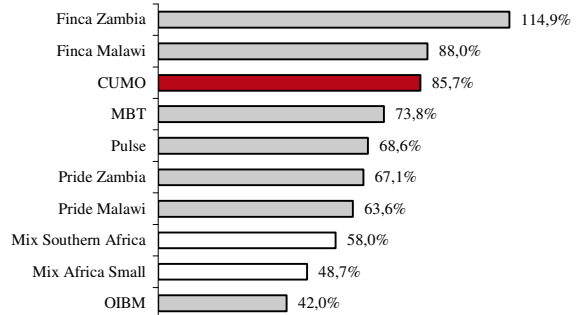
ROA



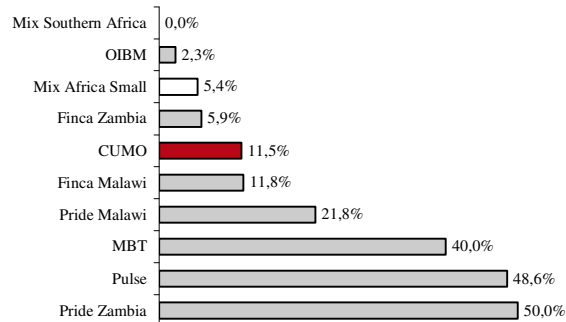
Portfolio yield



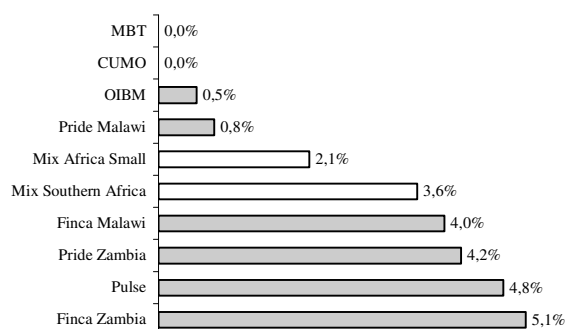
Operating expense ratio



PAR 31-365



Write-off ratio



Source: www.mixmarket.org; All data is as of Dec 2007, except OIBM and CUMO (Dec 2008) and MBT and PRIDE (Dec 2006).

Data in USD, unless otherwise stated

## ■ Performance indicators

|  | Dec. 2005  | Dec. 2006  | Dec. 2007   | Dec. 2008   | Jun. 2009   |
|--|------------|------------|-------------|-------------|-------------|
| <b>Loan portfolio evolution</b>                      |            |            |             |             |             |
| Loan portfolio                                       | 195,624    | 357,857    | 725,462     | 1,274,671   | 1,145,091   |
| Loan portfolio (MWK)                                 | 24,648,675 | 51,420,487 | 103,668,547 | 183,170,412 | 165,884,277 |
| Growth   | 371.2%     | 108.6%     | 101.6%      | 76.7%       | (9.4%)      |
| Active borrowers                                     | 8,592      | 15,369     | 18,003      | 28,997      | 29,504      |
| Growth   | 168.0%     | 78.9%      | 17.1%       | 61.1%       | 1.7%        |
| Average outstanding loan per client                  | 23         | 23         | 40          | 44          | 39          |
| % of GDP per capita                                  | 10.9%      | 10.2%      | 15.6%       | 14.9%       | 11.6%       |
| Average amount disbursed per loan                    | 96         | 47         | 70          | 676         | 78          |
| % of GDP per capita                                  | 46.0%      | 20.6%      | 27.2%       | 228.9%      | 23.3%       |
| <b>Portfolio quality</b>                             |            |            |             |             |             |
| Rescheduled loans                                    | 0.0%       | 0.0%       | 0.0%        | 0.0%        | 0.0%        |
| PAR >31  | n/a        | 15.9%      | 2.8%        | 11.6%       | 15.6%       |
| Write-off ratio                                      | 0.0%       | 0.0%       | 17.9%       | 0.0%        | 0.0%        |
| <b>Credit risk coverage</b>                          |            |            |             |             |             |
| Risk coverage ratio (PAR 30)                         | 0.0%       | 60.6%      | 46.4%       | 19.8%       | 16.5%       |
| PAR 30 net of loan loss provision / Equity           | 1.2%       | 2.5%       | 0.4%        | 3.7%        | 4.7%        |
| <b>Savings</b>                                       |            |            |             |             |             |
| Outstanding deposits                                 | 29,937     | 50,800     | 98,456      | 159,312     | 169,477     |
| Outstanding deposits (MWK)                           | 3,772,003  | 7,299,515  | 14,069,341  | 22,893,206  | 24,551,444  |
| Growth   | 233.4%     | 93.5%      | 92.7%       | 62.7%       | 7.2%        |
| Voluntary savings (%)                                | 0.0%       | 0.0%       | 0.0%        | 0.0%        | 0.0%        |
| Cash collateral (%)                                  | 100.0%     | 100.0%     | 100.0%      | 100.0%      | 100.0%      |
| Active savers  | 12,741     | 17,300     | 22,830      | n/a         | n/a         |
| Growth   | 44.8%      | 35.8%      | 32.0%       | n/a         | n/a         |
| Average outstanding deposit per saver                | 2          | 3          | 4           | n/a         | n/a         |
| Voluntary savings                                    | 2          | 3          | 4           | n/a         | n/a         |
| Cash collateral                                      | n/a        | n/a        | n/a         | n/a         | n/a         |
| <b>Staff</b>   |            |            |             |             |             |
| Total number of staff                                | 63         | 81         | 106         | 125         | 133         |
| % Credit officers                                    | 58.7%      | 67.9%      | 70.8%       | 72.8%       | 75.9%       |
| Turnover   | 8.6%       | 0.0%       | 10.7%       | 7.8%        | 5.4%        |
| <b>Profitability analysis</b>                        |            |            |             |             |             |
| ROE  | (46.5%)    | (38.9%)    | (7.7%)      | 3.7%        | (0.0%)      |
| Liabilities / Equity                                 | 1.08x      | 1.16x      | 0.07x       | 0.08x       | 0.09x       |
| Core capital adequacy ratio                          | 136.7%     | 91.1%      | 213.4%      | 188.5%      | 208.2%      |
| Total capital adequacy ratio                         | 137.6%     | 91.6%      | 214.5%      | 190.0%      | 209.6%      |
| ROA  | 25.4%      | 24.9%      | 19.4%       | 26.8%       | 2.1%        |
| ROA (without donations)                              | (23.6%)    | (18.2%)    | (5.6%)      | 3.4%        | (0.0%)      |
| ROA (microfinance operations)                        | (23.6%)    | (18.2%)    | (5.6%)      | 3.6%        | (0.0%)      |
| <b>Profitability structure</b>                       |            |            |             |             |             |
| Financial revenue ratio                              | 166.7%     | 139.5%     | 112.9%      | 95.3%       | 76.0%       |
| Portfolio yield                                      | 117.3%     | 98.6%      | 91.7%       | 80.8%       | 63.9%       |
| Operating expense ratio                              | 276.5%     | 246.3%     | 131.5%      | 90.1%       | 76.3%       |
| Cost per borrower                                    | 66         | 45         | 40          | 29          | 31          |
| Staff productivity                                   | 136        | 190        | 170         | 232         | 222         |
| Loan officer productivity                            | 232        | 279        | 240         | 319         | 292         |
| Average outstanding loan per client (USD)            | 23         | 23         | 40          | 44          | 39          |
| Funding expense ratio                                | 5.5%       | 10.4%      | (8.4%)      | (4.7%)      | 0.0%        |
| Cost of savings                                      | 0.0%       | 0.0%       | 0.0%        | 0.0%        | 0.0%        |
| Cost of borrowings                                   | n/a        | n/a        | n/a         | n/a         | n/a         |
| Loan Loss Provision expense ratio                    | 0.0%       | 12.2%      | 13.3%       | (1.6%)      | (0.3%)      |
| PAR 31-365   | n/a        | 15.9%      | 2.8%        | 11.6%       | 15.6%       |
| Write-off ratio                                      | 0.0%       | 0.0%       | 17.9%       | 0.0%        | 0.0%        |
| <b>Resource optimization</b>                         |            |            |             |             |             |
| Outstanding Loan Portfolio / Assets                  | 16.4%      | 16.7%      | 27.9%       | 36.5%       | 32.5%       |
| Revenue from investment as a % of financial revenues | 29.4%      | 29.4%      | 16.2%       | 11.6%       | 13.8%       |
| <b>Liquidity</b>                                     |            |            |             |             |             |
| Cash to demand deposits                              | n/a        | n/a        | n/a         | n/a         | n/a         |
| Liquidity / Total assets (LAR)                       | 15.7%      | 24.2%      | 56.4%       | 51.4%       | 56.1%       |
| Current ratio (1 year)                               | 1,724.0%   | 2,663.6%   | 1,385.9%    | 1,200.2%    | 1,222.2%    |
| Exchange rate 1 USD= xx MWK                          | 126.0      | 143.7      | 142.9       | 143.7       | 144.9       |

## ■ Financial Statements – MWK

| Income Statement (MWK '000)                      | Dec. 2004       | Dec. 2005       | Dec. 2006       | Dec. 2007       | Dec. 2008      | Jun. 2009     |
|--|-----------------|-----------------|-----------------|-----------------|----------------|---------------|
| Interest and fee income on loan portfolio        | 14,424          | 30,247          | 40,022          | 71,083          | 110,141        | 55,774        |
| Interest and fee income on investments           | 6,381           | 12,574          | 16,632          | 13,711          | 14,397         | 8,962         |
| Interest and other financial expenses            | -               | (1,408)         | (4,206)         | -               | -              | -             |
| Net inflation adjustment expense                 | -               | -               | -               | -               | -              | -             |
| Net foreign exchange income (expense)            | -               | (1,408)         | (4,206)         | 6,494           | 6,378          | -             |
| <b>Net financial income</b>                      | <b>20,805</b>   | <b>44,228</b>   | <b>65,811</b>   | <b>91,289</b>   | <b>130,917</b> | <b>64,737</b> |
| Fees and commissions on other financial services | -               | -               | -               | -               | 1,738          | 595           |
| Other operating income                           | -               | 175             | -               | 2,762           | 3,718          | 957           |
| Operating expenses                               | 32,595          | 71,313          | 100,008         | 101,938         | 122,891        | 66,606        |
| <i>Personnel expenses</i>                        | 20,509          | 43,433          | 55,954          | 67,767          | 84,131         | 42,638        |
| <i>Administrative and other expenses</i>         | 10,100          | 24,781          | 41,538          | 31,019          | 33,883         | 20,901        |
| <i>Depreciation</i>                              | 1,986           | 3,099           | 2,517           | 3,153           | 4,877          | 3,067         |
| Non operating income (net)                       | -               | -               | -               | -               | (833)          | -             |
| <b>Gross operating income</b>                    | <b>(11,789)</b> | <b>(26,910)</b> | <b>(34,197)</b> | <b>(7,888)</b>  | <b>12,649</b>  | <b>(317)</b>  |
| Net loan loss provision expense                  | -               | -               | 4,951           | 10,294          | (2,150)        | (254)         |
| <b>Net operating income</b>                      | <b>(11,789)</b> | <b>(26,910)</b> | <b>(39,149)</b> | <b>(18,182)</b> | <b>14,799</b>  | <b>(64)</b>   |
| Extraordinary income (net)                       | -               | -               | -               | -               | -              | -             |
| <b>Net income before tax</b>                     | <b>(11,789)</b> | <b>(26,910)</b> | <b>(39,149)</b> | <b>(18,182)</b> | <b>14,799</b>  | <b>(64)</b>   |
| Income Tax                                       | -               | -               | -               | -               | -              | -             |
| <b>Net income before donations</b>               | <b>(11,789)</b> | <b>(26,910)</b> | <b>(39,149)</b> | <b>(18,182)</b> | <b>14,799</b>  | <b>(64)</b>   |
| Donations  | 32,580          | 55,888          | 92,665          | 80,742          | 100,342        | 5,218         |
| <b>Net Income</b>                                | <b>20,791</b>   | <b>28,978</b>   | <b>53,516</b>   | <b>62,560</b>   | <b>115,141</b> | <b>5,155</b>  |

| Balance Sheet (MWK '000)      | Dec. 2004     | Dec. 2005      | Dec. 2006      | Dec. 2007      | Dec. 2008      | Jun. 2009      |
|-------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>ASSETS</b>                 | <b>77,295</b> | <b>150,711</b> | <b>278,897</b> | <b>367,269</b> | <b>490,988</b> | <b>497,222</b> |
| Liquid assets                 | 11,109        | 23,595         | 67,449         | 206,996        | 252,510        | 278,770        |
| Net loan portfolio            | 5,231         | 24,649         | 46,469         | 102,329        | 178,966        | 161,613        |
| <i>Gross loan portfolio</i>   | 5,231         | 24,649         | 51,420         | 103,669        | 183,170        | 165,884        |
| <i>(Loan loss reserve)</i>    | -             | -              | 4,951          | 1,340          | 4,204          | 4,272          |
| Interest receivable           | -             | -              | -              | -              | -              | -              |
| Financial investments         | 43,954        | 93,159         | 88,214         | -              | -              | -              |
| Net fixed assets              | 6,817         | 4,868          | 11,626         | 17,591         | 17,694         | 13,981         |
| Intangible assets             | -             | -              | -              | -              | -              | 2,669          |
| Other assets                  | 10,184        | 4,441          | 65,140         | 40,353         | 41,818         | 40,190         |
| <b>LIABILITIES AND EQUITY</b> | <b>77,295</b> | <b>150,711</b> | <b>278,897</b> | <b>367,269</b> | <b>490,988</b> | <b>497,222</b> |
| <b>Liabilities</b>            | <b>33,899</b> | <b>78,337</b>  | <b>149,783</b> | <b>23,424</b>  | <b>37,944</b>  | <b>39,322</b>  |
| Demand deposits               | -             | -              | -              | -              | -              | -              |
| Time deposits                 | -             | -              | -              | -              | -              | -              |
| Cash collateral               | 1,132         | 3,772          | 7,300          | 14,069         | 22,893         | 24,551         |
| Borrowings                    | -             | -              | -              | -              | -              | -              |
| Subordinated debt             | -             | -              | -              | -              | -              | -              |
| Other liabilities             | 32,767        | 74,565         | 142,484        | 9,354          | 15,051         | 14,770         |
| <b>Equity</b>                 | <b>43,396</b> | <b>72,374</b>  | <b>129,114</b> | <b>343,845</b> | <b>453,044</b> | <b>457,900</b> |
| Core capital                  | 43,396        | 71,881         | 128,350        | 342,006        | 449,646        | 454,765        |
| <i>Paid-in capital</i>        | -             | -              | -              | -              | -              | -              |
| <i>Donated equity</i>         | n/a           | 110,580        | 206,199        | 284,885        | 340,795        | 286,177        |
| <i>Retained earnings</i>      | 55,185        | (38,699)       | (77,848)       | 57,122         | 108,852        | 168,587        |
| Other equity accounts         | -             | 493            | 764            | 1,839          | 3,398          | 3,135          |

| Off Balance Sheet Accounts         | Dec. 2004 | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Jun. 2009 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Portfolio under management         | -         | -         | -         | -         | -         | -         |
| Written-off loans under collection | -         | -         | -         | -         | -         | -         |
| Guarantees                         | -         | -         | -         | -         | -         | -         |

| Balance Sheet Averages           | Dec. 2004 | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Jun. 2009 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross loan portfolio             | n/a       | 25,793    | 40,610    | 77,545    | 136,394   | 174,527   |
| Assets                           | n/a       | 114,003   | 214,804   | 323,083   | 429,128   | 494,105   |
| Deposits                         | n/a       | 2,452     | 5,536     | 10,684    | 18,481    | 23,722    |
| Borrowings and subordinated debt | n/a       | -         | -         | -         | -         | -         |
| Equity                           | n/a       | 57,885    | 100,744   | 236,479   | 398,444   | 455,472   |

## ■ Financial Statements – USD

| Income Statement (USD '000)                      | Dec. 2004    | Dec. 2005    | Dec. 2006    | Dec. 2007    | Dec. 2008  | Jun. 2009  |
|--|--------------|--------------|--------------|--------------|------------|------------|
| Interest and fee income on loan portfolio        | 136          | 240          | 279          | 497          | 766        | 385        |
| Interest and fee income on investments           | 60           | 100          | 116          | 96           | 100        | 62         |
| Interest and other financial expenses            | -            | (11)         | (29)         | -            | -          | -          |
| Net inflation adjustment expense                 | -            | -            | -            | -            | -          | -          |
| Net foreign exchange income (expense)            | -            | (11)         | (29)         | 45           | 44         | -          |
| <b>Net financial income</b>                      | <b>197</b>   | <b>351</b>   | <b>458</b>   | <b>639</b>   | <b>911</b> | <b>447</b> |
| Fees and commissions on other financial services | -            | -            | -            | -            | 12         | 4          |
| Other operating income                           | -            | 1            | -            | 19           | 26         | 7          |
| Operating expenses                               | 308          | 566          | 696          | 713          | 855        | 460        |
| <i>Personnel expenses</i>                        | 194          | 345          | 389          | 474          | 585        | 294        |
| <i>Administrative and other expenses</i>         | 95           | 197          | 289          | 217          | 236        | 144        |
| <i>Depreciation</i>                              | 19           | 25           | 18           | 22           | 34         | 21         |
| Non operating income (net)                       | -            | -            | -            | -            | (6)        | -          |
| <b>Gross operating income</b>                    | <b>(111)</b> | <b>(214)</b> | <b>(238)</b> | <b>(55)</b>  | <b>88</b>  | <b>(2)</b> |
| Net loan loss provision expense                  | -            | -            | 34           | 72           | (15)       | (2)        |
| <b>Net operating income</b>                      | <b>(111)</b> | <b>(214)</b> | <b>(272)</b> | <b>(127)</b> | <b>103</b> | <b>(0)</b> |
| Extraordinary income (net)                       | -            | -            | -            | -            | -          | -          |
| <b>Net income before tax</b>                     | <b>(111)</b> | <b>(214)</b> | <b>(272)</b> | <b>(127)</b> | <b>103</b> | <b>(0)</b> |
| Income Tax                                       | -            | -            | -            | -            | -          | -          |
| <b>Net income before donations</b>               | <b>(111)</b> | <b>(214)</b> | <b>(272)</b> | <b>(127)</b> | <b>103</b> | <b>(0)</b> |
| Donations  | 308          | 444          | 645          | 565          | 698        | 36         |
| <b>Net Income</b>                                | <b>197</b>   | <b>230</b>   | <b>372</b>   | <b>438</b>   | <b>801</b> | <b>36</b>  |

| Balance Sheet (USD '000)      | Dec. 2004  | Dec. 2005    | Dec. 2006    | Dec. 2007    | Dec. 2008    | Jun. 2009    |
|-------------------------------|------------|--------------|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>                 | <b>731</b> | <b>1,196</b> | <b>1,941</b> | <b>2,570</b> | <b>3,417</b> | <b>3,432</b> |
| Liquid assets                 | 105        | 187          | 469          | 1,449        | 1,757        | 1,924        |
| Net loan portfolio            | 49         | 196          | 323          | 716          | 1,245        | 1,116        |
| <i>Gross loan portfolio</i>   | 49         | 196          | 358          | 725          | 1,275        | 1,145        |
| <i>(Loan loss reserve)</i>    | -          | -            | 34           | 9            | 29           | 29           |
| Interest receivable           | -          | -            | -            | -            | -            | -            |
| Financial investments         | 416        | 739          | 614          | -            | -            | -            |
| Net fixed assets              | 64         | 39           | 81           | 123          | 123          | 97           |
| Intangible assets             | -          | -            | -            | -            | -            | 18           |
| Other assets                  | 96         | 35           | 453          | 282          | 291          | 277          |
| <b>LIABILITIES AND EQUITY</b> | <b>731</b> | <b>1,196</b> | <b>1,941</b> | <b>2,570</b> | <b>3,417</b> | <b>3,432</b> |
| <b>Liabilities</b>            | <b>321</b> | <b>622</b>   | <b>1,042</b> | <b>164</b>   | <b>264</b>   | <b>271</b>   |
| Demand deposits               | -          | -            | -            | -            | -            | -            |
| Time deposits                 | -          | -            | -            | -            | -            | -            |
| Cash collateral               | 11         | 30           | 51           | 98           | 159          | 169          |
| Borrowings                    | -          | -            | -            | -            | -            | -            |
| Subordinated debt             | -          | -            | -            | -            | -            | -            |
| Other liabilities             | 310        | 592          | 992          | 65           | 105          | 102          |
| <b>Equity</b>                 | <b>410</b> | <b>574</b>   | <b>899</b>   | <b>2,406</b> | <b>3,153</b> | <b>3,161</b> |
| Core capital                  | 410        | 570          | 893          | 2,393        | 3,129        | 3,139        |
| <i>Paid-in capital</i>        | -          | -            | -            | -            | -            | -            |
| <i>Donated equity</i>         | -          | 878          | 1,435        | 1,994        | 2,372        | 1,975        |
| <i>Retained earnings</i>      | 522        | (307)        | (542)        | 400          | 757          | 1,164        |
| Other equity accounts         | -          | 4            | 5            | 13           | 24           | 22           |

| Off Balance Sheet Accounts         | Dec. 2004 | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Jun. 2009 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Portfolio under management         | -         | -         | -         | -         | -         | -         |
| Written-off loans under collection | -         | -         | -         | -         | -         | -         |
| Guarantees                         | -         | -         | -         | -         | -         | -         |

| Balance Sheet Averages           | Dec. 2004 | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Jun. 2009 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross loan portfolio             | n/a       | 205       | 283       | 543       | 949       | 1,205     |
| Assets                           | n/a       | 905       | 1,495     | 2,261     | 2,986     | 3,411     |
| Deposits                         | n/a       | 19        | 39        | 75        | 129       | 164       |
| Borrowings and subordinated debt | n/a       | -         | -         | -         | -         | -         |
| Equity                           | n/a       | 459       | 701       | 1,655     | 2,773     | 3,144     |

## ■ Formulas

|                                    |   |
|------------------------------------|---|
| Return on assets (ROA):            | $\text{Net operating income} / \text{Average assets}$   |
| ROA (without donations):           | $\text{Net operating income before donations} / \text{Average assets}$                              |
| Return on equity (ROE):            | $\text{Net operating income before donations} / \text{Average equity}$                              |
| Leverage:                          | $\text{Liabilities} / \text{Equity (end of period)}$  |
| Capital adequacy ratio:            | $\text{Capital} / \text{Risk weighted assets (end of period)}$                                      |
| Total revenue ratio:               | $\text{Total revenue} / \text{Average gross outstanding portfolio}$                                 |
| Portfolio yield:                   | $\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$                             |
| Operating expense ratio:           | $\text{Operating expense} / \text{Average gross outstanding portfolio}$                             |
| Cost per borrower:                 | $\text{Operating expense} / \text{Active borrowers (end of period)}$                                |
| Staff productivity:                | $\text{Active borrowers} / \text{Total personnel (end of period)}$                                  |
| Funding expense ratio:             | $\text{Interest and fees paid on funding liabilities} / \text{Average gross outstanding portfolio}$ |
| Cost of savings:                   | $\text{Interest and fees paid on deposits} / \text{Average deposits}$                               |
| Cost of borrowings:                | $\text{Interest and fees paid on borrowings} / \text{Average borrowings}$                           |
| Loan loss provision expense ratio: | $\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$               |
| Write-off ratio:                   | $\text{Loans written off} / \text{Average gross outstanding portfolio}$                             |
| Risk coverage ratio:               | $\text{Loan loss reserve} / \text{Portfolio at risk} > 30 \text{ days}$                             |
| Cash to demand deposits:           | $\text{Instantly available liquid assets} / \text{Demand deposits (end of period)}$                 |
| Current ratio (1 year):            | $\text{Short term assets} / \text{Short term liabilities (end of period)}$                          |

## ■ 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 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 satisfactory when compared to industry standards.  | SPECULATIVE INVESTMENT        |
| 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.   | TECHNICAL ASSISTANCE REQUIRED |
| 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.  |                               |
| 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.  |                               |