

Global assessment

Assessment summary

Need for improvement



ENCOT has managed a good start for the currently small size of its loan portfolio, but needs to strengthen and formalize its processes so it can grow sustainably. Financial planning needs improvement alongside the financial and operational skill sets of the management team. Internal controls related to the loan methodology remain to be documented, and an internal audit structure to be established. Portfolio health has greatly improved, but a longer track record still has yet to be earned to prove the sustainability of ENCOT's methodology. While the outline of its growth has begun, development of a new product line and expansion into the rural areas has still to be executed by management, although significant gains in efficiency should arrive when completed.

Assessment per domain

Areas for improvement

G



- Mitigate potential conflict of interest in governance by establishing clear BOD procedures that ensure the best interests of ENCOT are ensured
- Utilize more robust financial planning tools to create accurate financial projections and establish a monitoring system to ensure effectiveness.
- Strengthen capacity of mid-level management in both operations and financial management.

I



- Improve the synthesis of data by OM and ED into information that can help make better informed decisions
- Upgrade the anti-virus system and establish a server to afford better protection for institution's data and client information.

R



- Formalize internal control procedures and better document monitoring of operations.
- Establish clear separation of tasks to enhance accountability and provide a system of true double-checks for important procedures
- Communicate thoroughly all policies to clients to limit the risk for misunderstanding of institutional policy which can lead to default.

A



- The loan methodology is simple and appropriate for the single MELO loan product, with LOs capable of conducting basic credit analysis
- Establish write-off and provisioning policies.
- Increase monitoring of family and connected lending.
- Enhance attention to portfolio concentrations.

F



- Develop a funding strategy to ensure a diversified debt portfolio and to be able to achieve planned growth.
- Develop and implement liquidity management tools.

E



- Improve revenue quality by a more diversified product offering with appropriately priced products.
- Increased focus on reducing operating expenses.

## Institutional presentation

Enterprise Support & Community Development Trust (ENCOT) was founded in 2006 by a group of Ugandan students and community development entrepreneurs, with the goal of offering innovative financial products to rural clients engaged in agriculture. Issuing their first loan in February 2007, ENCOT now has 463 members and 249 active loans in Masindi district. Their portfolio has just reached 50 million UGX (25,500 USD), with one basic micro-loan product on offer. ENCOT is currently designing its first agricultural product, with the help of a grant from the UNDP. The client mix is mainly female urban, suburban, and rural micro-business owners, with some agricultural producers. Group solidarity is used for all clients, with operations conducted from their one office in Masindi town.

<b>Legal form</b>	ENCOT is registered as a Company Limited by Guarantee and is licensed under the Money Lenders act (CAP 273) of Uganda.
<b>Supervision</b>	There is no supervision by any government authority.
<b>Audit</b>	PM Associates, Certified Public Accountants (Kampala, Uganda) have audited ENCOT for both the 2007 and 2008 financial year. ENCOT's financial year follows the calendar year.
<b>Ownership</b>	Two of the five founders/subscribers to ENCOT's Articles of Association contributed capital and act as guarantors. Paschal Mandhawun (also MD) contributed 28.2M UGX (14.5K USD) and Moris Ngabitho contributed 12.8M UGX (6.6K USD) since inception.
<b>Board of Directors</b>	The current BOD of ENCOT was appointed in Q1 2009, and consists of five members. Two of the members are the founders/guarantors of ENCOT (which includes the MD), and three are external members (including the Chair).
<b>Donations</b>	ENCOT has not received any donations for its microfinance activities. It has recently won a 31.6M UGX grant from the UNDP's Small Grants Program to assist in a baseline survey and awareness project to protect nearby endangered wetlands, but it is accounted for separately.
<b>Funding composition</b>	In addition to their personal funds, Paschal Mandhawun (MD) has also taken a 13M UGX personal loan from Standard Charter Bank, which was given in entirety to ENCOT under an informal agreement that the MFI would assume all repayments.
<b>Management team</b>	The management team is composed of Managing Director (MD): Paschal Mandhawun, Operations Manager (OM): Godwin Mujuni, Accountant: Christine Gabaami Helen
<b>Organization</b>	All staff is based from ENCOT's one office in Masindi town. Credit decisions are taken by the credit committee consisting of the two loan officers (LO), the OM, and the Accountant.
<b>MIS</b>	ENCOT has used the integrated Financial Solutions from Sigma Data & Computers Ltd (Kampala, Uganda) from inception.
<b>Market penetration</b>	ENCOT operates in Masindi district, within the sub-counties of Miirya, Karujubu, Nyangahya and Masindi town council.
<b>Products and services</b>	ENCOT's one product is the micro-enterprise loan (MELO) ranging from 50,000-500,000 UGX (25-256 USD), with a term of 16 weeks and a monthly flat interest rate of 3%. There is a 500 UGX ledger fee, 3000 UGX training fee, 5000 UGX application fee, 5% commission, and 1% insurance fee charged. ENCOT's MELO product has an effective interest rate of 120%.
<b>Networks</b>	ENCOT is a member of the Masindi District NGO Forum, the Micro-credit summit campaign network, and in the final stage of registration with the Association of Microfinance Institutions of Uganda (AMFIU).

Governance is assessed as **average**

#### Areas for improvement

- Mitigate potential conflict of interest by establishing clear BOD procedures that guarantee the best interests of ENCOT are ensured
- Utilize more robust financial planning tools to create accurate financial projections and establish a monitoring system to ensure effectiveness.
- Strengthen capacity of mid-level management in both operations and financial management.
- Formalize HR processes to ensure transparent recruitment of sufficiently skilled staff and keep existing staff motivated.

## Governance

### Decision making

- ENCOT operates as a company limited by guarantee. Two founding members/subscribers to the articles of association have contributed 42M UGX to date (21 500 USD).
- + The new BOD Chairman and two independent members were proposed in Q1 2009 and confirmed at April 2009 BOD meeting. They replaced the original BOD, which consisted of the original 5 founders. The original founders included 2 staff members (of which one is MD).
- + The BOD Chairman has relevant and extensive experience in the East African microfinance sector and is mentoring the MD. The Subscriber/BOD member (Moris Ngabitho) has extensive experience in the sugar sector, in agricultural production in Masindi district, and agro-lending for small farmers. The two independent BOD members have legal experience, HR experience and knowledge of community development in Masindi.
- There is a potential conflict of interest between the MD, as he is also a member of the BOD and subscriber. New BOD procedures should clearly identify to manage this risk.
- New BOD manual is to be drafted by next BOD meeting in Q4 2009, and should include limits on conflict of interest of having the MD as a BOD member.
- + Mission and vision shared by management team, founders and new BOD members. There is a clear goal of focusing on sustainable, innovative microfinance for working poor, with rural, agro clients as a priority
- The mission has yet to be fully realized as there are no agro products on offer.
- Minutes for BOD meetings are very detailed but follow-up points are not assigned to individuals for accountability
- + Information provided to BOD is timely and sufficient.

### Planning

- The Strategic Plan (SP) for 2009-2013 was created in January 2009, with suggestions from the BOD added in March 2009. This was created as a revision for the SP 2008-2012 a year earlier.
- + The SP is very detailed and cohesive with a clearly outlined plan to develop the capacity of the institution while growing the portfolio; including a relevant analysis of local competition and the current agricultural finance market
- + Improvements made in the latest SP include higher, more sustainable growth projections. The first SP had stated growth projections that would not have led to profitability within the next few years.
- Specific funding goals and use of potential funds are not detailed. There is an outline of funding goals in the five-year cash plan, but not a clear idea of what these funds will be used for when they are raised. There is also no outline for how the current institutional capacity could absorb any future funding inflows, and how ENCOT would need to grow in staff or clients to put future funds to use effectively.
- The SP also lacks a specific identification of projects needed to implement strategic priorities. A lack of clear project planning can result in a delay of implementation upon receipt of funding. Risk also remains that funds will not be utilized for their original purpose or in accordance with ENCOT's mission in the face of sudden growth or sudden receipt of a large amount of funding.
- To date the MD, along with the OM, developed the SP with a top-down approach, rather than analyzing the capacity of ENCOT to achieve goals.

- + The MD has downloaded Microfin and begun training on its use. The integration of Microfin into the planning process will be a welcome step towards the creation of robust financial projections. Currently, the financial projections in the SP are not supported with enough evidence.
- Additional formal training on financial modeling is needed to ensure that ENCOT gains all the efficiencies and benefits of the program.
- Budgets do exist but are not formally monitored.

### **Management team**

- The management team is appropriately small for institutional size, but should continue to grow along with ENCOT. An experienced financial manager will be needed to relieve the MD of planning, fund-sourcing duties and unify the finance department.
- The MD is a strong, experienced and motivated leader who has proven success in implementing institutional plans and building the capacity of the institution. His foresight in investing early in the MIS was a key determinant of ENCOT's current organization and efficiency.
- The current OM is very motivated but still lacks the appropriate expertise in microfinance for the planned size of ENCOT. Specifically, the OM has yet to: formalize monitoring of field operations, provide analysis of how clients are responding to products, or identify loan absorption capacity of each region to plan growth
- Key person risk still exists on the MD as the OM is not yet experienced enough to run ENCOT without guidance, although he is being trained and encouraged by the MD.
- The accountant was hired in July 2009 and has had no formal work experience, but does have a degree in accounting. Her progression and competence has yet to be proven.

### **Human resource management**

- Human resources are managed by the MD informally, with assistance from the OM, due to ENCOT's size.
- There are no formal hiring processes in place in preparation for growth. Rather, employees are sourced through contacts rather than publically or independently published. In addition, key staff have started as volunteers without proper recruitment and some contracts were not up to date with current salaries or terms
- Training is still informal, although has proven sufficient thus far. Key positions were purposefully filled by young graduates without experience, so management has made the commitment to train them accordingly.
- Formal training manuals have yet to be developed for new LOs or other staff.
- Evaluations have also yet to be formalized, although informal goals have been discussed with staff..
- + OM and Accountant were sent for brief trainings in Tanzania and Kampala, respectively. There are plans to implement a training budget and there is a culture of learning and mentoring throughout ENCOT, initiated by the MD.
- + Staff morale is very high, with two staff members having devoted significant amounts of time as volunteers during their school breaks before being hired formally. Despite low salaries and demanding work hours, staff remains committed to growing and improving the institution
- Current incentive scheme is only for LOs, although other staff has made requests to receive some sort of bonus. Salary will need to be increased soon, or high staff motivation will diminish.
- Two staff members left due to inappropriate conduct.

Information is assessed as **satisfactory**

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#### Areas for improvement

- Improve the synthesis of data by OM and ED into information that can help make better informed decisions
- Upgrade the anti-virus system and establish a server to afford better protection for institution's data and client information.

Risk management requires **urgent need for improvement**

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#### Areas for improvement

- Formalize internal control procedures to better document monitoring of operations so that breaches of conduct can more easily be identified.
- Establish clear separation of tasks to enhance accountability and provide a system of true double-checks for important procedures, such as cash handling and accounting.
- Establish an internal audit department

## Information

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- The MIS for ENCOT is Sigma's Financial Solutions, which is working both efficiently and cutting cost effectively. Strong prior knowledge of the MIS system by the MD has been key to the smooth integration of the MIS into ENCOT's operations.
- There is need for a dedicated MIS officer as ENCOT grows and to deal with advanced functioning and customization.
- + There is sufficient data security with client documents stored in a locked water/fire-proof safe. Manual back-up of important receipts are kept and filed in an organized manner. Backups are done daily and stored to an external hard drive in the main office.
- + The MIS system is designed to guarantee data security, with each user having unique passwords.
- The anti virus program currently in use is not sufficient as a freeware version is used.
- There is no dedicated server computer, rather a terminal is used.
- + Reports from Financial Solutions are used to streamline all operational and administrative functions at ENCOT. Printouts from the system are used by LOs, management and office staff to reconcile data, keep track of clients and analyze performance.
- + PAR, portfolio growth, and client numbers are produced daily by the MIS and are all discussed at daily Management meeting.
- + OM and LOs have ready access to portfolio information.
- A minor issues is that LOs are able to view their clients in arrears, but not consolidated "Credit Officer Report" due to flaw in the MIS. The MD is aware of issue and has contacted Sigma, made attempts to repair, but awaiting further assistance
- Monthly reporting by accountant and OM to MD produced with mainly quantitative indicators, no standard reports to BOD. Qualitative indicators discussing drivers of growth or loss are not yet used, although they can provide needed analysis to management.

## Risk management

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### Procedures and internal controls

- Internal controls at ENCOT have improved in the two years since inception, but can be further increased. Management has learned from its mistakes, which included a fraud with its first LO. However, a thorough overview of all potential risks and the setting of risk limits is also lacking.
- + Influence from the BOD to formalize procedures has also been a benefit, i.e. the BOD discouraged management from taking short-term loans from the loan insurance fund (LIFA), which is the mandatory savings required of clients to receive a loan.
- Credit Operations are governed by an up to date manual, but could use further monitoring.
- Separation of tasks could be improved, as there is overlap in accounting and administrative functions. Additionally, there is no clear delineation of responsibility between Accountant and Cashier
- + Disciplinary procedures exist and were enacted for breaches of conduct, as two staff were fired in 2008.

- Disciplinary approach is strict, but code of conduct remains to be developed making it unclear for employees as to which types of conduct might result in reproach.
- + Procedures have been implemented to ensure data reliability, with double-checks throughout the data entry process. Bank reconciliations are conducted on a monthly basis.
- Additional checks, such as physical inventories, are not up to date.
- + Cash polices, which were implemented after the fraud in 2007, are now well established and conservative
  - All disbursements and repayments are made by cashier
  - Four employees count cash at night with three paper reconciliations
  - The safe is locked by 2 keys, held by OM and Accountant
  - Petty cash is well-accounted for, in paper receipts and in MIS
- Cash storage during the day is not sufficiently secure as it is stored in two sometimes unlocked desks in the front office.

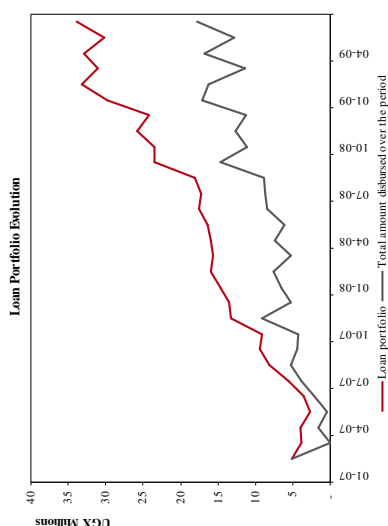
### Internal audit

- There is currently no internal audit at ENCOT. Even if understandable for an institution of ENCOT's size at present there is neither any process to compensate for this absence.
- In the absence of an internal auditor, an external replacement should be present to conduct a basic internal audit function.
- As ENCOT grows, an Internal Auditor will be needed to guarantee transparency and adherence to guidelines.
- ENCOT does benefit from external audits on their financial accounting, conducted annually by PM Associates, Kampala, but they do not verify internal controls.

### Activities

#### Financial services evolution

- + ENCOT's portfolio has had the typical fast growth of a new institution, but within a good institutional context. Growth was 78.5% from 2007-2008, and 40.3% for the first half of 2009.
- Average loan size decreased from 86.2K UGX (41USD) in 2007 to 65.8K UGX (31 USD) at the end of 2008, due to lack of funding. This is against trend as clients should have graduated to larger loan cycles over this period, but was also done to manage PAR and regroup after a LO fraud. However, loan size grew again during the first half of 2009 to reach 73.1K UGX (35 USD) in June.
- Disbursements have been affected by the frequent cash rationing and shortages, due to the lack of funding. This can explain why the portfolio growth has not been smooth, as it has depended on whether the MD and subscribers can add more of their own capital to the institution.



Activities is assessed as **average**

#### Areas for improvement

- Establish write-off and provisioning policies to more realistically prepare for future growth and delinquencies.
- Increase monitoring of family and connected lending to ensure that there is a clear separation of the loan portfolio and employee benefits and reimbursements.
- Enhance attention to portfolio concentrations, especially as further development into agricultural lending is being considered.

### Financial services management

- + The loan methodology is simple and appropriate for the single MELO loan product.
- + The visit LOs take to a place of residence is used to conduct a simple business appraisal and ID check with neighbors. Additional visits from LOs immediately after disbursement also help guarantee that the loan was used appropriately.
  - Cross indebtedness is checked for by surveying neighbors and informal discussion with competing lenders, but not systematically and it is not recorded.
  - New clients complete a one-hour training in office (or in the village if not a Masindi town council resident) before disbursement. In addition, annual training is given on entrepreneurship for an entire day at ENCOT HQ for all clients. These trainings help strengthen the group solidarity that ENCOT relies on. However, without documenting which clients have completed this training, this is not an efficiently implemented procedure.
- + Groups are being encouraged to join centers in rural areas, so that the social pressure for group discipline and solidarity is increased and the monitoring of clients is more cost efficient and effective.
  - Delinquency management procedures are formalized in the Credit manual, but not documented for each client. LOs do work together and with the LC 1 (traditional local authority) successfully, but actions are not recorded. With any growth in portfolio or PAR, ENCOT will not be able to effectively manage delinquency without recording follow-up and actions that have or have not been successful.
- + Involvement of the local authorities (LC 1) during loan application and delinquency management is an asset as they can provide legal authority to seize property, although this has not yet needed to be done.
  - While attendance is taken and fines are charged for absence at center meetings, more attention should be paid to entire groups that are absent or frequently delinquent, as flight risk is one of the main causes of default.
- + Portfolio evolution is monitored by OM through daily staff meetings and monthly reports
  - Management is presented by reports from the OM, but they are not sufficiently detailed or analytical. Figures are sufficient, but explanations of the drivers of portfolio change need to be included.
  - There are currently only two LOs, with the experience senior officer mentoring the more junior LO. Workload is shared between the two, who often work together.
  - OM does not have formalized number of mandatory visits to clients, groups, nor does he record visits with checks or signatures.
  - Attendance is not regular at center meetings, leaving risk that delinquent clients go unmonitored for longer periods of time or that fraud occurs between members of a group. There have already been cases of some group members moving out of the region without repaying or telling their group members of their whereabouts.
  - Training to clients is not formally documented and clients do not retain contracts, leaving risk that clients do not understand the terms of their loans.

### Credit risk

- Credit risk is moderate with PAR 30 decreasing from 11.1% at YE 2007 to a steadier 3.0% at the end of 2008 and 2.9% in June 2009, which is below the mean for East Africa (3.7% in 2007). PAR had reached an even higher 13% mid-year 2007, due to fraud with a Credit Officer
- There are no written off loans, although a policy is in development.

- Rescheduling has not yet been done.
- There is currently 1.4M UGX in zero-interest loans (advances) to staff and founders; Monitoring is good and facilitated by the MIS with clear records, but MD (who also has a loan) is the only one with access. This connected lending has been done to compensate for low salaries but can quickly grow unmanageable if used as a long-term solution to insufficient pay.
- Loans to family members are allowed but are not specifically regulated
- Portfolio concentration is not managed as a whole, nor are there rules within client groups. Business risk by type (salon, grains, bar, etc.) should be at least identified, if not limited, especially since cash flows for specific types of businesses are not analyzed in detail. There is risk that groups engaged in the same type of businesses can all default at the same time due to business conditions, eliminating the group solidarity guarantee on which ENCOT relies.

### Credit risk coverage

- ENCOT has not yet provisioned for loan loss, although is due to begin provisioning for the first time in 2009. A provisioning methodology has not yet been established.
- + All clients purchase insurance when opening accounts with ENCOT, who purchases it from AIG:
  - Clients sign insurance forms before disbursement and pay a fee of 1%
  - Insurance should protect against theft of property to clients, but has yet to be tested
- + There is only a 2.7% potential impact on equity, given the low ratio of the loan portfolio to equity.
- + Required collateral is diverse and extensive. There is group solidarity, personal guarantors, pledged assets, and mandatory savings. Group solidarity is promoted by trainings and co-signatures on all loan and savings transactions. Personal guarantors can be next-of-kin and must supply identification. Pledged assets should equal at least the amount of the loan, but are sometimes accepted with less and have never been claimed by ENCOT. Mandatory savings must amount to 5% of loan disbursed, with a 1% additional deposit at each repayment

### Funding and liquidity

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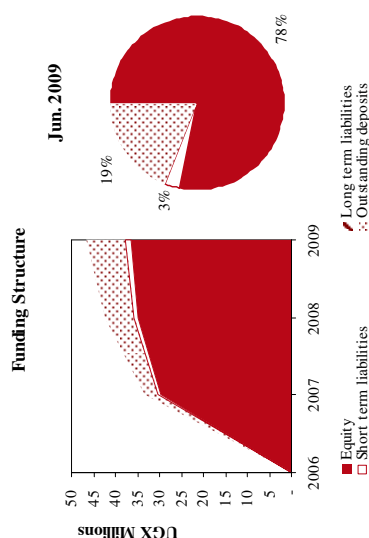
Funding and liquidity requires **need for improvement**

#### Areas for improvement

- Develop a funding strategy to ensure a diversified debt portfolio and to be able to achieve planned growth.
- Development of system to manage liquidity risk, to avoid cash shortages or inability to repay external loans.

### Capitalization and funding strategy

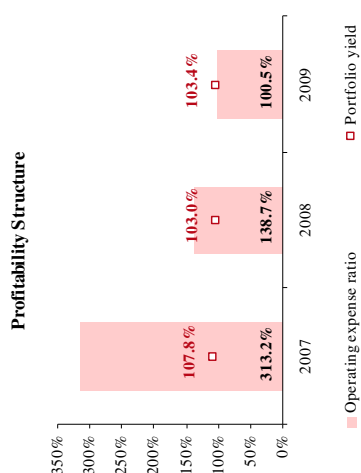
- Funding has been a major focus for management and staff, although no grants or other funding has been secured. Application to HIVOS, ECLOF, MSC, Stromme, have yet to result in funds. HIVOS has agreed to an on-site due diligence and paid for this Planet Rating assessment. ECLOF offered a loan, but its terms were not accepted by ENCOT
- A commercial loan was taken in the name of the MD, but used in its entirety for ENCOT's portfolio growth. ENCOT's application to take the loan for its business was rejected, with only a personal loan to the MD granted.. 13M UGX were taken from Standard Chartered Bank for a term of 2 years. There is no written contract for this agreement between ENCOT and the MD.
- There is an immediate need for increased funding to provide loans to existing clients and for any further growth. Currently, some client disbursements are rescheduled to wait for inflows of cash from repayments.
- Exact funding needs have not been identified, neither for this year or the coming three years (cf: Planning).
- + CAR is high at 86%, which should make it attractive to funders.



Efficiency and profitability requires urgent need for improvement

**Areas for improvement**

- Improve revenue quality by a more diversified product offering with appropriately priced products.
- Increased focus on managing operating expenses to increase efficiencies.



**Liquidity risk**

- The Accountant was hired in July 2009 is now responsible for the financial management of ENCOT. She is inexperienced and has yet to prove her capacity for managing the financial operations. Before her hire, the ED and OM had not been managing liquidity.
- The liquidity level of ENCOT is low, with only 1.7 months of operating expense coverage as of June 2009. This is a significant decrease from the 4.1 months covered at FYE08 and 3.0 months at FYE07
- The current funding structure poses a high cash risk. Short-term funding is only available through personal contributions from founders
- Liquidity risk is not monitored by the Accountant, and tools and procedures need to be developed.
- There are also no tools in place to monitor maturity risk, but maturity risk remains low.

**Market risk**

- ENCOT is not exposed to interest rate or FX risks, as it has no external funding or investments.

**Efficiency and profitability**

**Profitability analysis**

- ENCOT was profitable in 2009. It has seen its ROA improve from (7%) in 2008 to a preliminary 8% for the first six months of 2009. There has been an even path to profitability since inception, but a longer track record needs to develop.
- A yield gap exists as EIR is 120%, whereas the portfolio yield is 103% in the past year. This could be a result of the 3% PAR.
- Operating expenses have significantly decreased since 2007, but are still high at 100%. Such a high rate will make it difficult for ENCOT to compete in the Ugandan Market. However, this should reduce with portfolio growth.
- Competition is rapidly increasing in Masindi town, but not yet in rural areas. This may lead to crowding out of smaller players like ENCOT. FINCA has engaged in strong marketing, BRAC provides multiple services but has not yet arisen as a serious competitor for ENCOT’s target clients.
- Asset deployment is not optimal at 72% of outstanding loan portfolio to assets.
- Product development is planned to be a focus, with a roll-out of agro-loan test trials. Funded by the UNDP small grants project, ENCOT is participating in a wetlands conservation project. There is a baseline survey for agricultural finance needs in wetlands areas and test trials of bee-keeping capital investment financing will begin in Q4 2009.
- Profitability outlook is good, as ENCOT has a solid base to attract funding. If the agro-loan is developed appropriately and in a timely manner, ENCOT stands a good chance of establishing a niche market in the Masindi region.

*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.*

Data in USD, unless otherwise stated

## ■ Performance indicators

<b>Loan Portfolio</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Jun. 2009</b>
<b>Loan portfolio evolution</b>			
Loan portfolio	7,772	13,910	16,042
Loan portfolio (UGX)	13,532,960	24,153,825	33,879,025
<i>Growth</i>	-	78.5%	40.3%
Active borrowers	157	367	463
<i>Growth</i>	353.1%	133.8%	26.2%
Average outstanding loan per client	50	38	35
<i>% of GDP per capita</i>	12.6%	8.6%	8.0%
Average amount disbursed per loan	107	151	156
<i>% of GDP per capita</i>	27.3%	34.2%	35.9%
<b>Portfolio quality</b>			
Rescheduled loans	0.0%	0.0%	0.0%
PAR 31-365	11.1%	3.0%	2.9%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%
<b>Credit risk coverage</b>			
Risk coverage ratio (PAR 30)	0.0%	0.0%	0.0%
PAR 30 net of loan loss provision / Equity	5.1%	2.1%	2.7%
<b>Savings</b>			
Outstanding deposits	1,918	3,860	4,148
Outstanding deposits (UGX)	3,339,810	6,703,025	8,760,400
<i>Growth</i>	-	100.7%	30.7%
Voluntary savings (%)	0.0%	0.0%	0.0%
Cash collateral (%)	100.0%	100.0%	100.0%
Active savers	157	367	463
<i>Growth</i>	?	133.8%	26.2%
Average outstanding deposit per saver	12	11	9
<b>Staff</b>			
Total number of staff	4	5	7
% Credit officers	25.0%	20.0%	28.6%
Turnover	-	22.2%	0.0%
<b>Profitability analysis</b>			
ROE	(49.4%)	(8.7%)	10.4%
Liabilities / Equity	0.13x	0.22x	0.27x
Core capital adequacy ratio	103.9%	102.8%	86.7%
Total capital adequacy ratio	103.9%	102.8%	86.7%
ROA	(43.6%)	(7.4%)	8.4%
ROA (without donations)	(43.6%)	(7.4%)	8.4%
ROA (microfinance operations)	(47.5%)	(12.4%)	4.7%
<b>Profitability structure</b>			
Financial revenue ratio	195.2%	113.3%	112.4%
Portfolio yield	107.8%	103.0%	103.4%
Operating expense ratio	313.2%	138.7%	100.5%
Cost per borrower	78	40	32
Staff productivity	39	73	66
Loan officer productivity	157	367	232
Average outstanding loan per client (USD)	50	38	35
Funding expense ratio	0.0%	0.0%	0.0%
Cost of savings	0.0%	0.0%	0.0%
Cost of borrowings	n/a	0.0%	0.0%
Loan Loss Provision expense ratio	0.0%	0.0%	0.0%
PAR 31-365	11.1%	3.0%	2.9%
Write-off ratio	0.0%	0.0%	0.0%
<b>Resource optimization</b>			
Outstanding Loan Portfolio / Assets	40.3%	56.9%	72.6%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%
<b>Liquidity</b>			
Cash to demand deposits	n/a	n/a	n/a
Liquidity / Total assets (LAR)	15.1%	20.3%	9.5%
Current ratio (1 year)	656.4%	483.0%	419.7%
Exchange rate 1 USD= xx UGX	1,741	1,736	2,112

## Financial statements – UGX

Income Statement (UGX)	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	7,292,300	19,141,300	16,025,525
Interest and fee income on investments	-	-	-
Interest and other financial expenses	-	-	-
Net inflation adjustment expense	-	-	-
Net foreign exchange income (expense)	-	-	-
<b>Net financial income</b>	<b>7,292,300</b>	<b>19,141,300</b>	<b>16,025,525</b>
Fees and commissions on other financial services	255,000	1,181,000	1,037,500
Other operating income	5,664,075	717,000	368,800
Operating expenses	21,192,940	25,760,371	15,580,050
<i>Personnel expenses</i>	<i>2,607,050</i>	<i>6,175,000</i>	<i>5,503,900</i>
<i>Administrative and other expenses</i>	<i>15,897,890</i>	<i>16,397,371</i>	<i>8,575,700</i>
<i>Depreciation</i>	<i>2,688,000</i>	<i>3,188,000</i>	<i>1,500,450</i>
Non operating income (net)	663,500	1,919,520	810,150
<b>Gross operating income</b>	<b>(7,318,065)</b>	<b>(2,801,551)</b>	<b>2,661,925</b>
Net loan loss provision expense	-	-	-
<b>Net operating income</b>	<b>(7,318,065)</b>	<b>(2,801,551)</b>	<b>2,661,925</b>
Extraordinary income (net)	-	-	-
<b>Net income before tax</b>	<b>(7,318,065)</b>	<b>(2,801,551)</b>	<b>2,661,925</b>
Income Tax	-	-	798,578
<b>Net income before donations</b>	<b>(7,318,065)</b>	<b>(2,801,551)</b>	<b>1,863,347</b>
Donations	-	-	-
<b>Net Income</b>	<b>(7,318,065)</b>	<b>(2,801,551)</b>	<b>1,863,347</b>

Balance Sheet (UGX)	Dec. 2007	Dec. 2008	Jun. 2009
<b>ASSETS</b>	<b>33,592,915</b>	<b>42,420,175</b>	<b>46,661,354</b>
Liquid assets	5,067,980	8,609,600	4,434,629
Net loan portfolio	13,532,960	24,153,825	33,879,025
<i>Gross loan portfolio</i>	<i>13,532,960</i>	<i>24,153,825</i>	<i>33,879,025</i>
<i>(Loan loss reserve)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Interest receivable	4,618,275	2,832,750	2,832,750
Financial investments	-	-	-
Net fixed assets	7,602,000	5,414,000	4,482,550
Intangible assets	-	-	-
Other assets	2,771,700	1,410,000	1,032,400
<b>LIABILITIES AND EQUITY</b>	<b>33,592,915</b>	<b>42,420,175</b>	<b>46,661,354</b>
<b>Liabilities</b>	<b>3,959,810</b>	<b>7,662,146</b>	<b>10,049,978</b>
Demand deposits	-	-	-
Time deposits	-	-	-
Cash collateral	3,339,810	6,703,025	8,760,400
Borrowings	-	133,121	-
Subordinated debt	-	-	-
Other liabilities	620,000	826,000	1,289,578
<b>Equity</b>	<b>29,633,105</b>	<b>34,758,029</b>	<b>36,611,376</b>
Core capital	29,633,105	34,758,029	36,611,376
<i>Paid-in capital</i>	<i>32,914,000</i>	<i>42,183,800</i>	<i>42,183,800</i>
<i>Donated equity</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Retained earnings</i>	<i>(3,280,895)</i>	<i>(7,425,771)</i>	<i>(5,572,424)</i>
Other equity accounts	-	-	-

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

Balance Sheet Averages	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	6,766,480	18,576,136	31,009,273
Assets	16,796,458	38,006,545	44,540,765
Deposits	1,669,905	4,918,307	7,731,713
Borrowings and subordinated debt	-	66,561	66,561
Equity	14,816,553	32,195,567	35,684,703

## ■ Financial statements – USD

Income Statement (USD)	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	4,188	11,023	7,588
Interest and fee income on investments	-	-	-
Interest and other financial expenses	-	-	-
Net inflation adjustment expense	-	-	-
Net foreign exchange income (expense)	-	-	-
<b>Net financial income</b>	<b>4,188</b>	<b>11,023</b>	<b>7,588</b>
Fees and commissions on other financial services	146	680	491
Other operating income	3,253	413	175
Operating expenses	12,171	14,835	7,377
<i>Personnel expenses</i>	1,497	3,556	2,606
<i>Administrative and other expenses</i>	9,130	9,443	4,061
<i>Depreciation</i>	1,544	1,836	710
Non operating income (net)	381	1,105	384
<b>Gross operating income</b>	<b>(4,203)</b>	<b>(1,613)</b>	<b>1,260</b>
Net loan loss provision expense	-	-	-
<b>Net operating income</b>	<b>(4,203)</b>	<b>(1,613)</b>	<b>1,260</b>
Extraordinary income (net)	-	-	-
<b>Net income before tax</b>	<b>(4,203)</b>	<b>(1,613)</b>	<b>1,260</b>
Income Tax	-	-	378
<b>Net income before donations</b>	<b>(4,203)</b>	<b>(1,613)</b>	<b>882</b>
Donations	-	-	-
<b>Net Income</b>	<b>(4,203)</b>	<b>(1,613)</b>	<b>882</b>

Balance Sheet (USD)	Dec. 2007	Dec. 2008	Jun. 2009
<b>ASSETS</b>	<b>19,293</b>	<b>24,429</b>	<b>22,095</b>
Liquid assets	2,911	4,958	2,100
Net loan portfolio	7,772	13,910	16,042
<i>Gross loan portfolio</i>	7,772	13,910	16,042
<i>(Loan loss reserve)</i>	-	-	-
Interest receivable	2,652	1,631	1,341
Financial investments	-	-	-
Net fixed assets	4,366	3,118	2,123
Intangible assets	-	-	-
Other assets	1,592	812	489
<b>LIABILITIES AND EQUITY</b>	<b>19,293</b>	<b>24,429</b>	<b>22,095</b>
<b>Liabilities</b>	<b>2,274</b>	<b>4,413</b>	<b>4,759</b>
Demand deposits	-	-	-
Time deposits	-	-	-
Cash collateral	1,918	3,860	4,148
Borrowings	-	77	-
Subordinated debt	-	-	-
Other liabilities	356	476	611
<b>Equity</b>	<b>17,018</b>	<b>20,017</b>	<b>17,336</b>
Core capital	17,018	20,017	17,336
<i>Paid-in capital</i>	18,903	24,293	19,974
<i>Donated equity</i>	-	-	-
<i>Retained earnings</i>	(1,884)	(4,276)	(2,639)
Other equity accounts	-	-	-







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

Balance Sheet Averages	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	3,886	10,698	14,683
Assets	9,646	21,888	21,090
Deposits	959	2,832	3,661
Borrowings and subordinated debt	-	38	32
Equity	8,509	18,541	16,897

## ■ 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):	$\text{Short term assets} / \text{Short term liabilities (end of period)}$

## ■ Assessment scale

Assessment	Assessment summary
<b>Good</b> 	Strong operational and financial performance resulting in a high likelihood of institutional sustainability. Good execution capacity is present within the institution to address existing weaknesses.
<b>Satisfactory</b> 	Satisfactory operational and financial performance resulting in a good likelihood of institutional sustainability. Adequate execution capacity is present within the institution to address existing weaknesses.
<b>Average</b> 	Sufficient operational and financial performance with remaining weaknesses in some areas of operations, which could affect institutional sustainability. Execution capacity is present within the institution to address existing weaknesses.
<b>Need for improvement</b> 	Moderate operational and financial performance with important weaknesses in several areas of operations, which undermines potential institutional sustainability. Basic execution capacity is present within the institution to address existing weaknesses.
<b>Urgent need for improvement</b> 	Poor operational and financial performance with important weaknesses in most areas of operations which highly limits institutional sustainability. Limited execution capacity is present within the institution to address existing weaknesses.
<b>Immediate need for improvement</b> 	Very poor operational and financial performance with important weaknesses in most areas of operations. Long term institutional sustainability is doubtful. Execution capacity present within the institution is insufficient to address existing weaknesses