

## Kenya Ecumenical Church Loan Fund Ltd., Kenya

Kenya Ecumenical Church Loan Fund Ltd. (KECLOF) was incorporated as a company limited by guarantee in 1993 after transforming from an autonomous unit of the National Council of Churches of Kenya (NCCCK) where it had started in 1965. KECLOF is one of the National ECLOF Committees (NECs) affiliated to the 'ECLOF Global Fellowship' based in Geneva, Switzerland. Loan products include group loans for micro entrepreneurs as well as agricultural and consumer loans. KECLOF operates in 7 major urban areas of Kenya and as of 31<sup>st</sup> October 2007 it serves 25,125 clients of which 13,099 are active borrowers with an outstanding loan portfolio of 4.7 M USD.

### GIRAFE Rating

#### Rating

**C-**

#### Outlook

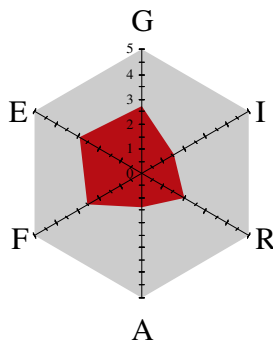
**Positive**

#### Date of the rating

**November 2007**

Valid until October 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

#### Planet Rating Contact

Otto Wormgoor

owormgoor@planetrating.com

+256 414 236 745

#### MFI Contact

Rose Wanjohi

Plot 47 Rhapta Road, Westlands

PO Box 34889-00100, Nairobi

+254 20 4453947

rwanjohi@eclof-kenya.org

REF:OW/141207

#### Rating highlights

- KECLOF looks set to be profitable in 2007 due to improvements in portfolio quality resulting in a higher yield (25.9% as at Oct 2007 vs. 20.5% in 2006), and a significant drop (46%) in loan loss expenses.
- The BOD is competent and dedicated to supporting a new management team although key-person risk on the CEO remains. Developing a more balanced and polyvalent management team would, therefore, be a priority at KECLOF.
- KECLOF is yet to establish a clear target market and an effective market strategy, where recent recruitment of a Business Development Manager is a positive step.
- The current PAR31-365 remains high (12.1%) and is the foremost challenge of KECLOF today where stronger management of branches is needed as well as more in-depth analysis of credit and portfolio data.
- Other key challenges include reducing staff turnover and improving timely availability of reliable data through implementation of a new MIS.

#### Outlook

The positive outlook is based on the emergence of KECLOF from a historical trend of losses to profitability for the first time in 2007. This positive trend is, however, recent and fragile and is subject to further improvements in portfolio quality, operating costs' control, management team consolidation as well as successful implementation of a new MIS.

#### Performance indicators

USD, unless otherwise stated	Dec. 2004	Dec. 2005	Dec. 2006	Oct. 2007
Assets	1,690,513	1,967,900	4,607,338	6,713,868
Growth	11.1%	9.1%	124.9%	39.3%
Loan portfolio	2,248,502	1,905,758	3,299,178	4,691,441
Growth	11.2%	(20.6%)	66.3%	35.9%
Outstanding deposits	-	253,600	1,203,598	2,214,474
Growth	-	-	356.0%	75.8%
Active borrowers	1,480	2,358	9,627	13,099
Active savers	-	2,420	16,355	25,125
Staff	33	40	73	91
ROE	(5.0%)	(7.6%)	(2.3%)	6.9%
ROA*	(4.6%)	(6.9%)	(1.6%)	3.9%
Liabilities / Equity*	0.14x	0.07x	0.69x	0.82x
Portfolio Yield	17.8%	16.8%	20.5%	25.9%
Operating expense ratio	14.3%	16.4%	18.4%	19.0%
PAR 31-365	32.7%	33.2%	15.0%	12.1%
PAR > 365	21.2%	35.1%	16.7%	13.2%
Write-off ratio	0.0%	0.0%	15.8%	0.0%

\*Ratios have been adjusted to exclude members' deposits from assets & liabilities.

## Microfinance sector

Many of the current market leaders in the microfinance industry were founded in the early eighties. Currently, the Kenyan microfinance industry contains two microfinance oriented banks (K-REP Bank and Equity Bank) that are regulated by the Central Bank of Kenya (CBK) under the Banking Act. Other regulated MFIs are cooperatives which are regulated by the Commissioner for Cooperative Development under the Co-operative Societies Act and are allowed to pursue member based financial intermediation. Other MFIs, which comprise Companies, NGOs and Trusts, are not regulated and are not allowed to pursue financial intermediation.

On December 30<sup>th</sup> 2006 a new Microfinance Act was enacted by parliament that will regulate deposit-taking financial institutions. The regulations under the act are still to be published by CBK. It is estimated that between three and five MFIs (KWFT, Faulu Kenya, Jamii Bora Trust, SMEP and KADET) will initially apply for a license. The act however, also leaves room for non-regulated, non-deposit taking financial institutions.

A recent study into the access to financial services in Kenya<sup>1</sup> however showed that 38.4% of the total population is still excluded from financial services and that the vast majority uses informal groups rather than any kind of formal financial institution. The table below shows the percentage of the Kenyan population for each source of financial services:

Source	Rural %	Urban %	Male %	Female %	Total %
Bank	10.7%	25.1%	18.7%	10.1%	14.2%
Postbank	4.4%	9.3%	6.6%	4.7%	5.6%
SACCO	13.9%	10.5%	17.3%	9.2%	13.1%
MFI	1.5%	2.4%	1.6%	1.8%	1.7%
Informal groups	53.4%	42.1%	46.3%	54.6%	50.6%
Excluded	37.4%	41.6%	37.5%	39.3%	38.4%

Notably only 1.7% of the population has used financial services from MFIs whereas 14.2% and 13.1% have used financial services from banks and cooperatives respectively. There are 3,767 licensed cooperatives that together are estimated to have 2.1 million clients, 1.48 billion USD in loan portfolio and 1.79 billion USD in deposits.<sup>2</sup> The larger cooperatives in Kenya are however more focused on salary loans to low- to middle-income clients in urban areas. Besides the cooperatives, the main providers of microfinance services in Kenya are:

MFI	Savings accounts	Deposits (M USD)	Active borrowers	GLP (M USD)
Equity Bank	1,014,474	168	239,541	106
K-REP Bank	14,951	24	114,301	54
KWFT	n/a	13*	85,555	33
Faulu Kenya	n/a	11	68,434	19
Jamii Bora Trust	140,000†	4.1	60,000†	5.3
SMEP	n/a	3.5	24,090	6.6
KADET	n/a	2.2	16,575	3.7

Source: www.mixmarket.org 2006 data; \* 2005 data; † estimate.

The current main donor support to the microfinance sector is coming from the Financial Sector Deepening project<sup>3</sup> that focuses on the main challenges to further stimulate the microfinance sector in Kenya: capacity building of MFIs, regulatory framework for cooperatives, rural finance, agricultural finance, SME finance and enhancing payments systems such as remittances and mobile phone banking.

## Political & economic environment

After several years of stagnation, the recovery underway since 2004 continued in 2006 despite the economic impact of the energy bill and the drought that affected farm and hydropower production during the early months of the year. While all economic sectors registered growth, agriculture, transport, telecommunications, and tourism were the most dynamic. Barring exogenous shocks, those trends should continue in 2007 underpinned by infrastructure modernization and active tax incentive policy. Meanwhile, the rapid increase of prices should ease barring exceptionally adverse weather or fiscal slippage.

With investment spending and domestic debt already straining the public sector balance, a marked increase in current public spending in the run-up to general elections end 2007 could thus negate the management efforts facilitated in past years by rising fiscal revenues. Export dynamism has moreover not sufficed to offset the rapid rise of imports (oil products and capital goods) thereby increasing the current account deficit. With moderate foreign debt, however, Kenya's financing needs have remained manageable.

The political context has been marked by the approach of elections (to be held on 27<sup>th</sup> December 2007) that could heighten political and social tensions, and by an inadequate anti-corruption campaign, which has soured the country's relations with western financial backers

<sup>1</sup> Results of a National Financial Access Survey, The Steadman Group Research Division, July 2007. [www.fsdkenya.org/finaccess](http://www.fsdkenya.org/finaccess)

<sup>2</sup> CBK Annual Report 2006. <http://www.centralbank.go.ke/publications/annual/index.html>

<sup>3</sup> A multi-donor project funded by DfID, SIDA and World Bank.

## Strengths

- The regional integration underway within the East African Community will further strengthen Kenya's position and its attractiveness to investors.
- Improved infrastructure (transport, telecommunications, and financial services) will make it possible to exploit the potential of an already diversified economy more fully.
- That should facilitate gradually separating policy development from economic development.

## Weaknesses

- Agriculture is still a key economic sector (25% of GDP), thus making most personal incomes vulnerable to weather conditions.
- Combating poverty, unemployment, and the AIDS pandemic continues to necessitate major efforts.
- The business climate and persistent corruption have damaged the country's image.
- High production costs have been hampering companies.
- The domestic debt burden (20% of GDP) has undermined public sector finances.

COFACE Country Rating: C – A very unsteady political and economic environment could deteriorate an already bad payment record.

(USD millions)	2004	2005	2006 (e)	2007 (f)
Economic growth (%)	4.9	5.8	5.5	5.5
Inflation (%)	11.7	10.3	13.6	8.0
Public sector balance (%GDP)	-0.4	0.1	-4.4	-4.0
Exports	2,721	3,240	3,550	3,934
Imports	4,351	5,408	6,479	7,102
Trade balance	-1,630	-2,168	-2,929	-3,168
Current account balance (%GDP)	-2.2	-2.6	-4.6	-4.8
Foreign debt (%GDP)	42.1	34.8	29.2	28.8
Debt service (%G&S exports)	6.0	6.1	5.5	6.7
Foreign currency reserves (in months of imports)	3.3	3.2	3.7	3.4

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

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

## Institutional presentation

### Legal form, supervision and audit

Kenya ECLOF was established in 1965 as an autonomous unit of the National Council of Churches (NCCK). In 1993, it was reconstituted and registered under the Companies Act (Cap 486) as a company limited by guarantee as Kenya Ecumenical Church Loan Fund Ltd. (KECLOF). KECLOF

is not regulated by the Central Bank of Kenya (CBK) and is, therefore, not permitted to pursue financial intermediation.

Following the enactment of the Kenya Micro Finance Act earlier this year, KECLOF, as a Micro Finance Institution, is set to reform its legal status to that of a company limited by shares. The ownership structure is thus expected to change.

Carr Stanyer Gitau & Co. have been the auditors of KECLOF since 2004 and have never qualified their opinion on the financial statements during this period.

### Ownership

KECLOF is one of the National ECLOF Committees (NECs) affiliated to the 'ECLOF Global Fellowship' or ECLOF International (ECLOF-I) based in Geneva, Switzerland. ECLOF-I and the National ECLOF Committees (NEC) operate under the concept of a global family, with the NECs subscribing to the global policy guidelines and adopting the minimum performance standards which clearly express the values, organizational policies and operating standards of ECLOF-I. ECLOF-I provides both financial and non-financial support to the NECs for growth and development objectives.

The Board of Directors (BoD) is elected by members of the NEC during the AGM. The BoD oversees the governance of KECLOF and the directors represent the various stakeholder groups of KECLOF ranging from the Church, Microfinance sector, Banking sector and the private sector in general. The BoD contains four committees charged with specific roles in the governance of KECLOF: Executive Committee, Loans Committee, Finance & Audit Committee and the Capital Structure & Transformation Committee (whose role is to guide KECLOF's transformation into a company limited by shares in line with the Kenya Microfinance Act)

### Donations

As an affiliate of ECLOF international, KECLOF has received significant financial support since inception in the form of donated equity to the amount of 265 M KES (4.0 M USD). KECLOF is required to pay one third of its interest income resulting from the on-lending of the donated equity to ECLOF international on a yearly basis. KECLOF has recently signed a contract for 6.5 M KES (97 K USD) with the Kenyan based Micro Enterprise Support Programme Trust (MESPT) for the development of an individual loan product and purchase of a new MIS.

### Funding composition

As at 31 Oct. 2007, equity consists of 37% of the total capital structure, while debt and compulsory deposits stand at 27% and 33% respectively. Debt includes 3 loans from

MESPT totaling to 80 M KES (1.2 M USD). The first loan of 30 M KES (449 K USD), secured in May 2006, was guaranteed 100% by ECLOF International and carries an interest charge of 9%. KECLIF secured additional facilities of 40 M KES (498 K USD) and another 10 M KES (150 K USD)<sup>4</sup> from MESPT in 2007. In May 2007, KECLIF secured a 5-year loan of 100 M KES (1.5 M USD) from Cooperative Bank of Kenya using its compulsory deposits as security.

## Management team

Under the current organizational structure, the Chief Executive Officer (CEO), Ms. Rose Wanjohi, reports to the BoD, and is supported by 5 managers namely: Finance & Administration Manager (FAM), Operations Manager (OM), IT Manager, Training & Business Development Manager (TBDM), and Internal Audit Manager.

- Ms. Wanjohi has been the CEO of KECLIF since November 2005 and has extensive experience in the industry having worked at Faulu Kenya for 12 years in several capacities including Operations Manager and Head of Human Resources and Service Delivery. She holds a Bachelor of Commerce degree from University of Nairobi and a Post Graduate Diploma in Human Resource Management

## Organization

KECLIF operates 8 branches (excluding Head Office) with each of the branches led by a Unit Manager. The unit managers are supported by Loan Officers (LOs)<sup>5</sup> whose duties mainly pertain to loan management. In addition, each unit employs a Customer Service Assistant (CSA) whose role encompasses customer care and office administration and support. The operations are divided into two main areas, Western and Central, where each is overseen by an Area Manager who report to the OM.

To support outreach to more remote areas, KECLIF branches are also supported by sub-units and offices. A sub-unit is led by a Senior Business Finance Officer (SBFO) supported by several BFOs. Currently there are five sub-units namely: Kericho, Bungoma Kitale, Maua and Githunguri. Outreach is further enhanced through offices, whereby an office is defined as 2 BFOs. An office is used as an opening post for preliminary outreach in a particular area. Currently 8 offices are in operation and are accountable to a specific Unit.

Credit decisions are preceded by an appraisal process requiring all application forms to be sent to Head Office (HO) for final clearance. Loans above 100,000 KES require

<sup>4</sup> This loan is for the specific purpose of on-lending to 'Growth Enterprises'

<sup>5</sup> Within KECLIF the term Business Finance Officer is used.

the approval of the CEO, loans above 300,000 KES require the approval of the BoD loans committee while loans above 25,000 USD require approval by ECLOF-I.

Following the approval of a loan, a cheque is prepared at HO in the name of the client and forwarded to the branch for disbursement. Clients are required to repay their loans by depositing the money directly into a bank account of KECLIF. The LOs, therefore, do not handle cash.

KECLIF uses Loan Performer (LPF) by Crystal Clear Software Ltd. of Uganda as an integrated and centralized MIS for its loan tracking and accounting. Disbursement and repayment receipts are sent to HO daily for data entry where the updated database is sent to the branches each Friday. Another software package, CreditM, is used for tracking of the receipts and approval of check printing.

## Market penetration

KECLIF operates 8 branches with 2 branches in Nairobi (Nairobi East and Nairobi West). The other branches are located in Eldoret, Kisumu, Nyeri, Meru, Nakuru and Thika. KECLIF operates in urban and peri-urban settings placing it in direct competition with major Commercial Banks, MFIs as well as SACCOs.

## Products and services

KECLIF offers a variety of loan products that can generally be categorized as Business, Consumer and Institutional loans. The business and consumer loans are all based on a group lending methodology. In addition, KECLIF offers micro-credit insurance products.

The business loans include, Jiwezeshe, a working capital loan and Wakulima and Ng'ombe Spesheli, which are both agricultural loans. All business loans are accessible for a minimum amount of 5,000 KES (75 USD) and a maximum of 500,000 KES (7,480 USD). Interest (which is flat) in the first cycle is 20% per annum and 18% per annum in subsequent cycles. Loan terms vary between 3 months and a maximum of 1 year. Payments are carried out on either a weekly basis or a monthly basis, although Wakulima loans differ from the rest in the fact that the repayment schedule is flexible where an estimated 90% have bullet payments. Group guarantees are the main form of collateral. Other fees include loan application fee (2% of loan amount), loan insurance (1.5% of loan value) and pass book fee of 50 KES.

The consumer loans can only be taken as a second loan next to a business loan and include Jiinue (Asset loan), Elimu Bora (Education loan) and Tatua Shida (Emergency loan). Interest is charged at 24% per annum flat rate and loan term is 6 months except in the case of Tatua Shida, where it is 3

months. Maximum authorized lending also varies with Elimu Bora at 50,000 KES, Jiinue at 20,000 KES and Tatua Shida at 15,000 KES (748, 299 and 224 USD). The minimum authorized loan amount is 1,000 KES (15 USD) for all 3 variations and repayments are carried out on either a weekly or monthly basis. No additional collateral is required for these loans as they can only be taken as add-on loans to the business and agriculture loans. Both the business and consumer loans require between 10-25% compulsory deposits as well as 100-200 KES monthly savings during the loan.

The institutional loans target churches, schools and SACCOs in rural settings with authorized lending varying between 100,000 KES to 3,750,000 KES (1.5-56 K USD). The maximum loan term is 2 years with interest being charged at 18% per annum (flat). The management of the institutional loans is done exclusively by HO.

## Networks

KECLOF is a member of the Association of Micro Finance Institutions of Kenya (AMFI) and a member of the ECLOF International (ECLOF-I) network of National ECLOF Committees (NECs).

## ■ Governance

Governance and Decision Making is rated “c”

### Decision-making

KECLOF has an appropriate legal set-up for its current functioning as a company limited by guarantee. KECLOF has received significant financial and non-financial support from ECLOF-I and there is an open, constructive dialogue between KECLOF and ECLOF-I through which also restraints in the relationship can be discussed (e.g. financial costs paid to ECLOF-I).

The relationship, governed by a protocol agreement, restricts the decision making powers of the BOD of KECLOF (e.g. approval of loans and write-off policy). This does not significantly hamper the decision making process and, with quarterly BOD meetings and the operations of the board committees, the BOD is able to act fast and decisively when needed. The BOD receives sufficient information from management, either directly or through the BOD committees.

The current BOD has a diversified background and sufficient expertise to govern the current operations of KECLOF. There was a strong focus from management to improve the capacity of BOD members to balance the decision making process. However, when becoming a licensed MFI under the

new microfinance law the BOD will need further strengthening during and after the transformation. In preparation for application to a license KECLOF is preparing to transform to a company limited by shares for which a transformation committee has recently been set-up. There is an adequately shared vision and mission throughout the institution although the change process from an ‘NGO background’ to a business mindset that has taken place in the past two years has not yet reached all corners of the organization.

## Planning

The 2008-2012 strategic and business plans provide a relevant strategic direction for KECLOF to expand its outreach and in 2009 become licensed under the new microfinance law. The strategic plan clearly identifies the main projects to be carried out in the coming two to three years in further strengthening of the institution and in preparation for licensing. However, there is redundancy between the business and strategic plan and there is a need to further improve the following areas in the plan:

- specific action needed to improve portfolio management and portfolio quality;
- set-up of the internal audit function;
- analysis of the microfinance industry and the main competitors of KECLOF in particular;
- market positioning of KECLOF and clear definition of its market niche including its target clientele.

Adequate financial projections are available for the coming five years based on a model in Microfin. However, they do not yet account for inflow of equity investments nor for increased operating costs during transformation. The projections can further benefit from scenario planning to assess the impact of possible internal and external variations in operations.

Both the strategic planning as well as the annual budgeting process is participatory and is communicated clearly to all staff leading to good buy-in of the objectives and strategic goals. There is a good budget follow-up during monthly finance & audit committee meetings although the budget is not updated after major changes (e.g. a significant reduction in disbursements mid 2007).

## Management team

The management team has been significantly strengthened in the past two years with the new CEO coming in and the addition of the Training & Business Development Manager and IT Manager. The team has however faced turnovers on the position of Finance Manager (twice in 2007) where an experienced Finance Manager has recently been recruited to fill the position.

The management team is adequately equipped to implement the strategic plan but will need further strengthening in the areas of Human Resource Management (an HR Manager is in the process of being recruited) and Operations Management. The management line from CEO, Operations Manager to Branch Manager has recently been strengthened by the addition of two Area Managers. With the Area Managers still to become fully active it is yet to be proven whether this will be sufficient to improve branch and portfolio management (see Activities).

Communication within the management team is frequent and open but management team meetings should become more organized – as KECLOF is moving from its survival phase to a growth phase – to focus the team on common, core tasks and ensure implementation and follow-up on planned actions. With the recent turnover and additions of management team members there is a need to build the cohesiveness within the team and to start cross-pollination of management team members to create a basic level of polyvalence. Until then key-person risk on the CEO will remain.

### Human resource management

KECLOF has a good recruitment process in place with an adequate balance between internal promotion (where possible) and outside recruitment of fresh blood. However, the induction process of BFOs has been less than desired where as a result of staff turnover there has often been limited time for on the job training of staff as they had to go right to work.

Recently adequate induction trainings have been organized for new staff and 2007 has seen an increased number of internal trainings as well which is likely to enhance the needed staff capacity. However, staff trainings should be supported by a more detailed training needs assessment for both HO and field staff.

Staff evaluations are planned to be formalized on a yearly basis which is key in monitoring and motivating staff performance. The institution can benefit from a well designed staff incentive system to further monitor and motivate staff to improve their performance.<sup>6</sup>

The main HR issue that KECLOF needs to address is its high staff turnover which has stood above 20% in recent years. The turnover has been high due to both letting go of staff as a result of their underperformance as well as staff leaving due to low remuneration. It is expected that staff turn over due to underperformance will come to an end soon.

<sup>6</sup> In 2006 an incentive system was put in place but withdrawn after 6 months as the standards on which the bonus was based were too high for the performance of KECLOF at that time.

However, even though staff remuneration has been addressed several times and another increase of remuneration levels as of January 2008 is pending, remuneration levels will remain below market levels. As such staff turnover is likely to remain high.

### Information

Information is rated “d”

The current MIS in place is neither optimal in its efficiency nor cost-effectiveness. Centralized data entry of loans, deposits and accounting data has been a bottleneck for KECLOF and currently still faces a back-log of one to two weeks even though the number of data entry staff has been increased significantly. Continued focus is needed on timely processing of client deposit slips to ensure full bank reconciliation, clearing of the control accounts as well as having timely available reliable accounting and loan tracking data. Once data is available its reliability is adequate and significant improvements have been made to reduce the control accounts which have come down to acceptable levels as of October 2007 although unreconciled differences still exist.

KECLOF has outgrown the size of database that LPF can handle smoothly causing the system to be slow as well destabilizing database integrity. These glitches in the LPF software are known and monitored, but have caused further delays in timely availability of reliable data at times. There is sufficient in-house capacity to manage the performance of the system and to provide the significant support that is needed to keep the system running smoothly and counter disruptions in database integrity.

KECLOF has rightfully embarked on a transition to a new MIS system (supported by a grant from MESPT) that can handle the further growth of the institution and prepare it for licensing under the new microfinance law. KECLOF is currently in the stage of selecting a new MIS system and is expecting to have the system online by mid 2008.

Good back-up procedures are in place for digital data with daily back-ups where weekly back-ups are stored securely outside the institution. There is adequate protection through regularly updated anti-virus software. Paper data (loan contracts, repayment receipts) are stored centrally at HO but are not stored securely and at risk of data manipulation and data loss (e.g. through fire, water, etc.) as no back-up copies are made.

All required information on loan activities is readily available in LPF but the information available is not used to its fullest extent by KECLOF. Some analysis is carried out on loan portfolio per branch, BFO and per product but for

example not on loan portfolio per business type. Very limited analysis is carried out on PAR as the main focus is on the repayment rate. PAR is not analyzed per BFO or per product. Furthermore given the carry over of a poor performing loan portfolio from the past more detailed analysis of PAR per ageing category is needed to clearly monitor performance of recently disbursed loans separate from the old loan portfolio.

Sufficient information is available on accounting and financial performance and relevant financial indicators are calculated and monitored on a monthly basis. To further enhance the performance of KECLOF branches should be monitored as true profit centers (including cost of funds and HO support costs) rather than only as cost centers and more detailed analysis is necessary into costing and pricing of products.

## ■ Risk Management

Risk Management is rated “c”

### Procedures and internal controls

Coming from a history where procedures were hardly documented and where internal controls in procedures were insufficient KECLOF has significantly strengthened its internal controls in its procedures over the past two years and has made a recent move to document these procedures in various manuals.

Current procedures contain strong internal controls with adequate separation of duties, hierarchical approval limits (enforced through CreditM), no cash handling by BFOs, and centralized data-entry, loan approval and check printing. One area where controls should be improved is the documentation of repayments during group meetings as currently data is recorded in three separate locations rather than through a triplicate form opening possibilities of data manipulation.

However, the centralized activities reduce the effectiveness in operations for KECLOF resulting in longer lead times of loan disbursements and delays in timely availability of data. Furthermore, the documentation of the procedures in various manuals (i.e. accounting, credit, HR, IT and others) does tend slightly towards over-documentation (e.g. a separate credit and collateral management manuals). This renders the balance between efficiency and internal controls sub-optimal although it does tip to the safe side of the scales. Procedures are generally well adhered to<sup>7</sup> where portfolio management is the negative exception (see Activities).

<sup>7</sup> In October 2007 the then Finance Manager was relieved of his duties after he was found to have forged the signature of another management team

## Internal audit

The internal audit function has been almost completely absent from K-ECLOF except for a brief period from August 2006 to April 2007 when the first internal auditor was hired. This period was characterized by the set-up of the internal audit function and only a limited number of audits were conducted.

With the previous internal auditor promoted to finance manager in April 2007 a new internal auditor only started in November 2007. The recently hired internal auditor is still to grow into his position and needs further training on the specifics of auditing microfinance operations. The scope of the audit is still to be fully defined as the new internal auditor reviews the IA manual and systems.<sup>8</sup> Further support is needed by additional auditors to provide the internal audit department with sufficient capacity to perform on an adequate level for the size and geographic dispersion of KECLOF.

The independent set-up of the internal audit does provide the opportunity for it to have a full audit scope. Audit reports are to be presented during monthly meetings of the finance & audit committee. The committee did act on IA reports of previous IA but full support and follow-up of IA reports and recommendations is still to be proven. The external auditors have provided only limited support to internal controls within KECLOF to date.

## ■ Activities

Activities: products and services is rated “d”

### Market position

In terms of market positioning, KECLOF is yet to establish a clear target market on which to base its operations. Similarly, the product range and service delivery model of KECLOF do not reflect a deliberate effort to differentiate itself from its peers in terms of competitive advantage.

In spite of the above, KECLOF has taken the commendable step of hiring a Training and Business Development Manager, through whom the issue of developing competitive advantages will be spear headed.

KECLOF has a reasonable range of products supported by significant demand for financial services in the Kenyan market. The limitations of the group loans have been pointed out in the Strategic Business Plan (2008-2012), where it is

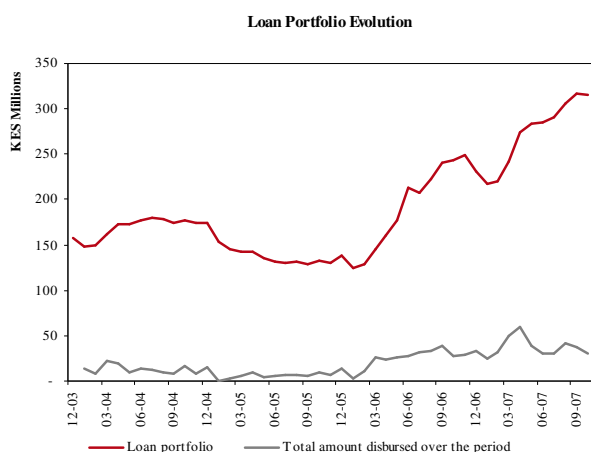
member on several checks to disburse funds to acquaintances. The issue was dealt with swiftly and thoroughly by KECLOF.

<sup>8</sup> Only one audit report was available from the first internal auditor preventing sufficient analysis on scope and depth of previous audits.

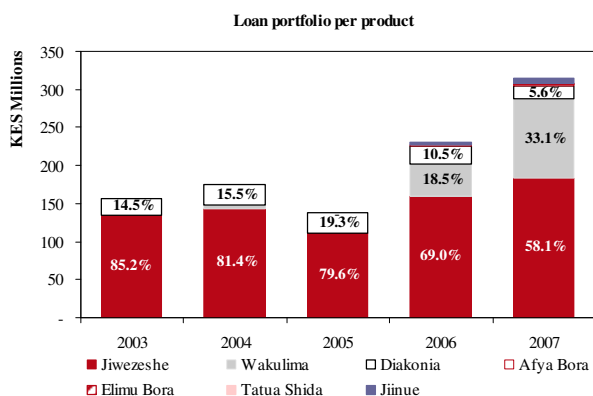
stressed that the market increasingly favors individual lending. The Strategic Business Plan, therefore, provides for a gradual and steady transformation of the product range to target individual lending progressively. KECLOF has already obtained grant funding from MESPT for the development of the individual loan product.

On the whole, however, KECLOF would still need to review its product range, as uptake of some of the smaller products (e.g. Micro Health insurance) do not command the volumes to justify their investments.

### Loan portfolio evolution



The Loan Portfolio witnessed a period of relative stability between 2004 and 2005, where growth in terms of outstanding loan portfolio was 24% compared to 29% the previous year. Between 2005 and 2006, however, there was significant growth with the outstanding portfolio increasing by 67% on the tide of the turn-around strategy of KECLOF. This was despite a major write off of 30 M KES (420,000 USD) in 2006. In 2007, the momentum of growth has slowed down as KECLOF decided to stop all disbursements to groups with loans in arrears in July 2007 in an effort to further clean up the loan book.



Over the past years the business loan (Jiwezeshe) has remained the main loan product where the agricultural loan (Wakulima) has shown the largest increase. The institutional

loans (Diakonia) have decreased both as a percentage of total loan portfolio as well as total loan volume. Other loan products take up only a small portion of the total loan portfolio (3.2% as of October 2007). The average loan size has reduced significantly from 1,519 USD in 2004 to 358 USD in 2007.

### Loan portfolio management

KECLOF employs a suitable group lending methodology that is formalized in the Credit and Collateral Management manuals. The credit methodology applied to agriculture loans at KECLOF has revealed weaknesses relating to the structure of payments, whereby, single bullet payments have contributed to the high level of PAR of agricultural loans. This weakness has been recognized and KECLOF is currently reviewing the credit methodology in preparation for the new planting season next year.

Implementation of the credit and collateral management guidelines needs to be enhanced in general (particularly in the way group meetings are conducted by the BFOs), although recent improvements have been noted in enforcing the group guarantee method to recover loans from defaulting members. The LOs have the required education background to carry out their responsibilities, however, leadership at branch level needs to be strengthened to ensure that credit management guidelines are adhered to. Further, supervision of the branches by HO also needs to be enhanced such that each branch becomes more accountable for its performance. This need has been recognized by the appointment of two Area Managers, who are still in the early stages of their appointments, for which reason KECLOF is yet to fully benefit from their services.

Delinquency management has also been hampered by inadequate monitoring of the portfolio in terms of depth of analysis of portfolio data (e.g. no monitoring of PAR per LO and more focus on repayment rather than PAR) as well as lateness of loan portfolio status reports (see information section).

### Credit risk

KECLOF has made significant progress in improving the quality of its loan book since the turn-around strategy was put into place, with PAR>30 having dropped from 68.3% as at 31 Dec. 2005 to 25.3% as at 31 Oct. 2007. In the same period, PAR 31-365 days has dropped from 35.1% to 13.2% although actual amounts have reduced from 48.7 to 41.5 M KES. Nevertheless, PAR remains significantly high and the effort to make further improvements in portfolio quality has been hindered by complacency resulting from the early rewards of the turn-around strategy.

A significant portion of the overall PAR has been carried over from the older non-performing loans as evidenced by the high PAR>365, which has dropped only marginally since 2006 when it closed at 16.7%. To date only one time have loans been written-off (resulting in a write-off ratio of 15.8% in 2006) as until recently all write-offs had to be approved by ECLOF-I. As of September 2007 KECLOF has received the approval from ECLOF-I to approve write-offs by its own board, although this has still to be practiced and an adequate write-off policy, including procedures for follow-up of written-off loans, are still to be put in place.

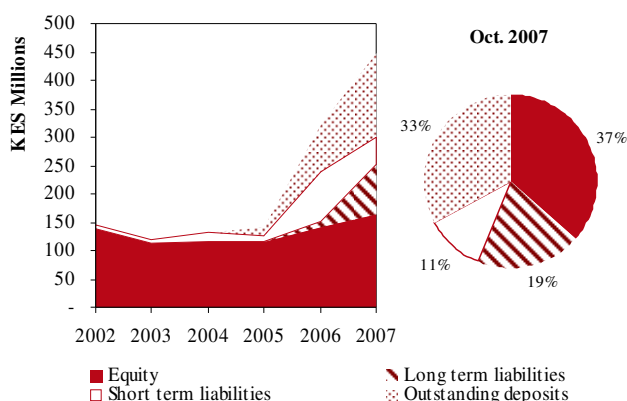
The Loan Portfolio of KECLOF presents limited concentration risk as it has become more diverse in recent years. Some concentration risk is present in the large percentage of agricultural loans (33.1% as of Oct. 2007). KECLOF had set a limit of 25% of total loan portfolio for agricultural loans but has not been able to enforce this.

KECLOF has covered itself reasonably well for the credit risk as it applies an adequate loan loss provisioning policy and credit risk coverage ratio stood at 79.8% as at 31 Oct. 2007. Credit risk coverage is further reinforced by members' deposits although KECLOF only uses this as a last resort. The enforcement of the group guarantees as a credit risk mitigant has not been very effective historically, although recent improvements have been noted.

## ■ Funding and liquidity

Funding and liquidity is rated "c"

Funding structure



## Capital Structure & Leverage

The capital structure of KECLOF is well diversified and reflects its steady transition to an institution with a more commercial orientation. Where equity consisted of 80% of the total capital structure at the close of 2005, as at 31 October 2007, equity consists of just 37% of the total capital structure. On the other hand, at the close of 2005 KECLOF did not possess any debt on its balance sheet while at present

debt makes up 19% of the capital structure. This trend has been the result of a well thought out strategy to turn to more affordable funding from local sources. Deposits, which stem from mandatory savings from loan clients, have also increased significantly since 2005 when they made up 13% of total funding compared to 33% as at 31 Oct 2007.

KECLOF is currently well capitalized with equity contributing 37% of total capitalization. The capital structure still features a conservative leverage ratio of 0.8x<sup>9</sup> as at 31 Oct. 2007, although this is a significant increase in comparison to the position at the close of 2005 when it was just 0.2x. KECLOF, however, still has capacity for additional debt.

## Asset & Liability Management

ALM risks do exist for KECLOF but are limited:

- Maturity risk at KECLOF is limited as the loan portfolio is pre-dominantly funded by equity, long term debt and the compulsory deposits that are not intermediated. However, maturity risk is not monitored at KECLOF at present.
- Interest rate risk is limited and restricted to the Cooperative Bank loan<sup>10</sup>,
- Foreign exchange risk is moderate as KECLOF has an open position in USD of 5% of equity as 187 K USD are held in a fixed deposit account at Cooperative Bank of Kenya. The foreign exchange loss for 2007 stands at 12% of net income as of October.

## Funding strategy

KECLOF traditionally used to rely on ECLOF international as the main source of funding for its loan portfolio. In recent years, however, KECLOF has developed strategic partnerships with local financiers to overcome the high cost of equity associated with funding from ECLOF international. Since 2006, KECLOF has secured long-term loans from both MESPT and Cooperative Bank. The first loan from MESPT, a sum of 30 M KES (449 K USD), was secured using a 100% guarantee from ECLOF international.

In 2007, a further sum of 50 M KES (748 K USD) was secured from MESPT. This additional loan was secured by a fixed and floating debenture over all the assets, book debts and property of KECLOF. Furthermore, KECLOF has been able to obtain a 100 M KES (1.49 M USD) loan from Cooperative Bank in 2007 using its members deposits as cash collateral. This demonstrates the maturity in its funding

<sup>9</sup> This ratio is adjusted to exclude members' deposits from assets & liabilities. The unadjusted ratio stands at 1.7x for October 2007

<sup>10</sup> The terms of the Cooperative Bank loan state that the bank reserves the right to vary interest and commission rates at its sole discretion but is only likely to do so as a result of significant macro-economic changes.

strategy. Other offers for additional financing are in the pipeline to cover the funding needs for the coming financial year.

## Liquidity management

Basic liquidity planning is in place at KECLOF with cash flow forecasts carried out using a six-month rolling plan. Liquidity risk is generally low as Liquidity to Assets Ratio (LAR) has stood relatively stable between 15% and 17% for the past three years.<sup>11</sup> This shows there is still room for further optimization of liquid assets and KECLOF has already taken steps to ensure further optimization. This includes the automatic transfer of funds from the collection accounts of the branches to the disbursement account at HO.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “c”

### Profitability analysis

KECLOF has remained unprofitable until 2006 registering negative ROA of (4.6%) and (6.4%) in 2004 and 2005, bringing the ROA up to (1.6%) in 2006.<sup>12</sup> The partial year figures for 2007 indicate that KECLOF is set to register a positive ROA as it stood at (3.9%) as of October, with ROE at (6.9%). This change in profitability is mostly due to increasing yield levels – as a result of improving portfolio quality – and increased income from investments of the LGF and loan insurance fees. However, a significant yield gap does remain as the theoretical yield is estimated at 32%.

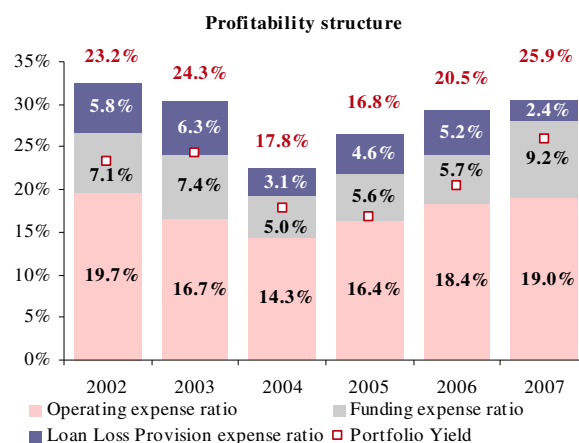
The operating expense ratio has remained low at KECLOF as compared to industry peers and below the benchmark for East African MFIs (27.8%)<sup>13</sup>. KECLOF has been able to effectively compensate a significant reduction in average outstanding loan balance (1,519 USD in 2004 to 358 USD in 2007) through reducing the cost per borrower (210 to 59 USD) and improving staff productivity (45 to 144) in the same period.

The funding expense ratio has been high over the past years as a result of the agreement with ECLOF-I to pay one third of interest earned from on-lending the donated equity.<sup>14</sup> The cost of donated equity has actually been relatively low and has varied between 3.5% and 5.4% in the past years. With the increase in debt the funding expense ratio has increased significantly in 2007 to 9.2% and is likely to remain high as

debt is set to further increase. The loan loss provision expense ratio has remained high over the past years and for 2007 it is expected to reduce further but remain above 2%.

Asset deployment has shown a dip in 2005 where it stood at 48.1% down from 78.5% in 2004.<sup>15</sup> In the recent two years KECLOF has been able to improve this again and it stood at a reasonable 83.1% as of Oct. 2007. This has contributed to improved profitability figures although a further increase is needed to further optimize asset deployment and increase earnings.

The profitability outlook of KECLOF is positive although this greatly hinges on a concerted and sustained effort to improve the portfolio quality and further close the yield gap and bring down loan loss provision expenses. This is critical as the operating expense ratio is set to increase with increasing remuneration levels and the funding expense ratio is set to further increase as well with increasing debt.



*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.*

<sup>11</sup> LAR ratios have been adjusted to exclude members' deposits from assets.

<sup>12</sup> ROA ratios have been adjusted to exclude members' deposits from assets. Unadjusted ratios stand at (6.9%), (1.3%) and 2.7% for 2005, 2006 and 2007 respectively.

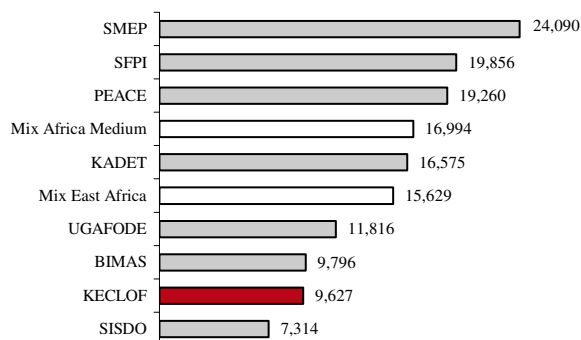
<sup>13</sup> MIX Benchmarking African Microfinance 2006.

<sup>14</sup> It should be noted that the third of the interest income paid to ECLOF-I is considered as a financial expense which inflates the funding expense ratio.

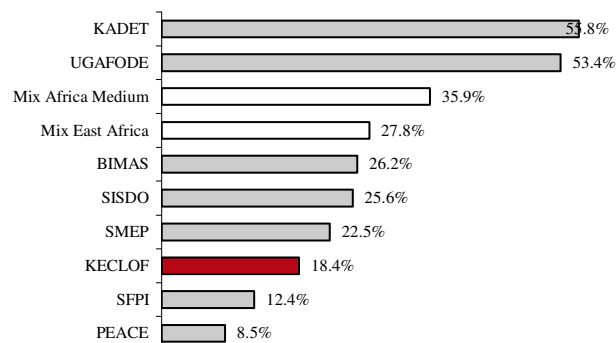
<sup>15</sup> Ratio has been adjusted to exclude the members' deposits from assets.

## Benchmarking

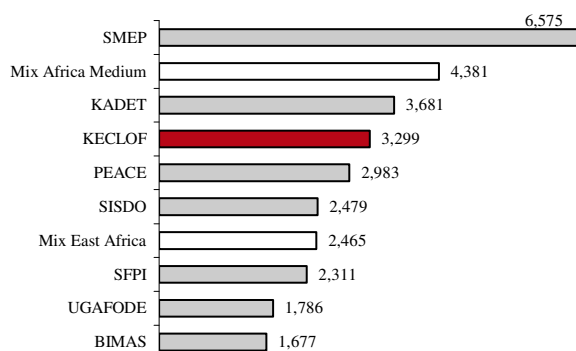
Active borrowers



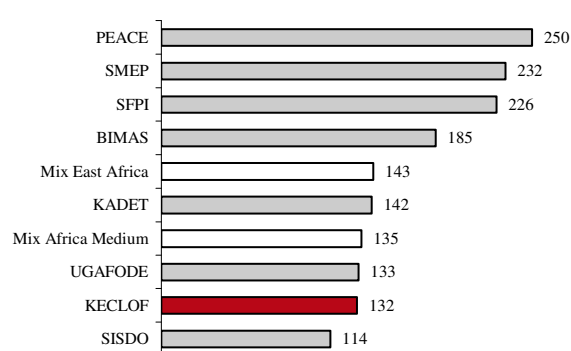
Operating expense ratio



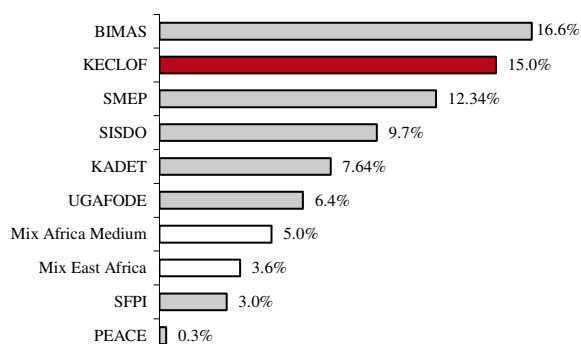
Loan Portfolio ('000 USD)



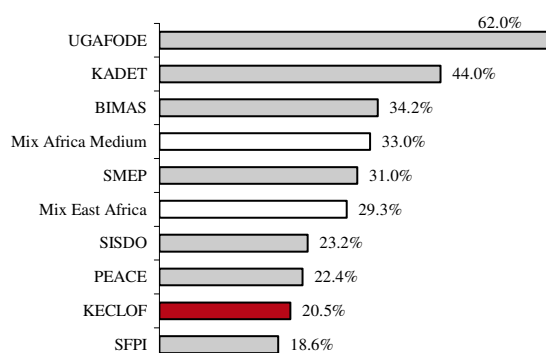
Staff productivity



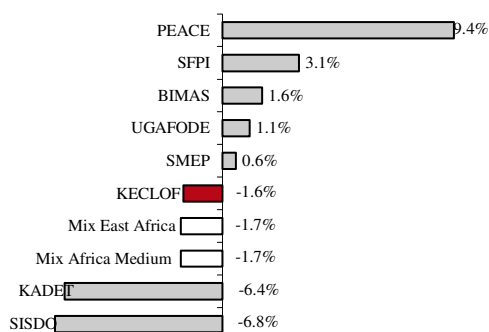
PAR 31-365



Portfolio Yield



AROA



**Sources:**

**Planet Rating data for:**

KECLOF, PEACE, SFPI and UGAFODE (data as of 2006)

**The Mix Market for:**

KADET, SMEP, BIMAS, SISDO (data as of 2006)

**MIX peer groups:**

Benchmarking African Microfinance 2006 (medians)

## ■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2004	Dec. 2005	Dec. 2006	Oct. 2007
<b>Loan Portfolio</b>				
<b>Loan portfolio evolution</b>				
Loan portfolio	2,248,502	1,905,758	3,299,178	4,691,441
Loan portfolio (KES)	174,708,615	138,739,218	230,767,118	313,590,368
Evolution	11.2%	(20.6%)	66.3%	35.9%
Average outstanding loan portfolio	2,177,785	1,902,815	2,737,103	4,071,906
Active borrowers	1,480	2,358	9,627	13,099
Evolution	n/a	59.3%	308.3%	36.1%
Average outstanding loan per client	1,519	808	343	358
% of GDP per capita	302.0%	139.1%	48.9%	44.9%
Average amount disbursed per loan	1,780	643	427	416
% of GDP per capita	353.8%	110.6%	61.0%	52.2%
<b>Portfolio quality</b>				
Rescheduled loans	0.0%	0.0%	0.0%	0.0%
PAR 31-365	32.7%	33.2%	15.0%	12.1%
PAR > 365	21.2%	35.1%	16.7%	13.2%
Write-off ratio	0.0%	0.0%	15.8%	0.0%
<b>Credit risk coverage</b>				
Risk coverage ratio	76.0%	83.0%	79.7%	79.8%
PAR 31 net of loan loss provision / Equity	19.6%	13.8%	10.6%	9.8%
<b>Savings</b>				
Outstanding deposits	-	253,600	1,203,598	2,214,474
Outstanding deposits (KES)	-	18,462,072	84,187,888	148,022,236
Evolution	-	-	356.0%	75.8%
Mandatory savings (%)	-	100.0%	100.0%	100.0%
Voluntary savings (%)	-	0.0%	0.0%	0.0%
Active savers	-	2,420	16,355	25,125
Evolution	-	-	575.8%	53.6%
Average outstanding deposit per saver	-	105	74	88
Mandatory	-	105	74	88
Voluntary	-	-	-	-
<b>Staff</b>				
Total number of staff	33	40	73	91
% Credit officers	0.0%	52.5%	56.2%	52.7%
Turnover	n/a	46.6%	23.0%	36.6%
<b>Profitability analysis</b>				
ROE	(5.0%)	(7.6%)	(2.3%)	6.9%
Liabilities / Equity*	0.1x	0.1x	0.7x	0.8x
ROA*	(4.6%)	(6.9%)	(1.6%)	3.9%
<b>Profitability structure</b>				
Portfolio Yield	17.8%	16.8%	20.5%	25.9%
Operating expense ratio	14.3%	16.4%	18.4%	19.0%
Cost per borrower	210	132	52	59
Staff productivity	45	59	132	144
Loan officer productivity	n/a	112	235	273
Average outstanding loan per client (USD)	1,519	808	343	358
Funding expense ratio	5.0%	5.6%	5.7%	9.2%
Cost of savings	-	0.0%	0.0%	0.0%
Cost of liabilities	-	-	4.3%	9.9%
Cost of donated equity**	4.0%	3.5%	4.3%	5.4%
Loan Loss Provision expense ratio	3.1%	4.6%	5.2%	2.4%
PAR 31-365	32.7%	33.2%	15.0%	12.1%
Write-off ratio	0.0%	0.0%	15.8%	0.0%
<b>Resource optimization</b>				
Outstanding Loan Portfolio / Assets*	78.5%	48.1%	72.4%	83.1%
Revenue from investment as a % of financial revenues	0.0%	11.6%	6.1%	9.2%
<b>Liquidity</b>				
Loans to deposits	-	751.5%	274.1%	211.9%
Liquidity / Total assets (LAR)*	16.4%	16.0%	17.0%	15.6%
<b>Adjusted ratios</b>				
Financial self-sufficiency	61.1%	57.7%	72.6%	98.8%
<b>Exchange rate 1 USD= xx KES</b>	<b>77.7</b>	<b>72.8</b>	<b>69.9</b>	<b>66.8</b>

\*Ratios have been adjusted to exclude members' deposits from assets &amp; liabilities.

\*\* Cost of donated equity = payments made to ECLOF-I on donated equity / average donated equity

ECLOF KENYA Income Statement	Notes	KES				USD				Evolution		
		Dec. 2004	Dec. 2005	Dec. 2006	Oct. 2007	Dec. 2004	Dec. 2005	Dec. 2006	Oct. 2007	2005/ 2004	2006/ 2005	2007/ 2006
<b>Financial Revenue (a)</b>		<b>32,262,575</b>	<b>27,957,217</b>	<b>53,122,852</b>	<b>78,102,416</b>	<b>415,220</b>	<b>384,028</b>	<b>759,475</b>	<b>1,168,444</b>	<b>(13.3%)</b>	<b>90.0%</b>	<b>47.0%</b>
Financial Revenue from Loan Portfolio		30,059,979	23,327,896	39,292,344	58,746,601	386,872	320,438	561,746	878,873	(22.4%)	68.4%	49.5%
Interest on Loan Portfolio		25,350,189	20,894,256	31,544,547	49,611,447	326,257	287,009	450,979	742,208	(17.6%)	51.0%	57.3%
Fees and Commissions on Loan Portfolio		4,709,790	2,433,640	7,747,797	9,135,154	60,615	33,429	110,767	136,666	(48.3%)	218.4%	17.9%
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		3,976	3,229,673	3,251,388	7,160,200	51	44,364	46,484	107,120	81,129.2%	0.7%	120.2%
Other Operating Revenue		2,198,620	1,399,648	10,579,120	12,195,615	28,296	19,226	151,245	182,451	(36.3%)	655.8%	15.3%
<b>Financial Expense (b)</b>		<b>8,451,388</b>	<b>7,693,949</b>	<b>10,850,847</b>	<b>20,899,311</b>	<b>108,769</b>	<b>105,686</b>	<b>155,130</b>	<b>312,662</b>	<b>(9.0%)</b>	<b>41.0%</b>	<b>92.6%</b>
Interest paid on borrowings		8,451,388	7,693,949	10,850,847	19,884,107	108,769	105,686	155,130	297,474	(9.0%)	41.0%	83.2%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	1	-	-	-	1,015,204	-	-	-	15,188	-	-	-
<b>Financial income [c=a-b]</b>		<b>23,811,187</b>	<b>20,263,268</b>	<b>42,272,005</b>	<b>57,203,105</b>	<b>306,450</b>	<b>278,342</b>	<b>604,345</b>	<b>855,782</b>	<b>(14.9%)</b>	<b>108.6%</b>	<b>35.3%</b>
<b>Net Loan Loss provision expense (d)</b>		<b>5,327,696</b>	<b>6,408,492</b>	<b>9,955,763</b>	<b>5,335,706</b>	<b>68,568</b>	<b>88,029</b>	<b>142,333</b>	<b>79,824</b>	<b>20.3%</b>	<b>55.4%</b>	<b>(46.4%)</b>
Loan loss provision expense and write-off		5,327,696	6,408,492	9,955,763	5,335,706	68,568	88,029	142,333	79,824	20.3%	55.4%	(46.4%)
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>		<b>24,192,735</b>	<b>22,691,909</b>	<b>35,291,206</b>	<b>43,079,145</b>	<b>311,361</b>	<b>311,702</b>	<b>504,543</b>	<b>644,482</b>	<b>(6.2%)</b>	<b>55.5%</b>	<b>22.1%</b>
Personnel Expense (includes fringe)		13,433,633	12,903,609	18,001,851	22,074,400	172,891	177,247	257,365	330,242	(3.9%)	39.5%	22.6%
Administrative Expense (non-staff operating expenses)		10,759,102	9,788,300	17,289,355	21,004,745	138,470	134,455	247,178	314,240	(9.0%)	76.6%	21.5%
Depreciation and amortization		814,251	738,476	1,126,100	2,227,285	10,479	10,144	16,099	33,321	(9.3%)	52.5%	97.8%
Consulting fees		722,705	611,185	664,107	400,078	9,301	8,395	9,494	5,985	(15.4%)	8.7%	(39.8%)
Rental costs		1,585,520	1,708,440	2,199,258	2,493,981	20,406	23,468	31,442	37,311	7.8%	28.7%	13.4%
Travel costs		1,655,371	1,910,065	2,558,403	3,434,893	21,305	26,237	36,576	51,387	15.4%	33.9%	34.3%
Bank fee		756,006	599,675	2,221,579	3,027,110	9,730	8,237	31,761	45,287	(20.7%)	270.5%	36.3%
BOD fees		534,355	525,237	549,932	593,753	6,877	7,215	7,862	8,883	(1.7%)	4.7%	8.0%
Staff training		185,128	106,430	784,461	594,493	2,383	1,462	11,215	8,894	(42.5%)	637.1%	(24.2%)
Communication		1,059,647	1,088,362	1,911,746	2,491,001	13,638	14,950	27,331	37,266	2.7%	75.7%	30.3%
Insurance		1,300,880	496,532	1,389,003	1,547,608	-	-	-	-	-	-	-
General office expenses		1,671,624	1,202,376	3,056,524	3,322,180	-	-	-	-	-	-	-
Audit		150,000	180,180	180,180	150,420	1,931	2,475	2,576	2,250	20.1%	0.0%	(16.5%)
Others		323,615	621,342	648,062	721,943	4,165	8,535	9,265	10,801	92.0%	4.3%	11.4%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>(5,709,244)</b>	<b>(8,837,133)</b>	<b>(2,974,964)</b>	<b>8,788,254</b>	<b>(73,478)</b>	<b>(121,389)</b>	<b>(42,532)</b>	<b>131,476</b>	<b>54.8%</b>	<b>(66.3%)</b>	<b>(395.4%)</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>(5,709,244)</b>	<b>(8,837,133)</b>	<b>(2,974,964)</b>	<b>8,788,254</b>	<b>(73,478)</b>	<b>(121,389)</b>	<b>(42,532)</b>	<b>131,476</b>	<b>54.8%</b>	<b>(66.3%)</b>	<b>(395.4%)</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>(5,709,244)</b>	<b>(8,837,133)</b>	<b>(2,974,964)</b>	<b>8,788,254</b>	<b>(73,478)</b>	<b>(121,389)</b>	<b>(42,532)</b>	<b>131,476</b>	<b>54.8%</b>	<b>(66.3%)</b>	<b>(395.4%)</b>
Donations (l)		-	-	-	-	-	-	-	-	-	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>(5,709,244)</b>	<b>(8,837,133)</b>	<b>(2,974,964)</b>	<b>8,788,254</b>	<b>(73,478)</b>	<b>(121,389)</b>	<b>(42,532)</b>	<b>131,476</b>	<b>54.8%</b>	<b>(66.3%)</b>	<b>(395.4%)</b>

Notes: 1) 2007 data refers to an FX loss

ECLOF KENYA Balance sheet	Notes	KES				USD				Evolution		
		Dec. 2004	Dec. 2005	Dec. 2006	Oct. 2007	Dec. 2004	Dec. 2005	Dec. 2006	Oct. 2007	2005/ 2004	2006/ 2005	2007/ 2006
<b>ASSETS</b>		<b>131,352,856</b>	<b>143,263,151</b>	<b>322,268,786</b>	<b>448,775,601</b>	<b>1,690,513</b>	<b>1,967,900</b>	<b>4,607,338</b>	<b>6,713,868</b>	<b>9.1%</b>	<b>124.9%</b>	<b>39.3%</b>
<b>Short Term Assets</b>		<b>119,224,715</b>	<b>127,673,720</b>	<b>294,757,224</b>	<b>320,125,253</b>	<b>1,534,424</b>	<b>1,753,760</b>	<b>4,214,017</b>	<b>4,789,206</b>	<b>7.1%</b>	<b>130.9%</b>	<b>8.6%</b>
Cash and Due from Banks		21,561,317	19,991,050	40,524,854	47,060,372	277,494	274,602	579,366	704,043	(7.3%)	102.7%	16.1%
Short Term Investments		-	56,166,618	80,372,517	-	-	771,519	1,149,051	-	-	43.1%	(100.0%)
Short Term Net Loan Portfolio		93,895,030	47,107,413	148,817,198	243,650,520	1,208,430	647,080	2,127,575	3,645,112	(49.8%)	215.9%	63.7%
Short Term Gross Loan Portfolio		165,537,420	125,772,719	207,109,551	307,278,579	2,130,469	1,727,647	2,960,956	4,597,014	(24.0%)	64.7%	48.4%
(Loan Loss Reserve)		71,642,390	78,665,306	58,292,353	63,628,059	922,038	1,080,567	833,381	951,902	9.8%	(25.9%)	9.2%
Interest Receivable		-	23,568	419,018	-	-	324	5,991	-	-	1,678%	(100.0%)
On loan portfolio		-	-	-	-	-	-	-	-	-	-	-
On investments		-	23,568	419,018	-	-	324	5,991	-	-	1,678%	(100.0%)
Accounts receivable and other assets		3,768,368	4,385,071	24,623,637	29,414,361	48,499	60,234	352,034	440,051	16.4%	461.5%	19.5%
<b>Long term assets</b>		<b>12,128,141</b>	<b>15,589,431</b>	<b>27,511,562</b>	<b>128,650,348</b>	<b>156,089</b>	<b>214,141</b>	<b>393,321</b>	<b>1,924,662</b>	<b>28.5%</b>	<b>76.5%</b>	<b>367.6%</b>
Long Term Net Investments		-	-	-	112,764,164	-	-	-	1,686,998	-	-	-
Long Term Gross Loan Portfolio		9,171,195	12,966,499	23,657,567	6,311,789	118,033	178,111	338,222	94,427	41.4%	82.5%	(73.3%)
Net Fixed Assets		2,956,946	2,622,932	3,853,995	9,574,395	38,056	36,029	55,099	143,237	(11.3%)	46.9%	148.4%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>131,352,856</b>	<b>143,263,151</b>	<b>322,268,786</b>	<b>448,775,601</b>	<b>1,690,513</b>	<b>1,967,900</b>	<b>4,607,338</b>	<b>6,713,868</b>	<b>9.1%</b>	<b>124.9%</b>	<b>39.3%</b>
<b>Liabilities</b>		<b>16,036,138</b>	<b>27,016,390</b>	<b>181,585,410</b>	<b>283,913,039</b>	<b>206,385</b>	<b>371,104</b>	<b>2,596,048</b>	<b>4,247,456</b>	<b>68.5%</b>	<b>572.1%</b>	<b>56.4%</b>
Short term liabilities		16,036,138	27,016,390	170,156,838	197,484,467	206,385	371,104	2,432,659	2,954,449	68.5%	529.8%	16.1%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	18,462,072	84,187,888	148,022,237	-	253,600	1,203,598	2,214,474	-	356.0%	75.8%
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	46,964,783	33,571,428	-	-	671,435	502,242	-	-	(28.5%)
Interest payable		-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		16,036,138	8,554,318	39,004,167	15,890,802	206,385	117,504	557,626	237,733	(46.7%)	356.0%	(59.3%)
Long term liabilities		-	-	11,428,572	86,428,572	-	-	163,389	1,293,007	-	-	656.2%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	11,428,572	86,428,572	-	-	163,389	1,293,007	-	-	656.2%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>		<b>115,316,718</b>	<b>116,246,761</b>	<b>140,683,376</b>	<b>164,862,562</b>	<b>1,484,128</b>	<b>1,596,796</b>	<b>2,011,290</b>	<b>2,466,412</b>	<b>0.8%</b>	<b>21.0%</b>	<b>17.2%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity		212,413,649	222,223,649	250,139,228	265,530,160	2,733,766	3,052,523	3,576,133	3,972,441	4.6%	12.6%	6.2%
Retained earnings without donations and reserves		(97,096,931)	(105,976,888)	(109,455,852)	(100,667,598)	(1,249,639)	(1,455,726)	(1,564,843)	(1,506,029)	9.1%	3.3%	(8.0%)
Current year		(5,709,244)	(8,837,133)	(2,974,964)	8,788,254	(73,478)	(121,389)	(42,532)	131,476	54.8%	(66.3%)	(395.4%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

## ■ Formulas

Personnel productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Loan officer productivity:	$\text{Active borrowers} / \text{Total Loan Officers (end of period)}$
Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Adjusted return on assets (AROA):	$\text{Adjusted net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Adjusted return on equity (AROE):	$\text{Adjusted net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{13-month average gross outstanding portfolio}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowing}$
Loan loss expense ratio:	$\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{total assets (end of period)}$
Financial self-sufficiency:	$\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{13-month average gross outstanding portfolio}$

## ■ Rating scale

Rating	Definition
A+	<b>Excellent</b>
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	<b>Good</b>
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	<b>Minimum required</b>
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	<b>Insufficient</b>
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	<b>Immediate risk of default or very insufficient</b>
	There are immediate or underlying risks for operations or an unacceptable under performance.