

Rating

C-	Minimum required Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
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KYAPS, Uganda

January, 2007



Description of the institution

Kyamuhunga Peoples Savings and Credit Development Association, Ltd. was established on Dec. 28th 1998 as a company limited by shares. It started its operations on Jan 1st 1999 with the support of the UNDP/GoU through its Private Sector Development Program. This program was implemented by the Bushenyi Private Sector Promotion Center. In 2003 it transformed into a cooperative under the under the 1991 Co-operatives Statute: Kyamuhunga Peoples' Co-operative Savings & Credit Society, Ltd. (KYAPS). KYAPS is headquartered in Butare Trading Center in Kyamuhunga sub-county on the Ishaka-Kasese Highway. In July 2004 a branch was opened in Katerera town. As of December 2006 KYAPS has 5,771 members and serves 1,232 active borrowers with a current outstanding portfolio of 658 M UGS (0.36 M USD).

Evaluation summary

KYAPS has been assigned a global rating of C- which results from the fact that they are well positioned to serve its members in the rural areas in Bushenyi. It understands its clients well and has been able to expand its membership significantly over the last few years due to active member mobilization. KYAPS has a balanced decision making where BOD and the management strengthen each other. Both are however in need of more in depth training in calculation and analysis of financial and performance indicators in order to deepen its institutional analysis and be able to better guide KYAPS in the future. The MIS that will be introduced by Rural SPEED is an opportunity but software literacy levels need to be boosted as currently not all functions of the current MIS are understood and applied. As KYAPS grows and expands further it will have to significantly improve its portfolio quality through more rigorous cash flow analysis, especially for larger loans, as well as more timely and strict follow up of late loans with clients. Before KYAPS opens up new branches it should first develop procedures to better control and oversee its current branch. Further growth does hold the opportunity for lowering the operational expense ratio but this will require tight budget control.

Performance indicators

(K UGS, unless otherwise stated)

	Dec. 2004	Dec. 2005	Dec. 2006
ACTIVITY			
Total number of staff	11	11	12
Total assets (USD)	332,998	354,705	534,256
(K UGS)	575,420	645,919	954,181
Loan portfolio (USD)	218,943	230,066	368,176
Deposits (USD)	126,670	165,188	262,503
Nb. of active borrowers	635	1,060	1,232
Nb. of savers	4,446	4,917	5,771
APR*	n/a	n/a	48.5%
PAR 31-365*	19.6%	24.8%	11.5%
Write-off ratio	0.0%	0.0%	2.3%
Risk coverage ratio	13.5%	29.4%	5.8%
PERFORMANCE			
ROE	12.7%	10.6%	15.6%
Liabilities / Equity	207.1%	205.3%	187.4%
ROA	4.3%	3.5%	5.3%
OSS	110.7%	108.4%	116.1%
FSS	82.7%	103.6%	96.6%
Portfolio Yield	45.9%	41.4%	42.3%
Operating expense ratio	52.1%	41.8%	38.5%
Staff productivity	58	96	103
Funding expense ratio	6.3%	6.3%	4.9%
GROWTH			
Loan portfolio growth	52.5%	10.7%	57.0%
Savings portfolio growth	44.8%	37.4%	55.9%
Assets growth	61.3%	12.3%	47.7%
1 USD = xx UGS	1,728	1,821	1,786

* estimates.

Improvements needed to reach minimum requirements on specific evaluation areas

- Enhance BOD and management skills in MIS management, and calculation and analysis of key performance and financial indicators.
- Apply standard provisioning and write-off policy and calculation of PAR.
- Strengthen the control of the branch especially in relation to loan approval and disbursements.
- Significant increase in portfolio quality through more stringent loan appraisal and follow-up of late loans.

Strategic goals

The medium term goals of KYAPS are targeted to increase its membership base, share capital and deposits to serve more people with financial services in and around Kyamuhunga.

■ Institutional presentation

Networks

Kyamuhunga Peoples' Co-operative Savings and Credit Society, Ltd. (KYAPS) is a member of the Ankole Micro Finance Institution Association (AMFIA).

Ownership

As a SACCO KYAPS is a member owned and governed institution which currently has 5,771 shareholders/members and 19,336 outstanding shares as of Dec. 2006. KYAPS was founded by a small nucleus of people in Kyamuhunga and three of the initial founders are still members of the Board of Directors. The other four members have joined later on of which three after 2004. The BOD comprises community members with different backgrounds engaged in farming, private business as well as civil service. The BOD reports yearly to its shareholders/members through the Annual General Meeting and is composed of three committees: the Loans, Finance and Mobilization and Education Committee. The AGM directly elects the Supervisory or Audit Committee. The current board was elected in March 2006 and board members serve a maximum of three two-year terms.¹

Legal form, supervision and audit

Since 2003 KYAPS has been operating as a SACCO registered under the 1991 Co-operatives Statute and governed by the Co-operatives Regulations Act of 1992. Prior to that, the institution operated as a company limited by shares since its establishment in 1998.

As a SACCO, KYAPS falls under the Tier IV category of microfinance institutions, as established by the Financial Institutions Categorization in 2003, and hence is not subject to any direct supervision by the central bank (Bank of Uganda). Nevertheless, SACCOS are supposed to provide periodic reports to the District Co-operative Officer (DCO) under the district commercial division for general supervision and overseeing of their activities.

For the past three years KYAPS has been audited by H.B. Auditors & Accountants, a small auditing firm located in Mbarara, Uganda. The accountant has always approved the accounts without qualifications. KYAPS' fiscal year begins on January 1st and ends on December 31st.

Donations

Prior to 2004 KYAPS received its main contributions from the EU-GoU SUFFICE program in the amount of 11.2 M UGS (6.281 USD). In 2005 KYAPS secured funding from USAID Rural Speed focused on capacity building and

equipment with a total value of 21.9 M UGS (12.286 USD) to date.

Funding sources (as of Dec. 2006)

Loan provider	Interest rate*	Duration	Initial amount	Initial amount (USD)	Outstanding amount
MSCL	9.0 %	24 months	50 M UGS	28.0 K USD	29.1 M UGS
MSCL	9.0 %	24 months	70 M UGS	39.2 K USD	70.0 M UGS
MSCL	9.0 %	24 months	50 M UGS	28.0 K USD	50.0 M UGS

* Fixed interest rate but changeable due to inflation on a quarterly basis at the discretion of MSCL.

Management team

KYAPS management team is made up of the Manager, Accountant and Loan Officer. The Manager, holding a Bachelor's in Business Administration (BBA), has been in place since the start of operations and was hired by the founders. The Accountant and Loan Officer serve informally as Financial Manager and Operations Manager respectively. Both have been in position since 2002. The accountant holds a BBA whereas the Loan Officer started with KYAPS in 1999 as a cashier after completing a diploma in accounting and is currently enrolled for a BBA. The three of them have received specific microfinance training stemming from courses financed by donors.

Organization

KYAPS is headquartered in Kyamuhunga where it started its operations. In July 2004 it opened a branch in Katerera (approx. 37 km from the head office). The head office in Kyamuhunga centralizes all strategic functions and houses the management team which is further assisted with an Assistant Loan Officer and two Cashiers. Branch staff is composed of a Branch Manager, an Assistant Loan Officer and a Cashier. As of December 2006 the branch holds 24% of portfolio and 32 % of clients.

Deposits, disbursements and repayments are made in cash at both the branch and head office with the cashiers. Disbursements and repayments of loans are grouped between the 5th and 20th of every month. Cash is transported between the branch and head office and the bank in Ishaka when needed.

Market penetration

KYAPS conducts its operations in Kyamuhunga and around the town of Katerera which is the trading centre of its sub-county. Its target clientele are mainly farmers outside the towns although KYAPS also caters to some of the micro-enterprises in the towns itself. The main cash crop grown in the area is tea. Around Katerera also cotton is grown. There are no other microfinance institutions operating in Kyamuhunga although major regulated MFIs are based in the nearby town of Ishaka.

¹ Due to the registering of KYAPS in 2003 all board members were again eligible for three two-year terms.

Products and services

KYAPS offers two savings products to its members: regular savings with an annual interest rate of 2% and term deposits of 3, 6 or 12 months with interest rates of 4%, 8% and 13% respectively. Alternatively it also offers six types of loan products to its members all with interest rates on a declining balance. The dominant product is the agricultural loan which ranges from 100,000 UGS to 5 M UGS at 3% per month. The other main product is the commercial loan which extends up to 15 M UGS 3.5% per month. KYAPS also offers three targeted loan products for rain water tanks, solar energy kits and school fees at 3.5% per month. All products have a 2% loan commitment fee, a fixed commission of 2,000 UGS and a maximum loan term of 12 months (except school fees: 6 month) with monthly repayments. The APR of these products vary between 40.7% and 56.2%. The sixth product is a short term overdraft (up to one month) with a 5% monthly flat interest rate payable weekly or monthly with a maximum loan size of 2 M UGS.

■ Governance

Governance and Decision Making is rated “c”

Decision-making

- + Board members are committed to the institution and meet at least quarterly. KYAPS has a healthy mix of both old and new members of the BOD favored by the policy that at least one third of the board must stay on at each election.
- + The governance structure is formalized, as shown by updated bylaws and minutes of all Board and committee meetings. The different committees meet as necessary and bring support in the decision making process.
- + There is a balanced decision making process between BOD and management.
- The institution is highly open to external advice and support. However, it may not have the sufficient independence and knowledge to choose the most appropriate support as evidenced by the encountered problems with the MIS which was received as a grant.
- Management reports to the Board are frequent and include key information, like monthly financial statements, budget control and analysis of main indicators. However, the reports are not systematic and the analysis is superficial.
- The BOD has limited knowledge of best practice in microfinance and/or banking. The recent participation to trainings provided by Rural SPEED is a good step although training in microfinance must continue.
- Decision making powers between Loans Committee and Manager on approval of loans are not formalized.

Planning

- + 2006-2010 business plan designed in a participative way, including a good assessment of strengths and weaknesses and appropriate strategic directions. The intermediate goals are adequately detailed in an action plan with a specific timeframe, responsible persons and an investment budget.
- Reasonable, annual budgeting process, although not fully consistent with the business plan. Budget is tracked monthly.
- The business plan includes only partial financial projections and its underlying hypotheses are not clear. Key projections on profitability and efficiency, portfolio, balance sheet, cash flow, financing needs are lacking in the business plan.
- Important challenges like the intensification of competition and the potential risk of public intervention in the microfinance market are not sufficiently addressed in the business plan.

Management team

- + Small and committed management team headed by the same Manager since inception. Despite the small size of the team, good division of duties. No real key person risk on the Manager.
- The members of the management team have received specialized training through multiple donors' programs in various aspects of microfinance.
- The management team has still some areas for improvement in financial analysis, microfinance accounting and portfolio management.

Human resource management

- + Relative to its size KYAPS has established adequate recruitment procedures, with interviews adapted to the desired profile. So far recruitment results have been good and the process has been transparent (panel including Board Members, Manager, DCO and Ankole Private Sector Promotion Center, Ltd. (APROCEL)).
- + The salary levels are in line with market conditions, and higher than in other SACCOs of the region. KYAPS has also established a formalized salary scale. The working ambience is good as shown by low turnover rates in the last two years.
- Staff has benefited from various trainings in microfinance, although based on the current offer and not on a specific training program. The approval of an ambitious training budget in 2007 is a good first step.
- Yearly evaluation of staff supervised by the Manager; recent development of adequate evaluation formats that include the opinion of Board members.
- More professional HR policies such as incentive schemes for loan officers and career plans have not been implemented yet.

Area for improvement

- * Adapt BP to include all relevant financial projections including underlying hypotheses and an analysis of the external environment (market & competition).
- * Formalize level of loan approval between Loan Committee and Manager.
- * Identify training needs of both BOD, management team and other staff and develop a training plan focused on KYAPS key needs.

Information

Information and equipment is rated “d”

Description of the MIS

Equipment	<ul style="list-style-type: none"> ▪ 6 workstations at head office of which one simultaneously serves as the network server and 2 are out of order. ▪ Internal LAN, no external access to the internet. ▪ Daily back-up on two flash disks (of manager and accountant). ▪ Manual systems at Katerera branch.
Accounting	<ul style="list-style-type: none"> ▪ Accounting integrated in Finance Solutions software since October 2003, developed by Sigma D&C Ltd. of Kampala. ▪ Monthly IS generated automatically but BS made manually due to errors in the creation of BS. ▪ Monthly consolidation of branch data and reconciliation of bank statements.
Portfolio and savings information	<ul style="list-style-type: none"> ▪ Finance Solutions used since October 2003. ▪ LOs prepare loan terms and repayment schedule in the MIS. ▪ Cash operations are immediately recorded by the cashier in the system through a teller module. ▪ Monthly manual consolidation with branch data.

Management Information System (MIS) and equipment

- + Computerized MIS at HQ, with clear advantages in the processing of information: easy cash reconciliations, integration of portfolio module with cashiers module, automatic generation of members profiles, loans and loan schedules.
- + Adequate security against data manipulation in MIS with different access levels although password security needs improvement.
 - Relatively good backup procedures of electronic information. Multiple use of flash disk raises risk of virus infections as PCs are not protected with anti-virus software.
 - Manual system in branch is adequately developed but misses loan tracking sheets disallowing adequate follow up of late loans.
 - The potential installation of a new MIS with the support of Rural SPEED is an opportunity for KYAPS but the process should be monitored carefully and local support should be secured before the closing of Rural SPEED.
- KYAPS is not taking full advantage of all the potentialities of the MIS and has faced some drawbacks

in the generation of information, with an unreliable interface between loan tracking and accounting modules.

- Technical support from the developer of current MIS has been insufficient, leading to a communication break and no upgrades of the MIS since 2005.
- Paper information is not sufficiently protected: loan contracts stored at workplace (unsecured); branch data files stored outside the safe.

Information on activities

- + Sufficient and accurate information on portfolio and savings can be obtained from the MIS at head office.
- The generation of consolidated information requires manual operations and creates delays.
- The team has not been sufficiently trained on all the potentialities of the MIS. Key reports such as ageing of PAR or breakdown of portfolio by product are not produced and analyzed.
- No accurate portfolio data can be generated for the branch. Only consolidated information is available which disallows specific tracking of branch performance.

Financial and accounting information

- + Monthly financial statements are produced by the Accountant including basic performance indicators.
 - The team has received useful training on financial analysis. However, the generation of financial ratios is not yet systematic and does not lead to a comprehensive assessment of the performance of the institution.
- Loan loss provision principles are not yet fully understood. Movements in the loan loss reserve could not be reconciled over the different years.
- Accounting standards have varied over time, making the comparison of FYs difficult and there is a lack of transparency in movements of retained earnings.
- Accounts have been audited by an external auditor with insufficient knowledge of microfinance leading to incorrect application of accounting practices (e.g. in loan loss reserve).

Improvements needed to reach minimum requirements

- △ Increase data security: safe storage of paper data, improved back-up security and virus protection software.
- △ Boost software literacy for managers to increase unused potentials in the MIS.
- △ Increase understanding of management of main performance indicators to deepen institutional analysis.
- △ Clarified loan loss reserve movements that abide by the generally accepted accounting standards.

■ Risk

Risk Management is rated “d”

Procedures and internal controls

- + Overall good risk management culture, both at the management team level and the BOD level.
- + Good segregation of duties for cash handling and loan analysis. LOs do not touch any cash since March 2006 when LOs were disallowed to carry late payments from members to the branch or head office.
- + Good control procedures in place for cashiers both at head office and branch with daily balancing of cash by the Accountant and Branch Manager respectively.
- Credit manual has recently been updated but is still to be approved by BOD. Other policies and procedures less formalized or outdated but overall are well understood.
- The options in the MIS to include photographs or specimen signatures are not used.
- Cash well protected physically and through insurance although max. insured amounts not always respected.
- Loose adherence to credit procedures at the branch (incomplete loan contracts and disbursements of unapproved loans).
- Decision making powers between Loans Committee and Manager on approval of loans are not formalized reducing clear oversight on credit risk.

Internal audit

- + The Supervisory Committee, which acts as an Internal Audit department, provides a basic internal audit with quarterly visits of head office and branch, cash reconciliations, formal inspection of loan files and regular reporting with recommendations to the Board.
- + The Supervisory Committee members are trained accountants. However, the Supervisory Committee lacks a global risk perspective and does not cover internal audit functions such as visits to clients or checking of loan appraisals.
- The Manager and the Loans Officer perform a relatively frequent control of the branch, although this is not yet sufficiently formalized; especially for a manual branch.
- The external audit is a major weakness as evidenced by the lack of consistency in information from one year to the other; no real support to the accountant for the improvement of accounting policies; and by the overall lack of specific experience or training in microfinance/banking by the auditor.

Improvements needed to reach minimum requirements

- △ Formalize and extend the controls performed by the Supervisory Committee.
- △ Strengthen control of the branch with more formalized visits of HO staff.
- △ Improve the external audit.

■ Activities

Activities: products and services is rated “d”

	Dec. 2004	Dec. 2005	Dec. 2006
Loan portfolio (USD)	218,943	230,066	368,176
Loan portfolio (K UGS)	378,333	418,949	657,562
Evolution	52.5%	10.7%	57.0%
Average outstanding gross loan portfolio	177,618	267,733	326,078
Number of active borrowers	635	1,060	1,232
Evolution	28.0%	66.9%	16.2%
Average outstanding loan per client	345	217	299
PAR 31-365 (%)	19.6%	24.8%	11.5%
PAR > 365 (%)	12.5%	4.8%	3.0%
Write-off ratio (%)	0.0%	0.0%	2.3%

* PAR data represents data for HO only.

Marketing and competition

There are many MFIs present in the area where KYAPS works (e.g. Pride, U-Trust, CERUDEB, UGAFODE, FINCA). In the town centers KYAPS faces serious competition from these MFIs, however KYAPS has most of its clients in the rural areas where the other MFIs so far have not ventured. The limited overall competition is shown in the growth of deposits and outstanding portfolio over the last two years.

KYAPS has some advantages over its competitors with transparent interest rates on lending (declining balance); proximity to clients (lower transaction costs to customers) and specific attention paid to a diversified product base. KYAPS has spent significant attention to marketing with a specific board committee on mobilization and education and a dedicated budget. Marketing activities include radio commercials and distribution of brochures and calendars.

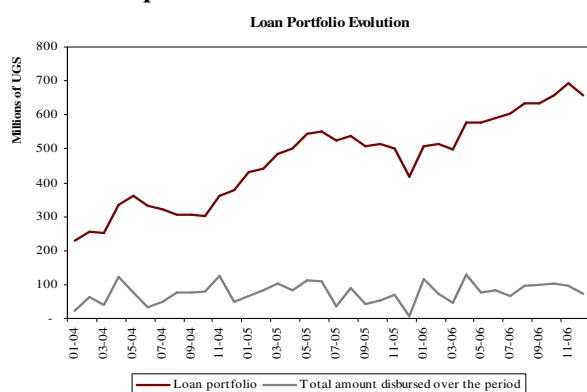
However, with the expansion of the other MFIs the competition is likely to increase in the near future – also in the rural areas – and the advantages can evaporate quickly when the competition decides to move in. Furthermore the fact that disbursements are constrained to a short period per month can deter clients from accessing loans of KYAPS and the client perceived advantage that KYAPS is not strict in repayment is a strong disadvantage in portfolio management.

Credit methodology

- + Loan processing procedures are clear and include all necessary steps, such as basic business evaluation, repayment capacity assessment, written approval and acceptance, identification and registration of guarantees.
- + Repayment culture is strengthened due to the introduction of delinquency cards where good repayment is awarded with faster service and poor repayment can lead to a 6 month suspension of access to loans for members.

- Client appraisal is only moderately effective as cash flow analysis is superficial but compensated with strong character check. High percentage of net cash flow (50%) is allowed for repayments of principal (excluding interest payments) which increases over-indebtedness risk. Exposure to over-indebtedness risk due to multiple loans is managed to some extent by checking with LC1 to see if clients have multiple loans.
- Follow up of late loans is delayed due to concentrated disbursement period (and thus repayment period) and the large workload of loan officers. Manual system in branch does not allow for easy monitoring of late loans.
- Lack of controls of portfolio management in branch: LO supervision is less than once per month; no direct supervision on disbursements; no performance indicators specific for the branch.
- No incentive system in place for LOs.

Portfolio composition and evolution



* Monthly loan portfolio data for branch based on estimate; disbursement data only for head office.

Loan portfolio has grown over the last couple of years with leaps and bounds with growth rates for 2004 and 2006 of over 50% whereas 2005 saw a growth rate of only 10.7%. This growth has mainly been due to the increased number of borrowers whereas the average outstanding loan per client has varied over the years.

The composition of loan portfolio is not tracked by KYAPS although the feature is available in the MIS. The largest percentage of portfolio is made up of the agricultural loans which are estimated to represent more than 60% of portfolio.

Portfolio diversification

- No portfolio diversification rules have been set-up as no tracking of portfolio distribution is done. Current risk of over concentration in agriculture, mainly in tea.

Quality of the portfolio

- PAR > 30 is high although significant improvements have been made in the past two years (2004: 32%, 2005:

29.6% and 2006: 14.5%). KYAPS was not aware of this high PAR due to prior incorrect calculation of PAR.

- There is a lack of tracking of key portfolio quality indicators (PAR) disaggregated per branch, per LO and per product to better react to portfolio quality.

Credit risk coverage

	Dec. 2004	Dec. 2005	Dec. 2006
Risk coverage ratio (%)	13.5%	29.4%	5.8%
PAR 31 net of loan loss provision / Equity (%)	56.0%	41.4%	27.1%

- Appropriate use of collateral and guarantors with checks on cross guarantees (only head office). However, unclear whether KYAPS does have a real claim on collateral in court, most recovery so far has not been done through legal means.
- Loan loss provisioning is insufficient with risk coverage at 6% (29% in 2005). The current provisioning policy is clear but wrongly applied (i.e. calculated over principal in arrears instead of total outstanding loan balance with payments in arrears).

Write-off

- KYAPS has written off 13.2 M UGS in loans over 365 days late for the first time in December 2006. Although an estimated 19 M UGS in portfolio over 365 days late does remain, representing 3.0% of portfolio as of December 2006. The institution has not yet established a specific policy for writing off loans.
- Loans written off are being followed up by KYAPS and should be strengthened with planned improvement in legal actions with appointment of legal officer.

Savings Activities

	Dec. 2004	Dec. 2005	Dec. 2006
Outstanding deposits (USD)	126,670	165,188	262,503
Outstanding deposits (UGS)	218,884,946	300,807,875	468,830,400
Change (%)	44.8%	37.4%	55.9%
Number of depositors	4,446	4,917	5,771

- ✦ KYAPS has seen a significant growth in deposits over the last two years which can be explained by its active mobilization strategy and the involvement of Board members in mobilization activities.
- ✦ Besides the growth in number of savers, the average savings balance per depositor has increased. This is mainly due to the introduction of time deposits.
- There is a slight concentration risk in savings as time deposits account for 32% of deposits but only 2% of depositors.

Improvements needed to reach minimum requirements

- △ Better tracking of PAR (including break down of figures by product and branch) and more expedient follow-up of late payments is necessary to bring PAR down to acceptable levels.

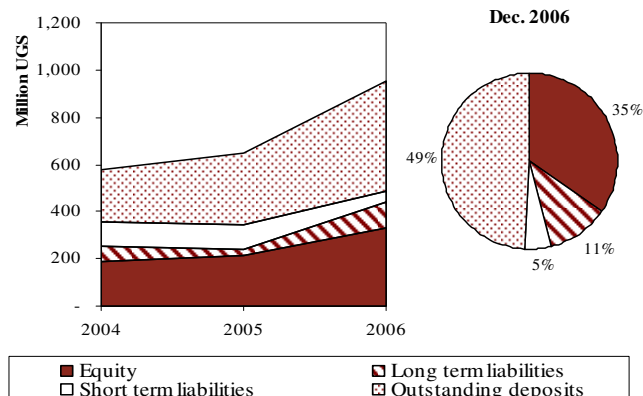
- △ As the institution grows and expands further more rigorous cash flow analysis is needed, especially for larger loans.
- △ Strengthen control of branch in loan approval and disbursement.
- △ Adjust provisioning policy to cover portfolio at risk and formalize write off policy.

■ Financing and liquidity

Financing and liquidity is rated “c”

- KYAPS’s capital structure shows a steady growth with relatively stable percentages for equity, liabilities and deposits. It funds the bulk of its activities through its deposits and share capital which comprised 49% and 35% of assets as of December 2006.
- + In its history KYAPS has been able to access several loans, mostly from MSCL (a Ugandan wholesale lender specializing in microfinance institutions) going up to 75 M UGS. Management has improved its negotiation skills and has been able to get longer term loans with longer grace periods of up to 15 months.

Financial Structure



	Dec. 2004	Dec. 2005	Dec. 2006
Liabilities / Equity (%)	2.0x	2.1x	1.9x

- The institution currently remains lowly leveraged at 1,9 times its equity. This is due to a strong focus by KYAPS to increase its equity base with growing share capital of its members which increased by 24% over the last year.

Asset and liability management

Asset and liability management (ALM) risks are currently limited.

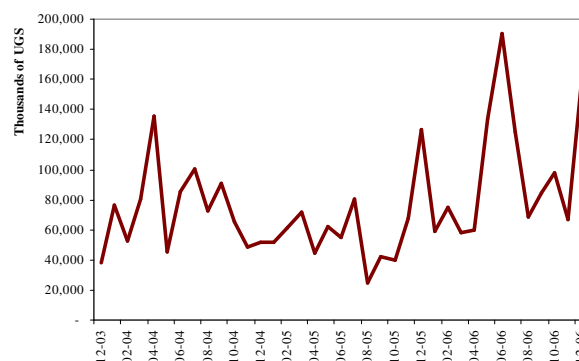
- + Low interest rate risk: interest rates of MSCL are reviewed every semester based on inflation. Past experience shows that interest rates only change marginally as a result of increasing/decreasing inflation.
- Limited maturity risk which has even decreased with the increase in term deposits. However, the institution has not developed a culture of maturity risk management.

- + No FX risk: KYAPS has not contracted any loan in foreign currency.

Liquidity management

- Disbursements and repayments are concentrated in a specific period per month which allows KYAPS to forecast liquidity needs to some extent.
- There is no formalized liquidity management strategy in place and no liquidity projections are done while liquidity is shown to be erratic. Tight liquidity in the past has resulted in delayed disbursements of loans to clients. On the other hand excess liquidity has led to a less than optimal use of funds.
- KYAPS has not instituted a prudential ratio to ensure the ability to meet client withdrawal demands. The institution only attempts to keep a minimum amount of liquidity at all times instead of a specific percentage of its savings.

Evolution of cash balance



■ Efficiency and Profitability

Efficiency and Profitability is rated “c”

Profitability analysis	Dec. 2004	Dec. 2005	Dec. 2006
ROE (%)	12.7%	10.6%	15.6%
Liabilities / Equity (%)	207.1%	205.3%	187.4%
ROA (%)	4.3%	3.5%	5.3%
Profit generation			
OSS (%)	110.7%	108.4%	116.1%
Portfolio Yield (%)	45.9%	41.4%	42.3%
Operating expense ratio (%)	52.1%	41.8%	38.5%
Staff productivity	58	96	103
Loan officer productivity	212	353	411
Av. outstanding loan per client (USD)	345	217	299
Funding expense ratio (%)	6.3%	6.3%	4.9%
Cost of savings (%)	3.3%	4.0%	4.3%
Cost of liabilities (%)	10.7%	13.5%	8.1%
Loan Loss Provision expense ratio (%)	2.5%	3.9%	3.2%
PAR 31-365 (%)	19.6%	24.8%	11.5%
Write-off ratio (%)	0.0%	0.0%	2.3%
Asset management			
Outstanding Loan Portfolio / Assets (%)	62.9%	59.2%	68.3%
Non-portfolio income as a % of financial revenues (%)	0.0%	0.0%	0.0%

Overview of the profitability

KYAPS' current profitability data is inflated due to absence of sufficient loan loss provisioning. Otherwise profitability has been on an upward trend with increasing ROA (3.5% to 5.3 %) and ROE (10.6% to 15.6%) from 2005 to 2006. This is mainly due to a focus on reduction of operating expenses which increased comparatively less than income in 2006 due to portfolio growth. On the other hand the profitability of the institution relies strongly on the other operating revenues (mainly from savings activities) which show a stable trend whereas deposits have significantly grown.

Portfolio yield and effective interest rate

Portfolio yield shows a stable, slightly decreasing pattern over the years. There is no material gap between APR and actual portfolio yield, although there is a slight gap due to low portfolio quality.

Operating expense ratio

The operating expense ratio shows a decline over the period indicating higher efficiency although it is still high at 38.5%. Growth in portfolio should slowly result in higher economies of scale and lower operating expense ratio but a strong focus on reducing operating expenses should remain.

Funding expense ratio

KYAPS' funding expense ratio is relatively low at 4.9% as it receives most of its funding through equity and regular savings which only bear an interest rate of 2%. It has purposefully kept its external borrowings low as they bear a higher interest rate of 9% per annum. The pay-out of dividends does make share capital relatively expensive at an estimated 7%.

Loan loss provision expense ratio

The loan loss provision expense has been low due to the incorrect calculation of the loan loss provision. Given past and current portfolio quality actual loan loss provision expense ratio would have been much higher.

Asset management

Outstanding loan portfolio over assets is relatively low at only 68% of assets although up from around 60% in previous years. This is mainly due to the high percentage of fixed assets (12%) and the high liquidity (16%). Improved liquidity management is necessary to boost the money earning part of assets.

Profitability outlook

Profitability outlook in the near future will not be positive as required expenses for loan loss provisioning need to be made given the current portfolio quality. Self sufficiency will therefore require a strong growth of the portfolio and a tight cost control in order to compensate the impact of higher loan loss provisions.

Formulas and ratios

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

Rating Scale

Factors	Area Rating	Global Rating	Explanation
4 to 5	a	A+ A A-	Excellent 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.
3 to 4	b	B+ B B-	Good 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.
2 to 3	c	C+ C C-	Minimum required Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
1 to 2	d	D	Insufficient Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
0 to 1	e	E	Immediate risk of default or very insufficient There are immediate or underlying risks for operations or an unacceptable under performance.

■ Appendices

KYAPS Balance sheet	Notes	UGS			USD			Evolution		
		Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2004	Dec. 2005	Dec. 2006	2004/2003	2005/2004	2006/2005
ASSETS		575,420,465	645,918,674	954,181,093	332,998	354,705	534,256	61.3%	12.3%	47.7%
Short Term Assets		484,589,288	563,866,173	844,576,207	280,434	309,646	472,887	77.8%	16.4%	49.8%
Cash and Due from Banks		51,876,628	126,706,448	156,110,507	30,021	69,581	87,408	35.2%	144.2%	23.2%
Short Term Investments		-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		362,024,460	382,507,792	652,062,135	209,505	210,054	365,096	78.0%	5.7%	70.5%
Short Term Gross Loan Portfolio		378,333,759	418,949,959	657,562,677	218,943	230,066	368,176	52.5%	10.7%	57.0%
(Loan Loss Reserve)	1	16,309,299	36,442,167	5,500,542	9,438	20,012	3,080	(63.4%)	123.4%	(84.9%)
Interest Receivable		-	-	6,833,619	-	-	3,826	-	-	-
On loan portfolio	2	-	-	6,833,619	-	-	3,826	-	-	-
On investments		-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		70,688,200	54,651,933	29,569,946	40,908	30,012	16,557	129.8%	(22.7%)	(45.9%)
Long term assets		90,831,177	82,052,501	109,604,886	52,564	45,059	61,369	7.9%	(9.7%)	33.6%
Long Term Net Investments	3	-	420,000	420,000	-	231	235	-	-	0.0%
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-
Net Fixed Assets		90,831,177	81,632,501	109,184,886	52,564	44,828	61,134	7.9%	(10.1%)	33.8%
Other Long Term Assets		-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		575,420,465	645,918,674	954,181,093	332,998	354,705	534,256	61.3%	12.3%	47.7%
Liabilities		388,031,307	434,340,305	622,179,873	224,555	238,517	348,365	68.8%	11.9%	43.2%
Short term liabilities		325,531,307	403,090,305	513,429,873	188,386	221,357	287,475	52.7%	23.8%	27.4%
Demand Deposits		218,884,946	214,947,534	319,672,480	126,670	118,038	178,988	44.8%	(1.8%)	48.7%
Compulsory Deposits		-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	85,860,341	149,157,920	-	47,150	83,515	-	-	73.7%
Short Term Borrowings		103,933,711	101,276,565	40,414,666	60,147	55,616	22,629	102.6%	(2.6%)	(60.1%)
Interest payable		-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		2,712,650	1,005,865	4,184,807	1,570	552	2,343	(74.7%)	(62.9%)	316.0%
Long term liabilities		62,500,000	31,250,000	108,750,000	36,169	17,161	60,890	275.0%	(50.0%)	248.0%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-
Long Term Borrowings		62,500,000	31,250,000	108,750,000	36,169	17,161	60,890	275.0%	(50.0%)	248.0%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-
Equity		187,389,158	211,578,369	332,001,220	108,443	116,188	185,891	47.7%	12.9%	56.9%
Paid-In Capital		118,454,455	157,065,000	193,365,000	68,550	86,252	108,267	46.0%	32.6%	23.1%
Donated equity		12,218,458	12,218,458	39,066,838	7,071	6,710	21,874	0.0%	0.0%	219.7%
Retained earnings without donations and reserves		56,716,245	42,294,911	99,569,382	32,822	23,226	55,750	69.1%	(25.4%)	135.4%
Current year		20,023,673	21,194,328	42,391,012	11,588	11,639	23,735	554.6%	5.8%	100.0%
Other equity accounts		-	-	-	-	-	-	-	-	-

Notes: 1: In the AFS for 2005 the loan loss reserve is shown in the reserve in the equity accounts; 2: KYAPS only started accruing interest in Jan 2006; 3: Shares in Shuuko SACCO for accessing borrowings.

Planet Rating – KYAPS, Uganda – January 2007

KYAPS Income Statement	Notes	UGS			USD			Evolution	
		Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2004	Dec. 2005	Dec. 2006	2005/2004	2006/2005
Financial Revenue (a)		206,841,300	274,782,542	315,339,274	119,700	150,897	176,562	32.8%	14.8%
Financial Revenue from Loan Portfolio		140,904,584	201,636,194	246,447,973	81,542	110,728	137,989	43.1%	22.2%
Interest on Loan Portfolio		96,550,238	157,711,812	199,291,297	55,874	86,607	111,585	63.3%	26.4%
Fees and Commissions on Loan Portfolio		14,752,750	21,188,202	31,396,782	8,537	11,635	17,579	43.6%	48.2%
Penalty Revenue on Loan Portfolio		29,601,596	22,736,180	15,759,894	17,131	12,486	8,824	(23.2%)	(30.7%)
Financial Revenue from Investments		-	-	-	-	-	-	-	-
Other Operating Revenue		65,936,716	73,146,348	68,891,301	38,158	40,168	38,573	10.9%	(5.8%)
Financial Expense (b)		19,399,278	30,614,896	28,682,599	11,226	16,812	16,060	57.8%	(6.3%)
Interest paid on borrowings		12,597,224	20,116,331	11,395,001	7,290	11,047	6,380	59.7%	(43.4%)
Interest paid on deposits		6,802,054	10,498,565	17,287,598	3,936	5,765	9,680	54.3%	64.7%
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-
Financial income [c=a-b]		187,442,022	244,167,646	286,656,675	108,473	134,084	160,502	30.3%	17.4%
Net Loan Loss provision expense (d)		7,566,675	18,978,069	18,714,721	4,379	10,422	10,479	150.8%	(1.4%)
Loan loss provision expense and write-off		7,566,675	18,978,069	18,714,721	4,379	10,422	10,479	150.8%	(1.4%)
Recovery from Loans written off		-	-	-	-	-	-	-	-
Operating expense (e)		159,851,674	203,995,249	224,112,442	92,507	112,024	125,483	27.6%	9.9%
Personnel Expense (includes fringe)		29,151,000	42,310,400	40,862,220	16,870	23,235	22,879	45.1%	(3.4%)
Administrative Expense (non-staff operating expenses)		130,700,674	161,684,849	183,250,222	75,637	88,789	102,604	66.0%	13.3%
Depreciation and amortization		6,241,257	6,372,059	9,407,581	3,612	3,499	5,267	2.1%	47.6%
Consulting fees		-	-	-	-	-	-	-	-
Training expenses		9,790,000	19,880,000	12,488,000	5,666	10,917	6,992	103.1%	(37.2%)
Utilities and office stationery		35,752,400	28,946,220	35,005,850	20,690	15,896	19,600	(19.0%)	20.9%
Transportation		20,208,600	17,415,650	20,090,600	11,695	9,564	11,249	(13.8%)	15.4%
Security		7,020,000	10,807,600	12,960,000	4,063	5,935	7,256	54.0%	19.9%
Audit fees		1,800,000	1,600,000	2,200,000	1,042	879	1,232	(11.1%)	37.5%
Marketing and PR		16,410,000	27,599,550	40,265,950	9,497	15,156	22,545	68.2%	45.9%
Loan monitoring		10,018,700	16,465,494	15,380,992	5,798	9,042	8,612	64.3%	(6.6%)
Others		23,459,717	32,598,276	35,451,249	13,576	17,901	19,850	39.0%	8.8%
Net Operating Income Before Taxes and Donations [f=c-d-e]		20,023,673	21,194,328	43,829,512	11,588	11,639	24,541	5.8%	106.8%
Income Taxes (g)		-	-	1,438,500	-	-	805	-	-
Net Operating Income Before Donations [h=f-g]		20,023,673	21,194,328	42,391,012	11,588	11,639	23,735	5.8%	100.0%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		20,023,673	21,194,328	42,391,012	11,588	11,639	23,735	5.8%	100.0%
Donations (l)		-	-	904,850	-	-	507	-	-
Net Income (after Taxes and Donations) [m=k+l]		20,023,673	21,194,328	43,295,862	11,588	11,639	24,242	554.6%	104.3%