

Microfund For Women, Jordan

Microfund For Women (MFW) started its operations in 1994 as a program from Save the Children. It has been registered as a non-profit Limited Liability Company (LLC) since 1999 and is affiliated to Women's World Banking (WWB). MFW received financial support from USAID through the Achievement of Market Friendly Initiatives and Results (AMIR) program. Headquartered in Amman, it offers group and individual loans, mainly to poor women. MFW operates through a network of 12 branches, serving 29,771 clients with an outstanding loan portfolio of 11.5 M USD as of June 2007.

GIRAFE Rating

Rating

A-

Outlook

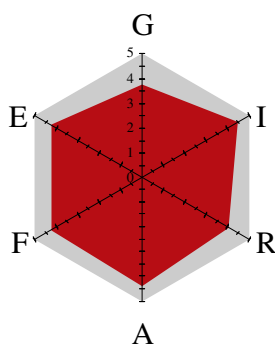
Positive

Date of the rating

July 2007

Valid until June 2008

Performance composition



Governance – Information – Risk
Activities – Funding – Efficiency

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Rating highlights

- MFW's strong performance is underpinned by an excellent portfolio quality and a structural self-sufficiency. After a decrease of profitability ratios in 2006 due to a re-branding campaign, MFW has resumed with positive trends in 2007.
- Clear focus on women in the lowest segment of the market, ongoing diversification of products and innovation through the launching of non-credit products allow MFW to better cope with competition on a highly competitive market.
- High international and national visibility and proactive financing strategy have led to a diversified financing structure, which comes with both larger and better access to resources in national currency and a higher cost of debt.
- Decision-making process is efficient, although shareholders' liabilities ought to be clarified; management team is dynamic with a decreasing key-person risk, but it not yet stable as many managers are relatively new and some key positions still need to be filled.

Outlook

- MFW is expected to resume with high profitability in 2007, thanks to bigger economies of scale and despite a higher cost of debt.
- The microfinance market is increasingly competitive but MFW should continue reporting high growth thanks to a good positioning and a strong capacity to absorb debt and deploy it into its portfolio.

Performance indicators

In USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007*
Assets	3,665,095	4,140,277	6,955,620	9,429,790	12,100,144
Growth (%)	28.7%	13.0%	68.0%	35.6%	28.3%
Loan portfolio	3,072,499	3,672,503	5,046,152	8,750,259	11,524,344
Growth (%)	52.0%	19.5%	37.4%	73.4%	31.7%
Active borrowers	10,586	11,870	19,095	26,822	29,771
Staff	70	73	79	103	126
ROE (%)	16.7%	17.4%	11.4%	7.7%	16.2%
ROA (%)	14.1%	15.0%	9.2%	5.2%	9.1%
Liabilities / Equity	0.20x	0.13x	0.31x	0.63x	0.93x
Portfolio Yield (%)	43.1%	42.4%	37.0%	36.6%	34.6%
Operating expense ratio (%)	24.8%	23.9%	22.3%	25.7%	19.2%
PAR 31-365 (%)	0.2%	1.6%	0.8%	0.8%	0.8%
PAR > 365 (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio (%)	0.1%	0.2%	1.1%	0.6%	0.2%

* Ratios as of June 2007 have been annualized

REF: NCPS200607

Microfinance sector

The microfinance sector in Jordan is characterized by the presence of both market oriented and subsidized credit providers. Through the AMIR program, USAID has played a leading role in supporting a sustainable microfinance environment: AMIR program has supported microfinance and other services for small businesses by providing financing, technical assistance, and advocacy as well as engaging in broader economic development activities. The initial program, started in 1998 and renewed in 2002 and 2004, ended in 2006. The approved budget for the program over the years exceeded 70 million USD, with over 10 million USD allocated specifically to micro-entrepreneur support¹. USAID has launched a new program called Sustainable Achievement of Business Expansion and Quality (SABEQ), but its microfinance component solely targets micro-enterprises. Other bilateral and multilateral organizations have been active in the sector, including IFAD (International Fund for Agriculture Development) that has also provided funding for NGOs and government providers for agricultural loans.

The four MFIs² funded by the USAID/AMIR program all began operations in the mid-to-late 1990s. As of December 2006, these four providers were serving 50,915 clients for an outstanding portfolio of 19 M JOD (26.8 M USD). According to CGAP, the four AMIR-funded and sustainability-oriented microlenders had disbursed over 110,000 loans totalling more than 45 M JOD (64 M USD) as of December 31st, 2004. Other sustainability-oriented loan providers include the United Nations Relief and Works Agency (UNRWA), who works with Palestinian refugees, and the private banking sector, who has been making consumer loans increasingly accessible to those with a salary.

Subsidized providers include the National Assistance Fund (NAF), a governmental program aimed at unemployed poor, and the Industrial Development Bank (IDB), a private bank in operation for several decades authorized under special laws with a mixed public/private sector Board. Funded by the Jordanian government, KfW and the EU, the Development and Employment Fund (DEF) was created in 1991, with a vocation of providing microfinance for poverty alleviation: it currently provides loans at rates substantially lower than other MFIs. To avoid market distortion³, the 2005 National Strategy for Microfinance⁴ recommended all

governmental retail programs be shut down: in accordance, and despite its good performance, DEF was to start acting as a wholesale provider; yet, in 2007, it remains unclear whether it will truly stop all direct lending and act as an Apex institution. Funding for agriculture is served by government organizations such as the Agricultural Credit Corporation. A myriad of other smaller government and quasi-government players also exist. Little information is available regarding these institutions: their total portfolio was estimated at 64 M JOD in 2001, albeit this figure includes many loans long overdue and never written off⁵.

The National Microfinance Bank (NMB), a government initiative funded by AGFUND⁶ and also known as the “Bank for the Poor”, was launched in March 2006. This institution is promoted as another “sustainable lender” offering loans ranging from 200 JOD (300 USD) to 15,000 JOD (21,000 USD). NMB currently serves over 10,000 clients, and plans on reaching 50,000 clients by 2010. It has stated the ambition of becoming number one, thus introducing tremendous competition on the market. When initially passed, the authorizing law for NMB also provided numerous tax exemptions, since extended to all MFIs.

MFI As of Dec. 2006	Portfolio in USD	%	Number of clients	%
DEF	37,398,564	50%	14,476	19%
MFW	8,750,259	12%	26,822	34%
JMCC	8,140,532	11%	17,729	23%
MEMCO	7,974,254	11%	5,825	7%
NMB	7,633,042	10%	9,048	12%
AMC	3,913,008	5%	2,685	3%
UNRWA (Jordan)	1,029,644	1%	1,400	2%
Total	74,839,303	100%	75,839	100%

DEF Dec. 2005, MEMCO Sept. 2006, UNRWA Feb. 2006

The total microfinance sector in Jordan was estimated at around 150,000 potential clients⁷ before the Iraqi war: since then, immigrants' influx could have raised the number of potential clients up to 250,000.

Legal and regulatory environment

Although publicly microfinance is a concept that receives government support, Jordan's regulatory environment does not explicitly recognize the industry. This lack of formal recognition, along with other sector-specific issues, leads to policy constraints within which local MFIs must operate, notably the inability to collect savings. Microfinance stakeholders are working to address these issues, but the National Microfinance Strategy did not result in any concrete measures to provide a better legal environment for

¹ 2005 figures.

² JMCC, MFW (WWB affiliate), MEMCO (CHF affiliate), and AMC.

³ DEF has not received any external funding since 2004 and claims it does not subsidize loans.

⁴ Drafted by MOPIC (Ministry of Planning and International Cooperation) with CGAP's technical assistance, it states that all government agencies will “withdraw from microfinance lending activities”.

⁵ “Microfinance/Microenterprise Assessment” April 2001, Graham Perrett.

⁶ Arab Gulf program For United Nations Development Organizations.

⁷ 2002 AMIR estimates.

MFIs. Among the current constraints enumerated in a 2003 study by AMIR program⁸, the most significant are:

- A legal structure (limited liability company) that is not specific to lending activities;
- An ambiguous sales tax regime until official tax exemption has been extended to all MFIs on March 30th, 2004;
- The lack of a Credit Bureau, still waiting for official authorization although talks have been going on for years. Current efforts concentrate on creating an Information Sharing Center.

Political & economic environment

Jordan is classified as a middle-income developing country with a 2006 per capita income of 2,530 USD according to the International Monetary Fund. Lacking significant natural resources, Jordan relies primarily on human capital for development.

- The war in Iraq has had a significant negative impact on Jordan's economy, as Iraq has been the second most important trade partner for Jordan. But Jordan has benefited from 210 MEUR of financial assistance granted by the European Commission in order to moderate the negative effects of the war. International aid flow, a rise in exports, shrinking external debt, and accelerated structural reform present a favourable economic outlook in the short term.
- Jordan's economy experienced strong recovery in 2004: GDP per capita has been growing at around 9% since. From the early 1970s to 2004, Jordan's population grew from about 1.8 million to 5.0 million. The official unemployment rate remains fairly high at 12%, (around 25% unofficial) and given a labor force that is growing at 4% a year, new job creation is imperative. The country ranks 86 (out of 177 countries) in the UNDP 2006 Human Development Report and the population below the national poverty line is estimated at 12%.
- Despite advances in women's development through improvements in education and public health services, female empowerment and inclusion remain a challenge. Women's participation in the formal labour force grew from 15% in 1980 to 27% in 2004, but still remains low.

Economic growth is notably due to dynamic domestic consumption and sharply higher foreign investment inflows. The country has benefited from its role as rear base to Iraq and an influx of regional capital. In that context, most economic sectors (manufacturing, construction, transport, and communication) posted good performance. Surging oil prices in conjunction with the decline of grants from the

⁸ "MFI Policy Constraint Review: Final Report" June 2003. AMIR program funded by U.S. Agency for International Development, Deliverable for MEI Component Task No. 319.1 Contract No. 278-C-00-02-00210-00.

international community caused a sharp deterioration of external accounts, however, accompanied by increased fuel subsidies that widened the fiscal deficit. Although greater fiscal discipline and particularly the elimination of fuel subsidies by March 2007 should allow Jordan to contain the public sector deficit, those measures will undermine private consumption, which has been the main economic driver.

External accounts continue to be vulnerable to a possible crisis of confidence that would make the JOD/USD peg unsustainable. The country should nonetheless be able to count on international aid to avert a major crisis. By virtue of its geographic position and population mix (with mostly Palestinian origins), the political and economic scene has been very sensitive to regional geopolitical tensions. Although Jordan's political stability should not be in jeopardy, the success of Islamist parties in neighbouring countries could encourage the Islamic Action Front to organise itself politically with legislative elections scheduled in 2007.

COFACE Country Rating: B (uncertain to negative trend)

USD millions	2003	2004	2005	2006
Economic growth (%)	4.1	8.4	7.2	5.0
Inflation (%)	1.6	3.4	3.5	6.9
Public sector balance (%GDP) (*)	-12.7	-12.5	-10.7	-8.0
Exports	3,100	3,900	4,300	4,600
Imports	5,100	7,300	9,200	9,800
Trade balance	-2,000	-3,400	-5,000	-5,200
Current account balance (%GDP)	-2.2	-11.7	-24.5	-20.9
Foreign debt (%GDP)	84.1	72.0	65.7	61.1
Debt service (%Exports)	15.8	13.7	9.4	8.6
Foreign exchange reserves (import months)	8.0	5.9	4.6	4.1

Source: COFACE's Country Risk Ratings Guidebook 2006. 2005 data is estimated and 2006 forecasted. (*) Excluding grants.

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

Institutional presentation

Legal form, supervision and audit

MFW is a non-profit Limited Liability Company (LLC), registered with the Ministry of Industry and Trade since 1999, and does not plan on changing its legal status in the short run. Despite having the status of a company with its own capital, MFW is not authorized to distribute dividends to its shareholders, and can therefore be compared to an NGO.

From 2002 to 2006, MFW's financial statements were audited by Khleif & Samman, Jordanian certified accountants and KPMG's correspondents until 2005. In 2007, MFW will be opting for Talal Abu Ghazaleh, a

renowned firm with a presence in most countries of the Arab world⁹.

Ownership

Since April 2003, MFW has two shareholders: M. Ghiath Sukhtian (60%), a private Jordanian businessman, and Save The Children (40%). In 2005, retained earnings were capitalized and total capital raised from 33,000 JOD to 1 M JOD¹⁰. Shareholders are prohibited from receiving dividends and all assets must be given to a similar organization in case of liquidation. The Board of Directors (BOD) is chaired by M. Sukhtian himself, and composed of 7 equally voting members, with law, management, economics and marketing backgrounds.

Donations

Since inception, MFW received a total of 2.4 M JOD (3.4 M USD) mainly from the AMIR program, and various donors including the Rockdale Foundation and Save The Children. No donations are expected for the coming years. In 2001, USAID granted each of the four AMIR MFIs 1 M USD in cash collateral to provide for loans with Citibank Jordan: MFW reached the performance criteria set by USAID and was thus authorized to register this amount as revenue from grants in 2005. This mechanism allowed MFW to leverage debt amounting to 950,000 JOD (1.3 M USD).

Management team

The senior management team includes the General Manager (GM), the Chief Financial Officer (CFO) who was recruited in May 2007, the IT Manager and the Operations Manager (OM). Senior managers are supported by a strong middle management team including a Personnel Manager, a Finance Manager, a Communications and PR Officer, a Marketing Officer and an Internal Audit (IA) Officer. Human Resources (HR), Marketing and Internal Audit Managers are currently being recruited.

The GM, Mrs. Arije Al-Amad, has been promoted to her current position in July 2005, following the previous GM's departure to NMB. She had been MFW's OM since 1995, and was formerly working for JOHUD¹¹. She has participated in several international trainings and holds strong microfinance experience. She holds a BA in Nutrition & Food technology.

⁹ Talal Abu Ghazaleh holds previous experience in microfinance: it certifies MEMCO's accounts and conducts internal audit missions for JMCC.

¹⁰ The law ruling LLCs is roughly the same than that of private companies. According to the legal statutes, shareholders are responsible of MFW's liabilities within the limit of their respective shares, which most probably refers to percentage rather than absolute amounts.

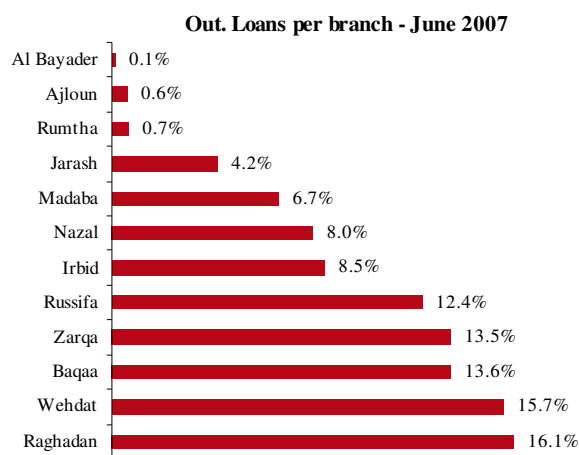
¹¹ Jordanian Hashemite Fund for Human Development.

Organization

- MFW's headquarters (HQ) are based in Amman, and centralize all management.
- Each branch is composed of a Branch Manager (BM), several Loan Officers (LOs) and at least one administrative clerk, in charge of data entry and checking whether clients are red-flagged. All loan files are prepared by LOs. BMs review the files and approve group loans. For individual loans, approval authority is shared between BMs, the OM and the GM according to the amount.
- Data management is centralized. All staff has real time access to portfolio information through a Virtual Private Network (VPN) connecting the Oracle database in HQ to branches.
- Cash transactions are minimal: disbursements are made by check written at HQ; reimbursements are made directly through partner banks. The bank information is collected on a daily basis, and uploaded into the MIS.

Market penetration

MFW has a network of 12 branches, four of which are located within Amman (Wehdat, Nazzal, Raghadan and Al Bayader), the others being situated in the northwestern region (Russeifah, Zarqa, Baq'aa, Irbid, Jerash, Ajloun and Ramtha), as well as in the less concentrated southern region of Madaba. A new branch in the South (Aqaba) should be opened by the end of 2007.



Products and services

MFW offers both group and individuals loans. For the latter, one or three guarantors are required, according to the loan amount, without any physical collateral. Loans are subject to initial administrative fees and to penalties in case of late payment. Repayments are all made on monthly basis.

- Al Tadamun loan is granted for groups of 3 to 6 women with existing home-based businesses. It ranges from 200 to 600 JOD (280 to 841 USD), with a 10 to 15-month

term. MFW charges a flat interest rate of 1.75%, equivalent to a 38% APR.

- Al Tatweer individual loan is granted for business purposes. Loan size ranges from 500 to 10,000 JOD (701 to 14,020 USD) and the loan length from 1 to 36 months. Monthly interest rates vary from 0.8% to 1.5% on a flat basis. APR is of 34%.
- Seasonal group loans are directed to Al Tadamun active clients to support in specific seasons when they require additional working capital to enhance their sales (spring, school time, Ramadan and Adha). They range from 100 to 200 JOD (140 to 280 USD) over 6 month, with a flat rate of 2.5%. APR is of 50%.
- Bedaya loan is aimed at groups of 2 to 3 women wanting to start a generating-income activity. It also ranges from 100 to 200 JOD (140 to 280 USD), with a 10-month term. Flat interest rate is of 2%, equivalent to a 42% APR.
- Welada loan is intended to cover specific costs of pregnant women and is directed to both active and new clients. Loan size ranges from 100 to 250 JOD (140 to 350 USD), with a 10-month length. Flat interest rate is of 2%, equivalent to an APR of 42%.

MFW has also launched a service of loan insurance against the risks of death, total or partial disability through a compulsory premium of 0.11% on all disbursed loans. This scheme is offered in partnership with a local insurance company (Jordan Insurance).

In July 2007, MFW has also launched a micro-leasing product. Amounts granted go from 4,000 JOD (5,608 USD) to 10,000 JOD (14,020 USD). Monthly declining interest rates are of 1.1% to 1.5%, generating an APR ranging from 13% to 18%. Loans are granted for 12 to 48 months.

Networks

MFW is an affiliate of Women's World Banking (WWB), and a founding member of both Sanabel (the microfinance network of the Arab world) and the Microfinance Association of Jordan (MAJ). MAJ is currently headed by Mrs. Al-Amad.

■ Governance

Governance and Decision Making is rated "b"

Decision-making

The decision-making process at MFW is clear, efficient and participatory. It is a typical NGO-type process, with management initiatives actively discussed by BOD, both of them sharing the same vision and goals, and translating them in the planning. BOD members are able to make judicious decision based on relevant and reliable monitoring information, sent to all members prior to their meeting.

MFW is backed by a solid and committed BOD with a strong involvement: meetings are held on an almost monthly basis; agenda is set in advance, and comprises relevant and reliable monitoring information (Financial statements and key indicators) enabling timely and quality decision-making; decisions are reported in BOD minutes and followed upon. BOD members have diversified and complementary backgrounds, if no specific experience in microfinance, which provides them the necessary technical and managerial skills as well as independence of thinking. As stated in the strategic plan, BOD's structure is still to be reinforced through the creation of specialized sub-committees and direct reporting from the Internal Audit.

The 2005 capital increase by capitalization of retained earnings could have increased the shareholders liabilities, which might prove problematic in case of bankruptcy. Also, rules regarding potential capital gains deriving from the sale of the shares ought to be clarified, especially if a transformation into a for-profit institution is to occur in the medium to long term.

Planning

MFW has an efficient planning process, with participation from staff, input from BOD members and punctual technical advice from WWB. Having involved the institution at all levels (management team, BMs, LOs), the plan, as well as its annual translation per product, branch and LO, has ensured a good buy-in of operational goals.

MFW's strategic plan (2006-2008) is clear and documented, with medium term goals based on accurate market analysis, internal SWOT analysis and realistic objectives. Institutional changes needed to carry out the strategic plan are clearly identified. Precise financial projections are made using the Microfin tool: the annual budget is closely monitored and projections are updated accordingly on a yearly basis. Operational targets in terms of outreach, branches and number of staff needed are clearly set. However, although new products are being developed, the current plan is solely based on existing products, which maximizes MFW's chances to meet its objectives, but also overlooks the expenditures related to new products. MFW is aware of these issues, and 2008 planning updates are expected to include new products' expenses and revenue estimations.

MFW aims at doubling both outreach and portfolio over the 3 years, to reach 33,000 clients and 11.8 M JOD in loan portfolio by December 2008. It also plans on reducing APR down to 28%, while maintaining current profitability levels by increasing operating efficiency. Such portfolio and profitability goals are ambitious, yet seem attainable given the potential market and the close follow up of expenditures by both BOD and management. MFW excellent track record with local and international investors should enable the

institution to access the necessary resources to finance its growth.

Management team

MFW's management team is currently led by its strong GM. Although there are no clear succession plans so far, potential key-person risk is already being addressed through the progressive building of a senior management team and the introduction of regular management and staff meetings to ensure information sharing, cohesiveness and collective decision-making for key decisions. The team still needs to be further consolidated, as some key positions have been filled in the last two years (e.g. OM, CFO), or about to be filled (e.g. Marketing, IA and HR Managers).

Although most of the newly hired managers have no previous experience in microfinance, they have adequate skills in their respective domains, formerly developed in similar positions and can rely on a solid middle management team. Over the past 18 months, the team has demonstrated a good ability to execute plans and accomplish the desired goals.

Human resources management

Basic HR procedures are in place, documented in a manual and applied, thus ensuring a professional administration of human resources: appropriate recruitment processes are followed; a salary grid has recently been developed; staff (especially LOs) is given enough incentive to ensure target achievement.

HR management is being reinforced to meet growth expectations although it still can be improved. Initial LO training is in place and a recent plan has been developed to meet the current training needs. The annual evaluation system has been stopped while a new one is being developed. Detailed job descriptions are available, but still need to be developed for the newly created positions (CFO, HR manager). MFW is aware of these issues and is currently working on addressing them. The planned recruitment of a HR Manager should accelerate this process.

There is globally good staff morale, and although MFW also suffers from the Jordanian sector-wide high turnover¹², it has managed to achieve a relatively low turnover rate, most probably due to challenging salaries, incentives, other HR benefits, internal promotions and positive working environment: 35% as of December 2006, and 25% when excluding staff who left during their probation period¹³;

¹² Generally cited reasons are cultural preference for office jobs, preference for public sector jobs and the fact that some women quit their job after getting married.

¹³ As compared to 33% for JMCC (on adjusted basis) and 40% for AMC in 2006.

turnover rate has been decreasing over the years, to reach 10% as of June 2007 (ratio not annualized).

Information

Information and equipment is rated "a"

MIS and equipment

The Delta Oracle-based MIS in place is user-friendly and robust. Having been locally developed for the MFIs supported by the AMIR program, it has solid vendor technical and maintenance support. MFW strong IT team, led by a certified Oracle engineer, has introduced various new products and significantly improved the MIS. Although MFW does not own the source codes, it has been authorized to implement modifications. The software includes many features that provide efficient and accurate handling of information: integration of loan tracking, accounting, payroll and fixed assets modules; disbursements and payments at partner banks automatically imported in the MIS every day; centralized and readily available information through a VPN infrastructure; capacity to generate various kinds of reports according to user needs.

MFW is committed to permanently upgrade its hardware. Currently, the institution owns two servers for the Oracle database and the management of other data. A third server from the Internet provider manages independently the VPN. With an average of four PCs per branch, MFW offers sufficient and modern IT equipments to its staff.

Both system and data security are adequate. Data input has all necessary checks and controls to avoid any loss or data entry error. Information is adequately protected through regular back-ups made on a daily, weekly and monthly basis, stored on both external hard-drives and DVDs, the latter being kept outside MFW premises. The system is further protected with firewalls and automatically updated anti-virus. Access to the MIS is regulated by multiple user rights determined by personal passwords. The MIS has an embedded audit system identifying the person responsible for each transaction. Finally, the VPN and the Oracle database provide for a secure IT environment.

Information on activities

The Delta loan tracking system has rich reporting tools and provides timely, complete and accurate information. Detailed data on portfolio size and quality is available for all products, branches and LOs in real-time, allowing BMs and LOs to properly monitor their portfolio. The system is able to track black-listed clients, rejected loan applications, number of times someone serves as a guarantor, data on clients businesses and clients' loans history. MFW displays a strong concern about generating and analyzing market data such as drop out rate and client satisfaction. These studies

are usually produced by the Marketing Officer and used as a base for decision-making at the management team level. The institution has also recently put in place a policy of sharing global performance data during quarterly meetings with all staff, generating a sense of healthy competition between branches and pushing field staff to adopt a more analytical point of view.

In case of partial payment, MFW proportionally accounts for interest and principal, instead of accounting first for interest and then for principal, which does not follow best practice and may lead to an underestimation of PAR. MFW has a preference for this policy as it considers that principal is equally important than interest from a financial point of view. However, given the excellent quality of portfolio (cf. “A” section), the impact of this policy is not material.

Financial and accounting information

Financial information is accurate, easily available and thoroughly detailed. Financial statements are produced on a monthly basis, including provisions and depreciation. Financial performance is monitored through complete monthly reports to the Board of Directors with financial statements and main microfinance indicators. The profitability of branches is followed upon and integrates headquarters costs.

MFW follows IFRS and has been audited without qualifications by experienced audit firms. The new CFO plans to upgrade accounting reporting standards, following banking best practices.

■ Risks

Risks Management is rated “a”

Procedures and internal controls

Comprehensive and efficient operational procedures are in place and help mitigate potential risks. MFW’s procedures are formalized, regularly updated, well known and thoroughly applied throughout the network. Immediate and constant follow up on repayments decreases the chances of fraud and allows MFW to quickly identify and address arising issues. Adequate internal controls and checks at different levels (BM, CA, OM) are also in place to ensure full separation of incompatible tasks (e.g. loan decision and data entry). The MIS has various embedded parameters (maximum amounts, interest rates, automatic checking of guarantors) that limit human error risk when computing client and loan information. Cash security is high since all disbursement and payments are made through banks.

Internal audit

The IA department currently aims at both improving procedures and mitigating operational risks by verifying

compliance to internal policies through various unannounced checks: all branches are visited on a monthly basis, loan files are checked and visits paid to clients (though the latter is not yet sufficient as it is below the 1% best-practice level). IA annual plan covers all departments, including HQ & General Management. IA also delivers comprehensive reports including recommendations that are followed upon. IA still has to document its procedures in a manual (underway) and to develop a proactive thinking of risks.

The IA department is yet to be reinforced, as it is currently under-staffed given MFW’s size. The department has the necessary skills, but presently suffers from the former IA assistant departure, the current IA being in place for less than a year. MFW is aware of this fact and working on strengthening the department by recruiting an IA Manager (planned for the third quarter). Although IA has been appointed by the BOD and directly reports to it on the organizational chart, it communicates its findings to the GM, who communicates them in turn to department heads and BOD if needed. IA quarterly reports were previously sent to BOD, but present IA-BOD relations are minimal. The strategic plan seeks to address this issue by having IA more actively involved in BOD meetings, but such changes are unlikely to occur before the IA Manager is in place.

■ Activities

Activities: products and services is rated “a”

Market position and strategy

Jordan’s microfinance sector continues to be dominated by six key players including new entrant NMB, wholesale lender DEF and the four MFIs originally funded by the USAID/AMIR program. Nevertheless, this group presently reaches out to less than 80,000 (approximately 50% to 60%) of the total estimated clientele within the microfinance sector. Originally concentrated within different market niches, these key players have recently diversified their product range and geographical coverage to broaden their client base. Consequently, the Jordanian microfinance sector has become increasingly competitive with most MFIs discarding previous restrictions, particularly in relation to average loan size amounts and target clients. The market is expected to become even more competitive with well-financed players such as FINCA and Cairo-Amman Bank stepping in with their technical expertise and financial muscle.

In this environment, MFW boasts clear competitive advantages. It benefits from a strong recognition within the market as one of the oldest and most reliable institutions. Its positioning with women in the lowest segment of the market is clear and has been strengthened by the aggressive re-branding campaign launched in 2006. High quality customer

services are also a distinctive feature of MFW, as shown by the creation of the customer care position, the recent development of the VIP status and the organization of events for the best clients (markets, trips). Further, clients mention quick disbursement and light paperwork as one of the main assets of MFW. However, competition in MFW market segment is expected to increase. Indeed, with the development of individual loans, MFW average loan amount has increased from 397 USD in FY2002 to 516 USD in FY2006. Meanwhile, the average loan amount of MFW's competitor JMCC has decreased bluntly from 2,039 USD to 722 USD.

MFW has faced the challenge of competition by implementing a dynamic although rigorous product diversification policy. Over the last two years it has launched three products tailored to finance specific needs: Start Up loans (Bedaya), Maternity loans (Welada) and very recently (July 2007) leasing for productive equipments. MFW has also innovated in developing non-credit products through partnerships with other companies, such as micro-insurance for death or invalidity¹⁴. Other products are currently under study, like a savings-for-education scheme. Comprehensive studies on demand and feasibility precede the launching of any new product. A parallel although fundamental policy followed by MFW to face competition is the progressive decrease of interest rates (portfolio yield decreased from 43.1% in FY2003 to 34.6% in June 2007).

Credit methodology

MFW has an appropriate credit methodology, leading to exceptional portfolio quality despite strong growth:

- Before any loan application is considered, clients are checked in the database to ensure they are not on a black list.
- LOs are specialized either for group or individual loans. They go through a complete theoretical and practical training process of two months and are subject to a probationary period of three months.
- In group loans, LOs focus on the strength of the group through visits at the home of each member and a detailed explanation of their respective roles. The group loan clients must know each other, respect the loan size caps by cycle and conform to the policy of no greater than a one-cycle difference between group members.
- The evaluation of individual loans is based on repayment capacity, although character assessment is also considered. Clients are selected based on business experience, the purpose of the loan, a credit risk assessment, guarantors and cash flow analysis for loans greater than 5,000 JOD (7,010 USD). The evaluation involves both the business activity and the household.

¹⁴ Through a compulsory premium of 0.11% of the loan amount, loans are insured against death and invalidity of clients.

- Loans are approved by different levels according to their size: BM (<1,500 JOD), OM (1,500 JOD to 3,000 JOD) and GM (>3,000 JOD).
- All outstanding loans must be monitored by LOs through permanent visits in the field. New clients or those likely to be delinquent are reminded of their repayment dates by LOs.
- Recovery actions start from the first day of delinquency, and include progressive pressure. LOs can receive the support of other LOs, the BM and even the CA. Loans are deferred to the Legal Officer between one week and one month after being delinquent.
- The simple although comprehensive incentive scheme favors both portfolio growth and quality. Even if already transferred to the Legal Officer, delinquent loans remain in the portfolio of LOs until they are written off.
- Portfolio evolution and quality is strictly monitored by BMs (daily basis) and the Operations Manager (monthly basis) according to detailed objectives.

Portfolio evolution

Portfolio has grown strongly over the last years, boosted by the development of individual loans, with a peak of 73.4% growth in FY2006. This trend is expected to continue in 2007, as portfolio has already increased by 31.7% as of June 2007. Individual loans have reported the highest growth, evolving from 13% of total portfolio in FY2002 to 41% in June 2007 (Tatweer and Welada). The main result of this evolution has been a clear increase of the average outstanding loan per client (233 USD in 2002, 387 USD in June 2007). As expected, borrowers are still concentrated in group loans, as these represented 84.4% of all clients as of June 2007, while women still account for 98% of total borrowers.

Portfolio diversification

MFW has not established diversification rules per product and does not have any restriction regarding the composition of its portfolio between individual and group loans. There is an institutional policy to focus on women: as such, male clients cannot represent more than 20% of the total number of active clients. MFW portfolio is still highly concentrated on trade, which represented 74% of total portfolio in FY2006. This is emblematic of the type of activities carried out by MFW clients and can hardly be modified if the institution wants to support their business activities. However, concentration of portfolio per client is low, with 88% of loans disbursed in 2006 concentrated in loans lower than 1,500 JOD (2,103 USD).

Portfolio quality and write-off

MFW reports a very low PAR>30 during the period under review. In FY2006 and June 2007 it has remained below the 1% threshold despite very strong portfolio growth. The

write-off ratio is also very low, around or below 1% throughout the entire period, and results from a strict write-off policy¹⁵. As expected, PAR>30 for individual loans is higher than for group loans, due to higher loan amounts (3.3% as of June 2007 for Tatweer). Portfolio quality for individual loans must be closely monitored in the upcoming months, given their strong growth and their share of total portfolio (+40%).

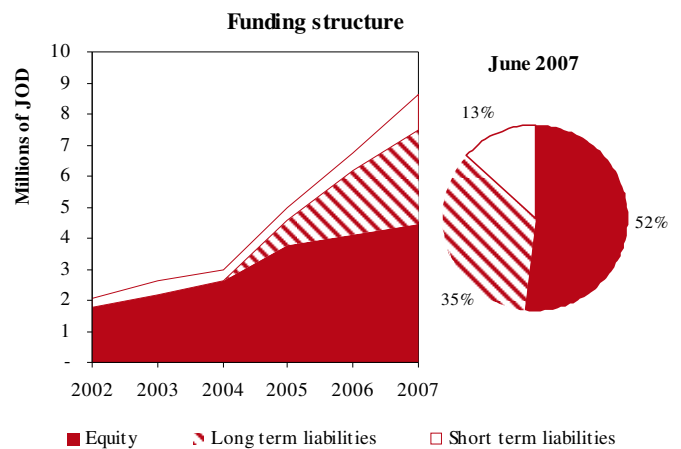
Credit risk coverage

MFW has a conservative loan loss provisioning policy, which brings a more than adequate coverage level. The risk coverage ratio decreased significantly from more than 1,000% until FY2003 to less 500%, due to the decision to reduce the provision on all late payments from 3% to 1%. The collateral policy is adapted to the target clients. Group loans are adequately guaranteed by group solidarity and individual loans are secured mainly by guarantors. However, with the increase of individual loans to a maximum of 10,000 JOD (14,020 USD) for clients without previous credit history, MFW may need to ask for stronger collateral, even if the legal environment is not optimal¹⁶.

Overall, recovery measures are successful: the recovery of loans written off in 2006 represented 33% of the total amount written off that year. The Legal Officer has an important role in formal recovery by sending letters to delinquent clients. Clients are only brought to Court in very few occasions, when the LO in charge and the OM have agreed on it. When clients are sent to Court, MFW always receives full support from local authorities.

■ Financing and liquidity

Financing and liquidity is rated “a”



Capital structure and leverage

MFW's is well capitalized as a not-for-profit LLC, presently combining mainly equity (52%) and long term loans (35%). Over the past 3 years, it has successfully managed to diversify its funding structure, by moving from donations to soft / subsidized loans (e.g. DEF, Calvert Foundation) and to commercial loans (e.g. Blue Orchard, Triodos, Symbiotics, Société Générale, etc.), thus proving good communication with fund providers and adequate negotiation skills. MFW still has a low leverage (0.9x as of June 2007), although it has increased very quickly in 2007, which allows it to absorb new debt financing.

ALM risks

MFW is currently exposed to ALM risks and is aware of the issue: a CFO with solid previous experience, in banking then in steel commodities hedging, was recently recruited to manage them.

- Moderate maturity risk on 31-90 days and over 1 year as liabilities exceed assets over those periods. This risk is mitigated by a very good coverage of short term liabilities by short term assets (almost six times) and a strong capital base.
- Strong FX risk: As of December 2006, 70.3% of MFW's outstanding debts were labeled in hard currency (USD) while all its loans are disbursed in JOD. This risk is nevertheless mitigated by the JOD/USD ongoing peg, which is unlikely to change in the short run. On the medium and long runs, MFW is planning to put appropriate hedging mechanisms in place (hedging offers are being asked from several local banks), to borrow in local currency even from international fund providers and/or to access more local resources. A good example of this effort is the recent deal with IFC and Société

¹⁵ Group loans with more than 240 days of delinquency are written-off; individual loans with more than 360 days of delinquency are written-off.

¹⁶ Law does not prevent the owner of mortgaged moveable assets from selling them.

Générale, which brought outstanding debts in USD to 44.1% of total debts¹⁷.

- Limited interest rate risk: As of December 2006, 21.7% of MFW's outstanding debts were on a floating rate basis (LIBOR + spread). This risk is mitigated by the spread between the cost of debt (7.8% in December 2006) and the portfolio yield (36.6%), and by the short maturity of portfolio, which would allow interest adjustment if LIBOR is to increase dramatically. However, the risk tends to increase with the rise of the cost of debt in 2007 (10.4% in June 2007). With the recent Société Générale/IFC deal, outstanding debts with floating interest rates were decreased to 8.0% of total outstanding debts as of June 2007.

Financing strategy

So far, difficult access and hard conditions from local banks have pushed MFW towards international investors such as IFC, Triodos, Symbiotics and ResponsAbility¹⁸. Despite higher interest rates, MFW has accepted several loans from such investors, thus gaining an excellent credibility / track record, which should allow better negotiations in the future. MFW's financing needs are integrated into its financial projection, until more formal plans are developed by the new CFO. 2007 remaining financing needs are estimated at 1.5 M JOD (2.1 M USD), but should be covered by loans under negotiation with AFD and DEF, both with soft conditions. MFW expects it will need 9 M JOD over the coming 2 years to meet its growth objectives.

Liquidity management

Liquidity is efficiently managed at MFW, avoiding both cash shortages and liquidity excesses. Monthly cash-flow projections are included within the Microfin 3-year projections. Idle cash is kept at a low level (5% of assets), and MFW has proved its capacity to quickly deploy the accessed funds into its loan portfolio. Overdraft facilities and revolving funds in local currency allow the institution to further optimize its liquidity.

¹⁷ IFC offers a package of partial credit guarantee for a loan in local currency and technical assistance. The loan amount is of 2 M JOD, granted by Société Générale Jordan, with a 30% guarantee by IFC. MFW has been very active in closing this deal, which is the first of its type in the Middle-East. Only one similar deal is recorded in the MENA region so far, between IFC and FONDEP in Morocco.

¹⁸ Loans granted based on a PlaNet Finance Investment Advisors & Managers (PFIAM) recommendation. PFIAM and Planet Rating are two distinct legal entities, operating in a strictly independent manner. Planet Rating does not disclose to PFIAM any information that is not publicly available to all other investors or fund providers. Planet Rating's internal Rating Committee is fully independent, private, and confidential

Efficiency and Profitability

Efficiency and Profitability is rated "a"

Profitability analysis

MFW is structurally profitable since 2001. ROA and ROE have reported a strong decrease in 2006 due to the costs of the re-branding campaign, that led to an unusual expenditure of 238,000 JOD (333,665 USD) in advertising, eight times more than the previous year. As such, the ROA decreased from 9.2% in FY2005 to 5.2% in FY2006, while ROE evolved from 11.4% to 7.7%. This evolution has been favored by the long term interest rate decrease. It is expected that it will be inverted in 2007 with new economies of scale, as shown by preliminary figures: ROA reached 9.1% and ROE 16.2% in June 2007. This performance compares well to the benchmark of MENA MFIs according to the 2005 MicroBanking Bulletin (MBB), reporting an ROA of 2.8% and an ROE of 6.8%.

Portfolio yield has consistently decreased during the period under review, following MFW policy to reduce its interest rates on loans to face increasing competition. As a result, the estimated APR of MFW has evolved from 42.2% in 2003 to 37.9% in 2006. This trend is expected to continue in 2007 but should not hinder the planned profitability increase that will be brought by economies of scale.

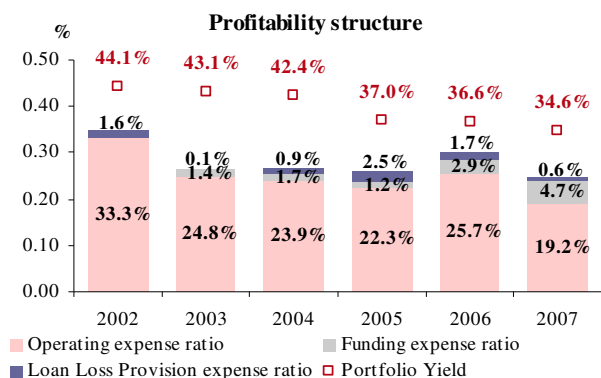
The operating expense ratio displays a long term decreasing trend, although it increased significantly in 2006 due to the re-branding campaign (22.3% in FY2005; 25.7% in FY2006). However, new economies of scale should be generated in 2007, as shown by the operating expense ratio of 19.2% as of June 2007. The main drivers of MFW economies of scale are:

- An exceptional increase of staff and LO productivity, related to good training and a streamlined loan processing. The fact that data input in the MIS is not conducted by LOs has a very positive impact on global productivity. Both individual and group LOs have specific productivity objectives in terms of active and new clients. Staff and LO productivity decreased significantly in June 2007 due to the massive recruitment of new staff to prepare for further growth (13 recruitments since December 2006) but should quickly improve.
- A consistent increase of the average outstanding loan per client, as clients graduate to higher cycles and individual loans grow in total portfolio.

The funding expense ratio increases every year, following the cost of liabilities (0.0% in FY2002; 10.4% in June 2007). This ratio may continue increasing in the upcoming years, although good deals under negotiation could lead to its stabilization (cf. "F" section).

The loan loss provision expense ratio remains below 2% with the exception of FY2005. This ratio is not expected to have a strong impact on profitability given the good quality of portfolio.

Overall, MFW shows a good optimization of assets, with net portfolio representing more than 90% of assets in June 2007. This is a significant progress compared to only 68.4% in FY2002 and 70.0% in FY2005 and shows a strong capacity to disburse resources despite recent cash inflows from IFC and ResponsAbility.



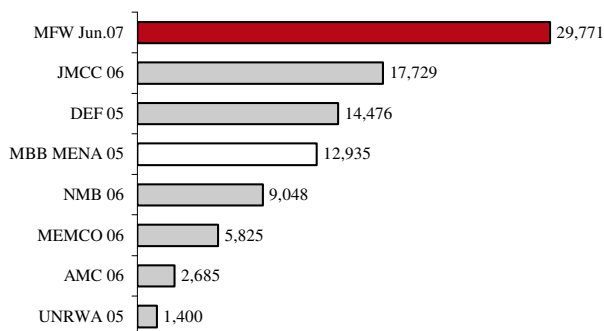
The main challenge for MFW will be to protect its self-sufficiency in an environment characterized by decreasing interest rates and increasing funding costs. However, MFW profitability is robust and should not be threatened in the near future:

- MFW policy to expand to news areas in the Center and South of Jordan will reduce the impact of competition;
- The development of credit and non-credit products will enable MFW to address a strong demand for new financial services;
- The focus of MFW on high quality services, together with its strong brand recognition, will secure its market positioning in the medium term.

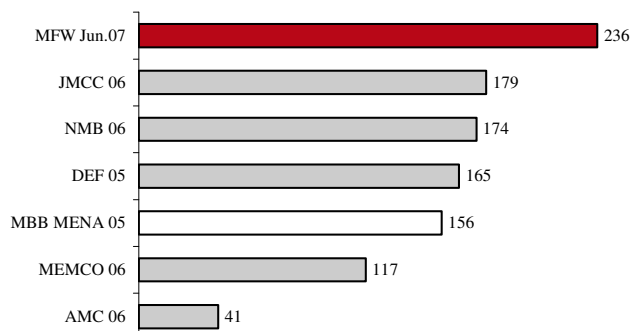
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

Benchmarking

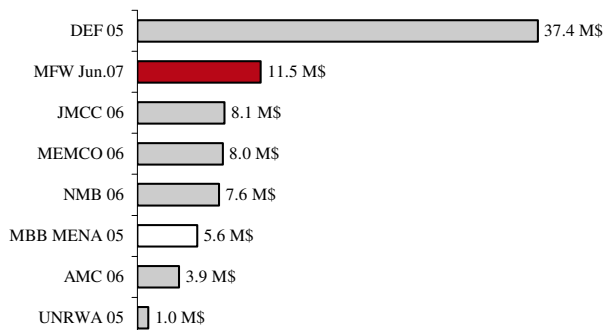
Number of active borrowers



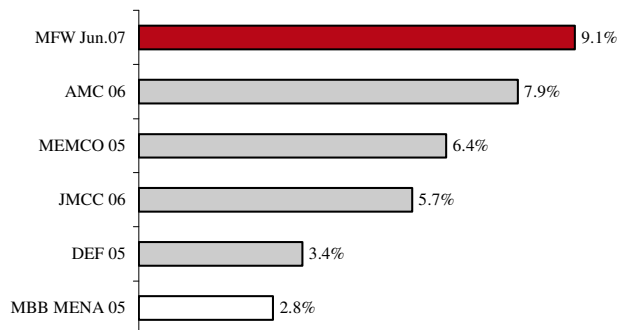
Staff productivity



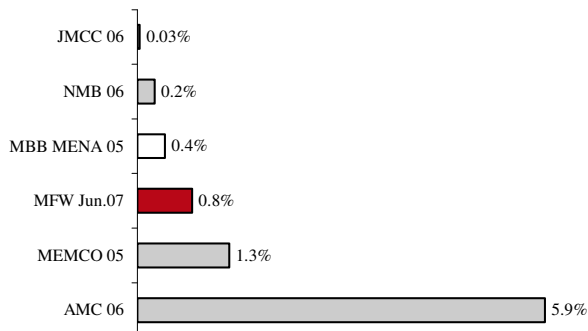
Gross Portfolio



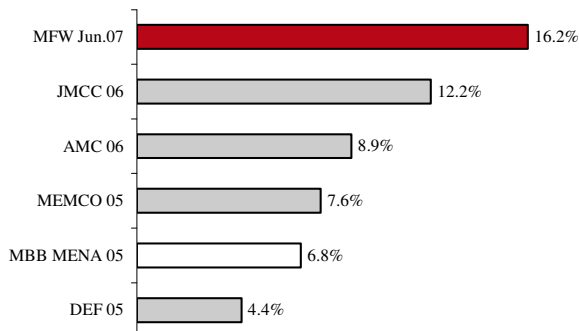
ROA



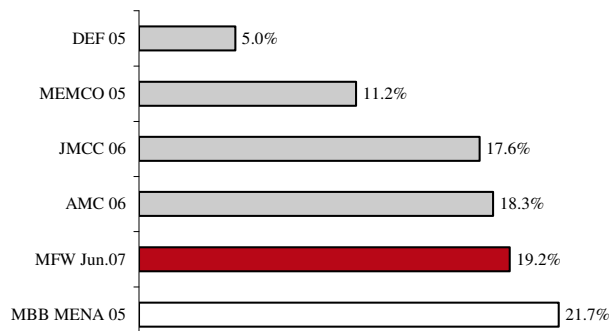
PAR > 30 days



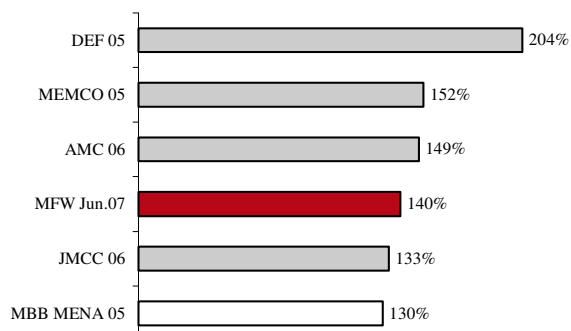
ROE



Operating expense ratio



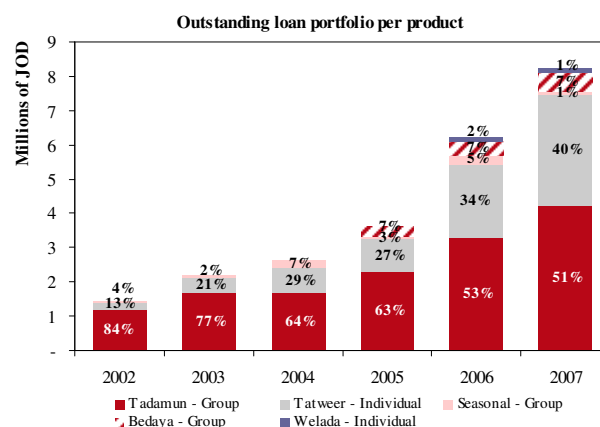
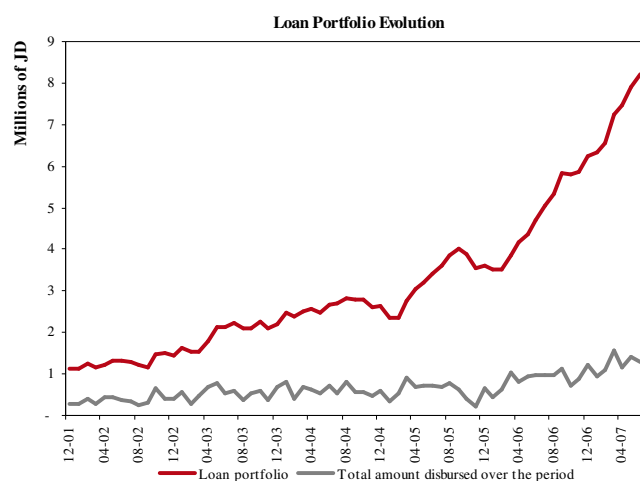
Operational self sufficiency



■ Performance indicators

Data in USD, unless otherwise stated

LOAN PORTFOLIO	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Loan portfolio	3,072,499	3,672,503	5,046,152	8,750,259	11,524,344
Loan portfolio (JOD)	2,191,573	2,619,548	3,599,354	6,241,445	8,220,163
Evolution	52.0%	19.5%	37.4%	73.4%	31.7%
Active borrowers	10,586	11,870	19,095	26,822	29,771
Evolution	22.3%	12.1%	60.9%	40.5%	11.0%
Average outstanding loan per client	290	309	264	326	387
% of GDP per capita	15.4%	16.5%	14.1%	17.4%	20.6%
Average amount disbursed	461	498	473	516	598
% of GDP per capita	23.7%	23.5%	20.6%	20.4%	21.7%
PAR 31-365	0.2%	1.6%	0.8%	0.8%	0.8%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.2%	1.1%	0.6%	0.2%
Risk coverage ratio	1,272.9%	175.9%	420.3%	388.4%	325.8%
PAR 31 net of loan loss provision / Equity	(2.2%)	(1.2%)	(2.5%)	(3.3%)	(3.3%)
STAFF	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Staff	68	73	79	102	126
% Loan officers	69.1%	45.2%	57.0%	56.9%	57.1%
Turnover	16%	48%	34%	35%	10%
Adjusted turnover	n.a.	41%	28%	25%	9%
PROFITABILITY ANALYSIS	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
ROE (%)	16.7%	17.4%	11.4%	7.7%	16.2%
Liabilities / Equity	0.2x	0.1x	0.3x	0.6x	0.9x
ROA (%)	14.1%	15.0%	9.2%	5.2%	9.1%
Portfolio Yield	43.1%	42.4%	37.0%	36.6%	34.6%
Operating expense ratio	24.8%	23.9%	22.3%	25.7%	19.2%
Cost per borrower	64	73	54	64	64
Staff productivity	151	163	242	260	236
Loan officer productivity	225	360	424	462	413
Average outstanding loan per client	290	309	264	326	387
Funding expense ratio	1.4%	1.7%	1.2%	2.9%	4.7%
Cost of liabilities	8.4%	12.2%	5.6%	7.8%	10.4%
Loan Loss Provision expense ratio	0.1%	0.9%	2.5%	1.7%	0.9%
Outstanding Loan Portfolio / Assets	81.8%	86.2%	70.0%	90.0%	92.8%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	0.1%	0.0%
Liquidity / Total Assets (LAR)	8.5%	6.0%	25.6%	5.3%	3.0%



MFW Balance sheet	Notes	JOD					USD					Evolution			
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	04/03	05/04	06/05	07/06
ASSETS		2,614,264	2,953,205	4,961,352	6,726,145	8,630,873	3,665,095	4,140,277	6,955,620	9,429,790	12,100,144	13.0%	68.0%	35.6%	28.3%
Short Term Assets		2,491,286	2,836,086	4,856,837	6,549,326	8,430,351	3,492,685	3,976,081	6,809,094	9,181,896	11,819,020	13.8%	71.3%	34.8%	28.7%
Cash and Due from Banks	1	221,556	176,978	1,268,603	355,268	259,938	310,613	248,116	1,778,531	498,072	364,423	(20.1%)	616.8%	(72.0%)	(26.8%)
Short Term Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		2,138,761	2,545,516	3,474,703	6,055,754	8,008,215	2,998,458	3,568,713	4,871,396	8,489,928	11,227,201	19.0%	36.5%	74.3%	32.2%
Short Term Gross Loan Portfolio		2,191,573	2,619,548	3,599,354	6,241,445	8,220,163	3,072,499	3,672,503	5,046,152	8,750,259	11,524,344	19.5%	37.4%	73.4%	31.7%
(Loan Loss Reserve)		52,812	74,032	124,651	185,691	211,948	74,040	103,790	174,756	260,331	297,143	40.2%	68.4%	49.0%	14.1%
Interest Receivable		1,563	5,510	15,608	14,304	-	2,191	7,725	21,882	20,054	-	252.5%	183.3%	(8.4%)	(100.0%)
On loan portfolio		1,563	5,510	15,608	14,304	-	2,191	7,725	21,882	20,054	-	252.5%	183.3%	(8.4%)	(100.0%)
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		129,406	108,082	97,923	124,000	162,198	181,422	151,527	137,284	173,843	227,395	(16.5%)	(9.4%)	26.6%	30.8%
Long term assets		122,978	117,119	104,515	176,819	200,522	172,410	164,196	146,526	247,893	281,124	(4.8%)	(10.8%)	69.2%	13.4%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		122,978	117,119	104,515	176,819	200,522	172,410	164,196	146,526	247,893	281,124	(4.8%)	(10.8%)	69.2%	13.4%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		2,614,264	2,953,205	4,961,352	6,726,145	8,630,873	3,665,095	4,140,277	6,955,620	9,429,790	12,100,144	13.0%	68.0%	35.6%	28.3%
Liabilities		444,233	336,322	1,185,834	2,602,488	4,152,427	622,797	471,510	1,662,492	3,648,585	5,821,539	(24.3%)	252.6%	119.5%	59.6%
Short term liabilities		444,233	336,322	402,134	530,588	1,161,794	622,797	471,510	563,776	743,863	1,628,789	(24.3%)	19.6%	31.9%	119.0%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	2	414,683	298,072	321,168	374,402	981,719	581,369	417,885	450,265	524,897	1,376,331	(28.1%)	7.7%	16.6%	162.2%
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		29,550	38,250	80,966	156,186	180,075	41,428	53,625	113,511	218,967	252,458	29.4%	111.7%	92.9%	15.3%
Long term liabilities		-	-	783,700	2,071,900	2,990,633	-	-	1,098,716	2,904,722	4,192,750	-	-	164.4%	44.3%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	783,700	2,071,900	2,990,633	-	-	1,098,716	2,904,722	4,192,750	-	-	164.4%	44.3%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity		2,170,031	2,616,883	3,775,518	4,123,657	4,478,446	3,042,298	3,668,767	5,293,127	5,781,204	6,278,605	20.6%	44.3%	9.2%	8.6%
Paid-In Capital	3	33,000	33,000	1,000,000	1,000,000	1,000,000	46,265	46,265	1,401,961	1,401,961	1,401,961	0.0%	2,930.3%	0.0%	0.0%
Donated equity		1,583,547	1,618,160	2,413,945	2,443,945	2,443,945	2,220,070	2,268,596	3,384,255	3,426,314	3,426,314	2.2%	49.2%	1.2%	0.0%
Retained earnings without donations and reserves		520,484	932,723	212,709	496,527	845,648	729,698	1,307,641	298,210	696,112	1,185,565	79.2%	(77.2%)	133.4%	70.3%
Current year		327,619	412,239	362,850	313,218	349,120	459,309	577,943	508,701	439,119	489,453	25.8%	(12.0%)	(13.7%)	11.5%
Other equity accounts	4	33,000	33,000	148,864	183,185	188,854	46,265	46,265	208,701	256,818	264,766	0.0%	351.1%	23.1%	3.1%

1. Includes 106,000 JOD of blocked guarantee fund at Housing Bank for overdraft, generating interests; 2. In 2006, includes 3,548 JOD overdraft facility from Jordan Kuwait Bank; 3. In 2005, paid-in capital increased to 1,000,000 JOD through capitalization of retained earnings; 4. Statutory reserve.

MFW Income Statement	Notes	JOD					USD					Evolution			
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	04/03	05/2004	06/05	07/06*
Financial Revenue (a)		841,290	1,106,553	1,212,600	1,735,981	1,231,858	1,179,455	1,551,344	1,700,017	2,433,777	1,727,017	31.5%	9.6%	43.2%	41.9%
Financial Revenue from Loan Portfolio		839,861	1,101,592	1,208,502	1,731,847	1,230,136	1,177,452	1,544,388	1,694,272	2,427,981	1,724,603	31.2%	9.7%	43.3%	42.1%
Interest on Loan Portfolio		742,198	992,454	1,095,729	1,560,050	1,104,233	1,040,532	1,391,381	1,536,169	2,187,129	1,548,091	33.7%	10.4%	42.4%	41.6%
Fees and Commissions on Loan Portfolio		77,869	71,275	72,338	100,003	69,248	109,169	99,925	101,415	140,200	97,082	(8.5%)	1.5%	38.2%	38.5%
Penalty Revenue on Loan Portfolio		19,794	37,863	40,435	71,794	56,656	27,750	53,082	56,688	100,652	79,429	91.3%	6.8%	77.6%	57.8%
Financial Revenue from Investments	1	-	-	381	1,686	-	-	-	534	2,364	-	-	-	342.5%	(100.0%)
Other Operating Revenue	2	1,429	4,961	3,717	2,448	1,722	2,003	6,955	5,211	3,432	2,414	247.2%	(25.1%)	(34.1%)	40.7%
Financial Expense (b)		28,050	43,647	39,391	138,716	167,455	39,325	61,191	55,225	194,474	234,765	55.6%	(9.8%)	252.2%	141.4%
Interest paid on borrowings		28,050	43,647	39,391	138,716	167,455	39,325	61,191	55,225	194,474	234,765	55.6%	(9.8%)	252.2%	141.4%
Financial income [c=a-b]		813,240	1,062,906	1,173,209	1,597,265	1,064,404	1,140,130	1,490,152	1,644,793	2,239,302	1,492,252	30.7%	10.4%	36.1%	33.3%
Net Loan Loss provision expense (d)		1,637	24,371	80,568	78,697	33,327	2,295	34,167	112,953	110,330	46,723	1,388.8%	230.6%	(2.3%)	(15.3%)
Loan loss provision expense and write-off		2,235	25,599	86,695	87,413	38,961	3,133	35,889	121,543	122,550	54,621	1,045.4%	238.7%	0.8%	(10.9%)
Recovery from Loans written off		598	1,228	6,127	8,716	5,634	838	1,722	8,590	12,219	7,899	105.4%	398.9%	42.3%	29.3%
Operating expense (e)		483,984	621,714	729,647	1,215,952	681,957	678,526	871,618	1,022,936	1,704,717	956,077	28.5%	17.4%	66.6%	12.2%
Personnel Expense (includes fringe)		330,471	364,575	424,061	663,508	449,217	463,307	511,120	594,517	930,212	629,784	10.3%	16.3%	56.5%	35.4%
Administrative Expense (non-staff operating expenses)		153,513	257,139	305,586	552,444	232,740	215,219	360,499	428,420	774,505	326,292	67.5%	18.8%	80.8%	(15.7%)
Depreciation and amortization		20,771	28,997	29,638	41,089	22,637	29,120	40,653	41,551	57,605	31,736	39.6%	2.2%	38.6%	10.2%
Consulting fees		8,682	9,434	2,775	9,364	-	12,172	13,226	3,890	13,128	-	8.7%	(70.6%)	237.4%	(100.0%)
Rental costs		32,498	42,073	47,347	57,394	50,895	45,561	58,985	66,379	80,464	71,352	29.5%	12.5%	21.2%	77.4%
Travel costs		3,133	6,280	10,705	3,148	9,060	4,392	8,804	15,008	4,413	12,702	100.4%	70.5%	(70.6%)	475.6%
Bank fee		15,075	15,495	7,943	2,297	-	21,135	21,723	11,136	3,220	-	2.8%	(48.7%)	(71.1%)	(100.0%)
Research expenses		-	-	19,436	11,212	-	-	-	27,249	15,719	-	-	-	(42.3%)	(100.0%)
Branch maintenance		4,087	9,668	15,132	19,152	-	5,730	13,554	21,214	26,850	-	136.6%	56.5%	26.6%	(100.0%)
Advertising		10,874	31,339	28,550	237,999	-	15,245	43,936	40,026	333,665	-	188.2%	(8.9%)	733.6%	(100.0%)
Legal fees		474	4,375	6,562	7,077	-	665	6,134	9,200	9,922	-	823.0%	50.0%	7.8%	(100.0%)
Others		57,919	109,478	137,498	163,712	150,148	81,200	153,484	192,767	229,518	210,502	89.0%	25.6%	19.1%	83.4%
Net Operating Income Before Taxes and Donations [f=c-d-e]		327,619	416,821	362,994	302,616	349,120	459,309	584,367	508,903	424,256	489,453	27.2%	(12.9%)	(16.6%)	130.7%
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		327,619	416,821	362,994	302,616	349,120	459,309	584,367	508,903	424,256	489,453	27.2%	(12.9%)	(16.6%)	130.7%
Non Operating Revenue (i)	3	-	-	-	10,602	-	-	-	-	14,864	-	-	-	-	(100.0%)
Non Operating Expense (including related taxes) (j)	4	-	4,582	144	-	-	-	6,424	202	-	-	-	(96.9%)	(100.0%)	-
Net Income Before Donations [k=h+i-j]		327,619	412,239	362,850	313,218	349,120	459,309	577,943	508,701	439,119	489,453	25.8%	(12.0%)	(13.7%)	122.9%
Donations (l)	5	91,068	34,613	795,785	30,000	-	127,674	48,526	1,115,659	42,059	-	(62.0%)	2,199.1%	(96.2%)	(100.0%)
Net Income (after Taxes and Donations) [m=k+l]		418,687	446,852	1,158,635	343,218	349,120	586,983	626,469	1,624,361	481,178	489,453	6.7%	159.3%	(70.4%)	103.4%

* Evolution rates annualized.

1. Interests generated by blocked guarantee fund; 2. Includes interests on staff loans and other operating revenues; 3. Revenues from asset sale; 4. Loss from asset sale; 5. In 2005, includes access to 1,000,000 USD of conditional USAID grant.

■ 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+	Excellent
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+	Good
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+	Minimum required
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	Insufficient
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	Immediate risk of default or very insufficient
	There are immediate or underlying risks for operations or an unacceptable under performance.