

Marang Financial Services, South Africa

Marang Financial Services was incorporated in June 2000 as a company limited by guarantee by Khula Enterprise Finance Ltd. – a government owned wholesale fund aimed at promoting the development of small and medium enterprise in South Africa – to merge the operations of the then defunct Get Ahead Financial Services and Rural Finance Facility. In July 2001 Marang was converted to a not for profit company. Marang operates in five of nine provinces in South Africa: Gauteng, Limpopo, Mpumalanga, Kwazulu Natal and Eastern Cape through 23 branches and 19 satellite offices. As of December 2007 Marang services 23,426 clients with both group and individual loans through an outstanding loan portfolio of 4.3 M USD.

GIRAFE Rating

Rating

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The GIRAFE methodology has been revised as of January 2008. The changes do not affect the signification of the grades. For more info see: www.planetrating.com

Outlook

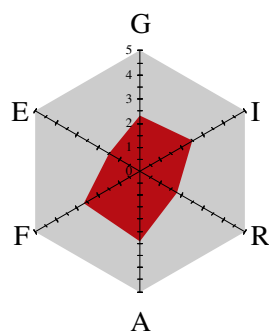
Positive

Date of the rating

March 2008

Valid until February 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- Marang has been able to maintain a good portfolio quality over the years with PAR>30 at 2% or less, partly as a result of a strong write-off policy.
- After breaking even in FY04/05 with ROA at 0.8%, Marang returned to the red with ROA dropping to (10.1%) in FY05/06 and (8.2%) in FY06/07.
- The main reason for the above is inadequate liquidity planning that led to an erratic portfolio trend resulting in reduced operating efficiencies; the portfolio growth has stabilized in the second half of 2007 but Marang is yet to prove long term stability.
- Marang has faced several turnovers in its key management positions in 2007; a new managing director has been appointed but Marang is still in the process of putting together a complete and cohesive management team.
- Marang enjoys a good market position as one of the two largest MFIs in South Africa operating through an extensive branch network but has not been able to sufficiently diversify its product offering to sustain a good revenue quality.
- Challenges furthermore remain with information management and with an internal audit function that has become mostly inactive with the transition of the previous head of internal audit to the position of managing director.

Outlook

The positive outlook for Marang reflects Planet Rating's opinion that Marang will be able to increase its operating efficiencies – and hence its profitability – as a result of the stabilizing factor of the new MD, the fact that a significant part of the funding required for growth has been contracted and that a new, integrated MIS will be implemented in 2008.

Performance indicators

USD , unless otherwise stated	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007
Assets	3,187,900	4,533,928	4,812,771	4,093,248	5,078,330
Growth	22.8%	41.3%	5.2%	(1.0%)	16.8%
Loan portfolio	2,524,115	3,316,715	3,325,024	3,097,770	4,304,166
Growth	66.3%	34.1%	(0.6%)	8.4%	30.9%
Active borrowers	21,691	26,244	22,855	21,621	23,426
Staff	158	179	192	217	212
ROE	(28.7%)	1.3%	(16.3%)	(15.2%)	(35.5%)
ROA	(12.3%)	0.8%	(10.1%)	(8.2%)	(15.3%)
Liabilities / Equity	0.86x	0.50x	0.75x	0.97x	1.72x
Portfolio Yield	92.7%	94.6%	96.5%	92.7%	96.3%
Operating expense ratio	106.0%	87.5%	108.4%	98.0%	108.3%
PAR 31-365	0.2%	0.8%	0.2%	1.4%	2.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	n/a	2.7%	0.9%	4.5%	0.5%

Microfinance sector

South Africa has been unable to generate the type of pro-poor microfinance sector that has been successful in many other African countries. The South African financial sector targeting low income households can broadly be divided into a highly developed consumer finance industry and a poorly developed microfinance industry. The former developed as a result of an exemption notice (1992) to the Usury Act of 1968 to remove the interest rate ceilings on loans below 10,000 ZAR (1,459 USD). To qualify both consumer lenders and MFIs needed to be registered by the MicroFinance Regulatory Council (MFRC) as of 1999.

In 2005 a new National Credit Act (NCA) was passed and came into effect in March 2006. The act was introduced to regulate all creditors, debt counselors and credit bureaus. For this purpose the National Credit Regulator (NCR) was established in June 2006. All institutions giving out credit need to be registered with the NCR.¹ With the establishment of the NCR the MFRC mandate came to an end and MFRC was incorporated into the NCR.

The regulations under the act have become effective as of June 1st 2007. The NCA again introduces an interest rate ceiling for loans which at present stands at 44.2% for uncollateralized credit² However, including initiation and service fees the effective interest rates can come up to 125% depending on the loan amount and maturity. Furthermore, all micro loans must be registered with the National Loans Register through one of the eight credit bureaus – with both positive and negative information. At present there are 16.9 million active creditors listed with credit bureaus in South Africa.

Besides being regulated by NCR banks are regulated by the South African Reserve Bank under the Banking Act of 1990. Savings and Credit Cooperatives are regulated by the Savings and Credit Cooperative League of South Africa (SACCOL) under the Cooperatives Act of 1981. Banks can pursue full financial intermediation where cooperatives are only allowed to intermediate their member deposits. Other financial service providers are not otherwise regulated and are not allowed to hold or on-lend client deposits.

The development of a microfinance sector offering enterprise loans remains highly limited. A large underserved market remains as a 2007 Finscope survey shows that 25%

¹ Only those with fewer than 100 credit agreements and a loan book of less than 500,000 ZAR are excluded.

²The maximum interest rate for uncollateralized and developmental credit is set at 2.2 times the Repurchase Rate of the South African Reserve Bank (Repo Rate) + 20%; for loans under 8,000 ZAR and with a term not exceeding six months the maximum rate is 5% per month.

of South Africans remain financially excluded and another 11% is only informally served (e.g. through community based savings groups)³ The larger MFIs in South Africa are shown in the table below:

MFI	Loan portfolio (M USD)	Active borrowers
SEF (2007-06)	6.94	41,295
Marang (2007-12)	4.20	23,426
WDB (2007-12)	~1.60	~15,000
Kuyasa Fund (2007-12)	1.58	3,095
Total	~12.7	~68,000

The government has supported the development of the microfinance institutions with both grants and concessional funding through its wholesale fund Khula Enterprise Finance Ltd that operates under the Department of Trade and Industry (DTI). In 2006, this support role was transferred to the South African Micro-Finance Apex Fund (SAMAF) which also operates under DTI. Due to the limited funds available at SAMAF the support to both Marang and SEF, as well as other larger MFIs have remained with Khula.

Political & economic environment

Economic activity, which has been remarkably dynamic since 2004, slowed slightly in 2007 with tighter credit controls and higher interest rates facilitating a soft landing for household demand. In 2008, investment should become the new engine of strong growth even if the shortage of skilled labor should delay infrastructure programs. Those favorable economic conditions, which have benefited construction, financial services, and manufacturing, have bolstered corporate solvency as evidenced by a Coface payment incident index remaining below the world average.

The tight fiscal policy these past years has allowed the government to gain substantial leeway in supporting the economy without increasing public debt. The energy bill and the increases in imports of consumer and capital goods have contributed to further undermining the current account deficits. Although the limited foreign debt burden has tended to ease insolvency risk, the country has moreover remained vulnerable to foreign exchange liquidity crisis risk. Especially with its financing needs largely covered by volatile portfolio investment and with the prospects limited for a significant increase in direct investment. The considerable credibility of the Central Bank, which has been taking pains to bring inflation within its target range (between three and six per cent), should limit exchange rate volatility.

³ Survey Highlights, FinScope, South Africa, 2007.

In the political field, the election of Jacob Zuma, supported by the Communist Party and the COSATU trade union, as president of the ANC in December 2007 has raised uncertainties about the country's political and economic direction. 2008 may see a leadership crisis and early presidential elections since the current president, Thabo Mbeki, has been weakened by defeat in the ANC elections. Furthermore, newly elected Zuma is currently facing judicial charges. In this context, the election contest to choose Mbeki's successor, scheduled for 2009 at the latest, remains wide open. Moreover, social risks have remained significant, stoked by the frustrations of the large proportion of the population that has not benefited from the fruits of economic growth.

Strengths

- With the country generating 40 per cent of African GDP, its economic and political influence has been an inescapable fact on the continent.
- South Africa boasts extensive mineral resources, diversified industry, and an outperforming tertiary sector (banks, telecommunications, transport).
- With public finances under control and the country's external financing needs at moderate levels, debt has been low.
- With the country's good creditworthiness, the government continues to enjoy substantial borrowing capacity.
- Tight economic management, in conjunction with a good business environment, constitutes a major asset.

Weaknesses

- The social and economic dualism inherited from the apartheid era and now reflected by a wage gap has been a source of social and political tensions.
- The campaigns against poverty, unemployment, and the AIDS pandemic have made it necessary to increase the growth rate, which in turn requires eliminating economic bottlenecks.
- A shortage of skilled labor has stalled implementation of vast investment projects in the transport and energy sectors.
- With its growing financing needs, South Africa has been vulnerable to a crisis of investor confidences.

COFACE Country Rating: A3 - Changes in generally good but somewhat volatile political and economic environment can affect corporate payment behavior. A basically secure business environment can nonetheless give rise to occasional difficulties for companies. Corporate default probability is quite acceptable on average.

(USD millions)	2005	2006(e)	2007(f)	2008(f)
Economic growth (%)	5.1	5.0	4.5	4.8
Inflation (%)	3.4	4.6	5.6	4.3
Public sector balance (%GDP)	-0.3	0.3	0.6	-0.1
Exports	55.4	64.1	70.7	78.6
Imports	56.6	70.4	76.6	84.2
Trade balance	-1.2	-6.3	-5.9	-5.6
Current account balance (%GDP)	-3.8	-6.3	-5.8	-5.3
Foreign debt (%GDP)	19.1	22.4	24.3	24.5
Debt service (%G&S exports)	7.2	8.1	7.9	7.7
Foreign currency reserves (in months of imports)	2.8	2.8	3.0	3.0

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

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

Institutional presentation

Legal form, supervision and audit

Marang Financial Services was originally incorporated in June 2000 as a company limited by guarantee under Section 32 of the Companies Act of 1973. In July 2001 Marang Financial Services was converted to a not-for-profit company under Section 21 of the Companies Act. Marang is not regulated by the South African Reserve Bank but is registered with and supervised by the National Credit Regulator (NCR) under the National Credit Act of 2005.

The financial year of Marang starts on April 1st and ends on March 31st. For the past two financial years Marang has been audited by PriceWaterhouseCoopers who did not qualify their opinion in either of the years. Before Marang was audited by SizweNtsaluba VSP who qualified their opinion for the financial year ending March 2005.⁴

Ownership

Marang was founded by Khula Enterprise Finance Ltd.⁵ to take over the operations of the defunct MFIs Get Ahead Financial Services and Rural Finance Facility. As a not for profit company there are however no shareholders. The board of directors (BOD) is elected yearly by the general assembly where there is no limit on the number of terms a board member can serve. At present the BOD contains seven

⁴ The qualification was based on the fact that the auditors could not ascertain accurately the ageing of the loan portfolio, and therefore the loan loss provision, as a result of a crash of the loan tracking system. There was also an amount of 351 K ZAR (56 K USD) of unallocated client loan repayments to Marang.

⁵ Khula Enterprise Finance Ltd. is a government owned wholesale fund focused on supporting the SME sector in South Africa.

members, including the Managing Director. The chairperson of the board is Director Risk Advisory Services at KPMG where other board members have backgrounds in business, development finance and law. The initial BOD was appointed by Khula and at present three of the original BOD members remain who include the chairperson and the vice-chairperson of the BOD.

The BOD has four sub-committees: Finance & Audit, Operations, HR and the newly established IT committee to monitor and supervise the implementation of the new MIS. In the period November 2006 to November 2007 the sub-committees were inactive.

Donations

Since inception Marang has received a total of 39.7 M ZAR (5.8 M USD) in donations of which the majority has come from Khula (28.2 M ZAR; 4.1 M USD) and another large part from the Swedish International Development Cooperation Agency (SIDA) (8.0 M ZAR; 1.2 M USD). At present there are two ongoing grant contracts with Umsobomvu Youth Fund (UYF) of South Africa focused on capacity building and MIS installation, and Hivos of the Netherlands focused on the MIS hardware and networking costs and product development.

Funding composition

As at December 2007 the funding structure comprises 36.8% equity and 52.7% debt. The debt totals 18 M ZAR and is composed of concessional loans from Khula (6.3 M ZAR) and UYF (5.6 M ZAR) as well as commercial loans from Triodos (4 M ZAR) and Blue Orchard (2.1 M ZAR).

Management team

As of March 2008 the senior management team consists of the following positions: the Managing Director (MD), Finance Manager (FM), Operations Manager on Strategy and Policies, Network Performance Manager, HR Manager, IT Manager and Head of Internal Audit. In March 2006 the MD since inception resigned. The BOD recruited one of its own members as the new MD. The MD did not function well and in September 2007 he was asked to leave by the BOD. The catalyst for the termination process was the resignation of the Finance Manager at the beginning of that month which was due to a personal conflict with the MD.⁶ Since

⁶ In June 2007 the Operations Manager also resigned as result of a personal conflict with the then MD. One of the regional managers was appointed as the new OM. After the MD left the previous Operations Manager was asked to come back full-time in September 2007 and initially focused on specific projects such as developing the new operations manual. The function of the appointed regional manager was termed Network Performance Manager and was in charge of the performance of the branch network. This dual position on operations management will be changed as of May 1st 2008 with the old

then the Head of Internal Audit, Mr. Gerhard Botes, has been acting Managing Director and acting Finance Manager. As of March 2008 the BOD has appointed Mr. Botes as Managing Director. The positions of Finance Manager and Head of Internal Audit remain vacant at present. Recruitment is in progress and until the positions are filled the MD will remain acting in these positions.

- Mr. Gerhard Botes grew through the ranks of Eskom, South Africa's power company, to the position of Finance Manager in 1989 and Head of Internal Audit in 1991 and then joined a large retail chain in the same position in 1996. Prior to joining Marang in November 2006 as Head of Internal audit Mr. Botes ran his own company for 8 years focused on accounting and risk management services. Mr. Botes is a member of the Institute of Internal Auditors (IIA) and Certified Public Accountants (CPA) among others.

Organization

The branches are staffed by a Branch Manager (BM), Loan Officers (LO) and a reliever. The latter one functions as an office assistant and can replace LOs when they are on leave. Seven branches also have a Senior Loan Officer. The branches are grouped into six regions that are supervised by a Regional Manager (RM). Each region also has one data capturer, based at the RM's office that is responsible for the input of loan applications into the MIS.

Loan approval is done by the Branch Manager and Senior Loan Officers. Loans are disbursed directly to the account of the group or individual by the finance department at HO. Repayments are deposited by clients into the bank account of Marang and clients bring the deposit slip to Marang. Only full repayments are accepted which is ensured through providing the clients with pre-filled deposit slips for repayments.

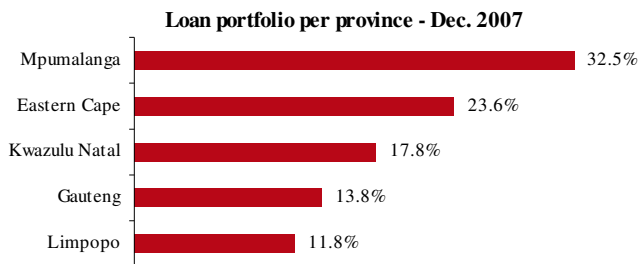
Marang uses two loan tracking systems and one accounting package. Marang uses Micro Loans Administration System (MLAS) developed by Integrated Products Intelligence (IPI), a two person South African software company. The input of disbursements and repayments is done at HO by the finance department directly from loan agreements and bank statements. MLAS is only available at HO and the Regional Offices. The branches use a manual loan tracking system per LO which is consolidated monthly per branch, region and for Marang as a whole. In both MLAS and the manual system repayments and disbursement of groups are tracked as one loan. There is a real-time interface between MLAS and Pastel, the accounting package used by Marang.

Operations Manager becoming Chief Operating Officer (COO) where the structure of the operations department is still to be finalized and approved by the BOD.

Marang has procured SAP All in One Banking Solutions to replace the above three systems. The implementation will start in March 2008 and the system is expected to be on-line by September 2008.

Market penetration

Marang operates in five out of nine provinces in South Africa: Gauteng, Limpopo, Mpumalanga, Kwazulu Natal and Eastern Cape through a branch network of 23 branches and 19 satellite offices. The loan portfolio per province as of December 2007 is shown below.



Products and services

The core product of Marang has been its solidarity group lending product and since 2005 Marang has also been piloting an individual loan product. The group loan product is offered to groups of 5-8 members with loan amounts ranging from 500-10,000 ZAR (73-1,459 USD) per member and is aimed at micro-entrepreneurs. The maximum loan amount depends on a business analysis and the loan cycle (only in the 7th loan cycle can the maximum of 10,000 ZAR be reached). Loan terms can either be 4, 6 or 9 months with monthly repayments. At present, Marang charges interest rate of 43.1% on a declining balance as well as monthly administrative and service fees.⁷ The effective interest rate varies between 95-125% (depending on the loan amount and term of the loan) with an estimated average of 103% (including VAT).⁸ The group loans are secured through a group guarantee and group members are expected to save 10% of the loan amount prior to disbursement of the loan which is held in their own bank accounts. There are no mandatory monthly meetings for the groups who are expected to organize their own repayments. Rescheduling of loans is not permitted by Marang.

The individual loan is still in its pilot phase. The loan is only offered to group loan clients with a good repayment record and the loan amounts range from 4,000-15,000 ZAR (584-2,188 USD). The loan terms, interest rates and fees are the same as for the group loans. The individual loans do require

⁷ As of July 2007 the interest rate was changed as a result of the NCA. Prior to July 2007 the interest rate was 60% flat per annum for the 4 and 9 month loans and 54% for the 6 month loans and did not include any fees. The effective interest rate was 93% on average.

⁸ 18% VAT is charged on the fees but not on interest income.

the clients to sign chattel as collateral although in practice Marang cannot access these assets of clients.

Networks

Marang is a member of the Association of Microfinance Institutions of South Africa (AMFISA) and of the International Network of Alternative Financial Institutions (INAFI).

■ Governance

Governance and Decision making is rated “c”

Decision making

There is a shared strategic vision and mission among the BOD, management team and staff at Marang. The institution has an adequately qualified BOD which could benefit from more specific banking/microfinance input. The BOD has an almost fifty-fifty mix of members that were part of Marang’s inception as well as members who joined later on. However, there has been no rotation in the position of Chairperson and Vice-Chairperson in the past seven years.

There has been a lapse in adequate governance from mid 2006 to mid 2007. This was partly due to the limited information that was provided by the MD who as well minimized communication of other management team members with the BOD. As the BOD only consisted of five members at that time the BOD decided to discontinue the BOD committee meetings in favor of monthly BOD meetings. In practice the BOD meetings remained quarterly. Only when management team members approached the BOD directly in September 2007 did the BOD realize the extent of the problems and the non-performing MD was asked to resign.

Since then governance has improved with appropriate information being shared by management in a timely fashion and the sub-committees have resumed functioning. At present Marang can benefit from further improvement in the follow-up of decisions taken by the BOD and clearly highlight actions to be taken to improve effectiveness in decision making. With the appointment of the new MD the balance in decision making between BOD and management needs to be re-established. Input to this, and further governance improvements (e.g. improvements in the functioning of the sub-committees) are expected to come out of a review of the governance structure that has been carried out by PWC.

The current legal set-up as a not-for-profit company prevents additional equity investments that Marang will need in a 12-18 month period given its expansion targets. A company

limited by shares is currently being registered. Potential investors have been identified and a cautious approach is taken in the selection process to make sure there is a good match.

Planning

At the end of 2007 a new five-year business plan has been developed which puts in place an appropriate strategy for Marang to grow its operations based on the current branch network and staff levels in order to achieve profitability through increased efficiencies and economies of scale. The business plan could benefit from being more specific on key activities needed (e.g. product development). Furthermore, there is a need for a more thorough market assessment and placement of Marang as competition is increasing.

Financial projections in the past have been weak which together with weak liquidity planning has caused a time of volatile loan disbursement levels. The financial projections have been improved but still require further refinement as they are currently based on an in-house developed excel sheet which is not fully accurate and the projections show several inconsistencies.

Annual budgets are available and are adequately monitored and updated. There is a need for a stronger control on expenses at both the BOD and management level. Furthermore, branches should become more responsible for their own budgets and contribution to the financial bottom-line of Marang. At present however, the planning process for branches is top-down where the loan portfolio and number of clients are dependent on the present number of LOs rather than market assessments.

Management team

In the past the effectiveness of the management team has been hampered by a non-performing MD and staff turnover of key management positions. More recently three management team positions (MD, FM, IA) have been covered by one individual inherently limiting the effectiveness in operations. The appointment of the MD is expected to bring back stability to the management team. The recruitment process for FM and IA will however only now commence. The position of Operations Manager has also seen turnover in this position in 2007. The present dual management position will be streamlined by April 2008 with the former Operations Manager resuming her role. HR and IT management positions have been stable and are functioning well.

The new management team will have to build on cohesiveness, team-work and internal communication as this has been weakened by the turnover in management

positions. The new team will also have to prove that it has the ability to solidly execute the recovery strategy of Marang. The performance in the past five months is encouraging.

The middle management (RM and BM) at Marang show varying levels of performance but is weak in general and several weaknesses in management and supervision were noted. For Marang to balance the planned growth strategy with good portfolio quality, as well as ensure better compliance by field staff there is a need for these positions to be strengthened.

Human resource management

There is an adequate administration of human resources and a good recruitment process is in place. There is however a clear balance to be made between affordability and competence when recruiting staff which is not easy in the South African labor market. Limited budget in the past two years has resulted in the fact that Marang was not able to sufficiently train staff. This also goes for initiation of LOs where the process is in place in theory but has not been put in practice. New LOs have been trained internally by Branch Managers.

As a result of the erratic disbursement levels in the past two years it has been virtually impossible to hold field staff accountable for the performance of their portfolio in terms of growth and to a lesser extent in terms of quality.⁹ This has however recently been re-implemented and is expected to boost Marang's capability to monitor and steer staff performance and take appropriate action in case of under performance of staff.

Staff morale has also been negatively affected by the slowing down of the growth of Marang and the previous non-performing MD. As a result branch staff in general has not been satisfied with the support from HO. Furthermore, they are also not satisfied by the present remuneration levels. However, staff is generally loyal to Marang and stays for long periods of time although staff turnover recorded relatively high levels in FY05/06 and FY06/07. With the current below-market salary levels and poaching of staff, staff turnover is likely to increase again.

Information

Information is rated "c"

Information management is only moderately efficient for Marang. The manual loan tracking system is well designed

⁹ As clients knew disbursements were being delayed a significant incentive for timely repayment disappeared.

and for a manual system it is relatively efficient and able to generate the basic information. The main inefficiencies result from the dual entry of data in both loan tracking systems as well as the needed reconciliation between the two. Furthermore, the real-time interface between MLAS and Pastel is not fully reliable which results in a needed increased focus on reconciliation by Marang. The systems are relatively cost-effective although the manual system does require a significant portion of staff time and MLAS requires significant support from the developers for modifications and updates which has been costly.

The implementation of SAP will significantly increase the efficiency of information management at Marang, but given the current size of Marang the system will be a financial burden. The latter will initially be mitigated as the installation and hardware costs are covered to a large extent by specific grant funding from donors.

At present Marang is highly dependent on the developers of MLAS for support which can only be provided by IPI. The fact that the company only has two staff poses a risk for continuous support. This risk will be mitigated by the implementation of SAP. The implementation of SAP will require a further strengthening of the MIS department – which is adequately staffed for the present operations – as well as a significant increase in computer literacy of branch staff.

Electronic data security is well covered through daily backups that are stored off-site and adequate anti-virus protection. For paper data loan contracts are relatively secure as duplicates are stored in two different locations (at the branch and at the regional offices), although their storage is not fully secure. Data for the manual loan tracking system is not stored securely and is at risk of loss; only the monthly consolidated reports are stored in multiple locations.

Sufficient information on activities is available at branch level including the essential indicators on portfolio outstanding and its quality. This information is however only available on a month-end basis. The data is timely available, i.e. the consolidated report of the manual data for Marang as a whole is available 10 days after the month end. The data in MLAS is not used for day-to-day management purposes and does not provide PAR data.

Financial information is easily available on a daily basis at HO. However, branches do not get an automatic update from HO on their performance against budget. For FY08/09 Marang is intending to focus on branches as profit centers, including assigning HO costs. The exact method is still to be finalized. This monitoring will be essential for Marang to become profitable.

■ Risk Management

Risk Management is rated “d”

Procedures and internal controls

The policies and procedures at Marang contain sufficient internal controls in terms of separation of tasks and limitation of powers at different levels. The effectiveness of the internal controls is undermined by the fact that the manuals are outdated (Operations manual and HR manual are currently being reviewed) and the lack of strong management and supervision to ensure staff compliance to the policies both at HO and in the branches. The lack in supervision has resulted in the fact that not all branches apply the policies in the same fashion. Furthermore, several frauds have been occurring until recently. In theory there are adequate procedures to prevent main areas of fraud e.g. the BM is to do spot checks to visit clients of LOs to prevent ghost clients and LOs are not allowed to handle any cash.

At present there is no staff rotation policy in place at Marang. This is necessary for Marang as many of the staff has worked in the same branch for large number of years (some up to 15 years¹⁰).

Similarly there are sufficient checks in place to ensure data reliability but these checks are not fully carried out. There is insufficient supervision of the checks that BMs are supposed to carry out on the manual loan tracking system. This renders the data in the manual system not fully reliable although the errors are expected to be minor. Furthermore, reconciliation between MLAS and Pastel is done relatively well, but this has only been the case since the past six months. Differences between the manual system and MLAS will remain due to different ways of data entry.¹¹ As of December 2007 there was a difference of 574 K ZAR between the manual system and MLAS and a further 566 K ZAR difference between MLAS and Pastel.

Internal audit

Marang has seen a strong development of the internal audit function since end of 2006. An internal audit manual was developed with a good scope to cover the various risks Marang faces. Although the scope of audit is wide the actual number of compliance audits at branch level has remained limited. The majority of the branches have not been visited

¹⁰ Marang took over the branch network of Get Ahead Financial Services as well as many of its staff. There is still a significant number of branch staff at Marang that used to work with Get Ahead Financial Services.

¹¹ For example if repayment is made by a group at a bank other than where Marang has its bank account it can take several days for Marang to receive the money on its account (which is used as input in MLAS), whereas the LO will input the repayment in the manual system based on the date of the deposit slip brought to him by the group.

by the internal audit staff. Part of the reason was the fact that the internal audit department focused on a portfolio reconciliation exercise in the first half of 2007. This exercise did result in targeted compliance checks at several branches that showed anomalies.

Due to the fact that the Head of Internal Audit was appointed as acting Managing Director and Finance Manager as of September 2007 the audit function has seen a significant reduction in its effectiveness since. Prior to this the internal audit department did have an open communication channel with the BOD and the Head of IA was present at several BOD meetings providing sufficient independence of the IA function.

The present internal audit department is only staffed by one auditor. This is insufficient capacity (both in terms of time and skills) for Marang and further recruitment is expected in the coming FY08/09. However, in an effort to become profitable Marang has only planned for FY09/10 to recruit a sufficient number of auditors to be able to carry out sufficient audits of branches.

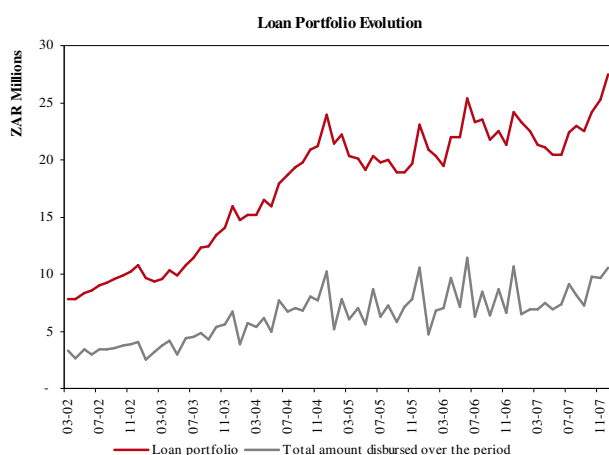
The external auditors have provided good support to the internal controls. However, between FY05/06 and FY06/07 Marang has not followed-up on all issues as several issues recurred.

■ Activities

Activities: products and services is rated “c”

Evolution and composition of the portfolio

Marang shows a relatively stable loan portfolio evolution until December 2004 when it reached a high 23.9 M ZAR (3.5 M USD). Marang has not reached this point again until October 2007 with the single exception of June 2006.



In December 2004 Marang also achieved its peak in number of active borrowers reaching 28,432 clients. Due to inadequate liquidity management (see Liquidity Risk) the

loan disbursements show an erratic pattern resulting in a similar loan portfolio evolution.

The individual loan product has remained small at Marang and as of December 2007 comprises 101 clients with a total portfolio of 371 K ZAR (54 K USD). This represents only 1.4% of the total portfolio.

Loan portfolio management

The group loan product of Marang is well designed overall. The product could benefit from a better developed cash-flow analysis of the client/household as the current analysis does not provide adequate insight into the repayment capacity of the client. The individual loan has been in a testing phase for a long time and the methodology is still not optimal. The loan remains effectively uncollateralized which does not work well – even if it is used only for group loan clients that have a good repayment record. Furthermore, the management of the growth of the individual loan portfolio has been poor and there are no incentives and several disincentives for LOs to offer their clients individual loans.

LOs do in general have sufficient capacity to implement the credit methodology adequately. Implementation of the credit methodology is however hampered by a moderate level of non-compliance of the LOs in terms of verifying group solidarity, business analysis, etc. The non-compliance is mainly due to a lack of adequate supervision within the operations department from OM to RM to BM to LO.

Delinquency management is well organized with quick response to late payments even in the absence of official group meetings. In general the delinquency management procedures are well followed by both LOs and BMs. There could be stronger focus on follow-up of written-off loans as the recovery of written-off loans is low.

To better manage performance of Branches and LOs Marang would benefit from a monthly incentive system. Especially given the planned increase in portfolio and needed increases in staff productivity it will be essential for Marang to balance portfolio growth with portfolio quality. The recently increased focus on performance management of the branches and the LOs and a newly introduced zero-tolerance policy on late payments is already a good step.

Credit risk

Credit risk at Marang has remained low with PAR>30 below 1.5% at the end of the financial years. PAR is partially kept low by an aggressive write-off policy to write-off all loans over 90 days in arrears. The write-off policy is however only implemented on a yearly basis at the end of the financial

year.¹² Therefore the PAR>30 as of December 2007 is slightly higher at 2.0%. However, PAR31-90 comprises only 0.7% where PAR>90 comprises 1.3%.

The write-off ratio has been moderate over the past years with the exception of 2007. The high write-off ratio of 4.5% is mainly due to a portfolio clean-up resulting in write-offs that were over due. The recovery rate of loans written-off is however low at less than 10%.

Connected lending is limited to staff loans that are adequately conservative. At present there are no policies in place at Marang to limit exposure to certain regions and or business sectors. However, concentration risk in the portfolio is expected to be low given the large geographical coverage of Marang as well as the diverse nature of the businesses of clients.

Credit risk coverage

Given the low credit risk levels at the end of each financial year Marang's provisioning policy of 2.5% of the total portfolio is adequately conservative leading to a risk coverage ratio of well over a 100%. However, the policy is not always fully implemented and as of December 2007 the loan loss provision only accounted for 1.4% of portfolio leading to a risk coverage ratio of PAR30 of only 72%. This situation has been corrected in January 2008. It should be noted however that the current policy of Marang will lead to insufficient credit risk coverage in case of increasing PAR levels.

For group loans the group guarantee is effectively implemented by Marang. However, Marang should closely monitor the acceptance of groups by LOs as group cohesion is not overly strong. The collateral on individual loans is ineffective as it is practically impossible for Marang to claim the collateral from the clients.

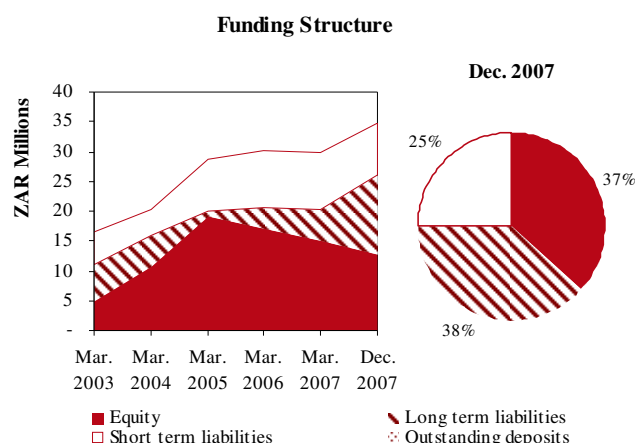
■ Funding and liquidity

Funding and liquidity is rated "c"

Funding strategy and capitalization

Marang has a funding structure typical of an NGO with a significant portion of donated equity (36.8%). This is added to by debt (52.7%) and other liabilities (10.5%). This results in a strong Capital Adequacy Ratio of 40% as of December 2007. The CAR has however reduced since March 2006 when it stood at 80% as a result of losses reducing equity and increasing debt.

Marang did not have a clear funding strategy in the years 2005 & 2006 and this has only changed late 2007. A more precise identification of funding needs was prepared for the coming years. Based on this Marang has already secured 80% of its funding needs for FY08/09 from Khula and is in negotiation with four additional investors to cover the remainder. At present Marang only has a limited diversification in its funding base. This is expected to further improve in 2008 pending the finalizations of the negotiations. Relationship management with fund providers has also improved late 2007 and Marang does have sufficient negotiation skills to obtain funding contracts with investors that are in the best interest of Marang.



Liquidity risk

The finance department at Marang has insufficient capacity for either liquidity or maturity risk management where those capacities are presently concentrated in the Managing Director. The limited staff capacity does put a strain on the financial management at Marang. Maturity risk is not managed at Marang. Maturity risk is however expected to be next to non-existent given the extremely short term nature of the loan portfolio and the long term nature of Marang's equity and debt.

Liquidity management has been a main weakness of Marang over the past two years leading to irregular liquidity levels and liquidity crunches where loan disbursements had to be stopped. The end of year liquidity positions are at the high end of liquidity positions throughout the financial years and are not representative. At the end of 2007 a good liquidity management procedure has been put in place with cash-flow projections for the coming 12 months that are updated monthly as well as more detailed cash-flow planning done on a day-to-day basis to ensure short term cash management. Liquidity positions have stabilized since September 2007 and as of December present 8.3% of assets. This liquidity position needs close watch by Marang as it does only represent 1.3 months worth of operating expenses.

¹² Loans of clients who have passed away are written-off immediately.

Market risk

Foreign exchange risk is not present at Marang as it has neither assets nor liabilities in foreign currencies. Marang does face interest rate risk and has an open position of 106% of Tier 1 capital as 87% of its debt is linked to the Prime Rate whereas all loans to clients are on a fixed interest rate. A 1 percentage point increase in the funding expense ratio would have a negative effect of 2 percentage points on the ROA as of Dec. 2007. However, where the Prime Rate has increased steadily by a total of 350 basis points since mid 2006 as a result of increasing inflation it is not expected to increase much further in the future. The interest rate risk is further mitigated by the extremely short term nature of the portfolio allowing Marang to increase its interest rates if necessary.¹³

Efficiency and Profitability

Efficiency and Profitability is rated “d”

Profitability analysis

Marang shows an improving profitability trend up until FY04/05 when ROA was positive at 0.8%. After this Marang returned to being unprofitable with ROA at (10.1%) in FY05/06 and at (8.2%) in FY06/07. As yield levels have remained relatively stable over the years the main reasons for the trend in profitability are to be found in the operating expenditures. The portfolio yield has been close to the theoretical yield of the portfolio throughout the years. Even though the NCA has stringent interest rate caps Marang was able to increase its effective interest rates from 93% to 103% (estimates). The increase is needed for Marang to become profitable but the increased interest rate will not be able to cover all expenditures at present.

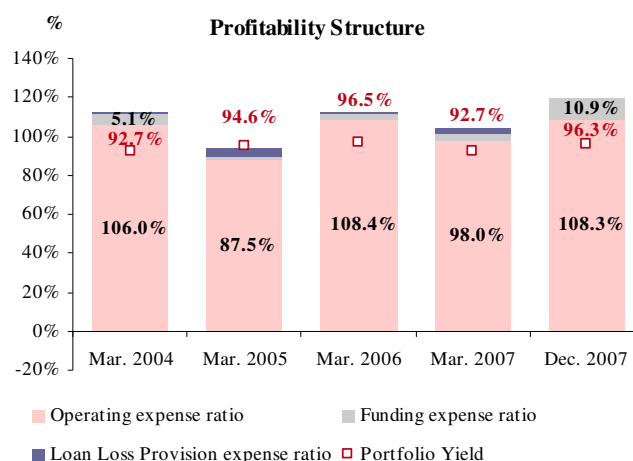
Marang enjoys a moderate revenue quality as on the one hand it operates in a market that remains largely untapped and Marang experiences only limited competition from other MFIs. On the other hand, the competition is increasing and Marang has insufficient in-house capacity for product development which makes Marang unable to respond to the changing market sufficiently fast. Furthermore, Marang is not able to retain a sufficiently high percentage of clients; the retention rate is estimated to be only around 60%.

The operating expense ratio is the main factor in the changing profitability trend of Marang. Marang broke even in 2005 as a result of a reducing operating expense ratio based on increased efficiencies with the number of clients per LO close to 300. However, since then as a result of

inadequate financial planning it was not possible for LOs to be fully productive which caused Marang to go back to being unprofitable. In the past nine months the operating expense ratio has increased further which was due to the conversion of several satellite offices to branches in the first five months of the financial year without proper financial planning.

The funding expense ratio has been on an increasing trend over the past years and stands at 10.9% for the 9 month financial year up to December 2007. The ratio is expected to increase slightly as debt will increase as a percentage of assets. The loan loss provision expense ratio shows a varying trend over the years but has remained low on average. As a result of the improved liquidity planning also the resource optimization at Marang has improved (and stabilized) where the loan portfolio as a percentage of total assets stood at 83.6% as of December 2007. However, Marang could further optimize its investment of liquid assets in call accounts.

The profitability outlook for Marang remains negative for the short term. Marang is taking the right steps towards profitability but the road is long and break-even is not expected in the coming financial year. The speed at which Marang will break-even will depend on the one hand on how well it will be able to control costs. Marang has taken a more conservative approach to opening new branches but the implementation of the new MIS will be costly. On the other hand it will depend on how fast Marang can make its LOs and branches fully productive which will be key to reducing the high operating expense ratio.

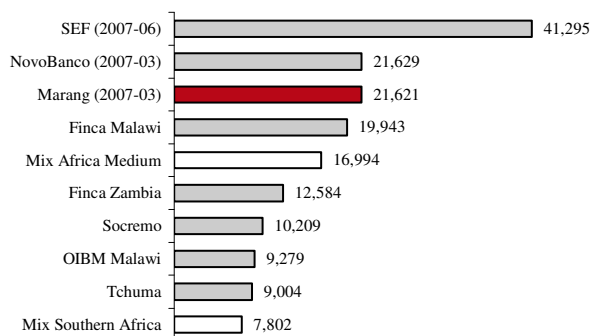


The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

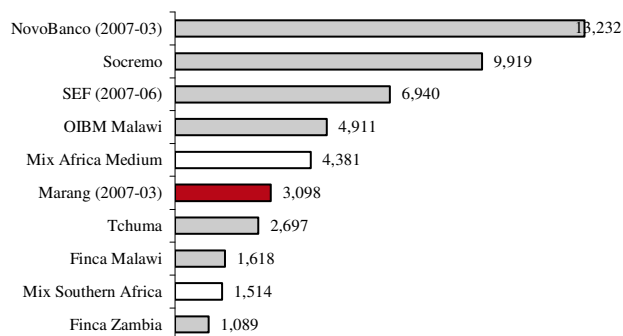
¹³ Even though Marang is presently at the maximum interest rate it can charge under the National Credit Act, the maximum interest rate under the act is linked to the Repo Rate to which is the basis of the Prime Rate.

Benchmarking

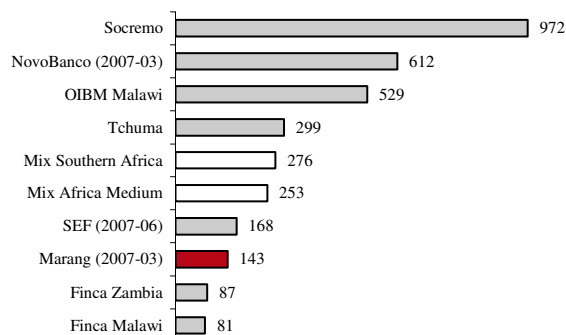
Active borrowers



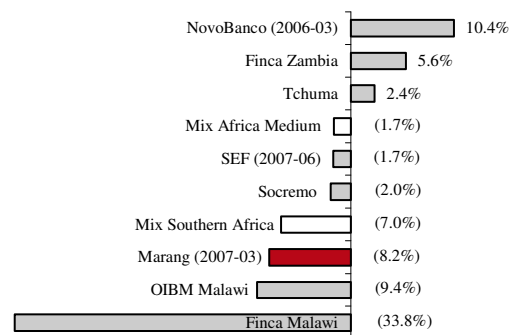
Loan portfolio ('000 USD)



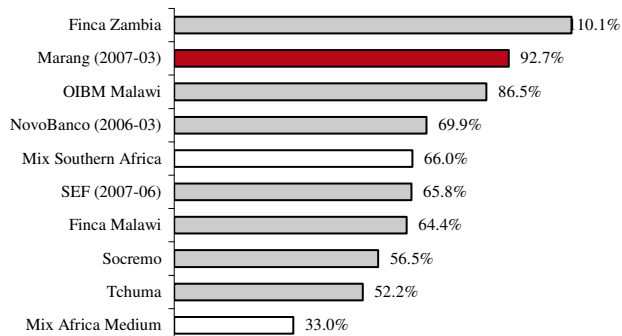
Average outstanding loan per client



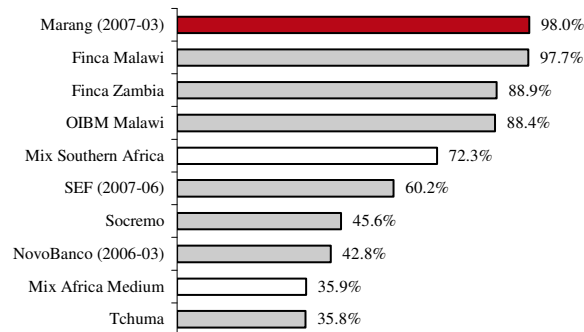
ROA



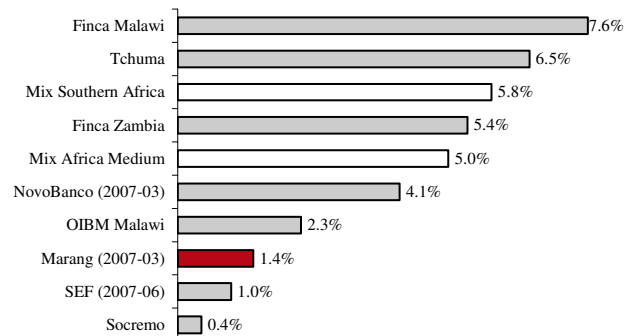
Portfolio Yield



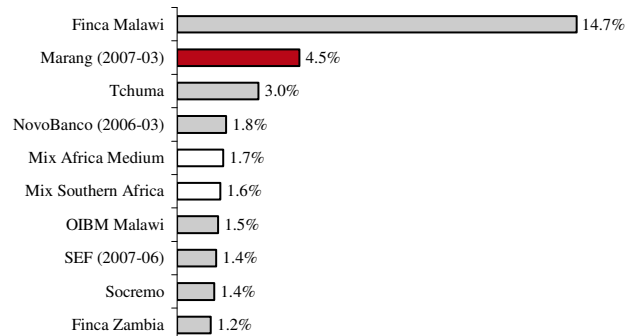
Operating expense ratio



PAR 31-365



Write-off ratio



Source: www.mixmarket.org; data as of December 2006 unless otherwise stated.

■ Performance indicators

Data in USD, unless otherwise stated

	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007
Loan Portfolio					
Loan portfolio evolution					
Loan portfolio	2,524,115	3,316,715	3,325,024	3,097,770	4,304,166
Loan portfolio (ZAR)	16,034,441	20,928,142	20,800,255	22,545,944	29,503,639
<i>Evolution</i>	66.3%	34.1%	(0.6%)	8.4%	30.9%
Average outstanding loan portfolio	2,003,875	3,111,898	3,208,910	3,114,836	3,306,970
Active borrowers	21,691	26,244	22,855	21,621	23,426
<i>Evolution</i>	38.3%	21.0%	(12.9%)	(5.4%)	8.3%
Average outstanding loan per client	113	126	145	143	184
<i>% of GDP per capita</i>	2.4%	2.4%	2.5%	2.6%	3.1%
Average amount disbursed per loan	167	198	221	216	245
<i>% of GDP per capita</i>	3.5%	3.8%	3.8%	3.9%	4.1%
Portfolio quality					
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.2%	0.8%	0.2%	1.4%	2.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	n/a	2.8%	0.9%	4.5%	0.5%
Credit risk coverage					
Risk coverage ratio (PAR 30)	1,229%	448.0%	1,710.5%	163.7%	71.8%
PAR 31 net of loan loss provision / Equity	(3.6%)	(2.9%)	(3.9%)	(1.3%)	1.2%
Staff					
Total number of staff	158	179	192	217	212
% Credit officers	57.6%	54.2%	57.8%	46.5%	46.2%
Turnover	n/a	n/a	19.4%	10.8%	2.3%
Profitability analysis					
ROE	(28.7%)	1.3%	(16.3%)	(15.2%)	(35.5%)
Liabilities / Equity	0.86x	0.50x	0.75x	0.97x	1.72x
Capital adequacy ratio	62.0%	88.1%	80.4%	64.7%	40.2%
ROA	(12.3%)	0.8%	(10.1%)	(8.2%)	(15.3%)
Profitability structure					
Portfolio Yield	92.7%	94.6%	96.5%	92.7%	96.3%
Operating expense ratio	106.0%	87.5%	108.4%	98.0%	108.3%
Cost per borrower	98	104	152	141	153
Staff productivity	137	147	119	100	111
Loan officer productivity	238	271	206	214	239
Average outstanding loan per client (USD)	116	126	145	143	184
Funding expense ratio	5.1%	2.5%	2.7%	2.9%	10.9%
Cost of savings	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of liabilities	7.2%	6.5%	5.9%	5.7%	16.2%
Loan Loss Provision expense ratio	1.3%	4.3%	0.7%	3.2%	(0.1%)
PAR 31-365	0.2%	0.8%	0.2%	1.4%	2.0%
Write-off ratio	n/a	2.8%	0.9%	4.5%	0.5%
Resource optimization					
Outstanding Loan Portfolio / Assets	77.1%	70.7%	66.7%	74.0%	83.6%
Revenue from investment as a % of financial revenues	2.0%	0.6%	0.5%	0.7%	0.9%
Liquidity					
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	11.0%	23.0%	28.6%	17.5%	8.1%
Exchange rate 1 USD= xx ZAR	6.35	6.31	6.26	7.28	6.85

Marang Income Statement	Notes	ZAR					USD					Evolution			
		Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	05/04	06/05	07/06	07/08
Financial Revenue (a)		12,036,536	18,702,606	19,483,539	21,165,517	16,523,072	1,894,772	2,964,010	3,114,541	2,908,102	2,410,484	55.4%	4.2%	8.6%	(21.9%)
Financial Revenue from Loan Portfolio		11,796,953	18,581,549	19,369,395	21,021,577	16,378,757	1,857,057	2,944,825	3,096,294	2,888,325	2,389,430	57.5%	4.2%	8.5%	(22.1%)
Interest on Loan Portfolio		11,567,848	18,327,060	19,098,885	20,869,236	13,737,216	1,820,991	2,904,493	3,053,052	2,867,394	2,004,067	58.4%	4.2%	9.3%	(34.2%)
Fees and Commissions on Loan Portfolio		-	128,365	117,166	-	2,559,786	-	20,343	18,730	-	373,437	-	(8.7%)	(100%)	-
Penalty Revenue on Loan Portfolio		229,105	126,124	153,344	152,341	81,755	36,065	19,988	24,513	20,931	11,927	(44.9%)	21.6%	(0.7%)	(46.3%)
Financial Revenue from Investments		239,583	119,518	102,945	143,940	144,315	37,715	18,941	16,456	19,777	21,054	(50.1%)	(13.9%)	39.8%	0.3%
Other Operating Revenue		-	1,539	11,199	-	-	-	244	1,790	-	-	-	627.7%	(100%)	-
Financial Expense (b)		643,295	490,540	548,377	668,452	1,845,011	101,266	77,741	87,661	91,844	269,161	(23.7%)	11.8%	21.9%	176.0%
Interest paid on borrowings		643,295	490,540	548,377	668,452	1,845,011	101,266	77,741	87,661	91,844	269,161	(23.7%)	11.8%	21.9%	176.0%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]		11,393,241	18,212,066	18,935,162	20,497,065	14,678,061	1,793,505	2,886,269	3,026,880	2,816,258	2,141,323	59.8%	4.0%	8.2%	(28.4%)
Net Loan Loss provision expense (d)		163,907	841,509	132,436	735,718	(18,520)	25,802	133,363	21,171	101,086	(2,702)	413.4%	(84.3%)	455.5%	(102.5%)
Loan loss provision expense and write-off		163,907	859,951	193,171	758,678	27,552	25,802	136,286	30,879	104,241	4,019	424.7%	(77.5%)	292.7%	(96.4%)
Recovery from Loans written off		-	18,442	60,735	22,960	46,072	-	2,923	9,709	3,155	6,721	-	229.3%	(62.2%)	100.7%
Operating expense (e)		13,489,177	17,183,454	21,757,233	22,220,668	18,409,362	2,123,444	2,723,253	3,478,002	3,053,078	2,685,667	27.4%	26.6%	2.1%	(17.2%)
Personnel Expense (includes fringe)		7,112,843	10,510,347	12,131,834	14,685,345	11,507,274	1,119,692	1,665,692	1,939,334	2,017,739	1,678,749	47.8%	15.4%	21.0%	(21.6%)
Administrative Expense (non-staff operating expenses)		6,376,334	6,673,107	9,625,399	7,535,323	6,902,089	1,003,752	1,057,561	1,538,668	1,035,339	1,006,918	4.7%	44.2%	(21.7%)	(8.4%)
Depreciation and amortization		515,142	559,631	648,969	500,018	525,577	81,093	88,691	103,741	68,702	76,674	8.6%	16.0%	(23.0%)	5.1%
Consulting fees		-	296,890	1,548,487	486,772	572,354	-	47,051	247,533	66,882	83,498	-	421.6%	(68.6%)	17.6%
Rent & Utilities		1,241,440	1,769,991	1,813,490	2,041,420	1,742,184	195,425	280,510	289,895	280,487	254,160	42.6%	2.5%	12.6%	(14.7%)
Office costs and communication		-	1,559,512	1,905,470	2,103,428	1,418,336	-	247,153	304,599	289,007	206,915	-	22.2%	10.4%	(32.6%)
Travel		-	587,435	1,586,636	320,020	1,423,626	-	93,097	253,632	43,970	207,687	-	170.1%	(79.8%)	344.9%
Bank charges		-	687,756	835,491	931,806	356,900	-	108,996	133,557	128,028	52,067	-	21.5%	11.5%	(61.7%)
Staff training		-	347,443	195,598	5,828	-	-	55,063	31,267	801	-	-	(43.7%)	(97.0%)	(100%)
Audit & legal fees		141,294	252,167	323,703	342,925	472,494	22,242	39,964	51,746	47,117	68,930	78.5%	28.4%	5.9%	37.8%
Other operating expenses FY03/04	1	4,478,458	-	-	-	-	704,991	-	-	-	-	(100%)	-	-	-
Others		-	612,282	767,555	803,106	390,618	-	97,035	122,697	110,345	56,986	-	25.4%	4.6%	(51.4%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		(2,259,843)	187,103	(2,954,507)	(2,459,321)	(3,712,781)	(355,741)	29,652	(472,293)	(337,906)	(541,643)	(109%)	(1,679%)	(16.8%)	51.0%
Income Taxes (g)	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		(2,259,843)	187,103	(2,954,507)	(2,459,321)	(3,712,781)	(355,741)	29,652	(472,293)	(337,906)	(541,643)	(109%)	(1,679%)	(16.8%)	51.0%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		(2,259,843)	187,103	(2,954,507)	(2,459,321)	(3,712,781)	(355,741)	29,652	(472,293)	(337,906)	(541,643)	(109%)	(1,679%)	(16.8%)	51.0%
Donations (l)		8,251,163	7,821,008	1,166,000	375,245	1,381,039	1,298,884	1,239,482	186,391	51,558	201,474	(5.2%)	(85.1%)	(67.8%)	268.8%
Net Income (after Taxes and Donations) [m=k+l]		5,991,320	8,008,111	(1,788,507)	(2,084,076)	(2,331,743)	943,144	1,269,134	(285,902)	(286,348)	(340,168)	33.7%	(122.3%)	16.5%	11.9%

Notes: 1) For the year 2004 there were no detailed income statements available; 2) The South African Revenue Services has rejected Marang's initial application for tax exemption. Marang has appealed this ruling and is still awaiting the response. As of March 2007 the potential tax liability would be 8,375,226 ZAR.

Marang Balance sheet	Notes	ZAR					USD					Evolution			
		Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Dec. 2007	05/04	06/05	07/06	07/08
ASSETS		20,251,134	28,608,634	30,107,108	29,791,148	34,810,277	3,187,900	4,533,928	4,812,771	4,093,248	5,078,330	41.3%	5.2%	(1.0%)	16.8%
Short Term Assets		19,521,448	27,348,354	29,041,612	28,789,590	32,871,086	3,073,034	4,334,198	4,642,446	3,955,636	4,795,429	40.1%	6.2%	(0.9%)	14.2%
Cash and Due from Banks		2,221,958	6,579,887	8,616,040	5,228,160	2,814,372	349,777	1,042,788	1,377,317	718,339	410,577	196.1%	30.9%	(39.3%)	(46.2%)
Short Term Investments		502,477	430,278	48,923	1,216,195	152,770	79,099	68,191	7,821	167,103	22,287	(14.4%)	(88.6%)	2,386%	(87.4%)
Short Term Net Loan Portfolio	3	15,608,603	20,214,097	20,086,210	22,053,212	29,105,557	2,457,080	3,203,553	3,210,881	3,030,070	4,246,092	29.5%	(0.6%)	9.8%	32.0%
Short Term Gross Loan Portfolio		16,034,441	20,928,142	20,800,255	22,545,944	29,503,639	2,524,115	3,316,715	3,325,024	3,097,770	4,304,166	30.5%	(0.6%)	8.4%	30.9%
(Loan Loss Reserve)		425,838	714,045	714,045	492,732	398,082	67,035	114,144	67,700	58,075	67,700	67.7%	0.0%	(31.0%)	(19.2%)
Interest Receivable		-	-	-	86,026	79,246	-	-	-	11,820	11,561	-	-	-	(7.9%)
On loan portfolio		-	-	-	86,026	79,246	-	-	-	11,820	11,561	-	-	-	(7.9%)
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		1,188,410	124,092	290,439	205,997	719,142	187,078	19,666	46,428	28,304	104,913	(89.6%)	134.1%	(29.1%)	249.1%
Long term assets		729,686	1,260,280	1,065,496	1,001,558	1,939,191	114,866	199,731	170,325	137,612	282,901	72.7%	(15.5%)	(6.0%)	93.6%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		729,686	1,260,280	1,065,496	1,001,558	1,939,191	114,866	199,731	170,325	137,612	282,901	72.7%	(15.5%)	(6.0%)	93.6%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		20,251,134	28,608,634	30,107,108	29,791,148	34,810,277	3,187,900	4,533,928	4,812,771	4,093,248	5,078,330	41.3%	5.2%	(1.0%)	16.8%
Liabilities		9,384,612	9,586,369	12,873,350	14,681,334	21,998,613	1,477,310	1,519,258	2,057,869	2,017,188	3,209,288	2.1%	34.3%	14.0%	49.8%
Short term liabilities		4,398,701	8,586,369	9,559,701	9,596,407	8,749,128	692,436	1,360,777	1,528,166	1,318,528	1,276,375	95.2%	11.3%	0.4%	(8.8%)
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		2,744,844	6,371,509	7,981,126	6,941,699	5,111,425	432,089	1,009,764	1,275,823	953,776	745,685	132.1%	25.3%	(13.0%)	(26.4%)
Interest payable		224,365	205,701	59,492	115,030	195,936	35,319	32,600	9,510	15,805	28,584	(8.3%)	(71.1%)	93.4%	70.3%
Accounts Payable and Other Short Term Liabilities		1,429,492	2,009,159	1,519,083	2,539,678	3,441,767	225,028	318,414	242,833	348,947	502,105	40.6%	(24.4%)	67.2%	35.5%
Long term liabilities		4,985,911	1,000,000	3,313,649	5,084,927	13,249,485	784,874	158,481	529,703	698,659	1,932,914	(79.9%)	231.4%	53.5%	160.6%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		4,985,911	1,000,000	3,313,649	5,084,927	13,249,485	784,874	158,481	529,703	698,659	1,932,914	(79.9%)	231.4%	53.5%	160.6%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity		10,866,522	19,022,265	17,233,758	15,109,814	12,811,664	1,710,590	3,014,670	2,754,902	2,076,060	1,869,042	75.1%	(9.4%)	(12.3%)	(15.2%)
Tier 1 Capital		10,866,522	19,022,265	17,233,758	15,109,814	12,811,664	1,710,590	3,014,670	2,754,902	2,076,060	1,869,042	75.1%	(9.4%)	(12.3%)	(15.2%)
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity		28,921,764	36,742,773	37,908,773	38,284,018	39,665,057	4,552,816	5,823,036	6,059,906	5,260,152	5,786,574	27.0%	3.2%	1.0%	3.6%
Retained earnings without donations and reserves		(18,055,242)	(17,720,508)	(20,675,015)	(23,174,204)	(26,853,393)	(2,842,226)	(2,808,366)	(3,305,004)	(3,184,092)	(3,917,533)	(1.9%)	16.7%	12.1%	15.9%
Tier 2 Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 3) In the audited financial statements of 2007 PWC adjusted the financial statements of Marang to account for principal and interest payments on a declining balance whereas Marang splits the repayment using a flat interest rate. The December 2007 financial statements contain the same adjustment made by Marang.

■ Formulas

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 savings ratio:	Interest and fees paid on deposits / Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings / Average 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)
Financial self-sufficiency:	Revenue from operations / (Expenses (financial, loan loss, operating) + Adjustments)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / 13-month average gross outstanding portfolio

■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	INVESTMENT GRADE
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	SPECULATIVE INVESTMENT
C++	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C+	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	