

## Union Rural Bank, Ghana

Union Rural Bank Ltd. (URB) was established in 1999 when it was granted a license by the Bank of Ghana to operate as a rural bank. The bank started operations in the coastal town of Senya Beraku in Central Province and has since grown to a total of six branches. URB offers standard banking services including checking and savings accounts, money transfer, fixed deposits, salary and business loans, microfinance group loans, and started offering mobile banking in July 2009. As of September 2009 URB serves 30,501 clients with a deposit base of 3.3 M GHS (2.3 M USD) and 6,619 active borrowers with a 2.9 M GHS (2 M USD) loan portfolio.

### GIRAFE Rating

#### Rating

**D**

#### Outlook

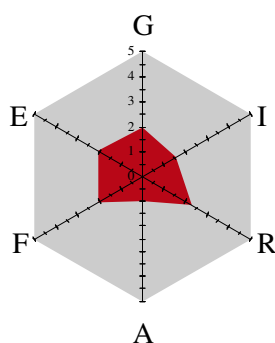
**Stable**

#### Date of the rating

**November 2009**

Valid until October 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- URB continues to show a nominal positive ROA around 5%. However, once adjustments for appropriate loan loss provisions are accounted for, actual profitability is expected to be only around break-even.
- Credit risk is high with an estimated PAR 30 at 18.5% for September 2009.
- URB suffered from a fraud originating from the implementation of its new MIS involving some of its management team members. As a result, the management team was restructured. BOD members provided stricter supervision but partially fell into the trap of micromanaging the institution.
- The MIS system is still insufficiently managed and unable to produce the right data to manage the portfolio efficiently.
- Risk management has been a weakness, and it remains to be proven that current efforts to tighten internal control and audit are sufficient.
- URB retains a competitive advantage in their home district. However, with expansion towards Accra, they face competitive challenges from other rural banks, MFIs as well as commercial banks.

#### Outlook

The stable outlook reflects Planet Rating's opinion that despite efforts to recover from the fraud, information, risk and portfolio management require further strengthening as well as a move back towards a balanced decision making process between the Board of Directors and management.

#### Performance indicators

USD	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Sep. 2009
Assets	1,157,908	1,579,579	2,198,843	3,924,990	3,299,129	3,249,781
Loan portfolio	507,892	794,811	1,189,197	1,774,380	1,770,758	2,000,706
Active borrowers	2,411	2,161	4,888	4,306	5,900	6,619
Avg. outstanding loan per client	211	368	243	412	300	302
Outstanding deposits	945,542	1,351,059	1,773,288	2,311,279	1,829,897	2,311,979
Active savers	21,722	22,537	17,921	26,633	27,142	30,501
Staff	56	74	76	66	79	197
ROE	68.6%	76.6%	45.6%	43.4%	40.9%	35.3%
ROA (without donations)	4.6%	6.1%	5.0%	4.6%	4.8%	4.9%
Liabilities / Equity	15.05x	9.82x	7.18x	9.33x	6.33x	6.16x
Portfolio yield	59.6%	50.6%	45.9%	45.1%	43.7%	39.6%
Operating expense ratio	58.3%	49.9%	45.1%	44.2%	44.9%	41.0%
Funding expense ratio	7.4%	6.5%	5.0%	3.5%	3.5%	5.2%
Loan Loss Provision expense ratio	0.0%	0.6%	1.3%	3.5%	0.6%	1.4%
PAR > 30	n/a	n/a	n/a	n/a	n/a	18.5%
Write-off ratio	0.0%	0.0%	0.0%	4.7%	0.0%	0.0%

## Microfinance sector

Ghana has a population of 23.35<sup>1</sup> million people in 2008, of whom 45% live below a dollar per day. The first formal MFI was born from the micro savings product of the Post Office, Post Office Savings Bank, before transforming into a National Savings and Credit Bank in 1972 under NRC Decree 38. Over the years, the microfinance sector has evolved with the help of several government programs and financial sector policies which helped establish a multi-layer industry. A network of rural and community banks (RCBs) were created, the financial sector was liberalized, and non-bank financial institutions, such as savings and loans companies, finance houses, and credit unions etc were established. The sector has benefited from the support of numerous donors<sup>2</sup> over the years.

The microfinance sector in Ghana is divided into 3 categories:

- Formal financial institutions: composed of 120 Rural and Community Banks (RCBs) and 10 Saving and Loan companies (S&Ls);
- Semi-formal financial institutions which include 25 Financial NGOs (FNGOs) and 273 Credit Unions (CUs);
- Informal financial system, mixed of individual saving collectors “susu” (1,444), rotating savings and credit associations, and credit “clubs” run by community based organizations and self help groups.

Most MFIs are focused on rural poverty and spread in the three poorest regions of Ghana (Upper East region, Upper West region and the Northern region); except for the S&Ls, which often serve low income urban and peri-urban clients. For an overview of the main MFIs in Ghana see the benchmarking on page 11.

RCBs, S&Ls and CUs are licensed and regulated by the Bank of Ghana (BoG). However, the Association of Rural Banks Apex Bank (ARB Apex Bank) and the Credit Union Association (CUA), both being apex bodies, undertake supervisory functions for their respective entities. The Financial Non-Governmental Organizations (FNGOs) are registered but not regulated by laws and cannot mobilize voluntary savings from clients, except for the susu savings for which there is no current strict legislation. The BoG is in close coordination with the Institute of Susu Collectors (a young association that is intending to represent susu collectors and to promote best practices among them), and should recognize it as the

<sup>1</sup> World fact book 2008

<sup>2</sup> IFAD, IDA, ADB, GTZ and others. The government has also launched a few projects with the support of donors, like the Rural Financial Services Project.

apex body for unregulated susu collectors. Most MFIs are members of the Ghana Microfinance Institutions Network (GHAMFIN).

In the coming years, many FNGOs are planning to transform into S&Ls to expand their funding structure by mobilizing voluntary savings and commercial banks (Ecobank, Barclays and Intercontinental Bank) have shown interest in intervening either via subsidiaries specialized in microfinance or by in-house microfinance departments.

## Political & economic environment

In 2009, Ghana's economy held up relatively well in the global economic crisis. Ghana has benefited from the decline in oil imports and the firmness of earnings from its main exports, gold and cocoa, respectively 36% and 25% of sales abroad. In 2010, the economy is expected to be driven by the rebound of foreign direct investment in oil exploration and production start-up and the recovery of domestic investment especially in property, buoyed by less restrictive credit conditions. The world's second-ranking cocoa producer, Ghana will likely be able gain ground on the world leader Côte d'Ivoire, contending the ageing of its orchards. Ghana's production is expected to continue to grow thanks to better use of fertilizers and the processing industry is expected to continue its move upmarket. Gold exports, meanwhile, are expected to benefit from record-breaking world prices. Inflation, which has surged to 18% in 2009 in the run-up to general elections, will likely ease below 10% thanks to tighter fiscal and monetary policy.

Public and external accounts suffer from structural imbalances. But the government is counting on future oil revenues - expected to represent 20% of fiscal revenues and 60% of exports - to eliminate the imbalances. The IMF plans to support the country selectively via a \$600 million credit line over three years at subsidized rates. Ghana can also count on the influx of foreign direct investment not only in the oil sector but also in transport and energy infrastructure to cover its external financing needs. In this context the country will likely enjoy considerable room for maneuver in obtaining financing abroad even if public buyers have to rely on subsidized-type loans. The cotton industry was thus able to renew a three-year \$1.2 billion loan with an international banking consortium.

Ghana benefits from a very good image abroad. The country has been a driving force in South-south cooperation and promoted NEPAD, the new partnership for African economic development through regional cooperation and consolidation of democracy. Ghana has also participated in many United Nations peacekeeping missions. Since gaining independence from the United

Kingdom in 1956, Ghana has enjoyed a degree of political and social stability rarely achieved in Africa, marked by smooth transitions from one government administration to the next. General elections held late 2008 thus enabled John Atta Mills of the National Democratic Congress (NDC) to take power after eight years with the New Patriotic Party (NPP) running the country. And Ghana is rated among the best in Africa as regards the protection of creditors provided by the legal system and in combating corruption. Ghana can moreover count on extensive support from international financial backers as Barack Obama's visit there on his first official trip to Africa attests. The country's past performance notwithstanding, management of its prospective oil wealth constitutes a risk that will bear watching.

**COFACE Country Rating: C** - A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behavior. Corporate default probability is high.

**COFACE Business Climate Rating: C** - The business environment is difficult. Corporate financial information is often unavailable and when available often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Intercompany transactions run major risks in a difficult environment.

(USD millions)	2007	2008	2009(e)	2010(f)
Economic growth (%)	5.7	7.3	4.5	5.0
Public sector balance (%GDP)	-9.2	-14.5	-9.4	-6.0
Current account balance (%GDP)	-15.8	-23.5	-18.0	-19.9
Foreign debt (%GDP)	23.9	25.1	35.1	40.0
Foreign currency reserves (in months of imports)	2.7	2.2	1.9	2.0

Source: COFACE's Country Risk Rating Guidebook 2009. (e) estimates (f) forecasts. [Disclosure Statement](#). Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

Union Rural Bank Limited was incorporated as a company limited by shares under the Ghana companies code of 1963 (Act 179) on 12<sup>th</sup> August 1996 with 50,000,000 issued shares. As a rural bank URB is licensed and regulated by Bank of Ghana (BoG) under the Banking Act of 2004 (Act 673). The BoG conducted one supervisory visit in 2009, and four from 2006-2008.

Johnson Arkaah & Co, Accra has conducted URB's external audits for the period under review and has never qualified

their opinion. URB's financial year follows the calendar year.

### Ownership

URB is owned by individual and institutional investors with the largest percentage of shares (31.6%) held by Mr. Kwesi Essel-Koomson, the BOD Chairman. An overview of the ownership structure as of November 2009 is shown in the table below:

Name	# of shares	%	Value (GHS)
Kwesi Essel-Koomson	24,011,750	31.6%	240,118
Union Rural Bank Ltd	9,861,212	13.0%	98,612
Kobby Arhin	5,000,000	6.6%	50,000
Kofi Okyere	5,000,000	6.6%	50,000
Kwame Kum	5,000,000	6.6%	50,000
Winneba Coop. Fishmongers	5,000,000	6.6%	50,000
Gateway Africa Investment	3,489,088	4.6%	34,891
Kofi Abaka Jackson	2,630,000	3.5%	26,300
Other Minority Shareholders	16,083,900	21.1%	160,839
Total	76,075,950	100%	760,760

Ownership structure of Union Rural Bank Ltd. as of November 2009.

The Board of Directors (BOD) is elected during the Annual General Meeting where at least two board members need to be replaced. However, there is no limit on the number of terms any one board member can stay on. The current BOD has thirteen board members comprising businessmen, lecturers, civil servants, one legal practitioner and two banking consultants. Since inception the board has been chaired by the founder of the bank Mr. Essel-Koomson, who owns KEK Insurance, a local insurance brokerage. Mr. Essel-Koomson founded URB in his hometown of Senya-Beraku after being approached by local community leaders to fund a development project. He also runs a girls school in Senya-Beraku.

The three BOD committees are the Credit Committee, Budget & Finance Committee and Audit & Disciplinary Committee. They meet before each BOD meeting and as needed.

### Donations

URB has only received donations for the implementation of its new MIS system from the World Bank through a project of ARB APEX Bank in 2006. The total cost is estimated at 124K USD.

### Funding composition

URB's main source of funding is from deposits. The bank has had only two external funders. Oikokredit disbursed a GHS 200,000 (137 K USD) loan in 2008 and SPEED Funding provided a GHS 300,000 (205 K USD) loan in 2007. Speed Funding is a donor project from GTZ and

Danida. All of the funding is at a fixed rate and was disbursed in local currency.

## Management team

The management team of URB comprises eleven staff including the General Manager (GM), Deputy General Manager (DGM), Credit Manager (CM), Finance Manager (FM), Mobile Banking Manager (MBM), Internal Auditor (IA), IT Manager (ITM) and six branch managers.

- The current GM Paul Kombian joined URB in 2006 as a BM of Senya Beraku branch and became the GM in July 2007. He is a member of the association of chartered certified accountants (level II) in the UK and has a BSc in Banking and Finance.

## Organization

The head office of the bank is at Senya Beraku in the Central Region, which is approximately 66km from Accra. The Bank has six branches. Each branch contains a Branch Manager (BM), a Branch Accountant, one or more Cashiers and, one Customer Service representative, one Mobile Banking supervisor, from 10-35 mobile banking officers,<sup>3</sup> one microfinance Loan Officer (LO), and one LO for all other credit products of higher denominations. Loan disbursement is done by direct crediting the client's loan account or by cash payment, especially for microloans offered to groups, or by direct payment to suppliers. Repayment is done through debiting the client's account after payment is made by the client to the branch cashier. Only mobile banking clients give their cash deposits and repayments directly to their LOs.

Client data is entered into the system by the customer service representative in each branch, checked by the Branch Manager. Cashiers enter all deposit or withdrawal information, which is reconciled at the end of each day by branch staff. The mobile banking supervisor keeps simultaneous manual records, and will do so until the technology to automatically record transactions via text is perfected.

In 2006, through a grant from World Bank URB implemented eMerge, an integrated MIS by TEMENOS of Geneva, Switzerland. The grant included the installation of a Wide Area Network connecting the branches real time through a satellite link. The server and back-up server are located at Weija branch which hosts the IT Manager as well.

<sup>3</sup> The mobile banking project sends young, employees out to the field to register new clients and collect small amounts of savings on a daily basis. Clients are attracted by the personal service and in anticipation of receiving individual loans when enough savings have been deposited. The product will eventually utilize mobile phone technology to instantly send a savings deposit receipt to clients, the branch, and the MIS simultaneously to minimize the cash risk.

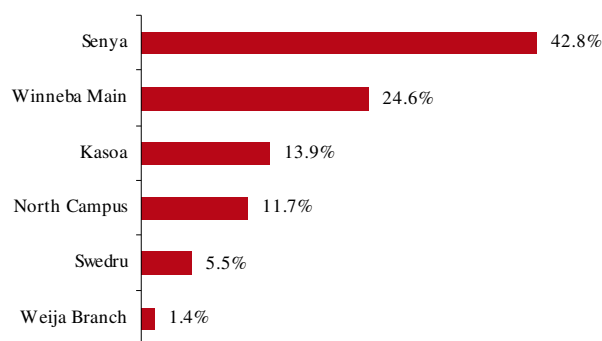
## Recent Fraudulent Activity

In 2007, URB hired an IT Manager who was trained and recommended by ARB APEX Bank to implement eMerge. This was funded by the World Bank, through a project to implement the system across all rural banks in Ghana. The IT manager created falsified transfers and other system entries, hiding them in a central account, which had not been reconciled since the start of the MIS migration, leading to a fraud of over 70,000 USD in 2008. The DGM, IA, Head Accountant, a clerk and three LOs also engaged in the fraud. The first transactions occurred as early as Q1 2008 and continued for most of the year until detected partially in the third quarter. While trying to understand the extent of the fraud, and having already prosecuted several junior staff members, the IT manager continued to cover his falsified entries and was not detected until Q2 2009. It was only through an external audit in Q1 2009 by Canadian eMerge consultants, STRAJ, that the full extent of the fraud was uncovered.

## Market penetration

URB operates in the Awutu-Efutu-Senya District in Central Province and its HO is located in the coastal town of Senya Beraku. It operates through six branches: Senya Beraku, Winneba Main, Winneba North Campus, Kasoa, Swedru and Weija.

Outstanding loan portfolio per branch - Sept. 2009



## Products and services

URB offers a full range of banking services including checking accounts, overdrafts, money transfers – both national through APEX bank and international through Western Union – and savings and loan products.

Loan products include business loans, microfinance loans, institutional loans, asset loans and salary loans.

- Salary loans carry a flat interest rate of 32% per annum with an EIR of 66%. The loan amount ranges from GHS 500 to GHS 6000 (341-4098 USD) and these loans are collateralized by the salary of the borrower. Business loans range from GHS 1000 to GHS 70000 (683-47,804 USD) and are guaranteed by landed property or a

guarantor. These loans attract a flat interest rate of 35% per annum and have an EIR of 64%.

- Microfinance group loans attract a flat interest rate of 48% with an EIR of 100%. These loans range from GHS 100 to GHS 5000 (68-3,415 USD) and have a group guarantee. Deposits totaling 20% of the desired loan amount are required as cash collateral before disbursement.
- Asset loans range from GHS 4,000 to GHS 12,000 (2,732-8,195 USD), although they average GHS 4,000. The flat interest rate is 31% and EIR is 51%.

Interest rates did increase in 2008, previous rates were 26% for salary, 30% for business, 30% for microfinance and 28% asset loans. Disbursement fees are 5% for all loans, except mobile banking loans which total 2%. Overdrafts are available for business loan clients, although terms are negotiated with each client as needed.

Savings receive interest of 2-5%, with fixed deposits earning 9-24%. Clients with larger deposits can negotiate their own rates.

## Networks

URB is a member of Association of Rural Banks APEX Bank Ghana and of the Ghana Microfinance Institutions Network (GHAMFIN).

## ▪ Governance

Governance and decision making is rated “d”

### Decision making

At URB, there is a clear hierarchy of strategic and operational decision-making, with the BOD Chairman very much in control. While the members of the BOD possess a high level of experience in banking, business, law and governance, there is no specific expertise in micro or rural finance. This allows for little debate within the BOD and the risk that decisions are not made in best interest of URB and its clients. BOD per diems remain high, and BOD meetings have been very frequent during the past year due to the decisions needing to be made in relation to the prosecution of former employees involved in the fraud. The production of a BOD manual, detailing BOD election policies and term limits as well as procedures to minimize conflicts of interest is still lacking.

The BOD does clearly and efficiently make its decisions, communicating with a unified voice frequently to management. Reporting to the BOD is done monthly by the GM, with special detailed reports from the CM and division heads about arising issues upon request. Portfolio quality is

not effectively monitored as PAR is not discussed and trends are not sufficiently analyzed in BOD reports. The BOD is also copied on all correspondence from the IA. However, most aspects of URB’s operations are monitored so closely by the BOD that the supervisory duty of the BOD has become merged with the daily operational management of the institution which has led to a loss of balance in decision-making. BOD minutes are very detailed, although follow-up is not monitored formally with a timeline of completion. However, issues are brought up repeatedly until the BOD is satisfied with the outcome.

## Planning

The business plan for 2008-2012 (BP) developed and approved by the BOD in Q1 2008 is comprehensive, but in need of updating and refinement. The targets, SWOT analysis, and financial projections, for example, are no longer relevant. In addition, some projects lack clear implementation planning, such as “deepen outreach and impact in regions of operation.” In comparison to the 2007 rating, there have been improvements in financial planning, although management knowledge of Microfin is not sufficient. With the use of Microfin, financial projections for the next five years, including ratio analysis are included, although lacking sufficient accuracy was lacking as proved by 2009 performance. Total assets in August 2009 were still below projections for December 2008. While a description of portfolio quality is now included in the BP, there is no analysis on what steps were and will be taken to address it

There is a participatory annual planning process in place, with feedback taken from branch staff and management. Communication is good and staff is motivated to achieve strategic goals. The annual budget does detail income and expenditures, but as mentioned in the 2007 rating report, still does not give targets for performance and portfolio quality indicators, although performance indicators are given in the Business Plan. However, the annual budget is closely monitored and variance reported to BOD monthly.

## Management team

There has been a major shift in senior management, as a fraud involving the DGM, IA, IT, Head Accountant, a clerk and three LOs resulted in the loss of several key staff members in Q4 2008 and Q1 2009. The GM has been an effective leader throughout the fraud discovery and prosecution, retaining the trust of the BOD. However, the fact that such a large fraud occurred during his tenor shows that his control of the operations was sub-optimal, although this is improving with the addition of the new DGM. The addition of the new DGM has greatly increased capacity to manage reconciliation, liquidity, and the monitoring of branch operations. Key-person risk has also been mitigated

by the addition of the DGM. An experienced FM is still needed, as financial duties are currently spread between the GM, DGM, CM, and mobile banking manager. More training is still needed for top management in the areas of credit operations, full use of the MIS, and fund sourcing.

Communication is good between management, with monthly meetings and twice weekly branch visits by GM and DGM. Follow-up on issues raised by BMs is not documented effectively. Plans have been executed in a timely manner, but this is due more to strong oversight from the BOD than direction from GM. Respect and cohesiveness among staff is apparent.

### Human resource management

Human resources are managed mainly from head office by the GM and DGM. A dedicated HR Manager is still lacking, despite URB's growing size. As stated in the 2007 rating report, there is still no human resource manual. Hiring procedures vary as does staff capacity. Promotions and hiring are done from head office, and not conducted transparently. This leads to the fact that Branch Managers, for example, have a wide variety of experience and some were not knowledgeable on even their basic portfolio information. Additionally, more supervisors are needed to manage the new mobile banking staff.

Formal training is given, and has increased this year, but is not detailed in a formal annual plan or provided in a regular way depending on employee need. Formal evaluations are conducted by Branch Managers and direct supervisors, but results are not shared with staff, nor are goals set to understand the performance expected of them. Salaries and bonuses are also lacking transparency, as they are not directly tied to the level of responsibility or annual evaluation. Some staff positions are paid only an allowance as part of their national service year, and not given a full-time contract immediately thereafter, but held at this pay level for several months despite an increase in responsibilities. Overall, salaries are below market rate and contribute to low staff morale and the high turnover of 18% in 2009. Some of the turnover this year can be attributed to the firings associated with the fraud, but many junior offices in branches were also let go due to other minor breaches of conduct.

### ■ Information

Information is rated “d”

The MIS of URB has been and continues to be a major institutional weakness. There was and still is no employee of URB that has full system knowledge of eMerge. This was one of the leading causes of the fraud, as the only person to

understand the system was able to manipulate it. While the lack of sufficient controls contributed to this breach of conduct (cf: Risk management), this lack of internal IT capacity was also a major contributor.

Currently, there is no expert in eMerge within URB. The new IT manager lacks full system knowledge, as well as an understanding of the MIS needs for a financial institution. While cashiers are trained in the MIS accounting functionality, LOs and Branch Managers have widely varying IT capacity and need additional training. Basic portfolio indicators were unavailable, historic records older than a year were accessible only via disk and not from each user terminal, and consolidated information was not able to be generated.

Individual UserIDs and robust passwords are now used, and training was given to cashiers on proper system security and reconciliation, which has greatly improved. All branches are connected via satellite link in real time to the main server in the Weija branch. Anti-virus is currently being updated, as the prior software was not effective. Backups are made daily to an external drive and disc, which is stored at KEK Insurance Company in Accra. Physical data is improperly stored, except in Swedro and Koso branches, with client information, loan contracts and records on the floor, within access to the public on front-office counters, and in piles exposed to dirt, water, and age.

Information on branch performance is available through the MIS system, although several BMs do not have the capacity to access it readily via eMerge. Rather, most BMs use the monthly portfolio reports that are compiled by the MIS department for management meetings, and do not produce advanced analysis on portfolio quality. These monthly reports consist of accurate P&Ls for each branch, trial balances, and basic profitability indicators. There is a general inability to monitor PAR, as well as product and LO performance on a daily or weekly basis. PAR as a percentage is not calculated via eMerge, and a consolidated PAR for all of URB was not available in the MIS or able to be produced by the MIS department. On an institutional level, eMerge automatically consolidates branch data and prepares reliable financial statements and all relevant indicators, besides PAR, in a timely manner.

Savings mobilization, however, is a priority for BMs and also monitored closely by the mobile banking managers. Growth of savings clients and deposits is monitored throughout the month and analyzed together with head office using MIS-generated reports at the monthly management meeting.

## ■ Risk management

Risk management is rated “c”

### Procedures and internal controls

Overall, internal controls have improved in the last year since the discovery of the fraud. However, the delay in implementing some basic controls, specifically regarding reconciliation, was a contributing reason the fraud was possible. Now, centralized printouts of all daily entries are distributed by the Weija IT HQ to each branch for reconciliation of all previous day entries. In addition, all inter-bank and central control accounts are reconciled against each other and the ARB APEX Bank account from HQ by the DGM and his team of back-office staff on a continuous basis. This is being done as a “special team” as a recovery effort following the fraud. However, large unreconciled amounts remain to date.

Detailed process maps were developed for business and microfinance loans in June 2008 and for mobile banking in June 2009 with the assistance of MicroSave. However, manuals were only completed in 2009 after the fraud, and staff has yet to be trained with the new manuals. Adherence to procedures is still not optimal, although it is improving. Microfinance group procedures do not follow the methodology, with poor attendance at meetings and groups as small as four, instead of twenty. There are also no documents to understand how often managers visit the field. Separation of tasks has improved but overlap still exists, specifically in the credit department, and for data entry of client information. Policies to address poor performance have, indeed, been strengthened, especially regarding cash management

The greatest unmitigated risk is undoubtedly the new mobile banking product. Branches hired between 10-35 new mobile bankers over the summer of 2009, who are inexperienced, insufficiently trained, and under-supervised. They are sent to the field alone to find new clients, register them by filling out a single-page form and collect an initial deposit. Client information is insufficiently gathered, with photos and identification frequently missing from registration forms. Collecting small daily deposits and recording amounts in the client’s passbook and on their collection sheet, there is insufficient reconciliation to ensure cash security. A single supervisor collects the cash and checks sheets, but this process is hectic and not thorough. A rotating number of people can enter mobile banking entries into the MIS, as there are too many entries for just the customer service representative to handle, which allows for inadequate accountability. Optimally the technology being developed will allow for an instant phone text message receipt to be sent to both the client and institution upon collection of the deposits. Until this is done, there is a high risk of fraud.

## Internal audit

IA has greatly improved by the hiring of an experienced internal auditor and an assistant at the start of 2009. The IA plan covers all operational areas of each branch, with frequent visits and spot checks documented. Accounting entries and cash are also checked. However, a full system audit of eMerge is not included, or possible given the limited IT knowledge of the IA, although some audit function can be done with the system. Otherwise the IA staff is qualified and has sufficient capacity for all of its other auditing duties. However, the performance of the management team has not been audited, as this was not included in the IA team mandate from the BOD. Regulatory and financial risks are not part of the audit plan, nor are other head office processes such as HR management.

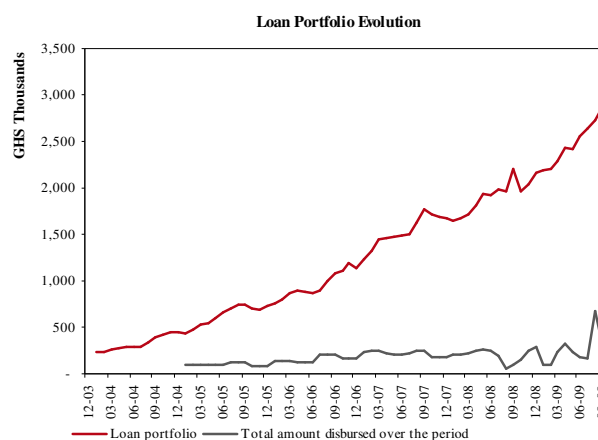
The IA does have appropriate independence and reports to the BOD. There has been insufficient response from the BOD and management on its detailed reports. Recommendations do not receive formal responses from either management or the BOD, and are not tracked for follow-up. IA is supplemented by adequate oversight from the BoG, MIS system access by ARB APEX on a monthly basis, and ARB APEX audits on shared accounts.

## ■ Activities

Activities: products and services is rated “d”

### Financial services evolution

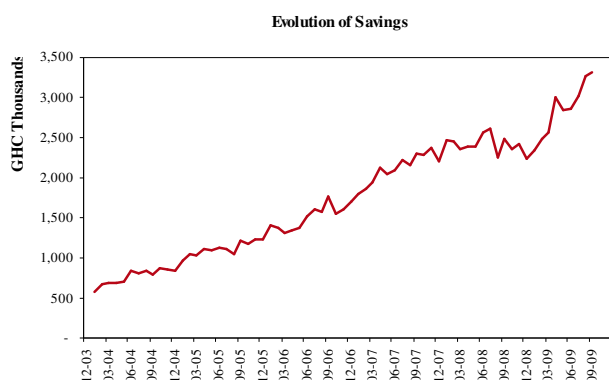
URB’s loan portfolio has grown rapidly since inception, excepting a brief decline in growth in June 2008 after disbursements were halted due to lack of liquidity and worries about the fraud. The only major constraint to further growth of the portfolio has been lack of funding, which also accounts for the uneven disbursements.



Since the last rating report in 2007, the product mix has changed significantly as compared to September 2009. Salary loans have decreased from 45% to 34%, business

loans have doubled to 14%, microfinance loans have decreased from 30% to 11% of the portfolio, and staff loans have doubled from 6% to 12%. This is a significant increase given the fact that staff loans used to be calculated to include staff from KEK insurance, but now URB employees alone count for 12% of the entire portfolio. Additionally, asset loans have been introduced and now comprise 27% of the portfolio.

In regards to savings, the largest growth has come from the mobile banking product, which replaced the SuSu savings account. This helped URB attain a growth of 48% in deposits from December 2008 to September 2009.



## Financial services management

Currently all credit decisions are centralized at head office, with the BOD approving every loan application. This is neither efficient nor timely, but was an emergency measure established after the fraud. While larger loans, such as the business loans, might need approval from more than the local branch staff, more stringent procedures would be more efficient in ensuring appropriate disbursement by branch staff. The loan methodologies are not strict on assessing repayment capacity, rather rely more on guarantors and collateral. This is however hampered by an inefficient legal system which makes it difficult to retrieve collateral or insist upon repayment by guarantors.

Each branch has one LO dedicated to Microfinance loans and one LO dedicated to asset/business/salary loans, but none of the LOs have a high level of knowledge about their markets and the inherent risks of their products.

Delinquency management has improved with the formation of a roaming team tasked with focusing on very delinquent clients in each branch. While pressure has worked in most cases, this dedicated team was formed only after the fraud and has never brought a client to court to reclaim collateral.

## Credit risk

Credit risk at URB remains high. The PAR 30 for September 2009 was 18.5%, which is a decrease from the 26.7% PAR

at the time of the last rating report in September 2007. The products with the highest PAR are business loans at 35% and microfinance loans at 34%, which were the same high-risk products as in 2007, although PAR has reduced to some extent. No clear write-off policy is in place, other than that the BOD must approve the writing off of any loans. This occurred in 2007 and was for 71,370 GHC (75 K USD).

The BoG requires reporting on the amount of portfolio allotted to each economic sector, so URB does monitor it monthly, however there are no internal limits on portfolio diversification per sector. This is a considerable risk as URB's branch network is mainly along the coast with many clients involved in the fishing industry or operating in the same central markets.

Staff loan monitoring is the responsibility of the CM, having recently been separated from those to staff of KEK insurance. Overall, there is no limit on the amount of portfolio disbursed to staff, with a very high 12% of total portfolio in staff loans. Additionally, PAR of these loans is not monitored, although the MIS shows a current arrears rate of 9% for URB employees. KEK employees' arrears and PAR are also not monitored.

## Credit risk coverage

The risk coverage ratio stood at 9.3% for PAR 30 as of September 2009 and is inadequate in comparison with international best practice. Credit risk coverage of PAR 180 was equally low at 14.4%. A BoG report from June 2009 also noted that URB was under-provisioned according to BoG guidelines and requested that an additional 25,902.81 GHS were booked as a provision expense by June 2009. This was done in September 2009, but is still insufficient for best practice. Delinquent clients are counted as such only after the entire loan period has passed. This also means that current loan provisioning is not sufficient for clients in arrears who have not yet reached the end of their loan term.

Financial guarantees are required for all loans and have recently been increased. The guarantors required by all loans, except mobile banking, are supplemented with property for the riskier business and asset loans. However, the liquidity of this property collateral has not been tested as there has yet to be any recuperation of property by URB. This is proof in itself that there is not an ideal legal environment to efficiently cover defaulted payments with landed property.

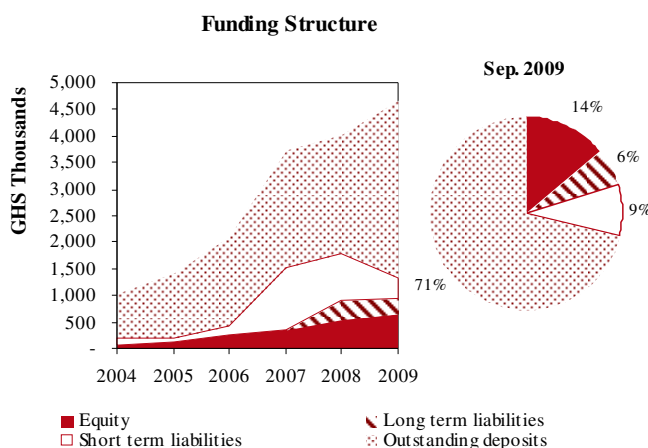
## ■ Funding and liquidity

Funding and liquidity is rated “c”

### Capitalization and funding strategy

As of September 2009 URB was sufficiently capitalized with a total CAR of 16%. This is also sufficient for the 10% CAR required by the BoG. Typical of a commercial bank, URB continues to maintain a high leverage, decreasing only slightly from the 6.3x in December 2008 to 6.1x in September 2009. However, after adjusting the balance sheet to establish a minimum acceptable level of loan loss provisioning which requires an additional expense of 312 K GHS (214 K USD) URB is undercapitalized with a CAR of only 7.3%. Additionally, there is still 683 K GHS (478 K USD) within accounts receivables that is comprised of unreconciled interbranch and office accounts. Considering it was these accounts which hid the fraud, these can not be considered dependable asset until reconciliation is complete.

At present there are no solid plans to increase capital from outside sources, as there has been a firm commitment from the BOD Chairman to support URB as needed. In addition to the position of prestige in the Senya Beraku community, to which the BOD Chairman is ever-present alongside URB, there is a financial interest in keeping the bank solvent. In addition, the network of shareholders has a good relationship with the management team.



URB depends mainly on its outstanding deposits for funding, having grown to 71% of the funding structure in September 2009. The introduction of the mobile banking product was planned to focus on mobilizing even more deposits. URB has very limited external funding, totaling only 4%.

Precise external funding needs have not been accurately identified for the rest of 2009 or the next few years. The BOD has recommended that the current two funders be approached for additional funding, which they have been, but no response has been forthcoming. In addition to existing

funders, only an application to the Ghanaian government fund, MASLOC, has been made. Fund sourcing responsibilities are currently split between the GM, DGM, CM and MBM. The FM does not have the experience or capacity to manage fund sourcing or plan funding needs, and focuses mainly on financial reporting duties.

### Liquidity risk

URB is exposed to a moderate level of liquidity risk. As of September 2009, URB had a deposit withdrawal coverage of 17.5%. However, despite this overall institutional liquidity, cash shortages are frequent in the branches. This is due to poor cash management between branches and head office, resulting in much delay or non-approval of loan disbursements due to lack of cash. The DGM is now responsible for liquidity management within the institution and amongst the branches. The BoG monitors liquidity on a quarterly basis, for which the DGM provides a summary statement of liquidity, including an ageing of assets. However, there are no longer-term liquidity planning tools used.

Maturity risk is present but manageable for URB with a quick ratio (one month) and current ratio over 100%. However, maturity risk is not actively monitored except for the BoG reporting, despite the large percentage of voluntary deposits. This is insufficient given the continued plans to rely on deposits, rather than long-term external funding.

### Market risk

There is no foreign exchange risk at URB, as both assets and liabilities are in local currency. Interest rate risk was present on the Oikocredit loan with a rate of GIBOR + 5.25%. Although the risk is minimal that GIBOR fluctuations could unfavorably affect URB, interest rate risk should be better monitored.

## ■ Efficiency and profitability

Efficiency and profitability is rated “c”

### Profitability analysis

Nominally URB shows a positive ROA (4.8% for 2008). However, as the required minimum adjustment to the loan loss provisioning is equal to the total profits of 2007 and 2008 combined, actual profitability is estimated to be around break-even. Furthermore, potential remaining losses can occur when the accounts receivable are fully reconciled.

The total revenue ratio of URB has been on a declining trend since 2007, which is mostly due to a decline in portfolio yield which reduced from 48.0% in 2007 to 43.7% in 2008. A yield gap remains with the estimated effective interest rate

(EIR) of around 59%. The difference can most likely be attributed to the poor portfolio quality.

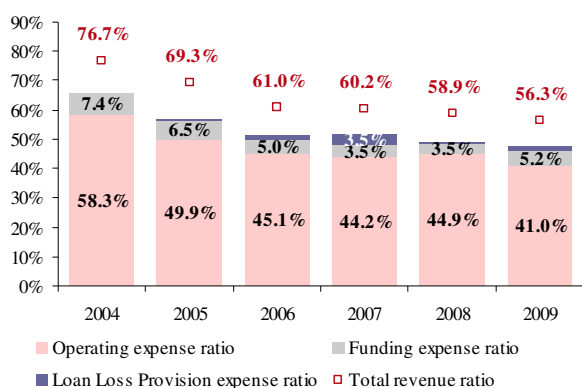
URB has a moderate revenue quality. On the one hand there is a clear competitive advantage for URB in its home district of Senya Beraku, being the only financial institution present. On the other hand, while URB is the only microfinance bank in Kasoa, there are other microfinance institutions around encroaching on their clientele. Competition is increasing, especially in Weija and Kasoa as commercial banks infringe on their best clients and other rural banks gain strength. URB’s range of services is effective at addressing the needs of its clientele, with ATM’s soon to be opened in several branches in addition to the existing Western Union and EZwitch facilities. The roll-out of the mobile banking product has proven to be very popular with clients, although it is uncertain whether the technology for this product will be able to successfully mitigate the cash risk involved.

URB is not yet operating fully efficiently as indicated by a high operating expense ratio of 41%, although on a decreasing trend over the years. Efficiencies of scale gained by the MIS system have been lost by the recent branch opening and hiring nearly 130 mobile banking LOs. However, average loan per client has decreased in the last three years from a high of 407 in 2007 to the current 297.

URB’s profitability outlook is stable. The newly increased interest rates are expected to enable URB to cover for its increase in loan loss provision expenses and potential write-offs related to its unreconciled accounts. However, upon further growth, the weakness in internal controls and MIS will become a larger impediment in remaining sustainable, especially as with increased competition a downward pressure on interest rates is expected.

*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.*

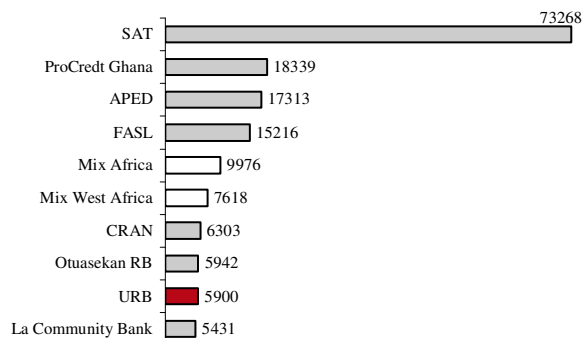
**Profitability Structure**



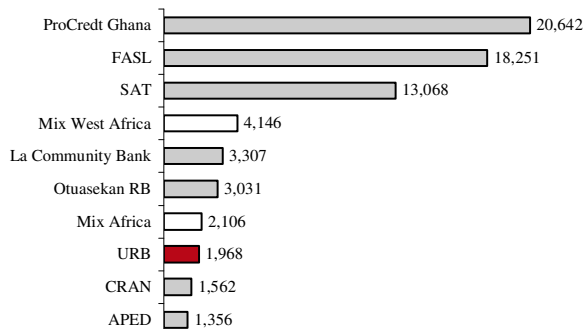
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## Benchmarking

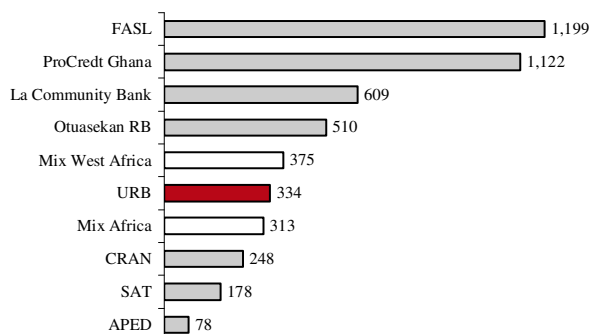
Active borrowers



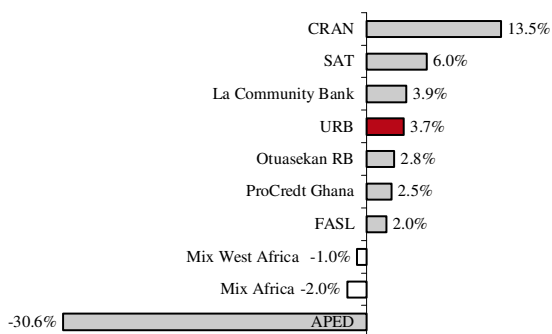
Loan portfolio ('000 USD)



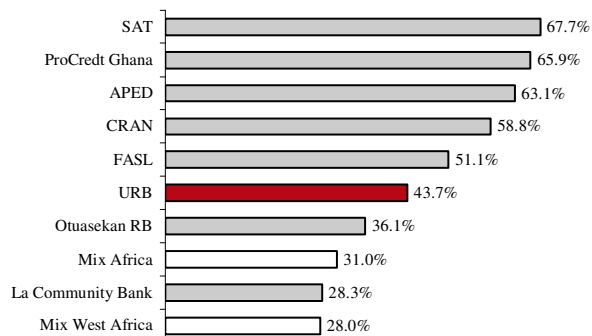
Average outstanding loan per client (USD)



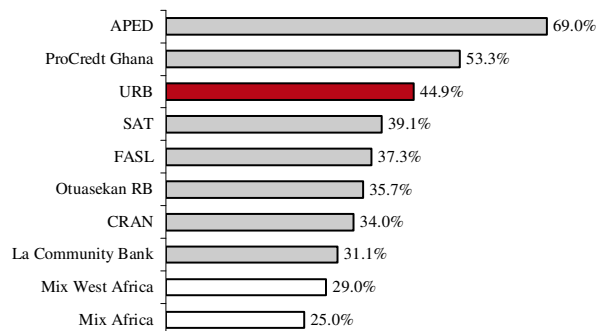
ROA



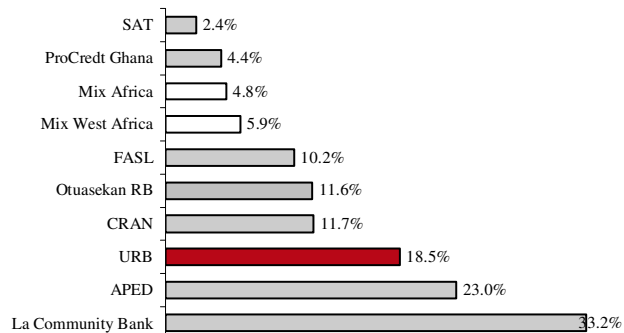
Portfolio yield



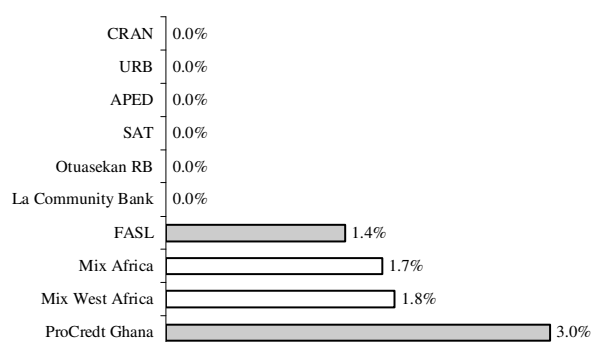
Operating expense ratio



PAR 31-365



Write-off ratio



Source: www.mixmarket.org, all data as of 2008

## ■ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Sep. 2009
<b>Loan portfolio evolution</b>						
Loan portfolio	507,892	794,811	1,189,197	1,774,380	1,770,758	2,000,706
Loan portfolio (GHS)	452,024	723,516	1,140,321	1,691,818	2,163,424	2,873,273
Growth	98.0%	60.1%	57.6%	48.4%	27.9%	32.8%
Active borrowers	2,411	2,161	4,888	4,306	5,900	6,619
Growth	n/a	(10.4%)	126.2%	(11.9%)	37.0%	12.2%
Average outstanding loan per client	211	368	243	412	300	302
% of GDP per capita	47.8%	71.9%	42.8%	61.5%	46.9%	46.5%
Avg. amount disbursed per loan	n/a	n/a	272	524	818	1,043
% of GDP per capita	n/a	n/a	47.9%	78.2%	127.9%	160.5%
<b>Portfolio quality</b>						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR > 30	n/a	n/a	n/a	n/a	n/a	18.5%
Write-off ratio	0.0%	0.0%	0.0%	4.7%	0.0%	0.0%
<b>Credit risk coverage</b>						
Risk coverage ratio (PAR 30)	n/a	n/a	n/a	n/a	n/a	9.3%
PAR 30 net of loan loss provision / Equity	n/a	n/a	n/a	n/a	n/a	74.0%
<b>Savings</b>						
Outstanding deposits	945,542	1,351,059	1,773,288	2,311,279	1,829,897	2,311,979
Outstanding deposits (GHS)	841,532	1,229,869	1,700,406	2,203,735	2,235,677	3,320,302
Growth	63.9%	46.1%	38.3%	29.6%	1.4%	48.5%
Voluntary savings (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cash collateral (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Active savers	21,722	22,537	17,921	26,633	27,142	30,501
Growth	n/a	3.8%	(20.5%)	48.6%	1.9%	12.4%
Average outstanding deposit per saver	44	60	99	87	67	76
<b>Staff</b>						
Total number of staff	56	74	76	66	79	197
% Credit officers	19.6%	18.9%	26.3%	27.3%	17.7%	7.6%
Turnover	5.3%	3.1%	6.7%	16.9%	2.8%	7.2%
<b>Profitability analysis</b>						
ROE	68.6%	76.6%	45.6%	43.4%	40.9%	35.3%
Liabilities / Equity	15.05x	9.82x	7.18x	9.33x	6.33x	6.16x
Core capital adequacy ratio	8.2%	12.7%	14.4%	9.8%	11.4%	15.0%
Total capital adequacy ratio	12.1%	16.4%	17.2%	12.1%	16.2%	16.0%
ROA	4.6%	6.1%	5.0%	4.6%	4.8%	4.9%
ROA (without donations)	4.6%	6.1%	5.0%	4.6%	4.8%	4.9%
ROA (microfinance operations)	4.6%	6.1%	5.1%	4.6%	4.8%	4.9%
<b>Profitability structure</b>						
Total revenue ratio	76.7%	69.3%	61.0%	60.2%	58.9%	56.3%
Portfolio yield	59.6%	50.6%	45.9%	45.1%	43.7%	39.6%
Operating expense ratio	58.3%	49.9%	45.1%	44.2%	44.9%	41.0%
Cost per borrower	92	157	90	163	118	105
Staff productivity	43	29	64	65	75	34
Loan officer productivity	219	154	244	239	421	441
Avg. outstanding loan per client (USD)	211	368	243	412	300	302
Funding expense ratio	7.4%	6.5%	5.0%	3.5%	3.5%	5.2%
Loan Loss Provision expense ratio	0.0%	0.6%	1.3%	3.5%	0.6%	1.4%
PAR > 30	n/a	n/a	n/a	n/a	n/a	18.5%
Write-off ratio	0.0%	0.0%	0.0%	4.7%	0.0%	0.0%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	42.8%	49.1%	52.6%	44.9%	53.1%	60.5%
Revenue from investment as a % of financial revenues	18.4%	12.7%	9.2%	8.3%	7.9%	8.3%
<b>Liquidity</b>						
Cash to demand deposits	25.0%	24.8%	16.9%	15.9%	20.9%	17.5%
Liquidity / Total assets (LAR)	19.1%	19.9%	12.9%	8.8%	11.1%	10.5%
Current ratio (1 year)	102.9%	107.2%	104.2%	101.3%	118.6%	115.3%
<b>Exchange rate 1 USD= xx GHS</b>	<b>0.89</b>	<b>0.91</b>	<b>0.96</b>	<b>0.95</b>	<b>1.22</b>	<b>1.44</b>

## ■ Financial statements – GHS

<b>Income Statement (GHS)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
Interest and fee income on loan portfolio	202,626	312,166	430,494	680,270	829,303	725,514
Interest and fee income on investments	45,818	45,282	43,489	61,300	71,326	57,591
Interest and other financial expenses	25,124	40,235	46,851	53,370	67,279	95,224
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-	-
<b>Net financial income</b>	<b>223,320</b>	<b>317,213</b>	<b>427,132</b>	<b>688,200</b>	<b>833,350</b>	<b>687,881</b>
Fees and commissions on other financial services	n/a	n/a	n/a	n/a	n/a	n/a
Other operating income	12,407	70,201	98,228	166,816	216,336	247,384
Operating expenses	198,457	307,954	422,802	667,393	851,817	750,928
<i>Personnel expenses</i>	<i>102,531</i>	<i>168,798</i>	<i>223,577</i>	<i>329,723</i>	<i>384,193</i>	<i>302,957</i>
<i>Administrative and other expenses</i>	<i>83,444</i>	<i>123,741</i>	<i>168,017</i>	<i>288,445</i>	<i>404,713</i>	<i>447,972</i>
<i>Depreciation</i>	<i>12,481</i>	<i>15,415</i>	<i>31,208</i>	<i>49,225</i>	<i>62,911</i>	-
Non operating income (net)	-	-	(1,080)	-	-	-
<b>Gross operating income</b>	<b>37,270</b>	<b>79,460</b>	<b>101,478</b>	<b>187,623</b>	<b>197,869</b>	<b>184,337</b>
Net loan loss provision expense	-	3,955	12,470	53,130	11,138	25,044
<b>Net operating income</b>	<b>37,270</b>	<b>75,505</b>	<b>89,008</b>	<b>134,493</b>	<b>186,731</b>	<b>159,293</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>37,270</b>	<b>75,505</b>	<b>89,008</b>	<b>134,493</b>	<b>186,731</b>	<b>159,293</b>
Income Tax	-	-	-	-	-	-
<b>Net income before donations</b>	<b>37,270</b>	<b>75,505</b>	<b>89,008</b>	<b>134,493</b>	<b>186,731</b>	<b>159,293</b>
Donations	-	-	-	-	-	-
<b>Net Income</b>	<b>37,270</b>	<b>75,505</b>	<b>89,008</b>	<b>134,493</b>	<b>186,731</b>	<b>159,293</b>

<b>Balance Sheet (GHS)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
<b>ASSETS</b>	<b>1,030,538</b>	<b>1,437,891</b>	<b>2,108,471</b>	<b>3,742,360</b>	<b>4,030,711</b>	<b>4,667,108</b>
Liquid assets	196,395	286,551	271,415	328,041	446,415	488,096
Net loan portfolio	441,282	705,536	1,109,871	1,679,608	2,140,076	2,824,022
<i>Gross loan portfolio</i>	<i>452,024</i>	<i>723,516</i>	<i>1,140,321</i>	<i>1,691,818</i>	<i>2,163,424</i>	<i>2,873,273</i>
<i>(Loan loss reserve)</i>	<i>10,742</i>	<i>17,980</i>	<i>30,450</i>	<i>12,210</i>	<i>23,348</i>	<i>49,251</i>
Interest receivable	-	-	-	2,000	-	96,874
Financial investments	301,300	341,300	443,000	611,000	393,000	113,000
Net fixed assets	36,189	38,730	78,229	119,087	128,507	369,968
Intangible assets	-	-	-	-	5,000	-
Other assets	55,372	65,774	205,956	1,002,624	917,713	775,148
<b>LIABILITIES AND EQUITY</b>	<b>1,030,538</b>	<b>1,437,891</b>	<b>2,108,471</b>	<b>3,742,360</b>	<b>4,030,711</b>	<b>4,667,108</b>
<b>Liabilities</b>	<b>966,313</b>	<b>1,305,043</b>	<b>1,850,865</b>	<b>3,380,226</b>	<b>3,480,769</b>	<b>4,015,268</b>
Demand deposits	786,195	1,156,592	1,604,039	2,059,181	2,135,777	2,793,652
Time deposits	55,337	73,277	96,367	144,554	99,900	526,650
Cash collateral	-	-	-	-	-	-
Borrowings	-	-	-	-	364,937	186,410
Subordinated debt	-	-	-	-	-	-
Other liabilities	124,781	75,174	150,459	1,176,491	880,155	508,556
<b>Equity</b>	<b>64,225</b>	<b>132,848</b>	<b>257,606</b>	<b>362,134</b>	<b>549,942</b>	<b>651,839</b>
Core capital	43,495	103,091	215,515	295,030	385,737	611,198
<i>Paid-in capital</i>	<i>21,248</i>	<i>21,908</i>	<i>57,658</i>	<i>150,000</i>	<i>151,076</i>	<i>153,395</i>
<i>Donated equity</i>	-	-	-	-	-	<i>47,946</i>
<i>Retained earnings</i>	<i>22,247</i>	<i>81,183</i>	<i>157,857</i>	<i>145,030</i>	<i>234,661</i>	<i>409,857</i>
Other equity accounts	20,730	29,757	42,091	67,104	164,205	40,642

<b>Off Balance Sheet Accounts</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-

<b>Balance Sheet Averages</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
Gross loan portfolio	340,138	616,819	938,097	1,509,219	1,897,162	2,440,183
Assets	805,305	1,234,215	1,773,181	2,925,416	3,886,536	4,348,909
Deposits	677,521	1,035,701	1,492,516	1,952,071	2,410,788	2,777,989
Borrowings and subordinated debt	-	-	-	-	182,469	275,674
Equity	54,313	98,537	195,227	309,870	456,038	600,891

## ■ Financial statements – USD

<b>Income Statement (USD)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
Interest and fee income on loan portfolio	227,670	342,927	448,946	713,468	678,783	505,187
Interest and fee income on investments	51,480	49,744	45,353	64,291	58,380	40,101
Interest and other financial expenses	28,229	44,200	48,859	55,974	55,068	66,306
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-	-
<b>Net financial income</b>	<b>250,921</b>	<b>348,471</b>	<b>445,440</b>	<b>721,785</b>	<b>682,095</b>	<b>478,982</b>
Fees and commissions on other financial services	n/a	n/a	n/a	n/a	n/a	n/a
Other operating income	13,940	77,119	102,438	174,957	177,071	172,257
Operating expenses	222,985	338,299	440,924	699,962	697,211	522,883
<i>Personnel expenses</i>	<i>115,203</i>	<i>185,431</i>	<i>233,160</i>	<i>345,814</i>	<i>314,461</i>	<i>210,953</i>
<i>Administrative and other expenses</i>	<i>93,758</i>	<i>135,934</i>	<i>175,218</i>	<i>302,521</i>	<i>331,257</i>	<i>311,930</i>
<i>Depreciation</i>	<i>14,024</i>	<i>16,934</i>	<i>32,546</i>	<i>51,627</i>	<i>51,493</i>	-
Non operating income (net)	-	-	(1,126)	-	-	-
<b>Gross operating income</b>	<b>41,876</b>	<b>87,290</b>	<b>105,828</b>	<b>196,779</b>	<b>161,955</b>	<b>128,357</b>
Net loan loss provision expense	-	4,345	13,004	55,723	9,116	17,438
<b>Net operating income</b>	<b>41,876</b>	<b>82,945</b>	<b>92,823</b>	<b>141,056</b>	<b>152,839</b>	<b>110,918</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>41,876</b>	<b>82,945</b>	<b>92,823</b>	<b>141,056</b>	<b>152,839</b>	<b>110,918</b>
Income Tax	-	-	-	-	-	-
<b>Net income before donations</b>	<b>41,876</b>	<b>82,945</b>	<b>92,823</b>	<b>141,056</b>	<b>152,839</b>	<b>110,918</b>
Donations	-	-	-	-	-	-
<b>Net Income</b>	<b>41,876</b>	<b>82,945</b>	<b>92,823</b>	<b>141,056</b>	<b>152,839</b>	<b>110,918</b>

<b>Balance Sheet (USD)</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
<b>ASSETS</b>	<b>1,157,908</b>	<b>1,579,579</b>	<b>2,198,843</b>	<b>3,924,990</b>	<b>3,299,129</b>	<b>3,249,781</b>
Liquid assets	220,669	314,787	283,048	344,050	365,390	339,869
Net loan portfolio	495,822	775,059	1,157,442	1,761,574	1,751,648	1,966,411
<i>Gross loan portfolio</i>	<i>507,892</i>	<i>794,811</i>	<i>1,189,197</i>	<i>1,774,380</i>	<i>1,770,758</i>	<i>2,000,706</i>
<i>(Loan loss reserve)</i>	<i>12,070</i>	<i>19,752</i>	<i>31,755</i>	<i>12,806</i>	<i>19,110</i>	<i>34,294</i>
Interest receivable	-	-	-	2,098	-	67,455
Financial investments	338,539	374,931	461,988	640,817	321,670	78,684
Net fixed assets	40,662	42,546	81,582	124,899	105,183	257,615
Intangible assets	-	-	-	-	4,092	-
Other assets	62,216	72,255	214,784	1,051,553	751,146	539,748
<b>LIABILITIES AND EQUITY</b>	<b>1,157,908</b>	<b>1,579,579</b>	<b>2,198,843</b>	<b>3,924,990</b>	<b>3,299,129</b>	<b>3,249,781</b>
<b>Liabilities</b>	<b>1,085,745</b>	<b>1,433,641</b>	<b>1,930,196</b>	<b>3,545,183</b>	<b>2,849,003</b>	<b>2,795,895</b>
Demand deposits	883,365	1,270,561	1,672,791	2,159,670	1,748,129	1,945,264
Time deposits	62,176	80,498	100,497	151,608	81,768	366,715
Cash collateral	-	-	-	-	-	-
Borrowings	-	-	-	-	298,700	129,800
Subordinated debt	-	-	-	-	-	-
Other liabilities	140,203	82,582	156,908	1,233,905	720,405	354,116
<b>Equity</b>	<b>72,163</b>	<b>145,939</b>	<b>268,647</b>	<b>379,806</b>	<b>450,126</b>	<b>453,886</b>
Core capital	48,871	113,249	224,752	309,428	315,725	425,587
<i>Paid-in capital</i>	<i>23,874</i>	<i>24,067</i>	<i>60,129</i>	<i>157,320</i>	<i>123,655</i>	<i>106,811</i>
<i>Donated equity</i>	-	-	-	-	-	33,385
<i>Retained earnings</i>	<i>24,997</i>	<i>89,183</i>	<i>164,623</i>	<i>152,108</i>	<i>192,070</i>	<i>285,390</i>
Other equity accounts	23,292	32,689	43,895	70,379	134,401	28,300

<b>Off Balance Sheet Accounts</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-

<b>Balance Sheet Averages</b>	<b>Dec. 2004</b>	<b>Dec. 2005</b>	<b>Dec. 2006</b>	<b>Dec. 2007</b>	<b>Dec. 2008</b>	<b>Sep. 2009</b>
Gross loan portfolio	382,178	677,600	978,305	1,582,870	1,552,824	1,699,138
Assets	904,837	1,355,833	1,849,182	3,068,178	3,181,122	3,028,214
Deposits	761,259	1,137,757	1,556,488	2,047,333	1,973,225	1,934,358
Borrowings and subordinated debt	-	-	-	-	149,350	191,956
Equity	61,026	108,246	203,595	324,992	373,266	418,410

## ■ Formulas

Return on assets (ROA):	Net operating income / Average assets
ROA (without donations):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Liabilities / Equity (end of period)
Capital adequacy ratio:	Capital / Risk weighted assets (end of period)
Total revenue ratio:	Total revenue / Average gross outstanding portfolio
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
Cost per borrower:	Operating expense / Active borrowers (end of period)
Staff productivity:	Active borrowers / Total personnel (end of period)
Funding expense ratio:	Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings:	Interest and fees paid on deposits / Average deposits
Cost of borrowings:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average gross outstanding portfolio
Write-off ratio:	Loans written off / Average gross outstanding portfolio
Risk coverage ratio:	Loan loss reserve / Portfolio at risk > 30 days
Cash to demand deposits:	Instantly available liquid assets / Demand deposits (end of period)
Current ratio (1 year):	Short term assets / Short term liabilities (end of period)

## ■ 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	TECHNICAL ASSISTANCE REQUIRED
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	<b>High risk:</b> 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.	
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	