

Socrema, Mozambique

Socrema stems from a project that began in 1992 between the GTZ and the Employment Promotion Office of the Mozambican Ministry of Labor. Its original goal was to economically reintegrate former Mozambican contract workers in the Democratic Republic of Germany. The project, including credit and business development service components, failed and was stopped in 1994. Based on a viability study SOCREMO – Sociedade de Crédito de Moçambique, SARL was established in 1998. In 2004 the institution transformed into a bank and became Socrema – Banco de Microfinanças. As of April 30 2008, Socrema offered individual loans and savings services serving 15,109 borrowers for a portfolio of 17 M USD and 31,708 banking accounts.

GIRAFE Rating

Rating

C++

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at www.planetrating.com

Outlook

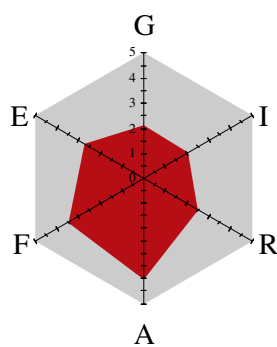
Positive

Date of the rating

April 2008

Valid until March 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- Conflicts over ownership issues led to an inefficient decision making during 2007. A solution that implies major changes in the shareholding structure seems to have been found but will only be fully confirmed and finalized by Q3 08.
- This crisis delayed important developments (product diversification and banking services development) and led to an almost complete renewal of the management team where positions currently remain vacant.
- Socrema remains very well-positioned in the Mozambican microfinance market with an efficient credit methodology, swift services and competitive prices when compared to main competitors.
- The end of foreign technical assistance should allow Socrema to increase its profitability that has been historically low. Profitability is however not expected to shoot up given the investments that are necessary to carry out the development strategy (MIS, revised communication and marketing, capacity building).
- With a dynamic growth of its deposit base in 2007 and continued relationships with major fund providers despite current governance issues, the institution should be able to access sufficient funding to fuel its growth.

Outlook

- The rating outlook is **positive**: Even if current negotiations among shareholders are not finalized, the governance crisis is expected to be resolved by the end of 2008, and Socrema should be able to resume with its normal operations and strategic development.

Performance indicators

USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008
Assets	3,383,400	5,480,259	8,046,259	14,413,796	21,789,291	22,334,192
Growth	-	29.2%	88.1%	90.7%	42.2%	4.6%
Loan portfolio	2,025,747	4,207,258	5,370,470	10,647,301	16,742,088	17,741,785
Growth	NA	65.6%	63.5%	111.0%	47.9%	8.1%
Outstanding deposits	-	60,851	805,399	1,618,602	7,287,004	9,851,581
Growth	-	-	1,595.7%	113.9%	323.5%	37.9%
Active borrowers	6,022	5,861	6,369	10,284	14,351	15,109
Active savers	-	-	3,182	9,284	26,526	31,708
Staff	102	100	136	256	337	331
ROE	(17.6%)	8.4%	(21.7%)	(0.4%)	(1.5%)	20.5%
ROA	(4.7%)	2.6%	(7.8%)	(0.1%)	(0.3%)	4.3%
Liabilities / Equity	2.75x	1.85x	1.77x	2.74x	3.87x	3.72x
Portfolio Yield	80.5%	71.7%	69.5%	66.3%	62.7%	59.8%
Operating expense ratio	64.5%	59.0%	64.1%	53.6%	46.3%	33.5%
PAR 31-365	0.3%	0.4%	0.5%	0.9%	1.2%	2.5%
PAR > 365	0.3%	0.0%	0.0%	?	?	?
Write-off ratio	2.4%	1.3%	1.8%	1.6%	1.9%	0.0%

Microfinance sector

Peace arrived in Mozambique in the 1990s, after a devastating civil war following a protracted war for independence from Portugal. The newfound peace was accompanied by massive post-conflict aid programs, many of which created microfinance NGOs or directly provided microfinance services. Emphasis was placed on development assistance, especially to the displaced peoples and demobilized soldiers, over institution building. In the late 1990s the market was characterized by a large number of generally small, young MFIs with varying levels of management capacity. At the turn of the 1990s, for-profit MFIs entered the market.

The Mozambican microfinance sector remains young yet displays signs of increasing maturity. A large number of institutions operate throughout Mozambique and a handful of MFIs have reached notable scale. The microfinance market in the capital city of Maputo and surrounding areas has started to show signs of saturation. A transition to profit-oriented, best practice microfinance is taking place among a number of MFIs of different sizes supported by international networks.

A small number of MFIs currently dominate the national microfinance scene. Three MFIs, including Socremo, account for 84% of the loan portfolio and 57% of the borrowers.

Market composition (as of Dec. 2007)

Institutions	Active Borrowers	Gross Loan Portfolio (K USD)
ProCredito	26,738	24,178
Socremo	14,313	16,725
Tchuma	10,174	4,263
CCCP (CCOM)	20,544	3,768
Banco de Oportunidade	7,311	1,946
Fundo de Desenvolvimento da Mulher	2,069	511
Rede de Caixas rurais de Nampula	2,129	127
Hluvuku-Adsema (Male Yeru)	3,298	1,243
FCC-Fundo de Credito Comunitario	3,135	951
Aga Khan Foundation 'First Microcredit Program'	764	265
Total	90,475	53,979

Source: Microfinance Association

The largest MFIs will likely retain dominant positions in the sector in the upcoming years. Yet the potential for growth outside Maputo suggests that a number of well-managed MFIs can take advantage of the current market conditions to reach considerable scale. Retail banks have not yet shown a sustained interest in microfinance although the potential returns are attracting their attention to the sector.

Despite the growth potential, it is unlikely that any MFI or group of MFIs will achieve truly national coverage in the

coming years. The impact of war on Mozambique's infrastructure and the economy makes effective control of distant branches prohibitively expensive. The rigidity of labor laws constrains the agile management of human resources. Moreover, the youth of the sector means that there are still not a large number of local microfinance professionals that can take over the management positions in diverse areas of the country.

Political & economic environment

Mozambique has enjoyed strong growth driven mainly by investment in megaprojects (hydroelectricity, ore mining, natural gas) but also by continued farm-sector development (cotton, tobacco, sugar). The Central Bank's tight monetary policy should moreover facilitate keeping inflation under the ten per cent threshold in 2008 despite the high oil prices and rising foodstuff prices.

Mozambique is nonetheless still very dependent on international aid. Facing a large fiscal deficit, excluding grants, the government has struggled to broaden the tax base with spending on education and health increasing and the dynamism of the megaprojects not spreading sufficiently to the rest of the economy. Similarly, imports of capital goods and rising oil prices should continue to widen the current account deficit. Foreign direct investment and the influx of aid have nonetheless largely covered financing needs with the country even accumulating respectable foreign exchange reserves. Debt relief under the HIPC and MDRI programmes moreover paved the way for substantial reductions in the country's debt ratios. In this context, there is little risk of sovereign default or unsustainable foreign debt.

Politically, the de facto resurgence of a one-party system does not seem to be a source of concern for foreign investors at this juncture. They seem confident in the government's capacity to initiate a new wave of reforms focused on improving the business climate and modernizing the financial sector and the legal system.

Assets

- Mozambique is endowed with abundant natural resources (agriculture, ore, hydroelectricity, tourist potential) and benefits from a favorable geographic situation, with proximity to South Africa and a long coastline.
- Tension-free relations with neighboring countries, its political stability and implementation of structural reforms have made Mozambique attractive to investors.
- In the post-HIPC and MDRI context, the IMF has classified Mozambique in the "green light" group of countries characterised by sustainable debt levels.

- Construction of a bridge over the Zambezi River should release the country's northern region from its landlocked condition.

Weaknesses

- Economic growth is still too dependent on megaprojects with the benefits not spreading readily to the rest of the economy, particularly in terms of jobs and reduction of the poverty afflicting 54 per cent of the population.
- Agriculture still employs 80 per cent of the population whose livelihood thus remains vulnerable to weather conditions.
- With infrastructure underdeveloped (energy delivery, transport), marked regional disparities have persisted.
- Difficult access to financing and a deficient institutional framework have hampered development of the national private sector.
- Covering internal and external financing needs continues to depend on international aid.

COFACE Rating : B

Political and economic uncertainties and a difficult business environment can affect corporate payment behavior. Corporate default probability is appreciable.

(USD millions)	2005	2006(e)	2007(f)	2008(f)
Economic growth (%)	6.2	8.5	7.0	7.0
Inflation (%)*	11.2	9.4	6.0	5.7
Public sector balance (%GDP)	-8.6	-14.4	-15.9	-14.0
Exports	1,745	2,391	2,580	2,542
Imports	2,467	2,878	3,119	3,275
Trade balance	-722	-487	-539	-733
Current account balance (%GDP)	-15.8	-13.6	-17.9	-17.0
Foreign debt (%GDP)	91	41	44	44
Debt service (%G&S exports)	19.1	13.7	14.8	16.4
Foreign exchange reserves (in months of imports)	4.6	4.4	4.2	4.2

Source: COFACE's Country Risk Rating Guidebook 2007. (e) estimates (f) forecasts. [Disclosure Statement](#): Data is provided with authorization from COFACE - a shareholder of Planet Rating. *Inflation, end of period consumer prices; source IMF World Economic Outlook database

Institutional presentation

Legal form, supervision and audit

Socremo was born from a former bilateral project between GTZ and the Employment Promotion Office (GPE) of the Mozambican Ministry of Labor, for the economic reintegration of former Mozambican contract workers in the Democratic Republic of Germany. The project included various technical assistance components as well as a credit fund. It was stopped in 1994 due to poor results. Based on a viability study Socremo was established in 1998 and started operations in 1999 as a financial institution. Yet portfolio quality was extremely poor and the corporate culture was not oriented towards profitability and efficiency. Technical

assistance efforts were subsequently implemented to improve the credit methodology and the business plan, while renewing or training staff. This goal has been achieved. However, Socremo still retains some features that reflect its former status, such as the presence of the state in the capital structure under the trusteeship of KfW. The State's direct holdings that represented approximately 20% the capital were sold to the bank's treasury in September 06 and were meant to be sold on to the IFC before the transaction collapsed.

Socremo is a limited liability company under the laws of Mozambique. It received its banking license in September 15, 2003, and as such is supervised by the Bank of Mozambique. It operates following the Law 15/99, of November 1 1999, as amended by Law 9/2004, of July 21, called "Credit Institutions Law" and as regulated by Decree 56/2004, of December 10.

The institution has been audited between 1999 and 2006 by KPMG Mozambique that has always provided an unqualified opinion of the financial statements. In 2007, Socremo was audited by BDO Binder & Co, an affiliate of BDO International, that has certified the financial statements with two qualifications regarding 1) the fact that Socremo has bought back its own shares and registered it as an asset when it should have decreased its equity, thus overstating equity by 17 M MZN and 2) un-reconciled differences in cash balances for an amount of 1.4 M MZN (56 K USD). The auditors attributed these differences to bugs in the IT system that cause replication of inputs from the front-office module. This explanation has been rejected by the MIS provider. Socremo is currently investigating and should be able to establish by June 2008 the amount of this imbalance (if any) that needs to be provisioned. After proper analysis both BDO and Socremo's management believe there is no fraud involved.

Ownership

Socremo is a for profit bank owned by its shareholders. The capital structure was originally dominated by the state but has evolved to include a number of international investors, with the entrance of International Financial Institutions (IFIs), investment funds and the technical assistance provider (LFS Financial Systems).

A conflict among shareholders about the evolution of the shareholding structure and strategic issues stalled all major decisions from March 2007 until now. An agreement seems to have been found at the time of the writing of this report that should lead to a complete restructure of the shareholding structure by the end of 2008. It is planned that Africap will buy out all shareholders except for KfW's stake held in trust for the German and Mozambican governments. Africap is

expected to sell on a 51% to a new international shareholder. In the last General Assembly on May 19, KfW has announced its intention to give up its trustee role that should be taken over by GAPI. Discussions are currently underway to determine the exact terms of the transaction that is now very likely to take place before the end of the semester or the 3rd quarter at the latest.

Shareholding structure as of April 2008	Capital Dec. 07 (MZN)	%
Socremo (treasury shares)	17,530,261	18.4%
UGC ¹	1,639,492	1.7%
CCM ²	1,639,492	1.7%
GAPI ³	10,396,561	10.9%
LFS	7,682,485	8.1%
KfW	15,665,668	16.5%
Africap	15,544,963	16.3%
SECO	14,667,000	15.4%
Access Holding	10,396,562	10.9%
Total MZN	95,162,484	100%
Total USD	4,000,841	

The General Assembly of shareholders elects the Supervisory Board. The Board meets quarterly to analyze management reports and to treat specific matters. Per statutes, any shareholder with more than 10% shares can have a position in the Board. The governance structure also includes a Fiscal Council elected by the General Assembly that meets before each Supervisory Board Meeting with the management team to discuss the financial statements.

Donations

Over the last few years Socremo has benefited from approximately 1.8 M USD in grants from KfW, Seco, Microstart, HIVOS and DFID, directed to finance mainly technical assistance from LFS. This was accumulated as deferred income and did not flow directly through Socremo's income statement. Additionally, 16 billion MZN remaining from the project phase, mainly from GTZ, were capitalized in order to strengthen Socremo's capital structure (+700 K USD) between 1999 and 2002.

Funding composition

As of April 2008, the funding structure was composed of 21% equity, 35% borrowings (mainly long term) and 44% deposits. A credit line from Standard Bank, with Deutsche Bank guarantee accounts for 13% of the total funding structure. Loans from Triodos, disbursed between Aug. 2002 and Sep. 2006 that accounted for 8% of total funding as of April 2008, for a total outstanding amount of 40 M MZN have been prepaid in May 2008. The decision to prepay the loan is due to the institution of a withholding tax on interests

¹ General Union of Agricultural Cooperatives of Maputo.

² Christian Council of Mozambique.

³ Small Enterprises Promotion Company, SARL.

paid to foreign investor that significantly increased the cost of the loan to Socremo.

Management team

Disagreements between the General Manager and LFS-Financial Systems GmbH as well as subsequently among shareholders led first to the resignation of the General Manager, Mr. Rui Seybert, in March 2007 and to a long interim phase from May to October during which Board Members failed to come to an agreement on the nomination of a new General Manager. During that phase, a manager appointed by LFS acted as General Manager. The Board finally decided on the termination of LFS Management Service Contract in September 2007 and on the reappointment of Mr. Rui Seybert as General Manager, which led to a complete renewal of all management positions that were previously held by LFS staff members.

The management team is currently composed of a General Manager, a Credit Manager (assisted by 4 middle managers in charge of Quality, "Policies, Procedures and Back Office", SME loans, and Loan Recuperation), a Chief Operating Officer, a Marketing Manager, a Human Resource Manager and an IT manager. The positions of Internal Auditor and Finance Manager are currently vacant. The Finance department is however staffed with a Chief Accountant, a Head of Banking Services and a Treasurer.

In contrast with the previous management structure that was essentially composed of expatriates, all management team members are now Mozambicans. They have either been internally promoted or externally hired.

Mr. Rui Seybert, has been the General Manager for Socremo under an LFS contract from August 2006 until May 2007 and again since October 2007. Mr. Seybert has 20 years experience in the investment banking industry in Europe and holds both a business diploma and a Masters in International Finance Law (University of London). After a Sabbatical of two years, Mr. Seybert joined the microfinance world.

Organization

The management team based in Maputo is responsible for strategic planning, definition of policies, reporting and supervision of branches operations. Branches are operational centers. They are headed by a Branch Manager and include Loan Group Coordinators, Loan Officers (LOs) and Credit Back-Office staff on the credit side as well as a Head of Banking Services, cashiers, deposit promoters and client attendants on the Banking Services side.

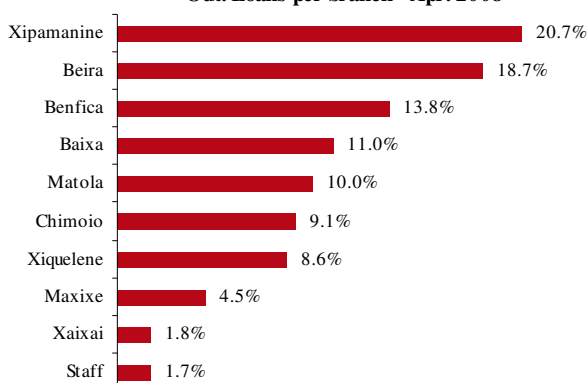
As a bank, Socremo operates all transactions through its own branches. Deposits and loans are handled through its tellers.

Large loans however, are sourced locally but approved by SME loan officers operating from head office in Maputo and reporting to the latter in branches outside the capital. Credit committees at branch level, composed of at least three members are responsible for the credit decisions up to 100,000 MZN if headed by a Group Coordinator or 300,000 MZN if headed by the Branch Manager. Loans up to 3 M MZN are approved by the Credit Manager and loans above that amount require the General Manager approval. Loans for more than 5% of the bank's capital have to be approved by the Board of Directors.

Market penetration

Socremo has a network of ten branches, six of them concentrated in the Maputo area and four in the central cities of Beira, Chimoio, Maxixe and Xai-Xai (opened in March 2008). A satellite office has recently been opened in Inhambane to conduct banking operations and offer a better service to clients previously served from Maxixe branch.

Out. Loans per branch - Apr. 2008



Products and services

As of December 2007, Socremo offers four individual loan products, the main products being Micro and SME Loans that represent 47% and 40% of the portfolio respectively. Micro Loans are provided for amounts that range from 30,000 MZN to 300,000 MZN for periods of 3 to 24 months and bear an average effective interest of 62%. SME Loans start at 300,000 MZN (12,632 USD) and can theoretically go up to 5% of the capital (currently 5 M MZN or 210,000 USD). However, the largest loan disbursed as of December 2007 amounts to 4 billion MZN (170,000 USD), or 3.5% of Socremo's capital and the average SME loan size is 660,000 MZN (27,789 USD). Interest rates vary according to the amount and the collateral, with lower interest rates for larger loans. The average effective interest rate of larger loans is 40 per cent. Consumer Loans and Housing Improvement Loans are offered to wage earners since May 2006, but their development has been slowed down due to anticipated risks of over-indebtedness of this client segment. The weighted effective interest rate as of April 2008 was 55%.

Socremo offers five deposits products:

- Current accounts in local and foreign currency.
- Savings accounts in local and foreign currency, bearing interests from 5% to 15% (in MZN).
- Fixed term accounts in local currency, bearing interests from 6% to 17% (in MZN) for 3 to 12 month-deposits. The highest interest on these term deposit have been increased from 13% to 17% in October 2007 in order to boost the deposit collection and positioned Socremo among the highest yields in the market along with ProCredito which can offer up to 20% yields for very large amounts.
- Deposit plans for children or for adults: long term deposit plans (10 years or more) bearing 10% interest rates.

Networks

Socremo does not belong to any microfinance network and has withdrawn from the Bankers' Association in 07.

Governance

Governance and Decision making is rated "c"

Decision making

Conflicts among shareholders and between shareholders and management over ownership issues have led to an inefficient decision making during the year 2007. The institution needs to resolve current disagreements before normal decision making can resume. A solution seems to have been found but will only be fully confirmed and finalized by the 3rd quarter of 08. This governance crisis has delayed some important developments (MIS improvement, banking services development) and has necessarily had a negative impact on the institution's competitive position. A quick resolution is necessary so that the institution can resume with normal growth plans and product implementation.

The shareholders in the planned ownership structure have aligned views on the future strategy of SOCREMO and have a good mix of microfinance expertise and technical skills in financial management as well as sound governance practices. The possible new major shareholder has indicated the will to largely empower local teams which would be consistent with its little experience in financial institutions management and long-distance supervision. Unlike in current shareholding structure, conflicts of interests should be limited in the future ownership structure. However, clear rules should be set to avoid falling again in the situation where some shareholders were also service providers (directly or indirectly) for SOCREMO.

Despite these positive trends, the actual evaluation of the future shareholders' governance skills and style will only be

possible after a few months of operations into the new structure and the current situation remains uncertain.

Planning

A succinct but relevant strategic plan has been the basis of the negotiation with future shareholders. Socremo has the ambition to create a strong banking franchise through the development of a larger branch network with an improved branding and image, providing a full range of banking and financial services (deposits, payments, remittances, insurance and transactions services) with a stronger focus on SME loans that would represent 80 to 90% of the loan portfolio by 2009/2010. The quantitative targets (average annual growth over the next 4 years set at 40% for loans and 70% for deposits) seem achievable given the large potential market. The management has a clear vision of the projects that need to be implemented to carry out the strategy (new MIS, revision of interest rates, revised communication and marketing, investment in capacity building of staff), but the plans currently lack formalization. Even if this strategy is founded on the sound grounds of a strong credit methodology, execution risk remains high given the wide set of new skills that the bank needs to develop over the next few years.

The normal operational planning process has been put on hold during the past year due to governance conflicts. The active participation of staff in the next planning process will be key to a good mobilization of the whole institution towards the goals set by the new management and shareholders.

Management team

The management team is mostly young in its positions but has an adequate experience either within SOCREMO or in relevant firms and positions. The team is organized in committees which provide an efficient decision making process and fosters debates that are important to have in this phase of strategy revision.

The Credit department has adequately been staffed with middle Managers to assist the Credit Manager in the key projects that need to be carried out in 2008/2009. The vacant positions for Finance Manager and Internal Audit Manager however put a lot of pressure on the General Manager as well as other departments and weaken the system. The recruitment process has been initiated several months ago but appropriate profiles for these positions have proven difficult to secure before settlement of the ownership crisis. The existence of a key-person risk is inevitable in this transformation and transition process. But the integration of a skilled Finance Manager would reduce the risks for the continuity of operations that is currently too high.

Human resource management

The management of Human Resources has been improved over the past few years thanks to a clarified salary structure, revised recruitment process, induction and training processes. There remains a high turnover (around 20% for the past year when including loan officer trainees) that management is trying to address with a better identification of profiles that are adequate to SOCREMO and an improved recruitment process. Efforts are also made to create careers paths within SOCREMO for the “talents”; and this message has been reinforced by the recent promotions of internal staff to Management positions and the creation of the Socremo “Academy”.

The compensation schemes of SME loan officers include a very big proportion of bonus and result in average monthly revenues that are substantially higher than that of micro-loan officers. This set-up, intended to create emulation among staff, could also result in de-motivation if the level of compensation only takes into account revenue generation and does not factor in the level of effort or qualifications of the different categories of staff.

Important communication efforts seem to have sent a clear message to staff that the institution is back on track and ready to grow after a period of “internal crisis”.

■ Information

Information is rated “c”

The MIS allows a decent management of current operations, with a good infrastructure that provides real time information to all branches, despite slow processing. The MIS provides adequate and detailed information for the follow-up of current loan and savings portfolio, even if it is difficult to create ad-hoc reports. Important failings however represent a high risk for the continuity of operations that needs to be solved soon:

- The accounting module is not appropriately designed and allows modification of past records.
- The conflict with LFS, the MIS provider (and shareholder) leaves Socremo without MIS support, capacity to update the software, correct bugs or adapt the software to new services.

Security measures have improved during the past year but are not yet optimal, partly due to the MIS support problems: the alternative system in case of failure of the central server is not fully functional.

Socremo has the plan to implement a new MIS as soon as the new shareholding structure is put in place. Appropriate software have already been shortlisted and contacts taken to

outsource a significant portion of the MIS project, which seems appropriate given the little MIS capacity that the bank currently has. A quick and efficient execution of this project will be key to the development of Socremo during 2008.

■ Risk Management

Risk Management is rated “c”

Procedures and internal controls

Procedures are designed to control major risks and abide by the basics of internal control (separation of tasks, hierarchical control and limits of power). They are well known by all staff. The failings of the MIS however create operational risks (notably due to the difficulty to reconcile cash balances) that need to be resolved soon.

Internal audit

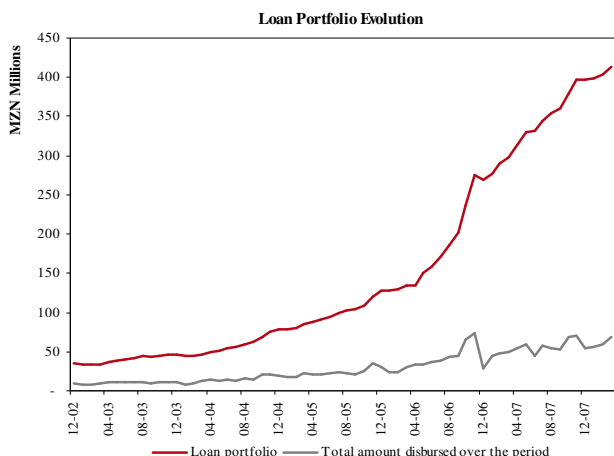
The level of compliance with the procedures seems adequate but the absence of an Internal Audit team does not provide an adequate monitoring of the risk level. Spot checks and visits to branches by members of the Management team partly cover up for this gap but are not sufficiently documented and systematic to provide a complete replacement. In this interim period, a more systematic risk mapping could be done to improve the level of control in the institution.

■ Activities

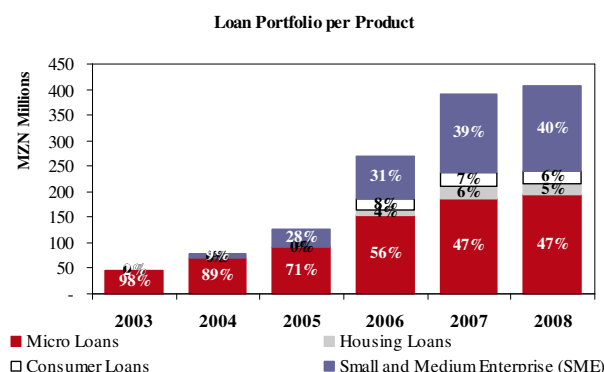
Activities: products and services is rated “a”

Evolution and composition of the portfolio

The portfolio has grown steadily over the past 5 years with annual growth rates constantly above 50%. This growth was largely fuelled by the development of the SME loans that was launched in 2006 and now represents 40% of the loan portfolio.

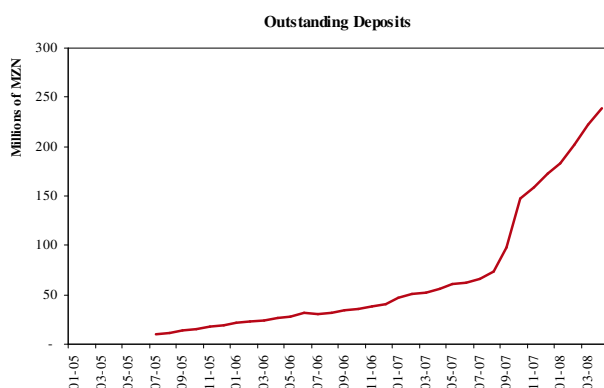


The relatively slow growth of the Micro-Loans in 2007 (+20%) in a market that has grown by 56% in 2007 might be partly attributable to the very stringent PAR criteria set in the incentive scheme that does not help to focus LOs on growth. It might also indicate signs of saturation of the market in some of the areas of operations and call for a more dynamic network development that currently is pretty much stalled by the MIS and governance problems.



Socremo’s strategy to boost deposit collection thanks to increased creditor interest rates proved successful with an explosion of the outstanding deposits of 320% in 2007 (compared to a 110% only in 2006). Rate-sensitive depositors might however be volatile and the sophistication of the payment services offering will be key to retain deposits in the long run.

The need for an improvement of the brand image has been taken into account in a well designed marketing plan that organizes the harmonization of the identity of the branches and a communication campaign.



Loan portfolio management

Credit decisions processes at Socremo are adequate thanks to a well designed credit methodology and good LOs technical skills. Upon reception of the loan application, LOs, who are regularly trained in order to improve their technical skills, conduct a detailed and documented business analysis followed by a visit to the client. The final loan amount is set by the Credit Committee designed to be as objective as possible. Socremo created a good repayment culture through stringent delinquency management as well as repayment

incentives based on high guarantees and collaterals. In case of late repayment LOs act immediately, encouraged by a low PAR1 target set by their incentive scheme. A specialized loan recovery team has also been set up to intensify measures for the most complicated cases. This zero risk culture has some downside effects in terms of client relationship and LO efficiency. Loan Officers, driven by the incentive scheme, give systematically more importance to portfolio quality rather than the growth of their portfolio. In addition, the very quick seizure of collaterals might come at the cost of good image and client relationship even with “good clients”.

Socremo currently only offers very basic services to its depositors (payment services should be implemented by the end of the semester). Procedures are relatively well designed but insufficiently applied partly due to a lack of user-friendliness of the system. This leads to numerous mistakes in the booking of transactions. These problems are however solved within a few days due to an online chat box being used by all Banking Services employees.

Credit risk

Socremo has a strong focus on its portfolio quality which remains excellent despite an increasing trend in 2007 and 2008. PAR30 grew from 0.9% in Dec. 2006 to 1.2% in Dec. 2007 and increased to 2.5% in April 2008. This increase affects all loan categories and is not only due to the high amount of problems in Chimoio branch.

Socremo has very swift write-off policy (loans written-off at 90 days) that tends to lower PAR and increase write-off when compared to international benchmarks. The write-off however remains within usually accepted standards at 1.9% as of Dec 2007. Rescheduled loans are properly monitored despite some MIS weaknesses (no vision of rescheduled loans as to of end of a specific period) and are subject to a new business analysis for a better risk assessment. Furthermore, recovery costs are covered by a slight increase in interest rates. Socremo has an adequate connected lending policy, with connected loans representing a small proportion of the portfolio.

Even if its portfolio is well diversified by sector and by region, it remains demand driven rather than based on a risk-approach. More attention should be paid to concentration risk, given the unstable economic environment (emerging economy, Zimbabwe political crisis) where a hardly predictable sectoral crisis could happen.

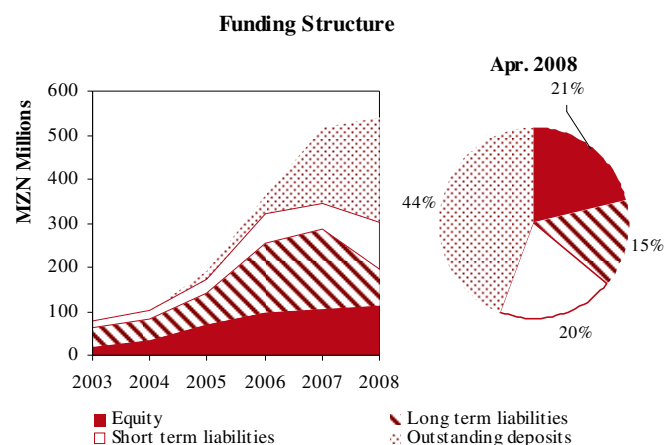
Credit risk coverage

Anticipated losses are fully covered by an important loan loss reserve, leading to a risk coverage ratio consistently

above 250%. There is no specific insurance that would cover important risks such as natural disaster or economical risks. Therefore, Socremo partially compensates sectoral risks by a global provision of 2% of the portfolio. Collaterals and guarantees are designed to implement a good repayment culture (dissuasive amount: 150% of the loan amount for new clients) and are also used to settle late loans, even before litigation procedures are launched.

Funding and liquidity

Funding and liquidity is rated “b”



Market risk

SOCREMO has a very limited exposure to FX risks given that its total open position labeled in foreign currencies (USD, EUR) is limited to 0.4% of the capital. SOCREMO is exposed to fluctuations of the MAIBOR and 90 day Mozambican T-Bill, which are however limited given the short term nature of most loans to its customers and the national nature of the benchmark.

Liquidity risk

The absence of a Finance Manager limits the institution’s capacity to adequately monitor liquidity risks. The financing structure show maturity gaps in the 1-to-12 month band due to the increase in 3-to-12 month term deposits attracted by high yields that are not sufficiently matched by loans of similar maturity. The strong growth of the deposit base currently mitigates that risk but could however come to a brutal end if competitive conditions were to change. The availability of a large unused overdraft facility with Standard Bank would however allow the institution to face drops in the deposit influx and keeps the liquidity risk at a manageable level. Sufficient cash on hand is kept to cover for potential demand deposit withdrawals.

Capitalization and funding strategy

Due to good performances and numerous contacts with strong international and local funders, Socremo has a well

diversified funding structure. It is holding international investors either as shareholders or as lenders and is in the process of finalizing an agreement with new shareholders. Foreign funding has however become more expensive due to the installation of a 20% withholding tax on interests paid to foreign investors. This should not be a handicap for Socremo that in any case plans to rely on deposits to fund its growth.

Socremo has still room for secure growth due to its reasonable leverage (debt to equity at 3.7x, CAR at 23%) which should be gradually enhanced by the addition of retained earnings. Indeed, dividends have largely been distributed to shareholders in the past but future shareholders have expressed a strategy to leave a significant portion of dividends in the bank to enhance its capitalization and allow for a sound growth.

■ Efficiency and Profitability

Efficiency and Profitability is rated “c”

Profitability analysis

Under the previous business model (with foreign technical assistance), profitability was thin and even negative when taking out donations received to cover technical assistance costs. The shift to a local team should bring a higher margin of maneuver. Several factors should add up to improve the institution's financial performance in the short term as indicated by preliminary figures as of April 2008 that show a ROA of 4.3%.

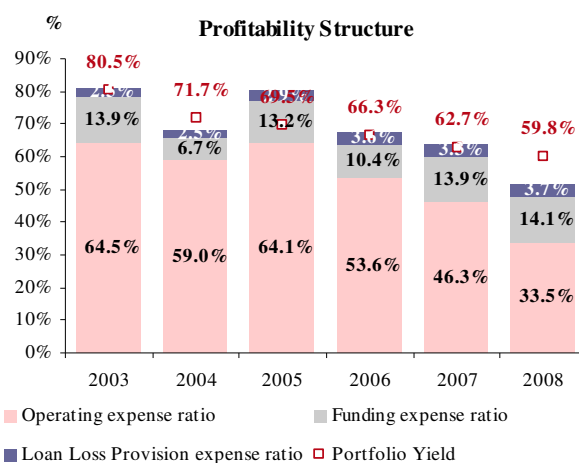
- Socremo has room to improve the productivity of its staff that is currently relatively low by international standards. Improvements in the MIS should help in this process.
- A closer control on operating cost has been put in place with the rationalization of some procurement contracts. This, added to reduction in staff expenses due to the termination of the MSC and to economies of scale, should drive the operating expenses down.
- The cost of resources should be on a downward trend if current and savings accounts grow according to plans.

Profitability is however not expected to increase to very high levels in the short run since these margins are needed to finance the infrastructure investments that are necessary to carry out the development strategy (IT system, payment services, branch network, product development). In the context of a wide untapped market, these investments should be rapidly amortized should the institution access sufficient funding to fuel its growth.

In addition, Socremo's competitive advantages are essentially based on reactivity in loan disbursement (between 1 to 7 days), and strong flexibility in order to better match its clients expectations (technical assistance for clients, rescheduling facilities, adaptation of interest rates for

good clients). In order to strengthen its market position, the institution needs to charge more competitive interest rates: Socremo indeed has high interest rates compared to mainstream banks in the SME sector even if it is cheaper than its major competitor ProCredito on both the microcredit and SME side with no commissions in the micro sector and half the commissions in the SME sector. In absolute terms interest rates are still too high (max 60%). Interest rate cuts have already been decided and will be necessary in the future to keep the institution's competitive position and enlarge the potential market.

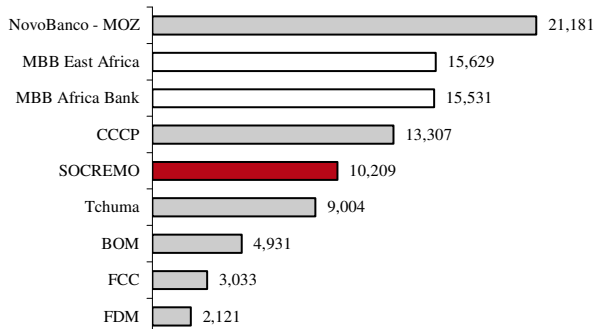
The presence of a Finance Manager would be more than needed during this change of business model in order to make sure that new loan conditions are designed based on an in-depth analysis of each products cost structure.



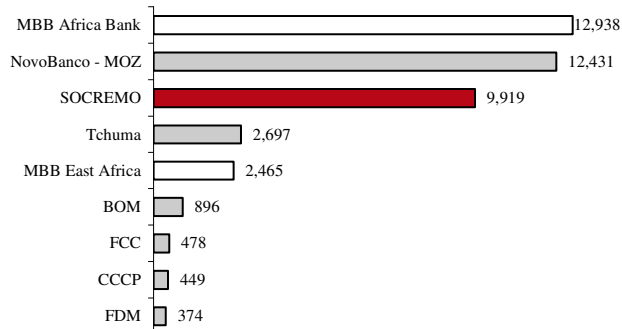
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

Benchmarking

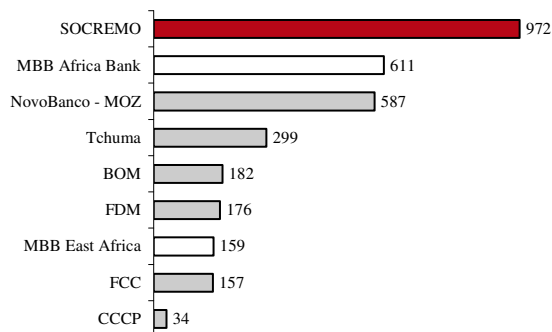
Active borrowers



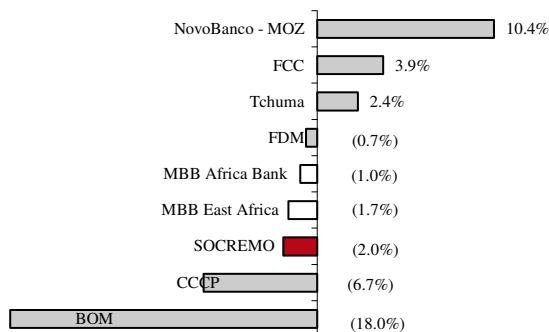
Loan portfolio (K USD)



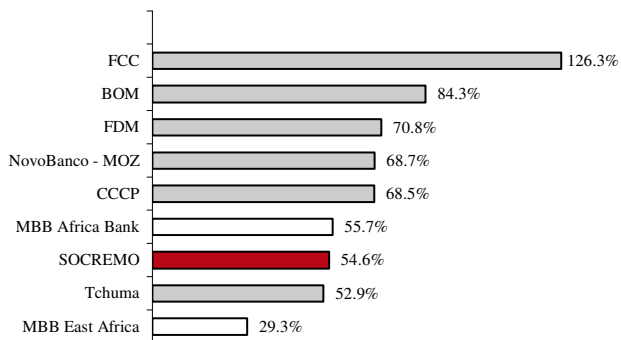
Average outstanding loan per client



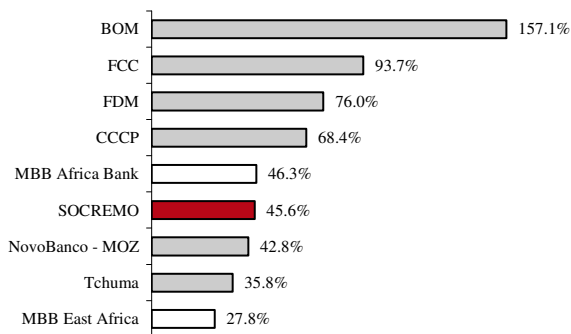
ROA



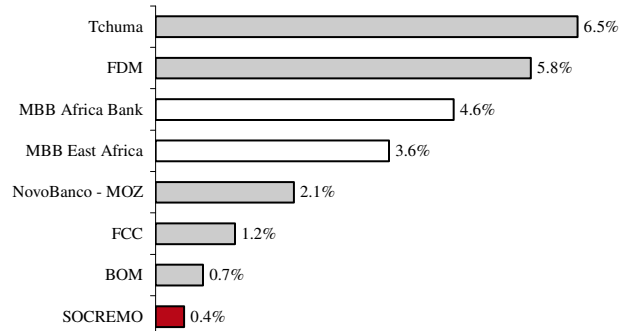
Portfolio Yield



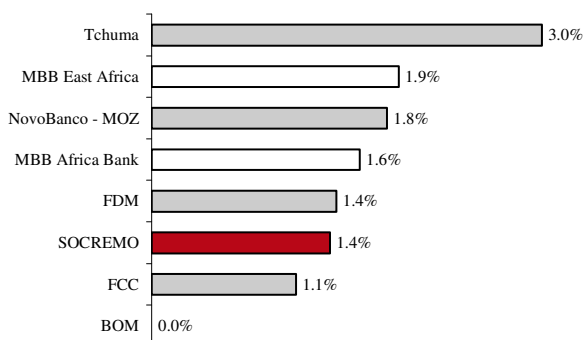
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Mix Market et MBB; données 2006

Data in USD, unless otherwise stated

■ Performance indicators

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008
Loan Portfolio	USD , unless otherwise stated					
Loan portfolio evolution						
Loan portfolio	2,025,747	4,207,258	5,370,470	10,647,301	16,742,088	17,741,785
Loan portfolio (MZN)	47,027,722	77,897,380	127,387,541	268,844,354	397,624,584	429,883,460
Evolution	#DIV/0!	65.6%	63.5%	111.0%	47.9%	8.1%
Average outstanding loan portfolio	1,720,883	3,028,365	4,050,984	6,954,232	14,064,411	16,809,030
Active borrowers	6,022	5,861	6,369	10,284	14,351	15,109
Evolution	?	(2.7%)	8.7%	61.5%	39.5%	5.3%
Average outstanding loan per client	336	718	843	1,035	1,167	1,174
% of GDP per capita	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%
Average amount disbursed per loan	414	843	1,011	1,202	1,396	1,515
% of GDP per capita	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
Portfolio quality						
Rescheduled loans	0.2%	0.1%	0.1%	NA	NA	0.01%
PAR 31-365	0.3%	0.4%	0.5%	0.9%	1.2%	2.5%
PAR > 365	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	2.4%	1.3%	1.8%	1.6%	1.9%	0.0%
Credit risk coverage						
Risk coverage ratio (PAR 30)	342.4%	623.0%	437.7%	273.0%	251.3%	156.5%
PAR 31 net of loan loss provision / Equity	(3.2%)	(4.0%)	(3.4%)	(4.5%)	(6.8%)	(5.4%)
Savings	USD , unless otherwise stated					
Outstanding deposits	-	60,851	805,399	1,618,602	7,287,004	9,851,581
Outstanding deposits (MZN)	-	1,126,651	19,104,072	40,869,710	173,066,345	238,703,814
Evolution	-	-	1,595.7%	113.9%	323.5%	37.9%
Mandatory savings (%)	#DIV/0!	0.0%	0.0%	0.0%	0.0%	0.0%
Voluntary savings (%)	#DIV/0!	100.0%	100.0%	100.0%	100.0%	100.0%
Active savers	-	-	3,182	9,284	26,526	31,708
Evolution	-	-	-	191.8%	185.7%	19.5%
Average outstanding deposit per saver	-	-	253	174	275	311
Mandatory	-	-	-	-	-	-
Voluntary	-	-	253	174	275	311
Staff						
Total number of staff	102	100	136	256	337	331
% Credit officers	51.0%	45.0%	54.4%	52.3%	46.3%	52.0%
Turnover	22.0%	18.8%	18.6%	22.4%	23.3%	0.0%
Profitability analysis						
ROE	(17.6%)	8.4%	(21.7%)	(0.4%)	(1.5%)	20.5%
Liabilities / Equity	2.75x	1.85x	1.8x	2.7x	3.9x	3.7x
Capital adequacy ratio	#DIV/0!	38.1%	44.4%	30.4%	22.9%	23.2%
ROA	(4.7%)	2.6%	(7.8%)	(0.1%)	(0.3%)	4.3%
Profitability structure						
Portfolio Yield	80.5%	71.7%	69.5%	66.3%	62.7%	59.8%
Operating expense ratio	64.5%	59.0%	64.1%	53.6%	46.3%	33.5%
Cost per borrower	184	305	407	363	453	373
Staff productivity	59	59	47	40	43	46
Loan officer productivity	116	130	86	77	92	88
Average outstanding loan per client (USD)	336	718	843	1,035	1,167	1,174
Funding expense ratio	13.9%	6.7%	13.2%	10.4%	13.9%	14.1%
Cost of savings	#DIV/0!	0.3%	7.1%	14.1%	7.1%	11.8%
Cost of liabilities	25.8%	10.1%	8.4%	12.9%	23.2%	19.8%
Loan Loss Provision expense ratio	2.5%	2.5%	2.9%	3.6%	3.3%	3.7%
PAR 31-365	0.3%	0.4%	0.5%	0.9%	1.2%	2.5%
Write-off ratio	2.4%	1.3%	1.8%	1.6%	1.9%	0.0%
Resource optimization						
Outstanding Loan Portfolio / Assets	58.7%	75.1%	65.2%	72.0%	74.5%	76.3%
Revenue from investment as a % of financial revenues	0.9%	0.0%	0.1%	0.3%	0.2%	0.0%
Liquidity						
Cash to demand deposits	#DIV/0!	791.3%	322.7%	312.7%	168.4%	71.5%
Liquidity / Total assets (LAR)	17.1%	8.0%	8.7%	11.9%	11.1%	8.5%
Exchange rate 1 USD= xx MZN	23.2	18.5	23.7	25.3	23.8	24.2

GIRAFE Rating – Socremo, Mozambique– April, 2008

Balance sheet	MZN					USD					Evolution			
	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008	2005/2004	2006/2005	2007/2006	2008/2007
ASSETS	101,466,998	190,857,275	363,948,343	517,495,668	541,157,461	5,480,259	8,046,259	14,413,796	21,789,291	22,334,192	88.1%	90.7%	42.2%	4.6%
Short Term Assets	84,396,055	167,000,611	319,205,967	456,749,871	334,674,338	4,558,253	7,040,498	12,641,820	19,231,574	13,812,395	97.9%	91.1%	43.1%	(26.7%)
Cash and Due from Banks	8,123,551	16,623,931	43,488,746	57,470,318	45,916,326	438,755	700,840	1,722,327	2,419,803	1,895,020	104.6%	161.6%	32.1%	(20.1%)
Short Term Investments	-	23,415,256	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio	72,812,267	120,449,314	262,003,941	385,617,659	253,704,042	3,932,610	5,077,964	10,376,394	16,236,533	10,470,658	65.4%	117.5%	47.2%	(34.2%)
Short Term Gross Loan Portfolio	74,524,239	123,483,758	268,844,354	397,624,584	270,788,896	4,025,074	5,205,892	10,647,301	16,742,088	11,175,770	65.7%	117.7%	47.9%	(31.9%)
(Loan Loss Reserve)	1,711,972	3,034,444	6,840,413	12,006,925	17,084,854	92,464	127,928	270,907	505,555	705,112	77.2%	125.4%	75.5%	42.3%
Interest Receivable	2,169,004	3,611,935	8,096,846	10,576,308	-	117,148	152,274	320,667	445,318	-	66.5%	124.2%	30.6%	(100.0%)
On loan portfolio	2,169,004	3,611,935	8,096,846	10,576,308	-	117,148	152,274	320,667	445,318	-	66.5%	124.2%	30.6%	(100.0%)
On investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	1,291,233	2,900,175	5,616,434	3,085,586	35,053,970	69,740	122,267	222,433	129,919	1,446,718	124.6%	93.7%	(45.1%)	1,036.1%
Long term assets	17,070,943	23,856,664	44,742,376	60,745,797	206,483,123	922,006	1,005,762	1,771,975	2,557,718	8,521,796	39.8%	87.5%	35.8%	239.9%
Long Term Net Investments	-	-	17,530,261	17,639,755	-	-	-	-	-	-	-	-	0.6%	-
Long Term Gross Loan Portfolio	3,373,141	3,903,783	-	-	159,094,564	182,184	164,578	-	-	6,566,016	15.7%	(100.0%)	-	-
Net Fixed Assets	13,697,802	19,952,881	27,212,115	43,106,042	47,388,559	739,822	841,184	1,077,708	1,814,991	1,955,780	45.7%	36.4%	58.4%	9.9%
Other Long Term Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY	101,466,998	190,857,275	363,948,343	517,495,668	541,157,461	5,480,259	8,046,259	14,413,796	21,789,291	22,334,192	88.1%	90.7%	42.2%	4.6%
Liabilities	65,911,761	121,870,612	266,582,074	411,254,502	426,409,845	3,559,911	5,137,884	10,557,706	17,315,979	17,598,425	84.9%	118.7%	54.3%	3.7%
Short term liabilities	18,316,872	50,825,171	110,482,261	229,270,049	345,668,450	989,299	2,142,714	4,375,535	9,653,476	14,266,135	177.5%	117.4%	107.5%	50.8%
Demand Deposits	1,026,651	5,152,255	13,906,069	34,136,359	64,197,288	55,450	217,211	550,735	1,437,320	2,649,496	401.9%	169.9%	145.5%	88.1%
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	100,000	13,951,817	26,963,642	138,931,115	174,506,591	5,401	588,188	1,067,867	5,849,731	7,202,088	-	93.3%	415.3%	25.6%
Short Term Borrowings	5,060,000	8,143,410	18,238,410	18,238,410	66,604,957	273,292	343,314	722,313	767,933	2,748,863	13,851.8%	60.9%	124.0%	0.0%
Interest payable	2,256,252	2,590,208	2,475,594	2,549,307	-	121,861	109,199	98,043	107,339	-	14.8%	(4.4%)	3.0%	(100.0%)
Accounts Payable and Other Short Term Liabilities	9,873,969	20,987,481	48,898,546	35,414,858	40,359,613	533,296	884,801	1,936,576	1,491,152	1,665,688	112.6%	133.0%	(27.6%)	14.0%
Long term liabilities	47,594,889	71,045,441	156,099,813	181,984,453	80,741,395	2,570,612	2,995,170	6,182,171	7,662,503	3,332,290	49.3%	119.7%	16.6%	(55.6%)
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	38,438,837	51,197,907	139,687,797	175,064,922	74,698,375	2,076,092	2,158,428	5,532,190	7,371,155	3,082,888	33.2%	172.8%	25.3%	(57.3%)
Other Long Term Liabilities	9,156,052	19,847,534	16,412,016	6,919,531	6,043,020	494,521	836,743	649,981	291,349	249,402	116.8%	(17.3%)	(57.8%)	(12.7%)
Equity	35,555,237	68,986,663	97,366,269	106,241,166	114,747,616	1,920,348	2,908,375	3,856,090	4,473,312	4,735,766	94.0%	41.1%	9.1%	8.0%
Tier 1 Capital	35,555,237	68,986,663	97,366,269	106,241,166	114,747,616	1,920,348	2,908,375	3,856,090	4,473,312	4,735,766	94.0%	41.1%	9.1%	8.0%
Paid-In Capital	28,684,200	64,709,448	95,162,484	95,162,484	95,162,444	1,549,241	2,728,054	3,768,811	4,006,841	3,927,464	125.6%	47.1%	0.0%	(0.0%)
Donated equity	12,196,224	26,195,793	-	-	-	658,721	1,104,376	-	-	-	114.8%	(100.0%)	-	-
Retained earnings without donations and reserves	(5,325,187)	(21,918,578)	2,203,785	11,078,682	19,585,172	(287,615)	(924,055)	87,279	466,471	808,303	311.6%	(110.1%)	402.7%	76.8%
Tier 2 Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-

GIRAFE Rating – Socremo, Mozambique– April, 2008

Income Statement	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008	2005/2004	2006/2005	2007/2006	2008/2007
Financial Revenue (a)	43,403,238	66,843,733	120,300,783	215,171,615	81,293,100	2,344,220	2,818,033	4,764,387	9,059,857	3,355,060	54.0%	80.0%	78.9%	(62.2%)
Financial Revenue from Loan Portfolio	40,179,540	66,796,690	116,498,158	209,552,528	81,249,782	2,170,107	2,816,049	4,613,788	8,823,264	3,353,272	66.2%	74.4%	79.9%	(61.2%)
Interest on Loan Portfolio	40,051,201	66,773,851	116,029,925	207,504,120	80,421,632	2,163,176	2,815,086	4,595,245	8,737,016	3,319,093	66.7%	73.8%	78.8%	(61.2%)
Fees and Commissions on Loan Portfolio	128,339	22,839	468,233	2,048,408	828,150	6,932	963	18,544	86,249	34,179	(82.2%)	1,950.1%	337.5%	(59.6%)
Penalty Revenue on Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	-	47,043	361,425	451,098	23,691	-	1,983	14,314	18,994	978	-	668.3%	24.8%	(94.7%)
Other Operating Revenue	3,223,698	-	3,441,200	5,167,989	19,627	174,113	-	136,285	217,600	810	-	-	50.2%	(99.6%)
Financial Expense (b)	3,765,652	12,678,619	18,217,331	46,477,460	19,167,748	203,384	534,512	721,478	1,956,946	791,075	236.7%	43.7%	155.1%	(58.8%)
Interest paid on borrowings	3,763,892	4,318,239	14,040,360	40,710,644	11,039,123	203,289	182,051	556,054	1,714,132	455,597	14.7%	225.1%	190.0%	(72.9%)
Interest paid on deposits	1,760	721,871	4,176,971	5,766,816	8,128,625	95	30,433	165,425	242,813	335,478	40,915%	478.6%	38.1%	41.0%
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	7,638,509	-	-	-	-	322,028	-	-	-	-	-	-	-
Financial income [c=a-b]	39,637,586	54,165,114	102,083,452	168,694,155	62,125,352	2,140,836	2,283,521	4,042,909	7,102,912	2,563,985	36.7%	88.5%	65.3%	(63.2%)
Net Loan Loss provision expense (d)	1,421,459	2,792,237	6,304,157	11,082,191	5,078,079	76,773	117,717	249,670	466,619	209,578	1	125.8%	75.8%	(54.2%)
Loan loss provision expense and write-off	1,484,929	3,097,214	6,628,852	11,393,525	5,078,079	80,201	130,574	262,529	479,727	209,578	108.6%	114.0%	71.9%	(55.4%)
Recovery from Loans written off	63,470	304,977	324,695	311,334	-	3,428	12,857	12,859	13,109	-	380.5%	6.5%	(4.1%)	(100.0%)
Operating expense (e)	33,063,523	61,559,773	94,161,085	154,501,777	45,481,826	1,785,770	2,595,269	3,729,152	6,505,338	1,877,087	1	53.0%	64.1%	(70.6%)
Personnel Expense (includes fringe)	14,826,992	18,153,113	26,388,246	50,248,978	20,567,770	800,810	765,308	1,045,079	2,115,746	848,856	22.4%	45.4%	90.4%	(59.1%)
Administrative Expense (non-staff operating expenses)	43,406,660	67,772,839	104,252,799	104,252,799	24,914,056	984,960	1,829,960	2,684,073	4,389,592	1,028,232	138.0%	56.1%	53.8%	(76.1%)
Depreciation and amortization	2,603,015	4,232,292	6,230,267	10,057,991	4,493,405	140,590	178,427	246,743	423,494	185,448	62.6%	47.2%	61.4%	(55.3%)
Consulting fees	2,528,211	2,660,257	31,386,483	36,717,517	1,961,196	136,549	112,152	1,243,029	1,546,001	80,941	5.2%	1,079.8%	17.0%	(94.7%)
Security	1,351,269	1,505,906	1,788,885	3,360,213	1,448,518	72,982	63,487	70,847	141,483	59,782	11.4%	18.8%	87.8%	(56.9%)
Transport and travel	1,731,467	2,304,231	4,598,758	8,058,046	2,741,167	93,517	97,143	182,129	-	-	99.6%	75.2%	(66.0%)	
Office rent	1,156,548	1,644,270	3,404,264	4,507,338	1,800,188	62,465	69,320	134,822	189,783	74,296	42.2%	107.0%	32.4%	(60.1%)
Taxes	-	-	435,610	1,340,749	497,178	-	-	17,252	-	-	-	-	207.8%	(62.9%)
Capacity building	3,510,452	12,304,973	1,140,280	2,987,286	-	189,600	518,759	45,160	125,780	-	250.5%	(90.7%)	162.0%	(100.0%)
Bank commissions	110,449	171,523	2,312,617	1,398,746	343,600	5,965	7,231	91,589	58,895	14,181	55.3%	1,248%	(39.5%)	(75.4%)
Prior year adjustments	-	166,337	(5,543,782)	1,333,373	-	-	7,013	(219,556)	56,142	-	-	(3,432%)	(124.1%)	-
Others	5,245,120	18,416,871	22,019,457	34,491,540	11,628,804	283,290	776,428	872,058	1,452,275	479,934	251.1%	19.6%	56.6%	(66.3%)
Net Operating Income Before Taxes and Donations [f=c-d-e]	(10,186,896)	1,618,210	3,110,187	11,565,447	278,293	(429,464)	64,088	130,955	477,319	(297.7%)	(115.9%)	92.2%	271.9%	
Income Taxes (g)	2,786,520	1,147,921	1,932,824	4,621,586	4,003,049	150,501	48,395	76,547	194,593	165,210	(58.8%)	68.4%	139.1%	(13.4%)
Net Operating Income Before Donations [h=f-g]	(11,334,817)	(314,614)	(1,511,399)	7,562,398	127,793	(477,859)	(12,460)	(63,638)	312,109	(579.1%)	(97.2%)	380.4%	(600.4%)	
Non Operating Revenue (i)	87,207	-	-	-	335,216	4,710	-	-	-	13,835	(100.0%)	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	267,647	2,289	9,503	-	-	11,046	431.8%	(100.0%)	-	-
Net Income Before Donations [k=h+i-j]	2,410,903	(11,560,239)	(314,614)	(1,511,399)	7,629,967	130,214	(487,363)	(12,460)	(63,638)	314,898	(579.5%)	(97.3%)	380.4%	(604.8%)
Donations (l)	3,510,452	13,999,569	3,101,131	3,047,807	876,512	189,600	590,201	122,817	128,329	36,175	298.8%	(77.8%)	(1.7%)	(71.2%)
Net Income (after Taxes and Donations) [m=k+l]	2,439,330	2,786,517	1,536,408	8,506,479	319,814	102,839	110,357	64,691	351,072	(58.8%)	14.2%	(44.9%)		

■ Formulas

Return on assets (ROA):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Debt (savings + debts) / Equity (end of period)
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
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 ratio:	Interest and fees paid on deposits / Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / Average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / Total assets (end of period)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / 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-		
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
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.	INVESTMENT GRADE
B		
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+		
C		
C-		TECHNICAL ASSISTANCE REQUIRED
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.	
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.	