

AAR Credit Services, Kenya

AAR Credit Services was established in May 1999 as a division of AAR Health Services Ltd. and duly registered as a separate limited liability company in May 2000. It operates from its head office in Nairobi delivering its products through AAR Health Services agents, retailers or directly through other companies. Its main activity is Insurance Premium Financing for individuals through the AAR Health Membership Subscription financing and it diversified its offer in 2003 launching an unsecured individual loan and in 2005 with an asset finance product. In the financial year 2007/2008, AAR Credit Services issued 4920 loans and has an outstanding loan balance of 3.2 M USD as of April 2008.

GIRAFE Rating

Rating

C-

Outlook

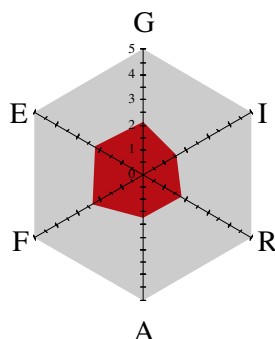
Stable

Date of the rating

October 2008

Valid until September 2009

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- AAR Credit Services has shown an increasing trend in its profitability from 2004 to 2007 (ROA at 0,4% in 2004 and 4,4% in 2007) but experienced a reduction in profitability in 2008 with an ROA at 1,3%.
- Credit risk for AAR Credit Services cannot be accurately assessed as it does not track Portfolio at Risk. Given an estimated default rate of around 3% and a significant yield gap, credit risk is expected to be moderate to high.
- AAR Credit Services benefits from a strongly committed management team which needs to be strengthened by an operations manager in order to bring additional skills and limit the current key person risk.
- Insurance Premium Finance, Unsecured Consumer loans to employees and Asset Finance for small items are still untapped markets allowing AAR Credit Services to benefit from an important growth potential sustained by a strong flexibility as its main competitive advantage.
- AAR Credit Services has the intention to transform into a Deposit Taking Microfinance Institution. The Institution will have to face strong levels of investments in terms of fixed assets as well as internal skills in order to successfully reach this objective.

Outlook

The stable outlook reflects Planet Rating's opinion that even though AAR Credit Services has an acceptable level of profitability, it has to face numerous challenges in order to meet its objectives, especially strengthening its governance, capital structure and monitoring of its activities.

Performance indicators

USD	Apr. 2004	Apr. 2005	Apr. 2006	Apr. 2007	Apr. 2008
Assets	1,314,765	1,647,679	2,909,752	3,034,022	4,710,777
<i>Growth</i>	-	22.1%	64.6%	4.1%	41.2%
Loan portfolio	811,383	812,314	1,512,448	1,563,433	2,800,670
<i>Growth</i>	-	(2.5%)	73.6%	3.2%	62.9%
Active borrowers	n/a	n/a	n/a	n/a	n/a
Number of loans disbursed	2,722	2,970	3,812	4,389	4,219
Staff	4	6	6	6	7
ROE	19.9%	68.9%	77.5%	77.2%	22.4%
ROA	0.4%	1.7%	2.7%	4.4%	1.3%
Liabilities / Equity	54.48x	32.03x	24.97x	12.17x	19.43x
Portfolio Yield	107.0%	54.4%	46.3%	49.9%	41.8%
Operating expense ratio	73.3%	41.2%	33.5%	29.9%	29.7%
PAR 31-365	n/a	n/a	n/a	n/a	n/a
PAR > 365	n/a	n/a	n/a	n/a	n/a
Write-off ratio	0.0%	0.0%	0.0%	0.1%	0.1%

Microfinance sector

Many of the current market leaders in the microfinance industry were founded in the early eighties. Currently, the Kenyan microfinance industry contains two microfinance oriented banks (K-REP Bank and Equity Bank) that are regulated by the Central Bank of Kenya (CBK) under the Banking Act. Other regulated MFIs are cooperatives which are regulated by the Commissioner for Cooperative Development under the Co-operative Societies Act (2004) and are allowed to pursue member based financial intermediation. A new SACCO Societies Bill has been developed in 2007 but is still to be passed by parliament. Nevertheless MFIs which comprise Companies, NGOs and Trusts, are not regulated and are not allowed to pursue financial intermediation.

On December 30th 2006 a new Microfinance Act was enacted by parliament that will regulate deposit-taking financial institutions. The regulations under the act were gazetted by CBK in May 2008 and all institutions intending to become deposit-taking are required to fulfill the requirements of the Act within one-year from the May 2008. It is estimated that between three and five MFIs (KWFT, Faulu Kenya, Jamii Bora Trust, SMEP and KADET) will initially apply for a license. However, the law also leaves room for non-regulated, non-deposit taking financial institutions.

A recent study on the access to financial services in Kenya¹ showed that 38.4% of the total population is still excluded from financial services and that the vast majority uses informal groups rather than any kind of formal financial institution. The table below shows the percentage of the Kenyan population for each source of financial services:

Source	Rural %	Urban %	Male %	Female %	Total %
Bank	10.7%	25.1%	18.7%	10.1%	14.2%
Postbank	4.4%	9.3%	6.6%	4.7%	5.6%
SACCO	13.9%	10.5%	17.3%	9.2%	13.1%
MFI	1.5%	2.4%	1.6%	1.8%	1.7%
Informal groups	53.4%	42.1%	46.3%	54.6%	50.6%
Excluded	37.4%	41.6%	37.5%	39.3%	38.4%

Notably only 1.7% of the population has used financial services from MFIs whereas 14.2% and 13.1% have used financial services from banks and cooperatives respectively. There are 3,767 licensed cooperatives which together are estimated to have 2.1 million clients, 1.48 billion USD in loan portfolio and 1.79 billion USD in deposits.² However, it should be noted that the larger cooperatives in Kenya are

¹ Results of a National Financial Access Survey, The Steadman Group Research Division, July 2007. www.fsdkenya.org/finaccess

² CBK Annual Report 2006. <http://www.centralbank.go.ke/publications/annual/index.html>

more focused on salary loans to low- to middle-income clients in urban areas. Besides the cooperatives, the main providers of microfinance services in Kenya are:

MFI	Active borrowers	GLP (M USD)	Savings accounts	Deposits (M USD)
Equity Bank	392,822	349	1,840,332	495
K-REP Bank	153,951	81	16,701	16
KWFT	164,540	60	n/a	n/a
Jamii Bora Trust†	100,000	5.9	170,000	4.0
Faulu Kenya	90,339	25	n/a	13†
SMEP	30,240	9.5	n/a	5.3
KADET*	16,575	3.7	n/a	2.2

Source: www.mixmarket.org 2007 data; * September 2006; † estimate.

Currently the main donor support for the microfinance sector is from the Financial Sector Deepening project³ which focuses on the main challenges to further stimulate the microfinance sector in Kenya: capacity building of MFIs, regulatory framework for cooperatives, rural finance, agricultural finance, SME finance and enhancing payments systems such as remittances and mobile phone banking.

Effects of the post-election violence

The post-election violence which erupted due to the contested elections held December 27th 2007 has affected the microfinance sector in Kenya. The impact on MFI's varies depending on their location and size. Larger MFIs operating nationwide have been able to cope relatively well. Smaller MFIs operating in a localized area that was hardest hit by the tribal clashes (Kisumu, Eldoret, Northern Rift Valley and the main Nairobi slums of Kibera and Mathare) have been hit much harder and some stand to lose up to 40% of their portfolio.

In general portfolio quality has deteriorated across the board as a result of the fact that regular operations were not possible in the first two weeks of January 2008; the situation in Kenya did not stabilize until February, which created a backlog in client repayments that is slowly being reversed. The turmoil also has caused a general slow down of client's business limiting their repayment capacity and the tribal clashes have weakened group cohesion of intertribal groups reducing the effectiveness of group guarantees employed by many MFIs.

Political & economic environment

The eruption of inter-ethnic violence following the contested elections of December 2007 has caused thousands of deaths and more than 300 000 displaced people. It has underlined the socio-political fragilities of a country plagued by endemic corruption and growing inequalities. Intense

³ A multi-donor project funded by DfID, SIDA and World Bank.

international mobilization and the mediation of the former UN General Secretary Koffi Annan has nonetheless enabled the set up of a power sharing government in February 2008. Two major issues have however to be addressed by the government to reach long-lasting stability: land reform and power sharing. In that context, new bouts of infighting cannot be put aside.

The social unrest of the beginning of the year has not put an end to the economic dynamic enjoyed by Kenya for five years. Growth should slow slightly at about 4% in 2008 against 6,4% in 2007. If tourism dropped in the aftermath the inter-ethnic turmoil, these turbulences should not impact significantly the path of diversification of the Kenyan economy, mainly towards bank activities and telecoms. The Kenyan economy shows even signs of overheating, linked to bottlenecks in energy and transport. Hence, inflation should remain over the five percent target, fueled moreover by the rising international prices of fuel and food.

The previous privatization proceeds have only modestly contributed to the consolidation of public sector finances, undermined by debt service and investment spending. The rise in tax revenues decided by the new government in June 2008 should compensate the rise in social spending, and maintain the budget deficit at around -5%. Following the Jan-Feb 2008 social unrest, the decline of tourism activity will contribute to widening the current account deficit, which has already been hit by the cost of oil. However, the country's external financing needs should remain largely covered by incoming foreign direct investments.

Strengths

- Kenya's relatively diversified economy has benefited from the growth of the construction and telecommunications sectors.
- An emerging middle class has underpinned consumption and fostered greater diversification of production.
- The regional integration under way within the East Africa Community has enhanced Kenya's role in the region and its attractiveness to investors.
- The influx of foreign direct investment, since 2005 has underpinned an increase in medium-term potential.

Weaknesses

- Agriculture remains a crucial sector of the economy, generating 25 per cent of GDP and providing a livelihood for the majority — 85 per cent — of the population whose incomes are thus vulnerable to weather conditions.
- A shortage of infrastructure and its deteriorated condition have impeded growth with the road network and port

facilities still inadequate and electricity production limited.

- An extensive mobilization of resources will be necessary to stem not only the poverty that afflicted 46 per cent of the population in 2006 but also unemployment and an AIDS pandemic in sharp decline but still affecting six per cent of the population.
- Persistent corruption and violence have damaged Kenya's image and have had a negative impact on international aid.

COFACE Country Rating: C – Placed under positive watch since June 2004. 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 the difficult environments.

(USD millions)	2005	2006	2007	2008(f)
Economic growth (%)	5.8	6.1	6.4	3.8
Inflation (%)	10.3	14.5	9.8	12.3
Public sector balance (%GDP)	0.1	-2.1	-3.9	-5.1
Exports	3,455	3,502	3,760	4,152
Imports	5,602	6,768	7,602	8,210
Trade balance	-2,147	-3,266	-3,842	-4,058
Current account balance (%GDP)	-0.8	-2.4	-3.7	-5.1
Foreign debt (%GDP)	32.3	30.3	30.9	34.6
Debt service (%G&S exports)	4.4	5.7	5.9	5.1
Foreign currency reserves (in months of imports)	3.9	4.3	4.9	4.8

Source: COFACE's Country Risk Ratings. (f) is forecasted. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

AAR Credit Services was founded in May 1999 and registered in May 2000 as a Limited Liability Company operating under the Companies Act. As such AAR is not regulated by CBK. AAR Credit Services intends to transform into a deposit taking microfinance institution regulated by CBK under the 2006 Microfinance Institutions Act recently (May 2008) gazetted.

AAR has been audited by Ernst & Young since its inception in accordance with international accounting standards (IAS

and IFRS). The auditors have not qualified their opinion on the audited financial statements for the years under review. The financial year of AAR Credit Services starts on May 1st and ends on April 30th.

Ownership

As of April 2008, the paid-up capital of the company was 10 M KES (143,000 USD). The company is owned by AAR Holdings Limited, Loita Capital Partners International, the company's Managing Director John K. Kariuki, and the company's Finance Director Margaret Njoroge, with participations of 40.0%, 35.2%, 21.8% and 3.0% respectively.

The Board of Directors (BOD), elected by the General Meeting of shareholders, held at least annually, is headed by Mr. Justin Chinyanta. Mr Chinyanta, a Zambian citizen is the chairman of LOITA Group and has over twenty years of professional experience in commercial and investment banking in East and Southern Africa region. The present board is composed of two directors from the management (CEO and Finance Director), three members from AAR Holding and two members representing Loita Capital. All the members have the same voting rights. The BOD meets quarterly. Directors remain in office until shareholders that together have a majority share capital decide to remove him. Three committees are in place: the audit committee, the credit committee and the compensation committee.

Donations

Since formation in 2000, AAR Credit Services has not received any donations.

Funding composition

As of April 2008 the funding structure is composed of 4.9% equity and 95.1% liabilities. 77% of debt is short term debt (mainly banking facilities) and 10% is long term debt. Loan balances as of 30 April 2008 was the result of 40 M KES advanced to the company by Commercial Bank of Africa Limited and 230 M KES by Equity Bank Limited.

Management team

The management team is headed by the CEO and composed of the Finance Director and the Sales Manager. John K. Kariuki is the CEO and founder of AAR Credit Services. He holds a BSc Honours degree in Applied Mathematics and an MBA from Warwick University (UK). He is former MD of AAR Health Services. He started his career in the industry before switching to the banking and Insurance sector. He has over 20 years senior management experience including working with Diners Club as MD for Kenya and with Barclays Kenya as Head of Card Services.

Organization

AAR Credit Services runs its operations from its office in Nairobi, where all its seven staff members are based. As of now, AAR Credit Services has a branchless banking business model. The files are processed by AAR Health Services agents for the AAR Health Services Membership Subscription and other insurance agents for the General Insurance Premium financing. Asset finance products are displayed through retailers' salesmen. Corporate clients' HR departments are in charge of the distribution of consumer loans and of monthly payroll deduction.

The Regional accountant and the Account Executive are in charge of reviewing the files supported by the Assistant Accountant. The Finance Director together with the CEO is in charge of the credit decision. For all amounts in excess of 100 K KES (1.4 K USD) the loan applications have to be approved jointly with the CEO. The information provided on the loan to the clients, the collection of relevant documentation as well as the loan schedule calculation is done by retail agents⁴. Retail agents are trained by AAR Credit Services to adequately fill-in the application form and the insurance form and to forward them to AAR Credit Services. AAR Credit Services Staff have contact with clients only when clients want to pay the first installment by cash or when they have been recruited independently from retail agents.

Staff members process portfolio information on a daily basis into Insurance Premium Finance, the Loan Tracking System developed by Fintech, a South African based company owned by Loita Capital Partners. Fintech is registered in Kenya and has an office in Nairobi. Commercial banks such as KCB, NIC Bank, and various SACCOS use a tailor-made version of this software. Upgrades are done upon request. Solomon is used for accounting purposes and is not integrated with the MIS. The 2.01 Solomon version used by AAR Credit Services is developed by Data Integration Technologies (DIT), a Kenyan based company 100% owned by Loita Capital Partners International (LCPI) (AAR Credit Services shareholder). AAR Credit Services benefits from a version customized by DIT for NIC Bank (a Kenyan commercial bank).

Market penetration

AAR Credit Services is headquartered in Nairobi, its main geographical area of activity. Some retail agents are based in Mombasa and in the main urban centers of Kenya (Kisumu and Nakuru).⁵

⁴ Retailers for asset financing and insurance agents for IPF.

⁵ Specific data per region is not available.

Products and services

AAR Credit Services offers 5 loan products, with AAR Membership Subscription as the lead product. Two of these products are Insurance Premium Finance (AAR Membership Subscription and General Insurance Premium). The Asset Finance Loans, the Unsecured Consumer Loans and the Unsecured AAR Employee Loans are consumer finance products. Except General Insurance Premium, all loans attract a 2.5% or 3% loan insurance fee on the asset value. For unsecured loans the insurance cover is a life cover on the borrower and the insurance premium calculation is based on the loan amount and loan duration.

- **AAR Membership Subscription:** This loan finances annual AAR membership fee. The duration varies between 1 to 10 months. The average amount disbursed per loan is 106 K KES (1.3 K USD). The interest rate is 18% flat per loan (irrespective of the loan term) with a 2% commitment fee. The average Effective Interest Rate is estimated at 95%. In case of default, AAR Health Services will refund the pro-rata unutilized portion of the borrower's annual premium/subscription. In any case, insurance policy/membership service is cancelled 7 days after default of any payment. For premium financing loans (AAR Membership Subscription and General Insurance Premium, the first installment, repaid upfront, is made up of a loan fee (in the case of AAR medical insurance financing only) and an advance payment of the monthly loan installment.
- **General Insurance Premium:** It is a loan used to finance all types of insurance policies and is not limited to AAR members. The duration varies between 1 to 10 months with a 6 month average period. The average amount disbursed is 54 K KES (706 USD). Actual interest rate is 1% to 3% per month, flat, and the Effective Interest Rate ranges between 40% to 70%. The AAR Health system of pro-rata refund is also in place with insurance companies.
- **Unsecured AAR Employee Loan:** These loans are made to AAR employees through their HR department. The duration varies between 1 to 36 months with an 18 months average period. Payments are done through the payroll. Amounts range from 1 K KES to 2 M KES (14 to 28.6 K USD). Actual interest rate is 1.5% per month, flat, and the Effective Interest Rate is 40%. For unsecured loans the first installment is composed of the credit life insurance premium, the loans fees plus an advance payment of the monthly loan installment.
- **Unsecured Consumer Loan:** It is similar to the Unsecured AAR Employees Loan but targets non-AAR employees. The duration varies between 1 to 12 months. Main payments are also done through the payroll, if it is not the case they are done through post-dated checks or standing orders. Amounts range from 1 K KES to 1 M KES (14 to 1.4 K USD). Actual interest rate is 2% per month flat and the Effective Interest Rate is 49%.

- **Asset Finance Loan:** These loans are issued to finance a specific asset. The duration varies between 1 to 36 months with a 12 months average period. Minimum amount of these loans is 1 K KES (USD 14) and they are not capped. Actual interest rate is 1.5% per month, flat, and the Effective Interest Rate is 55%. AAR Credit Services benefits from a vendor Buy back guarantee in case of client default. AAR Credit Services ask its clients to provide post dated checks or bank standing order for all subsequent installments. Assets are delivered only when AAR Credit Services has cleared the check, if the first installment payment is not done by cash. For asset finance loans, the first installment is composed of the loan fees, insurance premium and 8% - 30% of the asset value.

Networks

AAR Credit Services is a member of the Association of Microfinance Institutions of Kenya (AMFI) and of the Kenya private sector association (KEPSA).

Governance

Governance and Decision making is rated “c”

Decision making

The decision making process is reasonably effective however AAR Credit Services would need the Board of Directors to have a higher level of commitment in order to sufficiently balance decision making power with the management team. Although the information provided to the quarterly Board meetings is timely and reliable, BOD decisions' would benefit from the introduction of new indicators in order to take decisions in the best interest of the institution. Portfolio Quality indicators and a more dynamic data analysis⁶ are strongly needed in governing the institution. Follow-up on decisions is regularly done but the BOD does not sufficiently encourage actions which have to be taken⁷.

The BOD members are well represented in terms of technical expertise (Banking, Audit, and Business Administration experience). However none of them have previous microfinance exposure and these resources have been under-utilized to determine the adequate ratios to analyze. AAR Credit Services is aware of the weaknesses of its BOD and is actively looking for a new strategic partner who could bring the missing skills and experience.

⁶ E.g. ratio analysis and comparison between precedent quarters, year, competitors

⁷ E.g. internal auditor appointment, development of the necessary tools to comply with the CBK requisite for the transformation process (ageing of the portfolio, PAR calculation)

Given the current regulatory environment, the legal set up is adequate. AAR Credit Services has the intention to transform into a Microcredit Deposit Taking Institution under the new Microfinance Act but a precise transformation plan is lacking.

Planning

AAR Credit Services' CEO has a clear long term vision for the institution but the strategy to reach it still needs to be defined. Furthermore, medium term strategy is not sufficiently documented, the business plan is outdated and some discrepancies between the Board Members can be identified which undermines its visibility. AAR Credit Services started its activities with the objective of facilitating AAR Health Services Membership renewal through Insurance Premium Finance. It is now pursuing a product diversification strategy in order to reduce its reliance on AAR Group. AAR Credit Services goal to develop 85% of its portfolio in consumer finance products (30% in asset finance and 55% in unsecured loans) within 5 years is achievable if the future growth follows the current trend. Nevertheless, the AAR Membership fee yield is higher than expected by AAR Credit Services management which could partially affect the relevance of the consumer finance development strategy (see "Efficiency and Profitability" section).

Relevant strategic documentation is lacking as last AAR Credit Services business plan was running until April 2007. A feasibility study for the transformation has been carried out which sets the future organization of AAR Credit Services but it is more a guiding document rather than a precise operational plan. The management is focused on the day to day management and is still looking at new business opportunities to define the future organization. This situation leads to a lack of prioritization of the main challenges (transformation process, new product development and the search for new long term fund providers). Three years financial projections have nevertheless been made but need to be more detailed and to rely on deeper market analysis.

Annual objectives, documented in sound budgets, are adequately defined. The buy-in of annual strategic goals is ensured by a participatory and efficient yearly process involving all AAR Credit Services team. FY 2007/08 targets have not been reached mainly due to the post election violence in early 2008. The budget follow-up is well monitored on a weekly basis and achievements are analyzed in a dynamic way. Though, it could benefit from a semi-annual update and a systematic use of financial ratios rather than raw financial data.

Management team

AAR Credit Services is efficiently led by the CEO and supported by competent directors but the management team still needs to be further strengthened. Some specific Microfinance skills lack (use of adequate ratios, liquidity management) and AAR Credit Services is dependant from AAR Holdings for some important functions (mainly IT). Given the next challenges AAR Credit Services will face, the Management is looking for a Deputy Director in charge of the Operations. Given the small size of the team, the pre-eminent role played by the CEO presents a key-person risk.

The organization of the team is efficient and supported by a smooth internal communication well-formalized in regular management and strategic committee minutes. With the current portfolio under management, the management team has been able to execute former plans thanks to a good teamwork and a clear division of tasks.

Human resource management

Human Resources Management is professionally managed and by AAR Holding. AAR Holdings brings to AAR Credit Services adequate HR procedures and policies and manages employment contracts and payrolls of AAR Credit Services staff. AAR Credit Services manages on its own the recruitment process and the salary policy. Processes to evaluate and improve staff skills are in place with regular annual evaluation and trainings carried out by AAR Credit Services. In-house trainings as well as external ones are delivered once a year on average on various subjects.

Staff morale is excellent and AAR Credit Services benefits from a very low turnover. Motivating ranking and bonus systems could nevertheless be improved. Bonuses are delivered when both the institution and the employees meet their objectives. In case of underperformance from the company, the employee achievements are no longer taken into account. Incentive scheme could be refined in order to include an individual reward and new performance indicators. Furthermore, HR Management will need to be strengthened with the new activities and the growth of the institution in order to give specific microfinance skills to the employees.

■ Information

Information is rated "d"

The structure of the current MIS is reasonably efficient and cost effective but needs to be strongly strengthened by making additional information available. Furthermore, all the analysis (financial and activity analysis) are done by exporting data through Excel which is time-consuming,

affects the efficiency of operations and/or follow-up due to a slower production of reports and allows room for errors.

The software provider ensures a good commercial follow-up but, currently there are not sufficient IT-skills in AAR Credit Services to manage the IT system. Even though the MIS provider is fairly reactive in setting new parameters, it is not sufficiently proactive on the advisory side to ensure an adequate MIS management and offset the lack of an efficient MIS officer in AAR Credit Services. Computer maintenance and server administration is done by AAR Holdings.

AAR Credit Services' MIS benefits from an adequate security overall with the presence of passwords, limited access to the server, antivirus and back ups twice a day. Nevertheless the data analysis is done through the use of excel sheets which undermines the data security as they can be easily modified without tracking. In addition, all repaid loans are removed from the MIS, and to export them to Excel is the only way to keep historical data. Hard data security is adequate with sensitive data kept in a safe. Soft data security could still be marginally improved through crash and recovery tests and the storage of daily back ups in a safe.

AAR Credit Services can ensure a timely follow-up of its outstanding portfolio. Data from the loan tracking system is updated on a weekly basis. Loan schedules generation is also automatic. Nevertheless, the information provided does not meet the minimum standards as basic indicators such as PAR, number of active clients, number of active loans, are not available. On the accounting side, the bookkeeping software provides reliable financial statements but remains too general as it does not allow for financial analysis by product, by external agent, etc.

■ Risk Management

Risk Management is rated “d”

Procedures and internal controls

Internal procedures and controls are in place to mitigate the risks the institution faces but will have to be constantly adapted with AAR Credit Services' growth.

The procedures at AAR Credit Services are well formalized, detailed and disseminated allowing an efficient application by the employees. HR procedures come from AAR Holdings and AAR Credit Services has developed its own financial and operational procedures. AAR Credit Services neither has internal audit procedures nor internal audit function. Well designed forms and efficient trainings strengthen the high level of staff compliance to the procedures (regularly checked by the hierarchy and by external auditors). In

addition, basics of internal controls are implemented, limitations of power are in place (loans above 100 K KES to be approved by FD+CEO) and incompatible tasks are handled by distinct persons (e.g. loan application / data entry, loan approval / disbursement). AAR Credit Services procedures give a strong control on the agents' activity.

Data reliability is ensured thanks to adequate reconciliation carried out both by the Chief Accountant and the Finance Director. The accounting and the loan tracking systems are not integrated but data is reconciled monthly allowing the MIS to quickly provide the available information. Nevertheless, financial procedures have to be further strengthened in order to avoid specific risks (bank reconciliation evidences, etc).

AAR Credit Services adequately manages the cash security issues. The cash managed is kept in a safe and is banked daily. Apart from the first installment, all disbursements and subsequent reimbursements are done through banks.

Internal audit

AAR Credit Services does not have an internal audit function and the Board Audit Committee does not carry out any verifications. It should be timely to AAR Credit Services to create internal audit procedures in order to allow AAR Holding internal auditor (or future internal auditor) to fill-in this role. External auditors (Ernst & Young), however, have carried out efficient checks on the implementation of internal controls, on the reliability of data and on the reconciliations adequacy. They also have provided comprehensive management letters. Recommendations done by the external auditors are consistently followed by the management. Even though AAR Credit Services does not follow the best practice of changing external auditors every three to four years, the team of auditors rotates every three years.

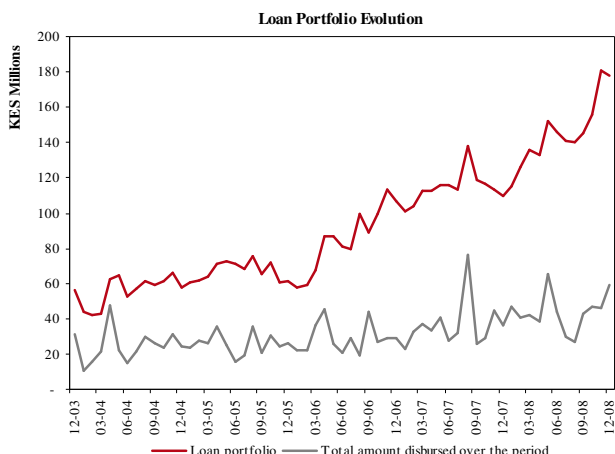
This support by the auditors is essential for AAR Credit Services but it does not compensate for the lack of an independent internal audit function.

■ Activities

Activities: products and services is rated “d”

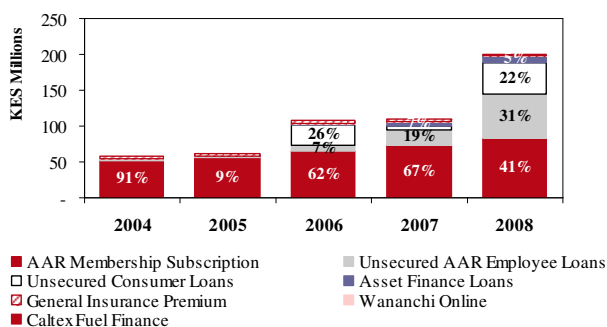
Financial services evolution and composition

AAR Credit Services experiences a moderate annual average growth rate of its portfolio on the period 2004/08 (23.3%) with a strong slow-down recorded for the FY 2006/07 (3.2%) mainly due to the loss of its main corporate client for Unsecured Consumer loans. The recovery in August 2007 allowed AAR to show a strong growth rate for the FY 2007/08 at 63%.



The fast development of unsecured loans is leading the growth; this activity represented only 0.5% of the portfolio as of April 2005 and jumped up to 25% as of April 2006. This trend confirmed the high receptivity of the market. On the contrary, Insurance Premium Finance showed lower rates of growth (13% for FY 2007/08 for AAR Membership) but it still represents the majority of the portfolio (41% as of April 2008). Asset Finance represented 2.8% of the total portfolio as of April 2006 is this proportion is expected to increase until the end of the financial year. It experienced a slow-down in early 2008 due to the post-electoral conflict which strongly affected consumption in Kenya. Nevertheless, the increased proportion of AAR Unsecured Employee Loans in the portfolio (+189% in 2007/08) with an EIR at 40% does not meet AAR Credit Services strategy focusing on highly profitable products.

Loan Portfolio per Product



Financial services management

AAR Credit Services offer cannot be considered as microcredit as of now as the main driver for its credit decision is the possibility to recover the loan in case of default rather than a strong repayment capacity analysis.

On that basis, the methodology designed for IPF products is adequate as AAR Credit Services clients continue to benefit from the insurance service until they stop paying installments.

On the contrary, the methodology for asset financing and unsecured loans does not lead to a well informed credit decision as the repayment capacity is based on the net monthly salary instead of the net cash flow. Furthermore, there are neither implemented mechanisms to identify clients with poor credit history nor set-up of automatic alarms to prevent the risk of over indebtedness. This risk is even further acute as the Credit Bureau is not yet ready to operate. Nevertheless AAR Credit Services carefully checks the information provided by the external agents in order for its credit decisions to be based on accurate data and avoid the risk of ghost clients.

The methodology is nevertheless well implemented thanks to good technical skills, improved by adequate trainings and many checks and analysis at the different stages of the credit process (accountants, Financial Director or CEO, Back office). Due to the externalization of the loan application process, AAR Credit Services has a strong focus on training the retail agents. The Sales Manager frequently visits the retailers and insurance agents to provide updates on the products or on the documentation needed and trains the newly hired staff. Well designed and user-friendly Loan Application form facilitates the retail agents' work and reduces the risk of mistakes in their interpretation.

Delinquency management is well-organized and efficient thanks to an instant late repayment follow-up. A first call made by the AAR Credit Services staff occurs on day one followed by demand letters sent after 7 days. After 21 days, the legal action is sought if the amount outstanding is significant. The legal procedure is reasonably fast and efficient, leading to a reimbursement within 3 to 6 months for the commercial court or one year for the High Court. AAR Credit Services manages late loans efficiently because the outstanding portfolio remains small and the number of late loans is still manageable. Nevertheless, with the growth strategy of unsecured loan, indicators used to monitor the portfolio are not adequate.

The overall monitoring of the portfolio quality is a serious weakness at AAR Credit Services. AAR Credit Services uses the default rate as the only Portfolio Quality indicator which is not an adequate indicator and its misinterpretation leads to an overestimation of the portfolio quality. It also does not monitor the earlier repayment of IPF products and the time lapse needed by the insurance companies to reimburse the unused portion of the membership which affects very probably the portfolio yield. It is mandatory for AAR Credit Services to develop new indicators to closely follow-up products with a higher risk profile (unsecured employee and consumer loan).

Credit risk

Credit risk level is expected to be moderate to high but data is not available. AAR Credit Services does not follow the Portfolio at Risk but only the default rate. The default rate has been fluctuating below 3% since inception but does not provide an accurate picture of the portfolio quality. Rescheduling mechanisms are clear but rescheduled loans are not properly monitored and there is no existing policy regarding loans to related parties. AAR Credit Services accept parallel loans if the total loan amount does not exceed the clients’ repayment capacity.

AAR Credit Services does not follow the best write-off practices but executes the write-off directly through the income statement. In 2008 AAR Credit Services an amount of 110 K KES was written off leading to a write-off ratio of 0.1%. Loans are written-off once all efforts have been made to be recovered, including the legal process which underestimates the amount which should be written-off.

Basic tools are in place to mitigate the concentration but no specific policies are in place. With the projected growth for the coming years, and the unstable economic environment, it is time to develop a strong policy to monitor and limit the exposure to one retail agent or to one sector. AAR Credit Services is currently strongly exposed to the risk of default of AAR Group for IPF and Unsecured loans; it is also exposed to a concentration risk for its retail agents in asset finance and to specific sectors such as IT equipment and Office furniture. AAR Credit Services does make efforts to diversify the industries where it provides its services, but the diversification remains demand driven rather than strategic risk-approach based.

Credit risk coverage

As AAR Credit Services does not age its late loans, it did not adopt a provisioning policy related to these loans. AAR Credit Services introduced a provisioning policy of 0.75% of the total outstanding portfolio for the current financial year and plans to increase it to 1% for the FY 2009/10. Until the FY 2007/08 AAR Credit Services had no loan loss reserve. In addition of being insufficient it is an inadequate provisioning policy.

AAR Credit Services has adequate guarantees for IPF and Asset Finance which creates partial credit risk coverage. For IPF products, it is unlikely that AAR Credit Services loses the loan principal as Insurance companies reimburse the unused portion of the contract and clients are asked to prepay 1 to 3 installments. On the other hand, guarantees in place for the Unsecured Employee Loan are insufficient.

Funding and liquidity

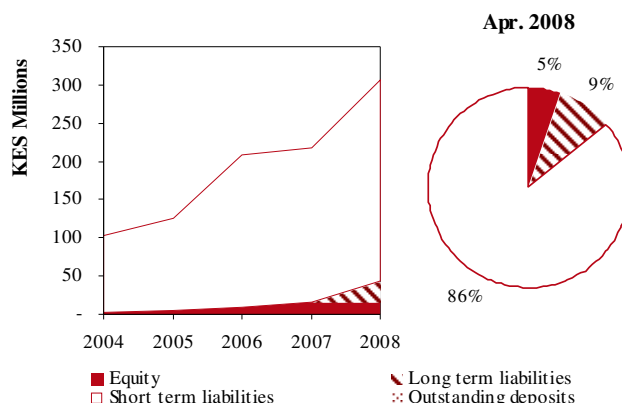
Funding and liquidity is rated “c”

Funding Strategy and capitalization

AAR Credit Services is undercapitalized (CAR at 7.1% as of April 2008) and has had an inadequate funding strategy which strongly undermined its growth and its autonomy in carrying out its strategy. AAR Credit Services slightly increased its capital since inception and this growth has not been sufficient to keep an adequate capitalization. Even an additional 45 M KES capital required to obtain the Microcredit Deposit Taking Institution License should only increase this ratio to 20.3% with the assets as of April 2008. The anticipated growth of 60% and 25% for the FY 2008/09 and 2009/10 will bring the CAR back to 17% and 15.3%. AAR Credit Services is conscious of these weaknesses and is in contact with potential future shareholders.

The dependency on credit lines affects AAR Credit Services in its capacity of fulfilling the market demand and prevents it to develop an autonomous strategy of product development. AAR has limited long term funding and relies mostly on short or medium term banking facilities dedicated to specific purposes. AAR Credit has the objective to transform in order to mobilize deposits and decrease its cost of funding. However, it is not expected to reduce its cost of funding in the coming two years. So far, good communication and relationship management with local fund providers has allowed a regular increase of funding. Yet the institution still has room to gain negotiation power in order to bring down its funding expenses (13.2% as of April 2008) and develop its contacts with international fund providers. However, its low capital adequacy will prevent AAR from obtaining a significant amount of funding in the short term.

Funding Structure



Liquidity risk

AAR Credit Services financial department is led by a strongly involved manager but would need to be further

strengthened in order to face the complexity of the new products. The Treasury and Asset & Liability Management function at AAR Credit Services is not sufficiently formalized. No maturity analysis is done and a small short term maturity gap exist which can be filled in by the use of credit facilities.

The Finance Director does a weekly and monthly follow-up on AAR income and expenditures but only basic cash flow projections are made. Liquidity risk is kept at a manageable level (liquidity to total assets ratio of 10.5% as of April 2008). Nevertheless, liquidity risks are not sufficiently monitored. However major cash flow shortages may be avoided thanks to the 200 M KES loan facility negotiated with Equity Bank in June 2008. AAR Credit Services still has at its disposal unused credit lines of 8.3 M KES (on 40 M KES) from Commercial Bank of Africa and 200 M KES from Equity Bank.

Market risk

AAR Credit Services has no exposure to FX risks, as all assets and liabilities are denominated in KES. They are neither exposed to interest rate risk because AAR Credit Services borrowings are on a fixed interest rate as are all loans to clients.

Efficiency and Profitability

Efficiency and Profitability is rated “c”

Profitability analysis

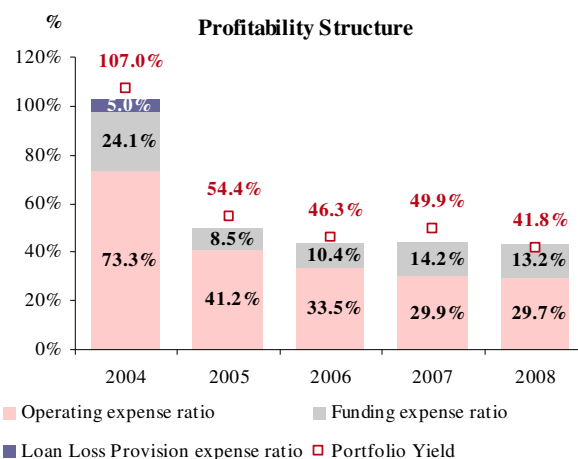
AAR Credit Services has been profitable since inception with a positive ROA trend from 2004 to 2007 (from 0.4% in 2004 to 4.4% in 2007) but is now decreasing to 1.3% in 2007/08. Furthermore, the ROA is overstated because of the under provisioning policy but the amount of provision cannot be established due to the lack of PAR data. The decrease in ROE is even more significant from 77% in 2006/07 to 22.5% in 2007/08 due to the high leverage standing at 19.4x as of April 2008.

The decrease in the portfolio yield from 49.9% in 2006/07 to 41.8% in 2007/08 can partly be attributed to the higher proportion of products with a lower profitability in the portfolio. Moreover it can be noted that the decrease in the portfolio yield is concomitant to the rise of the Unsecured Consumer Loans which could be a sign of a deteriorated portfolio quality. This analysis is further supported by the high yield gap which could indicate undetected delinquency problem. It can also partly be attributed to an important portion of insurance premium loans cancelation before

maturity leading to a fall in their effective interest rate⁸ as well as a greater delay for the insurance companies to reimburse the unused portion of the borrower’s annual premium/subscription.

The revenue quality is good and AAR Credit Services relies on quality of services rather than competitive interest rate. The application process is easier, less restrictive and faster than those proposed by banks. Loan disbursement is also swifter guaranteeing AAR Credit Services a notable competitive advantage. The institution has a strategic partner for IPF in AAR Health Services which provides it a substantial base of captive clients. The growth in Asset Finance is ensured by the untapped market of small assets where the competition with traditional banks is low. Unsecured Consumer loans interest rate are not adequately defined because of the lack of analysis done to evaluate the revenues needed in order to compensate the lower portfolio quality. The potential need of interest rate reevaluation could lead to a disaffection of the clients.

Despite its branchless banking model, AAR Credit Services experiences high operating expense ratio at 30% mainly due to the high level of management fees. The declining trend (33.5% in 2005/06) seems to slow down (30% in 2006/08). Furthermore it is expected to grow in the coming years due to the planned development of labor intensive loans (consumer loans) and the increase in the marketing expenses. The funding expense ratio is also high at 13.2%, mainly due to the low resource optimization (asset deployment ratio at 60%) rather than a high cost of liabilities (8%).



Despite the expected economies of scale, the profitability outlook for AAR Credit Services is negative. The development of unsecured loans which could affect the

⁸ Interests are earned at the end of the schedule for loans on a flat interest basis like IPF products.

portfolio quality added to the high level of investments needed to strengthen the risk management, to improve the current MIS and to develop outlets, points toward a lower profitability over the next year.

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.

Data in USD, unless otherwise stated

■ Performance indicators

	Apr. 2004	Apr. 2005	Apr. 2006	Apr. 2007	Apr. 2008
Loan Portfolio					
Loan portfolio evolution					
Loan portfolio	811,383	812,314	1,512,448	1,563,433	2,800,670
Loan portfolio (KES)	63,870,479	62,304,446	108,144,035	111,618,197	181,848,779
<i>Evolution</i>	-	(2.5%)	73.6%	3.2%	62.9%
Average outstanding loan portfolio	405,692	822,522	1,191,903	1,539,102	2,259,856
Active borrowers	n/a	n/a	n/a	n/a	n/a
<i>Evolution</i>	n/a	n/a	n/a	n/a	n/a
Average outstanding loan per client	n/a	n/a	n/a	n/a	n/a
<i>% of GDP per capita</i>	n/a	n/a	n/a	n/a	n/a
Average amount disbursed per loan	1,345	1,359	1,285	1,397	1,934
<i>% of GDP per capita</i>	298.3%	265.8%	212.7%	206.7%	216.1%
Portfolio quality					
Rescheduled loans	n/a	n/a	n/a	n/a	n/a
PAR 31-365	n/a	n/a	n/a	n/a	n/a
PAR > 365	n/a	n/a	n/a	n/a	n/a
Write-off ratio	0.0%	0.0%	0.0%	0.1%	0.1%
Credit risk coverage					
Risk coverage ratio (PAR 30)	n/a	n/a	n/a	n/a	n/a
PAR 31 net of loan loss provision / Equity	n/a	n/a	n/a	n/a	n/a
Staff					
Total number of staff	4	6	6	6	7
% Credit officers	25.0%	50.0%	50.0%	50.0%	42.9%
Turnover	0.0%	0.0%	33.3%	0.0%	0.0%
Profitability analysis					
ROE	19.9%	68.9%	77.5%	77.2%	22.4%
Liabilities / Equity	54.48x	32.03x	25.0x	12.2x	19.4x
Capital adequacy ratio	2.9%	5.4%	6.3%	12.0%	7.1%
ROA	0.4%	1.7%	2.7%	4.4%	1.3%
Profitability structure					
Portfolio Yield	107.0%	54.4%	46.3%	49.9%	41.8%
Operating expense ratio	73.3%	41.2%	33.5%	29.9%	29.7%
Cost per borrower	n/a	n/a	n/a	n/a	n/a
Staff productivity	n/a	n/a	n/a	n/a	n/a
Loan officer productivity	n/a	n/a	n/a	n/a	n/a
Average outstanding loan per client (USD)	n/a	n/a	n/a	n/a	n/a
Funding expense ratio	24.1%	8.5%	10.4%	14.2%	13.2%
Cost of liabilities	13.8%	4.1%	4.8%	7.5%	7.9%
Loan Loss Provision expense ratio	5.0%	0.0%	0.0%	0.1%	0.1%
PAR 31-365	n/a	n/a	n/a	n/a	n/a
Write-off ratio	0.0%	0.0%	0.0%	0.1%	0.1%
Resource optimization					
Outstanding Loan Portfolio / Assets	60.2%	49.3%	52.0%	51.5%	59.5%
Revenue from investment as a % of financial revenues	0.0%	3.9%	9.6%	0.5%	10.9%
Liquidity					
Liquidity / Total assets (LAR)	35.0%	29.6%	24.8%	12.5%	10.5%
Exchange rate 1 USD= xx KES	78.7	76.7	71.5	71.4	64.9

AAR Credit Services Income Statement	KES					USD					Evolution			
	Apr. 2004	Apr. 2005	Apr. 2006	Apr. 2007	Apr. 2008	Apr. 04	Apr. 05	Apr. 06	Apr. 07	Apr. 08	2005/04	2006/05	2007/06	2008/07
Financial Revenue (a)	34,429,110	35,954,284	43,715,800	62,737,831	68,877,741	437,373	468,765	611,387	878,767	1,060,793	4.4%	21.6%	43.5%	9.8%
Financial Revenue from Loan Portfolio	34,162,039	34,299,915	39,487,945	54,845,774	61,339,370	433,980	447,196	552,258	768,223	944,693	0.4%	15.1%	38.9%	11.8%
Interest on Loan Portfolio	26,697,793	26,456,638	31,274,826	44,474,927	50,193,890	339,157	344,937	437,394	622,959	773,041	(0.9%)	18.2%	42.2%	12.9%
Fees and Commissions on Loan Portfolio	7,201,706	7,559,377	8,176,828	10,080,291	10,630,095	91,487	98,558	114,357	141,194	163,715	5.0%	8.2%	23.3%	5.5%
Penalty Revenue on Loan Portfolio	262,540	283,900	36,291	290,556	515,385	3,335	3,701	508	4,070	7,937	8.1%	(87%)	700.6%	77.4%
Financial Revenue from Investments	-	1,404,970	4,194,423	333,652	7,528,128	-	18,318	58,661	4,673	115,941	-	198.5%	(92.0%)	2,156%
Other Operating Revenue	267,071	249,399	33,432	7,558,405	10,243	3,393	3,252	468	105,870	158	(6.6%)	(86%)	22,508%	(99.9%)
Financial Expense (b)	7,699,295	5,357,941	8,829,522	15,555,516	19,298,454	97,809	69,856	123,485	217,886	297,217	(30%)	64.8%	76.2%	24.1%
Interest paid on borrowings	6,334,083	4,202,536	6,959,869	13,448,459	17,052,612	80,465	54,792	97,337	188,372	262,629	(33.7%)	65.6%	93.2%	26.8%
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	1,365,212	1,155,405	1,869,653	2,107,057	2,245,842	17,343	15,064	26,148	29,513	34,588	(15.4%)	61.8%	12.7%	6.6%
Financial income [c=a-b]	26,729,815	30,596,343	34,886,278	47,182,315	49,579,287	339,564	398,909	487,902	660,882	763,575	14.5%	14.0%	35.2%	5.1%
Net Loan Loss provision expense (d)	1,599,414	-	-	77,436	110,000	20,318	-	-	1,085	1,694	(100%)	-	-	42.1%
Loan loss provision expense and write-off	1,599,414	-	-	77,436	110,000	20,318	-	-	1,085	1,694	(100%)	-	-	42.1%
Recovery from Loans written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)	23,419,908	25,995,066	28,518,113	32,843,398	43,547,342	297,517	338,919	398,840	460,037	670,677	11.0%	9.7%	15.2%	32.6%
Personnel Expense (includes fringe)	15,665,316	15,711,823	16,309,554	19,032,698	23,917,638	199,006	204,848	228,097	266,591	368,358	0.3%	3.8%	16.7%	25.7%
Administrative Expense (non-staff operating expenses)	7,754,592	10,283,243	12,208,559	13,810,700	19,629,704	98,511	134,071	170,743	193,446	302,319	32.6%	18.7%	13.1%	42.1%
Depreciation and amortization	642,866	906,745	1,353,724	1,292,918	1,104,790	8,167	11,822	18,932	18,110	17,015	41.0%	49.3%	(4.5%)	(14.6%)
Consulting fees	2,086,200	2,025,597	2,114,900	2,117,621	2,698,520	26,502	26,409	29,578	29,661	41,560	(2.9%)	4.4%	0.1%	27.4%
Directors emoluments	120,000	845,000	420,000	1,240,000	540,000	1,524	11,017	5,874	17,369	8,317	604.2%	(50%)	195.2%	(56.5%)
Travel	300,680	1,535,336	2,695,835	1,878,151	1,984,176	3,820	20,017	37,703	26,307	30,558	410.6%	75.6%	(30.3%)	5.6%
Rent	622,890	638,684	681,968	638,045	605,420	7,913	8,327	9,538	8,937	9,324	2.5%	6.8%	(6.4%)	(5.1%)
Insurance	56,115	192,618	129,154	185,586	298,814	713	2,511	1,806	2,599	4,602	243.3%	(32%)	43.7%	61.0%
Printing and stationery	235,946	587,295	186,897	374,392	355,484	2,997	7,657	2,614	5,244	5,475	148.9%	(68%)	100.3%	(5.1%)
Telephone & maintenance	1,038,996	856,041	945,890	1,019,366	1,227,781	13,199	11,161	13,229	14,278	18,909	(17.6%)	10.5%	7.8%	20.4%
Selling and distribution and Licence	2,650,899	2,695,927	3,670,191	4,705,523	10,723,052	33,676	35,149	51,329	65,910	165,147	1.7%	36.1%	28.2%	127.9%
Others	-	-	10,000	359,098	91,667	-	-	140	5,030	1,412	-	-	3,491%	(74.5%)
Net Operating Income Before Taxes and Donations [f=c-d-e]	1,710,493	4,601,277	6,368,165	14,261,481	5,921,945	21,729	59,991	89,062	199,760	91,204	169.0%	38.4%	123.9%	(58%)
Income Taxes (g)	1,525,000	2,640,497	1,781,912	4,822,138	2,398,631	19,373	34,426	24,921	67,544	36,942	73.1%	(32%)	170.6%	(50.3%)
Net Operating Income Before Donations [h=f-g]	185,493	1,960,780	4,586,253	9,439,343	3,523,314	2,356	25,564	64,141	132,217	54,263	957.1%	133%	105.8%	(62%)
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]	185,493	1,960,780	4,586,253	9,439,343	3,523,314	2,356	25,564	64,141	132,217	54,263	957.1%	133%	105.8%	(62%)
Donations (l)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]	185,493	1,960,780	4,586,253	9,439,343	3,523,314	2,356	25,564	64,141	132,217	54,263	957.1%	133%	105.8%	(62%)

AAR Credit Services Balance sheet	USD					Evolution								
	Apr. 2004	Apr. 2005	Apr. 2006	Apr. 2007	Apr. 2008	Apr. 2004	Apr. 2005	Apr. 2006	Apr. 2007	Apr. 2008	2005/04	2006/05	2007/06	2008/07
ASSETS	103,495,643	126,376,995	208,055,038	216,607,915	305,872,880	1,314,765	1,647,679	2,909,752	3,034,022	4,710,777	22.1%	64.6%	4.1%	41.2%
Short Term Assets	98,550,181	121,208,803	195,193,607	204,265,437	294,240,761	1,251,940	1,580,297	2,729,879	2,861,141	4,531,630	23.0%	61.0%	4.6%	44.0%
Cash and Due from Banks	36,178,661	37,432,723	51,693,234	27,079,372	32,027,083	459,598	488,041	722,955	379,300	493,252	3.5%	38.1%	(47.6%)	18.3%
Short Term Investments	3,337,397	22,586,005	35,231,913	65,222,151	80,190,485	42,397	294,472	492,736	913,565	1,235,021	576.8%	56.0%	85.1%	22.9%
Short Term Net Loan Portfolio	58,858,534	61,076,422	108,144,035	111,618,197	181,848,779	747,714	796,303	1,512,448	1,563,433	2,800,670	3.8%	77.1%	3.2%	62.9%
Short Term Gross Loan Portfolio	60,457,948	61,076,422	108,144,035	111,618,197	181,848,779	768,032	796,303	1,512,448	1,563,433	2,800,670	1.0%	77.1%	3.2%	62.9%
(Loan Loss Reserve)	1,599,414	-	-	-	-	20,318	-	-	-	-	(100.0%)	-	-	-
Interest Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
On loan portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-
On investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	175,589	113,653	124,425	345,717	174,414	2,231	1,482	1,740	4,842	2,686	(35.3%)	9.5%	177.9%	(49.6%)
Long term assets	4,945,462	5,168,192	12,861,431	12,342,478	11,632,119	62,825	67,382	179,873	172,881	179,147	4.5%	148.9%	(4.0%)	(5.8%)
Long Term Net Investments	-	-	10,206,724	10,158,294	10,109,863	-	-	142,746	142,287	155,703	-	-	(0.5%)	(0.5%)
Long Term Gross Loan Portfolio	3,412,531	1,228,024	-	-	-	43,351	16,011	-	-	-	(64.0%)	(100.0%)	-	-
Net Fixed Assets	633,681	3,108,078	2,205,297	1,939,813	1,068,825	8,050	40,523	30,842	27,171	16,461	390.5%	(29.0%)	(12.0%)	(44.9%)
Other Long Term Assets	899,250	832,090	449,410	244,371	453,431	11,424	10,849	6,285	3,423	6,983	(7.5%)	(46.0%)	(45.6%)	85.6%
LIABILITIES AND EQUITY	103,495,643	126,376,995	208,055,038	216,607,915	305,872,880	1,314,765	1,647,679	2,909,752	3,034,022	4,710,777	22.1%	64.6%	4.1%	41.2%
Liabilities	101,630,168	122,550,740	200,042,530	200,156,064	290,897,715	1,291,066	1,597,793	2,797,693	2,803,581	4,480,143	20.6%	63.2%	0.1%	45.3%
Short term liabilities	101,480,417	122,072,218	199,763,310	200,156,064	262,299,880	1,289,164	1,591,554	2,793,788	2,803,581	4,039,705	20.3%	63.6%	0.2%	31.0%
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	91,976,199	111,842,118	180,991,721	177,970,211	222,957,378	1,168,427	1,458,176	2,531,258	2,492,824	3,433,788	21.6%	61.8%	(1.7%)	25.3%
Interest payable	6,154,509	6,148,305	13,932,704	15,274,075	31,854,475	78,184	80,160	194,856	213,944	490,594	(0.1%)	126.6%	9.6%	108.6%
Accounts Payable and Other	3,349,709	4,081,795	4,838,885	6,911,778	7,488,027	42,553	53,218	67,674	96,813	115,324	21.9%	18.5%	42.8%	8.3%
Short Term Liabilities														
Long term liabilities	149,751	478,522	279,220	-	28,597,835	1,902	6,239	3,905	-	440,438	219.5%	(41.6%)	(100.0%)	-
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	-	-	-	-	28,597,835	-	-	-	-	440,438	-	-	-	-
Other Long Term Liabilities	149,751	478,522	279,220	-	-	1,902	6,239	3,905	-	-	219.5%	(41.6%)	(100.0%)	-
Equity	1,865,475	3,826,255	8,012,508	16,451,851	14,975,165	23,698	49,886	112,059	230,441	230,634	105.1%	109.4%	105.3%	(9.0%)
Tier 1 Capital	1,865,475	3,826,255	8,012,508	16,451,851	14,975,165	23,698	49,886	112,059	230,441	230,634	105.1%	109.4%	105.3%	(9.0%)
Paid-In Capital	20,000	20,000	2,061,860	5,000,000	10,000,000	254	261	28,836	70,035	154,011	0.0%	10,209%	142.5%	100.0%
Donated equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings without donations and reserves	1,845,475	3,806,255	5,950,648	11,451,851	4,975,165	23,444	49,625	83,223	160,406	76,623	106.2%	56.3%	92.4%	(56.6%)
Tier 2 Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-

■ 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-	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+	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.	
B	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	
B-	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	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	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	
C-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	