

Global assessment

Assessment summary

Urgent need for improvement



Overall MCDT shows poor operational and financial performance with significant weaknesses noted in governance, information and risk management. Good governance is hampered by weak capacity of the BOD and a poor planning process. MCDT has limited execution capacity to address existing weaknesses. Activities and Funding perform marginally better but also require strengthening. Financial sustainability is poor and is weakened by low operating efficiencies and low revenue quality leading to a negative profitability outlook.

Assessment per domain

Areas for improvement

G



- Strengthen decision-making capacity by increasing the financial and technical skills of BOD and improving the quality and consistency of information flow.
- Develop an accurate business plan and financial projections to guide the development and growth of MCDT.
- Provide for a complete management team with an experienced financial manager.

I



- Ensure an efficient information management system is established, with sufficient controls to guarantee data reliability.
- Improve data security of digital and paper data.
- Increase staff access to informational indicators to better analyze their portfolios.

R



- Strengthen internal controls in existing procedures; and creation of relevant procedural manuals for areas that are not yet covered.
- Increase level of compliance of staff to procedures by disseminating new procedures to staff and providing more oversight.
- Establish strong Internal Audit (IA) by improving IA's technical capacity, knowledge of responsibilities, and independent support of IA by BOD.

A



- Reinforce credit methodology with stronger client selection and loan approval process.
- Re-instate a functioning write-off policy, which is independent from staff motivation to follow-up on delinquent loan recovery.
- Develop and implement a proper provisioning policy based on ageing of the delinquent loans.

F



- Investigate options to recapitalize the institution to allow future growth.
- Increase capacity of finance department to accurately identify funding needs and manage funding relationships with local and international investors.
- Formalize and organize liquidity management tools.
- Investigate options to reduce the significant exposure to FX losses.

E



- Develop product differentiation for the needs of each target client group.
- Review market and client targeting strategy to decrease operational expenses of lending to clients spread out over large distances or in unprofitable markets.
- Increase operating efficiency e.g. through higher LO productivity.

Institutional presentation

MCDT SACCO was first conceived in 1996 by Save the Children Norway (formerly known as “Redd Barna”), who then mobilized 19 Ugandan professionals to found MCDT as an NGO and later as company limited by guarantee. Save the Children Norway also chaired the first Board of Directors that recruited the initial staff. After ten years of operations, MCDT registered as a SACCO in 2008, with its clients becoming its first members and shareholders. The current 3,797 members of MCDT SACCO are 99.9% female and have an outstanding portfolio of 534 M UGX as of April 2009 (258 K USD). MCDT SACCO has four branch offices serving 30 Ugandan sub-counties and urban divisions with two group loan products targeting the needs of micro-businesses and school fees.

Legal form	In January 2008, MCDT SACCO was registered under the Ugandan Cooperative Societies Act as a Savings and Credit Cooperative (SACCO)
Supervision	MCDT is subject to supervision by the Uganda Co-operative Savings and Credit Co-operative Union.
Audit	Audits have been performed by Kisaka & Company for the past three years, and before by Carr Stanyer Sims & Co. The financial year starts on January 1 st and ends December 31 st .
Ownership	As of March 2009, MCDT has 2,870 members as shareholders with a total paid-up capital of 28.8 M UGX (13,922 USD)
Board of Directors	The Board of Directors (BOD) is composed of five members: four are the Chairperson of a five-member branch committee elected by members; the BOD Chairperson is elected during the Annual General Assembly. A Supervisory and Audit Committee is appointed by the BOD and consist of external members.
Donations	Over the last eleven years, as both an NGO and a SACCO, MCDT has received donations from six donors, totaling over 1,7 billion UGX (783 K USD). The main donors were Save the Children Norway, McKnight Foundation USA and Concern.
Funding composition	As of March 2009 MCDT has a total debt portfolio of 269 M UGX (127 K USD) originating from Etimos (Italy), Kiva (USA) and Stromme Foundation (Uganda). 90% of the portfolio matures within the coming 12 months; 25% of the portfolio is denominated in EUR and 47% in USD, with the remainder denominated in UGX.
Management team	The Management Team (MT) consists of the Executive Director (Olivia Kayongo), the Operations Manager and the Internal Auditor. The finance managerial responsibilities are split between the ED and the Finance Officer.
Organization	The head office of MCDT is based in Kampala which houses the management team. Branches are staffed with a Branch Manager (BM) and Loan Officer (LO). Credit decisions are taken by branch credit committee consisting of the BM and LOs.
MIS	The MIS used for loan tracking is Finance Solutions by Sigma Data & Computers Ltd. of Kampala, Uganda. It is used as stand-alone system in all four branches, with databases sent to HO when a MT members visits the branch (with irregular intervals between two weeks and two months). For accounting functions excel sheets are used.
Market penetration	MCDT operates through four branches in Busolwe (30 km from Tororo Town), Luwero Town, Mulago (Kampala) and in Butenga Trading Center (30km from Masaka Town).
Products and services	MCDT offers two group loan products for business purposes or school fees. Loan amounts range from 0.1 to 1 M UGX (47 to 474USD) with terms up to 12 months and a 36% flat annual interest rate. The effective interest rates are estimated to average 76%
Networks	MCDT SACCO is a member of the Association of Microfinance Institutions of Uganda (AMFIU).

Governance requires **urgent need for improvement**

Areas for improvement

- Strengthen decision-making capacity by increasing the financial and technical skills of BOD and improving the quality and consistency of information flow between governing bodies.
- Develop an accurate business plan and financial projections to guide the development and growth of MCDT.
- Provide for a complete management team with an experienced financial manager, either through recruitment or additional training of existing staff.
- Establish formal HR management, through creation of updated manuals, procedures and incentive schemes.

■ Governance

Decision making

- MCDT transformed in 2008 into a SACCO and now has an appropriate legal set-up to mobilize voluntary savings.
- The challenges of the transformation into a SACCO have been insufficiently anticipated.
- + The vision and mission are shared among the members of the SACCO and within the institution's governing bodies..
- There is potential for conflict of interest in MCDT's BOD members, who are also borrowers, as they have not received training or gained experience to separate their role as both client and decision-maker.
- + The BOD is elected democratically and has the interests of members in mind when making strategic decisions, such as the attention they have provided to reduce operational costs.
- The BOD does not have sufficient financial or business experience to allow quality decision-making or comprehensive monitoring of Management Team.
- There is no systematic control over the implementation of decisions, as BOD minutes are overly-detailed and do not itemize priority or responsibility.
- Training is given to the BOD, despite members having a maximum 4 year term. Efficacy of training remains to be seen.
- Information provided to the BOD is not made available in advance, does not provide a qualitative analysis of operations, and is only moderately reliable, which does not ensure timely nor informed decisions.
- The portfolio quality indicators provided are not sufficiently analyzed and have yet to be complemented by other relevant ratios
- The BOD has had limited contact with the Committee Members so far, as they were sourced by the MT and are currently reporting to the ED. The ED is a non-voting member of the BOD, as per regulation, but still has a close relationship and influence over BOD and Committee members.
- + BOD meetings are held quarterly and attended by all members.
- The members of the SACCO did not prove a clear exercise of ownership over MCDT. They refused to increase the nominal value of their shareholdings, and purchased shares only when required to.

Planning

- MCDT SACCO has no current medium to long term business plan or detailed financial projections, although a strategy session to evaluate operations and develop goals is planned for later this year.
- Despite the definition of some relevant steps, the planning process needs to be further detailed. There is neither an environmental analysis nor assessment of customer demand.
- A Management plan is in place to itemize operational priorities, although its follow-up needs to be tightened to evaluate the successive achievements.
- Basic growth targets have been developed for three years, but feasibility has not been studied convincingly.
- The budget is lacking in necessary details, such as a BS or IS and a comparison to previous budgets (especially on the income side). Furthermore, the review and update of the budget is not done consistently.

Management team

- + Both the ED and OM have extensive banking experience and are strongly involved in the institution. They have received extensive training in Microfinance from their founding donor, Save the Children Norway.
- There is significant 'key person' risk, as the ED has led MCDT SACCO for the last ten years without training a deputy or potential successor.
- The MT lacks some key senior positions, namely Finance and IT Managers, and needs additional training to ensure more efficient execution capacity.
- The FO shows potential to rise to the challenge of the role of FM, although she needs time to grow with the position and would benefit from the supervision of a senior manager. The ED currently overviews the financial duties but dedicates too much of her time to financial duties.
- Branch managers offer sufficient skills in terms of understanding basic microfinance indicators, but their management skills need to be enhanced to ensure better compliance to procedures and portfolio management.
- The MT exhibits a strong level of cohesion, and meets informally on a daily basis. However communication and follow up on decisions could be enhanced through a more comprehensive documentation of management meetings.

Human resource management

- The HR function is not developed at MCDT and needs to be strongly improved. There is currently no updated HR manual, appraisal tool for identification of staff skills or training needs, and no incentive scheme in place.
- MCDT does provide job descriptions and contracts, but no evaluations take place besides weekly informal group meetings where problems are aired and opinions shared.
- Salaries are lower than the market, and there is strong competition for trained staff among Ugandan MFIs and banks, which contributes to the very high staff turnover of 22% in 2008 and 29% in 2007.
- Training needs have not been budgeted for, despite most staff needing capacity building.
- MCDT SACCO staff is young and motivated, and seem to be eager to participate in the institution's turnaround. However, the institution's stagnation combined with the low level of compensation could affect their morale

Information

Information requires **urgent need for improvement**

Areas for improvement

- Ensure an efficient information management system is established, with sufficient controls to guarantee data reliability.
- Manage data security issues by utilizing unique UserIds and a robust Anti-Virus software.
- Increase staff access to informational indicators to better analyze their portfolios and clients.

- The MIS system for MCDT SACCO is neither efficient enough nor cost effective: The purchased system, Finance Solutions, has low data integrity resulting in intermittent loss of data, is not customized or serviced by a reliable technician, is very slow to produce key statistics, and produces inaccurate collection sheets because it does not account for holidays and group reorganization.
- The loan-tracking system is not on a network and HQ does not receive regular updates for monitoring by the MT. Updates arrive from branch offices whenever there have been visits from the MT, which can occur as frequently as each week or as infrequently as each quarter.
- The accounting system is manual and leaves a large residual risk for mistakes. Data is entered into MS Excel spreadsheets, but calculations are done manually. Data input into the MIS also originates from sheets compiled manually by the BM, which adds further 'human risk' to the reliability of the data.

- There is insufficient protection of data as not all users have individual access IDs with passwords of sufficient complexity and only monthly backups are done, although not consistently. Additionally, the anti-virus software is a free version and not a more robust purchased software. Paper data (loan applications and membership documents) are not organized, nor safely stored (there are no copies and the originals are not stored fire or weather proof).
- PAR calculations can be produced by the MIS, although it is a very time consuming procedure and therefore only done periodically by the MT. PAR is calculated on a monthly basis, and there is no detailed arrears data that is monitored for immediate follow-up of delinquent clients.
- Staff do not have access to the consolidated relevant portfolio monitoring data through the MIS. Accurate portfolio information (Group membership, repayment schedules, etc.) about clients is available to LOs and BM only through the manual ledgers.
- Monthly aggregated financial statements are produced by the FO, after the BMs send in hand-written information. However, this information frequently arrives late and is not verified with any copies of the cashbooks.
- Daily accounting procedures for BM and LOs are time-consuming and pose human risk, but are accurate. The cash books, till books, summary receipts and amalgamated figure reports are not filed well nor always updated, but functioning.

▪ Risk Management

Risk management requires **urgent need for improvement**

Areas for improvement

- Strengthen internal controls in existing procedures; and creation of relevant procedural manuals for areas that are not yet covered.
- Increase level of compliance by disseminating new procedures to staff, providing more oversight and creating formalized disciplinary procedures for breaches of conduct.
- Establish strong internal audit by improving IA's technical capacity, knowledge of responsibilities, and independent support of IA by BOD.

Procedures and internal controls

- MCDT SACCO does not have a comprehensive or an effective control system, as it has not made sufficient efforts to adapt procedures and or identify risks arising with the new status as a SACCO: manuals have not been updated since the transformation, appropriate methods to collect, accurately account for, and mobilize savings have not been formally developed and existing financial management procedures are too weak to efficiently manage the new products without revision.
- The basics of internal controls were not implemented before the transformation; little hierarchical control exists as field visits by management have been infrequent, insufficient and not thoroughly documented.
- Low compliance by staff and even the MT to procedures shows inadequate commitment to implement the policies to address poor performance, i.e. bank reconciliations have not been signed by ED for five months, BM in Masaka had not updated ledgers in two weeks, LOs in Kampala disburse and collect from Groups with less than five members or only one member present, etc.
- Cash procedures are either lacking, risky, or not followed: No clear procedure for receiving and accounting for petty cash, loose control of the receipts and level of expenses, cash is transported great distances by LOs who work alone, cash is not counted daily despite procedure stating otherwise, the cash book is not regularly updated, cash is reconciled by BM only monthly and is monitored only quarterly by FO, excess cash is not banked in a timely manner due to distance of banks.
- There is inadequate separation of tasks and limitation of powers, as LO and BM both collect and account for cash.
- Fraud risk is high, and the potential for fraud to go unnoticed is also high. Only once, in 2005, was a fraud reported, and there was key involvement with the Branch Manager.

- Ghost clients are also highly likely, as official picture identification is not required and there are no consistent checks to verify client existence. The former IA was due to make snap checks to verify this, but these checks are not documented. Branch staff does rotate regularly, however, amongst groups and centers, but poor attendance at center meetings does not help staff confirm client identities.

Internal audit

- The former IA departed mid-April 09 and was replaced by the Kampala BM, who has no training in audit or compliance. The IA department is only officially one person, although the MT and Administrative assistant also performed audits.
- The responsibilities of the IA include internal controls and internal audit, overwhelming the capacity of one person. This is especially true when all the manuals need to be updated, such as the case with MCDT.
- The IA does not have a clear understanding of the tasks she must complete, nor the training to complete them
- No operational risks have been mapped by the former or current IA. Only one audit schedule from 2008 exists, but no audit findings report or other documents exist from previous years.
- Audits were carried out infrequently, and not always by the IA.
- IA oversight of MT was not planned for and needs to be developed within the IA audit schedule.
- There is formal independence of the IA, who will directly report to the Supervisory Committee, but there is no current contact with the BOD. As the Supervisory Committee has just been appointed its main communication has been with the CEO rather than the BOD.
- No risks or frauds have been identified in 3 years, despite some questionable procedures and lack of compliance among staff. There is a high likelihood that fraudulent activity is proceeding undetected, as recent spikes in some branch's PAR have not been investigated.
- It is very unlikely that the current IA will be able to identify any operational or institutional risks in a timely manner

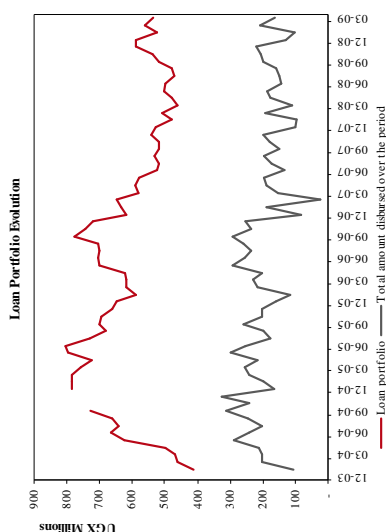
Activities

Financial services evolution

MCDT SACCO's portfolio has decreased from its height in Q3 2006 of 744 M UGX (352 K USD) to its Q4 2008 total of 586.5M UGX (277 K USD). This was due to increased competition, and a lack of sufficient funding. (See funding and liquidity section) The decline was steady until Q3 2008, when the portfolio again began to grow. The recent growth occurred in the same year as MCDT's transformation into MCDT SACCO with the arrival of new funding.

However, prudence in the management of growth is limited as average loan size has doubled in the past two years and there is no clear strategy to introduce new products for larger amounts or at different rates.

In the first three months of 2009, voluntary deposits have doubled to 6.4 M UGX (3,000 USD) from the 2.9 M UGX (1,300 USD) that MCDT had received by December 2008. These are still small amounts, but should continue to grow.



Activities requires need for improvement

Areas for improvement

- Reinforce credit methodology with stronger client selection and loan approval process.
- Re-instate a functioning write-off policy, which is independent from staff motivation to follow-up on delinquent loan recovery.
- Develop and implement a proper provisioning policy based on ageing of the delinquent loans.

Financial services management

- The group solidarity methodology is adequately defined as the guarantor mechanism is enforced. Group members approve their member's business ideas and loan applications, signing for each disbursement, and covering each other's delinquencies. However, the methodology could be improved by a stronger individual credit appraisal.
 - Despite a heavy reliance on Group and Center members to sufficiently screen and vouch for new clients, the Center members are not formal guarantors. Either the Center members should be involved in the solidarity mechanism, or MCDT SACCO should protect itself from Group default by a more rigorous client selection and loan approval process from the BM, LO and Credit Committee.
 - Loan approval does not, but should, include quantitative criteria related to the clients repayment capacity
 - Delinquency management procedures need to be formalized and refined; follow-up by LOs has been lax as they do not always have current information, do not have enough time or capacity to re-visit individuals, and are not sufficiently monitored by branch managers. New motorcycles and stronger attention by BM should improve this
 - The monitoring of the portfolio evolution is not sufficient to manage a fast growth. The OM should also be more proactive in providing a more comprehensive analysis of portfolio indicators and analysis.
 - All staff do know the methodology well, but LOs need further training and closer supervision as discipline is not well observed (Group meeting lateness, and absence are widespread and causing inefficiencies).
- No performance targets exist for LOs, although they could benefit with more management guidance for client targeting and portfolio development.

Credit risk

- + The reported PAR 30 is 2.4% and has shown a declining trend over the last three years, although a slight increase has been observed during Q1 09.
- The PAR is expected to be higher given the deficiencies in the MIS (see Information) and the high yield gap between the theoretical and portfolio yield (see Efficiency & Profitability).
- Rescheduling mechanisms are not monitored but are expected to be low. Staff loans are monitored separately and do not enter in the portfolio data. Credit decisions for staff loans are taken by the management team but no maximum percentage of the portfolio has been set. BOD members, as clients, also have loans.
 - Write-offs do not currently take place. There were write-offs prior to 2008 but were stopped for fear they will discourage staff from recovering very delinquent loans. Write-offs should take place and are only an accounting tool to assist in accurate reporting. It is the responsibility of the MCDT MT to ensure that staff continues to follow-up on all delinquent loans.
 - Concentration risk on geographical areas and economic sector is not monitored and no limits have been set.

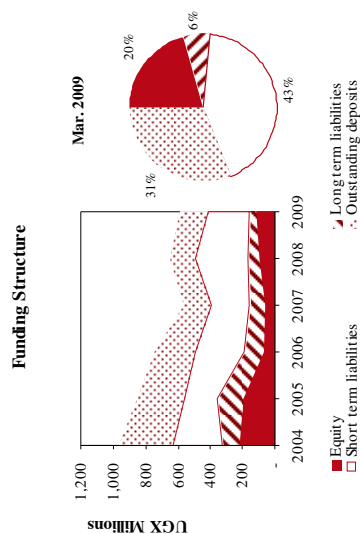
Credit risk coverage

- + The reported PAR is covered at 185%, although PAR is expected to be higher (see above) lowering the actual credit risk coverage.
- The provisioning policy is not according to best practice, since coverage is only 3% of the healthy portfolio and does not provide coverage for PAR according to aging categories.

Funding and liquidity requires need for improvement

Areas for improvement

- Investigate options to recapitalize the institution to allow future growth.
- Increase capacity of finance department to accurately identify funding needs and manage funding relationships with local and international investors.
- Formalize and organize liquidity management tools to monitor the cash needs for the institution and reduce the risk for cash shortages.
- Investigate options to reduce the significant exposure to FX losses.



- Standard guarantees to ensure recovery of delinquent loans exist in the form of guarantors within the same Group.
- + MCDT has established a Guarantee fund, by setting aside 2% of interest income to cover cases of clients' death.

Funding and liquidity

Capitalization and funding strategy

- MCDT SACCO has a minimum level of capitalization with a Total Capital Adequacy Ratio of 22.1% as of March 2009, up from 17.5% as of Dec. 2008.
- Unless the SACCO is recapitalized by its members this highly limits the growth potential for MCDT, also given its poor profitability outlook (see Efficiency & Profitability).
 - The management of funding requires further strengthening. Funding needs for growth are not adequately identified, funding needs for capacity building have not begun to be sourced, and there is no pipeline of funding applications or relationships to be further developed.
 - Although MCDT SACCO has been able to develop relationships with international funders in the past, discussions with potential new funders need to be more proactive and requires further planning ahead.
- Funding is currently sourced by the ED, rather than the FO, due to experience. Negotiations could be improved to win funding with better terms, such as local currency loans or longer repayment periods. Recent funders have provided either funds at higher rates or with large FX exposure.
- As the cost of savings is 3% vs. a historic average of 10% for external funding, plans to utilize savings to fund growth will be more efficient. This will be true even when additional costs of savings, i.e. collection costs, are included. However, the mobilization of savings requires organized and controlled procedures and oversight, which has yet to be developed at MCDT SACCO.

Liquidity risk

- Although the FO is young, bright and should be able to grow into the position of FM, current oversight by the ED is not sufficient enough to guarantee that all financial management responsibilities are effective and efficient. An experienced and dedicated Financial Manager is needed.
- Liquidity management is very basic and does not integrate inflows from repayments or funders with outflows for expenses. There are separate monthly tables created of funding expenses and funding inflows, but this does not show liquidity gaps.
- Cash planning is not effectively executed by BMs and HQ, with only a week notice for cash needs. Only Kampala BM submits weekly cash flow planning, with other BMs managing independently without formal supervision.
- Cash shortages could arise given the dependence on some branches to use HQ bank accounts and the lack of monthly or quarterly formalized planning
- Liquidity levels are currently sufficient to cover basic expenses with operating expenses covered by 2.6 months, although best practices recommend 3 months. In the past, liquidity levels were even lower, with only half of a month's expenses covered in 2007.
- Maturity risk is not monitored, although risk is limited by loans and mandatory savings maturing together. The prevalence of KIVA loans, which are matched to the repayment of client loans also stabilizes maturity risk. Maturity risk is also

minimized by the fact that demand deposits are still low. If demand deposits increase, there will have to be better management of Assets and Liabilities

- Voluntary savings sufficiently covered by liquid assets at 148%.

Market risk

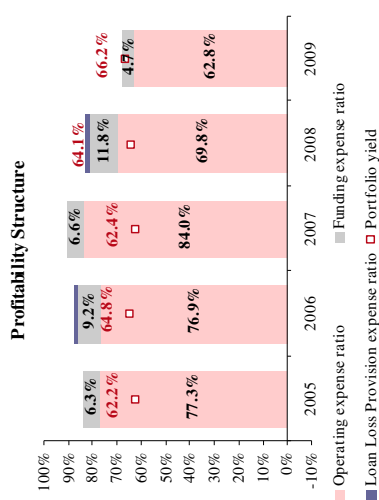
- There is significant foreign exchange exposure, and FX losses have been high at 37.3M UGX (18,644 USD) in 2008 or 12.3% of interest income. This FX loss resulted in a 6% decrease in ROA for 2008.
- As of March 2009, there was still an open exposure of 107% of Tier 1 Capital on the USD and an additional 57% on the EUR. This presents a high risk to MCDT to further FX losses. However, the EUR denominated loan is repayable in July 2009, closing the open position on the EUR.
- + Only the EUR denominated funding has a semi-floating rate, linked to EURIBOR, although it is only a semi-annual adjustment which has and will probably not affect MCDT before the balance is paid.¹

Efficiency and profitability

Efficiency and profitability requires immediate need for improvement

Areas for improvement

- Develop product differentiation for the needs of each target client group.
- Review market and client targeting strategy to decrease operational expenses of lending to clients spread out over large distances or in unprofitable markets.
- Increase operating efficiency e.g. through higher LO productivity.



Profitability analysis

- Profitability has been a weak point for MCDT with an ROA of -11.5% for 2008, although there was a 10 point improvement from their low of -24.7% in 2007. There has been an uneven trend in profitability as it improved in 2006 and 2008, but decreased in 2007 prior to the transformation.
- A yield gap exists as the effective interest rate (EIR) is 76% whereas the portfolio yield has been around 65% in the past years. This yield gap is likely a result of hidden PAR (see Activities).
- MCDT SACCO's interest rates are not sustainable at such high levels, since competition has lowered its prices. The group loan interest rate of 76% is higher than the Ugandan average of 50%.
- Competition is rapidly increasing in Uganda, with a crowding out effect of the smaller players in Kampala, like MCDT, that have less efficient meetings, limited marketing, and smaller ranges of products. MCDT has little competitive advantage against more streamlined institutions with lower rates.
- Product development needs more attention, specifically in the design of the School Fees loans which currently have the same interest rate as the General Loan. If these loans are for the best clients, the interest rates should take this into account.
- The operating expense ratio has reduced considerably in the last three years from a very high 77.3% in 2005, but it is still high at 69.8% in 2008. Although the smaller loan size and costs associated with the large distances between branches can explain some of this, such high rates make it very difficult for MCDT to compete in the Ugandan market.
- + The BOD and its Supervisory and Audit Committees are aware of this issue and have been more diligent in monitoring expenditures and costs associated with targeting clients at large distances.
- LO productivity is low at 179, best practices show group methodology LO productivity could be at 350
- + Asset deployment is good at 84%, although slightly decreasing from a high of 88% in 2006

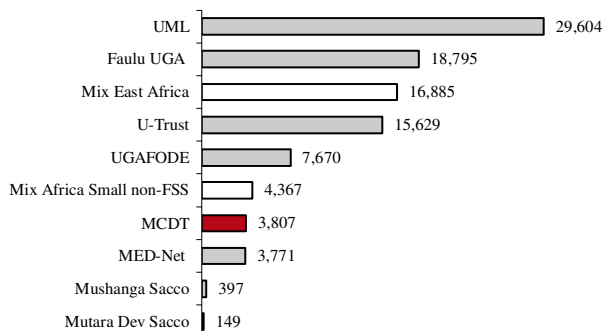
¹ The Etimos balance is due in July 2009, and no interest rate change is likely before then.

- The profitability outlook is negative, as MCDT SACCO has limited competitive advantage and their market position has fallen due to the transition of 2008. With a potentially higher PAR than provisioned for, readjustments to the loan loss reserve would also negatively affect profitability.

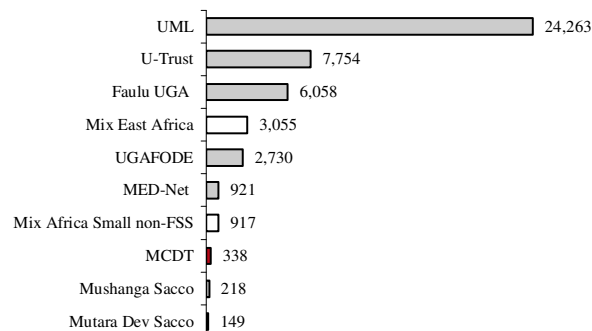
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

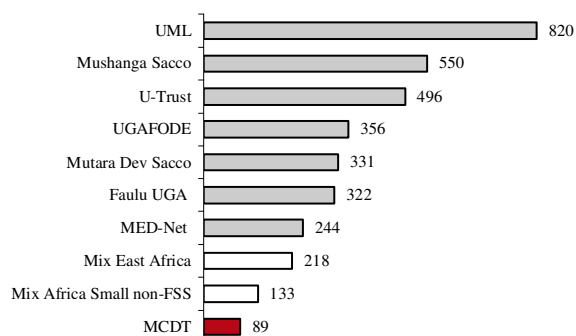
Active borrowers



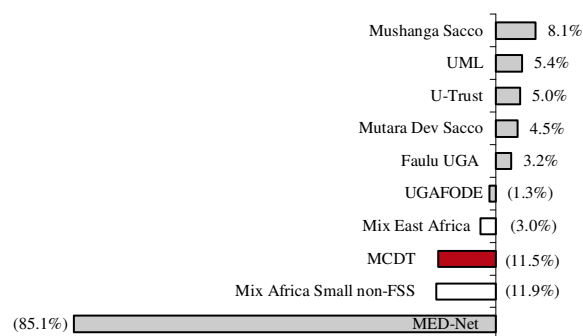
Loan portfolio ('000 USD)



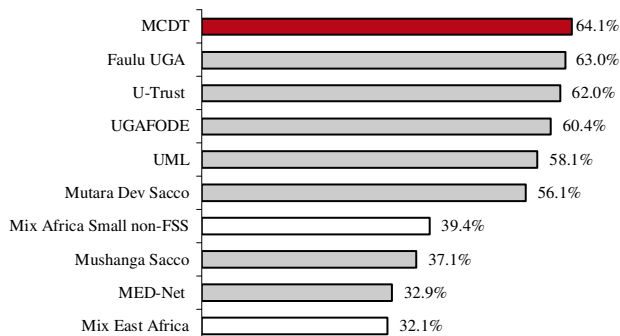
Average outstanding loan per client (USD)



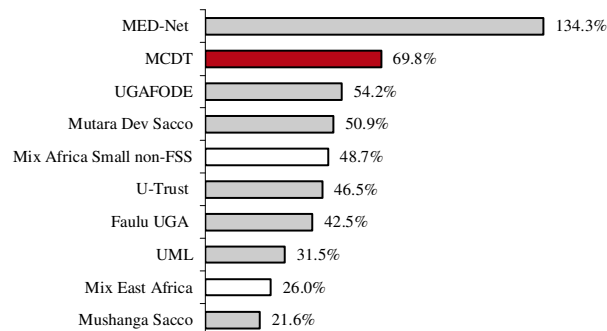
ROA



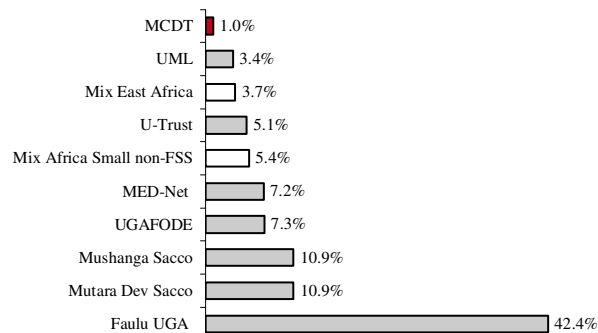
Portfolio yield



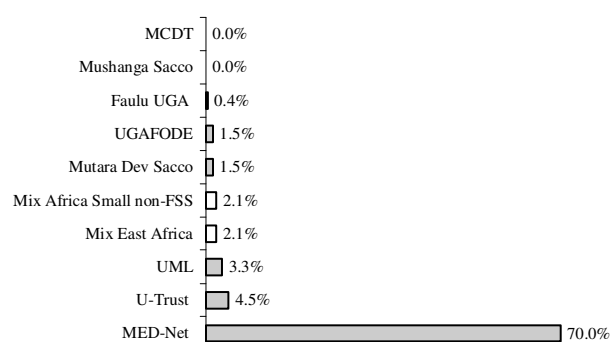
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Planet Rating own data for MCDT, Ugafode, Mushanga Sacco and Mutara Dev. Sacco. Other data from www.mixmarket.org. All data as of 2007, except MCDT, UML (2008) and U-Trust (2006).

Data in USD, unless otherwise stated

■ Performance indicators

	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Loan Portfolio					
Loan portfolio evolution					
Loan portfolio	365,105	355,375	302,837	337,759	252,801
Loan portfolio (UGX)	648,892,060	618,792,000	527,310,000	586,496,000	533,890,178
<i>Growth</i>	(17.4%)	(4.6%)	(14.8%)	11.2%	(9.0%)
Active borrowers	6,424	7,644	4,338	3,797	3,756
<i>Growth</i>	(16.0%)	19.0%	(43.2%)	(12.5%)	(1.1%)
Average outstanding loan per client	57	46	70	89	67
<i>% of GDP per capita</i>	18.2%	13.3%	17.8%	20.1%	15.5%
Average amount disbursed per loan	124	112	177	198	173
<i>% of GDP per capita</i>	39.5%	32.1%	45.0%	44.7%	39.8%
Portfolio quality					
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365*	2.2%	3.6%	0.2%	1.0%	1.3%
PAR > 365*	0.0%	1.0%	4.1%	1.4%	1.9%
Write-off ratio	2.3%	1.0%	0.3%	0.0%	0.0%
Credit risk coverage					
Risk coverage ratio (PAR 30)	26.5%	73.1%	96.8%	217.5%	185.4%
PAR 30 net of loan loss provision / Equity	5.3%	9.2%	1.0%	(16.3%)	(11.7%)
Savings					
Outstanding deposits	168,645	152,372	99,162	99,227	87,474
Outstanding deposits (UGX)	299,729,003	265,315,000	172,664,000	172,301,000	184,734,947
<i>Growth</i>	(13.3%)	(11.5%)	(34.9%)	(0.2%)	7.2%
Voluntary savings (%)	0.0%	0.0%	0.0%	1.7%	3.5%
Cash collateral (%)	100.0%	100.0%	100.0%	98.3%	96.5%
Active savers	6,424	7,644	4,338	3,807	3,766
<i>Growth</i>	(17.0%)	19.0%	(43.2%)	(12.2%)	(1.1%)
Average outstanding deposit per saver	26	20	23	26	23
Voluntary savings	-	-	-	n/a	n/a
Cash collateral	26	20	23	26	22
Staff					
Total number of staff	39	32	24	21	21
% Credit officers	89.7%	84.4%	79.2%	76.2%	76.2%
Turnover	18.2%	22.5%	28.6%	22.2%	0.0%
Profitability analysis					
ROE	(71.4%)	(106.7%)	(207.9%)	(80.3%)	(4.1%)
Liabilities / Equity	3.28x	8.09x	6.68x	5.43x	3.90x
Core capital adequacy ratio	28.7%	12.7%	13.6%	17.5%	21.4%
Total capital adequacy ratio	28.7%	12.7%	13.6%	17.5%	22.1%
ROA	(1.4%)	(15.4%)	(0.5%)	0.5%	9.2%
ROA (without donations)	(16.8%)	(18.7%)	(24.7%)	(11.5%)	(0.7%)
ROA (microfinance operations)	(16.8%)	(18.7%)	(24.7%)	(11.5%)	(0.7%)
Profitability structure					
Financial revenue ratio	63.0%	66.2%	62.7%	70.2%	66.6%
Portfolio yield	62.2%	64.8%	62.4%	64.1%	66.2%
Operating expense ratio	77.3%	76.9%	84.0%	69.8%	62.8%
Cost per borrower	50	39	63	54	43
Staff productivity	165	239	181	181	179
Loan officer productivity	184	283	228	237	235
Average outstanding loan per client (USD)	57	46	70	89	67
Funding expense ratio	6.3%	9.2%	6.6%	11.8%	4.7%
Cost of savings	0.0%	2.2%	2.7%	2.8%	0.0%
Cost of borrowings	12.8%	16.9%	11.5%	7.8%	8.4%
Loan Loss Provision expense ratio	0.3%	1.5%	(0.0%)	1.6%	0.0%
PAR 31-365*	2.2%	3.6%	0.2%	1.0%	1.3%
Write-off ratio	2.3%	1.0%	0.3%	0.0%	0.0%
Resource optimization					
Outstanding Loan Portfolio / Assets	75.3%	79.2%	88.9%	84.3%	84.3%
Revenue from investment as a % of financial revenues	0.0%	0.8%	0.1%	0.0%	0.0%
Liquidity					
Cash to demand deposits	n/a	n/a	n/a	2,480.1%	690.3%
Liquidity / Total assets (LAR)	18.6%	13.4%	4.4%	11.2%	7.5%
Current ratio (1 year)	164.3%	126.9%	133.8%	130.0%	131.2%
Exchange rate 1 USD= xx UGX	1,777	1,741	1,741	1,736	2,112

*PAR data is not considered to be fully reliable.

■ Financial statements – UGX

Income Statement (UGX '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Interest and fee income on loan portfolio	457,565	439,115	351,267	324,465	90,941
Interest and fee income on investments	-	3,603	419	-	-
Interest and other financial expenses	46,317	68,841	42,051	27,528	6,440
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	(998)	(37,288)	-
Net financial income	411,248	373,877	308,637	259,649	84,500
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	6,130	5,584	1,188	31,099	574
Operating expenses	569,208	520,558	473,398	353,295	86,211
<i>Personnel expenses</i>	<i>372,613</i>	<i>323,880</i>	<i>290,783</i>	<i>187,818</i>	<i>44,790</i>
<i>Administrative and other expenses</i>	<i>182,152</i>	<i>173,415</i>	<i>150,467</i>	<i>157,011</i>	<i>39,313</i>
<i>Depreciation</i>	<i>14,443</i>	<i>23,263</i>	<i>32,148</i>	<i>8,466</i>	<i>2,109</i>
Non operating income (net)	-	-	-	-	-
Gross operating income	(151,830)	(141,097)	(163,573)	(62,547)	(1,137)
Net loan loss provision expense	2,098	9,954	(143)	8,351	-
Net operating income	(153,928)	(151,051)	(163,430)	(70,898)	(1,137)
Extraordinary income (net)	-	-	-	-	-
Net income before tax	(153,928)	(151,051)	(163,430)	(70,898)	(1,137)
Income Tax	-	-	-	-	-
Net income before donations	(153,928)	(151,051)	(163,430)	(70,898)	(1,137)
Donations	140,756	26,600	159,795	74,176	15,560
Net Income	(13,172)	(124,451)	(3,635)	3,278	14,423

Balance Sheet (UGX '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
ASSETS	856,796	755,392	568,626	659,344	596,435
Liquid assets	159,361	101,015	25,235	74,156	44,774
Net loan portfolio	645,064	597,982	505,234	555,522	502,916
<i>Gross loan portfolio</i>	<i>648,892</i>	<i>618,792</i>	<i>527,310</i>	<i>586,496</i>	<i>533,890</i>
<i>(Loan loss reserve)</i>	<i>3,828</i>	<i>20,810</i>	<i>22,076</i>	<i>30,974</i>	<i>30,974</i>
Interest receivable	-	-	-	-	-
Financial investments	-	-	-	-	2,508
Net fixed assets	36,569	32,922	13,933	10,743	12,615
Intangible assets	-	8,904	6,678	4,452	-
Other assets	15,801	14,569	17,546	14,471	33,622
LIABILITIES AND EQUITY	856,796	755,392	568,626	659,344	596,435
Liabilities	656,833	672,245	494,541	556,747	474,603
Demand deposits	-	-	-	2,990	6,487
Time deposits	-	-	-	-	-
Cash collateral	299,729	265,315	172,664	169,311	178,248
Borrowings	342,073	397,802	233,000	347,155	268,905
Subordinated debt	-	-	-	-	-
Other liabilities	15,031	9,128	88,877	37,291	20,963
Equity	199,963	83,147	74,085	102,597	121,832
Core capital	199,963	83,147	74,085	102,597	117,852
<i>Paid-in capital</i>	<i>55,335</i>	<i>54,024</i>	<i>52,604</i>	<i>54,116</i>	<i>28,720</i>
<i>Donated equity (1)</i>	<i>-</i>	<i>8,946</i>	<i>4,936</i>	<i>31,936</i>	<i>31,936</i>
<i>Retained earnings</i>	<i>144,628</i>	<i>20,177</i>	<i>16,545</i>	<i>16,545</i>	<i>57,196</i>
Other equity accounts	-	-	-	-	3,980

Note: 1) Donated equity could not be fully reconciled and is likely to be higher, with retained earnings likely to be lower

Off Balance Sheet Accounts	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Gross loan portfolio	735,993	677,337	563,245	506,155	549,241
Assets	914,472	806,094	662,009	613,985	627,889
Deposits	353,001	282,522	218,990	172,483	178,518
Borrowings and subordinated debt	362,277	369,938	315,401	290,078	308,030
Equity	215,619	141,555	78,616	88,341	112,214

■ Financial statements – USD

Income Statement (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Interest and fee income on loan portfolio	257,453	252,186	201,734	186,857	43,061
Interest and fee income on investments	-	2,069	241	-	-
Interest and other financial expenses	26,060	39,536	24,150	15,853	3,050
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	(573)	(21,474)	-
Net financial income	231,392	214,719	177,252	149,530	40,012
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	3,449	3,207	682	17,910	272
Operating expenses	320,269	298,959	271,875	203,460	40,822
<i>Personnel expenses</i>	<i>209,654</i>	<i>186,006</i>	<i>166,998</i>	<i>108,163</i>	<i>21,208</i>
<i>Administrative and other expenses</i>	<i>102,490</i>	<i>99,593</i>	<i>86,414</i>	<i>90,422</i>	<i>18,615</i>
<i>Depreciation</i>	<i>8,126</i>	<i>13,360</i>	<i>18,463</i>	<i>4,876</i>	<i>998</i>
Non operating income (net)	-	-	-	-	-
Gross operating income	(85,428)	(81,033)	(93,941)	(36,020)	(538)
Net loan loss provision expense	1,181	5,717	(82)	4,809	-
Net operating income	(86,609)	(86,749)	(93,859)	(40,830)	(538)
Extraordinary income (net)	-	-	-	-	-
Net income before tax	(86,609)	(86,749)	(93,859)	(40,830)	(538)
Income Tax	-	-	-	-	-
Net income before donations	(86,609)	(86,749)	(93,859)	(40,830)	(538)
Donations	79,198	15,277	91,771	42,717	7,368
Net Income	(7,411)	(71,473)	(2,088)	1,888	6,829

Balance Sheet (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
ASSETS	482,083	433,825	326,565	379,712	282,417
Liquid assets	89,666	58,013	14,493	42,706	21,201
Net loan portfolio	362,951	343,424	290,158	319,921	238,135
<i>Gross loan portfolio</i>	<i>365,105</i>	<i>355,375</i>	<i>302,837</i>	<i>337,759</i>	<i>252,801</i>
<i>(Loan loss reserve)</i>	<i>2,154</i>	<i>11,951</i>	<i>12,678</i>	<i>17,838</i>	<i>14,666</i>
Interest receivable	-	-	-	-	-
Financial investments	-	-	-	-	1,187
Net fixed assets	20,576	18,907	8,002	6,187	5,973
Intangible assets	-	5,114	3,835	2,564	-
Other assets	8,891	8,367	10,077	8,334	15,920
LIABILITIES AND EQUITY	482,083	433,825	326,565	379,712	282,417
Liabilities	369,573	386,074	284,017	320,627	224,728
Demand deposits	-	-	-	1,722	3,071
Time deposits	-	-	-	-	-
Cash collateral	168,645	152,372	99,162	97,505	84,402
Borrowings	192,470	228,460	133,813	199,924	127,329
Subordinated debt	-	-	-	-	-
Other liabilities	8,457	5,242	51,043	21,476	9,926
Equity	112,511	47,752	42,547	59,085	57,688
Core capital	112,511	47,752	42,547	59,085	55,804
<i>Paid-in capital</i>	<i>31,134</i>	<i>31,026</i>	<i>30,211</i>	<i>31,165</i>	<i>13,599</i>
<i>Donated equity (1)</i>	<i>-</i>	<i>5,138</i>	<i>2,835</i>	<i>18,392</i>	<i>15,122</i>
<i>Retained earnings</i>	<i>81,376</i>	<i>11,588</i>	<i>9,502</i>	<i>9,528</i>	<i>27,083</i>
Other equity accounts	-	-	-	-	1,885

Note: 1) Donated equity could not be fully reconciled and is likely to be higher, with retained earnings likely to be lower







Off Balance Sheet Accounts	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Gross loan portfolio	414,113	388,998	323,475	291,491	260,070
Assets	514,536	462,944	380,195	353,590	297,311
Deposits	198,619	162,254	125,767	99,332	84,530
Borrowings and subordinated debt	203,838	212,457	181,136	167,054	145,855
Equity	121,320	81,296	45,150	50,875	53,134

■ Formulas

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

■ Assessment scale

Assessment	Assessment summary
Good 	Strong operational and financial performance resulting in a high likelihood of institutional sustainability. Good execution capacity is present within the institution to address existing weaknesses.
Satisfactory 	Satisfactory operational and financial performance resulting in a good likelihood of institutional sustainability. Adequate execution capacity is present within the institution to address existing weaknesses.
Average 	Sufficient operational and financial performance with remaining weaknesses in some areas of operations, which could affect institutional sustainability. Execution capacity is present within the institution to address existing weaknesses.
Need for improvement 	Moderate operational and financial performance with important weaknesses in several areas of operations, which undermines potential institutional sustainability. Basic execution capacity is present within the institution to address existing weaknesses.
Urgent need for improvement 	Poor operational and financial performance with important weaknesses in most areas of operations which highly limits institutional sustainability. Limited execution capacity is present within the institution to address existing weaknesses.
Immediate need for improvement 	Very poor operational and financial performance with important weaknesses in most areas of operations. Long term institutional sustainability is doubtful. Execution capacity present within the institution is insufficient to address existing weaknesses.