

## Wasasa MFI Share Company, Ethiopia

Wasasa MFI S.C. was established by the Oromo Self-Reliance Association (OSRA) and obtained its license from the National Bank of Ethiopia (NBE) in September 2000. It is registered as a Share Company owned by OSRA and OSRA BOD members and is supervised by the NBE. Wasasa is headquartered in Addis Ababa and operates in the Oromia Regional State throughout a network of 15 branches and one regional office offering five loan products and voluntary savings to clients mostly located in rural areas. As of Dec. 2007, Wasasa had a total outstanding loan portfolio of 3.0 M USD for 30,749 borrowers and 1.0 M USD of outstanding deposits for 31,321 voluntary savers.

### GIRAFE Rating

#### Rating

**C+**

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at [www.planetrating.com](http://www.planetrating.com)

#### Outlook

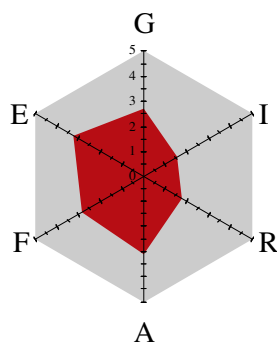
**Stable**

#### Date of the rating

**April 2008**

Valid until March 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Profitable since 2002 (after two years of operations), Wasasa enjoys a solid profitability with an ROA standing at 5.9% as of Dec. 2007, notably thanks to an active funding strategy allowing for a quick growth and related economies of scale.
- The operating expense ratio has been steadily decreasing to 9.8% compensating for the declining portfolio yield (20.9%), which was allowed by increased staff productivity despite the low average outstanding loan per client (98 USD).
- Wasasa's adequate loan portfolio management for its main loan product led to an overall good portfolio quality (PAR 30 at 1.9% as of Dec. 2007).
- The management team is adequately led by the GM but is still in the process of consolidation. The inefficient manual loan tracking MIS has hampered both the management team's development (due to lengthy supervision tasks based on manual checks) and the timely availability of detailed reports.
- The BOD provides for an adequate supervision but still lacks expertise in banking and/or microfinance.
- Risk management is inadequate as cash security is insufficient and there lacks an independent internal audit department, although some post-operations checks are performed.

#### Outlook

The stable outlook reflects our opinion that despite the expected continued growth and improvements in portfolio management, the strengthening of risk management and middle-management, as well as the implementation of an automated loan tracking MIS will require significant investments likely to only yield results in the medium term.

#### Performance indicators

| USD                     | Dec. 2003 | Dec. 2004 | Dec. 2005 | Dec. 2006 | Dec. 2007 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Assets                  | 383,355   | 925,472   | 1,559,290 | 2,849,617 | 4,066,507 |
| Growth                  | 66.5%     | 142.3%    | 66.8%     | 90.3%     | 46.1%     |
| Loan portfolio          | 257,960   | 621,485   | 860,401   | 2,024,844 | 3,009,200 |
| Growth                  | 23.0%     | 141.8%    | 37.1%     | 145.0%    | 52.1%     |
| Outstanding deposits    | 72,249    | 178,553   | 297,262   | 619,171   | 966,576   |
| Growth                  | 29.1%     | 148.1%    | 64.8%     | 116.8%    | 59.8%     |
| Active borrowers        | 3,728     | 8,949     | 12,151    | 22,691    | 30,749    |
| Active savers           | 3,908     | 9,116     | 12,381    | 23,177    | 31,321    |
| Staff                   | 29        | 56        | 88        | 118       | 127       |
| ROE                     | 9.9%      | 14.1%     | (0.3%)    | 5.2%      | 19.4%     |
| ROA                     | 6.9%      | 6.8%      | (0.1%)    | 1.9%      | 5.9%      |
| Liabilities / Equity    | 0.46x     | 1.51x     | 1.43x     | 2.04x     | 2.43x     |
| Portfolio Yield         | 31.5%     | 28.0%     | 23.3%     | 21.0%     | 20.9%     |
| Operating expense ratio | 17.0%     | 15.4%     | 14.6%     | 13.4%     | 9.8%      |
| PAR 31-365              | 2.3%      | 0.1%      | 7.6%      | 3.6%      | 1.9%      |
| PAR > 365               | 4.6%      | 3.1%      | 0.0%      | 0.0%      | 0.0%      |
| Write-off ratio         | 0.0%      | 0.0%      | 3.9%      | 3.8%      | 0.2%      |

## Microfinance sector

The Ethiopian microfinance sector is relatively young but has grown rapidly in recent years. Informal microfinance (including informal group-based credit associations) and NGO credit programs have existed for many years. In 1996 the Government introduced a legal framework intended to professionalize the industry and encourage sustainability through the Proclamation 40/1996. Although it had some limitations at inception, much progress has been made to improve it, such as the liberalization of interest rates on loans, the softening of loan caps (it was first capped at 5,000 ETB – 535 USD), the diversification of loan products, more complete reporting requirements and a penalty policy. In addition, the law specifically establishes a minimum capital requirement and endorses deposit mobilization, which is now a primary source of funds for the sector. In this context, MFIs have made impressive strides in their financial and operational performance with a focus on efficiency and sustainability. Nevertheless, the regulatory framework has still scope to improve especially in the quality of monitoring and supervision. Loan loss provisioning methods are not very conservative, accounting standards are not sufficiently monitored and inspections are infrequent.

As of December 2007, the 27 MFIs licensed by the NBE had a loan portfolio of 353 M USD, served approximately 1.8 million clients through more than 500 branches and sub-branches and accounted for 3% of the financial sector assets. However, the industry is heavily concentrated in three large MFIs affiliated to regional governments, which are among the largest ones in Africa. The remaining MFIs, with some exceptions, are linked to indigenous or international NGOs. Savings and Credit Cooperative Organizations (SACCOs) also play a large role in the provision of financial services. The approximately 700 SACCOs are usually urban employee-based cooperatives<sup>1</sup>.

| Dec. 2007<br>M USD | Loan<br>Portfolio | %           | Number of<br>borrowers | %           | Savings<br>Portfolio |
|--------------------|-------------------|-------------|------------------------|-------------|----------------------|
| DECSI              | 113.5             | 33.2%       | 425,172                | 23.9%       | 31.0                 |
| ACSI               | 108.8             | 31.9%       | 597,723                | 33.5%       | 60.5                 |
| OCSSCO             | 46.1              | 13.5%       | 263,971                | 14.8%       | 14.9                 |
| ADCSI              | 23.6              | 6.9%        | 79,421                 | 4.5%        | 5.8                  |
| OMO                | 14.5              | 4.2%        | 120,277                | 6.8%        | 3.8                  |
| Wisdom             | 6.8               | 2.0%        | 48,185                 | 2.7%        | 1.8                  |
| Eshet              | 3.7               | 1.1%        | 28,315                 | 1.6%        | 0.5                  |
| PEACE              | 3.4               | 1.0%        | 19,471                 | 1.1%        | 0.8                  |
| <b>Wasasa</b>      | <b>3.0</b>        | <b>0.9%</b> | <b>30,749</b>          | <b>1.7%</b> | <b>1.0</b>           |
| SFPI               | 2.9               | 0.9%        | 25,397                 | 1.4%        | 1.3                  |
| Buusaa Gonofa      | 2.3               | 0.7%        | 30,519                 | 1.7%        | 0.5                  |
| Meklit             | 1.8               | 0.5%        | 12,728                 | 0.7%        | 0.6                  |
| Gasha              | 1.5               | 0.5%        | 9,424                  | 0.5%        | 0.5                  |
| AVFS               | 1.0               | 0.3%        | 9,267                  | 0.5%        | 0.3                  |
| Harbu              | 0.6               | 0.2%        | 7,125                  | 0.4%        | 0.3                  |
| Metemamen          | 0.7               | 0.2%        | 10,841                 | 0.6%        | 0.1                  |
| 11 other MFIs      | 7.2               | 2.1%        | 63,106                 | 3.5%        | 2.2                  |
| <b>Total</b>       | <b>341.4</b>      | <b>100%</b> | <b>1,781,691</b>       | <b>100%</b> | <b>125.9</b>         |

Source: AEMFI, data as of December 2007

<sup>1</sup> Short Study on Microfinance, Ethiopia. February 2003, Jennefer Sebstad.

Bilateral and multilateral donor agencies as well as international NGOs are active in the Ethiopian microfinance sector, offering funding and technical assistance. Donors include the World Bank, the EU, IFAD, ADB, UNDP and SIDA; and international NGOs include CARE, Catholic Relief Services, Save the Children, Terrafina and World Vision. In addition, the sector has been strongly supported by the Rural Financial Intermediation Program (RUFIP), financed by IFAD, ADB, Development Bank of Ethiopia and the Government of Ethiopia. The program includes a package of roughly 95 M USD broken down in various components of capacity building, grants, equity and credit funds for a period of 7 years. MFIs are currently applying for the last round of concessional loans. The industry benefits from a very dynamic national network organization, the Association of Ethiopian Microfinance Institutions (AEMFI), which serves as a channel for policy dialogue and a driver of industry transparency.

In general, MFIs serve both urban and rural areas. Although the outreach of the government-supported MFIs is broader, NGO MFIs and new WOCCU-supported rural SACCOs have made efforts to increase rural outreach. The range of products offered by regulated MFIs is limited, but some MFIs (mostly government-supported) have begun to offer products other than credit and savings, including remittance, pension and leasing products. Government-supported MFIs also offer agricultural input supply loans using government credit lines, which have been criticized by international donor and NGO partners as they distorted the market.

Despite the rapid growth of the industry and the large scale of the dominant MFIs, there is still a huge gap between supply and demand. As such, there has been no sense of urgency to set up a credit bureau. Access to finance is still primarily through informal means. Current estimates indicate that microfinance providers meet around 15% of demand, and rural areas (84% of the population) remain particularly underserved. Other challenges include the ongoing negative reliance on and influence of the Government on the largest MFIs and the heavy concentration of the industry in these institutions. The remaining market is fragmented among smaller and weaker institutions. Additionally, the lack of the financial market liberalization<sup>2</sup> has limited the growth of private MFIs. The potential entrance of Ethiopia in the World Trade Organization (WTO) is expected to solve this problem. The regulation is expected to evolve as soon as a new proclamation could be enacted in July 2008. It could potentially include new requirements for MFIs, such as reaching financial self sufficiency within a limited number of years and paying income tax.

<sup>2</sup> Financial foreign investment into banks or MFIs is prohibited by proclamation No. 84/1994.

## Political & economic environment

For the fourth straight year Ethiopia achieved strong growth in 2007, up nearly 10 per cent. The agricultural sector, representing 47 per cent of GDP in 2006/07, continued to underpin the economic activity, a broader base of growth notwithstanding. And the economy should benefit from record harvests again in 2007/08, which will be good for the food industry and exports. In this context, the tighter monetary policy adopted in 2007 should help stem inflation that has been above 10 per cent since 2005, stoked by household consumption and the increasing cost of credit.

A narrow tax base continues to undermine public finances. With international aid only covering part of its financing needs, the government has turned increasingly to domestic borrowing. External accounts have also remained deep in deficit with growth in the value and volume of coffee and gold exports not sufficing to offset rising capital goods imports and the increasing cost of oil. International long-term loans and foreign direct investment have, however, been covering external financing needs. Ethiopia has thus been able to accumulate foreign exchange reserves albeit to an insufficient extent. Debt relief granted under the HIPC and MDRI programmes, respectively in 2004 and 2006, substantially reduced a debt burden that had become unsustainable in the medium-term.

Despite notable efforts to foster national reconciliation, the government's popularity has slackened since the sharp increase in basic foodstuff prices. It has moreover been contending with the insurrection of a jumble of armed groups, linked by ethnic and religious affinities, particularly in Ogaden, in the eastern part of the country. The still-unsettled border-demarkation issue with Eritrea could lead to renewed hostilities in a context of re-armament of the protagonists and of regional tensions. The Ethiopian army's involvement in Somalia exacerbates furthermore the risk of regionalizing the conflicts.

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

COFACE Business Climate Rating: D - The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in this highly risky environment.

| USD millions                                     | 2005   | 2006   | 2007(e) | 2008(f) |
|--------------------------------------------------|--------|--------|---------|---------|
| Economic growth (%)                              | 10.5   | 9.6    | 9.4     | 8.5     |
| Inflation (%)                                    | 6.8    | 12.3   | 14      | 12.6    |
| Public sector balance (%GDP)                     | -9.4   | -8.5   | -10.3   | -10     |
| Exports                                          | 847    | 1,000  | 1,099   | 1,246   |
| Imports                                          | 3,633  | 4,593  | 4,990   | 5,602   |
| Trade balance                                    | -2,786 | -3,593 | -3,891  | -4,356  |
| Current account balance (%GDP)                   | -13.4  | -16.9  | -13.1   | -11.5   |
| Foreign debt (%GDP)                              | 52.9   | 44.9   | 13.1    | 14.9    |
| Debt service (%G&S exports)                      | 5.8    | 5.1    | 1.4     | 1.2     |
| Foreign currency reserves (in months of imports) | 3.5    | 2.5    | 2.2     | 2.4     |

Source: COFACE's Country Risk Rating Guidebook 2007. (e) estimates (f) forecasts.

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

## Institutional presentation

### Legal form, supervision and audit

Wasasa MFI S.C. was established in April 2000 by its mother NGO the Oromo Self-Reliance Association (OSRA) to take over its microfinance activities running since 1996 and following a proclamation by the Ethiopian Government which banned NGOs from extending financial outreach services. It obtained its license from the National Bank of Ethiopia (NBE) in September 2000 and is registered as a Share Company under the terms of Proclamation 40/1996 with total paid up capital of 201,000. Wasasa is supervised by the NBE whose Micro-Finance Supervision Department visited the institution once in 2006. The institution has been audited by Aweke Gebre-Selassie & Company Certified Public Auditors for five years. The accounts were certified with unqualified opinions since inception.

### Ownership

Wasasa is owned by OSRA and seven other individuals, all of them related to OSRA. Wasasa has a subscribed and paid up capital of 201,000 ETB (2,010 shares). It is noted that all shareholders waived ownership rights to Wasasa as an entity and thus can only transfer shares (not sell) to other local parties or individuals of similar (social) goals. As such, shareholders do not receive any dividends.

| Shareholders                    | Share value (ETB) | %           |
|---------------------------------|-------------------|-------------|
| OSRA (NGO)                      | 40,000            | 19.9%       |
| Mr. Bekele Wolde Gariyo         | 27,000            | 13.4%       |
| Mr. Berhanu Disasa Doti         | 26,800            | 13.3%       |
| Mr. Berhanu Debele Abawayaya    | 26,800            | 13.3%       |
| Mr. Tadhi Liban Nura            | 26,800            | 13.3%       |
| Mr. Terefe Beyene Rikitu        | 26,800            | 13.3%       |
| Mr. Yeshitila Dibaba Choroka    | 13,400            | 6.7%        |
| Mr. Gadissa G/Giyorgis G/Medhin | 13,400            | 6.7%        |
| <b>Total</b>                    | <b>201,000</b>    | <b>100%</b> |

The 5-member Board has been chaired since inception by Mr. Bekele Wolde Gariyo. While two other members are drawn from OSRA, two new Board members with business backgrounds were elected in 2007 in an effort to develop a more diversified team. Mr. Bekele Wolde Gariyo is now a consultant. He was a lawyer at Ethiopian Airlines for 27 years and the former GM of OSRA from 1995. He has been participating in various local and international workshops related to microfinance.

## Donations

Wasasa has received over 7.9 M ETB (846 K USD) in grants for loan capital. Main donors include ICCO/Terrafina representing 36% of the donations (310 K USD), World Solidarity Movement (31% with 272 K USD), and the Ethio-Italian Development Cooperation through the Arsi Bale Rural Development Project (12% with 100 K USD). The grant received in 2005 from the European Development Fund (1.2 M ETB i.e. 127 K USD) might have to be repaid<sup>3</sup>. Other donors include RUFIP, Cordaid, the French Embassy, OSRA and the CIDR.

## Funding composition

In addition to donated equity and retained earnings, Wasasa has recourse to clients' savings (24% of the funding structure) as well as concessional and commercial borrowings (47%). Since 2003, Wasasa has received long-term loans from RUFIP (terms of 11 to 12 years, 6% annual interest rate, balance of 6.7 M ETB i.e. 717 K USD as of Dec. 2007) and CORDAID (terms of 4 to 5 years, 7.5% annual interest rate, balance of 4.9 M ETB i.e. 524 K USD as of Dec. 2007). For the latter, the institution repays the loan on a local bank account. Wasasa has benefited from a revolving fund from the Ethio-Italian Development Cooperation since 2003, currently standing at 3.9 M ETB (417 K USD). To a lesser extent, Wasasa has received loans from a local bank since 2002 (the Awash International Bank S.C.) for terms ranging from one to four years and annual interest rates of 7.5% and guaranteed at 55% by international funders such as Incofin.

## Management team

The management team includes the General Manager (GM), the Financial Manager (FM), the HR Manager (HRM) and the Internal Controller (IC) (complemented by the Regional Internal Controller (RIC) which position is currently vacant). They are assisted by the Marketing Officer (MO) and the Operations Officer (OO). The HRM and MO are still new in their position. There is also a Regional Manager in Assela

<sup>3</sup> Wasasa might have to repay the EDF grant because it was used for loan disbursement after the deadline stated in the contract. Due to this situation, it was classified as a liability for the rating (cf. balance sheet).

(RM). The GM, Amsalu Alemayehu, has led the institution since inception. His microfinance knowledge is drawn from on-the-job experience and complemented by local and international microfinance trainings (e.g. CGAP, AEMFI, RUFIP). He holds a Bachelor degree in Economics from the Addis Ababa University and is currently following an MBA in Business Management from the Open University of UK.

## Organization

Wasasa's head office centralizes most of the management team complemented by the RM in the Assela branch, while the branches are staffed with Loan Agents (LA), Loan Officers (LO), cashiers and (only for Assela, Taji and Dukem as the MIS is only partially in use) data processing officers. Before disbursement, the LA is responsible for conducting the marketing activities, assisting the group leaders in the evaluation of their members, providing the orientation training, and preparing the paperwork for loan approval. The LO reviews the clients' file and visits the LA's clients as necessary. Final approval and checks before disbursement are performed by the Regional Manager in Assela and by the FM, accountants, and IC at HQ. The cashier then disburses the loan to each client in the presence of the LO and LA. Most of the payments are collected in rural centers by the LA who submits the cash collected and related vouchers for verification to the cashier. The cash kept in the safe of the branch does not exceed 10,000 ETB (1,070 USD). Checks on cash vouchers and ledgers are performed by the LO. Supervised by the LO, the LA is responsible with the group leaders for client's follow-up. In case of late payments, action is taken first by the group and then by the LA and LO.

The Loan Performer software (LPF, developed by Crystal Clear, a Ugandan company) was chosen as MIS for loan tracking. It is nevertheless hardly implemented as Wasasa currently uses a manual MIS complemented by Excel for that purpose. Accounting is done through the Peachtree software.

## Products and services

Wasasa offers five loan products (for groups and individuals) as well as compulsory and voluntary savings.

- The Large Group Loan (LGL) is the main product as it represents 83.2% of the portfolio (Dec. 2007). It is granted to solidarity groups of 15 to 25 rural clients. Mainly used for agricultural activities, up to 70% of the principal can be repaid at the last installment. The maximum loan size is 5,000 ETB (535 USD). The EIR is estimated at 20.1%<sup>4</sup> or 24.8% when including the cost of savings and credit insurance.

<sup>4</sup> The theoretical yield could not be precisely calculated given the very diverse repayment schedules offered to the clients benefiting from the Large

- The Enterprise Group Loan (EGL) represents 2.3% of the portfolio and is granted to groups of five semi-urban clients with a maximum loan size of 5,000 ETB. The EIR is 31.7% or 41.6% when including the cost of savings and credit insurance.
- The Employee Group Loan (EPGL) represents 8.4% of the portfolio and is offered to groups of 5 to 25 employees. A letter from the employer that indicates the salary and terms of employment is required as collateral. The maximum size is 5,000 ETB and the EIR is of 26.6% or 35.6% when including the cost of savings and credit insurance.
- The Individual Loan (IL) represents 3.7% of the portfolio and is offered to individuals and legal entities. The loan size can be above 5,000 ETB if backed by collaterals but is limited by law to 1% of Wasasa’s Capital. The average loan size is 21,083 ETB (2,257 USD) and the EIR is of 22.8%.
- The Dairy (in-kind) Loan (DL), sponsored by Terrafina, is in a pilot phase (since 2008) and is granted to groups of 5 to 15 clients. The clients receive dairy cows bought by the institution and reimburse their debt over twelve months. The maximum loan value is 2,000 ETB (214 USD) and the EIR is 20.1%.

Loans (except RSCF) are mostly repaid on a monthly basis although weekly and bi-weekly schedule is possible for Large Group Loans and Enterprise Group Loans. There is no fee but group clients are required to pay a credit insurance (1% of the loan amount) used to repay the loan in case of a client’s death. The average effective interest rate (EIR) is estimated at 21%.

For LGL, EGL, and EPGL, clients are required to save 10% of the loan amount before disbursement as compulsory savings. Remunerated 4% yearly and used in case of default, the deposit can be withdrawn once the loan is reimbursed. In addition to compulsory savings, Wasasa offers voluntary savings remunerated 6% yearly. Deposits and withdrawal are allowed during the monthly reimbursement sessions. As for compulsory savings, interests are computed based on the minimum balance of the month.

The Rural Savings and Credit Facilities (RSCFs) pilot project developed in partnership with the CIDR allow remote rural communities to build their own savings and credit centers. The facility is build after 150 members are registered and savings are collected once the RSCF management committee is trained. Three different kinds of savings are available: time deposit, flexible time deposit and savings account. The RSCFs borrow from Wasasa at a 15%

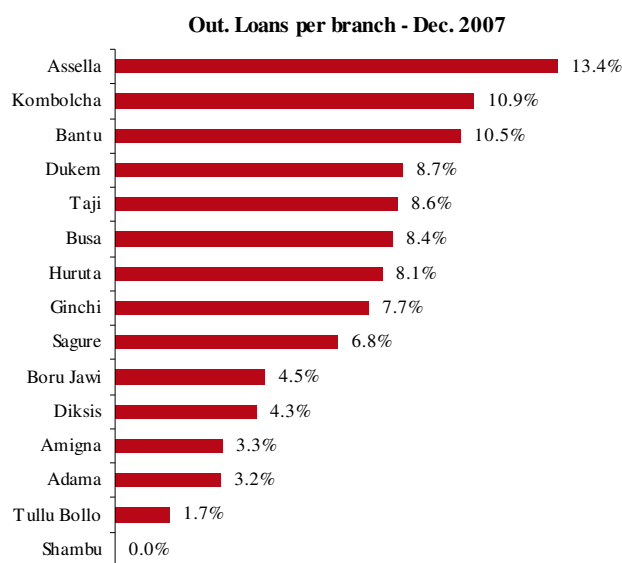
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Group Loan. For the LGL, the theoretical yield (estimated at 20.1%) varies depending on the proportion of principal repaid at the last installment (70% is the maximum).

annual interest rate (and make a mandatory deposit equal to 10% of the loan) and repay at the end of the term while members of the RSCF receive loans at a 24% annual interest rate. The maximum loan size granted to RSCF varies according to the level of mobilized savings.

## Market penetration

Wasasa is headquartered in Addis Ababa and operates in the Oromia regional state through a network of one regional office and 14 branches serving clients mainly located in the rural areas of 17 Woredas (Dec. 2007). Additionally, twelve Rural Credit and Saving Facilities (RCSF) are located around E. Wellega, more than 250 km West of Addis Ababa.



## Networks

Wasasa is a member of the Association of Ethiopian Microfinance Institutions (AEMFI) and reports annually operational and financial information to the MIX Market.

## ▪ Governance

Governance and Decision making is rated “c”

### Decision making

The common focus on social performance and sustainability of both Wasasa’s owners (OSRA) and main stakeholders have allowed for a consistent decision-making. The participative and consensus-based decision-making at the BOD level covers the main strategic issues. The BOD members, all linked to the mother NGO OSRA and aware of the social challenges of the Oromia Regional State, are committed and bring their experience from the non-governmental and private sector. The chairman in particular has a good knowledge of the institution as he has been involved since inception and can be easily contacted by the GM for strategic issues. However, the BOD still lacks the

necessary expertise in banking and microfinance to optimally supervise top-management. The increased frequency of BOD meetings (from quarterly to bi-monthly), their good formalization into minutes (with follow-up of previous decisions and deadlines), the complete quarterly operational and financial reports, have nevertheless facilitated the supervision from the BOD. On the other side, the lack of real Internal Audit department within the institution has somewhat hampered the BOD capacity to monitor all the risks faced by Wasasa.

## Planning

Wasasa has adequately articulated its planning process into a 2007-2011 Strategic Plan (SP), related Business Plan (BP) and financial projections, as well as a yearly Operational Plan (OP), allowing for realistic though not very aggressive forecasts. However, the institution's planning capacity could be improved at different levels:

- Based on a deep analysis of the current situation, the current Strategic Plan (SP) is designed as a guideline tool that highlights the principal financial and operational projects needed to reach the key strategic goals. There nevertheless lacks a clear prioritization of the main challenges to face in the medium term despite their clear identification in a detailed SWOT analysis.
- The base-case scenario of the 2007-2011 BP shows realistic forecasts (2007 targets in terms of loan portfolio and active borrowers were achieved by +1.6% and +3%) but remains very cautious for the four next years as Wasasa plans to reach as of Dec. 2011 a 92 M ETB (9,8 M USD) outstanding loan portfolio for 52,935 active borrowers. Representing annual average growth rates of 38% and 19% respectively (vs. 2003-2007 averages of 80% and 69%), it is adequately complemented by two alternative (pessimistic and optimistic) scenarios designed according to the expected availability of funds. These forecasts are backed by underlying realistic objectives based on a complete analysis of past performance.
- The institutional and operational projects needed to carry out the BP, though generally well-identified, could sometimes be more fully taken into account, particularly in terms of IT development (e.g. cost related to the recruitment of the MIS officer). Aware of that, Wasasa plans to develop an IT plan to better identify its IT needs.
- The OP rightly includes forecasts by months, branches, and products associated with the related investments. On the other side, annual planning documents ought to be more detailed in terms of funding and staff training.

The planning process is being institutionalized as a yearly collective exercise with quarterly revisions of financial and operational objectives. In 2007, most stakeholders were involved in the SP process where the decision-makers led

strategic objectives while the LOs and LAs participated in the formulation of the operational projections. Wasasa's budgeting process is still basic and despite being centralized at HQ, allows for the yearly tracking of the branches performance.

## Management team

Wasasa's Management Team (MT), adequately led by the GM, is still in a process of consolidation as it currently lacks of Operational and MIS Manager and given that some managers are still new in their position. This is the case of the HRM and MO while the GM still needs to complement the FM in the elaboration of the financial reports (BRS factsheets). The GM being the only person in charge with strategic planning and fund raising, there is a significant gap in terms of skills and leadership between him and the rest of the MT. This situation results in a significant key person-risk on the GM despite the participative decision-making process. The governing bodies are aware of this issue (it was identified during the planning exercise) but no succession plan to mitigate this risk has been designed yet.

The bi-weekly meetings of Wasasa's small-sized MT, formalized in clear minutes, have ensured a smooth communication within the institution. Wasasa enjoys a satisfactory execution capacity as evidenced by the timely initialization or finalization of 2007/08 important projects (e.g. negotiation of new funds, development of the loan and savings products, update of the manuals). However, the project of implementing the automated MIS still lags behind. Precisely, the time-consuming MIS and related internal control tasks have made it more difficult for the MT to focus on strategic issues. At the operations level, there is no active middle-management as LOs are limited in their supervision tasks<sup>5</sup> due to the important part of their time allocated to manual checks, the insufficient specific training and the lack of a formal career path (though some branch staff have been identified as potential HR and IC officers).

## Human resource management

Wasasa has an overall good administrative management of personnel issues and has taken a good step towards a more professional HR management with the HRM recruitment in November 2007 and the on-going update of its HR manual. The recruitment process includes written tests complemented by interviews of the pre-selected candidates while institutionalized annual performance evaluations allow for the monitoring of staff performance, the adjustment of the recruitment policies and justify the yearly salary increments.

However, staff training needs to catch up with Wasasa's growth. Apart from induction, it is still insufficient in spite

<sup>5</sup> In Wasasa, Loan Officers are responsible with supervising Loan Agents.

of clear efforts to provide in-house trainings and the good identification of the training needs. This is especially true for branch staff, as their training has historically mostly relied on external providers (e.g. Ethio-Italian Development Cooperation ABRDP, AEMFI, RUFIP). In this regard, Wasasa adequately plans to strengthen its HR department by recruiting an HR officer (to assist the current HRM) and by implementing its staff development plan designed with the help of a consultant.

Staff retention has been improving but is still suboptimal (the turnover ratio decreased to 15.5% in Dec.07 from 23.6% in Dec.05). In an effort to offer an attractive and motivating remuneration package to its staff, Wasasa 1) adopted in January 2007 a new bonus system<sup>6</sup>, and 2) updated in November 2007 its salary grid by adjusting it to the increasing inflation – however at a lower rate<sup>7</sup> – thus remaining a competitive employer within the industry.

## ■ Information

Information is rated “d”

Wasasa has not been successful in using the Loan Performer automated loan tracking software (LPF) acquired in 2004. The lack of an MIS specialist in addition to the turnover of overloaded data encoders (due to the LPF frequent updates), have hindered its proper implementation despite the support (mainly through emails) received from the Crystal Clear team in Kampala. Currently contenting with a manual information system meeting basic information needs, the institution lack a detailed IT plan. However, willing to cope with this situation, Wasasa has planned to recruit an MIS officer whose job description has not been prepared yet. Looking forward, decentralizing the MIS to the branches would require additional computer training of the operational staff.

The manual loan tracking MIS, though facing inefficiencies inherent to manual systems, provides sufficiently accurate and relevant information. As the process of reporting PAR data on a monthly basis has been time-consuming, all the branches have not been reporting data timely, which significantly slows down the flow, frequency and dissemination of the available information. The daily supervision of the branches by the head office is thus mostly done over the phone. Consolidated PAR reports (detailed by branches and number of days late) provide for a better overview but are compiled only on a quarterly basis. PAR data could be further refined (e.g. by products). Overall, the

<sup>6</sup> Branch staff receives a quarterly bonus calculated on the following criteria: number of clients, portfolio at risk, savings to portfolio and proportion of women borrowers.

<sup>7</sup> For 2007, inflation reached 17.5% according to the National Bank of Ethiopia and 14% according to the COFACE.

system is sufficiently well designed to ensure data reliability (cf. section “R”) and the staff is proficient enough in the use of the paperwork.

The Peachtree accounting system has proved to be satisfactory though still suboptimal as some reports cannot be printed and/or require additional work on Excel. Wasasa produces on quarterly basis complete reports (the BRS factsheet<sup>8</sup>) comprising basic operational and financial indicators and disseminated to all interested stakeholders. There still lacks monthly operational and financial reports necessary for a better follow-up of operations.

Data security is not satisfactory. Risks particularly arise as 1) back-ups are done only on a monthly basis while hardware (UPS) to prevent data loss in case of power cut are not always running (even in HQ), 2) there is only one paper copy of the clients’ files kept at the branch level (increasing the risk of data loss), and 3) passwords exist but ought to be regularly changed according to a clear policy. On the other side, Wasasa has outsourced computer maintenance allowing antivirus to be regularly updated.

## ■ Risk Management

Risk Management is rated “d”

### Procedures and internal controls

Current policies demonstrate a good understanding of major risks faced by microfinance institutions and, for most processes, standard procedures are defined and applied though some are currently being updated for the key departments (operations, finance, HR). Despite being very time-consuming, these procedures are adapted to mitigate the inherent risks of a manual information system as they include the necessary reconciliations and several layers of checks. There is generally a good compliance culture at the operational level thanks to frequent visits and checks of the MT. Incompatible tasks are rightly handled by distinct staff at the branch and HQ level and there is a clear limitation of powers (e.g. individual loans over 5,000 ETB are only approved at the HQ level). However, procedures ought to be more specific by clearly defining appropriate substitutes to the Internal Controller and Regional Internal Controller (RIC) in case of their unavailability, thus ensuring all checks are systematically formalized. As a matter of fact, the RIC position is currently vacant.

Cash security is not satisfactory. Despite clear procedures, double signatures by the cashier and LO are not systematic for the daily check of safes. This situation slows down the

<sup>8</sup> The Belgian Raiffeisen Foundation (BRS) MFI factsheet was developed in cooperation with Incofin and ADA.

identification of potential discrepancies and, more importantly, loosens up staff compliance culture. Moreover, only one key (kept by the cashier) is needed to open the safe. On the other side, the level of cash allowed in the safe is rightly limited to 10,000 ETB (1,070 USD) and cash transit risk is covered by an adequate provision. LAs are accompanied when carrying higher amounts, but formalizing this practice would enhance security.

The twelve RCSF are supervised by a rural coordinator and two field officers, allowing for a satisfactory monitoring of the main risks. Quarterly visits performed by the Marketing Officer and the CIDR provide an additional layer of control.

### Internal audit

There is presently no actual Internal Audit (IA) department within Wasasa and thus no effective coverage of all potential risks, particularly the ones arising for institutions using a manual information system and managing a savings portfolio. Some IA tasks are nevertheless handled by the IC and (in the absence of RIC) the Finance department (allowing for the detection of a fraud in Huruta) but are not complying with IA basics. Reports on post-operations controls rightly include recommendations but notably lack 1) targeting in terms of the checks' scope, 2) categorization and prioritization of findings and 3) follow-up of the previous recommendations, 4) confidential Audit. Besides, the current scope only covers the credit department and is under the GM authority. Although this situation is common for Ethiopian MFIs (but not systematic), IA ought to cover all departments and depend on the BOD.

External audits' field visits and the 2006 NBE inspection partially mitigate the lack of Internal Audit. Most of the recommendations included in the external auditors' management letters have been implemented. However, Wasasa has been audited by the same audit company for five years (2008 reportedly being the last), contrary to what is stated in the articles of association (auditors to be changed every two or three years).

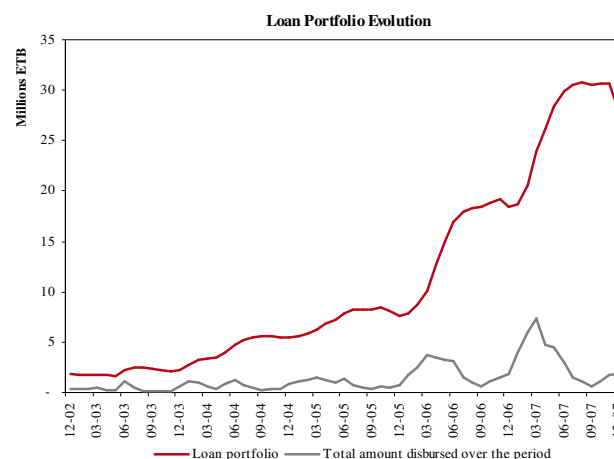
### ■ Activities

Activities: products and services **is rated "b"**

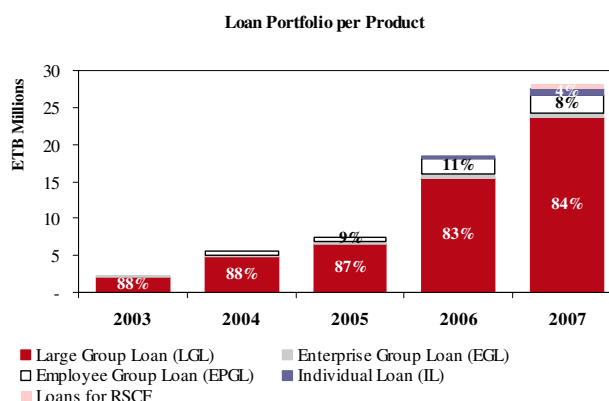
#### Loan portfolio evolution

Wasasa portfolio has quickly increased over the years (average yearly growth rate of 80% since 2003) with highest growth rates recorded in 2004 (+142%) and 2006 (+145%) due to the opening of new branches and depending on the availability of funds. As more than 70% of the portfolio is related to agriculture, disbursements peak during the planting season (from February to June), reach their lowest level in September when demand is less important and funds

scarcer, while the bulk of repayments<sup>9</sup> are collected during the harvest time from December to March.



Wasasa's portfolio composition has not significantly changed over the years as the Large Group Loan (LGL) granted in rural areas has historically accounted for more than 80% of it. Among the loans granted into urban areas, the share of the EGL decreased over the years (from 10% to 2.3%) while the EPGL and IL increased to 8.4% and 3.7% of the portfolio respectively. More recently, Wasasa has granted loans to RCSF (since 2006) and pilots its new Dairy (in-kind) Loan (since 2008).



### Financial services management

Wasasa has developed a well-designed credit methodology for its core lending methodology (group lending), leading to appropriate credit-decisions. The methodology has been refined in January 2007 to keep well-adapted policies. The group clients' repayment capacity analysis is generally adequate thanks to 1) the strong involvement of group members and leaders at the first level of the loan approval, 2) the systematic visits of the clients' business and neighborhood by the LA, 3) the required approval of the local authorities that reduces the likelihood of over-indebtedness, 4) the conservative enough disbursement policy based on a ceiling for each loan cycle, and 5) the final

<sup>9</sup> For agricultural activities, clients may repay up to 70% of the principal at their last installment.

checks performed at the HQ level (notably on the repayment schedule). On the other side, the repayment capacity of clients benefiting from urban loans (often involved in petty trade activities) should be enhanced. As for individual loans, credit decisions over 5,000 ETB are taken at the HQ level, thus ensuring their good control. They could nevertheless be improved with refined repayment capacity analysis.

Although delinquency management has improved, notably thanks to the introduction of an incentive system taking into account credit risk, it still needs to be closer monitored by the HQ supervision staff. Each LA, supervised by his LO, is to define his own action plan for loan recovery in agreement with the group leaders and in collaboration with the local authorities, thus fostering a good repayment culture. Although LAs and LOs generally demonstrate a satisfactory compliance culture, HQ formal follow-up remains insufficient as there lacks supervision staff (OM and internal controllers to be recruited). Refresher trainings on client supervision and credit risk would also be valuable to avoid staff complacency. Wasasa is aware of that and plans to provide such trainings to branch staff, though to a limited number of them, then in charge with sharing good practices.

Wasasa's savings service has had an impressive growth over the last years (the voluntary savings grew in average by 116% since 2003) and is properly managed:

- Savings are sufficiently secured as clients' deposits are kept at the bank and monitored by staff through the information system. This nevertheless results in their suboptimal availability as clients have access to the voluntary savings only during the reimbursement sessions (mostly monthly).
- Current mechanisms adequately prevent the risk that clients withdraw simultaneously their savings as 1) compulsory savings cannot be withdrawn before the loan is fully repaid, 2) each group defines the level of voluntary savings that members need to bring at the reimbursement sessions, 3) the operational staff incentive system takes into account the level of mobilized savings, thus ensuring their involvement, 4) voluntary savings are remunerated at an attractive 6% yearly interest rate<sup>10</sup>.

## Credit Risk

The portfolio quality has been improving to a good level as Wasasa's PAR 30 decreased to 1.9% as of Dec. 2007 (from 3.6% in Dec. 2006 and 7.6% in Dec. 2005) which is significantly better than the average of Ethiopian MFIs (5% as of Dec. 2006) and the 2006 African benchmarks (5%<sup>11</sup>). This good trend is explained by the improving portfolio management and the occurrence of unusual events during the

previous years. More precisely, the July to August 2006 flood in Taji and the 2005 political interference that occurred in Tullo Bolo have significantly affected the portfolio quality of the branches located in these towns (as of Dec. 2007, PAR 30 were respectively of 15.4% and 3.6%). PAR 30 is higher for the EGL product (8.7%) due to a repayment capacity analysis that ought to be adapted to the clients' urban activities. Wasasa does not reschedule loans.

Write-off policies have been implemented according to best practices since 2005 as all loans late over one year are written-off. The improved delinquency management has allowed Wasasa to successfully reduce its write-off ratio to 0.2% in Dec. 2007 (from 3.8% in Dec. 2006). However, the important level of loans late over 6 months, representing 93% of PAR 30 as of Dec. 2007, points toward a higher write-off ratio next year. Wasasa has done efforts to improve the recovery of written-off loans by assigning a specialized LO to this task (one LO recently moved from the Tullo Bolo to the Adama branch to use and share his experience).

Wasasa's portfolio is highly concentrated in agriculture and farming (at least 70%) as urban loan products still represent a minor part of the institution's portfolio (14.5%). The manual information system does not allow for a more precise monitoring of the clients' activities than the one allowed by the split of the loan portfolio by product.

## Credit Risk Coverage

Despite Wasasa's loan loss reserve adequately covers up to 86.9% of its PAR 30 in Dec. 2007, its provisioning policy (following the NBE rules) remains suboptimal as it has resulted in inappropriate loan loss reserves during previous years. As of Dec. 2006, the loan loss reserve covered PAR 91 at 88% and PAR 30 at 8.5% as the portfolio at risk was mostly made up of loans late between 31 and 60 days that were not specifically covered<sup>12</sup>. Similarly, the credit risk coverage was only 52% in Dec. 2005. Provisions have been made through the credit insurance to cover the risks associated with clients' death. Potential natural disasters remain uncovered.

Most of the portfolio is covered by solidarity guarantees and clients' savings (representing 32% of the portfolio as of Dec. 2007), allowing since 2007 for a reasonable recovery of late loans thanks to the adequate use of social pressure mechanisms. Assets collaterals are required for individual loans. Their use remains nevertheless hampered by the limited availability of the courts<sup>13</sup>.

<sup>10</sup> The NBE regularly defines the minimum yearly interest rates to be offered on savings by banks and MFIs. It is currently at 4%.

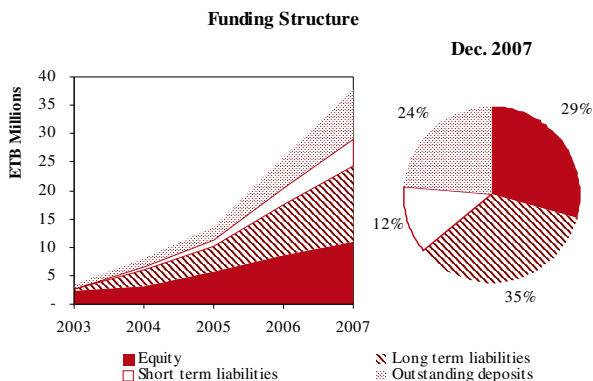
<sup>11</sup> African Medium peer group, MBB 2006

<sup>12</sup> The NBE requires MFIs to adopt the following provisioning policy: PAR 91-180 covered at 25%, PAR 181-365 at 50% and PAR 365 at 100%.

<sup>13</sup> In the Oromia Regional State, local courts are closed from June to September. The court process might last from 6 to 12 months.

## ■ Funding and liquidity

Funding and liquidity is rated “c”



### Capitalization and funding strategy

Wasasa has been able to finance a quick growth over the last years thanks to the adequate recourse to diverse sources of funding, diversified between donated equity (representing 71.6% of the capital), commercial and concessional loans as well as clients' savings. Wasasa's leverage is moderate at 2.43x, leaving the institution enough room to fund through additional debt: its capital adequacy of 38.2% in Dec. 2007 (decreasing from 64.9% in Dec. 2005) is above NBE minimum requirements (12%). A good communication on its social mission and profitability has allowed Wasasa to develop relationships with both donators (initially mostly with WSM and the Ethio-Italian Development Cooperation; in 2005 with ICCO and five others), and funders (such as RUFIP, Awash Bank, Cordaid and Incofin). In spite of the constraining Ethiopian legislation (MFIs cannot borrow from and pay in hard currency to international lenders), Wasasa was one of the first MFIs to access commercial funding thanks to relatively innovative partnerships with international funders such as Incofin and the Cordaid (e.g. through stand-by letters of credit or repayment to local bank accounts). Commercial loans remain nevertheless expensive (when considering both interest rates and fees) in spite of Wasasa's relative satisfactory negotiation skills.

The institution is expected to reasonably meet its funding needs over the next years although they ought to be updated with more frequency. Those identified in the 2007-2011 BP are not valid anymore as 2007 assets exceeded by 10% what was initially planned<sup>14</sup>. In spite of this, funding needs have been sufficiently well anticipated for 2008 as 1) Wasasa recently signed an agreement of 5 M ETB (535 K USD) with the Awash Bank covering 62% of the BP funding needs for 2008 (8 M ETB i.e. 856 K USD), 2) Wasasa is well-positioned to benefit from new loans from its funders (e.g. RUFIP, Cordaid) thanks to historical good relationships and the institution's good financial performance, and 3) Wasasa

has been relatively successful in mobilizing savings (representing 32% of the outstanding loan as of Dec. 2007). Another way contemplated by Wasasa is to increase its capital base by inviting new investors (from 2008 according to the BP). On a less positive note, Wasasa might have to repay the 1.2 M ETB (128 K USD) EDF grant received in 2005 (cf. Institutional Presentation - Donations). The impact is expected limited given that it represents only 4.3% of the gross loan portfolio and thanks to Wasasa's active funding strategy.

### Liquidity risk

Wasasa implements a basic liquidity management preventing significant liquidity risks as it has almost always kept a cash buffer above the minimum level set for Ethiopian deposit-taking MFIs (as of Dec. 2007, liquid assets represented 92% of deposits vs. 20% required by the NBE). However, the institution's liquidity management lacks short-term cash flow projections (the only cash flow projection available was done for the 5-year BP). Combined with the limited availability of funds, this has resulted in some liquidity shortages and in the temporary decrease of the Liquidity to Deposit ratio below the NBE requirement (this happened once during the 2007 third quarter). The monthly cash flow statements (not timely reconciled during the seeding season) are indeed not enough to ensure an optimal use and distribution of resources. The finance department capacity to provide for adequate reports (i.e. cash flow projections) has been stretched due to the time-consuming tasks inherent to the use of a manual MIS. The funding structure, comprised at 70% of equity, long-term liabilities and compulsory savings naturally reduces the risk of not being able to renew or replace maturing liabilities (the quick and current ratios were all above 100% as of Dec. 2007). Wasasa nevertheless ought to develop specific tools to better monitor its maturity structure, especially as voluntary savings have been increasing over the years.

### Market risk

Wasasa is practically not exposed to market risks. There is no foreign exchange risk as all assets and liabilities are in ETB. The interest rate risk remains limited as Wasasa has only fixed interest rate loans. However, it should be noted that the RUFIP and Awash Bank loan contracts include the possibility to revise the interest rate during the course of the loan.

<sup>14</sup> The initially planned 2007-2011 funding gap was of 31 M ETB.

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “b”

### Profitability analysis

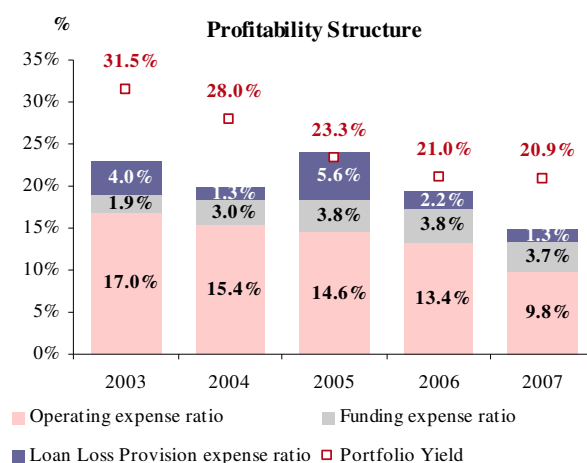
Wasasa quickly became profitable after starting operations (in Sept. 2000) as it has been since 2002, except for a dip in 2005 due to the mass default encountered in the Tulu-Bollo branch resulting in high loan loss provision expenses. Wasasa reached again a solid profitability in 2007 with ROA standing at 5.9% – from (0.1%) in 2005 and 6.9% in 2003 – which is better than the 2006 African Benchmark of (1.7%)<sup>15</sup>. Wasasa also performs better than the Ethiopian MFIs’ average in terms of AROA<sup>16</sup>. This generally positive trend is underpinned by Wasasa’s success in driving down operational costs which compensated for the declining portfolio yield and higher funding costs.

Historically one of the fastest growing medium-sized Ethiopian MFI, Wasasa enjoys a satisfactory competitive position. Its portfolio yield decreasing trend (from 31.5% in 2003 to 20.9% in 2007<sup>17</sup>) reflects the institution capacity to adapt its pricing to the rising competition although it remains much higher than bigger and/or subsidized MFIs such as OCSCCO (which portfolio yield was 15% in 2006). More pressure on interest rates is nevertheless not expected given the high level of inflation in the country. Operating mostly in rural areas where clients remain largely excluded from formal financial services, Wasasa often benefit from a first-mover advantage. Loan products are sufficiently attractive, thanks to loan characteristics that are generally similar to those of competitors (group loans up to 5,000 ETB granted up to 12 months) and that can be adapted to the clients’ activity.

In terms of operating costs, Wasasa has achieved a very good level of efficiency as reflected by the steady decline in the operating expense ratio to 9.8% as of 2007 from 17% in 2003. This is particularly remarkable given Wasasa’s outreach to rural areas and rather low average outstanding loan per client at 98 USD in Dec. 07 (a 37% growth from Dec. 2004, slower than the 63% increase of the General Consumer Price Index and remaining around 50% of GDP per capita). This performance is underpinned by the improving staff productivity (480 borrowers by LOs in Dec. 2007) facilitated by the predominance of the LGL (84% of the portfolio) and the delegation of a significant portion of the loan appraisal and follow-up tasks to the group leaders. Economies of scale resulting from the high growth of the portfolio (cf. Loan portfolio evolution) have also naturally

contributed to better efficiency. However, this low level of operating expense ratio is also due to the fact that Wasasa has not initiated yet expenses related to the implementation of an automated decentralized MIS, which might be necessary to cope with future growth. Besides, there is still very few middle-management staff (most branches are led by LOs in charge with supervising activities) which is somewhat reflected in the somewhat low proportion of staff expenses in the total operating expenses (48.4% for 2007 vs. 60% best practice).

On the other expenses side, the funding expense ratio has been gradually rising (to 3.7% in 2007 from 1.9% in 2003) due to Wasasa’s increased recourse to commercial funding. The loan loss provision expense ratio decreased to 1.3% in Dec. 2007 thanks to improved portfolio quality as the institution recovered from the 2005 mass default encountered in the Tulu-Bollo branch. As of Dec. 2007, Wasasa enjoys a moderate resource optimization (the outstanding loan portfolio representing 74.9% of unrestricted assets) due to the high level of cash kept on current accounts at that time (cf. liquidity risk).



Despite expected further economies of scale and a stabilizing portfolio yield, Wasasa’s profitability outlook is stable. Investments needed to strengthen risk management and improve the current MIS, the potential occurrence of adverse climatic conditions affecting the repayment capacity of clients, in addition to increasing funding expenses point towards a stable 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.*

<sup>15</sup> African Medium peer group, MBB 2006.

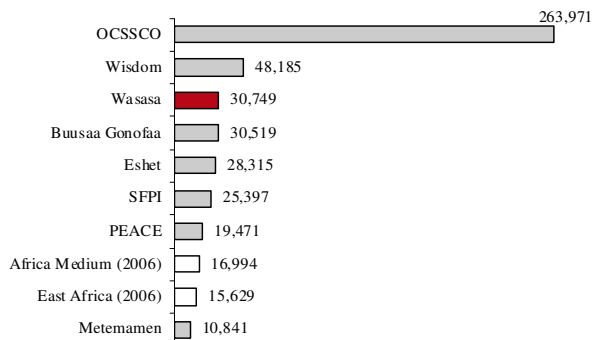
<sup>16</sup> In Dec. 2006, Wasasa adjusted ROA was (1.6%) while its medium-sized peers yielded an average of (3%) – AEMFI 2008.

<sup>17</sup> The theoretical yield is estimated at 21% (cf. Institutional Presentation).

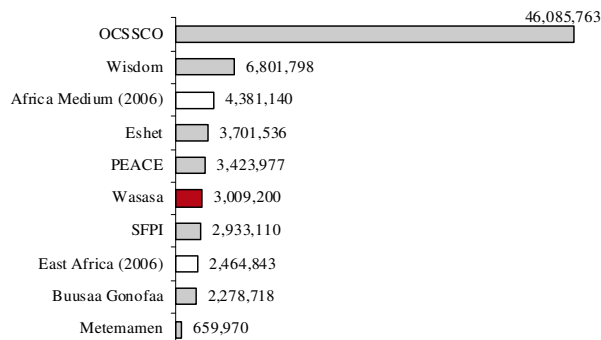
**Benchmarking**

Data in USD, unless otherwise stated

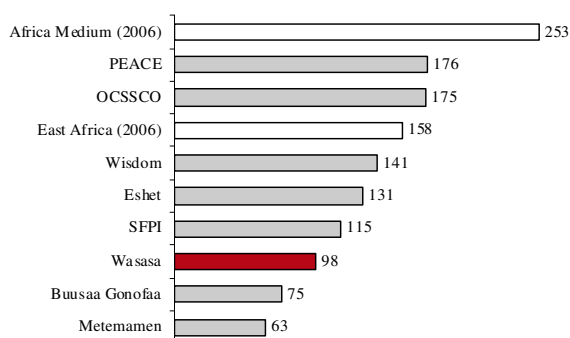
**Active borrowers (2007)**



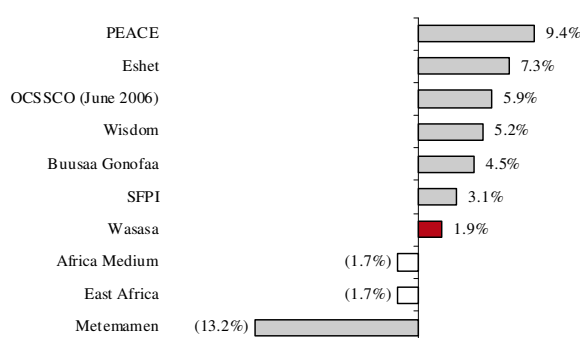
**Loan portfolio (2007)**



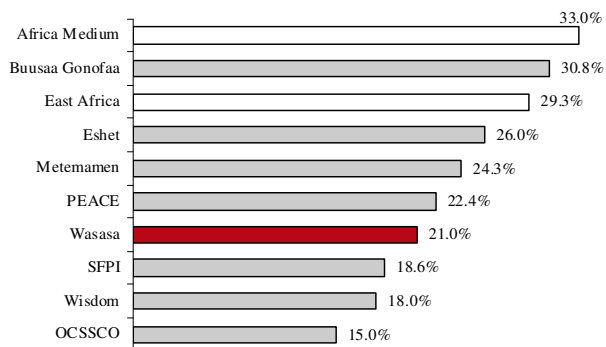
**Average outstanding loan per client (2007)**



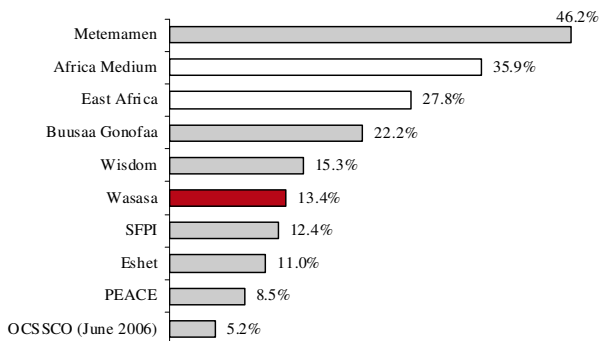
**ROA (2006)**



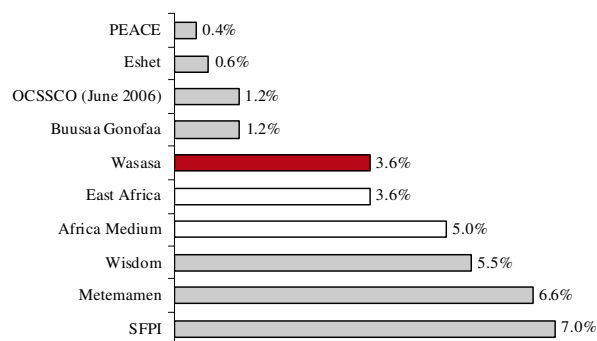
**Portfolio Yield (2006)**



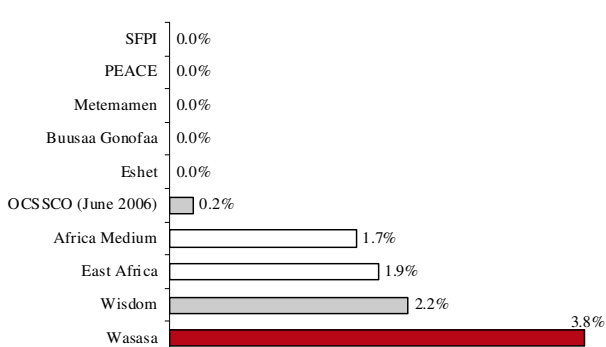
**Operating expense ratio (2006)**



**PAR 30 (2006)**



**Write-off ratio (2006)**



**Source:** 2007 data: Metemamen, Wasasa (Planet Rating), other MFIs (AEMFI). AEMFI's detailed 2007 data is not yet available.  
 2006 data: Buusaa Gonofaa, Harbu, Metemamen, PEACE, SFPI, Wasasa (Planet Rating), OCSSCO, Wisdom and Eshet (AEMFI & the Mix Market).  
 African benchmarks: MBB 2006 benchmarks, Medians.

## ■ Performance indicators

Data in USD, unless otherwise stated

|                                                      | Dec. 2003 | Dec. 2004 | Dec. 2005 | Dec. 2006  | Dec. 2007  |
|------------------------------------------------------|-----------|-----------|-----------|------------|------------|
| <b>Loan Portfolio</b>                                |           |           |           |            |            |
| <b>Loan portfolio evolution</b>                      |           |           |           |            |            |
| Loan portfolio                                       | 257,960   | 621,485   | 860,401   | 2,024,844  | 3,009,200  |
| Loan portfolio (ETB)                                 | 2,275,726 | 5,503,308 | 7,543,138 | 18,480,957 | 28,112,851 |
| Evolution                                            | 23.0%     | 141.8%    | 37.1%     | 145.0%     | 52.1%      |
| Average outstanding loan portfolio                   | 231,008   | 499,699   | 831,090   | 1,614,993  | 2,889,442  |
| Active borrowers                                     | 3,728     | 8,949     | 12,151    | 22,691     | 30,749     |
| Evolution                                            | 44.5%     | 140.0%    | 35.8%     | 86.7%      | 35.5%      |
| Average outstanding loan per client                  | 69        | 69        | 71        | 89         | 98         |
| % of GDP per capita                                  | 61.2%     | 53.4%     | 46.1%     | 52.9%      | 48.1%      |
| Average amount disbursed per loan                    | 102       | 91        | 103       | 119        | 135        |
| % of GDP per capita                                  | 90.2%     | 69.8%     | 66.9%     | 70.5%      | 66.2%      |
| <b>Portfolio quality</b>                             |           |           |           |            |            |
| Rescheduled loans                                    | 0.0%      | 0.0%      | 0.0%      | 0.0%       | 0.0%       |
| PAR 31-365                                           | 2.3%      | 0.1%      | 7.6%      | 3.6%       | 1.9%       |
| PAR > 365                                            | 4.6%      | 3.1%      | 0.0%      | 0.0%       | 0.0%       |
| Write-off ratio                                      | 0.0%      | 0.0%      | 3.9%      | 3.8%       | 0.2%       |
| <b>Credit risk coverage</b>                          |           |           |           |            |            |
| Risk coverage ratio (PAR 30)                         | 76.0%     | 98.5%     | 51.8%     | 8.5%       | 86.9%      |
| PAR 31 net of loan loss provision / Equity           | 1.6%      | 0.1%      | 4.9%      | 7.1%       | 0.6%       |
| <b>Savings</b>                                       |           |           |           |            |            |
| Outstanding deposits                                 | 72,249    | 178,553   | 297,262   | 619,171    | 966,576    |
| Outstanding deposits (ETB)                           | 637,380   | 1,581,104 | 2,606,099 | 5,651,235  | 9,030,043  |
| Evolution                                            | 29.1%     | 148.1%    | 64.8%     | 116.8%     | 59.8%      |
| Mandatory savings (%)                                | 55.6%     | 47.5%     | 44.3%     | 41.5%      | 38.8%      |
| Voluntary savings (%)                                | 44.4%     | 52.5%     | 55.7%     | 58.5%      | 61.2%      |
| Active savers                                        | 3,908     | 9,116     | 12,381    | 23,177     | 31,321     |
| Evolution                                            | 45.9%     | 133.3%    | 35.8%     | 87.2%      | 35.1%      |
| Average outstanding deposit per saver                | 18        | 20        | 24        | 27         | 31         |
| Mandatory                                            | 11        | 9         | 11        | 11         | 12         |
| Voluntary                                            | 8         | 10        | 13        | 16         | 19         |
| <b>Staff</b>                                         |           |           |           |            |            |
| Total number of staff                                | 29        | 56        | 88        | 118        | 127        |
| % Credit officers                                    | 48.3%     | 46.4%     | 48.9%     | 49.2%      | 50.4%      |
| Turnover                                             | 31.8%     | 4.7%      | 23.6%     | 19.4%      | 15.5%      |
| <b>Profitability analysis</b>                        |           |           |           |            |            |
| ROE                                                  | 9.9%      | 14.1%     | (0.3%)    | 5.2%       | 19.4%      |
| Liabilities / Equity                                 | 0.46x     | 1.51x     | 1.4x      | 2.0x       | 2.4x       |
| Capital adequacy ratio                               | 95.1%     | 56.5%     | 64.9%     | 42.5%      | 38.2%      |
| ROA                                                  | 6.9%      | 6.8%      | (0.1%)    | 1.9%       | 5.9%       |
| <b>Profitability structure</b>                       |           |           |           |            |            |
| Portfolio Yield                                      | 31.5%     | 28.0%     | 23.3%     | 21.0%      | 20.9%      |
| Operating expense ratio                              | 17.0%     | 15.4%     | 14.6%     | 13.4%      | 9.8%       |
| Cost per borrower                                    | 11        | 9         | 10        | 10         | 9          |
| Staff productivity                                   | 129       | 160       | 138       | 192        | 242        |
| Loan officer productivity                            | 266       | 344       | 283       | 391        | 480        |
| Average outstanding loan per client (USD)            | 69        | 69        | 71        | 89         | 98         |
| Funding expense ratio                                | 1.9%      | 3.0%      | 3.8%      | 3.8%       | 3.7%       |
| Cost of savings                                      | 5.0%      | 5.2%      | 3.6%      | 3.7%       | 3.9%       |
| Cost of liabilities                                  | 5.1%      | 4.4%      | 4.8%      | 5.1%       | 5.3%       |
| Loan Loss Provision expense ratio                    | 4.0%      | 1.3%      | 5.6%      | 2.2%       | 1.3%       |
| PAR 31-365                                           | 2.3%      | 0.1%      | 7.6%      | 3.6%       | 1.9%       |
| Write-off ratio                                      | 0.0%      | 0.0%      | 3.9%      | 3.8%       | 0.2%       |
| <b>Resource optimization</b>                         |           |           |           |            |            |
| Outstanding Loan Portfolio / Assets                  | 63.8%     | 65.0%     | 53.0%     | 70.8%      | 72.8%      |
| Revenue from investment as a % of financial revenues | 0.6%      | 0.5%      | 0.8%      | 0.4%       | 0.1%       |
| <b>Liquidity</b>                                     |           |           |           |            |            |
| Cash to demand deposits                              | 183.0%    | 192.9%    | 234.1%    | 166.8%     | 150.2%     |
| Liquidity / Total assets (LAR)                       | 15.3%     | 19.5%     | 24.9%     | 21.2%      | 21.8%      |
| Exchange rate 1 USD= xx ETB                          | 8.8       | 8.9       | 8.8       | 9.1        | 9.3        |

**GIRAFE Rating – Wasasa, Ethiopia – April, 2008**

| Wasasa<br>Income Statement                                       | ETB            |                  |                  |                  |                  | USD           |                |                |                |                | Evolution       |                   |               |
|------------------------------------------------------------------|----------------|------------------|------------------|------------------|------------------|---------------|----------------|----------------|----------------|----------------|-----------------|-------------------|---------------|
|                                                                  | Dec. 2003      | Dec. 2004        | Dec. 2005        | Dec. 2006        | Dec. 2007        | Dec. 2003     | Dec. 2004      | Dec. 2005      | Dec. 2006      | Dec. 2007      | 2005/2004       | 2006/2005         | 2007/2006     |
| <b>Financial Revenue (a)</b>                                     | <b>652,843</b> | <b>1,265,445</b> | <b>1,731,461</b> | <b>3,225,976</b> | <b>5,866,657</b> | <b>74,002</b> | <b>142,906</b> | <b>197,498</b> | <b>353,450</b> | <b>627,967</b> | <b>36.8%</b>    | <b>86.3%</b>      | <b>81.9%</b>  |
| Financial Revenue from Loan Portfolio                            | 648,579        | 1,257,766        | 1,714,237        | 3,139,172        | 5,669,024        | 73,518        | 142,039        | 195,533        | 343,940        | 606,812        | 36.3%           | 83.1%             | 80.6%         |
| Interest on Loan Portfolio                                       | 642,528        | 1,238,585        | 1,696,231        | 3,096,786        | 5,635,242        | 72,832        | 139,872        | 193,479        | 339,296        | 603,196        | 36.9%           | 82.6%             | 82.0%         |
| Fees and Commissions on Loan Portfolio                           | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| Penalty Revenue on Loan Portfolio                                | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| Financial Revenue from Investments                               | 3,999          | 6,506            | 13,310           | 12,191           | 7,387            | 453           | 735            | 1,518          | 1,336          | 791            | 104.6%          | (8.4%)            | (39.4%)       |
| Other Operating Revenue 1                                        | 6,316          | 20,355           | 21,920           | 116,999          | 224,028          | 716           | 2,299          | 2,500          | 12,819         | 23,980         | 7.7%            | 433.8%            | 91.5%         |
| <b>Financial Expense (b)</b>                                     | <b>38,901</b>  | <b>133,260</b>   | <b>275,954</b>   | <b>566,498</b>   | <b>987,645</b>   | <b>4,410</b>  | <b>15,049</b>  | <b>31,476</b>  | <b>62,068</b>  | <b>105,718</b> | <b>107.1%</b>   | <b>105.3%</b>     | <b>74.3%</b>  |
| Interest paid on borrowings                                      | 12,034         | 80,837           | 202,288          | 415,433          | 702,649          | 1,364         | 9,129          | 23,074         | 45,516         | 75,212         | 150.2%          | 105.4%            | 69.1%         |
| Interest paid on deposits                                        | 26,867         | 52,422           | 73,666           | 151,065          | 284,996          | 3,045         | 5,920          | 8,403          | 16,551         | 30,506         | 40.5%           | 105.1%            | 88.7%         |
| Net Inflation Adjustment Expense                                 | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| Other Financial Expenses                                         | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| <b>Financial income [c=a-b]</b>                                  | <b>613,942</b> | <b>1,132,186</b> | <b>1,455,507</b> | <b>2,659,478</b> | <b>4,879,012</b> | <b>69,592</b> | <b>127,857</b> | <b>166,021</b> | <b>291,383</b> | <b>522,250</b> | <b>28.6%</b>    | <b>82.7%</b>      | <b>83.5%</b>  |
| <b>Net Loan Loss provision expense (d)</b>                       | <b>81,790</b>  | <b>55,419</b>    | <b>406,127</b>   | <b>318,997</b>   | <b>341,003</b>   | <b>9,271</b>  | <b>6,258</b>   | <b>46,325</b>  | <b>34,950</b>  | <b>36,501</b>  | <b>6</b>        | <b>(21.5%)</b>    | <b>6.9%</b>   |
| Loan loss provision expense and write-off                        | 81,790         | 55,419           | 406,127          | 318,997          | 470,354          | 9,271         | 6,258          | 46,325         | 34,950         | 50,347         | 632.8%          | (21.5%)           | 47.4%         |
| Recovery from Loans written off                                  | -              | -                | -                | -                | 129,351          | -             | -              | -              | -              | 13,846         | -               | -                 | -             |
| <b>Operating expense (e)</b>                                     | <b>345,966</b> | <b>682,570</b>   | <b>1,063,008</b> | <b>1,968,223</b> | <b>2,637,421</b> | <b>39,216</b> | <b>77,082</b>  | <b>121,251</b> | <b>215,646</b> | <b>282,310</b> | <b>1</b>        | <b>85.2%</b>      | <b>34.0%</b>  |
| Personnel Expense (includes fringe)                              | 190,097        | 375,414          | 564,520          | 966,169          | 1,277,632        | 21,548        | 42,395         | 64,391         | 105,857        | 136,758        | 50.4%           | 71.1%             | 32.2%         |
| Administrative Expense (non-staff operating expenses)            | 155,869        | 307,156          | 498,488          | 1,002,054        | 1,359,788        | 17,668        | 34,687         | 56,860         | 109,789        | 145,552        | 62.3%           | 101.0%            | 35.7%         |
| Depreciation and amortization                                    | 11,690         | 51,025           | 98,435           | 200,445          | 245,316          | 1,325         | 5,762          | 11,228         | 21,961         | 26,259         | 92.9%           | 103.6%            | 22.4%         |
| Consulting fees                                                  | 22,585         | 7,730            | 21,908           | 90,992           | 65,008           | 2,560         | 873            | 2,499          | 9,969          | 6,958          | 183.4%          | 315.3%            | (28.6%)       |
| Other employee benefits                                          | 31,363         | 78,531           | 108,813          | 178,923          | 226,477          | 3,555         | 8,868          | 12,412         | 19,603         | 24,242         | 38.6%           | 64.4%             | 26.6%         |
| Transports                                                       | 29,167         | 44,835           | 61,661           | 151,844          | 177,810          | 3,306         | 5,063          | 7,033          | 16,637         | 19,033         | 37.5%           | 146.3%            | 17.1%         |
| Office rent                                                      | 26,061         | 43,071           | 68,398           | 92,470           | 114,897          | 2,954         | 4,864          | 7,802          | 10,131         | 12,299         | 58.8%           | 35.2%             | 24.3%         |
| Stationery and printing                                          | 12,590         | 28,592           | 39,277           | 65,387           | 67,529           | 1,427         | 3,229          | 4,480          | 7,164          | 7,228          | 37.4%           | 66.5%             | 3.3%          |
| Provisions for cash loss/theft                                   | -              | -                | -                | -                | 230,000          | -             | -              | -              | -              | 24,619         | -               | -                 | -             |
| Training                                                         | 1,150          | 3,382            | 9,515            | 36,965           | 68,419           | 130           | 382            | 1,085          | 4,050          | 7,324          | 181.4%          | 288.5%            | 85.1%         |
| Insurance                                                        | 4,336          | 15,056           | 25,782           | 37,103           | 32,329           | 491           | 1,700          | 2,941          | 4,065          | 3,460          | 71.2%           | 43.9%             | (12.9%)       |
| Others                                                           | 16,926         | 34,933           | 64,699           | 147,926          | 132,004          | 1,919         | 3,945          | 7,380          | 16,207         | 14,130         | 85.2%           | 128.6%            | (10.8%)       |
| <b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b> | <b>186,186</b> | <b>394,196</b>   | <b>(13,628)</b>  | <b>372,258</b>   | <b>1,900,588</b> | <b>21,105</b> | <b>44,516</b>  | <b>(1,554)</b> | <b>40,786</b>  | <b>203,439</b> | <b>(103.5%)</b> | <b>(2,831.5%)</b> | <b>410.6%</b> |
| Income Taxes (g)                                                 | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| <b>Net Operating Income Before Donations [h=f-g]</b>             | <b>186,186</b> | <b>394,196</b>   | <b>(13,628)</b>  | <b>372,258</b>   | <b>1,900,588</b> | <b>21,105</b> | <b>44,516</b>  | <b>(1,554)</b> | <b>40,786</b>  | <b>203,439</b> | <b>(103.5%)</b> | <b>(2,831.5%)</b> | <b>410.6%</b> |
| Non Operating Revenue (i)                                        | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| Non Operating Expense (including related taxes) (j)              | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| <b>Net Income Before Donations [k=h+i-j]</b>                     | <b>186,186</b> | <b>394,196</b>   | <b>(13,628)</b>  | <b>372,258</b>   | <b>1,900,588</b> | <b>21,105</b> | <b>44,516</b>  | <b>(1,554)</b> | <b>40,786</b>  | <b>203,439</b> | <b>(103.5%)</b> | <b>(2,831.5%)</b> | <b>410.6%</b> |
| Donations (l)                                                    | -              | -                | -                | -                | -                | -             | -              | -              | -              | -              | -               | -                 | -             |
| <b>Net Income (after Taxes and Donations) [m=k+l]</b>            | <b>186,186</b> | <b>394,196</b>   | <b>(13,628)</b>  | <b>372,258</b>   | <b>1,900,588</b> | <b>21,105</b> | <b>44,516</b>  | <b>(1,554)</b> | <b>40,786</b>  | <b>203,439</b> | <b>(103.5%)</b> | <b>(2,831.5%)</b> | <b>410.6%</b> |

Note: 1. other incomes include revenues from sales of pass books and from credit insurance.

| Wasasa<br>Balance sheet                          | ETB   |                  |                  |                   |                   | USD               |                |                |                  |                  | Evolution        |               |               |                |
|--------------------------------------------------|-------|------------------|------------------|-------------------|-------------------|-------------------|----------------|----------------|------------------|------------------|------------------|---------------|---------------|----------------|
|                                                  | Notes | Dec.2003         | Dec.2004         | Dec.2005          | Dec.2006          | Dec.2007          | Dec.2003       | Dec.2004       | Dec.2005         | Dec.2006         | Dec.2007         | 2005/2004     | 2006/2005     | 2007/2006      |
| <b>ASSETS</b>                                    |       | <b>3,381,956</b> | <b>8,195,149</b> | <b>13,670,294</b> | <b>26,008,738</b> | <b>37,990,530</b> | <b>383,355</b> | <b>925,472</b> | <b>1,559,290</b> | <b>2,849,617</b> | <b>4,066,507</b> | <b>66.8%</b>  | <b>90.3%</b>  | <b>46.1%</b>   |
| <b>Short Term Assets</b>                         |       | <b>3,185,487</b> | <b>7,922,017</b> | <b>12,500,033</b> | <b>24,564,545</b> | <b>36,720,395</b> | <b>361,084</b> | <b>894,628</b> | <b>1,425,805</b> | <b>2,691,386</b> | <b>3,930,552</b> | <b>57.8%</b>  | <b>96.5%</b>  | <b>49.5%</b>   |
| Cash and Due from Banks                          |       | 518,322          | 1,600,712        | 3,397,612         | 5,517,847         | 8,283,444         | 58,753         | 180,767        | 387,546          | 604,556          | 886,660          | 112.3%        | 62.4%         | 50.1%          |
| Short Term Investments                           |       | 427,948          | 810,226          | 1,569,775         | 206,305           | 213,240           | 48,509         | 91,498         | 179,055          | 22,604           | 22,825           | 93.7%         | (86.9%)       | 3.4%           |
| Short Term Net Loan Portfolio                    |       | 2,156,943        | 5,329,105        | 7,247,006         | 18,424,191        | 27,641,857        | 244,496        | 601,812        | 826,623          | 2,018,625        | 2,958,785        | 36.0%         | 154.2%        | 50.0%          |
| Short Term Gross Loan Portfolio                  |       | 2,275,726        | 5,503,308        | 7,543,138         | 18,480,957        | 28,112,851        | 257,960        | 621,485        | 860,401          | 2,024,844        | 3,009,200        | 37.1%         | 145.0%        | 52.1%          |
| (Loan Loss Reserve)                              |       | 118,784          | 174,203          | 296,132           | 56,766            | 470,993           | 13,464         | 19,673         | 33,778           | 6,219            | 50,415           | 70.0%         | (80.8%)       | 729.7%         |
| Interest Receivable                              |       | 58,473           | 154,560          | 227,173           | 332,026           | 310,837           | 6,628          | 17,454         | 25,912           | 36,378           | 33,272           | 47.0%         | 46.2%         | (6.4%)         |
| On loan portfolio                                |       | 58,473           | 154,560          | 227,173           | 332,026           | 310,837           | 6,628          | 17,454         | 25,912           | 36,378           | 33,272           | 47.0%         | 46.2%         | (6.4%)         |
| On investments                                   |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Accounts receivable and other assets             |       | 23,801           | 27,415           | 58,467            | 84,175            | 271,016           | 2,698          | 3,096          | 6,669            | 9,223            | 29,010           | 113.3%        | 44.0%         | 222.0%         |
| <b>Long term assets</b>                          |       | <b>196,469</b>   | <b>273,132</b>   | <b>1,170,261</b>  | <b>1,444,193</b>  | <b>1,270,135</b>  | <b>22,270</b>  | <b>30,845</b>  | <b>133,485</b>   | <b>158,231</b>   | <b>135,955</b>   | <b>328.5%</b> | <b>23.4%</b>  | <b>(12.1%)</b> |
| Long Term Net Investments                        |       | 2,000            | 2,000            | 2,000             | 2,000             | 33,500            | 227            | 226            | 228              | 219              | 3,586            | 0.0%          | 0.0%          | 1,575.0%       |
| Long Term Gross Loan Portfolio                   |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Net Fixed Assets                                 |       | 194,469          | 271,132          | 1,168,261         | 1,442,193         | 1,236,635         | 22,044         | 30,619         | 133,257          | 158,012          | 132,369          | 330.9%        | 23.4%         | (14.3%)        |
| Other Long Term Assets                           |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| <b>LIABILITIES AND EQUITY</b>                    |       | <b>3,381,956</b> | <b>8,195,149</b> | <b>13,670,294</b> | <b>26,008,738</b> | <b>37,990,530</b> | <b>383,355</b> | <b>925,472</b> | <b>1,559,290</b> | <b>2,849,617</b> | <b>4,066,507</b> | <b>66.8%</b>  | <b>90.3%</b>  | <b>46.1%</b>   |
| <b>Liabilities</b>                               |       | <b>1,066,050</b> | <b>4,927,241</b> | <b>8,040,838</b>  | <b>17,456,192</b> | <b>26,915,206</b> | <b>120,840</b> | <b>556,430</b> | <b>917,171</b>   | <b>1,912,567</b> | <b>2,881,004</b> | <b>63.2%</b>  | <b>117.1%</b> | <b>54.2%</b>   |
| Short term liabilities                           |       | 659,750          | 2,211,241        | 3,357,745         | 8,375,674         | 13,644,777        | 74,785         | 249,714        | 382,998          | 917,671          | 1,460,537        | 51.8%         | 149.4%        | 62.9%          |
| Demand Deposits                                  |       | 283,246          | 829,605          | 1,451,413         | 3,308,452         | 5,515,212         | 32,107         | 93,687         | 165,554          | 362,487          | 590,348          | 75.0%         | 127.9%        | 66.7%          |
| Compulsory Deposits                              |       | 354,134          | 751,500          | 1,054,548         | 2,326,208         | 3,505,447         | 40,142         | 84,866         | 120,286          | 254,868          | 375,223          | 40.3%         | 120.6%        | 50.7%          |
| Short Term Time Deposits                         |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Short Term Borrowings                            |       | -                | 575,000          | 501,131           | 2,128,471         | 3,464,118         | -              | 64,934         | 57,161           | 233,203          | 370,799          | (12.8%)       | 324.7%        | 62.8%          |
| Interest payable                                 |       | 10,669           | 44,498           | 146,639           | 279,131           | 686,910           | 1,209          | 5,025          | 16,726           | 30,583           | 73,527           | 229.5%        | 90.4%         | 146.1%         |
| Accounts Payable and Other                       | 1     | 11,700           | 10,639           | 204,014           | 333,412           | 473,090           | 1,326          | 1,201          | 23,271           | 36,530           | 50,640           | 1,817.5%      | 63.4%         | 41.9%          |
| Short Term Liabilities                           |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Long term liabilities                            |       | 406,300          | 2,716,000        | 4,683,093         | 9,080,518         | 13,270,429        | 46,055         | 306,716        | 534,173          | 994,896          | 1,420,467        | 72.4%         | 93.9%         | 46.1%          |
| Long Term Time Deposits                          |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Long Term Borrowings                             | 2     | 406,300          | 2,716,000        | 4,683,093         | 9,080,518         | 12,088,371        | 46,055         | 306,716        | 534,173          | 994,896          | 1,293,939        | 72.4%         | 93.9%         | 33.1%          |
| Other Long Term Liabilities                      | 3     | -                | -                | -                 | -                 | 1,182,058         | -              | -              | -                | -                | 126,528          | -             | -             | -              |
| <b>Equity</b>                                    |       | <b>2,315,906</b> | <b>3,267,908</b> | <b>5,629,456</b>  | <b>8,552,545</b>  | <b>11,075,323</b> | <b>262,515</b> | <b>369,042</b> | <b>642,119</b>   | <b>937,050</b>   | <b>1,185,503</b> | <b>72.3%</b>  | <b>51.9%</b>  | <b>29.5%</b>   |
| <b>Tier 1 Capital</b>                            |       | <b>2,315,906</b> | <b>3,267,908</b> | <b>5,629,456</b>  | <b>8,552,545</b>  | <b>11,075,323</b> | <b>262,515</b> | <b>369,042</b> | <b>642,119</b>   | <b>937,050</b>   | <b>1,185,503</b> | <b>72.3%</b>  | <b>51.9%</b>  | <b>29.5%</b>   |
| Paid-In Capital                                  |       | 201,000          | 201,000          | 201,000           | 201,000           | 201,000           | 22,784         | 22,699         | 22,927           | 22,022           | 21,515           | 0.0%          | 0.0%          | 0.0%           |
| Donated equity                                   |       | 1,820,438        | 2,378,244        | 4,753,420         | 7,304,251         | 7,926,440         | 206,352        | 268,573        | 542,195          | 800,282          | 848,446          | 99.9%         | 53.7%         | 8.5%           |
| Retained earnings without donations and reserves |       | 294,468          | 688,664          | 675,036           | 1,047,294         | 2,947,883         | 33,379         | 77,770         | 76,997           | 114,746          | 315,541          | (2.0%)        | 55.1%         | 181.5%         |
| <b>Tier 2 Capital</b>                            |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Subordinated debt                                |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |
| Other equity accounts                            |       | -                | -                | -                 | -                 | -                 | -              | -              | -                | -                | -                | -             | -             | -              |

**Notes:**

1. Accounts payable include amounts transferred by the CIDR for RSCF but not yet disbursed by Wasasa (56 K ETB as of Dec. 2007, 17 K ETB as of Dec. 2006).
2. Besides LT borrowings, this amount includes the 3.9 M ETB revolving fund from the Ethio-Italian Development Cooperation.
3. In 2007, Planet Rating transferred the 1.2 M ETB EDF grant to other LT liabilities given that it might have to be repaid (cf. Institutional Presentation – Donations).

## ■ Formulas

|                                    |                                                                                                     |
|------------------------------------|-----------------------------------------------------------------------------------------------------|
| Return on assets (ROA):            | $\text{Net operating income before donations} / \text{Average assets}$                              |
| Return on equity (ROE):            | $\text{Net operating income before donations} / \text{Average equity}$                              |
| Leverage:                          | $\text{Debt (savings + debts)} / \text{Equity (end of period)}$                                     |
| Portfolio yield:                   | $\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$                             |
| Operating expense ratio:           | $\text{Operating expense} / \text{Average gross outstanding portfolio}$                             |
| 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 ratio:             | $\text{Interest and fees paid on deposits} / \text{Average deposits}$                               |
| Cost of borrowings ratio:          | $\text{Interest and fees paid on borrowings} / \text{Average borrowings}$                           |
| Loan loss provision expense ratio: | $\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$               |
| Adjustment expense ratio:          | $\text{Total adjustments} / \text{Average gross outstanding portfolio}$                             |
| Net portfolio as a % of assets:    | $\text{Net outstanding portfolio} / \text{Total assets (end of period)}$                            |
| Risk coverage ratio:               | $\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$                                 |
| Write-off ratio:                   | $\text{Loans written off} / \text{Average gross outstanding portfolio}$                             |
| Liquid Asset Ratio (LAR):          | $\text{Cash and due from banks} / \text{Total assets}$                                              |
| Quick ratio (one month):           | $\text{Assets maturing within one month} / \text{Liabilities maturing within one month}$            |
| Current ratio:                     | $\text{Assets maturing within one year} / \text{Liabilities maturing within one year}$              |
| Total CAR                          | $\text{Total Capital} / \text{Risk weighed assets}$                                                 |

## ■ 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<br>A-              | Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.                                                                                                      |                               |
| B++<br>B+<br>B       | Current institutional, operational and financial performances are satisfactory when compared to industry standards. 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.                                                                                                 |                               |
| C++<br>C+<br>C<br>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 | SPECULATIVE INVESTMENT        |
| D                    | <b>High risk:</b> Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.                                                                                                                                                                                                                                                                                                                                                    |                               |
| E                    | <b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.                                                                                                                                                                                                                                                                                                                                                                          | TECHNICAL ASSISTANCE REQUIRED |