Planet Rating
THE GLOBAL MICROFINANCE RATING AGENCY

Stromme Microfinance East Africa Ltd., Uganda

Stromme Microfinance East Africa Ltd. (SMF EA Ltd) was incorporated in April 2004 as a spin-off of the microfinance activities of the Regional Office in East Africa of Stromme Foundation from Norway. SMF EA Ltd provides wholesale funding to MFIs or their holding companies and on a smaller scale also focuses on equity investments. In 2008 SMF EA Ltd commenced with grant funding to NGOs facilitating Community Managed Microfinance as well as capacity building support to its MFI clients. As of September 2010 SMF EA Ltd focuses on Uganda, Kenya, Tanzania and Southern Sudan and had 22 MFI clients and 2 equity investments with a total microfinance portfolio of 8.1 M USD.

GIRAFE Fund Rating

Rating

C++

Previous rating

N/A – first rating

Outlook

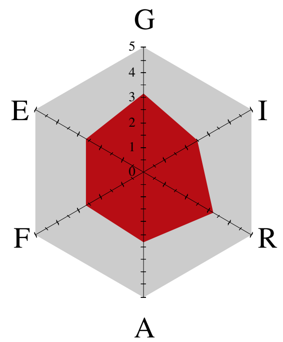
Positive

Date of the rating

November 2010

Valid until October 2011

Rating per evaluation area



Governance – **I**nformation – **R**isk – **A**ctivities – **F**unding – **E**fficiency

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Rating highlights

- SMF EA Ltd has posted positive ROA figures since FY07 with the ROA fluctuating between 0.0% and 0.6%. Due to the large exposures to foreign currencies the profitability is significantly influenced by FX fluctuations.
- Credit risk has been on a declining trend since 2005 with NPL_{90} reducing from 10.2% in Dec. 2005 to 2.5% in Sep. 2010. However, concentration risk in the portfolio is high and credit analysis requires further strengthening for SMF EA Ltd to take better informed credit decisions.
- The company is well governed and the BOD has been strengthened with additional input from new shareholders and revolving external directors.
- Despite the double turnover of the CEO position in 2010, Planet Rating expects SMF EA Ltd to continue to be well managed by a small, but dedicated management team.
- Revenue quality is only moderate as the pricing of SMF EA Ltd is not fully competitive and the advantage of providing local currency loans is likely to slowly erode with improved debt offering of both local banks and international investors.
- Additional challenges for SMF EA Ltd. consist of information management, asset & liability management and market risk management.

Outlook

The Positive outlook reflects Planet Rating's opinion that SMF EA Ltd will continue its upward trend in the short term through solidifying its track record of profitability and portfolio quality. Although to remain successful in the longer term, strategic choices will need to be made regarding market position and revenue quality.

Performance indicators

USD	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
Assets	5,018,298	6,772,752	7,816,536	10,557,413	10,835,951
Microfinance portfolio	4,099,689	6,051,666	6,387,423	10,009,166	8,109,741
Number of clients	n/a	26	23	23	24
Staff	5	5	6	7	7
ROE	(13.4%)	0.7%	0.0%	*0.5%	*4.4%
ROA (without donations)	(3.0%)	0.2%	0.4%	*(0.0%)	*2.2%
Liabilities / Equity	1.46x	0.69x	0.69x	1.19x	0.28x
Portfolio yield	10.3%	11.9%	12.9%	12.2%	13.4%
Operating expense ratio	5.9%	6.0%	5.5%	4.8%	5.5%
Funding expense ratio	1.2%	3.1%	3.3%	5.9%	2.0%
LLP expense ratio	7.6%	2.6%	3.6%	1.5%	3.4%
NPL90	8.6%	7.1%	6.1%	2.2%	2.5%
Write-off ratio	6.9%	3.3%	0.0%	3.0%	0.0%

*ROE and ROA ratios for 2009 and 2010 have been adjusted, see footnote 3 on page 2 for more details.

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Institutional presentation

Vision and mission

The company's vision is to contribute to "a world free from poverty". Its mission is to "provide, on a sustainable basis, market responsive, financial services and capacity building support to financial and businesses service providers to enhance access to financial services by the enterprising poor in the East Africa region".

Legal form, supervision and audit

Stromme Microfinance East Africa Limited (SMF EA Ltd) was incorporated on April 8th 2004 as a company limited by shares under the Companies Act of Uganda. SMF EA Ltd is not regulated by Bank of Uganda (BoU) for the provision of its financial services in East Africa.

SMF EA Ltd's financial year follows the calendar year. The company has been audited by Carr, Stanyer, Simms & Co. for the years 2005 and 2006, by Ernst & Young for the years 2007 through 2009, and has appointed Deloitte as its auditors for 2010. Ernst & Young qualified its opinion in 2008[1] and 2009. The latter was mainly due to the translation of USD accounts into UGX with a USD/UGX exchange rate that was significantly different than the exchange rate given by BoU[2], as such income for FY 2009 was overstated by 102 M UGX (55 K USD).[3]

Ownership

Upon incorporation SMF EA Ltd was owned for 99% by Stromme Foundation Norway (SFN) and for 1% by Stromme Foundation's Regional Office for East Africa (SFEA). The shares of SFN were transferred to Stromme Microfinance AS (SMAS) of Norway in March 2009. The French organization Solidarité Internationale pour le Développement et l'Investissement (SIDI) joined as shareholder in 2007 and Cordaid of the Netherlands joined in 2010. With the entry of Cordaid in 2010 all shareholders increased their equity through which the paid-up capital increased from 1.5 billion UGX (800 K USD) as of Dec. 2009 to 9.8 billion UGX (4.4 M USD) as of Sep. 2010. The shareholding structure as of September 2010 is shown in the table below. It should be noted that SMAS is a company fully owned by Stromme Foundation Norway (SFN). As SFN also fully controls SFEA, SFN has an effective controlling ownership of 70.6%.

Shareholders, Sep. 2010	Shares	%	M USD
Stromme Microfinance AS	206,053	57.9%	2.52
Cordaid	68,864	19.4%	0.45
Stromme Foundation East Africa	45,000	12.6%	0.20
SIDI	35,824	10.1%	1.26
Total	**355,741**	**100%**	**4.44**

The Board of Directors (BOD) is composed of 9 members. There are three representatives of SF Norway and one representative each for the other three share holders. Furthermore there are three external BOD members of whom one has been a BOD member since 2004 and the other two were elected in 2009 replacing two other external members. The BOD is chaired by Ms. Priscilla Serukka since inception who is the Director of SFEA. Most of the representatives of the shareholders have a strong background in (micro)finance. One of the external BOD members brings in legal expertise where the other two also have a background in finance and microfinance. There are three sub-committees to the BOD who meet prior to the quarterly BOD meetings: the Executive, Finance and Audit, and Operations Committees.

Donations

Since inception SMF EA Ltd has received 5.1 billion UGX (2.3 M USD) in grants for on-lending to its clients. Additionally since 2008 SMF EA Ltd provides funding for Community Managed Microfinance (CMMF) and capacity building support to clients (see non-financial services below) which have been fully funded by donations for a total of 1.1 M USD until September 2010.

Funding composition

As of Sep. 2010 the funding structure is composed for 61% of equity, 21% of subordinated debt, 15% of regular debt and 2.5% of other liabilities. The subordinated debt is all provided by SMAS who also provides 39% of regular debt. The other senior debt is provided by Kolibri Capital of Norway (43%) and Alterfin of Belgium (18%). The interest rates are all concessional varying from 4% to 8.55% fixed with only the debt from Alterfin on a floating rate linked to the Libor. The senior debt of SMAS is provided interest free. Out of the total debt 64% is provided in UGX and the remaining 36% in USD. All debt is long term with only 11% payable within one year as of Sep. 2010.

Management team

The management team consists of the CEO, Operations Manager (OM) and Finance Manager (FM). The position of

[1] Qualification was due to non-compliance to IAS 18 as SMF EA recognized income from disbursement fees fully upon disbursement of the loan. This issue was resolved in 2009.

[2] The exchange rate used was 2,000 UGX per USD which was provided to SMF EA by Stromme Foundation of Norway, who in turn had received this exchange rate from its auditors PWC in Norway. The BoU exchange rate for December 2009 stood at 1896.64 UGX per USD.

[3] The ROA, ROE and funding expense ratio presented in this report for the year 2009 and the partial year 2010 are those after adjustments, i.e. for the year 2009 102 M UGX were added as FX losses and in 2010 the same amount was added as FX gains.

OM was created in 2009 and in 2010 the accountant was promoted to become Finance Manager. The CEO joined in May 2010 after the first CEO that has been with SMF EA Ltd since inception left in April 2010. However, since the rating mission the CEO has resigned as of December 2010. The OM, Mr. Edward Nkangi, has been promoted to the position of CEO effective January 2011 and SMF EA Ltd. is currently in the process of recruiting an operations manager.

- Mr. Edward Nkangi joined SMF EA Ltd as Operations Manager in May 2009. Previously he held the same position at Mednet for 2 years and prior to this he worked 9 years at Pride Microfinance Ltd. ending as Head of Operations. Mr. Nkangi holds an BSc in Statistics and an MBA from Makerere Univerity in Uganda. Additionally, Mr. Nkangi has attended several specialized trainings on various microfinance topics.

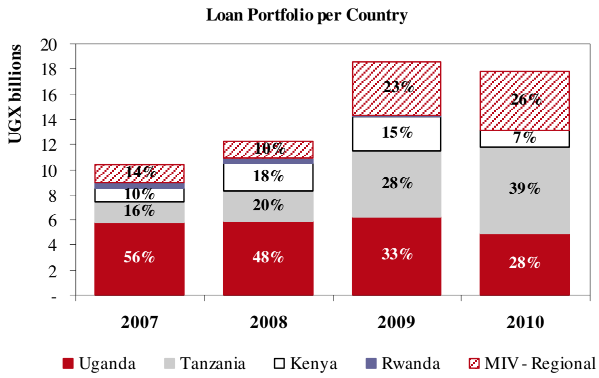
Organization

SMF EA Ltd operates from its head office in Kampala, Uganda which houses all staff. Besides the management team the staff consists of two Investment Officers and one Capacity Building Officer who fall under the supervision of the OM. Basic IT support is provided by SFEA. Bush Soft, a Norwegian Accounting software is used for accounting purposes, which is also used within the Stromme network. Information on portfolio is tracked manually using MS Excel.

The investment officers and capacity building officer are responsible for the financial and non-financial services respectively. The investment officers perform the due-diligence on the MFIs and prepare the documentation for the credit committee. Up to 300 K USD a credit committee at management decides on loan approval, between 300 K to 500 K USD the BOD chairperson has to approve, and loans above 0.5 M USD have to be approved by the board operations committee.

Market penetration

SMF EA Ltd offers its services in Uganda, Kenya, Tanzania and Southern Sudan. In Southern Sudan only non-financial services are provided to date.[4] In 2009 SFN decided to stop working in Rwanda which meant that also SMF EA Ltd stopped its operations in the country. The graph below shows the distribution of its microfinance portfolio in the different countries. SMF EA Ltd aims to reach MFIs of varying sizes: 50% of MFI clients are expected to be small (< 2.5 M USD in assets); 30% medium (<7.5 M USD in assets) and 20% to be large MFIs (> 7.5 M USD).



Financial services

SMF EA Ltd's main product offered is senior debt. Direct debt to MFIs is all provided in local currency with terms between 12 and 36 months, monthly or quarterly repayments and a maximum grace period of 12 months. The interest rates vary between 12-18% per annum on a declining balance and SMF EA Ltd introduced a 1% disbursement fee in 2008. Collateral requirements may very per MFI but usually include a pledge on portfolio, hard collateral (land, buildings) or chattel if available as well as personal guarantees by senior management or BOD members of the MFIs.

SMF EA Ltd currently holds equity investments in two MFIs. However, one investment is only a minor share holding – below 2% of shares – which is not actively managed. The other shareholding is the capitalization of a loan – a newly set-up MFI in Tanzania took over a defaulted loan from SMF EA Ltd together with the related loan portfolio of the defaulting MFI. SMF EA Ltd has one seat on the BOD of directors of this MFI. SMF EA Ltd has developed a guarantee product to guarantee debt from other investors to MFIs. However, no guarantees are presently outstanding due to lack of demand as a result of challenges in the product design.

Non-financial services

Since 2008 SMF EA Ltd offers two types of non-financial services. It provides funding support to NGOs facilitating Community Managed Microfinance (CMMF).[5] Between 2008 and Sep. 2010 it has provided almost 800 K USD in funding to 12 partners. SMF EA Ltd has also provided capacity building grants to its MFI clients for a total of almost 250 K USD to 11 MFIs.

[4] A wholesale loan to Brac East Africa is partially destined for Southern Sudan.

[5] An approach which is similar to Village Banks and Village Savings and Loans Associations (VSLAs).

Governance

Governance and decision making **is rated "b"**

Decision making

SMF EA Ltd. shows a clear intent to have a social impact through supporting MFIs and CMMF facilitators to provide access to financial services to the enterprising poor in the East Africa region. The strategic vision and mission is shared among shareholders, BOD members and management. When differences arise (e.g. on the suspension of activities in Rwanda) there is open communication to resolve the issues. BOD members have various backgrounds in development, microfinance and legal issues and the introduction of SIDI and Cordaid as new shareholders, as well as the use of external BOD members provides SMF EA Ltd with a BOD that is well positioned to provide strategic guidance to the company.

The BOD receives adequate information in the form of quarterly management reports, although the reports are not always delivered sufficiently in advance of BOD meetings. The reports clearly highlight performance and trends but should become more analytic as well as provide a better overview of risks being faced. Overall the decision-making process is efficient with quarterly BOD meetings and separate committee meetings preceding the BOD meeting. The meetings are well documented in minutes to ensure a good follow-up on key issues and decisions taken. With SMF EA Ltd coming to a good level of performance after its difficult start-up phase, the BOD should now push management more strongly to further professionalize the company's operations.

Given that two of the shareholders, Cordaid and SIDI, also provide financial services (debt & equity) to MFIs themselves in East Africa, SMF EA Ltd will have to put in place policies to manage potential conflicts of interest that may arise. A general agreement is in place although this is not written down, nor part of the shareholder agreement.

Planning

SMF EA Ltd has an appropriate strategy in place that is well underpinned in its business plan (BP) 2009-2013. The BP includes an adequate environmental analysis and SWOT analysis. However, the internal analysis of strengths and weaknesses indicates only a limited critical self-reflection. The BP does not address in sufficient detail how to tackle key challenges such as quality of loan appraisal, information management and FX risks, among others. Furthermore, the competitive environment is analyzed only to a limited extent and the BP does not propose a clear strategy on how to maintain or expand the market position of SMF EA Ltd going forward.

The financial projections developed in Microfin are basic. Most notably due to the fact that future administrative expenses are only adjusted for inflation, but not otherwise linked to the growth of the organization. Furthermore the projections require updating; as of September 2010 the microfinance portfolio is only 60% of the projection for end of 2010. This also highlights the need for SMF EA Ltd to conduct scenario analysis to be aware of the consequences of for example different growth speeds. Similarly, SMF EA Ltd would be required to conduct stress-testing to gain insights into effects of certain key events such as FX fluctuations, political disruptions, delinquency of key-clients, etc. Otherwise, detailed annual budgets are prepared and adequately followed on a quarterly basis to monitor financial performance during the year.

Management team

There is a small but adequate management team in place for the institution, although the change of CEO twice in 2010 has reduced the execution capacity for the organization. On the operations side, the OM shows good performance and provides adequate guidance to the Investment Officers and Capacity Building Coordinator (cf. Activities). He will require some time to fully grow into the role of CEO and he will have to show sufficient leadership to carry SMF EA Ltd to the next level. On the finance side, the FM shows a good mastering of accounting but requires further strengthening in the more technical aspects of ALM (cf. Funding).

The departure of the CEO as of December 2010, is not expected to significantly impact the operations of the company. Key-person risk was limited as for all positions except finance there is a fall-back person that at least could take over temporarily in case of need. With the recruitment of an additional accountant that will likely also be the case for the finance side in 2011. However, with the absence of an operations manager the key-person risk has slightly increased.

Overall, execution capacity is adequate but management could be more pro-active in terms of picking-up challenges facing SMF EA Ltd to ensure continued good performance of the company. This is a challenging task given the limited size of the company where a lot of the time of management is already taken-up by management of regular operations. At present there are limited official management and/or staff meetings, with only four conducted in past six months. Whereas on the one hand this increases the risk that the follow-up of several aspects may not be continuously monitored which potentially reduces execution capacity. On the other hand, given the limited size of the company and frequent informal meetings and discussions there is a good communication among staff to follow-up on operations.

Human resources management

Human resources are generally well managed by SMF EA Ltd and policies and procedures are well documented in the HR manual. Recruitment is well organized with interviews involving both management, as well as board members for management positions. Evaluations are conducted semi-annually which allows a good monitoring of staff performance and continued guidance of staff performance and improvements. A performance based 13th month of salary also allows the company to provide an incentive for good performance. The evaluations also provide input into the training plan for each individual staff member. Staff members receive ample training to assist them in improving their performance within the organization. Staff retention is generally good, with only the position of CEO changing twice in 2010. Overall there is a good staff morale and positive working atmosphere within the company.

▪ Information

Information **is rated "c"**

Information management is good for financial information but limited for portfolio monitoring. Given the limited number of clients this does not yet provide a significant risk for the company although SMF EA Ltd will need to improve its portfolio monitoring as it is aiming to increase the number of MFIs in its microfinance portfolio.

For portfolio monitoring there is a quarterly overview of the outstanding portfolio and clear overview of non-performing loans. This report is prepared manually which is adequate given the limited number of partners, although it renders the reporting process less efficient and more prone to error. SMF EA Ltd has taken the initiative to identify a computerized system for its portfolio monitoring, but no system has yet been found. The key aspect that is missing is that there is no clear monitoring of the performance of partners on a consolidated basis. Such analysis is required for SMF EA Ltd to have a good overview of the risk profile of its microfinance portfolio based on the performance level of its partners. Quarterly reports are received from partners – although at times with delays – but these are not consolidated, nor are clear indicators calculated to monitor the partner performance on an individual basis. The financial analysis is basic but adequate with quarterly preparation of the income statement and balance sheet, and a more detailed analysis including the calculation and analysis of relevant financial indicators.

Analysis of country performance is present only in the business plan, but not updated more frequently. Although general knowledge of the countries of operations is present through frequent visits, this information is not stored or analyzed in a systematic way.

Data security for paper data is adequate. Collateral documents stored in a safe and other legal documents (debentures, loan contracts, etc.) are stored in a locked cabinet in the CEO's office. The filing of documents could be better organized to avoid misplacement of documents and although the cabinet is not fireproof, risk of data loss is mitigated by the fact that a second original copy is placed at the lawyer's office. For digital data there is a weekly back-up policy, although effectiveness is not fully guaranteed as it requires manual intervention from each staff member. ICT support is available from Stromme Foundation with adequate anti-virus software in place.

▪ Risk management

Risk management **is rated "b"**

Enterprise risk management

Effective risk management for SMF EA Ltd remains limited. There is an adequate risk management manual in place identifying all major risks facing the company. However, several deficiencies in the implementation of the manual were noted. First of all SMF EA Ltd as of yet has not yet defined for itself what it finds acceptable risk levels. Furthermore, the manual does not specify indicators or formats of analysis for all risks. However, risk management is mostly limited by the fact that the risk reports (e.g. ALM, FX risk, operational risk) as detailed in the risk manual – which in theory would provide a good monitoring of risks – are not prepared as such. Some aspects are incorporated in quarterly management reports (e.g. NPL, liquidity) although not in a structured or systematic way.

Procedures and internal controls

The procedures are generally well documented into various manuals (Board, Operations, Accounting, HR) and contain a basic level of internal controls, although given the limited size of SMF EA Ltd there are some limitations. Separation of tasks is adequate for finance. Monthly bank reconciliation is conducted to ensure reliability of financial information which is verified by the Finance and Administration Manager of SFEA.

On the operations side the CEO and OM frequently visit partners besides the investment officers. This provides a level of control against misappropriation of funds or hiding of underperformance by an investment officer. This could however be better formalized in terms of what level of control is actually expected from such visits. An additional step in separation of tasks has been the occasional use of external review of partner performance through either ratings or evaluations. The use of external evaluations is not yet standardized. Otherwise, there is good hierarchical control and limitation of power is well defined, e.g. through tiered approval limits of loans.

Legal risk is well managed by SMF EA Ltd. It has contracted lawyers in each country of its operations to draw up legal documents for its transactions to ensure that they are legally binding.

Internal audit

Given the limited size of the company no Internal Audit department is present within SMF EA Ltd. Since 2009, SFAS has conducted one audit a year of the accounting, HR and administrative processes. Another level of control comes from the external auditors who have performed a verification of internal controls during their audits which have been documented in clear management letters.

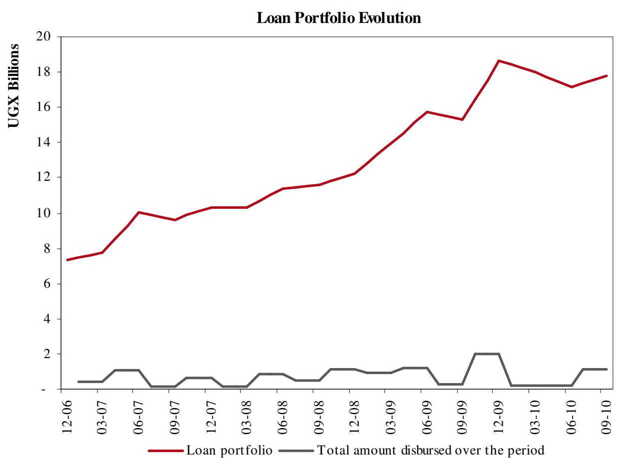
Activities

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

Financial services evolution

The microfinance portfolio has shown a relatively stable growth between Dec. 2006 and Dec. 2009 with a compounded annual growth rate of 36.8% for the three year period. 2010 saw a 4.5% decline in portfolio until September which was mostly due to one large client requesting lower disbursement of remaining tranches and some other MFIs not accepting the loan offer of SMF EA Ltd (see the opinion on revenue quality on page 8 for more details).

The debt portfolio continues to comprise over 99% of the total microfinance portfolio. Within the debt portfolio, indirect debt has increased in the past years from 10.5% as of Dec. 2008 to 25.9% as of Sep. 2010.



Financial services management

The quality of credit-decisions has improved in the past years but remains moderate at present. The decision making process is generally well organized, but the appraisals do not have sufficient discriminatory power to ensure sufficiently well informed credit decisions.

The MFI due diligence process does more or less cover all required areas and there is a basic format for the analysis. However, the formats used and areas analyzed do differ slightly per Investment Officer, although a common format is being worked on. In general the due diligence requires being more thorough, especially in terms of data verification as this is a general weakness among MFIs in the East Africa region. In part good use is made of external verifications through use of audit reports and verification with peer investors in the respective countries. However, better use can be made of ratings and/or central bank supervisory reports. To date the results of these reports are not specifically taken up in the appraisal reports. SMF EA Ltd has financed several ratings for its partners in late 2009 and 2010 whose results are still to be used in monitoring and appraisals when financing is renewed.

The appraisal reports summarizing the due diligence are mostly descriptive rather than analytic. SMF EA Ltd has not yet developed a scoring system to provide an overall opinion on the risk profile of the MFI, or support its investment officers to classify performance and/or risk levels per area. Neither have minimum standards been defined of what is considered acceptable performance of an MFI. The exception being NPL_{30}, which should be below 5%; although frequent exceptions are made. These aspects together make it difficult to form a clear and objective opinion on the risk profile of the MFI for the credit committee members that only read the appraisal report.

The two investment officers have adequate skills although in varying degrees. They do require strengthening in specific risk analysis of MFIs and could benefit from an increased attention to detail when analyzing the MFIs. The Credit Committee meetings are well organized where the OM provides a good screening of the appraisals providing feedback to both investment officers. Although where the credit decisions at the board level are well documented (in the minutes of the operations committee), the credit decisions taken by management or the BOD chair person are not documented in minutes.

After disbursement there is an adequate monitoring of the partners with quarterly to semi-annual on-site visits and quarterly financial reporting by partners. Even though a general awareness is present of the performance trends of the MFIs by the investment officers, no performance indicators are calculated on a standard basis based on the quarterly performance and neither are the risk profiles updated during the loan term (cf. Information). In case of underperformance or delinquency more frequent visits are made and there is a good follow-up with the clients after default. SMF EA Ltd is increasingly seeking joint work-outs with other investors. For both defaults in 2010 SMF EA Ltd is actively working with the other investors, which is expected to increase the possibility of recovery on both loans.

Credit risk

Credit risk is moderate at present, but has seen a significant improvement in the past years. The combination of the non-performing loans and write-off ratios has reduced from year to year. As of Sep. 2010 NPL_{90} stands at 2.5%, down from 6.1% as of Dec. 2008. The write-off ratio has similarly reduced from highs of 8.7% and 6.7% in FY05 and FY06, to 3.0% in FY09. It should however be noted that loan losses beyond 2006 are all related to loans disbursed in 2005 and before. This credit risk stands above the microfinance industry average of a 0.6% loan loss rate and 2% of loans with defaults (until 2008).[6]

The generation analysis in the table below shows the same improving trend as the debt disbursed per year for which defaults have occurred until Sep. 2010 as percentage of total debt disbursed for the year is decreasing.

Generation analysis	2005	2006	2007	2008	2009
Debt with defaults	11.9%	0.0%	2.9%	0.0%	3.6%

The level of credit risk is due to a combination of the limitations in credit decisions (see above) as well as a focus on MFIs that on average have a higher risk profile. Even though it is a conscious choice of SMF EA Ltd to focus on emerging MFIs it is yet to define for itself the risk profile of its portfolio. The table below provides an overview of evolution of the risk profile of SMF EA Ltd's portfolio based on actual or shadow ratings of its MFI clients.

Portfolio distribution*	Dec. 2008	Dec. 2009	Sep. 2010
Investment grade	48%	47%	54%
Speculative investment grade	38%	39%	35%
Risk grade	15%	14%	11%

*Portfolio outstanding to MFIs in the respective investment categories.

Restructuring of loans is practiced with caution. At present the portfolio only contains one restructured loan which represents 0.7% of total portfolio as of September 2010. This loan is however not specifically reported on as such by SMF EA Ltd.

Concentration risk in the portfolio is high with the largest investment comprising 22% of portfolio and the top 5 investments comprising 69% of portfolio as of Sep. 2010. In terms of exposure of core capital this has significantly reduced from 73% to 27% and 223% to 85% for top 1 and 5 investments respectively between Dec. 2009 and Sep. 2010 as a result of the company's capital increase. Otherwise, there is a basic diversification of the portfolio among type of MFI and in different countries although no specific guidelines have been set by SMF EA Ltd in terms of portfolio diversification.

Credit risk coverage

There is a moderate to good coverage of anticipated losses with NPL_{30} covered by 96% (Dec. 2009) and 200% (Sep. 2010). The provisioning policy covers both actual NPL as well as a percentage (1%) of healthy portfolio. This is a significant improvement from earlier years where credit risk coverage was low. This policy is expected to sufficiently cover potential future losses, although Stromme could enhance this further with a policy that also focuses on underperformance of its partners to more clearly identify potential future losses. Although given the limited size of its current track record it would be difficult to develop a more detailed policy based on historical experience.

The loans are adequately covered by guarantees and collateral although the portfolio is not covered by insurance against political and/or country risk. Using the collateral and guarantees is not an easy feat in the East African region and court cases are often lengthy affairs. SMF EA Ltd has appropriately outsourced this to specialists who handle the legal cases. SMF EA Ltd has also received support from its owner, SF, which has taken over the defaulted loan in one specific case and is seeking recovery directly from the supporting donor of this MFI at an international level. Additionally, also grant funding received through SF was used to work out a solution for the defaulted loans of two MFIs in Tanzania in 2009.

Non-financial services management

Since 2008, SMF EA Ltd also provides non-financial services for CMMF partners, MFI clients as well as MFI networks. An adequate appraisal system is in place to identify funding needs for organizations facilitating CMMF, which is handled by the capacity building officer. For MFIs the investment officers often identify the capacity building needs of their clients, which are verified by the capacity building officer.

Adequate monitoring is done to ensure that funds are appropriately spent by the partners with quarterly or semi-annual visits combined with quarterly reporting.

[6] *"Zero is Not the Number: The Microfinance Debt Default Rate"* IAMFI (2009).

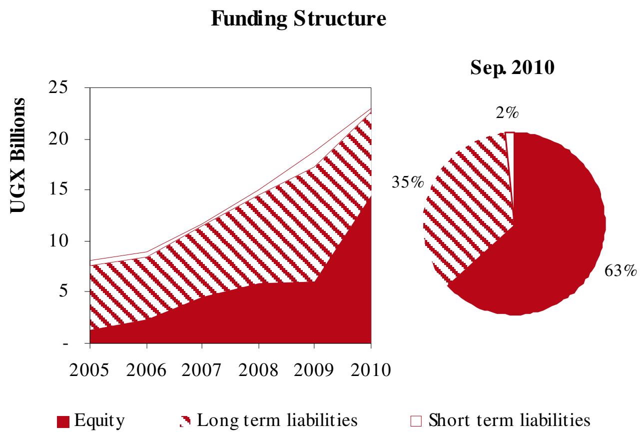
SMF EA Ltd also closely follows on the implementation of CMMF by its partners.

Funding and liquidity

Funding and liquidity **is rated "c"**

Capitalization and funding strategy

SMF EA Ltd is well capitalized with a core capital adequacy ratio of 81% and total CAR of 105% as of September 2010; an increase since Dec. 2009 due to the capital increase in 2010 when it stood at 32% and 48% respectively. As such, there is ample room to further increase debt funding.



There is a basic identification of funding needs for the years to come, although projections require updating (cf. Planning). So far the fundraising has been a joint responsibility of the CEO and BOD chair, with further support from SFAS. This provides SMF EA Ltd with sufficient capacity to source funding and negotiate for favorable terms of funding. The funding strategy is currently being refined by the BOD and generally focuses on accessing concessional debt from development oriented investors. A key bottleneck in obtaining funding for SMF EA Ltd is to obtain local currency debt at a price level that allows SMF EA Ltd to remain competitive and sustainable (cf. Efficiency & profitability). On a positive note, 2010 saw the first diversification of the debt portfolio beyond its shareholders SFAS and SIDI with funding from Alterfin and Kolibri Kapital. SMF EA Ltd can further improve its social performance reporting to ensure the continued commitment of current investors and more easily attract debt from development oriented investors.

Liquidity risk

The capacity for Asset & Liability Management within SMF EA Ltd is limited. Liquidity risk as of Sep. 2010 is low due to a high cash buffer which is mostly due to lower than expected disbursements and a recent capital inflow from Cordaid. Liquidity risk in the past has similarly been low with liquidity to assets usually above 5%. However, besides cash flow projections that are prepared annually, these are not structurally updated throughout the financial year which limits liquidity management. No contingency plan exists in case of cash shortages, at present its only relief would be through its shareholders or postponement of disbursements.

Maturity risk is limited for SMF EA Ltd, especially after the capital increase in 2010. At present the maturities of its liabilities and equity out last those of assets. However, monitoring of maturity risk requires strengthening as this is not yet done to date.

Market risks

SMF EA Ltd is exposed to a high foreign exchange risk. As of September 2010 it has a cumulative open position on Tier 1 capital – across USD, TZS and KES – of 66%. It reduced from 158% as of December 2009, although the reduction is mainly due to the capital increase in 2010 as the cumulative open position in terms of total assets only reduced from 48% to 40% for the same period. The open position is mainly caused by local currency funding in TZS (47.3%) and KES (13.3%) to its partners in Tanzania and Kenya. The open position in USD (5.9% as of Sep 2010) is manageable and mainly hedged by matching USD funding from investors to one USD loan to an MFI holding company in East Africa.

In 2009, FX losses reduced ROA by 1.8 percentage points.[7] This is a significant cost given that ROA has only hovered between 0.0% and 0.6% in the past three years. SMF EA Ltd requires further strengthening in terms of managing FX risk as at present management does not have a thorough understanding of the risk. SMF EA Ltd has taken some initiative to investigate hedging options, but no clear strategy has been put in place yet. Furthermore, there is a need for a frequent monitoring of the open position as this is not yet done to date.

Interest rate risk is limited with only the debt from Alterfin based on a floating rate, with all other debt from investors and to its clients on fixed rates. A 100 basis point increase in the reference rate (Libor) would only impact ROA by 0.03 percentage points.

Efficiency and profitability

Efficiency and profitability **is rated "c"**

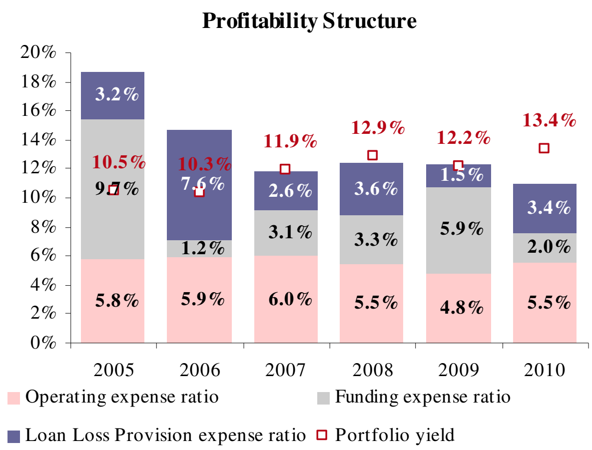
Efficiency and profitability of financial services

SMF EA Ltd has shown a strong improvement in profitability over the years, breaking even for the first time

[7] This ratio is adjusted when applying the BoU USD/UGX exchange rate as of Dec. 2009, see footnote 3 on page 2 for more details.

in 2007, and since posting an ROA between 0.0% and 0.6%. The outlook for 2010 is positive with an ROA as of September 2010 at 2.2% (annualized). The main driver of improved profitability has been the improvement in portfolio quality which led to lower loan losses and higher portfolio yield. Operating expenses have remained relatively stable with a declining trend since 2007. This trend was however reversed in 2010 which is mostly due to the lower growth than expected. The operating expenses over assets stands at a 4.3% for 2009, which is only slightly above international benchmarks – 3.1% all MIVs; 4.0% for its peer group[8] – even though those investors have on average a higher average loan size. On the other hand, funding expenses have been highly variable over the years, which is mainly due to FX gains/losses. The reduction of this ratio in 2010 is also to a large extent due to SMF EA Ltd's reduced leverage.

The revenue quality of SMF EA Ltd is moderate. Its main challenge is that its pricing is not fully competitive. Especially in Kenya it faces challenges to match local rates. Otherwise the terms that SMF EA Ltd can offer are limited to 2 years which is considered relatively short by medium and large MFIs and repayments are only quarterly, or even monthly. Product innovation has been a focus of SMF EA Ltd. One focus area is housing finance for which a pilot project is planned for 2011. These aspects are slightly compensated by the fact that SMF EA Ltd has a well established reputation in the market and that it offers all loans in local currency which is an advantage over many foreign investors. Furthermore, it does also have a competitive advantage with the potential of providing some capacity building grants to its partners which is seen as a positive element for SMF EA Ltd by its clients. With an increasing focus of international investors on Africa the market is likely to become increasingly competitive in the East Africa region, a situation that SMF EA Ltd is only partially prepared for.



Sustainability of non-financial services

The implementation of non-financial services provides limited risk to SMF EA Ltd as the activities are directly funded by grants. OSS for non-financial services after donations has fluctuated around 100% and cumulative cost carried by SMF EA Ltd in the past three years has only been 30 K USD, hence only slightly impacting its ROA.

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.

[8] CGAP 2010 MIV Survey Report

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Performance indicators

Data in USD, unless otherwise stated

Microfinance portfolio	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
Microfinance portfolio evolution						
Microfinance portfolio	3,908,768	4,020,892	5,702,723	6,717,141	10,299,492	9,835,455
Growth	42.4%	2.9%	41.8%	17.8%	53.3%	(4.5%)
Direct microfinance portfolio	3,908,768	4,099,689	5,210,827	5,719,911	7,708,031	6,005,407
Number of microfinance service providers	n/a	n/a	24	21	21	22
Direct equity portfolio	4,363	4,449	4,630	4,149	67,574	57,334
Average outstanding equity investment	*4,363*	*4,449*	*4,630*	*4,149*	*33,787*	*28,667*
Direct debt portfolio	3,904,405	4,095,240	5,206,197	5,715,762	7,640,457	5,948,073
Average outstanding debt	n/a	n/a	226,356	285,788	402,129	297,404
Average maturity of debt (months)	n/a	n/a	24.5	24.5	25.3	25.7
Direct guarantee portfolio	-	-	-	-	-	-
Indirect microfinance portfolio	-	-	840,839	667,511	2,301,135	2,104,334
Number of MIVs	-	-	2	2	2	2
Indirect equity portfolio	-	-	-	-	-	-
Indirect debt portfolio	-	-	840,839	667,511	2,301,135	2,104,334
Average outstanding debt	-	-	420,420	333,756	1,150,567	1,052,167
Average maturity of debt (months)	n/a	n/a	n/a	n/a	n/a	n/a
Indirect guarantee portfolio	-	-	-	-	-	-
Investment terms						
Direct debt portfolio in local currency	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Direct portfolio - fixed rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Direct portfolio - floating rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Portfolio concentration						
Largest country exposure	n/a	n/a	56.0%	48.4%	33.1%	38.3%
Largest investment / microfinance portfolio	n/a	n/a	19.3%	24.5%	23.0%	33.7%
Top 5 investments / microfinance portfolio	n/a	n/a	59.0%	64.8%	73.1%	82.2%
Largest unhedged investment / microfinance portfolio	n/a	n/a	8.7%	12.3%	23.0%	33.7%
Top 5 unhedged investments / microfinance portfolio	n/a	n/a	32.2%	40.0%	58.6%	66.4%
Direct unhedged debt / total direct portfolio	n/a	n/a	43.9%	51.5%	66.2%	71.6%
Portfolio quality						
Restructured loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%
NPL 90	10.2%	8.6%	7.1%	6.1%	2.2%	2.5%
Write-off ratio	8.7%	6.9%	3.3%	0.0%	3.0%	0.0%
Credit risk coverage						
Risk coverage ratio (NPL 90)	15.2%	25.4%	16.0%	71.3%	96.6%	199.7%
Uncovered capital ratio (NPL 90)	46.0%	19.3%	13.6%	3.6%	0.2%	≤0%
Staff	**Dec. 2005**	**Dec. 2006**	**Dec. 2007**	**Dec. 2008**	**Dec. 2009**	**Sep. 2010**
Total number of staff	4	5	5	6	7	7
% Credit officers	25.0%	40.0%	40.0%	33.3%	28.6%	28.6%
Turnover	0.0%	22.2%	0.0%	0.0%	0.0%	14.3%
Profitability analysis	**Dec. 2005**	**Dec. 2006**	**Dec. 2007**	**Dec. 2008**	**Dec. 2009**	**Sep. 2010**
FOR ALL ACTIVITIES						
ROE (after donations)	(54.5%)	(13.4%)	0.7%	0.0%	0.5%	4.4%
ROA (after donations)	(6.0%)	(3.0%)	0.2%	0.0%	0.2%	2.1%
Liabilities / Equity	3.05x	1.46x	0.69x	0.69x	1.19x	0.28x
Core capital adequacy ratio	18.2%	32.7%	43.5%	49.1%	31.2%	81.4%
Total capital adequacy ratio	27.3%	49.1%	65.2%	73.7%	47.1%	104.6%
Liquidity / Total assets (LAR)	5.3%	12.3%	9.5%	19.5%	3.6%	25.1%
Current ratio (1 year)	n/a	n/a	n/a	1,700%	549%	1,467%
FINANCIAL SERVICES						
ROA (after donations)	(6.0%)	(3.0%)	0.2%	0.4%	0.6%	1.6%
ROA (before donations)	(6.0%)	(3.0%)	0.2%	0.4%	0.6%	1.6%
Net interest margin	1.5%	9.3%	8.6%	9.6%	6.9%	10.6%
Portfolio yield	10.5%	10.3%	11.9%	12.9%	12.2%	13.4%
Operating expense ratio (portfolio)	5.8%	5.9%	6.0%	5.5%	4.8%	5.5%
Operating expense ratio (assets)	4.8%	5.0%	5.2%	4.6%	4.3%	3.4%
Cost to income ratio	50.8%	52.9%	49.9%	42.5%	39.2%	40.5%
Cost per client	n/a	n/a	12,399	13,563	18,347	21,149
Investment officer productivity	n/a	n/a	13	11	11	11
Funding expense ratio	9.7%	1.2%	3.1%	3.3%	5.2%	2.8%
Cost of borrowings	2.7%	3.6%	4.4%	4.8%	5.6%	6.4%
Loan Loss Provision expense ratio	3.2%	7.6%	2.6%	3.6%	1.5%	3.4%
Outstanding microfinance portfolio / Assets	86.4%	79.9%	88.3%	78.2%	92.8%	71.2%
Revenue from investment as a % of financial revenues	6.4%	7.3%	0.8%	0.0%	0.0%	0.0%
NON-FINANCIAL SERVICES						
Operational self-sufficiency (after donations)	n/a	n/a	n/a	78.7%	101.0%	96.6%
Operational self-sufficiency (before donations)	n/a	n/a	n/a	0.0%	0.0%	0.0%
Operating cost per beneficiary	n/a	n/a	n/a	1,491	2,027	2,531
Donations per beneficiary	n/a	n/a	n/a	13,646	32,030	27,626
Exchange rate 1 USD= xx UGX	**1,821**	**1,786**	**1,716**	**1,915**	**1,874**	**2,209**

Financial statements – UGX

Income Statement (UGX '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
FINANCIAL SERVICES						
Interest and fee income on loan portfolio	635,772	745,179	1,054,604	1,436,696	1,885,335	1,830,868
Interest and fee income on investments	43,729	58,781	9,018	-	-	-
Interest and other financial expenses	174,079	238,636	291,883	372,284	604,350	519,672
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	(410,285)	153,806	15,438	2,614	(204,530)	141,216
Net financial income	**95,137**	**719,131**	**787,177**	**1,067,027**	**1,076,455**	**1,452,411**
Gains/losses from revaluation of equity investments	-	-	-	-	-	-
Other operating income	12,892	-	3,400	-	-	29,496
Operating expenses	351,758	425,456	531,917	610,363	739,132	753,162
Personnel expenses	*172,865*	*215,383*	*257,092*	*296,434*	*407,579*	*404,376*
Administrative and other expenses	*162,729*	*198,812*	*265,286*	*306,240*	*322,858*	*331,393*
Depreciation	*16,163*	*11,261*	*9,539*	*7,689*	*8,695*	*17,392*
Gross operating income on financial services	**(243,728)**	**293,675**	**258,660**	**456,664**	**337,323**	**728,746**
Net loan loss provision expense	194,018	546,403	233,671	400,516	238,999	470,000
Net operating income on financial services	**(437,746)**	**(252,727)**	**24,989**	**56,148**	**98,325**	**258,746**
Donations for financial services	-	-	-	-	-	11,197
Net operating income on financial services after donations	**(437,746)**	**(252,727)**	**24,989**	**56,148**	**98,325**	**269,943**
NON-FINANCIAL SERVICES						
Operating revenues from non-financial services	-	-	-	-	-	-
Grants given to clients	-	-	-	235,188	1,020,328	777,906
Operating expenses on business development services	-	-	-	25,698	64,579	71,256
Net income from non-financial services	**-**	**-**	**-**	**(260,886)**	**(1,084,907)**	**(849,162)**
Donations for non-financial services	-	-	-	205,210	1,096,121	820,190
Net income from non-financial services after donations	**-**	**-**	**-**	**(55,676)**	**11,214**	**(28,972)**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**(437,746)**	**(252,727)**	**24,989**	**471**	**109,539**	**240,971**
Income Tax	-	-	-	-	(23,018)	-
Net Income	**(437,746)**	**(252,727)**	**24,989**	**471**	**132,557**	**240,971**

Balance Sheet (UGX '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
ASSETS	**8,108,464**	**8,962,680**	**11,622,043**	**14,968,666**	**19,782,692**	**23,931,197**
Liquid assets	426,996	1,102,271	1,100,436	2,921,570	716,199	5,997,873
Microfinance portfolio	7,007,803	7,162,107	10,266,211	11,703,625	18,351,986	17,036,974
Equity portfolio	*7,946*	*7,946*	*7,946*	*7,946*	*126,622*	*126,622*
Debt portfolio	*6,999,858*	*7,154,161*	*10,258,265*	*11,695,679*	*18,225,364*	*16,910,352*
Gross debt portfolio	*7,109,921*	*7,314,099*	*10,376,714*	*12,223,968*	*18,628,753*	*17,783,741*
(Impairment allowance)	*(110,063)*	*(159,938)*	*(118,449)*	*(528,289)*	*(403,389)*	*(873,389)*
Guarantee portfolio	-	-	-	-	-	-
Financial investments	450,000	550,000	-	-	-	-
Net fixed assets	45,498	37,533	31,528	33,323	33,838	147,848
Other assets	178,166	110,770	223,868	310,148	680,669	748,502
LIABILITIES AND EQUITY	**8,108,464**	**8,962,680**	**11,622,043**	**14,968,666**	**19,782,692**	**23,931,197**
Liabilities	**6,774,846**	**6,532,807**	**7,046,774**	**9,050,741**	**13,732,210**	**9,340,747**
Borrowings	565,625	474,250	-	850,150	2,107,439	3,653,168
Subordinated debt	6,155,282	6,037,070	6,838,418	7,838,418	10,658,418	5,085,748
Other liabilities	53,939	21,488	208,357	362,173	966,353	601,831
Equity	**1,333,618**	**2,429,873**	**4,575,268**	**5,917,925**	**6,050,482**	**14,590,450**
Core capital	1,333,618	2,429,873	4,575,268	5,917,925	6,050,482	14,590,450
Paid-in capital	*500,000*	*500,000*	*1,500,000*	*1,500,000*	*1,500,000*	*9,798,998*
Donated equity	*1,271,364*	*2,620,347*	*3,740,753*	*5,082,939*	*5,082,939*	*5,082,939*
Retained earnings	*(437,746)*	*(690,474)*	*(665,485)*	*(665,014)*	*(532,457)*	*(291,486)*
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts (UGX '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	n/a	n/a	n/a	n/a	n/a	n/a
Guarantees	-	-	-	-	-	-

Balance Sheet Averages (UGX '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
Microfinance portfolio	6,058,684	7,219,956	8,853,352	11,308,287	15,493,644	18,332,869
Gross debt portfolio	6,050,738	7,212,010	8,845,406	11,300,341	15,426,361	18,206,247
Assets	7,286,284	8,535,572	10,292,362	13,295,354	17,375,679	21,856,944
Borrowings and subordinated debt	6,422,413	6,616,113	6,674,869	7,763,493	10,727,212	10,752,386
Equity	803,739	1,881,746	3,502,571	5,246,597	5,984,204	10,320,466

Financial statements – USD

Income Statement (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
FINANCIAL SERVICES						
Interest and fee income on loan portfolio	349,134	417,233	614,571	750,233	1,006,145	829,010
Interest and fee income on investments	24,014	32,912	5,255	-	-	-
Interest and other financial expenses	95,595	133,615	170,095	194,404	322,523	235,306
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	(225,308)	86,118	8,996	1,365	(109,151)	63,942
Net financial income	**52,245**	**402,649**	**458,728**	**557,194**	**574,471**	**657,646**
Gains/losses from revaluation of equity investments	-	-	-	-	-	-
Other operating income	7,080	-	1,981	-	-	13,356
Operating expenses	193,167	238,217	309,975	318,727	394,452	341,029
Personnel expenses	*94,929*	*120,595*	*149,821*	*154,796*	*217,512*	*183,100*
Administrative and other expenses	*89,363*	*111,317*	*154,595*	*159,916*	*172,299*	*150,054*
Depreciation	*8,876*	*6,305*	*5,559*	*4,015*	*4,640*	*7,875*
Gross operating income on financial services	**(133,843)**	**164,432**	**150,734**	**238,467**	**180,019**	**329,973**
Net loan loss provision expense	106,545	305,937	136,172	209,147	127,546	212,814
Net operating income on financial services	**(240,388)**	**(141,505)**	**14,562**	**29,320**	**52,473**	**117,159**
Donations for financial services	-	-	-	-	-	5,070
Net operating income on financial services after donations	**(240,388)**	**(141,505)**	**14,562**	**29,320**	**52,473**	**122,229**
NON-FINANCIAL SERVICES						
Operating revenues from non-financial services	-	-	-	-	-	-
Grants given to clients	-	-	-	122,814	544,518	352,233
Operating expenses on business development services	-	-	-	13,419	34,464	32,264
Net income from non-financial services	**-**	**-**	**-**	**(136,233)**	**(578,982)**	**(384,497)**
Donations for non-financial services	-	-	-	107,159	584,966	371,379
Net income from non-financial services after donations	**-**	**-**	**-**	**(29,074)**	**5,985**	**(13,119)**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**(240,388)**	**(141,505)**	**14,562**	**246**	**58,457**	**109,111**
Income Tax	-	-	-	-	(12,284)	-
Net Income	**(240,388)**	**(141,505)**	**14,562**	**246**	**70,741**	**109,111**

Balance Sheet (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
ASSETS	**4,452,753**	**5,018,298**	**6,772,752**	**7,816,536**	**10,557,413**	**10,835,951**
Liquid assets	234,485	617,173	641,280	1,525,624	382,213	2,715,813
Microfinance portfolio	3,848,327	4,010,138	5,982,640	6,111,554	9,793,889	7,714,274
Equity portfolio	*4,363*	*4,449*	*4,630*	*4,149*	*67,574*	*57,334*
Debt portfolio	*3,843,964*	*4,005,689*	*5,978,010*	*6,107,404*	*9,726,315*	*7,656,940*
Gross debt portfolio	*3,904,405*	*4,095,240*	*6,047,036*	*6,383,273*	*9,941,592*	*8,052,407*
(Impairment allowance)	*(60,441)*	*(89,551)*	*(69,026)*	*(275,869)*	*(215,276)*	*(395,467)*
Guarantee portfolio	-	-	-	-	-	-
Financial investments	247,117	307,951	-	-	-	-
Net fixed assets	24,985	21,015	18,373	17,401	18,058	66,945
Other assets	97,839	62,021	130,459	161,957	363,252	338,919
LIABILITIES AND EQUITY	**4,452,753**	**5,018,298**	**6,772,752**	**7,816,536**	**10,557,413**	**10,835,951**
Liabilities	**3,720,398**	**3,657,787**	**4,106,512**	**4,726,235**	**7,328,457**	**4,229,453**
Borrowings	310,612	265,538	-	443,943	1,124,675	1,654,140
Subordinated debt	3,380,166	3,380,218	3,985,092	4,093,168	5,688,069	2,302,806
Other liabilities	29,621	12,031	121,420	189,124	515,713	272,507
Equity	**732,355**	**1,360,511**	**2,666,240**	**3,090,300**	**3,228,956**	**6,606,498**
Core capital	732,355	1,360,511	2,666,240	3,090,300	3,228,956	6,606,498
Paid-in capital	*274,574*	*279,955*	*874,126*	*783,290*	*800,504*	*4,436,947*
Donated equity	*698,168*	*1,467,159*	*2,179,926*	*2,654,276*	*2,712,608*	*2,301,535*
Retained earnings	*(240,388)*	*(386,603)*	*(387,812)*	*(347,266)*	*(284,156)*	*(131,984)*
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	n/a	n/a	n/a	n/a	n/a	n/a
Guarantees	-	-	-	-	-	-

Balance Sheet Averages (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Sep. 2010
Microfinance portfolio	3,327,119	4,042,528	5,159,296	5,905,111	8,268,481	8,301,050
Gross debt portfolio	3,322,755	4,038,079	5,154,666	5,900,961	8,232,573	8,243,716
Assets	4,001,254	4,779,156	5,997,880	6,942,744	9,272,864	9,896,737
Borrowings and subordinated debt	3,526,861	3,704,431	3,889,784	4,054,043	5,724,783	4,868,638
Equity	441,373	1,053,609	2,041,125	2,739,737	3,193,585	4,673,066

▪ Formulas

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

▪ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+ A A-	Current institutional, operational and financial performances are excellent when compared to industry standards. 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.	INVESTMENT GRADE
B++ B+ 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.	SPECULATIVE INVESTMENT
C++ C+ C 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	**High risk**: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	**Immediate risk of default:** Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	TECHNICAL ASSISTANCE REQUIRED