Stromme Microfinance East Africa Limited

Kampala, Uganda

Financial Rating

Investment Grade	Above	α	α+
			α
			α–
		β	β+
			β
	Below		β–
		γ	γ+
			γ

	September 2018
RATING	β+
RATING OUTLOOK*	***Neutral***

Dimensions rated	Grade
Governance & Strategy	α–
Organisation & Management Systems	β+
Financial Performance	β+

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Visit: 6-10 August 2018

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Disclaimer

- Our services were performed and this Report was prepared in accordance with the Engagement Letter dated 23 July 2018 subject to the terms and conditions included therein.
- The information captured in this Report is based on the documentation and information received from time to time from Stromme Microfinance East Africa Limited. The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 31, August 2018, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
- We have relied upon representations of employees of Stromme Microfinance East Africa Limited that all data and information provided by them are correct to the best of their knowledge. We accept no responsibility for any fact or information that has been intentionally withheld or otherwise omitted which could have had a material bearing on our findings.
- M-CRIL has relied upon the information supplied in connection with this engagement including management information. M-CRIL did not audit or otherwise verify the information supplied in connection with this engagement, from whatever source obtained, except as may be specified in this Report.
- In no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we make information requests.
- The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with findings in this Report.
- All the information presented in this Report from our market sources / third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain or that which has been provided to the client, however, we have not done so independently.
- The Report will be furnished by us is solely for the information of the Stromme Microfinance East Africa Limited which had requested M-CRIL to undertake the engagement. Hence, the Report should not be used, circulated, quoted or otherwise referred either wholly or in part.
- Stromme Microfinance East Africa Limited shall be fully and solely responsible for applying independent judgment, with respect to the findings included in this Report, to make appropriate decisions in relation to future course of action, if any. We shall not take responsibility for the consequences resulting from decisions based on information included in the Report.

Structure

Rating Rationale

- Stromme has a strong & professional Governing Board; provides strategic guidance and overall supervision
- Experienced, stable & motivated management team
- Stromme adopts unique concept of sharing in a range of 2% to 10% of their surplus for capacity building support for their partners. In the last four years, they have deployed UGX 688 million (US$182,000) for this activity.
- Good asset quality levels given the size of operations. Articulated prudent norms for loan loss provisions and write offs.
- Significant improvement in portfolio yield coupled with stable operating expense ratio has mitigated the loss to a large extent.
- Lack of recognition as a financial service provider by the tax authority poses a threat in terms of high taxation.
- Profitability margins for the last two years have been impacted by high loan loss provisioning and foreign exchange losses. Operational self sufficiency is below 100% for 2017.
- Average diversity in resource profile impacting the outreach of the organisation as most of the resources are raised through key shareholders.
- Moderate post-disbursement monitoring mechanisms.

Operational & Financial Performance

Main Performance Indicators

	Unit	31 Dec-15	31 Dec-16	31 Dec-17
Gross Portfolio	UGX (000)	32,982,380	47,922,654	51,987,991
Active Partners	Number	23	20	23
Portfolio at Risk, 60 days (PAR_{60})	%	0.0	7.4	4.7
Capital Adequacy Ratio	%	59.8	45.1	41.7
Solvency Ratio	%	54.2	44.1	39.1
Loan Loss Reserve/Gross Portfolio	%	1.1	3.4	7.6
Debt-Equity Ratio	Times	0.8	1.2	1.5
	Year	**2015**	**2016**	**2017**
Portfolio Yield	%	13.7	15.8	17.1
Operating Expense Ratio (OER)	%	3.9	3.7	3.9
Finance Cost	%	8	9	11
Operational Self Sufficiency	%	160.1	149.6	96.1
Return on Assets (RoA)	%	3.0	1.5	-0.2
Return on Equity (RoE)	%	5.3	3.1	-0.5

This rating is valid for one year, subject to no other significant changes in the organisational structure and external operating environment.

Uganda – Political & Economical Environment

- Uganda has been relatively stable since the 1980s, experiencing both economic growth and the expansion of multi-party politics based on democratic principles. Uganda concluded its general elections in 2016 and the next elections are due in 2021
- Ugandan economic activity is set to accelerate over the coming quarters on the back of a recovery in bank lending, low inflation and rising public investment. The start of oil production by 2020 will give the economy a considerable boost; it is expected that the country will become a net oil exporter by 2022.
- The performance of the currency, Ugandan shilling, remained subdued during 2017 with annual depreciation reaching 4.8% in November 2017. Most of the depreciation was concentrated in October 2016 due to uncertain political conditions in Uganda and neighboring Kenya.
- The proportion of non-performing loans (NPLs) to gross loans in the banking sector increased to 7.2% in September 2017 from 6.2% in June 2017. Most of the demand for private sector credit was driven by individuals and households, agriculture and trade.
- According to the State of the Economy report of the Bank of Uganda (BoU), December 2017, inflation continued to moderate further, with annual average core and headline inflation falling to 3.7% and 4.7% during the quarter ended November 2017, from 4.5% and 5.8% respectively recorded in the quarter ended August 2017. The inflation forecast indicates that in the near term, the inflation outlook is slightly lower than earlier forecasts mainly on account of lower food prices.

Uganda – Financial Inclusion

- The Ugandan microfinance sector is characterized by a diverse set of MFIs organised under the Association of Microfinance Institutions in Uganda (AMFIU) and are regulated through a tiered regulatory system.
- The majority of MFIs fall under the Tier 4 structure and are not regulated by the Bank of Uganda. A new law to regulate Tier 4 structure MFIs, was passed by Parliament of Uganda in July 2016.
- The passing of the MDI Act in 2003 paved the way for seven MFIs to transform into Microfinance Deposit taking Institutions (MDIs) under Tier 3 of the regulatory system. Currently, there are only 5 MDIs registered under Tier 3 institutions. Tier 1 to Tier 3 are regulated by the Bank of Uganda and can pursue financial intermediation of clients' savings.
- Nearly one-half (46%) of Ugandans have financial services accounts, with mobile money leading the way to financial inclusion.
- The Bank of Uganda (BoU) in collaboration with the Ministry of Finance, Planning and Economic Development (MoFPED) and the members of the Inter Institutional Committee on Financial Inclusion (IICFI) launched the National Financial Inclusion Strategy (NFIS) 2017-2022.
- Since the inception of mobile money services in Uganda in March 2009, the number of registered subscribers increased to 14.2 million in December 2013, representing over 80% of the adult population with access to mobile money financial services.
- The most recent FinScope survey was carried out in 2018. Overall, 58% of the adult population above the of 16 years use formal services an improvement from 52% in 2013 and 25% in 2009.
- Imposition of tax on money transfer for each and every transaction is likely to impact the financial inclusion objective.

Tanzania – Political & Economical Environment

- In October 2015, the fifth President of the United Republic of Tanzania was elected. Since, then the political atmosphere in Tanzania is stable.
- This Government has prioritized efforts to clampdown on corruption, improve public administration and manage public resources for improved social outcomes.
- Tanzania has sustained relatively high economic growth over the last decade, averaging 6-7% a year. But while the poverty rate has declined, the absolute number of poor has not gone down because of high population growth.
- The annual inflation rate in Tanzania fell to 4% in December 2017 from 5.3% in September 2017. This decline is mainly due to an increase in the prices of food and non-alcoholic beverages and miscellaneous goods and services.
- Tanzania's real gross domestic product (GDP) growth rate slowed in 2017. The growth for the first three quarters of 2017 stood at 6.8% down from 7.3% during the same period in 2016. Although the real GDP growth rate is estimated to have slowed, it was the highest in the East African Community (EAD) for 2017.
- The banking sector witnessed the worst non-performing loans ratio which climbed up to 11.2% in 2017 from 9.5% in 2016. The industrial benchmark is 5.0%.

Tanzania – Financial Inclusion

- The National Financial Inclusion Framework 2018-2022 (NFIF2) is the second framework to be implemented under the Financial Inclusion National Council, building upon the first Framework (NFIF1), which was implemented over a period of three years from 2014 and ended in December 2016.
- Formal financial inclusion has grown from 58% in 2013 to 65% in 2017 as well as a reduction in the use of informal financial services from 16% to 7% in the same period.
- The first framework has demonstrated remarkable progress in expanding the opportunities for people to access financial services. Continuing with this, the second framework emphasized thrust on the use of financial services as the next phase of Tanzania's financial inclusion journey.
- The financial sector grew at an average of 13% during the past three years in terms of assets. The sector is dominated by the banking sub-sector which accounted for 70% of growth.
- The National Microfinance Policy (NMP) 2017 was launched in October 2017. The objective of NMP 2017 is to promote financial inclusion by creating an enabling environment that promotes the development of appropriate and innovative microfinance products and services to meet the real needs of the low income population that enhances economic growth and accelerates poverty reduction.

Kenya – Political & Economic Environment

- The re-election of the President, for a second five-year term, in the election of October 2017 has maintained political stability in Kenya.
- Economic growth slowed to 4.9% in 2017 from 5.9% in 2016. This was largely on account of the adverse weather conditions that affected agricultural performance, coupled with uncertainties associated with the prolonged electioneering in the second half of the year.
- Agriculture sector growth decelerated to 1.6% in 2017 from 4.7% in 2016, following unfavorable weather conditions that adversely affected production.
- Overall inflation remained elevated in the first half of 2017, owing to increased food prices occasioned by unfavorable weather conditions during the first half of 2017. Consequently, annual average inflation increased to 8.0% in 2017 from 6.3% in 2016.
- With the intervention of the Government, inflation had fallen within the lower band of the Government's medium term target; it stood at 4.7% and 4.5% in November 2017 and December 2017.
- In tandem with the subdued economic activities, the banking sector registered a decline in performance. The asset quality registered a decline with the non-performing loans ratio increasing from 9.3% in December 2016 to 12.3% in December 2017.

Kenya – Financial Inclusion

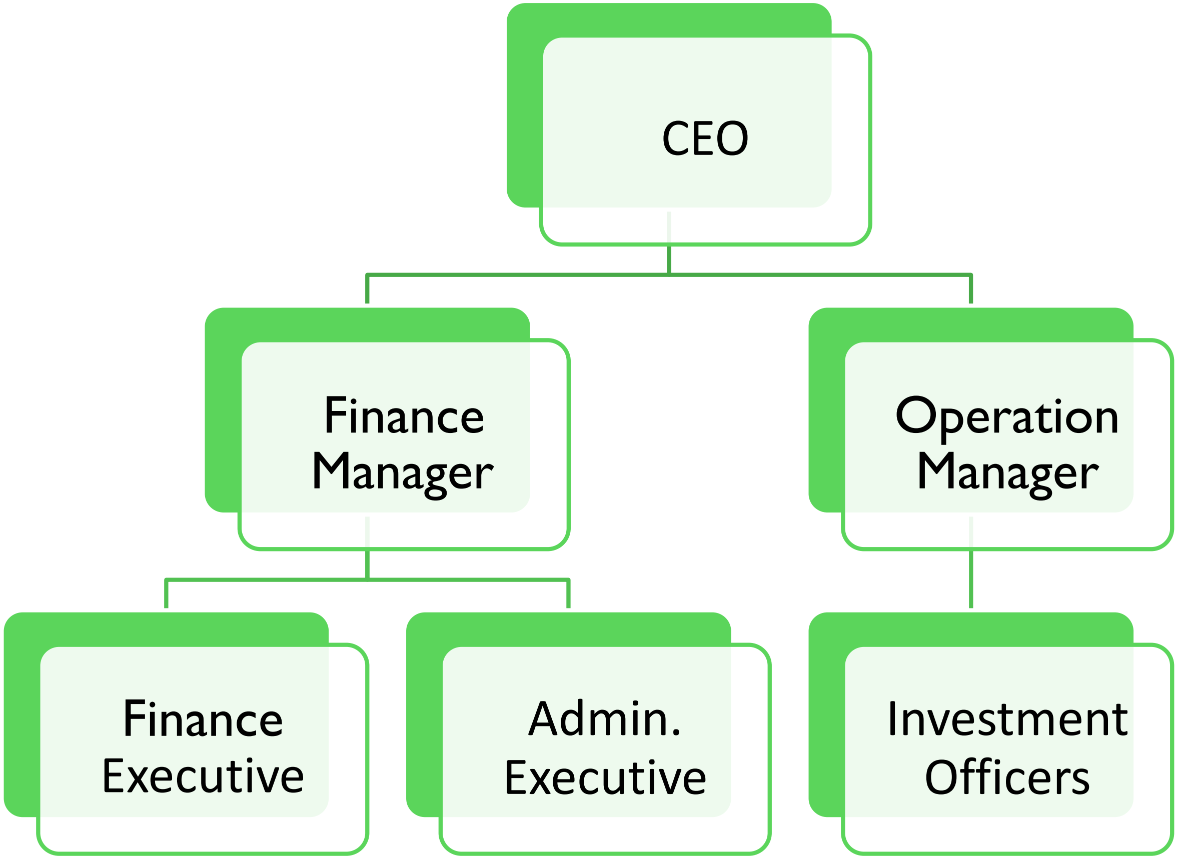
- Kenya capped commercial lending rates in September 2016 at 4 percentage points above the central bank's benchmark rate, in an attempt to limit the cost of borrowing for businesses and individuals.
- Kenya is contemplating modifying the law that caps commercial lending rates, recognising that access to credit for small and medium enterprises (SMEs) had dried up as a consequence.
- After dropping between 2013 and 2014, financial inclusion increased by 8% points between 2014 and 2017, from 65% to 73%.
- The proportion of adults with registered NBFI accounts increased significantly between 2016 and 2017 from 9% to 13%.
- The rural/urban locality gap narrowed from 17% to 12% from 2014 to 2017. The income gap also narrowed over the same period as financial inclusion expanded among below-poverty adults, while staying constant in the above-poverty group.
- Nearly 79% of Kenya's adult population owned a mobile phone in 2017. The digital financial services market in Kenya continued to develop beyond basic transfers as active mobile money users continued their rapid uptake of new and existing products and services, including merchant payments, bill payments, government payments and transfer, and credit, savings, investment and insurance.

Overview

- Stromme Microfinance East Africa Limited (Stromme) was incorporated as a company limited by shares in April 2004 as a spin-off of the microfinance activities of the Regional office in East Africa of Stromme Foundation, Norway.
- Stromme is owned by Stromme Microfinance AS-Norway (57.90%), Stromme Foundation East Africa (12.60%), Solidarite Internationale pour le Developpement et l'Investissement (SIDI)-France (10.10%) and Catholic Organization for Relief and Development Aid (CORDAID)-Netherlands (19.40%). The operations of Stromme cover three countries viz: Uganda, Kenya, and Tanzania.
- Stromme Foundation (SF) is a Norwegian based international development organization that has, since 1976, worked to help people in Asia, South America, West and Eastern Africa to get them out of poverty. SF currently works in 13 countries including Kenya, Tanzania, Uganda & South Sudan which are under Stromme Foundation Eastern Africa.
- Stromme is a Microfinance Investment Vehicle (MIV) that provides financial services and capacity building support to their partners with the objective to enhance access to financial services for the enterprising poor in the East African region.
- Stromme operates through intermediaries viz: established Microfinance Institutions (both regulated and unregulated MFIs), Community Banks and Savings and Credit Cooperatives (SACCOs) that can ably deliver financial and non-financial services to the enterprising poor.

Organisational Structure

- Stromme has a lean organizational structure with a team size of seven members including the Chief Executive Officer. The CEO, Ms. Harriet Mulyanti is supported by eight member team. The internal audit function is outsourced and reports directly to the board.



Governance and Strategy

Governance
Operational Growth & Strategy
Competition & Human Resource Management
Resource Profile

Governance

- Stromme's Board of Directors is comprised of qualified professionals with long experience in the development & social sectors, banking, finance, economic policy management & microfinance. All the Board members participate actively in decision making.
- The governing board of Stromme is comprised of 9 members including the Chief Executive Officer. The CEO represents the board as Secretary. The Board Chairperson, Mrs Priscilla M. Serukka is the Regional Director of Stromme Foundation East Africa. She has been associated with Stromme Foundation for more than a decade supervising its overall developmental engagements in four countries.
- Stromme has 5 Board level committees – Audit Committee, Executive Committee, Finance Committee, Operations Sub Committee & Social Performance Management Committee. The committees meet every quarter and provide valuable direction to the Board.
- The Board provides leadership and strategic guidance, objectively reviews management decisions and discusses detailed performance of each partner during its meetings.
- Stromme has formulated strategies to mitigate competition. The capacity building initiatives and their long term relationship with their partners differentiate Stromme from their peers.
- Stromme's key management team is stable and each person has relevant experience in their respective domains.

Operational & Growth Strategy

- Stromme prepares five year business plans that are vetted by the board. The new five year business planning process for CY 2019-23 is in progress. The business plan is revised every year based on market conditions.
- Stromme intends to open up new partnerships with producer groups, cooperatives, small and medium enterprises and social enterprises. Stromme has implemented strategies towards agriculture financing and has plans to engage with 4 agriculture producer organization/ cooperatives by the end of December 2018.
- To meet the budgeted loan portfolio target of UGX62.32 billion for 31 December 2018, Stromme has plans to increase its exposure in Tanzania and Kenya with new and existing partners. The portfolio exposure of Tanzania is to increase to 35.3% in 2018 from 23.5% during 2017; similarly Kenya's portfolio exposure is expected to reach 14.2% in 2018 from 11.1%.
- Capacity building grants are drying up as the key shareholders are diverting their grants towards other sectors like education. Given this scenario, Stromme is contemplating a cost-sharing approach to capacity building intervention. Stromme has plans to approach large companies to tap capacity building grants.
- During the first half of 2018, Stromme had a provisional net surplus of UGX 575 million compared to its target of UGX 608 million for CY 2018. This improvement is mainly attributed to Stromme's focus on financial and operational risk mitigation practices.

Competition & Human Resource Management

Competition

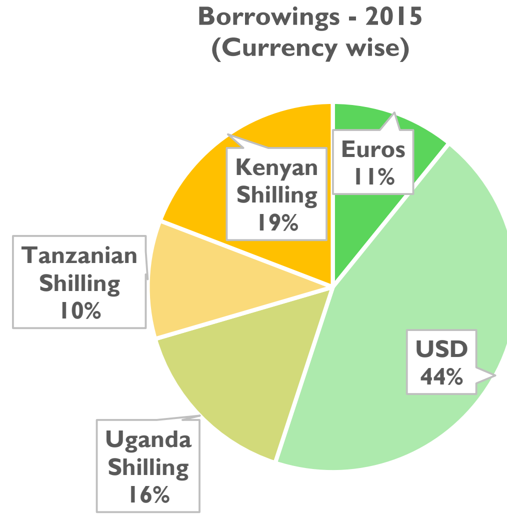
- Stromme faces competition from its peers. For the last four years Stromme has not been able to expand its partner numbers which remained flat at sub-25 levels due to various external factors within the operating geographies. During 2018, Stromme has plans to increase the partnership to 32 organisations.
- Competition is bound to increase as other players have mobilized low cost resources for their lending and capacity building initiatives. To address this, Stromme has plans to diversify its product offerings which are addressed to expanding the enterprising poor segment.
- Stromme actively monitors market penetration using data from various sources and in-house analysis.

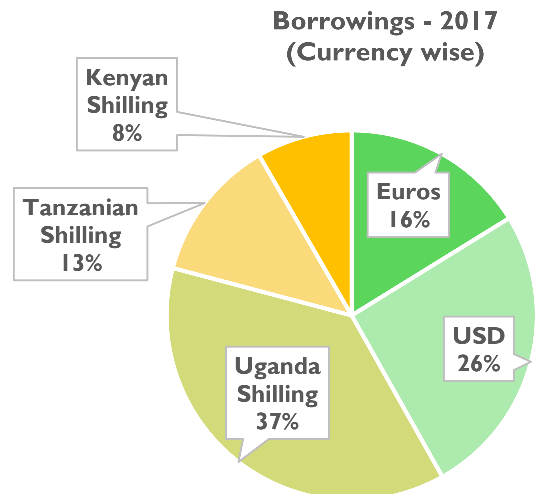
Human Resource Management

- Stromme has well defined HR policies and procedures for recruitment, training, compensation, appraisal, promotion, exit and whistleblowers. Given the size of the operations Stromme have plans to create a separate department for Human Resource.
- Stromme conducts 360 degree performance appraisal and it also conducts mid-year performance review for all staff.
- All the team members have attended various trainings on operational, financial and social modules. Two of Stromme's investment officers are recognised SPI auditors certified by CERISE.

Resource Profile

- Stromme's resource profile is moderate as most of its debts are raised through its key shareholders like Stromme Microfinance AS, SIDI and CORDAID whereas Kolibri, Centenary, Grameen where independent debt providers.
- During 2017, Stromme has increased its total borrowing by 22% to UGX 32 billion from UGX 26 billion on 31 December 2016.
- As on 31 December 2017, Stromme's borrowings were in the currencies of five Countries. USD and Euros constituted 42% of total borrowing during 2017 which had reduced from 55% during 2015.
- Stromme was able to increase its borrowing in UGX significantly in the last three years. This increased from 15% during 2015 to 37% in 2017. Going forward, Stromme has plans to raise this further to more than 50% to mitigate potential forex loss.
- During the first half of 2018, Stromme has prepaid its borrowing from Grameen Credit Agricole, which assisted it in registering foreign exchange gains of UGX 401 million (provisional).





Risk Management Systems

Credit Assessment & Monitoring Framework
Internal Control Systems
Asset Liability Management

Credit Assessment & Monitoring Framework

- Stromme's credit assessment framework is good, however the monitoring mechanism is moderate given the size of operations. Going forward, Stromme's product intervention to new segment is likely to be challenging and hence it will have to enhance its risk management systems.
- Stromme has a detailed operational manual in place. The operations manager and investment officers continuously monitor the operational and financial performance of prospective partners through various networks and at a suitable time approach them for a relationship.
- Due diligence is conducted along with desk appraisal and site visits. The Stromme team spends considerable time on analysis. After the management interaction and field visit, the investment officer prepares a comprehensive report which is submitted to the operations committee for approval. Stromme follows three tier credit approval mechanisms depending upon the credit exposure. Any exposure above US$ 300,000 has to be approved by the board.
- Each partner is monitored by Stromme's investment officers on a monthly basis. However M-CRIL believes that in order to improve its monitoring, Stromme has to develop an internal grading framework to differentiate its partners based on their operational and financial performance.

Internal Control Systems

- The overall risk management framework is adequate and dedicated committees are in place. However, Stromme has to implement best practice policies to strengthen its risk management systems. Going forward, M-CRIL believes that Stromme may face challenges in terms of various operational risks as it plans to enter new product segment which could hinder its profitability.
- Stromme's liquidity risk management policies are adequate. Disbursement and repayments from partners are aligned to ensure balanced interest income flow.
- Stromme is in the process of identifying new lenders to overcome the foreign exchange risk. During 2018, the pre-payment of one foreign currency loan helped to reduce this risk. Stromme maintains its currency exposures well within the set benchmarks.

Asset Liability Management

- Stromme has a good asset-liability maturity profile. Gap analysis is conducted on a monthly basis to ensure it meets its debt obligations.
- Interest rate risk is mitigated as Stromme sources country specific funding and adopts country specific costing to match the interest rate.

Financial Performance

Asset Quality & Efficiency
Capital Adequacy
Profitability and Sustainability

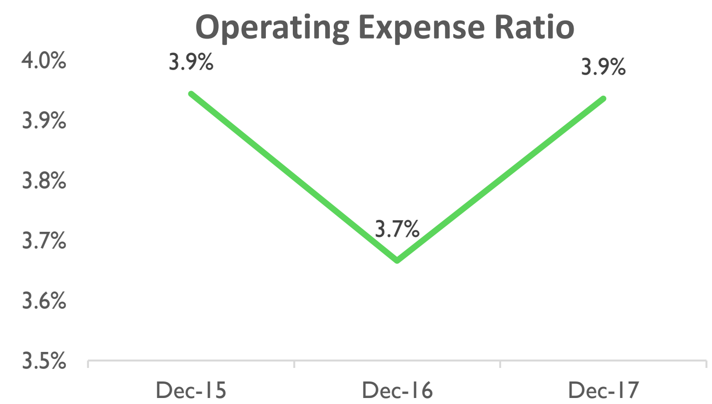
Asset Quality, Efficiency & Capital Adequacy

Asset Quality

- Stromme's PAR_{30} has improved to 4.7% during 2017 from 7.3% during 2016. This improvement is basically due to increase in loan portfolio. Stromme does 100% provisioning for its default portfolio above 180 days and writes off the portfolio default above 365 days.
- Stromme's asset quality was impacted only because of Pride Tanzania. Legal proceedings are underway and Stromme was able to collect the arrears amount from the other partner during CY 2018.

Operating Efficiency

- The operating expense ratio has been stable for the last three years in the sub-4% range. The marginal increase during 2017 was mainly because of an increase in personnel and administrative expenses.

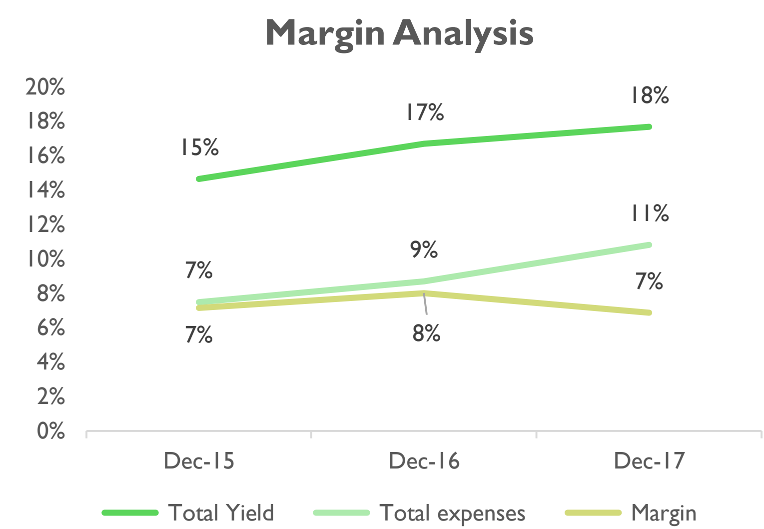


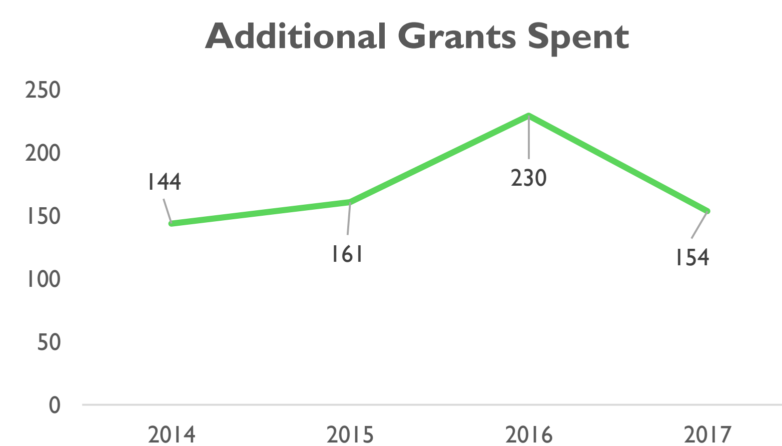
Capital Adequacy

- Stromme's risk weighted Capital Adequacy Ratio (CAR) was healthy at 41.7% on 31 December 2017, substantially less than over the past few years. M-CRIL believes that this healthy CAR is adequate to support the business growth in the short to medium term.
- Accumulated retained earnings account for 31% of its net worth on 31 December 2017.

Profitability & Sustainability

- Stromme's overall yield has improved sharply to 18% during 2017 from 15% during 2015. This improvement could be attributed to the management's prudent sourcing and lending practices.
- Total expenses have increased sharply from 7% during 2015 to 11% during 2017, mainly due to higher loan loss provisions & taxation on provisions and foreign exchange losses. An favorable solution to regulatory recognition as a financial service provider will enable Stromme to improve its margins significantly going forward.
- Stromme's unique concept of carving out 2 to 10% of their surplus towards capacity building initiatives differentiate them with its peers. Stromme had spent nearly an additional UGX 688 million in the last four years for capacity building initiatives impacting its margins and operational self sufficiency. During 2017 it spent close to UGX 154 million and incurred a loss of UGX 106 million.





Annexes

Annex 1: Financial statements of Stromme, Uganda

Balance Sheets (UGX 000)

ASSETS	31-Dec-15	31-Dec-16	31-Dec-17
Current assets			
Cash and cash equivalents	4,495,548	1,371,713	4,316,916
Payments and Advances	1,381,975	1,594,691	2,922,195
Investments	7,650	7,650	-
Loan portfolio			
Gross portfolio	32,982,380	47,922,654	51,987,991
(Loan loss reserve)	363,366	1,646,548	3,972,199
Net loans outstanding	32,619,014	46,276,106	48,015,792
Total current assets	**38,504,187**	**49,250,160**	**55,254,903**
Long term assets			
Net tangible assets	101,000	83,650	81,118
Net intangible assets	4,204	8,018	5,613
Total long term assets	**105,204**	**91,668**	**86,731**
Total assets	**38,609,391**	**49,341,828**	**55,341,634**

…Balance Sheets (UGX 000)

LIABILITIES AND NET WORTH	31-Dec-15	31-Dec-16	31-Dec-17
Current liabilities			
Current payables	800,614	1,070,870	1,689,126
Other liabilities	51,460	384,167	93,000
Total current liabilities	**852,074**	**1,455,037**	**1,782,126**
External borrowings			
Borrowed funds	16,811,925	26,281,654	32,061,020
Net long term debt	**16,811,925**	**26,281,654**	**32,061,020**
Sub debt			
Total liabilities	**17,663,999**	**27,391,452**	**33,473,656**
Net worth			
Share capital	14,881,914	14,881,914	14,881,914
Retained net surplus/(deficit)	6,063,478	6,723,223	6,616,574
Total net worth	**20,945,392**	**21,605,137**	**21,498,488**
Total liabilities and net worth	**38,609,391**	**49,341,828**	**55,341,634**

Income Statements for the period (UGX 000)

Financial year	2015	2016	2017
Income	4,853,751	6,431,802	7,940,108
Interest income from loans	4,791,643	6,110,048	7,511,469
Short term investment	62,108	321,754	428,639
Other operating income	318,675	358,979	261,635
Total income	**5,172,426**	**6,790,781**	**8,201,743**
Financial costs			
Interest on borrowings	1,251,217	2,040,602	3,187,807
Foreign Exchange Loss/(Gain)	584,541	-278,798	1,191,039
Total Financial expenses	1,835,758	1,761,804	4,378,846
Gross financial margin	**3,336,668**	**5,028,977**	**3,822,897**
Provision for loan losses	-	1,283,182	2,325,652
Write-offs	-		
Net financial margin	**3,336,668**	**3,745,795**	**1,497,245**
Operating expenses			
Salaries and benefits	733,954	795,437	971,884
Administrative expenses	626,099	667,289	828,912
Depreciation	34,865	30,324	27,256
Total operating expenses	**1,394,918**	**1,493,050**	**1,828,052**
Net surplus/deficit	**1,941,750**	**2,252,745**	**-330,807**
Non operational income (donor grants)	479,406	206,460	42,446
Non operational expenses	640,345	436,171	196,273
Profit before tax	**1,780,811**	**2,023,034**	**-484,634**
Income tax	693,549	1,363,289	-377,985
Profit after tax	**1,087,262**	**659,745**	**-106,649**

Annex 2: Profile of the Board

Board Member	Position	Representing	Experience
Mrs. Priscilla Serukka	Chairperson	Stromme Foundation East Africa- Regional Director	Mrs. Serukka has more than two decades' of experience in Microfinance and in particular wholesale lending and SME's. She was associated with Uganda Commercial Bank and worked under various capacities mainly in the Development Finance Division.
Mr. Bjorn Stian Hellgren	Director	Stromme Microfinance AS	Mr. Hellgren holds a Master's degree in Business and Administration from the University of Agder, where he completed his thesis on microfinance. He has served as a Board Member in various companies related to Strømme Foundation and Strømme Microfinance. He currently serves as the Board Chairman in Stromme Microfinance Asia.
Mrs. Clare Wavamuno	Director	Independent	She holds a post graduate (MA) in Investment Appraisal and Management from Harvard University. She is also a Chartered Secretary in Administration and Finance from the London School of Accountancy. She also holds a certificate in Corporate Governance from the Centre for Corporate Governance in Kenya and has had training on Social Performance Management from CERISE.
Mr. Edward Sekabanja	Director	Stromme Microfinance AS	Edward Kato Sekabanja has completed his LLM, Computers & Communications Law from the University of London, Queen Mary and holds an LLB Honours from Makerere University. He is the Managing Partner of M/s Sekabanja & Co. Advocates, Kampala Uganda and an Advocate of the High Court of Uganda.
Mr. Quentin Lecuyer	Director	SIDI	He holds a Masters' degree in Microfinance from ULB / Solvay Business School (Brussels) and a Master's degree in Financial Analysis from the University of Lille II (France).
Mrs. Rosemary Kantai	Director	Independent	Mrs. Rosemary holds a Masters in Education (Entrepreneurship) from the university of Illinois and a Bed (Hons) in Business Administration and Economics from Kenyatta University. She is currently undertaking a PhD in Leadership and Governance from Jomo Kenyatta University of Agriculture and Technology (JKUAT).
Mrs. Aasa Sildnes	Director	Stromme Microfinance AS	Mrs. Aasa holds an MBA from University of Cape Town and a Bachelor Degree in Entrepreneurship from Norwegian School of Management. She owns business consulting company providing services for business development in emerging markets.
Mrs. Claudia Huber	Director	CORDAID	Claudia holds a Masters' in Business Administration/Economics(Major in strategic management and controlling and corporate finance/thesis on Social Entrepreneurship) , CEMS-Master in International Management and a Postgraduate Program in International Affairs.
Mrs. Sarah Tumwesigye	Director	Independent	Mrs. Sara is a Certified Public Accountant and is a member of the Institute of Certified Public Accountants of Kenya and Uganda. She holds a Postgraduate Diploma in Financial Management from the Uganda Management Institute and Bachelor of Statistics Degree with a major in Data processing from Makerere University. More than two decades of experience in audit and accounting from Deloitte and Touché.

Annex 3: Glossary

- **Portfolio at risk (PAR (>60days)**:The principal balance outstanding on all loans with overdues greater than or equal to 30 days /Total loans outstanding on a given date.
- **Loan loss provisioning ratio:** Total loan loss provisioning expense during period /Average portfolio
- **Yield on portfolio:** Loan related income during the period /Average loan portfolio for the year
- **Financial cost ratio:** Total interest expense during the period /Average portfolio
- **Operating expense ratio:** Total operating expenses (incl. depreciation) during the period / average loan portfolio
- **Personnel expenses ratio:** Personnel (or staff cost) during the period / Average loan portfolio
- **Net operating margin:** Difference of (yield on portfolio+ yield on other income) and (operating expense ratio + financial cost ratio+ loan loss provisioning) – also known as spread on portfolio
- **Return on asset (RoA):** Operational income (or loss) after tax during the period /Average assets
- **Return on Equity (RoE):** Ratio of operational income (after tax)/(loss) to average net worth
- **Operational Self-Sufficiency (OSS):** Ratio of total income to total costs for the period
- **Debt to Equity Ratio:** Total liabilities / Total equity
- **Capital Adequacy Ratio:** Total net worth / Total risk weighted assets

Annex 4: M-CRIL rating grades

M-CRIL Grade	Description
α+	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➢ Most highly recommended
α	Good governance, excellent/good systems, healthy financial position ➢ Highly recommended
α–	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➢ Recommended
β+	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➢ recommended, needs monitoring
β	Moderate systems. Low safety ➢ acceptable only after improvements are made on specified areas
β–	Weak governance, weak systems. Significant risk ➢ not acceptable but can be considered after significant improvements
γ+	Weak governance, poor quality systems. High risk ➢ needs considerable improvement
γ	Weak governance, poor systems, weak financial position. Highest risk ➢ not worth considering

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution will lower its rating performance by one notch in one year period.