

<b>INMAA - First Rating</b>	<b>MOROCCO</b>
<b>Association</b>	<i>Report as of December 2005</i>

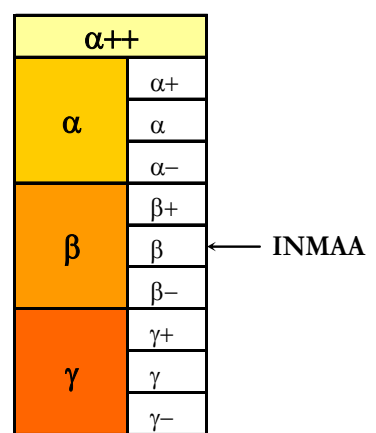
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<b>PERFORMANCE RATING</b>	<b>β</b>
<b>RATING OUTLOOK</b>	<b>POSITIVE</b>

Date of visit **April 2006**  
 Date of previous rating **n.a.**  
 Previous rating **n.a.**



<b>Main Performance Indicators</b>		
	<b>Dec '04</b>	<b>Dec '05</b>
Gross Portfolio ('000's)	\$866.5	\$1,260.4
Number of active borrowers	4,878	6,185
ROE	(10.3%)	8.1%
Portfolio Yield	35.7%	39.2%
Portfolio at Risk	0.2%	0.4%
Operating Expense Ratio	50.8%	34.0%
Average Loan Size	\$178	\$204
Borrowers per staff	174	229

**Synopsis**

Initially set up as an Association (effectively an NGO) in 1999, with the support of AMSED (the association which initiated microcredit in Morocco in 1993), INMAA started operations in 2001 with the financial support of USAID, Catholic Relief Services ("CRS") and the Hassan II Fund (a government initiative). The institution is characterised by excellent portfolio quality (it has developed a sound credit methodology) and in 2005 attained financial sustainability for the first time. Going forward, improving profitability will depend on the institution's ability to finance growth. Access to donor funds has been insufficient to meet growth targets and hence access to commercial borrowings has become increasingly urgent. In 2005, INMAA actively slowed growth due to funding constraints. As such the portfolio grew 45.5% (2004: 164.7%) to \$1.3 million. INMAA makes mainly solidarity group loans to around 6,000 active borrowers through its 10 branches.

**Highlights**

The rating is contingent on INMAA maintaining sufficient levels of funding such that growth and its competitive position are not jeopardized.

- POSITIVE**
- Reported a net profit for the first time in 2005.
  - Significant improvement in operating efficiency.
  - Good portfolio quality.
  - Good lending methodology.

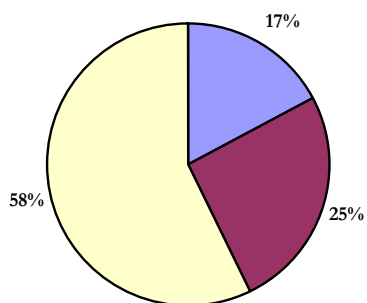
- NEGATIVE**
- Growth limited by funding constraints.
  - Weak MIS.
  - Products limited and supply driven.
  - Limited operational structure (neither an Audit Department nor Risk Committees).

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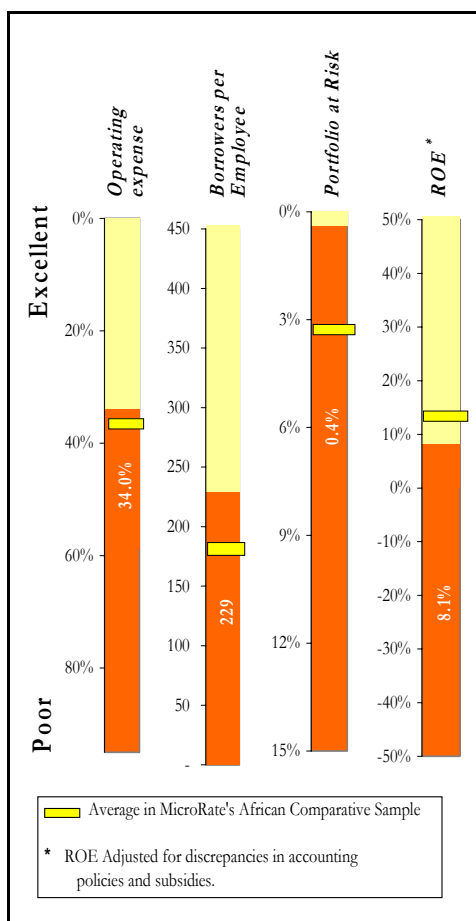
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<b>INMAA</b>	<b>MOROCCO</b>	<b>December 2005</b>
<b>Sources of Funding</b>	<b>Rating Rationale</b>	



■ Commercial Borrowing 
 ■ Subsidized Borrowing  
■ Equity



The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loans < US\$500.

**Profit recorded for the first time** – For the first four years since inception, the institution reported successive losses, which significantly weakened the balance sheet. Following a significant improvement in efficiencies, INMAA made a profit in 2005.

**Good portfolio quality** – Given that the majority of the portfolio is comprised of group loans, one would expect portfolio at risk to be low. Although still excellent, combined with write-offs of 0.9%, PaR increased to 1.3% (2004: 0.6%).

**Low gearing** – Despite total debt increasing almost 11 times since 2003, INMAA's debt: equity ratio remains well below average at 0.8. With margins widening significantly in 2005, there is scope for the MFI to absorb higher funding costs in the short term.

**Competent management and staff** – Management and staff know their jobs well and are committed to achieving the institution's goals and objectives.

**Serious funding bottleneck** – Growth rates fell in 2005 owing to insufficient funding. In order to cope with this constraint, INMAA delayed disbursements to new clients. Given the increasingly competitive environment (dominated by a few larger Associations), this places the institution at a further disadvantage.

**Limited product offering** - Designing effective credit products will be essential to grow the portfolio. This will become increasingly important as competition increases.

**Inadequate MIS** - Loan tracking and accounting systems are not integrated and the Excel based system is prone to error. Reporting is time consuming and requires multiple entry of data. Although the system can be easily adapted and modified, reporting still needs to be improved.

## Country Overview

Macroeconomic Information	Dec 02	Dec 03	Dec 04	Dec 05
Annual Inflation	2.8%	1.2%	0.4%	0.3%
Exchange Rate per US\$	10.2	8.8	8.2	9.0
Annual Currency Devaluation	(12%)	(14%)	(6%)	9%
Deposit Rate (Year Average)	4.5%	3.8%	3.6%	3.5%

Source: International Finance Statistics

The microfinance industry in Morocco is relatively young. The first programs designed to finance low income people date back to between 1993 and 1994.

The microfinance industry has grown rapidly. Cumulatively, more than 3 million loans have been disbursed and more than 630,000 clients served. All Associations mainly focus on solidarity group loans but more recently, there is a movement towards both individual and housing loans.

The market is potentially large and offers significant scope for growth. At the moment, the rural market remains largely untapped, with only 20% (approximately) of the bankable population served. Conversely, urban areas are becoming increasingly saturated, and given the lack of a credit bureau in Morocco, multiple borrowing is becoming a problem.

Microfinance is regulated by law (N°18-97) and does not allow Associations to collect savings. It also places restrictions preventing MFIs from diversifying its products away from traditional micro loans.

Associations are lobbying for a change in this law, in order to be able to: first, respond to client needs by offering them a wider variety of products, and second,

to mobilize cheaper sources of funding. The maximum loan size is currently limited to \$5,580.

Control of the sector lies with three main bodies: the Consultative Council of Microcredit, the Monitoring Committee and the National Federation of Microfinance Associations (“FNAM”). The first has a consultative role with the Ministry of Finances; the second supervizes compliance with the law and the last establishes the rules and is responsible for the “proper” development of the sector.

The banking sector is mainly concentrated in the urban areas. Although banks are increasingly interested in microfinance, as yet none have moved downscale. Notwithstanding this potential threat, these national banks represent the second largest source of funding for Moroccan Microfinance Associations. Furthermore, consumer credit is about ten times the size of the microfinance market, but as yet these two markets do not overlap.

Competition among Associations is not very strong and institutions consider each other as colleagues. Among the main players, there are 4 large (Al Amana, Zakoura, Fondation Banque Populaire and Fondep), 2 medium and 5 small MFIs.

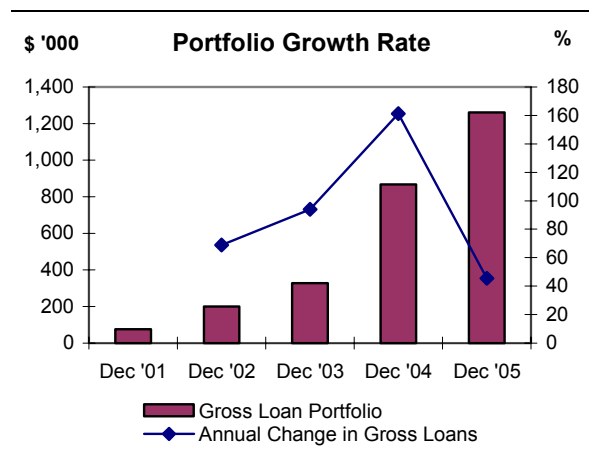
INMAA is one of these smaller MFIs and although young, it is firmly entrenched in the microfinance sector. Despite this and the challenges it has to overcome (*see Governance and Strategic Positioning*), the institution is well placed to grow both in terms of client numbers and portfolio size.

## Microfinance Operations

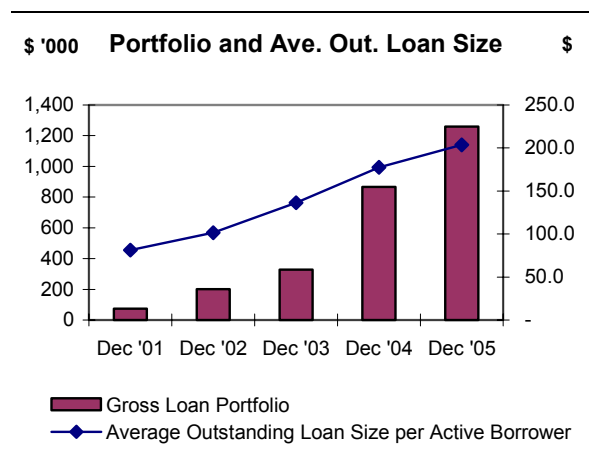
Main Indicators	31 Dec-01	31 Dec-02	31 Dec-03	31 Dec-04	31 Dec-05
<b>Gross Loan Portfolio (000's)</b>	\$74.9	\$200.0	\$326.6	\$866.5	\$1,260.4
<b>Number of Active Borrowers</b>	922	1,980	2,402	4,878	6,185
<b>Asset Quality</b>					
Portfolio at Risk / Gross Loan Portfolio	n.a.	0.2%	0.7%	0.2%	0.4%
Loan Loss Provision Expense / Average Gross Portfolio	0.5%	0.2%	-	-	1.0%
Loan Loss Reserves / Portfolio at Risk	-	159.1%	36.6%	-	208.0%
Write-offs / Average Gross Portfolio	-	-	0.1%	0.4%	0.9%
<b>Efficiency and Productivity</b>					
Operating Expenses / Average Gross Loan Portfolio	65.6%	49.9%	66.0%	50.8%	34.0%
Cost per Borrower	\$107.5	\$101.4	\$79.5	\$83.4	\$65.3
Average Outstanding Loan Size	\$81.3	\$101.4	\$136.3	\$177.6	\$203.8
Number of Borrowers / Credit Officer	132	248	172	232	326
Number of Borrowers / Staff	102	165	120	174	229

INMAA is good at making and recovering small, unsecured loans. Although still relatively young, the institution has a keen sense of their market, know their business, and have processes and systems that function well.

With a high quality portfolio (see *Portfolio Quality*, below) of little over \$1.3 million equivalent in local currency, INMAA is an emerging player in the Moroccan microfinance industry. Loan growth exceeded the African average in 2004, but constrained by available funding rather than demand, growth slowed considerably to 45.5% in 2005.



This portfolio is managed through a nationwide network of ten branches. Branch co-ordinators help to knit this far-flung network together, and to insure consistent application of credit policy.



INMAA's market is largely rural (around 70%), with an average loan balance of \$206 that has been trending up in recent years as the portfolio matured.

### Group Loan Product

Term	3-12 months
Interest Rate	2% per month
Interest Type	Flat
Min loan	\$55
Max loan	\$1,100
Deposit	Nil
Group size	2-8 members

Note: With portfolio yield at 39%, other charges contribute to the higher cost of credit.

The principal product is the Solidarity Group Loan, which comprised 98.7% of the portfolio in 2005. Groups are self formed and comprise between 2 and 8 members who co-guarantee each other. Interest rates are 24% a year (flat). Loan terms vary from 3 to 12 months, with monthly repayments.

Aggressive expansion of the portfolio has been supported by the increased flexibility of the loan product. Aside from increasing the maximum loan size from \$550 to \$1,100, INMAA increased the loan term to 12 months, from a maximum of 8 months previously. Additional enhancements include reducing restrictions on group formation, which allows good clients to form smaller groups of just 2 members.

Whilst these changes have been necessary responses to competition, MicroRate notes that the product is remains supply driven.

Although the majority of clients (75%) have loans smaller than \$450, as the industry becomes more competitive, INMAA will have to respond. Not only would this require developing additional products to meet client needs, but further refining existing products will be essential.

In general, the MFI has benefited greatly from technical expertise (paid for by donors) which has underpinned the good lending methodology which exists today. Although there is no ratio analysis (a basic net income figure is calculated), the approval process works well within the Moroccan context. In order to mitigate risk, the institution places a strong emphasis on physical collateral (fixed assets, cars, livestock etc). Moreover, group cohesion has been reinforced by good training at the client level.

Once the loan officer makes a recommendation, the client's application is cross-checked before it is sent to head office. The final credit decision rests with the finance manager who authorises the disbursement (which can take up to ten days). This process is characteristic of a number of MFIs in Morocco and aims to make loan officers responsible for the quality of their colleague's portfolios.

The most obvious aspect of operational risk is cash management: all loans are both disbursed and collected in cash in the field or at branch offices. At the moment there is insufficient payment control at the branch level particularly given that clients make repayments to and receive loans from the credit officers. Generally a greater separation of functions is desired, as at the moment, the institution is open to fraud.

Multiple borrowing is also a problem and it is estimated that 50% of clients have more than 1 loan. Accordingly, the institution has to rely on group members to identify those with several loans. As this is not always effective, INMAA relies on its loan officers to informally liaise with those from other MFIs to curb the problem. So far, client over-indebtedness has not yet impacted significantly on portfolio quality, nor is it a contributor to the dropout rate.

The level of client attrition is low and estimated to be around 4%. Notwithstanding this, current funding constraints could lead to a rise in this figure. Already, INMAA has stopped making loans to new clients which puts the MFI at a distinct competitive disadvantage. Roughly 90% of these potential customers have moved to competing institutions as a result.

Whilst individual loans are not offered on a large scale, competition will demand that these loans are offered on a wider scale. Not only will clients prefer this (as it releases them from the burden of the group guarantee), but will offer higher loan sizes without a corresponding increase in cost.

### Individual Loan Product

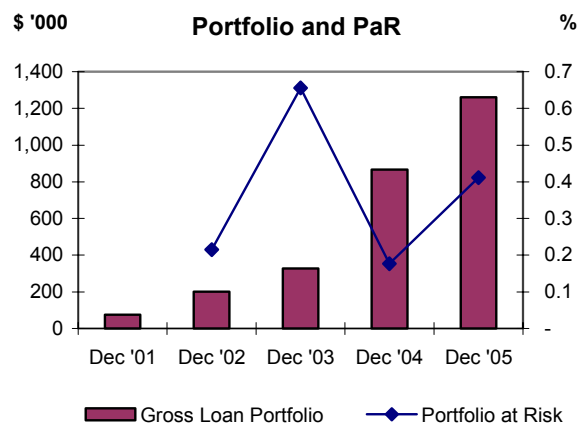
Term	6-24 months
Interest Rate	1.15% per month
Interest Type	Declining
Min loan	\$560
Max loan	\$2,230
Deposit	Nil

Loans are largely disbursed to farmers for livestock (fattening) as part of a program aimed at developing the breeding of goats in a region of Northern Morocco, whilst loans to tourism oriented business are being pilot tested (two loans have been made so far).

### Portfolio Quality

Asset quality is an outstanding strength in INMAA, and is a by-product of good training and client reinforcement.

The MFI has done well to improve group cohesion and accordingly Portfolio at Risk (over 30 days) – the principal measure of portfolio quality – remained low at 0.4% of the gross portfolio in 2005. This is better than the average (3.1%) for similar African MFIs rated by MicroRate.



Despite the excellent quality of the portfolio, it must be noted that write-offs increased to 0.9%, from 0.4% in 2004. Whilst MicroRate is comfortable with this level, the fact that PaR plus write-offs more than doubled to 1.3% in 2005 is a concern.

Portfolio Quality	December 2004	December 2005
Gross loan portfolio	\$866.5	\$1,260.4
Portfolio at risk	0.2%	0.4%
Write-offs/ Portfolio	0.4%	0.9%
PaR plus write-offs	0.6%	1.3%

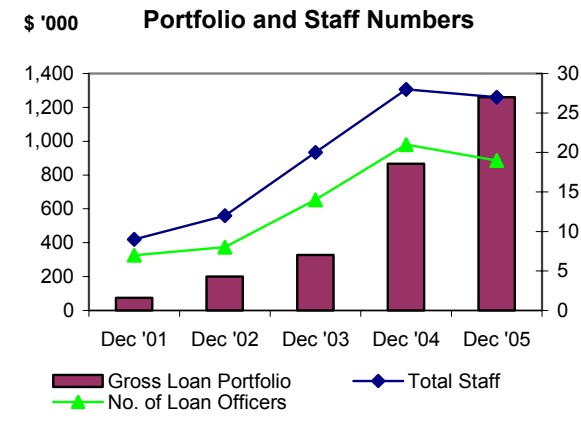
Historically, INMAA's provisioning has been erratic. In 2005, loan loss provisions more than adequately covered portfolio at risk (208%).

### Organization and Management

INMAA is based in Rabat and is headed by Mr Mustapha Ouchrahou, the founding General Manager. Mr Ouchrahou is supported by the Finance, Operations and IT Managers. There are however a number of gaps in management (there is no Internal Auditor nor HR or Marketing functions). Despite the small size of the institution, the MFI realises their importance and plans are in place to restructure the organisation and boost capacity.

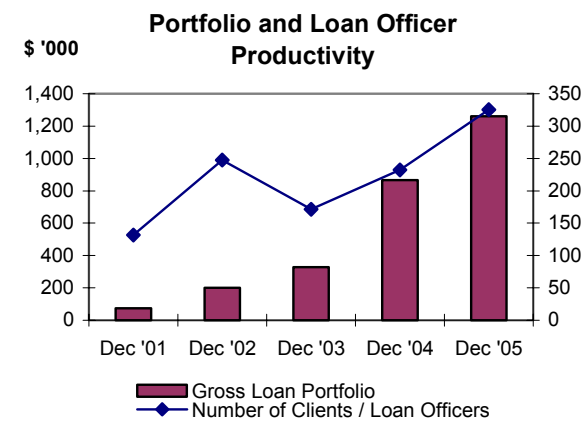
This restructuring will involve hiring a number of head office staff and will include dividing the role of Operations Manager (i.e. into development and credit).

For INMAA, this will be a welcome boost to capacity, but MicroRate fears that this could reverse the trend towards improved efficiencies.



Most recruitment and training takes place at the branch level, with co-ordinators responsible for this task. The MFI places strong emphasis on education and generally staff are competent, well trained and know their jobs well.

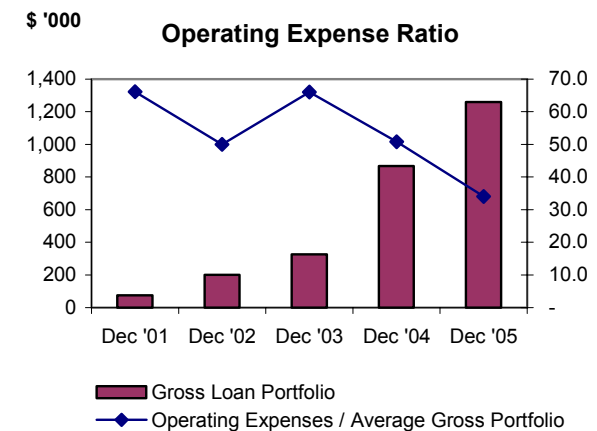
With the exception of 2005, the size of the staff has grown in line with INMAA's portfolio. The MFI has 27 staff members, 70% (19) of whom are loan officers (The percentage of loan officers is unusually high, a sign that INMAA has been able to keep administrative staff to a minimum). This can also be explained by the fact that loan officers are responsible for administrative work as well (they take on multiple roles, including taking turns to manage the branch).



In light of the above, the number of borrowers per loan officer remains slightly below MicroRate's African average of 364.

However, MicroRate notes that since 2003, productivity has improved significantly, with almost twice the number of borrowers served by each loan officer (326) in 2005. Similarly, the number of borrowers per staff increased to 229 (2004: 174), well above the average of 173.

This trend is positive and coupled with the consistent rise in the average outstanding loan size since 2001, INMAA's operating expense ratio almost halved to 34.0% in 2005 (2004: 50.8%).



As the portfolio continues to grow, INMAA will yield more economies of scale. However, a better indication of efficiency is the average operating cost per borrower. This decreased to \$65 in 2005, down from \$83 previously. This demonstrates that the institution's efficiency is actually fairly good, a consequence of the multiple tasks performed by loan staff.

INMAA has a new incentive scheme for loan officers, which is relatively easy for them to understand. Bonuses are paid out monthly and can be around 50% of a loan officer's net salary. Although most loan officers qualify for bonuses, the criteria set by management are strict. Despite this, management have adjusted the incentive scheme to account for the slow down in disbursements (owing to a lack of funds). This will go along way to boosting morale (which is somewhat low) and motivating staff further.

#### **Internal Audit and Internal Controls**

INMAA does not have an internal audit department, which weakens its supervisory and monitoring capabilities (especially given the widely dispersed branch network).

The MFI has defended itself against fraud and non-compliance through the hiring of supervisors, who are exclusively dedicated to the task of overseeing the branch coordinators. As there's no Internal Audit Department, those supervisors report to the regional coordinators.

Generally the level and reliability of internal controls are adequate, although the hiring of an internal auditor should be done sooner rather than later.

### ***Management Information and Accounting Systems***

INMAA uses mainly a Microsoft Excel® based loan tracking system, which was internally designed. Although this system is able to track most necessary data, it is inflexible and prone to error (due to the manual double entry of data). The system is not integrated and financial reports are generated using Soft Ad®, an accounting software.

The MFI is in the process of implementing new management software called SIEM. It is a modular based programme which was developed in Guatemala. Although there is adequate support, MicroRate believes that the geographic location of the developers is a constraining factor and is likely to lead to delays in problem solving.

The system (SIEM) is inflexible which can slow the modification of processes. Other problems relating to the importing of data are known to exist as well.

Ultimately, INMAA hope to use Linux as a means to interconnect all the branches. This will be expensive, but it is believed that the benefits of improved efficiencies and stronger internal controls should outweigh these costs in the long run.

Accounting at INMAA is centralised. Consolidated data are sent by branches to head office daily where they are entered into a database and again into Excel. Consolidated reports are available monthly, generally 2 weeks after month end.

### **Governance and Strategic Positioning**

INMAA operates as an Association<sup>1</sup>, and is governed by a General Assembly ("GA"), which includes 30 representatives from a variety of backgrounds.

The Board of Directors is appointed by the GA and comprises of 9 individuals. The Board meets quarterly.

The chairman of the Board is also the head of FNAM. He has a strong business background and has been instrumental in the development of the industry. Generally, the Board functions well and is stable. Most importantly, its key members exhibit awareness of the principal risks facing the company. There are no formal auxiliary Board committees (Risk, Audit and Finance). These have not yet been contemplated, but will become more urgently necessary as the institution grows and reliance on commercial funding sources increases.

On the whole, the quality of governance was found to be good.

INMAA's main strategic issue is currently how to finance growth. Reliance on subsidized funds has been insufficient to meet growth targets and hence obtaining commercial borrowings has become increasingly urgent. Failure to attract sufficient capital has forced the institution to deliberately slow down growth, and already this is hampering INMAA's ability to strengthen its market presence (for example, no disbursements to new clients are being made). As such, the MFI runs the risk of losing potentially profitable clients to competitors.

At the moment, INMAA is roughly \$400,000 short of its funding requirements for 2006. Already the market is becoming increasingly competitive and as INMAA does not have the critical mass of some of the larger Associations, it can ill afford to put itself at a further disadvantage. A concern is that fewer new loans are being requested, which could signal that clients are aware of the MFI's funding bottleneck.

Overall, INMAA plans to continue focussing on group lending. Although the dominance of group loans reflects the microfinance industry's youth, it is expected that individual lending will become increasingly popular.

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<sup>1</sup> An Association is defined as a not for profit institution, which has no capital or shareholders. Any capital provided by an individual or institution is regarded as a grant.

There is already strong demand for these products, and that INMAA has begun to diversify its portfolio is positive. However, refining and expanding the product is going to be difficult given the lack of funding. Without access to sufficient capital, growing the individual portfolio will be a challenge and failure to do so could result in INMAA being left behind its competitors.

It is also important that products are made more demand driven, for if not, growth could be jeopardised further.

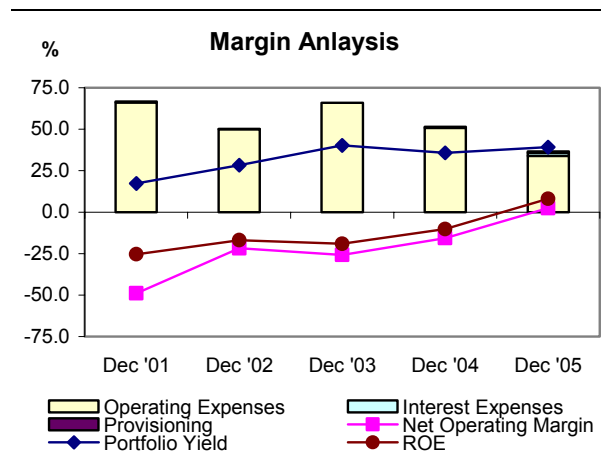
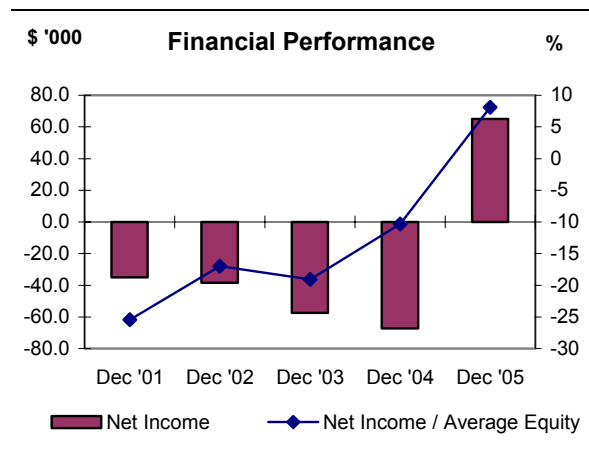
Not only is funding necessary for the expansion of the portfolio, but will be critical for the development and refinement of new (and existing) products.

### Financial Profile

Financial Ratios	31 Dec-01	31 Dec-02	31 Dec-03	31 Dec-04	31 Dec-05
<b>Capital Adequacy</b>					
Debt / Equity	-	-	0.2	0.8	0.8
<b>Asset Quality</b>					
Portfolio at Risk / Gross Loan Portfolio	n.a.	0.2%	0.7%	0.2%	0.4%
Loan Loss Provision Expense / Average Gross Portfolio	0.5%	0.2%	-	-	1.0%
Loan Loss Reserves / Portfolio at Risk	-	159.1%	36.6%	-	208.0%
Write-offs / Average Gross Portfolio	-	-	0.1%	0.4%	0.9%
<b>Management</b>					
Operating Expenses / Average Gross Loan Portfolio	65.6%	49.9%	66.0%	50.8%	34.0%
Number of Borrowers / Credit Officer	132	248	172	232	326
Number of Borrowers / Staff	102	165	120	174	229
<b>Earnings</b>					
Net income / Average Equity (ROE)	(25.5%)	(17.0%)	(19.1%)	(10.3%)	8.1%
Net income / Average Assets (ROA)	(25.1%)	(16.4%)	(16.6%)	(8.2%)	4.5%
Portfolio Yield	17.2%	28.3%	40.3%	35.7%	39.2%
Interest and Fee expenses / Average Gross Loan Portfolio	-	-	-	0.6%	1.7%
Interest and Fee expenses / Average Funding Liabilities	-	-	-	1.3%	3.2%
<b>Liquidity</b>					
Cash & Liquid Assets / Total Deposits	n.a.	n.a.	n.a.	n.a.	n.a.

INMAA's financial condition is characterized by rapidly rising margins and extremely low indebtedness. With net income of \$64,900 at December 2005 and an annualised ROE of 8.1% INMAA is proving that it is now more than financially sustainable.

With portfolio yield increasing only slightly to 39.2% in 2005 (2004: 35.7%), higher net operating margins were largely the result of improved efficiencies. Low funding costs (at 1.7% of the average portfolio) and under-provisioning were however contributing factors.



The low interest expense is attributable to the highly subsidized borrowings which funded much of INMAA's growth. Since 2003, total borrowings increased almost 11 times to \$696,000. Despite such a rapid increase, the debt: equity ratio remains well below average at 0.8 (2004: 0.8). This provides significant scope to increase debt in the short term.

At the moment, total debt is mainly comprised of subsidized liabilities. These are priced up to a maximum of 4% (Euribor in December was approximately 2.8%) and remain unsecured.

#### Loan facilities as at December 2005

	Amount	Rate	Term
<b>Subsidized Borrowings</b>			
ADS*	\$140,000	0%	5 years
Alterfin**	\$100,000	Euribor + 1%	3 years
CRS	\$150,000	1%	3 years
<b>Commercial Borrowings</b>			
Société Générale	\$80,000	7.75%	2 years
Société Générale	\$220,000	7.5%	3 years

\*A social development agency \*\* A Belgian NGO

INMAA is small and with no history of profitability, it has struggled to negotiate lines of credit from commercial banks. However, this is starting to change and following improved financial performance in 2004, the institution's first commercial loan was secured.

In early 2005, INMAA contracted its first loan with Société Générale Marocaine des Banques (a Moroccan bank). The loan was priced at 7.75% (which is low) for a period of 2 years (plus a 3 month grace period).

INMAA has managed the loan well and at the end of 2005 successfully negotiated a second facility of \$220,000 from the same bank, with a 7.5% interest rate. The loan was drawn down in December 2005. Both loans from Société Générale ("SGMB") are 50% secured by letters of guarantee from USAID. All loans are denominated in local currency.

Additional funding (\$170,000) from a local bank is expected to flow in 2006 and will be charged at 5% over 5 years. Although these facilities are a welcome source of funds, growth rates are expected to be greatly undermined by the lack of adequate funding. This is exacerbated by the fact that the institution is likely to be limited to local currency loans in the short term given its inability to hedge foreign currency risk.

Overall, with cash and liquid assets comprising a higher 15.6% of total assets (2004: 13.4%), MicroRate has no immediate liquidity concerns.

#### Future Prospects

INMAA has set itself ambitious growth targets which have been clearly laid out in its 2006 business plan. It is hoped that the institution will grow its portfolio to roughly \$5.5 million by 2009, with a total client base of 24,000. At present growth rates this is achievable, but the biggest obstacle lies in access to adequate levels of funding.

Commercial banks are only slowly warming to microfinance in Morocco and given INMAA's relative youth and recent levels of sustainability, it might take time before larger scale funding mobilization takes place. However, temporary relief to the funding bottleneck is likely to come from a \$2.2 million microfinance fund (negotiated between government and the Moroccan association of microfinance – FNAM).

As government funds have been unevenly distributed in the past (leading to huge discrepancies in the sizes of institutions), it is hoped that small to medium MFIs (such as INMAA) will be the first to benefit.

However, this fund is not likely to be sufficient in the long term and looking to external sources remains vital. Although access to commercial borrowings is critical, INMAA must be aware of the potential impact of higher funding costs on margins. At the moment there is sufficient capacity to absorb these costs, but this will be contingent on the MFI maintaining high levels of efficiency. For if not, margins will narrow and it could jeopardise access to funding and future expansion plans (particularly in rural areas).

## INMAA

(All amounts in USD '000s except as noted)

Income Statement for the year ended:	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05
Interest and Fee Income	12.9	56.8	106.4	213.1	417.2
Interest and Fee Expense	-	-	-	(3.3)	(18.6)
<b>Net Interest Income</b>	<b>12.9</b>	<b>56.8</b>	<b>106.4</b>	<b>209.8</b>	<b>398.7</b>
Provision for Loan Loss	(0.4)	(0.3)	-	-	(10.9)
<b>Net Interest Income After Provisions</b>	<b>12.5</b>	<b>56.5</b>	<b>106.4</b>	<b>209.8</b>	<b>387.8</b>
Operating Expense	(49.2)	(100.1)	(174.3)	(303.5)	(361.2)
<b>Net Operating Income</b>	<b>(36.6)</b>	<b>(43.6)</b>	<b>(67.9)</b>	<b>(93.7)</b>	<b>26.6</b>
Other Income	1.7	5.2	10.8	26.7	38.7
Other Expenses	-	(0.0)	-	(0.2)	(0.3)
Extraordinary Items	-	-	-	-	-
<b>Net Income Before Taxes</b>	<b>(34.9)</b>	<b>(38.5)</b>	<b>(57.1)</b>	<b>(67.1)</b>	<b>64.9</b>
Taxes	-	-	0.4	0.2	-
<b>Net Income</b>	<b>(34.9)</b>	<b>(38.5)</b>	<b>(57.4)</b>	<b>(67.3)</b>	<b>64.9</b>
<b>Balance Sheet as at:</b>					
Cash and Banks	41.9	14.6	8.4	159.0	262.5
Temporary Investments	-	-	-	-	-
Net Loans	74.9	200.0	326.6	866.5	1,249.5
Gross Loans	74.9	200.7	327.4	866.5	1,260.4
<i>Performing Loans</i>	74.9	200.3	325.3	865.0	1,255.1
<i>Portfolio at Risk</i>	-	0.4	2.1	1.5	5.2
Loan Loss Reserve	-	0.7	0.8	-	10.9
Other Current Assets	15.4	9.8	67.2	97.8	97.3
<b>Current Assets</b>	<b>132.3</b>	<b>224.4</b>	<b>402.1</b>	<b>1,123.3</b>	<b>1,609.3</b>
Long Term Investments	-	-	-	-	-
Property and Equipment	6.7	9.8	53.1	65.0	62.4
Other Long Term Assets	-	0.5	0.3	2.1	11.6
<b>Long Term Assets</b>	<b>6.7</b>	<b>10.4</b>	<b>53.4</b>	<b>67.1</b>	<b>74.0</b>
<b>Total Assets</b>	<b>138.9</b>	<b>234.8</b>	<b>455.6</b>	<b>1,190.4</b>	<b>1,683.3</b>
Demand Deposits	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-
Short Term Funding Liabilities	-	-	-	-	-
Other Short Term Liabilities	1.8	8.2	22.5	32.1	52.1
<b>Current Liabilities</b>	<b>1.8</b>	<b>8.2</b>	<b>22.5</b>	<b>32.1</b>	<b>52.1</b>
Long Term Time Deposits	-	-	-	-	-
Long Term Funding Liabilities	-	-	57.1	469.0	695.8
Other Long Term Liabilities	-	-	-	18.0	0.8
<b>Long Term Liabilities</b>	<b>-</b>	<b>-</b>	<b>57.1</b>	<b>487.0</b>	<b>696.6</b>
Capital	126.9	203.5	364.1	627.1	724.3
Retained Earnings	(40.7)	(84.7)	(155.9)	(233.3)	(149.1)
Other Capital Accounts	51.0	107.8	167.7	277.5	359.3
<b>Equity</b>	<b>137.1</b>	<b>226.5</b>	<b>375.9</b>	<b>671.3</b>	<b>934.5</b>
<b>Total Liabilities &amp; Equity</b>	<b>138.9</b>	<b>234.8</b>	<b>455.6</b>	<b>1,190.4</b>	<b>1,683.3</b>
<b>Key ratios:</b>					
<b>Asset Quality</b>					
Portfolio at Risk / Gross Loan Portfolio (%)	n.a.	0.2	0.7	0.2	0.4
Loan Loss Provision exp. / Average Gross Portfolio (%)	0.5	0.2	-	-	1.0
Loan Loss Reserves / Portfolio at Risk (%)	n.a.	159.1	36.6	-	208.0
Write-offs / Average gross portfolio (%)	-	-	0.1	0.4	0.9
<b>Efficiency and Productivity</b>					
Operating Expenses / Average Gross Loan Portfolio (%)	65.6	49.9	66.0	50.8	34.0
Cost per borrower	106.6	101.1	79.5	83.4	65.3
Average outstanding loan size	81.3	101.4	136.3	177.6	203.8
Number of Borrowers per Staff (no.)	102.4	165.0	120.1	174.2	229.1
Number of Borrowers / Credit Officer (no.)	131.7	247.5	171.6	232.3	325.5
Operating Expenses / Net Interest and Other Income (%)	336.1	161.6	148.7	128.3	82.6
<b>Profitability</b>					
Net Income / Average Equity (%) (ROE)	(25.5)	(17.0)	(19.1)	(10.3)	8.1
Net Income / Average Assets (%) (ROA)	(25.1)	(16.4)	(16.6)	(8.2)	4.5
Portfolio Yield (%)	17.2	28.3	40.3	35.7	39.2
Net Interest Income / Average Gross Loan Portfolio (%)	17.2	28.3	40.3	35.1	37.5
Non Interest Income / Total Operating Income (%)	11.7	8.4	9.2	11.1	8.5
<b>Financial Management</b>					
Interest and Fee Expenses / Average Gross Portfolio (%)	-	-	-	0.6	1.7
Interest and Fee Expenses / Average Funding Liabilities (%)	n.a.	n.a.	-	1.3	3.2
Debt / Equity (:1)	0.0	0.0	0.2	0.8	0.8
Total Capital / Risk Weighted Assets (%)	141.3	102.9	96.8	110.6	114.7
<i>Tier One Capital / Risk Weighted Assets (%)</i>	141.3	102.9	84.1	65.1	65.8
<i>Tier Two Capital / Risk Weighted Assets (%)</i>	-	-	12.8	45.5	49.0
Cash and Liquid Assets / Total Deposits (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Cash and Liquid Assets / Liabilities to the Public (%)	2,311.4	177.0	37.2	317.0	495.4
<b>Nominal Growth indicators</b>					
Assets (%)	-	69.0	94.0	161.3	41.4
Loan Portfolio (%)	-	167.8	63.1	164.7	45.5
Shareholders Equity (%)	-	65.2	65.9	78.6	39.2
Deposits (%)	-	n.a.	n.a.	n.a.	n.a.
Net income (%)	-	n.a.	n.a.	n.a.	n.a.

## 1. Excellence in Microfinance Rating Definitions

Grade	Definitions	
$\alpha++$	Those MFIs consistently exhibiting a clear, rational and balanced relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Optimal efficiency and effectiveness. Very low risk. Excellent future prospects.	1 <b>Optimal</b>
$\alpha+$ $\alpha$ $\alpha-$	Those MFIs striving to balance a clear and rational relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Good efficiency and effectiveness. Low risk. Good future prospects.	2 <b>Good</b>
$\beta+$ $\beta$ $\beta-$	Those MFIs working to define a clear and rational relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Satisfactory efficiency and effectiveness. Acceptable risk. Satisfactory future prospects	3 <b>Satisfactory</b>
$\gamma+$ $\gamma$ $\gamma-$	Those MFIs without a clear and rational relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Poor efficiency and effectiveness. Very risky. Poor future prospects.	4 <b>Poor</b>

	<b>Scoring key:</b>	
$++$	Optimal	1
$\alpha$	Good	2
$\beta$	Satisfactory	3
$\gamma$	Poor	4