

## Alexandria Business Association, Egypt

The Alexandria Business Association (ABA) was created in 1983 under the auspices of the Chamber of Commerce and registered as an NGO in 1988. It runs various projects, one of which is the Small & Micro Enterprise Project (SME) providing microcredit services. After signing the Cooperative Agreement with USAID in April 1989, ABA disbursed its first individual loan in January 1990 and its first group loan in late 1999. As of the end of May 31, 2007 ABA had an outstanding portfolio of 18.1 M USD for 30,103 individual loan (SME), 30,613 group loan (Blossoms) and 5,815 group loan (Development Path) clients through a network 37 branches and 2 remote offices in Alexandria and the surrounding governorates.

### GIRAFE Rating

#### Rating

**B+**

#### Outlook

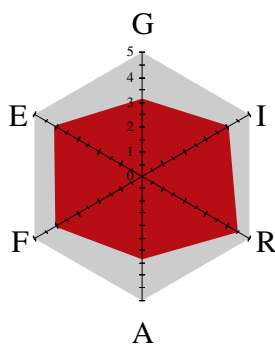
**Stable**

#### Date of the rating

**June 2007**

Valid until May 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

#### Planet Rating Contact

Nadine Chehade  
nchehade@planetrating.com  
+ 33.1.49.21.26.30

#### MFI Contact

Motaz El Tabaa, ED  
mtabaa@aba-sme.com  
+ 20.3.486.5518

REF: MHL/SS/300607

#### Rating highlights

- ABA is profitable and posted strong performance (ROA=7.2%, ROE=11%) at the end of 2006, primarily buoyed by low operating expenses (OER =14.5%).
- The institution registered an average portfolio growth rate of 26.4% over the last three years, improved portfolio quality (PAR30-365=1.4% in Mar 2007), but PAR remains above MENA average, partially explained by higher risk on SME loans.
- A competent management team backed by a committed BOD; further delegation of authority as well as better work organization would enhance efficiency.
- ABA lost its leadership position in the Egyptian market, a new client outreach and product development strategy is needed to anticipate evolving clients' needs.
- Its key challenges remain market positioning, product development, middle management capacity building, improve staff productivity while reducing staff turnover, as well as reorganizing field operations to achieve better efficiency and higher growth.

#### Outlook

The "Stable" outlook is underpinned by the expectations that ABA will continue to manage its core lending operations prudently and that its portfolio quality will stay around the present level. This outlook also highlights the fact that ABA needs to adopt the necessary strategies and reorganization to compete more effectively.

#### Performance indicators

USD . unless otherwise stated	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Mar.2007
Assets	29,787,770	30,800,363	35,734,365	38,530,838	39,947,823
Growth	8.9%	3.4%	8.8%	7.1%	3.3%
Loan portfolio	10,967,000	11,074,939	15,035,796	18,112,457	18,861,360
Growth	(9.6%)	1.0%	27.3%	19.6%	3.8%
Active borrowers	43,256	37,173	49,642	59,526	61,628
Staff	615	667	769	786	809
ROE*	4.9%	5.7%	5.5%	7.2%	10.3%
ROA*	8.6%	8.5%	8.5%	11.0%	15.2%
Liabilities / Equity*	0.54x	0.47x	0.59x	0.48x	0.47x
Portfolio Yield*	27.9%	25.6%	26.7%	27.5%	N/A
Operating expense ratio*	11.4%	14.7%	15.8%	14.5%	N/A
PAR 31-365*	7.9%	7.9%	2.3%	1.7%	1.4%
PAR > 365*	5.7%	8.0%	5.2%	4.0%	2.6%
Write-off ratio*	0.1%	0.2%	0.1%	0.1%	0.0%

\* Ratios adjusted for inflated assets and/or for unearned interest (See Information section for more details)

## Microfinance sector

Egypt is the most populous Arab country with a population of 76 million, 44% of which is estimated to live below the poverty line of 2\$ per day<sup>1</sup>. Based on 2 to 3 million non-agricultural private businesses and 11 million postal savings accounts held at the National Postal Authority (NPA), local microfinance practitioners estimate that the potential microfinance clientele could be as high as 20 million. In contrast with that number, and even with counting in local commercial banks, only 500,000 clients (2.5%) are currently being served<sup>2</sup>, leaving behind a huge underserved potential market. The Egyptian microfinance sector is still largely underdeveloped, especially when compared to similar markets in Morocco and Jordan, which also started in the 1990s.

Microfinance services in Egypt essentially mean microcredit services provided through two main channels: 1) the credit-only specialized NGOs, often under the form of Businessmen's Associations (e.g. ABA and DBACD) and 2) the public and private banks (e.g. Banque du Caire/Banque Misr and National Bank for Development). The NGOs are registered with and regulated by the Ministry of Social Solidarity (MSS) whereas the banks are regulated by the Central Bank of Egypt. A myriad of smaller non-specialized NGOs also have lending programs while providing other non-financial services: many of them are linked within local networks, but there is very little data available regarding their activities.

The Social Development Fund (SFD), a governmental body in charge of translating country-level policies into operational programs, acts as an Apex institution that supports the creation and development of Egyptian MFIs, channelling funds from the Egyptian government, EU, KfW, Arab Fund and UNDP. It is also responsible for the planning and coordination functions for the microfinance sector<sup>3</sup> under the framework of the National Microfinance Strategy launched in December 2005. USAID<sup>4</sup>, together with other foreign donors, has been instrumental in providing loan funds and technical assistance to Egyptian MFIs.

One of the reasons for the under-development of the microfinance sector is Egypt's unfavourable legal framework. The MSS has no regulatory authority and its reporting requirements are not adapted to MFI activities. It oversees all NGOs more or less the same way, which is

<sup>1</sup> Source: UNDP, Human Development Report, 2006.

<sup>2</sup> Source: Sanabel study, as of March 2006.

<sup>3</sup> Law No. 141 of June 2004 (or SME law).

<sup>4</sup> USAID developed a microfinance model through several businessmen associations registered as NGOs with off-site technical assistance from Environmental Quality International (EQI).

compounded by the lack of a specific microfinance law: it does routine checks on MFIs' financial statements, but MSS auditors often lack understanding and knowledge of microfinance; it may attend General Assembly and Board meetings, receives Board minutes, and has the power to disapprove decisions taken and to change the Board and management in the event of unsatisfactory results, which affects MFIs' ability to change its lending rules as they see fit. Other impediments to efficiency include the requirements that all checks be signed by the Chairman (or a delegate) and the Treasurer of the Board, and that all transactions be recorded manually on hand-written general ledgers which slow down large MFIs with big number of routine transactions.

Efforts are being made by various stakeholders to lobby for a more conducive regulatory environment. In this regard, the newly created Egyptian Microfinance Network should provide advocacy, technical and information services for MFIs and potentially create a self-regulatory organization for the sector. The creation of a microfinance specific credit bureau is also being discussed. USAID-funded Egypt Micro-enterprise Finance project (EMF) is presently working on providing local MFIs various services including funding and assistance (e.g. IT, product development).

Additional source: "Regulatory and Supervision of Microfinance in Egypt", Magdy Moussa, PlaNet Finance's Director for the Middle East, January 2007.

Disclosure Statement: PlaNet Finance is a shareholder of Planet Rating. Inter-company relationships are governed under the rules of the Conflicts of Interest Policy.

## Political & economic environment

Egypt is classified as a middle-income developing country with a 2006 per capita income of 1,104 USD according to the International Monetary Fund. Egypt enjoys diversified sources of foreign currency including the Suez Canal, tourism, private transfers, and oil and gas exports. The level of foreign currency reserves has been comfortable amid moderate foreign debt. The government has undertaken a structural reform program intended to consolidate the conditions for economic growth. With its regional mediator role, Egypt has been a privileged interlocutor and can thus rely on political and financial backing of Western countries.

The tourism sector, a crucial source of revenues for the country's current account balance and economic activity, has been vulnerable to the terrorism threat. Inelastic fiscal spending – on debt interest, wages, and subsidies – has undermined public sector finances and generated increasing debt. The level of domestic debt has limited the country's capacity for infrastructure development. The investment rate remains low in relation to Egypt's development needs.

Reforms implemented since 2004 have restored consumer and investor confidence. A bright outlook has been shaping up for 2006 and 2007. Despite the terrorist attacks, tourism has been holding up well. Progress on the reform program should continue to foster a propitious business climate. New increases in gas production capacity have benefited the oil and manufacturing sectors. The external financial situation has been buoyant amid the favourable trend of traditional foreign currency earnings and the increase in foreign direct investment spurred by privatizations. In that context, the corporate environment has been improving with the Coface payment incident index below the world average. The mining, manufacturing and construction sectors should continue to outperform the rest of the economy.

With the fiscal deficit and public sector debt continuing to be a source of concern, public sector financial consolidation has become imperative. The need to broaden the ruling NPD party's electoral base and check the Islamic current's progress could, however, limit the government's capacity to control spending and thus to undertake unpopular measures. The region is subject to an extreme geopolitical instability risk and the country has repeatedly been prey to terrorist acts that could ultimately affect tourism and investment.

### Egypt Rating: B

An unsteady political and economic environment is likely to affect further an already poor payment record.

USD billions	2003/04	2004/05 (e)	2005/06 (e)	2006/07 (f)
Economic growth (%)	4.1	4.9	5.6	5.6
Inflation (%)	16.6	4.7	5.0	6.0
Public sector balance (%GDP)	-9.3	-9.43	-8.8	-8.6
Exports	10.5	13.8	18.5	20.8
Imports	18.3	24.2	28.7	32.8
Trade balance	-7.8	-10.4	-10.3	-12.0
Current account balance (%GDP)	3.2	2.1	2.4	0.6
Foreign debt (%GDP)	37.9	32.3	30.2	26.4
Debt service (%G&S exports)	9.5	8.1	7.8	7.8
Foreign currency reserves (in months of imports)	7.4	7.4	7.3	7.3

Source: COFACE's Country Risk Ratings Guidebook 2006. (e) is estimated and (f) forecasted. Disclosure: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

ABA (will hereafter refer only to its microfinance project) began its activities in 1983 and was registered as a NGO in 1988 under the Ministry of Social Solidarity. A local audit firm, managed by Dr. Zakaria M.E. Ismail and using Egyptian auditing standards has been the MFI's external

auditor since inception. Dr. Zakaria always certified ABA's accounts without reserve (except for 2004). Grant Thornton Mohammed Hilal, appointed by USAID, also audited the financial statements for the duration of the two Cooperative Agreements (1990-1994, 2001-2005) and always certified without reserve the proper utilization of USAID funds.

### Ownership

ABA is governed by a General Assembly (GA) of 350 members of the Association. The GA elects a fifteen-member Board of Directors (BOD). The BOD has no legal ownership claims and funds would be owned by the government in the event of liquidation. The current BOD President is Mr. Mohamed Ragab (ABA founder) who has been a member of the BOD since inception. He is understood to plan to step down in late 2009. As ABA runs many other projects, the de-facto BOD for the microfinance activities is the seven-member ExCom and the ED that meets monthly to supervise directly the lending operations.

### Donations

The main donor for ABA is USAID Egypt Microenterprise Finance (EMF). Since its inception, it has received 10.8 M USD in loan funds (accumulated to be 22.7 M USD including interest) in loan funds and technical assistance.

### Funding composition

ABA does not have any foreign commercial loan. It has bank loans and overdrafts with Bank of Alexandria, National Bank of Egypt and Suez Canal Bank – all fully guaranteed by USD and EGP long-term deposits within the same banks.

### Management team

The ED, Motaz El Tabaa, has led ABA since early 2004. He has a long experience in commercial banking and brokerage prior to joining ABA. The top management team is composed of the ED and 3 Deputy Executive Directors (DED) for Finance, Operations and Information Systems and Consulting Services, respectively. A HR Manager, a Chief Internal Auditor and a Lawyer round up the team. There are also various Management Committees such as Development, HR and Management that provide the forums to discuss and make decisions.

### Organization

Alexandria HQ groups all central functions and departments. The DED for Operations heads the lending operations aided by an investigative unit called Central Operations Unit (COP). Blossoms and SME loans for a given area are managed from two separate branches usually located in separate premises. The Development Path product is

managed by the Blossoms branches. Loan approval is decentralized for loans up to 10,000 EGP (1,757 USD). Disbursements are made by check and repayments in cash directly at the branch for SME loans, whereas group loans are transacted all in cash. Branches manage data entry for loan data, loan repayments, and accounting. Each branch has a full staff: a Manager, Accountant, Cashier, IT officer (also has a control function), Lawyer, Deputy Branch Manager, Supervisors and group coordinators for Blossoms branches or individual loan officers for SME branches.

## Market penetration

ABA has a network of 37 SME and Blossoms branches covering the governorates of Alexandria, Kafr El Sheikh, Behira, Matrouh and Menoufia in addition to 2 remote offices.

## Products and services

In 2006, ABA introduced one new product called “Development Path” as an intermediate step between the existing “Poverty Lending” (also called Blossoms) and the Individual Lending (better known as SME). ABA also introduced greater flexibility in the existing products’ terms and conditions. Overall portfolio has an average duration of 9.5 months and an APR of around 30%.

- The group-lending Blossoms product is mainly for women with 3-5 members per group. Loan sizes range from 150 to 800 EGP (26-141 USD) for terms between 10 to 40 weeks. Blossoms APR is 52% based on weekly payments.
- The Development Path loans range between 500 and 1,500 EGP (88-264 USD) for terms between 20 to 40 weeks. Development Path APR is 35% based on bi-weekly payments.
- The SME individual lending program accommodates micro and small enterprises that have up to 5 and 6-15 employees respectively. Loan sizes range from 1,000 to 100 K EGP (176-17,575 USD) repayable in monthly instalments over 6 to 24 month loan terms. The average SME loan size and term are 3,145 EGP and 10 months, respectively. SME APR is 28%.
- ABA stopped a medical lending program in 2002 because of contractual disputes and unsatisfactory results. These loans were 100% guaranteed by the Credit Guarantee Corporation (CGC) and were financed by bank overdrafts backed by CGC's guarantee. ABA still collects money from defaulted loans and has an outstanding legal dispute with CGC which did not honour their guarantees. In the mean time, ABA still maintains these long-defaulted loans on its balance sheets. Consequently, the financial data of these loans are included in this rating’s analysis.

## Non-financial services

Towards Self-Employment Program: A 2-step grant program totalling 300 EGP grant for jobless individuals who are willing to start an activity with the hope to “graduate” them to the Blossoms program. Total beneficiaries now exceed 3,100.

Middle East Training Centre: mainly funded by USAID, the 5-member Training Centre provides microfinance, computer and business development training and support services for both ABA and external staff and clients. Training is provided by ABA staff and outside consultants. It also runs a store featuring its clients’ products.

IT Consultancy Services: ABA’s internally developed MIS Loan Tracker is marketed to other MFIs (52 licenses mainly in the MENA region) and includes customer support. This service has 3 full-time dedicated staff, but relies on ABA IT staff in the branches and software developing staff to provide implementation and support services.

## Networks

ABA is a founding member of The Microfinance Network, of Sanabel (the microfinance network of the Arab world) and of the Egypt Microfinance Network.

## ■ Governance

Governance and Decision Making is rated “b”

## Decision-making

The decision-making process at ABA is straight-forward and effective thanks to a clear mission and focus on the entrepreneurial poor. The ExCom (de-facto BOD) convenes monthly and makes all key and relevant decisions based on regular operational reports. The ExCom members, from different business backgrounds, are active, committed and well-informed of key issues. The ExCom can be characterized as conservative in its mindset and strategies, which is partially compounded by the major fraud uncovered in 2003. Their decision to finance only income-generating activities is consistent with ABA’s mission, but could put ABA in a disadvantaged position in the future. Industry trends call for broadening of the products’ offering to clients.

Since the last rating, ABA has lost the market leadership position to other MFIs which have broadened their product ranges to other types of loans (e.g. housing improvement, consumption loans...). Local cultural and religious considerations are understood to explain the decision for not offering non-productive loans. ABA still grew by an average of 20% for each of the past three years, but it could have

grown much faster in the productive segment given the huge underserved market, its own solid infrastructure and funding availability. Part of the reason for slower growth has been the long consolidation period post-2003 fraud that turned ABA more inward-looking and risk adverse. The numerous post-fraud controls, processes and changes to the incentive system have also rendered ABA less agile in the marketplace.

As the market and client demands have significantly evolved in the past few years, it would be beneficial for ABA to review its market and product strategies. ABA will need to find a way to reconcile its ideals to its clients' needs in order to truly achieve the sought balance between social and financial goals. Similarly the current service model strictly separating the branches according to SME and Blossoms products have, over the years, transformed ABA in two parallel field organizations that hardly interact together and have little cost synergies. It would also be a good occasion to re-examine various non-financial services being offered to see how they fit into the overall vision and whether they make sense financially given invested resources. Three years after the fraud, ABA could now be more outward-looking and market-aggressive. The organization could easily grow at least 100% with its current infrastructure and staff.

## **Planning**

Planning is an area that ABA can further improve. ABA has traditionally a top-down approach to planning, although this process has become more participative over the years and could still involve even more staff. The ABA needs a Strategic Plan as the current Business Plan (BP) is too operational in nature to address the strategic market and institutional challenges of the organization. At a minimum, the Strategic Plan should address long-term vision, conduct deep SWOT analysis, define key market strategies and goals, address key risks and mitigants, make resource allocation; define capital structure and financing strategies, study core vs. non core businesses and explore strategic options (transform into a bank, merger...etc.).

The current 2007-2010 BP is both too short and too general in nature. It does, through the outline of its 13 objectives, touch on relevant issues/challenges, but it does not elaborate on how to accomplish such objectives. The projections similarly do not provide enough explanations for the key assumptions. Portfolio growth rates projected from 2008 to 2010 average 18% which are substantially below its organic growth potential. The BP could be more elaborate on key qualitative matters such as market positioning, competitive and product development, branch/service organization, client cross/ over-indebtedness, productivity/ efficiency measures...etc.

The budgeting process is quite straight-forward and is developed by the ED with input by other DEDs. The budget is being tracked monthly. It would be beneficial that the Finance Department take more the lead on the budgeting process and perform more in-depth analysis and benchmarking with other leading MFIs.

## **Management team**

ABA is competently led by the ED and the three DEDs. They are knowledgeable, experienced and committed which help to minimize key person risk. The delegation of authority down the hierarchy has progressed since the last rating, but this process can go even further to the DEDs and to lower-ranked middle managers. The senior management team works harmoniously together. While they excel at their respective jobs and departments, they could adopt a more global view of ABA's interests that go beyond just their own department's interests as some tend to work in silos. ABA interests would be better served if its decision-making would focus more on productivity, efficiency and impact on the bottom line for the overall organization.

The middle management needs to further build their capacity, be encouraged to take more initiatives and be empowered more with decision-making. Branch management in the field as a whole could similarly be injected a dose of dynamism and empowerment, especially within the Alexandria Governorate. ABA has recently implemented a second large field managers' rotation program aiming at energizing the senior lending staff. This welcome move would be more effective if it could be part of a long-term comprehensive plan to deploy and motivate managers. An area of focus for such plan would be how to encourage the field managers to think more strategically and globally (especially those supervising both SME and Blossoms branches) and take more initiatives as they are often more executors of top-down orders until now.

## **Human resource management**

Basic HR procedures and policies are in place along with adequate recruitment practices. The HR Department and its new Manager are administratively focused rather than strategic. Key HR decisions are made at the top management level and within the HR Committee. ABA has been facing two inter-linked problems for a number of years: low productivity and high turnover. Staff productivity stood at 82 after adjusting for non-financial services. Although the loan officer productivity is better at 125, it could be even higher given the large number of group clients. Low productivity can be explained by high turnover (averaging 34% over the past 5 years), heavy back office and many over-lapping layers of control, sub-optimal use of IT capability and certain manual processes in part due to MSS' legal

requirements. High staff turnover, in turn, can be explained by relatively lower field salaries, hard field work, perceived lower status of field staff and low motivation/morale.

ABA is aware of these problems and tries its best to address them. It is understood that the ExCom/BOD has approved a significant pay raise for staff. There is an internal committee that works with EMF on HR development issues. The new Training Centre also plays a valuable role to provide up-to-date training for ABA staff. However these measures will be even more effective and will make a real difference on productivity if ABA addresses other key efficiency elements such as organizational set up, numerous controls and work duplication, the back office and non-financial services components, the incentive system, the IT usage...etc.

## ■ Information

Information and equipment is **rated “a”**

ABA can count on a solid and flexible internally-developed MIS system called Loan Tracker (LT). It has all required functionalities along with adequate security, access control and back up procedures. The system is well run and maintained by a large team of competent IT staff working under the IT & Consulting Services Division. It is noted that a CGAP Software Technical Evaluation performed in early 2007 generally awarded high marks to ABA's LT system. All branches are now online linked via VPN to HQ central database. Portfolio data is most often timely, reliable and accurate, but access to historical data pre-2003 remains difficult. There are plenty of portfolio reports, but the lending staff uses only very few of them. Some reports are still being done manually. Generally information usage is quite low with lending staff focuses primarily on client numbers and repayment rates. It would enhance data usage if the lending staff has direct access to the LT without having to go through the branch managers to get them though, according to ABA, this is done for security reasons.

Based on a separate database than that of the LT, the accounting module produces information that is quite good and timely, but it is still hard to quickly obtain historical accounting data. ABA's portfolio data and accounting data do not always automatically reconcile which could take up to two days to manually reconcile them. ABA could make more efforts to ensure that its portfolio and accounting data balance more easily and in a more transparent way. Part of this is due to ExCom/BOD decisions to maintain certain accounts (and track them unevenly through various systems) for legal reasons that would have typically been taken off the balance sheets a long time ago (i.e. terminated medical program, fraud). Audited financial statements are complicated to understand for third parties, need re-treatment in order to reconcile and are not done to

international best practices. Per example, loan loss reserve accounts are most difficult to reconcile. ABA has been using the same external auditor since 1983, it is best practice to change the external auditors every 5 years and ask to be audited according to CGAP disclosure standards.

## **Inflated Assets & Unearned Interest Adjustments**

Planet Rating has made necessary adjustments to recalculate key performance ratios to take out the inflated assets effect from USD & EGP deposits on ABA balance sheets. We have also taken out unearned interest from the gross loan portfolio in order to recalculate the key ratios.

## **Treatment of the Medical Program Assets**

In the first rating report, Planet Rating excluded the medical program's data based on the then understanding that the defaulted assets are fully guaranteed by CGC and therefore the full risks did not reside with ABA. In this update rating report, the medical program assets are included as ABA is involved in an unresolved dispute with CGC and such assets remain on ABA balance sheets. ABA continues to use any loan recovery to fund the related loan loss reserve. Therefore the financial statements' 2001-2003 data provided in this report does not match the one shown in the previous rating.

## ■ Risk Management

Risk Management is **rated “a”**

## **Procedures and internal controls**

Post 2003-fraud, ABA further reinforced its procedures and control systems. Various control layers including the branch management, the COP Unit, the IT specialists, the legal assistants and the IA Department spend considerable efforts to ensure proper implementation and appropriate compliance of policies and procedures at all levels within the organization. The current internal control system at ABA adequately covers all key risk areas and is likely to detect reasonably fast any fraud attempt. While these control layers do help to tighten ABA's risk management, they also made the overall system cumbersome and more process-oriented than risk-oriented which negatively affects productivity.

## **Internal audit**

ABA continues to devote a significant amount of resources to support its IA department. Presently it employs a skilled and committed 21-member IA team although this is quite large for an institution of ABA's size. A clear audit plan is drawn up annually, comprising frequent portfolio and financial audit visits with relevant reports and recommendations. The institutional set-up at ABA guarantees sufficient independence of the IA function which is further enhanced by a system of frequent and formalized

communication with both management and the ExCom. The department also works closely with, and complements the function of, the Legal team.

## ■ Activities

Activities: products and services is **rated “b”**

### Market position

The Egyptian microfinance sector is becoming more dynamic, with banks like Banque du Caire and National Bank for Development moving to tap into the vast microfinance market, especially targeting the SME segment – the core ABA client base. Fortunately enough, the market remains largely underserved and thus is not yet very competitive. Banks and NGOs have no problems in finding new clients. Microfinance NGOs tend to stay within their original Governorate (except for ABA) and none has a national scope or coverage. The banks, especially Banque du Caire, are by default ABA’s main competitors. ABA, despite registering steady growth at an average growth rate of 22.2% in loan portfolio and 13% in active client numbers each year during the 2004 – 2006 period, lost its traditional position as the “top” Egyptian MFI. Presently ABA ranks 3rd and 4th in terms of portfolio size and client numbers respectively, down from No. 1 in 2003 (MIX ’06).

In order to maintain a competitive edge, ABA responded by improving customer service quality and allowing more flexibility in the terms and conditions of its existing loan products. For examples, ABA increased its maximum SME loan amount from 50 K EGP to 100 K EGP and lengthened the maximum loan term to 24 months. While this move certainly helps, it is unlikely that ABA will be able to recover its market leadership position without making significant changes to its current market and product strategies. Another subject for ABA to address is to find out how many of its clients, when not getting consumption loans from ABA, would regardless borrow from other sources without ABA’s knowledge and thus making them more risky for ABA. This is becoming an important issue especially in light of rising cross-indebtedness in its service areas (from the banks as they also target the SME clientele) and in the absence of any sort of credit reference bureau.

### Loan portfolio management

Over the last few years, ABA has concentrated its efforts on refining its credit methodologies. Presently, the methodologies in place for the smaller loan sizes, both Blossoms and SMEs, are adequate with regard to client selection and credit analysis. The Development Path product that graduates Blossoms clients is managed more or less in

the same ways as the Blossoms’ product. For the larger SME loan sizes, ABA recognizes the risks and is making efforts to enhance appraisal of these larger loans (e.g. the COP unit visits and appraises clients to validate clients’ projects and supplement initial appraisal by LOs). It also introduced various enhancements (e.g. credit scoring, select cash disbursements, credit assessment reports...etc.) to better manage its portfolio.

As mentioned previously, ABA grew slower than it could have grown. This is primarily as a result of the overly cautious approach adopted by the institution following the 2003 fraud. It is also explained by ABA’s focus on client numbers rather than portfolio size. The lending staff is also focusing more on repayment rates rather than portfolio at risk (PAR) data in their daily work. As stated in the HR section, ABA will also need to address the salary and motivation issues in addition to deploying more efficiently its lending staff if it wants them to be more client and growth-focused than process-oriented.

With regard to the portfolio composition, the portfolio continues to be dominated by SME loans at 91% of the total though representing only 48% of the clients displaying ABA’s preference for smaller loans. There is no specific diversification policy, although the portfolio is by default diversified across sectors.

ABA allows loan rescheduling or “shifting”. The shifted loans have often represented 4-5% of the portfolio which is a significant amount partially explained by ABA’s flexibility and partially by its aversion to go to the inefficient court process. While ABA is understood to allow only good existing clients to “shift” their loans in needy cases, it would be prudent to set specific maximum target and/or to tighten the shifting criteria to make sure shifting remains a rare exception.

### Credit risk

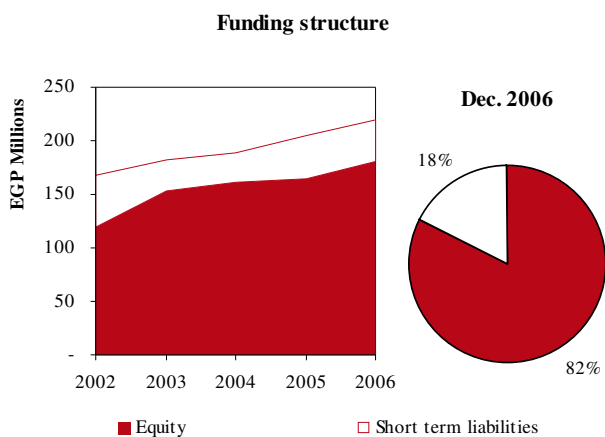
ABA had a PAR 31-365 of 1.7% (Dec 2006). 99% of PAR is caused by SME loans. This figure excludes “shifted” or re-scheduled loans (4.3% of portfolio) and hence under-stated the overall PAR. Similarly the institution’s PAR>30 also excludes defaulted loans under the long terminated medical lending program (shown as PAR>365) representing 4% of gross portfolio. Within the “normal” portfolio, ABA’s PAR 31-365 figures display improvement over the years and are good by internationally accepted standards, but ABA underperforms when compares to its MENA peers (PAR 31-365 of 0.4%). The relatively “high” PAR 31-365 can partially explained by ABA’s working with larger and relatively riskier SME loans and, in some instances, the credit risk analysis could have been deeper and more comprehensive for these larger loans. Client cross-

indebtedness could also have been a factor, although ABA does not systematically track this data. The medical program PAR reflected ABA’s decision to keep such loans on its balance sheets in order not to “forget” pending the legal settlement with CGC. It is noted that un-audited Mar2007 data showed continued PAR31 and PAR 365 improvements.

ABA has a satisfactory loan loss provisioning policy in place for its “normal” portfolio of SME and Blossoms loans representing 97% of total gross portfolio. However it does not provide enough for the defunct medical program by affecting only medical loan recoveries instead of provisioning fully per best practices. Therefore on a combined basis, ABA is under-provisioned with a risk coverage ratio of 62.5% for end 2006 though this ratio jumped to 84.9% by Mar2007. Similarly, ABA provisions only 5% of the “shifted loans” (with 0 day delay) although many of these loans are “shifted” for more than one monthly instalment which then naturally fall under the 31-60 range requiring 25% provisioning per ABA’s own policy. With regard to ABA’s write-off policy, it works in principle rather than in practice as evidenced by the many long defaulted loans (like the medical ones) that are still on the balance sheets. Write-offs are carried out solely at the discretion of the BOD. It is however a best practice to fully and consistently apply the established write-off policy.

■ **Financing and liquidity**

Financing and liquidity is rated “a”



**Capital structure and leverage**

ABA has a typical NGO funding structure and is very well capitalized with equity representing 82% of the funding structure. Equity is essentially made up of capitalized USAID donations and to a lesser extent of its retained earnings. Short term liabilities represent loans from local commercial banks fully-secured by USAID donated funds deposited at the same banks. ABA is virtually debt-free with

a very low adjusted liabilities to equity ratio of 0.47x giving it a low risk profile.

**Asset Liability Management risks**

There are very low ALM risks at ABA. There is only a limited FX risk as ABA has USD deposits to secure EGP loans from local banks. While the variation of USD affects that amount of EGP funds available to ABA, the actual risk to refinancing is very low as local banks only lends 90% of the USD deposits value. There is no interest rate risk as all ABA lending and borrowings are done on a fixed rate basis. Similarly there is no maturity risk as its 9.5 month average portfolio duration is easily covered by all long-term equity and donated funds.

**Financing strategy**

Given its planned growth has almost always below the USAID funding availability, ABA never had to have an active funding strategy. ABA has good banking relationships with the Egyptian banks, but such relationships (39 M EGP or 6.8 M USD in 3 overdrafts) are based on availability of USAID donated money. Although ABA does not need money per say, it would be prudent nevertheless to try to diversify and build relationships with other commercial funders to avoid being dependent on a single source.

**Liquidity management**

There are simple short-term liquidity projections done in Excel. Given that ABA always has plenty of available funds, it didn’t really have an incentive to conduct long-term projections that are constantly actualized. The Finance DED however is very active in and succeeds at optimizing cash management and short-term placements in order to minimize idle cash.

■ **Efficiency and Profitability**

Efficiency and Profitability is rated “a”

**Profitability analysis**

The combined effect of readily available and comparatively cheap funding, low operating expense ratios and relatively steady portfolio yield levels have enabled ABA maintain comfortable levels of profitability over the past number of years. Even without asset-related adjustments, the institution’s ROA figures further show a steadily improving trend over the last couple of years (2.7% and 3.8% in 2005 and 2006, respectively) and a similar movement is observed for ROE (3.3% and 4.7% in 2005 and 2006, respectively). With the adjustments (See Information section), both ROA and ROE indicate a much stronger performance rising to 7.2% and 11% respectively at the end of Dec 2006. The

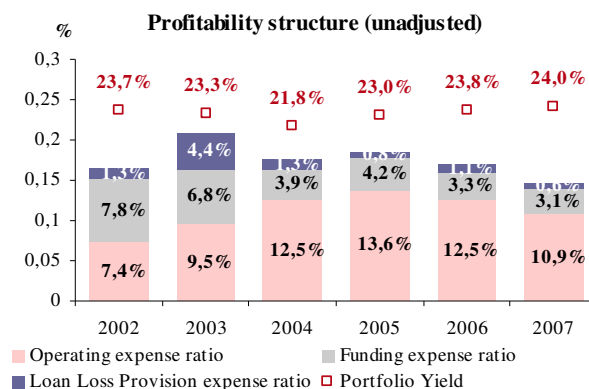
latter reinforce the institution's continued good performance over the last number of years and firmly put it amongst the cluster of the best performing institutions within the MENA region. This solid performance over the last three years by ABA has mainly been underpinned by the ability to continuously hold down its operational and provisioning costs to remarkably low levels while at the same time reducing its funding expenses.

Reflecting the limited competitive nature of its service areas, ABA has been able to maintain its portfolio yields stable over the years (27.9% in 2003 to 27.5% in 2006). This level is the lowest among its MENA peers (see Benchmarking) and should provide it with more flexibility when the pricing pressure finally comes (though not expected within the next 12 months). There is a gap between estimated overall portfolio APR of around 30% (excluding medical) and actual overall portfolio yield of 27.5%. This gap is mostly explained by the inclusion of the terminated medical program in the calculation, but also partially by the proportion of shift loans on its balance sheets lowering the actual overall yield. Loan loss provisioning expense ratio levels for the "normal" portfolio remain stable over the last three years (1.4%, 0.8% and 1.1% in 2004, 2005 and 2006) reflecting a controlled portfolio quality.

While portfolio yields remain somewhat stable, ABA has thankfully managed to slowly, but steadily lower its already very good operating expense ratios to 14.5% in Dec 2006 which enables it to boost and sustain higher profitability. The institution could have even lower operating expense ratios if it could boost its staff productivity (adjusted to 84 borrowers/staff in 2006) and squeeze more out of its IT investments in terms of usage and transaction turnover. Improved portfolio to asset deployment (75.7% in Dec 2006 compared to 69.1% in 2003) and a low funding expense ratio (3.3% in Dec 2006) also contributed to the institution's profitability. Nevertheless it is expected that, should ABA fully apply loan loss provisioning and subsequent write-off policies (See Activities section), its present profitability levels would undoubtedly be negatively impacted, but would not alter the overall positive trend.

The profitability outlook for ABA remains positive, although this remains hinged upon faster growth enabling larger economies of scale benefits, higher asset deployment rates (above 85% vs. 75.7% presently) as well as its ability to translate earlier highlighted portfolio management practices into a better quality portfolio. Whether ABA will regain its previous top market position will depend largely upon ABA's chosen growth and outreach strategy over the next few years. Improving HR motivation, deployment and work organization will play a key role in increasing its productivity and efficiency thus compensate for the expected

increase in provisioning costs and further drop in yield levels.



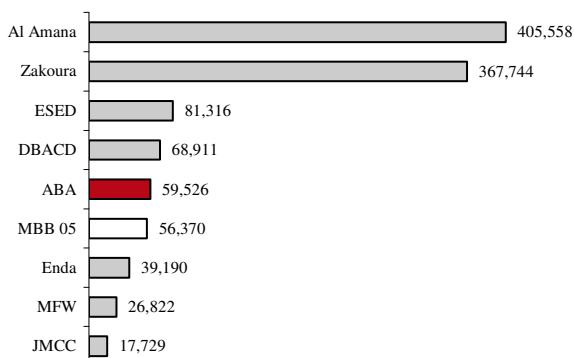
For adjusted data of the above table, please refer to the "Performance Indicators" table found on page 11.

*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.*

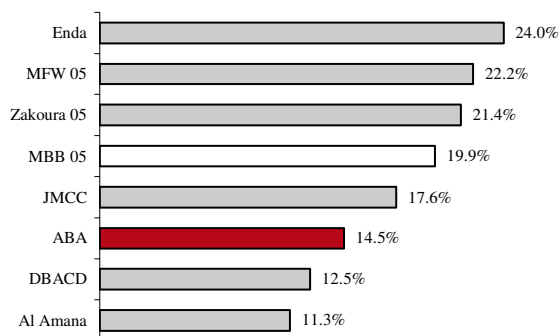
**Benchmarking**

Adjusted data in USD, end 2006 data unless otherwise stated

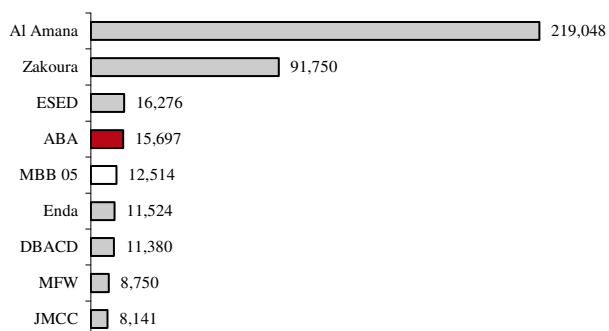
**Active borrowers**



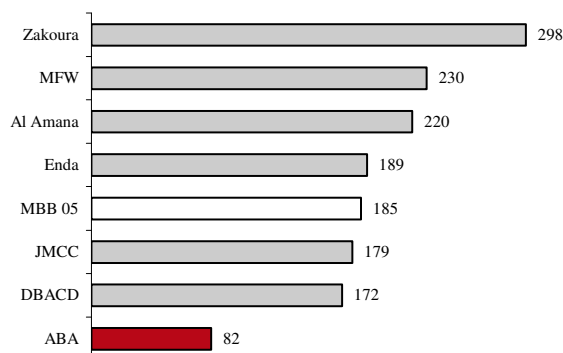
**Operating expense ratio**



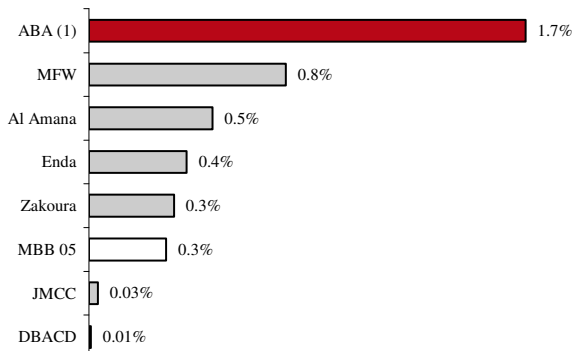
**Loan portfolio (K USD)**



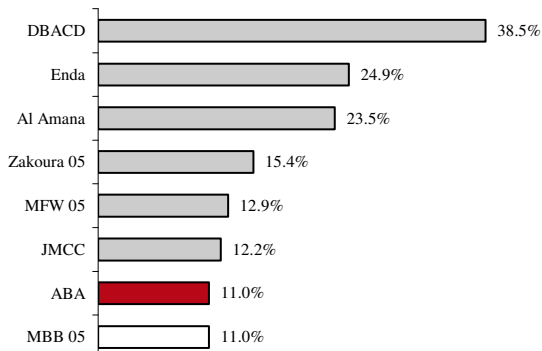
**Staff productivity**



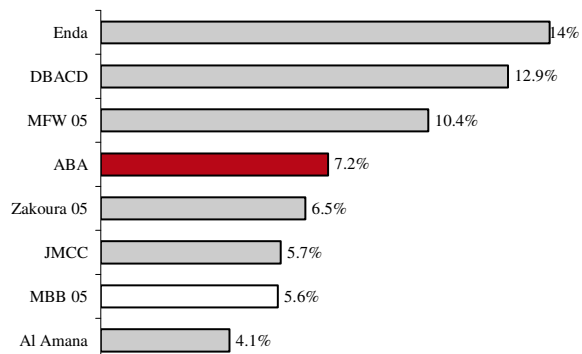
**PAR>30**



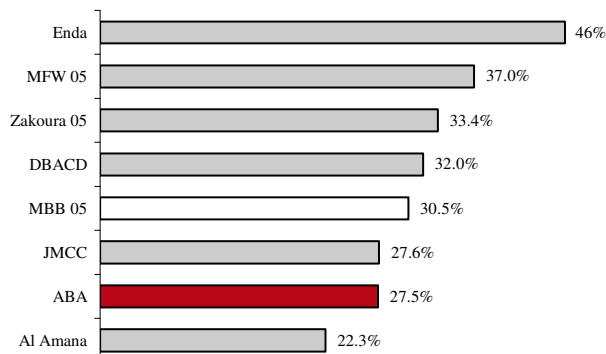
**ROE**



**ROA**



**Portfolio Yield**



**Source:** MIX, Planet Rating, individual MFIs; MBB MENA Large Peer Group - 2005 benchmarks (medians); (1) Total PAR>30 for ABA is 5.7% if includes 4% for terminated medical loans

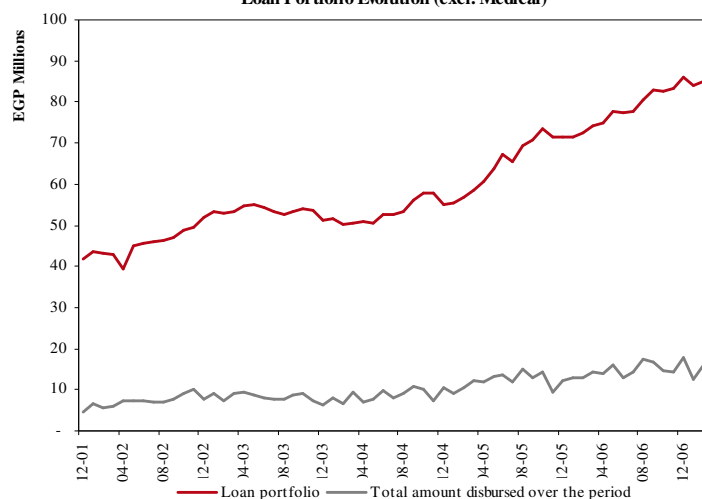
**Important note:** ROA, ROE, PAR, operating expense and staff productivity ratios have been adjusted to make ABA comparable by eliminating particularities related to ABA's balance sheets.

## ■ Performance indicators

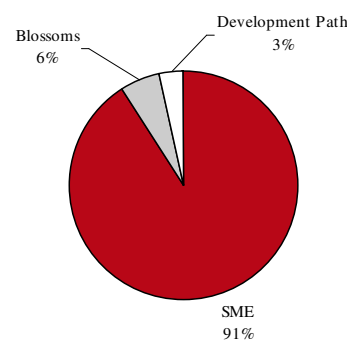
Data in USD, unless otherwise stated

*These ratios have been adjusted for inflated assets & unearned interest (See Information section)	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Mar. 2007
<b>Loan Portfolio</b>					
Loan portfolio	10,967,000	11,074,939	15,035,796	18,112,457	18,861,360
Loan portfolio (EGP)	67,227,707	67,889,375	86,455,828	103,422,130	107,321,139
Evolution	(9.6%)	1.0%	27.3%	19.6%	3.8%
Average outstanding loan	11,552,377	11,020,969	13,421,322	16,626,791	18,518,741
Active borrowers	43,256	37,173	49,642	59,526	61,628
Evolution	24.0%	(14.1%)	33.5%	19.9%	3.5%
Average outstanding loan per client	254	298	303	304	306
% of GDP per capita	28.7%	33.7%	32.2%	32.1%	32.2%
Average amount disbursed per loan	208	253	279	292	176
% of GDP per capita	22.4%	26.4%	26.7%	26.5%	15.2%
Rescheduled or shifted loans	0.0%	0.0%	5.6%	4.3%	4.1%
PAR 31-365*	7.9%	7.9%	2.3%	1.7%	1.4%
PAR > 365*	5.7%	8.0%	5.2%	4.0%	2.6%
Write-off ratio*	0.1%	0.2%	0.1%	0.1%	0.0%
Risk coverage ratio*	97.5%	51.4%	49.6%	62.5%	85.2%
PAR 31 net of loan loss provision / Equity	0.1%	2.8%	1.7%	1.1%	0.3%
<b>Staff</b>					
Total number of staff	615	667	769	786	809
% Credit officers	67.2%	57.6%	61.1%	55.9%	56.7%
Turnover	39.5%	25.9%	29.7%	37.2%	10.3%
<b>Profitability analysis</b>					
ROE*	8.6%	8.5%	8.5%	11.0%	15.2%
Liabilities / Equity*	0.54x	0.47x	0.59x	0.48x	0.47x
ROA*	4.9%	5.7%	5.5%	7.2%	10.3%
Portfolio Yield*	27.9%	25.6%	26.7%	27.5%	N/A
Operating expense ratio*	11.4%	14.7%	15.8%	14.5%	N/A
Cost per borrower	25	37	37	35	33
Staff productivity	70	56	65	76	76
Loan officer productivity	105	97	106	136	134
Funding expense ratio	6.8%	3.9%	4.2%	3.3%	3.1%
Cost of liabilities	12.9%	9.5%	9.7%	8.3%	8.5%
Loan Loss Provision expense ratio	4.4%	1.3%	0.8%	1.1%	0.6%
PAR 31-365*	7.9%	7.9%	2.3%	1.7%	1.4%
Write-off ratio*	0.1%	0.2%	0.1%	0.1%	0.0%
Outstanding Loan Portfolio / Assets*	69.1%	66.9%	68.7%	75.7%	74.4%
Revenue from investment as a % of financial revenues	12.5%	9.8%	8.3%	4.8%	4.2%
Liquidity / Total assets (LAR)*	0.3%	0.1%	0.0%	0.1%	0.2%
Adjustment expense ratio	8.8%	26.3%	24.8%	13.8%	N/A
AROE	(1.4%)	(8.3%)	(8.4%)	(2.8%)	N/A
AROA	(1.1%)	(7.0%)	(7.0%)	(2.3%)	N/A
Financial self-sufficiency	90.7%	56.3%	59.0%	83.1%	N/A
Adjusted operating expense ratio	9.5%	12.5%	13.6%	12.5%	N/A
Adjusted funding expense ratio	12.5%	21.3%	21.5%	12.0%	N/A
Adjusted loan loss provision expense ratio	7.5%	10.2%	8.3%	6.2%	N/A
Exchange rate 1 EUR = xx EGP	6.1	6.1	5.8	5.7	5.7

Loan Portfolio Evolution (excl. Medical)



Portfolio by product - May 2007



ABA Balance sheet	Notes	EGP					USD					Evolution			
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Mar. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Mar. 2007	2004/2003	2005/2004	2006/2005	2007/2006
<b>ASSETS</b>		<b>182 599 031</b>	<b>188 806 228</b>	<b>205 472 601</b>	<b>220 011 085</b>	<b>227 303 113</b>	<b>29 787 770</b>	<b>30 800 363</b>	<b>35 734 365</b>	<b>38 530 838</b>	<b>39 947 823</b>	<b>3,4%</b>	<b>8,8%</b>	<b>7,1%</b>	<b>3,3%</b>
<b>Short Term Assets</b>		<b>159 871 462</b>	<b>137 440 528</b>	<b>151 943 478</b>	<b>171 807 602</b>	<b>189 258 269</b>	<b>26 080 173</b>	<b>22 420 967</b>	<b>26 424 953</b>	<b>30 088 897</b>	<b>33 261 559</b>	<b>(14,0%)</b>	<b>10,6%</b>	<b>13,1%</b>	<b>10,2%</b>
Cash and Due from Banks		285 626	75 998	31 704	65 208	218 592	46 595	12 398	5 514	11 420	38 417	(73,4%)	(58,3%)	105,7%	235,2%
Short Term Investments		109 879 031	83 364 420	79 406 935	84 051 318	96 357 042	17 924 801	13 599 416	13 809 902	14 720 021	16 934 454	(24,1%)	(4,7%)	5,8%	14,6%
Short Term Net Loan Portfolio		59 693 991	63 128 528	83 671 881	100 226 841	104 124 618	9 738 008	10 298 292	14 551 631	17 552 862	18 299 581	5,8%	32,5%	19,8%	3,9%
Short Term Gross Loan Portfolio (Loan Loss Reserve)		67 227 707	67 889 375	86 455 828	103 422 130	107 321 139	10 967 000	11 074 939	15 035 796	18 112 457	18 861 360	1,0%	27,3%	19,6%	3,8%
Interest Receivable		7 533 716	4 760 847	2 783 947	3 195 289	3 196 521	1 228 991	776 647	484 165	559 595	561 779	(36,8%)	(41,5%)	14,8%	0,0%
On loan portfolio		(10 557 091)	(9 609 053)	(11 904 723)	(13 817 923)	(14 359 215)	(1 722 201)	(1 567 545)	(2 070 387)	(2 419 951)	(2 523 588)	(9,0%)	23,9%	16,1%	3,9%
On investments		(10 557 091)	(9 609 053)	(11 904 723)	(13 817 923)	(14 359 215)	(1 722 201)	(1 567 545)	(2 070 387)	(2 419 951)	(2 523 588)	(9,0%)	23,9%	16,1%	3,9%
Accounts receivable and other assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Long term assets</b>		<b>22 727 569</b>	<b>51 365 700</b>	<b>53 529 123</b>	<b>48 203 483</b>	<b>38 044 844</b>	<b>3 707 597</b>	<b>8 379 396</b>	<b>9 309 413</b>	<b>8 441 941</b>	<b>6 686 264</b>	<b>126,0%</b>	<b>4,2%</b>	<b>(9,9%)</b>	<b>(21,1%)</b>
Long Term Net Investments		11 404 000	38 376 000	39 693 000	33 385 000	21 960 000	1 860 359	6 260 359	6 903 130	5 846 760	3 859 402	236,5%	3,4%	(15,9%)	(34,2%)
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		11 228 812	12 989 700	12 594 373	12 401 623	12 467 659	1 831 780	2 119 037	2 190 326	2 171 913	2 191 153	15,7%	(3,0%)	(1,5%)	0,5%
Other Long Term Assets		94 758	-	1 241 750	2 416 860	3 617 185	15 458	-	215 957	423 268	635 709	(100,0%)	-	94,6%	49,7%
<b>LIABILITIES AND EQUITY</b>		<b>182 599 031</b>	<b>188 806 228</b>	<b>205 472 601</b>	<b>220 011 085</b>	<b>227 303 113</b>	<b>29 787 770</b>	<b>30 800 363</b>	<b>35 734 365</b>	<b>38 530 838</b>	<b>39 947 823</b>	<b>3,4%</b>	<b>8,8%</b>	<b>7,1%</b>	<b>3,3%</b>
<b>Liabilities</b>		<b>28 874 696</b>	<b>27 901 266</b>	<b>40 186 426</b>	<b>38 572 493</b>	<b>40 387 476</b>	<b>4 710 391</b>	<b>4 551 593</b>	<b>6 988 944</b>	<b>6 755 253</b>	<b>7 097 975</b>	<b>(3,4%)</b>	<b>44,0%</b>	<b>(4,0%)</b>	<b>4,7%</b>
Short term liabilities		28 874 696	27 901 266	40 186 426	38 572 493	40 387 476	4 710 391	4 551 593	6 988 944	6 755 253	7 097 975	(3,4%)	44,0%	(4,0%)	4,7%
Short Term Borrowings		28 292 232	27 220 782	39 490 805	37 181 511	39 071 159	4 615 372	4 440 584	6 867 966	6 511 648	6 866 636	(3,8%)	45,1%	(5,8%)	5,1%
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		582 463	680 484	695 621	1 390 983	1 316 318	95 019	111 009	120 978	243 605	231 339	16,8%	2,2%	100,0%	(5,4%)
Long term liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>		<b>153 724 336</b>	<b>160 904 962</b>	<b>165 286 175</b>	<b>181 438 592</b>	<b>186 915 637</b>	<b>25 077 379</b>	<b>26 248 770</b>	<b>28 745 422</b>	<b>31 775 585</b>	<b>32 849 848</b>	<b>4,7%</b>	<b>2,7%</b>	<b>9,8%</b>	<b>3,0%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity		152 989 187	160 291 844	164 589 132	180 700 055	183 594 760	24 957 453	26 148 751	28 624 197	31 646 244	32 266 214	4,8%	2,7%	9,8%	1,6%
Retained earnings without donations and reserves		735 149	613 118	697 043	738 537	3 320 877	119 926	100 019	121 225	129 341	583 634	(16,6%)	13,7%	6,0%	349,7%
Current year		5 235 149	5 113 118	5 697 043	8 738 537	3 320 877	854 021	834 114	990 790	1 530 392	583 634	(2,3%)	11,4%	53,4%	(62,0%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-	-

ABA Income Statement	EGP					USD					Evolution				
	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Mar. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Mar. 2007	2004/2003	2005/2004	2006/2005	2007/2006	
<b>Financial Revenue (a)</b>	<b>19 005 219</b>	<b>16 724 880</b>	<b>19 763 442</b>	<b>24 214 543</b>	<b>6 985 066</b>	<b>3 100 362</b>	<b>2 728 365</b>	<b>3 437 120</b>	<b>4 240 726</b>	<b>1 227 604</b>	<b>(12,0%)</b>	<b>18,2%</b>	<b>22,5%</b>	<b>(71,2%)</b>	
Financial Revenue from Loan Portfolio	16 497 533	14 755 361	17 744 724	22 594 992	6 331 913	2 691 278	2 407 074	3 086 039	3 957 091	1 112 814	(10,6%)	20,3%	27,3%	(72,0%)	
Interest on Loan Portfolio	16 195 500	14 235 703	17 302 305	22 115 494	6 195 444	2 642 006	2 322 301	3 009 096	3 873 116	1 088 830	(12,1%)	21,5%	27,8%	(72,0%)	
Fees and Commissions on Loan Portfolio	-	313 203	283 607	291 506	69 253	-	51 094	49 323	51 052	12 171	-	(9,4%)	2,8%	(76,2%)	
Penalty Revenue on Loan Portfolio	302 033	206 455	158 813	187 992	67 216	49 271	33 679	27 620	32 923	11 813	(31,6%)	(23,1%)	18,4%	(64,2%)	
Financial Revenue from Investments	2 377 484	1 637 221	1 632 059	1 154 386	290 989	387 844	267 083	283 836	202 169	51 140	(31,1%)	(0,3%)	(29,3%)	(74,8%)	
Other Operating Revenue	130 203	332 298	386 659	465 164	362 165	21 240	54 208	67 245	81 465	63 649	155,2%	16,4%	20,3%	(22,1%)	
<b>Financial Expense (b)</b>	<b>4 842 469</b>	<b>2 631 923</b>	<b>3 246 304</b>	<b>3 166 826</b>	<b>814 409</b>	<b>789 962</b>	<b>429 351</b>	<b>564 575</b>	<b>554 611</b>	<b>143 130</b>	<b>(45,6%)</b>	<b>23,3%</b>	<b>(2,4%)</b>	<b>(74,3%)</b>	
Interest paid on borrowings	4 842 469	2 631 923	3 246 304	3 166 826	814 409	789 962	429 351	564 575	554 611	143 130	(45,6%)	23,3%	(2,4%)	(74,3%)	
Other Financial Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Financial income [c=a-b]</b>	<b>14 162 750</b>	<b>14 092 957</b>	<b>16 517 138</b>	<b>21 047 716</b>	<b>6 170 657</b>	<b>2 310 400</b>	<b>2 299 014</b>	<b>2 872 546</b>	<b>3 686 115</b>	<b>1 084 474</b>	<b>(0,5%)</b>	<b>17,2%</b>	<b>27,4%</b>	<b>(70,7%)</b>	
<b>Net Loan Loss provision expense (d)</b>	<b>3 140 674</b>	<b>851 308</b>	<b>579 800</b>	<b>1 000 074</b>	<b>162 758</b>	<b>512 345</b>	<b>138 876</b>	<b>100 835</b>	<b>175 144</b>	<b>28 604</b>	<b>(72,9%)</b>	<b>(31,9%)</b>	<b>72,5%</b>	<b>(83,7%)</b>	
Loan loss provision expense and write-off	3 140 674	921 340	800 040	1 238 226	222 427	512 345	150 300	139 137	216 852	39 091	(70,7%)	(13,2%)	54,8%	(82,0%)	
Recovery from Loans written off	-	70 032	220 240	238 152	59 669	-	11 424	38 303	41 708	10 487	-	214,5%	8,1%	(74,9%)	
<b>Operating expense (e)</b>	<b>6 746 189</b>	<b>8 445 172</b>	<b>10 517 714</b>	<b>11 896 775</b>	<b>2 872 140</b>	<b>1 100 520</b>	<b>1 377 679</b>	<b>1 829 168</b>	<b>2 083 498</b>	<b>504 770</b>	<b>25,2%</b>	<b>24,5%</b>	<b>13,1%</b>	<b>(75,9%)</b>	
Personnel Expense (includes fringe)	4 183 067	7 444 699	9 418 337	10 786 493	2 589 345	682 393	1 214 470	1 637 972	1 889 053	455 069	78,0%	26,5%	14,5%	(76,0%)	
Administrative Expense (non-staff operating expenses)	2 563 121	1 000 472	1 099 377	1 110 281	282 795	418 127	163 209	191 196	194 445	49 700	(61,0%)	9,9%	1,0%	(74,5%)	
Depreciation	882 230	968 222	1 061 751	1 062 622	273 303	143 920	157 948	184 652	186 098	48 032	9,7%	9,7%	0,1%	(74,3%)	
Consulting fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Bank fee	28 551	32 251	37 626	47 659	9 491	4 658	5 261	6 544	8 347	1 668	13,0%	16,7%	26,7%	(80,1%)	
Others	1 652 340	-	-	-	-	269 550	-	-	-	-	(100,0%)	-	-	-	
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>	<b>4 275 887</b>	<b>4 796 477</b>	<b>5 419 624</b>	<b>8 150 868</b>	<b>3 135 760</b>	<b>697 535</b>	<b>782 460</b>	<b>942 543</b>	<b>1 427 472</b>	<b>551 100</b>	<b>12,2%</b>	<b>13,0%</b>	<b>50,4%</b>	<b>(61,5%)</b>	
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Net Operating Income Before Donations [h=f-g]</b>	<b>4 275 887</b>	<b>4 796 477</b>	<b>5 419 624</b>	<b>8 150 868</b>	<b>3 135 760</b>	<b>697 535</b>	<b>782 460</b>	<b>942 543</b>	<b>1 427 472</b>	<b>551 100</b>	<b>12,2%</b>	<b>13,0%</b>	<b>50,4%</b>	<b>(61,5%)</b>	
Non Operating Revenue (i)	959 261	316 641	277 420	587 669	185 117	156 486	51 654	48 247	102 919	32 534	(67,0%)	(12,4%)	111,8%	(68,5%)	
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Net Income Before Donations [k=h+i-j]</b>	<b>5 235 149</b>	<b>5 113 118</b>	<b>5 697 043</b>	<b>8 738 537</b>	<b>3 320 877</b>	<b>854 021</b>	<b>834 114</b>	<b>990 790</b>	<b>1 530 392</b>	<b>583 634</b>	<b>(2,3%)</b>	<b>11,4%</b>	<b>53,4%</b>	<b>(62,0%)</b>	
Donations (l)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Net Income (after Taxes and Donations) [m=k+l]</b>	<b>5 235 149</b>	<b>5 113 118</b>	<b>5 697 043</b>	<b>8 738 537</b>	<b>3 320 877</b>	<b>854 021</b>	<b>834 114</b>	<b>990 790</b>	<b>1 530 392</b>	<b>583 634</b>	<b>(2,3%)</b>	<b>11,4%</b>	<b>53,4%</b>	<b>(62,0%)</b>	

## ■ Formulas

---

Personnel productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Loan officer productivity:	$\text{Active borrowers} / \text{Total Loan Officers (end of period)}$
Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Adjusted return on assets (AROA):	$\text{Adjusted net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Adjusted return on equity (AROE):	$\text{Adjusted net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$
Operating expense ratio (OER):	$\text{Operating expense} / \text{13-month average gross outstanding portfolio}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowing}$
Loan loss expense ratio:	$\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{total assets (end of period)}$
Financial self-sufficiency:	$\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{13-month average gross outstanding portfolio}$

## ■ Rating scale

---

Rating	Definition
A+	<b>Excellent</b>
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	<b>Good</b>
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	<b>Minimum required</b>
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	<b>Insufficient</b>
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	<b>Immediate risk of default or very insufficient</b>
	There are immediate or underlying risks for operations or an unacceptable under performance.