MicroRating International

rating of **PT Mitra Bisnis Keluarga Ventura (MBK)**

MBK – *third update*

Venture Capital NBFC

Tangerang, Indonesia

Final Report – February 2008

Contacts

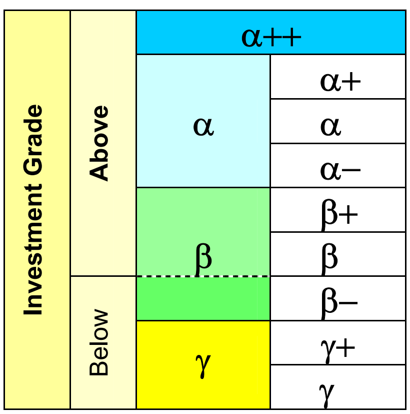
M-CRIL:
Jyoti Gidwani; Sanjay Gandhi
jyotigidwani@m-cril.com, sanjayg@m-cril.com
Tel: +91 124 230 9497
Fax: +91 124 230 9520

MBK:
Shafiq Dhanani
shafiq.dhanani@mbk-ventura.com
Tel: +62 21 5949 2234

CREDIT RATING	α
RATING OUTLOOK*	+ve

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

Date of visit	**February 2008**
Date of previous rating	**July 2006**
Previous rating	α



Main Performance Indicators

	Dec-06	Dec-07
Gross Portfolio (IDR mn.)	9,105	25,192
Gross Portfolio (US$ thousand)	1,008	2,680
No. of active borrowers	27,372	64,548
ROA	6.9%	0.1%
Portfolio yield	50.6%	41.8%
Portfolio at Risk$_0$	0.00%	0.01%
Operating expense ratio	34.5%	32.9%
Average loan o/s (IDR '000)	333	390
Borrowers per field staff *	346	425

Note – Field staff does not include the ones <2 months old
1US$= IDR 9,035 (2006); 1US$ = IDR 9,400 (2007)

Synopsis

MBK has a strong Board, standardised management systems, good MIS, well diversified sources of funds and excellent portfolio quality. The organisation focuses on the bottom 25% of households and has a strong pro-poor approach. As part of this, MBK reduced its interest rate in October 2006 which has resulted in only marginal profits in financial year 2007. However, it is likely to make healthy profits in 2008, as OER is expected to go down with a recent increase in average loan size.

Overall it has a good performance on all parameters with no change in the rating grade from the last rating. However, in the future the organisation would do well to focus on further strengthening its second line of leadership, internal control environment and operating efficiencies.

In M-CRIL's view**,** on account of good overall performance and the potential of the organisation to emerge as a market leader, MBK can absorb – from all sources – commercial loan funds of US$4.2 million over the next one year for on-lending to its borrowers.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here and to no other significant changes in the organisational structure and external operating environment.

Highlights

POSITIVE

- Transformed to better legal form
- Experienced and qualified Board
- Impressive operational growth
- Excellent portfolio quality
- Diversified sources of funds
- Good capital adequacy
- Reasonable staff productivity
- Good MIS system

NEGATIVE

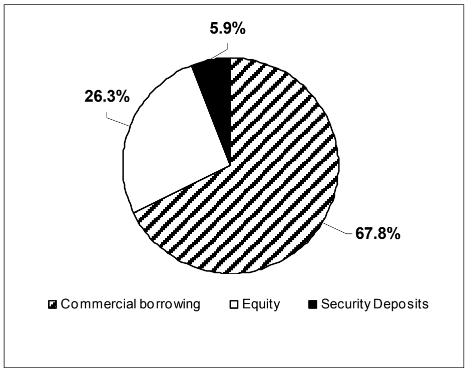
- Inadequate second line of management
- Inadequate internal control environment
- High cash and liquid assets
- High OER

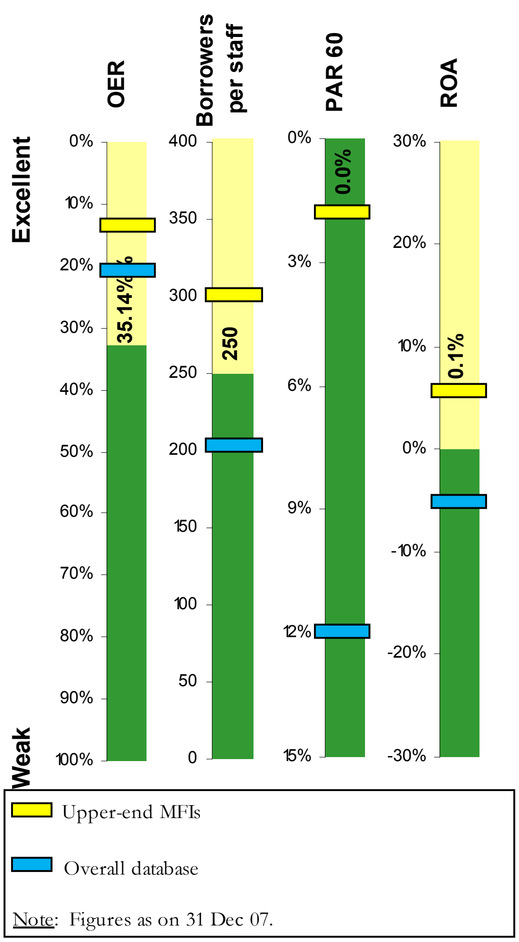
M-CRIL New Delhi
602 Pacific Square, 32nd Milestone NH8
Gurgaon 122001 INDIA
Phone: +91 (124) 230 9497, 230 9707
Fax: +91 (124) 230 9520

in association with

MicroRate Washington
3300 Fairfax Drive, Suite 202
Arlington, VA 22201 USA
Phone: +1 (703) 243-5340
Fax: +1 (703) 243-7380

Sources of Funding





Comparison of MBK performance with MFIs rated by M-CRIL

Rating Rationale

Legal structure: The promoters have done well to transfer the microfinance programme from a Foundation, Ganesha Microfinance Foundation, to a relatively more appropriate legal structure - Venture Capital NBFC. Foundations can no longer provide microfinance services in Indonesia.

Board: The organisation has a strong Board with substantial experience in Development sector, Microfinance and Banking.

Operational growth: The organisation's growth has been impressive over the last three years. It has been able to achieve all its targets, both for outreach as well as portfolio, as laid out in its comprehensive business plan.

Portfolio quality: Microfinance programme has continued to have an excellent portfolio quality since the beginning despite fast portfolio expansion. Good credit culture along with high emphasis on field level discipline has resulted in this performance.

MIS: MBK has migrated to new software since the last rating. This has improved the overall tracking of portfolio information. The software also maintains extensive client level information.

Capital base: The organisation has a sound capital base with CAR of almost 30% as on 31 December 2007.

Funding: The organisation has successfully diversified its lender base. Besides social investors, it has been able to attract commercial borrowings from multiple sources.

Staff productivity: The staff productivity of MBK field staff (excluding < 2 months old) has improved over the years and stands reasonable at 425 active borrowers per field staff as on 31 December 2007.

Internal control environment: The internal controls placed at the branches were not being implemented/followed across all branches. Internal audit function is still not fully developed and is insufficient for the current level of operations. The organisation has recently had few cases of frauds, the nature of which clearly indicates absence of strong internal control environment.

Cash and liquid assets: Bigger tranches of loans and one shot repayment requirements from many lenders coupled with high cash balances maintained at the branches has resulted in high cash and liquid assets (23%) and a relatively lower deployment of assets in loans (67%).

High OER: Though the OER has dipped from last year, it still remains high at almost 33%. This is mainly due to the fast expansion resulting in high cost of salaries and office expenses. Moreover, the low avg. loan size has also resulted in overall high transaction cost.

Comparative Performance Highlights

Comparative Rating Grades

Category	Rating grade			Movement[3]
	June 2004	July 2006	Feb. 2008	
Governance	β	α	α	↔
Management	β+	α−	α−	↔
Financial performance	β+	α	α	↔
Overall	β+	α	α	↔

Select indicators/ratios

Indicator/ratio	June 2004	July 2006	Feb. 2008	Change[1]
1 Growth				
Loans outstanding (IDR million)	687	7,768	25,192	↑
Outstanding borrowings (IDR million)	Nil	2,620	24,856	↑
Active borrowers	3,120	22,277	64,548	↑
Average loan size (IDR thousands)	520	666	850	↑
2 Credit performance				
Current repayment rate	100.0%	100.0%	99.9%	↔
Portfolio at risk (>=30 days)	0.0%	0.0%	0.0%	↔
3 Efficiency and profitability				
Active clients per staff	283	268	250	↓
Operating expense ratio	42.5%	37.8%	32.9%	↑
Annual return on assets	-10.7%	4.4%	0.1%	↓
Operating self-sufficiency	66.9%	123.8%	100.4%	↓
Financial self-sufficiency	57.6%	94.1%	85.3%	↓
Capital adequacy ratio	163.7%	84.9%	29.7%	↑

Note:

- Till January 2007, the microfinance programme was being managed by an organisation called Ganesha Microfinance Foundation, registered as Yayasan (Foundation) in 2002 by the promoters of MBK.
- MBK was registered as Venture Capital NBFC in October 2006.
- Additional paid up capital was injected in the microfinance programme in the financial year 2006 and 2007. However, with increase in outstanding borrowings from July 2006, capital adequacy ratio has come down to a reasonable level. This is an improvement in MBK's financial leverage.

[1] An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.

Country overview

The Republic of Indonesia is a nation in South-east Asia comprising of 17,508 islands. With a population of over 234 million people, it is the world's fourth most populous country.

Indonesia has struggled to overcome the Asian financial crisis, and still grapples with persistent poverty and unemployment, inadequate infrastructure, endemic corruption, a fragile banking sector, a poor investment climate, and unequal resource distribution among regions. The country continues the slow work of rebuilding from the devastating December 2004 tsunami and from an earthquake in central Java in May 2006 that caused over $3 billion in damage and losses.

Declining oil production and lack of new exploration investment turned Indonesia into a net oil importer in 2004. The cost of subsidizing domestic fuel placed increasing strain on the budget in 2005, and combined with indecisive monetary policy, contributed to a run on the currency in August, prompting the government to enact a 126% average fuel price hike. The resulting inflation and interest rate hikes dampened growth in 2006, while large increases in rice prices pushed millions of people under the national poverty line.

Economic reformers introduced three policy packages in 2006 to improve the investment climate, infrastructure, and the financial sector, but translating them into reality has not been easy. Indonesia ended 2006 with $67 billion in official foreign debt (about 25% of GDP).

Indonesia's estimated Gross Domestic Product (GDP) for 2007 is US$408 billion. In 2007, estimated nominal per capita GDP is US$1,812. The services sector is the economy's largest and accounts for 45.3% of GDP (2005). This is followed by industry (40.7%) and agriculture (14.0%). However, agriculture employs more people than other sectors, accounting for 44.3% of the 95 million-strong workforce. This is followed by the services sector (36.9%) and industry (18.8%). Major industries include petroleum and natural gas, textiles, apparel, and mining. Major agricultural products include palm oil, rice, tea, coffee, spices, and rubber.

Indonesia has been one of the first countries to develop commercial microfinance in Asia, with regulated financial institutions providing the bulk of microfinance services. Besides, Indonesia has also been a favorable ground for the development of numerous subsidized government programs, local and community-based financial institutions, cooperatives and NGOs.

However, Foundations (NGOs) were no longer allowed to operate as micro finance service provider post 2008, so they have now transformed into BPRs, Co-operatives or NBFCs. Bank Rakyat Indonesia (BRI) units have been in existence for twenty years, and some forms of 'People's credit banks' or BPRs, have appeared more than a century ago.

The generic term for small financial institutions in Indonesia is Bank Perkreditan Rakyat (People's Credit Bank or BPR), which was introduced by Bank Indonesia in 1978. After the 1988 financial reforms, new secondary banks were established, also called BPRs. BPRs include licensed FIs, mostly privately-owned, that meet the criteria specified in the 1992 Banking law. BPRs can be owned only by Indonesian Nationals and cannot access debt funds from abroad.

In 1984, in the wake of new financial reforms undertaken by the government, BRI transformed its sub-branches ('Unit Desa') network from loss-making channeling agents for the government subsidized credit program for rice cultivation into commercial microfinance intermediaries. The unit network is now the largest and one of the most profitable rural micro-banking networks in the developing world.

During the 1997-98 financial crisis, most of BRI microfinance clients kept their trust in the financial services offered by BRI units; clients maintained and even increased their savings levels. The BRI Unit Desas unaffected success during the crisis were in sharp contrast with BRI heavy losses on its corporate portfolio, which meant that BRI became technically bankrupt, and had to be rescued by a public restructuring and refinancing program, as for the rest of the banking industry.

As a direct consequence of the financial crisis, 82 commercial banks were closed, 13 were nationalized and others recapitalized or merged into a larger financial institution, the newly established Bank Mandiri. The network of BRI units saved BRI from being merged into this larger bank. With bank closures, many small depositors lost their savings, sustaining a severe crisis of confidence towards FIs.

Another significant player in the formal microfinance market is the state-owned pawning company, Perum Pegadaian, serving million of low-income people. With these three main players (BRI, BPRs, and Pegadaian), the formal financial sector is the dominant force in microfinance, and outperforms the semiformal and informal sectors by a large margin.

Sources:
1) https://www.cia.gov/cia/publications/factbook/
2) www.wikipedia.org 3) www.bwtp.org

Microfinance operations

Main Indicators	31 Dec-03	31 Dec-04	31 Dec-05	31 Dec-06	31 Dec-07
Gross Loan Portfolio (IDR million)	687	1,121	4,137	9,105	25,192
Gross Loan Portfolio (US$ thousand)	81	121	441	1,008	2,680
Number of Active Borrowers	2,413	3,274	12,335	27,372	64,548
Asset Quality					
Portfolio at Risk (>60 days)/Gross Loan Port.	0.0%	0.0%	0.0%	0.0%	0.0%
Loan Loss Reserve/Gross Portfolio	0.9%	0.7%	5.3%	5.0%	1.0%
Efficiency and Productivity					
Operating Expenses/Avg. Gross Loan Portfolio	27.6%	29.1%	34.1%	34.5%	32.9%
Cost per Borrower (IDR thousand)	59	78	77	92	87
Average Outstanding Loan Size (IDR thousand)	285	342	335	333	390
Average Outstanding Loan size (US$)	34	37	36	37	42
Number of Borrowers/Total field staff	345	409	280	294	343
Number of Borrowers/Field staff (excl.<2 months old)	345	409	333	346	425
Number of Borrowers/Total staff	268	298	216	224	250

Exchange rates: 1US$ = IDR8,500 (2003); 1US$ = IDR9,300 (2004), 1US$ = 9,386 (2005), 1US$ = 9,035 (2006), 1US$ = 9,400 (2007)

The microfinance programme of MBK started in the year 2003. Till January 2007, microfinance programme was being managed by an organization called Ganesha Microfinance Foundation. Ganesha was registered as Yayasan (Foundation), a not for profit organization, in 2002 by a group of development professionals in order to provide microfinance services under the "Grameen Bank" approach. However, due to change in the legal environment, Foundations were no longer allowed to carry out microfinance operations after 2008. Thus, the promoters of Ganesha set up a new legal entity – PT Mitra Bisnis Keluarga Ventura (MBK) – registered as Venture Capital NBFC in October 2006. The microfinance operations were transferred from Ganesha to MBK by January 2007.

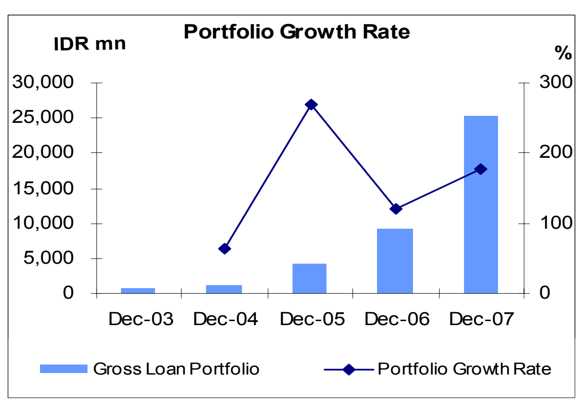
As on 31 December 2007, MBK had 65,528 clients organized in 3,747 centres. It was operating through 31 branches and had a total outstanding loan portfolio of US$2,68 million. The branches are spread across Tangerang, Bogor, Sukabumi and Bandung districts, which are located on the Java Island, one of the most populated islands in the world.

MBK had total staff of 258 as on 31 December 2007, including 11 Head Office (HO) staff, 28 District level staff, 31 Branch Managers (BMs) and 188 Field Officers (FOs) of which 36 were <2 months old.

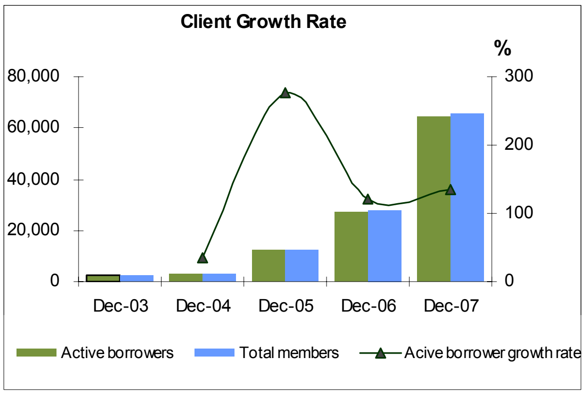
The Head Office staff comprises of Dr Shafiq Dhanani, Founder and Chairman of MBK; his wife Dr. Elizabeth Sweeting, CEO; Business Expansion Manager, Operations Manager, MIS/IT Manager, HR Manager, Communications Manager, Finance and Administration Manager and Internal Audit Manager. Over the last one year, Dr Shafiq was handling the role of Chief Financial Officer and the Operations Manager was handling the role of Internal Audit Manager. One of the other staff, given the responsibility of internal audit from January 2008, is also actively supporting the Expansion Manager in opening new branches. Thus, the new OM was still co-ordinating most of the internal audit functions at the time of the rating visit. MBK plans to hire a new CFO and Internal Audit Manager, for which the recruitment process was on.

At the District level, MBK has 6 District Managers and a minimum of 3 MIS staff. The branches are supervised by Branch Managers who are supported by management trainees and field officers. One of the field officers serves as cashier on a rotation basis.

The loan portfolio has grown substantially by almost 178% in the financial year ending 2007. The organisation has witnessed an average growth rate of 189% from the financial year 2005 onwards. The organisation achieved net loan outstanding of IDR 24.9 billion (US$ 2.65 million) in December 2007, thereby succeeding in over achieving its target of having net outstanding loan portfolio of IDR 21.1 billion (US$2.25 million) as per the business plan. In the future also the organisation plans to continue growing fast and has set a target of achieving outstanding loan portfolio of US$6.2 million by December 2008.



A similar trend can also be seen in the client growth rate of the organisation. The organisation has had an average growth rate of almost 178% in its active borrowers since the year 2005 onwards. The organisation has succeeded in over achieving its target of having 30 branches and 60,000 clients by December 2007. In the financial year 2008, the organisation plans to open 31 new branches and expand its outreach to 130,011 clients.



Microfinance policies

MBK has a well defined system for new area selection and group formation. For selection of new areas, the organisation studies potential for operation. An analysis of population density, competition and poverty incidence is conducted. The organisation also informs local government officials before starting operations in the new area. Initial meetings are organised and brochures distributed to inform the people of MBK's policies and products.

MBK follows Grameen Bank methodology with certain modifications. The clients are selected using the CASHPOR housing index with certain modifications. Field officer assigns scores on various housing parameters based on visual survey of the house. Overall score decides the poverty status of the house.

The target clients join together in the group of five members each, and 4 to 5 such groups form a centre. The group is provided training for five days. Each member saves IDR1,000 for each of the five days which is kept in the sealed envelop with the group and can be used in case of emergency purposes. The group has to clear Group Recognition Test before accessing loans from MBK.

The loans are given to individuals through centre (average 20 members). The organisation is planning to expand the average membership base of its centres to at least 25. The loans are appraised by FOs and approved by Branch Managers. The District Managers (DMs) also check loan applications on the sample basis. In case of new branches, DMs play a vital role and are actively involved in conducting GRTs and approving loans. Loans are disbursed and collections are made weekly in meetings, which are held on pre-decided days, time and place.

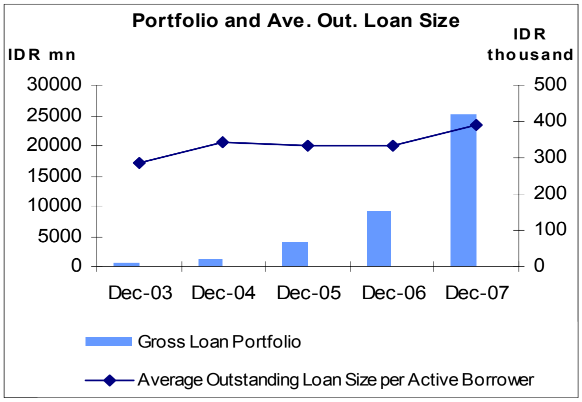
Loan products

MBK offers only a single loan product at present, known as the basic working capital. The loans have to be repaid in 50 weekly instalments. There is a break of two weeks during Id. The organisation has reduced the interest rate from 30% flat rate p.a. to 25% flat p.a. from Oct. 2006 with the decline in the overall commercial interest rates. The first working capital size range has been increased from up to US$50 to US$80 from September 2007. The second loan size can increase by maximum 50%, considering a viable size in terms of income generation. Subsequent loans increase is based on the client's performance and can be maximum 20%. In case a client misses weekly meeting without a genuine reason or delays her repayment, the loan ceiling is reduced by a certain amount.

Each member has to pay 5% of the loan amount as a deposit with the MFI, which is called the Client Responsibility Fund (CRF). This serves as security deposit against the loans received by clients from MBK. This money is returned back to the borrower once the loan has been repaid in full.

MBK was insured against death of the clients for all the loans disbursed till December 2007. This is a voluntary act and for this MBK does not charge any premium/extra fees from the clients. MBK pays 0.25% of the disbursed amount to the insurance company as premium. In case of death, the unpaid portion of the loan is recovered from the insurance company. However, at the time of the rating visit, the insurance tenure had lapsed and was pending to be renewed for the new loans being disbursed.

MBK had an average loan outstanding of around US$41 in December 2007. The growth in average loan outstanding over the years has been very low. From December 2003 onwards, the average loan outstanding has grown only by 37%. This is likely to improve as the organisation has increased its working capital loan size in September 2007 in order to improve its operating efficiency. However, the effect of this is not getting reflected below as even till the time of the rating visit the new loan sizes were not implemented across all branches. The branch staff's lack of comfort in disbursing bigger loans had resulted in this delay.



Saving products

MBK does not offer any saving product of its own. However, it encourages clients to save within their groups. The savings are facilitated by the field officers and have to be monitored and verified by them during their visits to the groups for regular meetings. There are three kinds of savings collected and maintained at the group level:

Each client saves IDR1,000 per day for 5 days of training which is kept in sealed envelop by the group. This is called "emergency savings".

Every group meeting each client saves IDR1,000-2,000 which is also kept in sealed envelop by the group leader.

Besides the above two, the client can save additional sums of money as voluntary savings in the centre. At times, voluntary savings is also used by the groups for inter loaning within the group.

In case of non repayment by any borrower on any day, MBK encourages the groups to use their internal savings for covering up the shortage in the repayment.

Governance and strategic positioning

MBK has a good performance on governance with a rating grade of α. Presence of strong Board with substantial experience in Microfinance and Banking, transfer of microfinance programme to a more appropriate legal structure, ability to attract social investors and improving linkages with commercial investors and ability to grow as per the Business Plan has resulted in this performance.

Governance structure

MBK has a highly experienced and professional Board and an Advisory committee. The Board has six members, one of whom has joined recently. The Board has substantial experience in the development sector, banking and microfinance. Besides, the new Board member is an Indonesian and has substantial banking experience in Indonesia, which brings to the Board an expertise that MBK lacked before. He is also a microfinance practitioner besides Ms Helen Todd, another Board member. The advisory committee includes Prof David Gibbons, Promoter of CASHPOR and a well known microfinance expert. The Board twice a year and actively participates in the monitoring of operations, formulation of polices and in providing strategic guidance to the organisation. In 2008, Board plans to meet once in every quarter. The two founder Directors who have the financial stake in the organisation are engaged full time in the operations of the organisation.

Legal structure

The promoters have done well to successfully register a new and more appropriate legal entity for the microfinance programme – Venture Capital NBFC. The Venture Capital NBFC route was suggested to promoters by the Ministry of Finance itself. MBK is perhaps the first NGO to successfully transform itself into a regulated finance company in Indonesia. The microfinance programme was initially being managed through a Foundation. However, due to change in the legal regulations, the Foundations were not authorised to continue offering microfinance services beyond financial year 2008.

As Venture Capital NBFC, the organisation needs to report only once in six months to the Central Bank of Indonesia. However, in its present legal form, the organisation is not allowed to give loans but can give working capital. To overcome this, the organisation has named its loan product as basic working capital and it enters into a profit sharing agreement with each of its clients, which has been approved by the Ministry of Finance.

As the organisation offers only one loan product, the profit sharing agreement is similar for all its clients, which may raise questions in future. To be able to legally substantiate that it extends only working capital, the organisation would do well to design their products in such a way that they are able to meet to the requirements of the Act for Venture Capital NBFCs.

Operational and growth strategy

MBK has succeeded in achieving its Business Plan targets both in terms of clients and portfolio. The organisation has been able to move on a fast growth trajectory while maintaining a good portfolio quality, which is impressive. The organisation plans to continue with this fast paced growth even in the future. The organisation is currently expanding its operations eastward in West Java while most of the other MFIs have a larger presence in the north i.e. closer to Jakarta.

MBK plans to double its client base every year. It plans to reach 2 mn clients with the gross portfolio outstanding of IDR 1,790 billion (US$195 million) by the financial year 2012. MBK will continue to expand eastwards in west Java in 2008. It plans to move to central Java in 2009 and East Java in 2010.

In the long run the organisation hopes to eventually convert to a commercial bank as the operation size becomes substantial. To become a commercial bank it would require an equity base of US$10 million. However, the current business plan does not assume any external inflow of equity for next five years.

Competition

MBK does not face competition from other organisations. The country has 'People's Credit Banks or BPRs and Bank Rakyat Indonesia (BRI) are providing microfinance services but they cater to a higher market segment and provide collateralised loans unlike MBK. Many of the few MFIs that Indonesia has are not performing very well. However, there are indications that ASA and BRAC, Bangladesh may start their microfinance operations in Indonesia in future. This can bring different set of challenges for MBK in future that it so far has not had to manage as it is practically operating in a virgin market. This would also mean that the organisation would need to start working on developing its competitive edge by diversifying its product base and delivering its services as efficiently as possible to the end customers.

Fund mobilisation

MBK has been able to successfully diversify its lender base. With the conversion to Venture Capital NBFC, MBK has been able to raise commercial funds and break its reliance on soft money and grants. It has also become the sole Partner of Unitus in Indonesia and has received an operational grant of US$70,000.

Till 2005, MBK relied mainly on the contribution from Hivos (US$0.5million) and the promoters (US$0.2million), as well as interest free loan from the promoters. Besides it had a small subsidised loan from Grameen Trust. In 2006, it got its first commercial debt from Cordaid. In 2007, it received commercial debt from MicroCredit Enterprises (USA), Dignity Fund (USA) and Bank Finconesia, Indonesia and interest free funds from Kiva Microfunds (USA). Commercial debt formed 92% of the total external borrowings of the organisation in 2007 (post the transfer of 54% of Hivos funds to equity). In 2007, the promoters contributed US$0.3 million equity for formation of MBK. Later in the year additional paid up capital of US$0.15million was contributed by PT BUK. By February 2008, the organisation had received commercial funds from Bank Danamon, Indonesia amounting to US$2.1 million.

The organisation is currently in the process of negotiating funds to the tune of US$5.7 million from various sources including Tridos Bank (Netherlands), OikoCredit (Netherlands), Deutsche Bank (Jakarta) and Devel, World Markets (US).

in IDR mn.

Lender	Total borwng.	O/s on Dec-07	Total int. rate
Hivos	4,374*	1,783	8.0%
Cordaid	4,667	4,278	13.0%
Dignity Fund	6,819	6,819	13.5%
Micro Credit Enterprises	8,230	8,230	13.1%
Bank Finconesia	6,000	3,600	13.0%
Kiva Micro-fund	144	144	0.0%
Total	**30,234**	**24,855**	
Weighted av. cost of borrowings			**11.84%**

* Out of IDR4,374 million, IDR2,391 million was converted to equity in the financial year 2007 and IDR 0.2million is kept as liability to pay for legal and professional costs.

MBK has two equity shareholders as presented below:

Equity shareholder	Total share value (IDR mn)	% share
PT, Bina Usaha Keluarga*	5,255	97.2%
Mr. Narhuddin Alie	150	2.8%
Total	**5,405**	**100%**

* PT, Bina Usaha Keluarga (PT BUK) is a management company set up the promoters of MBK in the financial year 2004.

Organisation and management

MBK has good management performance with a grade of α -. MBK has standardised operations and well documented policies and systems. However, in the future, it would need to focus on strengthening its second leadership line and internal control environment.

Human resource quality & management

MBK has qualified and experienced staff in its management cadre. The senior management has been stable and committed. However, as the organisation plans to double its client base every year, it would need to further strengthen its second leadership line to be able to manage this fast growth. The organisation would do well to hire a CFO especially as it now has more diversified sources of funds and fast expanding operations. This would allow the Chairperson, Mr Shafiq Dhanani to invest more of his time in designing future strategies, policies and products.

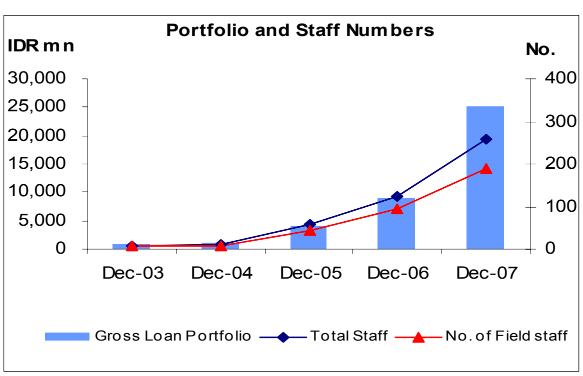
Similarly, as previous Internal Audit Manager has now been made Operations Manager, MBK would do well to hire another experienced staff who can be fully devoted to managing internal audit of branches. The organisation has decided to use DMs for auditing branches of other districts from Feb. 2008 onwards, as implemented by ASA Bangladesh. However, the management would need to provide adequate capacity building support to the DMs for this.

DMs are also being expected to act as trainers besides doing internal audit and supervision of branches under them. This sounds a bit too ambitious and the organisation will have to see if all these functions can be performed adequately by DMs alone. In M-CRIL's opinion, as the staff base is likely to grow substantially in future, the organisation would do well to develop a separate training sub division as part of HR to manage the future capacity building requirements.

The organisation has well defined system for recruitment and selection. The organisation approaches Local Universities to hire for the position of Branch Managers. Fresh university graduates are initially recruited as management trainees and then subsequently promoted as Branch Managers. Field officers are usually Senior Secondary School graduates. Promotion to a senior level is performance driven.

Hiring adequately skilled staff is going to be one of the challenges for the organisation, as people prefer to have government jobs. With Bank Danamon announcing opening of 74 new branches, retaining and hiring new staff from good universities may become difficult. The organisation has an HR Manager but to be able to manage the staff strength of more than 500 by 2009, she would need to be trained formally.

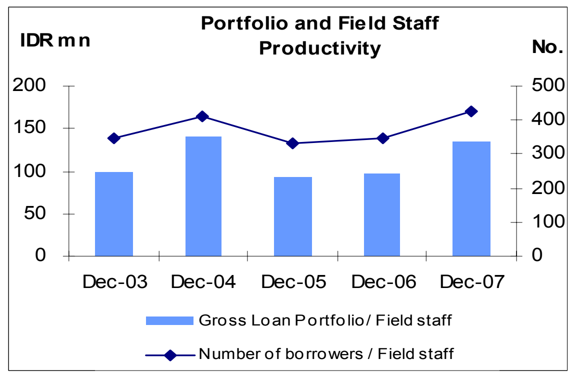
The organisation has stopped its incentive system that was previously being offered, as it was not very well designed. Currently, it has a fixed salary structure for its staff at all levels. The branches are given targets but there are no monetary incentives associated with them.



The growth in staff has been commensurate with the growth in portfolio. The field staff to total staff ratio has remained almost same over the years ranging between 73% - 78%.

Staff productivity

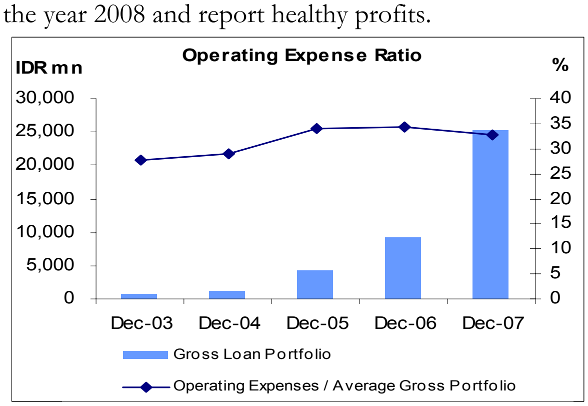
The staff productivity of MBK has improved over the years with one field staff handling on an average 425 active borrowers as on 31 December 2007. This is excluding 36 field staffs that are less than two months old in the organisation. If they are included in calculating the ratio, the field staff productivity would fall to 343 active borrowers. The active borrowers to total staff ratio (excluding the new field staff) was 291.



Operating efficiency

Despite the growth in portfolio size, the OER has been consistently increasing from the year 2004 onwards, except with the dip in 2007. However, it is still high at 32.9% in Dec. 2007. This is mainly due to the fast expansion resulting in high cost of salaries and office expenses. Moreover, the low avg. loan size has also resulted in overall high transaction cost.

It is imperative that the organisation brings down its operational costs in order to improve its margins especially as the financial cost is also increasing. Now with the decision to increase its average loan size, MBK should be able to bring down its operational costs in the year 2008 and report healthy profits.



Accounting and MIS

MBK has a good accounting and management information system. It has a district based accounting and management information system. The organisation is using Micro Accounting, an accounting application developed by Grameen Communications, for the purpose of maintaining its accounting information. The vouchers prepared manually at the branches are entered in the application at the MIS district office to produce general ledgers and monthly trial balances. The accounting information is sent to HO on a monthly basis for consolidation. Head office then produces branch-level as well as programme-level consolidated trial balance, balance sheet and income statement on a monthly basis.

Previously MBK, despite having an excellent portfolio quality, followed a conservative approach for creating loan loss reserves. In financial year 2005 and 2006, it had LLR of 5%. However, in 2007 it was reduced to 1% and the extra reserve was transferred to the equity.

The organisation was previously using "Portfolio Tracker", an MIS application developed by Grameen Communications, for maintaining its portfolio data. However, due to limited capacity of the software the organisation shifted to "Kredits", a banking and microfinance software developed by Technical Development Solutions. This software, using the Microsoft SQL 2005 platform, produces payment schedules and outstanding balances of principal and interest by client, centre, and field officer, as well as for the whole branch, district or programme. It also produces portfolio at risk at the centre, field officer and branch levels. It contains an extensive client database.

The collection sheets for each branch are printed at the area level and handed over to the branches. The branches return the filled collection sheets along with the vouchers to the MIS team twice a week for entry in the software. Once a week, incremental branch-level portfolio files are exported to the Head Office. Head Office imports and consolidates the district databases twice a week, including customer information and transaction data. However, at times the time lag increases due to problems with internet connection at the branches. In such cases, data is transferred from branches on secondary storage devices. Moreover, KREDITS does not have an archiving facility, an important design deficiency which makes it space inefficient and thus results in unacceptable duration for processing even the basic MIS reports.

Tracking system for overdues

The tracking system of overdues is good. The new MIS software is well equipped to generate reports on client wise overdues and portfolio at risk which has improved the overdue tracking mechanism considerably since the last rating.

MBK has maintained good credit discipline at all levels resulting in an excellent portfolio quality.

Internal control systems

The internal control environment at MBK needs to be strengthened. The organisation has placed internal controls but they are not being adequately implemented across all branches, which increase the risk of frauds and misappropriations. As a result, the organisation has recently had a case of fraud where the cashier had misappropriated money from safe kept at the branch level.

The organisation has had other cases of frauds relating to savings maintained at the group level. At present, envelops in which savings are kept need to be signed by field officer alone, which makes it easy for them to commit fraud. Ideally, when envelops are sealed, they should be signed by the member as well as the FO.

On the rotation of field staffs every six months (started from March 2007), the new field staff are required to open all envelops, check the savings and seal them back again. However, this was not being implemented. Lack of adequate checks by the newly deputed field staff as well by BMs/DMs has resulted in delays in detecting such cases of frauds.

Voluntary savings are generally more susceptible to frauds and require good control systems. Unless controlled, such frauds can create distrust in the groups and spoil the otherwise well performing groups.

MBK needs to hire an experienced person who can replace the previous internal audit manager. The DMs would need to be trained adequately to be able to audit branches. Overall the quality, scope and frequency of internal audit need substantial improvement.

Financial planning

MBK has prepared a five year strategic Business Plan for the period 2007-2012. The plan is quite rigorous and shows the projected growth of the organisation in terms of operational area, portfolio and clients based on market and environment analysis.

Each branch prepares Cash Book. The branches prepare weekly disbursement plan on the basis of which a verbal fund request is made to the HO. The bank statements along with photocopy of cash book and petty cash book are sent monthly to HO. Some branches do not have a bank account and some others do not have online banking facility. The branches deposit money in the bank usually only once in a week. As a result of this, the branches were found to have high cash balances during the week. The branches have savings account wherein the excess cash is deposited. However, since the organisation is now borrowing commercial funds, it cannot afford to keep large funds in cash or as short term deposits in bank. Instead, it needs to improve its deployment of assets in loans.

Quality of clients/member groups

The groups visited showed good credit discipline. The organisation enforces penalty by way of reduced loan ceiling in case of non-attendance without a genuine cause. This has ensured good discipline in the groups. The group members were found to be reasonably aware of MBK's policies and products.

The organisation had a client drop out rate of 9.2% in the financial year 2007. This is much lower than the dropouts reported in the last rating report (17% annualised for 2006). Dropouts include both the clients who were asked to leave by MBK during the year due to lack of discipline in the groups like shortage of attendance etc or the ones who left on their own. Based on the client dropout analysis presented by MBK in its quarterly reports, most of the clients leave due to their personal reasons and some because they are not able to comply with the organisation's policies.

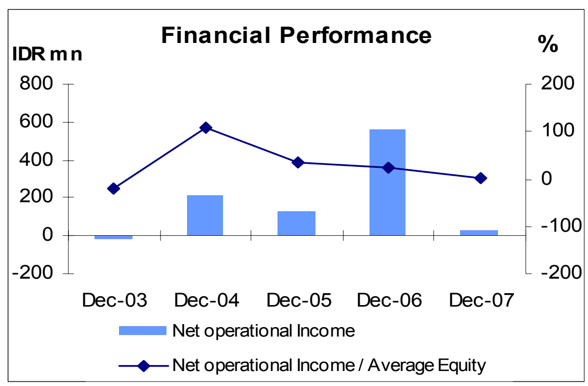
Infrastructure

MBK has reasonable infrastructure for its operations. Fixed assets contribute 8.6% of the total asset base as on 31 December 2007. Fixed assets mainly include, computers, office equipments and fixtures, vehicle, furniture, motorcycles for staff and HO building. Motorcycles for staff constitute 42% of the total fixed assets. All the branches operate from rented premises.

Financial profile

The financial performance of MBK is good with a rating grade of α.

From 2004 onwards, the microfinance programme has been consistently making profits. The operational profits dipped in 2005 as the OER increased due to expansion and opening of new branches and the organisation created higher LLP expense than what was required. In 2006, operational profits improved with the improved returns on portfolio. However, in 2007, MBK only managed to break even as yield on portfolio went down due to decrease in interest rate from 30% to 25% flat in October 2006 and cost of funds increased with the increase in commercial debt.



Financial Ratios	31 Dec-03	31 Dec-04	31 Dec-05	31 Dec-06	31 Dec-07
Capital Adequacy					
Risk Weighted Capital Adequacy ratio	11.3%	24.2%	9.7%	41.3%	29.7%
Asset Quality					
Portfolio at Risk (>30 days)/ Gross Loan Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%
Loan Loss Reserve/Gross Portfolio	0.9%	0.7%	5.3%	5.0%	1.0%
Management					
Operating Expenses/Average Gross Loan Portfolio	27.6%	29.1%	34.1%	34.5%	32.9%
Number of Borrowers/Field staff (excl.<2 months old)	345	409	333	346	425
Number of Borrowers/Total staff	268	298	216	224	250
Earnings					
Net operating income/Average Equity (ROE)	(19.5)%	110.0%	35.8%	25.3%	0.4%
Net operating income/Average Assets (ROA)	(1.2)%	9.7%	2.8%	5.3%	0.1%
Portfolio Yield (including other fees and charges)	25.8%	58.7%	46.9%	50.6%	41.8%
Financial Cost Ratio	0.0%	0.0%	0.3%	4.3%	8.7%
Cost of Funds	0.0%	0.0%	0.2%	4.1%	8.6%
Liquidity					
Cash & Liquid Assets/Total Current Assets	38.2%	56.1%	29.8%	34.6%	22%

Credit performance and portfolio quality

MBK has an excellent portfolio quality with PAR > 30 days of only 0.01% as on December 2007. The repayment rate is 99.9%. Strong credit discipline at all levels has resulted in this performance.

MBK provides loans only for productive activities. The loan portfolio is well diversified and clients are engaged in various small enterprises.

Mobilisation of funds, liability & equity composition

As discussed earlier, MBK has been successful in mobilising funds from diverse set of lenders. Besides mobilising funds from social investors like Hivos and Kiva Microfunds, it has been able to attract funds from several commercial lenders as well. Due to its good performance and strong Board, the organisation enjoys good reputation. However, as pointed out even in the earlier rating report, the organisation has been receiving funds in big tranches of higher loan amount and also the repayment terms require bigger payments resulting in high cash and liquid asset balances. This has substantial implication on the profitability, as the organisation is now mostly funded through commercial funds. Borrowings form 68% of the total liabilities of MBK as on December 2007. Of this, 92% of funds are from commercial sources.

The capital adequacy position of the organisation as on 31 Dec '07 is reasonably sound at around 30%. The equity includes paid up capital contributed by PT BUK and an Indonesian national, Hivos funds, retained earnings and paid up capital of Ganesha and excess loan loss reserve created by Ganesha in the year 2005.

Asset composition

The net loan portfolio forms 67% of the total asset base of the organisation, which is moderate to low. Cash and liquid assets stand high at 23% of the total assets. The fixed asset base stands at 8.6% of total assets.

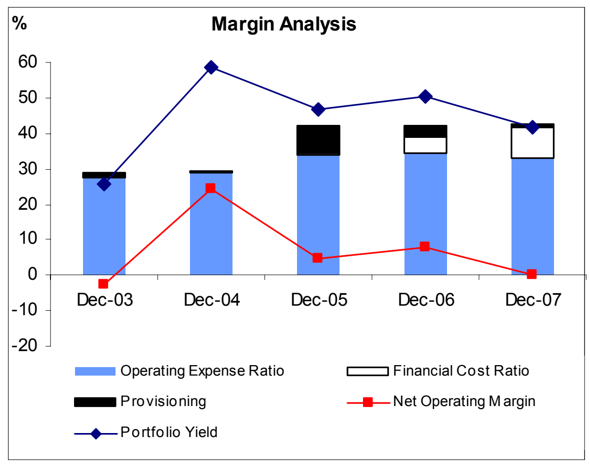
Profitability and sustainability

MBK had consistently been generating operational profits from financial year 2004 to 2007. However, dip in the yield due to decrease in interest rate from 30% flat to 25% flat in October 2006 and increasing financial cost ratio has resulted in only marginal profits in the financial year 2007. The RoA is 0.1% for the financial year 2007.

The voluntary reduction in interest rate was undertaken as part of organisation's pro poor approach, which brought down the yield by almost 9%.

The OER, though dipped from last year, is still high at almost 33%. Now with the recent increase in avg, loan size, the OER is expected to decrease and MBK will make healthy profits in the financial year 2008. The yield to APR ratio was 88%, as the organisation charges interest on a flat rate basis.

In terms of sustainability, MBK has operational self-sufficiency (OSS) at 100.4% and financial self-sufficiency (FSS) at 85.3% as on 31 Dec '07.



Future plans and prospects

MBK plans to continue with fast paced expansion. The organisation plans to double its client base every year. It plans to reach 2 mn clients with the gross portfolio outstanding of IDR 1,790 billion (US$195 million) by the financial year 2012. MBK will continue to expand eastwards in west Java during 2008. It plans to move to central Java in 2009 and East Java in 2010.

For this, the organisation is developing its network with commercial funding agencies and has been quite successful in this so far. The organisation in the long run plans to convert to a commercial bank for which it would require an equity base of US$10 million.

So far the organisation has not faced any competition, but there are indications that some of the prominent Bangladesh MFIs like ASA and BRAC may start their operations in Indonesia. The organisation would do well to prepare itself in advance for competition in future by designing diversified product offerings for its clients as well as improving its operating efficiencies. In the future, the organisation needs to strengthen its second leadership line, improve operational efficiency and strengthen operational control environment to be able to adequately manage the planned growth.

Validity This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Financial statements for MBK operations

Balance sheets

IDR thousands

Ganesha	Ganesha	Audited Ganesha	Ganesha	MBK		Un-audited MBK
Dec-03	**Dec-04**	**Dec-05**	**Dec-06**	**Dec-06**		**Dec-07**
					Current Assets	
519,324	1,716,117	1,913,789	2,079,334	3,035,367	Cash-in-hand & in banks	1,557,773
					Short-term savings/deposit accounts	6,956,292
4,131	11,917	46,906	76,834	21,000	Other current assets	442,474
					Loans Outstanding	
687,434	1,121,093	4,136,919	9,105,260		Gross loans outstanding	25,191,547
-6,164	-7,335	-217,188	-455,055		(Loan loss reserve)	-251,915
681,270	1,113,758	3,919,731	8,650,205		Net loans outstanding	24,939,632
					Long-term Assets	
199,205	315,578	784,825	1,408,538	17,000	Property and equipment	4,346,349
-42,815	-100,665	-236,592	-506,478	-1,063	(Accumulated depreciation)	-1,037,575
156,389	214,913	548,233	902,060	15,937	Net property & equipment	3,308,774
					Other Assets	
				23,000	Company establishment	23,000
				-1,438	(Amortization)	-7,188
				21,562	Net company establishment	15,812
1,361,114	**3,056,705**	**6,428,659**	**11,708,432**	**3,093,866**	**Total Assets**	**37,220,758**
					Current Liabilities	
				61,000	Short-term Loan, Sweeting	
					Interest payable on loans	99,602
	109,039	368,610	862,996		Client responsibility fund	2,159,095
328	57,664	81,237	1,416		Taxes payable	151,650
672	672				Other current liabilities	308,289
					Long-term Liabilities	
905,674	1,102,400	1,394,267	626,667		Loan, Dhanani (int. free)	
367,185	367,513	367,513	217,513		Loan, Sweeting (int. free)	
	1,118,740	3,508,638	4,374,457		Loan, Hivos Netherlands	1,782,855
		276,390			Loan, Grameen Trust	
			4,667,400		Loan, Cordaid	4,278,606
					Loan, The Dignity Fund	6,819,000
					Loan, Micro Credit Enterprise	8,230,500
					Loan, Kiva Micro-fund	144,589
					Loan, Bank Finconesia	3,600,000
1,273,858	**2,756,028**	**5,996,655**	**10,750,449**	**61,000**	**Total Liabilities**	**27,574,186**
100,000	100,000	100,000	100,000	3,000,000	Paid up Capital	9,116,946
					Operational grants - Unitus	471,026
0	-12,744	200,677	332,004		Retained earnings	32,866
-12,744	213,421	131,327	525,979		Current net surplus/deficit	25,734
87,256	**300,677**	**432,004**	**957,983**	**3,000,000**	**Total Equity**	**9,646,572**
1,361,114	**3,056,705**	**6,428,658**	**11,708,432**	**3,061,000**	**Total Liabilities & Equity**	**37,220,758**

Income statements

IDR thousands

Ganesha	Ganesha	Audited Ganesha	Ganesha	MBK		Un-audited MBK
Dec-03	**Dec-04**	**Dec-05**	**Dec-06**	**Dec-06**		**Dec-07**
					INCOME	
133,082	516,022	1,301,147	3,679,253		Interest on loans	7,110,429
3,372	13,269	20,063	56,869	38,766	Interest on bank accounts	144,582
	102	8,166	23,151		Other income	33,733
136,454	**529,393**	**1,329,377**	**3,759,273**	**38,766**	**Total Income**	**7,288,743**
					FINANCIAL COSTS	
		8,012	314,542		Cost of funds	1,486,327
136,454	**529,393**	**1,321,365**	**3,444,731**	**38,766**	**Gross Financial Margin**	**5,802,416**
6,874	4,337	217,495	237,484		Portfolio loss reserve expenses	177,724
129,579	**525,056**	**1,103,870**	**3,207,247**	**38,766**	**Net Financial Margin**	**5,624,693**
					OPERATING EXPENSES	
58,368	116,247	416,613	1,292,811		Salaries, incentive, benefits	3,477,669
4,855	5,167	44,472	137,040		Traveling & transport	306,002
36,285	76,274	348,039	791,556	3,400	Administrative/office expenses	1,247,512
42,815	57,850	135,927	280,984	2,500	Depreciation	564,916
142,323	**255,538**	**945,051**	**2,502,391**	**5,900**	**Total operating expenses**	**5,596,099**
-12,744	**269,519**	**158,819**	**704,856**	**32,866**	**PROFIT/LOSS**	**28,593**
	-56,098	-27,492	-178,876		Tax	-2,859
-12,744	**213,421**	**131,327**	**525,980**	**32,866**	**Net profit/loss after tax**	**25,734**

Balance sheets

In US$

Audited Ganesha Dec-03	Ganesha Dec-04	Ganesha Dec-05	Ganesha Dec-06	MBK Dec-06		Un-audited MBK Dec-07
					Current Assets	
61,097	184,529	203,898	230,142	335,957	Cash-in-hand & in banks	165,721
					Short-term savings/deposit accounts	740,031
486	1,281	4,997	8,504	2,324	Other current assets	47,072
					Loans Outstanding	
80,875	120,548	440,754	1,007,776		Gross loans outstanding	2,679,952
-725	-789	-23,140	-50,366		(Loan loss reserve)	-26,799
80,149	119,759	417,615	957,411		Net loans outstanding	2,653,152
					Long-term Assets	
23,436	33,933	83,617	155,898	1,882	Property and equipment	462,378
-5,037	-10,824	-25,207	-56,057	-118	(Accumulated depreciation)	-110,380
18,399	23,109	58,410	99,841	1,764	Net property & equipment	351,997
					Other Assets	
				2,546	Company establishment	2,447
				-159	(Amortization)	-765
				2,386	Net company establishment	1,682
160,131	**328,678**	**684,920**	**1,295,897**	**342,431**	**Total Assets**	**3,959,655**
					Current Liabilities	
				6,752	Short-term Loan, Sweeting	
					Interest payable on loans	10,596
	11,725	39,272	95,517		Client responsibility fund	229,691
39	6,200	8,655	157		Taxes payable	16,133
79	72				Other current liabilities	32,797
					Long-term Liabilities	
106,550	118,538	148,548	69,360		Loan, Dhanani (int. free)	
43,198	39,518	39,155	24,074		Loan, Sweeting (int. free)	
	120,295	373,816	484,168		Loan, Hivos Netherlands	189,665
		29,447			Loan, Grameen Trust	
			516,591		Loan, Cordaid	455,171
					Loan, The Dignity Fund	725,426
					Loan, Micro Credit Enterprise	875,585
					Loan, Kiva Micro-fund	15,382
					Loan, Bank Finconesia	382,979
149,866	**296,347**	**638,894**	**1,189,867**	**6,752**	**Total Liabilities**	**2,933,424**
11,765	10,753	10,654	11,068	332,042	Paid up Capital	969,888
					Operational grants - Unitus	50,109
	-1,370	21,380	36,746		Retained earnings	3,496
-1,499	22,948	13,992	58,216		Current net surplus/deficit	2,738
10,265	**32,331**	**46,026**	**106,030**	**332,042**	**Total Equity**	**1,026,231**
144,799	**328,678**	**684,920**	**1,295,897**	**338,794**	**Total Liabilities & Equity**	**3,959,655**

Note** Exchange rates: 1US$ = IDR8,500 (2003); 1US$ = IDR9,300 (2004), 1US$ = 9,386 (2005), 1US$ = 9,035 (2006), 1US$ = 9,400 (2007)

Income statements

In US$

Audited						Un-audited
Ganesha	Ganesha	Ganesha	Ganesha	MBK		MBK
Dec-03	**Dec-04**	**Dec-05**	**Dec-06**	**Dec-06**		**Dec-07**
					INCOME	
15,657	55,486	138,626	407,222		Interest on loans	756,429
397	1,427	2,138	6,294	4,291	Interest on bank accounts	15,381
	11	870	2,562		Other income	3,589
16,053	**56,924**	**141,634**	**416,079**	**4,291**	**Total Income**	**775,398**
					FINANCIAL COSTS	
		854	34,814		Cost of funds	158,120
16,053	**56,924**	**140,780**	**381,265**	**4,291**	**Gross Financial Margin**	**617,278**
809	466	23,172	26,285		Portfolio loss reserve exps.	18,907
15,245	**56,458**	**117,608**	**354,980**	**4,291**	**Net Financial Margin**	**598,372**
					OPERATING EXPENSES	
6,867	12,500	44,387	143,089		Salaries, incentive, benefits	369,965
571	556	4,738	15,168		Traveling & transport	32,553
4,269	8,201	37,081	87,610	376	Administrative/office exps	132,714
5,037	6,220	14,482	31,100	277	Depreciation	60,097
16,744	**27,477**	**100,687**	**276,966**	**653**	**Total operating expenses**	**595,330**
-1,499	**28,980**	**16,921**	**78,014**	**3,638**	**PROFIT/LOSS**	**3,042**
	-6,032	-2,929	-19,798		Tax	**-304**
-1,499	**22,948**	**13,992**	**58,216**	**3,638**	**Net profit/loss after tax**	**2,738**

Note** Exchange rates: 1US$ = IDR8,500 (2003); 1US$ = IDR9,300 (2004), 1US$ = 9,386 (2005), 1US$ = 9,035 (2006), 1US$ = 9,400 (2007)

Notes to the financial statements

1. Audited statements have been used for year 2003 to 2006. For 2007, analysis has been done based on the provisional statements provided by the organisation
2. Operational grants (net of tax) have been removed from income and expenditure statement and directly transferred to equity.
3. Paid up capital includes:
   a. equity contribution by PT BUK of IDR 5,255 million
   b. equity contribution by an Indonesian National of IDR150 million
   c. transfer of Hivos funds of IDR 2,391 million
   d. transfer of Ganesha's paid up capital of IDR100 million, LLR of IDR364 million and retained earnings of IDR858 million.
4. All loan portfolio related income is recognised only when it is actually received (**cash basis**).
5. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**.

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk (PAR_{30}): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
13. Risk weighted capital adequacy ratio: Ratio of networth to risk weighted assets
    M-CRIL Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%.
14. Return on assets: Ratio of operational income/(loss) to average total assets
15. Return on equity: Ratio of operational income/(loss) to average net worth

Projected cash flow and financial statements for five years

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions
(see also Notes to Cash Flow Projections below)

For the year ending:	30-Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Number of borrowers	65,528	129,745	207,593	332,148	531,437	850,300
Yield on average portfolio	41.8%	44.0%	44.0%	43.0%	42.0%	41.0%
Cost of external funds	11.8%	11.6%	11.6%	12.5%	11.2%	11.1%
Repayment rate from groups	99.9%	99.0%	98.5%	98.5%	98.0%	98.0%
Loan loss reserve ratio	1.0%	1.0%	1.5%	2.0%	2.5%	2.5%
Number of branches	31	55	88	130	220	340
Number of active loanees/loan a/cs	65,528	111,581	186,833	305,576	478,294	765,270
Number of loans disbursed		111,580	186,832	305,575	478,293	765,269
Avg. loan size to borrowers (US$)	94	104	107	115	124	130

2 Projected Balance Sheets

in US$

As on:	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Assets						
Cash balance	925,442	421,918	776,069	1,236,190	2,036,823	3,250,317
Other current assets	48,095	88,972	180,641	276,240	469,385	787,189
Loans outstanding	2,738,212	6,844,023	13,895,490	21,249,228	36,106,523	60,552,979
Loan loss reserve	-27,382	-68,440	-208,432	-424,985	-902,663	-1,513,824
Net loans outstanding	2,710,830	6,775,583	13,687,058	20,824,243	35,203,860	59,039,154
Other assets	12,655	8,858	5,315	2,126		
Net fixed assets	348,713	624,534	918,065	1,133,393	1,672,190	2,319,784
Total Assets	**4,045,734**	**7,919,866**	**15,567,148**	**23,472,192**	**39,382,257**	**65,396,444**
Liabilities and Net Worth						
External borrowings	2,701,690	6,100,787	12,811,537	19,241,413	32,534,789	54,325,093
Security Deposits	234,684	556,688	978,738	1,712,839	2,895,445	4,855,086
Other liabilities	60,820	116,348	236,223	361,237	613,811	1,029,401
Paid-up capital	990,972	1,004,016	1,004,016	1,020,320	1,183,364	1,183,364
Grants	51,198	51,198	51,198	51,198	51,198	51,198
Retained surplus/deficit	3,572	6,370	90,828	485,436	1,085,184	2,103,651
Current surplus/deficit	2,797	84,458	394,608	599,748	1,018,466	1,848,651
Net worth	1,048,540	1,146,042	1,540,650	2,156,703	3,338,213	5,186,864
Total Liabilities and Net Worth	**4,045,735**	**7,919,866**	**15,567,148**	**23,472,192**	**39,382,257**	**65,396,444**

3 Projected Income Statements

in US$

For the year ending:	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Income						
Interest income	772,873	2,108,092	4,562,693	7,556,114	12,044,708	19,815,198
Other income	19,382	47,911	103,698	175,724	286,779	483,298
Total Income	**792,255**	**2,156,003**	**4,666,391**	**7,731,838**	**12,331,486**	**20,298,495**
Cost						
Financial	161,557	631,044	1,332,353	2,237,709	3,344,915	5,550,451
Loan loss provision and write-off	19,318	41,058	139,992	216,552	477,679	611,161
Depreciation	61,404	156,133	306,022	485,740	716,653	994,193
Operating expenses (excl. depr.)	546,868	1,207,113	2,324,298	3,935,054	6,337,288	10,501,760
Total Cost	**789,147**	**2,035,348**	**4,102,665**	**6,875,055**	**10,876,535**	**17,657,565**
Surplus/Deficit	**3,108**	**120,655**	**563,726**	**856,783**	**1,454,952**	**2,640,930**
Tax	311	36,196	169,118	257,035	436,485	792,279
Net Surplus/Deficit	**2,797**	**84,458**	**394,608**	**599,748**	**1,018,466**	**1,848,651**

4 Projected Cash Flow Statements

in US$

For the year ending:	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Inflows					
Opening cash	925,442	421,918	776,069	1,236,190	2,036,823
External borrowings	4,565,217	10,239,130	20,108,696	28,695,652	49,782,609
Repayments from members	7,027,943	12,523,295	26,903,036	43,051,612	72,655,272
Equity	13,043		16,304	163,043	
Security deposits	556,688	978,738	1,712,839	2,895,445	4,855,086
Decrease in other assets	3,796	3,543	3,189	2,126	
Increase in current liabilities	55,529	119,875	125,014	252,574	415,590
Interest income	2,108,092	4,562,693	7,556,114	12,044,708	19,815,198
Other income	47,911	103,698	175,724	286,779	483,298
Total Inflow	**15,303,661**	**28,952,890**	**57,376,984**	**88,628,129**	**150,043,875**
Outflows					
Disbursement	11,133,754	19,574,762	34,256,773	57,908,907	97,101,729
Repayments to lenders	1,166,120	3,528,381	13,678,819	15,402,277	27,992,304
Operating expenses (excl. depr.)	1,207,113	2,324,298	3,935,054	6,337,288	10,501,760
Interest paid on borrowings	631,044	1,332,353	2,237,709	3,344,915	5,550,451
Withdrawal of security deposits	234,684	556,688	978,738	1,712,839	2,895,445
Increase in current assets	40,877	91,669	95,599	193,145	317,804
Tax	36,196	169,118	257,035	436,485	792,279
Increase in fixed assets	431,954	599,553	701,068	1,255,450	1,641,787
Total Outflow	**14,881,743**	**28,176,821**	**56,140,794**	**86,591,306**	**146,793,559**
Net cash balance	**421,918**	**776,069**	**1,236,190**	**2,036,823**	**3,250,317**

4 Key Projected Performance Ratios

For the year ending:	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Operational self sufficiency	100.4%	105.9%	113.7%	112.5%	113.4%	115.0%
Return on average assets	0.1%	2.0%	4.8%	4.4%	4.6%	5.0%
Operating expense ratio	32.9%	28.5%	25.4%	25.2%	24.6%	23.8%
Average outstanding/borrower (US$)	42	52	66	63	66	70
Portfolio growth rate	176.7%	149.9%	103.0%	52.9%	69.9%	67.7%
Savings to total assets	5.8%	7.0%	6.3%	7.3%	7.4%	7.4%
Risk weighted capital adequacy ratio	29.7%	15.9%	10.7%	10.0%	9.1%	8.5%

Notes to the projections

- The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
- Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment.
- Other assets are amortised over a period of next four years.
- Average loan size to members increases every year by 5%-10%.
- Security deposit is maintained at 5% of disbursed amount.
- Interest income is taken as [yield on portfolio*average portfolio for the year].
- Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
- Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity. Increase in clients is taken at rates between 60%-100% per year.
- Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].

Abbreviations	
BM	Branch Manager
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRR	Client Responsibility Fund
DM	District Manager
EMI	Equated Monthly Instalment
FCR	Financial Cost Ratio
FO	Field Officer
FSS	Financial Self-Sufficiency
GRT	Group Recognition Test
HO	Head Office
IT	Information Technology
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
MBK	PT Mitra Bisnis Keluarga Ventura
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institutions
MIS	Management Information System
NBFC	Non Bank Finance Company
OER	Operating Expenses Ratio
OM	Operations Manager
OSS	Operational Self-Sufficiency
PAR_0	Portfolio at Risk (>=0 days)
PT BUK	PT, Bina Usaha Keluarga
ROA	Return on Assets
ROE	Return on Equity
SME	Small Micro Enterprises