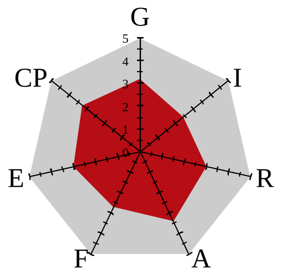
Stromme Microfinance East Africa Ltd., Uganda

Stromme Microfinance East Africa Ltd. (SMF EA Ltd) was incorporated in April 2004 as a spin-off of the microfinance activities of the Regional Office in East Africa of Stromme Foundation from Norway. SMF EA Ltd provides wholesale funding to a variety of MFIs or their holding companies as well as capacity building support to its clients. As of March 2013 SMF EA Ltd focuses on Uganda, Kenya, and Tanzania and had 24 MFI clients with a total microfinance portfolio of 8.8 M USD.

Smart GIRAFE Fund Rating

Rating	Date of the rating	G	I	R	A	F	E	+CP	**Previous rating:**
B-	**July 2013**	**b**	**c**	**b**	**b**	**c**	**b**	**b**	*C++, November 2010*
Stable	*Valid until June 2014*								

Rating per evaluation area



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

Performance indicators

M USD	Dec 2012	Mar 2013
Assets	9.8	10.2
Portfolio	8.2	8.8
Clients	24	24
ROA	3.3%	6.9%
NPL 90 + r	1.4%	1.4%
Portfolio yield	14.4%	15.3%

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Rating highlights

- SMF EA Ltd continues to be well governed with sufficient skills on the BOD and the MT, and has well managed HR.
- Strategy and planning is useful but lacks fully realistic targets and clear strategies for key challenges.
- SMF EA Ltd purchased the loan tracking system Finance Solutions in 2012 but is yet to fully operationalize it.
- There are sufficient internal controls and an emerging IA function in SMF EA Ltd. There is a thorough identification of risks but they are not all sufficiently managed.
- Portfolio quality has improved with the total credit risk (NPL90+r+write offs) standing at 1.4% as of March 2013 compared to 4.1% in December 2010.
- The appraisal process has some deficiencies including, for example, lack of a scoring model.
- SMF EA ltd is sufficiently capitalized, but does not have a clear funding strategy. Large un-hedged foreign currency positions are a significant risk.
- SMF EA Ltd has shown an increase in profitability with an ROA of 3.3% in Dec 2012. But, without the effect of foreign exchange gains, the ROA would be 0.9%.
- There is sufficient identification and testing of new products, but SMF EA Ltd is facing significant competition including with respect to TA, local currency loans, and smaller loans.
- SMF EA Ltd performs relatively well in prevention of over-indebtedness and transparency, but is not systematic enough about collecting and learning from partner complaints.

Outlook

The Stable outlook reflects Planet Rating's opinion that SMF EA Ltd will maintain its performance, but faces important challenges that need to be addressed in order to move to the next level. Important improvements related to planning, MIS, loan appraisal and monitoring as well as better managing key risks (currency and funding) will be necessary.

Institutional presentation

Social mission

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

Legal form, supervision and audit

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

SMF EA Ltd's financial year follows the calendar year. The company has been audited by Deloitte for the past three years. While the previous auditor Ernst & Young qualified its opinion in 2008[1] and 2009,[2] the current auditor Deloitte has issued unqualified opinions for 2010, 2011, and 2012.

Ownership

Upon incorporation SMF EA Ltd was 99% owned by Stromme Foundation Norway (SFN) and 1% by Stromme Foundation's Regional Office for East Africa (SFEA). The shares of SFN were transferred to Stromme Microfinance AS (SMAS) of Norway in March 2009. The French organization Solidarité Internationale pour le Développement et l'Investissement (SIDI) joined as shareholder in 2007 and Cordaid of the Netherlands joined in 2010. With the entry of Cordaid in 2010 all shareholders increased their equity by which the paid-up capital increased from 1.5 billion UGX (800 K USD) as of Dec. 2009 to 3.6 billion UGX (1.5 M USD) as of Dec. 2010. The shareholding structure as of March 2013 is shown in the table below. It should be noted that SMAS is a company fully owned by Stromme Foundation Norway (SFN). As SFN also fully controls SFEA, SFN has an effective controlling ownership of 70.6%.

Shareholders, Mar. 2013	Shares	%	M USD
Stromme Microfinance AS	206,053	57.9%	2.52
Cordaid	68,864	19.4%	0.45
Stromme Foundation East Africa	45,000	12.6%	0.20
SIDI	35,824	10.1%	1.26
Total	**355,741**	**100%**	**4.44**

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

[2] Qualification due to the translation of USD accounts into UGX with a USD/UGX exchange rate significantly different than the exchange rate by BoU, as such income for FY 2009 was overstated by 102 M UGX (55 K USD).

The Board of Directors (BOD) is composed of nine members. According to the shareholder agreement, the breakdown requires three representatives of SF Norway and one representative each for SIDI, Cordaid, and SFEA. Currently, SF Norway and SFEA together have three representatives, so that there are four external BOD members, with two elected in 2009, one in 2012, and one in 2013. The BOD is chaired by Ms. Priscilla Serukka since inception who is the Director of SFEA. Most of the representatives of the shareholders have a strong background in (micro)finance. One of the external BOD members brings in legal expertise where the other two also have a background in finance and microfinance. There are four sub-committees to the BOD who meet prior to the quarterly BOD meetings: the Executive, Finance, Audit, and Operations Committees.

Donations

Since 2008, SMF EA Ltd has received 7.4 B UGX (2.8 M USD) in grants for non-financial services (NFS). Since 2008 SMF EA Ltd provided funding for Community Managed Microfinance (CMMF) although as of January 2013 this has been moved to Stromme Foundation East Africa (SFEA). SMF EA Ltd will continue to provide capacity building support to clients (see Section "Non-financial services").

Funding composition

As of Mar. 2013, the funding structure is composed of 64% equity, 33% long-term liabilities, and 3% short term liabilities. Of the long-term liabilities, 25% is subordinated debt and 75% is regular debt. Currently, Stromme Microfinance AS is the only provider of debt funding. The interest rates are fixed and are all concessional varying from 2.9% to 8.6%. Out of the total debt 66% is provided in UGX and the remaining 34% in USD. All debt is long term.

Management team

The management team (MT) consists of the CEO, Operations Manager (OM) and Finance Manager (FM). The position of OM was created in 2009 and in 2010 the Accountant was promoted to become FM. The current CEO, Mrs. Harriet Mulyanti, joined in February 2013. She has twelve years of experience in microfinance and has experience in the Africa region, most recently serving for five years as Regional Business Development Manager for Vision Fund International overseeing operations in Zambia, Malawi, Rwanda, Kenya, and Uganda. Mrs. Mulyanti holds an MBA from the University of Hull (U.K.) and a Bachelor's degree in Commerce from Makerere University (Uganda). Additionally, she has participated in various microfinance trainings and has earned a certificate in microfinance from the Boulder School of Microfinance.

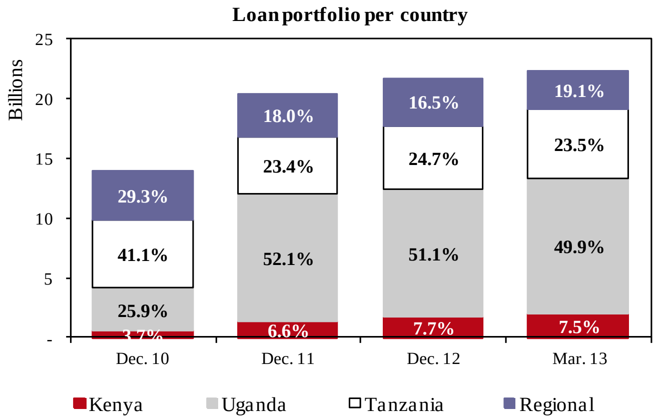
Organization

SMF EA Ltd operates from its head office in Kampala, Uganda which houses all staff. The staff consists of the

MT,two Investment Officers (IO) and one Accountant who fall under the supervision of the OM and the FM respectively. Basic IT support is provided by SFEA. Agresso, a Dutch accounting software, is used for accounting purposes, which is also used within the Stromme network. The loan portfolio tracking software Finance Solutions has been purchased and is in the process of being fully operationalized. Currently, MS excel is still partly used to track the portfolio. The IOs perform due diligence on the MFIs and prepare documentation for the Credit committee. Credit decisions are made by credit committees comprised of the following participants at each respective approval limit: Management Credit Committee (50,000 USD); BOD Chairperson upon recommendation by the Management Credit Committee (300,000 USD); the entire Board upon recommendation of the Board operations Committee (above 300,000 USD).

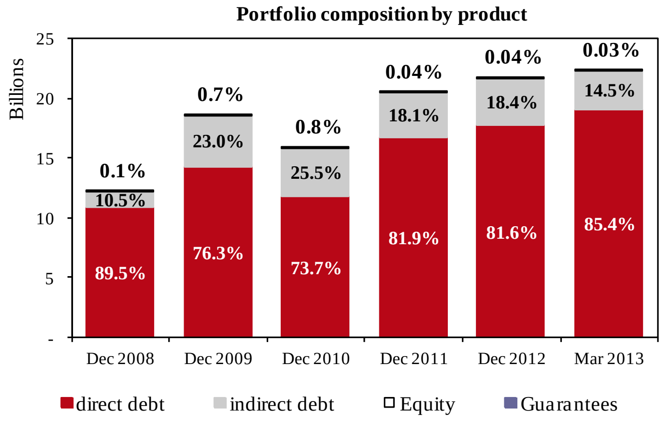
Market penetration

SMF EA Ltd offers its services in Uganda, Kenya, and Tanzania. In 2009, Stromme decided to stop working in Rwanda which meant that also SMF EA Ltd stopped its operations in the country. After SMF EA Ltd's lone partner in South Sudan decided in 2012 to pull out of the country, SMF EA Ltd ceased operations there. The graph below shows the geographic distribution of the microfinance portfolio.



Products and services

SMF EA Ltd's main product offered is senior debt. Direct debt to MFIs is all provided in local currency with terms between 12 and 48 months, monthly or quarterly repayments and a maximum grace period of 12 months. The interest rates can be adjusted during the year depending on the economic and financial market conditions and range between 8-19% per annum on a declining balance and SMF EA Ltd introduced a 1% disbursement fee in 2008. The APRs range from 8.6 to 19.6%.



Two loan products are currently offered: the core Institutional Loan (97.6% of GLP as of Mar 2013) existing since inception, and the Housing Loan introduced in 2009 with loans subsequently disbursed in 2012. The Housing Loan's size, term, and annual interest rate differ slightly from the Institutional Loan, with the primary difference being the delivery of technical assistance specific to housing. Collateral requirements may vary per MFI but usually include a pledge on portfolio, hard collateral (land, buildings) or chattel if available as well as personal guarantees by senior management or BOD members of the MFIs. SMF EA Ltd historically has held some equity investments in MFIs, although it has always been a small proportion of the overall portfolio (<1%). SMF EA Ltd has developed a guarantee product to guarantee debt from other investors to MFIs. However, no guarantees are presently outstanding due to lack of demand as a result of challenges in the product design.

Non-Financial services

In 2008, SMF EA Ltd began offering two types of non-financial services: funding support to NGOs facilitating Community Managed Microfinance (CMMF)[3] and capacity building grants. SFEA now manages all CMMF activity as of January 2013. SMF EA Ltd continues to provide capacity building grants to its MFI clients.

Networks

SMF EA Ltd reports to the MIX, is an associate member of AMFIU and AMFI, and works closely with TAMFI.

▪ Governance

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

Alignment of interests

SMF EA Ltd's social vision and mission is well defined and shared among key decision makers. There is a good level of

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

awareness of the risk of mission drift and an adequate informal process in place to identify new shareholders that share the vision and mission. Also, financial and social goals are appropriately balanced (according to an SPM policy). By policy, no dividends are issued to shareholders showing that all shareholders have aligned their expectations. The interests and incentives of main stakeholders are generally aligned with the social goals. The salary gap between the management team and lowest paid staff (including support staff) is reasonable (~9x). Key management personnel and BOD remuneration are disclosed in financial statements ensuring transparency. Potential conflicts of interest are sufficiently covered in the BOD manual which requires members to disclose all potential conflicts of interest and not take part in related decision making. SMF EA Ltd is very much aware of the potential conflict of interest (COI) related to shareholders CORDAID and SIDI also lending to MFI partners and this is managed through open communication about possible investee partners, although no specific written policy is in place. To avoid competition, in cases where they invest in the same partner, the shareholders attempt to provide an added value that SMF EA Ltd cannot (i.e. additional funding) as well as offer the same interest rate. A new shareholders agreement is planned, which would also formally address this COI. It has been discussed but is still not fully clear and not yet finalized and signed by shareholders. There is a shared strategic vision and mission among shareholders, BOD members and the MT. However, a new strategy set forth by Stromme Foundation Norway to focus more on financial services and less on non-financial services has created some uncertainty. More discussion and clarification within SMF EA Ltd is needed to ensure the strategy and vision remain clear to all stakeholders moving forward (See section: “Strategy and planning”).

Decision making

The decision-making process is clear and efficient overall with quarterly BOD meetings, and separate committee meetings preceding the BOD meetings. Meetings are well documented in minutes which allows for a control of follow-up on decisions taken. The BOD, including four independent members, brings strong expertise to supervise the company with experience in non-profit, finance, microfinance, and legal areas. The BOD is provided with adequate information in the form of quarterly management reports and the timeliness of delivery of the reports has improved (10 days before meetings). The quarterly reports clearly highlight performance and trends, and now include a short overview of the main risks being faced each quarter (credit risk, liquidity risk, political risk, etc.) and mitigation used, although this should be further developed. Current foreign exchange exposure is clearly outlined although the analysis of the risk is very basic and does not consider adverse movements. Asset liability management (ALM) is sufficiently reflected in the quarterly report. SPM information reported to the BOD is limited to client success stories and updates on initiatives and lacks clear indicators, although some basic indicators like % female clients and dropout rates are reported quarterly to Stromme.

Strategy and planning

SMF EA Ltd has a useful strategy in place elaborated in the business plan (BP) 2011-2015 (updated Sept. 2012) to grow its outreach and improve its efficiency and sustainability. However, the BP requires updating to have more realistic growth targets, more critical analysis of overcoming key challenges, and to fully reflect the recent move of CMMF to Stromme Foundation. The BP also lacks a precise estimate of market potential/saturation. Despite somewhat unrealistic growth targets, SMF EA Ltd emphasizes long term relationships with partners and growth combined with good portfolio quality to help ensure responsible growth internally and for the overall microfinance market.

The BP includes environmental and competitive analysis and a SWOT analysis. However, these are analyzed only to a limited extent and require updating to reflect the current situation. For example, political stability in Kenya is listed as a strength although the upcoming Kenya election was well known at the time of the last update (Sept 2012). The plan does not propose a clear strategy on how to address specific challenges in order to maintain or expand the market position of SMF EA Ltd such as currency risk which has been discussed but not tackled by a specific project in the BP. Funding is also identified as a main challenge which warrants more thorough coverage in the BP (See section “Funding”). The BP is unclear regarding the precise targeted balance between different sizes and types of MFIs.

The BP is complemented by a well thought out marketing plan designed to increase exposure via national networks, product diversification, and building long term relationships with partners. However, this too needs clarification on longstanding issues with the guarantee product and the ability of SMF EA Ltd to fund capacity building from its own funds. SMF EA Ltd benefits from a detailed operational plan with specific objectives to be achieved in order to meet the BP targets, although these too should be brought in-line with more realistic, achievable targets.

The planning process is participatory although this needs to be improved in light of the abovementioned weaknesses. The financial projections are precise and operational targets available for the next three years, but require updating as growth is slower than expected (actual loan portfolio for Dec 2012 is at ~75% of projected). Sensitivity analysis is done for the funding structure, yet SMF EA Ltd could benefit from a scenario analysis of different cases of portfolio growth. Similarly, stress-testing is absent, which would provide insights into the effects of certain events (FX fluctuations, political disruptions, delinquency of key-clients, etc.). SMF EA Ltd is aware of these weaknesses and is planning to implement Microfin to enhance these areas. Detailed annual budgets are prepared on an annual basis and adequately followed on a quarterly basis to monitor financial performance during the year.

Management team

There is an adequate management team in place for SMF EA Ltd. The OM provides sufficient guidance to the IOs. The FM has the necessary accounting skills and was recently trained in ALM. The CEO position has recently experienced high turnover (3 in the past 2 years), yet the CEO who joined the team in Feb 2013 shows sufficient leadership to manage SMF EA Ltd. Social performance management skills are present in the MT, having participated in an SPM training by EDA along with partner MFIs in 2012 (one session in Kenya and one in Tanzania).

Execution capacity is moderate. Management could be more pro-active in terms of picking-up challenges facing SMF EA Ltd to ensure good performance of the company. This is a challenging task given the limited size of the company requiring high attention to regular operations, and other factors like CEO turnover. Official management/staff meetings are normally held each month, with ad-hoc meetings held on an as-needed basis. Minutes from these meetings are complete, with some lapses in records (i.e. missing key action items with deadlines and responsible parties). Given the limited size of the company and frequent informal meetings and discussions, there is good communication among staff. Key-person risk is limited for all positions in the short-term, with a fallback person available to takeover in case of need, and only present in terms of a longer term potential loss of strategic vision. Overall, the MT demonstrates appropriate division of tasks, team-work, communication, cohesiveness and respect.

Human resources management

Human resources are well managed by SMF EA Ltd and policies and procedures are documented in the HR manual. Recruitment is organized appropriately with interviews involving both management, as well as BOD members for management positions. SMF EA Ltd has historically been able to consistently identify well performing staff. New staff receives adequate induction training although this is not standardized yet within SMF EA Ltd. With evaluations conducted semi-annually there is a good monitoring of staff performance and good identification of training needs for individual staff. A training action plan exists at the Stromme Foundation level which incorporates training needs of SMF EA Ltd and its partners into one unified plan. Although the company is small there are examples of a career path from the finance department. Staff receives standard benefits including medical coverage (including spouse and children) and contributions to social security. A performance based 13th month of remuneration also allows the company to provide an incentive for good performance. Staff retention has also been good to date, with one exception being the high turnover in the CEO position. Overall, there is good staff morale and a positive working atmosphere within the company, although staff motivation could be better verified through staff surveys.

▪ Information

Information **is rated "c"**

An efficient and cost-effective system is in place for accounting (Agresso), and the use of the portfolio tracking software (Finance Solutions) is currently being optimized. The financial analysis is adequate with monthly preparation of the income statement and balance sheet, and a more detailed quarterly analysis including the calculation and analysis of relevant financial indicators. For portfolio monitoring there is a quarterly overview of the outstanding portfolio and clear overview of delinquency. This report is prepared manually which does not represent substantial risk given the limited number of partners. SMF EA Ltd purchased the loan tracking system Finance Solutions in 2012 but is yet to fully operationalize it.

Currently, there is no clear detailed monitoring of the performance of partners on a consolidated basis. Quarterly reports are received from partners but these are not consolidated in order to see trends by country, type of partner, etc. Such analysis is required to analyze the risk profile of the portfolio and identify potential future delinquencies before they occur based on the performance level of the partners. Analysis of country performance is present briefly only in the BP, but not updated frequently. Although general knowledge of the countries of operations is present through frequent visits, this information is not stored or analyzed in a systematic way. Although SMF EA Ltd, has the clear objective to support partners in implementing the client protection principles, it currently does not collect data to verify this (such as indicators on partner's responsible practices are (zero NPL, high ROA, etc.).

Data security for paper data is adequate with collateral documents stored in a safe and other legal documents (debentures, loan contracts, etc.) are locked in the CEO's office with a second original copy placed at the lawyer's office. For digital data there is a back-up policy, although it is manual which make it less certain of being implemented regularly. Adequate anti-virus software is in place

(Symantec) and desktop computers are protected from power outages with UPS units. Computers, Agresso, and Finance Solutions are protected by passwords, although passwords are not routinely changed, with the exception of Finance Solutions as the software requires scheduled unique password changes.

Risk management

Risk management **is rated "b"**

Enterprise risk management

SMF EA Ltd benefits from a thorough identification of the main risks faced (credit, operational, liquidity, strategic, etc.). Key risks are reported to the BOD quarterly such as credit risk, liquidity risk and currency risk. However, frequency of control is not specified, nor is the specific person in charge of monitoring these risks, and risk reports are not prepared according to the format stated in the policy. Additionally, specific levels of risk are not defined for all risks such as portfolio concentration limits per country or product, minimum liquidity levels, maximum levels of open FX positions, etc.

Procedures and internal controls

The procedures are generally well documented into various manuals (Board, Operations, Accounting, HR, and Risk Management), key manuals are available to staff (i.e. Operations), and internal controls are implemented appropriately with some possible improvements. Separation of tasks are sufficient for Finance (i.e. checks require two signatures) and Operations (shared responsibility between IOs and Accountant). However, controls could be improved with the full operationalization of the loan tracking system "Finance Solutions" which would customize access for different users in the processing of loans. Limitation of power is well defined, mostly related to the required level of approval of loans based on loan size (See Section "Organization"). There is close supervision by the OM and FM of their respective staff as well as an additional level of supervision in the form of visits from the CEO and OM to clients. Staff performance is well monitored, clear rules for dismissal are present (i.e. two scores of less than 65 on the annual review), and staff compliance is adequate. Legal risk is well managed, as SMF EA Ltd has local lawyers in each country to draw up country-specific contracts. SMF EA Ltd also follows the "4-eye" principle for monthly bank reconciliations to ensure reliability of financial information (done by Accountant and reviewed by the FM) and portfolio information is reconciled with accounting information on a quarterly basis which aligns with the frequency of loan repayments of partners. Although responsible investing is part of the SPM policy, SMF EA Ltd does not have a procedure or method for ensuring the legality and ethical status of the activities (businesses) financed by its partners.

Internal audit

IA is in the process of being implemented at SMF EA Ltd to review the effectiveness of internal controls. Seeing the value of IA in SMF EA Ltd, the MT and BOD engaged an external consulting firm with MF expertise to fulfill the IA function starting in 2013. An IA policy is in draft form including quarterly reported to the Audit Committee on the BOD, a risk based audit planning process, as well as different mechanisms used for control including desk reviews, full audits and surprise audits. The hiring process was fair, through a "closed tender" with the Audit Committee selecting the auditor (Kisaka & Company CPA). The IA will report directly to this committee.

An annual external audit has been conducted by Deloitte for the past three years, providing some coverage of internal controls although no opinion of their quality as such. Recommendations of past management letters have been mostly implemented. SMF EA Ltd has no supervision by the Central Bank, and there is no prevailing law for such institutions. It however operates under the Money lenders Act which governs operations of wholesale lending institutions.

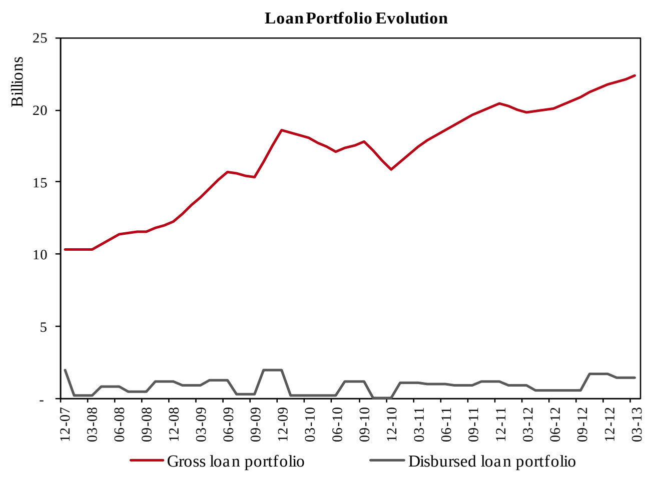
Asset quality

Asset quality **is rated "b"**

Financial services evolution

Growth rates in the loan portfolio of SMF EA Ltd have not been consistent over the years showing relatively high levels of volatility. SMF EA Ltd grew its loan portfolio at annual rates rising from 18% to 52% in 2008 and 2009, respectively before becoming negative over the course of 2010 (-15%) due to slowed disbursements to one large partner and other MFIs declining offers of loans from SMF EA Ltd. Growth rebounded in 2011 (29%) due primarily to disbursements in Uganda before slowing down again in 2012 due primarily to external factors linked with the presidential elections in Kenya and the overall economic environment. The potentially very competitive market for MFI funders also is a significant factor in the evolution of SMF EA Ltd's portfolio.

Direct debt and indirect debt has historically comprised effectively the entire portfolio, at 85% and 15%, respectively at March 2013. The equity portion has comprised less than 1% of the portfolio since 2008.



Loan portfolio management

The quality of credit decisions has continued to improve in recent years, with more discriminatory power in these decisions. However, there exist some important areas to improve in order to have a completely sufficient appraisal and monitoring. The loan appraisal format is now standardized, including performance indicators (PAR 30, OSS, Debt Equity ratio, etc.), information on BOD, funding, and social performance management, and an institutional assessment of performance. External reports (rating reports and other due diligences) are noted in the appraisal reports, although not systematically. Limits are present, notably for PAR (5%), debt to equity ratio (3x to 5x depending on the maturity of the partner), and sustainability (>100% OSS) although these are flexible. The appraisal process could be improved with a scoring system, to facilitate the credit committee to form a clear and objective opinion on the risk profile of the MFI. For example, based on a selection of weighted indicators, a scoring system could incorporate the country and MFI institutional risk into a "score" which could be comparable across SMF EA's loan portfolio. SMF EA Ltd's staff shows a good appreciation for the importance of verifying MFI information, although there is not yet a good tool in-house to help with this. To mitigate risk, SMF EA Ltd prefers to lend to MFIs with an operationalized MIS or may provide capacity building support to operationalize an MFI's MIS. SMF EA Ltd participates in informal meetings with other wholesale lenders in the region to exchange information to help evaluate credit worthiness of prospective partners. After disbursement, loans are monitored onsite with monthly or quarterly reporting and offsite with at least two field visits per year.

Credit risk

Portfolio quality has improved in recent years with the total credit risk (NPL90+r+write offs) standing at 1.4% as of March 2013 compared to 4.1% in December 2010. NPL90 stood at a low level of 1.4% as of Dec 2012. Write-offs of 0.4% as of the same date are in-line with the benchmark of 0.4%.[4] NPL 30 levels are elevated (20.9%) as of March 2013 due to an individual large exposure. This has been the case for the last three years at year end, although these loans have not substantially moved to the next aging category of lateness. (See section: "Credit risk coverage") SMF EA Ltd has reportedly intensified efforts to ensure timely repayments. There have been no cases of rescheduling of loans since 2010. However, in the rare instances of rescheduling, they were not tracked as such which could understate the portfolio at risk. There is a positive trend with respect to debt with defaults, with the last loan disbursed with write offs or arrears >180 days being in 2010.

Generation analysis	2009	2010	2011	2012	2013
Debt with write-offs or arrears >180 days	1.3%	2.6%	0.0%	0.0%	0.0%

An analysis of available microfinance institutional ratings suggests a similar evolution of SMF EA's disbursed portfolio away from the weak rating category in favor of the fair category. This is consistent with the average rating grade for sub-Saharan Africa of 2.5 for the period 2010-12.

	% of portfolio as of date		
Rating category*	Dec. 2011	Dec. 2012	Mar. 2013
1= Excellent	0%	0%	0%
2= Good	20%	17%	15%
3= Fair	9%	7%	14%
4= Weak	11%	4%	3%
n/a	61%	71%	69%

* Rating category is defined in the Rating Guide published by The Rating Initiative in October 2012

Source: Rating grades were collected from publicly available data from 2008 to 2013 from Microrate, Microfinanza Rating, and from Planet Rating. rating public and private ratings. For each year, the outstanding portfolio of Stromme has been classified according to the ratings available at the date of the disbursement of the loan.

SMF EA Ltd does give staff loans (not included in the loan portfolio) according to a clear policy requiring the amount not to exceed 40% of net pay, total installment for all debt not to exceed 75% of net pay and for periods of 1-12 months. When compared to the total loan portfolio, staff loans represent well less than 1% and are repaid before the end of each financial year.

Country concentration risk is a primary risk for SMF EA Ltd. with the portfolio concentrated in three countries and being highly concentrated (49.9%) in Uganda as of Mar. 2013. The largest investment as a proportion of the total portfolio (19.4%) is also a substantial risk as of the same date. Although it has a declining trend, the concentration of the portfolio in the top 5 largest partners is also significant standing at 65.2% as of Mar 2013. Removing BRAC Africa reduces the concentration to 59.3% which is still very high

[4] Symbiotics. "2012 Symbiotics MIV Survey."

compared to the benchmark for all MIVs (32%) and the relevant peer group (40%).[5] These exposures are covered by more than 100% by core capital, but they do represent a substantial portion for the top 5 investments (87.1%) and the top 1 investment (26.0%) as of March 2013.

There is a common understanding to diversify the portfolio among different types of MFIs and in different countries, although no specific guidelines have been set in terms of portfolio concentration. New products are launched based on informal feedback from partners, meetings with clients to gather feedback, as well as surveys and feasibility studies conducted by consultants. Products are launched using a pilot stage for testing (i.e. the housing loan).

Credit risk coverage

There is sufficient coverage of non-performing loans with NPL 90 coverage well in excess of 100% in the years 2010, 2011 and 2012 and for March 2013. It is notable that the coverage ratio falls to well below 100% when considering NPL30 levels for these same years and for March 2013 (41.9%). (See section: "Credit risk"). SMF EA Ltd's provisioning policy is based on actual credit risk and also prudently includes 1% coverage of the healthy portfolio. However, the provisioning is not yet based on an analysis of the historical performance of the portfolio.

Debentures, land titles, and BOD guarantees provide additional protection against losses. Recoveries by legal means are appropriately outsourced to legal experts. However, the portfolio is not covered by insurance against political and/or country risk.

Client Protection

Client protection **is rated "b"**

Stromme Microfinance East Africa, Ltd.	Mar 2013
% loans checked with a credit bureau	N/A
Required Installment / Disposable income	N/A
% borrowers with credit life insurance	N/A
% borrowers bearing FX risk (hard currency)	0%
APR disclosure to clients	No
Type of interest rate	Declining
Additional fees	1% upfront
Transparency index*	>85%
% borrowers visited by non-operations staff	n/a
Institutional policy on privacy of client data	No
Formal client agreements prior to sharing private data with third parties	No

* The transparency index compares the nominal annualized interest rate with the APR, 100% signifying perfect transparency. An index of more than 85% is considered a good level of transparency.

SMF EA Ltd performs relatively well in prevention of over-indebtedness and transparency, but is not systematic enough about collecting and learning from partner complaints.

- *Appropriate product design and delivery:*

See Adaptation of services in Efficiency & profitability.

- *Prevention of over-indebtedness:*

Although it does not have access to a credit bureau as such, when possible, SMF EA Ltd. checks with other wholesale lenders before disbursing loans to partners. Furthermore, all loans are in local currency, so partner MFIs are not exposed to foreign exchange risk. Contractually, interest rates charged to partners can be adjusted based on economic and financial market conditions which can pose a risk to some partners who are not able to charge more to their clients in an environment of rising interest rates.

SMF EA Ltd. also includes aspects of prevention of over-indebtedness prevention in its appraisal of MFIs, thereby rewarding good practices. Depending on the partner, SMF EA Ltd. considers whether formal credit bureaus or informal checking of credit history is done possibly with other MFIs for example. As part of its objective of expanding outreach of financial services, SMF EA Ltd reviews partner NPL by branch and encourages growth in rural areas to help avoid over-indebting clients of MFIs.

- *Transparency of services:*

Loan contracts are written according to local country laws, facilitating better understanding by local partners. In addition, partners receive these loan contracts with sufficient time to review and ask questions before signing. Loan contracts are clear although they do not include a summary of key information which would add additional clarity. The APR is not stated in the loan contract. Partners receive a repayment schedule which includes principal and interest payments but not the 1% disbursement fee, although this is disclosed in the letter of offer. The process for collecting delinquent loans is discussed before contract signing. Loans are charged using the declining balance method which improves transparency. APRs range from 8.6 to 19.6% with corresponding Transparency Index values of 90-95, which is to be expected considering the declining interest rate and minimal fees. This TI indicates that almost all of the total loan cost (90-95%) is communicated to the partner in the quoted interest rate.

- *Responsible pricing:*

SMF EA Ltd has reasonable margins, particularly when adjusting for the impact of foreign exchange gains in recent years. Also, credit risk is at a good level with decreasing total credit risk (despite instances of high NPL 30). The rising operating expense ratio suggests that additional improvements can be made to improve efficiency.

[5] Symbiotics. "2012 Symbiotics MIV Survey."

Furthermore, the rising cost of borrowing (9.1% at December 2012) may indicate a need to better negotiate funding. It is also relevant that as of March 2013, SMF EA Ltd only had one source of funding (SMAS). The pricing does allow SMF EA Ltd to be financially self sustaining although margins shrink when foreign exchange gains are adjusted for in recent years. There is no policy in place on acceptable profitability levels.

- *Fair and respectful treatment of clients:*

The SPM policy includes supporting the CPPs in partner MFIs as well as adherence to fair and responsible treatment of partners themselves. SMF EA Ltd's culture is conducive to proper treatment of partners. In addition, SMF EA Ltd helps mitigate the risk of inappropriate collection practices by working with delinquent clients in order to facilitate payment (although it does not formally reschedule loans (See section "Credit Risk")). As a last resort, country-specific lawyers are engaged to follow up on debt collection following legal requirements for the specific country. Collateral of BOD member guarantees could be a substantial burden on these individuals due to the size of the loans, although this is a common practice of wholesale lenders. The internal audit function is in process of being rolled out (See section: "Internal Audit") and there is no verification of the treatment of clients currently.

- *Privacy of client data:*

SMF EA Ltd does have a formal privacy policy to protect MFI client data in the form of its SPM policy. Systems are generally in place to ensure accuracy and security of the client data. Financial and portfolio data is appropriately reconciled (See Section "Procedures and internal controls"). Furthermore, the security of data is generally sufficient although it could be improved with respect to passwords and data backups. (See Section: "Information"). Generally, the only client data shared with third parties is during the meetings with other wholesale lenders in the region regarding whether or not the client had a loan with SMF EA ltd. This is done without formal permission requested from the partner, although this information is also available in the partners audited financial statements.

- *Mechanisms for complaint resolution:*

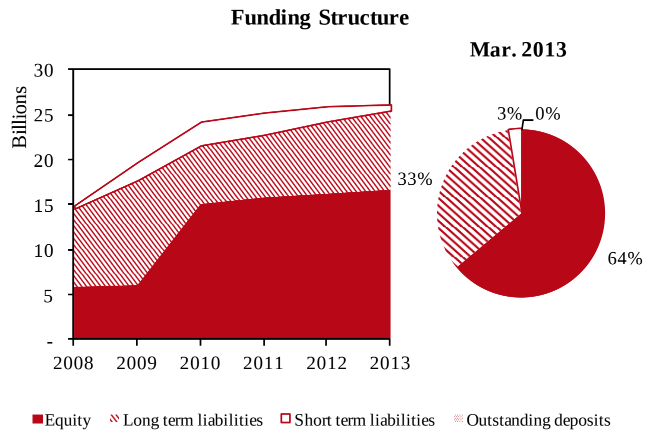
There is a written policy on complaint resolution in the form of the SPM policy. In practice, an informal mechanism is in place, but it is not optimal. Partners can call-in, and visits are conducted annually by the CEO and OM, which provide good opportunities for registering complaints. Also, SMF EA Ltd relies on APEX organization feedback from clients within each country. However, the system is not optimal because complaints aren't systematically tracked (i.e. in a database or excel document for example) and analyzed to ensure they are responded to and used to make the necessary improvements.

Funding and liquidity

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

Capitalization and funding strategy

SMF EA Ltd is sufficiently capitalized with the core and total CAR at 77.4% and 87.7% respectively, indicating room for additional debt investors. SMF EA Ltd is not regulated by the Central Bank, so no minimum capital requirements from a regulator apply.



There is a good identification of funding needs in the BP, however there is a need to align the MT and BOD around realistic goals. Currently, funding needs are not secured for the next 6 months (2 B UGX (800 K USD) gap in Q3 of 2013) and identifying potential funders for the coming 12 months has been a challenge. SMF EA Ltd is working actively to source additional funding although nothing has been secured. Also, in the context of slower than expected disbursements the funding is relatively less constrained. SMF EA Ltd developed a funding strategy although this is now outdated (Nov 2011). A challenge facing SMF EA Ltd in the coming years is rising borrowing costs (from 4.8% in 2008 to 9.1% in 2012). Currently, SMF EA Ltd is subject to a limited number of covenants since the only lender is Stromme Microfinance AS. There is not an established system for monitoring covenants, which would be necessary if a more diverse set of lenders partner with SMF EA Ltd in the future.

Liquidity risk

The FM has the necessary accounting skills to fulfill his role, and is in process of developing ALM skills. SMF EA Ltd's basic liquidity position is updated and monitored quarterly in-line with reporting to the BOD with maturity matching and cash-flow projections. As of Dec 2012, there is a good matching of assets and liabilities with a positive cumulative position in the short term. The current ratio (1 year) has been well in excess of 100% over the past two financial year ends (Dec 2011 and Dec 2012), and sufficient coverage by liquid assets of operating expenses (>12 months) as of Dec. 2011 and Dec 2012. The only contingency plan is to request a loan from Stromme Foundation Norway.

Market risk

SMF EA Ltd's ability to manage market risks has improved to a point where it has a basic awareness of its exposures, although none of the exposures are hedged as of yet. Foreign exchange and interest rate risk are managed quarterly in-line with reporting to the BOD. Due to lending activities in Tanzania and Kenya, SMF EA Ltd holds large open positions in both Tanzanian Shillings and Kenyan Shillings. The risk is not currently hedged, as no cost-effective option has been identified. An option under discussion is to take on liabilities in these currencies to match the assets thereby hedging the risk. Based on the foreign exchange exposure as of December 2012, a 10% devaluation of the cumulative open position would result in a reduction in ROA of 394 basis points yielding an adjusted ROA for financial activities of -0.6%.

SMF EA Ltd is not currently exposed to interest rate risk from its borrowings, since all loans have a fixed rate. This could change in the future if funding sources become more diversified. In the event that it was needed, the market position of SMF EA Ltd does not necessarily allow it to increase rates without affecting demand, as competition with other funders is tight.

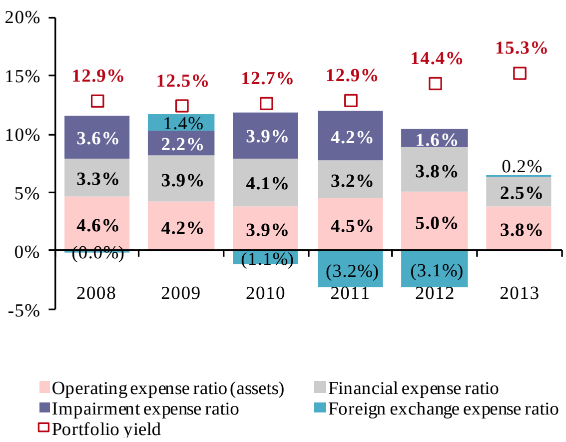
Efficiency and profitability

Efficiency and profitability **is rated "b"**

Profitability analysis

SMF EA Ltd has shown an increase in profitability over the years, with an ROA of 0.8%, 2.9%, and 3.3% in 2010, 2011, and 2012, respectively. A primary driver of this has been substantial foreign exchange gains over these years.

Profitability Structure



Without the effect of foreign exchange gains, the ROA would be -0.1%, 0.6% and 0.9% as of Dec. 2010, Dec. 2011, and Dec. 2012, respectively. Nevertheless, another driver has been the improvement in portfolio quality (See Section: "Credit Risk") leading to a higher portfolio yield and ultimately lower impairment expenses. Conversely, operating expenses have increased slightly in recent years, with operating expenses over assets increasing from 3.9% in 2010 to 5% in 2012. This is likely in part due to lower growth than expected. This is close to the benchmark of 4.0% for the relevant peer group.[6] SMF EA Ltd's yield gap is within a normal range and has decreased from Dec 2011 to Dec 2012 which can be a sign of the improvement of the portfolio quality. In Dec 2012, the estimated theoretical yield was 14.6% compared to the actual yield of 14.4%. After removing the effect of net foreign exchange gains, the financial expense ratio has been relatively stable, although the cost of borrowings has steadily increased from 5.5% to 9.1% from 2009-2012. Competition is tight, so SMF EA Ltd's ability to adjust interest rates upward if the need arises is limited. Available resources are generally used efficiently, with the outstanding MF portfolio to assets ratio reaching 85.4% at March 2013. This compares well to all other MIVs (75%) and the relevant peer group (74%).[7] However, SMF EA Ltd could benefit from putting excess liquidity into short term investments (as of Dec 2012, 4.1 B UGX (1.5 M USD) is held in non-interest bearing accounts).

Responsible financial performance

ROA is not excessive. Based on high levels of financial exclusion in East Africa and SMF EA Ltd's focus on MFIs expanding to rural areas, growth rates are also generally not excessive. IO productivity is relatively stable in recent years and the operating expense ratio has been increasing, suggesting that short term growth is not being attained at the expense of long term sustainability. However, SMF EA Ltd may face potential risks due to unrealistic growth projections.

Adaptation of services

Product innovation has been a focus at SMF EA Ltd, with a product specifically for housing starting in 2012, and plans for other products in the pipeline (i.e. agricultural and fixed asset loan product). In practice, the only difference between the housing loan and the institutional loan is a 1% difference in interest rate and wider range of loan size and term for the institutional loan. However, partners also benefit from possible capacity building support which can provide an additional source of differentiation. During Q1 of 2013, three partners received training in housing microfinance for a total of more than 40 staff. Partner feedback is collected

[6] Symbiotics. "2012 Symbiotics MIV Survey."
[7] Symbiotics. "2012 Symbiotics MIV Survey."

informally, and through partner workshops, surveys and feasibility studies administered by consultants.

Market position

SMF EA Ltd has a well established reputation in the market and operates in a market segment where relatively few MIVs are present. However, it is not the only provider of loans of similar size and it faces competition in each country in which it operates including from large lenders like responsAbility. SMF EA Ltd estimated to have a very small market share in Kenya, fairs slightly better in Tanzania and has the largest most significant market share in Ug. It has the advantage of offering local currency loans which is an advantage over many foreign investors, in the majority of countries where it operates (Uganda and Tanzania). The situation is different in Kenya where more lenders offer loans in local currency. The competitive advantage related to capacity building grants to its partners may be less of a differentiating factor in the coming years, due to more wholesale funds reportedly offering a similar model. Furthermore, the exact way this will be financed in the future needs to be clarified within SMF EA Ltd itself. SMF EA Ltd. also faces a challenge to compete in terms of interest rates. In terms of interest rates, the data suggests a highly competitive market in KE, and a relatively better position in Ug. SMF EA Ltd's average interest rate (15.3%) is slightly high compared to a regional average for local currency loans in SSA (15.0%). With respect to the loan terms, the increase in maximum term to 3 years adds value to medium and large partners (compared to 2 years previously), although for some this is still not sufficient.

Profitability outlook

Despite portfolio yield following a steady upward trend, SMF EA Ltd's profitability is uncertain as a reverse in recent foreign exchange gains could significantly limit profitability. Also, if these open positions are hedged, the potential gains will disappear. In addition, funding could be a major challenge in the coming years particularly in light of the changed strategy from Stromme Foundation and its implications (See section: "Governance"). Related to this, the impact of CMMF's move to SFEA and changes in the model for financing capacity building support is unclear. Adding a highly competitive market among wholesale lenders adds to the uncertainty.

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Performance indicators

Data in USD, unless otherwise stated

Microfinance portfolio	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Mar. 2013
Microfinance portfolio evolution						
Microfinance portfolio	6,387,423	10,008,806	7,016,634	8,366,727	8,229,548	8,754,661
Growth	17.8%	53.3%	(14.6%)	27.9%	6.2%	2.7%
Direct microfinance portfolio	5,719,911	7,707,671	5,225,439	6,854,291	6,714,834	7,482,198
Number of microfinance service providers	31	29	27	21	24	24
Direct equity portfolio	4,149	67,214	57,227	3,124	2,894	2,996
Average outstanding equity investment	*4,149*	*33,607*	*28,614*	*3,124*	*2,894*	*2,996*
Direct debt portfolio	5,715,762	7,640,457	5,168,212	6,851,168	6,711,941	7,479,202
Average outstanding debt	190,525	282,980	206,728	285,465	291,824	287,662
Average maturity of debt (months)	24.5	25.3	27.0	27.1	27.7	29.3
Direct guarantee portfolio	-	-	-	-	-	-
Indirect microfinance portfolio	667,511	2,301,135	1,791,195	1,512,435	1,514,713	1,272,464
Number of MIVs	2	2	1	1	1	1
Indirect equity portfolio	-	-	-	-	-	-
Indirect debt portfolio	667,511	2,301,135	1,791,195	1,512,435	1,514,713	1,272,464
Average outstanding debt	333,756	1,150,567	1,791,195	1,512,435	1,514,713	1,272,464
Average maturity of debt (months)	n/a	n/a	n/a	n/a	n/a	n/a
Indirect guarantee portfolio	-	-	-	-	-	-
Investment terms						
Direct debt portfolio in local currency	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Direct portfolio - fixed rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Direct portfolio - floating rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Portfolio concentration						
Largest country exposure	48.4%	33.1%	41.1%	52.3%	48.9%	50.5%
Largest investment / microfinance portfolio	24.5%	23.0%	37.6%	19.6%	18.5%	19.4%
Top 5 investments / microfinance portfolio	64.8%	73.1%	92.0%	75.0%	69.1%	65.2%
Largest unhedged investment/microfinanceportfolio	12.3%	23.0%	n/a	n/a	n/a	n/a
Top 5 unhedged investments/microfinance portfolio	40.0%	58.6%	n/a	n/a	n/a	n/a
Direct unhedged debt / total direct portfolio	51.5%	66.2%	n/a	n/a	n/a	n/a
Portfolio quality						
Restructured loans	0.0%	0.0%	n/a	0.0%	0.0%	0.0%
NPL_{90}	n/a	n/a	4.1%	1.7%	1.4%	1.4%
Write-off ratio	n/a	n/a	0.0%	0.8%	0.4%	0.0%
Credit risk coverage						
Risk coverage ratio (NPL_{90})	264.1%	211.1%	168.2%	494.6%	663.6%	626.0%
Uncovered capital ratio (NPL_{90})	≤0%	≤0%	≤0%	≤0%	≤0%	≤0%
Staff	**Dec. 2008**	**Dec. 2009**	**Dec. 2010**	**Dec. 2011**	**Dec. 2012**	**Mar. 2013**
Total number of staff	6	7	6	8	8	7
% Investment officers	33.3%	28.6%	33.3%	25.0%	25.0%	28.6%
Turnover	0.0%	0.0%	15.4%	0.0%	0.0%	13.3%
Profitability analysis	**Dec. 2008**	**Dec. 2009**	**Dec. 2010**	**Dec. 2011**	**Dec. 2012**	**Mar. 2013**
FOR ALL ACTIVITIES						
ROE (after donations)	0.0%	3.2%	1.8%	4.7%	4.8%	10.8%
ROA (after donations)	0.0%	1.1%	0.8%	2.9%	3.0%	6.9%
Liabilities / Equity	0.69x	1.16x	0.44x	0.31x	0.41x	0.38x
Core capital adequacy ratio	49.1%	32.0%	95.1%	78.6%	77.4%	77.6%
Total capital adequacy ratio	73.7%	48.1%	105.9%	95.5%	87.7%	?
Liquidity / Total assets (LAR)	19.5%	3.6%	31.1%	16.9%	15.9%	14.6%
Current ratio (1 year)	1,699.6%	690.6%	458.8%	431.1%	510.7%	3,846.4%
FINANCIAL SERVICES						
ROA (after donations)	0.4%	1.0%	0.8%	2.9%	3.3%	6.9%
ROA (before donations)	0.4%	1.0%	0.8%	2.9%	3.3%	6.9%
Net interest margin	9.6%	7.2%	9.4%	12.2%	13.0%	12.1%
Portfolio yield	12.9%	12.5%	12.7%	12.9%	14.4%	15.3%
Operating expense ratio (portfolio)	5.5%	4.8%	4.8%	6.0%	6.3%	4.5%
Operating expense ratio (assets)	4.6%	4.2%	3.9%	4.5%	5.0%	3.8%
Cost income ratio	42.5%	36.3%	37.3%	45.5%	42.0%	29.6%
Cost per client	9,960	12,812	13,530	17,817	19,803	3,845
Investment officer productivity	16	15	13	11	12	12
Funding expense ratio	3.3%	3.9%	4.1%	3.2%	3.8%	2.5%
Cost of borrowings	4.8%	5.5%	6.7%	6.9%	9.1%	6.2%
Loan Loss Provision expense ratio	3.6%	2.2%	3.9%	4.2%	1.6%	0.0%
Outstanding microfinance portfolio / Assets	81.7%	94.8%	66.0%	81.1%	83.8%	85.4%
Revenue from investment (% of financial revenues)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NON-FINANCIAL SERVICES						
Operational self-sufficiency (after donations)	78.7%	101.0%	100.3%	100.1%	96.8%	98.8%
Operational self-sufficiency (before donations)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating cost per beneficiary	1,491	2,027	n/a	n/a	n/a	n/a
Donations per beneficiary	13,646	32,030	n/a	n/a	n/a	n/a
Exchange rate 1 USD= xx UGX	**1,915**	**1,874**	**2,283**	**2,449**	**2,644**	**2,553**

▪ Financial statements – UGX

Income Statement ('000)	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Mar. 2013
Financial Services						
Interest and fee income on loan portfolio	1,436,696	1,885,335	2,224,498	2,391,904	2,946,618	841,205
Interest and fee income on investments	-	-	-	-	-	-
Interest and other financial expenses	372,284	588,930	718,203	593,031	784,344	135,430
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	2,614	(204,530)	198,426	584,615	626,452	(10,836)
Net financial income	**1,067,027**	**1,091,875**	**1,704,721**	**2,383,488**	**2,788,726**	**694,939**
Fees and commissions on other financial services	-	-	-	-	-	-
Other operating income	-	133,460	52,916	51,672	110,348	4,116
Operating expenses on financial services	610,363	732,206	849,446	1,112,682	1,282,613	250,336
Gross operating income on financial services	**456,664**	**493,129**	**908,191**	**1,322,478**	**1,616,461**	**448,719**
Net impairment expense	400,516	336,522	684,731	784,039	320,000	-
Net operating income on financial services	**56,148**	**156,607**	**223,460**	**538,439**	**1,296,461**	**448,719**
Donations for financial services (operating expenses)	-	-	-	-	-	-
Net operating income on financial services after donations	**56,148**	**156,607**	**223,460**	**538,439**	**1,296,461**	**448,719**
Non-financial services (NFS)						
Operating revenues from NFS	-	-	-	-	-	-
Grants given to clients	235,188	-	-	-	-	-
Operating expenses on NFS	25,698	1,084,907	1,278,277	2,380,610	2,435,973	124,238
Net income from NFS	**(260,886)**	**(1,084,907)**	**(1,278,277)**	**(2,380,610)**	**(2,435,973)**	**(124,238)**
Donations for NFS	205,210	1,096,120	1,282,165	2,382,600	2,358,847	122,738
Net income from NFS after donations	**(55,676)**	**11,213**	**3,888**	**1,990**	**(77,126)**	**(1,500)**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**471**	**167,820**	**227,348**	**540,429**	**1,219,335**	**447,219**
Income Tax	-	(23,018)	40,780	(189,956)	449,974	-
Net Income	**471**	**190,838**	**186,568**	**730,385**	**769,361**	**447,219**

Balance Sheet ('000)	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Mar. 2013
ASSETS	**14,968,666**	**19,782,693**	**24,263,167**	**25,266,557**	**25,969,787**	**26,169,520**
Liquid assets	2,921,570	716,199	7,551,471	4,275,939	4,136,373	3,822,096
Microfinance portfolio	11,703,625	18,351,311	14,930,856	18,760,624	19,797,410	20,393,497
Equity portfolio	*7,946*	*125,947*	*130,650*	*7,650*	*7,650*	*7,650*
Debt portfolio	*11,695,679*	*18,225,364*	*14,800,206*	*18,752,974*	*19,789,760*	*20,385,847*
Gross debt portfolio	*12,223,968*	*18,628,753*	*15,888,326*	*20,483,133*	*21,748,558*	*22,344,751*
(Impairment allowance)	*(528,289)*	*(403,389)*	*(1,088,120)*	*(1,730,159)*	*(1,958,798)*	*(1,958,904)*
Guarantee portfolio	-	-	-	-	-	-
Interest receivable	65,413	174,965	141,053	239,742	244,629	-
Financial investments	7,946	125,947	1,130,650	1,007,650	1,007,650	1,007,650
Net fixed assets	33,323	33,838	137,865	127,981	101,459	109,102
Intangible assets	-	-	-	-	12,255	-
Other assets	244,735	506,380	501,922	862,271	677,661	844,824
LIABILITIES AND EQUITY	**14,968,666**	**19,782,693**	**24,263,167**	**25,266,557**	**25,969,787**	**26,169,520**
Liabilities	**9,050,741**	**13,673,930**	**9,132,199**	**9,405,204**	**9,687,039**	**9,439,562**
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-
Borrowings	850,150	5,927,439	6,857,648	5,117,800	6,594,905	6,594,905
Subordinated debt	7,838,418	6,838,418	1,721,166	3,414,290	2,167,348	2,167,348
Other liabilities	362,173	908,073	553,385	873,114	924,786	677,309
Equity	**5,917,925**	**6,108,763**	**15,130,968**	**15,861,353**	**16,282,748**	**16,729,958**
Core capital	5,917,925	6,108,763	15,130,968	15,861,353	16,282,748	16,729,958
Paid-in capital	*1,500,000*	*1,500,000*	*3,557,410*	*3,557,410*	*3,557,410*	*3,557,410*
Earnings - current period	*471*	*190,838*	*186,568*	*730,385*	*769,361*	*447,219*
Retained earnings	*4,417,454*	*4,417,925*	*11,386,990*	*11,573,558*	*11,955,977*	*12,725,329*
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts						
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Outstanding guarantees	-	-	-	-	-	-

Balance Sheet Averages						
Microfinance portfolio	11,154,697	15,178,337	17,678,233	18,564,430	20,493,138	22,054,305
Gross debt portfolio	11,146,751	15,111,391	17,549,935	18,495,280	20,485,488	22,046,655
Assets	13,295,354	17,375,680	22,022,930	24,764,862	25,618,172	26,069,653
Borrowings and subordinated debt	7,763,493	10,727,212	10,672,336	8,555,452	8,647,172	8,762,253
Equity	5,246,597	6,013,344	10,619,866	15,496,161	16,072,051	16,506,353

Financial statements – USD

Income Statement	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Mar. 2013
Financial Services						
Interest and fee income on loan portfolio	750,233	1,006,145	974,375	976,654	1,114,594	329,471
Interest and fee income on investments	-	-	-	-	-	-
Interest and other financial expenses	194,404	314,294	314,587	242,144	296,688	53,043
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	1,365	(109,151)	86,915	238,708	236,963	(4,244)
Net financial income	**557,194**	**582,700**	**746,702**	**973,218**	**1,054,869**	**272,184**
Fees and commissions on other financial services	-	-	-	-	-	-
Other operating income	-	71,223	23,178	21,099	41,740	1,612
Operating expenses on financial services	318,727	390,756	372,074	454,327	485,164	98,048
Gross operating income on financial services	**238,467**	**263,168**	**397,806**	**539,990**	**611,446**	**175,748**
Net impairment expense	209,147	179,591	299,926	320,136	121,044	-
Net operating income on financial services	**29,320**	**83,576**	**97,880**	**219,854**	**490,402**	**175,748**
Donations for financial services (operating expenses)	-	-	-	-	-	-
Net operating income on financial services after donations	**29,320**	**83,576**	**97,880**	**219,854**	**490,402**	**175,748**
Non-financial services (NFS)						
Operating revenues from NFS	-	-	-	-	-	-
Grants given to clients	122,814	-	-	-	-	-
Operating expenses on NFS	13,419	578,981	559,911	972,043	921,436	48,660
Net income from NFS	**(136,233)**	**(578,981)**	**(559,911)**	**(972,043)**	**(921,436)**	**(48,660)**
Donations for NFS	107,159	584,965	561,614	972,855	892,262	48,072
Net income from NFS after donations	**(29,074)**	**5,984**	**1,703**	**813**	**(29,174)**	**(587)**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**246**	**89,560**	**99,583**	**220,666**	**461,228**	**175,160**
Income Tax	-	(12,284)	17,862	(77,562)	170,208	-
Net Income	**246**	**101,844**	**81,721**	**298,228**	**291,020**	**175,160**

Balance Sheet	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Mar. 2013
ASSETS	**7,816,536**	**10,557,414**	**10,627,756**	**10,316,754**	**9,823,385**	**10,249,694**
Liquid assets	1,525,624	382,213	3,307,696	1,745,937	1,564,633	1,496,983
Microfinance portfolio	6,111,554	9,793,529	6,540,016	7,660,274	7,488,609	7,987,426
Equity portfolio	4,149	67,214	57,227	3,124	2,894	2,996
Debt portfolio	6,107,404	9,726,315	6,482,788	7,657,150	7,485,715	7,984,430
Gross debt portfolio	*6,383,273*	*9,941,592*	*6,959,407*	*8,363,603*	*8,226,654*	*8,751,665*
(Impairment allowance)	*(275,869)*	*(215,276)*	*(476,618)*	*(706,453)*	*(740,939)*	*(767,235)*
Guarantee portfolio	-	-	-	-	-	-
Interest receivable	34,158	93,373	61,784	97,891	92,534	-
Financial investments	4,149	67,214	495,247	411,440	381,156	394,662
Net fixed assets	17,401	18,058	60,388	52,257	38,378	42,731
Intangible assets	-	-	-	-	4,636	-
Other assets	127,799	270,239	219,852	352,080	256,333	330,888
LIABILITIES AND EQUITY	**7,816,536**	**10,557,414**	**10,627,756**	**10,316,754**	**9,823,385**	**10,249,694**
Liabilities	**4,726,235**	**7,297,355**	**4,000,087**	**3,840,301**	**3,664,239**	**3,697,149**
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-
Borrowings	443,943	3,163,292	3,003,788	2,089,683	2,494,602	2,582,996
Subordinated debt	4,093,168	3,649,453	753,905	1,394,111	819,825	848,875
Other liabilities	189,124	484,611	242,394	356,507	349,811	265,278
Equity	**3,090,300**	**3,260,059**	**6,627,669**	**6,476,454**	**6,159,145**	**6,552,545**
Core capital	3,090,300	3,260,059	6,627,669	6,476,454	6,159,145	6,552,545
Paid-in capital	*783,290*	*800,504*	*1,558,217*	*1,452,550*	*1,345,633*	*1,393,314*
Earnings - current period	*246*	*101,844*	*81,721*	*298,228*	*291,020*	*175,160*
Retained earnings	*2,306,765*	*2,357,710*	*4,987,731*	*4,725,676*	*4,522,492*	*4,984,071*
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts						
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Outstanding guarantees	-	-	-	-	-	-

Balance Sheet Averages						
Microfinance portfolio	5,824,907	8,100,211	7,743,422	7,580,165	7,751,776	8,637,907
Gross debt portfolio	5,820,758	8,064,484	7,687,225	7,551,930	7,748,883	8,634,911
Assets	6,942,744	9,272,865	9,646,487	10,111,904	9,690,382	10,210,580
Borrowings and subordinated debt	4,054,043	5,724,783	4,674,698	3,493,333	3,270,897	3,431,871
Equity	2,739,737	3,209,137	4,651,715	6,327,339	6,079,447	6,464,967

Formulas

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

Rating scale

Planet Rating		**Common Rating Grade classification for all microfinance rating agencies**	
Rating grade	**Rating summary**	***Classification***	***Definition***
A++ A+ A A-	Current institutional, operational and financial performance is excellent when compared to industry standards. Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	*Excellent*	*Excellent performance: Low or well-managed short-medium term risk*
B++ B+ B B-	Current institutional, operational and financial performance is satisfactory when compared to industry standards. Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	*Good*	*Good performance: Modest or well-managed short-medium term risk*
C++ C+ C C-	Current institutional, operational and financial performance is below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	*Fair*	*Fair performance: Moderate to medium-high risk*
D	**High risk**: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	*Weak*	*Weak or poor performance High to very-high risk*
E	**Immediate risk of default:** Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.		