Dakahlya Businessmen's Association for Community Development, Egypt

The Dakahlya Businessmen's Association for Community Development (DBACD) was founded as an NGO in March 1995 under the Ministry of Social Affairs. After signing a Cooperative Agreement with USAID in October 1997, DBACD disbursed its first individual loan in late 1998 and its first group loan in 2001. As of June 2007, DBACD had an outstanding portfolio of 76.4 M EGP (13.2 M USD), serving 75,788 clients in all the districts of the Dakahlya governorate, with a 44% proportion of individual loans and 56% of group loans.

GIRAFE Rating

Rating

A-

Outlook

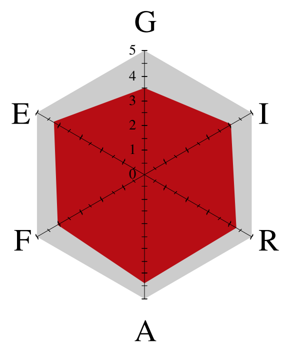
Stable

Date of the rating

June 2007

Valid until July 2008

Rating per evaluation area



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

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Rating highlights

- DBACD's high profitability (3-year average ROE=29%, ROA=9%) is driven by stable portfolio yields combined with falling operating and funding expenses.
- Focusing on portfolio and delinquency management results in best portfolio quality (PAR > 31at 0.01%), both among its peer group and for the MENA region.
- DBACD is second best on the Egyptian market in terms of borrowers: it shows steady but slower portfolio growth since 2004 (27.5% in 2006 vs 63.5% in 2004), partly explained by emphasis on portfolio quality and funding constraints.
- A capable and highly motivated management team is headed by an effective Executive Director; however the Board needs additional specific microfinance technical capacity to provide relevant input and effective oversight.
- Key remaining challenges are consolidating the present market advantages through ongoing development of products and services as competition increases, and improving the effectiveness of the Board's input and oversight to strengthen the strategic decision-making process.

Outlook

The grade is assigned with a "Stable" outlook based on the expectation that DBACD will continue to manage its lending activities prudently while refining its product mix and market strategy to maintain its market share in a still relatively open market.

Performance indicators

In USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Assets	11,803,650	15,319,931	17,618,683	20,335,035	22,030,538
Growth (%)	*48.0%*	*28.0%*	*8.5%*	*14.9%*	*10.0%*
Loan portfolio	3,841,918	6,369,950	8,885,389	11,380,402	13,194,341
Growth (%)	*46.4%*	*63.5%*	*31.6%*	*27.5%*	*17.7%*
Active borrowers	19,606	32,571	56,370	68,911	75,788
Staff	253	305	388	401	445
ROE*	6.8%	9.9%	30.7%	38.5%	34.6%
ROA*	1.8%	2.7%	8.9%	12.9%	12.5%
Liabilities / Equity*	2.5x	2.7x	2.2x	1.8x	1.7x
Portfolio Yield	29.3%	28.6%	29.8%	32.8%	31.8%
Operating expense ratio	16.3%	14.0%	12.2%	12.5%	11.3%
PAR 31-365	0.00%	0.02%	0.00%	0.01%	0.00%
PAR > 365	0.00%	0.00%	0.00%	0.00%	0.00%
Write-off ratio*	1.1%	0.7%	0.5%	0.4%	0.1%

* Ratios adjusted for inflated assets and "suspense loans" (See Information section for more details)

REF:NCJG / 020707

Microfinance sector

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

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

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

The main reason for the under-development of the microfinance sector is Egypt's unfavourable legal framework. The MSS has no regulatory authority and its reporting requirements are not adapted to MFI activities. It oversees all NGOs more or less the same way, which is compounded by the lack of a specific microfinance law: it does routine checks on MFIs' financial statements, but MSS auditors often lack understanding and knowledge of microfinance; it may attend General Assembly and Board meetings, receives Board minutes, and has the power to disapprove decisions taken and to change the Board and management in the event of unsatisfactory results, which affects MFIs' ability to change its lending rules as they see fit. Other impediments to efficiency include the requirements that all checks be signed by the Chairman (or a delegate) and the Treasurer of the Board, and that all transactions be recorded manually on hand-written general ledgers which slow down large MFIs with big number of routine transactions.

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

Additional source: "Regulatory and Supervision of Microfinance in Egypt", Magdy Moussa, PlaNet Finance's Director for the Middle East, January 2007.
Disclosure Statement: PlaNet Finance is a shareholder of Planet Rating. Inter-company relationships are governed under the rules of the Conflicts of Interest Policy.

Political & economic environment

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

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

[1] Source: UNDP, Human Development Report, 2006.
[2] Source: Sanabel study, as of March 2006.
[3] Law No. 141 of June 2004 (or SME law).
[4] USAID developed a microfinance model through several businessmen associations registered as NGOs with off-site technical assistance from Environmental Quality International (EQI).

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

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

Country Rating: B

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

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

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

Institutional presentation

Legal form, supervision and audit

DBACD (will hereafter refer only to its microfinance project) was registered in March 1995 as a Non-Governmental Organization (NGO) under the Ministry of Social Solidarity. Its governance structure is based on the NGO law that requires boards to play a very active role in management, including the signature of all checks and hiring approvals.

Since inception, DBACD's accounts are audited by "Mohamed Hassaan & Co.", Egyptian certified accounting firm owned by the Treasurer of the Board but that has been selected through an opened bid. Accounts have always been certified without reserve. DBACD generates its accounts under several forms, to meet Egyptian legal requirements and microfinance specific accounting principles. The auditor produces statements that cover DBACD's financial and non-financial services, which include an Information Technology Center (ITC) and several small social projects. Additionally, DBACD has been subject to audits by USAID to ensure proper use of grant funds by Grant Thornton Mohammed Hilal: previous results were issued without reserve, and a final audit should take place in late 2007.

Ownership

As a non-profit organization, DBACD has no shareholders. It is owned by its 19 members and governed by a General Assembly (GA) composed of all the members. GA elects a nine-member Board of Directors (BOD) for a six-year mandate, with one-third up for re-election every two years. BOD has no legal claims to income. In the event of liquidation, the funds will become government property and may or may not be allocated to other NGOs.

The current BOD is chaired by Mr. Samir Ahmed Saad El-Gamal, an import/export local businessman who has been the president since inception. Other BOD members include owners of import/export companies, construction companies, an audit firm, and a private school. All the members have been with the board since inception.

Donations

DBACD has received donations from USAID in the context of a Cooperative Agreement and its amendments totalling over 9 M USD, out of which 6.6 M USD was a USD collateral fund destined to back overdraft facilities in local currency. Since the end of the Cooperative Agreement in 2004, these donations are the fully owned by DBACD[5].

Funding composition

DBACD has a 14.25 M EGP (2.5 M USD) commercial loan in local currency from BNP-Paribas (Egypt), backed by a 2 M USD partial guarantee in hard currency provided by the Grameen-Jameel initiative (leverage of 1.25x)[6]. It has

[5] Deposits in USD are registered in the Balance Sheet under "Donated Equity": the amount in EGP is based on the USD/EGP exchange rate, which may result in negative variations.

[6] Grameen Foundation and the Abdul Latif Jameel Group (ALJ) have since announced the formation of Grameen-Jameel Pan-Arab Microfinance

overdrafts with several other local banks (United Bank of Egypt, Misr Bank, Alexandria Bank, National Bank of Egypt and MIB Bank), all of which are backed by USD deposits resulting from the USAID collateral fund.

Management team

The management team is made up of an Executive Director (ED), Operations Manager (OM), Financial Manager (FM), MIS Manager, Administrative and Human Resources (AHR) Manager, Internal Audit (IA) Manager and a Legal Department Manager. In addition, DBACD's ED supervises the ITC Manager. Most of these managers have been with the institution since inception.

Mr. Hassan Faried has been DBACD's ED since the launch of the microfinance component in 1998. He has several years of experience with projects funded by international development agencies, and has attended numerous microfinance trainings (including CGAP, Boulder/ILO and Harvard). He holds a B.Sc. in Geology from El Mansoura University (Egypt), complemented by a Business diploma from Kwantlen University College (Canada).

Organization

Each branch has a full staff made of a Branch Manager (BM), accountant/MIS officer, cashier and group loan money Collector, lawyer, Client Affairs (CA), secretary, administrative assistant, loan officers (LOs) and their supervisors (SLO). Loan approval for small loan amounts is decentralized, the level of approval authority being based on branch experience, but the finalization of disbursement documents for all loans is performed at the head office. The information for all loans is entered at the branch level by the accountant/MIS officer and checked upon by CA. Repayment data is centralized at HQ. For individual loans, disbursements are made by check and repayments at local banks. For group loans, disbursements are made by the Collector while repayments are cashed at the branch level.

Market penetration

DBACD is headquartered in El Mansoura, capital city of the Dakahlya governorate. It operates through a network of 7 branches covering Dakahlya's 13 districts. It has plans to reach 9 branches and 3 field units in the coming two years.

Limited, as a joint venture company aimed at alleviating poverty in the Arab world through microfinance. Similar partial guarantees have already been granted in the MENA region (Morocco and Tunisia for Grameen, Jordan for IFC), but DBACD is the first MFI in Egypt to benefit from it.

Products and services

DBACD offers both Group (Bashayer) and Individual loan products, using distinct methodologies:

- Group loans (GL) are for working capital, whereas individual loans are offered for a variety of uses, including working capital, back to school expenses, consumption, home improvements, and vehicle maintenance;
- Collateral varies by loan type: group solidarity for group loans; and guarantors plus a legally binding "promissory note" for individual loans. There are additional criteria for individual loans, including an electricity bill, business license, commercial registration, and income taxation card;
- Loan sizes for GL range from 50 up to 1,000 EGP, with terms from 10 to 40 weeks and weekly repayments;
- Loan sizes for Individual loans (IL) range between 500 and 50,000 EGP, with terms from 4 to 24 months and monthly repayments;
- Pricing is 16% flat for IL, and 26% for GL. Effective interest rates are 28% and 48% respectively.

Non-financial services

Information Technology Center (ITC): established in June 2001, it aims at improving the governorate's businesses access "modern information techniques and systems" through Business, IT, Translation and English courses. The ITC has a dedicated Manager reporting straight to ED, but its activities have never been profitable so far.

Social services: DBACD started providing social services in 2002. These services are funded by the microfinance activities: until now, only a small amount of the annual Net income was dedicated to provide social services (108,545 EGP or 19,000 USD in 2006), but the BOD intends on increasing the available amount on a zakat-based model[7].

Networks

DBACD is a member of Sanabel (network of MFIs of the Arab world) and a founding member of the Egyptian Microfinance Network. DBACD's ED is currently one of Sanabel's Board members.

[7] Zakat is a Muslim principle that consists in dedicating 2.5% of one's annual income to the poor. DBACD should allocate funds to its Social services providing it does not negatively affect the microfinance activities.

▪ Governance

Governance and Decision Making **is rated "b"**

Decision-making

The decision-making process at DBACD is not very clear, as it results from the balance of power between the ED and the Chairman of the BOD on one side, and other BOD members on the other side: similarly to other NGOs, the BOD approves most of the ED's suggestions; but here, it may also dispute some recognized best practices or suggest inappropriate measures, which requires significant time and convincing efforts on the ED's part. This situation derives from two distinct factors:

- Ongoing debates over the ways to reach DBACD's goals and the use of the microfinance project earnings, despite a shared understanding of the mission, and a clear focus on contributing to the social and economic development of the Dakahlya governorate through both financial and non-financial projects;
- A tangible need for microfinance training for most of the BOD members: they are all businessmen who have been with DBACD since inception, but despite obvious dedication they still lack some specific microfinance knowledge to have a relevant and independent thinking.

In such a context, the BOD's Chairman is very supportive and continues to act as a "buffer" between the ED and other BOD members: the newly appointed General Secretary shares their vision which will most probably make him another "ally" when needed; but in the event of departure of the ED or Chairman, there is still a risk that the present balance of power may not be preserved. The remaining components of the decision-making process are clear and effective: BOD meets on a quarterly basis, receives relevant monitoring information (financial statements and main microfinance indicators) prior to the meeting, and keeps documented minutes, allowing it to follow up on implemented decisions; BOD's Executive Committee meets on a monthly basis to facilitate on-going operations, while the Chairman and the ED hold weekly meetings and are in regular contact.

As an NGO DBACD's ownership remains unclear. In Egypt, this also comes with specific constraints such as potential Government intervention and/or BOD over-involvement in operational activities: so far, DBACD has managed to deal with such constraints by maintaining a locally influent and stable BOD, backed by the solid ED / Chairman relationship. And although the Cooperative Agreement ended in 2004, USAID is willing to support the institution in case of a major problem.

Planning

The overall planning process at DBACD is simple and focused on outreach, with an objective of 110,000 active clients in 2010: this figure is based on the estimated population living beneath poverty line[8] out of which DBACD aims at reaching 10% in the governorate it serves. In total, this is the equivalent of a 47% growth as compared to June 2007 and is quite conservative given DBACD's excellent portfolio quality, especially when compared to the huge untapped market in Egypt (over 90%). This currently does not engender any major risk, but once competition increases and settles in the governorate (cf. section "A"), DBACD will need to develop a long term strategic vision if it wants to keep an undisputed leadership position.

DBACD's operational plan (2006-2008) derives from its growth target, along with other basic assumptions (loan size, productivity, geographic expansion, interest rate, etc.). It is accompanied by a thorough analysis of both the market and the institution (competition review, SWOT analysis, internal stakes, financing strategy, risk analysis, etc.). The planning process is participatory as it involves staff at all levels, thus ensuring a good buy-in of its goals: the plan follows a bottom-up approach and is detailed per branch and per LO; it is submitted to the BOD for approval and comprises all the institutional and operational projects to be carried out; it is updated on a yearly basis. Financial projections are available on a yearly basis and followed upon on a quarterly basis (vs monthly for operational targets), with ratio projections based on the SEEP Framework tool. As the institution matures, it would benefit from gathering the plan and the precise financial projections in a single document, which would allow more homogenous follow ups.

Management team

The management team is led by a strong ED with proven leadership and managerial skills, surrounded by capable and motivated senior managers who have all the required skills to perform their tasks: most of them have been in place for several years or with DBACD since inception, and can rely on a solid middle-management. As compared to the previous rating, key-person risk is not yet eliminated, as the ED remains the only "face" of the institution on local, regional and international levels, and the only one capable of carrying a strategic vision. But it has been lowered thanks to the recruitment of an Operations Manager, appropriate division of tasks (e.g. split of the Finance and HR functions) and the internal rule consisting of constantly having at least two managers aware of all existing projects. Operations are now run independently, and DBACD's team has proven its ability

[8] Roughly estimated at 30% of the Egyptian population, as compared to 44% for UNDP (cf. Microfinance sector). DBACD also does its own population estimation for every village of the governorate.

to execute plans and to adjust operational strategies to accomplish fixed goals when needed. Thanks to monthly management meetings, ongoing informal meetings and collective work for both planning and execution internal communication is smooth. Annual staff gatherings further foster good cohesiveness and team-working spirit.

Human resource management

Since 2006, and following the departure of the previous Finance & Administrative Manager, a dedicated HR Manager is in place and professionally administrates all human resources issues. HR procedures are documented in a detailed manual that was recently updated to ensure appropriate recruiting, training, and retention of staff:

- Job descriptions are available and detailed, accompanied by a clear salary grid, providing employees with health care and medical insurance schemes;
- DBACD still avoids Egypt-wide recruitments based on personal relationships;
- Atop of initial and on-the-job training, selected staff attend both in-house and external courses depending on the on-going identified needs;
- Staff evaluation is made on a yearly basis, and applies to all staff, including senior managers: appraisals determine the annual raise and the career path.

As a result, DBACD enjoys general good staff morale and provides a young and dynamic work environment. Yet, turnover is high (25% on average over the past few years) and has grown to 28% in 2006: such high figures are common in the MENA region, due to both cultural reasons (especially when related to women's work) and to more attractive jobs in Gulf area. At DBACD, 60% of the turnover rate is solely related to female Group Loan Officers (GLO), and a survey was launched to better tackle the issue.

▪ Information

Information **is rated "a"**

DBACD uses the 'El Mohassil' Loan Tracking (LT) software developed by Environmental Quality International (EQI), an Egyptian microfinance consultancy, and a separate locally developed accounting application. The LT system is centralized, with all branches connected in real time to the HQ over a secure VPN network, although SME and group loans have separate databases. Despite the lack of ongoing vendor support for El Mohassil due to the high cost of the service contract, DBACD's operations have not been impeded due to skilled internal MIS staff.

DBACD ensures data security and quality through comprehensive data security measures. These include a rigorous backup policy with replication of branch databases with HQ every 3 minutes, and daily, weekly and monthly backups to tape. The MIS department also limits access to the Internet and follows a strict antivirus policy. Access to MIS through user rights is determined by personal passwords, and leaves an audit trail identifying each transaction. Data links with the branches are via the VPN.

The MIS provides efficient and reliable portfolio information. Data is centralized in real time, and enables immediate consolidation of operations. Key information on loan disbursements, repayments and quality is available every day with various levels of detail (loan officer, branch, product, consolidated, etc.). The MIS team generates a variety of useful reports are generated on a monthly basis, with the main microfinance indicators. Other industry tools are also used to monitor performance outside of the MIS, including the SEEP Framework tool. The MIS team can also readily provide specific reports upon demand.

The Alpha accounting software produces comprehensive, readily available and reliable accounting information. Accounting information includes monthly financial statements (BS and IS) with provisions. The quality of information is verified through extremely frequent reconciliation (portfolio and bank reconciliations as frequent as every day at HQ). Branch profitability is separated in a detailed "break even" analysis for branch management, as well as consolidated information for overall performance monitoring. Separate accounting and loan tracking systems are intentionally used to increase control, and do not hamper data processing. Although Alpha is not ideally adapted to financial institutions, DBACD's accounting team has been able to optimize it with internally developed modules, allowing production of financial statements in a variety of formats (CGAP, MIX, etc.), processing of payroll, etc. The accounting team has developed special access files to efficiently address any manual processes, such as Excel sheets to calculate LO incentives. Finally, there are numerous human controls in the system to ensure data quality. For example, each HQ accountant has two branches to visit at least two times per month, and the Chief Accountant must approve the accounts for the month before they can be closed.

DBACD plans to transition within the year to a new integrated system that has been developed by the MIS department in close cooperation with a local software developer, Infosoft. At the time of the rating mission, it was not possible evaluate the effectiveness of this new system as it was not operational[9]. However:

- The MIS department is taking a conservative approach to reduce implementation risk and ensure a smooth

[9] A detailed analysis of the new software was done by Grameen in 2007. For further information, please contact DBACD.

transition, including a plan to run both the old and new systems in parallel until any potential bugs are addressed;
- There is a small risk of a drawn out transition to the new system as the process is reliant on the cooperation of EQI to migrate the data from the old platform.

Suspense loans account
- DBACD places some loans in a "suspense" account because they are judged not likely to be recovered. These loans are already provisioned 100% based on DBACD's provisioning policy (past 120%) and are placed in "suspense" 30 days after the date of the last installment was due.
- Although these loans are tracked separately and proper follow up continues, their inclusion in the gross outstanding loan portfolio overstates it slightly. Because the "suspense" loans are in effect loans that should and would be written off[10], this report considers them as such (cf. section "A").

Inflated assets adjustments
Planet Rating has made necessary adjustments to recalculate key performance ratios to take out the inflated assets effect from USD deposits on DBACD Balance Sheet. Impact of the ITC inclusion in the Financial Statements being limited, no adjustments were made on the Balance Sheet. In the Income Statement, ITC activities appear under non-operating revenues and expenses.

Risk Management

Risk Management **is rated "a"**

Procedures and internal controls

DBACD has a comprehensive and effective internal control system. Procedures are formalized, regularly updated, well known and thoroughly applied in all the branches. Immediate and multiple-level follow up on repayments ensure risks are quickly identified and addressed. Potential operational risks are further limited through a set of different factors:
- Limitation of power (signature authorization capped to certain amounts, loan approval at HQ level for big amounts, etc.);
- Strong hierarchical control (LO / SLO / BM / OM / ED);
- Appropriate segregation of duties (e.g. separate persons handle data entry, loan decisions and disbursement & reimbursement processes);
- Multiple checks at all levels (and particularly at the data entry level, which limits human error risks).

Cash security is high for individual loans since all disbursement and repayments are made through local banks. It is ensured for group loans through rigorous procedures: distinct staff handle loan approval, disbursement and collection processes; cash is deposited at the bank on a daily basis or kept in a safe overnight when needed. Besides, DBACD has a specific insurance on collectors and cahiers for both incidental and accidental losses.

Internal audit

DBACD's Internal Audit (IA) is thorough and effective, covering both operational and institutional risks and aiming at constantly improving procedures. The current team is essentially made of internally recruited staff to ensure appropriate know-how. It is headed by an experienced IA Manager who has been in place since inception and possesses an in-depth knowledge of the institution and a proactive thinking of risks. IA procedures are documented, and its reports are detailed, comprising clear corrective measures and follow up. IA plan is available at the beginning of the year, but subject to modification according to arising matters. The frequency of IA at DBACD exceeds by far the average at both regional and international levels: all the branches are fully audited once to twice on a yearly basis, with the objective of auditing the portfolio of all ILO within 18 month, and all LO within 2 to 3 years (100% file checks vs 10% per year best practice); 17,000 clients were visited in 2006 (23% of total clients vs 1% best practice) to ensure loan usage and detect any potential fraud or ghost loan. The team is expected to be strengthened with 15 new staff to cope with the institution's growth by 2010.

As compared to the previous rating, a deeper approach to strategic and financial risks is still to be developed, but IA now covers all departments and includes ED's work. IA still reports to the ED and has minimal interaction with BOD: given the BOD members limited knowledge of microfinance risks, this allows much faster reaction to findings, but also limits the impact of potential recommendation to ED (currently done on an informal basis). IA controls are supplemented by the external auditor, who also checks on legal and financial operations.

Activities

Activities: products and services **is rated "a"**

Market position

The Egyptian microfinance sector is becoming more dynamic, with commercial banks moving to tap into the vast microfinance market, especially targeting the SME segment. Fortunately enough, the market remains largely underserved and thus is not yet very competitive. Banks and NGOs have

[10] Egyptian law makes loan write offs extremely difficult, requiring MFIs to wait three years to 'prove' that the loans are in fact not recoverable.

no problems in finding new clients. Microfinance NGOs tend to stay within their original governorate and none has a national scope or coverage. The banks, especially National Bank for Development (NBD) and Banque du Caire / Bank Misr, are DBACD's main competitors. Presently DBACD is number one in the Dakahlya governorate in terms of both portfolio size and number of clients, but competition has increased since 2002, when NBD and Banque du Caire / Bank Misr started downscaling into microfinance. The latter is DBACD's most active competitor, and although it offers a smaller range of loan amounts (3,000 to 10,000 EGP vs 800 to 30,000 EGP for DBACD), it has its own competitive advantages such as ongoing disbursements (vs twice monthly for DBACD) and is currently benefiting, through USAID and EQI, from the same technical assistance DBACD previously got. Such environmental changes are forcing DBACD to be even more dynamic to tackle upcoming changes on its market: the institution is facing those challenges by constantly assessing client needs and maintaining a close LO / client relationship.

Loan portfolio management

DBACD has a proven credit methodology that has been further refined with input from both LOs and clients. This yields an outstanding portfolio quality both on a regional and on an international basis (cf. Benchmarking section). Additionally, the high quality of lending staff, tight monitoring of the portfolio and of LOs are the key drivers of this success, supplemented by the unique local market knowledge of LOs, who are residents of the areas they serve.

LOs are generally specialized on the Group or Individual loan product, with specific approaches to client analysis for each product, underpinned by strong market knowledge. The LOs evaluate clients using a combination of business analysis and client character assessment. In group loans, there is a strong focus on ensuring the strength of the group, whereas for individual loans, the emphasis is on repayment capacity using cash flow analysis. Although the latter methodology is clearly effective given the excellent quality of the individual loan product, the process could be further formalized when it comes to the loan application, particularly given the concentration of the portfolio (84% of amount outstanding) in the individual loan product. DBACD also follows rigorous approval rules, with loan applications for larger loans (6,000 EGP to 10,000 EGP) reviewed by up to four individuals, including a lawyer, to ensure that all documentation is complete. Client monitoring and delinquency management are equally complete:

- LOs monitor active clients frequently – aided by the fact that LOs reside in their areas of operation as noted above;
- Recovery actions are taken very quickly, with follow up from the first day of delinquency by the LO, and with progressive actions and early intervention of SLO three days later, then BM and finally the legal department;
- Although in some cases clients are taken to court, DBACD attempts to resolve these cases without a legal remedy;
- In addition, branches are supervised by the OM who both verifies the credit process (including client sampling) as well as performance against the business plan.

Portfolio Evolution

DBACD's overall portfolio trend since 2004 has been one of steady growth. DBACD manages portfolio growth conservatively, with a focus on maintaining its excellent portfolio quality. This is reflected in the LO incentive scheme, which somewhat favors improved PAR levels over new client mobilization. Portfolio growth was particularly high in 2004 due to the opening of a new branch in Al Manzala, but has slowed to less than half this rate in 2006, partly as a result of funding constraints (cf. section "F"). However, the portfolio has nonetheless grown impressively in terms of absolute numbers of clients, more than doubling between 2004 and 2006. Portfolio growth in two branches (Sherbeen and Al-Manzala) has been strong enough that DBACD plans to split these to make them more manageable.

There is some seasonality in the loan portfolio, particularly the individual loans which tend to see growth around the 'back to school' period in September as well as around school and religious holidays in June and August, Ramadan in particular. Concentration risk by sector is limited, with trade constituting 43% of the individual loan portfolio as of December 2006 but including a variety of trading activities. Consumer loans are limited to a maximum of 10% of portfolio (with an actual average of 4% over the past three years), and there are low concentration risks per client and branch. As noted above, the outstanding portfolio is concentrated in the individual product, although the group product is dominant in terms of clients.

Loans are occasionally rescheduled to give clients an additional month to repay. However, these loans are tracked in a separate Access database and a monthly report is generated for the ED and BOD Chairman to clearly show the level of rescheduled loans (0.3% on average over the past tree years). These loans are also provisioned 100%.

Credit risk

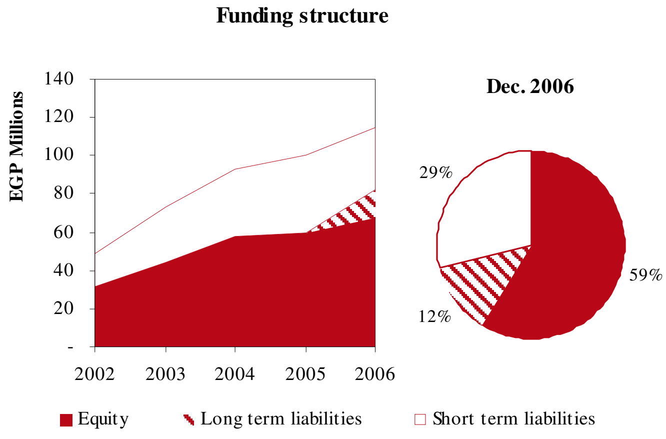
At 0.01% as of December 2006, DBACD's Portfolio at Risk (PAR) > 30 days is non material and extremely low by international standards, and also among the best in a region characterized by very low PAR levels (cf. Benchmarking section). This is the result of DBACD's unyielding focus on portfolio quality and repayment discipline, as well as the LO incentive scheme. The write-off ratio has remained below 1% throughout the entire period of analysis due to strict laws governing write-offs. Given these low PAR levels, DBACD has immense credit risk coverage, constituting 21,000% of PAR at December 2006. This is a result of an aggressive provisioning policy combined with a lack of formal write-offs and an additional 0.004% provision per month on healthy loan portfolio since 2006, to reach a stated goal of 3% by 2010.

Credit risk coverage is further bolstered by appropriate guarantees, depending on loan type: group solidarity for group loans; and guarantors plus a "promissory note" for individual loans. A legal process is rarely needed but is pursued by the legal department if necessary. This can result in jail time for defaulters, proving a strong repayment incentive (although since 1999 only 23 cases have been taken to court). For loans greater than 10,000 EGP, a check of guarantee is also required.

As noted, the "suspended" loans account provides an alternate accounting method of recognizing and tracking loans that are unlikely to be recovered. If these are considered as write-offs, the write-off ratio would be higher at 0.4% versus 0.2% but still very low by international standards. Follow up continues on all loans – whether they are in suspense or formally written off.

▪ Funding and liquidity

Funding and liquidity **is rated "a"**



Capital structure and leverage

DBACD is funded mainly by equity (59%), resulting from USAID subsidies. Retained earnings have gained in importance over the past few years, and contributed to 13.6% of the 2006 equity base, making it a potential source of portfolio funding. The remaining sources of funding are short term borrowings backed by the USD fixed deposits (29% of the funding structure) and long term borrowings, resulting from the BNP-Paribas loan. With a low leverage ratio (1.8x on adjusted basis as of December 2006), DBACD still has room to absorb new debt financing.

Asset Liability Management risks

ALM risks are still non material at DBACD.

- No maturity risk: DBACD has mainly long term resources (71% combined between equity and long term borrowings) while 60% of its assets consists of short to medium term loans (4 to 24 month, with a 12-month average term for individual loans and a 6-month term for group loans).
- Very limited FX risk: DBACD doesn't have any liability labeled in hard currency; its USD deposits are used to secure loans in local currency, but the refinancing risk is low given that local banks lend for less than the actual USD deposit value.
- No interest rate risk: all lending and borrowings are done on a fixed rate basis.

As the institution matures and accesses additional commercial loans, a more formal follow up on the aging assets and liabilities and a deeper assessment of the EGP fluctuations impact will be needed, to make sure ALM risks are appropriately mitigated.

Financing strategy

After relying on USAID funding for a long while, DBACD started diversifying its funding structure a year ago, as evidenced by the Grameen-Jameel partial guarantee agreement it signed in September 2006: it is currently further investigating new sources of funding with various microfinance investors, and should manage to collect the necessary amounts to secure its planned growth. The Finance department is well organized and staffed with experienced professionals, who have been with the institution for a long while. Over time, they have developed good relationships with local banks, but the ED remains the main interlocutor when it comes to commercial negotiations with international parties (cf. section "G"). DBACD anticipates external funding needs of 17 M EGP (3 M USD) until December 2009.

Liquidity management

DBACD has simple yet effective liquidity management procedures in place: yearly cash-flow projections are available until 2009 and followed upon on a quarterly basis; deposits and overdrafts facilities are followed on an almost daily basis, and adjusted bi-monthly when needed. Cash kept at banks is minimal to null (0.1% on average over the past three years), but deposits are high (44% of assets over the past 3 years) since DBACD intends on keeping its USD collateral to secure future banking facilities[11]: the Finance department has proven a good track record in short term liquidity management, which allowed to increase the overdraft leverage over the years (from 90% in 2002 to 95%-100% in 2006 – but it should be able to reach higher levels in the future[12]). DBACD experienced some cash tensions in 2006 while closing the deal with BNP and Grameen-Jameel, which translated in a slower growth: going further down the road, a more in-depth strategic planning will be needed, especially if the EGP keeps on appreciating, thus decreasing the available cash facilities.

▪ Efficiency and Profitability

Efficiency and Profitability **is rated "a"**

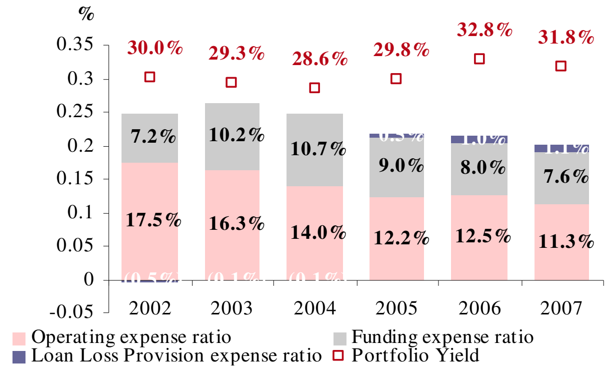
Profitability analysis

DBACD's profitability has grown markedly since 2004, with ROE of more than 13% – representing almost a six fold increase since 2004 – and ROA of nearly 8% in 2006. This result is in line with the best of its peer institutions in the MENA region and is even higher when adjusted by excluding USAID deposits from the Balance sheet (ROE and ROA respectively at 38.5% and 12.9% as of December 2006). The main reasons for the increase in profitability are that the portfolio yield has remained stable near the APR, with virtually no yield gap thanks to good excellent portfolio quality, while the operating expense ratio decreased from 16% in 2003 to 12.5% in 2006. Operating expenses have declined as DBACD has benefited from increases in terms of scale and productivity and maintained efficient operations (between 2003 and 2006, staff productivity increased from 77 to over 170 clients/LO, getting closer to the MENA average of 185 for its peer group). This is especially good given the target clientele and small loan sizes.

The funding expense ratio has also come down to just 8% from 10.2% in 2003. This reduction is partly because interest earned on donated USAID deposits originally capitalized in the donated equity was moved to investment income. Because DBACD has owned these deposits since 2004, this accounting better reflects DBACD's true net cost of funds as it can now pass the interest earnings on the USD deposits through the income statement. The trend in funding costs should remain positive: increasing profitability should allow ongoing access to well-priced funds and better leverage on existing deposits, giving DBACD an ample net interest margin.

The asset deployment ratio of DBACD is comparable to peers (ABA) but low by regional standards at 55% (90% for MENA). This is due largely to the amount of short term investments (USAID guarantees) carried in the balance sheet rather than the inefficient deployment of funds into the loan portfolio: cash is less than 1% of assets, and with the guarantees excluded asset deployment would go up to 87% on a 3-year average.

Profitability structure



Based on these trends, DBACD's profitability outlook is stable. The institution is expected to sustain its current interest rates, maintain an excellent portfolio and low provisioning expenses while continuing to grow, take advantage of increasing scale efficiencies, and maintain its low operating expenses.

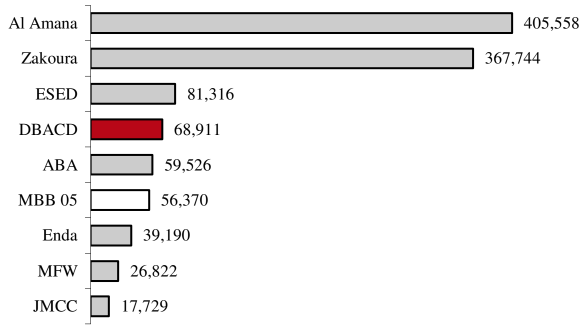
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

[11] Such collateral are essential given the Egyptian banking sector practices and are not solely related to DBACD's negotiation capacities: Egyptian banks often require 100% (or more) of cash collateral.

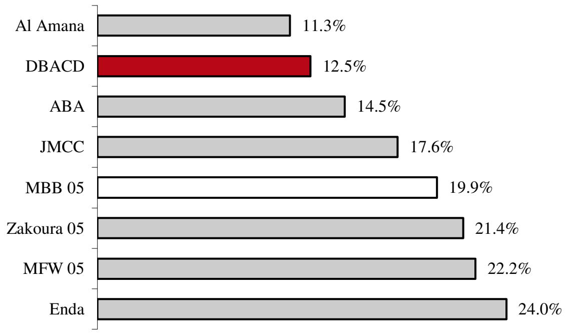
[12] In the previous rating report, DBACD was expected to take this level up to 150%, which was the highest leverage provided by a local bank to an NGO on USD fixed deposits.

Benchmarking

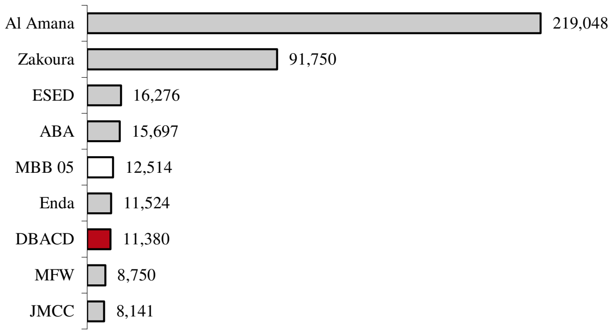
Active borrowers



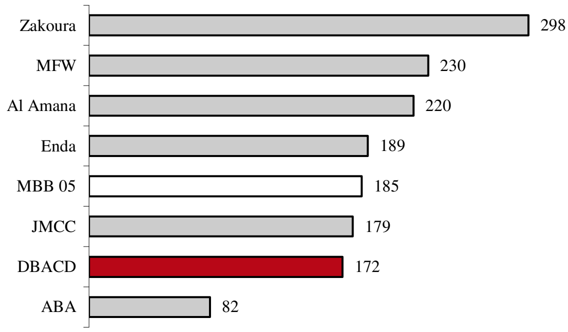
Operating expense ratio



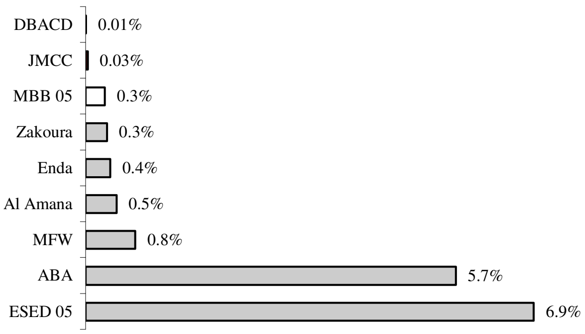
Loan portfolio (K USD)



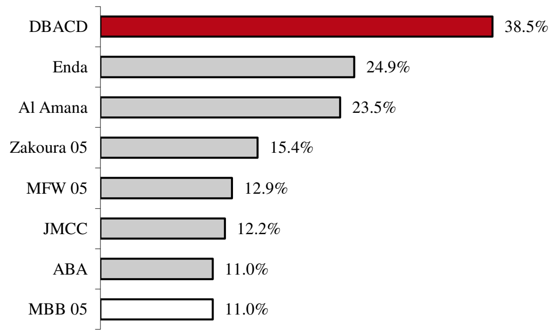
Staff productivity



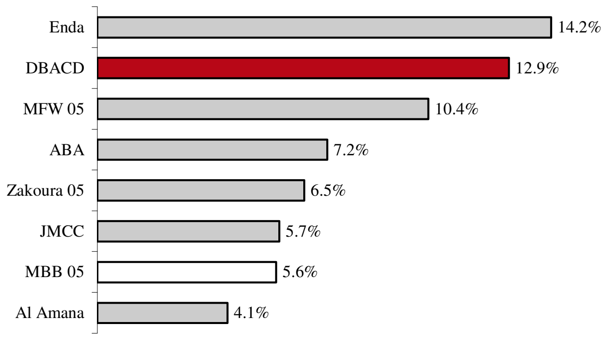
PAR > 30 days



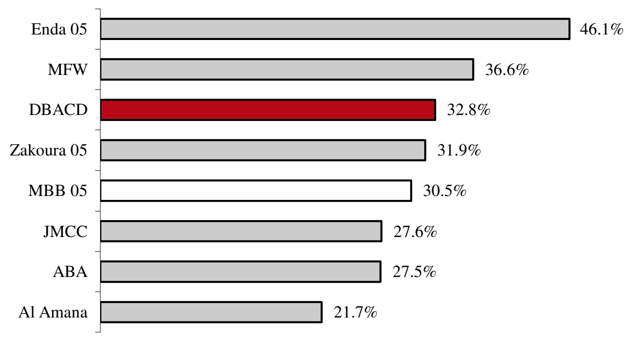
ROE



ROA



Portfolio Yield



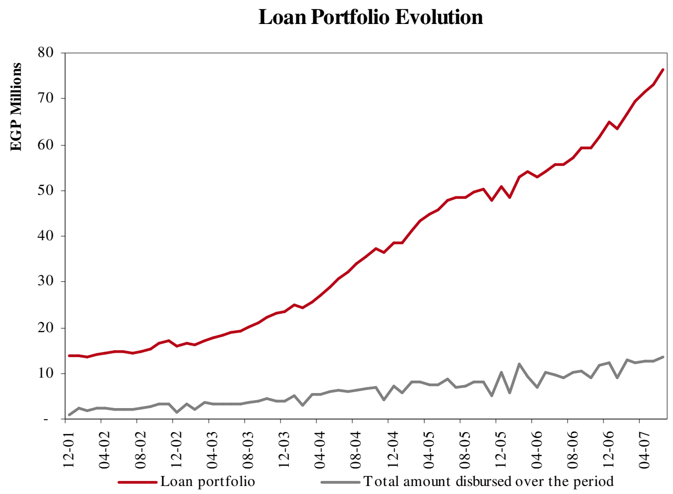
Source: MIX, Planet Rating, individual MFIs; MBB MENA Large Peer Group (GLP > 8M$) - 2005 benchmarks (medians)
Data as of December 2006, unless otherwise stated

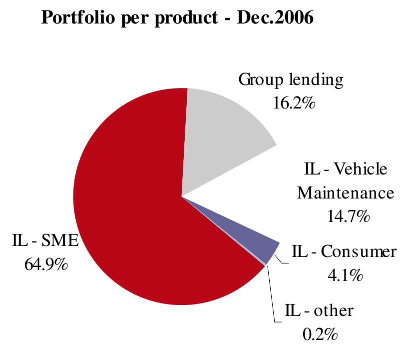
Important note: ROA and ROE have been adjusted for DBACD, as well as ROA, ROE, PAR, Operating expense and Staff productivity ratios for ABA

Performance indicators

Data in USD, unless otherwise stated

*These ratios have been adjusted for inflated assets and "suspended" loans	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	3,476,185	3,841,918	6,369,950	8,885,389	11,380,402	13,194,341
Loan portfolio (EGP)	16,164,258	23,666,216	38,697,447	50,922,166	64,925,195	76,436,269
Evolution	16.5%	46.4%	63.5%	31.6%	27.5%	17.7%
Average outstanding loan	3,203,180	3,113,473	5,045,588	7,998,434	9,765,073	11,935,456
Active borrowers	12,689	19,606	32,571	56,370	68,911	75,788
Evolution	-	54.5%	66.1%	73.1%	22.2%	10.0%
Average outstanding loan per client	274	196	196	158	165	174
% of GDP per capita	23.5%	22.3%	21.9%	16.7%	17.4%	18.6%
Average amount disbursed per loan	330	201	211	182	179	200
% of GDP per capita	28.3%	21.8%	21.9%	17.4%	16.2%	17.6%
Rescheduled loans	1.5%	0.5%	0.3%	0.2%	0.3%	0.2%
PAR 31-365	0.10%	0.00%	0.02%	0.00%	0.01%	0.00%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio*	1.6%	1.1%	0.7%	0.5%	0.4%	0.1%.
Risk coverage ratio*	1,665%	75,486%	3,778%	n.s.	21,021%	42,294%
PAR 31 net of loan loss provision / Equity*	(4.8%)	(2.2%)	(1.8%)	(2.5%)	(3.4%)	(4.0%)
Staff						
Total number of staff	185	253	305	388	401	445
% Credit officers	50.3%	58.9%	67.5%	75.0%	76.1%	69.9%
Turnover	9.8%	10.5%	26.5%	20.8%	27.6%	5.2%
Profitability analysis						
ROE *	-	6.8%	9.9%	30.7%	38.5%	34.6%
Liabilities / Equity*	3.3x	2.5x	2.7x	2.2x	1.8x	1.7x
ROA*	-	1.8%	2.7%	8.9%	12.9%	12.5%
Profitability structure						
Portfolio Yield	30.0%	29.3%	28.6%	29.8%	32.8%	31.8%
Operating expense ratio	17.5%	16.3%	14.0%	12.2%	12.5%	11.3%
Cost per borrower	44	26	22	17	18	18
Staff productivity	69	77	107	145	172	170
Loan officer productivity	136	132	158	194	226	244
Funding expense ratio	7.2%	10.2%	10.7%	9.0%	8.0%	7.6%
Cost of liabilities	7.4%	8.6%	10.4%	11.0%	10.3%	10.5%
Loan Loss Provision expense ratio*	(0.5%)	(0.1%)	(0.1%)	0.5%	1.0%	1.1%
Outstanding Loan Portfolio / Assets*	70%	59%	80%	86%	87%	88%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	6.6%	10.9%	7.6%
Liquidity / Total assets (LAR)*	0.6%	1.6%	0.4%	0.1%	0.1%	0.1%
Adjustment expense ratio	5.6%	6.0%	12.2%	10.0%	5.7%	12.6%
AROE	0.2%	(1.5%)	(4.9%)	0.3%	8.4%	1.8%
AROA	0.1%	(0.9%)	(3.0%)	0.2%	5.0%	1.0%
Financial self-sufficiency	101.2%	90.8%	77.6%	101.1%	135.4%	105.5%
Adjusted operating expense ratio	17.5%	16.3%	14.0%	12.2%	12.5%	11.3%
Adjusted funding expense ratio	11.2%	15.4%	22.4%	19.0%	13.7%	20.2%
Adjusted loan loss provision expense ratio	1.1%	0.6%	0.4%	0.5%	1.0%	0.9%
Exchange rate 1 USD= xx EGP	**4.7**	**6.2**	**6.1**	**5.7**	**5.7**	**5.8**





DBACD		EGP					USD					Evolution			
Balance sheet	**Notes**	**Dec. 2003**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jun. 2007**	**Dec. 2003**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jun. 2007**	**04/03**	**05/04**	**06/05**	**07/06**
ASSETS		**72,710,487**	**93,068,580**	**100,972,674**	**116,011,377**	**127,625,328**	**11,803,650**	**15,319,931**	**17,618,683**	**20,335,035**	**22,030,538**	**28.0%**	**8.5%**	**14.9%**	**10.0%**
Short Term Assets		**65,809,453**	**86,289,800**	**94,617,293**	**110,257,817**	**122,102,932**	**10,683,353**	**14,204,082**	**16,509,735**	**19,326,524**	**21,077,268**	**31.1%**	**9.7%**	**16.5%**	**10.7%**
Cash and Due from Banks		624,100	176,349	64,748	103,875	88,013	101,315	29,029	11,298	18,208	15,193	(71.7%)	(63.3%)	60.4%	(15.3%)
Short Term Investments	1	40,977,947	46,966,959	43,356,759	45,168,101	46,328,175	6,652,264	7,731,187	7,565,304	7,917,283	7,997,116	14.6%	(7.7%)	4.2%	2.6%
Short Term Net Loan Portfolio	2	23,415,224	38,464,067	50,473,846	64,021,200	75,167,437	3,801,173	6,331,534	8,807,162	11,221,946	12,975,317	64.3%	31.2%	26.8%	17.4%
Short Term Gross Loan Portfolio		23,666,216	38,697,447	50,922,166	64,925,195	76,436,269	3,841,918	6,369,950	8,885,389	11,380,402	13,194,341	63.5%	31.6%	27.5%	17.7%
(Loan Loss Reserve)	3	250,992	233,380	448,320	903,995	1,268,833	40,745	38,416	78,227	158,457	219,024	(7.0%)	92.1%	101.6%	40.4%
Interest Receivable		186,532	130,900	193,253	254,962	-	30,281	21,547	33,721	44,691	-	(29.8%)	47.6%	31.9%	(100.0%)
On loan portfolio		-	-	-	2,436	-	-	-	-	427	-	-	-	-	(100.0%)
On investments		186,532	130,900	193,253	252,526	-	30,281	21,547	33,721	44,264	-	(29.8%)	47.6%	30.7%	(100.0%)
Accounts receivable and other assets		605,650	551,525	528,687	709,679	519,307	98,320	90,786	92,250	124,396	89,642	(8.9%)	(4.1%)	34.2%	(26.8%)
Long term assets		**6,901,034**	**6,778,780**	**6,355,381**	**5,753,560**	**5,522,396**	**1,120,298**	**1,115,849**	**1,108,948**	**1,008,512**	**953,270**	**(1.8%)**	**(6.2%)**	**(9.5%)**	**(4.0%)**
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		6,901,034	6,778,780	6,355,381	5,753,560	5,522,396	1,120,298	1,115,849	1,108,948	1,008,512	953,270	(1.8%)	(6.2%)	(9.5%)	(4.0%)
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		**72,710,487**	**93,068,580**	**100,972,674**	**116,011,377**	**127,625,327**	**11,803,650**	**15,319,931**	**17,618,683**	**20,335,035**	**22,030,538**	**28.0%**	**8.5%**	**14.9%**	**10.0%**
Liabilities		**28,453,633**	**35,317,544**	**40,445,976**	**47,522,657**	**54,161,350**	**4,619,096**	**5,813,587**	**7,057,403**	**8,330,000**	**9,349,270**	**24.1%**	**14.5%**	**17.5%**	**14.0%**
Short term liabilities		28,453,633	35,317,544	40,445,976	33,272,657	39,911,350	4,619,096	5,813,587	7,057,403	5,832,192	6,889,451	24.1%	14.5%	(17.7%)	20.0%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		28,204,566	34,918,020	40,009,004	32,787,707	38,999,456	4,578,663	5,747,822	6,981,156	5,747,188	6,732,041	23.8%	14.6%	(18.0%)	18.9%
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		249,067	399,524	436,972	484,950	911,894	40,433	65,765	76,247	85,004	157,410	60.4%	9.4%	11.0%	88.0%
Long term liabilities		-	-	-	14,250,000	14,250,000	-	-	-	2,497,809	2,459,819	-	-	-	0.0%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	-	14,250,000	14,250,000	-	-	-	2,497,809	2,459,819	-	-	-	0.0%
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity		**44,256,854**	**57,751,036**	**60,526,698**	**68,488,720**	**73,463,977**	**7,184,554**	**9,506,343**	**10,561,280**	**12,005,034**	**12,681,267**	**30.5%**	**4.8%**	**13.2%**	**7.3%**
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity	4	42,734,910	55,220,358	53,405,754	53,070,407	53,070,406	6,937,485	9,089,771	9,318,750	9,302,438	9,160,953	29.2%	(3.3%)	(0.6%)	(0.0%)
Retained earnings without donations and reserves	5	1,521,944	2,530,678	7,120,944	15,418,313	20,393,571	247,069	416,573	1,242,531	2,702,596	3,520,315	66.3%	181.4%	116.5%	32.3%
Current year		313,971	1,008,734	4,590,266	8,405,914	4,975,258	50,969	166,047	800,954	1,473,429	858,823	221.3%	355.1%	83.1%	(40.8%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 1) Mainly USD denominated deposits part of the USAID Cooperative Agreement used as collateral for local currency loans; 2) Including loans in “suspense”; 3) Including the “suspense” loans reserve; 4) In 2005, 972,487 EGP of interest on USAID deposits are deducted (considered as Investment Revenue in the Income Statement); 5) In 2006, 108,545 EGP were taken out of the retained earnings to finance social projects.
June 2007 figures are not audited.

DBACD		EGP					USD					Evolution			
Income Statement	**Notes**	**Dec. 2003**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jun. 2007**	**Dec. 2003**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jun. 2007**	**04/03**	**05/04**	**06/05**	**07/06**
Financial Revenue (a)		**5,625,764**	**8,765,260**	**14,666,141**	**20,537,721**	**11,902,471**	**913,273**	**1,442,841**	**2,559,089**	**3,599,951**	**2,054,591**	**55.8%**	**67.3%**	**40.0%**	**(42.0%)**
Financial Revenue from Loan Portfolio		5,619,353	8,765,260	13,658,640	18,296,606	10,980,135	912,233	1,442,841	2,383,291	3,207,118	1,895,378	56.0%	55.8%	34.0%	(40.0%)
Interest on Loan Portfolio		5,518,436	8,668,252	13,536,291	17,806,724	10,768,683	895,850	1,426,873	2,361,942	3,121,249	1,858,878	57.1%	56.2%	31.5%	(39.5%)
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		100,917	97,008	122,349	489,882	211,452	16,383	15,968	21,349	85,869	36,501	(3.9%)	26.1%	300.4%	(56.8%)
Financial Revenue from Investments	1	-	-	972,487	2,233,907	907,662	-	-	169,689	391,570	156,680	-	-	129.7%	(59.4%)
Other Operating Revenue		6,411	-	35,014	7,208	14,674	1,041	-	6,110	1,263	2,533	(100.0%)	-	(79.4%)	103.6%
Financial Expense (b)		**1,947,304**	**3,283,987**	**4,105,742**	**4,475,811**	**2,637,940**	**316,121**	**540,574**	**716,409**	**784,542**	**455,358**	**68.6%**	**25.0%**	**9.0%**	**(41.1%)**
Interest paid on borrowings		1,947,304	3,283,987	4,105,742	4,475,811	2,637,940	316,121	540,574	716,409	784,542	455,358	68.6%	25.0%	9.0%	(41.1%)
Financial income [c=a-b]		**3,678,460**	**5,481,273**	**10,560,399**	**16,061,910**	**9,264,531**	**597,153**	**902,267**	**1,842,680**	**2,815,409**	**1,599,233**	**49.0%**	**92.7%**	**52.1%**	**(42.3%)**
Net Loan Loss provision expense (d)		**(27,011)**	**(17,612)**	**214,940**	**578,592**	**367,331**	**(4,385)**	**(2,899)**	**37,505**	**101,418**	**63,408**	**(34.8%)**	**(1,320.4%)**	**169.2%**	**(36.5%)**
Loan loss provision expense and write-off	2	39,190	(17,612)	214,940	578,592	367,331	6,362	(2,899)	37,505	101,418	63,408	(144.9%)	(1,320.4%)	169.2%	(36.5%)
Recovery from Loans written off		66,201	-	-	-	-	10,747	-	-	-	-	(100.0%)	-	-	-
Operating expense (e)		**3,129,957**	**4,293,926**	**5,607,678**	**6,956,691**	**3,917,863**	**508,110**	**706,819**	**978,482**	**1,219,402**	**676,297**	**37.2%**	**30.6%**	**24.1%**	**(43.7%)**
Personnel Expense (includes fringe)		2,352,346	3,271,822	4,491,295	5,789,195	3,367,338	381,874	538,572	783,684	1,014,758	581,266	39.1%	37.3%	28.9%	(41.8%)
Administrative Expense (non-staff operating expenses)		777,611	1,022,104	1,116,383	1,167,496	550,525	126,236	168,248	194,797	204,644	95,031	31.4%	9.2%	4.6%	(52.8%)
Depreciation and amortization		448,340	536,999	547,611	509,550	193,896	72,782	88,395	95,552	89,316	33,470	19.8%	2.0%	(7.0%)	(61.9%)
Consulting fees		35,769	-	85,708	-	-	5,807	-	14,955	-	-	(100.0%)	-	(100.0%)	-
Rent & Utilities		-	-	33,851	-	60,584	-	-	5,907	-	10,458	-	-	(100.0%)	-
Travel costs			-	-	-	-	-	-	-	-	-	-	-	-	-
Bank fee		-	3,428	2,640	62,462	-	-	564	461	10,949	-	-	(23.0%)	2,266.0%	(100.0%)
Communication		-	-	49,880	-	-	-	-	8,704	-	-	-	-	(100.0%)	-
Training expenses		-	20,287	37,781	37,881	-	-	3,339	6,592	6,640	-	-	86.2%	0.3%	(100.0%)
Others		293,502	461,390	358,912	557,603	296,045		75,949	62,626	97,739	51,103	57.2%	(22.2%)	55.4%	(46.9%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		**575,514**	**1,204,959**	**4,737,781**	**8,526,627**	**4,979,337**	**93,428**	**198,347**	**826,694**	**1,494,588**	**859,527**	**109.4%**	**293.2%**	**80.0%**	**(41.6%)**
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		**575,514**	**1,204,959**	**4,737,781**	**8,526,627**	**4,979,337**	**93,428**	**198,347**	**826,694**	**1,494,588**	**859,527**	**109.4%**	**293.2%**	**80.0%**	**(41.6%)**
Non Operating Revenue (i)	3	377,225	215,326	235,473	255,184	159,805	61,238	35,445	41,088	44,730	27,585	(42.9%)	9.4%	8.4%	(37.4%)
Non Operating Expense (including related taxes) (j)		638,768	411,551	382,988	375,897	163,883	103,696	67,745	66,827	65,889	28,289	(35.6%)	(6.9%)	(1.9%)	(56.4%)
Net Income Before Donations [k=h+i-j]		**313,971**	**1,008,734**	**4,590,266**	**8,405,914**	**4,975,258**	**50,969**	**166,047**	**800,954**	**1,473,429**	**858,823**	**221.3%**	**355.1%**	**83.1%**	**(40.8%)**
Donations (l)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]		**313,971**	**1,008,734**	**4,590,266**	**8,405,914**	**4,975,258**	**50,969**	**166,047**	**800,954**	**1,473,429**	**858,823**	**221.3%**	**355.1%**	**83.1%**	**(40.8%)**

Notes: 1) Interest received on USAID Collateral Fund; 2) As of 2004, recoveries of loans written off are considered as provision reversals to match the movement in the loan loss reserve; 3) Revenue and expenses related to ITC, managed by the Association to provide services that are not directly linked to the microfinance activity.
June 2007 figures are not audited.

Formulas

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

Rating scale

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