Dakahlya Businessmenôs Association for Community Development, Egypt

The Dakahlya Businessmenôs Association for Community Development (DBACD) was founded as an NGO in March 1995 under the Ministry of Social Solidarity. 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. Leading microfinance institution the Dakahlya governorate, DBACD had an outstanding portfolio of 131.7 M EGP (24.2 M USD) and served 104,175 clients as of December 2009. DBACD offers group and individual loan products, covering 51% and 49% of the loan portfolio respectively.

GIRAFE Rating

Rating

A-

Outlook

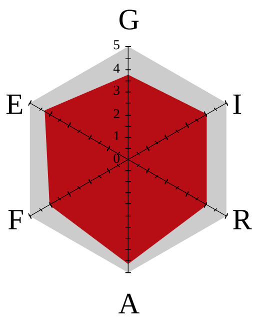
Positive

Date of the rating

March 2010

Valid until February 2011

Rating per evaluation area



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

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Rating highlights

- DBACD is a highly profitable organization as shown by its ROA and ROE of respectively 9.6% and 16.4% in 2009, largely above those of its peers in the MENA region (respectively at 3.7% and 8.9%).
- DBACDôs strong profitability is fuelled by a good revenue quality (underpinned by a strong reputation and a leading position in the governorate), continuous economies of scale, strong cost management, and excellent portfolio quality. PAR 30 stood at 0.09% in 2009, largely below that of the MENA region (2.4%).
- DBACD is a pioneer MFI in attracting loans from international funders. Being one of the first NGOs in Egypt to take such initiatives, DBACD is experiencing delays in the legal approval process that could benefit the Egyptian microfinance industry.
- The decision-making process is transparent but not yet fully balanced as strategic decisions are approved by the BOD but mainly initiated by a strong Executive Director. The key person risk was further mitigated thanks to an increased involvement of top managers in strategic matters.
- Key challenges ahead are optimizing liquidity management, strengthening the BOD skills related to microfinance best practices and further improving the management team polyvalence.

Outlook

The ñPositiveò outlook is assigned based on the expectation that DBACD will optimize its funding mix, improve its liquidity management and will reap the first benefits from the migration to a new MIS for loan tracking (Delta) in the short term.

Performance indicators

USD	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Assets	17,727,878	20,462,076	24,939,490	30,381,787	35,844,031
Loan portfolio	8,940,458	11,451,500	15,730,953	20,117,985	24,160,508
Active borrowers	56,370	68,911	80,960	93,533	104,175
Average outstanding loan per client	159	166	194	215	232
Staff	388	401	460	503	557
ROE	7.8%	13.0%	15.4%	16.4%	16.4%
ROA (without donations)*	4.7%	7.7%	9.0%	9.4%	9.6%
Liabilities / Equity	0.67x	0.69x	0.75x	0.80x	0.80x
Portfolio yield	29.7%	32.8%	31.6%	32.2%	31.8%
Operating expense ratio	12.2%	12.4%	10.9%	10.9%	10.2%
Funding expense ratio*	6.8%	4.1%	4.7%	5.6%	7.3%
Loan Loss Provision expense ratio	0.4%	1.0%	1.1%	1.0%	1.1%
PAR 31-365	0.43%	1.04%	1.09%	1.04%	1.06%
PAR > 365	0.00%	0.01%	0.02%	0.01%	0.09%
Write-off ratio*	0.47%	0.36%	0.10%	0.12%	0.02%

Note: * These ratios were adjusted for inflated assets in all years and for ñsuspense loansò until 2007.

Microfinance sector

Microfinance started in Egypt about twenty years ago with the establishment of the National Bank of Development (NBA) and the Alexandria Business Association (ABA) supported by USAID. Since then, the sector has evolved, through the establishment of various specialized NGO-MFIs, a few banks, and more recently, of Microfinance Service Companies (MSCs). Nevertheless, the penetration rate of microfinance in Egypt is still low (~6.7%)[1], notably due to the unfavourable legal framework for Egyptian MFIs. As of December 2009, there were about 400 microfinance programs serving about 1.4 M active clients for an estimated total outstanding loan portfolio of 2.1 B EGP (385 M USD).

Microfinance providers in Egypt offer mainly individual loans for MSEs, group loans, and basic credit-life insurance products. If growth rates are maintained, the market could show signs of saturation within five years given the narrow range of financial services provided by MFIs. Some MFIs have also introduced consumption, housing and education loans. Agricultural and Islamic lending are still very limited. Microfinance providers are classified into three categories:

- NGOs (274 as of Dec. 2007[2]) serve the bulk of the sectorôs clientele (about 71% as of 2009). Most of them have benefited from the technical and financial support from USAID or the Social Development Fund (SFD).
- Although there are only 4 banks involved directly in microfinance, their market share reached 13% in 2009. They are supervised by the Central Bank of Egypt.
- Microfinance service companies (MSC) emerged in Egypt a few years ago. Incorporated as joint stock companies, they act as agents for private banks. The two major MSCs, Reefy and Tanmeyah, have ambitious growth plans and already expanded to several governorates.[3] MSCs are supervised by the General Authority for Investment (GAFI).

Together with other foreign donors, USAID has been instrumental in providing funds and technical assistance to Egyptian MFIs, as well as indirect funding through guarantees. USAID-funded Egypt Micro-enterprise Finance project (EMF) ceased its operations in September 2009. USAID has also supported several NGOs, which got initial assistance from Environmental Quality International (EQI). The 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, channeling funds from the Egyptian government, EU, KfW, Arab Fund and UNDP.

MFI	Date of data	Portfolio (M USD)	%	Clients	%
ASBA	Dec.09	67,238,820	32.0%	253,328	25.4%
Lead	Dec.09	22,116,203	10.5%	172,691	17.3%
ABA	Dec.09	38,371,288	18.2%	134,701	13.5%
ESED	Dec.09	23,183,986	11.0%	104,957	10.5%
DBACD	**Dec.09**	**24,160,508**	**11.5%**	**104,175**	**10.4%**
Al Tadamun	Dec.09	10,768,950	5.1%	90,714	9.1%
CEOSS	Dec.09	7,113,693	3.4%	38,873	3.9%
SBACD	Dec.08	5,531,387	2.6%	29,196	2.9%
FMF	Dec.08	3,703,118	1.8%	17,818	1.8%
Other NGOs*	Dec.08	8,165,639	3.9%	51,186	5.1%
Total NGOs	**2008-09**	**210,353,592**	**100%**	**997,639**	**100%**
Banque du Caire	Sep. 09	60,908,490	63.0%	99,000	54.1%
NBD	Dec. 07	12,977,930	13.4%	34,550	18.9%
Banque Misr	Dec. 07	13,251,990	13.7%	29,376	16.0%
Bank of Alexandria	Dec. 07	9,582,578	9.9%	20,227	11.0%
Total Banks	**2007-09**	**96,720,988**	**100%**	**183,153**	**100%**
Reefy	Dec. 09	12,564,853		27,667	
Tanmeya	Dec. 09	10,640,640		16,609	
Others*	2009	54,349,851		182,722	
Grand Total (e)		**384,629,924**		**1,407,790**	

Sources: Planet Rating, MFI, MiX/ Sanabel, USAIDôs 2008 Map; * ñOthersò includes other small MFIs listed on USAIDôs 2008 Map. ** Microfinance in Egypt Brief Overview of Current Status (EFSA) (e) this estimation is a minimum given that most data is outdated;

The Ministry of Social Solidarity (MSS), in charge of supervising NGOs, has no regulatory authority and its reporting requirements are not adapted to MFIs. In the absence of a specific microfinance regulation, the MSS oversees all NGOs more or less the same way: it does routine checks on MFIsô financial statements, but MSS auditors often lack understanding and knowledge of microfinance. Other impediments to efficiency include the requirements that all checks be signed by the Chairman (or a delegate) and the Treasurer of the Board. In addition, in Egypt, the civil code has set an interest rate cap of seven percent on civil and commercial transactions, except for banks. Although most NGOs charge interest rates higher than 7%, this situation has not been a significant issue yet as it is a common practice tolerated by the regulatory authorities.

The CBE developed a National Strategy for Microfinance with the assistance of USAID, UNDP and KfW. Launched in December 2005, it has been partially implemented by the SFD and resulted in the following initiatives: 1) the creation of the Egyptian Microfinance Network (EMN) comprised of 12 NGO-MFIs; 2) the establishment of credit guarantee mechanisms to facilitate access of NGO-MFIs to local commercial funding and; 3) the development in 2008 of a draft law with the support of USAID and CGAP, authorizing the setup of for-profit lending institutions regulated by the Egyptian Financial Services Authority (EFSA)[4]. The law is

[1] # Microfinance clients / # Adults living below the upper national poverty line; if growth rates are maintained, the market could show signs of saturation in 4 years given the narrow range of financial services provided by MFIs.

[2] Source: USAID 2008 Microfinance Program map.

[3] 11 and 13 respectively as of March 2010.

[4] EFSA is also called the óSingle regulatorô and is part of the Ministry of Investment.

expected to include transformation options for existing NGOs and regulatory requirements based on best practices. Several players also expect that supervision by EFSA will facilitate the MFIsô access to foreign commercial funding.[5] However, significant investments will have to be made to ensure that EFSA has the capacity to effectively supervise the NBFI-MFIs. In addition, as for-profit companies, MFIs will probably have to pay taxes. Simultaneously, a new NGO law has been in discussion over the past year to improve the legal framework for NGO-MFIs through for example a more efficient internal management. But similarly to the law for for-profit MFIs, the law is not expected to pass before 2012.

Initiatives have been taken at the industry level to prevent the rise of cross-indebtedness but have not yet yielded concrete results. Commissioned by EMFN and funded by SFD, PlaNet Finance conducted a legal assessment for the establishment of an information sharing system that could exchange information with I-Score.[6] Large NGO-MFIs are also in discussion with I-Score to have a direct access to the credit bureau at an affordable price.

Additional source: ñThe Legal and Regulatory Environment for Microfinance in Egypt; USAID; June 2009.

Political & economic environment

Respectable growth despite the crisis

The economy slowed in 2008/09. The global crisis affected Egypt via two channels, financial (collapse of financial markets, capital flight, drop in foreign direct investment) and commercial. Exports, emigrant worker remittances, and Suez Canal revenues contracted while earnings from tourism stagnated after several years of strong growth. Public spending picked up some of the slack for weakening private consumption.

The manufacturing industry and the hotel sector slowed significantly. Although affected by the investment slowdown, construction continued to achieve strong growth as did the communications sector. Hydrocarbon production accelerated slightly and agriculture maintained steady growth.

In 2009/10, the economy is expected to grow at much the same rate as the previous financial year. Although the global crisis effects on foreign demand and foreign direct investments could persist, fiscal stimulus measures are expected to continue to spur domestic demand. The economic slowdown and the fall of financial markets have undermined the financial position of Egyptian companies. Their payment behaviour has deteriorated but remains above the world average according to Coface records. The tensions on payments are expected to ease gradually thanks to growing confidence in financial markets and to economic recovery.

Strong external accounts; shaky fiscal situation

The decline in foreign exchange earnings in 2008/09 resulted in a current account deficit that remained nonetheless relatively limited thanks to a drop in imports resulting from the decline in prices of commodities. Borrowing abroad did not suffice to offset capital outflows with foreign exchange reserves serving as a necessary adjustment variable. In 2009/10, the tensions affecting external accounts will persist. The current account deficit could widen with foreign demand remaining weak as the crisis effects gradually ease and with domestic demand fuelling imports. Foreign direct investment will likely suffice to cover the deficit. Barring further capital outflows, foreign exchange reserves will remain relatively large providing a protective cushion in case of a liquidity crisis.

Rising oil revenues in 2008/09 made it possible to keep the fiscal deficit at the same level as the previous year despite increases in wages, social spending and subsidies. But the deficit is expected to grow in 2009/10. A possible resumption of the subsidy reduction program could facilitate keeping spending in check, but revenues will be affected by the impact of fiscal stimulus measures (reductions in income tax rates and customs duties). Poverty and risks of a social explosion tend to undermine the capacity of authorities to implement structural reforms needed to consolidate public sector finances. Regional conflicts and poverty tend to strengthen Islamist opposition movements. In the run-up to legislative elections in 2010 and the presidential election in 2011, government authorities have taken pains to cool the social climate but political turmoil remains nonetheless possible. Moreover, the level of uncertainty over the post-Mubarak future remains high and could affect investment and growth.

COFACE Country Rating: B - Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behavior. Corporate default probability is appreciable.

COFACE Business Climate Rating: B - The business environment is mediocre. The availability and the reliability of corporate financial information vary widely. Debt collection can sometimes be difficult. The institutional

[5] In addition to a waiver from the CBE, NGO-MFIs attracting foreign commercial funds need to go through a lengthy approval process with the Ministry of Social Solidarity.

[6] I-Score (the first private sector credit bureau) was established by 25 banks and SFD in 2005. However, only two banks (NBD and BdC) report information on their microcredit operations.

framework has a few troublesome weaknesses. Intercompany transactions run appreciable risks in the unstable, largely inefficient environments rated B.

Macroeconomic indicators	2007	2008	2009(e)	2010(f)
Economic growth (%)	7.1	7.2	4.7	4.5
Public sector balance (%GDP)	-8.2	-7.7	-7.7	-8.3
Current account balance (%GDP)	1.5	0	-2.7	-3.1
Foreign debt (%GDP)	27.3	25.2	20.9	20.2
Foreign currency reserves (in months of imports)	7	6.1	5.7	5.8

Source: COFACEõs Country Risk Rating Guidebook 2010. (e) estimates (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

DBACD was registered in March 1995 as a Non-Governmental Organization (NGO) under the Ministry of Social Solidarity (MSS). Its governance structure is based on the NGO law that requires boards to play a very active role in management, including the signature of checks as well as the approval of hiring of the ED and Senior Management.

Starting 2009, DBACDõs accounts have been audited by Grant Thornton, a member firm within Grant Thornton International Ltd. External auditors expressed an unqualified opinion in last yearõs financial statements. In previous years, financial statements were audited by ñMohamed Hassaan & Co.ò, Egyptian certified accounting firm. Accounts were certified without reserve. DBACD generates its accounts under several forms, to meet Egyptian legal requirements and microfinance specific accounting principles.

Ownership

As a non-profit organization, DBACD has no shareholders. It is governed by a General Assembly (GA) that 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 May 2009, the BOD was significantly reshaped. The current chairman, deputy chairman and general secretary were elected among the previous BOD members and three other BOD members have been renewed (including the treasurer). The BOD is now chaired by Mr. Galal El Far, Deputy Chairman of Delta University. Other BOD members include owners of import/export companies, construction companies, and the current Executive Director of DBACD. In 2009, the previous BOD chairman, Mr. Samir El-Gamal, founder of DBACD, withdrew from the BOD but is still a member of the General Assembly.

Donations

DBACD has received donations from USAID in the context of a Cooperative Agreement and its amendments totaling over 9.2 M USD, out of which 6.5 M USD is a USD collateral fund used to back overdraft facilities in local currency. Since the end of the Cooperative Agreement in 2004, these donations are fully owned by DBACD. DBACD also received donations from CGAP (10 K USD) and the EMN (70 K EGP i.e. 12.8 K USD) to co-finance its ratings.

Funding composition

DBACD is funded by equity (56%), resulting from USAID subsidies and retained earnings, overdraft facilities granted by local banks (31%), and long term debts from international funders (13%). International funding (received in USD), was made as of Dec. 2009 of the USAID donations and the AECI loan, totaling 49.5 M NGN (9.1 M USD) and used to back overdraft facilities in local currency.[7] The remaining sources of funding are loans from BNP Paribas (Egypt) backed by partial guarantees provided by the Grameen-Jameel initiative. DBACD signed in August 2009 a local currency loan agreement with the European Investment Bank for 2 M EUR that has not yet been approved by the MSS.

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. There is also a Manager for the Information Technologies Center (ITC). Most of these managers have been with the institution since inception.

Mr. Hassan Faried has been DBACDõs 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). Mr. Faried was elected as chairman of the Sanabel network in June 2010.

Organization

DBACDõs head office (HO) in El Mansoura centralizes most management staff. Each branch office comprises a Branch Manager (BM), Group Loan Officers (GLO), Individual Loan Officers (ILO), their supervisors (SLO), accountant/MIS officer, cashier(s), money collectors (for

[7] Planet Rating made the necessary adjustments to adjust ratios for the inflated assets effect resulting from USD deposits (back-to-back hedging mechanism).

group loans), a lawyer, a client affairs officer (in charge of client files), as well as a secretary/administrative assistant. Loan approval for small loan amounts is decentralized, the level of approval authority being based on branch experience. For large loan amount, the final approval is giving at the HO where all disbursement checks are also issued.

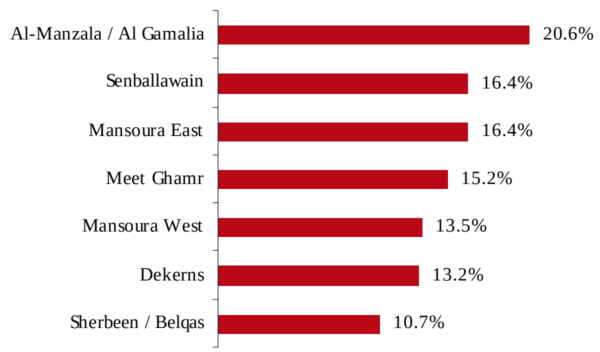
DBACD has been using the ŒEl Mohassilô Loan Tracking software developed by Environmental Quality International, an Egyptian microfinance consultancy. The LT system is centralized, with all branches connected in real time to the HQ over a secure VPN network, although SME and group loans have separate databases. Accounting is managed on a separate locally developed system, called Alpha.

In September 2009, DBACD decided to switch to Delta for loan tracking, an Oracle based system developed in Jordan. The new MIS will provide DBACD better flexibility with data management and a common database for individual and group loans. DBACD is currently running both systems (El Mohassil and Delta) in parallel to test the functionality of Delta. The institution is assisted by one Delta consultant on-site since January 2010 and until the end of the migration process (expected to end in March). DBACD benefits from one year of free support and maintenance from Delta

Market penetration

DBACD is headquartered in El Mansoura, capital city of the Dakahlya governorate. It operates through a network of 9 branches covering Dakahlyaœs 13 districts. With 104,175 clients as of Dec. 2009, DBACD has the largest market share among microfinance providers in the Dakahlya governorate (84.2% in December 2007). As of Dec. 2007, the penetration rate of microfinance providers in the governorate was estimated at 6.3%.[8] DBACD plans to open branches in nearby governorates in the coming years.

Outstanding loan portfolio per branch - Dec 2009



Products and services

DBACD offers Group and Individual loan products, using two distinct methodologies.[9] Their average Effective Interest Rate (EIR) stands at 32%.

- Individual Loans (IL) cover 83.1% of the outstanding portfolio and 49.3% of borrowers (Dec. 2009). They range from 500 to 60,000 EGP (92 to 11,008 USD) with an average loan amount of 2,130 EGP (391 USD). The average loan amount varies according to the type of loans, from 1,906 EGP for working capital, 3,684 EGP for home improvements, to 4,819 EGP for vehicle maintenance. ILs are repaid monthly with terms ranging from 6 to 36 months. Clients have to provide as collaterals guarantors plus a promissory note. Additional criteria according to the loan amount include an electricity bill, a business license, a commercial registration, and an income taxation card. Clients pay a 16% flat interest rate (plus a 1% fee for vehicle maintenance loans), yielding an average EIR of 29.2%.
- Group loans (GL) cover 16.9% of the outstanding portfolio and 50.7% of borrowers (Dec. 2009). Used to finance working capital needs, GLs range from 50 up to 1,500 EGP (9 to 275 USD) with an average loan amount of 421 EGP (77 USD) at disbursement. They are repaid weekly over 10 to 40 weeks. Group solidarity is used as collateral. Clients pay a 26% flat interest rate, yielding an average EIR of 48.2%.

Non-financial services

Information Technology Center (ITC): established in June 2001, it aims at improving the governorateœs businesses access to ñmodern information techniques and systemsò through English, IT, and Business Development courses. The ITC provides other services such as a library, a conference lounge, as well as cyber and scanning services. The ITC has a dedicated Manager reporting straight to ED. It was only profitable in 2008.

Social services: DBACD started providing social services in 2002. These services are funded by the microfinance activities according to the Zakat-based model.[10]

Networks

DBACD is a founding member of Sanabel (network of MFIs of the Arab world; which its ED presently chairs) and of the Egyptian Microfinance Network. DBACD is also a member of MicroFinance Network (MFN), an international association of leading microfinance institutions.

[8] USAID Microfinance Programs map ï April 2008; the demand for microcredits is estimated by multiplying the # of adults by the % of people living below the national poverty line in the governorate.

[9] DBACD stopped Back-to-school and Consumption Loans in 2007.

[10] Zakat is a Muslim principle that consists in dedicating 2.5% of oneœs annual income to the poor. Refer to the Social Rating for details.

Governance

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

Decision making

DBACD's decision making is transparent and BOD members currently take decisions in the best interest of the association. This progress was achieved through the arrival of new BOD members at last year's election who further share DBACD's strategy to reach out to its mission.

However, DBACD's decision making process is not yet fully efficient as key strategic decisions are mainly initiated by management with little input from the BOD. Most BOD members are prominent businessmen but have not yet acquired a satisfactory understanding of best practices in microfinance and knowledge of the microfinance sector in Egypt. This became more relevant as the former BOD Chairman, a key person in DBACD's decision making since inception, withdrew from the BOD in 2009.[11] The former chairman has yet maintained good and close relationship with most BOD members and DBACD's management team.

Though the ED has voting rights on the BOD and strategic decisions are mostly initiated by management, conflicts of interest are however adequately mitigated thanks to the approval of key decisions by the BOD after a clear review and understanding of management's proposals as well as a good follow-up of their implementation.

DBACD has been able to offset most of the burdens related to its NGO legal status through simplified internal processes[12] and good relationships with international and local funders. However, timely access to funding is still hampered by lengthy and cumbersome approval process at the Ministry of Social Solidarity level (refer to "F").

As a new law authorizing the set-up of for-profit lending institutions could pass in the coming years, USAID conducted a thorough study with DBACD to analyze the benefits and steps needed to operate as a for-profit institution.[13] To this regard, DBACD plans to conduct further analysis by the end of the year. As a revision of the NGO law for MFIs is currently being discussed (refer to the "Microfinance sector" section), DBACD will notably consider the option of remaining an NGO.

Planning

DBACD's planning has been quite realistic with reasonable growth targets that allow the association to grow adequately while maintaining a strong operational and financial performance.

A detailed and participative business plan has been developed and approved for the coming three years (2010 - 2012) based on a good SWOT analysis. Main projects for DBACD have been network expansion and MIS migration, based on adequate market researches. However, in regard to outreach, DBACD would benefit from a more detailed market potential analysis in areas where it plans to expand its operations, especially as competition is slightly increasing.

Although DBACD developed only one set of financial projections for the period 2010-2012 (instead of using scenario planning), the institution would have sufficient capacity to adapt its planning if necessary. DBACD indeed revises its 3-year financial projections every year and the latter have been so far quite realistic[14] when compared to DBACD's internal capacities and the important market potential in the governorate of Dakahlya. In 2009, DBACD reached on average 90% of its operational and financial targets. Gaps, for example in loan portfolio (- 9%), were mainly due to delays in obtaining the approval from the MSS to receive a loan from an international funder. Targets set for January and February 2010 were reached by 98%.

Budgeting is done on a yearly basis broken down by branches and departments. Variance analysis is also done on a monthly basis using SEEP[15] tools.

Management team

DBACD has a skilled management team headed by a strong ED with good leadership skills. All key positions needed in the organization are well filled with qualified managers, except the marketing function, which is not yet sufficiently addressed in spite of competition becoming slightly fiercer in Dakahlya. Marketing is currently managed by the Operations department through field staff.

DBACD has further mitigated the key person risk of its ED, especially at the strategic level with a higher involvement of top managers (Head of Finance, Operation and HR) in strategic thinking and international relations with technical partners and funders; these tasks were previously handled primarily by the ED. However, these efforts are slightly hampered by the current flat organizational chart of DBACD which does not clearly promote the polyvalence of managers as they are all responsible of their specific department with quite narrow responsibilities and report directly to the ED.

[11] Refer to the "Ownership" section of the Institutional Presentation.
[12] BOD has to oversee all checks issued by the NGO. These functions have been delegated to the Executive Board and top management at DBACD.
[13] For example, NGOs could either transform, or set-up a company.
[14] On average 25% annual grow planned for the outstanding loan portfolio.
[15] Small Enterprise Education and Promotion Network (www. seepnetwork.org)

Moreover, DBACD would gain from updating its current succession plan as it does not clearly detail how the delegation of powers articulates among the three top managers.

Management meetings are held on a monthly basis coupled with many informal meetings thanks to a good internal communication. However, monthly management meetings are not documented into formal minutes.

Human resource management

DBACD enjoys an effective HR management through the provision of competitive salaries and benefits, good training programs and staff appraisal.

The recruitment process is transparent and designed to attract qualified staff to meet DBACD's needs. Following recruitment, employees undergo appropriate induction training in line with their respective duties. Monthly staff performance reviews are done mainly to encourage prudent portfolio growth. Upon good performance, employees receive sound incentives on a monthly basis which may represent between 70% and 120% of their salary, especially for field staff.

Annual staff evaluations are done according to employees' job description. Following annual staff appraisal, employees may go through internal and/or external training. In addition, they may also get promoted to higher position as it is a common practice at DBACD.

Currently at a moderate level of 11.3%, DBACD's turnover rate has overall decreased over the last two years.[16] This level is mainly due to departure of field staff, especially GLOs who resign for family reasons or to pursue their career abroad.

▪ Information

Information **is rated "a"**

DBACD has a computational infrastructure able to produce good quality information on its loan portfolio and accounting.

In line with DBACD's objective to strengthen efficiency in generating consolidated and more detailed information on its loan portfolio and benefit from better support and flexibility with its MIS, DBACD decided in September 2009, after a thorough analysis and an open call for tenders, to acquire a new MIS, Delta. Delta offers advanced features and its developers are based in Jordan. Pilot tests were successful and DBACD is about to end the parallel migration process after clearing some minor formatting errors on Delta.

Delta's users have received adequate training by the Delta's consultant, but further capacities are needed for an optimal use of Delta, which is expected in the short term. DBACD's IT team has good capacities and is gaining progressively stronger command of Delta.

Data security (access to MIS and computers, antivirus and firewalls) and back up system (on and off-site) are good as well as the storage of paper documents. Nevertheless, further security to limit access to the server room is needed.

Accounting is managed on a separate system which produces good quality information in regards to the generation of monthly balance sheets and income statements. DBACD has developed external modules for automated data reconciliation. In the medium term, DBACD may plan to acquire the accounting module available with Delta to benefit from an integrated system.

Other tools such as the SEEP Framework tool are also used for financial analysis. Available on a monthly basis and used for decision making, profitability analysis is well-detailed by departments, branches and products.

▪ Risk management

Risk management **is rated "a"**

Procedures and internal controls

DBACD has a comprehensive and effective internal control system, in line with best practices thanks to appropriate limitations of power, segregation of duties, and hierarchical controls. Main procedures are formalized, regularly updated, and sufficiently applied in the branches. DBACD's reasonable growth has allowed the institution to sufficiently anticipate arising risks. The workload of the accounting department has nevertheless been a bit stretched: at the head office level with the opening of two new branches in 2009, and at the branch level with the additional checks required over the pilot-testing of Delta. For these reasons, DBACD plans to recruit soon a second chief accountant based in HO to supervise the work of branch accountants.

Internal processes guarantee data reliability thanks to frequent reconciliations and sufficient data checks. The checks performed during the pilot testing of the new MIS in parallel to the current one provide comfort that the new MIS will provide reliable data as well.

[16] 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.

Cash security is adequate thanks to regular cash counts with appropriate verification levels, ceilings for cash in the safe and in transit, coverage by the insurance[17] and good infrastructure. However, cash security could be further enhanced by ensuring that the policy of segregating the access to the safes is fully implemented in all branches. In some branches, safes can be opened by one staff only, with the key and the code.

Internal audit

DBACD has a strong Internal Audit (IA) department, performing thorough checks on the field operations and participating to the internal control chain at the head office level. Credit operations are thoroughly audited every year with 100% of files reviewed and 22% of clients visited (in average over the last three years) according to a risk-based sampling. Moreover, findings and recommendations are well formalized in reports, communicated to BMs and followed upon. The audit plan is confidential and adapted to arising risks. IA also performs checks on head office departments such as HR, finance, and IT,[18] but only in the course of operations.

IA is headed by an experienced manager who has been in place since inception, possesses an in-depth knowledge of the institution and adequately identifies the main risks related to DBACD activities. DBACD has a well-staffed IA team and plans to expand it with two additional internal auditors to keep up with growth.

The institutional set-up does not guarantee the independence of Internal Audit since IA reports only to the ED with access to the Board only in exceptional occasions (e.g. major frauds). IA summary reports, though well understood by the ED, could nevertheless gain in clarity by categorizing findings by type and level of risk, clearly identifying the department in charge and providing a follow-up of the implementation of the main recommendations.

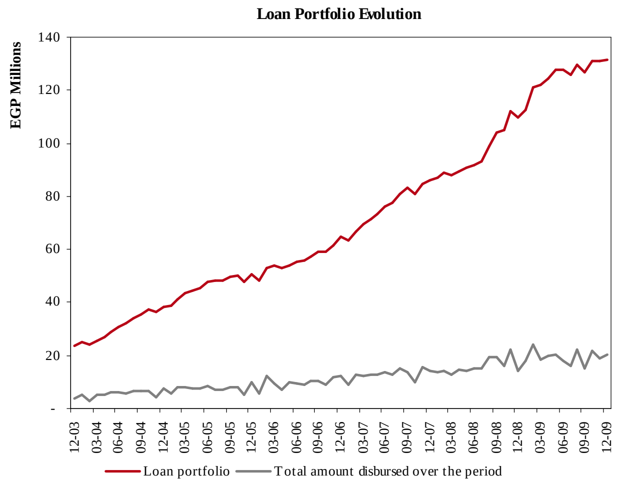
External auditors sufficiently review internal controls and provide valuable recommendations They notably review the compliance with policies at the management level (e.g. ED delegations) and their reports are shared with BOD members.

Activities

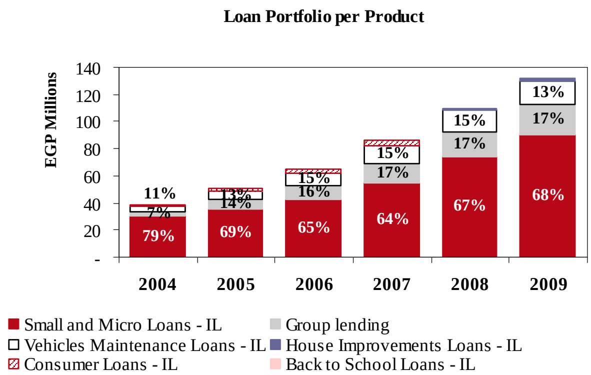
Activities: products and services **is rated ñaò**

Financial services evolution

DBACD has maintained a relatively steady growth since 2004, with a yearly Compounded Annual Growth Rate (CAGR) of 27.8% in terms of loan portfolio and of 26.2% in terms of active borrowers. Portfolio growth was particularly high in 2004 (+63.5%) and slowed down around 30% from 2005 to 2008 due to conservative growth management, and several times (to 19.9% in 2009) due to funding constraints. There is some seasonality in the loan portfolio, particularly for the individual loans which tend to see growth around Ramadan as well as during school and religious holidays in June and August.



The outstanding portfolio is concentrated in the Individual Loan (IL), notably for SMEs (68%) or Vehicles Maintenance (13%). Group Loans cover a limited share of the outstanding loan portfolio but half of the borrowers, due to their smaller size. Consumer and Back-to-School loans were shelved in 2007 because they were not income-generating for the borrowers. House Improvements Loans cover a very limited portion of the portfolio.



[17] For cash in transit, the insurance covers up to 150,000 EGP (27 K USD) for cashiers and to 125,000 EGP (22 K USD) for cash collectors. For cash in safes, the insurance covers up to 200,000 EGP (36 K USD).

[18] IA does not have all the specific skills to perform a full MIS audit.

Financial services management

DBACD has proven credit methodologies for group and individual lending (implemented by specialized LOs) that have lead to appropriate credit decisions. This has been achieved thanks to detailed loan applications, proximity to the client allowing a good monitoring of the loan portfolio (formalized in reports sent to head office) and adequate levels of approval (by different layers of management and lawyers). However, although it is required by internal policies, some loan applications lack cash flow analysis and do not state whether the applicant has outstanding debts from other lenders. This is notably the case in newly set-up branches and for renewed or Vehicles Maintenance loans. Given the expansion of new players such as Reefy and Tanmeya in the governorate, such detailed analysis becomes increasingly important to prevent an increase in credit risk.

DBACD has an efficient delinquency management with clear rules applied by staff. DBACD initiates follow-up the first day of delinquency and takes progressive actions which may end-up to legal courts, but only in rare cases. Moreover, written-off loans are actively followed upon in branches.

DBACD manages portfolio growth conservatively, with a focus on maintaining its excellent portfolio quality. Fostering both portfolio growth and quality, the bonus system for field staff and is based on realistic targets (e.g. PAR should not exceed 1.5%).

Credit risk

DBACD has maintained an excellent portfolio quality over the years. PAR 30 stood at 0.09% as of December 2009, below the 2008 median for its MENA peers (2.4%). This excellent performance is ensured for all loans and all branches. Credit risk might be very slightly higher as some Loan Officers help their clients repay their loan.[19]. Rescheduled loans covered only 0.04% of the portfolio as of December 2009. Rescheduling is indeed allowed only in exceptional cases according to clear rules. Written off loans are also very limited (0.02%), decreasing from slightly higher levels from 2004 to 2006.[20] largely below MENA benchmarks (0.9%). In 2008, DBACD changed its write-off policy to comply with international standards with loans late being systematically written-off after one year.[21]

Factors that could lead to an increase in credit risk are limited. Staff loans only covers 0.2% of the portfolio and are granted according to a well-formalized policy. Moreover, DBACD has policies to limit the concentration of the portfolio on non-income generating activities: house improvement loans (1.6% of the portfolio) are capped to 10% by policy, which was also the case of the consumption and back-to-school loans. Network development is cautious with new branches stemming from existing branches when the latter reaches its maximum size.

Credit risk coverage

DBACD has immense credit risk coverage, constituting 3,483% of PAR 30 as of December 2009. This is a result of an adequate provisioning of the delinquent portfolio and an additional 0.004% provision per month on the healthy loan portfolio since 2005, to reach a stated goal of 3% by the end of 2010. Credit risk coverage is further bolstered by guarantees (promissory notes) that can be used in front of a court for individual and group loans. A legal process is however rarely needed, pursued by the legal department if necessary. For loans greater than 8,000 EGP (3% of the portfolio), DBACD requires bank checks. Their value covered 17.9% of the outstanding loan amounts as of December 2009.

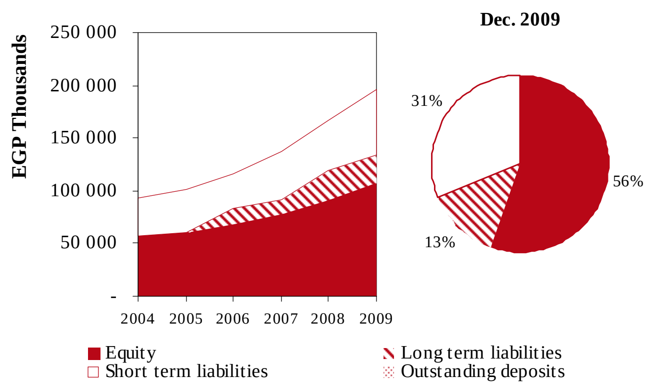
▪ Funding and liquidity

Funding and liquidity **is rated ñaò**

Capitalization and funding strategy

With a leverage of 1.09x and a total CAR standing at 80.6% as of December 2009, DBACDôs capitalization is largely sufficient for the coming years. Based on a planned average growth of the portfolio of 25% annually over the next three years, its funding needs are identified for the following three years: 4.3 M USD in 2010; 2.4 M USD in 2011; and 1.6 M USD in 2012.

Funding Structure



[19] When including these reimbursements, PAR 1 increases from 0.12% to 0.16%. Refer also to previous section.

[20] Planet Rating adjusted write-off ratios from 2004 to 2007 by considering that loans in DBACDôs suspense reserve should be written-off.

[21] Until 2007, DBACD maintained in the balance sheet a ñsuspenseò account for loans not likely to be recovered. They were written-off in 2008, leading to minor increase of written off loans to 0.12% of the portfolio in 2008. Egyptian law makes loan write offs extremely difficult, requiring MFIs to wait three years to ôproveô that the loans are in fact not recoverable.

A pioneer Egyptian Microfinance NGO in attracting funds from local banks and international funders, DBACD has diversified its funding sources (to the extent allowed under its NGO legal status) and sustained very good relationships with its funders thanks to excellent credit history. In Q3-Q4 2009, DBACD signed agreements for a 2 M EUR local currency loan with EIB and a 2.5 M USD partial credit guarantee (DCA) from USAID, covering 120% of its 2010 funding needs. However, being one of the first NGOs in Egypt to take such initiatives, DBACD is experiencing some delays in the MSS[22] legal approval process. Started in September 2009, the latter is expected to end successfully in July 2010,[23] and could benefit the Egyptian microfinance industry.

DBACD is expected to secure very shortly its funding needs from 2010 to 2012. Facing the long approval delays, DBACD intensified its negotiations with current local partner banks to increase its leverages on deposits (overdrafts) and initiated new partnerships. Negotiations are expected to be successful at the end of June 2010 with four of them resulting in new leverages ranging between 1.3x and 2x (vs. the historic 0.95x[24]), providing an additional 27 M EGP overdraft capacity, covering 173% of the funding needs of the second semester of 2010. In addition, an additional 32% (5 M EGP) is expected to be secured at the end of June from SFD. As for the first semester of 2010, DBACD has been able to fund its growth thanks to its remaining overdraft capacities and to the increase in the local currency value of its USD deposits in local banks.[25]

Liquidity risk

DBACDös finance department is staffed with experienced professionals, able to perform a satisfactory liquidity management and managing an increasingly diversified pool of funders. In Q2 2010, DBACD demonstrated a strong ability to increase leverages with local banks (refer to previous section), allowing the institution to avoid a future slow down in disbursements. Given the high cash inflow expected in July 2010, DBACD rightly plans to adjust its local deposits in local banks in order to avoid having idle cash.

On the other side, DBACD needs to refine its liquidity management tools. DBACD cautiously redistributes cash between disbursements and expenses based on the daily cash projections. However, formal short to medium term cash flow projections in addition to a formal policy on minimum cash levels are still lacking to optimize the use of funds and provide a cushion in case of delays in obtaining funding. This will be particularly needed to mitigate risks of late payment to international funders. As of December 2009, cash and available additional overdraft capacity provided a satisfactory liquidity cushion, covering 3.3 months of operating expenses and 2.5% of assets (adjusted).

The maturity risk related to DBACDös funding structure remains limited as DBACD has mainly long term liabilities (69% are equity or long term borrowings) and short term assets (83% are maturing within 12 months), resulting in quick and current ratios largely above 100%.

Market risk

DBACD has a very prudent approach to market risks. The institution does not have liabilities labeled in hard currencies thanks to the recourse to available hedging mechanisms (back-to-backs), however time-consuming (due to the difficulty for NGOs to obtain the approval for hard currency funds) and relatively costly. However, DBACD has not yet formally developed scenarios to weight the cost of a minor exposure to foreign currencies against its risk. In addition, DBACD is exposed to a foreign exchange risk on its USD deposits that could affect its overdraft capacities.[26] DBACD is not exposed to interest rate risks as all borrowings have fixed rates.

▪ Efficiency and profitability

Efficiency and profitability **is rated ñaò**

DBACD is a highly profitable organization as shown by its adjusted ROA and ROE of respectively 9.6%[27] and 16.4% in 2009, largely above those of its peers in the MENA region (respectively 3.7% and 8.9%). DBACDös strong profitability is fuelled by good revenue quality, further economies of scale, strong cost management, and excellent portfolio quality.

DBACD has a good revenue quality thanks to: 1) its strong reputation in Dakahlya as the leader in a market where the level of competition is still moderate; and 2) acceptable product development. Even though DBACD is the sole group lending provider in the governorate, it does not yet

[22] Ministry of Social Solidarity (MSS)

[23] The positive outcome of the audit conducted by the MSS in May 2010 is expected to result in MSS approval at the beginning of July 2010.

[24] These leverages are not yet signed but likely to be at the beginning of July, demonstrating the strong negotiations ability given that Egyptian banks often require 100% (or more) of cash collateral. In the past, DBACD already successfully negotiated leverages up to 1.6x.

[25] The USD/EGP rate increased from 5.45 in Dec. 2009 to 5.66 in June 2010, allowing DBACD to leverage an additional 3 M EGP.

[26] The recent USD/EGP fluctuations actually resulted in an increase in its overdraft capacity. Refer to the section on óCapitalization and funding strategyô.

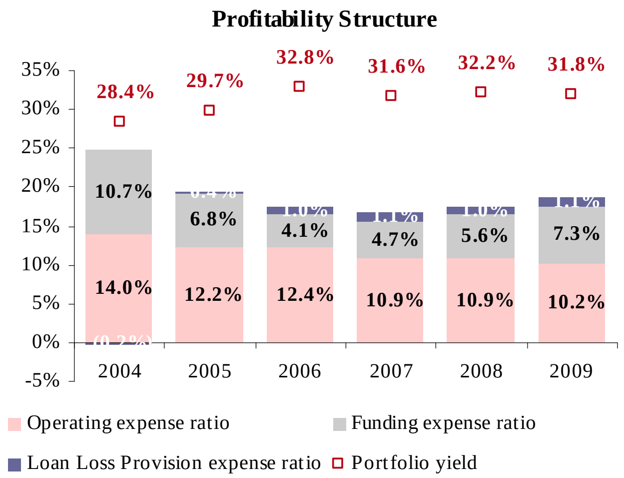
[27] The ratios based on assets and funding expenses are adjusted for back-to-back loans. The ROA before adjustment stands at 9,1% as of December 2009 and 9.2% as of December 2008.

have strong competitive advantages on individual lending (e.g. in terms of pricing). Furthermore, DBACD has an excellent portfolio quality as shown by the insignificant yield gap between its Effective Interest Rate (EIR) of 32.4% and its current portfolio yield of 31.8%.

DBACDôs operating expense ratio decreased from 14.0% in 2004 to 10.2% in 2009, which is one of the best performance among Egyptian peers (refer to benchmarking), and largely below the median in MENA (15.9%). This excellent performance has been achieved thanks to further economies of scale through better staff productivity and higher average loan amounts per client while maintaining a good infrastructure.

In spite of the cost of hedging, DBACDôs funding expense ratio has been kept at a reasonable level over the past years thanks to concessional collaterals used as guarantees for revolving loans and adequate negotiation with local banks and international investors. It nevertheless increased to 7.3% in 2009 from 5.6% in 2008[28] similarly to the cost of borrowings that increased to 11.5% in 2009 from 8.0% in 2008.[29] This increase is due to the increased access to commercial funding and the relatively small rise in overdraft rates. The use of collateral deposits nevertheless hampers DBACDôs assets optimization, resulting in a ratio of 65.4% as of December 2009 (vs. 70.1% if adjusted for back-to-back loans).

The Loan Loss Provision ratio has been maintained at a reasonable level of 1% over the last years, resulting from the institutionôs policy to progressively build a reserve covering not less than 3% of its healthy portfolio by the end of 2010.



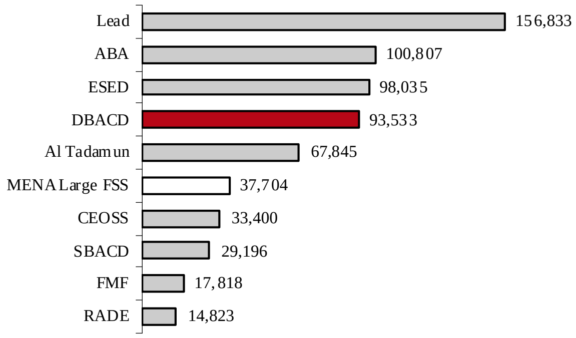
DBACDôs profitability is expected to be stable in the coming year. DBACD is expected to maintain its good portfolio yield and control its operating and provisioning expenses. However, funding expenses are expected to increase a little given the recent increased recourse to commercial loans.

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 institutionôs 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.

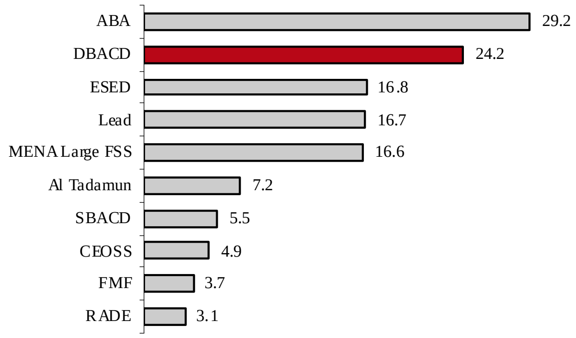
[28] Before adjustments, the funding expense ratio stands at 7.6% in 2009 and 7.1% in 2008.
[29] Before adjustments, the cost of borrowings ratio stands at 10.7% in 2009 and 9.9% in 2008.

Benchmarking

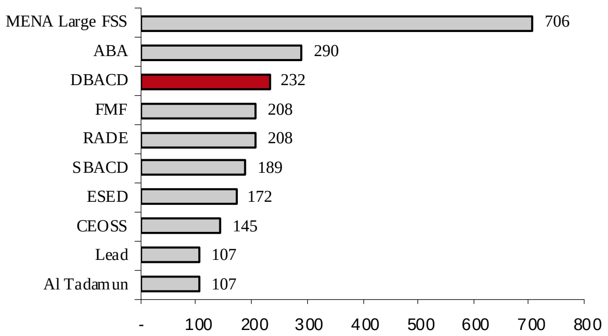
Active borrowers



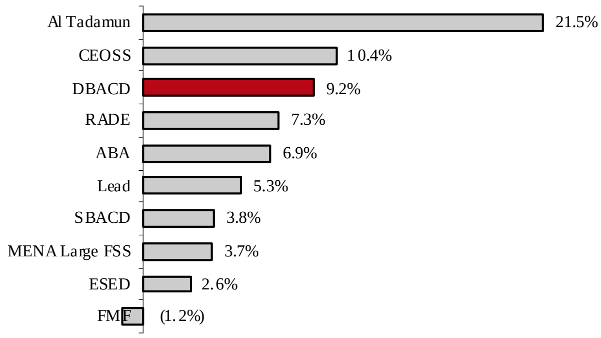
Loan portfolio (USD)



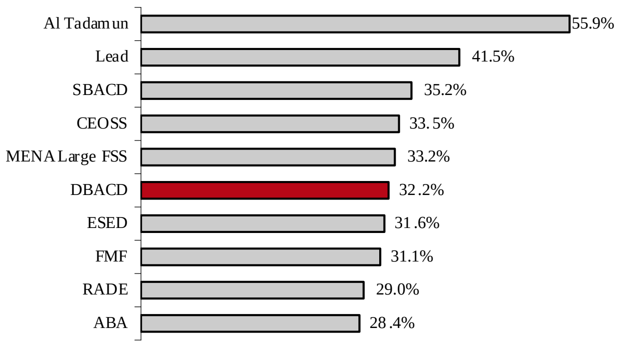
Average outstanding loan per client (USD)



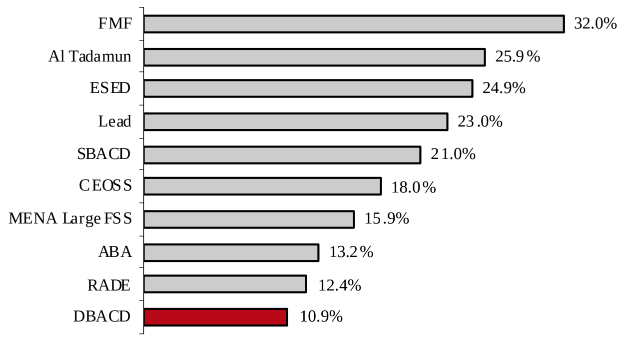
ROA



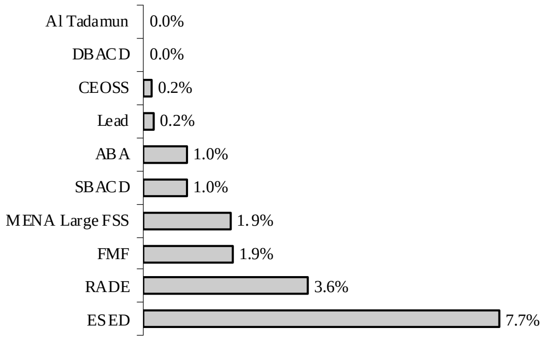
Portfolio yield



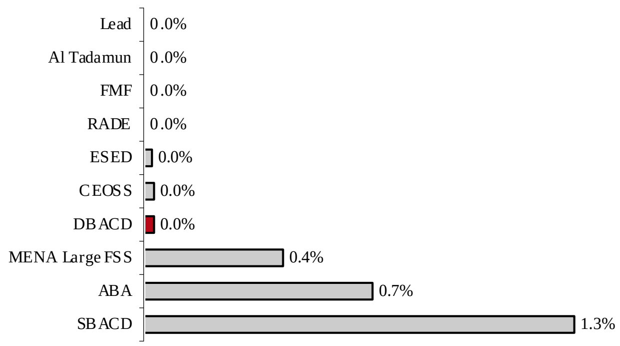
Operating expense ratio



PAR 31-365



Write-off ratio



Source: DBACD (Planet Rating), MiX (other MFIs), Benchmark from the Microbanking Bulletin (MENA Large FSS); data as of December 2008.

▪ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Loan portfolio evolution						
Loan portfolio	6,386,982	8,940,458	11,451,500	15,730,953	20,117,985	24,160,508
Loan portfolio (EGP)	38,483,252	50,922,166	64,925,195	86,302,053	109,831,320	131,694,096
Growth	64.1%	31.6%	27.5%	32.9%	27.3%	19.9%
Active borrowers	32,571	56,370	68,911	80,960	93,533	104,175
Growth	66.1%	73.1%	22.2%	17.5%	15.5%	11.4%
Average outstanding loan per client	196	159	166	194	215	232
% of GDP per capita	16.8%	11.7%	10.9%	10.5%	9.8%	9.3%
Average amount disbursed per loan	212	184	180	216	243	271
% of GDP per capita	18.1%	13.6%	11.8%	11.7%	11.1%	10.9%
Portfolio quality						
Rescheduled loans	0.33%	0.24%	0.26%	0.11%	0.05%	0.04%
PAR 31-365	0.02%	0.00%	0.01%	0.02%	0.01%	0.09%
PAR > 365	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Write-off ratio **	0.70%	0.47%	0.36%	0.10%	0.12%	0.02%
Credit risk coverage						
Risk coverage ratio (PAR 30)	310.6%	n.s.	21,020.7%	7,981.4%	31,982.3%	3,483.2%
PAR 30 net of loan loss provision / Equity	(0.1%)	(0.7%)	(1.3%)	(2.2%)	(2.8%)	(3.5%)

Staff	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Total number of staff	305	388	401	460	503	557
% Credit officers	67.5%	68.3%	71.1%	71.1%	70.6%	70.2%
Turnover	26.5%	20.8%	27.6%	14.2%	15.4%	11.3%

Profitability analysis	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
ROE	2.0%	7.8%	13.0%	15.4%	16.4%	16.4%
Liabilities / Equity	0.61x	0.67x	0.69x	0.75x	0.80x	0.80x
Core capital adequacy ratio	125.8%	105.2%	96.8%	86.3%	80.9%	80.6%
Total capital adequacy ratio	125.8%	105.2%	96.8%	86.3%	80.9%	80.6%
ROA*	1.2%	4.7%	7.7%	9.0%	9.4%	9.6%
ROA (without donations)	1.2%	4.7%	7.7%	8.9%	9.4%	9.6%
ROA (microfinance operations)	1.5%	4.9%	7.9%	8.9%	9.4%	9.6%
Profitability structure						
Total revenue ratio*	28.4%	29.8%	32.8%	31.7%	32.2%	31.8%
Portfolio yield	28.4%	29.7%	32.8%	31.6%	32.2%	31.8%
Operating expense ratio	14.0%	12.2%	12.4%	10.9%	10.9%	10.2%
Cost per borrower	22	17	18	18	20	23
Staff productivity	107	145	172	176	186	187
Loan officer productivity	158	213	242	248	263	266
Average outstanding loan per client (USD)	196	159	166	194	215	232
Funding expense ratio*	10.7%	6.8%	4.1%	4.7%	5.6%	7.3%
Cost of savings	n/a	n/a	n/a	n/a	n/a	n/a
Cost of borrowings*	10.4%	8.4%	5.3%	6.3%	8.0%	11.5%
Loan Loss Provision expense ratio	(0.2%)	0.4%	1.0%	1.1%	1.0%	1.1%
PAR 31-365	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Write-off ratio **	0.7%	0.5%	0.4%	0.1%	0.1%	0.0%
Resource optimization						
Outstanding Loan Portfolio / Assets*	41.3%	50.0%	55.2%	61.8%	66.5%	70.1%
Revenue from investment as a % of financial revenues*	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liquidity						
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)*	0.2%	0.1%	0.1%	0.2%	0.1%	0.2%
Current ratio (1 year)*	244.3%	233.9%	331.4%	287.9%	333.9%	288.8%
Exchange rate 1 USD= xx EGP	6.1	5.7	5.7	5.5	5.5	5.5

Note : * In order to offset the effects of the back to back loans (refer to the "Funding" section of the institutional presentation) that artificially increased assets, financial revenues from investments, and interests paid on borrowings, these ratios were adjusted from 2005 to 2009. ** These ratios were adjusted for inflated assets in all years and "suspense loans" until 2007.

Financial statements ï EGP

Income Statement (EGP '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Interest and fee income on loan portfolio	13,641	18,297	23,804	30,724	39,752
Interest and fee income on investments	972	2,234	2,123	1,400	404
Interest and other financial expenses	4,106	4,538	5,629	6,759	9,469
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-
Net financial income	**10,508**	**15,992**	**20,298**	**25,365**	**30,687**
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	35	7	37	30	
Operating expenses	5,608	6,894	8,212	10,457	12,801
Personnel expenses	*4,491*	*5,789*	*7,022*	*9,225*	*11,363*
Administrative and other expenses	*569*	*595*	*813*	*899*	*1,067*
Depreciation	*548*	*510*	*376*	*333*	*371*
Non operating income (net)	(148)	(121)	(2)	11	(88)
Gross operating income	**4,788**	**8,985**	**12,122**	**14,949**	**17,799**
Net loan loss provision expense	197	579	823	994	1,323
Net operating income	**4,590**	**8,406**	**11,299**	**13,955**	**16,475**
Extraordinary income (net)	-	-	-	-	-
Net income before tax	**4,590**	**8,406**	**11,299**	**13,955**	**16,475**
Income Tax	-	-	-	-	-
Net income before donations	**4,590**	**8,406**	**11,299**	**13,955**	**16,475**
Donations	-	-	71	-	-
Net Income	**4,590**	**8,406**	**11,370**	**13,955**	**16,475**

Balance Sheet (EGP '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
ASSETS	**100,973**	**116,011**	**136,821**	**165,865**	**195,379**
Liquid assets	65	104	286	223	340
Net loan portfolio	50,474	64,021	84,586	107,233	127,788
Gross loan portfolio	*50,922*	*64,925*	*86,302*	*109,831*	*131,694*
(Loan loss reserve)	*448*	*904*	*1,716*	*2,599*	*3,906*
Interest receivable	193	255	257	152	13
Financial investments	43,357	45,168	45,748	51,849	60,622
Net fixed assets	6,355	5,754	5,305	5,680	6,057
Intangible assets	-	-	-	-	-
Other assets	529	710	638	728	558
LIABILITIES AND EQUITY	**100,973**	**116,011**	**136,821**	**165,865**	**195,379**
Liabilities	**40,446**	**47,523**	**58,515**	**73,818**	**87,057**
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	-	-	-	-	-
Borrowings	40,009	47,038	56,999	72,030	84,621
Subordinated debt	-	-	-	-	-
Other liabilities	437	485	1,516	1,787	2,436
Equity	**60,527**	**68,489**	**78,306**	**92,048**	**108,321**
Core capital	60,527	68,489	78,306	92,048	108,321
Paid-in capital	-	-	-	-	-
Donated equity	*53,406*	*53,070*	*51,602*	*51,567*	*51,567*
Retained earnings	*7,121*	*15,418*	*26,704*	*40,481*	*56,755*
Other equity accounts	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Gross loan portfolio	45,857	55,722	75,277	95,537	124,983
Assets	97,021	108,492	126,416	151,343	180,622
Deposits	-	-	-	-	-
Borrowings and subordinated debt	37,464	43,523	52,018	64,515	78,326
Equity	59,139	64,508	73,398	85,177	100,184

Note: Financial statements are presented before the adjustments for back-to-back loans made by Planet Rating (refer to Performance Indicators).

Financial statements ï USD

Income Statement (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Interest and fee income on loan portfolio	2,394,965	3,227,154	4,338,910	5,627,753	7,292,897
Interest and fee income on investments	170,741	394,016	386,908	256,505	74,081
Interest and other financial expenses	720,849	800,460	1,026,011	1,238,136	1,737,108
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-
Net financial income	**1,844,856**	**2,820,710**	**3,699,807**	**4,646,122**	**5,629,870**
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	6,147	1,271	6,824	5,485	76
Operating expenses	984,546	1,216,003	1,496,776	1,915,400	2,348,410
Personnel expenses	*788,541*	*1,021,098*	*1,280,015*	*1,689,695*	*2,084,626*
Administrative and other expenses	*99,860*	*105,031*	*148,195*	*164,751*	*195,707*
Depreciation	*96,145*	*89,874*	*68,566*	*60,954*	*68,078*
Non operating income (net)	(25,899)	(21,291)	(341)	1,973	(16,176)
Gross operating income	**840,559**	**1,584,686**	**2,209,513**	**2,738,180**	**3,265,360**
Net loan loss provision expense	34,641	102,052	149,940	182,051	242,779
Net operating income	**805,918**	**1,482,634**	**2,059,574**	**2,556,129**	**3,022,581**
Extraordinary income (net)	-	-	-	-	-
Net income before tax	**805,918**	**1,482,634**	**2,059,574**	**2,556,129**	**3,022,581**
Income Tax	-	-	-	-	-
Net income before donations	**805,918**	**1,482,634**	**2,059,574**	**2,556,129**	**3,022,581**
Donations	-	-	12,926	-	-
Net Income	**805,918**	**1,482,634**	**2,072,499**	**2,556,129**	**3,022,581**

Balance Sheet (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
ASSETS	**17,727,878**	**20,462,076**	**24,939,490**	**30,381,787**	**35,844,031**
Liquid assets	11,368	18,321	52,204	40,929	62,356
Net loan portfolio	8,861,746	11,292,053	15,418,165	19,642,001	23,443,838
Gross loan portfolio	*8,940,458*	*11,451,500*	*15,730,953*	*20,117,985*	*24,160,508*
(Loan loss reserve)	*78,712*	*159,447*	*312,788*	*475,983*	*716,670*
Interest receivable	33,930	44,970	46,839	27,899	2,427
Financial investments	7,612,191	7,966,746	8,338,927	9,497,315	11,121,746
Net fixed assets	1,115,821	1,014,812	967,064	1,040,346	1,111,282
Intangible assets	-	-	-	-	-
Other assets	92,822	125,173	116,290	133,296	102,382
LIABILITIES AND EQUITY	**17,727,878**	**20,462,076**	**24,939,490**	**30,381,787**	**35,844,031**
Liabilities	**7,101,142**	**8,382,042**	**10,665,952**	**13,521,278**	**15,971,487**
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	-	-	-	-	-
Borrowings	7,024,423	8,296,507	10,389,666	13,193,887	15,524,598
Subordinated debt	-	-	-	-	-
Other liabilities	76,720	85,535	276,286	327,391	446,889
Equity	**10,626,736**	**12,080,034**	**14,273,539**	**16,860,508**	**19,872,544**
Core capital	10,626,736	12,080,034	14,273,539	16,860,508	19,872,544
Paid-in capital	-	-	-	-	-
Donated equity	*9,376,504*	*9,360,554*	*9,405,971*	*9,445,549*	*9,460,383*
Retained earnings	*1,250,232*	*2,719,481*	*4,867,568*	*7,414,959*	*10,412,162*
Other equity accounts	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Gross loan portfolio	8,051,163	9,828,241	13,721,396	17,499,596	22,929,342
Assets	17,034,013	19,135,813	23,042,898	27,721,784	33,136,765
Deposits	-	-	-	-	-
Borrowings and subordinated debt	6,577,508	7,676,646	9,481,799	11,817,249	14,369,603
Equity	10,383,073	11,377,864	13,378,758	15,602,019	18,379,765

Note: Financial statements are presented before the adjustments for back-to-back loans made by Planet Rating (refer to Performance Indicators).

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
Operating expense ratio: Operating expense / Average gross outstanding portfolio
Cost per borrower: Operating expense / Active borrowers (end of period)
Staff productivity: Active borrowers / Total personnel (end of period)
Funding 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
Loan loss provision expense ratio: Net loan loss provision 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

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent 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 only minimally affect the institutionôs financial condition given its high resilience.	INVESTMENT GRADE
A+ A A-	Current institutional, operational and financial performances are 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 institutionôs financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++ B+ B	Current institutional, operational and financial performances are 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 institutionôs financial condition that should however remain moderate.	
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate 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 uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	SPECULATIVE INVESTMENT
C++ C+ C C-	Current institutional, operational and financial performances are 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	
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.	TECHNICAL ASSISTANCE REQUIRED
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.	