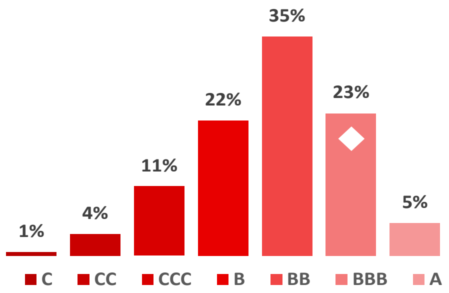
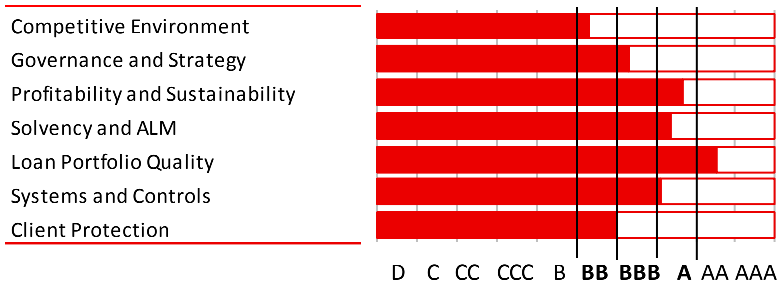
DBACD – Egypt

FINAL RATING	**BBB+**	**Field visit Date:**	April 2017
		Rating Committee Date:	June 2017
		Validity:	1 year if no relevant changes in operations or in the external context occur
OUTLOOK	Stable	**Previous MFR's rating:**	Not applicable





FINANCIAL ANALYSIS AND CAPITAL ADEQUACY

Profitability and sustainability ratios are high during all the periods under analysis. The trend was positive in 2016, mostly thanks to huge FX gains, while it was slightly negative in Apr16-Mar17, as all the expense ratios increased a bit. On the other hand, the adjusted profitability and sustainability ratios, while showing comfortably positive values until 2016, became suddenly negative in Apr16-Mar17, due to a very relevant inflation adjustment. Operational efficiency is good, given the credit methodologies and the low average disbursed loan size. Exposure to market risks is medium-low. Capital adequacy ratio is very high. It is worth noting that the value in USD of total equity sharply decreased in 2016, due to very high local currency devaluation.

GOVERNANCE, RISK MANAGEMENT AND CLIENT PROTECTION

DBACD counts on formalized governance systems which ensure adequate supervision of the operations. BoD members show to have a deep knowledge of the local operational context and strong commitment towards the institution. Yet, their professional expertise shows room for improvement in some fields which are usually relevant for a microfinance institution. Decision making and the risk management framework are effective and well-defined, with adequate policies and monitoring tools. Systems and controls are well-structured. The overall performance in client protection is adequate, especially in prevention of over-indebtedness, while registering room for improvement in transparency. The operational context presents some challenges, mostly due to a certain degree of macroeconomic instability. The competition is not yet fierce, but is increasing over time. The regulatory framework is not conducive and DBACD is currently supervised by two different regulators.

Institution details			
Legal form	NGO		
Ownership	Not applicable		
Year of inception	1998		
Financial Services	Loans and Insurance		
Credit methodology	Individual/Solidarity		
Regulator / Supervisory Authority	2 regulators: MSS and EFSA		
Institutional data	**Dec15**	**Dec16**	**Mar17**
Clients (#)	n/a	n/a	n/a
Members (#)	n/a	n/a	n/a
Active borrowers (#)	137,483	143,598	145,715
Female borrowers	57.0%	58.1%	58.1%
Active loans (#)	137,483	143,598	145,715
Branches (#)	18	20	21
Total staff (#)	752	793	815
Loan officers (#)	483	517	519
Gross outstanding portfolio (US$)	40,130,642	19,600,626	21,451,984
Average loan balance/GDP p.c.	9%	9%	10%
Total assets (US$)	52,472,658	26,564,228	29,035,415
Total savings (US$)	0	0	0
Active savers (#)	0	0	0

n/a: not applicable

Indicators	Dec15	Dec16	Mar17
ROE	14.6%	17.2%	16.6%
ROA	10.3%	11.5%	11.0%
Oper. Self-sufficiency (OSS)	172.5%	175.7%	171.0%
Capital Adequacy Ratio (MFR)	66.3%	67.0%	63.1%
Equity to Assets Ratio	67.8%	68.1%	64.5%
Cash Ratio	9.4%	18.5%	14.1%
Operating expense ratio	13.8%	14.5%	14.7%
Financial expense ratio	4.1%	5.3%	5.6%
Provisioning expense ratio	0.7%	0.4%	0.5%
Portfolio yield	29.6%	29.1%	29.2%
PAR 30	0.0%	0.0%	0.0%
PAR 90	0.0%	0.0%	0.0%
Restructured portfolio	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.0%	0.0%
Average credit risk ratio	0.1%	0.0%	0.0%
Risk coverage ratio	n.ap.	n.ap.	n.ap.
Staff productivity (borrowers)	183	181	179
Average annual percentage rate (APR)			37%
Average transparency index			56%
Average disbursed loan size, US$	376	193	212

na: not available   As of March 17 last 12-months figures

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AREA	Rating Factors	Judgment*	Description
External Context	Political and Macroeconomic Context	Moderate	- Low sovereign rating grade (B category) assigned by mainstream rating agencies, highlighting a medium-high country risk. - High inflationary environment and macroeconomic instability.
	Competitive Environment	Adequate	+ Despite growing competition, client over-indebtedness risk is still under control. - Improvable R&S framework for institutions like DBACD (two different regulators, limited supervisory capacity, etc.).
Governance and Strategy	Ownership and Governance	Adequate	- Unfavourable ownership structure and limited financial capacity to support the institution in case of contingency + Formalized governance functioning and adequate supervision of the operations. + BoD members count on a deep knowledge of the local operational context. - Room for improvement in BoD professional background as legal/regulatory and banking expertise are limited and microfinance is concentrated in the CEO.
	Risk Management and decision making	Good	+ Good quality of the management team and very high commitment towards the institution. + Well-defined risk management framework (BoD risk Committee and Risk Management Dept.), including complete risk management policies. + Well-performing early warning system and adequately developed tools, especially for the monitoring of the credit risk - Room for improvement in some monitoring tools. A comprehensive qualitative risk mapping still under construction.
	Strategy and market positioning	Adequate	+ Good planning capacity of the management team and realistic 2017 projected ratios. + Complete BP document and Operational Plan. - Room for improvement in financial modelling and missing multiple scenario and sensitivity analysis for key variables. + Strong brand recognition in the areas of operations. - Limited number of regions served by DBACD.
Financial Profile	Profitability and Sustainability	Good	+ Strong unadjusted profitability and sustainability results (ROA at 11%; OSS at 171%). + Consolidated capacity to produce unadjusted profitability during the whole period under analysis. - Negative adjusted ratios in Apr16-Mar17 (AROA at -0.9% and FSS at 97%) and marked negative trend of annualized ratios in Q1 2017.
	Efficiency and productivity	Good	+ Good operational efficiency (OER at 14.7%) given the nature of the lending operations and the average disbursed loan size (14.4% of the p.c. GDP) + Staff productivity stands at good level (179 active borrowers).
	Solvency	Excellent	+ Very high CAR values as of March 2017 (63.1%) and previous periods (67.0% as of Dec-16). + Excellent capacity to absorb unexpected losses.
	Funding	Adequate	+ The financial needs for 2017 will be likely covered within Q2 2017. + Adequate bargaining power of DBACD thanks to solid institutional reputation and good historical financial results. - Borrowings' concentration risk in two main local banks as of March 2017.
	Liquidity and market risks	Adequate	+ Adequate liquidity management and good monitoring of the liquidity risk. + Safe liquidity positions, including USD funds and banking deposits held as cash collaterals. - Liquidity contingency plan with limited options. + Medium-low exposures to FX and interest rate risks - Room for improvement in the market risk management (policies, limits, monitoring tools).

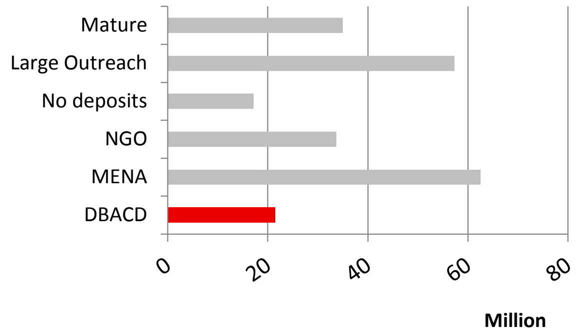
***Ranking: Excellent, Good, Adequate, Moderate, Weak, Very Weak. The judgment and description contribute to determine the rating of the institution.**

AREA	Rating Factors	Judgment*		Description
Loan Portfolio Quality	Loan portfolio concentration	Good	+	Very low GLP concentration in single top borrower and 10 top ones (0.03% and 0.26% on equity respectively).
			+	High GLP diversification among branches as the two primary ones account for 18.2% of total GLP.
			+	Fair GLP diversification among economic sectors, even though animal breeding and livestock account for a not negligible 19.3% as of Mar-17.
			-	Relevant geographic GLP concentration in the Dakahleya governorate.
	Loan portfolio quality	Excellent	+	Excellent portfolio quality ratios as of Mar-17 (PAR1 at 0.00%, w-o ratio at 0.1% and restructured portfolio at 0.1%).
			+	Portfolio quality has been kept at very high levels during all periods under analysis.
	Credit risk management and coverage	Good	+	Adequate formalization and dissemination of credit processes, strong preventive checks before loan approval.
			+	Highly effective post-disbursement follow-up and debt collection.
			+	Good coverage of credit risk: PAR1 at 0.0% and LLR at 3.0% of GLP.
Systems and Controls	Human Resources	Good	+	Structured and well-staffed HR dept. counting on complete policies and procedures.
			+	Low staff turnover rate along the last four periods under analysis. Competitive remuneration and non-momentary benefits.
			+	Formalized staff induction and training. Internal carrier development paths strongly promoted.
	Management Information System	Good	+	Fully integrated and supportive MIS.
			+	Appropriate control on main technological risks.
			+	Good reporting capacity with fairly high data reliability.
	Internal Control and Internal Audit	Adequate	+	Good level of formalization of processes and adequate dissemination of policies and procedures. Strong preventive controls in place, especially at branches.
			+	Full-staffed IA dept. and extensive, high quality field work.
Client Protection	Appropriate product design and delivery	Adequate	+	Information is gathered to monitor the suitability and use of products and services.
			+	Adequate client feedback analysis and satisfaction surveys.
	Prevention of over-indebtedness	Good	+	A low context risk for client over-indebtedness.
			+	A credit bureau check is required for all loans.
			+	The staff incentive scheme attributes a higher weight to portfolio quality.
	Transparency and Responsible pricing	Adequate	-	No provision of loan contracts and repayment schedules to the clients. The institutional transparency index is low (56% average) due to application of flat
			+	The loan price is in line with benchmarks and the cost of credit is not high, considering the low disbursed loan size.
	Fair and respectful treatment of clients, Privacy and Complaint resolution	Adequate	+	Debt collection practices are adequately formalized and IA investigates aspects of client treatment.
			+	A written consent to share client information is required in the loan contracts.
			+	Complaints are systematically collected, reported and consolidated.

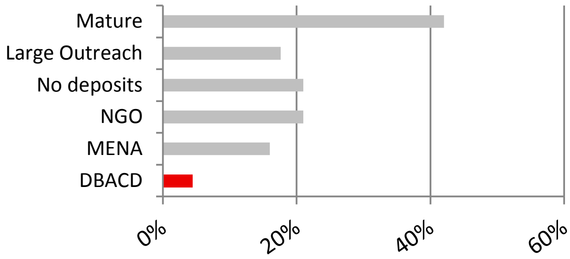
***Ranking: Excellent, Good, Adequate, Moderate, Weak, Very Weak. The judgment and description contribute to determine the rating of the institution.**

Benchmark[1]

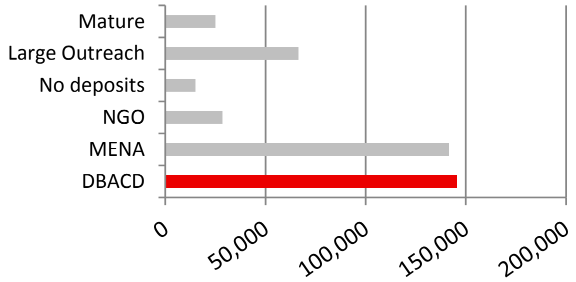
Gross Loan Portfolio in USD



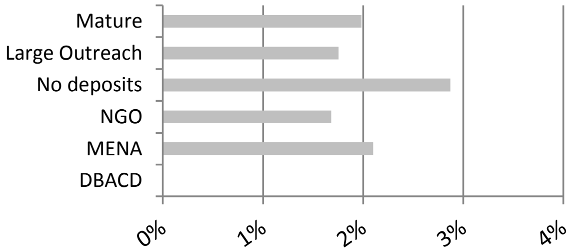
Average loan balance per borrower / GNI per capita



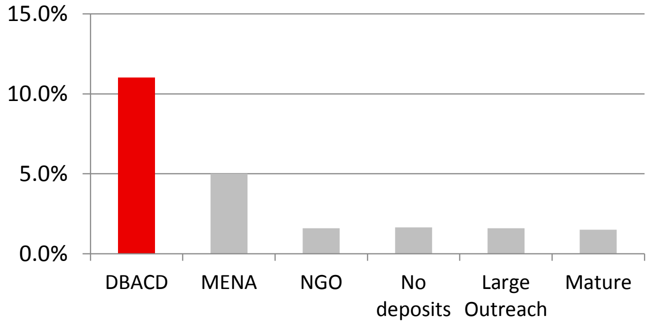
Number of active borrowers



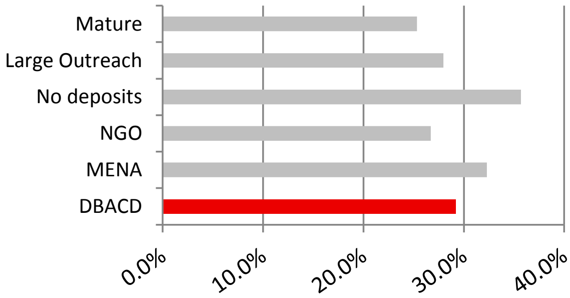
Portfolio at risk > 30 days



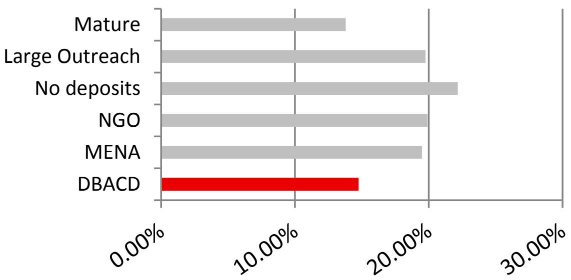
Return on assets



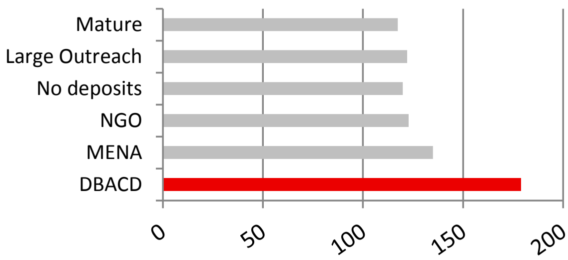
Yield on gross portfolio (nominal)



Operating expense / loan portfolio



Borrowers per staff member



[1] Font: MicroFinanza Rating Database for the period 2012-2016 (70% of observations in 2015-2016).
MENA: Middle East and North Africa. Large outreach: >30,000 borrowers. Mature: >15 years.

Macroeconomic Context - Egypt

Sovereign Risk*

	Dec-14	Dec-15	Dec-16	Mar-17
Fitch Ratings	B Stable	B Stable	B Stable	B Stable
Moody's	Caa1 Stable	B3 Stable	B3 Stable	B3 Stable
Standard & Poor's	B- Stable	B- Stable	B- Stable	B- Stable

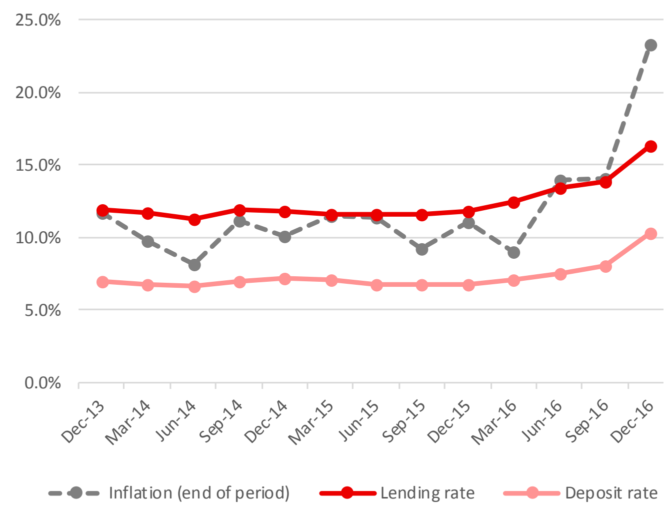
Source: Trading Economics *Long-term, foreign currency

Macroeconomic Indicators

	Dec-14	Dec-15	Dec-16
GDP per capita (current LCU)	23,464	26,553	na
Exhange rate to USD	7.14	7.81	18.13
GNI per capita Atlas method (current US$)	3,210	3,340	na
GDP growth (annual %)	2.23%	4.20%	na
Current account balance (% of GDP)	-2.00%	-5.10%	na

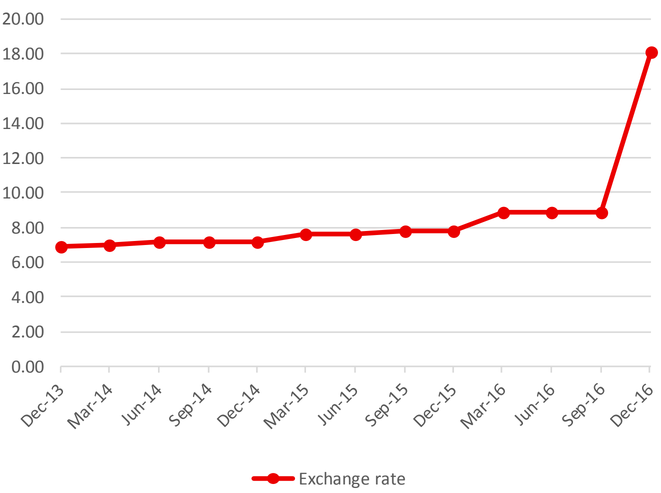
Source: World Bank na = not available

Figure 1: Inflation and interest rates



Source: IMF, internal sources

Figure 2: Exchange rate to USD



Source: IMF

Social Indicators

	Data	Source	Year
Population, total	91,508,084	*World Bank*	2015
Human development index (HDI)	0.69	*UNDP*	2015
- Level	medium	*UNDP*	2015
Poverty headcount ratio at national poverty lines	25.2%	*World Bank*	2010
Poverty headcount ratio at $3.10 a day	na	*World Bank*	2008
Poverty headcount ratio at $1.90 a day	na	*World Bank*	2008
Population not completed primary school	0.0%	*World Bank*	2013
Enabling environment for financial inclusion**	0.31	*Economic Intelligence Unit*	2015
- Country ranking	51/55	*Economic Intelligence Unit*	2015
Population without bank account	86.3%	*Global Findex*	2014
Population without previous access to formal credit	93.7%	*Global Findex*	2014
MIMOSA Score***	1.0	*MIMOSA*	2014

na = not available

** It assesses the regulatory framework for financial inclusion and the implementation of corresponding government policies.
*** MIMOSA is the index to measure the Market outreach and Saturation (http://mimosaindex.org/).

1. Governance and Strategy

DBACD has achieved an *adequate* performance in Governance and Strategy Area.

- The Dakahlya Businessmen Association for Community Development (DBACD) was founded as a business association (not-for profit organization) in March 1995, while it disbursed its first individual loan in late 1998[3] and its first group loan in 2001.
- Currently, DBACD is registered as a Non-Governmental Organization (NGO) with the Ministry of Social Affairs, with micro-lending as its core business activity. It also operates as a microfinance-specialized Non-Bank Financial Institution (NBFI), which is directly supervised by the Egyptian Financial Supervisory Authority (EFSA), generating a peculiar situation of an MFI regulated and supervised by two different authorities.
- DBACD is the leading microfinance institution in Dakahlya governorate and since 2012, it started expanding operations in neighbouring governorates within the Nile Delta region. DBACD network is composed of 21 branches as of Mar-17.
- DBACD has been offering microcredit products, using individual and group lending methodologies[4] and primarily supports business activities. Home improvement loans and other consumer loans are also offered to the local population.
- Since inception, DBACD has also been providing local communities (besides borrowers) with non-financial services, such as training courses and it also engages in corporate social responsibility by offering other types of support (health assistance to vulnerable people, etc.)[5].

Ownership structure and support

- DBACD is an NGO without any proper ownership structure. Its founders and members of DBACD General Assembly (totalling 46 persons as of Mar-17) are mainly business people[6] from the Dakahlya governorate.
- DBACD has been analysing the possibility to transform into a credit-only, for-profit NBFI in the medium-term, but the final decision will be taken most likely at the beginning of 2018. In the new financial company, the local association (DBACD) would own the majority shares, while the staff and a couple of international DFIs will enter as minority shareholders.
- There is very limited financial capacity of DBACD's Assembly members, in case of financial contingency for the institution.
- On the other hand, DBACD has been historically able to get access to external support (USAID, IFC, local authorities, etc.), also thanks to good local reputation of DBACD's founders and members.

Corporate governance

- BoD is composed of 9 members, who are mostly local business people with a deep knowledge of the operational context and strong commitment towards the institution. The Chairman is Mr. Samir El-Gamal, one of the initial founders and main supporters.
- BoD meets on a quarterly basis and minutes are regularly taken. The communication between BoD and top management is good, also thanks to the close relationships and regular reports sent to BoD.
- BoD members show adequate understanding on main topics and issues faced by the institution[7]. Yet, some relevant professional expertise are absent (legal/regulatory) or limited (banking) or concentrated in the CEO (microfinance), who is a voting BoD member.
- Top management receives relatively adequate strategic support and guidance from BoD members, who contributed to set the institutional risk appetite.
- BoD supervision on management and operations is adequately carried out, also thanks to four BoD committees (Executive, Audit, Risk and Welfare), which are already formalized and meet quarterly.
- On the other hand, BoD oversight function shows some room for improvement, given the already mentioned professional background of the non-executive BoD members and the absence of any kind of monetary remuneration. Moreover, a formal evaluation of the CEO is not carried out.
- BoD functioning is adequately formalized and a corporate governance manual sets rules for the management of the potential conflicts of interest (such as, the voting power assigned to CEO in BoD meetings).

Management team and decision making

- The management team is composed of the CEO (Mr. Hassan Faried), the Operation Manager, the Financial Manager, the HR Manager, the IT Manager, the Risk Manager and the Organization Development / Transformation Manager.

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[3] After signing a Cooperative Agreement with USAID on Oct-97.

[4] No Islamic banking products are provided.

[5] See marketing positioning section for further details.

[6] According to the local Law, institutions are not allowed to be founders/members of an NGO.

[7] Thanks to their long experience as business people and to some microfinance-specialized trainings and international exposure trips.

- Their leadership and technical skills, coupled with high commitment towards DBACD[8], are adequate for an institution of the size and complexity of DBACD.
- A management committee meets on quarterly basis. Overall, decision-making process is effective and supportive. Top management team has not suffered from any voluntary turnover in the last years.
- DBACD is currently facing a medium key person risk in the CEO position. Yet, it is partly mitigated by a high BoD commitment, a complete and skilled management team that knows the institution in-depth and a formalized succession plan for key positions.

Risk Management

- The management team skills and expertise in risk management are fairly good, while BoD members shows some room for improvement, especially for more technical aspects.
- The Risk Committee, composed of two BoD members and the CEO, is adequately functioning (quarterly formalized meetings, sufficiently detailed reports, etc.).
- A risk management department is in place, and policies are complete and sufficiently detailed.
- Risk management tools and reporting, including a well-done dashboard (early warning system, including a set of thresholds for key performance and risk variables), are adequately developed.
- The monitoring of the credit risk is complete and effective. Some advances have been registered for the liquidity risk monitoring as well. Other tools (operational risk, interest rate risk) show room for improvement, while the drafting of a comprehensive qualitative risk matrix is still undergoing.
- The mandatory reporting towards the two regulators (MSA and EFSA), though fully in compliance with regulatory requirements, is moderately developed, as regulators have not yet set a full-fledged reporting set for institutions as DBACD.

Strategy and financial projections

- The management team shows good strategic planning skills. The Strategic Plan 2015-2017 is well-done and complete and is formally approved by the BoD. A new Plan will be drafted and approved by late 2017.
- A complete Operational Plan 2017 is also in place, showing details by department, including precise timetables.
- The budget is regularly produced and monitored, even though the budget control analysis shows some room for improvement, in terms of additional accounting breakdowns and narrative variance analysis.
- The projected performance ratios were partly achieved in 2016, especially in terms of active borrowers and new branches, mostly due to liquidity shortages. Moreover, considering the high inflation rate, some targets as the GLP would have been over-achieved in absence of liquidity constraints.
- The financial projections over the period 2015-2017 are complete and well-done, while the updated ones (2018-2020) still lack some details (accuracy in monthly distribution of annual figures, assumptions, projected cash-flows and ratios). Multiple scenario and sensitivity analysis for key-variables is not carried out in a systematic and accurate manner.
- The overall GLP growth appears to have been fairly sustainable in the past 3 years considering the moderate market penetration so far, the recently improved credit bureau system and the adequate internal control capacity and operational processes to manage growth.

	Actual	Year 1	Year 2
Projected Financial Indicators	**Dec16**	**Dec17**	**Dec18**
Return on Equity (ROE)	17.2%	12.0%	15.6%
Return on Assets (ROA)	11.5%	7.6%	8.9%
Portfolio growth - YoY	13.4%	26.0%	18.8%
Operational Self-Sufficiency (OSS)	175.7%	147.9%	161.4%
Operating expense ratio (on GLP)	14.5%	15.6%	14.0%

Source: DBACD, data adapted by MicroFinanza Rating na: not available

- Given the historical performance, the projected ratios (2017 and 2018) seem to be achievable under current operational context. Profitability and sustainability ratios are expected to follow a downward trend in 2017, as the rise in loan portfolio yield would not be enough to offset the increase in the operating expense ratio.
- Planning control activities are adequately performed, especially on projected ratios, on quarterly basis.

Market positioning

- DBACD's market share and branch coverage in the areas of operations is relatively high, while the coverage is only regional (Nile Delta).
- Brand recognition is very high in the Dakahlya Governorate, thanks to long trajectory, good outreach, deep local roots, the continuous provision of non-financial services and aid for the local communities.
- DBACD's products and services offer is adequately diversified and includes individual and group loans to microbusinesses (internally denominated SMEs), household and consumer loans and life micro-insurance product, targeting the low-income people.
- DBACD competitiveness is fairly high, mostly thanks to very good local reputation and adequately trained staff. Yet, last year the liquidity shortages faced by DBACD and the credit staff's preference for

[8] All top managers and most middle managers have grown within DBACD.

prudentially small loan amounts triggered some higher-than-usual client drop-outs. Moreover, as competition is rapidly growing, it is crucial for DBACD to enhance its product development function.

- DBACD provides local communities with non-financial services, some of them free of charge (women empowerment, awareness on environmental topics, etc.[9]) and others at a subsidized cost, such as training courses (language, computer, etc. [10]). It is worth noting that DBACD delivers aid, that is mostly related to medical assistance to the most vulnerable people.
- Currently DBACD does not count on technologically advanced delivery and collection channels..
- Last competitors' analysis was carried out in December 2016, as immediate response to increasing competition and clients' drop-out rates.

2. Financial Profile

According to MFR rating methodology, the institutional performance is *good* in profitability and sustainability, while is *good* in solvency and ALM.

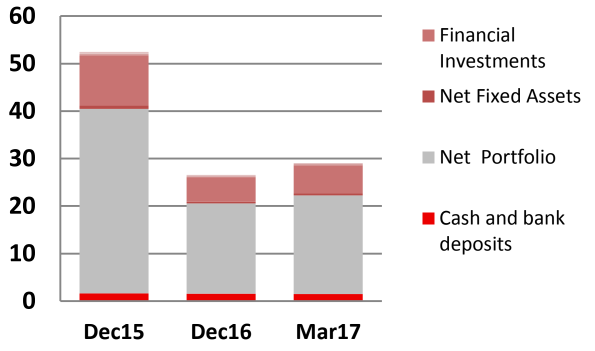
Profitability and Sustainability

- Profitability and sustainability ratios are quite high during all the periods under analysis.
- The trend was positive in 2016, mostly thanks to huge FX gains[11], while it was slightly negative in Apr16-Mar17, as all the expense ratios increased a bit.
- On the other hand, the adjusted profitability and sustainability ratios, while showing comfortably positive values until 2016, became suddenly negative in Apr16-Mar17, due to a very relevant inflation adjustment[12].

Profitability and Sustainability	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Return on Equity (ROE)	14.6%	17.2%	16.6%
Return on Assets (ROA)	10.3%	11.5%	11.0%
Operational self-sufficiency (OSS)	172.5%	175.7%	171.0%

na: not available n.ap: not applicable

- Overall the results seem to follow a marked downward trend in Q1 2017[13], mostly due to the decrease of the FX revenues, which distorted previous results.
- Asset concentration in net loan portfolio stands at a moderate 71.7%, as of Mar-17, due to the relevance (21% of total assets[14]) of the financial assets held as collateral of some loans borrowed from local banks.



Revenues and Expenses Structure

- Loan portfolio yield covers all the expenses. Other products' yield[15] is almost irrelevant (0.02% on average assets), while the other financial income ratio registered a sharp increase in 2016, due to important FX gains incurred in November 2016.
- Portfolio yield is relatively stable with a slight decrease in 2016, while keeping similar value during the last period of analysis. It is worth noting that interest rates had been revised downwards early last year, but DBACD had to revert back to previous rates due to erosion of margins by macroeconomic instability[16].
- Net interest margin (NIM) shows a marked decreasing trend during the last 4 years, driven by a downward trend of the portfolio yield and upward trend of the cost of funds. NIM stands at a still high 19.9% in Apr16-Mar17.
- The funding expense ratio has been increasing over the years, because the financial leverage gradually increased as well as the average cost of funds.
- The provision expense ratio has been kept stable and at very low levels during all the periods, thanks to an excellent portfolio quality.

Revenues and Expense Ratios	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Portfolio yield	29.6%	29.1%	29.2%
Other financial income (on assets)	1.9%	4.8%	4.8%
Other products yield (on assets)	0.04%	0.02%	0.02%
Operating expense ratio (on GLP)	13.8%	14.5%	14.7%
Funding expense ratio*	4.1%	5.3%	5.6%
Provision expense ratio	0.7%	0.4%	0.5%

* exchange rate variations are not included in the calculation of the ratio

- Operational efficiency is good (OER at 14.7%), given the credit methodologies and the low average disbursed loan size (14.4% of the p.c. GDP). Staff

9 See MFR social rating report 2017 for further details.
10 Mostly borrowers and staff.
11 Accounting to 10% of total revenues in Apr16-Mar17.
12 See Annex 1 for details on types and values of the adjustments and Annex 2 for the adjusted ratios (AROE, AROA and FSS).
13 According to updated data received by DBACD after the rating visit, March, April and May's monthly results are positive, benefitting from the increase of the active interest rates.

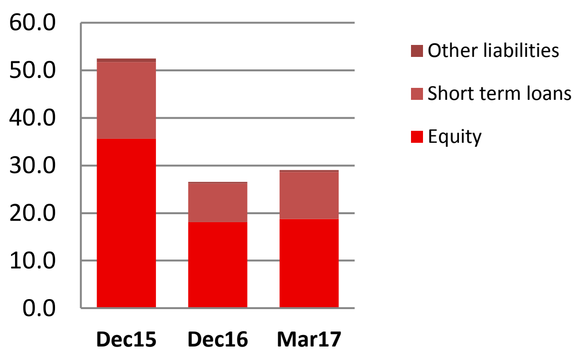
14 Excluding these banking deposits, net portfolio represents a high 90% of the assets.
15 Mostly referring to training courses provided by the ITC.
16 The interest rate was reviewed from 16% to 15% in 2016 and later (Q4) revised it back to 16% to cover decreasing margins related to the currency depreciation and high inflation.

productivity is also at good level (179 active borrowers). Recent trends have been negative for OER and slightly negative for staff productivity.

- Profit margin, though decreasing over time, is still enough as to absorb potential worsening of the expense structure (operating, financial and provision costs). Moreover, loan portfolio yield should increase slightly in 2017, as the active interest rates were lifted at the beginning of the same year.

Capital Adequacy

- Capital adequacy ratio (CAR) is very high (63.1% as of Mar-17) and is fully represented by Tier 1 capital. CAR decreased from 67.0% in Q1 2017.
- Total equity is worth USD 18.1m, as of March 2017, and is mostly composed of retained earnings. It is worth noting that the value in USD of total equity sharply decreased in 2016, due to very high local currency devaluation[17].
- The capitalization strategy is based on YoY net profits which are fully capitalized, as the current legal form of DBACD forbids any dividend distribution.

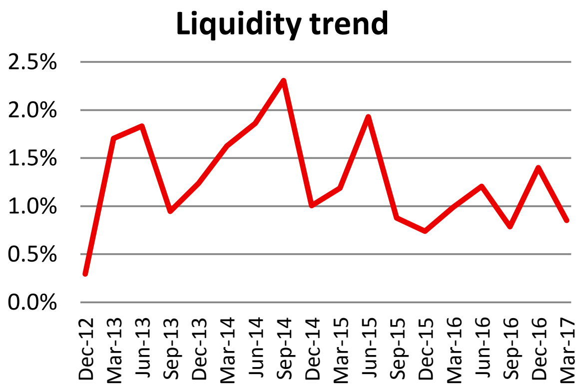


Indebtdness structure and funding

- Funding is represented only by borrowed loans, because DBACD is not allowed to mobilize deposits from the population.
- As of March 2017, DBACD has been borrowing funds from 4 local private banks, but 90% of borrowings are concentrated in two sources, highlighting a high concentration risk. In Q1 2017, DBACD had already signed a new loan agreement with a fifth lender, from abroad, improving funding diversification.
- The cost of funds ratio stands at a high 12.9% in Apr16-Mar17 and shows a marked increasing trend over the last years, following the high country risk and uncertainty. Moreover, the sharp increase of the benchmark overnight deposit rate in 2016 pushed up the cost of those borrowed loans, bearing floating interest rates.
- Funding sources stability is adequate, thanks to DBACD's good local reputation and positive credit history, despite the country risk.
- DBACD's financial needs for 2017 will be likely covered through loans borrowed from local and international banks. Approximately half of the required funding had been already accessed by April 2017.
- The funding strategy is structured and coherent with BoD and top management conservative risk appetite and it focuses only on local-currency denominated borrowings and historically controlled portfolio growth, jointly with very high solvency ratios.

Liquidity risk management

- A CFO[18] is in charge of the supervision of the liquidity management function, counting on adequate policies and procedures; the tools in place are adequate considering the limited complexity of the operations and the moderate debt-to-equity ratio.
- Liquidity risk is well monitored by the Risk Dept. Policies, limits and tools adequately fit the current institutional needs and credit-only operations.
- Liquidity position is adequate for a credit-only NBFI such as DBACD. As of Mar-17, cash and banks (including almost USD 1.2m kept at banks as additional cushion for contingency) represent 5.0% of total assets. Moreover, it is worth considering that 60% of borrowings are backed by additional financial assets (20.6% of total assets as at Mar-17) held as collaterals.
- Cash and banks, excluding the mentioned 1.2M USD reserve, are shown in the graph below.



- Asset-liabilities maturity gap analysis shows a very favourable situation for DBACD, with predominance of positive net positions for all the time brackets, mostly thanks to the low financial leverage and the high percentage of the short-term loan portfolio (84% of the total as at Mar-17).
- In 2016, DBACD experienced a severe funding shortage, due to macroeconomic instability and to the limited hard currency reserves of the local

[17] The exchange rate fell from EGP 8.86 to EGP 17.77 for 1 USD on November 2017.

[18] With oversight on the general administration function as well.

banking system. In 2017, uncertainty and country risk are still high, calling for higher liquidity reserves and more structured liquidity and funding strategies.

- The minimum liquidity threshold is monitored, on monthly basis by the Management Committee and quarterly by the BoD-level Risk Committee. This limit was recently re-defined (to become more prudential) after the 2016 experience.
- No covenants on minimum liquidity ratios have been imposed, neither by the regulator nor by the lenders so far.
- A proper liquidity contingency plan is missing. On the other hand, DBACD counts on enough funds held as cash collaterals of the borrowings. Moreover, DBACD could try and get access to a credit line borrowed by the European Investment Bank, in case of contingency.

Market risk management

- FX risk management policy, limits and monitoring tools have not been properly set, partly justified by the current prudential approach of the institution, which excludes foreign currency-denominated borrowings.
- As of Mar-17, exposure to FX risk is at a medium-low level because, although the USD net position represents only 7% on total equity, the macroeconomic context is still unstable.
- Interest rate risk management policy, limits and monitoring tools have not been properly defined. On the other hand, the potential increase[19] of the cost of funds is closely monitored by the management, as most borrowings bear floating interest rate, while the loan portfolio is issued at fixed rates.
- Theoretically, the potential 1 year impact of a 200 bp change in the local benchmark interest rate would be 2% of the net financial margin and 1% of the equity.

3. Loan portfolio Quality

According to MFR rating methodology, the institutional performance is excellent in loan portfolio quality.

Portfolio Features	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Gross outstanding portfolio (US$)	**40,130,642**	**19,600,626**	**21,451,984**
SME	51.4%	50.5%	50.0%
House Improvements	9.0%	9.1%	8.9%
Livestock & Poultry	16.9%	19.2%	19.1%
Life Standard Improvements	9.7%	9.1%	9.3%
Agriculture	3.9%	4.1%	4.0%
Transportation	9.1%	8.0%	7.9%
Gross outstanding portfolio (EGP)	**313,340,053**	**355,359,350**	**387,851,870**
Growth of gross portfolio (EGP)	30.1%	13.4%	20.2%
Number of active borrowers	137,483	143,598	145,715
Number of active loans	137,483	143,598	145,715
Average disbursed loan size, US$	376	193	212
Average disb. loan size on p.c. GDP	11%	13%	14%

na: not available n.ap: not applicable

Loan portfolio concentration

- GLP diversification among branches is very high, as the two primary branches account for 18.2% of total GLP, as of March 2017.
- Geographical concentration is medium-high, because most GLP has been disbursed within the Dakahleya governorate.
- GLP is adequately distributed among different economic sectors. There is some concentration in animal breeding and livestock (19.3% of total GLP and almost 50% of the group lending portfolio, as of Mar-17) and transportation (7.9% of total GLP).
- Concentration risk on borrowers is very low, because the top borrower and the top ten borrowers account only for 0.03% and 0.26% respectively of total GLP, as of Mar-17.

Portfolio quality

- Loan portfolio quality is excellent, as of Mar-17, and during all the previous periods under analysis. PAR1 stands at 0.00%[20] for all the periods, the restructured portfolio and the w-o ratio stand always at very low levels (both ratios at 0.01% at the cut-off date). Ratios' trends were positive in 2016 and stable in Q1 2017. The same applies to the average credit risk ratio, showing very low values during all periods[21].

[19] The overnight deposit rate, controlled by the Egyptian Central Bank, unexpectedly lifted by 200 bp to 16.75% on May 2017, registering a first time increase after the +300 bp of November 2016.

[20] All arrears during the month are fully recovered within the end of each month.

[21] Average credit risk ratio = (Average PAR30 + Average restructured portfolio + Written-off portfolio within the period) / Average gross loan portfolio.

Portfolio Quality Indicators	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
PAR 1	0.00%	0.00%	0.00%
PAR 30	0.00%	0.00%	0.00%
PAR 90	0.00%	0.00%	0.00%
PAR 180	0.00%	0.00%	0.00%
PAR 365	0.00%	0.00%	0.00%
Restructured portfolio	0.02%	0.02%	0.01%
Restructured portfolio (PAR 30)	0.00%	0.00%	0.00%
Write off ratio	0.05%	0.01%	0.01%
Average credit risk ratio	0.07%	0.02%	0.02%

na: not available n.ap: not applicable

- Main reasons behind these results are related to the prudential lending methodology adopted by DBACD (small loan amounts, gradual loan increase in successive cycles, etc.), the strong preventive controls before loan approval and still the high share of exclusive clients (80% of total borrowers, as estimated by DBACD management). Other reasons refer to the close relationships between the staff and the clients, strong repayment culture cultivated and the high local reputation of DBACD.
- Moreover, an estimated 0.02% of late payments are temporarily covered by LOs. Even though it is not a good practice, the management is aware of it and informally tracks such cases.

March 17

Sector	% of outst. portfolio	PAR > 30 days	PAR > 30 weighted
Trade	21.8%	0.0%	0.0%
Services	32.5%	0.0%	0.0%
Agriculture and livestock	23.3%	0.0%	0.0%
Production, processing and handicraft	4.1%	0.0%	0.0%
Housing	9.0%	0.0%	0.0%
Consumption	9.4%	0.0%	0.0%
Other	0.0%	n.ap.	n.ap.
TOTAL	100%	0.0%	0.0%

na: not available n.ap: not applicable

Credit Risk Management

- The credit processes are duly formalized. Policies and procedures are complete and regularly updated. Their dissemination at branch level is fairly good.
- The analysis of the repayment capacity of the potential borrower is adequate for small loan sizes and group lending methodology, as it is based on a basic one-month cash flow, including family expenses and other debts[22]. Moreover, in group lending, the peer group pressure plays a key-role in reducing any information asymmetry between DBACD and the borrowers.
- The prudential lending approach is reflected in the monthly loan instalment that is set at 33%, but it is not uniformly applied and can range up to 50%.
- A new and much more complex format for loan application analysis is being piloted for all loans > EGP 20,000 (approximately USD 1,100), which represent around 1.5% of active borrowers (as of Mar-17).
- All loan applications require at least two visits to the clients carried out by two different branch staff before loan approval. For loan amounts higher than EGP 15,000 (around USD 800), BM's field visit is also required. For loan amounts higher than EGP 30,000 (around USD 1,600) the branch's lawyer visits the potential client as well.
- At the branch, further preventive controls on the loan application files and documents are carried out by administrative staff, the lawyer and BM.
- Almost the totality of loan applications is approved at branch level, but the bulk of cross-checks carried out before the final decision and the high task segmentation provides reliable and verified data regarding the clients.
- Post-disbursement monitoring is very effective, as the LOs and their supervisors carry out a strict follow-up on arrears, achieving always a PAR1 at 0% by the end of each month. Debt collection processes are formalized and strengthened enough, as to ensure an almost complete recovery of outstanding arrears within few days, maximum three weeks.
- Credit risk management reports are adequate to the institutional needs. Relevant breakdowns are reported and monitored by the Risk Dept. Maximum thresholds for economic sectors (20% for livestock and poultry, 20% for consumer loans, 10% for housing loan) have been set and are regularly monitored.

Credit risk coverage

- Credit risk coverage is good, because PAR1 is nil and the loan loss reserve represents a safe 3.0% of GLP (as of Mar-17) as to absorb any hidden credit risk, any unforeseen negative event and the absence of real collaterals backing GLP.

Credit risk coverage	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Provisioning expense ratio	0.7%	0.4%	0.5%
Loan loss reserve ratio	3.0%	3.0%	3.0%
Risk coverage ratio (PAR30)	n.ap.	n.ap.	n.ap.
Risk coverage ratio (PAR30 + restr. 0-30)	n.ap.	n.ap.	n.ap.

na: not available n.ap: not applicable

4. Systems and Controls

According to MFR rating methodology, the institutional performance is good in systems and controls.

HR Management

- A dedicated and fully structured HR management department is in place. HR policies and procedures are complete and updated.

Personnel	Dec15	Dec16	Mar17
Total	752	793	815
Loan officers	483	517	519
Other staff	269	276	296
Staff allocation ratio	64.2%	65.2%	63.7%
Staff turnover rate	5.6%	7.2%	8.1%

Source: DBACD, data adapted by MicroFinanza Rating

[22] See Chapter 5 - Client Protection Principle n° 2 - for further details on repayment analysis and use of the credit bureau.

- Staff turnover ratio stands at low level, even though displaying a moderately negative trend since 2015. The ratio is systematically monitored, as well as the main reasons behind staff turnover. DBACD shows a very proactive approach to promoting high staff loyalty by means of monetary and non-monetary compensation, including training and internal career opportunities. Some staff poaching risk might arise in the near future, given the increasing competition of banks that are downscaling into the microfinance market segment.
- Staff remuneration (including the incentives[23]) is competitive, but a proper market study has not been carried out yet. Other benefits (subsidized staff loans, life and health insurance, pensions, etc.) are also provided to the staff.
- Internal communication flows between HO and branches is adequate and in line with the institutional size and geographical coverage.
- The staff satisfaction survey is repeated once every 2-3 years. The last one, finalized in 2015, shows acceptable quality[24]. Staff appraisal system is adequately developed, including both technical KPIs and competences. It is carried out once per year to all staff.
- Staff induction is formalized and effective. A budgeted training plan is elaborated on yearly basis. Both internal and external training is provided to staff.
- Succession planning and carrier development paths have been formalized. Internal career development is strongly promoted.

Information Technology

- A dedicated and adequately staffed IT dept. is in place and dealing with support, network and reporting.
- The MIS (“Delta” running on Oracle database) is an integrated one, including LTS, accounting, fixed assets, PPI[25], etc. Its development is outsourced to the developer, a Jordan-based software company, which has proved to be effective in supporting DBACD so far.
- It is worth noting that Delta accounting module is still running in parallel with previous accounting MIS (Alpha), which will be dismissed within a couple of months. The current use of two MIS for accounting has been generating some operational inefficiencies and workload.
- The MIS is adequately flexible in terms of implementation of new financial products and users, higher volumes and customized reports.
- Overall, information is accurate and reliable, and DBACD displays a good reporting capacity. IT Dept. has planned to automatize additional financial reports in the short run.
- All branches are real time connected to HO through VPN, double lines.
- Data security is adequate, ensured by policies and procedures regulating the access to the network (user profiles with limited access, passwords to be changed every 2 months, USB restrictions, dedicated server room, etc.) and appropriate data back-ups inside and outside the HO[26].
- The MIS disaster recovery plan is included in the business continuity plan, but a proper simulation has not been carried out yet.

Internal Control

- The organizational structure is complete and effective as to ensure overall appropriate internal controls. Main functions are properly segregated among departments. Three new area managers will be added to the chart in the next few months, in order to strengthen the monitoring of the branches. Branches’ organizational structure is complete, including credit staff, accountants, field cash collectors, cashiers, customer service, lawyer, etc.
- Policies and procedures formalization is good, as well as their dissemination among the field staff. It is worth mentioning that DBACD has almost finalized the process mapping project to automatically convert policies into charts and job descriptions.
- Decentralization of loan approval is high, while some accounting processes are also partly decentralized at the branches, entailing some exposure to operational risks[27].
- Several preventive controls, cross-checks and hierarchical controls are in place, especially in the loan approval process at the branches.
- The MIS is supportive in terms of internal control systems, thanks to the generation of good quality reporting and automatic dual controls.
- Cash handling risk is high, because most individual loans are repaid in cash at the DBACD’s branch premises and almost the totality of the group loans are reimbursed on the field, outside the branches. The mentioned risk is partly mitigated by adequate cash control and cash collection[28] policies and procedures and appropriate insurance coverage.
- A proper measurement and monitoring of the operational risk is not yet in place. Only significant event or losses are properly tracked by the Risk Dept.

[23] Incentives for the credit staff have been revised in 2016 in order to increase productivity and to better motivate the staff.
[24] See the Social Rating Report for details on the social responsibility towards the staff.
[25] Progress out of Poverty Index.
[26] IT Dept. has planned to strengthen data security with a database mirror to be implemented in the short term.
[27] See paragraphs on Credit risk Management for more details.
[28] Centralized to specialized collection officers, while the LOs cannot accept cash payments from the clients.

- On the other hand, a business continuity plan is in place, properly regulating strategies and procedures in case of potential threats, shocks, or risks.

Internal and External Audit

- IA Dept. is well-structured and fully-staffed, with good expertise and deep knowledge of the operations, especially at branch-level.
- IA independency from management is adequate, thanks to direct reporting to IA committee, composed of four BoD members. IA reporting to IA Committee and management is overall good.
- IA Manual is complete, as well as IA annual plan, which is defined by mostly using a risk-based approach.
- IA scope is adequately broad, because, although concentrated in the credit risk at the branch-level, all departments and functions are also covered.
- Visits to branches are very frequent (up to four times a year for each branch) and a highly representative samples of clients[29] are interviewed and visited by auditors.
- IA follow-up of recommendations issued to the management is properly executed. Some frauds have been detected in the last 12 months, but no relevant losses have been registered so far.
- The external audit of the financial statements, conducted by a reputable international firm, is well-structured with clean opinions and relevant explanation and breakdowns.

5. Client Protection[30]

According to MFR rating methodology, the institutional performance is adequate in client protection.

Product design and delivery

- Some information is collected to monitor how the clients use the products and services. However, the information is not regularly reviewed.
- The client feedback analysis includes the overall client satisfaction as well as some of the products' components. An analysis on customer satisfaction and drop-out has been performed periodically in the recent past. The channels used to collect the client feedback are partly informal and partly formal, including client surveys on a sample years and loan officer follow up sheet. The findings are analyzed globally and are not broken down in detail by specific client segments, besides by branch. There is a specific system in place to collect the client feedback on the quality and relevance of the non-financial services for the different target population segments.

Prevention of over-indebtedness

- The context risk factor is deemed low as the penetration of microfinance services in the areas of operation is not aggressive.
- The ratio of loan repayments (loan to be approved plus other loans) over disposable income is considered in determining the loan size. The prudential limit is set at 33%, but it is not uniformly applied and can range up to 50%.
- The individual cash-flow analysis presents some shortcomings as the client repayment capacity is approximately estimated with a very general indication of the client income, the business and family expenses as well as liabilities from other sources[31].
- The analysis of the group members' capacity to repay is fairly adequate. The analysis of the individual repayment capacity carried out by the loan officer includes some key elements of a simplified cash-flow analysis (client income and business expenses), but it leaves some margins of error.
- The system to review and report client data through the credit bureau is good, also thanks to recent streamlined process by the CRB. The consultation and sharing of client data is formalized in the credit policy and covers all loans in all cycles. The credit bureau covers the regulated financial providers (banks and NBFIs) and the information is updated with an appropriate frequency (i.e. monthly).
- Client over-indebtedness does not appear to play a major role in the cases of late payments.
- The staff incentive scheme and the productivity targets attribute a higher weight to portfolio quality than the portfolio volume and number of clients, contributing to preventing the risk of over-indebtedness.

Transparency

- Price disclosure is moderate if compare to best practices and SMART campaign standards. However, DBACD operates in an Islamic context, where the explicit disclosure of interest rates are important aspects to be taken into consideration for protecting an institution's reputation. Clients do not systematically receive a loan contract but instead they are given a card that shows the installment amount, loan amount and total cost of credit. The contract includes some information on the loan conditions: loan amount, total cost of credit, nominal interest rate (individual contracts), instalment amount, the repayment period and the consequences of late payment and default. The Annual Percentage

[29] Around 18% of active borrowers were visited in 2016.
[30] Refer to Social Rating report for further details on Client Protection.
[31] See Chapter 3 for further details.

Rate (APR) is not disclosed to clients. The loan contract does not include the nominal interest rate (group contract). A repayment schedule (with principal and interest amounts by instalment) is not provided. The terms and conditions are communicated verbally to clients before disbursement.

- The institutional transparency index (weighted average of different loan products) is low (between 50% and 60%), indicating a significant difference on average between the nominal interest rate disclosed to the clients and Annual Percentage Rate (APR) calculated according to the international standards (MFT methodology). While DBACD has a simple cost structure, the low transparency index is due to the flat rate of interest calculation.

Responsible pricing[32]

- The price of the main loan products is in line with the peer group of the market: the Annual Percentage Rate (APR) does not deviate more than 15% from the average APR of the loan products with a similar loan size on the market. The regulation does not establish an interest rate cap.

Fair and respectful treatment[33]

- The collection policy describes the steps to follow in case of default (after how many days the FI will take action and what those actions are). The code of conduct formalizes the acceptable and unacceptable client treatment (e.g. abuse, disrespect, inappropriate language, inflicting harm to clients), but there is room for improvement in dissemination to collection staff.
- A loan rescheduling policy exists and it is applied for late clients with willingness, but no capacity to repay. Loan rescheduling is very rare. However, the policy does not formalize the cases of specific distress under which clients can be eligible for rescheduling. Rescheduling cases are approved by senior management. A loan write-off policy is in place.

Privacy of client data[34]

- The code of conduct requires staff to adhere to the data privacy and confidentiality policy. The contract does not include a privacy clause indicating that the client information cannot be shared without their prior consent, but it has a provision requiring the client's consent to share their credit information with the credit bureau and banks. The client personal and financial information are also shared with other parties such as insurance companies.

Mechanisms for complaint resolution

- The complaint channels are easily accessible to clients (e.g. call, walk-in, informal) and are well suited to clients' preferences (suggestions boxes are generally less preferred). The customer service officers at branches and the customer service manager at HQ are the dedicated staff to handle staff complaints. DBACD has developed a mechanism to systematically collect, consolidate and report information on complains (including verbal complaints at branch level).
- Clients are informed on how to submit a complaint before the loan disbursement and the contact number is provided in the card kept by the client. The client's complaint tracking number is written in the client's card for reference.

[32] Chapter 2 for further details on profitability, sustainability and efficiency.
[33] Chapter 3 for further details on restructured portfolio and debt collection.
[34] Chapter 4 for further details on the Management Information System.

Annex 1 – Financial Statements and Adjustments

Balance sheet (US$)	Jan14 - Dec14		Jan15 - Dec15		Jan16 - Dec16		Jan17 - Mar17	
ASSETS	US$	EGP M	US$	EGP M	US$	EGP M	US$	EGP M
Cash and bank deposits	2,125,581	15.2	1,583,120	12.4	1,563,614	28.3	1,449,452	26.2
Short term financial assets	0	0.0	0	0.0	0	0.0	0	0.0
Net outstanding portfolio	32,630,232	233.1	38,907,788	303.8	19,004,813	344.6	20,803,902	376.1
Gross outstanding portfolio	33,707,957	240.8	40,130,642	313.3	19,600,626	355.4	21,451,984	387.9
Performing portfolio	33,707,957	240.8	40,130,642	313.3	19,600,626	355.4	21,451,984	387.9
Portfolio at risk > 30 days	0	0.0	0	0.0	0	0.0	0	0.0
(Loan loss reserve)	1,077,725	7.7	1,222,854	9.5	595,813	10.8	648,082	11.7
Accrued interest	288,569	2.1	332,362	2.6	224,831	4.1	304,952	5.5
Other short term assets	315,611	2.3	316,338	2.5	166,969	3.0	125,258	2.3
Total short term assets	**35,359,992**	**252.6**	**41,139,608**	**321.2**	**20,960,227**	**380.0**	**22,683,565**	**410.1**
Long term financial assets	9,015,173	64.4	10,485,192	81.9	5,208,405	94.4	5,983,317	108.2
Net fixed assets	854,109	6.1	734,210	5.7	323,338	5.9	368,533	6.7
Other long term assets	25,879	0.2	113,648	0.9	72,258	1.3	0	0.0
Total long term assets	**9,895,161**	**70.7**	**11,333,050**	**88.5**	**5,604,001**	**101.6**	**6,351,851**	**114.8**
Total assets	**45,255,153**	**323.3**	**52,472,658**	**409.7**	**26,564,228**	**481.6**	**29,035,415**	**525.0**
LIABILITIES and EQUITY								
LIABILITIES								
Demand Deposit	0	0.0	0	0.0	0	0.0	0	0.0
Compulsory savings	0	0.0	0	0.0	0	0.0	0	0.0
Short term time deposits	0	0.0	0	0.0	0	0.0	0	0.0
Short term loans	10,652,931	76.1	16,124,198	125.9	8,078,362	146.5	9,915,339	179.3
Other short term liabilities	722,673	5.2	767,352	6.0	386,473	7.0	389,894	7.0
Total short term liabilities	**11,375,604**	**81.3**	**16,891,550**	**131.9**	**8,464,835**	**153.5**	**10,305,233**	**186.3**
Long term time deposits	0	0.0	0	0.0	0	0.0	0	0.0
Long term loans	0	0.0	0	0.0	0	0.0	0	0.0
Subordinated debt	0	0.0	0	0.0	0	0.0	0	0.0
Other long term liabilities	0	0.0	0	0.0	0	0.0	0	0.0
Total Long term liabilities	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**
Total liabilities	**11,375,604**	**81.3**	**16,891,550**	**131.9**	**8,464,835**	**153.5**	**10,305,233**	**186.3**
EQUITY								
Paid-in capital	0	0.0	0	0.0	0	0.0	0	0.0
Donated equity	7,219,086	51.6	6,604,336	51.6	2,844,272	51.6	2,852,138	51.6
Hybrid Capital	0	0.0	0	0.0	0	0.0	0	0.0
Reserves	0	0.0	0	0.0	0	0.0	0	0.0
Total retained earnings	26,660,463	190.4	28,976,772	226.3	15,255,121	276.6	15,878,044	287.1
Net income, previous years	21,785,048	155.6	24,119,257	188.3	12,412,075	225.0	15,293,027	276.5
Net income, current year	4,875,415	34.8	4,857,514	37.9	2,843,046	51.5	585,017	10.6
Other equity accounts	0	0.0	0	0.0	0	0.0	0	0.0
Total equity	**33,879,549**	**242.0**	**35,581,108**	**277.8**	**18,099,393**	**328.1**	**18,730,182**	**338.6**
Total liabilities and equity	**45,255,153**	**323.3**	**52,472,658**	**409.7**	**26,564,228**	**481.6**	**29,035,415**	**525.0**

Income Statement (US$)	Jan14 - Dec14		Jan15 - Dec15		Jan16 - Dec16		Apr16 - Mar17	
	US$	EGP M	US$	EGP M	US$	EGP M	US$	EGP M
Interest & fees on loans	9,866,251	70.5	10,663,905	83.3	5,399,304	97.9	5,669,166	102.5
Interest & fees on investments	643,618	4.6	706,063	5.5	436,967	7.9	552,834	10.0
Other financial income	0	0.0	0	0.0	0	0.0	0	0.0
Financial income	**10,509,869**	**75.1**	**11,369,968**	**88.8**	**5,836,271**	**105.8**	**6,222,000**	**112.5**
Interest paid on borrowings	1,127,963	8.1	1,493,085	11.7	981,614	17.8	1,079,101	19.5
Interest paid on savings	0	0.0	0	0.0	0	0.0	0	0.0
Other financial expenses	0	0.0	0	0.0	0	0.0	0	0.0
Inflation adjustment	0	0.0	0	0.0	0	0.0	0	0.0
Financial expenses	**1,127,963**	**8.1**	**1,493,085**	**11.7**	**981,614**	**17.8**	**1,079,101**	**19.5**
Net financial income	**9,381,905**	**67.0**	**9,876,882**	**77.1**	**4,854,658**	**88.0**	**5,142,899**	**93.0**
Net FX income (expense)	58,571	0.4	169,041	1.3	755,007	13.7	685,643	12.4
Other operating income	31,581	0.2	19,925	0.2	5,477	0.1	6,212	0.1
Personnel expenses	4,031,628	28.8	4,451,440	34.8	2,412,017	43.7	2,546,510	46.0
Administrative expenses	475,930	3.4	505,574	3.9	288,528	5.2	315,842	5.7
Operating expenses	**4,507,558**	**32.2**	**4,957,014**	**38.7**	**2,700,545**	**49.0**	**2,862,352**	**51.8**
Net loan loss provision expense (income)	89,085	0.6	251,319	2.0	71,551	1.3	102,434	1.9
Net operating income	**4,875,415**	**34.8**	**4,857,514**	**37.9**	**2,843,046**	**51.5**	**2,869,968**	**51.9**
Non-operating income	0	0.0	0	0.0	0	0.0	0	0.0
Non-operating expenses	0	0.0	0	0.0	0	0.0	0	0.0
Net income before donations, before tax	**4,875,415**	**34.8**	**4,857,514**	**37.9**	**2,843,046**	**51.5**	**2,869,968**	**51.9**
Taxes	0	0.0	0	0.0	0	0.0	0	0.0
Net income before donations	**4,875,415**	**34.8**	**4,857,514**	**37.9**	**2,843,046**	**51.5**	**2,869,968**	**51.9**
Donations in cash	0	0.0	0	0.0	0	0.0	0	0.0
Revenue not from the operations	0	0.0	0	0.0	0	0.0	0	0.0
Net income	**4,875,415**	**34.8**	**4,857,514**	**37.9**	**2,843,046**	**51.5**	**2,869,968**	**51.9**
Exchange Rate	**US$/EGP = 7.143**		**US$/EGP = 7.808**		**US$/EGP = 18.130**		**US$/EGP = 18.080**	

The financial statements in Annex 1 are the result of standard reclassification and they are based on the annual audited financial statements. As for the infra-annual periods the internal financial statements are used.

Financial statements have been adjusted to calculate adjusted ratios (AROE, AROA, FSS) in order to make them comparable to financial reporting and performances of institutions using different accounting standards and operating in different environment and to evaluate the level of sustainability of the institution with market conditions.

Adjustments include: a) Accrued interest on delinquent loans > 90 days; b) Subsidies: donations in kind[35]; c) Provisions (calculated with a standard formula[36]); and d) Inflation.

Adjustments	Jan14 - Dec14	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Reversal of accrued interest on non-perf loans	0	0	0	0
Inflation adjustment	3,156,958	3,361,026	2,231,419	3,096,568
- Inflation rate used	10.3%	10.4%	13.8%	18.3%
Loan loss provision adjustment	0	0	0	0
In-kind subsidy adjustment	0	0	0	0
Total variation of net income	**(3,156,958)**	**(3,361,026)**	**(2,231,419)**	**(3,096,568)**

[35] Donations in kind are valorized and added to operational expenses.

[36] Provisions are calculated according to the following formula:

Portfolio at risk:	1-30 days	10%	0-30 days restructured loans	50%
	31-60 days	30%	>30 days restructured loans	100%
	61-90 days	50%		
	>90 days	100%		

Annex 2 – Ratios

PROFITABILITY	Jan14 - Dec14	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Return on Equity (ROE)	15.4%	14.6%	17.2%	16.6%
Adjusted Return on Equity (AROE)	5.4%	4.5%	3.7%	-1.3%
Return on Assets (ROA)	11.6%	10.3%	11.5%	11.0%
Adjusted Return on Assets (AROA)	4.1%	3.2%	2.5%	-0.9%
Operational self-sufficiency (OSS)	185.2%	172.5%	175.7%	171.0%
Financial self-sufficiency (FSS)	119.3%	114.9%	110.2%	96.8%
Portfolio yield	31.9%	29.6%	29.1%	29.2%
Other financial income (on assets)	1.7%	1.9%	4.8%	4.8%
Other products yield (on assets)	0.1%	0.0%	0.0%	0.0%
Funding expense ratio*	3.6%	4.1%	5.3%	5.6%
Provisioning expense ratio	0.3%	0.7%	0.4%	0.5%
Profit Margin	46.0%	42.0%	43.1%	41.5%
Net Interest Margin	25.9%	21.4%	20.1%	19.9%
Portfolio to Assets ratio	72.1%	74.1%	71.5%	71.7%
LOAN PORTFOLIO QUALITY				
Average credit risk ratio	0.1%	0.1%	0.0%	0.0%
Portfolio at risk > 30 days (PAR 30)	0.0%	0.0%	0.0%	0.0%
Portfolio at risk > 90 days (PAR 90)	0.0%	0.0%	0.0%	0.0%
Portfolio at risk > 365 days (PAR 365)	0.0%	0.0%	0.0%	0.0%
Restructured loans	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.1%	0.0%	0.0%
Loan loss reserve ratio	3.2%	3.0%	3.0%	3.0%
Risk coverage ratio (PAR30)	n.ap.	n.ap.	n.ap.	n.ap.
Risk coverage ratio (PAR30 + restr. 0-30 days)	n.ap.	n.ap.	n.ap.	n.ap.
EFFICIENCY AND PRODUCTIVITY				
Staff allocation ratio	62.8%	64.2%	65.2%	63.7%
Loan officer productivity (borrowers)	272	285	278	281
Loan officer productivity (amount)	75,073	83,086	37,912	41,333
Staff productivity (borrowers)	171	183	181	179
Staff productivity (amount)	47,144	53,365	24,717	26,321
Staff productivity (clients)	6,241	0	0	0
Operating expense ratio (average gross portf.)	14.6%	13.8%	14.5%	14.7%
Operating expense ratio (average assets)	10.7%	10.5%	10.9%	11.0%
Personnel expense ratio (average gross portf.)	13.0%	12.4%	13.0%	13.1%
Operating expense/Gross revenue	42.5%	42.9%	40.9%	41.4%
Financial income/Gross revenue	99.7%	99.8%	99.9%	99.9%
Non-financial income / Gross revenue	0.3%	0.2%	0.1%	0.1%
Cost per borrower, US$	39	38	19	20
CAPITAL ADEQUACY & ALM				
Cost of funds ratio*	11.8%	11.4%	12.6%	12.9%
Liquidity over total assets	4.7%	3.0%	5.9%	5.0%
Cash Ratio	18.7%	9.4%	18.5%	14.1%
Capital Adequacy Ratio (Regulatory)	na	na	na	na
Capital Adequacy Ratio (MFR)	73.2%	66.3%	67.0%	63.1%
Debt to equity ratio	0.3	0.5	0.5	0.6
Equity to Assets Ratio	74.9%	67.8%	68.1%	64.5%

* exchange rate variations are not included in the calculation of the ratio
na: not available

SOCIAL RISK	Jan14 - Dec14	Jan15 - Dec15	Jan16 - Dec16	Apr16 - Mar17
Client drop-out ratio	17.6%	17.0%	20.0%	15.7%
Staff turnover rate	6.5%	5.6%	7.2%	8.1%
Average disbursed loan size, US$	338	376	193	212
Average outstanding loan balance, US$	276	292	136	147
Average disb. loan size on p.c. GDP	10.3%	11.1%	13.2%	14.4%
Average loan balance/GDP p.c.	8.4%	8.6%	9.3%	10.0%
Average disb. loan size / p.c. GNI	10.5%	11.3%	5.8%	6.4%
Average outstanding balance / per-capita GNI	8.6%	8.7%	4.1%	4.4%
Female borrowers	55.0%	57.0%	58.1%	58.1%

na: not available n.ap.: not applicable

Annex 3 – Definitions

Ratio	Formula
PROFITABILITY	
ROE (before donations)	Net income before donations / Average equity
Adjusted ROE (before donations)	Adjusted net income before donations / Average equity
ROA (before donations)	Net income before donations / Average assets
Adjusted ROA (before donations)	Adjusted net income before donations / Average assets
Net Interest Margin	(Interest and fee revenues on loans - Interest and fee expenses on funding liabilities)/ (Average value of bank deposits, financial assets and performing loans)
Operational Self-sufficiency (OSS)	(Financial revenues + Other operating revenues) / (Financial expenses + Provision expenses + Operating expenses)
Financial Self-sufficiency (FSS)	(Adjusted financial revenues + Other operating revenues) / (Adjusted financial expenses + Adjusted loan loss provision expenses + Adjusted operating expenses)
Portfolio Yield	Interest and fee revenues on loan portfolio, including penalty interest and fees / Average gross outstanding portfolio
Other Products' Yield	Other operating revenues / Average assets
Financial income ratio	Interest and fee revenues on financial assets not from loan portfolio / Average assets
Financial expense ratio	Interest and fee expenses on funding liabilities / Average gross outstanding portfolio
Provision Expense Ratio	Loan loss provision expenses / Average gross outstanding portfolio
Profit Margin	(Total operating revenues – operating expenses – financial expenses – loan loss provision expenses) / Total operating revenues
ASSET QUALITY	
Portfolio at Risk 30 (PAR 30)	Outstanding balance on loans with arrears > 30 days / Gross outstanding portfolio
Portfolio at Risk 90 (PAR 90)	Outstanding balance on loans with arrears > 90 days / Gross outstanding portfolio
Write-off Ratio	Value of loans written-off during the period / Average gross outstanding portfolio
Restructured Loans Ratio	Total gross outstanding rescheduled and/or refinanced portfolio / Gross outstanding portfolio
Average Credit Risk Ratio	(Average value of PAR30 + Average value of restructured portfolio 0-30 days + Value of loans written-off during the period) / Average Gross Outstanding Portfolio
Loan Loss Reserve Ratio	Loan loss reserve / Gross outstanding portfolio
Risk Coverage Ratio (PAR 30)	Loan loss reserve / Portfolio at risk >30 days
Risk Coverage Ratio (PAR30+r0–30)	Loan loss reserve / Portfolio at risk >30 days + restructured loans 0-30 days
CLIENT PROTECTION[37]	
Annual Percentage Rate	Includes interest rate, method of interest calculation, commissions, taxes, mandatory savings (see MicroFinance Transparency tool)
Transparency index	Nominal interest rate / Annual Percentage Rate

[37] The client protection indicators reviewed in the Microfinance Institutional Rating (MIR) are a subset of the ones reviewed in the Social Rating methodology of MicroFinanza Rating.

EFFICIENCY & PRODUCTIVITY

Portfolio to Assets Ratio	Net outstanding portfolio / Total assets
Average Outstanding Loan Amount.	Total outstanding loan amount / Number of active loans
Average Disbursed Loan Amount	Total loan amount disbursed in the period / Number of disbursed loans
Avg. Disbursed Loan on p.c. GDP	Average disbursed loan amount / Per capita GDP
Staff Allocation Ratio	Number of loan officers / Number of staff
Staff Turnover Ratio	Number of staff who left the institution during the period / Average number of staff
Loan Officer Productivity – Borrowers	Number of active borrowers / Number of loan officers
Loan Officer Productivity – Amount	Gross outstanding portfolio / Number of loan officers
Staff Productivity – Borrowers (Clients)	Number of active borrowers (clients) / Number of staff
Drop-out Ratio	Active borrowers beginning of the period + new (first time) borrowers during the period – borrowers written off during the period – active borrowers end of period) / (active borrowers beginning of the period).
Operating Expenses Ratio	Operating expenses / Average gross outstanding portfolio
Personnel Expenses Ratio on Portfolio	Personnel expenses / Average gross outstanding portfolio
Operating Expenses Ratio on Assets	Operating expenses / Average assets
Cost per Borrower (active client)	Operating expenses / Average number of active borrowers (active clients)

CAPITAL ADEQUACY & ALM

Loans to Deposits Ratio	Net outstanding portfolio / Demand deposits
Cost of Funds Ratio	Interest and fee expenses on funding liabilities / Average funding liabilities
Current Ratio	Assets with contractual maturity < 365 days / Liabilities with contractual maturity < 365 days
Maturity Gap Ratio 30 days	Assets with contractual maturity < 30 days / Liabilities with contractual maturity < 30 days
Liquidity over Total Assets Ratio	Cash and cash equivalents / Total assets
Liquidity over Demand Deposits	Cash and cash equivalents / Total demand deposits
Liquidity over Total Deposits	Cash and cash equivalents / (Demand deposits + Short Term Deposits)
Cash Ratio	Cash and cash equivalents / (Liabilities with contractual maturity < 365 days)
FX Net Open Position as % Equity	((Assets – Liabilities – Equity +– off balance sheet item) denominated in each single foreign currency) / Total equity
Debt to Equity Ratio	Total liabilities / Total equity
Equity to Asset Ratio	Total equity / Total assets
Capital Adequacy Ratio (MFR)	Total adjusted capital (according to MFR methodology) / Total risk weighted assets (according to MFR methodology)
Capital Adequacy Ratio (Regulatory)	Qualifying capital / Regulatory risk weighted assets

Annex 4 – Credit products' features

Credit Products	SME	House Improvements	Livestock & Poultry	Life Standard Improvements	Agriculture	Transportation
Credit methodology	Individual (IL) and Group (GL)	Individual	Individual (IL) and Group (GL)	Individual (IL) and Group (GL)	Individual	Individual
Currency of the credit	EGP	EGP	EGP	EGP	EGP	EGP
Type of interest	Flat	Flat	Flat	Flat	Flat	Flat
Min. interest rate (%)	16%	14%	16%	16%	16%	16%
Max. interest rate (%)	16%	14%	16%	16%	16%	16%
Description of commissions	N/A	N/A	N/A	N/A	N/A	N/A
Min. credit amount (US$)	27	27	27	27	27	27
Max. credit amount (US$)	267 (GL); 5,339 (IL)	2.670	267 (GL); 534 (IL)	267 (GL); 534 (IL)	1.602	5.339
Max. credit amount - 1st loan (US$)	107 (GL) and 2,670 (IL)	267	107 (GL) and 534 (IL)	107 (GL) and 534 (IL)	534	Depends on the Vehicle type
Min. loan maturity (months)	10 Weeks (GL); 4 Months (IL)	4 Months	10 Weeks (GL); 4 Months (IL)	10 Weeks (GL); 4 Months (IL)	10 Weeks (GL); 4 Months (IL)	4 Months
Max. loan maturity (months)	50 Weeks (GL); 36 Months (IL)	36 Months	50 Weeks (GL); 24 Months (IL)	50 Weeks (GL); 24 Months (IL)	50 Weeks (GL); 24 Months (IL)	36 Months
Frequency of interest payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Frequency of principal payments	Weekly or Monthly (GL) Monthly (IL)	Monthly	Weekly or Monthly (GL) Monthly (IL)	Weekly or Monthly (GL) Monthly (IL)	Weekly or Monthly (GL) Monthly (IL)	Weekly or Monthly (GL) Monthly (IL)
Grace period (months)	N/A	N/A	N/A	N/A	N/A	N/A
Collaterals / guarantees	Promisory Note (Clients + Guarantor)	Promisory Note (Clients + Guarantor)	Promisory Note (Clients + Guarantor)	Promisory Note (Clients + Guarantor)	Promisory Note (Clients + Guarantor)	Promisory Note (Clients + Guarantor)

Annex 5 – Rating Scale

The final rating grade does not consider the Country Sovereign Rating Risk, but it takes into account the effects of the political and economic context on FI's performance.

Microfinance Institutional Rating		Common scale for microfinance rating agencies	
Grade	**Definition**	**Classification**	**Definition**
AAA	*Excellent capacity to manage risks. This capacity is not expected to be affected by a foreseeable deterioration of the operations or economic conditions. Extremely strong and stable fundamentals. Excellent client protection systems.*	EXCELLENT	Low or well-managed short to medium term risk. Strong performance
AA+, **AA**, AA-	*Very strong capacity to manage risks. This capacity may be marginally affected by a deterioration of the operations or economic conditions. Very strong and stable fundamentals. Excellent client protection systems.*		
A+, **A**, A-	*Strong capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Strong and stable fundamentals. Good client protection systems.*		
BBB+, **BBB**, BBB-	*Good capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Good fundamentals. Adequate client protection systems.*	GOOD	Modest or well-managed short to medium term risk. Good to moderate performance
BB+, **BB**, BB-	*Adequate capacity to manage risks. However, this capacity may be significantly affected by a deterioration of the operations or economic conditions. Adequate fundamentals. Adequate client protection systems.*		
B+, **B**, B-	*Moderate capacity to manage risks. This capacity is vulnerable to a deterioration of the operations or economic conditions. Moderate fundamentals. Moderate client protection systems.*	FAIR	Moderate to moderate-high risk. Moderate performance
CCC+, **CCC**, CCC-	*Modest capacity to manage risks. This capacity is highly vulnerable to a deterioration of the operations or economic conditions. Modest fundamentals. Modest client protection systems.*		
CC+, **CC**, CC-	*Weak capacity to manage risks. Modest fundamentals. Poor client protection systems.*	POOR	High risk. Poor performance
C	*Weak capacity to manage risks. Weak fundamentals. Poor client protection systems.*		
D	*Extremely weak capacity to manage risks. Extremely weak fundamentals. Poor client protection systems.*		

MODIFIERS	**The modifiers "+" or "-" may be assigned to a rating to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" or below "CC" grades.**
OUTLOOK	**indicates the direction a GRADE is likely to move to, over a one-year period**
POSITIVE	*Probable upgrade of the rating grade*
STABLE	*Rating grade is not likely to change*
NEGATIVE	*Probable downgrade of the rating grade*
UNDER OBSERVATION	*The rating grade and/or outlook cannot be assigned, due to unexpected internal/external events or insufficient information provided. It may be assigned only after a monitoring will be held in the short term.*