BRAC UNIVERSITY

Inspiring Excellence

Internship Report

On

Financial Ratio Analysis As An Important Tool For Evaluating The Performance Of Business Organization

Prepared By

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Semester- Spring 2018

BRAC Business School

BRAC University

Submitted To

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Lecturer

BRAC Business School

BRAC University


STICHTING BRAC INTERNATIONAL
Local Solutions for Global Challenges
brac
BRAC Pakistan
Education Program

9th April, 2018

Adiba Naoshin

Lecturer

BRAC University

Mohakhali, Dhaka

Subject: Submission of Internship Report

Dear Mam

I am Meraz Hassan (ID- 14104139), competed my internship from BRAC International Finance and accounts department and I am doing my internship report on “Financial ratio analysis as an important tool for evaluating the performance of Business organization”. For this report I used the ratios of BRAC Sierra Leone Microfinance. This report helps me a lot to understand the importance of the ratios for BRAC Sierra Leone Microfinance.

I would really like to thank you for your supportive thoughts and kind consideration in making this report. It has been a great experience that will really help me a lot in my future career.

It would be very helpful for me if you examine my report and enrich me with your valuable suggestion.

Sincerely

Meraz Hassan   Signature: ________________

14104139

BRAC Business School

BRAC University

Acknowledgment

The Completion of this report required a lot of guidance and assistance from many of people from BRAC International and BRAC University. I feel honored to have such a support and want express my deep gratitude for

- Ms. Adiba Naoshin - Supervisor faculty- Lecturer – BRAC University
- Mr. Kamrul Hassan Imran – Supervisor – Manager Finance And Accounts| BRAC International
- Ms. Ummal khayer Fatema - Senior Manager- Finance and Accounts| BRAC International
- Mr. Md Faruque Hossain - Head Learning and Development| BRAC International
- Zohirul Islam Jewel, ACCA - Deputy General Manager, Financial Accounting & Reporting | BRAC International

Without your help and support I wouldn’t be able to complete my internship and internship report.

I specially thank MR. Kamrul Hassan Imran for supporting me throughout the internship period and providing me the valuable resources for preparing this internship report.

Executive Summary

Stichting BRAC International is working in 10 countries. For such a massive organization financial statement and ratios are very important and therefore this internship report has been done on "Financial ratio analysis as an important tool for evaluating the performance of Business organization" considering the ratios of BRAC Sierra Leone Microfinance. Microfinance industry does not use traditional ratios and it has developed a set of ratios considering the criteria of business. So all ratios used in this report are industry special ratios and used professionally for presenting the financial reports. BRAC Sierra Leone Microfinance is running with a great success. Their last year's performance was very good. Considering the good performance, it has increased the number of loan provided in 2017. As a result this year's liquidity ratios are both not satisfactory, so the organization was not able to hold enough cash in hand compared to the last year. However its other ratios are showing a satisfactory result, except cost ($) per loan made ratio. Means that its cost of loans has increased but other fixed costs haven't increased proportionately with the volume of loan provided. As a result most of its operational efficiency ratios are showing satisfactory result. Moreover the organization's portfolio quality ratios are showing satisfactory result, however considering the fact that it has written off SLL 1,100,391,634 in November 2017, its portfolio quality is not satisfactory. Overall the organization is running well but it need to focus on providing quality loans rather than increasing the quantity of the loan. Lastly without analyzing the ratios, it won't be possible to understand the actual condition of the business.

Table of Contents

Stichting BRAC International (SBI)

BRAC International is a foundation registered in Netherland. The official name of BRAC International's is Stichting BRAC International (SBI). With BRAC's vision to serve worldwide BRAC international was established under the laws of The Netherlands. It was established on 16th March 2009. The core objective of SBI is to engage itself in charitable and social welfare activities. SBI's development programs include livelihoods, health, targeting the ultra-poor, education, legal services, human rights and agriculture programs. BRAC International Holdings B.V. is fully owned subsidiary of Stichting BRAC International. It was established in 2010. BRAC International's some programs are under BRAC International Holdings B.V such as microfinance programs, investment companies, social enterprises and regulated finance companies. Social program supporting enterprises includes training centers, seed production, tissue culture lab, feed mill etc. Stichting BRAC International (SBI) works in 10 countries

1. Afghanistan
2. Philippines
3. Liberia
4. Myanmar
5. Nepal
6. South Sudan
7. Sierra Leone
8. Tanzania
9. Pakistan
10. Uganda

Vision

A world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential.

Mission

To empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large-scale positive changes through economic and social programs that enable women and men to realize their potential.

Values

Innovation: The Foundation has been an innovator in the creation of opportunities for the people in need to lift themselves out of poverty. We value creativity in program design and strive to display global leadership in groundbreaking development initiatives.

Integrity: The Foundation values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Foundation holds these to be the most essential elements of our work ethic.

Inclusiveness: The Foundation is committed to engaging, supporting and recognizing the value of all members of society, regardless of race, religion, gender, nationality, ethnicity, age, physical or mental ability, socioeconomic status and geography.

Effectiveness: The Foundation values efficiency and excellence in all our work, constantly challenging ourselves to perform better, to meet and exceed program targets, and to improve and deepen the impact of our interventions.

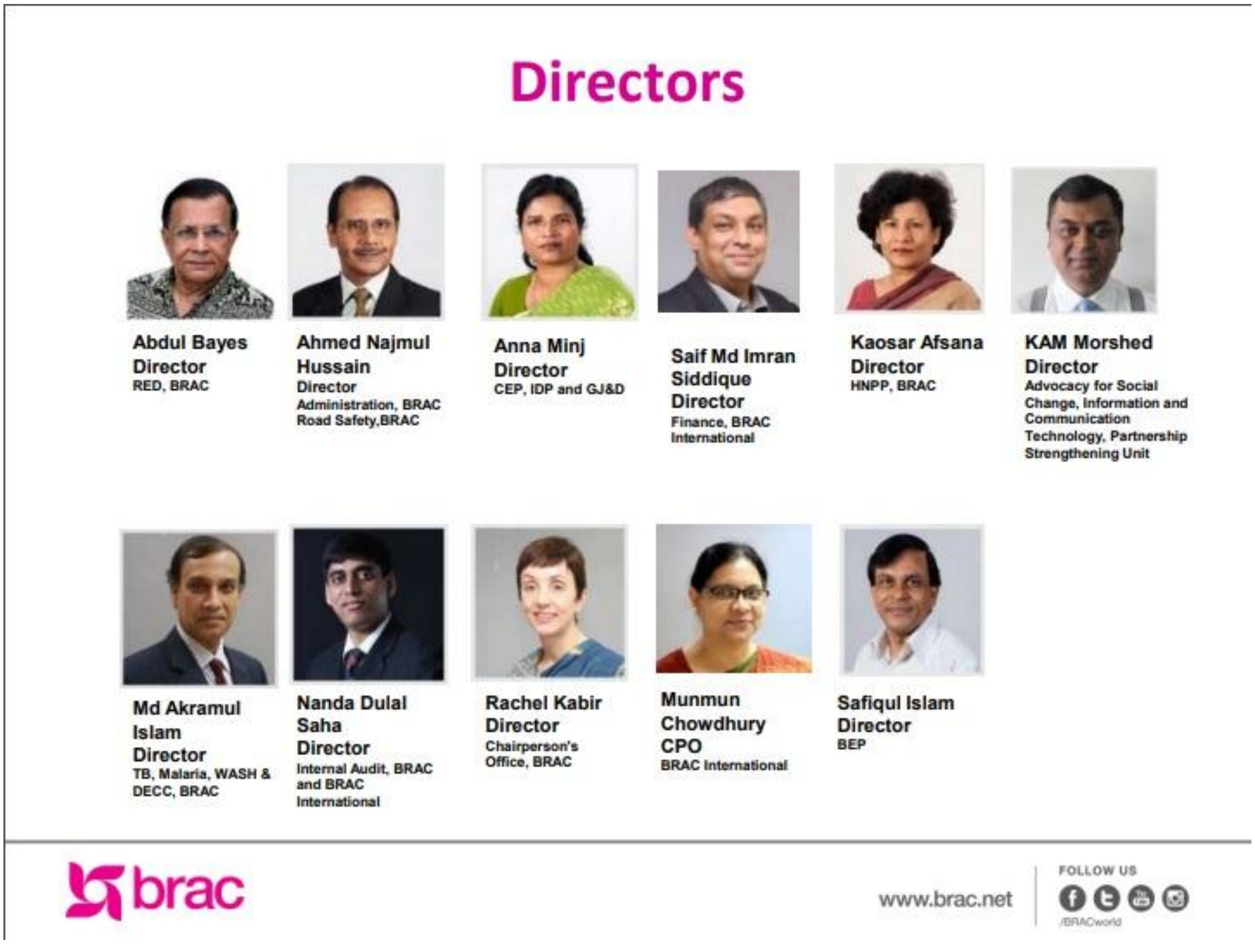
Goal

Stichting BRAC International aims to contribute to welfare activities to alleviate poverty and improve the lives of the people. In line with the Millennium Development Goals.

Governing Body

Executive Body

Director Body



Introduction

This internship report is on "Financial ratio analysis as an important tool for evaluating the performance of business". Ratio analysis is a very important and reliable method for business performance evaluation. Most of the times financial statements are full of numbers and it is very hard to understand the actual condition of business by only looking at the financial statement. People with minimal knowledge in accounting and financial reporting will not understand seeing the financial report. However ratio compares elements of financial statement and shows actual condition of the of the organization. It narrows down the financial statement. It is very helpful for the investor as they can look at few ratios to understand the condition of the organization. Therefore it is very important to find out the importance of the ratio analysis for the evaluation of business performance.

Scope of the study

This study has been conducted on BRAC Sierra Leone Microfinance and on the reporting practices in BRAC International. This study focuses on international and professional practices of microfinances industry.

Limitations

The main limitation of the study is the constrains of the ratios. Moreover the financial statements and ratios are prepared manually in excel and it contains mistakes and manipulation of data by the employees .So a limitation of the study is the mistakes and manipulation of raw data. Standards of ratio varies industry to industry and it hasn’t been possible to mention specific standards for the ratios used in BRAC Sierra Leone Microfinance, so lack of particular ratio standards is also a limitation of the study.

Objective

Main objective of the report is to find out the importance of the ratio in decision making for organizations, evaluation of the performance of a business, the practical usage of ratios and the reporting system of ratios. This internship report is done on BRAC Sierra Leone Microfinance. The ratios used in public limited companies are different than used in microfinance organization like BRAC Sierra Leone. One of the objectives is to analyze the choice of ratios and purpose for using them. Analyzing the ratios of BRAC Sierra Leone is another core objective of this report.

Methodology of The Study

The unaudited Financial Statement and Ratio of BRAC Sierra Leone Microfinance are used in preparation of this report. All the data was collected form Mr. Kamrul Hassan Imran, Manager Finance and Accounts| BRAC International. All the interpretation of the ratio was also collected from Mr. Kamrul Hassan Imran. The analysis has been conducted based on accounting practices and journals on microfinance practices.

Ratio

Definition

“The relationship between two groups or amounts that expresses how much bigger one is than the other**”** (Cambridge English Dictionary, 2018)**.**

“In mathematics, a ratio is a relationship between two numbers indicating how many times the first number contains the second” (En.wikipedia.org, 2018).

“Accounting ratios assist in measuring the efficiency and profitability of a company based on its financial reports. Also called financial ratios, accounting ratios provide a way of expressing the relationship between one accounting data point and another, which is intended to provide a useful comparison. Accounting ratios form the basis of fundamental analysis” (Staff, 2018).

Ratio can be expressed as “D to E”/ D: E and the numbers can both be fraction and whole number.

Importance Of Accounting Ratio

Accounting ratio is an important tool to analyze the financial condition of an organization. Financial statement gives us the numbers under different account heads. It shows us how much asset and liability an organization has and how much profit it made this year. Financial Statement shows the full condition of an organization but it’s hard to understand the condition because of its showing so many big numbers. To understand the importance of the number ratio is needed. Accounting ratio compares relevant accounts to give a meaningful analysis. With ratio one can understand the full financial condition of an organization. That’s why ratios are always shown in the annual report of an organization. It makes the financial report easy to understand.

Traditional Ratios

Ratios help to make decision and to understand the financial condition. Some ratio helps to understand whether the organization is profitable or not and some help to understand how much debt it has compare to the asset. Therefore ratios are divided into different types.

1. liquidity ratio
2. Profitability ratio
3. Asset Management ratio
4. Debt Management ratio
5. Stock Market ratio

Liquidity ratio

a. Current Ratio	Current Asset		Unit	Times
	Current Liability		Standard	1:02
b. Quick Ratio	Current Asset - inventory		Unit	Times
	Current liability		Standard	1:01

Liquidity ratio is concern about current asset and current liability. It compares the current asset with current liability to show the ability of an organization to repay the current liability.

Current Ratio:

a. Current Ratio	Current Asset		Unit	Times
	Current Liability		Standard	1:02

Current assets are a balance sheet account that represents the value of all assets that can reasonably expect to be converted into cash within one year (Investopedia, 2018).

Current liabilities are a company's debts or obligations that are due within one year, appearing on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts (Investopedia, 2018).

Current Ratio shows the ability of an organization to repay its short term debt with the short term asset. If current ratio of an organization is 1:0.9, it means the organization will not be able to repay its all current liability by selling its entire current asset. So current ratio more than one is preferable. Standard current ratio is 1:2

Quick Ratio

b.	Quick Ratio	$\frac{\text{Current Asset - inventory}}{\text{Current liability}}$	Unit	Times
			Standard	1:01

In quick ratio inventory is not considered reliable source for repaying the liability because inventory value depends on market rate and the market rate can go down to zero. As a result inventory will not be sold or it won't have any value. The standard quick ratio is 1:1. If the organization has quick ratio of 1, it means it will be able to repay its current liability with the cash in hand and other current assets.

Profitability Ratio

Profitability ratios help to understand the profit that organization is making is good enough, how much profit it should be making, as an investor are the profit standard enough to invest? There are 5 profitability ratios.

a.	Net Profit Margin	$\frac{\text{Net Profit}}{\text{sales}}$ *100	Unit	Percentage
b.	Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales}}$ *100	Unit	Percentage
c.	Operating Profit Margin	$\frac{\text{EBIT}}{\text{Sales}}$ *100	Unit	Percentage
d.	Return on Equity	$\frac{\text{Net Profit}}{\text{Common equity}}$ *100	Unit	Percentage
e.	Return on Asset	$\frac{\text{Net Profit}}{\text{Total Asset}}$ *100	Unit	Percentage

Net Profit Ratio

a.	Net Profit	$\frac{\text{Net Profit}}{\text{sales}}$ *100	Unit	Percentage

Net profit margin shows the percentage of the profit an organization makes. Means if an organizations net profit margin is 20%, it is making 20% profit out of all sales. Standard net profit margin depends on the industry. Some industry might have standard of 25% net profit ratio, then this organizations net profit margin is poor, this organization should increase the sales price or try to cut out cost more. Standards also may vary depending on economic condition of a country. Net profit margin is very important for the investors, because at the end profit is all that investors are looking for. Net profit is expressed in percentage.

Gross Profit Margin

	Formula	Unit
b. Gross Profit	$\frac{\text{Gross Profit}}{\text{Sales}} *100$	Percentage

Gross profit margin shows the percentage of gross profit that an organization makes out of the total sales. Administrative costs are not included when calculating the gross profit margin. Only the factory costs and production cost are taken for calculating the gross profit. Gross profit margin shows the percentage of profit made by the organization by only considering the production cost. Gross profit is expressed in percentage.

Operating Profit Margin

	Formula	Unit
c. Operating Profit	$\frac{\text{EBIT}}{\text{Sales}} *100$	Percentage

Operating profit margin shows at what percentage an organization is making profit after all the operation has been done. Therefore it considers EBIT to calculate the operating profit margin. EBIT is earnings before interest and tax. So operating profit margin do not consider tax and any interest payment, so that it can be understood that operation is good enough to make a standard profit. Operating profit is expressed in percentage.

Return on Equity

d. Return on Equity	$\frac{\text{Net Profit}}{\text{Common equity}}$	*100	Unit	Percentage

Return on equity shows the percentage of return that a common share holder is getting per share. It is another very important ratio for the shareholders. It helps them understand how much profit they made per share, whether holding up this share is profitable or not.

Return on Asset

e. Return on Asset	$\frac{\text{Net Profit}}{\text{Total Asset}}$	*100	Unit	Percentage

Asset and profit has a relationship. It is considered that an organization having more asset than its competitor in the same industry should make more profit than its competitor. If its not making so than it means that the organization is not utilizing its asset properly. So to understand that the organization is making enough profit compared to its asset, the return on asset ratio is used.

Asset Management Ratio

Asset management ratios try to figure out that the organization is utilizing its assets or not, whether it is generating enough sales out of its inventory, at what proportion it is generating sales compared to its total asset, or whether it is collecting money from receivables properly or not?

a.	inventory Turnover ratio	$\frac{\text{Sales}}{\text{Average inventory}}$		Unit	Times
b.	Total Asset Turnover	$\frac{\text{Sales}}{\text{Total Asset}}$		Unit	Times
c.	Average Collection period	$\frac{\text{Average Receivable}}{\text{Sales}}$	*360	Unit	Days

d. Average Payment period $\dfrac{\text{Average payable}}{\text{Purchase or CGS}} * 360$ Unit Days

e. Fixed Asset Turnover $\dfrac{\text{Sales}}{\text{Fixed asset}}$ Unit Times

Inventory Turnover Ratio

a. inventory Turnover ratio $\dfrac{\text{Sales}}{\text{Average inventory}}$ Unit Times

Inventory turnover ratio shows that how many times inventory has been sold out. It considers the average inventory throughout the year and divides the average inventory by sales to find out how many times inventories are fully sold out. Individually this ratio won't be understood much but comparing it with the industry average an organization can understand that whether it's selling good amount of inventory or its holding more inventory than it needs. Holding more inventory means its occurring more cost.

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Total Asset Turnover

b. Total Asset Turnover $\dfrac{\text{Sales}}{\text{Total Asset}}$ Unit Times

Total asset turnover ratio shows how many times sales has covered the value of its total asset, it shows the investor that whether the organization is utilizing its assets or not. Again this ratio itself can be hard to analyze or understood. Comparing the ratio with the industry average it can be understood that whether the organization is utilizing its asset more than its competitor or not.

Average Collection Period

c. Average Collection period $\frac{\text{Average Receivable}}{\text{Sales}} * 360$ Unit Days

Average collection period shows how many days it takes for the organization to collect its sales money from a customer. Low average collection period is good for the organization. Means the organization is taking less time to collect money from its receivables. Comparing the average collection period with industry average and with the average collection period it could be understood that, the organization is collecting faster than its paying or not and whether they are collecting faster than its competitors. Average collection period should always be lower than the average payment period.

Average Payment Period

d. Average Payment period $\frac{\text{Average payable}}{\text{Purchase or CGS}} * 360$ Unit Days

Average payment period shows how fast an organization is paying its vendors. Average payment period should always be lower than the average collection period. So the cycle of production to sales can be maintained with the working capital. If average payment period is higher than the average collection period, then the organization will have to lend money to continue production.

Fixed Asset Turnover

e. Fixed Asset Turnover $\frac{\text{Sales}}{\text{Fixed asset}}$ Unit Times

Fixed asset turnover ratio shows how many times the sales have covered the value of fixed asset. This ratio shows how well the organization is using its fixed assets. Comparing this ratio with industry average it can be understood that whether it has invested in fixed asset more than its needed, whether other organization is utilizing its fixed asset more efficiently.

Debt Management Ratio

	Formula	Unit
a. Debt To Asset	$\frac{\text{Debt}}{\text{Asset}} * 100$	Percentage
b. Times Interest Earned	$\frac{\text{EBIT}}{\text{Interest}}$	Times

Debt management ratio is also a very important ratio as it shows whether the organization is able to pay its debt properly or not. Managing debt is very important because it can cause an organization to go bankrupt. Therefore its also very important for the investors to analyze.

Debt To Asset

	Formula	Unit
a. Debt To Asset	$\frac{\text{Debt}}{\text{Asset}} * 100$	Percentage

Debt to asset ratio compares total debt with total asset and shows whether the organization will be able to pay its debt selling its entire asset. Low percentage of debt to asset ratio means the organization will be at risk if it fails to make enough cash profit for consecutive years to cover up its interest payment. This ratio also should be compared with the industry average to understand at what condition the organization is in.

Times Interest Earned

	Formula	Unit
b. Times Interest Earned	$\frac{\text{EBIT}}{\text{Interest}}$	Times

Times interest earned shows how many times the organizations EBIT is able cover up the interest payment. It must be at least 1 or the organization did not made enough profit to cover up the interest they have to pay. Therefore the organization

Stock Market Ratio

Share market ratios shows the performance of a organizations share in the stock market. Investors are very concern about this ratio as it is fully related to their investment.

a. Earnings Per Share	$\frac{\text{Net Profit}}{\text{Number of Outstanding Share}}$
b. Price to Earning	$\frac{\text{Market Price Per Share}}{\text{Earnings Per share}}$

Earnings Per Share

a. Earnings Per Share	$\frac{\text{Net Profit}}{\text{Number of Outstanding Share}}$

Earnings per share means what profit the investor made by holding up a share of the organization. Net profit is divided by the number of outstanding share to find how much profit the investor made per share. It's a very important ratio for the public limited company, because depending on these ratios share price fluctuates in the share market.

Price to Earning

b. Price to Earning $\dfrac{\text{Market Price Per Share}}{\text{Earnings Per share}}$

Price to earnings ratio shows how much an investor is willing to give for one taka of profit. If this ratio is 20 means the investors are willing to give 20 taka to make 1 taka profit from the share of the organization.

Microfinance Industry Based Ratios

Traditional ratios are standard ratios, but traditional ratios don't fulfill the purpose of many businesses like BRAC Sierra Leone Microfinance. So they used ratios which are microfinance industry based ratios. These ratios are developed to fulfill the purpose of microfinance businesses.

Sustainability Ratios

1 Return on Performing Assets $\dfrac{\text{Profit before tax}}{\text{Average Total Assets}}$

Indicates financial productivity of credit services and investment activities

2 Yield on portfolio $\dfrac{\text{Service Charge}}{\text{Average Loan portfolio}}$

shows the return on loans disbursed

3 Loan Loss Provision Ratio $\dfrac{\text{Loan Loss Provision}}{\text{Total principal outstanding}}$

Indicates provisioning requirements on loan portfolio for current loans

4 Operating Cost Ratio $\dfrac{\text{Operating Cost}}{\text{Average Total Assets}}$

Key Indicator of efficiency of lending operation

5	Operating Self-sufficiency	$\frac{\text{Financial Income}}{\text{Total Cost}}$

Shows the credit programs' ability to cover costs of performance with internally generated income

Liquidity Ratios

1	Cash Position Indicator	$\frac{\text{Cash and Deposits due from Banks}}{\text{Average Total Assets}}$
2	External Loan - Saving Deposit Ratio	$\frac{\text{External Net Loans}}{\text{Total Deposits}}$

Operating Efficiency Ratio

1	Cost ($) per Unit of Money Lent	$\frac{\text{Operating Cost +Finance cost in (\$)}}{\text{Loan Disbursed in (\$)}}$
2	Cost ($) per Loan Made	$\frac{\text{Operating Cost (\$)}}{\text{Number of Loans Made}}$
3	Solvency Ratio	$\frac{\text{Net worth (Give detail composition)}}{\text{Total Assets}}$
4	Number of Active Borrowers per Credit officer	$\frac{\text{Number of Active Borrowers}}{\text{Number of Credit officer}}$
5	Net Income per unit ($) money lent	$\frac{\text{Operating income before tax(\$)}}{\text{Loan Disbursed in (\$)}}$

6	Portfolio ($) per Credit officer	Total Loan Outstanding($) / Number of Credit officer

Portfolio Quality Ratio

1	Portfolio at Risk> 30 Days	The principal balance of loans overdue / Principal Outstanding
	Measures amount of default risk in portfolio	
2	Reserve Ratio	Loan Loss Reserve / Value of Loan Outstanding
	Indicates adequacy of reserves in relation to portfolio	
3	Risk coverage Ratio	Loan Loss Reserve / PAR> 30
	Indicates adequacy of reserves in relation to portfolio at risk	

Constrains of the ratios

Ratio is very important in evaluation of business performance, however ratio also has some constrains.

- The ratios are calculated from actual historical data of organizations financial statement. It shows the past performance and condition but it does not mean that the organization will continue the same performance in future.
- Inflation is another constrains as due to the inflation costs can increase and performance of organization can reflect negative ratio results. Inflation adjustment is not done before comparing the ratios of last year.
- Some ratios are calculated from the information of balance sheet but the balance sheet is the condition of the last date of the financial year of an organization.
- Interpretation of ratios standards varies industry to industry and also on economic condition of regions.

- Accounting Policy's also has an effect on ratios and accounting policy varies organization to organizations.

SBI Accounting And Reporting System

ERP system of SBI

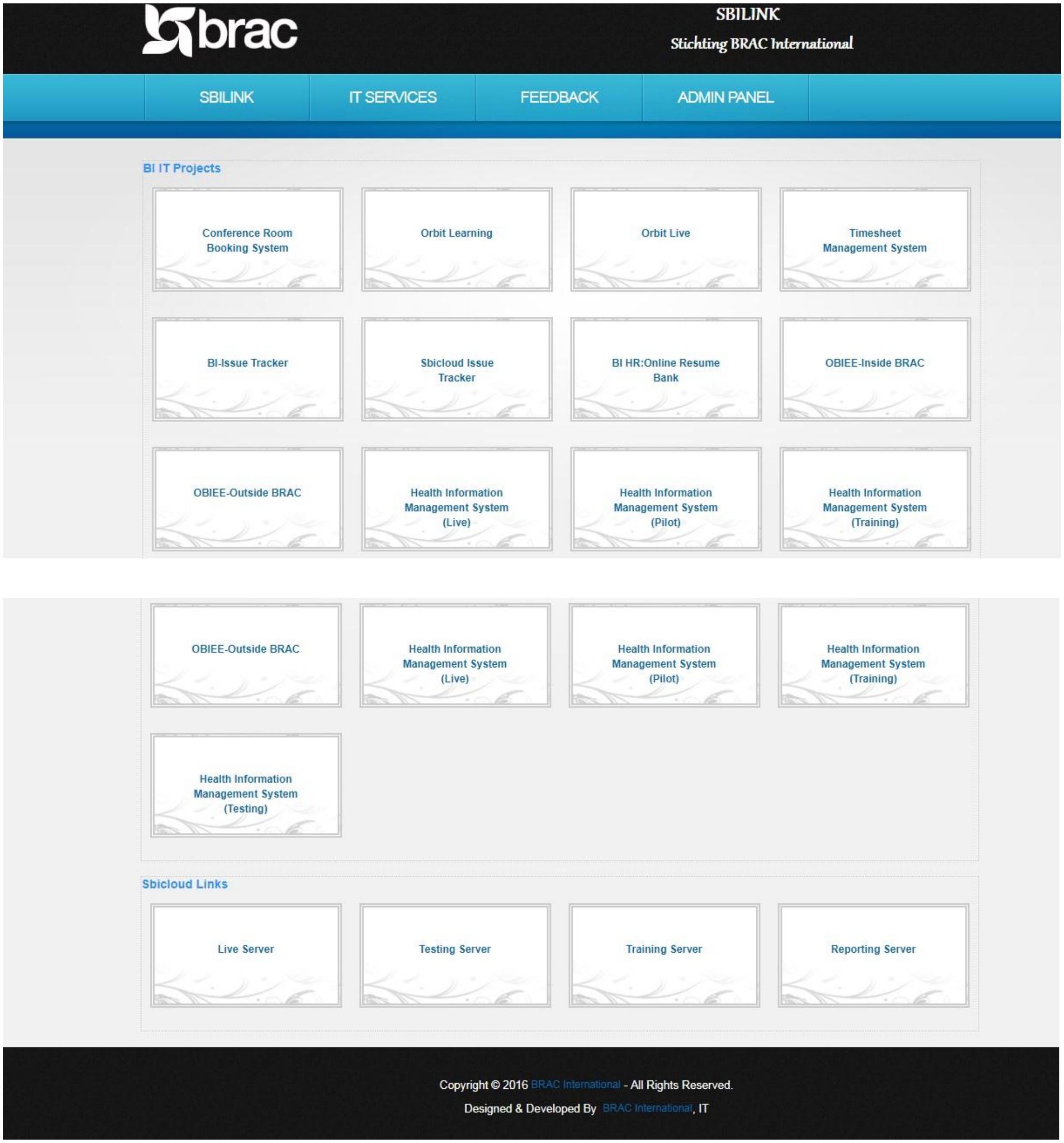
Stichting BRAC International uses its own ERP system called SBI ERP. This system has 9 modules.

1. Conference Room Booking
2. Orbit
3. Time Sheet Management System
4. BI Issue Tracker
5. SBI Cloud Issue Tracker
6. BI HR online Resume Bank
7. OBIEE BRAC
8. Health Information Management System
9. Live Server

In SBI many departments work in same floor. For having meetings in conference room departments need to book the conference room separately. Conference room booking system helps the employers to book the conference room. Moreover it works as a register for the conference room.

Orbit is Reporting Calendar system and Fixed Asset Management System. With the reporting calendar system employees can see when there next report needs to be submitted. If there is any report due it will be shown in red sign. The system will automatically continue to send email notification about the report due until the submission of the report. Admins can see all due report of employees and employees can see only due report of themselves. Fixed asset management system is a system to record all the fixed assets, charge all the depreciation, show the book value of assets and show whom its assigned to.

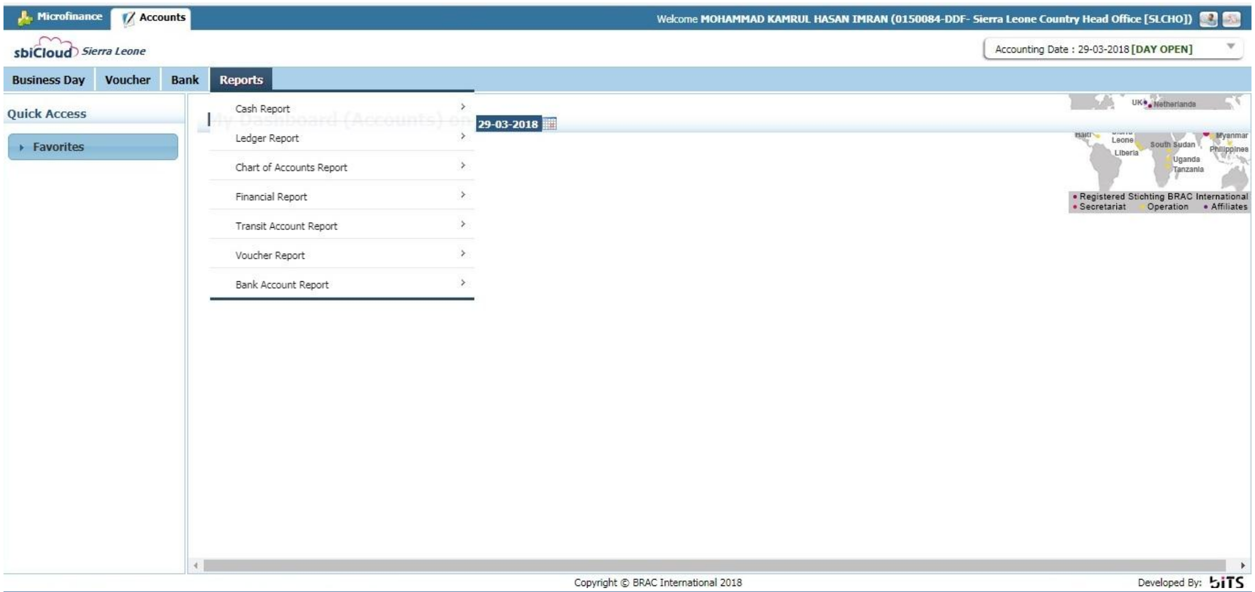
Live server is the accounting module for the SBI ERP system. For all the transaction posting, preparing trial balance and downloading reports the live server is used.



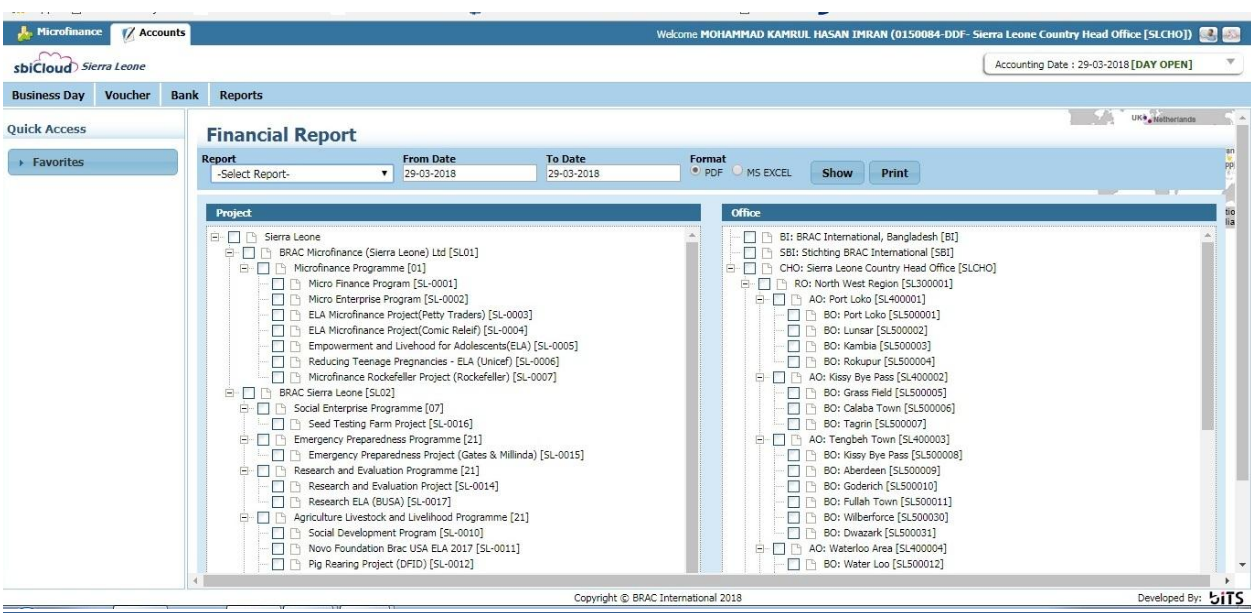
Accounting system of SBI

SBI accounting module is a full accounting system. With the help of this module all transactions are posted and ledger is generated. The system automatically generates trial balance from the ledger.

This is the home page of accounting module.



From this page all the reports can be downloaded.



Reporting System of SBI

Up to trial balance is prepared by the system. Employees download the trial balance from the system in a excel format and then prepares the financial statement. SBI has a fixed reporting format and employees prepare financial statement using the format. They prepare monthly financial statement and at the end of the year they add up the 12 months financial statements. Lastly all the financial statements of different countries are shown both differently in their separate annual report and also the consolidated report is shown in SBI annual report. The reports are submitted through the orbit module in reporting calendar management system.

Unaudited Financial Statement

BRAC Microfinance (SL) Limited

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2017

	Notes	2017 Jan - Dec SLL	2016 Jan - Dec SLL	2017 Jan - Dec USD	2016 Jan - Dec USD
Service charge on loans	**4**	18,178,098,464	9,446,760,605	2,376,222	1,276,589
Interest expense	**5**	-	-	-	-
Net income from service charge		**18,178,098,464**	**9,446,760,605**	**2,376,222**	**1,276,589**
Membership and other fees	**6**	870,222,000	582,907,500	113,755	78,771
Other income	**7**	322,982,187	1,507,083,972	42,220	203,660
Grant income	**8**	285,974,044	957,459,309	37,382	129,386
		1,479,178,231	3,047,450,781	193,357	411,818
Total operating income		**19,657,276,695**	**12,494,211,386**	**2,569,579**	**1,688,407**
Impairment losses on loans and advances to customers	**9**	1,116,586,222	910,640,884	145,959	123,060
Operating income after impairment loss		**18,540,690,473**	**11,583,570,502**	**2,423,620**	**1,565,347**

Staff costs	**10**	8,219,333,188	5,928,573,307	1,074,423	801,159
Other operating expenses	**11**	5,475,148,663	4,304,369,266	715,706	581,672
Depreciation	**16**	148,869,437	90,090,638	19,460	12,174
Total operating expenses		**13,843,351,288**	**10,323,033,211**	**1,809,588**	**1,395,004**
Profit before tax		**4,697,339,185**	**1,260,537,291**	**614,031**	**170,343**
Income tax (expense)/credit	**11(a)**	(1,409,201,755)	(87,813,000)	(184,209)	(11,867)
Net profit for the year		**3,288,137,429**	**1,172,724,291**	**429,822**	**158,476**

Other comprehensive income

Unrealized exchange gain/(loss)	(171,672,334)	(332,971,312)	(22,441)	(44,996)
Total comprehensive income	**3,116,465,095**	**839,752,979**	**407,381**	**113,480**

BRAC Microfinance (SL) Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 December SLL	2016 December SLL	2017 December USD	2016 December USD
ASSETS					
Cash and cash equivalents	**13**	5,151,329,729	6,114,268,218	673,376	826,252
Short term deposits	**14**	-	-	-	-
Loans and advances to customers	**15**	37,509,640,044	25,249,030,950	4,903,221	3,412,031
Other assets	**16**	995,868,098	1,728,337,078	130,179	233,559
Current tax assets	**12(b)**	-	-	-	-
Software development & Purchase (ERP)	**17**	388,829,418	-	50,827	-
Property and equipment	**18**	867,757,527	478,325,412	113,432	64,639
Total Assets		**44,913,424,815**	**33,569,961,658**	**5,871,036**	**4,536,481**
LIABILITIES AND CAPITAL FUND					
Liabilities					
Loan security fund	**18**	6,686,854,965	4,527,994,626	874,099	611,891
Related party payables	**19**	6,903,223,077	6,279,471,213	902,382	848,577
Borrowings	**20**	1,387,852,671	1,462,565,600	181,419	197,644
Other liabilities	**21**	2,247,307,218	1,234,587,690	293,766	166,836
Tax payable	**12(c)**	390,603,925	25,555,869	51,059	3,453

Total Liabilities		**17,615,841,856**	**13,530,174,998**	**2,302,724**	**1,828,402**
Donor funds	**22**	7,705,466,739	7,389,135,533	1,007,251	998,532
Donated equity	**23**	13,074,644,399	13,074,644,399	1,709,104	1,766,844
Share capital	**24**	12,244,890,000	12,244,890,000	1,600,639	1,654,715
Retained earnings	**25**	(9,552,418,178)	(12,668,883,274)	(1,248,682)	(1,712,011)
Total Capital Fund		**27,297,582,959**	**20,039,786,658**	**3,568,311**	**2,708,079**
Total Liabilities and Capital Fund		**44,913,424,816**	**33,569,961,658**	**5,871,036**	**4,536,481**

Problems of Reporting System of SBI

As the employees generate financial report using excel, they make a lot of mistakes. Some mistakes are corrected and some remain. Most of the times report sent by the country accountants are full of mistakes manipulated data. Officers and managers prepare reports and it is checked by the deputy head of accounts and approved by head of accounts. When mistakes are found its again sent back to the country accountant to correct and send it back.

Ratio Analysis of BRAC Sierra Leone (Microfinance)

Ratios

BRAC Microfinance (SL) Limited

Financial Ratio Analysis

As at 31 December 2017

FINANCIAL SUSTAINABILITY RATIOS	Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio

SUSTAINABILITY RATIOS

1 **Return on Performing Assets**

Profit before tax	4,697,339,185		1,260,537,291	
Average Total Assets	39,241,693,236	11.97%	25,963,773,338	4.85%

Indicates financial productivity of credit services and investment activities

2 **Yield on portfolio**

Service Charge	18,178,098,464	55.68%	9,446,760,605	44.02%
Average Loan portfolio	32,647,139,413		21,460,580,104	

shows the return on loans disbursed

3 **Loan Loss Provision Ratio**

Loan Loss Provision / Total principal outstanding	1,116,586,222 / 38,504,073,649	2.90%	910,640,884 / 26,790,205,177	3.40%

Indicates provisioning requirements on loan portfolio for current loans

4 **Operating Cost Ratio**

Operating Cost / Average Total Assets	13,843,351,288 / 39,241,693,236	35.28%	10,323,033,211 / 25,963,773,338	39.76%

Key Indicator of efficiency of lending operation

5 **Operating Self-sufficiency**

Financial Income / Total Cost	19,371,302,651 / 16,540,811,600	117.11%	11,536,752,077 / 11,654,458,407	98.99%

Shows the credit programs' ability to cover costs of performance with internally generated income

LIQUIDITY RATIOS

1 **Cash Position Indicator**

Cash and Deposits due from Banks / Average Total Assets	3,098,124,807 / 36,943,325,933	8.39%	6,114,268,218 / 25,963,773,338	23.55%

Indicates ability to meet immediate cash needs

2 **External Loan - Saving Deposit Ratio**

External Net Loans / Total Deposits	1,387,852,671 / 6,686,854,965	20.75%	1,462,565,600 / 4,527,994,626	32.30%

Indicates dependency on volatile external loans rather than stable source (deposits)

OPERATING EFFICIENCY RATIOS

1 **Cost ($) per Unit of Money Lent**

Operating Cost +Finance cost in ($) / Loan Disbursed in ($)	1,809,588 / 9,396,340	$0.19	1,395,004 / 6,443,794	$ 0.22

Indicates efficiency in disbursing loans (in monetary terms)

2 **Cost ($) per Loan Made**

Operating Cost ($) / Number of Loans Made	1,809,588 / 44,583	$40.59	1,395,004 / 40,513	$ 34.43

3 **Solvency Ratio**

Net worth (Give detail composition) / Total Assets	27,297,582,959 / 44,913,424,815	61%	20,107,160,928 / 33,611,780,057	60%

4 **Number of Active Borrowers per Credit officer**

Number of Active Borrowers / Number of Credit officer	37,615 / 149	252	35,377 / 134	264

5 **Net Income per unit ($) money lent**

Operating income before tax($) / Loan Disbursed in ($)	614,031 / 9,396,340	$0.07	167,581 / 6,443,794	$0.03

6 **Portfolio ($) per Credit officer**

Total Loan Outstanding($) / Number of Credit officer	5,160,949 / 149	$34,637	$3,675,197 / 134	$27,427

PORTFOLIO QUALITY RATIOS

1 **Portfolio at Risk> 30 Days**				
The principal balance of loans overdue / Principal Outstanding	1,414,980,762 / 38,504,073,649	3.67%	1,546,424,749 / 26,790,205,177	5.77%

Measures amount of default risk in portfolio

2 **Reserve Ratio**				
Loan Loss Reserve / Value of Loan Outstanding	1,952,062,569 / 39,481,263,136	4.94%	1,932,408,371 / 27,196,454,996	7.11%

Indicates adequacy of reserves in relation to portfolio

3 **Risk coverage Ratio**				
Loan Loss Reserve / PAR> 30	1,952,062,569 / 1,414,980,762	137.96%	1,932,408,371 / 1,262,969,361	153.01%

Indicates adequacy of reserves in relation to portfolio at risk

Sustainability Ratio

Sustainability ratio shows the ability of an organization to sustain in long run with the available resources. It is important for taking long term decision. Mainly when a subsidiary or a product is not doing well then this ratios are taken to consideration for making a decision, whether to shut down the production or operation or to continue. Sustainability ratios are

Return on Performing Asset

Indicates financial productivity of credit services and investment activities. It shows whether the profit increased simultaneously with the asset or not.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
1	Return on Performing Assets	Profit before tax /	4,697,339,185	11.97%	1,260,537,291	4.85%
		Average Total Assets	39,241,693,236		25,963,773,338	

Here the return form performing asset increased to 11.97% from 4.85%. Which means the organizations credit services is earning more profit than previous year. Therefore this year's operational performance of the organization is satisfactory.

Yield on portfolio

This ratio is very important for a financial institution as it tell the return organization made from the credit servicer it provided to its customers.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
2	Yield on portfolio	Service Charge /	18,178,098,464	55.68%	9,446,760,605	44.02%
		Average Loan portfolio	32,647,139,413		21,460,580,104	
shows the return on loans disbursed						

Yield on portfolio ratio of BRAC Sierra Leone increased from 55.68% to 44.02%. 55.68% return alone itself says that the organization is performing very well in its credit services. Moreover it has increased from the last year. Therefore it can be said that the yield on portfolio is very satisfactory.

Loan Loss Provision Ratio

This ratio shows the percentage of the loan loss provision kept or needed to be kept. Decrease of the percentage indicates that the organization is performing well

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
3	Loan Loss Provision Ratio	Loan Loss Provision /	1,116,586,222	2.90%	910,640,884	3.40%
		Total principal outstanding	38,504,073,649		26,790,205,177	
Indicates provisioning requirements on loan portfolio for current loans						

Loan loss provision has decreased from the last year means the organization is performing well in its operation and lower number of loans is written as bad debt. Therefore the loan loss provision ratio is satisfactory.

Operating Cost Ratio

This ratio indicates that whether thy have become more efficient in operation or not. Operating cost is divided by average total asset to see, how much their average total asset covers the operating costs.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
4	Operating Cost Ratio	Operating Cost /	13,843,351,288	35.28%	10,323,033,211	39.76%
		Average Total Assets	39,241,693,236		25,963,773,338	
Key Indicator of efficiency of lending operation						

Their operating cost ratio has decreased from 39.76% to 35.28%. Means organization have become more efficient. Therefore the operating cost ratio is satisfactory.

Operating Self-sufficiency

Operating self-sufficiency ratio shows the ability of the organization to cover up its all costs from its income.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
5	Operating Self-sufficiency	Financial Income /	19,371,302,651	117.11%	11,536,752,077	98.99%
		Total Cost	16,540,811,600		11,654,458,407	
Shows the credit programs' ability to cover costs of performance with internally generated income						

Operating self-sufficiency ratio has increased from 98.99% to 117.11% . Means that the organization made a loss last year and this year they made a profit, therefore the operating self-sufficiency ratio is satisfactory.

Liquidity Ratio

Liquidity ratio shows the ability of an organization to repay its current debt or to be able to manage current expenses. Liquidity ratio is very important for a financial institution as their business is related to lending money, they have to maintain certain percentage of cash in hand.

Cash Position Indicator

Cash position indicator is a ratio to indicate the percentage of cash and cash equivalent the organization has. Cash and cash equivalent is divided by average total asset to compare the percentage of cash they have in their average total asset.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
1	Cash Position Indicator	Cash and Deposits due from Banks /	3,098,124,807	8.39%	6,114,268,218	23.55%
		Average Total Assets	36,943,325,933		25,963,773,338	
Indicates ability to meet immediate cash needs						

Cash position indicator ratio has decreased from 23.55% to 8.39%. The ratio itself says that their cash and cash equivalent did not increase proportionately to the average total assets. Therefore their cash position indicator is not satisfactory.

External Loan - Saving Deposit Ratio

External loan- saving deposit ratio divides external loan by total deposit to find out how much of their total deposit covers up the loan they made.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
2	External Loan - Saving Deposit Ratio	External Net Loans /	1,387,852,671	20.75%	1,462,565,600	32.30%
		Total Deposits	6,686,854,965		4,527,994,626	
Indicates dependency on volatile external loans rather than stable source (deposits)						

External loan – saving deposit ratio shows that the ratio has decreased from 32.3% to 20.75%. Means they have increased the number of loans this year, seeing their good performance of the last year. This ratio is not satisfactory.

Operating Efficiency Ratio

Operating efficiency ratio shows how efficiently the employees are running the business.

Cost ($) per Unit of Money Lent

Cost per unit of money lent ratio shows the cost for lending one dollar. This ratio is Important to decide the interest rate the organization need to charge for covering up the operating cost and the finance cost.

		Jan to Dec'2017		Ratio	Jan to Dec'2016	Ratio
1	Cost ($) per Unit of Money Lent	Operating Cost +Finance cost in ($) /	1,809,588	$0.19	$1,395,004	$0.22
		Loan Disbursed in ($)	9,396,340		6,443,794	
Indicates efficiency in disbursing loans (in monetary terms)						

The cost per unit of money lent ratio has decreased from $0.22 to $0.19. The cost has decreased means their operation has become for efficient considering the loan disbursement amount. Therefore the ratio is satisfactory.

Cost ($) per Loan Made

Cost per loan made ratio shows the operating cost occurred for providing a loan. The operating cost is divided by the number of loan made to find out the cost per loan made.

		Jan to Dec'2017		Ratio	Jan to Dec'2016	Ratio
2	Cost ($) per Loan Made	Operating Cost ($) /	1,809,588	$40.59	$1,395,004	$34.43
		Number of Loans Made	44,583		40,513	

Cost per loan made has increased this year from $34.43 to $40.59. Which indicates operational efficiency has decreased considering the number of loans made and the ratio is not satisfactory,

Solvency Ratio

This ratio shows how solvent the organization is.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
3	Solvency Ratio	Net worth (Give detail composition) /	27,297,582,959	61%	$20,107,160,928	60%
		Total Assets	44,913,424,815		33,611,780,057	

Solvency ratio is increased by 1%, therefore the ratio is satisfactory.

Number of Active Borrowers per Credit officer

This ratio show how many officers they have compared to number of borrowers.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
4	Number of Active Borrowers per Credit officer	Number of Active Borrowers /	37,615	252	35,377	264
		Number of Credit officer	149		134	

This ratio has decreased means the organization hasn’t hired much officers compared to the increase in number of borrower. Therefore the ratio is satisfactory.

Net Income per unit ($) money lent

Net income per unit money lent ratio shows how much income did the organization made lending one dollar of money.

		Jan to Dec'2017		Ratio	Jan to Dec'2016	Ratio
5	Net Income per unit ($) money lent	Operating income before tax($) /	614,031	$0.07	$167,581	$0.03
		Loan Disbursed in ($)	9,396,340		6,443,794	

The ratio has increased $0.04, therefore it is a satisfactory ratio.

Portfolio ($) per Credit officer

Portfolio per credit officer ratio shows how much worth of loan has given responsibility to a credit officer.

		Jan to Dec'2017		Ratio	Jan to Dec'2016	Ratio
6	Portfolio ($) per Credit officer	Total Loan Outstanding($) /	5,160,949	$34,637.00	$3,675,197	$27,427.00
		Number of Credit officer	149		134	

The ratio has increased, which means the officers have more responsibility. This is good for organization as they will be occurring low operating cost and incur positive operating ratio but it is not beneficial for employees as they will feel more pressure though this ratio is satisfactory.

Portfolio Quality Ratio

This ratio describes the quality of the loan portfolio.

Portfolio at Risk> 30 Days

Portfolio at risk > 30 days ratio is the most used ratio to measure the quality of the portfolio.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
1	Portfolio at Risk> 30 Days	The principal balance of loans overdue /	1,414,980,762	3.67%	$1,546,424,749	5.77%
		Principal Outstanding	38,504,073,649		26,790,205,177	
Measures amount of default risk in portfolio						

The ratio has decreased from 5.77% to 3.67%. The organization has been able to decrease the amount of loan overdue. Therefore the ratio is satisfactory.

Reserve Ratio

Reserve ratio shows the percentage of loan loss reserve by dividing loan loss reserve value with the total loan outstanding.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
2	Reserve Ratio	Loan Loss Reserve /	1,952,062,569	4.94%	$1,932,408,371	7.11%
		Value of Loan Outstanding	39,481,263,136		27,196,454,996	
Indicates adequacy of reserves in relation to portfolio						

Reserve ratio has decreased from 7.11% to 4.94%. Means the organization has made quality loans as a result their loan loss reserve ratio decreased. Therefore the ratio is satisfactory.

Risk coverage Ratio

Risk coverage ratio shows the percentage of risk covered by the loan loss reserve.

			Jan to Dec'2017	Ratio	Jan to Dec'2016	Ratio
3	Risk coverage Ratio	Loan Loss Reserve /	1,952,062,569	137.96%	$1,932,408,371	153.01%
		PAR> 30	1,414,980,762		1,262,969,361	
Indicates adequacy of reserves in relation to portfolio at risk						

The ratio has decreased but the ratio covers the risk amount. Therefore it is satisfactory.

Summary of Ratios

		Results	Notes
SUSTAINABILITY RATIOS			
1	Return on Performing Assets	Satisfactory	Increased to 11.97% from 4.85%.
2	Yield on portfolio	Very satisfactory	Increased from 55.68% to 44.02%.
3	Loan Loss Provision Ratio	Satisfactory	Loan loss provision has decreased
4	Operating Cost Ratio	Satisfactory	Decreased from 39.76% to 35.28%.
5	Operating Self-sufficiency	Satisfactory	increased from 98.99% to 117.11%
LIQUIDITY RATIOS			
1	Cash Position Indicator	Not satisfactory	Decreased from 23.55% to 8.39%.
2	External Loan - Saving Deposit Ratio	Not satisfactory	Decreased from 32.3% to 20.75%
OPERATING EFFICIENCY RATIOS			
1	Cost ($) per Unit of Money Lent	Satisfactory	Operation has become for efficient considering the loan disbursement amount
2	Cost ($) per Loan Made	Not satisfactory	Operational efficiency has decreased considering the number of loans made
3	Solvency Ratio	Satisfactory	Solvency ratio is increased by 1%
4	Number of Active Borrowers per Credit officer	Satisfactory	Decreased from the last year
5	Net Income per unit ($) money lent	Satisfactory	increased $0.04
6	Portfolio ($) per Credit officer	Satisfactory	Portfolio ($) per Credit officer increased
PORTFOLIO QUALITY RATIOS			
1	Portfolio at Risk> 30 Days	Satisfactory	Decreased from 5.77% to 3.67%.
2	Reserve Ratio	Satisfactory	Need for loan reserve decreased
3	Risk coverage Ratio	Satisfactory	Loan Loss reserve covers the risk amount

Analysis

BRAC Sierra Leone Microfinance is performing very well. Their most of the ratios are satisfactory. Their performance of the last year was also satisfactory. Therefore last year's performance might have influenced them to provide more loans in 2017. As a result their both liquidity ratio has been not satisfactory this year. They have given so many loan that has affected their cash position indicator and external loan- saving deposit ratio negatively. More over their cost per loan made ratio is not satisfactory but cost per unit of money lent is satisfactory. So they are giving bigger loans than last year. Overall they are trying to expand their operation.

Recommendation

An organization should try to maintain sustainable growth rate. BRAC Sierra Leone Microfinance is trying to grow very fast. As a result number of loan default has increased. In November 2017 The Board approved SLL 1,100,391,634, in USD approximately 143,842 to be written off against loan loss reserve. So their portfolio quality ratio has been satisfactory this year because they have written off all the bad debts recently. So they are not giving quality loans. As they have provided more loans this year, the chances of increase of bad debt are very high. Therefore it is recommended that they should provide quality loans and maintain sustainable growth rate.

Conclusion

Stichting BRAC International has expanded its operation in 10 countries. It has been doing very well to fight against many issues. Its operations have helped millions of people around the world, including thousands of employees. It has become a massive organization. However its top management has given many responsibilities at different levels. Therefore it is hard for the top management to look thoroughly at the operations of root level. This made them dependent on middle management and most of the times middle managers are not taking decision that are best for the organization. Therefore SBI should reduce responsibility from the director and head of the departments and they should look after the root level activities to mitigate misrepresentation and avoid influence in decision making. Lastly ratios are a very important part of financial reporting. Ratios make financial report easy to understand and show the actual condition of the business. Without ratio analysis BRAC Sierra Leone Microfinance seems to be a very good growing organization but with the help of ratio analysis, it can be said that the organization is trying to expand its activities but they are not focused towards sustainable growth. If the organization continues its operations in the same manner then in near future it won't be able to sustain its profitability. To conclude financial ratio analysis is a very important tool to evaluate the performance of a business.

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Appendix

BRAC Microfinance (SL) Limited

Financial Ratio Analysis

As at 31 December 2017

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SUSTAINABILITY RATIOS

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Indicates adequacy of reserves in relation to portfolio

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Indicates adequacy of reserves in relation to portfolio at risk

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