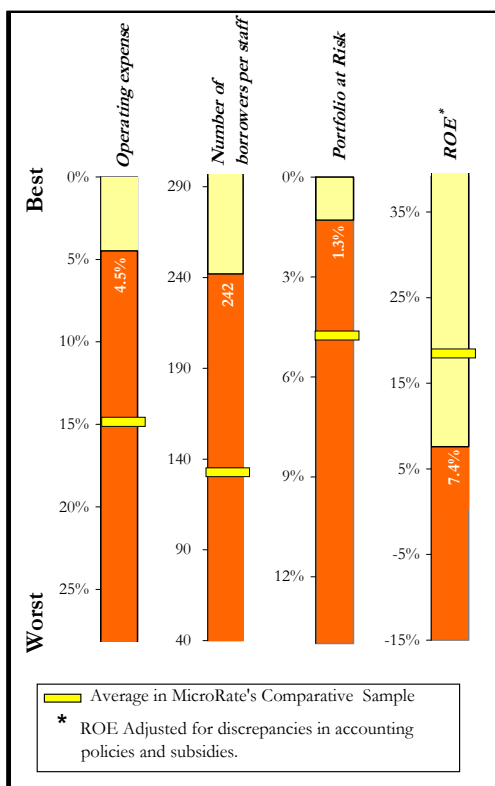
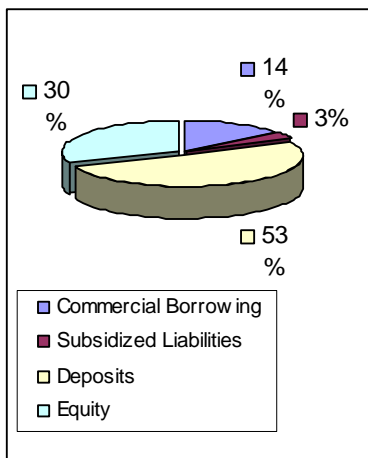


<b>Amhara Credit &amp; Savings Institution</b>		<b>ETHIOPIA</b>																											
- 2 <sup>nd</sup> Update																													
<b>Company Limited by Shares</b>		<i>Report as of November 2007</i>																											
<b>Contacts</b>		<b>Synopsis</b>																											
<p><b>MicroRate:</b> Mr Enrique Blanco Zampillo <a href="mailto:enrique@microrate.com">enrique@microrate.com</a> Tel: +511 442 5050</p> <p><b>M-CRIL:</b> Mr. Abhishek Fogla <a href="mailto:abhishekfogla@m-cril.com">abhishekfogla@m-cril.com</a> Tel: +91 124 230 9497</p>		<p>The Amhara Credit &amp; Saving Institution (“ACSI”) started operations in 1995 as a department of a local NGO. It is one of the largest MFIs in Ethiopia, with a gross outstanding loan portfolio of over \$102 million and almost 575,000 active borrowers. The institution makes predominantly agricultural loans using the group lending methodology. ACSI converted into a limited liability company in 1997 and is directly and indirectly owned by the Amhara National Regional State (“ANRS”).</p>																											
<b>PERFORMANCE RATING</b>	<b>α-</b>	<b>Highlights</b>																											
<b>RATING OUTLOOK</b>	<b>Stable</b>																												
Date of visit	<b>November 2007</b>	<p><b>POSITIVE</b></p> <ul style="list-style-type: none"> <li>• Largest microfinance outreach in Ethiopia with many years of experience in the Amhara region</li> <li>• Excellent growth prospects.</li> <li>• Low cost of funds because of high savings mobilization</li> <li>• Remarkably low operating expense ratio</li> <li>• Capable senior and top management</li> </ul> <p><b>NEGATIVE</b></p> <ul style="list-style-type: none"> <li>• High concentration in agriculture; widespread crop failure would expose ACSI to significant risk.</li> <li>• Weak methodology for high value micro-bank and micro-enterprise loans.</li> <li>• Focus needed on internal control/ internal audit</li> <li>• Low portfolio yield and forced participation in loss-making initiatives, given the strong influence of the Government</li> </ul>																											
Date of previous rating	<b>August 2005</b>																												
Previous rating	<b>α-</b>																												
<table border="1"> <tr><td><b>α++</b></td><td>α+</td><td></td></tr> <tr><td></td><td>α</td><td></td></tr> <tr><td><b>α</b></td><td>α-</td><td>← ACSI</td></tr> <tr><td></td><td>β+</td><td></td></tr> <tr><td><b>β</b></td><td>β</td><td></td></tr> <tr><td></td><td>β-</td><td></td></tr> <tr><td></td><td>γ+</td><td></td></tr> <tr><td><b>γ</b></td><td>γ</td><td></td></tr> <tr><td></td><td>γ-</td><td></td></tr> </table>		<b>α++</b>	α+			α		<b>α</b>	α-	← ACSI		β+		<b>β</b>	β			β-			γ+		<b>γ</b>	γ			γ-		
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	γ-																												
<b>Principal Performance's Indicators</b>																													
	<b>Dec-06</b>	<b>Sep-07</b>																											
Gross Loan Portfolio*	\$78,290	\$102,655																											
Number of Clients	536,804	574,969																											
ROE**	0.1%	7.4%																											
Portfolio yield	17.0%	17.1%																											
Portfolio at Risk	1.7%	1.3%																											
Operative Expense	4.9%	4.5%																											
Average Loan Balance	\$146	\$179																											
Borrowers per staff	260	242																											
* (000 \$)																													
** Adjusted																													

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<b>ACSI</b>	<b>ETHIOPIA</b>	<b>November 2007</b>
<b>Sources of Funding</b>	<b>Rating Rationale</b>	



The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loan size less than US\$500.

**Low competition and excellent growth prospects-** ACSI has little competition in the province of Amhara where it operates. The growth prospects for the future seem excellent as demand for credit is high. However, recently credit projects backed by the World Bank and government agencies have begun to represent unfair competition in some areas.

**Remarkably low operating expense ratio-** ACSI is extremely efficient, reporting an operating expense ratio of 4.5%. This level of operating efficiency is unprecedented and far surpasses anything MicroRating International has seen in Africa or Latin America.

**Low cost of funds and savings mobilization-** ACSI has mobilized savings amounting to \$56 million, which is 54.4% of the gross loan portfolio. This drives down the cost of funds, which was at a low value of 3.8%. Other lines of credit are also available, with a huge commitment from CBE and another in the pipeline from the Grameen Foundation.

**High concentration in agriculture and End-Term loans with bullet repayment-** The portfolio is concentrated heavily in agriculture and also in a particular product called End-Term loan, which has a bullet repayment at the end of the loan tenure and accounts for 88% of the portfolio. Since most of these loans are for agricultural usage, the risks are correlated and could wreak havoc in the portfolio, should a widespread agricultural catastrophe happen.

**Weak methodology for high value micro-bank and micro-enterprise loans-** Though there is a strategic focus on increasing the exposure to high value loans, which can be as high as \$55,000, the loan appraisal for the same is weak and relies excessively on collateral instead of cash flow analysis.

**Focus on internal control/ audit needed-** The internal control/ audit was found to be irregular and incomprehensive in some cases, which resulted in under-reporting of portfolio deterioration, in spite of having a history of frauds/collusion.

**Low portfolio yield & forced participation in loss-making initiatives, given the strong influence of the Government-** The Government is believed to be behind keeping interest rates very low. It has forced ACSI to participate in extending loans like food security loans and condominium loans, where the portfolio quality is poor. However, ACSI receives support from the Government, enabling it to operate at an extremely low cost. The State can be expected to provide financial backing should it ever become necessary.