The Small Enterprise Foundation (SEF)

Limpopo, South Africa May 2019

Financial Rating

Investment Grade	Above	α	α+
			α
			α–
		β	β+
			β
	Below		β–
		γ	γ+
			γ

	December 2018
RATING	α–
RATING OUTLOOK*	*Neutral*

Dimensions rated	Grade
Governance & Strategy	α–
Organisation & Management Systems	α–
Financial Performance	α–

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Visit: 17-27 March 2019

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Structure

Rating Rationale

- ⇧ The Small Enterprise Foundation (SEF) is the largest Developmental Microfinance Institution in South Africa in terms of market share, asset base and geographical network.
- ⇧ SEF has a strong, experienced Governing Board and stable second line of management. It has a well-articulated five-year business plan with a clear operational strategy.
- ⇧ Adequate internal control systems coupled with strong risk management practices have resulted in SEF maintaining excellent portfolio quality (PAR_0 was 0.4% on 31 December 2018).
- ⇧ SEF's funding profile is diversified. The MFI has been able to raise funds from various short and long-term investors.
- ⇧ SEF's digitization of its customer loan origination process and application systems is reported to be complete. This should enable the MFI to lower its operating expenses and will support expansion.
- ⇔ M-CRIL believes that SEF will be able to scale and sustain its operations given its historical performance. However, its moderate capitalisation level may hinder growth.
- ⇩ SEF plans to expand its operations to Free State and Kwazulu-Natal in the short to medium term, thereby covering a substantial proportion of the provinces of South Africa. This may pose challenges in terms of geographical spread and culture leading to limitations on growth in client outreach and pressure on asset quality.
- ⇩ Lack of clarity on internal transfers and staff rotation between branches poses a systemic risk.
- ⇩ Credit assessment of repeat loans is mostly driven by savings and does not use technical parameters to determine the client's ability to repay loans. This limits the field staff's understanding of the credit under-writing process and could be a constraint on future growth in loan size.

Operational & Financial Performance

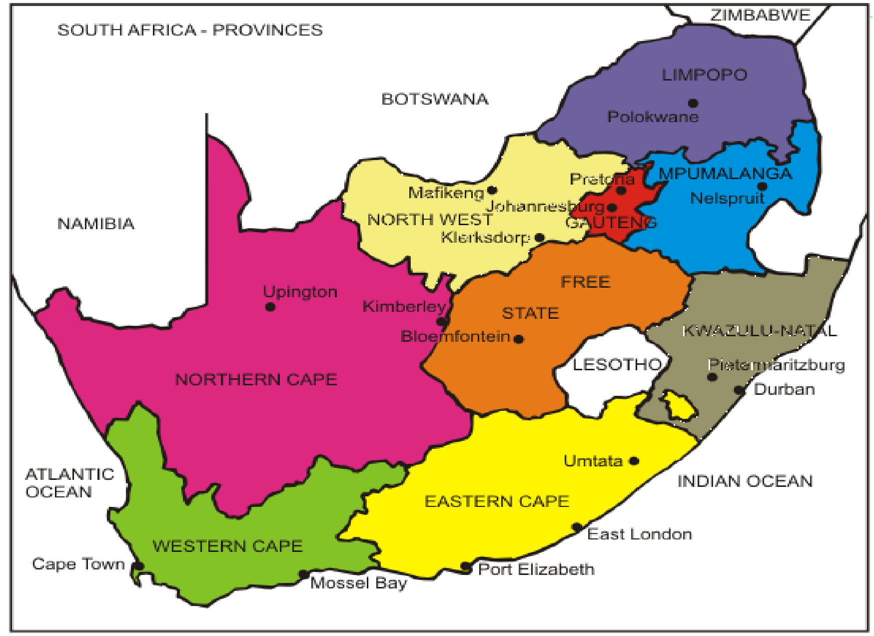
Main Performance Indicators						
	Jun-14	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**	**Dec-18**
Region	3	3	4	4	4	4
Branches	65	74	77	78	84	89
Active clients	113,116	130,380	139,016	160,992	176,910	196,344
Group clients	113,116	130,360	138,827	160,405	176,061	195,343
Individual loan clients (non-group)			159	543	804	902
Large loan clients	0	20	30	44	45	99
Gross loan portfolio (ZAR mn)	232	291	298	425	482	613
PAR_0 (%)	0.1	1.8	3.1	0.8	0.9	0.4
Borrowers per field staff	289	273	281	310	323	336
Solvency ratio (%)	23.9	21.3	21.1	19.9	20.9	19.6
Financial year						
Portfolio yield (%)	61.9	59.7	60.2	67.2	63.8	60.7
Operating expense ratio (%)	55.0	49.4	50.3	51.6	49.5	44.7
Capital adequacy (%)	25.7	23.2	22.5	20.4	20.9	18.3
OSS (%)	98.6	102.9	100.3	110.6	108.5	115.4

**Annualized*

This rating is valid for one year, subject to no other significant changes in the organisational structure and external operating environment.

Synopsis

- The Small Enterprise Foundation (SEF) is the largest developmental, not for profit, pro-poor microfinance institution in South Africa.
- SEF has a long track record of more than two decades. SEF started its operations in 1992 with an objective to provide credit and facilitate savings services to the poor, vulnerable and unbanked women.
- SEF as a microfinance service provider, is registered with the National Credit Regulator, and is a charter member of Development Microfinance Association, South Africa.



- SEF adopts hybrid methodology of the Grameen Bank's group lending model and has close to 99% women clients.
- SEF focuses on its mission to work aggressively towards the elimination of poverty by reaching the impoverished population. SEF received many accolades for its poverty-targeting methodology and its success in reaching and ensuring positive impact on the poor. SEFs poverty targeting tool (PWR) was one of the first such tools recognized and promoted by the Microcredit Summit Campaign.
- SEF offers customer centric financial services to clients both as groups and as individuals through a well established network of 89 branches in six different provinces. As of December 2018, it has a borrower base of 196,344 with an outstanding loan portfolio of ZAR 613 million.

South Africa – Political & Economical Environment

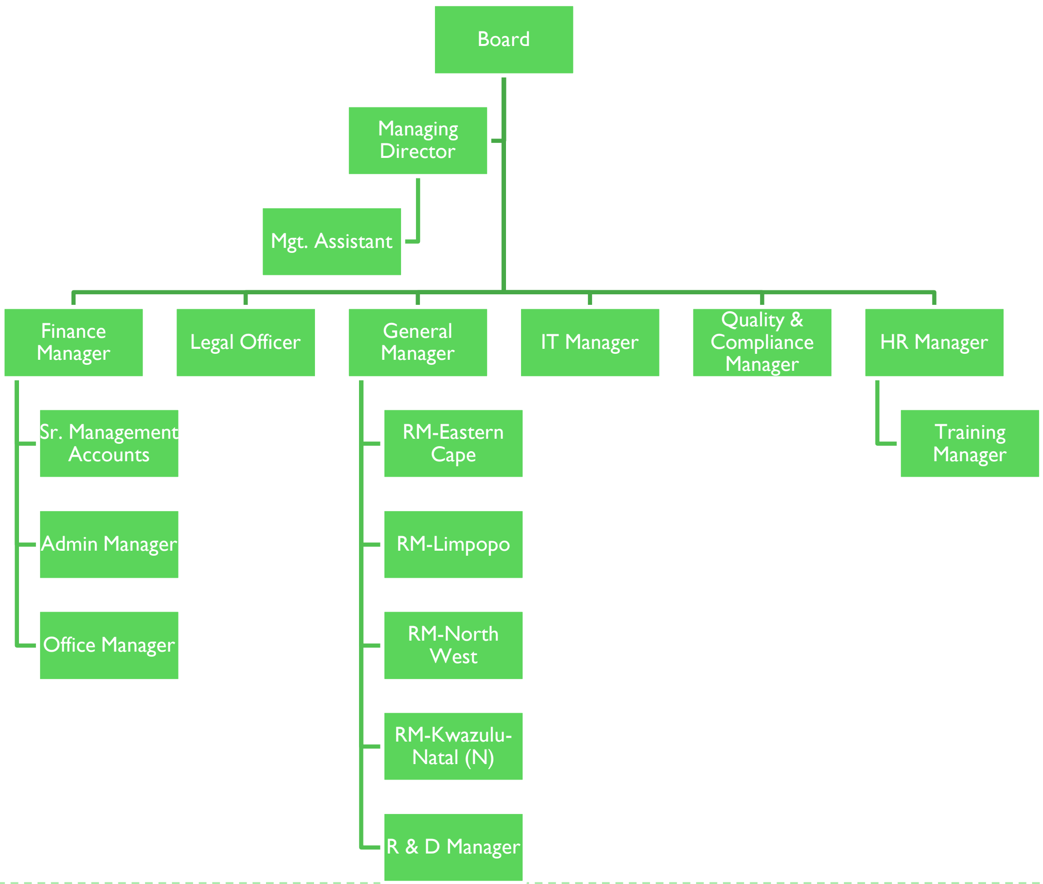
- South Africa's peaceful political transition is considered to be one of the remarkable political achievements of the past century. The ruling African National Congress (ANC) has been driving the policy agenda since 1994. The general election scheduled for May 2019 was conducted in reasonable calm though there is reported to be growing civil unrest in the country.
- South Africa is the leading economy in the region and is also home to 75% of the largest African companies.
- The economy grew 0.8% in 2018 and is expected to grow at 1.4% and 1.7% in 2019 and 2020 respectively.
- According to a report by South Africa's Treasury, national debt will rise by almost a trillion rand during 2017-2020, to nearly two-thirds of the gross domestic product: the gross national debt is expected to reach US$247 billion as the government accelerates borrowing in local and international markets.
- In 2018, inflation fell to 4.8% (compared to 5.3% in 2017) and is expected to remain unchanged in 2019.
- South Africa's unemployment rate increased slightly between 2017 and 2018, growing from 27.5% to 27.9%. The unemployment rate is even higher among young people (below 30 years of age), at around 54.7% and is a matter of concern in the context of the growing civil unrest.
- The non-performing loans of South African banks were reported to be 3.7% in December 2018, compared to 3.5% in June 2018.

South Africa – Financial Inclusion

- Progress toward poverty reduction has slowed in recent years, with the US$1.90per day poverty rate increasing from 16.8% to 18.8% between 2011 and 2015.
- Partly for this reason, financial inclusion is one of the South African Reserve Bank's (SARB) priorities. South Africa's efforts to improve financial inclusion received a boost with the signing of a $4.6 million multi-donor Trust Fund by the World Bank Group and the Swiss State Secretariat for Economic Affairs (SECO). This program will tackle existing structural constraints to improve financial inclusion by expanding access to and usage of a range of cost-effective financial products and services by the underserved population and SMEs.
- The South Africa Financial Sector Development and Reform Program (FSDRP), Phase 2, builds on a program which began in 2014, to support the introduction of the Financial Sector Regulation (FSR) Bill, providing a system-wide approach to financial oversight, through the establishment of a Financial Sector Conduct Authority (FSCA) and a Prudential Authority (PA).
- According to the Independent Communications Authority of South Africa (ICASA's) smartphone penetration was 81.72% at the end of September 2018, compared to 43.5% in September 2016 and 74.2% in September 2017. Nevertheless there are challenges of connectivity and digital literacy that limit the outreach of phone based money transfers in Africa, which apply to South Africa as well.

Organizational Structure

- SEF is led by its co-Founder & Managing Director, John de Wit. He is assisted by five department heads. The internal audit team was recently merged with the Quality and Compliance Department; SEF will be outsourcing the internal audit function.



Governance and Strategy

Governance
Operational Growth Strategy
Competition & Second line Management
Fund mobilization
Human Resource Management

Governance

- SEF's Board is comprised of qualified professionals with many years of experience in banking, finance, economic policy management, development sector & microfinance. All the Board members participate actively in decision making. The board has recently been strengthened further by the induction of two new non-executive members.
- The governing board has 7 members including the Managing Director. The Board Chairman, Mr Simpiwe Hemming Somdyala is a financial consultant. He has previously held the positions of CEO, Masisizane Fund (which provides development finance to SMEs) and CEO, ASGISA Eastern Cape (Pty) Limited (which facilitates the high impact programme of the office of the President).
- SEF has three Board level committees for Audit, Social Performance and Human Resources. The board meets every quarter and provides strategic direction, reviews management decisions and discusses the performance of the organisation.
- In addition, the management committee – consisting of senior managers – meets monthly to discuss the operational and financial performance of the organisation.
- SEF has formulated strategies to target ultra poor people. It has also developed two new products (Large Loan Programme, LLP and Individual Liability Programme, ILP), currently in the pilot phase, to address the working capital requirements of micro and small entrepreneurs. SEF believes that this product can assist entrepreneurs to expand their businesses, thus creating employment opportunities.

Operational Growth strategy

- SEF has a clear operational and growth strategy. The MFI has projected conservative growth for the next five years and has no plans to change its legal structure.
- To inculcate the savings habit amongst its clients, SEF started a pilot of the Goal Cards project in 2015. SEF is attempting to help its clients to use their savings more efficiently.
- SEF has agreements with two large banks to administer the savings product and has a non-compete agreement with them. The clients deposit their savings directly at these banks in their groups or individual bank accounts. Until 31 December 2018, the MFI had facilitated deposits of ZAR 126 million (~20% of loan portfolio outstanding even though it is not on SEF's balance sheet).
- It plans to grow the client base by 15%-18%, loan portfolio by 10%-12% year-on-year for the next five years with a focus on designing holistic programming for the poor and very poor.
- SEF plans to expand its operations to the two provinces of Free State and Kwazulu-Natal in the short to medium term. It currently operates in 4 other of South Africa's 9 provinces – Limpopo, North West, Eastern Cape and Mpumalanga.
- To address high client attrition, SEF has plans to initiate supply chain management through backward and forward integration of its borrowers' enterprises. Moreover, it plans to improve client skills through personal initiative training and peer learning.
- After successful implementation of digitization of the customer loan origination process, SEF plans to conduct an anti-hacking test regularly to mitigate potential cyber security risk.
- It then plans to adopt GIS technology for data-driven decision making wherein the GIS will map and outline its branch boundaries resulting in improved operational effectiveness.

Competition & Second Line leadership

Competition

- Competition from formal lending institutions is limited; banks and other financial institutions in South Africa focus on payroll-based consumer loans.
- SEF faces competition from informal lenders which has contributed to high client attrition.
- Banks are hesitant to launch collateral based lending to SMEs, given the delays there are in the legal system. This has created a gap in the market that SEF's Individual Liability Loan or ILP product and Large Loan Product or LLP, currently being piloted, will be able to fill the gap.

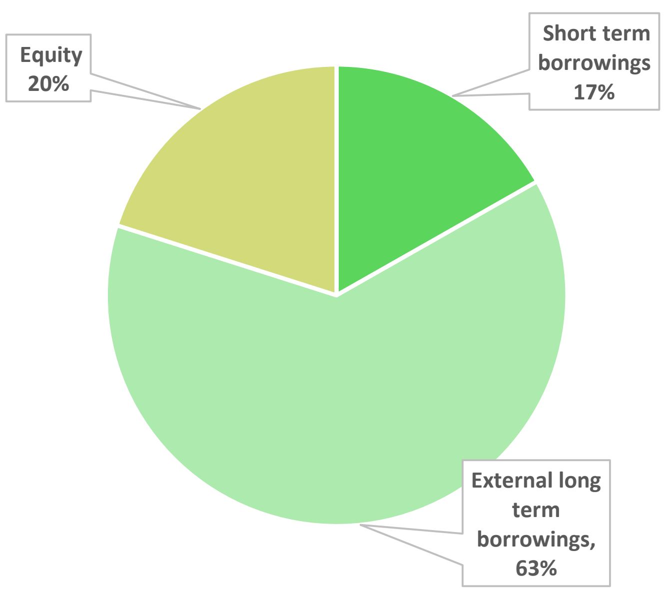
Second Line Leadership

- SEF has an experienced and stable second line of management. .
- Department heads have more than a decade of experience and have been associated with SEF for more than 5 years
- Department heads are part of the management committee and their ownership of decision making has been built through involvement in monthly review meetings for taking strategic decisions.

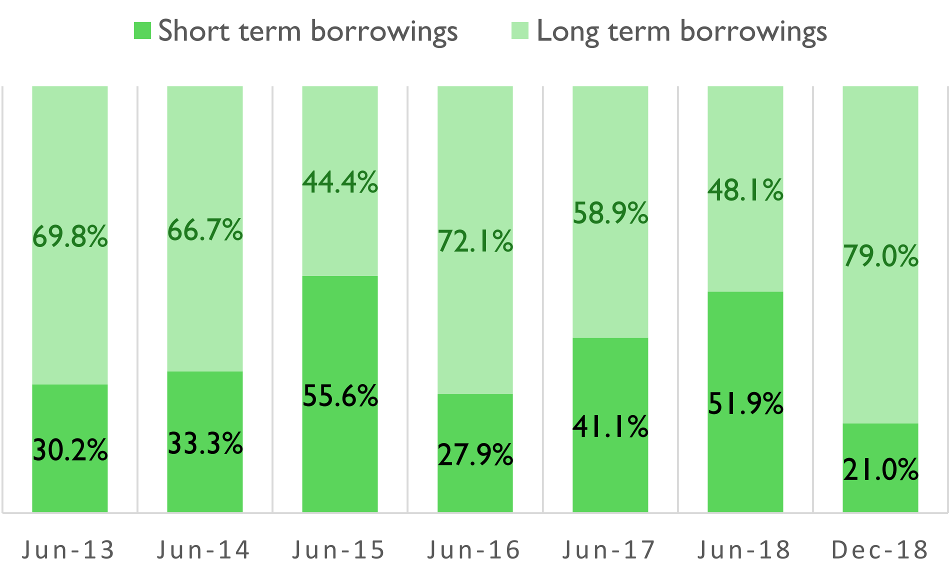
Fund Mobilization

- SEF has a diversified funding profile having raised funds from various financial investors including private & foreign banks, social & impact investors.
- SEF has a comfortable liquidity profile with strong funding support from long term investors. The MFI has significantly improved its funding mix on 31 December 2018 by sourcing long term borrowings. This constitutes around 80% of total borrowings as shown in the figure below.

Funding Profile, December 2018



Borrowing pattern



Risk Management Mechanism

Credit Methodology

Internal Control, Tracking, Monitoring & Accounting Systems

Internal Audit, Financial Planning & Cash Management

Collection Mechanism & Portfolio Composition

Human Resource Management

- SEF has well defined HR policies and procedures for recruitment, training, compensation, appraisal, transfer, promotion, exit, whistle blowers and grievances.
- SEF has a well-designed induction programme for new staff with classroom training and on-the job training.
- In September 2018, SEF undertook an external evaluation to review its organisational structure in the finance and human resource departments.
- Staff attrition is relatively low at 13% during 2018. Attrition is higher at the branch level than at the head office. Most of the staff have been with SEF for more than five years. It has a detailed adequately designed performance-based incentive structure.
- SEF does not have an established rotation policy for field staff which could pose a risk to its customer relationship management.
- SEF conducts performance appraisal on a monthly basis for field level staff and head office staff; staff satisfaction surveys are also conducted frequently.
- Field level staff are trained at regular intervals by respective regional managers and by the training department.

Credit Methodology

- SEF’s credit assessment and monitoring mechanisms are adequate for its current level of operations.
- A detailed operational manual is in place and this is updated at regular intervals.
- SEF maintains a zero-tolerance approach to loan defaults. The operations team does daily, weekly and monthly follow up at various levels.
- Group based loans are vetted by the groups themselves and then by the respective centres.
- The Development Facilitator (loan officer) conducts progress meetings with prospective repeat loan clients. The quantum of the loan is dependent on multiple variables like attendance of group meetings, savings amount, business valuations, frequency of savings, repayment of loans, loan purpose and the like.
- There is no systematic process for graduating borrowers to individual loans. This causes some disharmony amongst groups since members have substantially different loan amounts and those who borrow small loans do not want to take the guarantee for others with larger loans. The pilot Individual Liability loan product is being tested at a few branches and will remove this disharmony amongst groups.”
- SEF’s Large Loan programme is limited to borrowers who have completed more than 10 loan cycles. The credit assessment process for these loans is robust and covers all the operational risk factors.
- Loans in the Large Loan Programme is vetted by the Credit Committee at the head office. However, the process does not currently use a credit scoring tool that could increase the technical consideration of the repayment ability of the borrower and balance it with the role of qualitative parameters in the decision making process.

Internal Control, Tracking, Monitoring & Accounting Systems,

Internal Control

- SEF has adequate internal control and management systems for the current scale of operations. The operations team along with the quality & compliance team monitor operations at all levels.

Loan tracking system

- SEF has a strong loan tracking system with structured follow up of overdue loans. The operations team works with borrowers to resolve defaults.

Monitoring and supervision

- SEF has an adequate monitoring and supervision system in place. During branch visits, the operations and quality & compliance teams visit borrowers and observe whether policies are being appropriately followed.

MIS and Accounting

- The MIS and accounting functions are centralised. All the loan documents less than one year old are kept at the head office and the rest are stored separately. With the implementation of the new digital field application, the head office team will be able to monitor documents on a real time basis.
- A business continuity plan is in place and is expected to be improved going forward.

Internal Audit, Financial & Cash Management

Audit

- The quality and compliance team conducts two kinds of audit: routine audit wherein each branch was covered twice a year and special audit based on various branch-wise operational indicators like high client dropout, or misappropriation by staff.
- The team prepares a summary of key findings and presents it to the General Manager-Operations and Managing Director.
- SEF's internal audit function is being outsourced. SEF believes that this will strengthen its internal audit process as an independent team will undertake the audit and report directly to the Board audit committee.

Financial Management & Cash Management

- The financial planning system at SEF is good as the necessary funds are transferred to clients through an online banking system.
- SEF has a centralised system of financial planning, fund management and cash management which appears to work smoothly.

Collections Mechanisms & Portfolio Composition

Collection Mechanism

- SEF's collection system is robust. Client groups have to deposit their instalments at a bank and at the time of their centre meetings, the group has to produce the deposit receipt.
- However, It takes considerable effort to reconcile overall collections with deposit receipts from clients groups and individual borrowers. The introduction of the digitized system should mitigate the problems in this process.
- Over the medium term, SEF has plans to improve the efficiency of collections through further technology interventions.

Portfolio Composition

- SEF's product wise composition has been stable for the last four and half years. However, given the changing market scenario, the MFI plans to increase its focus on key products like ILP and LLPs which are being piloted.
- The LLP loan portfolio grew 2.7 times in six months to ZAR 3.49 million in December 2018 from ZAR 1.29 million in June 2018.

Portfolio Distribution by Product

million ZAR

Product	Jun-15	Jun-16	Jun-17	Jun-18	Dec-18
MCP & TCP	291.04	297.55	423.15	478.51	607.24
ILP	0.00	0.27	1.19	2.31	2.68
LLP	0.42	0.67	1.08	1.29	3.49
Total	**291.46**	**298.49**	**425.42**	**482.11**	**613.41**

Financial Performance

Financial Profile

Efficiency

- Staff Productivity
- Operating Efficiency

Asset Quality

Asset & liability composition

Capital adequacy

Profitability and Sustainability

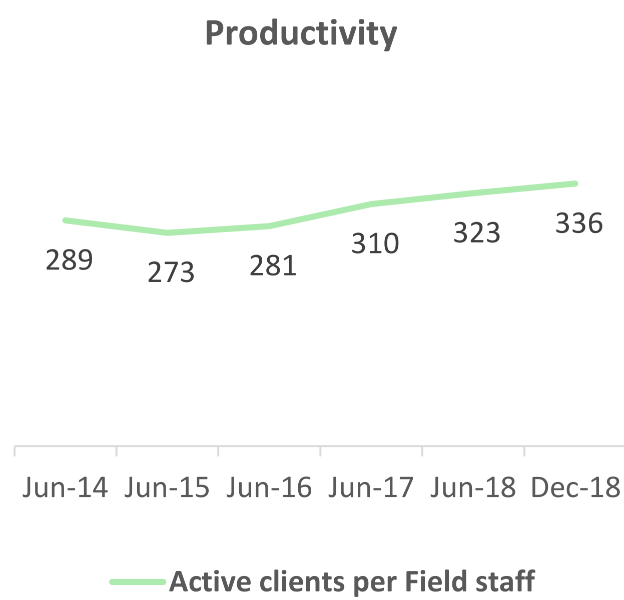
Financial Profile

Financial Ratios	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Risk Weighted Capital Adequacy Ratio (%)	25.7	23.2	22.5	20.4	20.9
Asset Quality					
PAR_0	0.1	1.8	3.1	0.8	0.9
Loan loss reserve/gross loan portfolio (%)	0.4	1.3	1.5	-0.3	0.2
Write-offs for the year/Avg. gross portfolio (%)	-0.8	0.8	0.7	0.8	0.8
Management					
Operating Expense Ratio (%)	55.0	49.4	50.3	51.6	49.5
Borrowers/Field Staff	289	273	281	310	323
Earnings (during the financial year)					
Interest Yield (%)	27.2	25.9	26.2	30.4	30.1
Portfolio Yield (%)	61.9	59.7	60.2	67.2	63.8
OSS (%)	98.6	102.9	100.3	110.6	108.5
RoA (%)	-1.6	0.8	0.1	4.8	3.1
RoE (%)	-6.8	20.4	-1.5	23.4	15.1
Liquidity					
Cash & Liquid Assets/Total Assets (%)	8.2	9.9	7.7	3.4	0.8
Debt to equity ratio	3.2	3.7	3.7	4.0	3.8

Efficiency

Productivity

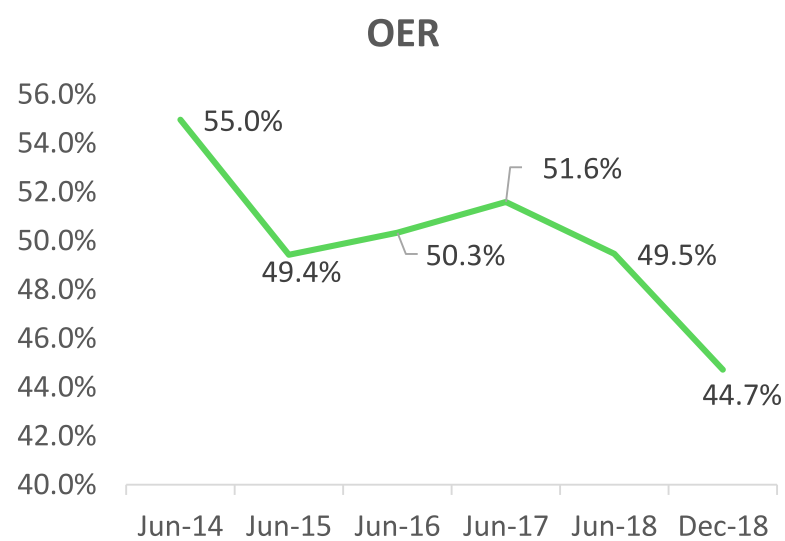
- SEF's staff productivity has improved since June 2016. This improvement in productivity could be attributed to SEF's focussed approach to targeting poor clients.
- SEF has increased its loan officers (Development Facilitators) by 18% in the last two and half years. It plans to grow this further by 23% in the next five years.
- More than 70% of clients have borrowed more than five times from SEF. This demonstrates that clients are satisfied with SEF's services. This has also in turn assisted the improvement in staff productivity.
- SEF has increased its number of clients by 11% in the last six months, which is in line with the MFI's growth objectives.



Efficiency

Operating efficiency

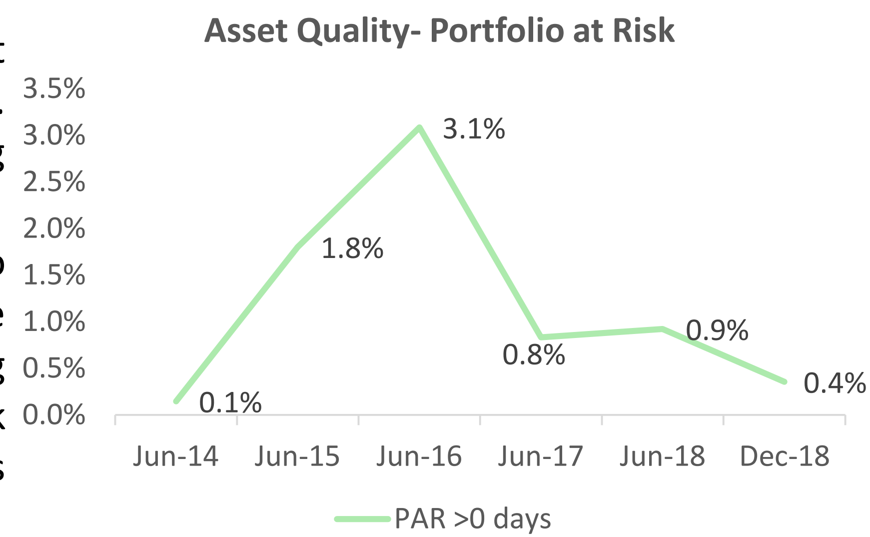
- The operating expense ratio has improved significantly by 10% in the last five and a half years. This improvement is attributed to an increase in staff productivity and greater focus on the capacity building of borrowers. Annual variations in OER occur partly due to variations in average loan size.
- SEF's OER is likely to decline further with the acquisition and amortisation of its digital application software.
- Further, expansion to newer geographies coupled with high client attrition may increase its OER.



Asset Quality & Asset Liability Management

Asset Quality

- SEF PAR_0 has improved to 0.4% during the first six months of 2018-19 from 3.1% during 2016. This improvement is mainly due to strong adherence to risk management practices.
- SEF adopts a centre cohesiveness mechanism to resolve delay in repayments. The elected centre members play an important role in conducting centre meetings and follow the stipulated risk management policies of SEF to address operational risk.



- SEF has rescheduled a small portion of its loans and follows a rigorous process before rescheduling. Rescheduling is only done where clients can provide evidence of long-term illness, such as cancer. SEF had written off loans amounting to ZAR19 million (3% of its current portfolio) in the last couple of years, mostly due to the deaths of its borrowers. The variations in PAR are largely a reflection of the timing of write-offs.

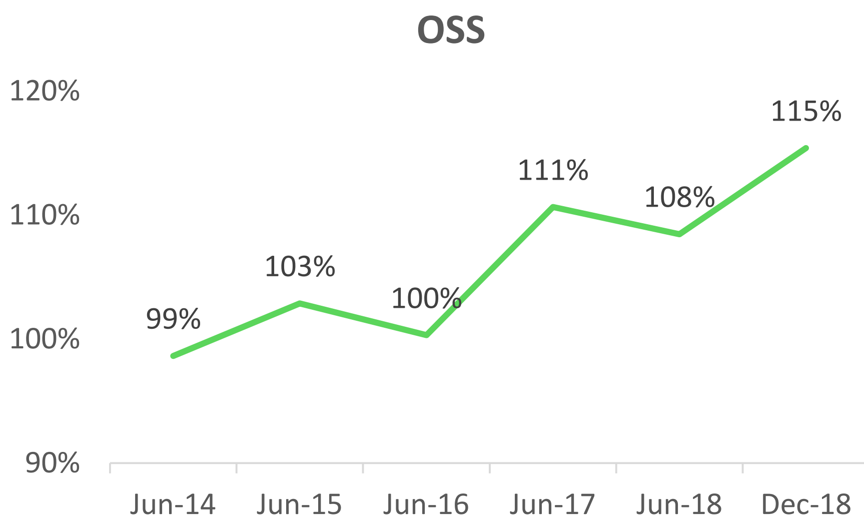
Asset Liability Management

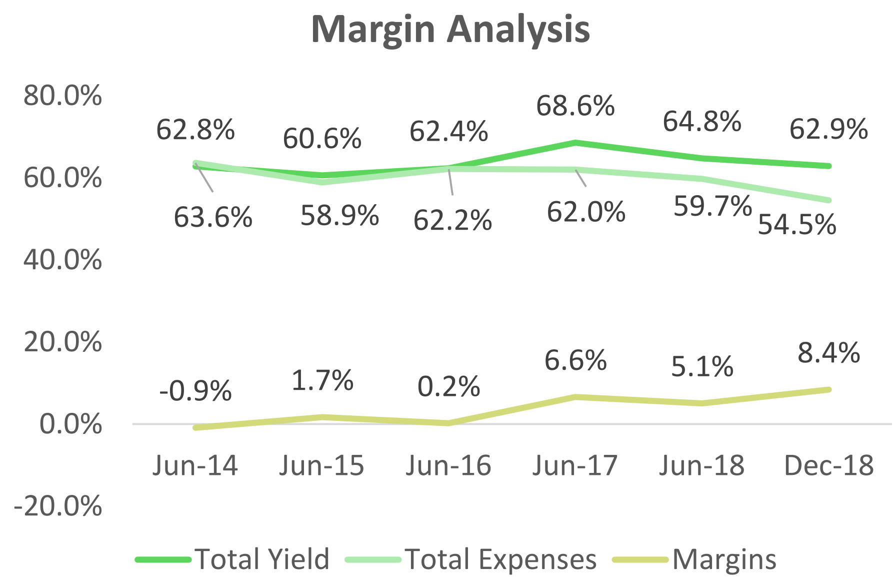
- SEF has a good asset-liability profile, given 79% of its debts are for long tenures while its portfolio consists of assets with 4-6 months maturity.
- The gross loan portfolio to total asset ratio has always been more than 95% of total assets.

Capital Adequacy (CAR)

- SEF's capital adequacy is good given its legal structure as a not for profit foundation. The capital adequacy ratio has declined to 18.3% on 31 December 2018 from 25.7% on 30 June 2014 mainly due to an increase in its loan portfolio and a change in accounting standards; with the introduction of IFRS norms, initiation fee income may no longer be recognized as income upfront but must deferred over the term of the loans to clients.
- Its accumulated surplus accounts for 55% of net worth on 31 December 2018. This has increased significantly over the last few years from 15% on 30 June 2013. SEF further plans to improve its profitability to strengthen its capital adequacy.
- It might face certain challenges in raising capital given its legal structure as technically its equity cannot be liquidated.

Profitability & Sustainability





- SEF's OSS improved to 108% in June 2018 from 99% in June 2014. During the first six months of 2018-19, this went up further to 115%. SEF should be able to scale and sustain its operations going forward.

- SEF's overall yield has declined to 64.8% during 2018 from 68.6% during 2017. This decline was due to moderate growth of loan portfolio. This coupled with marginal improvement in total expenses led to a small decline in profitability.

Annexes

Annex 1: Loan Products

Name of the product	MCP & TCP	Individual Loan	Larger Loans
Clientele	Group	Individual	Individual
Expected client type	Rural women	Rural women	Rural women
Authorized loan size (ZAR)	Min:1,000; Max:25,000		Min: 25,000; Max: 100,000
Authorised loan term (min; max)	8 Fortnights; 10 months	8 Fortnights; 10 months	4 months; 12 months
Average loan term, months	4 to 6 Months	4 to 6 Months	4 to 12 Months
Moratorium	No	No	No
Guarantor	No	No	Yes
Collateral requirements	No	No	Yes
Repayment Schedule (weekly, fortnightly, monthly)	Fortnightly/ monthly	Fortnightly/ monthly	Monthly
Interest rate	32.75%	32.75%	32.75%
Method	Declining	Declining	Declining
Processing fee - in ZAR	Min: Nil; Max: 2,719.42	Min: Nil Max: 2,719.42	Min: 2,234; Max: 3,164
Insurance fee	None	None	None
Monthly Transaction Fee	Max: R57.50 per instalment	Max: R57.50 per instalment	R57.50 per instalment

Annex 2: Financial statements

Balance Sheets in ZAR

ASSETS	June-2014	June-2015	June-2016	June-2017	June-2018
Current assets					
Cash and cash equivalents	22,627,854	34,008,378	26,526,907	15,186,241	4,339,033
Interest receivable	4,336,553	3,902,622	5,682,184	6,831,922	8,435,377
Other assets	5,624,173	3,259,868	3,114,107	2,915,384	5,568,764
Gross loans outstanding	**232,205,094**	**291,463,844**	**298,485,021**	**425,421,381**	**482,107,408**
Loan loss reserves	(1,777,841)	(3,378,326)	(3,897,867)	(1,927,774)	(2,124,398)
Write offs	(1,594,410)	(1,999,174)	(2,040,776)	(2,884,090)	(3,389,965)
Net loans outstanding	**228,832,843**	**286,086,344**	**292,546,378**	**420,609,527**	**476,593,045**
Total current assets	**261,421,423**	**327,257,212**	**327,869,576**	**445,543,074**	**494,936,219**
Long term assets					
Property and equipment	13,027,742	15,872,167	14,902,861	14,882,881	15,136,179
Intangible/other assets	2,628,232	2,072,532	918,261	821,556	1,701,871
Total long term assets	15,655,974	17,944,699	15,821,122	15,704,437	16,838,050
Total assets	**277,077,397**	**345,201,911**	**343,690,698**	**461,247,511**	**511,774,269**

...Balance Sheets in ZAR

LIABILITIES AND NET WORTH	June-2014	June-2015	June-2016	June-2017	June-2018
Current liabilities					
Other payables	5,634,810	14,972,869	17,108,038	29,854,190	19,891,320
Provision for retirement & pension	4,505,501	9,649,622	6,011,561	7,029,015	7,214,669
ST borrowings	66,782,514	137,216,580	69,232,399	136,515,633	195,769,948
Total current liabilities	**76,922,825**	**161,839,071**	**92,351,998**	**173,398,838**	**222,875,937**
Long term liabilities					
Long term debt	133,982,194	109,764,285	178,788,376	195,722,383	181,697,392
Total long term liabilities	133,982,194	109,764,285	178,788,376	195,722,383	181,697,392
Total liabilities	210,905,019	271,604,356	271,140,374	369,121,221	404,573,329
Net worth					
Reserves	48,362,250	48,602,360	47,542,231	47,844,130	47,882,406
Retained net surplus/(deficit)	7,455,464	17,810,128	24,996,195	25,008,093	44,282,160
Current net surplus/(deficit)	10,354,664	14,288,370	2,597,076	19,274,067	15,036,374
Prior year adjustments		- 71 02 303	- 25 85 178		
Total net worth	66,172,378	73,598,555	72,550,324	92,126,290	107,200,940
Total liabilities and net worth	**277,077,397**	**345,201,911**	**343,690,698**	**461,247,511**	**511,774,269**

Income Statements for the period in ZAR

Financial year	June 2013-14	June 2014-15	June 2015-16	June 2016-17	June 2017-18
Income					
Interest income	51,721,270	67,242,954	76,898,964	103,571,666	126,345,326
Initiation fee	64,553,879	86,035,053	97,705,860	122,360,785	136,419,866
Income from bank deposits	1,325,279	1,978,106	3,599,249	2,327,683	2,073,200
Services fee	1,339,910	1,881,187	2,397,249	3,188,920	4,687,173
Other income	280,346	287,840	2,699,952	2,411,374	1,996,828
Gain on disposal of properties	54,062	1,095	6,000	178,181	136,310
Total income	**119,274,746**	**157,426,235**	**183,307,712**	**234,038,609**	**271,658,703**
Financial costs					
Interest on borrowings	15,689,713	21,210,557	30,523,599	36,655,108	42,314,870
Gross financial margin	**103,585,033**	**136,215,678**	**152,784,113**	**197,383,501**	**229,343,833**
Bad debts written off	2,342,144	3,449,342	4,282,638	3,244,554	6,177,777
Provision for loan losses	807,907	2,005,249	561,143	(1,126,779)	702,499
Net financial margin	**100,434,982**	**130,761,087**	**147,940,332**	**195,265,726**	**222,463,557**
Operating expenses					
Head office expenses	35,496,276	44,560,296	50,839,875	67,350,683	83,247,639
Operating expenses	67,004,617	81,154,049	93,529,375	105,333,670	120,816,886
Depreciation	1,909,425	2,645,372	3,559,184	3,307,306	3,362,658
Total operating expenses	**104,410,318**	**128,359,717**	**147,928,434**	**175,991,659**	**207,427,183**
Net surplus/deficit (after tax before donations)	(3,975,336)	2,401,370	11,898	19,274,067	15,036,374
Non operational income/(revaluation reserve)	14,330,000	11,887,000	(1,105,212)		
Profit after tax & donations	**10,354,664**	**14,288,370**	**(1,093,314)**	**19,274,067**	**15,036,374**

Annex 3: Profile of the Board

Name	Board Position	Education	Current Engagement	Specialization
Simpiwe Hemming Somdyala	Chairman of the Board, Non-Executive, HR Committee	MBA & Hons B.Com.	Self-employed	Finance
John Robert de Wit	Executive Director	B.Sc. in Mechanical Engineering	Managing Director of SEF	Microfinance
Mutle Constantine Mogase	Non-Executive, Chairperson of Board Audit Committee	B.Com, Diploma in Corporate Governance, Executive Development Programme	Consultant	Finance
Marie Albertina Kirsten	Non-Executive, Social Performance Committee and HR Committee	PhD in Economics	Consultant	Social Development
Refilwe Nompumelelo Keratilwe Mokoena	Non-Executive, Social Performance Committee	Postgraduate Diploma in Management of Public Development Sector; BA in International Relations	Consultant to Graca Machel Trust	Social Development
Mmaboshadi Chauke	Non-Executive, Social Performance Committee, Board audit committee	CA (S.A), Hons.Bcom, B.Com	Executive producer	Finance
Unati Yolisa Mabandla	Non-Executive, Social Performance Committee and HR Committee	Higher Diploma in HR, Advanced Personnel Management, Diploma in Public Relations	Consultant	Human Resources

Annex 4: Glossary

- **Average outstanding:** Gross portfolio/Number of active borrowers
- **Average loan size:** Total loan amount disbursed in the period / number of disbursed loans
- **Portfolio at risk (PAR (>30 days)**: The principal balance outstanding on all loans with overdues greater than or equal to 30 days /Total loans outstanding on a given date.
- **Yield on portfolio:** Interest + fee income on loans during the year/Average loan portfolio for the year
- **Financial cost ratio:** Total interest expense during the period /Average loan portfolio
- **Operating expense ratio:** Total operating expenses (incl. depreciation) during the period / average loan portfolio
- **Return on asset (RoA):** Operational income (or loss) after tax during the period /Average assets
- **Return on Equity (RoE):** Ratio of operational income (after tax)/(loss) to average net worth
- **Staff attrition rate:** Number of staff who left the institution during the period / average number of staff during the period
- **Active borrowers /field staff):** Number of borrower / Number of field staff
- **Active borrower per staff:** Number of borrower / Total staff
- **Capital Adequacy Ratio:** Total net worth/ Total risk weighted assets.

Annex 5: Abbreviations

ANC	Africa National Congress
CAR	Capital Adequacy Ratio
DF	Development Facilitators
DMA	Development Microfinance Association
FSCA	Financial Sector Conduct Authority
FSDRP	Financial Sector Development and Reform Program
FSR	Financial Sector Regulation (FSR) Bill
GDP	Gross Domestic Product
GIS	Geographic Information System
HR	Human Resources
IA	Internal Audit
ICASA	Independent Communications Authority of South Africa
ILP	Individual Loan Programme
LLP	Large Loan Programme
MCP	Micro Credit Programme
MD	Managing Director
MFSA	Microfinance South Africa
MIS	Management Information System
NCR	National Credit Regulator
NFIS	National Financial Inclusion Strategy
NPL	Non Performing Loans
OER	Operating Expense Ratio
OSS	Operational Self Sufficiency

PA	Prudential Authority
PAR	Portfolio at Risk
PWR	Poverty Targeting Tool
RoA	Return on Asset
RoE	Return on Equity
R&D	Research & Development
SARB	South Africa Reserve Bank
SECO	Swiss State Secretariat for Economic Affairs
SME	Small Medium Enterprise
TCP	Tšhomišano (“working together”) Credit Program

Annex 6: M-CRIL rating grades

M-CRIL Grade	Description
α+	Strong governance, excellent systems and healthy financial position; without a foreseeable risk ➢ Most highly recommended
α	Good governance, excellent/good systems, healthy financial position ➢ Highly recommended
α–	Good governance, good systems and good financial performance; low risk, can handle large volumes ➢ Recommended
β+	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➢ recommended, needs monitoring
β	Moderate systems; low safety ➢ acceptable only after improvements are made on specified areas
β–	Weak governance, weak systems; significant risk ➢ not acceptable but can be considered after significant improvements
γ+	Weak governance, poor quality systems; high risk ➢ needs considerable improvement
γ	Weak governance, poor systems, weak financial position; very high risk ➢ not worth considering

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution will lower its rating performance by one notch in one year period.