Lead Foundation, Egypt

Lead Foundation was founded in 2003 and is registered as an NGO under the Minister of Social Solidarity. Similarly to other Egyptian institutions, it has signed a Cooperative Agreement with USAID, whose donations helped to launch its activities. Lead presently operates in the Greater Cairo area, covering the Cairo, Giza and Qalioubiya governorates. It offers group loans for women, and individual loans for both men and women. As of July 2007, Lead had an outstanding portfolio of 41.5 M EGP (7.2 M USD), serving 81,226 active clients.

GIRAFE Mini-Rating

Mini-Rating

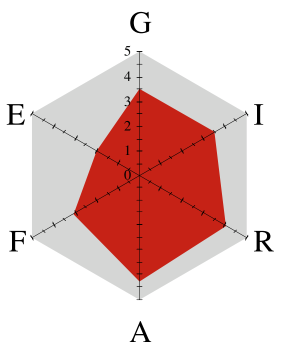
B

Date of the rating

August 2007

Valid until July 2008

Rating per evaluation area



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

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Rating highlights

- Lead is not yet a sustainable institution, but it is highly likely to breakeven in 2007, as shown by first positive ROE and ROA (respectively 5.5% and 1.3%).
- Management team is motivated and led by a competent ED.
- Lead is a fast growing institution that has managed to become a major player on the Egyptian market where it enjoys a solid position after only 3 years of activity.
- Thanks to close monitoring and quick follow-up on delinquent loans, portfolio quality is excellent (PAR > 31 at 0.06%).
- Lead's main challenge is to become financially self-sustainable while keeping its fast pace of growth.

Areas for improvement

- Consolidate and stabilize the management team.
- Finalize the operational plan.
- Put HR mechanisms in place to ensure continuous improvement of staff skills.
- Deal with the identified information system limitations.
- Diversify the funding sources.

Performance indicators

USD	Dec. 2004	Dec. 2005	Dec. 2006	Jul. 2007
Assets	3,512,424	8,907,295	12,705,338	17,695,857
Growth	*11,907.3%*	*139.2%*	*42.0%*	*39.3%*
Loan portfolio	1,099,905	3,212,565	4,578,485	7,277,068
Growth	*3,660.1%*	*175.5%*	*41.9%*	*58.9%*
Active borrowers	12,730	39,375	57,143	81,226
Staff	164	253	380	491
ROE*	(113.6%)	(30.3%)	(3.0%)	5.5%
ROA*	(47.8%)	(11.3%)	(0.9%)	1.3%
Liabilities / Equity	0.4x	0.4x	0.5x	0.6x
Liabilities / Equity*	1.3x	1.9x	2.7x	3.6x
Portfolio Yield	25.1%	30.7%	36.8%	36.2%
Operating expense ratio	143.9%	40.6%	34.7%	31.3%
PAR 31-365	0.06%	0.00%	0.06%	0.03%
PAR > 365	0.00%	0.00%	0.00%	0.00%
Write-off ratio	0.00%	0.03%	0.00%	0.01%

* Ratios adjusted for inflated assets

Institutional presentation

Legal form, supervision and audit

Lead Foundation (hereafter "Lead") was registered in 2003 as a Non-Governmental Organization (NGO) under the Minister of Social Solidarity (law number 84/2002). Its governance structure is based on the NGO law that requires boards to play a very active role in management, notably the signature of all checks and hiring approvals.

Since inception, Lead's accounts are audited by Mostafa Shawki & Co, an Egyptian certified accounting firm and Mazars et Guérard's correspondents. Lead's accounts have always been certified without reserves. Financial statements are produced in Arabic according to Egyptian standards and in English according to CGAP accounting principles. In addition, Lead has been subject to audits by Price Waterhouse Coopers (PWC) to ensure proper use of USAID grant funds: results were always issued without material issues.

Ownership

Being an NGO, Lead has no shareholders. It is owned by its 11 members and governed by a General Assembly (GA). Both the GA and the Board of Directors (BOD) are presently composed by all of the 11 members. The BOD meets on a quarterly basis and the GA is held once a year. The BOD has no legal claims to dividends. In the event of liquidation, the funds would become a governmental property, transferable or not to other NGOs.

The current BOD is chaired by Mr. Mohamed Mansour, businessman and presently Minister of Transportation. The BOD includes the Minister of Housing as well as several members with experience in banking, industry, education and NGO. It is to be noted that the Executive Director (ED) is also the Vice-Chairman of the BOD, thus having full voting rights as per the by-laws.

Donations

Since inception and as of July 2007, Lead has received a total of 67.6 M EGP of donations (11.7 M USD), mainly from USAID, out of which EGP 48.4 M EGP (8.5 M USD) is a collateral fund backing overdraft facilities. USAID grants were earmarked for loans, fixed assets, operating expenses and trainings. Smaller contributions came from the founding members, Egyptian private sector and the IFC.

The present USAID Cooperative agreement will end on September 30th, 2007, but is expected to be extended for another 2 years. This agreement comes with technical assistance from Egyptian Microenterprise Finance (EMF).

Funding composition

Lead is funded through equity (66%) and short term liabilities (34%). Equity is made up of capitalized donations, and short term liabilities consist of overdraft facilities with Bank Alexandria and Banque Misr, both fully backed by USD deposits resulting from the USAID collateral fund.

Management team

The management team is composed of the Executive Director (ED), Operations Manager (OM) – vacant since June 2007, supported by two Program Managers (PM – one for each lending methodology), Finance & Administrative Manager (FM), MIS and Network Managers, Internal Audit Manager, Human Resources Manager, as well as the Research & Development Officer (R&D), and the heads of the Credit Risk (CR) and Legal departments.

Since May 2004, Mr. Karim Fanous is Lead's Executive Director and Vice-Chairman of the BOD. Prior to joining, he had a 20-year experience in banking and financial consulting acquired both in Egypt and abroad. He has attended several microfinance trainings (Boulder and Harvard), and holds a B.A. in Economics from Cairo University.

Organization

Lead's headquarters (HQ) centralize all management. Each branch comprises a Branch Manager (BM), SME and GL Loans Officers (LO) and their Supervisors (SLO), as well as administrative staff (accountant, data entry clerks and cashiers). All loan applications are filled by the LO, checked by the SLO, BM, data entry and accountant at the branch level, and go through the Credit Unit at HQ.

By law, all disbursements are to be signed by the Chairman or Vice-Chairman and the Treasurer of the BOD. Loan decision is decentralized for loans up to 1,000 EGP (173 USD). Loans are approved by the PMs for amounts up to 3,000 EGP (518 USD), while decision for all other loans requires the signatures of the CR head, OM, FM and ED: these successive signatures stand for a Credit Committee. Loans above 25,000 EGP (4,300 USD) must be approved by USAID. Dedicated staff (cashiers and cash collectors) at branch level handles loan disbursements and reimbursements: disbursements are made by check written at HQ, and reimbursements in cash. SME reimbursements were previously done through Bank of Alexandria, but were replaced by collection at branches and satellite offices.

Cash is deposited at the bank twice daily: overnight amounts are kept in a safe, and treasurers and cash collectors are insured for up to 400,000 EGP (69,000 USD) and 50,0000 EGP (8,600 USD) respectively.

Loan information is entered at the branch level and checked both at branch and HQ levels before being processed in the SQL-based loan tracking system (Al Mohassil), while a separate system handles the accounting (Al Motammen). Most branches are connected to HQ through a secured VPN network.

Market penetration

Lead Foundation operates in the Greater Cairo area, through a network of 7 branches and three satellite offices: Qalioub, Matariya (El Marg satellite), Giza (Batrachein satellite), Dar Elsalam, Shoubra, Banha Toukh satellite) and Embaba. It has plans to open 2 new branches by year-end, in Helwan (with a satellite in El Saff) and El Ayat.

Products and services

Lead offers both Group and Individual loans:

- Group loans (GL), or Bashayer Kheir, are meant for business purposes and target groups of 5 women. Amounts range from 50 to 1,500 EGP (10 to 260 USD), and terms from 10 to 40 weeks. Nominal interest rate is of 26% on a flat basis, equivalent to an effective rate of 48%.
- Individual loans target small and micro enterprises (SME), and start at 1,000 EGP (170 USD), with terms ranging from 4 to 12 months. Penalties are of 5 EGP (0.9 USD) per late day. Nominal interest rate is of 16% on a flat basis, equivalent to an effective rate of 28%. One guarantor is required.

Networks

Lead is a member of Sanabel (microfinance network of the Arab world), and a founding member of the Egyptian Microfinance Network, Lead's ED being the Treasurer of the latter.

▪ Governance

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

Decision making

+ Lead's objectives of providing financial services to the poor are clear and shared by all key decision-makers.
▪ It is not excluded the institution develops some non-financial services once it has broken even, but the issue has not been discussed yet.
+ Decision-making process is clear and well balanced between the ED and BOD members.
– Current BOD suffers from two possible conflicts of interests: M. Ozalp, member of the BOD, is also the Vice-Chairman of Banque Misr, one of Lead's competitors; the ED is also the BOD's Vice-Chairman, with full voting rights.
▪ The first conflict is only partly mitigated by the fact that the BOD member, who was Lead's first ED, is not directly in charge of Bank Misr's microfinance activities.
▪ The second conflict is currently dealt with through the rule of the ED/Vice-Chairman being excluded from the decisions related to his ED's functions[1]. This situation is actually due to the current legislation (cf. Organization) that requires all checks to be signed by either the Chairman or the Vice-Chairman, thus generating numerous constraints, especially given the Chairman's schedule as a Minister.
▪ Similarly to other NGOs, Lead is exposed to political risk given that, by law, the Ministry of Social Solidarity has the authority to change the BOD and management in the event of unsatisfactory results: this risk is presently low given Lead's results, aside that such situation occurred only once, in 2004.
+ Lead enjoys experienced BOD members with sufficient managerial skills and diversified experiences to provide them with independent thinking and valuable input.
– Similarly to other Egyptian MFIs, though to a lesser extent, their specific microfinance skills could be further enhanced.
+ Reliable and relevant monitoring information are sent to the BOD prior to each meeting, as evidenced by documented minutes.
+ BOD's implication is good and decisions are followed upon.

Planning

+ The business plan clearly assesses Lead's situation and defines its goals (expand branch network, adapt loan product, meet client's need, face competition), focusing on increasing outreach and reaching operational sustainability.
+ Main targets for 2010 in term of outreach and sustainability are clear and ambitious (+200% growth to reach 250,000 clients), yet realistic given the high market potential and the strong internal capacities, the planning process having been participatory (included the BMs).
– The operational plan, specifying the financial and organizational challenges (MIS, training for staff) and investigating / prioritizing key issues (productivity, efficiency, middle management empowerment), is yet to be assembled and finalized.
▪ 3-year basic financial projections are available: previous ones (valid until 2007) were updated only once, and did not include precise financial statements. The new budget comprises all necessary details.

[1] By statutes and law (n°84 of 2002), BOD members are to abstain from voting in case of conflict of interest.

Management team

- \+ The management team is led by a competent ED with proven leadership and managerial skills.
- \+ Some senior managers have a sound microfinance experience.
- ▪ Some others are still in a learning curve, but show high motivation and ability to execute plans.
- – Some key positions have been recently filled and the OM position is presently vacant, which leads to a high concentration of tasks at the ED level (e.g. running the operations, instilling the internal dynamism, handling external relations), thus creating a key-person risk.
- ▪ Besides, a broad range of positions presently report straight to the ED, which multiplies his tasks: such structure is meant to evolve as the institution matures and both senior and middle-management are strengthened.
- ▪ Lead is nevertheless very conscious of key-person risks, and actively working to mitigate them at other levels, by hiring assistants to all senior managers.
- \+ Such initiatives, atop of experienced branch managers, is progressively building a solid middle-management.
- \+ Good communication is ensured through monthly management meetings. Cohesiveness is further fostered by collective work on important topics and designation of a dedicated person in charge of coordination (R&D).

Human resource management

- \+ Since May 2006, Lead has a dedicated and experienced manager, professionally handling the HR department: job descriptions were formalized, and HR procedures were designed and are currently being finalized.
- – HR manual does not include a clear salary grid, promotion rules and career path.
- ▪ The HR manager is aware of this issue and planning to deal with it soon.
- \+ Formal evaluations were conducted for the first time in 2006, and future plans include linking appraisals to salaries.
- \+ Lead avoids the Egypt-wide recruitments based on personal relations.
- \+ The incentive scheme has recently been enhanced with active participation from the field staff.
- – This scheme is not yet managed by the HR department, though it should be before year-end.
- \+ It is designed to increase outreach while maintaining portfolio quality.
- – Training of newly hired staff is not systematic enough to cope with fast growth (thus requiring numerous checks and lowering productivity – cf. sections “A” and “E”).
- ▪ Training needs are currently being assessed and prioritized with EMF’s technical assistance, which should help in designing a more efficient training method.
- ▪ HR department has no dedicated resources to put such trainings in place, but a separate line should be included in the new budget and funded by donations.
- – Staff turnover is high, which is common in the MENA region, and peaked at 44% in 2006. It decreases significantly but remains high when adjusted by excluding people who left on probationary period (from 33% down to 13% as of July 2007 – ratio not annualized)[2].
- ▪ Departure interviews are being conducted to better tackle this issue.

Areas for improvement

- ▪ Finalize the operational plan.
- ▪ Consolidate and stabilize the management team.
- ▪ Put HR mechanisms in place to ensure continuous improvement of staff skills.

▪ Information

Information **is rated “b”**

- \+ Both loan and accounting information are accurate, frequent and up-to-date, with key information and microfinance indicators available on daily, weekly and monthly basis.
- ▪ Lead’s current systems for both loan tracking and accounting are adequate, but could pose some serious limitations in the future.
- – The two systems are not integrated, thus requiring manual transfers (human errors risk) and tedious checks, slowing down the consolidation processes and the financial statements’ elaboration.
- ▪ The above issue has been partially resolved with the development of some automated SQL modules.
- \+ Al Mohassil helpful features include black listed clients and cross-check of guarantors.
- – Yet, it does not always provide the level of detail needed for Lead’s volume of activity: for example, information by zone is not available; client’s history is poorly managed, especially when graduating from GL to SME, thus biasing the drop-out rate.
- \+ Information is accurate thanks to frequent reconciliation (daily bank balances followed on a daily basis, bank reconciliation done on a weekly basis).
- \+ Financial performance is monitored monthly and activities are closely followed upon thanks to various reports generated by Al Mohassil.
- – Yet, Al Mohassil does not provide immediate and consolidated reports, thus preventing a quick access to information at institutional level.

[2] 25% is the lowest adjusted annual rate achieved to date in the MENA region, but remains way above the best-practice level of 5% to 10%.

– Al Mohassil system is cost effective, but despite being developed by a local company, it suffers from a very slow support, requiring significant amount of effort and lobbying for any modification (when possible).
– Lead does not have access to the source code, making it impossible to internally improve the system.
▪ Lead is aware of these limitations and a complete study has been performed by EMF, clearly identifying all the IT needs.
+ Processes in place guarantee data security: daily back ups on LTO tapes are in place for the database; critical data (e.g. year-end) is kept on permanent basis; tapes are kept in a safe at HQ and servers are stored in a dedicated and appropriate room; access to the MIS is through single-user password; anti-virus is in place on all computers.
– An audit trail is available but it only allows a basic tracking connection.
+ Detailed financial analysis is in place.
– Indicators focus on loans disbursed, sometimes by-passing the outstanding loan portfolio analysis (e.g. portfolio by sector of activity or by amount).
– Numerous reports are available, but there is not at-a-glance scorecard allowing a general view of the whole institution.
▪ For partial repayments, principal is collected before the interest, potentially leading to an underestimated PAR: given the portfolio quality, the impact is not material.

Areas for improvement

▪ Tackle the identified IT limitations.
▪ Generate consolidated reports and scorecards.

▪ Risk Management

Risk Management **is rated "a"**

Procedures and internal controls

+ Lead has comprehensive and effective internal controls in place that help mitigate potential risks.
+ Incompatible tasks are handled by distinct persons (e.g. loan application and data entry, or loan approval and loan disbursement).
+ Limitations of power are in place (e.g. PM validation up to 3,000 EGP, Credit Committee for higher amounts), especially given that all disbursements are signed by the ED.
+ Procedures for all departments have recently been formalized and/or updated with the help of Grant Thornton.
– IT procedures have not been included in this process, but are planned for early 2008.
▪ Though not yet available on-hand in all the branches, current procedures all well-known among staff and generally well applied.
+ The institution relies on numerous checks at all levels (LO, SLO, Data Entry, Accounting, CR, Operations Department, Financial Department, ED), which helped mitigate risks during a period of fast growth, and by the time procedures were fully formalized.
– Such checks tend to become plethoric as the institution matures, potentially leading to lower productivity (cf. section "E").

Internal audit

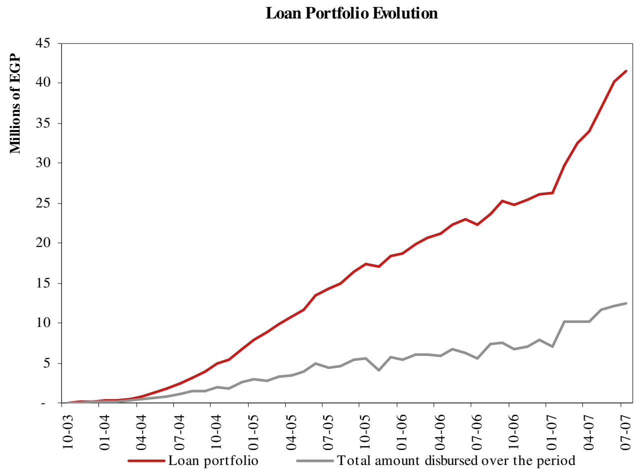
+ IA currently covers all areas of operational, institutional and environmental risks. It also aims at guaranteeing data accurateness and improving procedures on an on-going basis.
– A deeper approach to both financial and legal risks still needs to be developed.
+ All branches and departments are audited on a monthly basis.
– IT department and ED function are not yet covered.
▪ IT is nevertheless to be covered by a specialized IA staff (scheduled for mid 2008).
+ IA procedures are thoroughly documented in a manual.
– This manual still lacks of the more general view ensuring the linkage between the controls and the type of risks checked upon.
+ The IA team is composed of former CR staff, and is thus knowledgeable of all the institution's procedures.
+ IA is presently sufficiently staffed and will be further reinforced to better cope with the institution's growth.
+ An IA plan is available and includes 10% to 30% clients' visits, which is in the Egyptian norm but way above the 1% international best-practice.
+ All visited clients have their files checked, which is within the international microfinance norm (minimum of 10%).
+ IA reports are comprehensive and comprise clear recommendations which are closely followed upon.
+ IA reports straight to BOD, which guarantees its independence.
– This fact is nevertheless mitigated by the fact that the ED is also a BOD member.
▪ IA work is supplemented by the external auditor's (BOD compliance to statutes), as well as Minister of Social Solidarity and USAID's audits.

Areas for improvement

▪ Identify potential legal and financial risks.
▪ Link the control mechanisms to the risk type.

▪ Activities

Activities: products and services **is rated "a"**



Market position

- ▪ Lead is facing competition from several NGOs operating in Cairo (e.g. Al Tadamun, ESED/Cairo Foundation, CRS), as well as from banks operating at a national level (Bank Misr, Banque du Caire, Bank of Alexandria).
- + In a 3-year time, Lead has managed to become one of the largest players on the Egyptian market in terms of outreach. Both its portfolio and number of clients are increasing much faster (over 40%) than other leading local institutions (usually less than 30%).
- – Lead presently offers products with characteristics very similar to its competitors, especially those benefiting from USAID/EMF's assistance.
- + Dynamism, transparency, proximity, reliability and speed of disbursement are currently Lead's main strengths. Thanks to a thorough study of its market position, Lead is aware of both its competitive advantages and disadvantages, and takes proactive measures when needed.
- + In that purpose, and although there is no formalized product development process, R&D and Operations efficiently work on developing new products, through market studies and pilot testing.
- ▪ No new product has been introduced yet, which makes it difficult to asses the overall process quality.
- + Given the Egyptian market is largely underserved, Lead has an ample margin to maneuver and adapt to rising competition.

Loan portfolio management

- + Lead's credit methodology is well designed, providing a good assessment of the client's repayment capacity.
- + In a period of fast growth, the various check-points and the CR unit systematic review of all cases ensures loan decisions are appropriate.
- – Yet, there is no clear rule to determine the amount of the installment as compared to the net repayment capacity.
- ▪ Experienced LOs have all necessary skills to analyse their client's businesses, but newly hired LOs receive mainly on-the-job training and may require a long period of close and constant supervision.
- ▪ Although LOs follow the procedures, the present credit manual is not available on-hand in the branches. This situation will be solved shortly, with the dissemination of the newly updated manuals.
- + Present guarantees are efficient for GL, solidarity mechanisms being clearly explained to all clients.
- ▪ SME guarantees are very light and rely mainly on personal guarantees (one guarantor, possibly without any income, no collateral): this has not endangered the portfolio quality so far, probably thanks to caps on the first loans (1,000 to 5,000 EGP for the first loan, and only 50% increase allowed for the second).
- + Besides, Lead makes sure the guarantor is not a client and avoids cross-guarantors.
- + Follow-up on late loans is immediate and fosters a good repayment discipline. Delinquent loans are followed upon even after being written-off.
- + Portfolio evolution is closely monitored at all levels.

Credit risk

- + With PAR > 31 at a maximum of 0.06% over the past three years, and a write-off ratio of 0.03% (14 cases in total, including 3 write-offs), Lead enjoys an excellent portfolio quality by both local and international standards (MENA PAR > 31 at 0.3%).
- ▪ SME concentrates all late loans, while GL shows a 100% repayment rate.
- – There are no targets regarding portfolio diversification in terms of geographical areas, sectors of activity or amounts. Data is only available for disbursed loans, which does not allow an accurate evaluation of potential concentration risks.
- ▪ It is planned that such evaluations be included in the functions of the CR unit.
- + Provisioning methodology is conservative, leading to a sufficient reserve and an adequate risk coverage ratio (98% in 2006 and 100% for all other years).

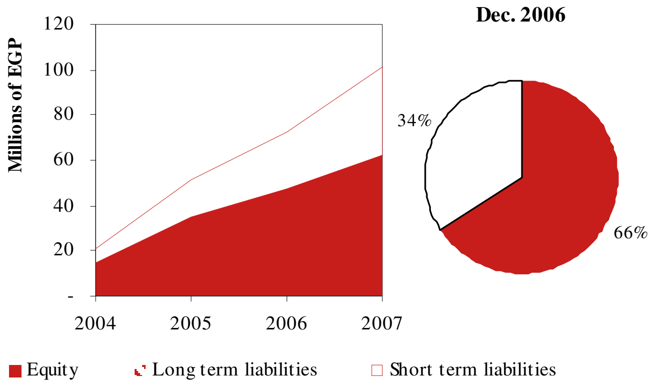
Areas for improvement

- ▪ Disseminate the credit manuals and enhance new LOs skills through appropriate trainings.
- ▪ Follow the outstanding portfolio's diversification.

▪ Funding and liquidity

Funding and liquidity **is rated "b"**

Funding structure



Asset & Liability Management

+ Lead is currently not exposed to ALM risks: there is no maturity risk as Lead mainly has short term assets (92.8%) and long term resources (56%); there is no foreign exchange risk, all liabilities being labeled in Egyptian pounds; there is no interest rate risk since there are no liabilities on a floating rate basis.
▪ Current leverage is low (0.5x as of December 2006) and ensures minimum capital requirements are exceeded. It goes up to 2.7x when adjusted by excluding the USD collateral value.
– Yet, there are no mechanisms in place to properly monitor potential ALM risks.

Funding strategy

▪ Lead's ambitious growth plans require high mobilization of new funds.
+ Funding is secured until mid 2008, given that Lead has not yet exhausted the available amount of USAID collaterals (26.1 M EGP left or 4.5 M USD).
+ Thanks to an excellent relationship with USAID, it is likely new funding would be available once the current fund is fully utilized.
– Nevertheless, the institution relies on a single donor, which could endanger the activity in case the agreement is not renewed.
▪ The institution is aware of such risk, and has just started contacting other potential donors and lenders. Nothing has been formalized so far.
+ Over the years, Lead has managed to improve its lending conditions with local banks.

Liquidity management

– Lead currently has no cash flow projections to monitor its liquidity needs, which could impede growth if the institution stops being funded by donations.
▪ So far, such projections were not essential and are now included in the business plan.
+ Thanks to sufficient overdraft facilities, there are no cash tensions, and idle cash is kept at a very low level (1.1% as of December 2006).
+ Liquidity across branches is followed upon on a daily basis.
– Yet, liquidity management tools are not in place, which might prevent an appropriate monitoring of funding expenses.

Areas for improvement

▪ Diversify the funding sources.
▪ Formalize liquidity management, especially precise cash flow projections.

▪ Efficiency and Profitability

Efficiency and Profitability **is rated "c"**

Profitability analysis

– Lead is a young institution that has never been profitable so far: as of December 2006, its activities were not yet sustainable (financial self-sufficiency of 84.3%).
+ It is expected to breakeven in 2007, as shown by positive ROE and ROA as of July 2007 (respectively of 5.5% and 1.3% on adjusted basis vs negative ROE and ROA over the previous years).
+ This trend is further confirmed by positive monthly net results since April 2007.

+ Lead's portfolio yield has stabilized at around 36% over the past 18 months, which is close to the theoretical yield based on the effective annual rates of the SME and GL products. Given the excellent portfolio quality, and as there are no scheduled changes in the loan conditions, this level is expected to remain the same over the coming months.

+ Lead has already started benefiting from economies of scale, as evidenced by the declining the operating expense ratio (from 40.6% in 2005 to 31.3% in 2007).
– Nevertheless, operating expenses are still relatively high and above the level of both its MENA and Egyptian peers (20% for the MENA region, 13% for DBACD and 15% for ABA).
▪ This is partly due to increased staff expenses as the institution grows, as well as Lead's focus on small loans

(average loan size of 80 USD, the lowest in the region vs twice more for DBACD).

– It is also due to an average productivity (150 clients per staff as of December 2006 but going up to 165 as of July 2007 vs 156 for the MENA region and 185 for the MENA Large peer group, and over 200 for the best peer regional institutions, also working in dense rural areas and showing a similar portfolio breakdown between group and individual methodologies).

- This could be explained by a) the large number of newly recruited LOs with little or virtually no portfolio, and b) the current organizational structure, where the heavy administrative component is backing Lead's rapid growth: the number of LOs as compared to total staff is low (64% vs over 70% in best-practice), but should grow as the institution matures and training of newly hired employees is systematized.
- Operating expense ratio is expected to further decrease with the planned efficiency gains (productivity > 200 as of 2008) and the average loan size increase (95 USD as of 2008).

\+ Loan loss provision expense ratio is minimal to null thanks to the outstanding portfolio quality. It is expected to grow within the coming years (budgeted PAR at 2%), but should remain at reasonable levels.

- Funding expense ratio is stable around the 10% level. The ratio goes down to 5.5% when netted by taking out interests received on the short term deposits: such level is comparable to Egyptian peers, and actually lower than the interbank commercial rate in Egypt.

- The main challenge for Lead in the short run is to breakeven. In the medium run, it is to become financially self-sustainable while pursuing its growth, by achieving economies of scale and controlling costs.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2004	Dec. 2005	Dec. 2006	Jul. 2007
Loan portfolio evolution				
Loan portfolio	1,099,905	3,212,565	4,578,485	7,277,068
Loan portfolio (EGP)	6,681,922	18,411,209	26,120,259	41,508,396
Evolution	*3,660.1%*	*175.5%*	*41.9%*	*58.9%*
Average outstanding loan	386,815	2,257,693	3,935,534	5,928,178
Active borrowers	12,730	39,375	57,143	81,226
Evolution	*2,381.5%*	*209.3%*	*45.1%*	*42.1%*
Average outstanding loan per client	86	82	80	90
% of GDP per capita	9.7%	8.6%	8.4%	9.4%
Average amount disbursed per loan	93	95	107	122
% of GDP per capita	9.6%	9.1%	9.7%	10.5%
Portfolio quality				
Rescheduled loans	0.00%	0.00%	0.00%	0.00%
PAR 31-365	0.06%	0.00%	0.06%	0.03%
PAR > 365	0.00%	0.00%	0.00%	0.00%
Write-off ratio	0.00%	0.03%	0.00%	0.01%
Credit risk coverage				
Risk coverage ratio	100.0%	n.a.	98.3%	100.0%
PAR 31 net of loan loss provision / Equity *	0.00%	0.00%	0.00%	0.00%
Staff	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jul. 2007**
Total number of staff	164	253	380	491
% Credit officers	63.4%	67.2%	63.9%	64.8%
Turnover	44.3%	20.6%	43.6%	32.8%
Profitability analysis	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jul. 2007**
ROE *	(113.6%)	(30.3%)	(3.0%)	5.5%
Liabilities / Equity	0.4x	0.4x	0.5x	0.6x
Liabilities / Equity *	1.3x	1.9x	2.7x	3.6x
ROA *	(47.8%)	(11.3%)	(0.9%)	1.3%
Profitability structure				
Portfolio Yield	25.1%	30.7%	36.8%	36.2%
Operating expense ratio	143.9%	40.6%	34.7%	31.3%
Cost per borrower	44	23	24	22
Staff productivity	78	156	150	165
Loan officer productivity	122	232	235	255
Average outstanding loan per client	86	82	80	90
Funding expense ratio	0.6%	10.0%	9.2%	9.5%
Cost of liabilities	0.4%	11.9%	10.6%	10.4%
Loan Loss Provision expense ratio	0.2%	0.0%	0.1%	(0.0%)
PAR 31-365	0.06%	0.00%	0.06%	0.03%
Write-off ratio	0.00%	0.03%	0.00%	0.01%
Resource optimization				
Outstanding LPF / Assets*	59.0%	76.8%	76.5%	84.7%
Revenue from investment as a % of financial revenues	9.9%	12.6%	14.1%	14.5%
Liquidity				
Liquidity / Total assets (LAR)*	10.0%	11.7%	2.7%	0.6%
Adjusted ratios				
Adjustment expense ratio	14.1%	14.8%	8.0%	17.8%
AROE	(41.4%)	(15.6%)	(5.0%)	(9.9%)
AROA	(28.6%)	(10.8%)	(3.3%)	(6.3%)
Financial self-sufficiency	17.5%	53.7%	84.3%	72.7%
Adjusted operating expense ratio	143.9%	40.6%	34.7%	31.3%
Adjusted funding expense ratio	14.7%	24.8%	17.2%	27.3%
Adjusted loan loss provision expense ratio	0.2%	0.0%	0.1%	(0.0%)
Exchange rate 1 USD= xx EGP	**6.1**	**5.7**	**5.7**	**5.7**

* Ratios adjusted to take out the inflated assets effect from USD deposits on Lead's Balance Sheet

Lead Foundation	EGP				USD				Evolution		
Income Statement	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jul. 2007**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jul. 2007**	**2005/2004**	**2006/2005**	**2007/2006**
Financial Revenue (a)	**654,565**	**4,544,979**	**9,621,529**	**8,352,696**	**107,747**	**793,052**	**1,686,508**	**1,464,358**	**594.4%**	**111.7%**	**(13.2%)**
Financial Revenue from Loan Portfolio	589,686	3,971,492	8,258,683	7,140,727	97,068	692,984	1,447,622	1,251,881	573.5%	107.9%	(13.5%)
Interest on Loan Portfolio	588,121	3,944,354	8,158,903	7,017,603	96,810	688,249	1,430,132	1,230,295	570.7%	106.9%	(14.0%)
Fees and Commissions on Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio	1,565	27,138	99,780	123,124	258	4,735	17,490	21,586	1,634.1%	267.7%	23.4%
Financial Revenue from Investments	64,879	573,487	1,356,417	1,210,619	10,680	100,068	237,759	212,240	783.9%	136.5%	(10.7%)
Other Operating Revenue	-	-	6,429	1,350	-	-	1,127	237	-	-	(79.0%)
Financial Expense (b)	**13,560**	**1,291,326**	**2,068,598**	**1,868,154**	**2,232**	**225,323**	**362,594**	**327,517**	**9,423.1%**	**60.2%**	**(9.7%)**
Interest paid on borrowings	13,560	1,291,326	2,068,598	1,868,154	2,232	225,323	362,594	327,517	9,423.1%	60.2%	(9.7%)
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]	**641,005**	**3,253,653**	**7,552,931**	**6,484,542**	**105,515**	**567,729**	**1,323,914**	**1,136,841**	**407.6%**	**132.1%**	**(14.1%)**
Net Loan Loss provision expense (d)	**4,125**	**-**	**13,800**	**(1,831)**	**679**	**-**	**2,419**	**(321)**	**(100.0%)**	**-**	**(113.3%)**
Loan loss provision expense and write-off	4,125	-	14,300	(356)	679	-	2,507	(62)	(100.0%)	-	(102.5%)
Recovery from Loans written off	-	-	500	1,475	-	-	88	259	-	-	195.0%
Operating expense (e)	**3,382,009**	**5,249,237**	**7,799,298**	**6,164,537**	**556,709**	**915,937**	**1,367,099**	**1,080,739**	**55.2%**	**48.6%**	**(21.0%)**
Personnel Expense (includes fringe)	2,240,927	3,534,536	5,489,444	4,471,431	368,877	616,740	962,216	783,911	57.7%	55.3%	(18.5%)
Administrative Expense (non-staff operating expenses)	1,141,082	1,714,701	2,309,854	1,693,106	187,832	299,198	404,882	296,828	50.3%	34.7%	(26.7%)
Depreciation and amortization	198,676	572,355	743,246	678,750	32,704	99,870	130,280	118,995	188.1%	29.9%	(8.7%)
Consulting fees	-	94,848	222,664	141,550	-	16,550	39,030	24,816	-	134.8%	(36.4%)
General Expenses SME & GL	83,248	141,482	265,491	83,529	13,703	24,687	46,537	14,644	70.0%	87.7%	(68.5%)
Transportation	38,283	41,287	83,441	27,419	6,302	7,204	14,626	4,807	7.8%	102.1%	(67.1%)
Training	77,251	222,749	-	-	12,716	38,867	-	-	188.3%	(100.0%)	-
Telephone & Post	21,919	76,117	100,261	87,475	3,608	13,282	17,574	15,336	247.3%	31.7%	(12.8%)
Maintenance	10,407	136,115	175,285	92,800	1,713	23,751	30,725	16,269	1,207.9%	28.8%	(47.1%)
Rent & Utilities	246,879	206,384	379,718	268,577	40,639	36,012	66,559	47,086	(16.4%)	84.0%	(29.3%)
Stationary	50,220	64,237	129,808	98,214	8,267	11,209	22,753	17,219	27.9%	102.1%	(24.3%)
Others	414,199	159,127	209,940	214,792	68,181	27,766	36,799	37,656	(61.6%)	31.9%	2.3%
Net Operating Income Before Taxes and Donations [f=c-d-e]	**(2,745,129)**	**(1,995,584)**	**(260,167)**	**321,836**	**(451,873)**	**(348,209)**	**(45,603)**	**56,423**	**(27.3%)**	**(87.0%)**	**(223.7%)**
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]	**(2,745,129)**	**(1,995,584)**	**(260,167)**	**321,836**	**(451,873)**	**(348,209)**	**(45,603)**	**56,423**	**(27.3%)**	**(87.0%)**	**(223.7%)**
Non Operating Revenue (i)	-	49,990	-	-	-	8,723	-	-	-	(100.0%)	-
Non Operating Expense (including related taxes) (j)	130,124	-	184,850	-	21,420	-	32,401	-	(100.0%)	-	(100.0%)
Net Income Before Donations [k=h+i-j]	**(2,875,253)**	**(1,945,594)**	**(445,017)**	**321,836**	**(473,293)**	**(339,486)**	**(78,005)**	**56,423**	**(32.3%)**	**(77.1%)**	**(172.3%)**
Donations (l)	17,726,446	22,488,301	12,672,620	14,691,933	2,917,933	3,923,975	2,221,318	2,575,725	26.9%	(43.6%)	15.9%
Net Income (after Taxes and Donations) [m=k+l]	**14,851,193**	**20,542,707**	**12,227,603**	**15,013,769**	**2,444,641**	**3,584,489**	**2,143,313**	**2,632,147**	**38.3%**	**(40.5%)**	**22.8%**

Lead Foundation	EGP				USD				Evolution		
Balance sheet	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jul. 2007**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Jul. 2007**	**2005/2004**	**2006/2005**	**2007/2006**
ASSETS	**21,337,976**	**51,047,705**	**72,483,956**	**100,937,170**	**3,512,424**	**8,907,295**	**12,705,338**	**17,695,857**	**139.2%**	**42.0%**	**39.3%**
Short Term Assets	**17,825,518**	**47,548,109**	**65,255,353**	**93,700,051**	**2,934,242**	**8,296,651**	**11,438,274**	**16,427,078**	**166.7%**	**37.2%**	**43.6%**
Cash and Due from Banks	1,129,202	2,073,923	793,395	233,595	185,877	361,878	139,070	40,953	83.7%	(61.7%)	(70.6%)
Short Term Investments	9,954,411	26,425,382	36,372,215	50,760,552	1,638,586	4,610,955	6,375,498	8,899,115	165.5%	37.6%	39.6%
Short Term Net Loan Portfolio	6,677,797	18,411,209	26,105,959	41,497,152	1,099,226	3,212,565	4,575,979	7,275,097	175.7%	41.8%	59.0%
Short Term Gross Loan Portfolio	6,681,922	18,411,209	26,120,259	41,508,396	1,099,905	3,212,565	4,578,485	7,277,068	175.5%	41.9%	58.9%
(Loan Loss Reserve)	4,125	-	14,300	11,244	679	-	2,507	1,971	(100.0%)	-	(21.4%)
Interest Receivable	64,108	637,595	1,983,784	1,208,752	10,553	111,254	347,727	211,913	894.6%	211.1%	(39.1%)
On loan portfolio	-	-	-	-	-	-	-	-	-	-	-
On investments	64,108	637,595	1,983,784	1,208,752	10,553	111,254	347,727	211,913	894.6%	211.1%	(39.1%)
Accounts receivable and other assets	-	-	-	-	-	-	-	-	-	-	-
Long term assets	**3,512,458**	**3,499,596**	**7,228,603**	**7,237,119**	**578,182**	**610,643**	**1,267,065**	**1,268,780**	**(0.4%)**	**106.6%**	**0.1%**
Long Term Net Investments	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets	3,329,867	3,339,636	6,953,572	6,883,502	548,126	582,732	1,218,856	1,206,785	0.3%	108.2%	(1.0%)
Other Long Term Assets	182,591	159,960	275,031	353,616	30,056	27,911	48,209	61,994	(12.4%)	71.9%	28.6%
LIABILITIES AND EQUITY	**21,337,976**	**51,047,705**	**72,483,956**	**100,937,170**	**3,512,424**	**8,907,295**	**12,705,338**	**17,695,857**	**139.2%**	**42.0%**	**39.3%**
Liabilities	**6,486,783**	**15,653,805**	**24,862,453**	**38,301,898**	**1,067,783**	**2,731,426**	**4,358,011**	**6,714,919**	**141.3%**	**58.8%**	**54.1%**
Short term liabilities	6,486,783	15,653,805	24,862,453	38,301,898	1,067,783	2,731,426	4,358,011	6,714,919	141.3%	58.8%	54.1%
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	6,369,481	15,422,728	23,554,760	37,816,679	1,048,474	2,691,106	4,128,792	6,629,853	142.1%	52.7%	60.5%
Interest payable	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities	117,302	231,077	1,307,693	485,219	19,309	40,321	229,219	85,066	97.0%	465.9%	(62.9%)
Long term liabilities	-	-	-	-	-	-	-	-	-	-	-
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	-	-	-	-	-	-	-	-	-	-	-
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-
Equity	**14,851,193**	**35,393,900**	**47,621,503**	**62,635,272**	**2,444,641**	**6,175,868**	**8,347,327**	**10,980,938**	**138.3%**	**34.5%**	**31.5%**
Paid-In Capital	-	-	-	-	-	-	-	-	-	-	-
Donated equity	17,726,446	40,214,747	52,887,367	67,579,300	2,917,933	7,017,056	9,270,354	11,847,703	126.9%	31.5%	27.8%
Retained earnings without donations and reserves	(2,875,253)	(4,820,847)	(5,265,864)	(4,944,028)	(473,293)	(841,188)	(923,026)	(866,765)	67.7%	9.2%	(6.1%)
Current year	(2,875,253)	(1,945,594)	(445,017)	321,836	(473,293)	(339,486)	(78,005)	56,423	(32.3%)	(77.1%)	(172.3%)
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-

Formulas

Personnel productivity:	Active borrowers / Total personnel (end of period)
Loan officer productivity:	Active borrowers / Total Loan Officers (end of period)
Return on assets (ROA):	Net operating income before donations / Average assets
Adjusted return on assets (AROA):	Adjusted net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Adjusted return on equity (AROE):	Adjusted net operating income before donations / Average equity
Leverage:	Debt (savings + debts) / equity (end of period)
Portfolio yield:	Portfolio revenue / 13-month average gross outstanding portfolio
Operating expense ratio:	Operating expense / 13-month average gross outstanding portfolio
Funding expense ratio:	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Cost of savings ratio:	Interest and fees paid on deposits/Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings/Average borrowing
Loan loss expense ratio:	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / 13-month average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / total assets (end of period)
Financial self-sufficiency:	Revenue from operations / (Expenses (financial, loan loss, operating) + Adjustments)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / 13-month average gross outstanding portfolio

Rating scale

Rating	Definition
A+ A A-	**Excellent** The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
B+ B B-	**Good** Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
C+ C C-	**Minimum required** Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
D	**Insufficient** Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	**Immediate risk of default or very insufficient** There are immediate or underlying risks for operations or an unacceptable under performance.