

Faulu Kenya Limited – 3rd Rating	KENYA
<i>Limited Liability Company</i>	<i>Report as of December 2006</i>

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PERFORMANCE RATING

β+

Date of visit	November 2006
Date of previous rating	n.a.
Previous rating	n.a.
Forecast	Positive

α++		
α	α+	
	α	
	α-	
β	β+	← Faulu Kenya
	β	
	β-	
γ	γ+	
	γ	
	γ-	

Synopsis

In 1991 Faulu Kenya was established as a lending project of the Food for the Hungry International (FHI) Kenyan country program. Now a limited liability company, Faulu Kenya's main shareholder, FHI, is based in the United States and is registered in Switzerland. Faulu Kenya is a faith based Christian organization and is one of the leading microfinance service providers in the country. This position is supported by the MFIs sizeable portfolio which grew by 65.9% to over \$19 million in 2006. Faulu Kenya makes mainly group loans and services around 68,000 clients.

Highlights

POSITIVE

- Impressive return to profitability.
- Good improvement in portfolio quality.
- Strong management team.
- Sufficient liquidity to manage short term growth.
- A potentially large, well segmented market.

NEGATIVE

- Increased competition.
- Less than optimum MIS.
- Unregulated financial intermediation.

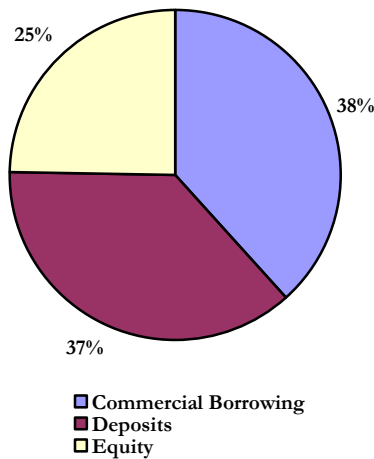
Main Performance Indicators

	Dec'05	Dec'06
Gross Portfolio ('000's)	\$11,462.4	\$19,014.6
Number of active borrowers	39074	68434
ROE	2.0%	23.2%
Portfolio Yield	31.0%	33.8%
Portfolio at Risk	7.8%	3.2%
Operating Expense Ratio*	23.4%	20.1%
Average Loan Size	\$293	\$278
Borrowers per staff	187	222

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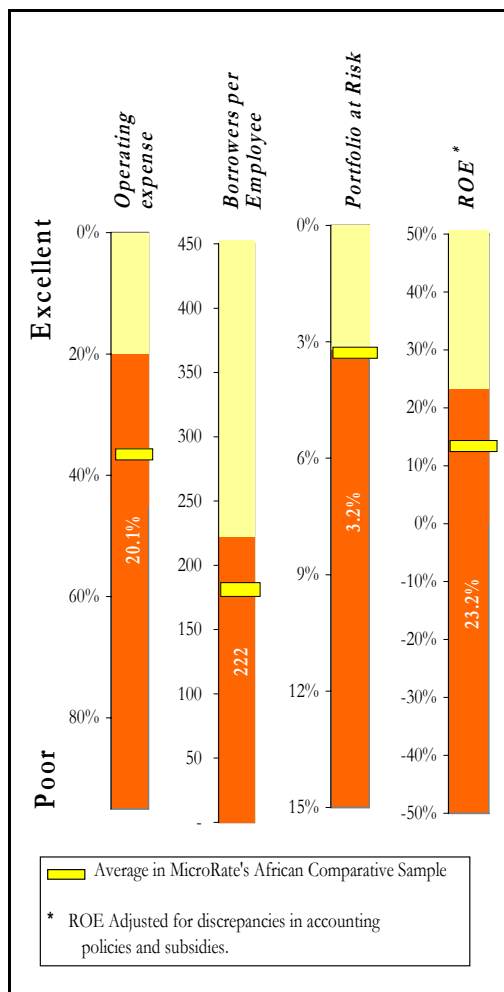
FAULU KENYA	KENYA	December 2006
Sources of Funding	Rating Rationale	



Faulu Kenya's strong operational and financial improvements have poised it to become one of the leading microlenders in East Africa. An **excellent team of employees, managers and Board of Directors** has made the organization solidly efficient and productive. Its operation performance is complimented by a **keen sense of client needs and the flexibility to meet those needs.** (See page 4)

The organization has shown a **dramatic improvement in portfolio quality** in the past operating period driven by credit methodology tailored to its target client and improved internal controls. (pg. 5)

Faulu Kenya's new CEO and her management team took the firm from operating losses in 2005 to healthy profits in 2006. **A turnaround of this magnitude has rarely been seen by MicroRate.** Faulu's staff is equally impressive with low turnover and high operating efficiency and productivity. The Internal Audit and IT departments require further development. (pg. 6-8)



Faulu Kenya's **Board of Directors is excellent, highly involved** and has positioned Faulu well. The firm has retaken its niche as a grassroots microfinance institution; its operations and strategy are aligned to solidify this position. (pg. 5, 8)

The institution's structural and operational improvements were demonstrated in its **strong financial performance.** However, the institution still **lacks a stable track record** of financial performance. (pg. 9)

The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loans < US\$500.