

Faulu Uganda Limited - 4th Rating	UGANDA
<i>Company Limited by Shares</i>	<i>Report as of December 2005</i>

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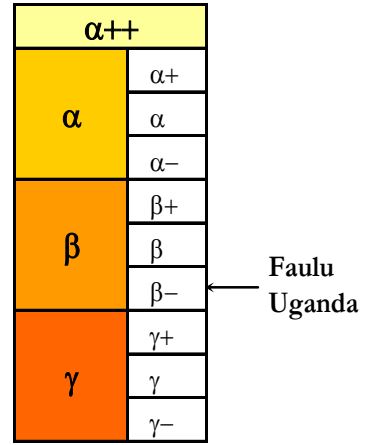
Synopsis

Faulu Uganda Limited (“Faulu Uganda”) was founded in 1995 as a programme of Food for the Hungry (“FHI”) and incorporated as a company limited by shares in 1999. FHI retained 100% ownership. As a consequence of its slow start to transform into a regulated institution, Faulu Uganda is unable to utilise its sizeable deposit base to on lend. Hence, the MFI is highly dependent on commercial debt. This saw funding costs rise to an all-time high in 2005 and together with high provisions, pushed the institution back into a loss making position.

PERFORMANCE RATING	β-
RATING OUTLOOK	Watch

Date of visit **March 2006**
 Date of previous rating **August 2004**
 Previous rating **β**

The institution remains small with the portfolio contracting to \$3.4 million in 2005. Faulu makes predominantly group loans through its network of 8 branches servicing around 24,000 active borrowers.


Highlights
POSITIVE

- Good improvement in operating efficiency.
- Strong and stable top management.
- Improved information reporting.
- Good experience in negotiating and paying back debt.

NEGATIVE

- Pronounced deterioration in portfolio quality.
- Losses widened in 2005, although at an operating level profitability improved slightly.
- Loan products and methodologies need further improvement.
- Slow to transform and unlike its competitors, Faulu Uganda is not a formalised financial intermediary.
- Gaps in management and reduced staff capacity.

Main Performance Indicators		
	Dec '04	Dec '05
Gross Portfolio ('000's)	\$3,417.5	\$3,388.5
Number of active borrowers	21,376	24,071
ROE	(0.7%)	(3.1%)
Portfolio Yield	58.4%	62.3%
Portfolio at Risk	5.5%	8.6%
Operating Expense Ratio	46.9%	41.7%
Average Loan Size	\$160	\$141
Borrowers per staff	174	190

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