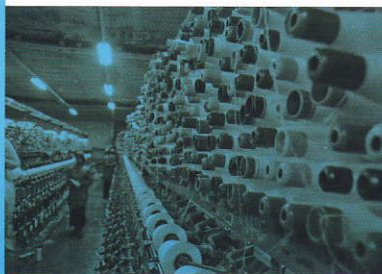


CREDIT RATING REPORT

SETU



WWW.CRAB.COM.BD
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CREDIT RATING
AGENCY OF
BANGLADESH LTD.

Credit Rating Report (Surveillance)

SETU

Analysts:

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Assigned Rating:

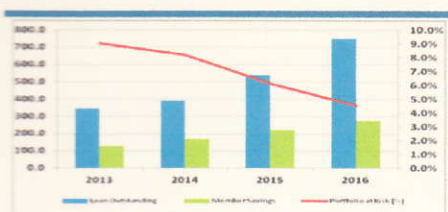
Long Term : BBB₂

Outlook : Stable

Date of Rating : 21 December 2016

Valid Till : 22 December 2017

Methodology: CRAB's MFIs Rating Methodology (www.crab.com.bd)



Key Performance Indicator

	Year Ended June 30	
	2016	2015
(BDT Mil)		
No. of Beneficiaries	61,385	60,958
Active Borrowers	44,643	44,136
District Cover	9	9
No. of Branch	50	50
Total Asset	870.0	608.0
Loan Outstanding	749.2	537.5
Member Savings	275.1	222.6
Net Surplus	32.0	8.5
(%)		
Portfolio Yield	23.8	23.7
Operating Expenses Ratio	19.8	22.7
PaR> 180 days	2.94	3.68
Borrowed Fund to Equity Ratio	3.4	3.0

RATING BASED ON: Audited financial statement up to June 30, 2016 and other relevant quantitative as well as qualitative information up to the date of rating declaration.

COMPANY PROFILE

SETU, a national NGO was formed in 1983 aiming to enable the disadvantaged community for sustainable development. SETU's development effort concentrates on organizing and mobilizing the viable groups, enhancing their analytical capability, so that they can act and speak in local, national even global context. SETU has been equipped in a way to take and/or undertake right based challenging initiatives. Its particular expertise developed on the issues of globalization, rights & governance, climate justice, advocacy, CSO accountability etc. aiming at contributing its micro-macro impact which have been gained from its past work experiences. Currently SETU has been working in 9 districts covering more than 140,000 households. At the end of 30 June 2016, loan outstanding of the Organization was BDT 749.15 million to active borrowers spread across its 50 branches.

RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has upgraded the long-term rating of SETU to "BBB₂" (Pronounced Triple B two). CRAB performed the rating based on audited financial statement up to 30 June 2016 and other relevant quantitative and qualitative information.

The ratings reflect the Organization's strength in operational efficiency of its micro finance program. However, the rating is constrained by increasing leverage and the size of the portfolio.

At the end of 2016, the outstanding loan portfolio under micro credit program grew 28.26% at BDT 749.16 million from 44,643 borrowers. SETU's members' savings was BDT 275.1 million collected from 61,385 active members. Aging of loan portfolio of SETU depicts that at the end of 2016, PaR> 181 days was 2.94% of total loan portfolio. During 2016 fund based income of the Organization increased by 44.20% and net interest income increased by

45.04% respectively in the back of substantial loan growth. Moreover, net Surplus of SETU also experienced sharp increase in 2016 and stood at BDT 31.97 million (2015: BDT 8.49 million).

SETU microfinance program was mainly funded by external borrowing. Of the total funding 42.34% was from long term liability followed by 31.62% of members' savings, 13.65% from fund liabilities and rest 12.40% by own fund. During 2016, own fund grew by 55.63% backed by internal capital generation. SETU's long term liability shared 28.41% from commercial bank loan and 13.65% from PKSF loan. Members' savings of SETU has 03 types of savings scheme registered 31.62% from last year. Balance sheet liabilities to equity) of micro finance program was 5.96 times in 2016 (2015: 6.25 times) and borrowed fund to equity was 3.41 times in 2016 which was 3.04 times in 2015. Moreover, the capital adequacy ratio of the Organization deteriorated by 4.08 percentage point and became 12.74% at the end of 2016 as growth of total asset was dominating than the growth of capital fund.

In 2016, total assets of SETU stood at BDT 869.99 million driven by significant loan growth. SETU' has kept loan loss provision of BDT 26.55 million, maintaining regulation of Micro credit Regulatory Authority.

The major social development programs of SETU is Poverty alleviation through Micro Credit & Micro enterprise loan, Livelihood Restoration Program (LRP), Mainstreaming the Disable People in Development Process, Non formal Primary Education (NFPE), Reaching Out of school Children (ROSC), Sanitation, Hygiene Education & Water Supply Project, Urban Governance & Infrastructure Improvement Projects (UGIIP), Hygiene, Sanitation and Water Supply (HYSHWA) Program. The organization is implementing its multiple programs to improve socio-economic condition of poor and extreme poor at Kushtia. The organization works with landless especially women, outcasts, untouchables and religion-ethnic minorities and extreme poor communities of the region.

Going forward, the Organization's ability to maintain operational efficiency in its Micro Finance Program along with the nature of asset quality may have positive impact on future rating consideration, or vice versa.

■ Rating Scope

Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity or social impact of the programs of an NGO, although such considerations may affect CRAB's view on credit risk, such as access to capital or likelihood of refinancing. At the time of rating of SETU, CRAB did not conduct any social research and survey on its programs. It is not within the purview of rating agency to carry out comprehensive impact study. However, at the time of rating of SETU apart from its micro credit program, CRAB tries to focus into various aspects of SETU's social development projects and tried to understand how effectively and efficiently SETU can interlink its micro credit program and social development program with its vision, mission and goals. CRAB's credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest and repayment of principal, insurance claims or counterparty obligations.

■ BACKGROUND

SETU, a national NGO was formed in 1983 aiming to enable the disadvantaged community for sustainable development. SETU's development effort concentrates on organizing and mobilizing the viable groups, enhancing their analytical capability, so that they can act and speak in local, national even global context. SETU has been equipped in a way to take and/or undertake right based challenging initiatives. Its particular expertise developed on the issues of globalization, rights & governance, climate justice, advocacy, CSO accountability etc. aiming at contributing its micro-macro impact which have been gained from its past work experiences. Now SETU has been working in 9 districts covering more than 140,000 households. SETU was registered with the Micro Credit Regulatory Authority (MRA) in 2006. At the end of 30 June 2016, SETU's loan outstanding was BDT 749.15 million to active borrowers spread across its 50 branches. During the same duration SETU collected BDT 275.05 million from 44,643 active borrowers. Mr. M A Quedar the Executive Director of SETU, monitors the overall issue of the Organization.

SETU at A Glance

Name of the MFI	: SETU
Year of Operation	: 1993
Year of Commencement of Micro Finance Program	: 1993
Executive Director	: M. A. Quader
Head Office	: T & T Colony Road , Courtpara , Kushtia-7000
Corporate Office	: 729/A, Road#9, Adabar, Dhaka
External Auditors of FY2016	: Toha Khan Zaman & Co.

SETU's Legal Status:

The organization has established functional association and affiliation with the following government departments:

- Registration No. under voluntary welfare agencies (Registration & control) ordinance, 1961:
No. Kushtia-10/86, Dated: 17.02.1986.
- Registration No. under the foreign donation (voluntary activities) regulation rules, 1978:
No. DSS/FDO/R-240, Dated: 05.10.1987.
- Certification of Micro-Credit Regulatory Authority (MRA) rule, 2006,
No. 03033-03265-0049, Dated: 05-09-2007
- Tax Identification No. under ordinance (XXXVI of 1984),
TIN No. 412-400-0094/KC-2, Khulna. Dated: 12.01.2003.

PROGRAMS

There are different social development programs implemented and continued by SETU. Major programs that SETU undertook in the past and continuing were poverty alleviation through Micro Credit Program, Livelihood Restoration Program (LRP), Agriculture and Livestock Development, Promotion of Eco-Friendly Fertilizer, Farmer-to-Farmer for Food Security, Participatory Forestry Program (PPF), Health for All, Environmental Sanitation, Arsenic Mitigation, Nutrition Education, Mainstreaming the Disabled People in Development Process, Education for All, Technological Empowerment Through ICT, Strengthening Climate Justice, Disaster Management, River Basin Development, National Domestic Biogas & Manure program, Rights & Governance, Democracy Education, Tax Justice and Peoples' Participation, Youth Animation, Community Learning Movement (CLM), SETU-WFCL Program, Social Rehabilitation for Senior Citizen, STD/HIV/AIDS Prevention, Anti-Trafficking Movement, Cultural Action for Social Transformation, Civil Society Mobilization etc.

MICRO FINANCE OPERATION

SETU is continuing its "Poverty Alleviation Program" through Jagoron, Agroshor, Sufolon, Buniad and Livelihood Restoration Program (LRP), with financial and technical assistance of Palli Karma-Shahayak Foundation (PKSF) since 1993. Presently SETU implements the program through on line service. This program covers total 21 upazilas of 09 districts. Total 3,988 no. of samity were formed with 61,385 members. In FY2016, BDT 275.05 million was collected as members' savings. Active borrowers of SETU were 45,314 whereas loan outstanding was BDT 749.15 million in FY2016. Poverty alleviation program is managed through SETU's 50 branches and 7 regional offices. SETU's microfinance program has different loan products of PKSF (details given in Annexure-2).

Operational Model: To operate microfinance program SETU forms a group, which is the key and lowest unit of SETU institutional structure. Minimum five like-minded people from the same village with similar economic status can form a group. Each group has an elected main person whose house is the weekly meeting place. These groups belong to a unit. Each unit has a center chief and a deputy center chief. They hold meetings once a week where they collected installment amount, deposits. A branch channels all services to its members. All records and accounts maintained in a branch office. A Manager heads a branch office where 4-6 field officers assist the Branch Manager. An Assistant manager is responsible in account section of a Branch as well as assists Branch manager.

The main function of a branch is to implement microcredit and other programs in its command areas. Usually a branch's site selection prefers on the concentration of poor people. An Assistant Program Manager (APM) heads SETU zonal office. An APM looks after maximum of seven branches. Loan approval, supervision, monitoring and group recognition are among the major responsibilities of APM. The APM are also responsible for overall monitoring, supervision and coordination of other activities under his/her working area. The Program manager heads the regional offices (4-5 area office is under each regional office). The Head Office supervises monitors and guides the activities of each branch, region and central coordination office. The Head office also provides all logistic supports to these offices. The Branch offices send weekly and monthly reports to head office. The head offices consolidate on regular basis. The Head office also organizes external and internal auditing of branch accounts for the smooth implementation of project activities.

Client Criteria: To improve social and economic position of the common people. Before disbursing a loan, SETU's management evaluates a borrowers' intention of loan repayment, past record of loan repayment, professional skill required to utilize the fund etc. At first field level officers collect the data, after wards branch manager, assistant program manager and regional head and head office judged these criterion.

Table 1:

Summary of Micro Finance Program	FY2016	FY2015	FY 2014	FY2013
Months	(12)	(12)	(12)	(12)
No. of Member	61,385	60,958	56,023	52,918
No. of Groups	3,988	4,121	4,211	3,648
No. of Borrowers	44,643	44,136	40,952	42,149
No. of Districts Covered	9	9	8	8
No. of Branches	50	50	48	48
Loan Outstanding (Mill BDT)	749.15	537.50	390.32	344.66
Members Savings (Mill BDT)	275.05	222.60	167.40	127.51

Loan Portfolio Analysis

SETU loan portfolio grew 39.78% in FY2016. It was mainly concentrated in Jagoron (52.67%) followed by Sufolon 20.64% and Agroshor loan (26.60%), in FY2016.

Table 2:

Sector wise Loan outstanding	FY2016		FY2015	
(Amount in BDT Mill.)	Amount	% in Total	Amount	% in Total
JACORON (RMC and UMC)	394.61	52.67	325.31	60.70
AGROSOAR (Micro Ent.)	199.30	26.60	122.76	22.91
SUFOLON (Agriculture)	154.66	20.64	0.48	0.09
BUNIAD (UPP)	0.59	0.08	87.41	16.31
Total Loan outstanding	749.15	100.00	535.96	100.00

Portfolio Quality

Non-government organizations whose loans are typically not backed by bankable collateral, so, the quality of the portfolio is absolutely crucial. The most widely used measure of portfolio quality is portfolio at risk which measures the portion of the loan portfolio contaminated by arrears as a percentage of the total portfolio. In FY2016, SETU written off BDT 2.50 million by keeping 100% provision as per MRA regulation.

Table 3:

Particulars	FY2016			FY2015	
	Loan Portfolio	Proportion in Total (%)	Growth (%)	Loan Portfolio	Proportion in total (%)
(Amount in BDT Mill)					
PaR 1-30 days	6.47	0.86	(20.26)	8.11	1.51
PaR 31-180 days	5.62	0.75	11.96	5.02	0.94
PaR 181-365 days	4.67	0.62	26.15	3.70	0.69
PaR > 365 days	17.34	2.31	8.20	16.02	2.99
Total PaR	34.09	4.55%	(21.50)	32.85	6.13

Aging of loan outstanding of SETU depicts that at the end of 30 June 2016, 95.45% of loan was regular. 2.31% of the portfolio was overdue for more than 365 days. Moreover, PaR of SETU deteriorated by 1.58 percentage point on the back of substantial loan growth and stood at 4.55% as of 30 June 2016. During the same duration, required loan loss provision according to Micro Credit Regulatory Authority was BDT 29.72 million and SETU maintained BDT 26.55 million. (See Annexure-2)

Capitalization & Funding Strategy

SETU microfinance program was mainly funded by external borrowing. Of the total funding 42.34% was from long term liability followed by 31.62% of members savings and 12.40% by own fund. During FY2016, own fund of the Organization grew by 55.63% backed by internal capital generation.

Table 4:

Funding Mix						
Year Ended June 30						
(Mil. BDT)	2016			2015		
	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)
Capital Fund	107.88	12.40	55.63	69.31	11.40	15.44
Fund Liabilities	118.72	13.65	12.66	105.38	17.33	22.16
Long Term Liabilities/Loan	368.34	42.34	74.77	210.75	34.66	56.33
<i>Loan from PKSF</i>	<i>121.18</i>	13.93	9.42	<i>110.75</i>	18.21	(7.56)
<i>Bank Loan</i>	<i>247.15</i>	28.41	147.15	<i>100.00</i>	16.45	566.67
Members' Savings	275.05	31.62	23.56	222.61	36.61	32.98
Total	869.99	100.00	43.08	608.05	100.00	35.57

SETU has 03 savings scheme through which the organization collected BDT 275.05 million in FY2016 registering a growth of 31.62% from FY2015. Balance sheet liabilities to equity) of this program was 5.96 times in FY2016 (FY2015: 6.25 times) and borrowed fund to equity was 3.41 times in FY2016 which was 3.04 times in FY2015.

Financial Performance

In FY2016, fund based income was 98.15% of total micro finance income backed by interest from on loan. Fund based income and net interest income increased by 44.20% and 45.04% respectively due to realization of interest income resulted from loan growth. Though interest and finance charges enhanced by 37.74% during FY2016 due to infusion of external borrowing however net surplus of the program was dominating and enhanced by 276.41% resulted from bolt jump in outstanding loan portfolio and interest received in FY2016.

¹ Loan outstanding amount of FY2015 and FY2016 was without service charge/interest.

Table 5:

Segregation of Revenue				
--For the year Ended June 30--				
Year	2016		2015	
(BDT in Mil)	Amount	Growth	Amount	Growth
Fund Based Income (a)	160.20	44.20	111.10	29.42
Interest income on loan	157.96	43.38	110.17	28.39
Interest income on bank deposit	2.24	142.11	0.92	n/a
Interest & Finance Charges (b)	17.68	37.74	12.84	52.06
On Borrowings	1.85	137.75	0.78	166.73
On Deposits	15.84	31.30	12.06	47.97
Net Interest Income (a-b)	142.52	45.04	98.26	26.95
Fee Based & Other Income (c)	3.03	17.21	2.58	(73.22)
Total Income (a+c)=d	163.23	43.59	113.68	19.05
Total Expenses (e)	101.37	27.11	79.75	7.44
Personnel Expenses	66.79	29.24	51.68	12.37
Administrative & Other Expenses	34.59	23.20	28.07	(0.59)
Provision For Loan Loss	6.83	(18.12)	8.34	n/a
Net Surplus	31.97	276.41	8.49	(46.19)

Financial Indicators

During FY2016, portfolio yield increased 0.80 percentage points due to increased fund based income along with loan growth. ROA was 3.67 resulted from increased net surplus during the same duration. However, operating expense ratio of the program deteriorated in FY2016 and stood at 19.77% indicates controlled administrative and personnel expenses. Deposit to loan ratio was 36.71% which was lower than 80% (maintains MRA requirement). However, borrowed fund to equity ratio of the Organization increased in FY2016 and became 3.41 times resulted from increased external borrowing from commercial sources. Moreover, as of 30 June 2016, capital adequacy stood at 12.74%.

Table 6:

Key Financial Indicators				
--For the year Ended June 30--				
Profitability & Efficiency	2016	2015	2014	2013
Portfolio Yield (%)	24.55	23.75	23.35	22.87
Return on Assets (ROA) (%)	3.67	1.40	3.52	1.18
Operating Expense Ratio (%)	19.77	22.67	21.69	21.94
Net surplus / Loan outstanding (%)	4.97	1.58	4.04	1.28
Fund Cost				
Cost of Savings (%)	6.00	6.00	6.00	6.00
Weighted Average Cost of Borrowing (%)	9.17	8.11	6.35	5.50
Capitalization				
Borrowed Fund to Equity (Times)	3.41	3.04	2.25	2.43
Capital Adequacy Ratio (%)	12.74	11.58	13.74	13.88
Liquidity				
Deposit /Loan (%)	36.71	41.42	42.89	37.00
Liquid assets to Deposit (%)	11.96	6.21	10.35	6.87

■ SOCIAL DEVELOPMENT PROGRAM OF SETU

Agriculture and Livestock Development: SETU provides agricultural loan to its group members for cultivation of onion, garlic, banana, paddy, maize, potato, vegetables, sunflower etc. SETU undertakes beef fattening program with funding from PKSFI. This is an income generating program by SETU which helps in alleviating poverty. The organization also provides credit support to fish culture, poultry and goat rearing.

Safe Migration for Bangladeshi Workers project: Migration is a major source of income of Bangladesh. Remittances earned from migration contribute highly in Bangladesh economy. The income of migrant workers improves their family status as well as it is helpful for overall development of the country. In spite of their contribution in economy the migrants face many problems in different stages mainly in lacking of right information in right time. In this perspective SETU undertakes 'Safe Migration for Bangladeshi Workers' project in Kushtia Sadar upazila area in order to ensure safe migration. Under the project the migrants will get different services like easy and right information, reduce dependency on middle men along with the credit facilities.

Promotion of Eco-Friendly Fertilizer: SETU has been preparing eco-friendly fertilizer in Meherpur in cooperation with Meherpur Pourashava and UNICEF under technical assistance of Waste Concern. The constructed composting Plant was used only for the purpose of organic composting through garbage collected from residential and commercial areas. SETU operated and maintained the compost plant as per the guidelines of Waste Concern. The NGO takes care of operation and maintenance of community based resource recovery system.

Farmer-to-Farmer for Food Security: SETU has been implementing Farmer-to-Farmer for food security project with technical assistance of WINROCK International through USAID. The project includes improved seed production for home based gardening; improve soil conditions through fertilization management. Some courses were organized involving male and female farmers of Mirpur and Kushtia Sadar Upazila area which were facilitated by international experts.

Participatory Forestry Program (PFP): Under this program, 152 villages under 20 unions of three thanas, namely Mirpur upzila, Kushtia sadar and Kumarkhali of Kushtia district were covered since 1991. Major components of this program are plantation at homestead & cropland, village nursery establishment, central nursery development, tree renovation, core farmer development training etc.

Health for All: SETU promotes awareness on health for all agenda among the stakeholders as an essential service. SETU initiates advocacy with government departments and service providing NGOs to enhance quality health facilities. Mentionable results of the program are access raised to claim health service from ongoing government facilities, health awareness raised among women, and knowledge level upgraded on reproductive health, HIV/AIDS, safe water use and sanitation.

Environmental Sanitation: SETU has gathered experiences in implementing Sanitation, Hygiene Education and Water Supply (GOB-UNICEF) Project in Meherpur district under financial and technical assistance of UNICEF, DPHE & DFID. The project includes 101 villages of 5 unions of Meherpur Sadar Upazila covering 194,665 people (male - 100,067, female - 94,598) of 48,977 households. A variety of activities have carried out in the field to wage social mobilization for achieving the MDGs. Moreover SETU has implemented same activities in Meherpur municipal area covering 6,265 households with funding from UNICEF, DPHE & DFID.

Nutrition Education: SETU undertook this project in Kushtia Sadar, Mirpur and Khoksa upazilas in order to develop the nutritional status of rural people through establishing vegetable and fruit nurseries, Grameen Nursery (GN) and Central Nursery (CN) and promoting nutritional education in cooperation with the project participants.

Education for All: SETU has been promoting education for all through implementing different programs. SETU initiates in ensuring 100% enrollment in primary school. Since 1986, SETU has been initiating adult education and non-formal education programs through organizing education centers. Moreover SETU has been working with Campaign for Popular Education (CAMPE) to popularize education program through involving CSOs. SETU

established 25 Non Formal Primary Education Centers in different villages of Mirpur Upazila of Kushtia district where a total of 750 girls and boys of poor families were enrolled.

Technological Empowerment through ICT: SETU provides management training and technical assistance to its staff members with a view to enabling them in utilizing Information Communication Technology in their respective fields. This empowers the employee to cope with the modern challenges in performing daily duties. In this regard SETU organized series of courses/activities on automation, networking, MIS, data analysis using its computer facilities. Already all offices of SETU were connected with online network, facilitating quick dissemination of information on a regular basis. Obviously this technological empowerment of staff through ICT results in speedy and fruitful performance of organizational work.

Strengthening Climate Justice: There are threats of climate change which are very real and associated challenges are formidable. Bangladesh is vulnerable due to hydro-geological and socio-economic factors. It is therefore, of utmost importance to assess its vulnerability in terms of population, areas at risks and potential for adaptation.

■ MANAGEMENT

SETU has a structural management system where general body is the decision making body, Executive Committee implements the decision of the General body. On behalf of the Executive Committee, the Executive Director implements the activities of SETU with the assistance of all tire staff. The organization has several wings in its management system such as Financial, Program, Monitoring, Gender, Training and Disaster. It has a central management committee consisting of the all sector heads. The management committee held meeting tri-monthly where progress is discussed and future plan of action is prepared for better implementation of the project with a view to achieve its outcome. They have organizational rules for the above.

Internal Control

Cash handling in the SETU branch offices and head office and procedures on a/c opening, cash withdrawal, depositing cash & closure of a/c, investments etc. are run as per organizational rules.

Internal Audit

There is an internal audit team of SETU headed by Ms. Nazmunnahar, coordinator of internal audit and monitoring department. The internal audit team arranges audit twice a year by organizational rules and procedure.

■ MANAGEMENT INFORMATION SYSTEM

SETU has Software based MIS continuing from 2011 and to maintain proper work flow the Organization uses 'Microfin360 Software' established through Datasoft System Bangladesh Ltd. Microfin360 is a Micro-Finance Management Software specially developed for the Microfinance Institutes, NGO's and Cooperative Societies to automate their work-flow. It is Microfinance Regulatory Authority (MRA) & domestic apex financing organization for Microfinance- Palli Karma-Sahayak Foundation (PKSF) compliance solution having rich set of features, hundreds of parameterized reports, management statistical dashboard and centralized operation facility. This software features integrated Management Information System (MIS), Accounting Information System (AIS) & Human Resource (HR) modules.

■ CORPORATE GOVERNANCE

SETU has a General Committee consisting of 22 members headed by the Chairman; an Executive Committee consists of 07 members and an Executive Office headed by the Executive Director who is guided by the Executive Committee. All the decisions come from General Committee (GC) and Executive Committee (EC) and The Executive Director implements the decisions accordingly. Executive Committee and General Committee duly reckon up the activities, outputs and impacts in different projects independently. Moreover, a team of advisors with national and international reputation pays advisory services to enrich SETU activities in global perspective.

Table 7: List of Executive Committee Members

Sl No.	Name	Designation
01	Mr. Md. Omar Ali	Chairperson
02	Mr. Uzzal Kumar Dabnath	Vice-Chairperson
03	Ms. Nazma Parvin	Treasure
04	Mr. Md. Shafiqul Alam	Member
05	Ms. Ainun Nahar	Member
06	Mr. Abdus Satter Biswas	Member
07	Mr. M A Quader	Member Secretary/ Executive Director

Table 8: List of Senior Management

Sl No.	Name	Designation
01	Mr. M A Quader	Executive Director
02	Mr. Md. Mofizul Islam	Assistant Director
03	Ms. Nazmunahar	Coordinator, Audit & Monitoring
04	Mr. S M Hasib Nehal	Manager, HRD
05	Mst. Shahanaj Parvin	Manager, Finance
06	Mr. Abdulla Munim Ahmed	Manager, ICT

SETU has functional association and affiliation with the following organizations:

- Palli Karma Sahayak Foundation (PKSF), Bangladesh
- Bangladesh Rural Advancement Committee (BRAC)
- Federation of NGOs in Bangladesh (FNB)
- Center for Disability and Development (CDD)
- Disaster Forum, Bangladesh
- Action on Disability in Development (ADD)
- International Labor Organization (ILO)
- Hospital for Sick Children (Canada)

EXTERNAL AUDITORS

Toha Khan Zaman & Co.

ANNEXTURE-2

Table 9:

Segment	Jagoron	Agrosor	Sufolon	Others
Loan Term	1 year	1 year	6 month	6 month
Loan Size	10,000-39,000	39,000-1,000,000	10,000-40,000	6,000-20,000
Interest Rate	25% (Declining)	25% (Declining)	25% (Declining)	25% (Declining)
Repayment Policy	Weekly	Monthly	One time	One time
Loan Processing Fees	No	No	No	No
Any Other Fees	No	No	No	No
Penalty if any	No	No	No	No

Table 10

Savings	Frequency	Amount Saved	Interest	Other Features
Product 1	Weekly	BDT 10- BDT 25	6.00%	n/a
Product 2	Monthly	BDT 100- BDT 1,000	12.50%	n/a
Insurance	Frequency	Amount Paid	Sum Insured	Other Features
Product 1	Yearly	1.00% on loan	As per loan	n/a
Product 2	n/a	n/a	n/a	n/a

Table 11:

Name of the Lending Institution	Amount Sanctioned	Date of Sanctioning	Interest Rate	Loan Tenor	Repayment Frequency	Loan Outstanding on 30 June 2016
(Amount in BDT Mill)						
One Bank Ltd.	80.00	23/04/2015	10%	9 Months	One time	80.00
Standard Bank Ltd.	80.00	21/04/2015	10%	3 years	Quarterly	79.45
Mutual Trust Bank Ltd.	50.00	21/06/2015	10%	1 year	One time	25.00
Jamuna Bank Ltd.	10.00	17/04/2016	10%	3 years	Quarterly	10.00
Trust Bank Ltd.	50.00	12/05/2016	10%	1 year	One time	50.00

Table 12:

Particulars	FY2016	FY2015	FY2014	FY2013
Total number of clients at the beginning of the period	58,501	56,024	53,100	52,135
Total number of clients at the end of the period	61,385	58,501	56,024	53,100
New clients – all those who joined during the period	7,385	7,225	5,820	5,735

Table 13:

Other Indicator	FY2016	FY2015	FY2014	FY2013
Borrowers per Branch (No)	893	859	853	878
Borrowers per loan Officer (No)	216	250	266	260
Loan Outstanding per Branch (Mil BDT)	16.53	10.97	8.94	7.18
Loan Outstanding per loan Officer (Mil BDT)	3.99	3.20	2.79	2.13

Table 14:

Particulars	No. of Days Outstanding	Outstanding Loan Amount	Required Provision	
		BDT Mill	Rate %	BDT Mill
Total Loan Outstanding		749.2		
Total overdue:		34.1		
Regular	Loans with no overdue installments	715.0	1.0%	7.2
Watchful	Loan default between 1 and 30 days	6.5	5.0%	0.3
Sub-standard	Loan default between 31 and 180 days	5.6	25.0%	1.4
Doubtful	Loan default between 181 and 365 days	4.7	75.0%	3.5
Bad Loan	Loan default duration above 365 days	17.3	100.0%	17.3
Required Provision				29.7
Provision kept by SETU				26.6
Surplus / (Deficit)				(3.2)

Table 15:

Eligibility Criteria Compliance Certification (by PKSF)	As of 30 June 2016	
	PKSF Standard	SETU Ratios
Minimum Loan recovery rate computed QTR based		
Cumulative Recovery Rate (CRR)	Min 95.00%	99.58%
On Time Realization (OTR)	Min 92.00%	99.77%
Liquidity to Saving Ratio	Min 15.00%	11.05%
Current Ratio	Min 2:1	5.54:1
Capital Adequacy Ratio	Min 15.00%	15.15%
Debt Service Coverage Ratio	1.25:1	2.32:1
Debt to Capital Ratio	9:1	5.34:1
Return on Capital	Min 1.00%	33.80%

Source: SETU

*Formula of the Ratios :**Profitability & Efficiency*

Portfolio Yield= Interest income/ Avg. Gross Outstanding Portfolio

Return on Assets (ROA) = Net surplus/ Total Asset

Operating Expense Ratio = Operating Expense/ Avg. Gross Outstanding Loan Portfolio

Net surplus/ Loan outstanding

Fund Cost

Cost of Savings = Interest Paid on Deposits/ Avg. Deposits

Capitalization

Borrowed Fund to Equity (times)

Capital Adequacy Ratio = Total Equity/ (Total Assets – Cash and Bank Balance).

Liquidity

Liquid Assets to Deposits

Deposit to loan

Borrowed Fund = Long & short term loan (do not include member's savings)

Equity & Funding = Equity (Own fund + Donation) + member's savings+ Long & short term loan

**LONG-TERM CREDIT RATING:
MICRO FINANCE INSTITUTIONS (MFIs)**

RATING	DEFINITION
AAA Triple A	Extremely Strong Capacity & Highest Quality. MFIs rated 'AAA' have extremely strong capacity to meet their financial commitments. 'AAA' is the highest issuer credit rating assigned by CRAB. AAA is judged to be of the highest quality, with minimal credit risk.
AA₁, AA₂, AA₃* Double A	Very Strong Capacity & Very High Quality. MFIs rated 'AA' have very strong capacity to meet their financial commitments. They differ from the highest-rated MFIs only to a small degree. AA is judged to be of very high quality and is subject to very low credit risk.
A₁, A₂, A₃ Single A	Strong Capacity & High Quality. MFIs rated 'A' have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than MFIs in higher-rated categories. A is judged to be of high quality and are subject to low credit risk.
BBB₁, BBB₂, BBB₃ Triple B	Adequate Capacity & Medium Quality. MFIs rated 'BBB' have adequate capacity to meet their financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the MFIs to meet their financial commitments. BBB rated MFIs are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
BB₁, BB₂, BB₃ Double B	Inadequate Capacity & Substantial Credit Risk. MFIs rated 'BB' are less vulnerable in the near term than other lower-rated MFIs. However, they face major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which might lead to inadequate capacity to meet their financial commitments. BB is judged to have speculative elements and is subject to substantial credit risk.
B₁, B₂, B₃ Single B	Weak Capacity & High Credit Risk. MFIs rated 'B' are more vulnerable than the MFIs rated 'BB', but the MFIs currently have the capacity to meet their financial commitments. Adverse business, financial, or economic conditions are likely to impair the capacity or willingness to meet their financial commitments. B is considered speculative and weak capacity and is subject to high credit risk.
CCC₁, CCC₂, CCC₃ Triple C	Very Weak Capacity & Very High Credit Risk. MFIs rated 'CCC' are currently vulnerable, and are dependent upon favorable business, financial, and economic conditions to meet their financial commitments. CCC is judged to be of very weak standing and is subject to very high credit risk.
CC Double C	Extremely Weak Capacity & Extremely High Credit Risk. MFIs rated 'CC' are currently highly vulnerable. CC is highly speculative and is likely in, or very near, default, with some prospect of recovery of principal and interest.
C Single C	Near to Default. A 'C' rating is assigned to MFIs that are currently highly vulnerable to non-payment, having obligations with payment arrearages allowed by the terms of the documents, or obligations that are subject of a bankruptcy petition or similar action but have not experienced a payment default. C is typically in default, with little prospect for recovery of principal or interest.
D	Default. MFIs rated 'D' are in default. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

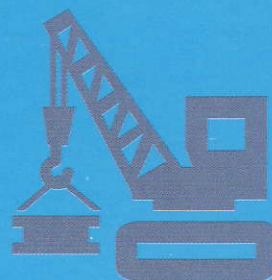
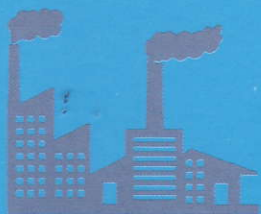
NOTE: CRAB APPENDS NUMERICAL MODIFIERS 1, 2, AND 3 TO EACH GENERIC RATING CLASSIFICATION FROM AA THROUGH CCC. THE MODIFIER 1 INDICATES THAT THE OBLIGATION RANKS IN THE HIGHER END OF ITS GENERIC RATING CATEGORY; THE MODIFIER 2 INDICATES A MID-RANGE RANKING; AND THE MODIFIER 3 INDICATES A RANKING IN THE LOWER END OF THAT GENERIC RATING CATEGORY.

SHORT-TERM CREDIT RATING: MICRO FINANCE INSTITUTIONS (MFIs)

RATING	DEFINITION
ST-1 Highest Grade	MFIs rated in this category are considered to have the highest capacity for timely repayment of obligations. MFIs rated in this category are characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-2 High Grade	MFIs rated in this category are considered to have strong capacity for timely repayment. MFIs rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-3 Average Grade	MFIs rated in this category are considered to average capacity for timely repayment of obligations, although such capacity may impair by adverse changes in business, economic, or financial conditions. MFIs rated in this category are characterized with satisfactory level of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-4 Below Average Grade	MFIs rated in this category are considered to have below average capacity for timely repayment of obligations. Such capacity is highly susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories. MFIs rated in this category are characterized with average liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-5 Inadequate Grade	MFIs rated in this category are considered to have inadequate capacity for timely repayment of obligations susceptible to adverse changes in business, economic, or financial conditions. MFIs rated in this category are characterized with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-6 Lowest Grade	MFIs rated in this category are considered to have obligations which have a high risk of default or which are currently in default. MFIs rated in this category are characterized with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.

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CREDIT RATING REPORT



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