

# CREDIT RATING REPORT



CREDIT RATING  
AGENCY OF  
BANGLADESH LTD.

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## Credit Rating Report (Surveillance)

### SETU

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**Assigned Rating:**

Long Term : BBB<sub>1</sub>

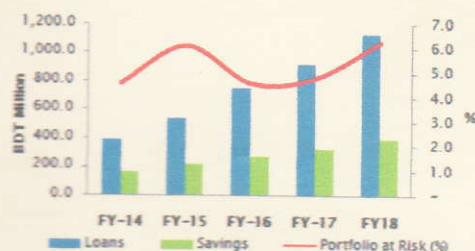
Short Term : ST-3

Outlook : Stable

Date of Rating : 11 October 2018

Valid Till : 30 December 2019

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



RATING BASED ON: Audited financial statements up to June 30, 2018 and other relevant quantitative as well as qualitative information up to the date of rating declaration.

**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 10 districts of Bangladesh. At the end of 30 June 2018, loan outstanding of the Organization was BDT 1,128.2 million to active borrowers spread across its 54 branches.

**RATIONALE**

Credit Rating Agency of Bangladesh Limited (CRAB) has upgraded the long-term rating of SETU to "BBB<sub>1</sub>" (Pronounced Triple B one) and retained "ST-3" rating in the short term. CRAB performed the rating based on audited financial statements up to 30 June 2018 and other relevant quantitative and qualitative information.

The rating reflects the Organization's strength in its microfinance program in the area of operational efficiency. However, the rating is constrained by marginally deteriorated asset quality, deficiency in provision along with moderate leverage position during the year.



**Moderate business growth:** At the end of 2018, the loan portfolio under micro credit program grew 23.5% to BDT 1128.2 million from 48,268 borrowers. During the same duration SETU's members' savings grew by 21.6% to BDT 326.6 million collected from 66,356 active members. In FY18, concentration of loan portfolio was shared equally by Jagoron and Agrosor by 46.2% and 46.3% respectively of total loan portfolio in the category.

**Stable fund mix:** SETU's microfinance program was mainly funded by borrowed fund still it has reduced in FY18. In FY18, 38.3% of total fund came from borrowed fund (PKSF & other commercial sources) followed by members' savings (by 30.9%), capital fund (by 17.8%) and fund liabilities (by 12.9%) of total fund. In FY18, total borrowed fund of SETU was 2.1 times of its equity. At the end of FY18, capital adequacy of the Organization stood at 19.5% enhanced due to internal capital generation.

**Marginally deteriorated asset quality along with deficiency in provision:** Portfolio at Risk (PaR) of SETU enhanced to 6.3% in relative figure. PaR in absolute amount grew by 62.6% in the same time frame. At the end of Jun'18, 2.1% of the portfolio was overdue for more than 365 days. In FY18, SETU wrote off BDT 20.05 million by keeping provision as per MRA regulation. However, the Organization had deficit in loan loss provision of BDT 5.20 million. As of 30 June 2018, loan loss provision reserve was 3.8% of outstanding loan portfolio.

**Active participation in Social Program:** 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.

#### ■ 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 10 districts in Bangladesh. SETU was registered with the Micro Credit Regulatory Authority (MRA) in 2006. At the end of 30 June 2018, SETU's loan outstanding was BDT 1,128.2 million to active borrowers spread across its 54 branches. During the same duration SETU collected BDT 397.2 million from the borrowers. Mr. M A Quader 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 FY2018	: Toha Khan Zaman & Co.



## ■ PROGRAMS

There are different social development programs implemented and continued by SETU. Major programs that SETU undertook in the past and continuing are 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 (PFP), 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 has "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 240 unions of 10 districts. Total 4,011 no. of samities were formed with 66,356 members. In FY18, BDT 397.2 million was collected as members' savings. Active borrowers of SETU were 48,268 whereas loan outstanding was BDT 1,128.2 million in FY18. Poverty alleviation program is managed through SETU's 54 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 office consolidates on regular basis. The Head office also organizes external and internal auditing of branch accounts for the smooth implementation of project activities.

Table 1:

Summary of Micro Finance Program					
--Year Ended 30 June--					
Particulars	FY2018	FY2017	FY2016	FY2015	FY2014
No. of Member	66,356	63,145	61,385	60,958	56,023
No. of Groups	3,958	4,011	3,988	4,121	4,211
No. of Borrowers	48,268	46,424	44,643	44,136	40,952
No. of Districts Covered	10	10	9	9	8
No. of Branches	54	54	50	50	48
Loan Outstanding (Mill BDT)	1,128.2	913.5	749.2	537.5	390.3
Members Savings (Mill BDT)	397.2	326.6	275.1	222.6	167.4



**Loan Portfolio Analysis**

In FY18, loan portfolio of SETU grew 21.6% to BDT 1,128.2 million. Loan portfolio of the Organization was mainly concentrated in Jagoron (46.2% of total) followed by Agrosor loan (46.3% of total), Sufolon (7.3% of total) during the same duration.

Table 2:

Sector wise Loan outstanding	FY2018		FY2017		FY2016	
(Amount in BDT Mill.)	Amount	% in Total	Amount	% in Total	Amount	% in Total
JAGORON	520.9	46.2	435.1	47.6	394.6	52.7
AGROSOAR	521.8	46.3	386.2	42.3	199.3	26.6
SUFOLON	82.9	7.3	87.8	9.6	154.7	20.6
BUNIAD	2.7	0.2	4.4	0.5	0.6	0.1
Total Loan outstanding	1,128.2	100.0	913.5	100.0	749.2	100.0

**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 FY18, SETU written off BDT 20.05 million by keeping 100% provision as per MRA regulation.

Table 3:

Aging of Portfolio									
--For the Year Ended 30 June--									
Overdue	Amount	FY 2018			FY 2017			FY 2016	
		% of Total Loan	Growth (%)		% of Total Loan	Growth (%)		% of Total Loan	Growth (%)
PAR 1-30 days	15.8	1.4	68.4	9.4	1.0	45.2	6.5	0.9	(20.3)
PAR 31-180 days	19.9	1.8	138.9	8.3	0.9	48.0	5.6	0.7	12.0
PAR 181-365 days	11.8	1.0	98.2	5.9	0.6	27.0	4.7	0.6	26.2
PAR > 365 days	23.4	2.1	17.3	19.9	2.2	14.9	17.3	2.3	8.2
Total	70.8	6.3	62.6	43.5	4.8	27.7	34.1	4.6	3.8

Aging of loan outstanding of SETU depicts that at the end of 30 June 2018, 93.7% of loan was regular. 2.1% of the portfolio was overdue for more than 365 days. Portfolio at Risk (PaR) of SETU increased to 6.3% during the year. In FY18, the Organization had deficit in loan loss provision of BDT 5.2 million.

Table 4:

Provision and Risk Coverage				
--Year Ended 30 June--				
(%)	FY 2018	FY 2017	FY 2016	FY 2015
Provision Expense Ratio	1.2	1.0	0.9	1.6
Provision Reserve Ratio	3.8	3.6	3.5	4.1
Risk Coverage Ratio	61.2	75.8	77.9	67.5

As of 30 June 2018, loan loss provision reserve was 3.8% of outstanding loan portfolio (FY17: 3.6%). During the same duration, 61.2% of portfolio at risk (PAR) was covered by its actual loan loss reserve (FY17: 75.8%). On the other hand, provision expense ratio gives an indication of the expense incurred by SETU to anticipate future loan losses. The provision expenses ratio of 1.2 indicates that 1.2% of outstanding loan of the Organization can be written off without charging anything in the equity.



**Capitalization & Funding Strategy**

SETU microfinance program was mainly funded by external borrowing though the proportion has reduced from previous year. Of the total funding 38.3% was from borrowed fund followed by members savings (30.9%), own fund (17.8%) and fund liabilities (12.9%). During FY18, own fund of the Organization grew by 54.1% backed by internal capital generation.

**Table 5:**
**Fund Mix**

(Mil. BDT)	Year Ended June 30					
	FY2018			FY2017		
	Amount	Total (%)	Growth (%)	Amount	Total (%)	Growth (%)
Capital Fund	229.0	17.8	54.2	148.5	14.0	23.9
Fund Liabilities	165.7	12.9	20.3	137.8	12.9	29.1
Borrowed Fund	492.2	38.3	9.1	451.0	42.4	22.4
<i>Loan from PKSF</i>	<i>119.9</i>	<i>9.3</i>	<i>5.6</i>	<i>113.6</i>	<i>10.7</i>	<i>(6.3)</i>
<i>Loan from BB/ Commercial Bank /FI</i>	<i>372.2</i>	<i>29.0</i>	<i>10.3</i>	<i>337.4</i>	<i>31.7</i>	<i>36.5</i>
Members' Savings	397.2	30.9	21.6	326.6	30.7	18.7
Total	1,284.0	100.0	20.7	1,063.9	100.0	22.3

SETU has 02 savings scheme through which the organization collected BDT 397.2 million in FY18 registering a growth of 21.6% from previous year.

**Financial Performance**

During FY18, 97.7% of SETU's fund base income was generated from service charge on loan portfolio. During the year SETU's fund based income enhanced by 32.0% on the back satisfactory loan growth. Moreover, interest and finance charges of SETU grew 9.47% from external borrowing. At the end of Jun'18 net surplus without donation of the Organization enhanced to BDT 82.31 million. The Organization kept BDT 13.4 million as loan loss provision expenses during the year.

**Table 6:**
**Segregation of Revenue**

(Amount in BDT Million)	Year Ended June 30			
	FY2018		FY2017	
	Amount	Growth	Amount	Growth
Interest Income	268.9	32.3	203.2	26.8
<i>Interest Income on Loan</i>	<i>264.4</i>	<i>32.0</i>	<i>200.3</i>	<i>26.8</i>
<i>Interest Income on Bank Deposit</i>	<i>4.4</i>	<i>55.4</i>	<i>2.9</i>	<i>27.8</i>
Interest Expense	54.3	9.5	49.6	95.1
<i>On Borrowings</i>	<i>35.5</i>	<i>7.3</i>	<i>33.1</i>	<i>245.6</i>
<i>On Deposits</i>	<i>18.8</i>	<i>13.7</i>	<i>16.5</i>	<i>4.1</i>
Net Interest Income	214.6	39.7	153.6	13.9
Other Operating Income	1.8	(22.3)	2.3	(23.9)
Total Operating Income	216.4	38.8	155.9	13.1
Total Operating Expense	120.6	3.2	116.9	17.8
<i>Personnel Expenses</i>	<i>84.5</i>	<i>4.0</i>	<i>81.3</i>	<i>21.7</i>
<i>Administrative &amp; Other Expenses</i>	<i>36.1</i>	<i>1.3</i>	<i>35.6</i>	<i>9.9</i>



Profit Before Provision	95.7	145.5	39.0	1.0
Provision Expense for Loan Losses	13.4	52.4	8.8	32.9
Net surplus Without Donations	82.3	172.7	30.2	(5.6)
Grant/Donations	-	-	-	-
Net Surplus with Donations	82.3	172.7	30.2	(5.6)

#### Financial Indicators

During FY18, portfolio yield of SETU enhanced by 1.8 percentage points to 25.9% due to loan growth. ROA became 6.4% resulted from net surplus as well as increased assets portfolio during the same duration. Operating expense ratio of the program reduced 2.1 percentage points backed by loan growth. Borrowed fund to equity ratio of the Organization reduced due to enhanced internal generated equity. A of 30 June 2018, capital adequacy ratio of the Organization stood at 19.5%.

Table 7:

#### Key Financial Indicators

	--Year Ended June 30--				
(%)	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Portfolio Yield	25.9	24.1	24.6	23.7	23.4
Return on Assets	6.4	2.8	3.7	1.4	3.5
Operating Expense Ratio	10.7	12.8	13.2	14.8	21.7
Net surplus to Loan	7.3	3.3	4.3	1.6	4.0
Borrowed Fund to Equity (x)	2.1	3.0	3.1	2.7	2.3
Capital Adequacy Ratio	19.5	15.4	15.1	13.5	13.7
Member Savings to Loan	35.2	35.8	36.7	41.4	42.9

#### Operating Self Sufficiency

The operational self sufficiency ratio can capture the sustainability of SETU. Operational self-sufficiency ratio of SETU indicates that it generates enough internal revenue to cover its' own operational, financial expenses and keeping sufficient provision for overdue loan. In FY18 operating self sufficient ratio of the Organization was 143.7%.

Table 8:

#### Operational Self Sufficiency

	--Year Ended 30 June--				
Particular	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Operational Self Sufficiency (%)	143.7	117.2	124.4	108.1	119.8

#### ■ 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 PKSf. 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's 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 imparts in different projects independently. In FY18, 08 executive meeting were held. Moreover, a team of advisors with national and international reputation pays advisory services to enrich SETU activities in global perspective.



Table 9: List of Executive Committee Members

Sl No.	Name	Designation
01	Mr. Md. Omar Ali	Chairman
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	Executive Director

Table 10: 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.



Table 11: Major Loan Product

Segment	Jagoron	Agrosor	Sufolon	Bunlad
Loan Term	1 year	1 year	6 month	1 year
Loan Size (in BDT)	10,000-49,000	50,000-1,000,000	10,000-50,000	8,000-20,000
Interest Rate	25% (Declining)	25% (Declining)	25% (Declining)	20% (Declining)
Repayment Policy	Weekly	Weekly-Monthly	One time	Weekly
Loan Processing Fees	No	No	No	No
Any Other Fees	No	No	No	No
Penalty if any	No	No	No	No

Table 12:

Savings	Frequency	Amount Saved	Interest	Other Features
Regular Savings	Weekly	BDT 10- BDT 25	6.00%	n/a
Voluntary Savings	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	One Time	1.00% on loan	As per loan	n/a

Table 13:

Name of the Lending Institution	Amount Sanctioned	Date of Sanctioning	Interest Rate	Loan Tenor	Repayment Frequency	Loan Outstanding on 30 June 2018
(Amount in BDT Mill)						
One Bank Ltd.	120.00	12/6/2018	9.00%	1 Year	One time	120.00
Standard Bank Ltd.	80.00	6/9/2017	9.00%	1 Year	ST( revolving)	63.26
Midland Bank Ltd.	100.00	22/03/2018	9.00%	3 Years	time loan	78.99
Trust Bank Ltd.	50.00	18/05/2018	9.00%	1 Year	One time	50.00
Southeast Bank Ltd.	60.00	4/1/2018	9.00%	1 Year	-	60.00
PKSF	160.00	2017-18	6.00%	3 Years	-	119.90
Total	570.00					492.15

Table 14:

Particulars	FY2018	FY2017	FY2016	FY2015
Total number of clients at the beginning of the period	46,426	44,643	41,680	40,952
Total number of clients at the end of the period	48,268	46,424	44,643	43,555
New clients - all those who joined during the period	1,842	3,721	3,634	4,225

Table 15:

Other Indicator	FY2018	FY2017	FY2016	FY2015	FY2014
Borrowers per Branch (No)	894	860	893	859	853
Borrowers per loan Officer (No)	206	258	216	250	266
Loan Outstanding per Branch (Mil BDT)	20.89	16.92	16.53	10.97	8.94
Loan Outstanding per loan Officer (Mil BDT)	4.82	5.07	3.99	3.20	2.79



Table 16:

Particulars	Loan Outstanding	% in Total Outstanding	% of Provision as per MRA	Required Provision
Amount in BDT Mill		As of 30 June 2018		
Standard loan	1,057.45	93.73	0.01	10.57
Overdue Loan:				
Watchful loan (1-30 days)	15.81	1.40	0.05	0.79
Sub-standard loan (31-180 days)	19.86	1.76	0.25	4.97
Doubtful loan (181 - 365 days)	11.75	1.04	0.75	8.81
Bad loan (Above 365 days)	23.37	2.07	1.00	23.37
Total	1,128.25	100.00	-	
Required Provision according to MRA regulation				48.51
Provision Maintained by SETU				43.31
Surplus / (Deficit) Provision				(5.21)

Table 17:

Eligibility Criteria Compliance Certification (by PKSf)	As of 30 June 2018	
	PKSF Standard	SETU
Minimum Loan recovery rate computed QTR based		
Cumulative Recovery Rate (CRR)	Min 95.00%	99.48%
On Time Realization (OTR)	Min 92.00-100.00%	99.60%
Liquidity to Saving Ratio	Min 10.00%	10.51%
Current Ratio	Min 2:1	5.09:1
Capital Adequacy Ratio	Min 15.00%	19.42%
Debt Service Coverage Ratio	1.25:1	3.78:1
Debt to Capital Ratio	9:01	3.88:1
Return on Capital	Min 1.00%	43.61%

Source: Audit report of SETU

PREVIOUS RATING HISTORY	LONG TERM	SHORT TERM	OUTLOOK
06 DECEMBER 2017	BBB <sub>2</sub>	ST-3	STABLE



## ANNEXTURE-3: FORMULA OF RATIO

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

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

Borrowed Fund to Equity (times) = Borrowed Fund / Capital Fund

*(borrowed fund do not include member's savings)*

Capital Adequacy Ratio = Total Equity / (Total Assets - Cash and Bank Balance %

Deposit to Loan = Total Member saving to Total Loan

Capital Adequacy Ratio = (Capital Fund - DMF) / (Total Assets - Cash in hand - Investment)

Liquid Assets to Savings = (Cash in Hand + Investment) / Total Savings

Risk Coverage Ratio = Loan Loss Reserve / Portfolio at Risk

Provision Reserve Ratio = Loan Loss Reserve / Total Loans

Provision Expenses Ratio = Provision expenses for loan loss / Total Loans

Operational Self Sufficiency = (Financial revenue + Operating income) / (Financial expense + Operational expense + Loan loss provision)



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

RATING	DEFINITION
<b>AAA</b> 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.
<b>AA<sub>1</sub>, AA<sub>2</sub>, AA<sub>3</sub>*</b> 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.
<b>A<sub>1</sub>, A<sub>2</sub>, A<sub>3</sub></b> 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.
<b>BBB<sub>1</sub>, BBB<sub>2</sub>, BBB<sub>3</sub></b> 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.
<b>BB<sub>1</sub>, BB<sub>2</sub>, BB<sub>3</sub></b> 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.
<b>B<sub>1</sub>, B<sub>2</sub>, B<sub>3</sub></b> 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.
<b>CCC<sub>1</sub>, CCC<sub>2</sub>, CCC<sub>3</sub></b> 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.
<b>CC</b> 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.
<b>C</b> 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.
<b>D</b>	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.



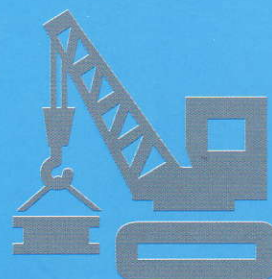
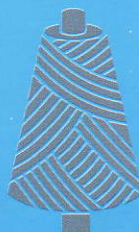
**SHORT-TERM CREDIT RATING: MICRO FINANCE INSTITUTIONS (MFIs)**

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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