

CREDIT RATING REPORT On AMBALA FOUNDATION

REPORT: RR/42623/21

*This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL's entity rating is valid one year for long-term rating and 6 months for short term rating. CRISL's Bank loan rating (blr) is valid one year for long term facilities and up-to 365 days (according to tenure of short term facilities) for short term facilities. After the above periods, these ratings will not carry any validity unless the entity goes for surveillance.
CRISL followed MFI Rating Methodology published in CRISL website www.crislbd.com*

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Entity Rating

Long Term: A
Short Term: ST-3

Outlook: Stable

**AMBALA
FOUNDATION**

ACTIVITY

Non-governmental and
micro finance institute

**YEAR OF
INCORPORATION**
1994

CHAIRPERSON
M. Azizur Rahman

SECRETARY GENERAL
Arif Sikder

CAPITAL FUND
Tk. 742.55 million

TOTAL ASSETS
Tk. 4,275.13 million

Date of Rating: March 03, 2021		Valid up to: March 02, 2022	
	Long Term	Short Term	
Entity Rating	A	ST-3	
Outlook	Stable		
Bank Facilities Rating			
Bank/FI	Mode of Exposures (Figures in million)	Bank Loan Ratings	
Jamuna Bank Ltd.	Term Loan Outstanding of Tk. 46.61	blr A	
Southeast Bank Ltd.	Working Capital Loan Limit of Tk. 200.0	blr A	
Pubali Bank Ltd.	Term Loan Outstanding of Tk. 27.27	blr A	
	Working Capital Loan Limit of Tk. 50.0	blr A	
United Commercial Bank Ltd.	Term Loan Outstanding of Tk. 445.85	blr A	
One Bank Ltd.	Working Capital Loan Limit of Tk. 120.0	blr A	
EXIM Bank Ltd.	Working Capital Loan Limit of Tk. 50.0	blr A	
NRB Bank Ltd.	Working Capital Loan Limit of Tk. 200.0	blr A	
NCC Bank Ltd.	Term Loan Outstanding of Tk. 94.98	blr A	
Midland Bank Ltd.	Term Loan Outstanding of Tk. 45.96	blr A	
Mutual Trust Bank Ltd.	Term Loan Outstanding of Tk. 23.45	blr A	
Brac Bank Ltd.	Working Capital Loan Limit of Tk. 200.0	blr A	
Global Islami Bank Limited	Working Capital Loan Limit of Tk. 120.0	blr A	
Uttara Finance and Investments Limited	Term Loan Outstanding of Tk. 43.30	blr A	
IIDFC Ltd.	Term Loan Outstanding of Tk. 25.15	blr A	
National Finance Ltd.	Term Loan Outstanding of Tk. 47.03	blr A	
IPDC Finance Limited	Working Capital Loan Limit of Tk. 50	blr A	
PKSF	Term Loan Outstanding of Tk. 138.50	blr A	

*PKSF- Palli Karma-Sahayak Foundation

1.0 RATIONALE

CRISL has assigned the Long-Term Rating of A (pronounced as single A) and the Short Term Rating of 'ST-3' to Ambala Foundation on the basis of its relevant quantitative and qualitative information up to the date of rating. The above ratings has been assigned after due consideration of some fundamentals such as good capital adequacy, good loan recovery performance, average business performance, regular loan repayment status, experienced management team etc. However, the above factors are constrained, to some extent, by high finance cost resulting to lower net surplus, short fall in debt service coverage ratio, current ratio, marginally maintain the liquidity to saving ratio etc.

Micro Finance Institutions rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories. The short term rating indicates good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to financial markets is good. Risk factors are small.

CRISL also placed the organization with "Stable Outlook" with an expectation of no extreme changes in economic situation within the rating validity period.

2.0 ORGANIZATIONAL PROFILE

2.1 Genesis

Ambala Foundation is a national level, non-governmental social development organization established in 1994 and initiated their development activities all over Bangladesh from 1998. At First Ambala Foundation mostly focused on the social development programs like health & nutrition, education, children and women, water & sanitation, tobacco control and adaptation

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to natural disaster. Subsequently, due to the increasing demand, popularity and effectiveness of Micro Finance for eradicating the poverty and access to employment, Ambala Foundation increased their micro finance concentration in operating activities. Microfinance is not only a factor for financial inclusion, but is also a significant lever in the implementation of the 2030 Agenda. By fostering access to services in the fields of health, food security, education, energy and housing, the sector confirms its role as a catalyst in global and inclusive development. Currently, Micro Finance is the major program of the organization in terms of revenue, employee and assets composition. The vision of the organization is poverty elimination through establishing social unity and integrated development. The major objectives of the organization are eradicate inequality through establishing human rights and social harmony, ensure women empowerment and child rights, create scope to education for poor and disadvantaged community, strengthen adaptability to climate change and environmental risk, ensure accessibility to financial institution and to generate income for better livelihood, social development through proper use of media and information technology and socio-economic development through research and publication. As a micro finance institution, Ambala Foundation launched micro finance program on July, 2002. Ambala Foundation is always in thought of extending microfinance services for the poor and ultra-poor in a flexible way in consideration of the conventional rigid system. The organization is operating under the dynamic leadership of Executive Director Mr. Arif Sikder. He has immense contribution to economic & social development and climate change issues for the improvement of mass people of the country. The Head office of Ambala Foundation is located in House#62, Block-Ka, Piciculture Housing Society, Shyamoli, Dhaka-1207.

2.2 Chronicle of Registration

Ambala Foundation is currently registered under four (4) registering bodies and the details of it is shown in the following table:

Status of Registration

Registering bodies	Registration number	Date of Registration
Directorate of Social Welfare	Dha-03066	February 28, 1994
NGO Affairs Bureau	952	June 28, 1995
Micro Credit Regulatory Authority	00350-01308-00086	January 01, 2008
Directorate of Youth Development	Jouoao/Munshigonj Sadar-60/Munshi-160	July 07, 2009

Registered by four bodies

2.3 Operational Network

Currently, the organization has running its operation through their 121 branches under 6 zonal offices and 24 area offices. Now, the micro credit program has been conducting in fourteen districts (14) namely, Dhaka, Munshigonj, Gazipur, Narayanganj, Comilla, Mymensing, Manikgonj, Tangail, Narsingdi, Chandpur, Noakhali, Feni, Gopalganj and B. Baria Districts including 93 Upazillas, 476 Unions and 4,746 Samity with 55,349 group members up to January 2021.

121 branches operate for MCP

3.0 MAJOR PROGRAMS

3.1 Micro Finance Program (MFP)

Microfinance is a category of financial services targeted at individuals and small businesses who has lack of access to conventional banking and related services. It is the most effective and flexible strategies against global poverty. It provides basic financial services such as loans, savings, money transfer services, and micro insurance to the clients. Considering the limitations of existing financial institutions, Ambala Foundation launched its Micro Finance program to serve the poor, disadvantaged and landless people in July 2002. After the end of two years from the early beginning, the program achieved a good number of recognition in the community and became a Palli Karma Sahayak Foundation (PKSF) enlisted microfinance institute in 2004. Currently, Ambala Foundation conducted self-employed basis activity under Micro Finance Program at the 15 branches of Munshiganj, 25 branches of Dhaka, 6 branches of Narayanganj, 20 branches of Gazipur, 22 branches of Comilla, 2 branches of

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Mymensingh, 3 branches of Manikgonj, 5 branches of Tangail, 5 branches of Narshingdi, 6 branches of Chandpur, 3 branches of Noakhali, 4 branches of Feni and 5 branches of B. Baria district. Under this program, the organization is providing credit for cultivation of various kinds of Agro-based crops such as Potato, Jute, Greenchili, Banana, Water melon, Paddy, Wheat & Popcorn etc. To create an entrepreneurship of distress women community, the organization also provides credit facility for various income generating activities such as handcrafts raw material, Katha's accessories, Cow, Hen, Duck and Fish Fry etc. With assistance from PKSF and other commercial banks and financial institution the project has been focusing on increasing the income of rural poor through providing required financial support to the rural poor and vulnerable people with skills, knowledge and regular follow up support. A summary of micro credit program since inception has been given below:-

(Amount Tk. in million)

Name of Loan Product	Number of Beneficiary Since Inception (As on January 31, 2021)	Total Fund Disbursement Since Inception (As on January 31, 2021)	Total Deposit Collect Since Inception (As on January 31, 2021)	Total Fund Collection Since Inception (As on January 31, 2021)	Current Loan Receivable Position (As on January 31, 2021)
Jagoron	101,732	4164.01	2552.87	3711.16	452.85
Sufolon	13,906	1308.11	246.76	1161.88	146.23
Agrosar	54,208	11,084.71	2910.29	8758.71	2326.00
Buniad	296	138.08	51.30	138.08	-
Housing Loan	17,140	5,099.66	1206.39	3967.18	1132.48
Livelihood Restoration Program	560	0.90		0.90	-
SAHOS	300	0.30		0.30	-
Total	188,142	21,795.77	6,967.61	17,738.21	4,057.56

Out of seven microcredit programs, the major portion of loan disbursement consists of Agrosar of Tk. 11,084.71 million and thereafter Jagoron program of Tk. 4,164.01 million respectively. Therefore, fund collection is also high in Agrosar and Jagoron in respect of disbursement.

3.2 Development Program

The organization is mainly concentrated in micro finance program. Besides this, now the organization is running several development programs for fulfilling its ultimate goals as a voluntary organization not for profit organization. Details are shown in the following table:

Donor Name	Name of Development Program	Current Status of Project	Grant Amount (Tk. in millions)	Number of Beneficiary
Manusher Jonno Foundation	Initiative for Tackling Marginalization of Fisher Community People through Promoting and Protecting Rights and Entitlements (ITMFC)	Ongoing	30.00	13,100

3.3 Radio Bikrampur 99.2 FM

Radio Bikrampur, is the only community radio of Dhaka Division, to make community people aware of their rights and responsibilities to ensure active participation of people in development activities by providing information and entertainment. It has been playing an incredible role to develop the community through disseminating information and broadcasting entertainment programs from the beginning. It produces program on human rights of marginalized people, early marriage, health and nutrition, adolescent reproductive health, agriculture, technology stop violence against women, promote local culture, women, children and youth development as well as entertainment. It's coverage area is Munshigonj district and neighboring areas of Narayanganj, Comilla as well as Chandpur districts. The target beneficiaries of this radio are Women and Children, Local Farmers, Street Children,

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Adolescent, Day Laborer, People with disability, Senior Citizen, Youth Group etc. Radio Bikrampur has near about five lac listeners. Not only that, there are three types of marginal group in the broadcasting area of Radio Bikrampur such as: Bede Community, Fisher Community, Dalit Community etc. Radio Bikrampur is broadcasting various programs for these disadvantaged people so that they can be aware of their rights. The program of radio focuses on broadcasting child health and nutrition, SRHR, agriculture, technology, human rights and governance, education, women & child development, culture & entertainment and so on. Radio Bikrampur started their Test Transmission on May 1st, 2012 and Regular Transmission in September 1st, 2012. Currently, the broadcasting time of program is 4.00 pm to 10.00 pm (every day). The organization has approximately 5,00,000 listeners of different age groups and professions. During this period of corona pandemic, Radio Bikrampur broadcasts awareness program, health related programs (inviting doctors and health experts) and different awareness raising programs. Through this media intervention, Ambala Foundation received several prestigious awards as its special achievement on the following issues:

1. "Mina Media Award 2014" acknowledged by **United Nations Children's Fund (UNICEF)** on 16 September 2014 as 2nd position under 18 category journalism
2. "Mina Media Award 2014" acknowledged by **United Nations Children's Fund (UNICEF)** on 16 September 2014 as 3rd position over 18 category journalism
3. "12th Mina Media Award" on 9th October 2016 acknowledged by **United Nations Children's Fund (UNICEF)** as 2nd position under 18 category journalism
4. "Bangladesh Community Radio Award 2017" acknowledged by **Deutsche Welle (DW), Germany's International Broadcaster** on 26 November 2016 as 2nd position
5. "Mena Media Award 2018" acknowledged by **United Nations Children's Fund (UNICEF)** on November 20, 2018 as 1st position over 18 category journalism
6. "Mena Media Award 2018" acknowledged by **United Nations Children's Fund (UNICEF)** on November 20, 2018 as 3rd position over 18 category journalism
7. "Mena Media Award 2018" acknowledged by **United Nations Children's Fund (UNICEF)** on November 20, 2018 as 3rd position under 18 category journalism

3.4. Shwapnojatra

Shwapnojatra is a need based higher education support program for poor and parentless meritorious students and a philanthropic initiative of Ambala Foundation. It mainly supports those parentless students who are facing problems to continue their education or those who are dropped out from education due to their parent's inability to bear educational expenses. Shwapnojatra starts its activities from 2019 and at present 97 students from all over Bangladesh receives education support from Shwapnojatra. Students from different educational institutions (school, college, madrasa, poly-technique institute and universities) of Bangladesh receive monthly educational support from Shwapnojatra for fulfilling their dreams.

The program is aimed to contribute to the sustainable development goals as well as the government's strategic plans through providing support in education. It supports them to continue their education from class 5 to higher level of education. Any poor meritorious students from Bangladesh (class 5 to Masters) can apply to Shwapnojatra for educational support. The monthly educational support for each students finalize by consulting with students and their parents and teachers. Each year the organization review the educational support amount based on their current demand. Shwapnojatra bears all forms of monthly educational support like Session, Tuition and Examination fee; Book, Khata, Pen/Pencil, Geometry Box, School Uniform, School Bag, Tiffin, Transportation and accommodation of those poor disadvantaged children. Beside this the foundation provides primary health

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support, family support, festival gift and organize annual event for refreshing their mind. After completing their higher education ambala foundation organize technical training for enhancing their skills and create linkage for engaging them into professions. Through this program, the organization ensures higher education of those poor disadvantaged communities of Bangladesh.

4.0 OPERATIONAL PROCESS

4.1 Credit Policy

The organization follows the structured procedure for credit disbursement. To collect member organization and check the status of individual income, employment, family member, fixed & floating assets and other information. Field officer or branch manager will be conducting a detailed survey of the area covering various aspects such as a tentative number of members, women's business, entrepreneur willingness and socioeconomic conditions of the residents etc. If the area is found to be suitable then two groups can be formed in a village. Application of loan will be presented by the relevant field officer at the weekly meeting. Branch manager will approve the loan under his jurisdiction. If a member has been found to be a good, then he or she can avail another loan after full repayment of the previous loan. Members of the organization who avail the microcredit have to pay the principal and interest within 46 weekly installments.

The organization maintains ceiling for credit approval according to the designation and this ceiling for Branch Manager is up to Tk. 50,000; Zonal Manager is up to Tk. 50,001 to 2,00,000 , Tk. 2,00,001 to 5,00,000 by Assistant Program Coordinator, Tk. 5,00,001 to 10,00,000 by Program Director and above amount of Tk. 15,00,000 by the Executive Director.

4.2 Savings Scheme

One the objective of the program is to build up the habit of savings. There are mainly 4 types of savings scheme: Regular Savings, Voluntary Savings, SAMRIDDHI and One Time Savings (OTS). Members of the organization meet in every week and discuss on various issues. Compulsory weekly savings provide 6%, monthly voluntary savings provide 8%, Samriddi provide 12% and One Time Savings (OTS) provide 14.60% annual interest to the members. A comparative summary of savings scheme has been given below:

<i>(Tk. in million)</i>			
Savings Name	FY2019-20	FY2018-19	FY2017-18
Regular Savings	337.00	475.61	447.10
Voluntary Savings-Monthly	244.02	210.55	165.06
SAMRIDDHI	169.24	142.53	115.26
OTS	712.87	410.20	126.37
Total	1463.13	1238.89	853.78

5.0 MICRO FINANCE INDUSTRY IN BANGLADESH

Any agency that is not controlled by Government can be regarded as NGO. The public perception of Non Governmental Organizations (NGOs) is that, they are working for the common good of individuals or groups. The history of NGOs in Bangladesh could be traced way back to the British colonial period. Since the British era, NGOs in its traditional form have been working in Bangladesh as different religious trust-based schools, hospitals and orphanages. However, NGOs in Bangladesh got a radical transformation and turned into agents of development in the post-independence era. Since 1970s, NGOs therefore has become the part of the institutional framework of poverty alleviation in Bangladesh. The NGO sector in Bangladesh is an inseparable part of our society. Gradually, NGOs started to work in the field of group formation, credit, formal and non-formal education, health and nutrition, family planning and MCH (Mother and child Health) gender development, poultry and livestock, agriculture, sanitation, environment, human rights, advocacy, legal aids and many other fields. Untiring efforts and intrinsic zeal have led NGOs towards assisting the

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poor in poverty alleviation and to empower them in every aspect of social life.

Specially, a range of statutory and administrative regulations exists in Bangladesh for registration, prior review, project approval and utilization of foreign funds by NGOs, that is the real sources of NGO functioning. The legal framework has two major dimensions: one is laws for incorporation and providing legal entity to NGOs; and another is laws governing the relationship of NGOs with the Government. NGOs in Bangladesh are registered under different Acts. These are (1) The Societies Registration Act, 1860; (2) The Trust Act, 1882; (3) Voluntary Social Welfare Agencies (Regulation and Control) Ordinance 1961; (4) Co-operative Societies Act, 1925 and (5) The Companies Act, 1913 (amended in 1914). NGOs registered under these above mentioned acts are controlled in accordance with (1) The Voluntary Social Welfare Agencies (Regulation and Control) Ordinance 1961; (2) The Foreign Donation (voluntary activities) Regulation Ordinance, 1978 (amended in 1982) and (3) The Foreign Contribution (Regulation) Ordinance, 1982. The highest number of NGOs is registered under The Societies Registration Act, 1980. The NGO Affairs Bureau (NGOAB) was established in 1990 with the authority to register and regulate all NGOs operating with foreign funds in Bangladesh. With a large number of laws, ordinances, rules and regulations applying to NGO operations, difficulties and inconsistencies have emerged. The whole legal framework needs to be revamped to facilitate the promotion of a healthy NGO sector and strengthen the national context for increased Government-NGO collaboration and partnership in functioning for the betterment of the people.

Bangladesh is the breeding ground of some world renowned Non-Profit Organizations (NPO). NGOs mainly focus on Microfinance, Development Program and Solar Home System etc. The Microcredit Regulatory Authority (MRA), established by the Government in August, 2006 and all microfinance operation is regulated under MRA. Currently, 746 institutions (as of December 2020) have been licensed by MRA to operate Micro Credit Programs. But, Grameen Bank is out of the jurisdiction of MRA as it is operated under a distinct legislation-Grameen Bank Ordinance, 1983. Compared to other countries, Bangladeshi MFIs are doing exceptionally well in accountability. The MRA do an audit of MFI on quarterly basis, the PKSF does audit to their partners in every two months. This is not only a financial audit, it is a management audit too. These NGOs have to report to the DCs and UNOs. They also have to report to the NGO Affairs Bureau (NGOAB) of Prime Minister's Office of Bangladesh. The NGOAB also do an annual audit for each of their approved projects with regular field level monitoring.

In Bangladesh, 91% members are female in microcredit sector. Bangladesh is one of the poorest and densely populated countries of the world. Nearly half of the population lives under the poverty line, out of which 28 million are ultra poor. The GDP contribution of microfinance is 12.50 percent. Microfinance constitutes 82 percent of the rural economy.

In Bangladesh total microfinance organization stood at 746 where total branches is 18,977 in FY2018-19. A details picture of micro credit situation under Microcredit Regulatory Authority (MRA) certified organization is as below:

Particulars	FY 2018-19	FY2017-18	FY2016-17	FY2015-16
Branch	18,977	18,196	17,120	16,204
Staff	162,175	1,53,919	1,39,526	1,22,335
Members (in millions)	32.37	31.22	29.90	27.58
Borrowers (in millions)	25.76	25.40	25.98	23.11
Loan Disbursement (in billions)	1403.17	1,201.91	1,045.78	782.67
Loan Receivable position (in billions)	787.58	673.90	583.62	454.01
Total Deposit collection (in billions)	306.19	262.95	216.71	170.67
Total Loan collection (in billions)	1,333.05	1,112.21	876.85	773.00

(Source: MRA-MIS database-2019)

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A detail of Overall microcredit scenario of Bangladesh in FY208-19 is as below:

Details	Member (in millions)	Borrower (in millions)	Receivables (in billions)	Savings (in billions)	Disbursement (in billions)
MRA	32.37	25.76	787.58	306.19	1403.17
Grameen Bank	8.31	8.31	158.51	210.31	251.37
Govt's Org./office/special program	1.26	0.87	25.31	14.47	18.76
Govt. and Non-govt. Bank	0.97	0.45	55.99	9.70	22.94
Total	42.91	35.39	1027.39	540.67	1696.24

In FY 2018-19, MRA institutions distributed total loan among SME beneficiaries of Tk. 1 lakh 40 thousand 3 hundred 17 crore. Out of which top 10 MRA organizations distributed loan of Tk.95 thousand 8 hundred 40 crore, which contributed 68% of total disbursement loan. On the other hand, top ten MRA institutions held 71% of total collection portfolio and 70% of total savings portfolio. The top ten MFIs are: BRAC, ASA, Bureau Bangladesh, TMSS, SSS, Jagoroni Chokro Foundation, Podakhep, UDDIPAN, Sazeda Foundation, and Shakti Foundation.

Though NGOs play a vital role in Bangladesh to serve the poor people who are needy of financial support, they work under many constraints and challenges. One of the problems of the NGO industry is lack of transparency in NGOs along with very small number present information about their employees, processes of work and sources of grants, international donation, human resources management and HR development, democracy and good governance, lack of indigenous funding, competition among the NGOs, strategic management etc. In addition, some of challenges that NGOs are facing are: (a) lack of financial sustainability; (b) shortage of efficient employees and high employee attrition; (c) inadequate infrastructure; (d) undue interference and control by the government; (e) lengthy fund release process; (f) low level of inter-sect oral cooperation; (g) inadequate training and low level of true professionalism among employees often aggravated by lack of job security; (h) lack of information and relevant research; (i) religious conservatism and militancy, and threat of terrorism; (j) political pressure and political instability; k) Unfavorable tax regime; and (l) natural calamities.

The microfinance institutions (MFIs) in Bangladesh are facing a cash flow crisis amid the deadly Covid-19 pandemic. The MFIs did not collect loan installments from their clients for the last one and half months as the government halted nationwide operations. On the other hand, the rural people who make up majority of the clientele of these institutions did not get loans during that period despite a huge demand. Most of the mid and small levels MFIs are already facing hardships and difficulties in paying full salaries to their staff last month.

Under the situation, the MRA issued a circular for MFIs to operate on a limited scale until further notice. During the limited operation, microfinance institutions can distribute relief, pay back deposits, and provide loans from the stimulus package of Tk.3,000 crore for proper health safety measures.

The Asian Development Bank (ADB) tripled the size of its response to the novel coronavirus disease (COVID-19) pandemic to \$20 billion and approved measures to streamline its operations for quicker and more flexible delivery of assistance. The package expands ADB's \$6.5 billion initial adding \$13.5 billion in resources to help ADB's developing member countries counter the severe macroeconomic and health impacts caused by COVID-19. This fund will be provided to help governments of developing member countries implement effective countercyclical expenditure programs to mitigate impacts of the COVID-19 pandemic, with a particular focus on the poor and the vulnerable. Grant resources will continue to be deployed quickly for providing medical and personal protective equipment and supplies from expanded procurement sources. Refinance scheme for micro finance loan should be operated with ultimate interest rate in a range of 5-7 per cent. NGOs and MFIs (microfinance institutions) should be entitled to any central bank refinance scheme directly rather than through scheduled commercial banks.

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6.0 INSTITUTIONAL GOVERNANCE

6.1 General Committee

AMBALA Foundation follows a two-tier governing body which is composed of General Committee and Executive Committee to efficiently carry out operational and strategic decision making activities of the organization. The general body consists of 15 members and they hold the supreme authority of the organization. They are also responsible to elect the 9 members for Executive Committee of the organization. The General Committee regularly meets once in a year in the Annual General Meeting as per by-laws. There is also provision to meet on emergency special meeting as and when required. The General Body deals with policy issues and do not interfere in routine matters of the organization. The policy issues and specific issues are dealt in the annual general meeting. It also approves annual budget, annual report, funding strategy, management fee, annual financial reports of the organization, appoints external auditor, and elects the members of the Executive Committee.

General Committee of AMBALA FOUNDATION

Sl. No	Name	Designation	Qualification	Profession
1	M. Azizur Rahman	Executive Member	MA	Former Secretary & Chief Information Commissioner, Ministry of Information, The Govt. of the People's Republic of Bangladesh
2	Rajia Sultana	Executive Member	MA	Service
3	Arif Sikder	Executive Member	MA, MBA	Service
4	S.M. Mahedi Hasan	Executive Member	MSS	Service
5	Selina Iqbal	Executive Member	MA	Service
6	Syed Tarikul Islam	Executive Member	M.Com	Service
7	Md. Nur-E-Alam	Executive Member	BA	Business
8	Md. Shajahan Gazi	Executive Member	BA	Service
9	Selina Akter	Executive Member	MA	Service
10	Nazmul Ahsan Khan Lipu	Executive Member	SSC	Business
11	Asraful Alam	Executive Member	MSS	Service
12	Md. Rakibul Hasan Talukder	Executive Member	MA	Service
13	Dr. Iqbal Hossain	Executive Member	BHMS	Doctor
14	Ahmed Mostak	Executive Member	M.Com	Service
15	Ahsan Ullah Shamim	Executive Member	BA	Business

15 members General Committee

6.2 Executive Committee

Executive Committee (EC) of Ambala Foundation consists of 5 members, elected by the General Committee for three years term which provides policy guidelines to the organization and its institutions. The Chairman of the EC takes care of constitutional affairs of Ambala Foundation and convenes the meeting of GC and EC. Executive Committee meets on quarterly basis or bi-monthly if so required. M. Azizur Rahman acts as the Chairman and Arif Sikder acts as the Secretary General of the organization. The General Committee is entitled to elect the members of the Executive Committee with the responsibilities of supervising all the activities of the organization, assisting the President in case of need, approving the budget of the organization as well as different projects under operation, deciding on any changes in the activities of the organization subject to the approval of the General Committee. It also evaluates the progress report on the activities of organization's projects and examines accounts, approves the policy of recruitment of the staff.

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Executive Committee of AMBALA FOUNDATION

Sl No	Name & Designation	Age (in years)	Designation	Education Qualification
1	M. Azizur Rahman	78	Chairperson	MA
2	Rajja Sultana	37	Vice Chairperson	MA
3	Arif Sikder	49	Secretary General	MA, MBA
4	S.M. Mahedi Hasan	48	Secretary (Finance)	MSS
5	Selina Iqbal	45	Executive Member	MA

5 members Executive Committee

6.3 Management Team

The organization holds an experienced and efficient management team and it is controlled by the Executive Director of the organization. The top-tier management team members are qualified and have long experience in NGO sector. They are committed to the organization's mission and vision. The management enjoys enough delegation for the smooth running of its activities. A list of top management is given below:

Management Team of AMBALA FOUNDATION

SL No	Name	Designation	Name of Department	Educational Qualification	Experience (in years)
1	Arif Sikder	Executive Director	---	MA & MBA	28
2	Dewan Taufika Hossain	Director	---	MBA	07
3	Rokibul Hasan Talukder	Deputy Director	MFP	MA	27
4	Md. Mostafizar Rahman	Deputy Director	MFP	M.Com	17
5	Sujit Kumar Acharja	Assistant Director	MFP	BSS	16
6	Md. Nazmul Hoque	Program Manager	MFP	BSS	15
7	Md. Rabby Alam Mondol	Manager	Human Resource & Administration	MSS	09
8	Ms. Ripa Khatun	Manager	MIS	MSS	13
9	Md. Abdul Alim	Manager	Accounts	BBS (Honors)	18
10	Md Anwarul Hoque	Assistant Manager	Audit	M.com	09

6.4 Human Resources Management

Ambala Foundation pursues a set of Service Rules covering major aspects of HR practices and offers a congenial working environment to its human resources. The service terms as set forth, demonstrate a detail guideline and covers major aspects of HR practices. Initially to become permanent employee, a person has to sustain a probationary period and have to wait for the approval of the Management Committee. After the approval, the individual is entitled to receive competitive salary followed by two festival bonuses, annual increments, provident fund, gratuity, overtime allowance and daily allowance etc. Currently, the total number of employees in the organization stood at 876 as on January 31, 2021. Moreover, the organization follows a gender policy to ensure more women empowerment among the organization as well as in the society.

6.5 IT And Its Infrastructure

Ambala Foundation is operating with an adequate technological infrastructure. The organization is operating with fully automated MIS and AIS reporting system for all branches and central office. The automation process is maintained by web-based software named Microfinplus.com which is financial inclusion work flow driven that integrated Microfinance program solution, HR & Payroll, Inventory, Fixed Asset Management, Procurement and Accounting Modules. Branch offices are operated with "NabaERP365" a web based in-house developed software which is ERP (Enterprise Resource Planning) Solution and it's complete and integrated software. Using this software in the organization to maintaining all donor funded project financial activities including inventory, HR, Fixed Assets & Procurement etc.

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Beside these, Ambala Foundation is also using internally designed Ambala Cheque Printing & Controlling Software (ACPS) which is cheque & deposit slip printing solution. The organization has a cluster institution titled 'AMBALA IT'. This IT institution is growing up day by day inventing different types of web based IT solution for Micro Credit and financial organizations of Bangladesh. The core modules of the software are: microfinance program management, accounting management, HR-Payroll management, inventory management, fixed asset management, procurement management, cheque printing and controlling etc.

6.6 Internal Control System

The organization holds a separate internal audit department, which ensures effective internal control of the organization. Internal audit team is working under the Executive Committee to verify and follow-up the activities of the internal control procedures and operation as whole. For internal audit, the organization has 15 auditors where headed by Md Anwarul Hoque.

7.0 ANALYTICAL FRAMEWORK

The disclosures of accounts of the organization have been found to be moderate. The consolidated audited financial statement for the year ended June 30, 2020 has been considered for financial performance and also the micro finance financial statement has been considered. Financial statement has been audited by the Fames & R, Chartered Accounts.

8.0 BUSINESS PERFORMANCE

Indicators	FY2019-20	FY2018-19	FY2017-18
Loan Disbursement (In million Tk. micro credit)	3296.00	4008.48	3651.91
Total Borrower (No of Person) (Micro credit)	25,403	26,453	30,371
Loan Outstanding (In million Tk.)	3464.74	3093.20	2532.73
Total Savings Portfolio (In million Tk.)	1463.13	1238.89	853.78
Total Income (In million Tk.)	766.00	796.01	665.49
Total Expense (In million Tk.)	698.91	565.32	459.55
Net Surplus (In million Tk.)	67.09	230.68	205.94
Growth of Loan Disbursement (%)	(17.77)	9.76	26.15
Growth of Savings Portfolio (%)	18.10	45.11	45.56
Finance cost to total revenue (%)	39.66	31.93	33.45

*FY-Information has taken from audited account

The operational performance of the AMBALA Foundation in microfinance activities has been found to be average. The loan disbursement of the organization has decreased (from Tk. 4,008.48 million in FY 2018-19 to Tk. 3,296.00 million in FY 2019-20) due to the decrease of number of borrower (from 26,453 in FY 2018-19 to 25,403 in FY 2019-20). Although the loan disbursement has decreased but the loan outstanding increased to Tk. 3,464.74 million in FY2019-20 from Tk. 3,093.20 million in FY2018-19 due to increase of average loan size per borrower with a 12.01% growth in FY2019-20. When analyzing the savings portfolio, it has been found that total savings portfolio stood at Tk. 1,463.13 million in FY2019-20 from Tk. 1,238.89 million in FY2018-19 with a 18.10% growth. This growth is due to increase of One Time Savings (OTS).

Particulars	FY2019-20		FY2018-19	
	Million Tk.	% of Total	Million Tk.	% of Total
Service Charge of MF	705.59	92.11	755.00	94.85
Development Service Charge	20.98	2.74	16.18	2.03
Bank Interest on FDR	21.22	2.77	12.47	1.57
Donation	3.33	0.44	2.57	0.32
Donar Grants	10.30	1.34	5.68	0.71
Other Income	4.58	0.60	4.11	0.52
Total Income	766.00	100.00	796.01	100.00

Average business performance

Income dominated by service charge of MF

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When analyzing the operating income of the organization, it has been found that total operating income stood at Tk. 766.00 million in FY2019-20 compared to Tk. 796.01 million in FY2018-19. Operating income is continuously dominated by the service charge of MF program. Service charge on loan stood at Tk. 705.59 million in FY2019-20 which is nearly 92.11% of total operating income compared to Tk. 755.00 million in FY2018-19. After deducting the all operational and financial expenses, the net surplus of the organization stood at Tk. 67.09 million in FY 2019-20 against Tk. 230.68 million in FY 2018-19. The net surplus of the organization significantly decreased in FY2019-20 due to increase of operating expense and cost of finance.

9.0 OPERATIONAL EFFICIENCY

Indicators	FY2019-20	FY2018-19	FY2017-18
Operational self sufficiency (%)	109.60	140.81	144.81
Return on Average Assets (%)	1.64	6.49	7.36
Return on Average Capital fund (%)	9.46	41.20	60.65
Net Margin (%)	8.76	28.98	30.95
Return on average outstanding portfolio (%)	21.62	26.93	28.03
Cost on average outstanding portfolio (%)	21.31	20.10	20.27
Finance cost to total Operating Income (%)	39.66	31.93	33.45
Average cost of fund (%)	9.60	9.00	9.59

The profitability indicators of Ambala Foundation have been showing a decreasing trend over the year. Currently, the net surplus margin of the organization stood at 8.76% in FY2019-20 compared to 28.98% in FY2018-19. The net surplus margin decreased in FY2019-20 due to increase of finance cost and operating cost specially salary. On the other hand, the cost of fund of the organization slightly increased and stood at 9.60% in FY2019-20 compared to 9.00% in FY2018-19. Considerable amount of high cost borrowings from external sources such as loan from private bank have consequently increased against low cost borrowing such as member saving and loan from PKSf have decreased which affected the cost of fund of the organization.

10.0 ASSETS SIZE

Total assets of the organization are mostly financed by external liability. Total assets size of the organization stood at Tk. 4,275.13 million in FY2019-20, which has been financed 82.63% from liabilities (Current liability 47.81% and 34.82% Non-current liability) and 17.37% from capital fund. On the other hand, most of the assets are concentrated in loan to borrower which stood at Tk. 3,464.74 million.

When analyzing the compliance criteria of asset creation as per MRA guidelines, fixed assets (other than FDR) stood at Tk. 172.87 million which was 25.79% of cumulative surplus as on June 30, 2020 compared to 27.60% in FY2018-19. Maximum ceiling for fixed assets creation is 35% of cumulative surplus.

Quality of Credit Portfolio

Particulars	FY2019-20 (Consolidated)		FY2019-20 (Microfinance)		FY2018-19 (Microfinance)	
	Million Tk.	Million Tk.	Million Tk.	% of Total	Million Tk.	% of Total
Regular	3372.26	97.33	3371.38	97.33	3,026.71	97.90
Watchful	38.26	1.10	38.26	1.10	27.21	0.88
Sub-standard	32.77	0.95	32.73	0.95	21.72	0.70
Doubtful	13.11	0.38	13.11	0.38	5.81	0.19
Bad Loan	8.34	0.24	8.34	0.24	10.27	0.33
Total	3464.74	100.00	3463.82	100.00	3,091.72	100.00
Non Performing Loan (NPL) (%)	54.22	1.56	54.19	1.56	37.80	1.22
Loan Recovery Rate (%) (cumulative)		98.71		98.71		99.71

Good loan recovery
performance

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While analyzing it has been observed that the consolidated micro credit portfolio of the organization stood at Tk. 3,464.74 million as on June 30, 2020 where microfinance program portfolio stood at Tk. 3463.82 million and the remaining portion consists of other program. It is observed that regular loan stood at Tk. 3,372.26 million, watchful loan (1-30 days) stood at Tk. 38.26 million, sub-standard loan (31-180 days) stood at Tk. 32.73 million, doubtful (181 to 365 days) loan stood at Tk. 13.11 million and bad loan (above 365 days) stood at Tk. 8.34 million as on June 30, 2020 under the Microfinance program. Non-performing loan to outstanding loan was increased in FY2019-20 due to increase of sub-standard and doubtful loan and stood at Tk.54.19 million which was 1.56% in FY2019-20 compared to 1.22% in FY2018-19. On the other hand, the loan recovery performance of Ambala Foundation has been found good. The cumulative loan recovery rate of the organization stood at 98.71% in FY2019-20 and 99.71% in FY2018-19 which slightly decreased in FY2019-20.

11.0 FUNDING AND LIQUIDITY

Particulars	FY2019-20	FY2018-19	FY2017-18
Portfolio to Assets (%)	81.04	78.97	79.35
Current Ratio (Times)	2.01	2.18	2.49
Cash Ratio (%)	3.89	5.65	10.26
Liquidity ratio (%)	95.96	95.70	95.72

Moderate liquidity

Being a non-profit development organization, Ambala Foundation has low equity stake. The main sources of funding of the organization are client's savings, capital fund, loan from commercial bank and PKSF. The saving amount is low cost funding and is increasing every year. The liquidity of the organization has been found moderate due to negative operating cash flow. The current ratio stood at 2.01 times in FY2019-20 against 2.18 times in FY2018-19, which are representing a moderate back up capacity to meet the current liabilities besides showing a stable trend. Maximum portion of the asset is loan to beneficiaries which comprised around 81.04% of total assets in FY2019-20. Liquidity ratio of the organization stood at 95.96% in FY2019-20 against 95.70% in FY2018-19.

12.0 LEVERAGE AND SOLVENCY

Leverage and solvency	FY2019-20	FY2018-19	FY2017-18
Equity to total assets(X)	17.37	17.25	13.92
Total outside liability to total asset(X)	82.63	82.75	86.08
Debt service coverage ratio(X)	0.67	1.06	1.28
Total outside liability to equity(X)	4.76	4.80	6.19
Interest coverage ratio (X)	1.22	1.91	1.93
Capital adequacy ratio (%)	18.98	19.33	15.77
Debt to capital ratio (X)	4.43	4.51	5.85

Based on audited consolidated accounts for the year ended June 30

As a microfinance institute, the organization is a levered concern. All loans are financed by the PKSF, private bank, financial institution and member savings. The total liabilities stood at Tk. 3,532.58 million in FY2019-20 against Tk. 3,241.53 million in FY2018-19. The debt service coverage ratio of the organization decreased to 0.67 times in FY2019-20 from 1.06 times in FY2018-19 due to decrease in net surplus and increase of finance cost. When analyzing the capital strength of the organization it has been found that Capital Adequacy Ratio (CAR) stood at 18.98% which is higher than the minimum requirement of MRA at 15%.

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13.0 ELIGIBILITY CRITERIA COMPLIANCE

SL	Particulars of Ratio	Standard	FY2019-20	FY2018-19
1	Capital Adequacy (%)	15 (Min)	19.93	20.65
2	Debt Service Cover Ratio (Times)	1.25:1 (Min)	1.05	1.35
3	Current Ratio (Times)	2.00:1 (Min)	1.35	1.80
4	Debt to Capital (Times)	9:1 (Max)	4.40	4.40
5	Liquidity to Saving Ratio (%)	15% (Min)	6.30	11.18
6	Rate of Return of Capital (%)	1% (Min)	9.42	42.85
8	Cumulative Recovery Ratio (%)	95.00 (Min)	98.71	99.71
9	On Time Realization (%)	92-100 (Min)	87.83	98.93

As per audited Eligibility Criteria Compliance Certification

When analyzing the MRA eligibility criteria compliance certifications, it has been observed that Ambala Foundation have been maintaining all criteria adequately except debt services coverage ratio, current ratio and liquidity to saving ratio in FY2019-20.

14.0 BANKING AND NON BANK FINANCIAL INSTITUTION RELATIONSHIP

14.1 Liability Position & Repayment Status

The total loan outstanding liabilities of Ambala Foundation stood at Tk.1,891.86 million. Details are shown in the following table:

(Tk. in mil.)

Name of the Bank/Financial Institution	Details of Exposures				Classification Status
	Mode of Loan	Sanction Limit/Disbursed Amount	Outstanding	Outstanding Date	
Jamuna Bank Ltd.	Term Loan	75.00	46.61	31-01-21	Regular
Southeast Bank Ltd.	Short Term Loan	200.00	177.77	31-01-21	Regular
Pubali Bank Ltd.	Term Loan	100.00	27.27	31-01-21	Regular
	Short Term Loan	50.00	50.60	31-01-21	Regular
United Commercial Bank Ltd. (UCBL)	Term Loan	830.00	445.85	31-01-21	Regular
One Bank Ltd.	Short Term Loan	120.00	120.96	31-01-21	Regular
EXIM Bank Ltd.	Short Term Loan	50.00	49.11	31-01-21	Regular
NRB Bank Ltd.	Short Term Loan	200.00	181.35	31-01-21	Regular
NCC Bank Ltd.	Term Loan	110.00	94.98	31-01-21	Regular
Midland Bank Ltd.	Term Loan	120.00	45.96	31-01-21	Regular
Mutual Trust Bank Ltd.	Term Loan	75.00	23.45	31-01-21	Regular
Brac Bank Ltd.	Short Term Loan	200.00	200.00	31-01-21	Regular
Global Islami Bank Limited	Short Term Loan	120.00	123.78	31-01-21	Regular
Uttara Finance and Investments Limited	Term Loan	150.00	43.30	31-01-21	Regular
IIDFC Ltd.	Term Loan	60.00	25.15	31-01-21	Regular
National Finance Ltd.	Term Loan	50.00	47.03	31-01-21	Regular

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IPDC Finance Limited	Short Term Loan	50.00	50.19	31-01-21	Regular
PKSF		317.00	138.50	31-01-21	Regular
Total		2,877.00	1,891.86		

14.2 Security Arrangement against Exposures

The mode of the security offered under each financing facilities are summarized below:

Sl. No.	Name of the Bank/FIs	Security Arrangement
1	Jamuna Bank Ltd.	<ul style="list-style-type: none"> Hypothecation over book debts/ receivables of Loan portfolio Lien of FDR equivalent to 10% of the loan amount Personal guarantee of all members of executive committee 03 Post-dated cheques each covering the installment Institutional/Corporate guarantee of Ambala Foundation Personal guarantees of the Governing Body
2	Southeast Bank Ltd.	<ul style="list-style-type: none"> Hypothecation over book debts/ receivables of Loan portfolio Lien of FDR equivalent to 5% of the loan amount Personal guarantee of all members of executive committee Institutional/Corporate guarantee of Ambala Foundation Personal guarantees of the Governing Body
3	Pubali Bank Ltd.	<ul style="list-style-type: none"> Hypothecation over book debts/ receivables of Loan portfolio 01 Post-dated cheques each covering the installment Personal guarantee of the member of executive committee Institutional guarantee of Ambala Foundation
4	United Commercial Bank Ltd.	<ul style="list-style-type: none"> Hypothecation of unencumbered receivables of the borrower securing the amount not less than 150% of the entire facility amount Irrevocable General Power of Attorney to be executed by the MFI duly notarized authorizing the bank to collect or recover receivable without reference to the Court in case of default Hypothecation of all present and future fixed and floating assets of Ambala Foundation Lien and Set Off over the proceeds account 03 Post-dated cheques each covering the quarterly installment against the facility and 01 undated cheque covering the entire loan amount Personal guarantee of all the members of the executive committee of Ambala Foundation
5	One Bank Ltd.	<ul style="list-style-type: none"> Specific hypothecation on pool of agri-finance receivables for an amounting of 150% of time loan exposure at any point of time Lien on OBL FDR of total Tk. 12.00 million with letter of lien & set off over deposit accounts in the name of Ambala Foundation Board resolution for availing credit facilities and authorization for execution of related documentation along with completion of other formalities Letter of arrangement, Letter of disbursement & Letter of authority to debit the account. Personal guarantee of all the Chairman, Executive Director and Finance director
6	Exim Bank Ltd.	<ul style="list-style-type: none"> Hypothecation of agricultural inputs & receivables for 120% of our investment. Corporate guarantee/ Institutional guarantee of Ambala Foundation.
7	NRB Bank Ltd.	<ul style="list-style-type: none"> Ambala Foundation will be obliged to provide specific assignment in the form of charge on the floating assets of micro finance receivables from its micro finance program for an amount not exceeding 150% of the total outstanding loan amount in the form of a consolidated asset pool at any point of time Post-dated cheques covering the total loan amount Personal guarantee of the member of executive committee

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		<ul style="list-style-type: none"> Institutional guarantee of Ambala Foundation
8	NCC Bank Ltd.	<ul style="list-style-type: none"> Ambala Foundation will be obliged to provide specific assignment in the form of charge on the floating assets of micro finance receivables from its micro finance program for an amount not exceeding 150% of the total outstanding loan amount in the form of a consolidated asset pool at any point of time Lien on OBL FDR of total Tk. 5.00 million Personal guarantee of the member of executive committee
9	Midland Bank Ltd.	<ul style="list-style-type: none"> Hypothecation of floating assets of micro finance receivables from micro finance program of the borrower Lien & pledge of FDR-MDB fixed equivalent to 10% of the loan amount 04 Post-dated cheques covering the total installment amount 01 un-dated cheques covering the total loan amount
10	Mutual Trust Bank Ltd.	<ul style="list-style-type: none"> Hypothecation charge to be created on the floating assets of micro credit finance receivables from micro credit finance program of the borrower Lien of FDR Buniad equivalent to 9.50% of the loan amount 12 Post-dated cheques covering the total installment amount
11	Brac Bank Limited	<ul style="list-style-type: none"> Simple Hypothecation over book debts and receivables of Ambala Foundation. 10% disbursement amount in the form of FD will be kept with lien mark. Personal guarantee of Chairman, Executive Director and Director of the Ambala Foundation.
12	Global Islami Bank Limited	<ul style="list-style-type: none"> Hypothecation over book debts/ receivables of Loan portfolio Lien of FDR equivalent to 10% of the loan amount Personal guarantee of all members of executive committee Institutional/Corporate guarantee of Ambala Foundation
13	Uttara Finance & Investment Ltd.	<ul style="list-style-type: none"> 04 Post-dated cheques covering the total installment amount 01 un-dated cheques covering the total loan amount Personal guarantee of all members of the executive committee of Ambala Foundation Institutional/ Corporate guarantee of Ambala Foundation with supporting resolution
14	IIDFC Ltd.	<ul style="list-style-type: none"> Hypothecation over book debts/ receivables of Loan portfolio Personal guarantee of all executive members of Ambala Foundation. FDR amounting of Tk. 6.00 million only with IIDFC Limited without lien mark and undertaking from the borrower that they will not withdraw the FDR till liquidation of this icon .
15	National Finance Ltd.	<ul style="list-style-type: none"> Ambala Foundation will be obliged to provide specific assignment in the form of charge on the floating assets of micro finance receivables from its micro finance program for an amount not exceeding 150% of the total outstanding loan amount in the form of a consolidated asset pool at any point of time 01 cheque covering the total loan amount 36 cheques covering the total monthly instalment amount Personal guarantee of the member of executive committee Institutional guarantee of Ambala Foundation
16	IPDC Finance Limited	<ul style="list-style-type: none"> FDR amounting of Tk. 7.50 million only Personal guarantee of the member of executive committee Institutional guarantee of Ambala Foundation
17	PKSF	<ul style="list-style-type: none"> To avail the loan from PKSF, AMBALA FOUNDATION have to fulfill some condition such as: AMBALA FOUNDATION have to maintain the recovery rate at least 95% Minimum liquidity saving ratio 15% Highest limit of debt : Capital will be 9:1 Minimum current ratio will be 2:1 Minimum limit of rate of return on capital 1%

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15.0 RISK MANAGEMENT

15.1 Sustainability Risk

The nature of the business of micro finance organization is to collect fund from various sources and give loan to beneficiaries. After giving the loan to beneficiaries, MFI's collects the loan amount on a weekly basis. But recently, Covid-19 pandemic has caused the MFIs to face a cash flow crisis, as MFIs could not collect loan installments for around three months since Government declared general holiday to stop the spread of the disease. Besides, the rural people who make up the majority of the clientele of these institutions – did not get loans during this period despite a huge demand. As MFIs faced trouble in collecting loan installment timely, they could not give loan back to bank/FIs on a timely manner. On the other hand, most of the mid and small levels NGO-MFIs are also facing hardships in paying full salaries to their staff. Considering the current pandemic crisis, the MFI's in general face sustainability risk for their operation.

15.2 Operational Risk

Ambala Foundation is operating microfinance activities with its 121 branch offices in 14 districts, where those offices need regular monitoring and controlling for their activities. Most of the fraudulent activities of the MFI occur from these branch office levels. Basically, these branch offices make many small, short-term loans to the clients, which need careful monitoring and controlling. But there are many errors and frauds that occur while handling these activities. So, the respective officers of these branches need to be active and responsible to handle work otherwise it might not be cost effective for the organization to handle the microfinance activity efficiently. The organization is thus exposed to operational risk.

15.3 Credit Risk

Credit risk encompasses both the loss of income resulting from the MFI's inability to collect anticipated interest earnings as well as the loss of principle resulting from loan defaults. The organization operates micro finance business in an organized manner as per organization's Credit and Savings Management Manual. It follows the set criteria for selection of borrowers. The organization follows the terms and conditions as laid down in the manual before approval and disbursement of loan. Attendance records in weekly meetings, past loan records, experience, results of investigation by Field Officer (FO) etc. are followed for selection of borrowers. On fulfilling the conditions as stated in loan approval manual, credit proposals are discussed and approved at the weekly meeting of clients. After getting recommendation from the Chairman of the Centre, Field Officer (FO) and Branch manager, then the loan is given to client. Ambala Foundation maintains proper provisioning policy against non-performing loan. The organization always tries to avoid legal process for overdue collection rather persuasion and social pressure is their instrument to manage delinquency. If the borrowers default in installment payment, the clients become responsible for refund of loans.

15.4 Loan Recovery Risk

One of the major risks of Microfinance program is collection of installments with high frequency ranging from week to months. The above risk is further fuelled by the loan default culture prevailing in the banking sector although the banking institutions are stronger entities to collect installments due from clients through legal measures and selling collaterals. Under the above background, the MF programs being operated by the NGOs without collateral and with high frequency of loan repayments are yielding a recovery rate of above 95%. The MF organizers are offering micro finance through group guarantee with the incentive of further loan if there is no default in repaying the installments. The above system works favorably for the MFI institutions and assist them to maintain high recovery ratio.

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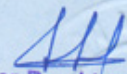
16.0 OBSERVATION SUMMARY

<p>Rating Comforts:</p> <ul style="list-style-type: none"> • Good capital adequacy • Good loan recovery performance • Average business performance • Regular loan repayment status • Experienced management team 	<p>Rating Concerns:</p> <ul style="list-style-type: none"> • High finance cost resulting to lower net surplus • Short fall in debt service coverage ratio • Short fall in current ratio • Marginally maintain the liquidity to saving ratio
<p>Business Prospects:</p> <ul style="list-style-type: none"> • Enough untapped market • Enter into the formal financial market 	<p>Business Challenges:</p> <ul style="list-style-type: none"> • Competitive industry • Lack of low cost fund • Operational transparency • Getting fund from donor

END OF THE REPORT

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[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the SEC rules as prescribed by the Securities and Exchange Commission.]


For President & CEO
Md. Shohel Khan, ACMA
Assistant Vice President (AVP)
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT On AMBALA FOUNDATION

SCALES AND DEFINITIONS LONGTERM – MICRO FINANCE INSTITUTIONS

RATING	DEFINITION
AAA Triple A (Highest Safety)	INVESTMENT GRADE Micro Finance Institutions rated in this category are adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of MFIs.
AA+, AA, AA- (Double A) (High Safety)	Micro Finance Institutions rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Micro Finance Institutions rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Micro Finance Institutions rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a MFI is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.
BB+, BB, BB- Double B (Inadequate Safety)	SPECULATIVE GRADE Micro Finance Institutions rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates a MFI as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (High Risk)	Micro Finance Institutions rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems, which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support.
C (Very High Risk)	Micro Finance Institutions rated in this category are adjudged to be with very high risk of timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet obligations in a timely fashion.
D (Default)	Micro Finance Institutions rated in this category are adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entities are unlikely to meet maturing financial obligations and calls for immediate external support of a high order.

SHORT TERM – MICRO FINANCE INSTITUTIONS

ST-1	Highest Grade Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.
ST-2	High Grade High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	Good Grade Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	Satisfactory Grade Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
ST-5	Non-Investment Grade Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
ST-6	Default Institution failed to meet financial obligations



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CRISL RATING SCALES AND DEFINITIONS BANK LOAN/ FACILITY RATING SCALES AND DEFINITIONS- LONG-TERM

RATING	DEFINITION
<i>blrAAA</i> (blrTriple A) (Highest Safety)	Investment Grade Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have highest credit quality, offer highest safety and carry almost no risk. Risk factors are negligible and almost nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of loans/ facilities.
<i>blrAA+, blrAA, blrAA-</i> (Double A) (High Safety)	Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have high credit quality, offer higher safety and have high credit quality. This level of rating indicates that the loan / facilities enjoyed by an entity has sound credit profile and without any significant problem. Risks are modest and may vary slightly from time to time because of economic conditions.
<i>blrA+, blrA, blrA-</i> Single A (Adequate Safety)	Bank Loan/ Facilities rated in this category are adjudged to carry adequate safety for timely repayment/ settlement. This level of rating indicates that the loan / facilities enjoyed by an entity have adequate and reliable credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
<i>blrBBB+, blrBBB, blrBBB-</i> Triple B (Moderate Safety)	Bank Loan/ Facilities rated in this category are adjudged to offer moderate degree of safety for timely repayment /fulfilling commitments. This level of rating indicates that the client enjoying loans/ facilities under-performing in some areas. However, these clients are considered to have the capability to overcome the above-mentioned limitations. Cash flows are irregular but the same is sufficient to service the loan/ fulfill commitments. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
<i>blrBB+, blrBB, blrBB-</i> Duble B (Inadequate Safety)	Speculative/ Non investment Grade Bank Loan/ Facilities rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates loans/ facilities enjoyed by a client are below investment grade. However, clients may discharge the obligation irregularly within reasonable time although they are in financial/ cash problem. These loans / facilities need strong monitoring from bankers side. There is possibility of overcoming the business situation with the support from group concerns/ owners. Overall quality may move up or down frequently within this category.
<i>blrB+, blrB, blrB-</i> Single B (Somewhat Risk)	Bank Loan/ Facilities rated in this category are adjudged to have weak protection factors. Timely repayment of financial obligations may be impaired by problems. Whilst a Bank loan rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support. Special monitoring is needed from the financial institutions to recover the installments.
<i>blrCCC+, blrCCC, blrCCC-</i> Triple C (Risky)	Risky Grade Bank Loan/ Facilities rated in this category are adjudged to be in vulnerable status and the clients enjoying these loans/ facilities might fail to meet its repayments frequently or it may currently meeting obligations through creating external support/liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support. These loans / facilities need strong monitoring from bankers side for recovery.
<i>blrCC+, blrCC, blrCC-</i> Double C (High Risky)	Bank Loan/ Facilities rated in this category are adjudged to carry high risk. Client enjoying the loan/ facility might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support. These loans / facilities need strong monitoring from bankers side for recovery.
<i>blrC+, blrC, blrC-</i> (Extremely Speculative)	Bank Loan/ Facilities rated in this category are adjudged to be extremely risky in timely repayment/ fulfilling commitments. This level of rating indicates that the clients enjoying these loan/ facilities are with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
<i>blrD</i> (Default)	Default Grade Entities rated in this category are adjudged to be either already in default or expected to be in default.

SHORT-TERM RATINGS

<i>blrST-1</i>	Highest Grade Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.
<i>blrST-2</i>	High Grade High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
<i>blrST-3</i>	Good Grade Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge-total financing requirements, access to capital markets is good. Risk factors are small.
<i>blrST-4</i>	Satisfactory Grade Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
<i>blrST-5</i>	Non-Investment Grade Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
<i>blrST-6</i>	Default Institution failed to meet financial obligations