



Tuba Rai Metin (TRM) <i>An NGO MFI</i>	Dili, Timor-Leste <i>Report – December 2010</i>
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Contacts	Synopsis
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CREDIT RATING	β
RATING OUTLOOK*	positive

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Date of visit : 13-16 Dec, 2010
Period of previous rating : 30Mar - 2Apr, 2009
Previous rating : β-

Investment Grade	Above	α	α+
			α
			α-
	Below	β	β+
			β
			β-
		γ	γ+
			γ

TRM's microfinance program started in July 2001 with support from 'Save the Children'. The organisation got registered with NGO Forum in May'02 and later with Ministry of Justice in Feb'09.

TRM has shown improved performance on all parameters- governance, management and finance - under technical assistance from Basix, India. TRM replaced its inactive Governing Board after previous rating. It now has a professional Board which provides strategic direction to the organization. It also has experienced and stable staff.

Return on Assets (RoA) has substantially improved since last rating on account of better deployment of its resources in loans, and improved portfolio yield. However, a reasonable drop in RoA is expected with increased commercial borrowings and a downward revision of its uncompetitive interest rates. TRM has high capital adequacy and is in a good position to raise commercial borrowings. Operational systems are reasonable and TRM has significantly improved the process of internal audit, results for which are yet to be seen. Supervision and monitoring by operations team and weak MIS are issues of concern especially when the organization has immediate plans for wider geographical expansion. TRM has already purchased new MIS software which is expected to be fully implemented by April 2011.

A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to no significant changes in the organisational structure and external operating environment.

Main Performance Indicators

	Sep-08	Dec-09	Nov-10
Gross Portfolio (US\$)	3 56 824	4 37 162	7 83 517
No. of active borrowers	2 887	2 838	3 683
Return on Assets	7.5%	6.2%*	14.2%*
Portfolio Yield	52.4%	53.5%*	60.0%*
Portfolio at Risk (>60days)	11.9%	15.3%	4.0%
Operating Expense Ratio	39.7%	40.3%*	38.0%*
Avg. Loan O/S (US\$)	124	154	213
Avg. Loan Size (US\$)	235	231	274
Borrowers per field staff	222	237	307
Capital Adequacy Ratio	105.1%	97.9%	76.0%

*Annualised

Highlights

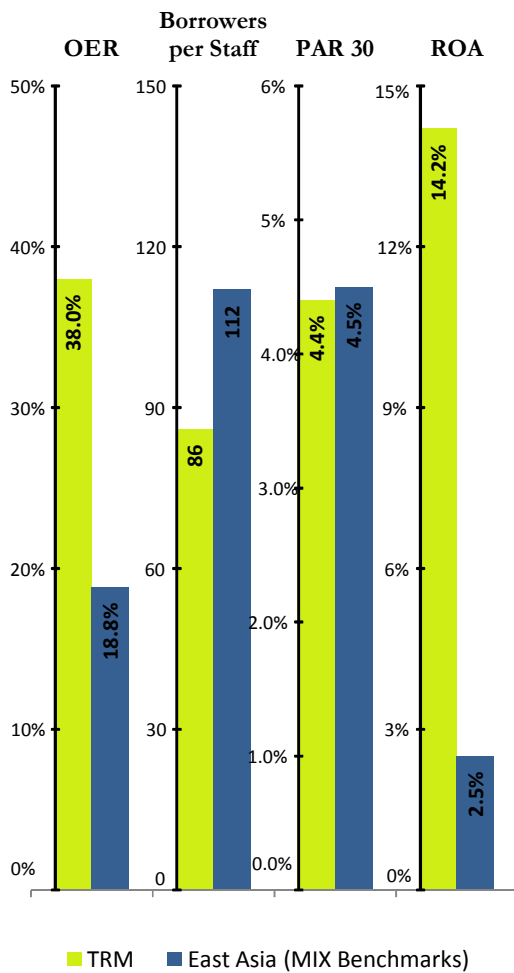
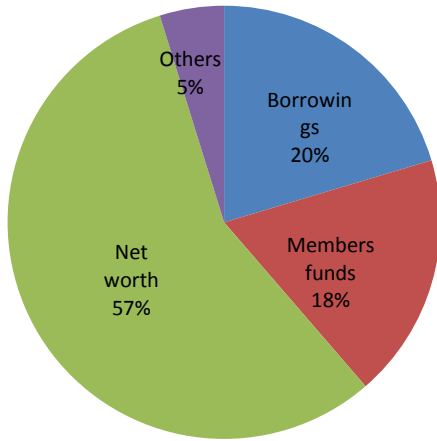
POSITIVE

- Professional Board and committed leadership
- Healthy capital adequacy
- Good portfolio growth with improved profitability
- Low staff dropout

NEGATIVE

- High operating expenses
- High interest rate
- Scope for improvement in internal controls and monitoring

Sources of Funding	Assessment Rationale
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Professional Board and committed leadership: TRM replaced its entire inactive Board in 2009. Presently, TRM has a five-member Board consisting of qualified professionals from banking, microfinance and development sectors. TRM has committed CEO and staff.

High capital adequacy: As TRM has been receiving donations since inception and net worth accounts for 57% of assets, it has a good capital adequacy ratio of 76.0% as on 30 November 2010. Though, the CAR decreased from 97.9% in Dec'09 to 76.0% in Nov'10, it is still high.

Good portfolio growth with improved profitability: TRM recorded 79% growth in portfolio during 2010. TRM's operational surplus also increased from US\$ 47,553 in Oct'08-Dec'09 to US\$ 120,944 during Jan-Nov'10. Return on Assets (RoA) increased from 6.2% (*annualised*) in Oct'08-Dec'09 to 14.2% (*annualised*) in Jan -Nov'10 due to better deployment of resources and improvement in PAR [TRM wrote off bad loans of \$50,622 during the year].

Experienced and stable staff: Faced with limited availability of qualified and experienced personnel, TRM has invested a significant amount on capacity building of staff, with support from the CRS and USAID. It has good induction systems including training for the new staff. These measures coupled with limited employment opportunities in the country have resulted in low staff dropout.

High operating Expenses: TRM has an OER of 38.0% (*annualised*) for the period from Jan'10 to Nov'10, which is high mainly due to expansion costs and high cost of living in Timor. TRM has been able to sustain high OER due to high interest rate and low financial cost (no commercial debt).

High interest rate: TRM's effective rate of interest (EIR) ranges from 77% to 111% p.a. on different loan products. TRM's future expansion is planned in areas where other major MFIs are present and the high rate of interest might prove to be a competitive barrier for expansion. According to TRM, interest rates have been reduced post rating visit.

Technical Support by BASIX: As part of tripartite agreement between UNCDF, TRM & BASIX, BASIX will provide technical support for 4 years. This support is expected to help TRM grow sustainably.

Internal control and monitoring: Wide operational area and underdeveloped road infrastructure makes monitoring of far off branches difficult. Product diversity & manual MIS compounds monitoring issues. Monitoring visits are unplanned and ad-hoc. Loan utilization checks were not being done in a visited branch. Two operations staff members were identified for fraud in 2010 in Viqueque branch.

Comparative Performance Highlights

Comparative Rating Grades

Category	March 2009	December 2010
Governance & strategic positioning	γ+	β
Organisation & management	β-	β
Financial performance	β	β+
Overall	β-	β

Select indicators/ratios

Indicator/ratio	Sep-05	Sep-06	Sep-07	Sep-08	Dec-09 [^]	Nov-10 [^]
1 Growth						
Gross loans outstanding (US\$)	78 321	1 21 224	2 58 601	3 56 824	4 37 162	7 83 517
Outstanding borrowings (US\$)	0	50 000	50 000	50 000	75 000	2 25 000
Active borrowers	2 107	3 156	3 232	2 887	2 838	3 683
Avg. loan outstanding size (US\$)	37	38	80	124	154	213
Avg. Loan Disbursed Size (US\$)	92	78	138	235	231	274
Total voluntary savings	0	0	0	8 013	1 03 880	61 735
2 Credit performance						
Current repayment rate**	97.4%	73.9%	81.1%	87.0%	85.6%	91.5%
Portfolio at risk (>=30 days)	1.9%	28.3%	16.7%	12.2%	17.4%	4.4%
Portfolio at risk (>=60 days)	1.7%	18.4%	13.1%	11.9%	15.3%	4.0%
3 Efficiency and profitability						
Active borrowers per field staff	192	287	269	222	237	307
Net loans to total assets	28.5%	34.0%	69.1%	65.7%	48.8%	68.0%
Annual return on assets	-17.2%	-37.5%	-16.6%	7.5%	6.2%*	14.2%*
Operating expense ratio	102.4%	131.0%	70.8%	39.7%	40.3%*	38.0%*
Operating self-sufficiency	43.9%	25.9%	64.0%	120.9%	121.2%	154.9%
Financial self-sufficiency	41.8%	23.7%	53.8%	98.1%	107.5%	120.4%
Capital adequacy ratio	226.6%	177.1%	95.5%	105.1%	97.9%	76.0%

[^] Financial period October 2008-December 2009 and January-November 2010

* All periodic ratios have been annualized

**Reported as per TRM's MIS report

Country Profile¹

In May 2002, Timor- Lesté became the world's newest nation following 24 years of Indonesian control and three years of United Nations Administration. After voting for independence from Indonesia in 1999, an estimated 75 per cent of the population was displaced and nearly 70 per cent of all buildings, homes and schools were destroyed by an orchestrated campaign of violence carried out by militia groups.

During April-May of 2006, there was a rapid deterioration in internal security and serious violence. There was unrest and destruction of many buildings and houses resulting in the displacement of around 150,000 people. The violence led the government to request the assistance of the UN and additional international police and soldiers. In mid-2007, presidential and parliamentary elections were held. They were largely credible and free of violence and resulted in former Prime Minister Jose Ramos Horta winning the presidency and former President, Xanana Gusmao leading a coalition government. In February 2008, Timor Lesté faced violence again when Ramos Horta was critically injured and Prime Minister Gusmao faced gunfire by rebel leaders. Subsequently Australian led security forces were reinforced to control violence. Since this unsuccessful attack against the President and the Prime Minister, the coalition government has enjoyed its longest period of stability. The country is still long way in process of setting government institutions.

Quick facts

Total population (UN, 2010)	1.2 mn
GNI per capita (US\$) (World Bank, 2009)	2,460
% population <US\$2 per day (est. World Bank)	70%
Total unemployment (% of labour force) est.	>50%
% of population with access to banking services	<5%

With poor infrastructure, limited administrative capacity, and nascent institutions, Timor- Lesté is one of the least developed economies in the world. Unemployment is widespread at around 20% of urban population and 40% of urban population respectively. Key social indicators, including life expectancy as well as health and education indices are also low. Subsequently Timor Leste ranks low with a composite HDI score of 0.502 and ranks 120th on HDI. The economy is marked by subsistence agriculture (accounting for about one-third of GDP and three-

fourths of employment) and a limited foreign exchange earning capacity.

Timor- Lesté enjoyed two years of buoyant economic growth in 2000 and 2001 after the devastating violence in the aftermath of the referendum on independence in 1999. The country has not been impacted much by global financial crisis and continues to recover strongly since 2006 violence. The economy bounced back strongly in 2007, when non-oil GDP growth reached 8.4%, according to the IMF. Growth then accelerated to 12.8% in 2008, stabilized around 7.5% in 2009 and is estimated to register similar growth in 2010². The inflation rate in 2010 slowed down to 4%. The potential for investment and resource development is substantial. The development of oil and gas resources in natural waters has significantly supplemented the government revenues.

According to BWTP, 2010 report, there is potentially large unmet demand for microfinance with market size estimates between 275,000 and 400,000 clients. However the effective demand would be lower due to inadequate infrastructure. The financial sector diagnostic study of IFC estimates a total of 200,000 deposit accounts by 2010 in all classes of financial institutions.

The main financial service suppliers in Timor- Lesté include three foreign-owned commercial banks, three specialized microfinance institutions (MFIs), one of which became licensed bank and is regulated by the Banking and Payments Authority (BPA). Other entities include 25 credit unions of varying degree of development, Western Union and numerous pawn shops offering retail financial services (BWTP, 2010)

The Timor Lesté microfinance sector is small but resilient to shocks and crisis, when compared to other economic initiates (IFC 2007). The banking sector in the country is still in the nascent stage. Commercial banks have started to operate and micro-financing operations have gained momentum, contributing to a substantial increase in deposits. However Bank lending is yet to pick up and the overall credit deposit ratio is very low.

¹ Sources: http://en.wikipedia.org/wiki/East_Timor
<https://www.cia.gov/library/publications/the-world-factbook/geos/tt.html>
http://www.microfinancegateway.com/files/24150_file_FSSA_20R_eport_20Jan_2005_20ENG_20Annexes.pdf

² Economic Intelligence Unit. 2009. Timor Lesté Country Report

Microfinance operations

Main Indicators	Sep-05	Sep-06	Sep-07	Sep-08	Dec-09 [^]	Nov-10 [^]
Gross Loan Portfolio (US\$)	78 321	1 21 224	2 58 601	3 56 824	4 37 162	7 83 517
Total voluntary savings	0	0	0	8 013	1 03 880	61 735
Number of Active Borrowers	2 107	3 156	3 232	2 887	2 838	3 683
Number of Branches	3	3	3	3	4	5
Asset Quality						
Portfolio at Risk (>30 days)/Gross Loan Portfolio	1.9%	28.3%	16.7%	12.2%	17.4%	4.4%
Portfolio at Risk (>60 days)/Gross Loan Portfolio	1.7%	18.4%	13.1%	11.9%	15.3%	4.0%
Current Recovery Rate**	97.4%	73.9%	81.1%	87.0%	85.6%	91.5%
Loan Loss Provision Expense/Gross Portfolio	1.6%	21.3%	10.5%	3.9%	3.9%	4.0%
Loan Loss Reserves/Gross portfolio	2.7%	18.0%	14.1%	13.8%	15.8%	4.2%
Efficiency and Productivity						
Operating Exp./Avg. Gross Loan Portfolio	102.4%	131.0%	70.8%	39.7%	40.3%*	38.0%*
Cost per Borrower (US\$)	38	39	38	45	58*	59*
Average Outstanding Loan Size (US\$)	37	38	80	124	154	213
Number of Borrowers/Field staff	192	287	269	222	237	307
Number of Borrowers/Total Staff	140	105	108	93	83	86

[^] Financial period October 2008-December 2009 and January-November 2010

* All periodic ratios have been annualized

**Reported as per TRM's MIS report

TRM's micro-credit program began in July 2001 as part of a program of an International NGO viz. Save the Children (SCF) which continued until the end of January 2002. Catholic Relief Services (CRS), another International NGO, took over the micro-credit program in January 2002. A local NGO was eventually created in May 2002 to take over the micro-credit program and provide microfinance services in a sustainable manner. Tuba Rai Metin (TRM) was formed and registered as a local NGO-MFI with the NGO Forum on 13 May 2002.

Civil war in Timor-Leste which started in April 2006 left the microfinance sector of the country in shambles. Thirteen microfinance institutions were either closed down or had to defer their operations. Clients and their businesses were displaced greatly, affecting the loan recovery. CRS decided to withdraw support to TRM after the CEO left the country during civil unrest. TRM decided to continue operations under the leadership of Mr Soares who was working as Area Manager at that time.

After struggling for two years, the condition of the organization stabilized in 2009. TRM got itself registered as NGO-MFI with the Ministry of Justice in February 2010 to offer micro-credit services to small women

entrepreneurs operating micro businesses in urban and rural areas. As per new microfinance law of Banking and Payments Authority of Timor-Leste (BPA), any organisation having voluntary saving upto US\$1 million needs to take ODTI licence. For more than US\$ 1 million savings, the organisation needs to have a grade 'C' banking license. As per information from TRM, new ODTI law came in force on 17th Dec 2010 and TRM board has decided to adopt it from 30th Dec 2010.

TRM started receiving support from UNCDF in the form of loan capital and funds for technical assistance. A tripartite performance based agreement was signed between TRM, UNCDF and BASIX, India on November 2009. As per the agreement, BASIX will provide on the field technical assistance to TRM for four years while UNCDF will support the project financially. The partnership with BASIX has improved TRM's performance in areas of operational system, governing structure, financial performance and business growth. With support from UNCDF and BASIX, TRM has grown sizably in the last year. TRM is seeking long term capital of US\$ 1.2 million to support its aggressive growth plans and transformation into a category 'C' Bank.

After initiating its operations in Dili district, TRM expanded its operations to Baucau in 2003, Viqueque in 2004, Lospalos in March 2007 and Maliana in March 2010. TRM had a borrower base of 3,683 and portfolio size of US\$ 783,528 on 30 November 2010.

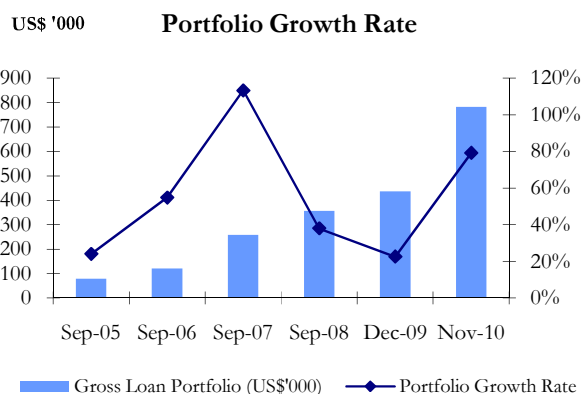
TRM started its sixth branch at Luquica on 22 November 2010 (lending not yet started). TRM is planning to start two new branches (at Ermera and

Oecusse) in December 2010 and three branches in first quarter of 2011. Once the expansion is implemented, TRM will have all districts in the country under its operational area. TRM currently has 12% share of microfinance clients' market in Timor-Leste which it plans to increase to 30% by reaching to more than 10,000 active clients by the end of 2011.

Operational area



TRM's portfolio grew rapidly since inception till September 2007 with funding support from CRS and USAID. However, the portfolio growth rate reduced in 2008 and 2009 due to discontinuance of funding support from CRS and USAID. During 2010, TRM had impressive portfolio growth (79%) due to funding support from UNCDF and Govt. of Timor Leste (GoTL).



Microfinance policies

Prior to the establishment of a new Branch Office, a study is done (by the CEO and AM) to determine the program's operational feasibility in a certain location. Potential benefits and risks are evaluated, and support institutions and facilities such as banks are identified. An initial survey is conducted for the selection of the area. After an initial selection of areas/villages based on its profile, the field officer (FO) obtains permission from the area/village authorities to work there.

TRM follows individual as well as group lending methodologies

Loans to individual micro entrepreneurs were introduced in September 2006 and they already accounts for 64% of the portfolio. Group members with good business and repayment histories graduate from group loans to individual loans. Their working capital should be at least US\$400 as indicated in the business survey conducted by the FO and BM. The individual lending product has a

higher loan size and monthly repayments. These loans are appraised by both the Branch Manager (BM) and the Area Manager (AM) on recommendation of the FO. All group loans and individual loans <US\$1000 are approved by BM and individual loans >US\$1000 are approved by the AM.

Group loans are delivered to women groups. Potential clients are encouraged to form groups of 4-10 members on their own based on geographical proximity and similar economic status. Not more than one woman from a household can be a member of TRM; members must be more than 18 years of age, should be a permanent resident of the area/village and should be self employed. Though initially these group members were intended to act as cross guarantors for each other's loans, the concept of group guarantee is not strictly enforced nullifying peer pressure and the groups only act as collection points.

As per policy, group meetings are to be held at specific locations on a given day and time. New clients/groups should participate in a three-session Intensive Group Training (IGT) activity prior to taking their first loan. All financial transactions are carried out in the weekly group meetings, held by a FO. Loans are appraised on basis of cash flow analysis and the income and expenditure levels of the clients. Group members have the primary responsibility for ensuring repayment, but the FO ensures that the clients are able to repay the loans on time through regular monitoring visits. Based on their repayment history, and development of their businesses, women in the group are allowed to take repeat loans for the same or higher amounts.

Loan products

At present, TRM offers three loan products to its clients. TRM-1 (Small loan) or the Easy Loan and TRM- 2 (Big loan) or the Golden Customer Loan are essentially community based group loans with mutual guarantee. TRM-3 or the Individual Business Loan is offered to individuals who are more entrepreneurial and whose businesses have already expanded. The group (small and big) loan products have a ceiling which increases in subsequent loan cycles. Currently the ceiling for each member under group small loan is US\$ 100 and group big loan is US\$ 500. TRM collects Security Deposits equal to 10% of the loan amount. No interest is given on this deposit and it is refunded in full after the borrower repays back the loan.

TRM provides personal loans and vehicle loans to staff. The personal loan amount ranges from US\$500 to US\$2,500 (or maximum of 50% annual salary) and vehicle loan amount, US\$1,500-2,500. TRM charges an interest of 24% pa flat for personal loans and 18% pa flat for vehicle loans. The loan term for personal loan is 6-24 months and vehicle loan for 36 months.

The product-wise diversification on 30 November 2010 is as under:

Product Name	Loan accounts		Loan Outstanding	
	No.	%	Amount (US\$)	%
TRM-1	713	19.4%	21,552	2.8%
TRM-2	1,949	52.9%	192,009	24.5%
TRM-3	968	26.3%	503,353	64.2%
Staff Loan	26	0.7%	14,032	1.8%
Vehicle Loan	27	0.7%	52,582	6.7%
Total	3,683	100.0%	783,528	100.0%

The product mix of TRM has changed drastically over the last few years. Individual business loans, which accounted for 41.5% of portfolio (with 267 loans) on end-December 2008, grew to 64% of portfolio (with 968 loans) by November 2010. In case of group loans, while the number of loan accounts has remained at similar levels as in 2008, the share in portfolio has come down to 27.3%.

The following table displays the products and their features:

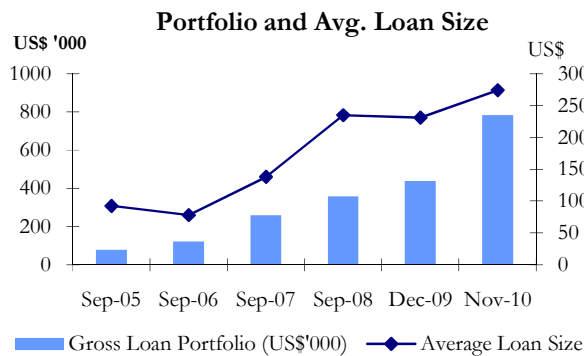
Loan product →	Group Loan (Small/TRM-1)	Group Loan (Big/TRM-2)	Business loan (TRM-3)
Target clients	women with active business		Active business women with existing business
Eligibility	Age - 18-65 years, Have business Organized in 4-10 member group		Age - 18-65 years, Own a business
Loan Size	US\$ 50-100 promoted to TRM-2 loan in second cycle	US\$ 101-500 Max. increase of US\$100 in next cycle	US\$ 510-3,000 Depends on business, capacity to pay and previous loan payment
Repayment frequency	Weekly		Monthly
Loan term	4-8 months		6-18 months
Interest rate	36% pa flat		
Service Charge	US\$1 per loan	1% of loan amount	2% of loan amount
Penalty on overdue	No		
Security Deposit	10% of loan amount No interest on security deposit		
Guarantee	Spouse and group guarantee		Spouse and One businessman (other than family member)
Prepayment	Allowed, but charged interest for full installment period		

Part payment	Normally not accepted (accepted in case of delinquent loans)
Foreclosure of loan	Allowed, but immediate subsequent loan not allowed

While the product range has remained similar to last year, the loan term under group loan has been increased to 8 months, while for individual loans the term has been reduced from 36 months to 18 months.

TRM is planning to introduce ‘agriculture loans’ (short and long term) for pesticides, fertilisers, agriculture equipments and plantations, for which the pilot testing is underway.

Since inception, TRM witnessed a continuous increase in its portfolio. The average loan outstanding size increased significantly from US\$ 78 in Sep’2006 to US\$ 231 in Dec’ 2009 and further increased to US\$ 274 in Nov’ 2010. Major reason for the increased average loan outstanding is increasing share of individual loan product.



Saving products

At present, TRM offers a voluntary saving product to its members and pays an interest of 6% pa on average monthly balances. The clients have the option to withdraw their savings at any time or continue after completion of loan. However, clients are not eligible for

savings once they withdraw their loan security deposits. TRM has designed additional four new saving products viz. demand savings, fixed term savings, recurring term savings and combo of demand and recurring savings but is yet to introduce these. The total saving balance was US\$ 61,735 on 30 November 2010.

The organisation does not offer any insurance products to its clients because Timor Leste only has one general insurance company which has not started operations as yet. The insurance company was given a licence by BPA on 10th March 2010.

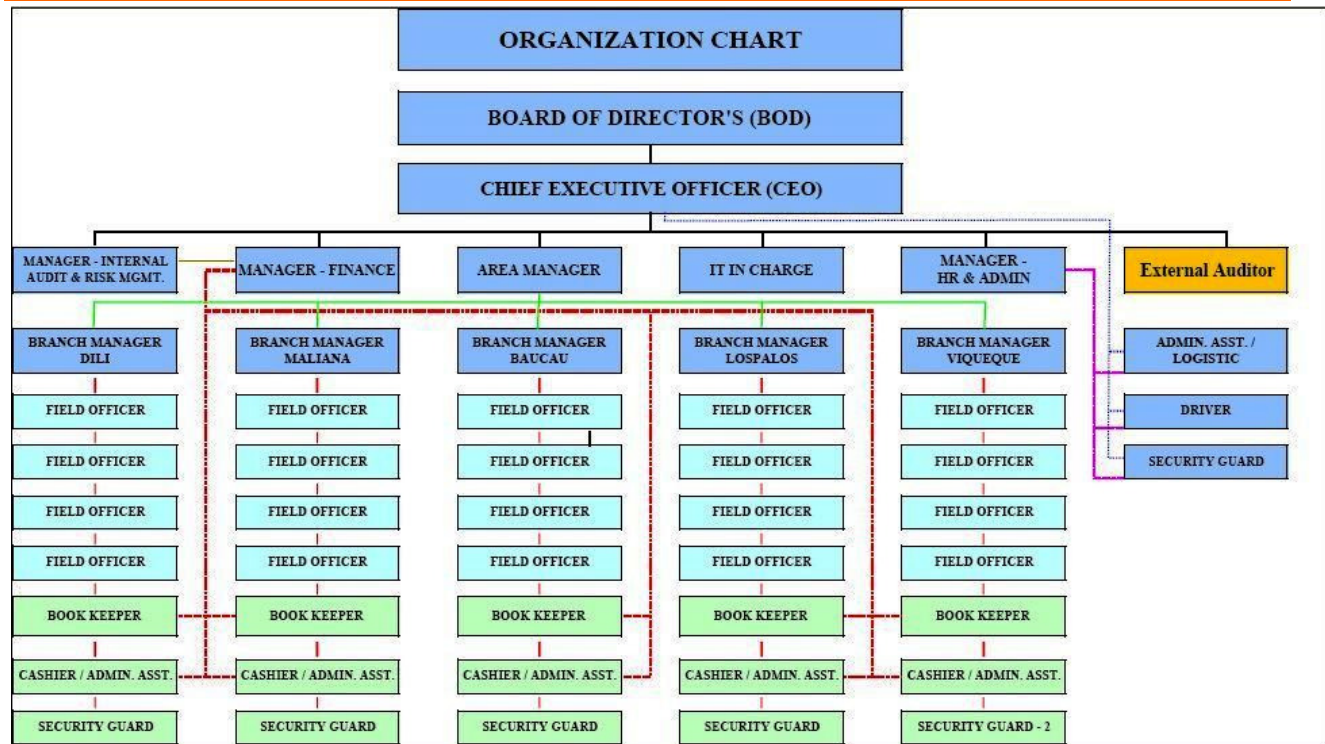
Organization

TRM’s microfinance operations are led by the Chief Executive Officer Mr. Angelo B C Soares. He holds extensive experience of 22 years in the development sector and is working with the organization since inception. He joined as a Field Officer in TRM and was promoted to Branch Manager and later as the Area Manager. During the civil unrest, the Executive Director left to Australia and Mr Soares took over the responsibility of the CEO.

The functional responsibilities have been decentralized to various departments at the Head Office (HO). At HO, there are five departments namely Operations, Internal Audit, HR & Administration, Finance and IT, reporting to the CEO.

As part of tripartite agreement with UNCDF and BASIX, a two member BASIX team (Mr.Subhash Jindal and Mr. Ashish Gupta) have been providing technical support to TRM since November 2009 and assisting the CEO on development/ streamlining of institutional systems and processes.

Each branch is staffed by Branch Manager, 3-4 Field Officers, one Book Keeper, one Cashier and one Guard. The organization structure of TRM is depicted in the diagram below:



Governance and strategic positioning

The grade of TRM on governance parameters is β . The organisation has significantly improved on parameters of governance on account of replacement of previous inactive Board with professional members, good performance on fund mobilization, and stabilized second line of leadership. However, performance is restricted on account of increased competition and uncompetitive interest rate.

TRM has successfully completed 9 years of microfinance operations. The organisation registered under the new NGO registration guidelines with the Ministry of Justice on 2 February 2009.

TRM replaced entire Board after previous rating in 2009. It now has a five-member Board. All the Board members are well qualified and experienced professionals from banking, microfinance and development sectors. All of them are independent directors. TRM has taken a commitment from the Board members that they shall serve on the Board for at least two years.

Mr. Osorio Correia Do Rego, Chairman of the Board, currently serves in the National Advisory for Commerce and Industry. He has worked with USAID's Small Grant program and Private Sector Development Program as Program Development Specialist.

Mr. Hernani Viterbo da Costa Soares is the Vice-Chairman of TRM Board. He is currently working with Ministry of Economy and Development, Timor-Leste.

He has been actively engaged in livelihood promotion through vocational skills building and enterprise promotion.

Ms Rona Elena Cabading Mana-ay is a Certified Public Accountant and a Master Degree holder in Management from University of the Philippines. She has 20 years of experience in accounts, finance, audit, financial analysis, internal controls, MIS and design of system. She is currently working as Deputy Country Director in Oxfam, Timor-Leste.

Dr. V. Anantha Nagaswaran, is a renowned investment banker and angel investor in many startup companies in India. He earned an MBA from IIM Ahmedabad in 1983 and doctorate in Finance from University of Massachusetts in 1994. He has rich International working experience of UBS bank and Credit Suisse, Switzerland. He is currently working with Bank Julius Baer and Co. Ltd in Singapore. He has replaced former Board member Mr. Alvaro da Costa who went for higher studies in Indonesia.

Mr Fernando da Encarnação is an electronics engineer from Australia and has spent his early career heading telecommunications projects. He later got involved in corporate and international development and has over 20 years of experience in the field. Mr Fernando was engaged in skills training and employment promotion under the banner of ILO after serving UNDP and CNEFP. He is multilingual and speaks Timor-Leste's local language, Tetun.

The Board is quite active and held six meetings in the last year. The Board's prime role is to monitor organisation's performance, review and approval of financial plans, budgets and financial statements, discuss expansion strategies, MIS upgradation plans and review of compliance and audit reports.

CEO has gained considerable confidence and technical and managerial abilities under the guidance from BASIX team. As per the tri-partite agreement, BASIX shall continue to provide the much needed technical assistance for the next three years which will be crucial for organizational growth.

Operational and growth strategy

Initially, the institution's microfinance program began as part of Save the Children. In 2002, it became a separate institution and was supported by CRS and USAID till Feb 2007. In 2009, UNCDF/INFUSE started providing technical assistance and funding support.

TRM started with group lending model and introduced individual loans in 2006. Individual lending has become the major contributor to loan portfolio, over the years. Individual loans are meant for group clients with higher credit needs. In the group model, with an aim to provide suitable products to the clients, TRM has deliberately kept certain level of flexibility in group meeting schedules, group norms, duration of loans and loan sizes. These groups do not work as a solidarity group and members do not provide mutual guarantees, even though it was meant to be that way initially. Repayments of the whole group are collected from the leaders at their homes. Since only collections are to be made, meeting time is not strictly followed and staff interaction is limited to the leaders.

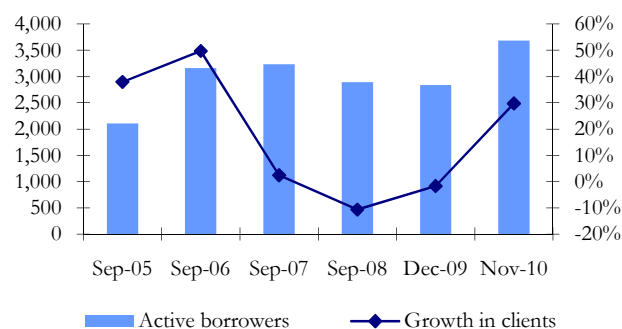
TRM has plans to expand its operations to all the districts in first quarter of next year. The organisation has a 5 year business plan (prepared in 2009) which aims to expand its client base to 17,000 by March 2013 with 13 branches, 136 staff and US\$6.1 million of gross loan outstanding.

As a part of fund mobilisation process, TRM is planning to introduce four additional savings products to mobilise savings from members besides external borrowings. But, the present skill set of staff and systems are not adequate to rollout the additional savings products. It was observed that the figures of current savings balance at the branch office did not match with that in the visited groups. In some groups, the weekly savings amount was not updated on individual passbooks. The branch staff did not know how to calculate interest on savings. The staff requires capacity building before the introducing the savings products.

To achieve its growth as per business plan, TRM hired 30 new FOs and has promoted internal staff to the management positions. TRM seeks to establish partnership with international donors, local banks and the government to continue the fund flow to meet its credit demand. TRM has invested adequately on the development of its staff by providing training to all levels in the hierarchy.

TRM's microfinance program has expanded its outreach significantly in the first five years. The number of active borrowers increased from 1,076 in Sep'2003 to 3,156 in Sep'2006 with a growth rate of 48% per annum. The active borrowers marginally increased from 3,156 in Sep'2006 to 3,232 in Sep 2007, a 2% growth. However, this was reduced by 10.7% to 2,887 in Sep'2008 and further reduced to 2,838 in Dec'2009. This reduction was due to insufficient funds for new loans. During Jan-Nov'2010, the active clients increased by about 30% and reached 3,683, as TRM could mobilise borrowings from UNCDF and Govt. of Timor-Leste.

Client Growth Rate



Client dropouts

Though the client dropout rate has reduced from 17% in 2009 to 15.7% during the current year, it still remains a matter of concern. The possible reasons for client dropout can be delays in disbursements of next cycle loans, higher rate of interest (max. EIR 111% pa and range from 77%-111%pa) and competition from other MFIs. As informed by TRM, interest rates on loan products have already been reduced post the rating visit. The dropout rate is expected to reduce in the medium term on account of better turn-around time due to availability of funds and reduced interest rate.

Competition and product pricing

TRM faces some competition from MFIs like Moris Rasik and IMFIL. The largest institution in the country is IMFIL, operating with a limited banking license. However, after getting the limited banking license IMFIL has been more focused on salary loans. Moris Rasik (MR) is currently the largest MFI in Timor Leste.

Since MR has started expanding to the eastern districts where TRM has its presence, and TRM has started expanding to western districts where MR has its operations, the competition between these two institutions is set to intensify. Though TRM believes that there is a large untapped microfinance market, it has a clear disadvantage in the interest rate charged from clients. TRM offers loans with a term of 4-18 months. The maximum effective rate of interest is 111% pa (range from 77% to 111% pa) which was observed to be a cause of dissatisfaction among its clients. The competitor -Moris Rasik is offering loans at 38.6% pa effective interest rate. IMF TL is charging 12% pa flat against TRM's 36% pa flat.

As per TRM, interest rates have been reduced to 1.75% flat per month for loans upto US\$ 100, 2.25% flat per month for loans more than US\$ 100 and 2% flat per month for Agri Loan product after the rating visit. TRM also informed that it has changed all its products to monthly repayments thereby reducing the effective interest rate.

Second line of leadership

The second line of leadership of TRM has stabilized after previous rating but the quality is moderate. The HR & Administration Manager, Area manager and Financial Manager are guided in decision making by the CEO. The leadership at TRM is making conscious and intensive efforts to hone the skills and boost the morale of the top and middle management staff. Though the second line of leadership is adequate for the existing level of operations, it could face challenges in case of immediate wide geographical expansion of operations. The Area manager however is not competent in meeting the requirements of his position and will need substantial handholding to discharge his duties effectively.

Fund mobilisation

The organisation has reasonable performance in mobilising funds. During last one year, the organisation has been able to borrow US\$ 150,000 from UNCDF and US\$ 150,000 from Govt. of Timor-Leste which has enabled TRM to achieve significant growth in its loan portfolio. TRM had deposit guarantee balance of US\$ 140,142 and savings balance of US\$ 61,735 on 30 November 2010.

To fund its operations, TRM is looking for fresh borrowings of more than US\$ 1.2 mn in 2011. It has started exploring various options and is negotiating with financial institutions and donors. As reported by TRM, it has already received approval from Triodos Bank for US\$ 300,000, Rotary Club for US\$ 74,000 and INFUSE for US\$ 150,000 (and US\$ 84,000 grant for TA). Proposals to Blue Orchard for US\$ 300,000, ANZ Bank

for US\$ 300,000 and Govt. of Timor-Leste for US\$ 200,000 are in the pipeline. TRM has also sent proposals to IFC, Australia and ILO for loan capital and operational grant and other local banks. However, TRM has not yet borrowed commercial (interest bearing) funds. The following table shows the outstanding of borrowings as on 30 November 2010.

Source	Total loan received	Loan outstanding	Interest rate
Govt. of TL	300,000	75,000	0%
UNCDF	150,000	150,000	2%
Total	450,000	225,000	

Organisation and management

TRM has moderate performance on management factors with a grade of β . This is one level higher than the previous rating on account of improvement in staff capacities, internal audit and accounting. The moderate grade of TRM is due to high operational cost, moderate internal control and monitoring mechanism and weak MIS.

Human resource quality & management

Timor-Leste has limited availability of skilled manpower and TRM has done a commendable job in training and grooming its staff, most of whom are senior high school pass outs. The older staff have adequate understanding of organisational processes and microfinance operations. TRM has invested a significant amount in building staff capacity with the support of CRS, USAID and now UNCDF. Though most of its staff are not highly qualified, they are strong at field level operations.

Mr. Eliseu Oliveira Gomes, Manager of HR & Administration was shifted from Finance department in August 2010. He has 17 years of experience in development sector and has been working with TRM since inception. He provides professional HR guidance and expertise to the management team and ensures compliance with internal policies, procedures and practices. HR function at TRM is developed and standardised. The new HR manager has introduced Personal-Professional Learning and Review (PPLR) and has completed the same for all staff in September 2010. However, it is not linked to performance incentive system. He has also recruited 30 new field officers (FOs) for upcoming expansion.

Recruitment is generally initiated by advertising in local newspapers. Applicants are selected through a written test and personal interview, and are recruited for the post

of Trainee Field Officer (TFO). The TFOs who have worked for 6 months are eligible to be promoted to the Field Officer (FO) level. New staff are trained for a three-month period, including both on and off the job training. During last year, three senior staff were sent for exposure visit to Cambodia.

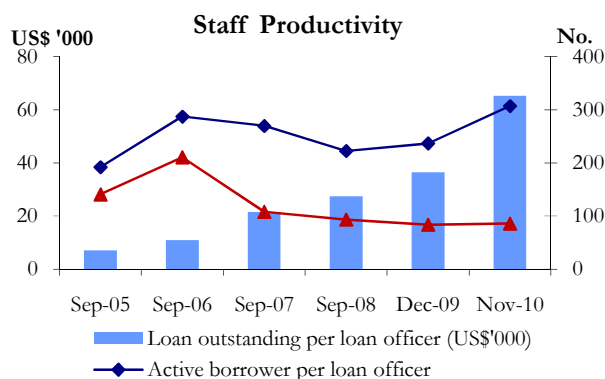
The quality of staff at HO is reasonable. The department heads have been working with TRM for more than five years. The branch staff, especially the FOs, are young and enthusiastic, which are good attributes for working in difficult terrain. Staff quality at branches is moderate and they require training in financial analysis and technical skills to carry out their roles and responsibilities effectively and efficiently.

TRM has developed and introduced performance linked incentive system with support of BASIX. However, the HR Manager lacks understanding about the new incentive system.

TRM's staff attrition rate is quite low at 6.5% for the period of Jan'-Nov' 2010. There are limited job opportunities for the staff in the country and salaries paid by TRM are at par with local NGOs.

Staff productivity

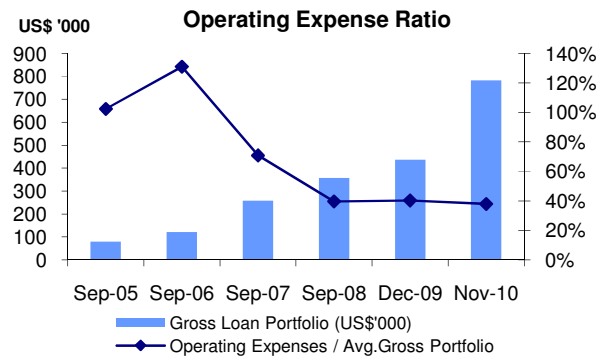
The staff productivity of TRM is reasonable at 307 active borrowers and US\$ 65,293 loan portfolio outstanding per field staff on 30 November 2010 (newly recruited 30 FOs are excluded for calculation of productivity ratios). The number of borrowers per field staff reduced from 269 in Sep' 2007 to 237 in Dec' 2009, but increased to 307 in Nov' 2010. However, active borrowers per staff reduced from 191 in Dec'10 to 86 in Nov'10 owing to low field staff to total staff ratio. In its endeavour to become a professional MFI, TRM has recruited managerial staff at HO level to meet future expansion.



Operating efficiency

TRM has a high Operating Expense Ratio (OER) at 38.0% for the period from January to November 2010,

which is only marginally lower than last year, despite nearly 80% growth in the portfolio. This is on account of recruitment of staff at both HO and field levels to meet future expansion requirements. Further, the operating expenses are also affected on account of relatively higher salaries due to high cost of living in the country and operations in mountainous terrain which increase travel expenses.



Despite this high OER, TRM is able to be profitable on account of high interest rates and access to subsidised funds. With an increase in the size of portfolio, the operational efficiency is expected to improve further in medium to long term. However, in the short term the efficiency would be under pressure on account of planned expansion of operations.

Operating expenses for 2010 exclude Workshop and Training Expenses, expenses and depreciation on one car and expenses for exposure visit, all of which have been funded by UNCDF.

Accounting and MIS

TRM maintains accounts in MS Excel. Accounts at branch level are handled by the Book Keeper and by Finance Manager in HO. TRM has recently replaced the former FM by his Deputy. The new FM has worked with TRM since 2004 in the positions of cashier, book keeper and Deputy FM. He is responsible for the accounting, work while most of the finance related work is currently being handled by the BASIX team. As informed by TRM, it is currently looking to recruit a new FM from Indonesia or India due to unavailability of local professionals with financial skills.

TRM has decentralized the process of accounting. Book Keeper in each branch prepares Performance Summary and Trial Balance which is sent to HO on a monthly basis for consolidation. Consolidated Trial Balance and financial statements are prepared by the FM at HO. All incomes are recognized on cash basis and operational expenses are recognized on accrual basis. No major lapses were found in the accounts in HO and branches. However, the process is time consuming and prone to manual errors. Security is another issue as the excel

sheets are not locked.

MIS of TRM is also maintained in excel sheets. Demand and collection (DCB) sheets are prepared manually by FOs for their respective groups. FOs deposit collected amount with the cashier along with the collection and disbursement receipts. The receipts are used by Book Keeper to update Performance Summary Sheet in excel which contains group wise loan and savings information. The Performance Summary Sheet contains aggregate information about each group since 2005. Some incorrect savings and repayment entries at branches were found which may affect the accuracy of information. The system is able to generate information on PAR which is fairly reliable. PAR is currently worked out at HO with the help of technical assistants, as the understanding of branch staff about PAR is limited.

The current MIS is time consuming, unsecure and difficult to monitor. Lack of rule enforceability features in excel sheets leave ample scope for manual errors and manipulations. Recording of savings in MIS is of special concern. There is a lot of flexibility in the savings product as the deposit amount may vary from member to member and from week to week. MIS is not able to handle member wise savings information thus making it impossible to calculate correct interest on savings. TRM separately maintains member wise savings balance information.

TRM, in association with Moris Rasik, has already purchased a new MIS and accounting software viz. Abacus. Abacus is the highest rated software on the list of CGAP. Data Migration process has started and the software is being tested at Dili branch. New MIS is expected to be fully implemented by April 2011. TRM hopes to tide over the issues of data accuracy, security and time consumption with the implementation of the software. TRM has started training its staff for handling the software.

Tracking system for overdues

The MS-Excel based DCB statements provide information on the overdues. Past overdues are added to the current demand in the statement. The overdue information is consolidated, which is directly monitored by the Area Manager and the CEO. BM is required to report overdues on the same day to AM and HO and also follow up with the defaulting groups/members. For further follow-up, the Area Managers visit the groups together with the FO. Cases of default are discussed with the Area Manager to take further action. The branch staff collects repayments based on the overdue statement, however in one of the visited branch the monitoring of delinquent loans was lax. At the HO level, the technical assistants make portfolio analysis and send to the branches. The tracking of overdue mechanism

seems reasonable for current level of operations. It is expected to improve with implementation of the new MIS software.

Loan rescheduling has been stopped in the current year. Earlier the field staff was doing rescheduling without informing the HO. To a certain extent, voluntary savings assist the organisation to enforce group guarantees, as well as helping clients to smoothen their cash flows.

Internal audit and control systems

TRM has changed the internal audit system considerably since the last rating. Previous internal auditor has been replaced with a former BM who has been working with TRM since 2004. The new auditor started his work in November 2010 after a month's training from technical assistants. The new internal audit template and system developed by the technical assistants is relevant, comprehensive and is capable to generate summary reports useful for management. Audit covers operations, savings management, cash and bank, transaction process, asset management, IT and administration of branch office. Audit reports are submitted to the respective BMs and AMs; if the performance is below 80% as per the template, attention of CEO is sought. BMs are required to submit compliance within three days of receiving the audit report. Important findings from internal audit reports shall be presented to the Board on quarterly basis. Branch audits are planned to be done quarterly. The revised audit has covered only one branch till date.

Since the audit team consists of only one member, TRM is planning to shift another BM to internal audit function to support its expansion plans. Changes and improvements in internal audit system are quite recent and the results for the same are yet to be seen.

Though the quality of internal audit seems to be improving, internal control systems and monitoring is still a point of concern. Hilly topography and underdeveloped road infrastructure makes monitoring of far-off branches difficult. Branch visits by HO staff are unplanned and ad-hoc. Monthly monitoring meetings are held at HO and attended by the BMs, but are not recorded. Field visits by BM for verification of groups and monitoring are not recorded anywhere. Certain cases of mismatch between individual savings balances and branch records were observed.

In the visited branches, it was observed that the FOs do not carry the DCB sheet and the meeting schedule, and the centre meetings are attended only by the group leaders. In another visited branch, loan utilization checks were not conducted. It was found that two FOs had left the Viqueque branch in 2010 after committing a fraud by distributing ghost loans. Some of the loan documents including client IDs of these ghost loans were found to

be missing. It is apparent that AM and BM have not been active in investigating the matter in detail.

Financial planning

Financial planning is undertaken by the CEO with assistance from technical assistants. A detailed yearly plan is prepared for the organisation to set targets and plan the fund requirement. Analysis of variances is regularly tracked by the CEO. Branches send cash requests to the HO as and when it gets the sanction approval for the loans to be disbursed. The current FM lacks adequate skills, and needs strengthening to handle her functions well. Besides, unavailability of internet banking facility, inadequate bank branches and limited financial products and services offered by banks in Timor Leste constrain effective cash and financial planning.

Quality of clients/member groups

Visited member groups showed reasonable performance on repayment of loans and overall discipline. Group meetings were attended by the group leaders only. Leaders collect the entire group's loan repayment. Client awareness about the institution's lending rules/norms was observed to be moderate. Many clients are not happy with the high rate of interest rate and expect lower rates.

Financial profile

TRM has reasonable performance on the financial parameters with a grade of **β+**, which is one notch higher

than the previous rating grade. The organisation has improved profitability and portfolio quality. The profitability and efficiency are expected to improve with increase in scale.

TRM informed that interest rates have been reduced to 1.75% flat per month for loans up to US\$ 100, 2.25% flat per month for loans more than US\$ 100 and 2% flat per month for Agri Loan product after the rating visit. Also, repayments for all products have been changed to monthly after the rating visit thereby reducing the effective interest rate.

Infrastructure

Head office and branch offices operate from rented premises. TRM is planning to construct own head office. One piece of land has been identified in 'Education Area', near Cathedral which may cost around US\$ 60,000 to 70,000 and US\$ 40,000 to 50,000 for construction. TRM is exploring opportunities for donation for construction of building.

Infrastructure of the organisation is adequate for its operations. Fixed assets mainly include vehicles, computers, power back-up facilities, office equipment, furniture and fixtures. As on 30 November 2010, TRM's total net fixed assets stood at US\$ 85,602 which constitute 7.8% of the total assets. TRM's fixed assets are on a higher side mainly because of physical grants received in the form of two and four wheelers.

Financial Ratios	Sep-05	Sep-06	Sep-07	Sep-08	Dec-09 [^]	Nov-10 [^]
Capital Adequacy						
Risk Weighted Capital Adequacy Ratio	226.6%	177.1%	95.5%	105.1%	97.9%	76.0%
Asset Quality						
Portfolio at Risk (>30 days)	1.9%	28.3%	16.7%	12.2%	17.4%	4.4%
Portfolio at Risk (>60 days)	1.7%	18.4%	13.1%	11.9%	15.3%	4.0%
Current Recovery Rate**	97.4%	73.9%	81.1%	87.0%	85.6%	91.5%
Loan Loss Provision Expense/Gross Portfolio	1.6%	21.3%	10.5%	3.9%	3.9%	4.0%
Loan Loss Reserves / Gross Portfolio	2.7%	18.0%	14.1%	13.8%	15.8%	4.2%
Management						
Operating Expenses/Avg. Gross Loan Portfolio	102.4%	131.0%	70.8%	39.7%	40.3%*	40.3%*
Number of Borrowers / Field Officer	192	287	269	222	237	307
Number of Borrowers / Total Staff	140	105	108	93	83	86
Loan outstanding / Field Staff (US\$)	7 120	11 020	21 550	27 448	36 430	19 588
Earnings						
Net operational income / Avg. Assets (RoA)	-17.2%	-37.5%	-16.6%	7.5%	6.2%*	14.2%*
Net operational income / Avg. Equity (RoE)	-24.4%	-45.4%	-23.2%	10.4%	10.3%*	25.9%*
Operational Self Sufficiency (OSS)	43.9%	25.9%	64.0%	120.9%	121.2%	154.9%
Financial Self Sufficiency (FSS)	41.8%	23.7%	53.8%	98.1%	107.5%	120.4%
Portfolio Yield	45.3%	39.5%	49.8%	52.4%	53.5%*	60.0%*

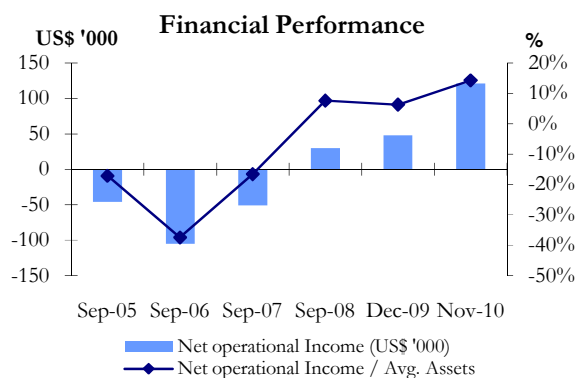
Interest and Fee exp. / Avg. Gross Loan Portfolio	0.2%	0.1%	0.1%	0.0%	0.0%*	0.2%*
Liquidity						
Cash & Liquid Assets / Total Current Assets	61.2%	59.1%	23.5%	27.2%	45.0%	20.7%
Cash & Liquid Assets / Total Assets	46.8%	51.0%	21.7%	26.0%	41.5%	19.1%

^ Financial period October 2008-December 2009 and January-November 2010

* All periodic ratios have been annualized

**Reported as per TRM's MIS report

TRM reported losses for the first five years. It achieved break-even during 2007-08. TRM's operational surplus increased from US\$ 29,725 in Oct'07-Sep'08 to US\$47,553 in Oct'08-Dec'09 and further increased to US\$ 120,944 for the period from Jan'10 to Nov'10.



Credit performance and portfolio quality

The portfolio quality of TRM is reasonable with PAR₆₀ at 4.0% on 30 November 2010. TRM has systematically reduced its PAR over the years, which was over 72.7%, at the height of the crisis in June'06. The PAR_{30days} was 17.4% in Dec'09 which has now reduced to 4.4% in Nov'10 after writing off chronic bad loans (the amounts overdue for more than 12 months).

Out of PAR_{1day} of 4.5%, Viqueque branch contributes 3.1%, the main reason being the fraud by two branch staff cited earlier. Branch wise PAR information is given in the table below:

Branch	Loan Outstanding	PAR (US\$)	
		Amount	%
Dili	258,589	0	0.0%
Baucau	181,744	5,201	0.7%
Lospalos	109,958	5,462	0.7%
Viqueque	125,962	24,218	3.1%
Maliana	107,276	0	0.0%
Total	783,528	34,880	4.5%

TRM has created a loan loss reserve of 4.2% on portfolio outstanding as on 30 November 2010, which

is adequate, for the portfolio quality. TRM has a write off policy under which an overdue loan is written off after 365 days.

Asset, liability and equity composition

TRM succeeded in mobilising substantial grant funds for its operations in its initial years. Since beginning, TRM has mobilised US\$ 521,100 in grants (for TA and loan capital) from international donors, US\$300,000 in interest free loans from Govt. of Timor-Leste and US\$ 150,000 as subsidized loan (2%pa interest rate) from UNCDF.

On the liability side, the donated equity along with retained earnings account for 56.5% of the total liabilities and equity. The members' funds (guarantee deposit and savings) were 18.3% and borrowings (from Govt. of TL and UNCDR) form 20.4% of total liabilities and equity.

TRM's risk weighted Capital Adequacy Ratio (CAR) is high at 76.0% on 30 November 2010 due to donated equity and high idle cash in hand and at bank. TRM has deployed 68% of its total assets in loans as on 30 Nov'2010, which is a considerable increase from 48.8% in Dec' 2009. The cash and bank balances were 19.1% and net fixed assets comprised 7.8% of the total assets. It was observed that some branches had significant cash balances. The monthly average cash and bank to average assets is 23.5% during Oct'08-Dec'2009 and 27.8% during Jan'10-Nov'10.

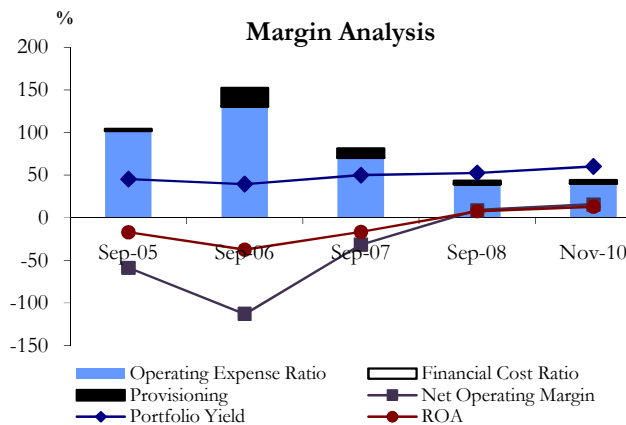
Profitability and sustainability

The financial performance of TRM has improved significantly from the previous rating. The Operating Expenses Ratio (OER) has reduced from 40.3% during 2009 to 38% (annualised) during Jan-Nov 2010. Despite high operational expenses, TRM has been consistently earning positive Returns on Assets (RoA) on account of negligible financial cost and high portfolio yield. RoA has more than doubled from 6.2% (annualised) during Oct'08-Dec'09 to 14.2% (annualised) during Jan'-Nov'10 on account of improved portfolio yield and better deployment of resources. Portfolio yield has improved from 53.5% (annualised) during Oct'08-Dec'2009 to 60.0% in Jan'10-Nov'2010 (annualised) due to better portfolio

quality. Share of net loan portfolio in total assets has improved substantially from 53% in Dec'09 to 73.7% in Nov'10.

The Operational Self Sufficiency (OSS) has improved from 121.2% in Oct'08-Dec'09 to 154.9% in Jan'10-Nov'10. During the same period, the Financial Self Sufficiency (FSS) has also improved from 107.5% to 120.4%.

The margin analysis below shows that the portfolio yield has been increasing from last four years. At the same time, the operational expenses have been on a declining trend. As the portfolio increases and operations scale up, the OER is expected to go down further.



Future plans and prospects

TRM plans to continue its expansion by consolidation of operations in existing branches as well as by establishing new branches and starting new products. TRM has just 12% of market share which the organization plans to increase to 30% by reaching more than 10,000 active borrowers and expanding to all districts by end of 2011. It also plans to offer agriculture loan in the medium term.

TRM has prepared a 5-year business plan. As per that, TRM is confident to reach around 17,000 active borrowers and 13 branches by end of 2013 with 135 staff and US\$ 6.1 million gross portfolio. The expansion plans are reasonable and require regular infusion of capital to sustain the growth.

TRM's plans to launch new products (savings and loans) will however depend upon its ability to improve its internal control systems, MIS, maintaining a good level of portfolio quality and a clearly defined operational policy.

Validity This rating is valid, subject to no other significant changes in the organisational structure and external operating environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Financial statements for Tuba Rai Metin

Balance sheets as on

Amount in US\$

30-Sep-05	30-Sep-06	30-Sep-07	30-Sep-08		31-Dec-09 (15 months)	30-Nov-10 (11 months)
				ASSETS		
				Current assets		
125 163	149 113	69 874	121 468	Cash in hand and bank	312 485	211 093
2 999	3 974	5 892	17 886	Accountable receivables	14 578	56 828
				Loans outstanding		
78 321	121 224	258 601	356 824	Gross loan outstanding	437 162	783 517
- 2 077	- 21 878	- 36 533	- 49 178	Loan loss reserve	- 69 095	- 32 829
76 244	99 346	222 068	307 646	Net loans outstanding	368 067	750 688
204 406	252 433	297 834	447 000	Total current assets	695 130	1 018 609
				Long term assets		
62 913	39 803	23 719	20 944	Net property and equipment	58 364	85 602
62 913	39 803	23 719	20 944	Total long term assets	58 364	85 602
267 319	292 236	321 553	467 944	Total Assets	753 494	1 104 211
				LIABILITIES AND NETWORTH		
				Current liabilities		
0	0	0	8 013	Savings: Voluntary	103 880	61 735
1 541	2 215	564	27	Other current liabilities	7 065	52 965
1 541	2 215	564	8 040	Total current liabilities	110 945	114 700
				Long term liabilities		
18 345	25 296	44 720	66 195	Deposit Guarantee	171 513	140 142
				Long term debt		
0	50 000	50 000	50 000	Rotary Club (concessional loan)	0	0
				Govt. of Timor Leste	75 000	75 000
				UNCDF	0	150 000
18 345	75 296	94 720	116 195	Total long term liabilities	246 513	365 142
				Net worth		
				Paid capital		
246 594	318 755	381 345	469 060	Donated equity/grant	155 002	259 017
46 866	839	- 104 030	- 155 076	Retained net surplus/(deficit)	193 481	244 408
- 46 027	- 104 869	- 51 046	29 725	Current net surplus/(deficit)	47 553	120 944
247 433	214 725	226 269	343 709	Total net worth	396 036	624 369
267 319	292 236	321 553	467 944	Total Liabilities and Net Worth	753 494	1 104 211

Income statements for the year ending

Amount in US\$

30-Sep-05	30-Sep-06	30-Sep-07	30-Sep-08		31-Dec-09 (15 months)	30-Nov-10 (11 months)
35 646	36 667	78 683	160 937	Income		
				Interest on loans	256 930	290 029
0	20	8 243	10 289	Fees and commissions on loan portfolio	14 006	23 646
316	4	4 014	998	Investment income	560	27 751
35 962	36 691	90 940	172 225	Total operational income	271 496	341 426
				Financial costs		
				Interest on borrowings		
			3	Interest and fee expense on savings		254
174	85	124	110	Other financial cost		820
35 788	36 606	90 816	172 112	Gross financial margin	271 496	340 352
1 233	19 819	18 275	12 645	Provision for loan losses	19 917	20 915
34 555	16 787	72 541	159 467	Net financial margin	251 579	319 437
				Operating expenses		
49 850	64 803	61 567	77 287	Personnel Cost	115 915	109 642
10 955	11 850	8 164	12 352	Travel	13 212	13 180
2 919	5 071	4 091	4 119	Office supply	5 717	14 605
0	23 110	22 204	19 283	Depreciation	19 214	12 362
16 361	15 693	25 367	14 638	Administrative expenses	41 202	44 108
497	1 129	2 194	2 062	Other operating expenses	8 766	4 596
80 582	121 656	123 587	129 742	Total Operating expenses	204 026	198 493
- 46 027	- 104 869	- 51 046	29 725	Transferred to Balance Sheet	47 553	120 944

Notes to the financial statements

1. TRM is registered as a national NGO with the NGO Forum of Timor-Leste
2. All loan portfolio related income is recognised only when it is actually received (cash basis). Grants allocated to the institution's microfinance programme are treated as donated equity in the balance sheet (and not regarded as operational income).
3. Operating costs are calculated on an accrual basis.
4. Operating expenses for 2010 exclude Workshop and Training Expenses, one car depreciation and expenses thereon and expenses for exposure visit, all of which have been funded by UNCDF.

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk (PAR_{30 or 60 days}): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 or 60 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation).
13. Risk weighted capital adequacy ratio: Ratio of networth to risk weighted assets
M-CRIL Risk weights: 100% for all assets except the following: fixed assets: 50%; cash and bank deposits 0%.
14. Return on assets: Ratio of operational income/(loss) to average total assets
15. Return on equity: Ratio of operational income/(loss) to average net worth

Abbreviations

CRS	Catholic Relief Services
FO	Field Officer
FSS	Financial Self-Sufficiency
GDP	Gross Domestic Production
HO	Head Office
HR	Human Resource
ILO	International Labour Organization
IMFTL	Instituicao de Microfinancas de Timor Lesté
INFUSE	Inclusive Finance for the Under-served Economy
LLR	Loan Loss Reserve
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institution
MIS	Management Information System
MR	Moris Rasik
NGO	Non-governmental Organisation
OD/II	Other Deposit Taking Institutions
OER	Operating Expenses Ratio
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
RoA	Return on Assets
RoE	Return on Equity
TRM	Tuba Rai Metin
SCF	Save the Children
UNCDF	United Nations Capital Development Fund
US\$	United States Dollar
USAID	United States Agency for International Development