

# Pocket Guide

to the Microfinance Financial Reporting  
Standards Measuring Financial Performance  
of Microfinance Institutions

Reporting  
Standards

This document is a condensed version of the *Microfinance Financial Reporting Standards (MFRS): Measuring Financial Performance of Microfinance Institutions* that will be published by The SEEP Network in 2011.

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# An Overview of What's New in the Microfinance Financial Reporting Standards 2010

A maturing microfinance industry needs standardized methods to measure and analyze financial performance and risk management. *Microfinance Financial Reporting Standards: Measuring Financial Performance of Microfinance Institutions* (hereafter the *MFRS*) addresses this need. When published, the *MFRS* will update The SEEP Network's 2005 financial performance publication, *Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring*.<sup>1</sup> The *MFRS* is designed for use by all microfinance institutions (MFIs): non-governmental organizations (NGOs), non-bank financial institutions or companies, commercial banks, rural banks, credit unions, and cooperatives. An overview of the ratios and tables that makeup the *MFRS* is presented below.

## The Core Financial Ratios and Tables

Ratio type	Analytical focus
Profitability (7 ratios)	Will the MFI have the financial resources to continue serving clients today, as well as tomorrow?
Capital adequacy and solvency ratios (2 ratios)	Does the MFI have the ability to meet its obligations and absorb unexpected losses?
Liquidity ratios (1 ratio)	Does the MFI have the resources to meet its obligations on a timely basis as they come due?
Asset quality and portfolio quality (3 ratios)	What is the quality of the MFI's main asset, its loan portfolio?
Efficiency and productivity (8 ratios)	Is the MFI serving as many clients as possible at the lowest possible cost?
Asset-liability management tables (4 tables)	What are the risks inherent in an MFI's asset and liability structure?

Note: Ratios designated as "core" apply to all MFIs, regardless of size, maturity, product offerings, or legal form (bank, non-bank financial institution, NGO, cooperative, etc).

## The Non-Core Financial Ratios

Ratio type	Analytical focus
For regulated financial institutions (2 ratios)	Is the quality and solvency of the MFI's capital base strong enough to leverage growth internally? To meet obligations? To absorb unexpected losses? How does this compare with the Basel Guidelines?
For deposit-taking MFIs (4 ratios)	How important are deposits in the MFI's funding mix? Is the MFI providing useful deposit services for a range of client financial needs, while balancing the need to manage the liquidity and security of deposits?

Note: "Non-core" ratios are supplemental ratios that apply to a smaller set of MFIs, such as regulated institutions and/or those that take deposits.

<sup>1</sup> This document, known as The SEEP Network *Framework*, detailed 18 financial performance ratios. A history and role of the *MFRS* may be found at the Microfinance Financial Reporting Standards Initiative page on The SEEP Network website ([www.seepnetwork.org](http://www.seepnetwork.org)). The SEEP Network *Framework* may be downloaded from there as well.

### Wait! What did the MFRS do with...?

Due to evolution in microfinance reporting, a select number of ratios included from the SEEP Network Framework has been phased out of the MFRS. In addition, the MFRS uses mainstream terminology where possible to be more consistent with the vocabulary and language of the commercial banking sector. Finally, some ratios have been renamed to reflect industry evolution.

<b>Ratios eliminated or renamed</b>	<b>Rationale</b>
Operational self-sufficiency (OSS) and financial self-sufficiency (FSS)	OSS and FSS ratios, which evolved as early and important sustainability ratios, are omitted in this edition. While OSS and FSS were helpful, once an MFI exceeded 100% sustainability or the breakeven point, the ratio became less helpful as a measure of profitability. Return on Average Assets (R <sub>3</sub> ) and Return on Average Equity (R <sub>4</sub> ) are commercial measures better suited to analyze an established MFI's profitability.
PAR <sub>30</sub>	PAR <sub>30</sub> (portfolio at risk more than 30 days) has been replaced by NPL <sub>30</sub> , which is the abbreviation for "non-performing loans greater than 30 days past-due." NPL <sub>30</sub> includes the value of all renegotiated loans.

# Introduction

The Microfinance Financial Reporting Standards (the MFRS) uses a financially conservative and prudent approach to measuring financial performance, due to the fact that many MFIs are exposed to volatility in their operating environments (natural, political, economic, or a combination). Specific implications of this financially conservative approach are reflected in several ratios. For example, in some ratios, a committed credit line was previously considered for liquidity; the MFRS no longer does since committed credit lines may not be available in a financial stress scenario. Liquid assets are defined as cash only because cash-like line items, such as “due from banks,” may be encumbered and not available as liquid assets.

The MFRS encourages maximum disclosure and transparency of financial information by MFIs to make reporting financial performance as explicit as possible. New ratios reflect the microfinance industry’s growing attention to measuring and analyzing risk. Finally, a more robust set of financial performance standards have been added to account for the growing number of MFIs that are regulated, capture deposits, and have complex capital structures.

It is important to note that central bank regulators are less interested in obtaining calculated ratios from MFIs than they are in receiving good source data from which to derive their own ratios.<sup>2</sup> Nonetheless, the ratios included in this handbook are a useful set of tools for unlicensed and licensed MFIs alike to use in monitoring their current performance and, if applicable, their progress toward becoming licensed and regulated.

One of the primary goals of the MFRS is to ensure that microfinance financial performance ratios are calculated in a consistent manner. MFIs, microfinance associations and networks, regulators, donors, lenders, investors, raters, researchers, and others are all encouraged to use them. Please note that these standards only address microfinance *financial performance*. Standards beyond the scope of this publication address other aspects of microfinance, such as social performance<sup>3</sup> and impact investing,<sup>4</sup> among others.

## Creating the Microfinance Financial Reporting Standards

The Microfinance Reporting Standards Working Group (MFRS WG), a subcommittee of the SEEP Network’s Financial Services Working Group, represents a variety of industry stakeholders and is endorsed by over 100 organizations, such as CGAP, MIX Market, and Planet Rating. In creating the MFRS, the working group used a collaborative process. In June 2010, it revised The SEEP Network *Framework* and sent this draft to a wide range of stakeholders. The revision was also made available for public comment and review on the Internet for a four-month period. The MFRS WG compiled and reviewed all submitted comments in order to determine what ratios and tables would be included in the MFRS, as well as the standard definition for each. In 2011, the final update to the 2005 SEEP Network *Framework*, on which this *Pocket Guide* is based, will be published. For updates on the progress of the MFRS, please visit the MFRS WG website, [www.reportingstandards.org](http://www.reportingstandards.org).

2 Every effort has been made to approach these ratios in a manner consistent with regulatory financial reporting requirements and compliance. It is important to note, however, that individual regulators have the mandate to define the regulatory ratios applicable in their country.

3 Information about microfinance social performance is available at [www.themix.org/standards/social-performance](http://www.themix.org/standards/social-performance).

4 Please see the Global Impact Investment Network’s *Impact Investing and Reporting Standards* at <http://iris-standards.org>.

## The New MFRS Ratios and Asset-Liability Tables

For the sake of ease, the MFRS ratios and asset-liability management (ALM) tables of this pocket guide have been organized as follows:

- **Table 1: Microfinance Financial Reporting Standards Ratios**

This table presents the 21 “core” and 6 “non-core” ratios that make up the MFRS. Ratios designated as core apply to all MFIs, despite their size, maturity, product offerings, or legal form (bank, non-bank financial institution, NGO, cooperative, etc.). Non-core ratios are supplemental ratios that apply to a smaller set of MFIs, such as regulated institutions and/or those that take deposits. It is recommended that MFIs belonging to these sub-sets, *as well as those that plan to transition into these sub-sets*, utilize all non-core ratios that apply (those designated for regulated MFIs, for example.)

- **Table 2: Asset-Liability Management (ALM) Tables**

These four tables, focused on *liquidity risk*, *repricing risk*, *foreign exchange risk*, and *foreign exchange liquidity*, are important components of MFI financial risk-management strategy and monitoring. ALM tables provide a visual and useful presentation of financial information to assess risks inherent in an MFI’s asset and liability structure. For institutions that are compliant with International Financial Reporting Standards (IFRS),<sup>5</sup> the first three tables are required as disclosures of market risk in annual audited financial statements. Furthermore, the MFRS Working Group views them as *crucial supplementary indicators of liquidity*, given the difficulty and limitations of ratios in measuring liquidity with standard balance sheet ratios.<sup>6</sup> (These are “point-in-time” indicators that do not adequately capture the dynamic feature of the liquidity profile of a financial institution.)

**Table 1 Microfinance Financial Reporting Standards Ratios**

PROFITABILITY RATIOS				
Ratio no.	Term	Formula	Calculation notes	Use
<b>R1</b> (R4 in 2005 edition)*	<b>Portfolio yield</b>	Interest, fees, and commissions in loan portfolio/ Average gross loan portfolio	MFRS assumes that accrued interest receivable is backed out or reversed if not received.**	Indicates the MFI’s ability to generate cash from interest, fees, and commissions in the average gross loan portfolio. A decreasing trend means lower earnings in the portfolio, either from a change in product pricing, product portfolio composition, or foregone revenue due to rising arrears.
<b>CORE</b>			As the ratio is calculated using averaging, it eliminates the effect of seasonal highs and lows.***	
<b>R2</b> (NEW)	<b>Net interest margin (NIM)</b>	Interest income – Interest expense/ Average earning assets	Earning assets are those that generate financial revenue, including the gross loan portfolio, trade investments, and other investments.	Measures the MFI’s margin after paying funding sources. A declining trend means smaller margins to cover operating and provisioning expenses.
<b>CORE</b>				
<b>R3</b> (R2 in 2005 edition)	<b>Return on average assets (ROA)</b>	Net income after taxes and before donations/Average assets		Measures how the MFI is managing its assets to optimize its profitability. A mature MFI should generate a positive ROA.
<b>CORE</b>				
<b>R4</b> (R3 in 2005 edition)	<b>Return on Average Equity (ROE)</b>	Net income after taxes and before donations/Average equity		ROE is a core measure of profitability. It measures an MFI’s ability to build equity through retained earnings. A mature MFI should generate a positive ROE.
<b>CORE</b>				

<sup>5</sup> Further information about IFRS may be found at [www.iasb.org](http://www.iasb.org).

<sup>6</sup> Deposits included in the ratios are assumed to be *voluntary*, not compulsory.

<b>R5</b> (NEW) <b>CORE</b>	<b>Financial expense ratio</b>	Interest and fees expense on funding liabilities/Average gross loan portfolio		Measures the total financial expense the MFI incurs to fund its portfolio.
<b>R6</b> (NEW) <b>CORE</b>	<b>Impairment expense ratio</b>	Impairment expense†/ Average gross loan portfolio	This ratio can also be measured as a proportion of NPL30†† with NPL30 in the denominator.	Measures the impairment expense as a proportion of the average gross portfolio, which represents the cost of credit-related losses or write-offs in the portfolio. Changes in this ratio may be due to changes in delinquency or to provisioning policies.
<b>R7</b> (R12 in 2005 edition) <b>CORE</b>	<b>Operating expense ratio</b>	Operating expense/ Average gross loan portfolio		Measures the administrative and overhead costs incurred to deliver loans. Declining trend, while a sign of an MFI's improving efficiency, may also reflect a rising average loan size.

\* R1: Those wanting to trace new ratios to their original source in The SEEP Network Framework should do so using the referenced ratio number, as some of the terms and formulas have changed.

\*\* R1: The SEEP Network Framework contains a discussion of the treatment of accrued interest on loans past due in box 3.6, "Adjustment for Accrued Interest Receivable," on page 60, <http://www.seepnetwork.org/resources/Measuring%20Performance%20of%20MFIs%20Framework.pdf>.

\*\*\* R1: The SEEP Network Framework contains a discussion of the use and calculation of averages in section 1.6.3, "Averaging," on page 6, <http://www.seepnetwork.org/resources/Measuring%20Performance%20of%20MFIs%20Framework.pdf>.

† R6: The impairment expense is a noncash expense item charged to an MFI's earnings to offset an increase in the impairment loss allowance for possible bad debt and is reported on the income statement

†† R6: NPL30 means "non-performing loans > 30 days past-due" including the value of all renegotiated loans. NPL30 was previously called portfolio at risk as of 30 Days (PAR30). The MFRS use mainstream terminology where possible to be more consistent with vocabulary and language of the commercial banking sector.

## CAPITAL ADEQUACY AND SOLVENCY RATIOS

Ratio no.	Term	Formula	Calculation notes	Use
<b>R8</b> (R7 in 2005 edition) <b>CORE</b>	<b>Debt to equity ratio (leverage or gearing ratio)</b>	Total liabilities/Total equity		Indicates the extent to which an MFI has leveraged its own funds to finance its portfolio and other assets. Excessive leverage increases the risk profile of an MFI, as the institution may have limited ability to absorb unexpected credit losses or it may have borrowed more than it can repay in times of troubles.
<b>R9</b> (NEW) <b>CORE</b>	<b>Equity to assets ratio</b>	Total equity/Total assets	The denominator should exclude goodwill and intangible assets for MFIs that include these line items on their balance sheet.	A measure of the solvency of an MFI, this ratio helps an MFI assess its ability to meet its obligations and absorb unexpected losses.

<b>R10</b> (NEW)  <b>NON-CORE</b> (for regulated MFIs)	<b>Capital adequacy ratio (CAR)</b>	Total capital/Risk-weighted assets	Total capital is a broader definition of "equity" and includes equity plus preference shares plus some forms of subordinated debt and mandatory convertible debt. The denominator should exclude goodwill and intangible assets for MFIs that include these line items in their assets. The MFRS recommends that MFIs use the standardized approach in calculating their risk-weighted assets. See appendix 1 of the MFRS ( <a href="http://www.seepnetwork.org/Pages/Initiatives/FinancialReportingStandardInitiative.aspx">http://www.seepnetwork.org/Pages/Initiatives/FinancialReportingStandardInitiative.aspx</a> ) for further information on this approach.	This is a more accurate measure than the equity-to-assets ratio (in accordance with Basel II calculations), <sup>‡</sup> the MFI's amount of capital, and the risk level of assets.
<b>R11</b> (NEW)  <b>NON-CORE</b> (for regulated MFIs)	<b>Uncovered capital ratio (UCR)</b>	NPL <sub>30</sub> – Impairment loss allowance/Total capital	See R10 for information on total capital. See R6 note for information on NPL <sub>30</sub> .	Indicates the impact of potential portfolio losses on an MFI's capital base. The lower the ratio the better, which means the less capital at risk.

<sup>‡</sup> R10: In September 2010, the Bank for International Settlements announced the framework of Basel III, which will replace Basel II. For more information, see [www.bis.org](http://www.bis.org).

## LIQUIDITY RATIOS

(Also see table 2 below, "Asset-Liability Management," that addresses liquidity.)

Ratio no.	Term	Formula	Calculation notes	Use
<b>R12</b> (R8 in 2005 edition)  <b>CORE</b>	<b>Cash ratio</b>	Unrestricted cash and cash equivalents/Demand deposits + Short-term time deposits + Short-term borrowings + Interest payable on funding liabilities + Accounts payable + Other short-term liabilities	Unrestricted cash and cash equivalents are defined to include cash, government securities, and other assets. These may be assets that can be sold, repossessed, or used as collateral in the market, or are eligible as collateral in the central bank's normal open-market operations. (They are eligible only if such central bank borrowings will not jeopardize customer confidence). Also included secured and unsecured credit lines that are established and committed with no material adverse change clauses from similar or higher rated banks.	Indicates level of cash and cash equivalents the MFI maintains to cover short-term liabilities. The MFI must ensure that it has sufficient liquid funds to meet all its short obligations.



<b>R13</b> (NEW)  <b>NON-CORE</b> (for deposit-taking MFIs)	<b>Savings liquidity</b>	Reserves against deposits as required by regulators + Unrestricted cash/Total demand deposits	Generally the national regulator will require a statutory reserve against demand deposits that may directly affect this ratio. MFIs should note such requirements in accounting statements and financial reports.	Provides information on the cash available to meet withdrawals in demand deposit accounts. High results indicate great cash liquidity cushions, but may also reflect an inefficient allocation of resources to earning assets.
<b>R14</b> (NEW)  <b>NON-CORE</b> (for deposit-taking MFIs)	<b>Loans to deposits ratio</b>	Gross loan portfolio/ Deposits		Measures the relative portion of the MFI's portfolio that is funded by deposits. This ratio aids analysis of the role of deposits as a funding source (in addition to being an important client product.)

### ASSET QUALITY RATIOS (PORTFOLIO QUALITY)

Ratio no.	Term	Formula	Calculation notes	Use
<b>R15</b> (R9 in 2005 edition)  <b>CORE</b>	<b>NPL30 days past due</b>	$NPL_{30}/\text{Gross loan portfolio}$	The most common international measurements of NPLs are greater than 90 days. Based on the microfinance business model and short-term tenor of loans, 30 days is a more appropriate time horizon for this ratio, as it was for PAR30.	This ratios measures current risk in the portfolio at a point in time. Changes to this ratio may reflect changes in risk, but should be read in conjunction with the write-off ratio, as the level of reported NPLs can be reduced via write-offs.
<b>R16</b> (R10 in 2005 edition)  <b>CORE</b>	<b>Write-off ratio</b>	$\text{Value of loans written off}/\text{Average gross loan portfolio}$	An MFI's write-off policies vary both in terms of timing and frequency. In addition, national regulators may require that the MFI adopt a defined write-off ratio at specific dates.	Measures the percentage of the MFI's loans that has been removed from the balance of the gross loan portfolio because they are unlikely to be repaid. Changes in this ratio should be read in conjunction with the NPL30 ratio, as MFIs may maintain risk on their balance sheets.
<b>R17</b> (NEW)  <b>CORE</b>	<b>NPL30 + write-offs ratio</b>	$\text{Average NPL}_{30} + \text{Value of loans written off}/\text{Average gross loan portfolio}$	In order to ensure comparability, the value of loans written off is calculated over a rolling four-quarter period.	This ratio gives the most comprehensive measure of asset quality because it shows the combined impact of NPL30 and loans written off on asset quality. In the past, troubled loans could be shifted among these categories.

## EFFICIENCY AND PRODUCTIVITY RATIOS

Ratio no.	Term	Formula	Calculation notes	Use
<b>R18</b> (R5 in 2005 edition)  <b>CORE</b> Portfolio to Assets Gross Loan Portfolio	<b>Portfolio to assets</b>	Gross loan portfolio/Total assets		This ratio measures how much an MFI allocates to its primary business—lending—and, in most cases, to its most profitable activity—making loans. Low results may indicate inefficient use of assets, and high results may indicate insufficient liquidity levels.
<b>R19</b> (NEW)  <b>CORE</b>	<b>Cost income ratio</b>	Operating expense/Total revenues		A common efficiency metric in the commercial banking sector, this ratio measures the extent to which gross revenues absorb an MFI's delivery costs. Declining trends reflect improving efficiency of revenue use.
<b>R20</b> (R13 in 2005 edition)  <b>CORE</b>	<b>Cost per active client<sup>o</sup></b>	Operating expense/Average number of active clients	"Client" should be interpreted as a "unique client" for this ratio, since an MFI client may access multiple products. Each MFI should clearly define what constitutes an "active client," such as a client that has used an MFI's lending, savings, or insurance product in the last 12 months. This distinction helps set apart active clients from "dormant" clients, which may sit out one or more loan cycles, but are still satisfied with the MFI's products and services.  This ratio will vary both by productivity and by the nature of the MFI's products and services mix.	Measures an MFI's average cost of maintaining an active client. Costs per client may vary significantly depending on the type of product being serviced by the MFI. Declining trends reflect improved efficiency of service delivery.
<b>R21</b> (R14 in 2005 edition)  <b>CORE</b>	<b>Borrowers per loan officer</b>	Number of active borrowers/ Number of loan officers	This ratio will vary both by productivity and by the mix of an MFI's products and services.	Measures the average caseload of the average number of borrowers <sup>o</sup> managed by each loan officer. Improved productivity supports more efficient cost delivery, but exceptionally high productivity levels may indicate staff strain, which can lead to staff turnover or rising credit risk through poor due diligence in loan underwriting.

<b>R22</b> (R15 in 2005 edition) <b>CORE</b>	<b>Active clients per staff member</b>	Number of active clients/ Total number of personnel	This ratio will vary both by productivity and by the mix of an MFI's products and services.	Measures the overall productivity of the MFI's personnel in managing clients, including borrowers, voluntary depositors, and other clients. Readers should interpret trends as both productivity and workload, paying attention to work quality at very high levels.
<b>R23</b> (Revision of R16 in 2005 edition) <b>CORE</b>	<b>Client drop out</b>	(Number of active clients, beginning of period + Number of new clients during period) – Number of active clients, end of period/ Number of active clients, beginning of period	This formula does not differentiate between new and rejoining clients.	Measures the percentage of clients who had no transaction with the MFI for the period. It is used as one measurement of client loyalty and satisfaction. This ratio may overstate dropout in high-growth MFIs.
<b>R24</b> (Revision of R17 in 2005 edition) <b>CORE</b>	<b>Average outstanding loan size</b>	Gross loan portfolio/Number of active borrowers	While median or monthly outstanding gross loan portfolio size is a preferred indicator of loan size (rather than using the average), these metrics maybe more difficult to obtain than average figures, which require only beginning and end of period amounts. In an effort to approximate the relative precision of a median value, MFIs using average calculations should, at the very least, remove high loan-balance outliers from their calculations in an effort to approximate more closely the true average loan size of its client base.	Measures the average outstanding loan balance per borrower, an indication of the typical outstanding financing accessed by clients.
<b>R25</b> (R18 in 2005 edition) <b>CORE</b>	<b>Average loan disbursed</b>	Value of loans disbursed/ Number of loans disbursed	While median or monthly loans disbursed is a preferred indicator, these metrics may be more difficult to obtain than average figures that requires only beginning and end of period amounts.	Measures the average value of each loan disbursed. This ratio can be used to project disbursements. It can be compared to gross national income per capita or as a percentage of a national poverty line as an outreach indicator.
<b>R26</b> (NEW) <b>NON-CORE</b> (for deposit taking MFIs)	<b>Average deposit account balance</b>	Total deposits/Number of deposit accounts	This denominator is best used to measure efficiency and is more readily available (compared to number of depositors) than the denominator in R27. As with R25, users may want to stratify results or remove high balance deposits to approximate the true average deposit balance for retail microfinance clients.	Can provide information on the socio-economic level of the client base. that are not deposit-takers

<b>R27</b> (NEW)	<b>Average deposit account balance per depositor</b>	Total deposits/Number of depositors	Compared to R26, R27 is the preferred ratio to use for measuring and analyzing client outreach, assuming that the depositors' data is available.
<b>NON-CORE</b> (for deposit taking MFIs)			

° R20: MFRS recognizes that this ratio may be used for a given service and its related cost (cost per borrower, cost per depositor, etc.). Readers should note that variations of the ratio may be calculated by product anywhere the term “client” is used in this document.

°° R21: As with “active client,” “active borrower” should be interpreted as a “unique borrower” for this ratio, since a borrower may access multiple products. See R20 for further guidance.

## Asset-Liability Management Tables

In addition to the new ratios, this edition introduces four asset-liability management (ALM) tables to the *MFRS*.<sup>7</sup> These tables are important components of MFI financial risk-management strategy and monitoring. ALM tables provide a visual and useful presentation of financial information to assess risks inherent in an MFI’s asset and liability structure. For institutions that are IFRS-compliant, the first three tables are required as disclosures of market risk in annual audited financial statements. The range of upper and lower limits for ALM tables varies with the institution, its context, and appetite for risk. The challenge is to balance prudent management with investment opportunities.

- **Table 1** (ALM1) details *liquidity risk*, disclosing mismatches in maturities in an MFI’s assets and liabilities through an analysis of the time frames (tenor buckets) in which each asset or liability matures.
- **Table 2** (ALM2) presents *repricing risk*, measuring the time frames in which interest rates on assets and liabilities reset and may reprice.
- **Table 3** (ALM3) breaks out MFI *foreign exchange risk* exposure for institutions holding assets or liabilities in foreign currency or currencies. It measures this risk exposure as a percentage of an MFI’s equity.<sup>8</sup>
- **Table 4** (ALM4) measures *liquidity risk per foreign currency*, combining foreign-exchange risk exposure in tenor buckets, plus the components of tables 1 and 3 on a per-currency basis. This information details the maturation of assets and liabilities and thus an MFI’s exposure to foreign exchange risk in each time frame.

Sample ALM tables follow the description of each table. A further description of how to create ALM tables, accompanied by a pro forma example of each table, may be found in appendix 2 (page 7) in the *Microfinance Reporting Standards* at [www.reportingstandards.org](http://www.reportingstandards.org). The full tables are in the Excel file, “Asset-Liability Management Tables,” also available at [www.reportingstandards.org](http://www.reportingstandards.org).

<sup>7</sup> The ALM tables may be found in appendix 2 (page 7) in the *Microfinance Reporting Standards* at [www.reportingstandards.org](http://www.reportingstandards.org).

<sup>8</sup> Equity refers to total equity on the balance sheet.

**Table 2 Microfinance Financial Reporting Standards Asset-Liability Management Tables**

Table no.	Table name	Explanation
<b>ALM 1</b>	<b>Liquidity risk</b> (maturity risk)	Measures the maturities of assets and liabilities on an MFI's balance sheet. This table helps an MFI to determine where funding gaps exist, allowing it to adjust maturities as possible and plan for liquidity needs. In line with the MFRS' conservative and prudent approach, this table should be based on asset and liability contractual maturity dates. An MFI may also model this table using the expected behavior approach of depositors in terms of deposits' maturity assumptions.
<b>ALM 2</b>	<b>Interest rate risk</b> (repricing risk)	Looks at any mismatch when an MFI's assets and liabilities interest rates reprice. An interest-rate repricing mismatch affects cost of funds, the rate charged on client loans, and institution profit. Repricing can occur when an asset or liability matures, or when a variable rate changes (such as loans based on LIBOR/EURIBOR). For a conservative and prudent approach, this table should be based on contractual repricing dates, as opposed to actual behavioral maturity of depositors.
<b>ALM 3</b>	<b>Foreign currency risk</b> (F/X risk)	Provides information regarding aggregate exposure to foreign exchange risk by potential exchange rate movements. The risk exposure is measured by looking at foreign currency amounts held in an MFI's assets and liabilities. It includes disclosure for each foreign currency held. If the MFI operates 100% in one local currency, this table is not needed. Matching assets and liabilities lessen currency risk exposure. ALM4 details full currency foreign exchange risk analysis factoring in asset and liability tenors.
<b>ALM 4</b>	<b>Liquidity risk per foreign currency</b> (currency maturity risk)	This table breaks out balance sheet assets and liabilities by maturity and by currency into tenor buckets, showing when foreign currency obligations come due. It can help an MFI with exposure plans how to hedge exposure. At a minimum, this risk should be closely monitored. This table is important because foreign exchange risk exposure is eliminated only if the duration of the assets and liabilities are fully matched.

## ALM1: Liquidity Risk (Maturity Risk)

31-Dec-2011 Expressed in local currency

Assets	Formula explanations	<1 mo	1-2 mo	2-3 mo	3-6 mo	6-12 mo	1-3 yrs	3-5 yrs	>5 yrs	No maturity	Total	
<b>Assets</b>												
1	Cash	5	0	0	0	0	0	0	0	0	5	
2	Demand Deposits	3	0	0	0	0	0	0	0	0	3	
3	Term Deposits	8	6	0	0	5	0	0	0	0	19	
4	Investments	0	0	0	0	0	0	0	0	0	0	
5	Loan Portfolio, net	4	5	5	14	19	10	0	0	1	60	
6	Fixed assets	0	0	0	0	0	0	0	0	8	8	
7	Other assets	0	0	0	0	0	0	0	0	5	6	
8	Total Assets	Sum of Rows 1-7	20	11	5	15	25	10	0	0	100	
<b>Liabilities</b>												
9	Demand Savings Accounts										0	
10	Term Deposits										0	
11	Loans payable	1	0	2	10	0	22	2	11	0	48	
12	Other liabilities	2	0	0	0	1	0	0	0	2	6	
13	Total Liabilities	Sum of Rows 9-12	3	0	2	10	1	22	2	11	53	
14	Total Equity									47	47	
15	Total Liabilities & Equity	Row 13 + Row 14	3	0	2	10	1	22	2	11	100	
16	Asset-Liability Gap [A-(TL + E)]	Row 8 - Row 15	17.7	10.6	3.3	4.2	23.5	(12.2)	(1.3)	(10.8)	(35.1)	(0.1)
17	Asset-Liability Gap as a % of Equity	Row 17/Total Equity	37.7%	22.7%	7.0%	9.0%	50.1%	-26.1%	-2.7%	-23.0%	-75.0%	-0.3%
18	Cumulative Asset-Liability Gap	Cumulative sum of Row 16	17.7	28.3	31.6	35.8	59.2	47.0	45.7	35.0	(0.1)	(0.2)
19	Cumulative Asset-Liability Gap as a % of Equity	Row 18/Total Equity	37.7%	60.5%	67.4%	76.5%	126.5%	100.4%	97.7%	74.8%	-0.3%	-0.5%

## ALM 2: Interest Rate Risk (Repricing Risk)

31-Dec-2011 Expressed in local currency

		Formula explanations	<1 mo	1-2 mo	2-3 mo	3-6 mo	6-12 mo	1-3 yrs	3-5 yrs	>5 yrs	No maturity	Total
<b>Assets</b>												
1	Cash		0	0	0	0	0	0	0	0	5	5
2	Demand Deposits		3	0	0	0	0	0	0	0	0	3
3	Term Deposits		8	6	0	0	5	0	0	0	0	19
4	Investments		0	0	0	0	0	0	0	0	0	0
5	Loan Portfolio, net		4	5	5	14	19	10	0	0	1	60
6	Fixed assets		0	0	0	0	0	0	0	0	8	8
7	Other assets		0	0	0	0	0	0	0	0	5	6
8	Total Assets	Sum of Rows 1-7	15	11	5	15	25	10	0	0	19	100
<b>Liabilities</b>												
9	Demand Savings Accounts											0
10	Term Deposits											0
11	Loans payable		5	0	2	27	2	11	0	1	0	48
12	Other liabilities		2	0	0	0	1	0	0	0	2	6
13	Total Liabilities	Sum of Rows 9-12	6	0	2	27	3	11	0	1	2	53
14	Total Equity										47	47
15	Total Liabilities & Equity	Row 13 + Row 14	6	0	2	27	3	11	0	1	49	100
16	Asset-Liability Gap [A-(TL + E)]	Row 8 - Row 15	8.9	10.6	3.3	-12.8	21.4	-0.7	0.3	-1.3	-29.9	-0.1
17	Asset-Liability Gap as % of Equity	Row 17 / Total Equity	19.0%	22.7%	7.0%	-27.3%	45.7%	-1.5%	0.7%	-2.9%	-63.8%	-0.3%
18	Cumulative Asset-Liability Gap	Cumulative sum of Row 16	8.9	19.6	22.8	10.1	31.5	30.8	31.1	29.8	(0.1)	(0.1)
19	Cumulative Asset-Liability Gap as % of Equity	Row 18 / Total Equity	19.0%	41.8%	48.7%	21.5%	67.2%	65.7%	66.4%	63.6%	-0.3%	-0.3%
<b>Sensitivity Analysis</b>												
20	Impact of 1% increase in interest rate per tenor bucket	Row 16 X 1%	0.4	1.3	0.7	(4.8)	16.2	(1.4)	1.4	(8.1)	-	5.6
21	Impact of 1% decrease in interest rate per tenor bucket	Row 16 X -1%	(0.4)	(1.3)	(0.7)	4.8	(16.2)	1.4	(1.4)	8.1	-	(5.6)
22	Impact of 1% increase in interest rate on cumulative gap	Cumulative sum of Row 20	0.4	1.7	2.4	(2.4)	13.8	12.4	13.8	5.6	5.6	5.6
23	Impact of 1% decrease in interest rate on cumulative gap	Cumulative sum of Row 21	(0.4)	(1.7)	(2.4)	2.4	(13.8)	(12.4)	(13.8)	(5.6)	(5.6)	(5.6)

### ALM3: Foreign Currency Risk

31-Dec-2011 Amounts in foreign currency are expressed in local currency terms. This table should all be reported in one currency. Currency hedges should be listed as separate line items below the table.

	Formula explanations	EUR	US\$	Other foreign currency	Total foreign currency	Local currency	Total	
<b>Assets</b>								
1	Cash	-	-	-	-	3	3	
2	Demand Deposits	-	-	-	-	-	-	
3	Term Deposits	-	5	-	5	19	24	
4	Investments	-	-	-	-	-	-	
5	Loan Portfolio, net	-	-	-	-	60	60	
6	Fixed assets	-	-	-	-	8	8	
7	Other assets	-	-	-	-	6	6	
8	Total Assets	Sum of Rows 1-7	-	5	-	5	95	100
<b>Liabilities</b>								
9	Demand Savings Accounts	-	-	-	-	-	-	
10	Term Deposits	-	-	-	-	-	-	
11	Loans Payable	13	23	-	36	11	47	
12	Other liabilities	-	-	-	-	6	6	
13	Total Liabilities	Sum of Rows 9-12	13	23	-	36	17	53
14	Total Equity	-	-	-	-	47	47	
15	Total Liabilities and Equity	Row 13 + Row 14	13	23	-	64	100	
16	Net Open Position [A- (TL+ E)]	Row 8 - Row 15	(13)	(18)	-	5	32	0
17	Absolute Value of Net Open Position	Absolute value of Row 16	13	18	-	31	32	0
18	Net Open Position as % Equity	Row 16/Total Equity	-28%	-39%	0%	11%	67%	1%
19	Aggregate Net FX Open Position as % Equity	Row 17/Total Equity	28%			66%		
20	Assets/Liabilities	Row 8/Row 15	-	0.21	N/A	0.14	5.69	1.90
<b>Sensitivity Analysis</b>								
21	Profitability impact of 10% depreciation	Row 18 X 10 percent	-14	-20	N/A	5	35	1
22	Profitability impact of 10% appreciation	Row 18 X -10 percent	14	20	N/A	-5	-35	-1



## ALM4: Liquidity Risk per Currency

31-Dec-2011

This table may be created for each currency in which the MFI holds assets and liabilities

Expressed in local currency reporting on a single currency holding

	Formula explanations	<1 mo	1-2 mo	2-3 mo	3-6 mo	6-12 mo	1-3 yrs	3-5 yrs	>5 yrs	No maturity	Total	
<b>Assets</b>												
1	Cash	5	0	0	0	0	0	0	0	0	5	
2	Demand Deposits	3	0	0	0	0	0	0	0	0	3	
3	Term Deposits	8	6	0	0	5	0	0	0	0	19	
4	Investments	0	0	0	0	0	0	0	0	0	0	
5	Loan Portfolio, net	4	5	5	14	19	10	0	0	1	60	
6	Fixed assets	0	0	0	0	0	0	0	0	8	8	
7	Other assets	0	0	0	0	0	0	0	0	5	6	
8	Total Assets	Sum of Rows 1-7	20	11	5	15	25	10	0	0	14	100
<b>Liabilities</b>												
9	Demand Savings Accounts										0	
10	Term Deposits										0	
11	Loans payable	1	0	2	10	0	22	2	11	0	48	
12	Other liabilities	2	0	0	0	1	0	0	0	2	6	
13	Total Liabilities	Sum of Rows 9-12	3	0	2	10	1	22	2	11	2	53
14	Total Equity									47	47	
15	Total Liabilities & Equity	Row 13 + Row 14	3	0	2	10	1	22	2	11	49	100
16	Asset-Liability Gap [A- (TL + E)]	Row 8 - Row 15	17.7	10.6	3.3	4.2	23.5	(12.2)	(1.3)	(10.8)	(35.1)	(0.1)
17	Asset-Liability Gap as a % of Equity	Row 17/Total Equity	37.7%	22.7%	7.0%	9.0%	50.1%	-26.1%	-2.7%	-23.0%	-75.0%	-0.3%
18	Cumulative Asset-Liability Gap	Cumulative sum of Row 16	17.7	28.3	31.6	35.8	59.2	47.0	45.7	35.0	(0.1)	(0.2)
19	Cumulative Asset-Liability Gap as a % of Equity	Row 18/Total Equity	37.7%	60.5%	67.4%	76.5%	126.5%	100.4%	97.7%	74.8%	-0.3%	-0.5%



## About SEEP

The SEEP Network is a global network of microenterprise development practitioners. Its 120 institutional members are active in 180 countries and reach over 35 million microentrepreneurs and their families. SEEP's mission is to connect these practitioners in a global learning environment so that they may reduce poverty through the power of enterprise. For 25 years, SEEP has engaged with practitioners from all over the globe to discuss challenges and innovative approaches to microenterprise development. As a member-driven organization, our members drive our agenda while SEEP provides the neutral platform to share their experiences and engage in new learning or innovative practices. The SEEP Network helps strengthen our members' collective global efforts to improve the lives of the world's most vulnerable people.



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