RATING RATIONALE:

Alpha Credit Rating Limited (AlphaRating) downgrades Long-term-rating to **"BBB+"** (pronounced as '**Triple B Plus**) from **"A-"** (pronounced as '**Single A Minus'**) and downgrades short-term-rating to **"ST-3"** from **"ST-2"** in favor of Socio Economic Backing Association (herein after referred as 'SEBA' or 'The Institution'). The outlook of the rating is **Stable.**

AlphaRating considered financial performance, the scale of business, quality of audited statements and data presentation, relationship with different parties or stakeholders' of the organization, organization's experience, comparative strength while assigning the rating. The above rating is based on the audited financial statement on 30th June 2016 to 2017 and other qualitative factors. AlphaRating also considered the loan facilities availed by the organization from Standard Bank Ltd., Tangail Branch, Southeast Bank Ltd., Tangail SME/Krishi Branch, Midland Bank Ltd., Head Office, NCC Bank Ltd., Tangail Branch, Mutual Trust Bank Ltd., Dhanbari Branch and IDLC Finance Ltd., Dilkusha Branch while assigning the above ratings.

Socio Economic Backing Association (here in after referred to as "SEBA" or "the organization"), a non-government organization has been working in the field of micro finance and social related activities since 1997. Since its operation, SEBA has been continuing its efforts to assist the improvement of the Socio-Economic status of the rural disadvantaged, unskilled and economically backward people. AlphaRating has assigned the above rating after considering the positive income in FY 2018, sound self-sufficiency on microfinance, healthy Defensive Interval, increasing trend of Financial Revenues from Investment, regular transaction behavior with different bank & non-banking financial institution etc. In FY 2018, CSS was able to generate satisfactory income but higher growth rate of operating expense has adversely affected on the organization's Excess of income over expenditure Margin. However, this MFI has several income generating activities which ensures sustainability and confirms positive going concern status. On the other hand, Yield on Liquidity and Investments showed deteriorated result although this ratio is closer to risk free rate of return in Bangladesh. AlphaRating also considered the inadequate impairment allowance against the portfolio at risk > 30 days & competitive and dynamic market environment where cope up with these is a great challenge for this kind of organization

Socio Economic Backing Association has been enjoying banking facilities from Standard Bank Ltd., Tangail Branch, Southeast Bank Ltd., Tangail SME/Krishi Branch, Midland Bank Ltd., Head Office, NCC Bank Ltd., Tangail Branch, Mutual Trust Bank Ltd., Dhanbari Branch and IDLC Finance Ltd., Dilkusha Branch. As on 28 February, 2018 the organization has the total outstanding liability of **BDT 1033.48 million** against the sanction amount of **BDT 1400.00 million**.

Alpha Credit Rating Limited

Name of the Microfinance	**Socio Economic Backing Association**
Organization type: **Micro Finance Institution**	Established: 1997

Vision Statement: "To establish a happy and prosperous poverty free society".

Mission Statement: "SEBA spires for a society free from starvation, oppression and deprivation where every individual will live in peace and communal harmony by enjoying rightful share of the resources belonging to the society through self-actualization and empowerment".

Program

- Microcredit
- Health Care
- Agricultural Development
- Awareness Program
- Vulnerable Group Development
- Housing Project
- Others Development Program
- Women Empowerment
- Community Development
- Poverty Reduction
- Education & Training
- Food Security
- Human Rights

SYNOPSIS

SEBA is a non-government, non-profitable and non-political voluntary development organization established on 1st July 1997 with a view to assist the improvement of the Socio-Economic status of the rural disadvantaged, unskilled and economically backward people. SEBA stands for Socio-Economic Backing Association, In the year 1997 SEBA directly started its intervention at the field level, after having the legal status from the govt. of Bangladesh by providing various support and services to the destitute people of Bangladesh. The head office of the organization is situated at SEBA Tower, Biswas Betka, Mymensingh Road, Tangail-1900, Bangladesh.

The objective of SEBA

- Provide financial services for the poor people for their economic self-reliant through running savings and credit program.
- Increase mass awareness for keeping environmental balance.
- Provide income-generating activity for woman empowerment and development.
- Provide primary education for ensuring child education.
- Provide technical training for weavers' development.
- Provide awareness activity about health for ensuring health rights.
- Take initiatives for socio-economic development of poor people through forming somite at grass root level.
- Agricultural technology & training provide for sustainable agricultural.

MICRO CREDIT IN BANGLADESH:

The social development scene in Bangladesh is characterized by a strong presence of non-governmental organizations (NGOs). The NGOs emerged following the war of liberation to help the communities in distress as part of post-war rehabilitation. During the 1970s, when the 'Jobra' experiment was underway under Professor M. Yunus, the Dheki Rin Prokolpa was initiated by the Bangladesh Bank in collaboration with the Swanirvar Bangladesh, and several other pilot schemes were initiated by a handful of the NGOs which were active then. At that time, it was difficult to conceive that these initiatives would lead to a major microcredit movement, which would make Bangladesh known to the rest of the world. Even during the 1980s, in spite of Grameen Bank's success, the main discourse amongst development practitioners in Bangladesh centered on the desirability of microcredit program as opposed to conscientization. By 1990, unhindered experimentation in the fields led to a quiet resolution of the debate and the country experienced a massive expansion of microfinance activities during the 1990s.

Microcredit programs in Bangladesh is implemented by NGOs, Grameen Bank, state-owned commercial banks, private commercial banks, and specialized programs of some ministries of Bangladesh government The registered NGOs of Bangladesh are 730 under MRA registration on 11 February 2018. The total Borrowers of microcredit in Bangladesh has exceeds 30 million. The loan portfolio of the borrowers is 611.61 billion and member saving 294.11 billion on June 2016.

Credit services of this sector can be categorized into six broad groups: i) general microcredit for small-scale self employment based activities, ii) microenterprise loans, iii) loans for ultra poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management. Loan amounts up to BDT 50,000 are generally considered as microcredit; loans above this amount are considered as microenterprise loans.

State of Microcredit in Bangladesh

Table 1: Basic Statistics of NGO-MFIs in Bangladesh

Particulars	June, 2011	June, 2012	June, 2013	June, 2014	June, 2015
No. of Licensed NGO-MFIs	576	590	649	742	753
No. of Branches	18,066	17,977	14,674	14730	15609
No. of Employees	111,828	108,654	110,734	109628	110781
No. of Clients (Million)	26.08	24.64	24.60	25.11	26.00
No. of Borrowers (Million)	20.65	19.31	19.27	19.42	20.35
Amount of loan Outstanding (BDT in Million)	1,73,797.60	211,320	257,010	282200	352410
Amount of Savings (BDT in Million)	63,304.44	75,206	93,990	106990	135410

*Total Licensed NGO-MFIs was 697 but only 676 submitted MIS report
Source: MRA-MIS Database-2014

The sector had outstanding loans of BDT 278 billion disbursed to 19.98 million borrowers, and had accumulated BDT 112 billion as savings from around 25.17 million clients – over 93 percent of them are women – through more than 16,000 branches, by 676 NGO-MFIs licensed by MRA.

Table 2: Selected Indicators of NGO-MFIs in Bangladesh

Particulars	June, 2010	June, 2011	June, 2012	June, 2013	June, 2014
Savings per member (BDT)	2,097.83	2,494.49	3,052.18	3,820.73	4,489
Outstanding loan per borrower (BDT)	7,558.92	8,807.69	10,941.63	13,337.31	13,917
Borrower to client (member) ratio	78.00%	78.80%	78.37%	78.33%	79.00
Savings to outstanding loan ratio	35.60%	35.90%	35.59%	36.57%	41.00%
Borrower per branch	1,115	1,093.33	1,074.15	1,071.93	1,175

Alpha Credit Rating Limited Dhaka

Member per branch	1,429	1,387.87	1,370.64	1,368.42	1,480
Outstanding loan per branch (BDT in Millions)	8.42	9.63	11.75	17.51	16.35
Savings per branch (BDT in Millions)	2.99	3.46	4.18	6.41	6.64

Fund Composition

Source of Fund	June, 2011		June, 2012		June, 2013		June, 2014		June, 2015	
	BDT in Million	%	BDI in Million	%	BDI in Million	%	BDI in Million	%	BDI in Million	%
Clients' Savings	63,295.9	34.46	74,989.36	32.62	91,178.01	32.95	1,06,999	34.4	135,410.40	33.94
Loan from PKSF	31,767.8	17.3	33,576.45	14.61	34,072.27	12.31	34,523.50	11.04	37,769.68	9.47
Loan from Commercial banks	23,577.9	12.84	32,652.41	14.20	42,699.37	15.43	51,495.90	16.47	68,574.20	17.19
Donors' Fund	7,008.37	3.82	7,061.28	3.07	7,104.57	2.57	6,855.04	2.19	5,218.45	1.31
Cumulative Surplus	50,298.7	27.38	65,437.78	28.47	83,262.38	30.09	1,00,943.95	32.28	137,706.30	34.52
Other Funds	7,727.32	4.21	16,167.91	7.03	18,390.89	6.65	11,914.58	3.62	14242.07	3.57
Total	183,676	100	229,885.20	100	276,707.48	100	312,731.97	100	398,921.10	100.00

Source: MRA-MIS Database-2015

In the backdrop of global 'double-dip' recession and over-indebtedness crisis in microcredit sector in several countries, Bangladesh's microfinance sector shows strong resilience and continues to contribute towards enhancement of macroeconomic growth. Total outstanding loan of this sector (only licensed MFIs) has increased by 21 percent from BDT 211 billion in June 2012 to BDT 257 billion in June, 2013 and 8 percent from June, 2013 to June, 2014 which is BDT 278 billion disbursed among 19.98 million poor people, helping them to be self-employed and accelerating overall economic development process of the country. The total savings has also increased by 24 percent from BDT 75.20 billion in June 2012 to BDT 93.99 billion in June 2013 and 20 Percent from June, 2013 for June, 2014 which is BDT 299 billion among 25.17 million clients. Commercial banks are recently considered a potential source of fund of microfinance, their share of the total source increased over the last three years. MRA has been putting in efforts to increase loans from commercial banks to the sector by introducing the banks to the NGO-MFIs. However, borrowing cost from commercial banks is very high – due to high interest rate charged and inflation – which discourages NGO-MFIs to avail this as a source of fund. Previously donor driven NGOs are now trying to rely more and more on local sources of fund with the decline in foreign funding, which stood at only 2.19 percent in June 2014.

Renewable Energy Program (Solar Home System)

One of IDF's major product portfolios is SHS (Solar Home System) component. The project was initiated with a view to supplying solar systems to the rural households at an affordable cost where electricity facility is not available. The program started on 1st September, 2003 under the technical and financial support of Infrastructure Development Company Ltd (IDCOL), a World Bank supported Government owned project. IDF is working as a Partner Organization (PO) of the IDCOL's Renewable Energy Programme, which was funded by International Development Association (IDA), KfW, Asian Development Bank (ADB), Deutsche Gesellschaft Fur Technische Zusammenarbeit (GTZ) and Islamic Development Bank (IDB). Being a PO, IDF supplies approved Solar Home Systems to households as well as provide loan (micro-credit) facility to the households in the program area. Through this program, 20wp, 40wp, 50wp, 65wp, 75wp and 85wp (different category) solar systems are installed in the program area. IDF currently have 89 branches. A totals of 87928 solar systems have so far been installed in the off-grid areas of Chittagong hill tracts, Chittagong, Cox's Bazar, Dhaka, Noakhali, Chandpur, Comilla, Feni, Rajshahi, Brahmanbaria and Hobiganj districts. This program eases the operation of fishing business, education, tailoring and ensures facilities for leading an improved life in remote areas. The households procure this system either on cash or credit basis. IDCOL provides two types of grants and refinancing facilities to its POs upon fulfillment of certain conditions. IDCOL provides EUR 20 per system per household (subject to the availability of the fund) to the PO as grant in order to reduce the cost. Again another grant of EUR 2 per system per household (subject to the availability of the fund) is provided to the PO's which extends credit to household under the project but this grant has stopped after 1 January, 2013. Furthermore, a third grant "Grant C" of USD 5 is provided to the PO for collection of each warranty expired battery from the households up to a sum of 100000 batteries. If the household buys the solar system in cash, he gets a discount of 4% of the total system value. Similarly if the customer takes credit he has to make a down payment of 10% to 25% of the total value. Rest of the amounts are payable within 3 years on a monthly installment basis. IDCOL refinances 70% of the total credit sales after verifying the sales contract and installation. The maximum refinancing is USD $285 per system. The exchange rate is reviewed semiannually to establish the applicable exchange rate for the next month's periods. The loan tenure of refinancing is maximum 7 years having maximum 1 year grace period with service charge/interest rate from 6%-8%. However, interest rate and tenure of the loan including grace period depends on the refinanced amount. The principal and service charge of IDCOL is repayable quarterly up to specific years (as per contract).

Organizational Risk Analysis

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events or unforeseen catastrophes. Operational risk is particularly high for MFIs that handle a high volume of small transactions daily such as SEBA. Unlike the commercial banks, there are inherent weaknesses in the internal control mechanism as well as corporate governance of MFIs due to lack of qualified professionals. This is the consequence of keeping the transaction cost at a minimum level. This could result in theft of fund, loan disbursement to ineligible clients and all other sort of malpractices. Moreover, competition with other MFIs may affect the sustainability of the organization in financial term. Natural calamities like flood and cyclone could also wipe out total financial capability of the clients such as poor, ultra poor and marginal farmer. The higher operational risk may damage the reputation and give rise to legal risk.

Industry Risk

The current challenge of MFI-NGOs is whether they could run the program without subsidy, due to dwindling flow of donor funds over the years. Since the main objective of micro-finance is to alleviate poverty, the question is whether they would be able to charge real cost of service on the recipients. If it charges full cost, what would happen to the other objective of outreaching the poorest of the poor? On the other hand, if full cost is not charged, would they be financially sustainable in the long run? And the challenge for the government is to bring this huge unorganized industry under a uniform umbrella where this industry would get proper direction and support to run the business and at the same time serve the people who are the target group in such a way that they would be benefited in the long run and would be able to overcome their financial backwardness. Ultimately these institutions would become autonomous players in the main-stream economy. However, SEBA is also seeking for extended finance facility from commercial banks to facilitate its operations.

Legal Risk

Legal risk for non-profit organization arises out of lobbying by the foundation, self-dealing, foreign corrupt practices act, grants to individuals outside approved proposals, breach of fiduciary duty, jeopardizing investment, minimum distribution requirement etc. Failure to comply with governance or involvement with any illegitimate and irrational activities might expose the organization to the significant legal threat.

However, SEBA keeps a record of savings received from its members and returns back savings with interest upon members' demand. The organization deposits on a daily basis the savings collected and the loan recovered to the bank account. However, some deposits that are collected from the remote areas go to the bank account following day. SEBA also has its internal audit committee which continuously scrutinizes its operations that are exposed to a different level of risks.

Credit Risk

SEBA is mainly engaged in working of Socio-Economic status of the rural disadvantaged, unskilled and economically backward people and therefore exposed to substantial credit risk. One of the major risks of MF program is a collection of high-frequency instalments ranging from week to months. The above risk is further aggravated by the loan default culture & overdue overlapping loans prevailing in the banking sector although the banking institutions are stronger entities to collect instalments due from clients through legal measures & selling collaterals. In contrast, the MF programs are being operated by the NGOs without collaterals and with high frequency of loan repayment instalments. Normally, most MF organisers offer the incentive of the further loan if there is no default in repaying the instalments. Despite no formal agreement, the above system works favourably in Bangladeshi context and assists those MFIs to maintain high recovery rate.

However, SEBA has a cumulative loan recovery rate of 99.86% at the end of FY 2017. It is noted that SEBA has made loan loss provision amounting to BDT 26.60 million during the year under audit. So the impact of this risk is considered to be very low by AlphaRating as SEBA has a professional loan recovery team with a successful track record. It has been observed that, some clients are exposed to high amount of interest (ranging from 100% to 200%) on a personal loan from local money lenders which work against the social benefits. This situation makes the achievement of the social goal more challenging for SEBA. However, the institution has been continuously building awareness among the group members and making its disbursement process smoother so that the group members get the easy access to the finance and can avoid a high amount of personal loan interest.

It has been observed that most of the default occurs due to the withdrawal of capital from Income Generating Activities to pay-off the previous loan taken from the local money lenders under severe pressure. SEBA should continuously motivate their clients to ensure the intended use of the loan instead of diverting the fund elsewhere to avoid the default.

Resistance from the Society

As most of the SEBA's participants are mainly Socio-Economic status of the rural disadvantaged, unskilled and economically backward people. Moreover, in Bangladesh men dominate and make all the decision over women. The way SEBA works, will definitely remove the financial barrier of its female borrowers over time which may not be accepted by the men who rule the family in the most egocentric manner. As a result, they may take the money for their own use rather than letting it to invest for its intended purpose. Moreover, superstations and misinterpretation of religion in the society may work directly against women empowerment. If these social difficulties could not be addressed to make the environment suitable, SEBAs mission will remain largely unattainable. Some of its program such as Micro Insurance Fund, Members Welfare Fund, Health program, Education Program has helped SEBA to reduce the above explained resistance.

Financial Risk Analysis

While assessing the financial risk of the Organization, AlphaRating divided the financial portion into eight different criteria. Detailed analysis is presented below:

Uncovered Capital Ratio (Portfolio Quality and Vulnerability)

The uncovered Capital Ratio (UCR) provides a more detailed indication of an MFI's portfolio quality. UCR is a more revealing ratio to assess vulnerability and potential loss.

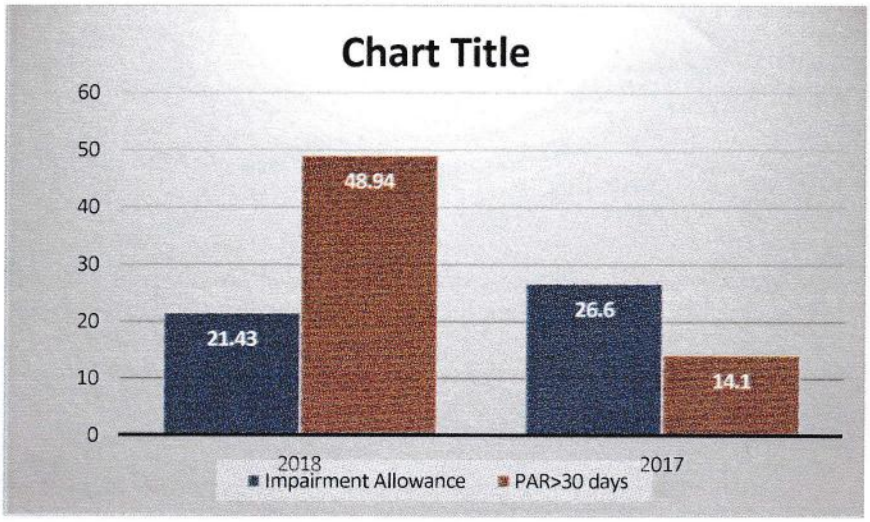

Exhibit 1: Selected Indicators: **Socio Economic Backing Association**

FYE 30 June (BDT in millions)	**2018**	**2017**
PAR>30 days	48.94	14.10
Less, Impairment allowances	21.43	26.60
Total Amount at Risk	**27.51**	**(12.50)**
Total Equity	**1,994.70**	**1,607.26**
Uncovered Capital Ratio (UCR) (%)	**1.38**	**(0.78)**

Data obtained from audited financial statements of 2018 & 2017

Uncovered Capital Ratio (UCR) is calculated by obtaining the Portfolio at Risk (PAR) greater than thirty days minus impairment loss allowance divided by total capital. When considered in conjunction with the capital adequacy ratio, UCR allows an additional dimension for understanding capital sufficiency. A low ratio suggests better risk management, indicating the MFI is less susceptible to losses above what is already provided for. A good practice is to maintain the UCR as low as possible, certainly less than 25 percent. As more extensive comparative data is analyzed with the help of more revealing benchmarks & more effective use of the rational decision can be made.

The calculation of Uncovered Capital Ratio (UCR) showed positive result in FY 2018 that represents that the organization had no adequate impairment allowance compared with the PAR>30 days. Further scrutiny revealed that, the impairment allowance maintained by the organization was around 52.75% lower than PAR>30 days in FY 2018. Moreover, the Uncovered Capital ratio is based on the PAR>30 days which does not consider credit risk of those who have not made scheduled payment for 30 days & less. The amount of impairment allowance is also reflected on the liquidity of the organization and provides reasonable evidence that Socio Economic Backing Association (SEBA) has no enough liquid assets against the loan loss provision which will be available on demand.

Income Analysis

Excess of income over expenditure is a calculation that measures the amount of total income that exceeds total expenses. In other words, it shows how much surplus operating income remaining in a particular year after covering all expenses incurred by an MFI. This ratio is calculated by subtracting total expenses from total revenue.

Exhibit 2: Selected Indicators: **Socio Economic Backing Association**

FYE 30 June	2018	2017	2016
Income (BDT in millions)	500.81	386.47	252.87
Income Growth (%)	29.59	52.83	-
Operating Expense (BDT in millions)	386.06	263.75	173.49
Operating Expense Growth (%)	46.37	52.03	-
Excess of Income Over Expenditure (BDT in millions)	114.75	122.72	79.38
Excess of Income Over Expenditure Growth (%)	(6.49)	54.60	-

Data obtained from audited financial statements of 2016 to 2018

In FY 2018 total income showed 29.59% positive growth as a result of increase in microfinance service charge which is the main source of revenue for the organization. But in the earlier period the growth was much higher than present year. It has been found that operating expense of this organization has moved at a higher rate than that of income and it has resulted slightly worsen Excess of Income Over Expenditure that has been further justified by negative Excess of Income Over Expenditure Growth in this year. It is worthy to mention that, if the organization can implement a sound costs monitoring process then SEBA could achieve its ultimate goal in future.

Yield on Liquidity and Investments (Efficiency in Managing Cash & Investments)

The ratio indicates the level of returns an institution is generating from its cash holdings and average investments over a given period. It provides a meaningful measure of efficiency in managing cash flows and investments.

Exhibit 3: Selected Indicators: **Socio Economic Backing Association**

FYE 30 June	2018	2017	2016
Financial Revenues from Investment (BDT in millions)	13.42	8.60	1.62
Sum of Average Cash, Trade & Other Investments (BDT in millions)	355.88	221.54	170.94
Yield on Liquidity and Investments (%)	**3.77**	**3.88**	**0.95**

Data obtained from audited financial statements of 2016 to 2017

The yield on liquidity and investments is particularly insightful when compared to prevailing local market rates. It reveals how well the MFI generates revenue from its resources outside of its loan portfolio. A higher ratio indicates comparatively higher returns. Benchmarks are best taken at the national level and vary by country and region. However, AlphaRating did not find any established benchmarks in the Bangladesh Context.

It has been observed that, Socio Economic Backing Association was able to earn adequate return from its short term investment over last three financial year. In FY 2018 the growth of financial revenues showed 56.05% enhancement compared to FY 2017 as a result of attractive outcome from its investment. However, the amount of cash, trade and other investment has increased in current year that has impacted its financial performance and jeopardized the Yield on Liquidity and Investments to some extent in the same year. Therefore, SEBA should manage its investments more efficiently to achieve better yield on investment in future. However, the yield is higher than the prevailing risk-free interest rate of Bangladesh.

Sustainability

Operating self-sufficiency is a percentage (%), which indicates whether or not enough revenue has been earned to cover the Microfinance Institution's (MFI's) total costs minus operational expenses, loan loss provisions and financial costs. It is calculated by obtaining all operating income (loan + investment) and divides them by total expenses incurred (financial expense + loan loss provision +operating expense). Profit margins are expressed as a percentage and, in effect, measure how much out of every Taka of income of an MFI actually keeps in earnings and it is calculated by an excess of income over expenditure divided by total income.

Exhibit 4: Selected Indicators: **Socio Economic Backing Association**

FYE 30 June (%)	2018	2017	2016
Operational Self Sufficiency	129.72	146.53	145.75
Profit Margin	22.91	31.75	31.39

Data obtained from audited financial statements of 2016 to 2018

Operational Self Sufficiency ratio of SEBA stood over 100% means that it had huge surplus operating revenue after covering all its operating costs. However, in current year the amount of operational self sufficiency has slightly fallen down which has also affected the profit margin. this deteriorated percentage indicates that its operating surplus has decreased compared to revenue in FY 2018 from that of last financial year. This has come into effect when the organization had to face a substantial increase in operating cost. As a result excess of income over expenditure margin has also fallen in FY 2018. To improve this current position the organization should control its operating costs more efficiently.

Capital Adequacy Ratio (Institutional Solvency)

Capital Adequacy Ratio (CAR) measures an institution's solvency. The indicator provides information about its ability to meet long-term expenses and obligations as well as absorb unanticipated future commitments. CAR measures an institution's resilience against both expected and unexpected losses, which may result from endogenous and exogenous causes. It is in line with Basel II calculations. CAR uses *total capital* in the numerator as a complete picture of the MFI/s resources. This includes supplementary capital sources, such as loan loss reserves, asset reserves and subordinated debt. It subtracts goodwill to gauge tangible capital. The denominator is a risk-weighted aggregate of assets as riskier assets require the institution to hold higher capital reserves, including those as a factor to provide more precise solvency than a simple liquid ratio, in which current assets are compared with current liabilities.

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Exhibit 5: Selected Indicators: **Socio Economic Backing Association**

FYE 30 June (%)	2018	2017	2016
Capital Adequacy Ratio (Equity / Risk Weighted Assets)	109.50	110.00	109.67
Capital Adequacy Ratio (Equity / Total Assets)	82.12	82.50	82.25

Data obtained from audited financial statements of 2016 to 2018

CAR(original & risk weighted) of the organization has been reduced to some extent in FY 2018 comparing with last financial year. But, the cumulative retained earning has been increasing over the years. The reason behind the deteriorated CAR was the aggressive investment in total asset base from several short & long term source of external finance made by the organization. It is assumed that risk weight of 75, according to Bangladesh bank guideline, has been applied considering all parties are unrated. Normally a higher CAR is safer but there is no defined level which should be maintained by an organization.

CAR is particularly informative when compared to regional benchmarks. An appropriate level often depends upon the size and maturity of an MFI, as well as divergent socio-political or economic contexts. National authorities in each country set minimum levels of capital for regulated institutions. In most jurisdictions, it is around 8-9 percent. In Bangladesh, it is currently 10 percent for financial institutions, which is going to be 12.5 percent by 2019 in accordance with Basel III implementation plan. However, AlphaRating did not find any benchmarks for MFI in Bangladesh context.

Adequacy of Resources

The defensive interval (months) is a financial metric that indicates the number of months that an MFI can operate in term of meeting its monthly expenses without needing to access noncurrent assets and additional funds or donation from outside. We have considered those noncurrent assets whose full value cannot be obtained within the current accounting year. To calculate the defensive interval ratio, aggregate the amounts of all liquid assets subtract all current liabilities and then divide by the average amount of monthly expenditures. The liquid fund's indicator is similar to the defensive interval in its use but is more conservative in removing assets with restrictions on them from the calculation. The savings indicator measures the increase or decrease in the ability of an organization to add to its net assets. Values greater than one hundred percent indicates an increase in savings. The savings indicator is a simple way to determine if an organization is adding to or using up its net asset base. Debt Ratio is a financial ratio that indicates the percentage of a company's assets that are provided via debt. This ratio is calculated by total assets divided by total debt obligation amount.

Exhibit 6: Selected Indicators: **Socio Economic Backing Association**

FYE 30 June	2018	2017	2016
Defensive Interval (months)	120	86	88
Liquid Funds Indicator (months)	57	42	41
Savings Indicator (%)	49.07	46.53	45.75
Debt Ratio (%)	41.41	43.17	40.25

Data obtained from audited financial statements of 2016 to 2018

Defensive Interval Ratio measures the non-profit organization's efficiency to operate if no additional funds are received in a particular year. It determines the number of months of the expense that can be covered by existing liquid assets. There is no correct answer to the number of months over which existing assets will provide sufficient funds to support MFIs operations. So we could get a better insight of this indicator by trend analysis.

Defensive interval ratio of FY 2018 reflects that the MFI will be able to continue its operation for around 10 years if available reserves and securities fully support the average monthly expenditure. Moreover, the defensive interval is currently appeared to be in increasing trend which indicates the organization has increased proportionate level of cash / securities to support its rising trend of average monthly expense. Liquid funds indicator ratio for FY 2018 denotes that SEBA is capable to continue its operation for more than 04 years with all its liquid assets other than those have restriction on them after paying all short-term obligations. In addition, rising Savings Indicator implies that MFIs ability to generate a surplus and save the same has improved in FY 2018. Above ratios provide a true picture of the availability of several years' historic data. The output of above exhibit might vary upon expansion of organization's operation further.

Foreign Currency Risk (Susceptibility to Shocks for Foreign Exchange)

The foreign currency risk ratio [(Total Foreign Currency Assets- Total Foreign Currency Liabilities)/ Total Equity] measures the relationship between an MFI's net foreign currency assets and its equity for each foreign currency on the statement of financial position. Foreign exchange risk exposure is more explicitly revealed when relative data is documented with due care and accuracy. Currently, SEBA has no foreign currency assets and is not involved with any foreign currency transaction except some of its donations of Health Hbge Medical Care Plc.
The lower the foreign currency risk ratio an MFI maintains the more limited its vulnerability to changes in foreign currency values. The higher the foreign currency ratio is, the more risk the MFI faces, which may or may not lead to negative performance. Formal industry benchmark has yet to be established; however, a rule of thumb of no more than 20% ceiling has been cited, although the amount will vary depending on currency stability and may be lower.

Average Deposits Balance per Account (Client Profile & Savings Program Take-up)

The ratio helps an institution gauge its client base in terms of the amount of savings placed in the institution. It also reflects the degree to which savings products address client needs. Evaluation of this ratio provides insight into average deposit accounts size, a proxy for client wealth. Considering a client's economic profile contributes to the MFI assessing mission adherence.

Exhibit 10: Loan: **Socio Economic Backing Association**

Bank / Financial Institution	**Mode**	**Loan Limit** (BDT in millions)	**Outstanding** (BDT in millions)
Standard Bank Ltd. (28.02.2019)	Term Loan	150.00	101.03
Southeast Bank Ltd. (19.03.2019)	Term Loan	200.00	200.00
	Term Loan	50.00	38.52
Midland Bank Ltd. (28-02-2018)	MDB Term Loan	100.00	91.78
NCC Bank Ltd. (20.03.2019)	*Term Loan*	*250.00*	*217.07*
Mutual Trust Bank Ltd. (28.02.2019)	Microfinance Scheme Term Loan	600.00	363.36
IDLC Finance Ltd. (28.02.2019)	Term Loan	20.00	21.80
	Term Loan	30.00	
Total		**1400.00**	**1033.56**

Socio Economic Backing Association has been enjoying banking facility from Standard Bank Ltd., Tangail Branch, Southeast Bank Ltd., Tangail SME/Krishi Branch, Midland Bank Ltd., Head Office, NCC Bank Ltd., Tangail Branch, Mutual Trust Bank Ltd., Dhanbari Branch and IDLC Finance Ltd., Dilkusha Branch. The purpose of the above loan is to provide agri activities of crops, livestock, poultry, fisheries, Micro credit program and to finance the agricultural sector. As per statement provided by the banks, the payment behavior of the business was regular. Alpharating only considered the above mentioned banks facilities availed by the organization.

Securities

- Hypothecation of all receivables
- 20% FDR with Standard Bank Ltd.
- BDT 3.00 million FDR with Sonali Bank Ltd.
- Lien on FDR BDT 10.00 million with Southeast Bank Ltd.
- 10% FDR with Midland Bank Ltd.
- BDT 30.00 million FDR with NCC Bank Ltd.
- BDT 60.00 million FDR with Mutual Trust Bank Ltd.
- BDT 2.00 million FDR with IDLC Finance Ltd.

Details of Collateral

Particulars	**MV (BDT in millions)**	**FSV (BDT in millions)**	**Banks**
4.00 decimal land with 07 storied commercial building located at PDB office, Mymensingh Road, Tangail	33.73	26.99	Southeast Bank Ltd.
95.00 decimal land	6.18	3.09	Mutual Trust Bank Ltd.
Total	**57.30**	**45.80**	

Alpha Credit Rating Limited Dhaka

Executive Committee

There are 7 members in the executive committee:

Name	Profession	Designation
Mr. Tanvir Ahmed	Business	Chairman
Sahida Alam	Principal	Vice-Chairman
Md. Riyz Ahmed Liton	Service	General Secretary/Executive
Kh. Mahabobul Hoque	Business	Treasurer
Mr. Kazi Bahalul Hoque	Business	Executive Member
Md. Kamruzzaman	Business	Executive Member
Farida Khan	Lecturer	Executive Member

Total Borrowers and Depositors

The organization has an adequate number of members. Details of the members are provided below:

Type	Number
Total Borrower	106,320.00
Total Members	149,487.00

Compliance Issues

Particulars	Validity
Social Welfare Department	Registered
NGO Affairs Bureau	Registered
Micro credit Regulatory Authority (MRA)	Registered
Tax	2018-2019

End of the Report

Term Rating Scale and Definitions

AAA	Issuers or issues rated AAA represents the strongest credit quality relative to other Bangladeshi obligors
AA	Issuers or issues rated AA represents very strong credit quality relative to other Bangladeshi obligors
A	Issuers or issues rated A represents above average credit quality relative to other Bangladeshi obligors
BBB	Issuers or issues rated BBB represents average credit quality of Bangladeshi obligors
BB	Issuers or issues rated BB represents slightly below average credit quality relative to other Bangladeshi obligors
B	Issuers or issues rated B represents weak credit quality relative to other Bangladeshi obligors
CCC	Issuers or issues rated CCC represent very weak credit quality relative to other Bangladeshi obligors
CC & C	Issuers or issues rated CC and C both represent extremely weak credit quality relative to other Bangladeshi obligors. Rating of C will normally be assigned when an obligor is in technical default on certain commitments or obligations, but not yet in financial default.
D	Issuers or issues rated D have failed to meet their rated financial commitment on time or when due

Long term rating from AA to B may be modified by the inclusion of a plus (+) or minus (-) sign to indicate relative strength within the rating category.

Short term Rating Scale

ST 1	Issuers rated ST 1 have the strongest ability to meet short term financial commitments relative to other Bangladeshi obligors
ST 2	Issuers rated ST 2 have an above average ability to meet short term financial commitments relative to other Bangladeshi obligors
ST 3	Issuers rated ST 3 have an average ability to meet short term financial commitments
ST 4	Issuers rated ST 4 have a below average ability to meet short term financial commitments relative to other Bangladeshi obligors
ST 5	Issuers rated ST 5 have a well below average ability to meet short term financial commitments relative to other Bangladeshi obligors
ST 6	Issuers rated ST 6 have failed to meet their short term financial commitments

Rating Outlook

Rating Outlook assesses the potential direction of the Debt Rating over the intermediate term (typically over a one to two-year period). The Rating Outlook may either be :	
POSITIVE	Which indicates that a rating may be raised;
NEGATIVE	Which indicates that a rating may be lowered;
STABLE	Which indicates that a rating is likely to remain unchanged; or
DEVELOPING	Which indicates that a rating may be raised, lowered or remain unchanged.

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