

Thaneakea Phum (Cambodia) Ltd., Kingdom of Cambodia

Thaneakea Phum (Cambodia) Ltd. or TPC started to provide microcredit services on 1994, as part of the Small Enterprise Development program of Catholic Relief Services (CRS). CRS Cambodia transferred its microfinance assets to a limited liability company in 2002 and it was officially registered as a licensed and supervised MFI by the National Bank of Cambodia (NBC) in 2003. As of September 2007, TPC's 253 staff serves over 70,000 clients with a portfolio outstanding of 10.5 M USD in 9 provinces. It offers two types of group loans and one individual loan in addition to providing small scale saving services.

GIRAFE Rating

Rating

B+

Outlook

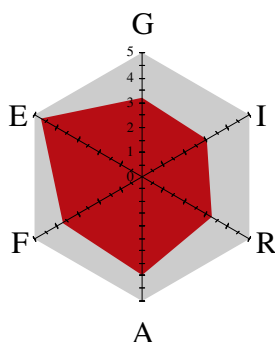
Stable

Date of the rating

October 2007

Valid until September, 2008

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- Excellent profitability as measured by very strong ROE and ROA ratios of 18.7% and 10.1%, respectively as of end December 2006. Preliminary September 2007's end figures continue to be excellent at 24.7% and 8.7%, respectively.
- High profitability is underpinned by TPC's success in maintaining relatively higher portfolio yield despite general downward pressure (35% vs. industry average of 32% in September 2007) while succeeding in sharply lowering the operating expense ratio (15% in September 2007). Profitability is also built on higher leverage, economies of scale and very productive use of assets (portfolio to assets ratio of 93.5% as of December 2006).
- Excellent asset quality with a PAR31-365 (0.5% as of September 2007) underpinned by tight portfolio/delinquency management and good MIS capability.
- TPC enjoys a reasonably strong market position (#4 non-bank MFI), however this position is under threat on the low end by fast expanding AMK and by the top 3 MFI players. The planned CRS divestment could accelerate its growth, but the outcome of this process is largely outside of TPC's control.

Outlook

- The "Stable" outlook is given based on expectations of continued good management of the portfolio. Ongoing management and process improvements should boost TPC's outlook, however the uncertainty about the CRS' divestment timing and continued reliance on expatriate skills both at the BOD and management levels point toward a stable condition over the next 12 months.

Performance indicators

USD	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sept. 2007
Assets	1,563,451	2,782,247	4,126,241	5,258,723	7,793,799	13,447,735
Growth	N/A	78.0%	48.3%	27.4%	48.2%	72.5%
Loan portfolio	1,047,444	2,117,908	3,580,056	4,361,342	6,955,482	10,555,488
Growth	N/A	108.8%	62.8%	27.9%	60.3%	47.7%
Outstanding deposits	156,008	280,584	409,535	497,814	133,703	120,416
Growth	N/A	85.8%	40.6%	27.6%	(73.0%)	(12.3%)
Active borrowers	21,409	28,900	37,802	43,338	56,007	70,114
Active savers	23,372	46,685	64,326	83,906	43,949	29,870
Staff	129	162	171	191	227	253
ROE	N/A	6.9%	12.8%	12.2%	18.7%	24.7%
ROA	N/A	5.8%	9.5%	7.6%	10.1%	8.7%
Liabilities / Equity	0.18x	0.17x	0.50x	0.68x	0.98x	2.78x
Portfolio Yield	N/A	48.2%	44.3%	38.1%	38.2%	34.7%
Operating expense ratio	N/A	35.9%	26.6%	21.8%	18.5%	14.7%
PAR 31-365	1.8%	2.1%	0.7%	1.5%	0.3%	0.5%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	N/A	1.8%	1.2%	0.7%	1.0%	0.0%

Microfinance sector

Microfinance services started in Cambodia in the early 1990s and were initially provided by internationally-backed NGOs. In 1999, the Royal Government of Cambodia (RGC) introduced banking regulations adopting a two-tier system for supervising microfinance. A 'Prakas' (i.e. government decree) on microfinance was enacted in 2000 and implemented by the National Bank of Cambodia (NBC). MFIs with a portfolio over 1 MM KHR needed to be licensed, as Limited Liability Company or as a cooperative. After receiving license and registration certificates, the MFIs are regulated and supervised by NBC. As of the end of 2006, there are 17 licensed MFIs and 26 registered as rural credit operators. As of March 2007, the microfinance sector served about 485,000 borrowers with a portfolio of 435.7 MM KHR (106 M USD). The sector also mobilized 14.2 MM KHR (3.5 M USD). The above data does not include data from ACLEDA (a microfinance bank) who is the clear leader in this market with a portfolio of 158 M USD and almost 160,000 clients (though not all are microfinance clients).

The RGC strongly supports rural finance and by extension microfinance as effective tools to fight poverty. Micro/rural finance is one of the two core functioning elements of the current financial system. The NBC uses a self-described "market-based approach" to develop the sector and favour "light" intervention. Overall, the responsibilities for the sector were divided between the Ministry of Finance (MOF), NBC and the Cambodian Microfinance Association (CMA), with MOF supporting policy development and funding coordination, NBC responsible for regulation and supervision, and CMA and the industry responsible for the operational aspects. All licensed MFIs must provide monthly reports and comply with prudential regulations. The regulations are slightly less conservative than those of the banks as a recent Prakas allowed more flexible prudential requirements.

Estimated demand for microfinance services is anywhere between 1.5 and 3 million clients/households, especially in the rural areas. Given unmet demand, the industry has witnessed high growth rates since 2005, particularly among the top 10 MFIs. This growth has essentially been funded by loans from foreign commercial sources despite the presence of local wholesale credits provided by the state-owned Rural Development Bank and private sector Canadia Bank (using funds channelled by international financial institutions such as ADB and KfW). Licensed MFIs can only mobilize savings from their clients/members at this stage and savings remain a very small source of funding, NBC is presently circulating a draft Prakas to discuss the proposed new rules on how to allow MFIs to mobilize savings from the public.

Sources: Planet Rating, NBC.

Political & economic environment

After the exceptional growth of 2005 spurred by a rebound in agriculture, the economy has been growing at a more modest but nonetheless robust pace still driven by a dynamic tourism sector and the exceptional steadiness of a textile sector generating nearly 80% of exports and benefiting from the limits imposed on purchases from China by the United States— which absorbs 60% of Cambodia's exports. With clothing industry companies often dominated by Asian capital and largely working on a subcontracting basis, that very labour-intensive sector has in reality remained very vulnerable. That also holds true for the still key farm sector representing 34% of GDP but, with its low productivity level, remaining vulnerable to weather conditions. Growth has thus been uncertain for a country ranking among ASEAN's poorest alongside Laos and Myanmar. Corruption has moreover remained a major problem, harshly rated by international institutions in relation to governance. This shortcoming has tested the goodwill of financial donors with the country running large external imbalances and continuing to have a vital need for foreign aid. It has nonetheless benefited from the multilateral debt relief initiative, which contributed substantially to reducing the stock of foreign debt. Prime Minister Hun Sen, in power for twenty years, continues to dominate political life and his party and should prove victorious in the various elections scheduled in 2007 and 2008. Meanwhile, Cambodia's ties to the United States and Vietnam have been growing stronger. Implementation of the announced reforms on governance has lacked consistency since they would jeopardize the interests of a powerful bureaucracy. The government has moreover lacked adequate administrative resources to carry them out effectively. These weaknesses have limited the country's attractiveness to foreign investors.

COFACE Country Rating: D – The high risk profile of a country's economic and political environment will further worsen further a generally very bad payment record.

(USD millions)	2004	2005	2006(f)	2007(f)
Economic growth (%)	10.0	13.4	5.0	6.5
Inflation (%)	5.6	6.7	5.0	4.0
Public sector balance (%GDP)	-4.7	-3.4	-3.0	-4.2
Exports	2,589	2,910	3,214	3,428
Imports	3,269	3,928	4,542	4,995
Trade balance	-680	-1,018	-1,328	-1,567
Current account balance (%GDP)	-8.4	-9.4	-11.1	-12.5
Foreign debt (%GDP)	57	51	34	34
Debt service (%G&S exports)	2.1	1.8	0.8	1.1
Foreign currency reserves (in months of imports)	2.8	2.6	2.6	2.6

Source: COFACE's Country Risk Rating Guidebook. (e) estimates (f) forecasts. Note: COFACE is a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

TPC became a limited liability company in 2002, was officially registered as a MFI in 2003 and has since then been regulated and supervised by the NBC. This license allows both lending and saving mobilization with its clients/members only. TPC has been audited since inception by PriceWaterhouseCoopers (Cambodia) Ltd. from 2002 to 2005 and by KPMG Cambodia Ltd. since 2006.

Ownership

The main controlling shareholder of TPC is CRS International, owning 98% of the 4,000 M KHR (1 M USD) of share capital, and – until September 2007 – holding 3,966 M KHR of hybrid capital resulting from the asset transfer of CRS' Thaneakea Phum Program in 2002. This hybrid capital has recently been transformed first into subordinated debt and then into senior debt. In line with CRS policy to divest its stake in for-profit MFIs before 2010, some socially responsible investors have been invited to express their interest in taking equity stakes. TPC has also been working on its Employee Stock Ownership Program (ESOP) that would allow staff to buy up to 15% of the shares.

Donations

Main donations since inceptions are 1.2 M USD and 150 K USD of loan funds from USAID and CRS respectively, and 248 K USD for loan capital from the McKnight Foundation. TPC has received technical assistance from two CRS expatriates, namely Elisabeth Obed Abrera working as CEO until April 2005 and Rosemarie Parreno Apostol holding the current position of COO¹.

Funding composition

TPC is presently funded by major international microfinance funds such as Calvert, FMO, Hivos-Triodos Fund (HTF), Microfinance Alliance Fund, ASN-Novib, PlaNet Finance²/responsAbility, ACLEDA and quite recently Symbiotics. TPC is presently finalizing new loans with FMO and MAF. Savings mobilization is still very limited.

Management team

TPC top management team is made up of a Chief Executive Officer (CEO), a Chief of Finance Officer (CFO), and a Chief Operation Officer (COO). The CFO, appointed in 2005, is assisted by a Finance and Admin Manager (FAM) and an IT Manager (IM); the COO by a Human Resource

Manager (HRM), a Marketing and Research Manager (MRM), a Bad Debt Coordinator (BDC), and Branch Managers (BM). The CEO, Chuon Sophal, graduated from the Faculty of Commerce in Phnom Penh and has attended several microfinance training program abroad. Before joining TPC in May 2001, he had 22 years of experience in accounting and management positions for the government and banks (Great International Bank, Global Commercial Bank) in Cambodia.

Organization

Microfinance operations are done at the branch and sub-branch levels. Each full-fledged branch has a BM, a Credit Manager (CM), from 6 to 20 Credit Agents (CAs), office staff (bookkeeper, cashier, and MIS clerk) and support staff. Sub-branches are made of a Deputy Branch Manager (DBM) and/or CM, CAs (from 2 to 8) and office staff. A large part of TPC operations follows the Village Banking model but financial transactions can also be handled directly in the branch or satellite office, where cashiers are responsible for loan disbursement and collection. All loan/loan increase exceeding 5 M KHR (1,224 USD) must be approved at the headquarters (HQ) in Phnom Penh. TPC uses an integrated MicroBanker (MB) system with both portfolio and savings tracking and accounting functions. Transactions are recorded daily at the branch level and MB database sent weekly to HQ for consolidation.

Market penetration

TPC currently operates ten branches and eight sub-branches, serving 62 districts and 2,172 villages, spread over 9 provinces in the South-West of Cambodia and near the border with Thailand. In the short term, TPC intends to strengthen further its activities in the branches close to the border with Thailand. In the longer term, new branches might be opened in other provinces such as Prey Veng (south), Kampong Thom (center), Kratie and Oddar Meanchey (north).

Products and services

TPC currently offers two types of group loans granted to 87% of the clientele, individual loans (12% of the clientele) and staff loans. All these loan products together generate an average APR of 36%. 60% of the clients' activities are directly related to the agriculture and farming sectors.

- The Thaneakea Phum Loan (TPL) is essentially a Village Bank product. The TPL can be reimbursed on a fixed term or at the end of the cycle. In the first case, loans are repaid weekly, biweekly or every four weeks, amounts granted range from 200 K KHR to 3 M KHR (from 49 to 734 USD) for terms from 3 to 12 months. A 3% declining interest rate is charged monthly. In the second

¹ See the Information Section.

² PlaNet Finance is a shareholder of Planet Rating.

case, the principal is repaid at the end of the cycle, loans amount are capped to 1 M KHR (245 USD) and a 3.5% interest rate is charged monthly, yielding an APR of 35.6%.

- The Solidarity Group Loan (SGL) differs from the TPL as financial transactions are made directly at the branch and is reimbursed weekly, biweekly or monthly on a 3% monthly declining interest rate, yielding an average APR of 41.2%.
- The Individual Loan Product (ILP) is for clients having more important financial needs, loan size ranging from 500 K to 20 M KHR (from 122 to 4,896 USD). Loan terms, repayment schedule and price are similar to SGL for loans granted in rural areas. In urban areas, the ILP can be disbursed in USD: it ranges then from 125 USD to 5,000 USD. A 2.5% to 2% (for loans over 1,500 USD) declining interest rate is charged monthly, yielding an APR ranging from 27.6% to 32.3%. Land, house, market stall and guarantor(s) are used as loan collaterals.

Like most MFIs in Cambodia, TPC has recently stopped collecting compulsory savings due to competitive pressure. TPC has been collecting very few voluntary savings.

Networks

TPC is affiliated with SEEP through the CRS network, with the Global Financial Education for the Poor Network and is a member of the Cambodian Microfinance Association.

▪ Governance

Governance and Decision Making is rated “b”

Decision-making

TPC is clearly focused on and has succeeded in balancing the goals of serving the poor and maintaining institutional sustainability. The decision-making process is generally effective at TPC. By design, there is a close supervision and oversight of key operational strategies and decisions by local CRS Cambodia and regional representatives, one of whom was the former CEO of TPC. CRS International’s strategy is to divest its controlling share in TPC, but the how, when and how much are still unclear despite its self-imposed 2010 “deadline”. CRS International ultimately controls all strategic, capital and debt decisions. With regard to the planned divestment, TPC BOD and management have only a very limited input. CRS International reportedly wishes to keep some influence and technical assistance post-sale.

TPC BOD is active (i.e. meets regularly though often electronically) and well-informed of key developments. The BOD, dominated by CRS and expatriate representatives, has not seen material renewal or localization over the years.

There are not yet any specialized BOD Committees. CRS International’s plan to divest has partially frozen TPC’s BOD development as there is an expectation that new shareholders (not yet materialized) would naturally appoint new BOD members. Existing BOD members have good experience and are committed to TPC. They recognize that having independent and/or local members would bring more perspectives, but it has been difficult to recruit qualified and available locals to sit on the BOD which, despite being a share company, has many typical characteristics of a NGO BOD (i.e. volunteer-based membership, remote shareholder/founder, local NGO operational control...etc.).

Planning

TPC has good planning culture, process and capability at all organizational levels. It has a relevant and detailed Business Plan (BP), although it would be important to develop a longer-term Strategic Plan once the new shareholders and/or BOD members come in to form a vision and to address future strategic options such as stand-alone growth, merger or takeover possibilities, market and competitive positioning and capital structure and risk management. The current BP is clear in its commitment to sustainability and covers many relevant subjects although it could be more risk-oriented (e.g. identify key risks and mitigants). Similarly it could be more specific (e.g. define market shares, diversification targets, portfolio & product mix, define financing strategies...etc.). TPC projections are aggressive (loan portfolio growing in average by 60% until 2009, reaching 24 M USD for 96,374 clients), but realistic based on reasonable assumptions. The planning process is led by the CEO and the COO, but involves all management staff. Finally, there is a good, standard and systematic budgeting process in place backed by monthly tracking and analysis of actual results.

Management team

TPC is competently led by the top management team backed by regular support from BOD, Resident Advisor and CRS Cambodia. The top managers are knowledgeable and committed, but there is still a key person risk given past middle management turnover. By design, TPC is required to regularly consult with and seek spending authorization from with BOD/CRS Cambodia for major operational decisions. This set-up does not materially affect operational efficiency but limits full empowerment that is necessary to localization efforts. The expatriate COO remains a key decision-maker, although there are conscious efforts trying to build staff capacity in order to eventually localize this important position.

The senior management team works harmoniously together and with the BOD/CRS Cambodia. More communication is however needed to address the decision-making power

imbalance's perception. The middle managers still have room to further grow into their roles. They get involved in operational decision-making through the ManCom meetings, but these meetings are unfortunately too far and few in between. TPC would gain from accelerating the delegation of authority and empowerment of all managers and further building their capacity. The branches' management is generally well-trained and competent. The incentive scheme based on profitability targets is great to focus their mind on the bottom line, although they can learn more about how to balance growth, risks, constraints and return.

Human resource management

Basic HR procedures and policies are in place as well as good recruitment, initiation and training practices. The HR Manager and Department have a good focus on training and capacity building of operational and field staff. The Department needs however to extend its work scope toward management staff and strategy in order to broaden and optimize its roles. Employee communication can be improved as well as training BMs and DBMs on HR management and on how to better relay and explain top management decisions to reduce potential misunderstandings.

The salary issue is central for staff. TPC is reportedly studying the salaries for new recruits and the career path for new credit agents which have been the causes of persistently high staff turnover. TPC made some recent salary adjustments for back office staff following an independent salary survey. Thanks to its village banking and group methodologies, TPC enjoys excellent productivity ratios (borrowers/LO of 539 as of September 2007). However the workload is not evenly distributed as some LOs handle huge number of clients. It would be useful to review the two-staff field travel policy to see whether it is still relevant and balances well both the risk control and client monitoring aspects. The Incentive Scheme is good overall, but some minor tweaks could be studied to enhance its effectiveness (e.g. more regular bonus payments, the preference of higher base salary vs. the variable component...etc.).

■ Information

Information is rated "b"

TPC MIS essentially provides for most information needs. Though MB is a proven MIS offering adequate functionalities, its weaknesses have been hampering TPC. In particular, the absence of import/export modules and the need to have one database for each currency mean additional consolidation work on Excel. More importantly, some errors, bugs (e.g. clients disappeared) and crash still occur in spite of numerous updates. Although significant data loss has

been avoided thanks to weekly back-ups, this process remains suboptimal as MB is used off-line (portable hard-disks are sent by taxi or motorbikes). The daily data processing generated by TPC operations and the need to update separately MB in each branch has proven quite cumbersome. Though MIS officers at the branches have received adequate MIS trainings and are assisted by competent IT support staff at HO, the whole updating process is not always timely as it relies on the MicroBanker technical assistance in Kathmandu. IT capability will need to be strengthened as TPC has been and continue to grow very fast. Internal discussions have started to determine when/how to replace MB for future needs.

Data security procedures are in place, enforced and are improving. A new MIS manual defining more clearly IT policies and procedures has been finalized in 2007 but still needs to be approved by the BOD and shared with all relevant staff. The disaster recovery plan and the MIS audit report realized with the support of a CGAP IS-funded consultant are expected to be completed soon. Hardware equipments are adequate as all databases are domiciled on powerful modern SQL servers. Data security is further enhanced with email and work databases being kept on different servers. However, there is no off-site back-up yet, and various software packages are not licensed, generating legal risks.

Portfolio and savings data is generally timely, reliable and accurate. Excel portfolio reports provide detailed information on portfolio volume, quality (per branch and per CA) and breakdown by loan size, sector, and gender. This comes at the cost of a relatively heavy back office, and even so, MIS officers are often overloaded. Besides, some reports (e.g. on clients' exit) cannot be properly generated yet. Monthly consolidated financial statements are produced as well as financial statements by branch allowing close monitoring of branches' performance. Main microfinance ratios are generated and analyzed by the management team. Financial statements are of very good quality (CGAP transparency merit award received since 2004). It should be noted however that, over the period under review, audited income statements underestimated the cost of the technical assistance (TA) provided by CRS expatriates³.

³ Income statement is adjusted with a higher salary cost for CRS expatriates, which increased the total value of TA to 1,133 M KHR.

■ Risk Management

Risk Management is rated “b”

Procedures and internal controls

Policies and procedures are well documented, formalized and updated in relevant manuals disseminated to staff. The compliance culture is good but not optimal as the internal control chain designed to cover and execute all key fundamentals of internal controls could be better implemented. Internal audit (IA) has indeed pointed some discrepancies related to the application of procedures (some CAs participate in the credit committee of their clients) and to double verification (some BM/CM approvals are missing on the disbursement vouchers). The hierarchical structure in the loan approval process remains nevertheless clear and the fact that CAs are working in pairs for their financial transactions mitigate fraud risks, even if pairs’ rotation remains limited. Frauds have been detected relatively quickly and adequate measures have been taken. For the period covering 2005 to 2007, TPC reported a fraud of 27.5 M KHR (6,732 USD). According to TPC, amounts were fully recovered and concerned CAs dismissed.

Cash security is average as cash handling is not always adequate. TPC policies state rightly maximum cash amounts per branch and daily reconciliation of cash in hand by cashiers and BM. All branches have safes requiring the simultaneous intervention of cashier and BM/CM. The main risks rest on the counting of cash and its transportation to and from the branches. Even if CAs are working by pairs, the fact that cash is transported by motorbike in unsecured bags generates a risk that is not covered by any insurance. In some branches, cashier spaces are not locked or secured and cash counts by CAs are not always handled discretely enough.

Internal audit

The IA team has relevant skills and is sufficiently staffed, which allows very frequent (quarterly) branch visits and well-documented reports. Audit reports include findings classified according to their level of risks, recommendations and follow-up of previous findings. However, quantifying risks and prioritizing recommendations would allow a better implementation of IA conclusions. Besides, IA should broaden its coverage to HO and from operational to financial and market risks. The hiring of an IT consultant has efficiently complemented IA limited capacity to audit MIS functions. Broadening IA scope of work may require strengthening skills and recruiting new staff, especially as TPC will open new branches in the near future.

The institutional set-up generally guarantees IA independence. IA reports did and do eventually reach the

BOD and are read by some BOD members. However this process is not formalized or systematic with a formal BOD IA Committee meeting regularly along with a formal follow-up process of recommendations and its implementation monitoring. At the same time, the IA Manager has still some room to grow in his position. As TPC is planning to reinforce IA by creating a dedicated BOD committee, the institution should make sure this committee to be independent of the management team. The external audit of KPMG provided valuable findings on internal controls. A more direct relationship between IA and external auditors would allow IA to benefit more from their technical expertise.

■ Activities

Activities: products and services is rated “b”

Market position

The Cambodian market is becoming increasingly competitive, but there is still plenty of unmet demand especially at the lower end and in rural areas (See Microfinance Sector). TPC has been fast-growing in the past few years, and thus holds the #4 both on client and portfolio counts (excluding ACLEDA Bank, see Benchmarking). Given the operational and financial strength of the top-tier MFIs (e.g. PRASAC, AMRET, CEB) and the aggressiveness displayed by AMK, it is unlikely that relative market shares among the top 10 will change significantly in the next 12 months. In the near run, there is no sense of urgency or big impetus to consolidate as the growth rates remain high for all MFIs. However, it should be noted that the current funding issue might hamper TPC’s growth, like it happened already in 2005 with TPC’s portfolio growing only by 28% against 63% in 2004 and 60% in 2006. In the medium term future, TPC might be a merger or takeover target when the industry consolidates.

TPC is well positioned on the low-end of the market (loan size is 151 USD as of September 2007), but has not developed particularly strong or unique competitive advantages. Some efforts have been made to adapt the loan and savings offering in order to keep up with competition: no more compulsory savings, decrease in the interest rates (portfolio yield decreased to 34.8% from 48.2% in 2003), and provision of 4-month bullet repayment loans in some branches. The practice of market surveys and competition analysis (including a comparison of competitors’ products’ characteristics and market share per region) should prove useful to further define TPC’s marketing strategy. Its efficient implementation may require the strengthening of the marketing department as the MRM assistant recently resigned, leaving the MRM (in position for 5 months) alone. Despite these efforts, TPC’s marketing strategy is hampered

by loan terms so far limited to twelve months and hence not always adapted to the clients' needs and competition evolution. This might be one important reason to explain the recent increase in clients' exit witnessed by TPC operational staff. Close drop-out follow-up and identification of reasons for exit would help TPC adapt timely to the intensifying competition (e.g. AMK, AMRET and PRASAC).

TPC range of services is still limited with group loans and individual loans representing the majority of the portfolio. Individual loans have increased since 2006 reaching 12% of the loan portfolio as of September 2007, but their future growth could be hampered as upgrading clients may prefer loans with longer terms. TPC tried to develop Market group Loans (ML) but did not succeed as daily repayments turned to be too cumbersome to process in the MIS. As for voluntary savings, despite competitors' moves to offer this kind of product in an unclear legal framework, TPC has been hesitating on which behavior to adopt. An initiative is underway to mobilize savings from garment factory workers but its effectiveness remains to be seen.

Loan portfolio management

Loan portfolio management is good overall and improving with time thanks to better MIS utilization and tighter delinquency management. TPC applies a well-designed credit methodology stemming from the VB and solidarity group models and particularly suitable to small amounts, poor population and Cambodian rural areas. By involving village and group leaders (in exchange of a commission) and relying on the tight social networks in place, TPC minimizes its needs for a detailed debt capacity analysis. Whereas only a base-line survey is needed for the smaller loans, individual loans and group loans increasing by more than 400,000 KHR (98 USD) require a clients' business survey, that still need to be enhanced by formal cash flow analysis.

Delinquency management is efficient thanks to clear procedures implemented by staff, better use of MicroBanker reports, and adequate support provided by the bad debt collection office. Bad debt collection officers, staffed according to the branches' needs, support branch staff with the follow-up of over 90 days late repayments and of written-off loans. Even if recovery is not a major issue given the very limited delinquency, it should be noted that recovery ratios can still be improved (over 25% in 2006). For that purpose, social guarantees are reasonably well adapted to the group loans clientele in rural areas whereas individual loans' collaterals might be less easily actionable.

BM and/or DBM/CM provide adequate supervision to CA whose skills may nevertheless differ from one to another. Most CAs have appropriate skills for group loans appraisal, but only a few of them can handle individual loans. Efforts

have been made to provide trainings but high turnover in new CA complicates skills consolidation. Trainings related to strategic loan portfolio management could strengthen BM and DBM capacity to manage growth.

The impressive growth of the portfolio has been allowed thanks to a cost-efficient development of the branch network from existing bases, but also at the cost of moderate clients' follow-up. The system of CA working in pairs, though useful for security and control, is perceived as time-consuming. Overloaded CAs hardly control loan use and evolution of clients' indebtedness. This may become problematic as competition will intensify over the years and cross-indebtedness will become more frequent. It remains to be seen how TPC will find a way to improve follow-ups without decreasing CA productivity.

TPC has had difficulties in establishing a significant portfolio diversification in a market where most people's activities are related to agriculture and farming. As a matter of fact, 60% of the financed activities are directly related to these sectors. Activities are nonetheless reasonably concentrated in the trade sector (45%). TPC's monitoring remains limited as loans might be used by other members of the household and for other activities than agreed with the CA. Spending more time on follow-ups would allow closer monitoring of clients' activities and level of indebtedness, and help in building the long-lasting client relationships needed in the future.

Besides KHR, loans are granted in Thai Baht (THB) for 21% of the portfolio. This is understandable as THB is used as a local currency in the Batambang, Siem Reap and Banteay Mean Cheay regions, near the Cambodian border with Thailand. Reasonably limited in 2007, the exposure in THB used to be as high as 66% in 2003 and around 40% from 2004 to 2006. TPC has recently decided to mitigate this risk by capping the proportion of loans in THB to 25% of its portfolio. Assessing how cross-border trade disruption would affect TPC's loan portfolio quality (if borders with Thailand were to be closed) would allow the institution to know whether it is worth covering this risk by some reserve or insurance (which is so far not the case). Loans granted in USD still represent a very limited proportion of the portfolio (1.2%).

Credit risk

Portfolio quality is excellent with PAR 31-365 at 0.3% in 2006 and 0.5% in 2007. Such low levels were already reached in 2004 (0.7%) but PAR 31-365 increased back to 1.5% in 2005 when TPC encountered major TPL repayment problems in two villages of the Chhouk Branch. Current outstanding portfolio quality has been achieved thanks to better IT capability enabling faster delinquency

management, tighter loan delinquency monitoring, better CA skills and no rescheduling of loan. PAR 31-365 remains below 0.9% for almost all branches, the Phnom Penh branch giving causes for concerns with PAR 31-365 reaching 4.09% as of September 2007. Assuming that TPC group lending methodology is not adapted to urban Phnom Penh, TPC's management team is thinking about either delocalizing the branch services to semi-urban areas or providing more individual loans. Overall, portfolio quality is very good for all loan products, the SGL, TPL and IL reaching respectively 1.8%, 0.1% and 0.7%.

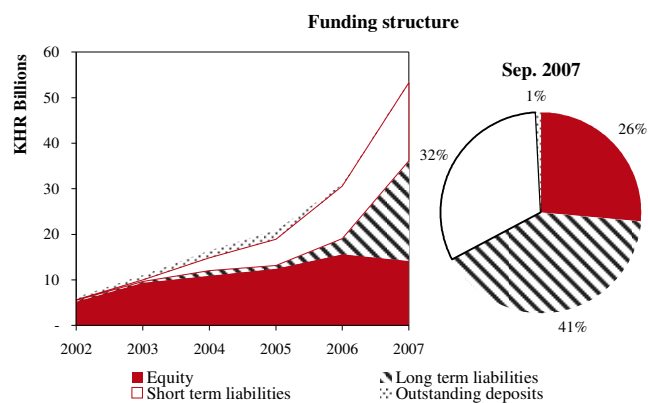
TPC provisioning policy has been improving over the years but is not yet optimal. Loan loss reserves covers at 74.8% PAR31 in 2007 from 22.9% in 2003. However, compulsory savings cannot be used anymore to recover late loans since TPC stopped collecting them in January 2006.

Write-off ratios are good ranging from 1.8% in 2003 to 1% in 2006. The write-off policy is within internationally accepted norms, with loans being written-off yearly even though local legislation recommends quarterly. Written-off loans are followed up by CAs, Bad Debt Collectors and IA, allowing a sufficient recovery rate of late loans and minimizing the risks of frauds.

■ Funding and liquidity

Funding and liquidity is rated “b”

Capital Structure & Leverage



TPC remains well capitalized with equity representing 26% of the funding structure despite growing leverage. Leverage has indeed been increasing markedly up to 2.78x as of September 2007 from 0.18x in 2002. Such a level has been reached due to the transformation of 3,966 M KHR of CRS hybrid capital into senior debt. This reclassification aside, leverage is 1.96x resulting from the recent recourse to ST and LT borrowings. At this point, TPC ability to finance growth through additional debt remains robust but limited by CRS pre-authorized loan ceiling, NBC rules and loan

covenants. Savings account only for 1% on the funding structure.

Asset & Liability Management

TPC is exposed to some ALM risks. Maturity risk is low as average funding liability term (14-15 months) exceeds average portfolio term (9-10 months). There is some interest rate risk on some loans due to provisions of adjusting rates quarterly or yearly. FX risks are important but partially hedged. 14.5% and 38.5% of borrowings are denominated in USD and THB respectively, which does not match with the currency composition of the loan portfolio (78% in KHR, 21% in THB, 1% in USD) though Cambodian economy is highly dollarized. FX risks on USD borrowings are hedged by somewhat costly recent back-to-back arrangements⁴ with NBC and the Foreign Trade Bank. TPC needs to think of other alternatives as this hedging mechanism cannot be used extensively due to local banks' limited appetite. Borrowings in THB, in addition to generating FX risks, have recently proved difficult to repay due to transfer complications (now resolved). Fortunately many funders have started providing KHR loans to TPC which should increase over time. Since 2005, TPC has not been complying with foreign currency exposure norms⁵ even though such prudential requirements have been made more flexible recently by the NBC.

Funding strategy

TPC has successfully diversified its funding by borrowing from well-known sources. Given favorable borrowers' market and its good credit profile, TPC has little difficulty to secure funding offers from international sources. Although loan ceilings set by CRS International could soon be reached⁶, they might be adjusted later according to TPC's needs. Similarly, even if TPC has to comply with some loan covenants, it is understood that lenders will allow enough flexibility to ensure growth. However, new capital injection needed on the longer term fully relies on the planned CRS divestment (see Governance section). Savings mobilization, still very limited, could contribute to the financing of growth although this has not yet been strongly pushed by TPC.

Liquidity management

As TPC is growing fast, liquidity is tightly managed with regular cash flow projections in order to optimize the allocation of available funds to the branches' needs. Liquidity risk is also intrinsically limited given the very low

⁴ Foreign USD loans are deposited at the NBC and Foreign Trade Bank, who lend the equivalent amounts in KHR to TPC.

⁵ As of Sept. 07, USD and THB exposures are 11.7% and 16.9% respectively vs. NBC's maximums of 5% for each currency and 20% overall. NBC is aware of this and no ST regulatory risk is expected.

⁶ From July 1, 2008, TPC is authorized to a loan ceiling of 13.5 M USD.

level of voluntary savings. TPC complies with and exceeds by far NBC’s minimum liquidity ratio of 100%.

■ Efficiency and Profitability

Efficiency and Profitability is rated “a”

Profitability analysis

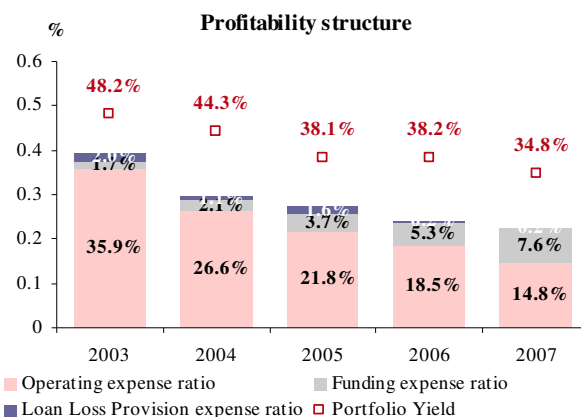
TPC broke even in 2003 and has reached since then a quite strong level of profitability. ROA has been increasing significantly up to 10.1% as of December 2006 and to 8.6% as of September 2007 (unaudited figures), which is way above regional benchmarks. This positive trend is underpinned by its success in driving down operational costs which compensated for the declining portfolio yield and the higher funding costs. Better profitability is also built on higher leverage effect, ROE reaching 18.7% in 2006. Finally, excellent portfolio quality helped driving down loan loss provisioning costs.

In line with the increased competition, TPC’s portfolio yield dropped over 10% to 38.2% in December 2006 compared to 48.2% in 2003 due to the reductions in interest rates. These recent efforts to face competition relieve temporary TPC from downward pricing pressure. TPC’s September 2007 portfolio yield of 34.8% remains nevertheless slightly above the estimated industry’s average of 33.4%. There is no significant gap with estimated portfolio APR (36%).

As TPC gets squeezed by lower portfolio yield, it managed to become more efficient by reducing drastically its operating expense ratio to 18.5% in December 2006 from 35.9% in 2003. This increased operational efficiency reaches excellent levels as of September 2007 (14.8%), ranking TPC among most efficient MFIs in Cambodia and below regional benchmarks. Main drivers for profitability are:

- Very good staff productivity despite low average outstanding loan and thanks to TPC’s village banking and group methodologies (471 borrowers per loan officer in 2006). This ratio has nevertheless decreased in 2006 due to the development of individual loans. Overall staff productivity is very good exceeding 200 borrowers per staff since 2004. Total staff expenses (including personnel expense, commissions to local agents and representatives and Planet Rating’s adjustment for CRS representatives) represent 66.7% of total operating expense in 2006, which is above benchmarks and roughly in line with previous years.
- Reasonable funding expense ratio rising to 5.3% in 2006 from 1.7% in 2003, as growth has been increasingly financed through commercial borrowings.
- Extremely low loan loss provision expense ratio reaching 0.2% since 2006 thanks to an excellent quality of portfolio.

- Good resource optimization, the outstanding loan portfolio to assets ratio reaching 93.5% in 2006 but decreased recently to 80% due to the back to back arrangements (see Funding section).



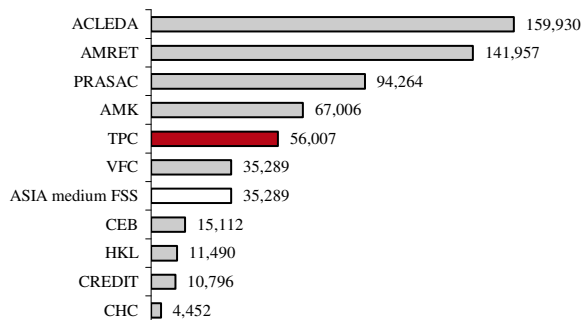
Based on September’s unaudited figures, profitability outlook for 2008 is globally positive given TPC’s excellent track record in reducing its operating expenses apace with its decreasing portfolio yield, thus keeping an excellent profitability margin. Loan loss provision expense should remain very low thanks to tight portfolio management practices. However, reaching even better profitability levels may require changing in some way TPC’s current business model, which could be done with a MIS more adapted to TPC’s needs and more flexible loan conditions. Finally; diversifying funding sources with savings mobilization would help TPC controlling its funding costs.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution’s performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

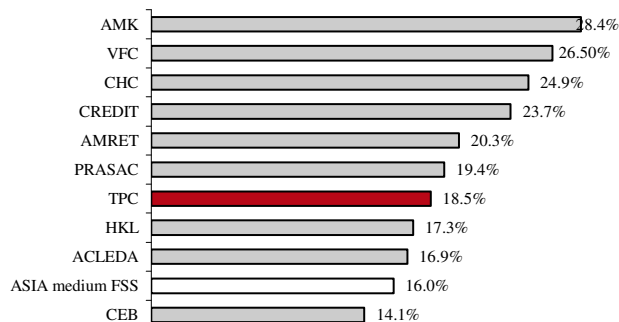
Benchmarking

End 2006 data in USD, unless otherwise stated

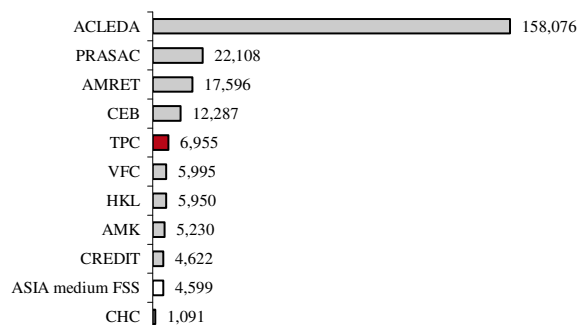
Active borrowers



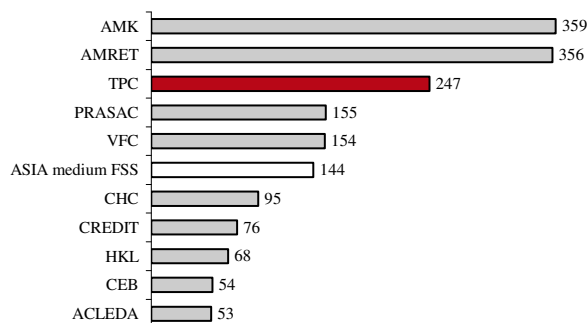
Operating expense ratio



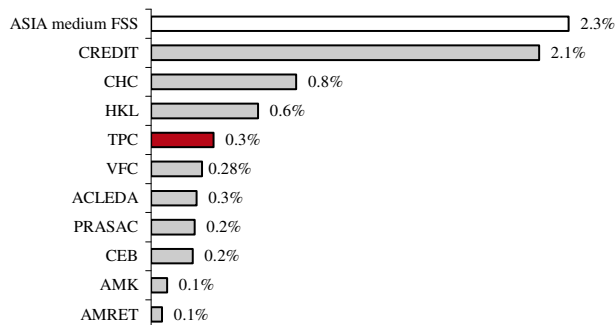
Loan portfolio



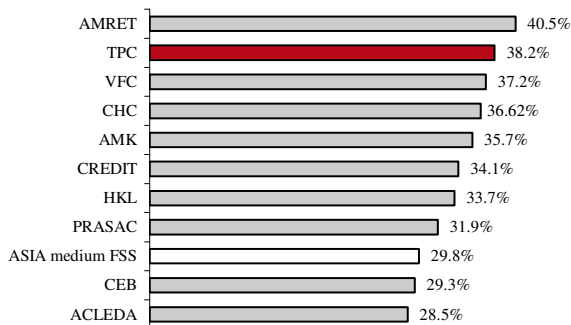
Staff productivity



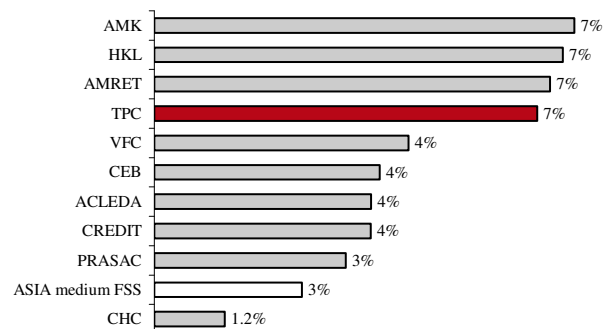
PAR 31-365



Portfolio Yield



ARO



Source: The Mix Market

MFIs: Association of Cambodian Local Economic Development Agencies (ACLEDA), Angkor Mikroheranhvatho Kampuchea (AMK), AMRET Co., Cambodian Entrepreneur Building Limited (CEB), CHC, Hattha Kaksekar Ltd (HKL), PRASAC, Thaneakea Phum (Cambodia) Ltd (TPC), Vision Fund Cambodia Ltd (VFC)

MBB Peer groups; benchmarks 2006 (medians)

■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	1,047,444	2,117,908	3,580,056	4,361,342	6,955,482	10,555,488
Loan portfolio (KHR)	4,185,061,000	8,739,970,000	14,228,573,859	18,201,624,444	29,185,896,174	43,121,384,623
Evolution	N/A	108.8%	62.8%	27.9%	60.3%	47.7%
Average outstanding loan	N/A	1,673,226	2,852,467	3,947,524	5,607,364	8,849,885
Active borrowers	21,409	28,900	37,802	43,338	56,007	70,114
Evolution	N/A	35.0%	30.8%	14.6%	29.2%	25.2%
Average outstanding loan per client	49	73	95	101	124	151
% of GDP per capita	15.4%	23.8%	29.6%	33.0%	40.9%	48.3%
Average amount disbursed per loan	63	79	117	129	154	191
% of GDP per capita	19.6%	24.0%	29.8%	29.3%	31.3%	34.7%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	1.8%	2.1%	0.7%	1.5%	0.3%	0.5%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	N/A	1.8%	1.2%	0.7%	1.0%	0.0%
Credit risk coverage						
Risk coverage ratio	87.2%	22.9%	37.4%	75.2%	62.1%	74.8%
PAR 31 net of loan loss provision / Equity	0.2%	1.5%	0.6%	0.5%	0.2%	0.4%
Savings						
Outstanding deposits	156,008	280,584	409,535	497,814	133,703	120,416
Outstanding deposits (KHR)	623,329,598	1,157,887,000	1,627,655,454	2,077,576,709	561,030,108	491,925,680
Evolution	N/A	85.8%	40.6%	27.6%	(73.0%)	(12.3%)
Mandatory savings (%)	100.0%	100.0%	100.0%	100.0%	93.0%	80.7%
Voluntary savings (%)	0.0%	0.0%	0.0%	0.0%	7.0%	19.3%
Active savers	23,372	46,685	64,326	83,906	43,949	29,870
Evolution	N/A	99.7%	37.8%	30.4%	(47.6%)	(32.0%)
Average outstanding deposit per saver	7	6	6	6	3	4
Mandatory	7	6	6	6	3	3
Voluntary	-	-	-	-	77	186
Staff						
Total number of staff	129	162	171	191	227	253
% Credit officers	39.5%	47.5%	43.9%	45.5%	52.4%	51.4%
Turnover	0.0%	8.9%	11.4%	12.2%	13.4%	14.6%
Profitability analysis						
ROE	N/A	6.9%	12.8%	12.2%	18.7%	24.7%
Liabilities / Equity	0.18x	0.17x	0.5x	0.7x	1.0x	2.8x
ROA	N/A	5.8%	9.5%	7.6%	10.1%	8.7%
Profitability structure						
Portfolio Yield	N/A	48.2%	44.3%	38.1%	38.2%	34.8%
Operating expense ratio	N/A	35.9%	26.6%	21.8%	18.5%	14.8%
Cost per borrower	11	21	20	20	18	19
Staff productivity	166	178	221	227	247	277
Loan officer productivity	420	375	504	498	471	539
Average outstanding loan per client (USD)	49	73	95	101	124	151
Funding expense ratio	N/A	1.7%	2.1%	3.7%	5.3%	7.6%
Cost of savings	N/A	0.0%	6.1%	6.3%	5.8%	7.9%
Cost of liabilities	N/A	0.0%	4.9%	8.4%	11.4%	10.3%
Loan Loss Provision expense ratio	N/A	2.0%	1.1%	1.6%	0.2%	0.2%
PAR 31-365	1.8%	2.1%	0.7%	1.5%	0.3%	0.5%
Write-off ratio	N/A	1.8%	1.2%	0.7%	1.0%	0.0%
Resource optimization						
Outstanding Loan Portfolio / Assets	66.0%	78.2%	86.1%	85.6%	93.5%	80.0%
Revenue from investment as a % of financial revenues	1.5%	0.3%	0.1%	0.1%	0.2%	0.7%
Liquidity						
Loans to deposits	669.1%	754.8%	874.2%	876.1%	5,202.2%	8,765.8%
Liquidity / Total assets (LAR)	1.2%	1.9%	0.5%	0.5%	0.2%	0.2%
Adjusted ratios						
Adjustment expense ratio	N/A	4.6%	7.2%	6.3%	3.8%	2.1%
AROE	N/A	0.1%	1.2%	0.1%	7.4%	14.1%
AROA	N/A	2.2%	3.6%	2.1%	6.7%	6.9%
Financial self-sufficiency	N/A	112.3%	120.7%	114.3%	138.0%	142.0%
Adjusted operating expense ratio	N/A	38.7%	28.3%	23.0%	19.3%	15.3%
Adjusted funding expense ratio	N/A	2.9%	7.7%	8.8%	8.2%	9.1%
Adjusted loan loss provision expense ratio	N/A	2.5%	1.1%	1.6%	0.2%	0.2%
Exchange rate 1 USD= xx KHR	3,995.5	4,126.7	3,974.4	4,173.4	4,196.1	4,085.2

GIRAFE Rating – TPC, Cambodia – October 2007

Thaneakea Phum (Cambodia)		USD						Evolution				
Balance sheet	Notes	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007	2003/2002	2004/2003	2005/2004	2006/2005	2007/2006
ASSETS		1,563,451	2,782,247	4,126,241	5,258,723	7,793,799	13,447,735	78.0%	48.3%	27.4%	48.2%	72.5%
Short Term Assets		1,433,698	2,613,275	3,992,062	5,104,163	7,595,555	12,208,031	82.3%	52.8%	27.9%	48.8%	60.7%
Cash and Due from Banks		19,217	53,127	18,940	24,093	14,655	33,559	176.5%	(64.3%)	27.2%	(39.2%)	129.0%
Short Term Investments		371,599	337,581	352,343	488,409	145,872	1,382,382	(9.2%)	4.4%	38.6%	(70.1%)	847.7%
Short Term Net Loan Portfolio		1,031,098	2,177,071	3,551,758	4,503,874	7,289,005	10,753,032	111.1%	63.1%	26.8%	61.8%	47.5%
Short Term Gross Loan Portfolio		1,047,444	2,187,453	3,561,150	4,555,531	7,304,692	10,792,488	108.8%	62.8%	27.9%	60.3%	47.7%
(Loan Loss Reserve)		16,345	10,382	9,391	51,657	15,687	39,455	(36.5%)	(9.5%)	450.0%	(69.6%)	151.5%
Interest Receivable		-	33,400	47,921	78,470	131,516	-	-	43.5%	63.7%	67.6%	(100.0%)
On loan portfolio		-	33,400	47,921	78,470	131,516	-	-	43.5%	63.7%	67.6%	(100.0%)
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		11,783	12,097	21,100	9,317	14,506	39,057	2.7%	74.4%	(55.8%)	55.7%	169.2%
Long term assets		129,753	168,972	134,179	154,560	198,244	1,239,704	30.2%	(20.6%)	15.2%	28.3%	525.3%
Long Term Net Investments	1	-	50,056	50,056	50,056	50,732	969,594	-	0.0%	0.0%	1.4%	1,811.2%
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		129,128	118,915	84,123	103,988	145,716	266,101	(7.9%)	(29.3%)	23.6%	40.1%	82.6%
Other Long Term Assets	2	626	-	-	516	1,796	4,008	(100.0%)	-	-	248.0%	123.2%
LIABILITIES AND EQUITY		1,563,451	2,782,247	4,126,241	5,258,723	7,793,799	13,447,735	78.0%	48.3%	27.4%	48.2%	72.5%
Liabilities		235,253	410,517	1,376,877	2,121,055	3,862,549	9,893,379	74.5%	235.4%	54.0%	82.1%	156.1%
Short term liabilities		177,803	379,957	1,102,424	1,962,086	3,027,414	4,405,749	113.7%	190.1%	78.0%	54.3%	45.5%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		156,539	289,798	407,372	519,979	130,597	99,403	85.1%	40.6%	27.6%	(74.9%)	(23.9%)
Short Term Time Deposits		-	-	-	-	9,819	23,717	-	-	-	-	141.6%
Short Term Borrowings		-	-	510,107	1,260,302	2,556,749	3,895,055	-	-	147.1%	102.9%	52.3%
Interest payable		-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		21,264	90,160	184,946	181,805	330,250	387,575	324.0%	105.1%	(1.7%)	81.7%	17.4%
Long term liabilities		57,450	30,559	274,452	158,969	835,135	5,487,630	(46.8%)	798.1%	(42.1%)	425.3%	557.1%
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	251,533	141,780	822,243	5,477,155	-	-	(43.6%)	479.9%	566.1%
Other Long Term Liabilities	3	57,450	30,559	22,919	17,190	12,892	10,475	(46.8%)	(25.0%)	(25.0%)	(25.0%)	(18.8%)
Equity		1,328,198	2,371,730	2,749,364	3,137,668	3,931,250	3,554,355	78.6%	15.9%	14.1%	25.3%	(9.6%)
Paid-In Capital		811,734	1,001,126	1,001,126	1,001,126	1,001,126	1,001,126	23.3%	0.0%	0.0%	0.0%	0.0%
Donated equity	4	514,447	1,186,186	1,190,047	1,190,047	1,190,047	197,407	130.6%	0.3%	0.0%	0.0%	(83.4%)
Retained earnings without donations and reserves		2,017	184,418	558,191	946,495	1,740,077	2,355,822	9,044.2%	202.7%	69.6%	83.8%	35.4%
Current year		1,412	142,994	345,573	339,533	760,487	604,007	-	141.7%	(1.7%)	124.0%	(20.6%)
Other equity accounts		-	-	-	-	-	-	10,028.2%	-	-	-	-

Notes:

- 1) Balance with NBC and FTB (back to back arrangements)
- 2) Intangible assets, receivable from a shareholder, deposit for rental
- 3) Deferred grant income
- 4) Includes Reserves and until 2006 Hybrid Capital from CRS

GIRAFE Rating – TPC, Cambodia – October 2007

Thaneakea Phum (Cambodia)		USD						Evolution				
Income Statement	Notes	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Sep. 2007	2003/2002	2004/2003	2005/2004	2006/2005	2007/2006
Financial Revenue (a)		237,695	855,053	1,266,725	1,574,483	2,252,762	2,378,347	259.7%	48.1%	24.3%	43.1%	5.6%
Financial Revenue from Loan Portfolio		233,283	832,391	1,256,099	1,571,701	2,246,730	2,358,456	256.8%	50.9%	25.1%	42.9%	5.0%
Interest on Loan Portfolio		204,734	831,959	1,223,052	1,569,519	2,244,419	2,356,596	306.4%	47.0%	28.3%	43.0%	5.0%
Fees and Commissions on Loan Portfolio		28,493	-	31,977	-	-	-	(100.0%)	-	(100.0%)	-	-
Penalty Revenue on Loan Portfolio		56	432	1,070	2,182	2,310	1,860	674.9%	147.5%	103.9%	5.9%	(19.5%)
Financial Revenue from Investments		3,485	2,582	1,581	2,333	5,240	16,471	(25.9%)	(38.8%)	47.6%	124.6%	214.3%
Other Operating Revenue	1	927	20,080	9,045	449	792	3,419	2,065.4%	(55.0%)	(95.0%)	76.3%	331.8%
Financial Expense (b)		4,778	28,588	60,088	153,485	314,254	513,829	498.3%	110.2%	155.4%	104.7%	63.5%
Interest paid on borrowings		4,778	28,588	18,725	91,141	272,959	494,675	498.3%	(34.5%)	386.7%	199.5%	81.2%
Interest paid on deposits		-	-	40,805	57,102	34,107	10,364	-	-	39.9%	(40.3%)	(69.6%)
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	557	5,242	7,189	8,790	-	-	840.4%	37.1%	22.3%
Financial income [c=a-b]		232,917	826,465	1,206,637	1,420,998	1,938,507	1,864,518	254.8%	46.0%	17.8%	36.4%	(3.8%)
Net Loan Loss provision expense (d)		-	34,270	29,918	67,316	9,285	14,625	-	(12.7%)	125.0%	(86.2%)	57.5%
Loan loss provision expense and write-off		-	33,407	33,789	72,398	20,372	23,418	-	1.1%	114.3%	(71.9%)	15.0%
Recovery from Loans written off		-	(863)	3,872	5,082	11,086	8,793	-	(548.8%)	31.3%	118.2%	(20.7%)
Operating expense (e)		232,211	619,618	754,535	898,344	1,087,808	1,002,244	166.8%	21.8%	19.1%	21.1%	(7.9%)
Personnel Expense (includes fringe)		152,421	359,287	429,163	525,338	634,594	523,015	135.7%	19.4%	22.4%	20.8%	(17.6%)
Administrative Expense (non-staff operating expenses)		79,790	260,330	325,372	373,006	453,213	479,229	226.3%	25.0%	14.6%	21.5%	5.7%
Depreciation and amortization		10,690	41,889	40,443	57,366	66,336	53,513	(100.0%)	(74.5%)	436.7%	15.6%	(19.3%)
Consulting fees		-	-	-	-	-	-	-	-	-	-	-
Office Expenses		25,661	69,553	82,783	85,468	67,781	124,251	171.0%	19.0%	3.2%	(20.7%)	83.3%
Travelling Expenses		10,004	28,362	60,769	66,806	74,527	77,013	135.2%	21.4%	9.9%	11.6%	3.3%
Occupancy Expenses		21,288	50,073	51,487	58,107	65,152	68,044	135.2%	2.8%	12.9%	12.1%	4.4%
Technical Fee		-	20,300	20,561	12,350	23,644	-	-	1.3%	(39.9%)	91.5%	(100.0%)
Commission to local agents and representatives		11,376	40,150	54,920	65,702	91,244	91,088	252.9%	36.8%	19.6%	38.9%	(0.2%)
Other tax expense		409	3,458	6,686	2,786	-	7,573	745.0%	93.4%	(58.3%)	(100.0%)	-
Others	2	363	6,546	7,724	24,421	64,530	57,746	1,705.0%	18.0%	216.2%	164.2%	(10.5%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		706	172,577	422,185	455,338	841,414	847,649	24,342.8%	144.6%	7.9%	84.8%	0.7%
Income Taxes (g)		2,226	45,600	93,443	97,076	180,255	153,936	1,948.3%	104.9%	3.9%	85.7%	(14.6%)
Net Operating Income Before Donations [h=f-g]		(1,520)	126,977	328,742	358,262	661,159	693,713	(8,452.6%)	158.9%	9.0%	84.5%	4.9%
Non Operating Revenue (i)	3	2,932	16,018	16,831	4,558	99,327	-	446.3%	5.1%	(72.9%)	2,079.2%	(100.0%)
Non Operating Expense (including related taxes) (j)	4	-	-	-	23,286	-	89,705	-	-	-	(100.0%)	-
Net Income Before Donations [k=h+i-j]		1,412	142,994	345,573	339,533	760,487	604,007	10,028.2%	141.7%	(1.7%)	124.0%	(20.6%)
Donations (l)		605	39,407	28,201	48,771	33,095	11,738	6,414.3%	(28.4%)	72.9%	(32.1%)	(64.5%)
Net Income (after Taxes and Donations) [m=k+l]		2,017	182,401	373,773	388,304	793,582	615,745	8,944.2%	104.9%	3.9%	104.4%	(22.4%)

Notes:

For 2002, activity from June to December 1) CRS loan collection fee, and other income 2) In 2006, "others" is made of expenses previously recorded in office expenses and occupancy 3) Training, foreign exchange gain, disposal of fixed assets gain, and others 4) Foreign exchange loss

■ Formulas

Personnel productivity:	Active borrowers / Total personnel (end of period)
Loan officer productivity:	Active borrowers / Total Loan Officers (end of period)
Return on assets (ROA):	Net operating income before donations / Average assets
Adjusted return on assets (AROA):	Adjusted net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Adjusted return on equity (AROE):	Adjusted net operating income before donations / Average equity
Leverage:	Debt (savings + debts) / equity (end of period)
Portfolio yield:	Portfolio revenue / 13-month average gross outstanding portfolio
Operating expense ratio:	Operating expense / 13-month average gross outstanding portfolio
Funding expense ratio:	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Cost of savings ratio:	Interest and fees paid on deposits/Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings/Average borrowing
Loan loss expense ratio:	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / 13-month average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / total assets (end of period)
Financial self-sufficiency:	Revenue from operations / (Expenses (financial, loan loss, operating) + Adjustments)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / 13-month average gross outstanding portfolio
Recovery ratio:	Recovery from Loans written off / 2-years average of loans written off

■ Rating scale

Rating	Definition
A+	Excellent
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	Good
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	Minimum required
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	Insufficient
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	Immediate risk of default or very insufficient
	There are immediate or underlying risks for operations or an unacceptable under performance.