Seilanithih Limited, Cambodia

Seilanithih NGO was created in 1996 from the merger of three regional CARE microfinance projects that had been started in 1993. The microfinance activities of Seilanithih NGO have been transferred to a Limited Liability Company, Seilanithih Limited (Seilanithih) in Aug. 2003. Seilanithih received the permanent license to carry out microfinance operations from the National Bank of Cambodia (NBC) in Feb. 2007. Seilanithih provides group and individual loans in 7 provinces. The institution is particularly active in Battam Bang and Banteay Meanchey. As of Dec. 2011, Seilanithih has an outstanding loan portfolio of 8.3M USD and serves 13,846 active borrowers through its 25 branches.

GIRAFE Rating

Rating

C+

Previous rating

mfR5, June 2009, CRISIL

Outlook

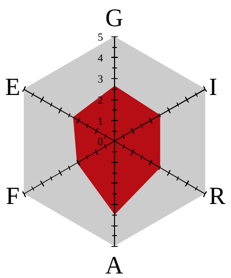
Uncertain

Date of the rating

January 2012

Valid until December 2012

Rating per evaluation area



Governance – **I**nformation – **R**isk – **A**ctivities – **F**unding – **E**fficiency

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Rating highlights

- Seilanithih has a strong and active Board, with representation from all the shareholders. In 2011, the discovery of financial irregularities led to changing of almost the entire senior management team. The current management team is low on skills and experience.
- Seilanithih's loan portfolio growth in 2011 was much lower than the growth witnessed in the Cambodian microfinance market. The main reason was the lack of sufficient liquidity caused due to the organization's preoccupation with the discovery of the financial irregularities and the resultant changes.
- The revenue quality is weak, with interest rates higher than the competitors. With very high operating expenses ratio and lower ROA, any further reduction in the interest rates charged by the competitors will put Seilanithih under further pressure.
- The portfolio quality has improved from the previous years, although the credit risk is still high with the agriculture balloon loans being more than 51% of total loan portfolio.

Outlook

The uncertain outlook is mainly due to the delay in increase in the equity capital, which has slowed the growth, as the main lenders want the equity to increase before new loans are granted to Seilanithih. The increase which was expected to happen in 2011 is not certain, as the main investor CMI International is still to perform its due diligence prior to taking a decision on the fresh investment.

Performance indicators

USD	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Assets	1,893,720	3,854,593	7,400,168	7,710,766	8,319,409	8,762,299
Loan portfolio	1,744,838	3,518,712	5,479,165	6,291,573	7,692,876	8,269,363
Active borrowers	3,580	4,227	6,700	10,433	14,395	13,846
Avg. outst. loan per client	487	832	818	603	534	597
Outstanding deposits	182,446	273,799	365,256	406,212	465,934	407,366
Active savers	3,942	4,613	6,181	11,017	15,447	15,968
Staff	81	109	138	196	190	207
ROE	2.9%	31.8%	10.3%	13.2%	15.4%	15.2%
ROA (without donations)	0.6%	5.7%	1.0%	1.4%	2.5%	2.7%
Liabilities / Equity	1.95x	3.31x	9.18x	3.92x	3.30x	3.32x
Portfolio yield	38.3%	36.3%	35.8%	35.2%	34.9%	31.4%
Operating expense ratio	33.9%	27.6%	24.0%	22.2%	21.6%	20.6%
Financial expense ratio	4.9%	3.2%	9.6%	7.6%	8.1%	7.3%
Impairment expense ratio	(1.5%)	(0.7%)	(0.2%)	3.0%	1.5%	0.2%
NPL 30 + r	0.1%	0.4%	0.7%	2.9%	2.6%	1.3%
Write-off ratio	0.4%	0.1%	0.0%	1.1%	0.6%	0.7%

REF:SG/120312

Microfinance sector

Microfinance services started in Cambodia in the early 1990s and were initially provided by internationally-backed NGOs. The Royal Government of Cambodia (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 National Bank of Cambodia (NBC) uses a self-described "market-based approach" to develop the sector and favors "light" intervention. Overall, the responsibilities for the sector were divided between the Ministry of Economy and Finance (MoEF), NBC and the Cambodian Microfinance Association (CMA), with MoEF supporting policy development and funding coordination, NBC responsible for regulation and supervision, and CMA and the industry responsible for the operational aspects.

In 1999, the 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 NBC. MFIs with a portfolio over 1 billion KHR (250,000 USD) needed to be licensed, as Limited Liability Company (LLC) or as a cooperative. After receiving license and registration certificates, the MFIs are regulated and supervised by NBC. At the end of 2008, there were 18 licensed MFIs and 25 registered as rural credit operators. All licensed MFIs must provide monthly reports and comply with well defined prudential regulations. There is good supervision by the NBC with yearly supervisory visits.

One former MFI, ACLEDA, transformed to a commercial bank in 2003 and continues to serve the same type of clients. Few other MFIs have investigated this option, but this has become difficult given the increase in minimum capital requirement from 13M USD to 38M USD or 13M USD if one of the shareholders is a financial institution and has an investment grade rating.

NBC has issued a new Prakas in late 2007 (Nº B7-07-163) on licensing deposit-taking institutions. With this Prakas all MFIs had to stop mobilizing savings – previously they were allowed to mobilize savings from their clients/members. As of May 2011, seven MFIs had obtained deposit-taking licenses (AMRET, Sathapana, Hattha Kaksekar, AMK, Credit, PRASAC, and Vision Fund).[1]

Estimated demand for microfinance services is around 1 to 1.5 million active clients out of a total potential client base estimated at 3 million clients/households. The industry has shown significant growth in the past five years (2005 to 2010), with total MFI lending increasing at a rate of more than 55% yearly.[2] At present the industry is reaching saturation in some provinces, whereas other provinces still show untapped demand. A survey conducted by Domrei Research and Consulting on rural household debt involving 5,275 households in the villages in Takao, Kandao and Kampot provinces revealed that over 30% of the respondents had more than one loan outstanding. The issue of over-indebtedness has already been identified since several years in the Cambodian microfinance sector and with support of IFC a credit bureau has been set-up. The Credit Bureau Cambodia (CBC) was created[3] and started officially on December 7th 2011. MFIs and Banks have a 90-day grace period to complete the reporting of their credit portfolio to CBC.

MFI	Portfolio (M USD)		Loans outstanding		Deposits (M USD)	
Acleda	271.6	*(29.6%)*	228,992	*(16.6%)*	1,147	*(90.9%)*
Prasac	151.2	*(16.5%)*	125,127	*(9.1%)*	6.0	*(0.5%)*
Amret	98.8	*(10.8%)*	266,914	*(19.3%)*	42.1	*(3.3%)*
Sathapana	94.7	*(10.3%)*	57,001	*(4.1%)*	38.9	*(3.1%)*
HKL	75.3	*(8.2%)*	62,703	*(4.5%)*	15.8	*(1.3%)*
AMK	47.7	*(5.2%)*	275,739	*(20.0%)*	5.3	*(0.4%)*
Kredit	44.6	*(4.9%)*	56,519	*(4.1%)*	3.4	*(0.3%)*
VisionFund	37.7	*(4.1%)*	132,036	*(9.6%)*	0.7	*(0.1%)*
TPC	33.2	*(3.6%)*	96,542	*(7.0%)*	0.1	*(0.0%)*
Seilanithih	8.3	*(0.9%)*	13,846	*(1.0%)*	0.4	*(0.0%)*
Samic	7.5	*(0.8%)*	10,809	*(0.8%)*	0.0	*(0.0%)*
Chamroeun	3.2	*(0.4%)*	27,998	*(2.0%)*	0.9	*(0.1%)*
Others	42.4	*(4.6%)*	26,106	*(1.9%)*	1.0	*(0.1%)*
Total	**916.3**		**1,380,332**		**1,262**	

Cambodian microfinance sector has seen the non-performing loans rise to more than 4% in 2009, from the low level of 0.4% in 2007. Since 2010, the NPL levels have been on a declining trend. As of Dec. 2011, the NPL 30 levels returned to those of Dec. 2007 before the crisis. This indicates the 2009 increase was to a large extent related to the global economic crisis rather than to over-indebtedness at that time. For more details see the Planet Rating Country Report on Cambodia.

Political & economic environment

Economy continuing to recover in 2011, but falling short of pre-crisis levels

The Cambodian economy began to grow again in 2010. After collapsing in 2009, textile exports (70% of sales

[1] Source: www.banking-hotnews.info/2011_05_01_archive.html

[2] Source: Cambodia Microfinance Association Annual Report (2010)

[3] CBC is owned by the Association of Banks of Cambodia (30%), the Cambodian Microfinance Association (10%), Acleda Bank (5%), Union Commercial Bank (5%), First Commercial Bank (1%) and VEDA (49%). The later is a company based in New Zealand specialized in credit reporting.

abroad) surged in 2010. Although the construction industry has performed well, the cancellation of two large real estate projects suggests that the sector has not recovered its pre-crisis dynamism. Tourism, a main engine of growth, rebounded strongly with the number of visitors increasing by over 10%, particularly in the vicinity of Angkor.

In 2011, GDP growth is expected to accelerate. Provided the weather is good, agriculture is expected to benefit from gains in productivity resulting from implementation of the rice-growing modernization policy, which provides for agrarian reform and higher yields. Tourism will likely attract increasing numbers of visitors. Textile exports will continue to grow, but will remain very exposed to the volatility of the American market, which represents 50% of export earnings. Exporters are moreover likely to face increased competition from producers like Bangladesh and Vietnam.

A current account structurally in deficit and public finances dependent on official transfers

With the recovery, the government is expected to initiate a gradual tightening of fiscal policy that could enable a reduction in the public sector deficit in 2011. But public spending will remain high and fiscal revenues structurally low. The public deficit will consequently remain large. Public finances remain very dependent on official transfers (6.5% of GDP in 2010). But donors have appeared dissatisfied by Cambodia's lack of progress on improving the business environment and especially on combating corruption, which has reached disquieting levels in view of the concentration of power around the Prime Minister.

The current account deficit doubled in size in 2010 as a result of the stronger recovery expected for imports compared to exports. And it will likely remain substantially in deficit in 2011 due to Cambodia's structural dependence on capital goods. Strong demand for foreign services like freight and insurance also affect the external balance. Financing needs will, however, be mostly covered by FDI inflows. But weaknesses nonetheless persist. The very low level of foreign exchange reserves makes Cambodia vulnerable to sudden capital flight, and the banking system suffers from a lack of oversight.

Political stability

The domestic political situation has been stable. The CPP Cambodian People's Party, led by Prime Minister Hun Sen, won two-thirds of the seats in the National Assembly in the July 2008 elections and strengthened its position by winning 75% of the votes in the May 2009 regional elections. The centralization of power moreover contributes to keeping the CPP at the helm. The government's economic and social policy continuity thus appears likely to remain on track.

Relations with Thailand, meanwhile, have deteriorated over the demarcation of the border near the Preah Vihear Temple. Despite the presence of troops stationed at the border by the two countries, the risk of conflict remains nonetheless limited.

COFACE Country Rating: D – A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behaviour. Corporate default probability is very high.

Business Climate Assessment: D – The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in the highly risky environment.

	2008	2009	2010(e)	2011(f)
Economic growth (%)	5.0	-1.5	4.1	5.1
Public sector balance (%GDP)	-2.9	-6.3	-5.9	-5.5
Current account balance (%GDP)	-10.4	-5.5	-11.2	-12.1
Foreign debt (%GDP)	24.6	29.2	30.1	29.7
Foreign currency reserves (in months of imports)	4	3.5	3.1	2.7
Inflation	25%	-0.7%	4%	5.2%

Source: COFACE's Country risk rating guidebook; (e) estimate (f) forecast; International Monetary Fund (IMF) for inflation;. Disclosure Statement: Data is provided with authorization from COFACE – a shareholder of Planet Rating.

Institutional presentation

Disclosure statement: During 2011 Seilanithih has received technical assistance from PlaNet Finance focused specifically on Social Performance Management. PlaNet Finance and Planet Rating are two distinct legal entities, operating in a strictly independent manner. Planet Rating does not disclose to PlaNet Finance any information that is not publicly available to all other investors or fund providers. Planet Rating's internal Rating Committee is fully independent, private, and confidential.

Legal form, supervision and audit

Seilanithih NGO was created in 1996 from the merger of three regional CARE microfinance projects that had been started in 1993. The microfinance activities of Seilanithih NGO have been transferred into a Private Limited Liability Company, Seilanithih Limited (Seilanithih) in Aug. 2003. Seilanithih received a license to carry out microfinance operations from the National Bank of Cambodia (NBC) in Dec. 2003 and a permanent MFI license in Feb. 2007. The MFI sends monthly reports to the NBC and the latter conducts on-site mission once a year.

From 2008 to 2010, the Phnom Penh-based KMPG Cambodia Ltd. provided annual audited financial statements. It was a local audit firm before and Price Waterhouse Coopers will audit the 2011 financial statements. The auditor's opinion has not been qualified for the period under review. The financial year of Seilanithih starts on January 1st and ends on December 31st.

Ownership

There were two shareholders in 2003 – Seilanithih NGO and Seilanithih Staff Association (SSA) – for a share capital of around 225K USD. It increased to 342K USD in 2006 with Mr. Sun Boreth and CARD Inc. as new shareholders. In 2009, one shareholder – CMI International Holding, which converted its 350K USD loan into equity – joined the shareholding structure. The total paid in equity reached 1M USD as of Dec. 2011. A share capital increase is expected in 2012 to take the equity up to 2.5M USD, which will allow Seilanithih to apply for the deposit taking license. At the time of this rating, the increase was not effective.

Seilanithih's former CEO Mr. Kuch Setha represents Seilanithih NGO and Seilanithih's Operation Director, Mr Kuch Kanten represents SSA. Besides one seat for each shareholder, two independent members are part of the Board of Directors (BoD).

Shareholders	Dec. 03	Dec. 07	Dec. 11
Seilanithih NGO	82%	73%	41%
Seilanithih Staff Association (SSA)	12%	21%	13%
Mr. Sun Boreth		3%	6%
CARD Inc.		3%	5%
CMI Int. Hodings			35%
Total	**100%**	**100%**	**100%**

Shareholders, Dec. 2011	Shares	USD	%
Seilanithih NGO	41,285	412,850	41%
Seilanithih Staff Association (SSA)	13,291	132,910	13%
Mr. Sun Boreth	5,424	54,240	6%
CARD Inc.	5,000	50,000	5%
CMI Int. Hodings	35,000	350,000	35%
Total	**100,000**	**1,000,000**	**100%**

At present, there are three BoD committees: 1) Audit and risk Committee, 2) Executive Committee and 3) Asset and Liability Committee (voted in 2011, no meeting held at the moment). These committees meet monthly and the BoD quarterly.

Mr Sun Boreth is an experienced businessman and chaired the BoD since 2006. He holds a masters degree in Education from the University of Massachusetts, USA. He has experience in public and private sector in the US and worked 16 years in development and project management in Cambodia.

Donations

Since 2007, Seilanithih has received donations only from SBFIC, reaching 20K USD in 2008 and generally averaging 6K USD. These donations are in cash but conditioned to be used for asset buying (e.g. computers). Seilanithih also received Technical Assistance (TA) form CARD Inc for the audit and the financial departments. Oikocredit gave TA for the Kredit system and paid for roughly 40% of the whole cost.

Funding composition

The funding structure is composed of 18% of equity, 77% of debt (42% long term – among which 5.3% of subordinated debt, 35% short term) and 5% of compulsory savings. Funds are 66% international and 34% domestic. MIVs (e.g. Oikocredit, Etimos) are the main type of funder with 52% of Seilanithih funds. Otherwise funds come from shareholders (CMI, SSA, Mr Sun Boreth and CARD hold together 17% of the outstanding debt as of Dec. 2011), local companies and commercial banks. Interest rates vary between 7% and 13.85% and are 92% fixed (the remaining 8% are Libor 6m with a 7.4% spread). All funds are received in USD.

Fraud

During 2011, the internal auditor unearthed frauds and financial irregularities that were committed during the period 2008-2010. The former CEO was the main beneficiary of the frauds committed. The amount involved was ~181K USD, although not all of it was from Seilanithih Limited (even Seilanithih NGO and the Village Banking savings were misappropriated). There were also additional costs amounting to ~267K USD, due to decisions taken by the CEO without the Board approval. The frauds were discovered when the new Internal Auditor (appointed in Nov 2010) conducted detailed checks into various aspects. The discovery of the frauds led to the removal of the HR Director, Finance Director and the CEO.

Management team

Until 2011, Seilanithih Ltd had a management team that had been with them for many years. After the discovery of frauds in 2011, the CEO (who still remains an advisor on the Board-his advisory position has been suspended since Dec 2011), HR Director and the Finance Director were removed from their positions. The MIS Director had also quit the same year. Prior to the discovery of the frauds, Seilanithih had appointed Mr Farid Ahmed as Deputy CEO. He had initially been sent for TA by CMI and had already spent about one year at Seilanithih, before he was appointed the Deputy CEO. The search for the new CEO continues, while in the interim, the Deputy CEO has been made the acting CEO. Mr Farid has about two decades of experience having worked with ASA and BRAC in Bangladesh. Mr. Sun Boreth, the Chairman of the board, has been temporarily named Executive Chairman and works closely with the acting CEO. To fill up the other vacant positions, Seilanithih has promoted internal staff to become acting head of HR, Finance and MIS. There also is TA support in the Finance department, with a Deputy Head of Finance provided by CARD.

Organization

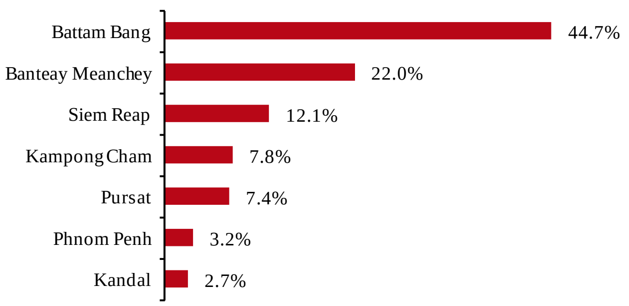
Seilanithih operates through 25 branches with one main branch for each province. The head office (HO) is located in Phnom Penh. Each province has a Provincial Manager (PM) in charge of supervising all the branches operating within the province. The PM reports directly to the HO. Each branch is headed by a Branch Manager (BM) who manages one accountant (who is also the cashier) and four Credit Officers (COs) on average. One Regional Manager (RM) is in charge of collecting bad debt. For every loan up to 1,500 USD, the BM and the CO approve the loan together (with a previous field visit done by both of them). For loans above 1,500 USD, the PM is required to approve the loan (with a field visit also).

The loans are disbursed in cash at the branch office or on the field in presence of two staff (CO and BM). Repayments can be made at the branch or collected by COs in the field, depending on what the client decides. Seilanithih uses Kredits as its loan tracking system and ACCPAC for accounting. The service provider for KREDITS is KREDITS from USA, while for ACCPAC, it is Sage of USA. The accountant inputs data, which is checked by the BM. The cash transaction details are sent daily to the HO; PAR details weekly; and accounting and portfolio data is mailed on a monthly basis.

Market penetration

Seilanithih keeps on improving its penetration in some provinces with two more branches opened in 2011. The MFI is operating in 7 of the 23 Cambodian provinces through 25 branches. The strategy for the moment is to focus on the existing provinces. Expanding to other provinces will come later.

Outstanding loan portfolio per Province - Dec. 2011



There is intense competition in the Cambodian market, especially coming from the bigger MFIs like PRASAC or AMRET that hold significant share of the market. As of Dec. 2011, Seilanithih serves 1.3% of the Cambodian market4.

Products and services

Seilanithih provides both group and individual loans, with a sharp increase in individual loans in recent years. Seilanithih offers balloon and declining methodologies. For the latter, a part of the principal is paid monthly and the interests are calculated on the outstanding capital.

The need of a guarantor is decided by the BM and/or PM. A client with a stable and profitable business will not be asked to have a guarantor. All clients must give 3% of the loan amount as compulsory savings. These savings are remunerated at 3% for USD loans, 6% otherwise. There are no disbursement fees. Penalties are collected for late loans. 1% of the late amount of each installment multiplied by the number of days late is due for balloon loans, 0.5% for declining loans. Penalties are charged maximum up to 30 days for each installment.

- Group Loan: groups are composed with 2-5 members, with a Group Leader elected by the members only. Loan amount ranges from 100 USD to 600 USD with an average of 143 USD in Dec. 2011. Interest rate is 36% for a balloon loan and 33% (declining) for a declining loan. The cost of saving included, the annual effective interest rate for group loans is 37%. Loan term cannot exceed 12 months. A special category of group loans called IFAD loans is included in this part. They have the same conditions as group loans but are exclusively for people who were trained on the IFAD[5] agricultural program.
- Individual loans: the loan amount ranges between 100 USD and 5,000 USD. The average loan amount is 808 USD. Loans between 100 USD and 1,000 USD are limited to a period of 12 months with an interest rate of either 36% (balloon), or 33% (declining). For loans between 1,001 USD and 1,500 USD, it is 33% (balloon) or 30% (declining) for maximum 18 months. Loans above 1,501 USD can be up to 24 months with interest rates of 30% (balloon) or 27% (declining). Loans for agricultural activities are limited to 2,500 USD. The overall effective interest rate for individual loans is 35.8%.
- Seilanithih also has a Small Enterprise (SE) loan product. Loans range from 5,000 USD to 10,000 USD. Interest rate is 21% declining with a maximum loan term of 24 month. Up to now, only two SE loans have been disbursed, with only one ongoing.

[4] Source CMA report, Dec. 2011
[5] IFAD program in Cambodia for 2008-2012 aims at reducing rural poverty and promoting the growth of rural economy.

Networks

Seilanithih is a member of the Cambodian Microfinance Association (CMA) that regroups 28 MFI and two NGOs.

▪ Governance

Governance and decision making **is rated "c"**

Decision making

The Board has been active in providing good governance to Seilanithih. The Board members, mostly representing the various shareholders, have strong credentials and skills, and are very experienced in managing MFIs. Presence of Mr Shafiqual Haque Choudhury from ASA Bangladesh and a representative from CARD Philippines (until August 2011, Dr. Jaime Aristotle B Alip was representing CARD on the Board) has provided Seilanithih with a very strong Board. Mr Sun Boreth as Chairman of the Board brings to the Board his immense experience of working within Cambodia. As per the requirements of NBC, there are two independent directors on the Board (the second independent director appointed by the Board and recognized by the NBC in Nov 2011). The Board meetings, held quarterly are well attended and all matters are well discussed and analyzed, with the Board provided updates on operational and financial performance. Other aspects like MIS, HR and Internal audit are also discussed in detail. The Board minutes are very detailed and documented properly. The implementation of some critical Board decisions has not been followed up properly, like the reduction of balloon loans. Though the Board suggested since 2009-10 a reduction in the percentage share from 60% to 40% of the total loan portfolio, the percentage has dropped only to 51% by the end of 2011.

Another critical area where the progress has been slow is the implementation on the decision to enhance the equity from USD 1 M to USD 2.5 M. The matter of equity increase, though discussed during Board meetings since 2010, and also shown in the Board approved Business Plan (as cash inflow in 2011) has become less certain and the inflow / loan conversion has not happened until 2012, which has led to shortage of funds and consequent drop in the number of borrowers. The main reason for the delay in capital increase is the discovery of fraud in 2011 and the subsequent changes made. Though CARD and SSA have already passed Board Resolutions for their equity increase, CMI (which has the biggest share of 1.1M USD out of the total equity increase of 1.5M USD) is still to conduct a fresh due diligence before putting up the investment proposal to its Investment Committee. To the Board's credit, quick action was taken against the senior management staff that was involved in the financial irregularities. In fact, it was due to the Board's suspicions about the management, that a new Internal Auditor had been hired to look into various aspects managed by the earlier senior management, that had led to the discovery of all the financial irregularities *(refer details under Fraud)*.

The Executive Committee (ExCom), along with the Audit and Risk committee meetings are held monthly and have facilitated the decision making process. The new Asset Liability Committee is still to commence meeting, and is expected to further improve the decision making process.

Planning

Seilanithih had designed a well strategized Business Plan for the period 2008-12, based on a critical SWOT analysis and a well studied market assessment, with plans to grow aggressively and spread into seven new provinces in Cambodia. The implementation of the Plan was not at all effective, with very little growth achieved and very low achievement of the planned target.

Starting from 2011, the Board and ExCom have decided to involve the field staff (BM /PM) in the preparation of the Business Plan for a better buy in from them, and the same was done while preparing the new Business Plan for the period 2011-2015. The new plan is more realistic in terms of projected growth, although a lot will depend on Seilanithih's ability to raise fresh borrowings. The Plan is less detailed than the previous one, and despite addressing the basis issues, it does not explain the reason for the low achievement of 53% of the loan portfolio target up to Dec 2010[6]. The Plan does provide details of projected cash flow statements, with year wise break up of funding inflows (debt and equity). Financial projections and operational targets are available for the plan duration (2011-15), although, there is no alternate scenario presented in the Business Plan (to account for slower or faster growth). Also the cash flows show additional equity of 1.5M USD to take the total paid in equity to 2.5M USD, but the Business Plan is silent about Seilanithih getting the Deposit taking License. Accordingly, the cash flows do not show any deposit inflows in the Plan. Seilanithih has not updated the Business Plan, despite the fact that the 2011-15 Plan was prepared prior to the discovery of the financial irregularities and the consequent removal of most of the Senior Management.

Management team

Considering that the senior management team at Seilanithih is mostly internal staff that recently got promoted to be the acting heads of the key departments of Finance, HR, and MIS, the present team lacks the experience that is required to

[6] The 2008-12 Business Plan had a loan portfolio target of 14.28M USD to be achieved till Dec 2010, while the actual Dec 2010 loan portfolio was only 7.69M USD

operate in a highly competitive market like Cambodia. Also, the top position of the CEO is still vacant, with the Deputy CEO being the Acting CEO. Considering that the Deputy CEO had joined Seilanithih for TA support, his skills are more useful in managing some of the operational aspects. Seilanithih has already listed the CEO position in the local newspapers. To ensure that the new management team gets constant guidance in managing Seilanithih, the Chairman of the Board has been asked by the Board to perform the role of Executive Chairman and spend at least five days every month on Seilanithih. Although the Chairman has been spending a lot of his time with the management, Seilanithih urgently requires a full time CEO to lead the new management team, and be able to tackle the various challenges that Seilanithih faces.

The ExCom meetings are conducted on a monthly basis and all important issues are discussed. In response to the financial irregularities, the Excom has also introduced new Code of Conduct and Conflict of Interest Policies. To not face a key person risk situation, it has also been decided that each department would have a Deputy Head to be groomed under the Head of the department.

Human resources management

To enable Seilanithih to survive and grow in the competitive Cambodian MF market, there is a need to make the HR department stronger. At present, the HR department is being managed by a new Head, who, despite having experience in operations at Seilanithih, has no background in HR. Although he has been provided HR training to enhance his skills in HR management, it would take time for him to assess Seilanithih's HR requirements and identify the training needs at various staff levels.

The recruitment process is transparent, with positions filled both internally (from within Seilanithih's existing staff) and externally (new recruitment). For each candidate selected, the HR department takes a guarantee contract from parents or guardians of the selected candidate. The induction process at Seilanithih is standardized and allows each new staff to get exposed to the operations. There is a formal recruitment committee set up by the CEO for new recruitment. Existing staff gets refresher training twice a year. The training calendar for 2012 has been drawn based on calendars from prior years. The senior staff gets external training from CMA and also visits to Germany and the Philippines. The staff evaluation system and the incentive system are very basic and not transparent. Staff is also not clear about its career path. HR department has been asked to improve the evaluation system in 2012. The staff turnover ratio for 2011 was high at 15%, (18% in 2010). Most of the staff attrition was at the Loan officer level (not considering the four positions in the senior management team).

To negate the effect of unapproved salary increase of 2011, Seilanithih Board decided to freeze the salary in 2012 (except for a small salary increase for the field staff). The staff showed understanding and no discontent was seen in the form of higher staff attrition. With Seilanithih offering good salary and better pension plans (also health and insurance benefits) the salary package compares well with the other MFIs.

▪ Information

Information **is rated "c"**

The information systems at Seilanithih are mostly reliable and do provide all the required information to the management. All the branches use KREDITS, the loan tracking system, which allows access to detailed information about the loan portfolio and savings. The KREDITS is not connected on-line with Head Office. The information is available in a timely manner, where daily cash; weekly PAR and monthly total updates are sent by the branches to the Head Office. Despite being off line, the HO has the remote login option to view / have access to branch data. Although detailed information is available, not much analysis is carried out to frame new strategy or implement changes in the strategy.

The monthly consolidated financial statements are generated at the HO and are quite reliable. The regular monthly NBC reporting ensures that Seilanithih prepares numerous financial ratios. Although ACCPAC, the accounting system, is not integrated with KREDITS, lot of details get exported from KREDITS to ACCPAC for the preparation of the financial statements, which allows Seilanithih to have a faster monthly reconciliation between the two systems.

KREDITS software is used by many MFIs in various countries, and timely on line support is provided by the service provider. There are some issues that need to be sorted out as some details are not accurate. The PAR gets under reported when part payments are made, as the loan installment gets adjusted against the principal without allocation to the interest income (as was seen in many NPL cases)[7].

There are limited user rights for KREDITS at the branch and the HO, but all the users at the branches can delete and make special transactions, and that exposes Seilanithih to the risks arising from unauthorized alteration. The branch staff can manipulate the data for personal gains (frauds), as the system does not prohibit deletion / changes (no MIS department approval is required). Considering that Seilanithih has

[7] Sample check showed that the PAR and interest income were under reported (reported PAR was 88% of what actually was).

balloon loans, there is also a higher risk of ghost loans entered into the system by the branch staff (Accountant cum Cashier), as there is no MIS requirement to have PM or BM approving all the new loans entered into the system. The system does permit a clear audit trail, but the lack of a formal monitoring checklist or periodic review by the MIS department or the management means that errors and fraudulent transactions cannot be detected timely. Based on the observations made in the Management Letter issued by the Auditor in 2010, Seilanithih made changes to its password policy in 2011.

The MIS data backup is taken daily, both at the branches and the HO. The branch back up is taken on a CD and stored in the safe box within the branch office, while at the HO, the backup is stored externally also (although not on a daily basis).

Risk management

Risk management **is rated "c"**

Procedures and internal controls

Although the operations manual is quite detailed and there are controls to keep various risks under check, the internal controls at Seilanithih need to be improved to allow them to identify the key risks and put in place proper risk mitigation measures. There are numerous risks, for which Seilanithih has not designed any controls to mitigate the risks.

BMs visit 100% of the clients before approving the loan, and for loans beyond 1.5K USD, even the Provincial Manager needs to visit the client. Compliance is good on this control. There are policies on banking the loan collections the same day, with limits on how much cash can be maintained in the safe at the branch. Compliance to the policy on the loan utilization check was not uniform, as the branch visited by the rating team in January 2012 had stopped loan utilization checks since Sept 2011, while no change in policy had been made.

Despite having identified risk of having high exposure on balloon loans and also deciding to bring the exposure down to 40% levels, Seilanithih has not introduced any documented internal controls to allow for an effective implementation. With the Accountant and the Cashier being the same person at the branches, Seilanithih is exposed to further risk as that throws open the possibility of ghost loans being created and also misappropriation of repayments, especially on prepayment of loans..

Internal audit

The internal audit function needs to be improved, as the audits conducted are very basic and focus mainly on operational risks. There is very limited field audit, with focus only on confirming that the loan disbursal amount tallies with the actual loan received by the clients. Regarding the coverage of the risks, the internal audit team has not mapped the various risks that Seilanithih is exposed to. The collateral evaluation process is not checked. An MIS audit has also not been conducted, although there are issues about the incorrect recognition of interest income (*discussed earlier under the "Information" section).*

The new Head of Internal Audit (joined in Nov 2010), with 8 years work experience in ACLEDA Bank, was able to find financial irregularities very soon after his joining. He was then involved in investigation of records from the year 2008-2010. The special investigation was conducted well, as numerous irregularities were discovered, but it also resulted in low frequency of branch audits during the year 2011. From a planned two branch audits every year (with a team of 4 internal auditors and one TA staff from CARD), only one visit was possible. For 2012, the target is to audit each branch two times. Although it is very basic in its coverage of MIS, HR, branch audit and the financial and administrative matters, the 2012 Audit Plan has been approved by the Internal Audit and Risk Committee. The monthly reporting to the Internal Audit and Risk Committee (headed by an Independent Director) ensures the independence of the internal audit function. The independent audit conducted by the central bank and the statutory auditor, allows Seilanithih to get suggestions on improving their operations and controls.

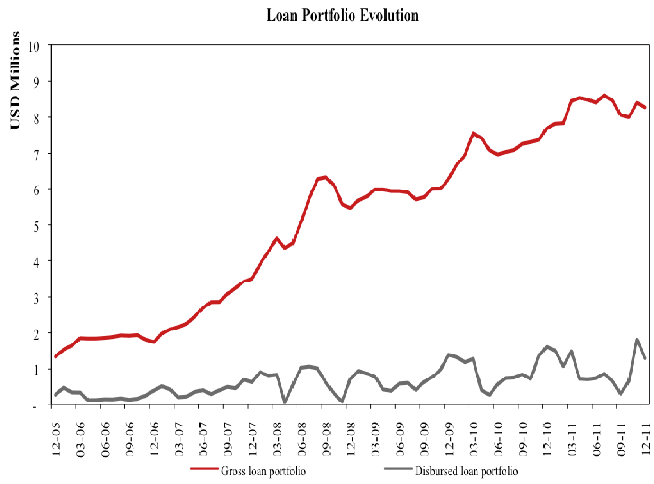
Activities

Activities: products and services **is rated "b"**

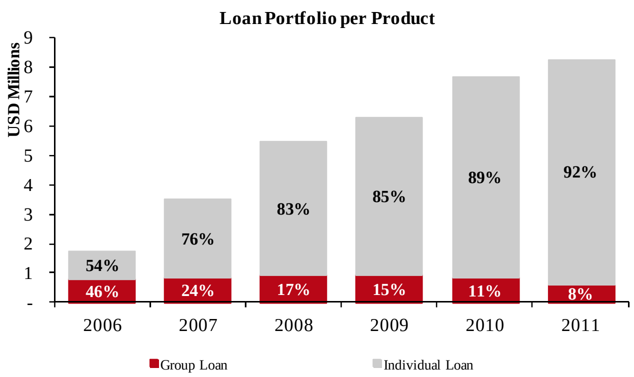
Loan portfolio evolution

From Dec. 2005 to Dec. 2011 the loan portfolio increased on average by 38.8% each year, from 1.3M USD to 8.3M USD while the number of clients increased at a CAGR by 26.7% (from 3,808 to 13,846). This global evolution is in two phases. Between 2005 and 2007 the loan portfolio increased by 66.3% per year on average, for only 6% in terms of number of clients. It was reflected by a fast increasing average loan amount (from 377 USD in Dec. 2005 to 832 USD in Dec. 2007). Since then, the loan portfolio grew by 25.1% each year on average and the number of client by 37.1%, while the average loan size dropped to 597 USD as of Dec. 2011. This second trend is the result of a policy promoting smaller loan amounts. During 2011, the portfolio grew the slowest at 7.5% while the number of clients fell by

3.8%. This is the consequence of internal problems already explained earlier



Group loans are on a fast decreasing trend, from 46.2% of the gross loan portfolio in Dec. 2006 down to 7.6% in Dec. 2011 (from 81.9% to 31.7% in terms of clients).



Clients seem indeed less and less willing to be dependent on others, and Seilanithih group loans have the same conditions as individual loans, with only stricter rules in terms of loan amount. The agricultural share of the portfolio is 55% as of Dec. 2011. It reached a minimum of 37.6% in Dec. 2008 and a maximum of 61.3% in Dec. 2010. Agriculture and trade sector have always represented together at least 85% of the total portfolio. Seilanithih lends in three different currencies: Khmer Riel (KHR), Thai Baht (THB) and USD.

Loan portfolio management

The credit methodology in place is well defined with clear and simple procedures leading to appropriate credit decisions. Loan disbursements rarely last longer than two or three days, which is fast. The loan agreement procedure is also strict and well implemented. The fact that both the CO and the BM (and the PM for loans higher than 1,500 USD) have to go on the field to check the client collateral and activities is fairly conservative. The CO can choose to show the net income of the client as 1.5, 2 or 3 times the amount of the first repayment[8]. It is usually 2 or 3 for new clients and 1.5 or 2 for known clients depending on their repayment history. To prevent cross-indebtedness the village chief signs an official document to certify that the collateral is indeed the property of the client. In theory, the village chief can sign only one property certification per inhabitant; so one person cannot use its collateral to take multiple loans[9]. A credit bureau should be effective very soon, but negotiations on the costs have delayed its implementation. Seilanithih plans to use it. One problem in the disbursement decision is that for many balloon loans, the maturity date does not match with the cash flow cycle of the client. Rice farmers often ask for 12 months loans whereas a rice cycle is around six months. Seilanithih accepts such conditions for competitive reasons·

COs receive trainings and have a good level of education (at least a bachelor degree). If the level of studies is under the average, they have a long experience in the industry. They are aware of the main challenges of the sector and have good capacities to implement the credit methodology. They spend the vast majority of their time in the field and have close relations with their clients. This leads to a good delinquency management with a proper follow-up of late clients. As per the credit methodology, letters are to be sent to late clients, but in reality COs directly go in the field. They continue recovering progressively the loans even after they have been written-off.

Credit risk

The NPL30 reached 1.26% of the gross loan portfolio as of Dec. 2011, its lowest level since 2009, and under the internal limit of 2%. Of the total NPL, 91% is NPL360, which proves that the portfolio quality improved over the last years. The major part of the NPL has been disbursed during the 2008 and 2009 crisis. The NPL30 is 0.39% for group loans and 1.35% for individual loans. At the sector level, it is only 0.38% for agricultural loans but it reaches 2.61% for business loans. Seilanithih neither refinances nor reschedules loans. According to NBC guidelines, loans have to meet two conditions to be written-off: 1) being 100% provisioned 2) reach their maturity date. Seilanithih adds to these conditions 90 or 360 days depending on the loan term[10]. This policy means that loans can remain 100% provisioned 720 days before being written-off when international best practice is to write-off loans after being 360 days late or even before

[8] The CO has to select one of these coefficients. Then the net income divided by this coefficient must be higher than the first repayment.
[9] Although from various studies conducted, it is a known fact now that in Cambodia the village chiefs had issued multiple certificates for one property, contributing to multiple borrowing in Cambodia.
[10] 90 days for loans below one year, 360 days otherwise.

that. It results in an inflated NPL. Compared to competitors, Seilanithih is not performing well since the average NPL30 of Cambodian MFIs as of Dec. 2011 is 0.83%[11]. The same goes with the write-off ratio that is kept at the level of 0.7% in Dec. 2011, while the national average is 0.2%.

In terms of strategy, Seilanithih wants to promote monthly declining loans and reduce its exposure to the agricultural sector. The latter is more than 55% of the loan portfolio in Dec. 2011 (down from 61% in 2010) which exposes Seilanithih to high risks. Natural disaster leading to crop failure can have very damaging effect on its loan portfolio. This strategy is coherent since the majority of agricultural loans have balloon repayment method. It will reduce the portfolio concentration in agriculture. To encourage clients subscribing to monthly declining loans, interest rates for balloon loans are higher than for declining loans (see *Institution presentation – product and services*). This strategy should also lead to an increasing average disbursed loan amount as business loans are usually higher than agricultural.

Even if its share is declining, the agriculture sector would require a better segmentation as risks may be different from one activity to another. Currently, Seilanithih already split agricultural loans and animal husbandry in its classification, but loan conditions are the same for the whole agricultural sector. Seilanithih plans to put a special emphasis on agri-business, which would be better suited to declining loans.

Seilanithih is present in 7 provinces which are largely served in terms of microfinance services (e.g. Kampong Cham and Kandal), and decided to focus on the provinces already covered for 2012. However, over-indebtedness and the risks of market saturation have been evoked since the 2009 economic crisis, which makes the task more risky.

Credit risk coverage

NPL30 coverage ratio is high at 165% in Dec. 2011 and was also at a reasonable level in 2010 (105.7%). The provisioning method is in compliance with the NBC. Short term loans (<12 months) are 100% covered after 90 days. However, long term loans (>12 months) are 100% provisioned only after 360 days, which remains below international good practices.

Seilanithih has each loan covered by collaterals (at least 300% of the loan amount). The value of this collateral is assessed by both the CO and the BM. The PM must also give his opinion for loans above 1,500 USD (with a field visit). This is a fairly conservative policy but the assessment of collateral is not scientific. There is no formal process to assess collateral value and COs seem to be free to assess the collateral depending on the loan amount asked by the client. All the collaterals are always 300% of the loan amount.[12] The principal collateral types are mortgages over residential properties and charges over business assets (land and buildings). Despite the original collateral certificate with Seilanithih, in the event of a default, Seilanithih cannot sell the collateral to recover its dues, as the village collateral documents in Cambodia are legally not suitable to get them cadastered for better legal rights.

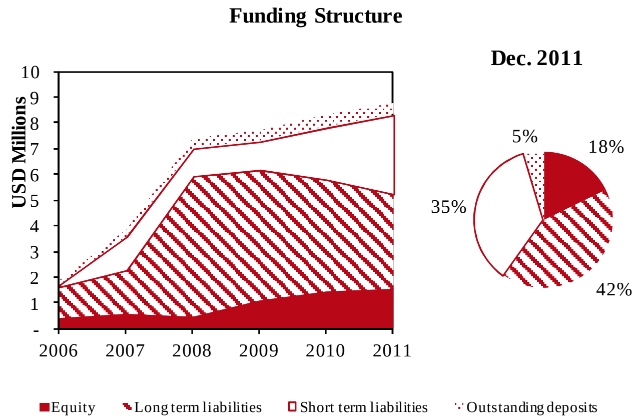
Mandatory savings, representing 3% of the loan amount, are collected for each loan. It is necessarily quite low since some competitors do not collect mandatory savings at all. Specific risks as agricultural risks are not covered by any insurance. There is no credit life insurance either.

Funding and liquidity

Funding and liquidity **is rated "c"**

Capitalization and funding strategy

Seilanithih has a total Capital Adequacy ratio (CAR) of 23.7% and a core CAR of 18.1% as of Dec. 2011. NBC requirement is to maintain a total CAR above 20%. Using the NBC CAR calculation, Seilanithih has a total CAR of 24.55%[13] as of Dec. 2011. CAR is calculated in the monthly reports sent to the NBC and then monitored as such. The forthcoming capital increase of 1.5M USD will ensure Seilanithih to remain sufficiently capitalized to fund its future growth once finalized.



Due to the internal problems, communication with funders stalled in 2011 and the Chairman, Mr Boreth, called for local Cambodian investors to pump money into the company

[11] Source: CMA report, December 2011

[12] From one loan cycle to the next, the same collateral is shown at an increased value to keep the collateral value at around 300% of the loan amount (sometimes the valuation increase by more than 100%)

[13] For CAR calculation in NBC reports, Seilanithih does not include all the assets in the calculation of risk-weighted assets, which results in a slightly inflated CAR.

(AQIP, and many individuals). The Chairman also lent 90K USD of his own money in 2010 (75K USD outstanding as of Dec. 2011). In the past, the other Seilanithih shareholders have also been providing debt, and together they hold 17% of the outstanding debt as of Dec. 2011. Seilanithih has currently seven international lenders[14] with Oikocredit being the main one. The international shareholders of Seilanithih have been helpful in attracting new lenders, with for example Oikocredit that came in 2008 thanks to CARD. The recent difficulties in attracting new lenders are reflected in the maturity of outstanding debts. As of Dec. 2008, 99.4% of outstanding debt was long term debt[15] whereas it is only 48% as of Dec. 2011, meaning that 52% of the outstanding debt is to be reimbursed within a year. The shortage of funding compelled Seilanithih to slow down the activity, hence the portfolio growth of only 7% in 2011 (against roughly 48% for the microfinance industry).

Regarding 2012, Seilanithih has a borrowing plan of 5.2M USD with 675K USD already secured in the first two months, allowing to cover maturing debt in January and February 2012, but not to increase activity. Attracting new funds will be one of the major challenges in the months/years to come. Even if repayments scheduled are covered by the portfolio, the growth of the portfolio is today strictly linked to getting new borrowings. During 2011, while the internal wrongdoings were getting fixed, Seilanithih managed to attract short term local lenders to keep a stable activity, but with 52% of the outstanding debt falling due during 2012, some fresh inflows are required. If the capital induction does not happen soon in 2012, it would mean that Seilanithih's biggest lender Oikocredit would not extend any further support, as increase in equity is one of the conditions they have set for any additional lending.

Liquidity risk

One treasurer in the finance department is in charge of monitoring liquidity levels and is backed by the deputy head of finance department[16]. A daily monitoring report is made on cash in bank and cash in hand. Cash flow projections are up to one year. Monthly cash flow projections are prepared and the branches send quarterly projections to HQ. One asset and liability matching report is produced quarterly.

On average, Seilanithih managed to maintain good liquidity ratios with more than 3 months of operating expenses covered over 2010 and 2011. But monthly data shows that Seilanithih had to face some tight liquidity levels with minimum operating expense coverage of 1.3 months in 2010 and 1.4 in 2011. Seilanithih is at its lowest liquidity level in Dec. 2011 leading to a weak liquidity to asset ratio of only 2.2%. With tight liquidity in the market and internal difficulties to attract funds, Seilanithih has had no choice but to rein in its activity in order to keep good liquidity levels. The asset and liability committee that has been recently appointed (no meeting held yet) should also help monitoring liquidity risks.

Market risks

Seilanithih has a high exposure to FX risk and a negligible exposure to interest rate risk. With only 8% of the borrowed funds at a floating rate (Libor 6m), an increase of the reference rate, even if significant, would have a negligible impact on Seilanithih profitability.

Seilanithih has however a high exposure to FX risk. Seilanithih borrows only in USD and lends in three different currencies with the loan portfolio consisting for 47% of KHR, 35% THB and 18% USD with no limits being set for each currency. No hedging mechanisms have been put in place. Given that Seilanithih considers the USD as its functional currency[17], this results in a high open position of 395% of Tier 1 capital as of Dec. 2011 (365% in Dec. 2010). A 10% devaluation of the KHR and THB would lead to an impact of 717 basis points on the ROA, making Seilanithih's adjusted ROA (4.5%) for 2011. The adjusted core CAR and total CAR will also drop to 12% and 17.5% respectively, which would be below the NBC minimum standard for capitalization.

It should be noted that Seilanithih is in compliance with the NBC regulation to limit the open position to 20%. However, to calculate the open position NBC calculation considers equity along with liabilities and assets. To balance its lending in KHR and THB on paper, Seilanithih has denoted its retained earnings in USD, KHR and THB.[18] The open position reported to NBC when considering the equity being denoted in the different currencies is 9.5% as of Dec. 2011. However, following this method of accounting a 10% devaluation in THB and KHR would equally lead to the same reduced CAR ratios as stated above (12% and 17.5%), the only difference being that a large part of the FX loss does not pass through the income statement and is directly borne by the equity.

[14] Including CMI and CARD which are also shareholders.
[15] With a maturity above one year.
[16] The deputy head of finance dept. is a CARD experienced employee that has been mandated under the request of the Chairman of the board to oversee the finance dept.
[17] Note that if Seilanithih would have chosen KHR as its functional currency its FX risk would have been the same.
[18] The paid-up capital is considered to be denoted in the functional currency (USD) whereas the retained earnings and other reserves can be denoted in other currencies. The total split of Seilanithih's equity of 1.56 M USD is reported to be positive 3.2 M USD denoted in KHR, positive 2.8 M USD denoted in THB and negative equity of 4.5 M USD denoted in USD.

Efficiency and profitability

Efficiency and profitability **is rated "c"**

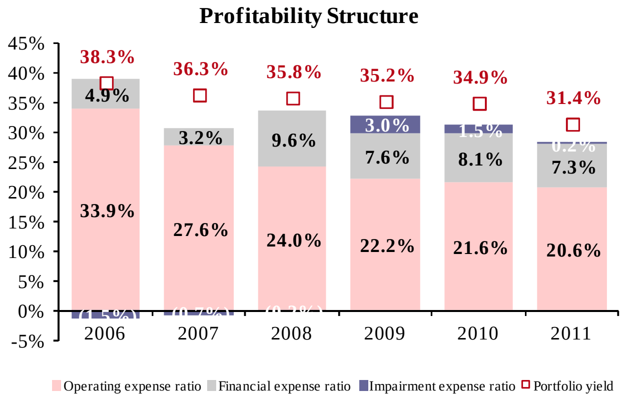
Profitability analysis

Seilanithih has an increasing ROA since 2008[19], reaching 2.7% in 2011 (2.5% in 2010). Despite internal problems and the slow growth of the portfolio, Seilanithih succeeded in maintaining a good profitability, notably due to a high yield and portfolio to assets ratio of 92.4%, ensuring that the available resources are optimally allocated. The portfolio yield is on a downward trend since 2006, from 38.3% to 34.9% in 2010, and slightly decreased in 2011 reaching 31.4%. With an annual percentage rate (APR) of 31.8%, the 2011 yield matches the APR.

Seilanithih's revenue quality is moderate to weak. Its interest rates have long been higher than top competitors, hence a higher yield. The important drop in 2011 comes from interest rate decrease in order to catch up with other MFIs and continue to attract new clients. Competition is very high in Cambodia, It is tough for Seilanithih to keep up with the pace imposed by other players, above all in terms of interest rates. At the moment, Seilanithih's market share is shrinking due to a lack of funding. Over the year 2011, the total loan portfolio of all the Cambodian MFIs put together grew by approximately 48%[20] when Seilanithih portfolio increased only by 7%. The products provided by the institution are also very simple (individual/group), when other MFIs often have products adapted to particular activities or sectors. The marketing unit is now in charge of product development although no new products are likely to be created. Seilanithih is in the process of creating a new image and branding for itself. As the first formal step, the Board has already approved a new name and logo for Seilanithih in the last Board meeting held in Dec 2011. The new name approved by the Board is "Khmer Finance Limited". Seilanithih bets on its proximity with the client (COs are always in the field and have good relations with clients) to attract new clients.

Seilanithih's operating expense ratio (OER) has kept on decreasing since 2006 and is at 20.6% for 2011, but compared to other MFIs, Seilanithih's OER is on the higher side. As a medium player on the market, Seilanithih suffers from low economies of scale, which is exacerbated by the low CO productivity (151 clients per CO in 2011, down from 171 in 2010) and possibly the irregularities led by the former CEO/HR/Finance Director. A recent emphasis on cutting costs (e.g. salary freeze for the next two years) could lead to some reduction in the OER.

The funding expense ratio slightly decreased in 2011 to 7.3% (down from 8.1% in 2010), even though the scarcity of investors often compelled Seilanithih to borrow at a higher rate. The weighted average rate for the funds borrowed in 2011 is 10.7% (10.2% in 2010 and 10% in 2009). Should the capital increase happen, the leverage would then decline and reduce the funding expense ratio. The impairment expense ratio dropped sharply from 3% in 2009, to 1.5% in 2010 and 0.2% in 2011. This ratio was negative the years before, and considering that the strong increase in 2009 is due to the economic crisis of 2008, this ratio should now remain low.



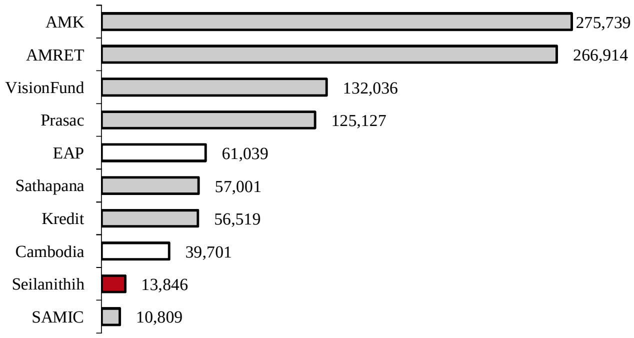
In the present situation, with low growth due to lack of funds, Seilanithih's profitability is closely linked to its ability to increase its equity and thereon add further debt funds. Considering that Seilanithih plans to expand in the same provinces, with not too many new branches added, higher loan portfolio is likely to lead to reduction in the operating expenses ratio and improve Seilanithih's profitability.

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.

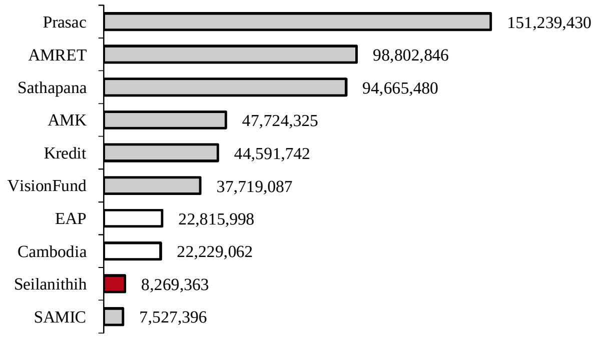
[19] The ROA fell from 5.9% in 2007 to 1% in 2008.
[20] Source: CMA reports Dec 2010 and Dec 2011.

Benchmarking

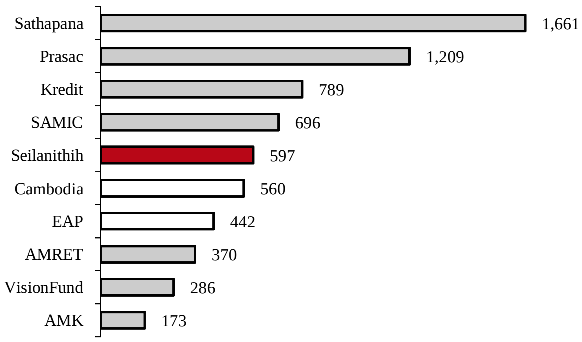
Active borrowers



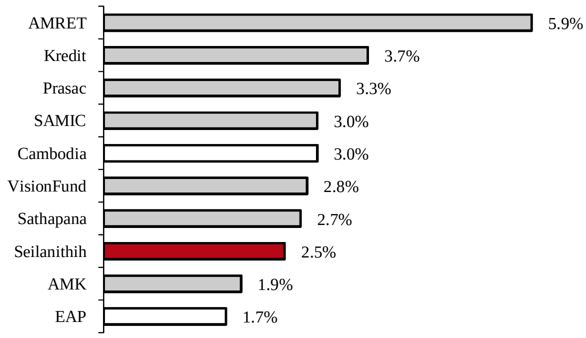
Loan portfolio (USD)



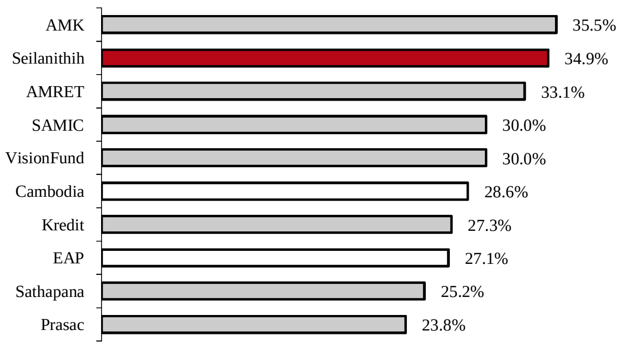
Average outstanding loan amount per borrower (USD)



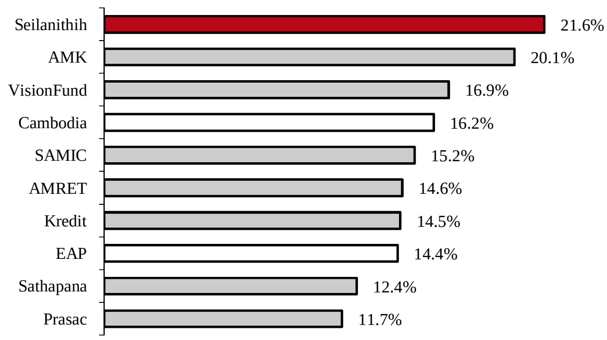
ROA



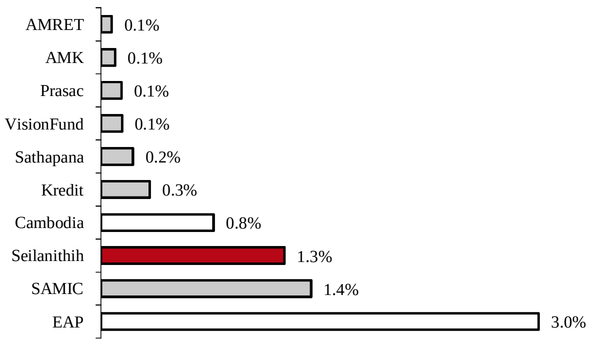
Portfolio yield



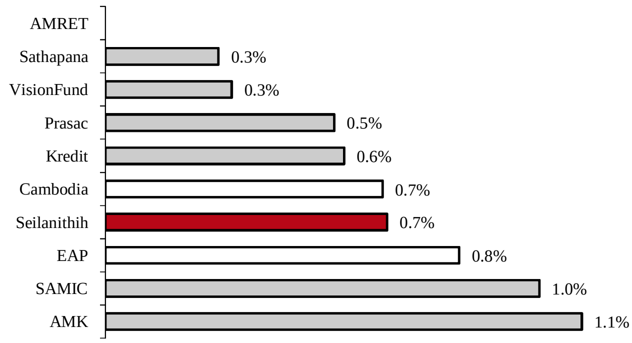
Operating expense ratio



NPL 30 + r



Write-off ratio



Source: For Seilanithih, Planet Rating's own data as of Dec 2011. CMA for borrowers, loan portfolio, average loan amount and NPL+r; data as of Dec. 2011. Other data from www.mixmarket.org for FY2010. East Asia and the Pacific (large scale MFIs) median data as of December 2009.

Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Loan portfolio evolution						
Loan portfolio	1,744,838	3,518,712	5,479,165	6,291,573	7,692,876	8,269,363
Loan portfolio (USD)	1,744,838	3,518,712	5,479,165	6,291,573	7,692,876	8,269,363
Growth	21.6%	101.7%	55.7%	14.8%	22.3%	7.5%
Active borrowers	3,580	4,227	6,700	10,433	14,395	13,846
Growth	(6.0%)	18.1%	58.5%	55.7%	38.0%	(3.8%)
Average outstanding loan amount per borrower	487	832	818	603	534	597
% of GDP per capita	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Average amount disbursed per loan	625	959	1,049	713	606	712
% of GDP per capita	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NPL 31-365	0.1%	0.4%	0.6%	2.7%	1.6%	0.1%
NPL 365	0.0%	0.0%	0.1%	0.1%	1.0%	1.1%
Write-off ratio	0.4%	0.1%	0.0%	1.1%	0.6%	0.7%
NPL 30 + r + write-offs ratio	0.5%	0.6%	0.8%	4.1%	3.4%	1.9%
Credit risk coverage						
Risk coverage ratio (NPL 30)	203.8%	20.8%	10.1%	70.1%	105.7%	165.0%
Uncovered capital ratio (NPL 30)	≤0%	1.8%	6.9%	4.8%	≤0%	≤0%

Savings	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Outstanding deposits	182,446	273,799	365,256	406,212	465,934	407,366
Outstanding deposits (USD)	182,446	273,799	365,256	406,212	465,934	407,366
Growth	18.3%	50.1%	33.4%	11.2%	14.7%	(12.6%)
Voluntary savings (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash collateral (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Active savers	3,942	4,613	6,181	11,017	15,447	15,968
Growth	?	17.0%	34.0%	78.2%	40.2%	3.4%
Average outstanding deposit per saver	46	59	59	37	30	26
Voluntary savings	-	-	-	-	-	-
Cash collateral	46	59	59	37	30	26

Staff	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Total number of staff	81	109	138	196	187	207
% Credit officers	33.3%	34.9%	42.0%	40.3%	44.9%	44.4%
Turnover	17.0%	11.6%	11.3%	10.8%	16.7%	15.2%

Profitability analysis	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
ROE	1.2%	30.7%	10.3%	13.2%	15.4%	15.2%
Liabilities / Equity	1.95x	3.31x	9.18x	3.92x	3.30x	3.32x
Core capital adequacy ratio	23.4%	16.2%	8.0%	16.7%	18.4%	18.1%
Total capital adequacy ratio	35.3%	24.5%	12.0%	23.3%	24.4%	23.7%
ROA	4.0%	5.7%	1.0%	1.4%	2.6%	2.7%
ROA (without donations)	0.2%	5.5%	1.0%	1.4%	2.5%	2.7%
Profitability structure						
Total revenue ratio	38.5%	36.8%	36.0%	35.6%	35.4%	31.8%
Portfolio yield	38.3%	36.3%	35.8%	35.2%	34.9%	31.4%
Net interest margin	33.5%	29.7%	26.8%	26.8%	26.7%	24.4%
Operating expense ratio	33.9%	27.6%	24.0%	22.2%	21.6%	20.6%
Cost income ratio	88.1%	75.1%	66.7%	62.3%	61.0%	64.8%
Cost per borrower	165	187	225	152	124	120
Staff productivity	44	39	49	53	77	67
Loan officer productivity	133	111	116	132	171	151
Average outstanding loan amount per borrower (USD)	487	832	818	603	534	597
Financial expense ratio	4.9%	3.2%	9.6%	7.6%	8.1%	7.3%
Cost of savings	5.7%	4.8%	4.3%	4.6%	5.2%	5.2%
Cost of borrowings	6.8%	8.6%	11.0%	8.9%	9.7%	9.2%
Impairment expense ratio	(1.1%)	(0.5%)	(0.2%)	3.0%	1.5%	0.2%
NPL 30 + r	0.1%	0.4%	0.7%	2.9%	2.6%	1.26%
Write-off ratio	0.4%	0.1%	0.0%	1.1%	0.64%	0.66%
Resource optimization						
Portfolio to assets	91.9%	91.2%	74.0%	80.0%	89.9%	92.4%
Revenue from investment as a % of financial revenues	0.2%	0.7%	0.6%	1.1%	0.1%	0.0%
Liquidity						
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	4.3%	5.7%	22.4%	14.9%	5.2%	2.2%
Current ratio (1 year)	667.3%	121.8%	292.2%	368.4%	279.7%	160.6%
Exchange rate 1 USD= xx USD	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**

Financial statements – USD

Income Statement (USD)	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Interest and fee income on loan portfolio	689,316	958,937	1,825,858	2,067,358	2,489,961	2,586,380
Interest and fee income on investments	1,705	6,865	10,509	23,054	1,466	993
Interest and other financial expenses	88,573	215,144	493,030	521,730	583,048	602,670
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	131,122	3,891	72,747	7,108	2,767
Net financial income	**602,448**	**881,780**	**1,347,228**	**1,641,429**	**1,915,487**	**1,987,471**
Fees and commissions on other financial services	-	-	-	-	-	-
Other operating income	1,738	6,609	4,034	324	33,445	35,705
Operating expenses	610,046	729,825	1,227,730	1,303,139	1,539,831	1,700,263
Personnel expenses	*324,210*	*452,450*	*659,926*	*795,583*	*1,015,701*	*1,127,192*
Administrative and other expenses	*257,077*	*236,640*	*510,400*	*427,519*	*440,871*	*521,731*
Depreciation	*28,759*	*40,735*	*57,404*	*80,037*	*83,259*	*51,340*
Non operating income (net)	-	-	-	-	-	-
Gross operating income	**(5,860)**	**158,564**	**123,532**	**338,614**	**409,101**	**322,914**
Net impairment expense	(18,982)	(12,871)	(7,924)	173,752	109,290	17,374
Net operating income	**13,122**	**171,435**	**131,456**	**164,862**	**299,811**	**305,540**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**13,122**	**171,435**	**131,456**	**164,862**	**299,811**	**305,540**
Income Tax	8,968	13,662	75,393	58,828	100,201	75,459
Net income before donations	**4,154**	**157,773**	**56,063**	**106,034**	**199,610**	**230,081**
Donations	65,992	5,892	-	-	5,965	843
Net Income	**70,146**	**163,665**	**56,063**	**106,034**	**205,575**	**230,924**

Balance Sheet (USD)	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
ASSETS	**1,893,720**	**3,854,593**	**7,400,168**	**7,710,766**	**8,319,409**	**8,762,299**
Liquid assets	82,222	220,491	1,656,252	1,151,725	436,099	194,355
Net loan portfolio	1,740,690	3,515,896	5,475,389	6,165,774	7,481,867	8,097,654
Gross loan portfolio	*1,744,838*	*3,518,712*	*5,479,165*	*6,291,573*	*7,692,876*	*8,269,363*
(Impairment loss allowance)	*(4,148)*	*(2,816)*	*(3,776)*	*(125,799)*	*(211,009)*	*(171,708)*
Interest receivable	-	-	96,530	132,363	210,254	223,430
Financial investments	-	-	-	-	-	-
Net fixed assets	48,985	87,645	97,369	136,277	73,789	46,101
Intangible assets	-	-	32,613	38,997	32,400	23,553
Other assets	21,823	30,561	42,015	85,630	85,000	177,205
LIABILITIES AND EQUITY	**1,893,720**	**3,854,593**	**7,400,168**	**7,710,766**	**8,319,409**	**8,762,299**
Liabilities	**1,464,846**	**3,256,377**	**6,914,143**	**6,593,678**	**6,848,641**	**7,197,993**
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	182,446	273,799	365,256	406,212	465,934	407,366
Borrowings	726,375	2,273,169	5,031,672	5,283,125	5,380,334	5,592,765
Subordinated debt	463,718	469,857	460,877	451,149	464,061	465,669
Other liabilities	92,307	239,552	1,056,338	453,192	538,312	732,193
Equity	**428,874**	**598,216**	**486,025**	**1,117,088**	**1,470,768**	**1,564,306**
Core capital	424,272	593,553	481,451	1,128,138	1,455,180	1,548,702
Paid-in capital	*337,200*	*341,664*	*335,134*	*1,000,000*	*1,000,000*	*1,000,000*
Earnings - current period	*70,146*	*163,665*	*56,063*	*106,034*	*205,575*	*230,924*
Retained earnings	*16,926*	*88,224*	*90,254*	*22,104*	*249,605*	*317,778*
Other equity accounts	4,602	4,663	4,574	(11,050)	15,588	15,604

Off Balance Sheet Accounts	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection						
Outstanding guarantees	-	-	-	-	-	-

Balance Sheet Averages	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Gross loan portfolio	1,798,764	2,644,866	5,107,083	5,880,692	7,139,303	8,249,988
Assets	1,771,674	2,874,157	5,627,381	7,555,467	8,015,088	8,540,854
Deposits	174,058	229,858	357,183	386,919	451,103	439,367
Borrowings and subordinated debt	1,149,316	1,966,560	4,117,787	5,613,411	5,789,334	5,951,414
Equity	341,181	513,545	542,121	801,557	1,293,928	1,517,537

Formulas

Return on assets (ROA):	Net operating income / Average assets
ROA (without donations):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Liabilities / Equity (end of period)
Capital adequacy ratio:	Capital / Risk weighted assets (end of period)
Total revenue ratio:	Total revenue / Average gross outstanding portfolio
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
Cost per borrower:	Operating expense / Active borrowers (end of period)
Staff productivity:	Active borrowers / Total personnel (end of period)
Funding expense ratio:	Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings:	Interest and fees paid on deposits / Average deposits
Cost of borrowings:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average gross outstanding portfolio
Write-off ratio:	Loans written off / Average gross outstanding portfolio
Risk coverage ratio:	Loan loss reserve / Portfolio at risk > 30 days
Cash to demand deposits:	Instantly available liquid assets / Demand deposits (end of period)
Current ratio (1 year):	Short term assets / Short term liabilities (end of period)

Rating scale

<table>
<tr><th>Rating</th><th>Rating summary</th><th></th></tr>
<tr><td>A++</td><td>Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution’s financial condition given its high resilience.</td><td rowspan="3">INVESTMENT GRADE</td></tr>
<tr><td>A+
A
A-</td><td>Current institutional, operational and financial performances are excellent when compared to industry standards. Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution’s financial condition given its ability to quickly adjust its strategies and/or take corrective actions.</td></tr>
<tr><td>B++
B+
B</td><td>Current institutional, operational and financial performances are satisfactory when compared to industry standards. Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution’s financial condition that should however remain moderate.</td></tr>
<tr><td>B-</td><td>Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.</td><td rowspan="2">SPECULATIVE INVESTMENT</td></tr>
<tr><td>C++
C+
C
C-</td><td>Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment</td></tr>
<tr><td>D</td><td>High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.</td><td rowspan="2">TECHNICAL ASSISTANCE REQUIRED</td></tr>
<tr><td>E</td><td>Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.</td></tr>
</table>