

## The Capital Aid Fund for Employment of the Poor (CEP), Vietnam

The Capital Aid Fund for Employment of the Poor (CEP) was founded by the Ho Chi Minh City (HCMC) province Labor Confederation (LC) in November 1991. This non-profit social organization offers three core loan products for income-generating activities in mainly urban but also rural and coastal zones of the HCMC province. It has developed three other credit products for housing and small enterprise development. As of June 2007 CEP had an outstanding portfolio of 10.7 M USD for 68,490 active borrowers, served through a network of 17 branches, and an outstanding savings balance of 3.7 M USD.

### GIRAFE Rating

#### Rating

**B+**

#### Outlook

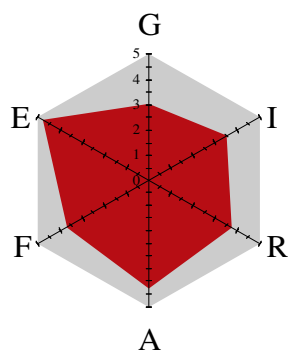
**Stable**

#### Date of the rating

**August 2007**

Valid until July 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Structural profitability based on control of operational costs, concessional funding base, excellent portfolio quality (with a PAR>30 below 2% throughout the period) and efficient use of assets.
- Good market positioning in the lowest segment of the population of the HCMC Province, through an adapted credit methodology; able to compete effectively despite heavily subsidized microcredit offered by government-linked sources.
- Thin operating margins, from relatively low portfolio yield, make it difficult to service commercial debts and to self-finance important infrastructure investments.
- Despite large and unclear powers of the LC on decision-making, CEP enjoys significant autonomy; the close links with the LC have been highly beneficial in helping CEP to plan expansion and conduct its credit activities.
- Improved management and execution capacity; broader management team with new members; yet there is still a key person risk on the Managing Director, which is being addressed by training and promotion of promising middle level managers.

#### Outlook

- Despite internal improvements, CEP's performance is expected to remain stable given the limitations of the current regulatory framework and its own governance set-up, in addition to the fact that CEP plans to keep the same business model and market strategy.

#### Performance indicators

K USD, unless otherwise stated	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Assets	4,132	5,590	7,591	10,383	11,770	12,737
Growth	42.2%	36.6%	32.7%	37.8%	18.9%	6.7%
Loan portfolio	3,509	4,933	6,651	9,128	9,573	10,732
Growth	35.4%	42.0%	31.7%	38.3%	10.0%	10.6%
Outstanding deposits	658	1,107	1,734	2,467	3,243	3,720
Growth	44.1%	70.0%	53.1%	43.3%	37.9%	13.1%
Active borrowers	32,291	42,132	49,330	59,868	64,233	68,490
Active savers	32,447	47,183	53,076	63,916	69,372	73,574
Staff	111	132	147	149	189	201
ROE	8.5%	10.1%	15.3%	7.3%	14.8%	14.1%
ROA	4.3%	5.0%	7.8%	3.8%	7.7%	7.3%
Liabilities / Equity	1.03x	0.99x	0.96x	0.91x	0.93x	0.93x
Portfolio Yield	26.6%	25.8%	25.8%	24.5%	24.9%	25.4%
Operating expense ratio	19.5%	18.2%	14.5%	17.2%	14.8%	15.3%
PAR 31-365	2.0%	1.2%	1.1%	1.5%	1.1%	1.1%
PAR > 365	0.0%	0.2%	0.1%	0.6%	0.7%	0.4%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Note: ratios based on audited financial statements with adjustments. See "I" for more details.

## Microfinance sector

The microfinance sector in Vietnam has developed from the early 1990's, supported both by international NGOs and by local authorities. The industry can be divided in three main categories:

- Formal institutions regulated by the Law on Credit Organizations and regulated by the State Bank of Vietnam (SBV). This sector is led by the Vietnam Bank for Social Policies (VBSP) and the Vietnam Bank for Agriculture and Rural Development (VBARD), two development banks owned by the State. Officially, these institutions dominate the sector, with 58% of the market for VBSP and 24% for VBARD<sup>1</sup>. However, a large part of their portfolio is directed to consumption and the target population is served through government intermediaries with specific selection procedures. A smaller part of the formal sector is composed of around 900 People Credit Funds (PCFs), established in 1993 as savings and credit cooperatives following the model of Développement International Desjardins (DID), and serving around 3% of the market.
- Semi-formal organizations that are not subject to financial regulation, like government programs, specialized microfinance funds related to mass-organizations and programs of international NGOs. CEP Fund is by far the largest semi-formal institution, followed by the TYM Fund (belonging to the Women's Vietnam Union - WVU) and the WVU itself (through the Vietnam-Belgium Credit Project). These institutions cover around 7% of the microfinance market but generally follow microfinance best practices.
- The rest of the market is composed of informal initiatives, including all types of financial assistance given unofficially like aid from family, friends, moneylenders and traditional structures.

The microfinance market is still largely uncovered. Cases of competition between institutions occur, but they are constrained to urban areas. According to the local Microfinance Working Group, at the end of 2006 there were between 400,000 and 500,000 active microfinance clients (excluding VBSP). This figure reflects a very small outreach in a country with more than 85 million inhabitants.

Regulation of the Vietnamese microfinance sector is an important challenge for the Government. Indeed the lack of a specific microfinance regulation hinders the capacity of institutions to attract national and international resources and to collect savings under prudential norms. It also obliges them to remain under the statutory umbrella of a NGO or a mass-organization. In March 2004 the Government issued a

<sup>1</sup> Vietnam Living Standards Survey, 2002.

decree on the organization and operation of microfinance institutions with the support of the Asian Development Bank (ADB), called Decree 28. This text brings some progress, like the licensing and supervision of all institutions by the SBV and minimum capital requirements according to the type of savings collected. However, as of August 2007 the bylaws that will specify the prudential and regulatory norms of the Decree have not been issued. There are possibilities now that a new decree will replace Decree 28, delaying even more the full enactment of a microfinance regulation.

The formal sector is mainly supported by public funds. The semi-formal sector is supported by various international NGOs (ActionAid, Save the Children, SNV, Plan International, etc.). Specialized funds like CEP and TYM have received massive support from their founding mass-organizations but also from NGOs and donors such as IFAD, the Belgium Cooperation and AusAID. The World Bank has supported the creation of the Bank for Investment and Development of Vietnam (BIDV), which should act as a wholesale fund to microfinance providers. However, so far its intervention has been very low. The Microfinance Working Group, established in 2004, gathers more than 50 MFIs. Its main objectives are to create an information sharing vehicle and to advocate in favor of a suitable legal environment.

Besides the challenges generated by the lack of regulation for microfinance, the sector faces other major shortcomings like the informal and political pressures to keep interest rates low, the uneven competition generated by large public microfinance providers and the legal impediments to receive and pay back debt in foreign currency.

## Political & economic environment

Growth has remained dynamic underpinned by trade-liberalisation strategy, economic diversification, and a high investment rate (second in Asia after China). That rapid growth has not been under control, however, with the dynamic credit expansion posing risk of economic overheating. In these dynamic economic conditions, the Coface payment experience has been good. Despite progress on transparency, very poor governance quality is still Vietnam's Achilles heel. Although one-third of Vietnamese companies publish financial statements, they are not always reliable. The legal and regulatory system is still deficient and hardly capable of settling economic disputes. Corruption, in particular, is still very widespread.

External accounts have strengthened. Foreign direct investment inflows, attracted by low-cost labour and Vietnam's admission to the WTO, have covered its limited financing needs. Although foreign debt has been modest,

exchange rate risk bears watching in view of the country's limited foreign currency reserves. Fiscal policy has, moreover, lacked transparency. The cost of banking reform will moreover exacerbate public sector debt especially with the already large volume of non-performing loans likely to grow with credit still expanding too rapidly.

The political situation has been very stable. Although the Communist Party continues to dominate Vietnam's institutions, it has supported economic liberalisation policy. The new government team named in early 2006 has demonstrated its commitment to undertaking major reforms and combating corruption.

### Strengths

- Vietnam is endowed with solid agricultural potential and extensive natural resources.
- The economy benefits from quality low-cost manpower attractive to foreign investors
- The development strategy adopted based on economic liberalisation and a move upmarket appears to be paying off.
- Vietnam's ASEAN membership and admission to the United Nations attest to its good diplomatic and economic relations with its main partners.

### Weaknesses

- The country's specialisation is still too focused on price competitiveness and low-end products.
- The administrative and legal environment continues to lag far behind the major Asian economies.
- Banking system reform has not gone far enough with the volume of non-performing loans vulnerability for public sector finances.
- Social and geographic disparities have been widening, particularly between urban and rural areas.
- In per capita income terms Vietnam is one of Asia's poorest countries.

COFACE Country Rating: B - An unsteady political and economic environment is likely to affect further an already poor payment record.

## Institutional presentation

### Legal form, supervision and audit

CEP is a non-profit social organization created by the Ho Chi Minh City (HCMC) Labor Confederation (LC) in 1991, through a decision of the HCMC People's Committee. CEP is part of the LC's action plan for poverty reduction. The initial registration gave a ten-year life with an opportunity for renewal, which the Board approved in 2001 through 2011. CEP was audited by Andersen in 2000 and 2001 with an unqualified opinion. KPMG, which took over Andersen, has conducted all the external audits since 2002 with unqualified opinions. In the absence of a regulatory framework for non-banking microfinance institutions, CEP is not subject to financial supervision.

### Ownership

CEP belongs to the HCMC LC. By design, the Chairman of the Board of the HCMC LC is also the Chairman of CEP. The Board of CEP is known in the statutes as Board of Management and is defined as the main source of authority for management and strategic issues. Terms of Board members are limited to four years but can be renewed indefinitely. The statutes do not specify the rights and obligations of the Board, the number of members or the frequency of meetings. In practice they meet officially once a year. The current Chairman of the Board of Management is Nguyen Huy Can. He has been in this position from 2004. At the time of rating the Board was composed of 9 members, including the Managing Director. The other members are senior staff of local public companies or the HCMC LC.

### Donations

As of June 2007, CEP has received 67.5 billion VND in donations (4.3 M USD with the exchange rate of the same date). The main donor of the institution is by far AusAID, under the terms of a 7-years microfinance expansion project for almost 4 M USD, running from 2001 to 2008, that included resources for portfolio, operational costs and fixed assets. Other important donors of CEP are Ford Foundation, Belgium Technical Cooperation, ENDA and SIDI.

### Funding composition

The main source of funding of CEP is its equity, representing 52% of assets as of June 2007 and broken down in retained earnings and reserves (38%), and accumulated donations (62%). The rest of the financing structure is made of deposits (30% of assets), of which 85% are compulsory, and liabilities (18% of assets) including loans coming mainly from the HCMC LC, the World Bank and the HCMC Investment and Development Fund.

(USD millions)	2004	2005	2006(p)	2007(p)
Economic growth (%)	7.8	8.4	7.8	7.6
Inflation (%)	9.7	8.8	7.7	6.5
Public sector balance (%GDP)	-2.8	-5.9	-6.3	-5.5
Exports	26.5	32.4	39.0	45.1
Imports	28.8	33.3	39.3	46.3
Trade balance	-2.3	-0.8	-0.3	-1.2
Current account balance (%GDP)	-3.4	0.4	0.3	-0.7
Foreign debt (%GDP)	33.9	32.6	32.6	32.2
Debt service (%G&S exports)	5.5	5.0	5.2	5.4
Foreign currency reserves (in months of imports)	2.2	2.6	2.9	3.3

## Management team

The senior management team includes the MD, the Deputy Director (DD), the Chief of the Credit Department, the Chief of the Non-Credit & Training Department, the Chief of the Finance and Planning Department and the Chief Internal Auditor. The team is supported by strong middle-managers in the Credit Department, the Finance and Planning Department, the Administration and Human Resources Unit and the IT Unit.

Ms. Van Nguyen Thi Hoang has been with CEP since 1992, working as an accountant, Finance Manager, DD and since 2000 as MD. She has prior work experience as an accountant with the SBV and is a member of the HCMC LC. Ms. Nguyen has Bachelors degrees in banking/finance and foreign languages as well as a MBA, all obtained in Vietnam.

## Organization

- CEP headquarters (HQ) are based in HCMC and centralize the management team.
- Each branch is composed of a Branch Manager (BM), a Senior Loan Officer (SLO) supporting the BM for the supervision of staff and performing field operations, several Loan Officers (LOs), one cashier and one accountant in charge of data entry in the accounting module.
- Credit procedures are decentralized. Loan applications are submitted by LOs and approved by BM.
- Data Management is decentralized too. Branches are responsible for their own accounting and loan data tracking. They send summary reports to HQ on a monthly basis, where financial statements are produced and consolidated. Each branch manages its own database. HQ can access the information and consolidate it in real time through a Wide Area Network (WAN) operating with DSL connection, with the exception of the Can Gio branch that sends data on a daily basis through dial-up connection.
- All loans are disbursed and collected in cash. Cashiers are responsible for providing the money to be disbursed to LOs and for receiving the collections from them.

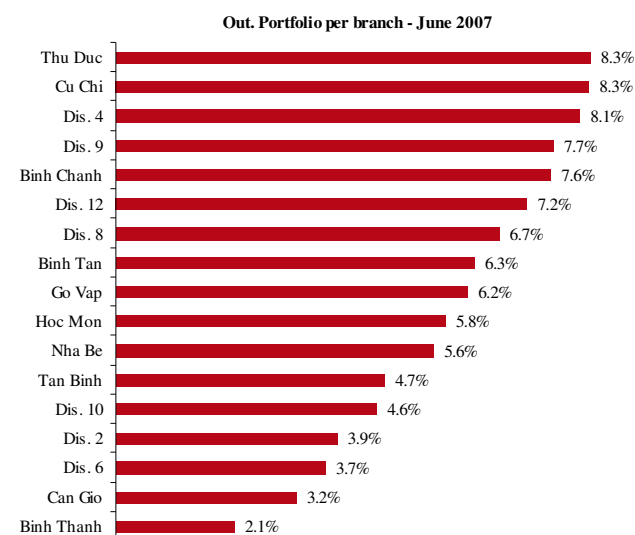
## Relationships with the LC

CEP works closely with the LC at the operational level. HQ and the branches are all housed in the buildings of the District level LC where they operate and pay subsidized rents. Up to 2006, CEP branches gave 15% of their profits to the District level LC as a payment for their services. From 2007, this mechanism will change and each District level LC will receive a monthly commission based on the size of the loan portfolio that CEP maintains in each district. This commission will not exceed 10 M VND (625 USD) per

District level LC and will be registered as a cost for CEP. Occasionally the choice of areas to target for services or the client mix may be subject to input from the District level LC.

For credit activities, CEP and the LC work under the terms of a mechanism known as the Joint Responsibility Level. This mechanism is used in monthly loans for workers in the few districts where CEP is not present. The District level LC selects and manages the clients, CEP participates in the disbursement and the District level LC withholds a percentage of the interest paid by the clients. This mechanism will be discontinued at the end of 2007, with the loan portfolios in each district being managed directly by the nearest CEP branch. LC representatives can also work as collaborators under the terms of the credit methodology of CEP (see “Products and services” below).

## Market penetration



CEP has a network of 17 branches present in almost all the districts of the HCMC province. The branches operate mainly in urban areas but also propose services in rural and coastal zones. CEP is by far the largest semi-formal MFI in the province. The VBSP is also present but the extent of outreach is difficult to estimate and the target clients are different. In 2007 CEP will open its first branch outside the HCMC province, in the Binh Duong province, after long negotiations with the local PC<sup>2</sup>.

## Products and services

With a clear commitment to poverty reduction, CEP offers three core loan products inspired from the Grameen methodology. All three products are designed for income

<sup>2</sup> The decree creating CEP, issued by the PC of the HCMC province, established that its area of operations would be the HCMC province. Therefore, to open a branch in another province CEP needs to obtain the authorization of the local PC.

generation but may also be used for consumption purposes. They are all capped at 10 M VND (625 USD).

- The daily basic loan is intended for vendors who need working capital and require daily repayments for loan terms of 60 or 90 days at a rate of 24% to 30% annual (flat) and no mandatory savings up to 2006. From 2007 CEP is collecting 1% per month of compulsory savings on all daily loans. The APR for this product is estimated between 47.3% and 58.9%.
- The weekly product requires mandatory savings (0.3% of loan per week; 0.25% per week from 2007) and is designed for the laborer who has an income generation activity for a term of 40 to 60 weeks at a rate of 0.25% weekly or 13% annual (flat). The APR for this product is estimated at 24.4%.
- The monthly basic loan is designed for salaried workers in low-income households. The LC facilitates client selection. There is a mandatory savings component (1% of loan per month). Loan terms are for 10 to 15 months at a rate of 8.4% to 11.4% annual (flat). The APR for this product is estimated between 12.9% and 20.2%.

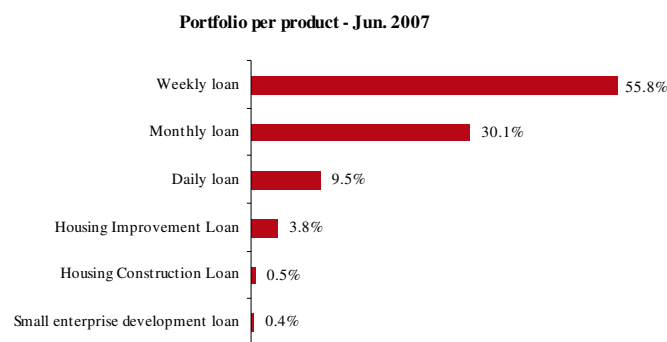
Following the Grameen methodology, all loans are recommended, followed up and collected by Center Leaders in cooperation with LOs, called collaborators. This approach allows to reduce transaction costs and to disburse efficiently small amounts. In the case of CEP, the methodology has been adapted to take into account the necessary intervention of mass-organizations or community leaders in the conduction of credit activities. As such, for daily loans, the Center Leaders are usually the official market leader. For weekly loans, the Center Leaders are local community leaders or the representative of the main mass-organization in the area (WVU, LC, etc.). Finally, for monthly loans, the Center Leader is the leader of the trade union of the company employing the workers. In order to clarify the roles of collaborators, CEP pays them a small commission following a transparent policy. Collaborators may and may not be active clients of CEP.

In addition to these core products, CEP offers other credit products that accounted for less than 5% of outstanding portfolio as of June 2007.

- Housing improvement loans funded by the World Bank under the Vietnam Urban Upgrading Project and by Habitat are directed to poor households living in areas that have been affected by physical infrastructure upgrades. These loans, amounting to maximum of 15 M VND (935 USD) are disbursed for a maximum term of 150 weeks at a flat monthly interest rate of 0.6% (APR of 13.3%)
- Housing construction loans are funded by the Belgium Technical Cooperation and finance the construction of houses for families resettled from District 6 to Binh Tan District because of urban upgrades. These loans,

amounting to maximum of 70 M VND (4,360 USD) are disbursed for a maximum term of 10 years at a declining annual interest rate of 6.6% (APR of 6.6%)

- Small Enterprise Development Loans are directed to small to medium enterprises employing family or community members and are financed by SIDI. Their maximum amount is 20 M VND (1,245 USD), their term is up to 60 weeks and they are repaid weekly at a flat interest rate of 1% per month (APR of 24.6%).



Besides compulsory savings to cover credit risk, CEP also promotes voluntary savings among its active borrowers. They both yield a 0.25% monthly interest rate. The institution also regularly offers scholarships and support to its poorer clients through school materials.

## Networks

CEP is not affiliated to any international or local network.

## Governance

Governance and Decision Making is rated “b”

## Decision-making

The institutional set-up of CEP as a non-profit social organization belonging to a mass-organization is the best possible structure in the absence of a microfinance regulation. CEP must operate in a political context that requires close cooperation with Government authorities and mass-organizations. In that sense, its close relationships with the HCMC LC are more an asset than a disadvantage. The LC has been highly instrumental in various aspects like expansion (good relationships with local PCs, easier access to political and community leaders), operations (cheap rents in District level LCs) financing and credit activities (support in the selection of some clients and areas of intervention, Joint Responsibility Level).

The current governance structure of CEP has some clear drawbacks that have been partially reduced over the last years. The LC has almost unlimited powers and influence over CEP in areas like credit decisions (interest rate setting), human resources (recruitment of MD and salary structure)

and to a lesser extent other operational choices. However, through time an informal agreement has been built giving to CEP strong independence. The LC has now given to CEP the right to choose its staff, including the management team. In addition to that, the LC has agreed to give some flexibility to CEP in the application of the public sector salary scale (see "Human resources" below). This process is highly dependent on the good relationships between the MD and the current Chairman of the LC. Even if the work of CEP in poverty reduction is now fully acknowledged by the LC, the risk remains that a new Chairman is appointed with other political and financial priorities.

The Board of Management does not fulfill the traditional role of a governance body in terms of formal oversight but the decision-making process is efficient. Official meetings of the Board take place only once a year; the main strategic and operational initiatives stem from the MD; most members have almost no microfinance knowledge and their roles are not clear; management information to the Board is limited by the frequency of Board meetings. Yet, the current Chairman has established good working relationships with the MD. He has frequent contact with the MD on various issues, is very receptive to the needs of the institution and has improved his knowledge of microfinance. Furthermore, other members of the Board have helped CEP in aspects like the expansion to the neighboring province of Binh Duong with local authorities or the access to a small concessional loan from Vietcombank (larger local commercial bank).

## Planning

The current 2007-2010 business plan is a concise although well written, clear and participative document. It has been designed with the support of a permanent Australian technical assistant financed by the AusAID project. CEP also produces highly detailed operational plans covering the activities of each branch. Budgets are closely monitored and operational targets are well known by field staff.

The business plan has been established with the clear goal to achieve expansion in neighboring provinces while respecting CEP traditional focus on poverty reduction. Given the good coverage of the HCMC province with the current network of 17 branches, the expansion to other provinces through 9 new branches is reasonable. CEP has developed over the years a streamlined and decentralized management model that can be replicated in other areas. Other valuable goals include a diversification of financial and non-financial programs, the compliance with the new regulation once it is implemented and the improvement of HR procedures. The financial projections are based upon consistent assumptions and bring a clear view of future financial performance. CEP has a strong commitment to continue serving the poor through its core products, in particular the weekly loans offered to

informal laborers. In that sense the mix of products and the interest rates are expected to remain stable, generating a rather low profitability (ROA around 6% during the entire period). In light of previous achievements, the 100% portfolio growth objective over four years is reachable.

Despite its clear strengths, the business plan is largely dependent on two variables that are not yet secured: access to subsidized resources and favorable legal environment. Indeed, the strategy has been built upon the assumption that CEP will access soft funds, in particular 1.8 M USD of grants and concessional loans currently under negotiations with Ford Foundation. If such resources are not obtained, CEP will have to access commercial resources or generate more income to finance growth, which is not considered in the current plan. CEP is also confident that the expansion to other provinces will be eased by the implementation of the new regulation and good relationships with local authorities. However, there are many chances now that the new regulation will not be enacted before the end of 2007. Despite this risk, CEP asserts that there is now sufficient political will at the national level to facilitate its activities, as shown by the decision to authorize its expansion outside the HCMC province.

## Management team

Overall, the current management team is skilled, experienced and committed. Most of the managers have reached their positions through internal promotion, favoring identification and knowledge of the institution. The top positions of the team used to be appointed by the HCMC LC without the consultation of the MD, but she has now the right to recruit them, although with the approval of the Chairman. The creation of new management positions, such as HR & Administrative and Non Credit Program & Training, is in line with the growth of the institution. Also, thanks to strong training efforts, positions that were mainly operational have become more strategic, like the Finance and Planning Department. Further, well-organized and regular meetings allow for a smooth internal communication.

The main area of improvement at the management level is the IT Unit. The current middle managers in charge of this unit have good operational capabilities, but in the absence of a fully-fledged manager, they lack the strategic and technical skills that would allow CEP to make the necessary improvements to its MIS to accompany growth.

CEP still suffers from a key-person risk on the MD, although a long term transition plan is being implemented to reduce it. The MD still plays a fundamental role in the daily handling of operations and has excellent relationships with the LC, local authorities and international partners. CEP has invested a lot in the training of younger and promising members of

middle-management who boast larger capacities to learn best practices and to work in English (e.g. degrees in international universities). They are expected to share progressively some of the responsibilities of the MD. However, even if the operational skills of these younger middle-managers are strong, the question remains whether they will be able to maintain the same kind of relationships with national and international parties than the MD. For the time being, the MD does not have any plans to quit CEP.

## Human resource management

The creation of a HR & Administrative Unit in charge of management of staff and of a separate department for training shows the high level of commitment of CEP to HR. One of the main achievements of the last years has been the progressive independence of CEP from the LC for salary and recruitments, even if the Chairman is always present in all recruitment panels for final approval. Even if CEP must respect public sector salary scales, the LC has authorized some flexibility in its application (promotion from one scale to another can be faster, salary levels within each range have been increased). Furthermore, an incentive scheme has been implemented for all staff based on the achievement of objectives reviewed every six months; incentives can represent in some cases 100% of the net salary. As a result, salary levels are now considered more competitive and have greatly reduced staff turnover from 14.9% in 2005 to 5.9% in 2006. Other policies in place to improve HR performance and retention include formalized recruitment and induction processes and strong investment in on-going training.

There are still some areas of improvement in HR management that CEP is committed to address. The incentive scheme, even if deemed fair by most staff, is not yet an optimal tool to monitor and reward performance. Bonuses are calculated for a too long period (six-months) and are based on many variables, including qualitative ones. CEP is working on a simpler scheme based on a reduced number of quantitative variables although it is not sure whether it is going to be calculated on a monthly basis. Salary levels are still a subject of concern, especially at the management level. Indeed, the various policies implemented to improve salary levels had a clear impact on staff motivation at field level. However, CEP is still obliged to respect the LC restriction on salary expenses to 13% of total revenues and cannot provide competitive salaries to managers despite their large experience. This creates a threat since some of them may be tempted to join banks offering higher salary levels.

## ■ Information

Information is rated “b”

The current Fox Pro, SQL-based MIS is a functional, user-friendly package that covers most information needs. In 2004, CEP successfully conducted a transition to this custom-built MIS that solves many weaknesses of the previous one: accounting and loan tracking modules are managed separately but are integrated daily through an interface to ensure data consistency; databases of all branches are accessed through a WAN, allowing for an automatic consolidation of data; the software can generate information on activities with a high level of detail, including by product and by LO. Furthermore, security measures have improved significantly (daily backups of consolidated information at HQ, rigorous passwords policy, access to MIS according to user-rights). The backup policy could improve at branches level, where it is not systematically monitored, but the risk is low since copies of databases are sent daily to HQ. All MIS modules are clearly explained in complete manuals.

The hardware environment has improved thanks to an aggressive IT investment plan but there still are some upgrade needs. CEP has now four servers at HQ dealing with the major information flows. However, growth has led to limitations in their capacity to process quickly all the information. CEP has a plan to improve them over the next three years, since they will be fundamental in the expansion process. Various software packages are not licensed, generating a legal risk for CEP.

The IT team is capable but needs more senior leadership and a long-term business-oriented vision. The current team does not have the capacity to improve the software according to needs and relies on the intervention of external consultants. Currently CEP does not have a contract with the developer of the MIS specifying obligations in terms of support and clarifying property rights. It is also not clear whether the source codes belong to CEP.

Data on activities is timely, reliable and accurate, despite minor shortcomings. The loan tracking system generates plenty of portfolio reports widely used throughout the organization. Besides basic information on portfolio volume and quality, the software tracks data on distribution of clients by sector, gender and geographical area. The accounting module produces all required reports at branch and HQ level. Monthly consolidated financial statements are produced as well as financial statements by branch with an internal cost of funds, allowing for a monitoring of branches' performance. Main microfinance ratios are generated and analyzed monthly by the management team. Financial statements are of very good quality, audited by KMPG and

presented transparently following CGAP disclosure guidelines. There are still some areas for improvement in accounting. In case of partial payments of loans accountants register first interest and then capital, which tends to underestimate PAR. This has a minor impact given the good quality of portfolio. Also, income statements do not disclose all the expenditures financed by operational donations, even if they are disclosed in the balance sheet and detailed in notes<sup>3</sup>.

## ■ Risk Management

Risk Management is rated “b”

### Procedures and internal controls

The internal controls environment is strong and efficient. All procedures are formalized, updated and disseminated to staff. The internal controls chain adequately covers and executes key fundamentals of internal control: separation of tasks and double entry/verification for loan tracking, accounting and cash management; daily reconciliation between loan tracking and accounting data; clear hierarchical structure in loan approval processes; various layers of regular checks ensure continued compliance to procedures (e.g. all HQ management staff visit frequently branches to monitor performance). Overall, there is a strong compliance culture, even if some deficiencies are identified in the internal audit reports. In 2005, a fraud for 140 M VND of fake loans (8,750 USD) in a branch, that involved one LO and one collaborator, led to the strengthening of internal controls; one of the main results of this initiative was the creation of the SLO position. In 2007, more than 90% of the amount involved in the fraud was already recovered.

Cash is reasonably well managed although there are still some areas of risk. CEP policies state maximum cash amounts per branch and daily reconciliation of cash in hand by cashiers and BMs. All branches have safes that can be opened only by the BM or the cashier, but that do not require their simultaneous intervention. The main risk rests on the transportation of cash to and from branches. SLOs may accompany LOs during collections to control this key process but not systematically. Likewise, when cashiers bring excess liquidity to banks they are always accompanied by another member of staff but money is transported in motorbikes and is not insured<sup>4</sup>. CEP collaborators, who play an active role in client selection and portfolio management,

<sup>3</sup> Most operational donations and their corresponding expenditures are not disclosed in the income statement (except donations to cover the cost of the depreciation of donated fixed assets). This does not change at all the net result but reduces the level of expenditures and income. Planet Rating has adjusted the income statement to include these donations and their corresponding expenditures in order to provide more accurate ratios.

<sup>4</sup> According to CEP, there are no insurance companies in Vietnam that cover this kind of risks.

could be more actively monitored. The rare cases of fraud at CEP are typically related to these collaborators, who if identified are dismissed from the program.

### Internal audit

The Internal Audit team is led by a skilled manager and has a good understanding of its role in the internal controls chain. Over the last years, the four members of the team have benefited from various trainings led by national and international consultants. The team may appear too small in light of the expansion plans and will need to be reinforced soon; yet, the current coverage and the nature of the audits exceed minimum standards. Branches are visited as a minimum twice a year according to a confidential plan and more if considered risky; audit procedures include spot checks and visits to a representative sample of clients; the Internal Audit department is mainly focused on loan activities but also dedicates a small part of its time to verifying the main functions of HQ (accounting, IT, HR management); clear and complete audit reports are produced after each visit and integrate a consistent follow-up of recommendations.

The main weakness of the current Internal Audit set up is its lack of autonomy from the management team. The Chief Internal Auditor does not report to the Board of Management, meaning that senior management essentially polices itself. The external audits of KPMG follow a very strict methodology and provide a valuable oversight of accounting information.

## ■ Activities

Activities: products and services is rated “a”

### Market position

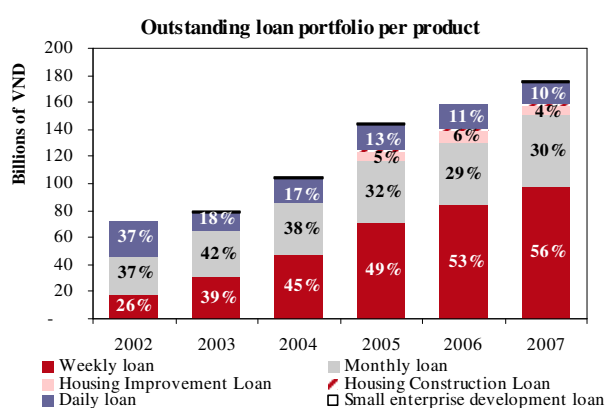
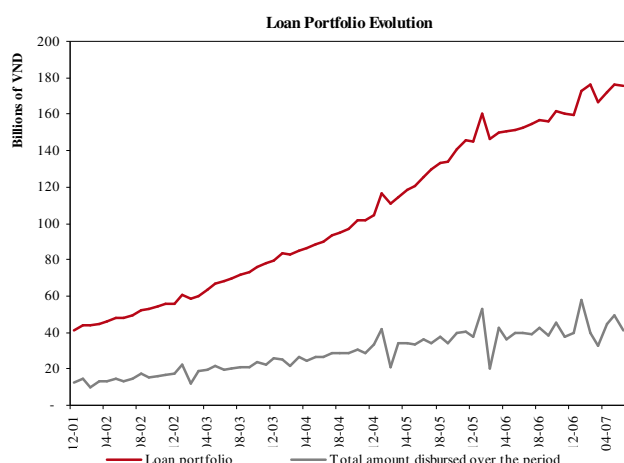
CEP has a very good positioning in the lowest segment of the population of the HCMC province as a provider of small loans, with adapted repayment methods and reasonable interest rates. At the industry level, it is recognized as the largest semi-formal MFI of the country. Its valuable work is fully acknowledged by local authorities and its international visibility is increasing.

The current range of services is appropriate to the target population, in particular weekly loans. The product has various features that make it interesting for poor informal clients: small loan amounts (maximum 625 USD, average amount disbursed of 296 USD), small installments due to weekly payments, relatively long repayment periods (up to 10 months), flexibility on the purpose of the loan (for income generating activities, but no strict follow-up as long as the client reimburses). Despite the clear advantages of developing products with larger loan amounts in terms of

profitability, CEP has taken the institutional decision to remain focused on the poor. The new products for housing, developed in partnership with donors, have been designed to address the needs of poor segments of the population particularly affected by infrastructure upgrades that have taken place in HCMC recently. The small Enterprise Development Loan, for larger loan needs, is and is expected to remain a small part of portfolio.

Competition varies greatly from one district to another depending on the existence of government programs, PCFs and the VBSP. In general terms, VBSP and CCM (a network of cooperatives) are the main competitors of CEP. They offer lower interest rates, but serve generally a richer population. Overall there is still room for all in the market and competition is not perceived as a major threat. Paradoxically, there exists a pressure to keep interests low stemming mainly from umbrella organizations.

## Evolution and composition of portfolio



The loan portfolio has grown quickly over the last years, at a pace of 30% to 40% between 2002 and 2005. In 2006 portfolio growth slowed down to 10% due to the end of resources for on-lending from the AusAID project. In 2007, growth is expected to be higher with the injection of additional resources from the LC and Ford Foundation. In terms of portfolio composition, the main trend is the

development of weekly loans, evolving from only 26% of portfolio in 2002 to 56% as of June 2007. The average outstanding loan (in VND) has grown very slowly, slightly above inflation rates, showing the commitment of CEP to keep disbursing small loans to its clients, despite a low dropout rate (24% from 2001 to 2007).

## Loan portfolio management

CEP applies a well-designed Grameen-based credit methodology, particularly suitable to small amounts and poor populations. CEP works closely with the local community when selecting new clients, with somewhat different strategies depending on the product type. By taking advantage of the tight social and community networks and by incremental loan sizes, CEP minimizes its need for detailed debt capacity analysis. Pre-selected loan clients complete a household survey that is used more to establish poverty status than debt capacity. The strong implication of collaborators in loan management is also a key factor for high productivity, since LOs delegate to them the monitoring and collection of loans.

Recovery measures are adapted to the target population. LOs are informed of past-due loans on installment day, since they are responsible for collecting the group payments from collaborators. At first stages, they receive support from the collaborators themselves, but can also ask the BMs and even the most appropriate local authority to help them in the recovery process. CEP also applies a very transparent policy of rescheduling of past-due loans from clients that show a very clear willingness to repay. After negotiations, a written agreement is reached with these clients spreading the repayment schedule over a longer period in order to reduce the amount of each installment. Such loans are however clearly ear-marked as PAR in the loan tracking system in order to give a reliable image of portfolio quality. In delinquent loans late interests or penalties are not charged, but CEP justifies this policy by the fact that clients are already very poor and in most cases they have a real willingness to repay.

LOs are generally well trained (two months induction process with both theoretical and practical training) and hold a strong social awareness. They are subject to a good supervision environment, with frequent monitoring from the Credit Department, weekly planning of activities with the BM and SLO and frequent visits from the Internal Audit department.

The credit methodology has proved to be adapted to the current size of the network and the type of products offered, but it will need to be reinforced to cope with the expansion plans. The current incentive policy promotes portfolio quality, but incentives are not calculated frequently enough

for field staff. Another challenge for CEP will be to adapt its lending methodology to larger loan amounts. There is already a different assessment process for Small Enterprise Development Loans that gives much more importance to the evaluation of repayment capacity. However, LOs are mainly familiar with the core products and their lending methodology. As a matter of fact they have not made much promotion for Small Enterprise Development Loans. Even if CEP does not consider large loans as a priority, LOs will need to deal increasingly with large amounts as clients graduate and require a more in-depth analysis of their businesses.

## Credit risk

CEP reports a good portfolio quality, with a PAR>30 remaining below the 2% threshold over almost the entire period under review. In 2005 PAR>30 was slightly higher and reached 2.1%, mainly due to a fraud case in one branch, that led to the disbursement of some 140 M VND of fake loans (8,750 USD). However, as of June 2007 more than 90% of these loans have been recovered, bringing back the indicator below 2%. These results put CEP in line with its peer group of the MBB, that reports a median PAR>30 of 0.6%. Following Vietnamese policies, write-off is extremely rare. Write-offs are only authorized by the Board of Management and approved when the clients are dead and after a thorough investigation in consultation with local authorities. As such, the latest write-off of portfolio happened in 2002. Despite this, PAR>365 has always remained below 1% and has a decreasing trend since 2005, showing good recovery skills.

The highest PAR>30 is found on housing improvement loans followed by Small Enterprise Development Loans (9.1% and 2.9% respectively). The problems for housing improvement loans are directly related to a too superficial evaluation of clients and too large amounts for short periods, in an area where high levels of poverty have been worsened by different infrastructure works. In the case of Small Enterprise Development Loans, the size of these loans generates much more easily a larger PAR than for the other core products.

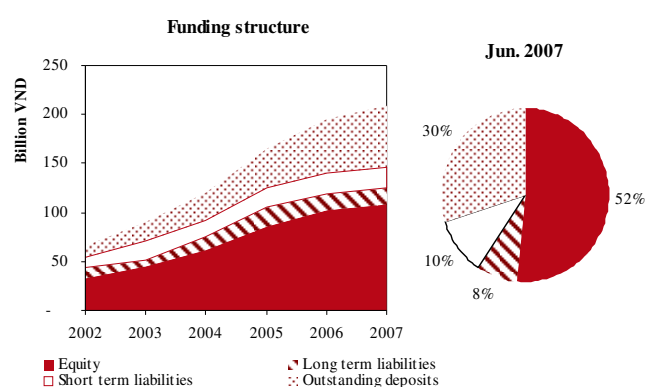
CEP has not established yet clear portfolio diversification policies by sector. Portfolio is actually highly concentrated in trade (67%), but this is difficult to avoid in a market where the main activity of population is trade. However, CEP would gain from monitoring more closely, within the trade sector, the sub-sectors that are bearing the highest risks. In any case, CEP has a clear objective to continue focusing on poverty-reduction loans. Therefore, CEP has a commitment to continue disbursing massively weekly loans while housing loans should be limited to a maximum of 20% of portfolio (4.2% currently).

Despite not being regulated, CEP tries to follow as much as possible the provisioning policies for banks and other regulated institutions. Since 2004 CEP has modified twice the provisioning methodology to make it more conservative. As of June 2007 the risk coverage ratio was already at 85.5%, below the goal of 100%, but much higher than in previous years. It is worth mentioning that the credit risk is also covered by compulsory savings that can be used to repay past-due loans.

## ■ Funding and liquidity

Funding and liquidity is rated “b”

### Capital structure & Leverage



CEP has a typical NGO capital structure, highly dominated by equity and subsidized resources. Leverage is low, below 1x during the period under review. Donated equity and grants pending application represent 33.5% of total assets as of June 2007, while retained earnings represent 19.6%. The rest of the financing structure is broken down in compulsory and voluntary savings (30.1%), concessional debt from the LC and other sources (12.9%) and other liabilities (4.0%).

## Asset & Liability Management

CEP is not exposed to major Asset & Liability Management (ALM) risks. Maturity risks are low as portfolio is predominantly funded by retained earnings and donations. Short term assets, including short term portfolio, are twice larger than short term liabilities. There is no liquidity risk related to the management of deposits, as 85% of them are compulsory deposits tied to outstanding loans and voluntary deposits are three times smaller than liquidity. The average voluntary deposit is of 26 USD, displaying a very low concentration of amounts. CEP does not face any interest rate risk as all debts received from the LC and other sources are based on fixed interest rates. Per law, CEP is not allowed to receive and reimburse loans in foreign currency, meaning that the institution is not exposed to foreign exchange risk.

## Funding strategy

As a major tool in poverty reduction, CEP has been historically funded by the LC through various small debts at subsidized rates (from 4.8% to 12% per year, average of 6.8%), usually with no term. As such, these debts appear as long-term credit lines that CEP can use according to needs. As of June 2007, they represented 44.4% of total debt, and were broken down in more than 20 loans. They stem from HCMC LC but also from other District level LC that on-lend directly to the branch operating in their area. CEP has diversified its financing structure to other local organizations, directly or indirectly related to the LC. These lenders include organizations such as Vietcombank, major local companies, individuals and the HCMC Investment and Development Fund. CEP has also expanded its financing base to international organizations that on-lend for the financing of specific projects: World Bank and Habitat (for housing improvement), and SIDI for the Small Enterprise Development Loan. The rest of the financing comes from donations, mainly large ones in the framework of projects in line with CEP goals.

The proactive financing strategy led by the MD has allowed to relatively diversify the financing structure, to bring sufficient capital to support growth and to continue serving the poor at reasonable interest rates. However, CEP cannot for the time being borrow with commercial conditions and will not be able to do it before obtaining a clear legal status and demonstrating higher financial margins. Savings could play a bigger part in funding if CEP innovates more with voluntary savings (purpose based products, variable interest rates according to term of deposit, etc.).

## Liquidity management

CEP has established a relevant policy of regular cash flow projections at the branch level, allowing for a good allocation of resources within the network. CEP has relatively high cash levels, even for the need to keep cash for saving withdrawals. Historically cash and due from banks have always represented more than 10% of assets, with a peak of 18.2% in December 2006. This is highly related to the injection of grants or subsidized funds, which can not be deployed immediately. Also, 9% of liquidity as of June 2007 was composed of grants pending application that can only be spent following the conditions of donors.

### Efficiency and Profitability

Efficiency and Profitability is rated “a”

## Profitability analysis

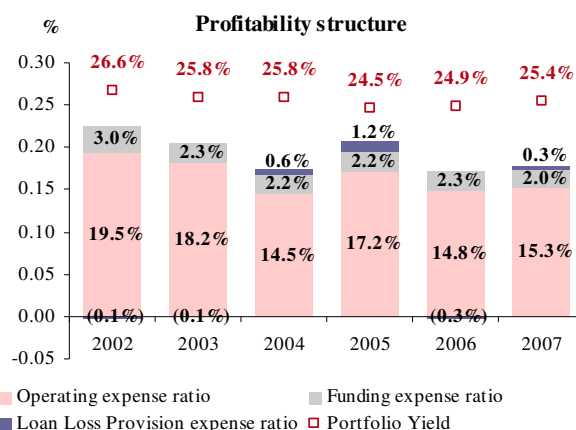
**Note:** all ratios have been calculated with an adjusted income statement, as specified in section “I”, to consider the

impact of operational donations in income and their corresponding expenditures in expenditures. As of June 2007, such expenditures represented 4.8% of financial income (8.4% in 2006, 33.0% in 2005).

CEP displays a structural and relatively stable profitability. Despite comparatively low interest rates for the outstanding loan amounts, profitability is higher than regional benchmarks: ROA of 7.7% in 2006 against 2.4% for the Asia Large Non Fi peer group in the MicroBanking Bulletin (MBB) 2005; ROE of 14.8% against 6.7% for the MBB peer group. In 2005 CEP experienced a 50% decrease of profitability ratios, which was quickly recovered the following year. The main reason for this performance in 2005 was the high level of capacity building expenditures financed by the AusAID project (449 K USD in 2005 to be compared to 108 K USD in 2004 and 200 K USD in 2006).

The main drivers of CEP profitability are:

- A relatively stable operating expense ratio that has been fueled by very high productivity, despite low average outstanding loans. With an operating expense ratio of 14.8% as of December 2006, CEP compares well to the operating expense ratio of its peer group of 15.4%. LOs are extremely productive (595 active borrowers per LO in 2006 against 268 for the peer group) thanks to the efficient Grameen-based methodology, that delegates part of portfolio monitoring to external collaborators. If personnel and cost of collaborators are added, they represent 59% of total operating expenses, which is in line with benchmarks.
- An extremely low loan loss provision expense ratio, usually below 1% and some years negative, thanks to the good quality of portfolio.
- A low funding expense ratio, evolving from 2% to 3%, emblematic of the subsidized rates charged by lenders and of the low cost of savings (2.5% to 3% per year).
- On the other hand, portfolio yield has remained stable, as interest rates have not changed, the product mix has remained dominated by the three core products and portfolio quality has been good.

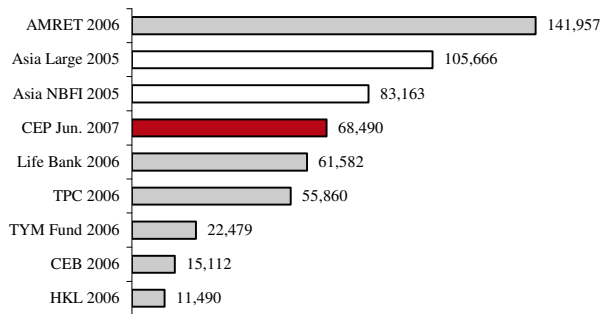


CEP profitability in 2007 is expected to remain stable and probably to report a slight decrease that will not hamper self-sufficiency. Indeed, some additional costs are going to increase the cost structure. First, the new payment system for the services provided by the LC will add costs to the income statement, that were previously deducted from net result as a sort of dividend; second, the conduction of the expansion plan will imply higher operating costs; third, salary levels are expected to be increased again in order to strengthen even more staff retention. The challenges ahead, like higher competition from development banks (mainly VBSP) and the shortcomings in the implementation of the regulation should not represent a threat for CEP financial performance in 2008.

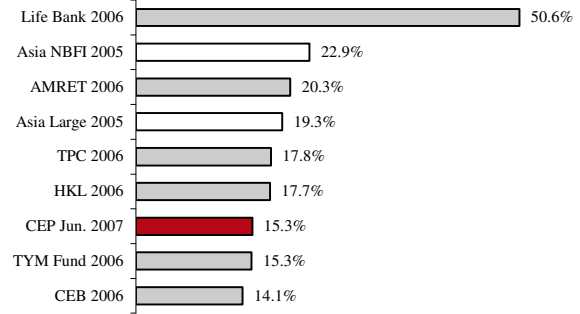
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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

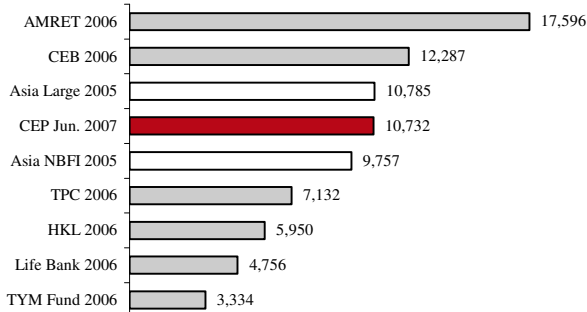
**Active borrowers**



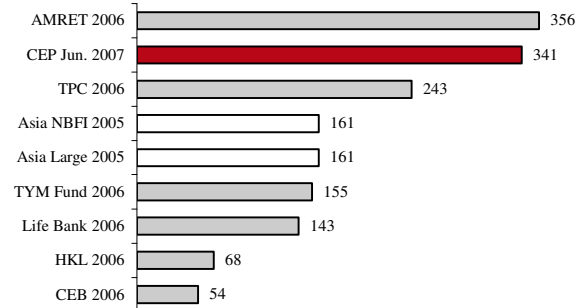
**Operating expense ratio**



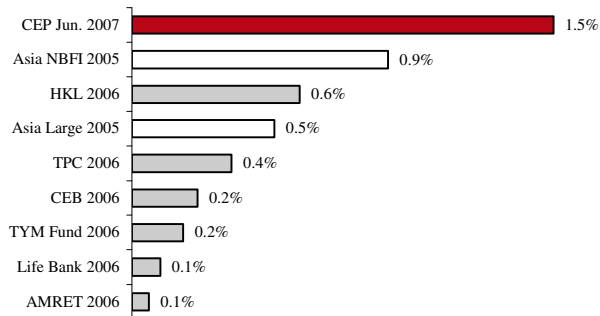
**Loan portfolio (K USD)**



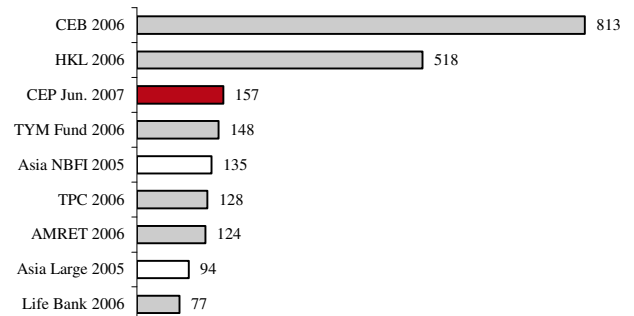
**Staff productivity**



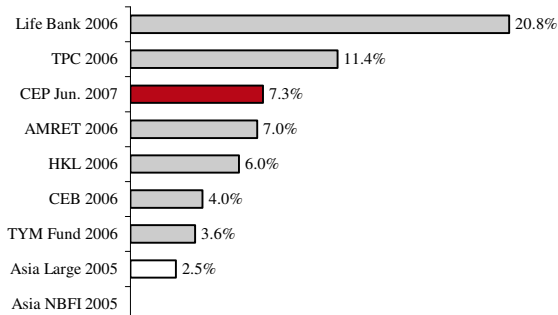
**PAR 30**



**Average outstanding loan per client (USD)**



**ROA**



Source: www.miwmarket.org, Benchmarking Asian Microfinance 2005

MFIs: Thanakea Phum Cambodia (TPC), Cambodia; AMRET, Cambodia; Cambodian Entrepreneur Building (CEB), Cambodia; Hattha Kaksekar (HKL), Cambodia; Life Bank Foundation, Philippines; TYM Fund, Vietnam

MBB Peer groups; benchmarks 2005 (medians)

## ■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
<b>Loan Portfolio</b>						
USD, unless otherwise stated						
<b>Loan portfolio evolution</b>						
Loan portfolio	3,508,601	4,933,305	6,650,976	9,128,453	9,573,480	10,731,952
Loan portfolio (M VND)	56,120	79,702	105,006	145,188	159,667	176,569
Evolution	35.4%	42.0%	31.7%	38.3%	10.0%	10.6%
Average outstanding portfolio	3,063,814	4,196,763	5,787,572	7,925,694	9,262,279	10,463,862
Active borrowers	32,291	42,132	49,330	59,868	64,233	68,490
Evolution	31.5%	30.5%	17.1%	21.4%	7.3%	6.6%
Average outstanding loan per client	109	117	135	152	149	157
% of GDP per capita	25.9%	28.2%	31.7%	36.1%	37.0%	38.4%
Average amount disbursed per loan	203	219	247	272	275	296
% of GDP per capita	48.3%	46.6%	44.7%	42.9%	39.8%	37.5%
<b>Portfolio quality</b>						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	2.0%	1.2%	1.1%	1.5%	1.1%	1.1%
PAR > 365	0.0%	0.2%	0.1%	0.6%	0.7%	0.4%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Credit risk coverage</b>						
Risk coverage ratio	31.9%	27.7%	66.6%	79.6%	69.3%	85.5%
PAR 31 net of loan loss provision / Equity	2.4%	1.8%	0.7%	0.7%	0.8%	0.3%
<b>Savings</b>						
USD, unless otherwise stated						
Outstanding deposits	657,786	1,106,963	1,733,945	2,466,993	3,243,162	3,719,641
Outstanding deposits (M VND)	10,521	17,884	27,376	39,238	54,089	61,198
Evolution	44.1%	70.0%	53.1%	43.3%	37.9%	13.1%
Mandatory savings (%)	98.9%	86.3%	82.3%	85.5%	83.9%	87.5%
Voluntary savings (%)	12.9%	19.0%	21.9%	16.7%	19.1%	15.4%
Active savers	32,447	47,183	53,076	63,916	69,372	73,574
Evolution	34.8%	45.4%	12.5%	20.4%	8.5%	6.1%
Average outstanding deposit per saver	20	23	33	39	47	51
Mandatory	20	24	31	37	43	46
Voluntary	23	20	25	22	26	26
<b>Staff</b>						
Total number of staff	111	132	147	149	189	201
% Credit officers	62.2%	50.8%	51.0%	50.3%	57.1%	58.7%
Turnover	7.0%	6.6%	9.3%	14.9%	5.9%	6.2%
<b>Profitability analysis</b>						
USD, unless otherwise stated						
ROE	8.5%	10.1%	15.3%	7.3%	14.8%	14.1%
Liabilities / Equity	1.03x	0.99x	0.96x	0.91x	0.93x	0.93x
ROA	4.3%	5.0%	7.8%	3.8%	7.7%	7.3%
<b>Profitability structure</b>						
Portfolio Yield	26.6%	25.8%	25.8%	24.5%	24.9%	25.4%
Operating expense ratio	19.5%	18.2%	14.5%	17.2%	14.8%	15.3%
Cost per borrower	18	18	17	23	21	23
Staff productivity	291	319	336	402	340	341
Loan officer productivity	468	629	658	798	595	580
Average outstanding loan per client (USD)	109	117	135	152	149	157
Funding expense ratio	3.0%	2.3%	2.2%	2.2%	2.3%	2.0%
Cost of savings	2.6%	2.4%	2.5%	2.5%	2.5%	5.0%
Cost of liabilities	5.8%	5.1%	4.7%	4.7%	4.6%	8.8%
Loan Loss Provision expense ratio	(0.1%)	(0.1%)	0.6%	1.2%	(0.3%)	0.3%
PAR 31-365	2.0%	1.2%	1.1%	1.5%	1.1%	1.1%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	84.4%	87.9%	86.9%	86.5%	80.3%	83.2%
Revenue from investment as a % of financial revenues	0.9%	0.7%	1.2%	1.2%	3.4%	3.2%
<b>Liquidity</b>						
Loans to deposits	477.1%	423.6%	368.1%	362.1%	286.6%	280.3%
Liquidity / Total assets (LAR)	13.3%	10.3%	11.7%	12.5%	18.2%	14.8%
<b>Adjusted ratios</b>						
Adjustment expense ratio	5.0%	4.2%	6.9%	6.7%	6.4%	5.3%
AROE	(0.2%)	2.7%	3.4%	(4.1%)	4.3%	5.3%
AROA	(0.1%)	1.4%	1.7%	(2.1%)	2.2%	2.8%
Financial self-sufficiency	99.6%	106.4%	108.2%	91.2%	111.3%	114.1%
Adjusted operating expense ratio	20.7%	19.3%	15.7%	18.0%	15.5%	16.4%
Adjusted funding expense ratio	6.4%	5.3%	8.0%	8.1%	8.0%	6.3%
Adjusted loan loss provision expense ratio	0.3%	0.1%	0.6%	1.2%	(0.3%)	0.3%
Exchange rate 1 USD= xx VND	15,393	15,634	15,762	15,900	16,051	16,131

CEP		K VND					USD					Evolution			
Balance sheet	Notes	dec. 2003	dec. 2004	dec. 2005	dec. 2006	jun. 2007	dec. 2003	dec. 2004	dec. 2005	dec. 2006	jun. 2007	04/03	05/04	06/05	07/06
<b>ASSETS</b>		<b>90 309 231</b>	<b>119 852 351</b>	<b>165 138 696</b>	<b>196 302 996</b>	<b>209 552 994</b>	<b>5 589 826</b>	<b>7 591 357</b>	<b>10 382 816</b>	<b>11 770 176</b>	<b>12 736 771</b>	<b>32.7%</b>	<b>37.8%</b>	<b>18.9%</b>	<b>6.7%</b>
<b>Short Term Assets</b>		<b>88 805 771</b>	<b>117 910 380</b>	<b>157 736 291</b>	<b>188 671 554</b>	<b>202 880 364</b>	<b>5 496 767</b>	<b>7 468 354</b>	<b>9 917 403</b>	<b>11 312 601</b>	<b>12 331 204</b>	<b>32.8%</b>	<b>33.8%</b>	<b>19.6%</b>	<b>7.5%</b>
Cash and Due from Banks	1	9 305 771	14 049 840	20 587 321	35 727 298	31 118 570	575 995	889 906	1 294 393	2 142 181	1 891 407	51.0%	46.5%	73.5%	(12.9%)
Short Term Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		78 889 185	103 007 595	136 092 193	151 441 018	168 912 505	4 882 965	6 524 423	8 556 567	9 080 286	10 266 615	30.6%	32.1%	11.3%	11.5%
Short Term Gross Loan Portfolio		79 195 421	103 866 653	138 483 880	153 387 414	171 138 454	4 901 920	6 578 835	8 706 940	9 196 991	10 401 909	31.2%	33.3%	10.8%	11.6%
(Loan Loss Reserve)		306 236	859 058	2 391 687	1 946 396	2 225 949	18 955	54 412	150 373	116 704	135 295	180.5%	178.4%	(18.6%)	14.4%
Interest Receivable		-	-	-	-	-	-	-	-	-	-	-	-	-	-
On loan portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		610 815	852 945	1 056 777	1 503 238	2 849 289	37 807	54 025	66 443	90 133	173 182	39.6%	23.9%	42.2%	89.5%
<b>Long term assets</b>		<b>1 503 460</b>	<b>1 941 971</b>	<b>7 402 405</b>	<b>7 631 442</b>	<b>6 672 630</b>	<b>93 059</b>	<b>123 003</b>	<b>465 414</b>	<b>457 575</b>	<b>405 567</b>	<b>29.2%</b>	<b>281.2%</b>	<b>3.1%</b>	<b>(12.6%)</b>
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		507 050	1 138 953	6 704 166	6 279 091	5 430 054	31 385	72 140	421 513	376 489	330 042	124.6%	488.6%	(6.3%)	(13.5%)
Net Fixed Assets		996 410	803 018	698 239	1 352 351	1 242 576	61 674	50 863	43 901	81 086	75 525	(19.4%)	(13.0%)	93.7%	(8.1%)
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>		<b>90 309 231</b>	<b>119 852 351</b>	<b>165 138 696</b>	<b>196 302 996</b>	<b>209 552 994</b>	<b>5 589 826</b>	<b>7 591 357</b>	<b>10 382 816</b>	<b>11 770 176</b>	<b>12 736 771</b>	<b>32.7%</b>	<b>37.8%</b>	<b>18.9%</b>	<b>6.7%</b>
<b>Liabilities</b>		<b>44 989 783</b>	<b>58 632 980</b>	<b>78 841 025</b>	<b>94 389 383</b>	<b>101 073 922</b>	<b>2 784 711</b>	<b>3 713 769</b>	<b>4 956 996</b>	<b>5 659 515</b>	<b>6 143 340</b>	<b>30.3%</b>	<b>34.5%</b>	<b>19.7%</b>	<b>7.1%</b>
Short term liabilities		39 615 251	44 514 027	59 228 549	77 771 529	84 966 760	2 452 046	2 819 485	3 723 895	4 663 121	5 164 336	12.4%	33.1%	31.3%	9.3%
Demand Deposits		3 390 809	5 991 986	6 557 929	10 310 046	9 422 535	209 879	379 528	412 319	618 182	572 708	76.7%	9.4%	57.2%	(8.6%)
Compulsory Deposits		15 425 759	22 534 891	33 541 199	45 406 681	53 561 788	954 801	1 427 343	2 108 846	2 722 550	3 255 521	46.1%	48.8%	35.4%	18.0%
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		18 716 100	13 658 600	13 690 036	13 722 386	13 663 386	1 158 461	865 125	860 738	822 784	830 470	(27.0%)	0.2%	0.2%	(0.4%)
Interest payable		1 037 683	1 418 757	2 053 268	2 845 075	2 622 921	64 229	89 863	129 096	170 588	159 423	36.7%	44.7%	38.6%	(7.8%)
Accounts Payable and Other Short Term Liabilities		1 044 900	909 793	3 386 117	5 487 341	5 696 130	64 676	57 626	212 896	329 017	346 215	(12.9%)	272.2%	62.1%	3.8%
Long term liabilities		5 374 532	14 118 953	19 612 476	16 617 854	16 107 162	332 665	894 284	1 233 101	996 394	979 004	162.7%	38.9%	(15.3%)	(3.1%)
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		1 143 060	7 583 316	13 282 667	13 450 781	13 360 895	70 751	480 322	835 125	806 498	812 084	563.4%	75.2%	1.3%	(0.7%)
Other Long Term Liabilities	2	4 231 472	6 535 637	6 329 809	3 167 073	2 746 267	261 913	413 962	397 976	189 895	166 920	54.5%	(3.1%)	(50.0%)	(13.3%)
<b>Equity</b>		<b>45 319 448</b>	<b>61 219 371</b>	<b>86 297 671</b>	<b>101 913 613</b>	<b>108 479 072</b>	<b>2 805 116</b>	<b>3 877 589</b>	<b>5 425 820</b>	<b>6 110 662</b>	<b>6 593 430</b>	<b>35.1%</b>	<b>41.0%</b>	<b>18.1%</b>	<b>6.4%</b>
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity	3	25 241 536	35 252 853	59 220 964	66 042 146	67 493 026	1 562 363	2 232 889	3 723 418	3 959 836	4 102 271	39.7%	68.0%	11.5%	2.2%
Retained earnings without donations and reserves	4	20 077 912	25 966 518	27 076 707	35 871 467	40 986 046	1 242 753	1 644 700	1 702 402	2 150 825	2 491 159	29.3%	4.3%	32.5%	14.3%
Current year		3 928 004	8 168 349	5 430 562	14 073 241	7 454 037	243 130	517 377	341 437	843 821	453 061	108.0%	(33.5%)	159.1%	(47.0%)
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-	-

1. Cash on current accounts yields an annual interest rate of 3% in VND, 1.5% in USD. Cash in term deposits yields an annual interest rate of 7.44% to 8.76% in VND.

2. Grants pending application or donations for specific funding registered in liabilities until they are spent. If they are not spent according to the contract they may be returned to the donor.

3. Donations modified compared to previous report to account for total amount of donations provided by CEP.

4. Includes retained earnings without donations, reserve funds and capital.

CEP		K VND					USD					Evolution			
Income Statement	Notes	dec. 2003	dec. 2004	dec. 2005	dec. 2006	jun. 2007	dec. 2003	dec. 2004	dec. 2005	dec. 2006	jun. 2007	04/03	05/04	06/05	07/06
<b>Financial Revenue (a)</b>		<b>17 767 731</b>	<b>24 009 178</b>	<b>31 412 176</b>	<b>39 886 207</b>	<b>22 619 725</b>	<b>1 099 761</b>	<b>1 520 723</b>	<b>1 974 987</b>	<b>2 391 546</b>	<b>1 374 842</b>	<b>35.1%</b>	<b>30.8%</b>	<b>27.0%</b>	<b>(43.3%)</b>
Financial Revenue from Loan Portfolio		17 469 124	23 615 308	30 926 908	38 494 011	21 877 457	1 081 278	1 495 776	1 944 477	2 308 071	1 329 726	35.2%	31.0%	24.5%	(43.2%)
Interest on Loan Portfolio		17 469 124	23 615 308	30 926 908	38 494 011	21 877 457	1 081 278	1 495 776	1 944 477	2 308 071	1 329 726	35.2%	31.0%	24.5%	(43.2%)
Fees and Commissions on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		130 771	280 223	385 163	1 347 379	732 385	8 094	17 749	24 216	80 788	44 515	114.3%	37.4%	249.8%	(45.6%)
Other Operating Revenue	1	167 836	113 647	100 105	44 817	9 883	10 388	7 198	6 294	2 687	601	(32.3%)	(11.9%)	(55.2%)	(77.9%)
<b>Financial Expense (b)</b>		<b>1 588 243</b>	<b>2 044 006</b>	<b>2 789 968</b>	<b>3 545 476</b>	<b>1 740 562</b>	<b>98 307</b>	<b>129 466</b>	<b>175 415</b>	<b>212 584</b>	<b>105 793</b>	<b>28.7%</b>	<b>36.5%</b>	<b>27.1%</b>	<b>(50.9%)</b>
Interest paid on borrowings		919 797	964 460	1 143 706	1 234 105	1 192 862	56 932	61 088	71 909	73 996	72 503	4.9%	18.6%	7.9%	(3.3%)
Interest paid on deposits		667 790	1 078 853	1 640 955	2 310 197	547 100	41 334	68 334	103 172	138 518	33 253	61.6%	52.1%	40.8%	(76.3%)
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	2	656	693	5 307	1 174	599	41	44	334	70	36	5.6%	665.8%	(77.9%)	(49.0%)
<b>Financial income [c=a-b]</b>		<b>16 179 488</b>	<b>21 965 172</b>	<b>28 622 208</b>	<b>36 340 731</b>	<b>20 879 163</b>	<b>1 001 454</b>	<b>1 391 257</b>	<b>1 799 573</b>	<b>2 178 962</b>	<b>1 269 049</b>	<b>35.8%</b>	<b>30.3%</b>	<b>27.0%</b>	<b>(42.5%)</b>
<b>Net Loan Loss provision expense (d)</b>		<b>(59 423 )</b>	<b>552 822</b>	<b>1 532 629</b>	<b>(465 746 )</b>	<b>279 553</b>	<b>(3 678)</b>	<b>35 015</b>	<b>96 361</b>	<b>(27 926)</b>	<b>16 991</b>	<b>(1 030%)</b>	<b>177.2%</b>	<b>(130.4%)</b>	<b>(160.0%)</b>
Loan loss provision expense and write-off		(59 423 )	552 822	1 532 629	(465 746 )	279 553	(3 678)	35 015	96 361	(27 926)	16 991	(1 030%)	177.2%	(130.4%)	(160.0%)
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>		<b>12 310 907</b>	<b>13 244 000</b>	<b>21 674 910</b>	<b>22 911 098</b>	<b>13 204 891</b>	<b>762 002</b>	<b>838 865</b>	<b>1 362 773</b>	<b>1 373 732</b>	<b>802 602</b>	<b>7.6%</b>	<b>63.7%</b>	<b>5.7%</b>	<b>(42.4%)</b>
Personnel Expense (includes fringe)		2 456 897	2 779 503	4 031 629	6 709 578	4 468 900	152 073	176 052	253 482	402 301	271 623	13.1%	45.0%	66.4%	(33.4%)
Administrative Expense (non-staff operating expenses)		9 854 010	10 464 498	17 643 281	16 201 520	8 735 991	609 929	662 813	1 109 291	971 431	530 979	6.2%	68.6%	(8.2%)	(46.1%)
Depreciation and amortization		514 808	679 071	696 783	1 113 996	584 825	31 865	43 012	43 809	66 794	35 546	31.9%	2.6%	59.9%	(47.5%)
Consulting fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs, maintenance and office supplies		290 643	329 271	335 890	376 556	227 130	17 990	20 856	21 119	22 578	13 805	13.3%	2.0%	12.1%	(39.7%)
Postage and communication costs		110 073	142 539	164 876	236 710	148 149	6 813	9 028	10 366	14 193	9 005	29.5%	15.7%	43.6%	(37.4%)
Commission to partners	3	3 177 631	4 170 604	5 280 889	5 904 206	3 316 909	196 684	264 163	332 027	354 012	201 604	31.2%	26.6%	11.8%	(43.8%)
Training expenses		838	-	34 131	13 957	14 350	52	-	2 146	837	872	(100.0%)	-	(59.1%)	2.8%
Transportation expenses		-	-	-	1 979 872	1 185 824	-	218 228	250 713	118 712	72 075	-	15.7%	(50.3%)	(40.1%)
Rent & utilities		-	-	-	855 086	469 917	-	-	-	51 270	28 562	-	-	-	(45.0%)
Donations spent	4	3 339 024	1 697 634	7 143 122	3 331 804	1 090 719	206 674	107 527	449 112	199 772	66 295	(49.2%)	320.8%	(53.4%)	(67.3%)
Others		2 420 993	3 445 379	3 987 590	2 389 333	1 698 168	149 851	-	143 263	103 216	103 216	42.3%	15.7%	(40.1%)	(28.9%)
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>3 928 004</b>	<b>8 168 349</b>	<b>5 414 669</b>	<b>13 895 379</b>	<b>7 394 719</b>	<b>243 130</b>	<b>517 377</b>	<b>340 438</b>	<b>833 156</b>	<b>449 456</b>	<b>108,0%</b>	<b>(33,7%)</b>	<b>156,6%</b>	<b>(46,8%)</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>3 928 004</b>	<b>8 168 349</b>	<b>5 414 669</b>	<b>13 895 379</b>	<b>7 394 719</b>	<b>243 130</b>	<b>517 377</b>	<b>340 438</b>	<b>833 156</b>	<b>449 456</b>	<b>108,0%</b>	<b>(33,7%)</b>	<b>156,6%</b>	<b>(46,8%)</b>
Non Operating Revenue (i)		-	-	15 893	177 862	59 318	-	-	999	10 664	3 605	-	-	1 019.1%	(66.6%)
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>3 928 004</b>	<b>8 168 349</b>	<b>5 430 562</b>	<b>14 073 241</b>	<b>7 454 037</b>	<b>243 130</b>	<b>517 377</b>	<b>341 437</b>	<b>843 821</b>	<b>453 061</b>	<b>108,0%</b>	<b>(33,5%)</b>	<b>159,1%</b>	<b>(47,0%)</b>
Donations (l)		3 421 729	10 230 547	23 968 111	6 821 182	1 453 750	211 793	647 995	1 506 954	408 993	88 360	199.0%	134.3%	(71.5%)	(78.7%)
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>7 349 733</b>	<b>18 398 896</b>	<b>29 398 673</b>	<b>20 894 423</b>	<b>8 907 787</b>	<b>454 923</b>	<b>1 165 372</b>	<b>1 848 392</b>	<b>1 252 813</b>	<b>541 421</b>	<b>150,3%</b>	<b>59,8%</b>	<b>(28,9%)</b>	<b>(57,4%)</b>

1. Application forms and other income.

2. Loss on foreign exchange differences (related to grants).

3. Commissions to collaborators or partners.

4. Adjustments on audited financial statements to include expenses done with operating donations. In audited financial statements these expenses and their corresponding donations do not appear in income statement but are directly deducted from donations for specific purposes in liabilities and transferred to donated equity.

## ■ Formulas

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

## ■ Rating scale

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Rating	Definition
A+	<b>Excellent</b>
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+	<b>Good</b>
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+	<b>Minimum required</b>
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	<b>Insufficient</b>
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	<b>Immediate risk of default or very insufficient</b>
	There are immediate or underlying risks for operations or an unacceptable under performance.