

## Life Bank Foundation, Inc., Philippines

Through its Ikabuhi Microfinance Program (IMP), Life Bank Foundation, Inc (LBF) provides basic financial services in the form of loans, savings, and insurance products to enterprising poor women throughout the Philippines. Based in Iloilo, LBF traces its roots back to Life Bank Rural Bank (LBRB), a traditional rural bank that ventured into microfinance in 1995. Further expanding into microfinance, the controlling family of LBRB established LBF as an NGO in 2003 to provide credit access and savings mobilization modelled on the ASA group lending methodology. As of June 30, 2009, LBF boasted a nation-wide network of 235 branches maintaining a gross outstanding loan portfolio of 17.1 M USD from 223,601 active borrowers.

### GIRAFE Rating

#### Rating

**B+**

#### Outlook

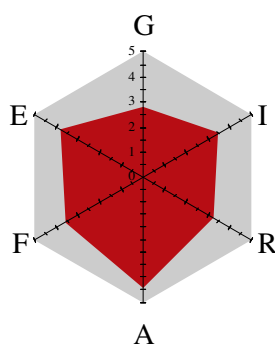
**Positive**

#### Date of the rating

**July 2009**

Valid until June 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- While not unique in applying the ASA methodology in the Philippines, LBF excels at standardizing the lending approach, scaling-up operations, and producing profitable returns (ROE of 72.3% and ROA of 22.1% at the end of 2008).
- Family-dominated governance and management structures have gradually professionalized, with the recent inclusion of two external board members.
- On-going efforts to hire key management staff would greatly reduce the large gap between senior decision makers and administrative managers.
- Although LBF has a solid track record of expansion (excellent portfolio quality with PAR 30 < 1.0%), the rapid growth has taxed the manual operations, where systems and procedures (including internal audits) continue to play catch-up.
- Moreover, the success of its deepening strategy may require more dynamic product offerings to satisfy the market potential, particularly in urban areas.
- Difficulties in migrating to a computerized MIS have limited efficiency gains and efforts to diversify product offerings.

#### Outlook

Planet Rating assigns LBF a positive outlook. The continuing commitment to professionalize management and governance structures, focus on portfolio quality, cautious approach to product launch, and well-managed geographic expansion all point to an ability to conduct microfinance activities in a sustainable way.

#### Performance indicators

USD	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Assets	995,008	1,936,545	5,350,884	13,157,311	18,615,514	21,071,408
Loan portfolio	884,312	1,703,965	4,703,678	11,496,801	16,027,237	17,084,364
Active borrowers	15,252	25,852	61,524	130,667	207,545	223,601
Avg. outstanding loan per client	58	66	76	88	77	76
Outstanding deposits	381,686	712,704	1,986,085	4,529,109	6,695,346	7,280,870
Active savers	15,974	27,354	66,542	136,396	220,139	240,138
Staff	172	277	498	740	1,050	1,147
ROE	114.5%	110.6%	84.8%	72.5%	72.3%	68.9%
ROA (without donations)	14.3%	23.3%	20.8%	18.3%	22.1%	26.0%
Liabilities / Equity	5.31x	3.17x	3.06x	2.92x	1.98x	1.42x
Portfolio yield	57.8%	71.3%	74.9%	69.2%	70.2%	71.3%
Operating expense ratio	39.5%	38.0%	50.6%	44.9%	37.9%	34.0%
Funding expense ratio	1.4%	5.3%	2.4%	2.6%	3.7%	2.8%
LLP expense ratio	3.8%	1.3%	0.0%	(0.1%)	1.1%	0.5%
PAR 31-365	0.0%	0.1%	0.1%	0.1%	0.5%	0.5%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## Microfinance sector

The Philippines contains one of the largest microfinance markets in Asia. Of the 90 million Filipinos, an estimated one-third fall below the national poverty line. However considerable its potential, the microfinance sector remains largely untapped. According to recent market studies, microfinance services reach only one-third of poor households in the Philippines.

Major providers of microfinance services fall into three broad and overlapping categories: rural/thrift banks, non-profit organizations (NGOs), and cooperatives. The regulatory environment for MFIs, however, can blur these distinctions. While the Central Bank, *Bangko Sentral ng Pilipinas* (BSP), regulates rural banks, cooperatives technically report to the Cooperative Development Authority (CDA). Registered with the Securities and Exchange Commission (SEC), NGOs must file annual audited financial statements and a general information sheet disclosing their microfinance operations.<sup>1</sup> In many instances, MFIs function as both NGOs and rural/thrift banks, with the added opportunities for growth and banking services provided by this combination. Some of the largest NGO MFIs have set up either a rural bank (such as CARD) or a thrift bank (e.g. TSKI or NWTF). A rural bank itself established Life Bank Foundation. These overlaps exist, in part, because of the restrictive nature of regulation on branching for rural banks. Only formal banks regulated by BSP are allowed to mobilize voluntary savings from the public, although cooperatives can raise deposits from their members. While BSP provides strong oversight of the banking sector, both the SEC and CDA offer weak supervision of microfinance service providers.

Roughly 300 NGOs, 204 thrift/rural/cooperative banks, and 4,579 cooperatives engage in some form of microfinance services in the Philippines. The operations of many NGO-MFIs follow the group lending methodology established by either the Grameen Bank or the Association for Social Advancement (ASA).

Filipino MFIs rely on a network of funding and supporting organizations. The Microfinance Council of the Philippines (MCPI) provides the main network for the largest NGO-MFIs, which include CARD NGO, TSKI, and TSPI

<sup>1</sup> NGO MFIs may potentially face future tax liabilities. Two bills are currently being proposed in the Philippines Congress: (i) the MEDI (Micro-Enterprise Development Institutions) bill proposing a 2% tax on gross income; and (ii) the Vinzons-Chato bill proposing zero tax and "tax relief" for past/previous years. The MEDI bill has been passed by the MSME Committee in the lower House, while the Vinzons-Chato bill is yet to be filed. With upcoming elections next year, the success of these competing bills looks uncertain.

Development Corporation. Its limited reach, however, has spawned six regional networks initiated by the People's Credit and Finance Corporation (PCFC). The rural banks organize under the Rural Bankers Association of the Philippines (RBAP). Microfinance cooperatives tend to have smaller and localized outreach, with CCT Credit Cooperative as its largest. Several national credit cooperative networks also span the country, including the National Confederation of Cooperatives and the Philippine Federation of Credit Cooperatives.

The leading providers of financing or refinancing come from four government apex financial institutions: PCFC, the Land Bank of the Philippines, the Development Bank of the Philippines, and Small Business Corporation. Providing both technical assistance and financing, many foreign development organizations also actively work in the sector, most notably the MABS (Microenterprise Access to Banking Services) Program.

In the absence of a credit bureau to track client information, the risk of credit pollution looms large over the entire microfinance industry, particularly in the competitive urban areas of Manila, Cebu, and Mindanao. As such, private and public initiatives have begun to address the concerns of cross-indebtedness. RBAP, MCPI, and ACCION International have recently initiated a project to collect information on consumer protection guidelines. Advocating the implementing of rules and regulations to monitor credit pollution and multiple borrowings, the government recently passed the Credit Information System Act, which marks an important step in efforts to increase financial transparency and promote a more efficient microfinance sector. Its implementation, however, remains several years away.

## Political & economic environment

### A growth slowdown

Economic growth slowed in 2008 and that trend is expected to gain momentum in 2009. Private consumption — the main growth engine — sagged in 2008 affected by a deteriorating job picture, declining volume of transfers from expatriate workers, and growing inflation. Inflation accelerated in 2008 in a context of rising raw material prices despite implementation of subsidies and is expected to ease slightly in 2009 with oil prices in decline and better harvests expected. Besides, investment will likely continue to sag in 2009 as a result of the skittishness of foreign investors and the difficulties encountered by companies in raising capital in international financial markets. Exports, particularly of electronic products (70% of sales abroad), will suffer from the growth slowdown in industrialized countries and China, which absorb respectively 37% and 29% of the country's exports. That trend is expected to gain strength in 2009 with

net exports thus making a negative contribution to growth. Corporate payment behavior recorded by Coface — already suffering from shortcomings in terms of transparency — could thus deteriorate in this context. Balance sheets published by companies are often not very reliable while the slow pace and the cost of legal procedures tend to hamper debt collection.

### A deteriorating financial position

Sovereign risk has eased as evidenced by the reduction of public sector debt, down to 59% of GDP in 2008 from 101% in 2003. The fiscal deficit — after narrowing between 2005 and 2007 notably due to exceptional revenues generated by privatizations — began to widen again in 2008. And it will be likely to persist in 2009 amid subsidised raw material prices and a planned economic stimulus program. The current account surplus is moreover expected to continue to shrink in 2009 reflecting the slowdown of exports and remittances from expatriate workers. The Philippines is the world's fourth largest destination of private transfers. In 2009, the volume of the private transfers will likely decline further since as much as 52% of the transfers originate in the United States, 16% in Europe and just 15% in the Middle East and 11% in Asia. Financing needs will thus increase in 2009 with foreign direct investment covering only seven% of the total. The country may thus resort to borrowing. Portfolio investment flows were moreover volatile in 2008 as reflected by the fall of the stock market index, a trend likely to continue in 2009. The resulting capital outflows weakened the peso and thereby exacerbated exchange rate risk. In this context, foreign exchanges reserves will tend to decline but nonetheless remain at satisfactory levels.

### A business environment with shortcomings

In the political arena, President Gloria Arroyo has fended off three attempts to initiate impeachment procedures and will likely stay in office until 2010. Her continued hold on power will, however, increasingly depend on support from the army, which has striven to contain Islamist and Communist rebellions in the south of the archipelago. The president's undeniably substantial achievements on reforms notwithstanding, the Philippines still suffers from serious shortcomings as regards governance.

### Strengths

- Exports to emerging Asia continue to grow, reaching 60% of total sales abroad in 2007 up from 26 % in 1997.
- The banking sector has grown stronger with solvency ratios and asset quality continuing to improve despite persistent shortcomings on oversight.
- Competitiveness has been steady particularly in the special economic areas.

- The levels of training, high productivity, and adaptability of the work force constitute competitive advantages particularly for multinational companies.
- External accounts have benefited from the inflow of expatriate-worker remittances, which has helped cushion the effects on the economy of any political instability or external shocks.

### Weaknesses

- A low investment rate particularly from abroad tends to limit the country's economic growth potential with the stock of foreign direct investment representing just 13% of GDP in 2007 compared to 32% in Thailand and 48% in Vietnam for example.
- Inequality and demographic growth have been a drag on economic performance.
- The country is distinctive in Asia for its low level of domestic savings, which has made it dependent on financial markets, a weakness compounded by an investment rate in decline, down from 21% of GDP in 2000 to 14% in 2007 and remaining well below the 35% average rate for emerging Asia.
- A climate of insecurity notably attributable to the Islamist rebellion in the southern part of the archipelago tends to deter investment.

COFACE Country Rating: B - Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behavior. Corporate default probability is appreciable.

COFACE Business Climate Rating: B - The availability and the reliability of corporate financial information vary widely. Debt collection can sometimes be difficult. The institutional framework has a few troublesome weaknesses. Inter-company transactions run appreciable risks in the unstable, largely inefficient environments

(USD billions)	2006	2007	2008(e)	2009(f)
Economic growth (%)	5.4	7.2	4.4	2.3
Inflation (%)	6.2	2.8	10.1	7.0
Public sector balance (%GDP)	-1.0	-0.2	-0.9	-1.2
Exports	46.5	49.3	51.0	50.7
Imports	53.3	57.6	63.4	61.7
Trade balance	-6.7	-8.2	-12.4	-11.0
Current account balance (%GDP)	4.5	4.4	1.5	1.0
Foreign debt (%GDP)	51.2	43.9	36.2	34.5
Debt service (%G&S exports)	14.1	12.6	10.1	10.4
Foreign currency reserves (in months of imports)	3.7	5.1	4.9	4.5

Source: COFACE's Country Risk Rating Guidebook 2009. (e) estimates, (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

The controlling family of LBRB established LBF in 2003. As a non-stock, non-profit corporation, LBF is not regulated by the central bank, but must disclose its microfinance operations in a General Information Sheet as part of annual financial reports filed with the SEC. Since LBF's establishment, Wilson Valencia Lozada (a private, licensed CPA based in Iloilo City) has provided annual audited financial statements to LBF.<sup>2</sup> At no time have the auditors qualified their opinion. The financial year of LBF starts at January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

### Ownership

As an NGO, LBF has no shareholder. LBF and LBRB share the same controlling owner: the Perlas Family and other related minority shareholders of the rural bank. An 11-member Board of Trustees (BOT) governs LBF, and six of its members also sit on the 9-member board of LBRB as well. The Perlas Family maintains a controlling interest (with seven members), along with two non-family but close associates on the BOT since LBF's founding. In the past two years, three external board members have joined the board.<sup>3</sup> Chosen yearly, BOT members can be re-elected for indefinite terms. The president of LBF currently acts as chairman of the BOT. Three sub-committees complement the work of the BOT: Corporate Governance, Internal Audit, and Risk Management.<sup>4</sup>

### Donations

Since its inception, LBF received 602.5 K PHP (12.6 K USD) from LBRB and 4.3 M PHP (89.6 K USD) from CORDAID of the Netherlands, which funded the initial technical assistance contract with ASA of Bangladesh. As part of the Unitus Capacity Building Grant, LBF was provided 7.2 M PHP (150 K USD), of which half has already been disbursed to date. Participating in the Gates Efficiency Project, LBF received 4.8 M PHP (100 K USD) from the Bill and Melinda Gates Foundation.

### Funding composition

As of June 2009, equity made up 40% of LBF's funding structure, deposits 35%, and debt 25%. Drawn from a diversified pool of national (60%) and international sources (40%), its debt reached 245 M PHP (5.1 M USD), offered on

mostly commercial terms. All debt is sourced in local currency, with a fixed to floating rate ratio of 9:1. Variable rate debt is linked to local prevailing interest rates.

### Management team

The management team of LBF retains its strong roots with the Perlas family. In his capacity as Senior Vice President for Microfinance and Finance (SVPMF), Vicente Perlas oversees and coordinates the microfinance operations, with the assistance of three Central Operations Officers (COOs) based at the head office (HO). Manuel Perlas, Ph.D., a retired Senior Social Sector Specialist at the Asian Development Bank, formally acts as president and oversees the Social Services Program (SSP), Management Information System (MIS), Administration and Logistics (AL), Knowledge Management and External Relations, Special Investigations Unit (SIU), and Human Resources (HR). Composed of the SVPMF and the president, the Executive Committee (ExCom) directs an HO with officers in charge of Operations, HR, Finance/Accounts, MIS, SIU, and AL. The Internal Audit (IA) team reports directly to the BOT's Audit Committee and administratively to the ExCom for its day-to-day activities. As SSP Coordinator, Bernardita Perlas is responsible for coordinating all projects and external partnerships under SSP, except micro-insurance. A 12-member Management Committee (ManCom) implements the directives of the ExCom.<sup>5</sup> Under a Relationship Agreement with Unitus, LBF was to hire a Chief Financial Officer (CFO), a Chief Operations Officer, and an IT Officer.<sup>6</sup> At the time of the rating, only the IT Officer had formally taken up these newly envisioned positions.

- Vicente Perlas, SVPMF, has 22 years of experience in rural banking with LBRB (which he currently runs as president) and 14 years of experience as a microfinance practitioner. A licensed medical doctor, Dr. Perlas also holds an MBA degree from the University of the Philippines (1975).

### Organization

The operations of LBF mirror ASA's decentralized organization, where the core of its credit activities take place in the network of branches (known as Units), Areas, and Districts. In total, 235 branches cluster into 47 Areas, which themselves group into one of nine Districts across the Philippines archipelago. Headed by a Unit Manager (UM), each branch relies on a collection of loan officers (called Account Officers or AOs) for loan collections and disbursements. The UMs in turn report to Area Managers (AMs) and on up to District Managers (DMs) to COOs.

<sup>2</sup> Both the Bureau of Internal Revenue and the BSP have accredited this external auditor.

<sup>3</sup> These BOT members include a Vice Chairman of Unitus, a former VP at the ADB, and a current Finance Director.

<sup>4</sup> External BOT members head all three sub-committees.

<sup>5</sup> The ManCom includes the President, SVPMF, and the newly hired Security Manager.

<sup>6</sup> Unitus had agreed to subsidize the salaries of these new officers for one year.

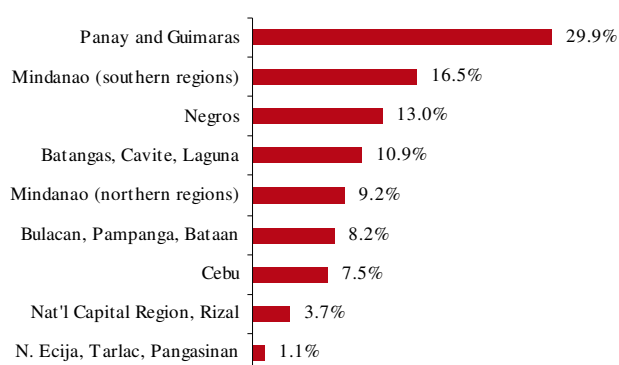
As outlined in the ASA Operations Manual, UMs approve loans of all sizes. Cash collection of savings and loan repayments take place during weekly group meetings. For large amounts (exceeding 500 PHP), the UMs handle both loan disbursements and savings withdrawals directly at the branches. Operating under a manual MIS, the branches send weekly reports to HO by courier. LBF adheres to a zero cash-on-hand policy; and all branches make bank deposits at the end of each business day.

Consolidation is done monthly at HO level using an in-house developed MS Excel Visual Basic tool. LBF currently pilots the accounting and loan tracking modules of an automated integrated MIS.<sup>7</sup> LBF also pilots two other MIS, one for its micro-insurance activities and one for personnel management.

## Market penetration

As of June 2009, LBF maintained a network of 235 branches across many areas of the Philippines (from its origins in the Visayas to central Luzon and Mindanao). With almost 30% of the outstanding loan portfolio, its base region (on the islands of Panay and Guimaras) accounts for the large bulk of LBF's reach. Future expansion focuses mainly on Central Luzon. Facing many of the largest and fast growing MFIs (including TSKI, TSPI, CARD, KMBI, NWTf and CCT), LBF operates in a crowded marketplace across the Philippines. LBF confronts the strongest competition from the microfinance markets of Luzon, Panay, Negros, and – to a lesser extent – Mindanao.

Outstanding loan portfolio per District - Jun. 2009



## Products and services

Derived from the ASA group lending model, LBF's IMP offers a basic set of financial products and services to its women members: one productive loan, one savings account, and one insurance product. Individual loans range from 1 K - 20 K PHP (21 - 417 USD) with an average disbursed loan of

<sup>7</sup> The software is developed by the local consultancy firm "Marsean software".

6,294 PHP (130 USD). Repayable in weekly equal instalments, loans carry a maturity of six months (24 weeks) at a flat rate of 3.3% per month - the equivalent of an effective interest rate (EIR) of 112.8% and 78.7%, with and without the cost of savings, respectively.<sup>8</sup> Each borrower must commit two co-guarantors (or co-makers) in order to access loans and pay membership and savings passbook fees (50 PHP). Loans incur an insurance fee equal to 1% of the principal amount. In addition, clients must save 50 PHP per week and keep at least 20% of the principal amount of the loan in the savings account. Excess savings can be withdrawn at any time, and active members without active loans must maintain a minimum deposit of 100 PHP. On top of this cash collateral, members can also contribute to voluntary savings. Subject a 500 PHP minimum, overall deposits earn 7% per annum, payable the last week of December (as determined by the lowest monthly savings balance). New members must save for at least four weeks before receiving loans.<sup>9</sup>

Besides financial products, LBF provides a variety of social services to its membership base (under the SSP), such as micro-insurance (covering accident, invalidity, death and medical)<sup>10</sup> and educational scholarships (available to the surrounding community as well).

## Networks

As a Unitus partner organization (since 2006), LBF benefits from capacity building, grants, and capital arranging services during a 3-year period (and optional two-year extension). LBF is also a participant in the Efficiency Project funded by the Bill and Melinda Gates Foundation conducted by Unitus. In the Philippines, LBF actively participates in the initiatives of MCPI and similar microfinance-oriented organizations.

## ■ Governance

Governance and Decision making is rated "c"

### Decision making

Although still family dominated, LBF's governance structure has positively started to evolve towards practices of good governance. Still, the two executive managers are active members of the BOT; and other managers focus on the implementation of their strategic decisions. Recent measures are very encouraging with the arrival of two

<sup>8</sup> In the piloted branches near Manila (Central Luzon), loans carry a flat rate of 2.5% per month, or an EIR of 88.4% (with savings) and 62.3% (without).

<sup>9</sup> This waiting period has been reduced to two weeks in the piloted branches.

<sup>10</sup> The micro-insurance product is offered in partnership with a local insurance firm: Seaboard-Eastern. Members can select between two coverage plans and pay an annual premium of 385 PHP for Plan A and 245 PHP for Plan B, respectively.

external and well qualified BOT members in 2008,<sup>11</sup> amendment of the by-laws (with clearer BOT responsibilities stated) and the set-up of three committees in 2009 (two of them are chaired by the two new members), leading to the creation of a code of ethics and conduct tackling potential conflict of interests. However, good track record of these committees and further balance in the BOT are still needed. Evaluations on each BOT and ExCom member will reportedly be carried in the coming year, as per the charter of the corporate governance committee. The infusion of new trustees has also strengthened the risk management and corporate governance skills of the BOT, complementing the existing expertise in the microfinance and legal domains, among others. Advanced knowledge of IT at the BOD level would also be useful to better face current challenges. The information communicated to the BOT has recently improved, with detailed information received sufficiently in advance and better formalized BOT minutes.<sup>12</sup>

The potential conflict of interests stemming from the overlap between the LBF and LBRB trustees is partially mitigated by the strong commitment of their common trustees to a shared vision and mission.<sup>13</sup> However, the related plans are not formalized in any document, which is necessary to ensure its good articulation and buy-in by all trustee members.

## Planning

Since LBF took the decision to slow down expansion in favor of testing its revised methodology and deepen current areas of operations in early 2009, growth targets were scaled back. Linked to the late realization of institutional projects, delays are also due to a planning process that could be better adjusted to the deepening strategy, by (i) having a more participatory planning process to ensure staff buy-in,<sup>14</sup> (ii) setting detailed targets in terms of active clientele and outstanding loan portfolio, and (iii) analyzing the level of competition and saturation of its areas of operation. Scenario analysis can also be useful to review a variety of future options and proactively adjust organizational needs.<sup>15</sup>

A stronger planning is required, notably in the realization of narrative plans in order to better articulate strategic

initiatives with operational and financial resources or constraints. Even though strategic initiatives are clearly listed with assigned responsibilities and deadlines into a clear and straightforward four-page document, their reliance on the ExCom and the lack of department action plan hamper their timely implementation. In addition, operational projects and resources necessary to carry out these plans could be better formalized (e.g. a narrative strategic plan and yearly operational plan.) to ensure greater staff buy-in and successful execution.

While historically successful in reaching its growth targets by expanding, LBF has experienced delays in the realization of some envisioned projects (IT, HR and product development). Challenges are nevertheless well-identified with the inputs of various external evaluations. To improve its planning capacity, LBF plans to set-up a corporate planning unit.

Precise financial projections and operational targets are available for the next three years through Microfin. LBF implements an adequate budgeting process with monthly tracking. Characterized by a complete analysis at the HO level, the process only includes a cost control analysis for branches, Areas, and Districts. Moreover, these projections do not take into account all future expenses, such as IT investments and the increased IA capacity.

## Management team

The management team still relies on the two most senior LBF managers (President and SVPMF, also BOT members) who compose the ExCom, controlling the main decisions and generating key initiatives. ExCom meetings are not yet formalized into minutes.

The ExCom heads a motivated and cohesive but relatively young ManCom. Its monthly meetings have not been detailed in elaborate minutes since February 2009. Reinforced with an IT manager, the ManCom still lacks higher-level CFO and Chief Operations Officer and could benefit from specific marketing and risk management skills to face the challenges of a growing MFI. Key-person risk exists but could be partially mitigated by the BOT initiative to set up a succession plan and on-going discussions on the remuneration package to attract higher level senior management. Promoted through the ranks, middle-management mainly focuses on operations and would benefit from stronger financial and administrative skills to better assist the ManCom (respectively the Finance and HR departments).

<sup>11</sup> External members are understood here as not part of the family or the BOT of LBRB. Refer to the institutional presentation for details.

<sup>12</sup> BOT minutes do not state the approval of previous BOT minutes.

<sup>13</sup> In the future, LBF's branches could potentially be transferred back to LBRB while LBF would focus on other social services than microfinance.

<sup>14</sup> The top-down approach was so far adequate for expansion.

<sup>15</sup> For example, options contemplated for potential future transformation (such as thrift bank, rural bank or a financing company) require thorough discussion and formalization into plans. In addition, potential regulatory changes to NGO MFIs (cf the Microfinance Sector section, footnote 1) could be better mitigated with scenario analysis.

## Human resource management

Human Resources Management has professionalized over the last years but continues to play catch-up with the network expansion. The HR department staff increased to eight staff and was re-organized to better cope with all the administrative work still handled at the HO level. Progress has been made on the documentation of staff contracts, job descriptions and evaluations (now performed for field and HO staff). However, the HR department currently faces monitoring challenges related to the decentralization of some HR functions (e.g. AO and UM training and promotions) to the field level. An adequate HR decentralization manual was developed and disseminated (while the HR manual still needs to be updated) but field staff reporting is not well systemized. The on-going set-up of a specific Personnel MIS (P-MIS) is expected to reduce the administrative burden of the HR department.

Following two years of rapid expansion and despite a well thought out strategy for HR movements (regional AO reserve pools, quick internal promotion), the HR department has experienced difficulties ensuring adequate staff capacity in all branches. In particular, UM skills could be enhanced. In this regard, HR could benefit from a training plan designed according to the results of staff evaluations. Efforts have been made to reinforce the staff capacity.<sup>16</sup>

Staff turnover has been reasonable over the last years (estimated at 11.1% in 2008 and 3.4% in 2007<sup>17</sup>). The remuneration policy has improved with a more performance-based compensation package and a standardized salary policy, both expected to foster staff morale. The planned set-up of an incentive system for field staff is also expected to have a positive impact.

### ■ Information

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Information is rated “b”

LBF has been using a well-designed and relatively efficient manual MIS that functions adequately at the field level with some computerization (MS Excel) at the HO level. So far providing necessary data for the management of the Units

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<sup>16</sup> Examples include (i) internal 2-day training conferences for all DMs and AMs every year (2007, 2008) on selected operational topics, (ii) the 2009 roadshow's 2-day conference that reached all DMs, AMs, and UMs throughout the country with key topics of LBF's vision/mission, expansion, compensation and benefits, monitoring and supervision, default prevention and management, and the code of conduct and discipline, (iii) basic supervisory training for all HO-based supervisors (close to 30 staff) by an external training firm, (iv) HR management for six staff by an external training firm in Cebu, and (v) 2 labor relations training sessions by an external training firm, one for key HR and SIU staff and another for the ExCom.

<sup>17</sup> Discrepancies in the data provided prevent the calculation of accurate staff turnover rates.

and the loan accounts, the MIS shows signs of reaching its limits: (1) very standardized, the manual system prevents LBF from offering multiple and/or more flexible products; (2) as PAR slightly increased over the last years, the required reports to manage delinquency more easily (e.g. PAR per AO) are now lacking; and (3) at the HO level, reports such as portfolio analysis by sector or generation are also lacking.

Financial information, relatively well-detailed from the HO to the field level, could nevertheless be improved. Monthly financial statements are available by branch and consolidated at HO (including a comparison with the budget), and relevant financial indicators are calculated. However, profitability cannot be accurately analyzed at each level since HO costs are not split by branch, Area, and District. Moreover, the accounting data does not fully comply with international standards: all deferred interests are included in the loan portfolio<sup>18</sup> and interests are accounted on a flat basis. Data is reconciled and produced timely each month at the expense of time-consuming computing tasks. However, inter-branch accounts have not been fully reconciled since the beginning of 2009.<sup>19</sup>

Improvements have been made in data security thanks to the hiring of an IT manager notably in charge with ensuring HO data security (e.g. set-up of anti-virus software and of a local network, implementation of regular back-ups). With a fully implemented automated MIS, a secured and access-restricted location of the server would greatly safeguard the security of the database. Paper data is securely stored and each member group has a duplicate copy of essential data.

LBF has planned to migrate to a computerized integrated MIS for several years. The accounting module will soon be finalized while the loan tracking system continues its piloting and still require refinement to ensure data reliability (embedded checks, audit trails) and user-friendliness. A high dependency on the current IT provider might be mitigated by current efforts to obtain access to the source code. Finally, better planning is necessary to avoid further delays in the MIS implementation.

### ■ Risk Management

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Risk Management is rated “b”

#### Procedures and internal controls

LBF's internal control system is satisfactory. According to the ASA methodology (which is inherently limited), the

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<sup>18</sup> Audited financial statements have not included deferred interest since 2007.

<sup>19</sup> As of June 2009, the unreconciled balance amounts to 3.9 M PHP, i.e. 80.6 K USD.

internal control system notably relies on clear procedures, multiple hierarchical checks and staff rotation. The rapid expansion in 2007-2008 has somewhat affected staff compliance, and LBF took adequate corrective and preventive measures such as conducting additional trainings (by HO and IA staff), disseminating circulars, taking sanctions based on the IA and SIU work and piloting an enhanced version of the methodology.<sup>20</sup> The long-awaited updates of the manuals (Operations, HR, Finance) and of the code of conduct could further improve staff compliance and ease the checks performed by a small HO team. Supervisory visits are performed by the operational department only. At the field level, minimum transportation equipment would facilitate controls performed by field managers (AM and DM).

The cash security risk has not fully faded, in spite of the adequate measures taken by LBF: no cash kept overnight in the branches; rotation of staff carrying cash; clear rules for cash transit from collection places and to the bank; cash in bank limited to the amount covered by the Philippine Deposit Insurance Company for rural banks. LBF still experience cases of robberies/aggression during cash transit. A better segregation of places to handle cash in the branches and security guards in the riskiest areas could mitigate the risk of cash robbery in the branches (no instance so far)

Finally, data reliability is adequate but could be strengthened with more formalized and systematic reconciliations (for bank and inter-branch reconciliations respectively).

## Internal audit

Although the IA team is being strengthened with new staff (eight staff currently and 11 planned at the end of the year) and reorganized in decentralized teams, its capacity will remain too tight given the increasing scope of IA work (HO and field) and further branch expansion planned in 2009 (from 235 as of June to 245 by the end of the year). Over the last years, IA understaffing resulted in less visits than those prescribed in the policy (36% of branches audited in 2008 instead of 100% yearly; 10/47 areas as of 05/2008). As a consequent, some branches have therefore not been visited over the last two years. Aware of these deficiencies, IA has refined the branch selection process and audit plan. IA scope was recently widened to the finance, HR, admin, and micro-insurance head office departments. Specific IT skills would be required to audit the future automated MIS.

IA reports are well detailed and include a categorization of findings by level of importance as well as management response. Still, these reports could be improved with

<sup>20</sup> Among other improvements, the new methodology (as piloted in some branches) includes a better segregation of duties.

systematic follow-up of previous recommendation and a categorization of findings by type of risks. IA could indeed be enhanced with a more sophisticated evaluation of risks and their evolution.

Previously reporting only to the BOT, IA has since then gained a satisfactory level of independence by frequently reporting to the audit committee (AC), chaired by an independent and seasoned member who already contributed to improving IA. However, current external auditors bring no additional support to internal controls.

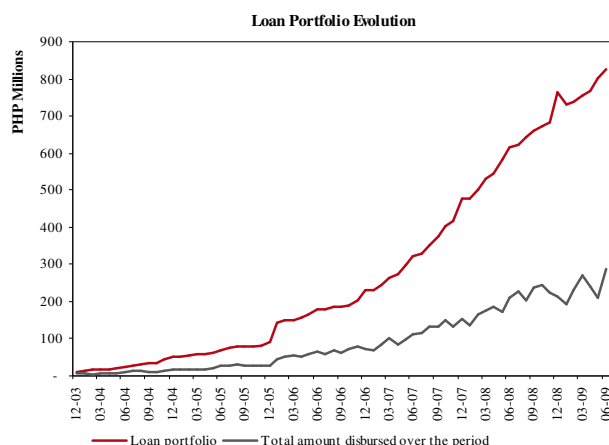
## ■ Activities

Activities: products and services **is rated “a”**

### Financial services evolution

Offering a single loan product, LBF has expanded rapidly since its founding. From 2004 to 2008, LBF grew its loan portfolio from 49.7 M PHP (884.3 K USD) to 764.3 M PHP (16.0 M USD), equivalent to a compound annual growth rate of 72.7%. This impressive growth derived from a deliberate strategy of geographic expansion, while existing branches only moderately grew in volume. In comparison, average outstanding loan per client remained relatively stable, growing from 58 USD in 2004, peaking at 88 USD in 2007, and stabilizing around 76 USD thereafter.

In 2009, loan portfolio growth (by only 8.1% from the end of 2008) dramatically slowed, in part, from a concerted effort to deepen the quality of the expansion. LBF intends to resume branch expansion in the second half of 2009.



### Financial services management

Based on ASA's individual liability scheme, the credit methodology works efficiently, despite the preponderance of manual processes for loan processing. Its main characteristics include:

- rigid and straightforward operations – allowing easy adoption of policies and quick expansion;

- simple loan applications (one-half page) – for fast approvals and minimal paper work;
- lending based primarily on character and savings/guarantees – with only cursory business/credit risk analysis (via the Members Information Sheet);
- strict compliance – enforced through group meetings and frequent staff follow-up;
- standardization – adapted to the local context and yet easy to monitor; and
- efficient loan repayment – ideal for small loan sizes.

LBF relies on an adequate delinquency management, ranging from quick follow-ups (in the afternoon) to branch team visits. This zero tolerance for past dues, however, has given rise to cases of silent delinquencies, which require continued monitoring/vigilance and stronger adherence to delinquency management policies to minimize.<sup>21</sup> UMs, AMs, and DMs have the necessary tools to monitor the performance of their regions. Field staff have been well-trained and exhibit a good compliance culture on the whole, although the recent expansion has taxed LBF's manual system of operations.

Overall, Planet Rating gains comfort from recent efforts to consolidate the loan portfolio and deepen the quality of the expansion process, such as

- slowing growth: maintaining credit quality and reinforcing culture of compliance;
- back-to-basics focus on clients: client exit surveys; and
- willingness to experiment and adapt: credit modifications within the ASA framework for new branches.<sup>22</sup>

## Credit risk

LBF continues to maintain an exceptional portfolio quality (PAR30 under 1%),<sup>23</sup> especially when compared to its Filipino MFI peers (around 4.5%). However, expansion into urban areas of Central Luzon will require a concerted effort to control PAR. Moreover, the true extent of silent delinquencies is difficult to measure but might nonetheless underestimate PAR.<sup>24</sup>

LBF neither tracks nor sets specific portfolio diversification targets, although geographic expansion contributes to a natural de-risking of the portfolio. Still, loans mostly fund short-cycle enterprises (e.g. small convenience stores, street/market vending of all sorts), and efforts to monitor

<sup>21</sup> Silent delinquency refers to the practice of loan officers making the weekly repayments of delinquent clients for fear of recording any past dues.

<sup>22</sup> The repayment analysis of clients takes into account the capacity to repay (after the repayment of other identified debt). However, LBF does not enforce a strict policy to prevent cross-indebtedness.

<sup>23</sup> Although overall portfolio quality is strong, one of LBF's branches showed deteriorating credit quality, with PAR30 of 18%.

<sup>24</sup> With staff rotations every six months, management can usually identify the most egregious cases of such delinquencies.

concentration risk could help management gain a global picture of the impact of these activities on the loan portfolio.

A formal loan write-off policy exists but has not been enforced, with instances of long, past-due loans. Nor are rescheduled loans allowed.<sup>25</sup> Clear rules regarding connected lending have been minimal and decreasing.<sup>26</sup>

LBF's cautious product launch (as evidenced by the shelving of the SME pilot loan), emphasis on maintaining portfolio quality (slowing of growth in H1-09), and well-managed branch network contribute to reducing overall credit risk.

## Credit risk coverage

With an adequate loan loss provisioning policy, LBF remains well covered for its credit risk. High portfolio quality along with rapid portfolio growth has resulted in comfortable provisioning. With credit risk coverage at 354% (as of June 2009), loan loss provisions cover anticipated losses sufficiently.<sup>27</sup> In addition, co-makers guarantees continue to control credit quality, although poor client attendance and concerns over drop-out have raised concerns about portfolio quality. Nonetheless, the 20% cash collateral, loan insurance, and micro-insurance all contribute to protecting the portfolio.

## Funding and liquidity

Funding and liquidity is rated "b"

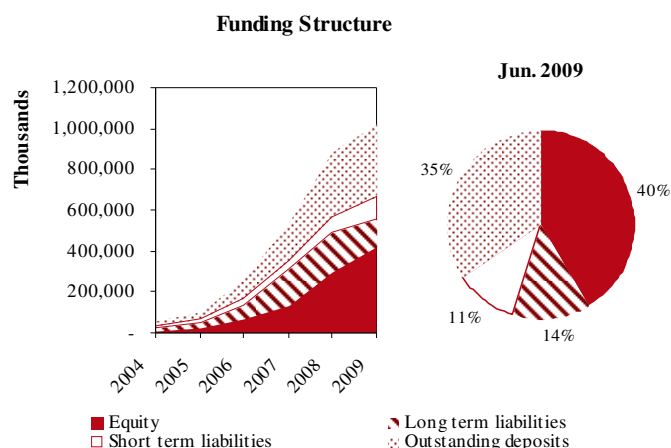
### Capitalization and funding strategy

LBF maintains a diversified capital structure and remains well capitalized. As of June 2009, equity made up 40% of the funding structure, debt 25%, and a sizeable savings component at 35%. In the most recent past, retained earnings have contributed to a greater share of the funding structure. Consequently, the Capital Adequacy Ratio has grown over the years (from 18.4% in 2004 to 47.7% in June 2009). Compliance with minimum capital requirements is ensured for the years to come. Leverage has correspondingly decreased, from 5.3x in 2004 to only 1.4x in 2009.

<sup>25</sup> In the aftermath of the devastation wrought by Typhoon Frank (in June 2008) that stormed through the Western Visayas, LBF instituted disaster management policies to allow for moratoriums of loan and savings collections in affected areas.

<sup>26</sup> By 2006, loans to staff were discontinued, although outstanding loan balances for 44 employees continues to amortize through payroll deductions. As of June 2009, these outstanding staff loans accounted for only 0.03% of the overall gross loan portfolio. Still, staff has access to lending from LBRB.

<sup>27</sup> Since 2007, loan provisioning has been based on an appropriate loan aging of the portfolio.



As identified by financial projections, funding needs for the next five year come to only 48.1 M PHP (1.0 M USD). Existing credit lines and equity more than adequately satisfy expansion needs in the near term. Nonetheless, LBF has not formulated a clear funding strategy. Still, successful relationships with domestic and international fund providers have been established, providing LBF with sufficient margin of negotiation. Funders generally view LBF as a transparent and reliable borrower, providing comprehensive financial reports in a timely manner. On the whole, LBF has given priority to domestic funding partners because of their more favorable terms over those from international sources.

### Liquidity risk

Currently, LBF faces no major ALM risks. Short-term portfolio assets and long-term financing liabilities mitigate maturity risk. With the current ratio (one-year) over 200%, LBF more than adequately covers maturing liabilities with its assets. On the flip side, this high coverage reflects the need to improve liquidity management. LBF continues to sit on idle cash, which currently covers over six months of operating expenses.<sup>28</sup> Due to the lack of refined limits, LBF maintains a high level of cash reserves to cover potential cash withdrawal of compulsory deposits in case of client exit.

In line with the ASA manual system for field operations, the finance department relies on a simple, but efficient method of managing liquidity at the branches, which produce weekly, monthly, semi-annual funding plans.<sup>29</sup> Through text messages, DMs and AMs determine cash needs within their respective areas.

Better treasury management will contribute to the efficient use of capital throughout the organization. Improvements could be made with:

<sup>28</sup> Best practice requires only three months of operating expense coverage.

<sup>29</sup> Above 250K PHP, branches transfer the excess funds from their bank accounts to HO.

- more formalized cash optimization policy that sets minimum and maximum cash targets;
- explicit contingency plan to manage cases of cash shortages;
- training for finance staff, many of whom lack formal training in accounting; and
- the long-awaited plan to hire a CFO to help consolidate and formalize funding raising, relationship management, and financial management activities overall.

### Market risk

Market risks are very limited. With all debt sourced in local currency, LBF faces no foreign exchange risk. Linked to prevailing local interest rates, variable rate debt leads to an open position of only 5.4% of Core Capital. Thus, interest rate risk is *de minimus*.

### Efficiency and Profitability

Efficiency and Profitability is rated “b”

#### Profitability analysis

With impressive Return on Assets (ROA of 22.1%), LBF continues to demonstrate a strong ability to conduct microfinance activities in a sustainable way, particularly when compared to local and international peers. This strong profitability derives, in part, from a high profit margin due to high portfolio yield (70.2%) and relatively efficient operations, with a relatively optimal use of available resources (asset deployment rate of 84.6%).<sup>30</sup>

With average outstanding loan per client of 77 USD, LBF enjoys moderate revenue quality with a small-sized loan product. Characterized by individual lending, the ASA methodology offers flexibility for the client, however. While boasting a large network and standardize financial services, LBF remains largely a one-product MFI: one loan, one savings plan, and one micro-insurance. The one loan product may result in higher client drop-outs, as LBF deepens its outreach and faces more competition, particularly in the urban areas.<sup>31</sup>

On the expense side, LBF has an operating expense (Opex) ratio of 37.9%, slightly higher than its Filipino peers (31.3% for the median MFI). In comparison to large Asian MFIs (Opex ratio of 14.1%), moreover, LBF has room for operational improvements. And efficiencies gains continue to be made. Reflecting sufficient efforts to control HO overhead costs, absolute productivity has gradually

<sup>30</sup> Data as of December 2008.

<sup>31</sup> According to a Unitus report, the drop-out rate has reached around 35% in the most recent past. A quarter of these drop-outs are due to delinquent member.

increased, from 143 (2006) to 195 (2009) borrowers/staff. Future improvements focus on vertical deepening, by

- increasing AO productivity (currently at 282);
- reducing time in client acquisition process;
- creating employee incentive plans; and
- implementing a computerized MIS to automate field operations and data collection.

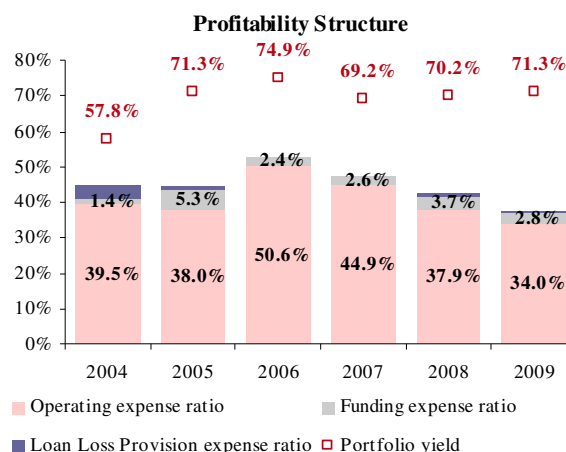
Efficiency gains, however, have to be balanced with a general need to invest more in the operations of LBF (e.g. hiring of key management staff).

Despite the cost of liabilities around 10%, the funding expense ratio runs low, at 3.7% (as of December 2008). Explaining this difference, LBF's funding structure has derived increasingly from equity over the recent past.

Having established a strong market penetration throughout the country, LBF still has ample room to grow. However, the success of its deepening strategy may require more dynamic product offerings, particularly to satisfy the market potential of urban clients that demand more choices and flexible products. Moreover, significant margins (i.e. comfortable cushion between its rich portfolio yield and Opex ratio) leave ample room to adjust interest rates to market conditions, while still remaining profitable. Encouragingly, operational efforts are being made to address market competition with the piloting of specialized Account Supervisors (at the Valenzuela branch). With on-going refinements of the lending policies, basic product offerings have been modified with the aim to increase market share and improve client loyalty.

As for micro-insurance (offered by many MFIs to attract clients), staff need a greater awareness of the competitive landscape. In addition, management needs to quickly resolve the delays in client claims from the outsourced insurance provider. Overall, LBF staff would benefit from a stronger orientation towards product branding and marketing, particularly in the ultra-competitive urban markets of Luzon, Cebu, and Mindanao.

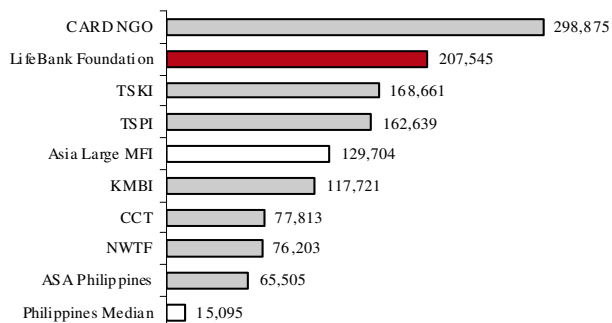
The profitability outlook for LBF is stable, recognizing its successful replication of the ASA methodology and the diminishing ability to produce even stronger ROAs. While not unique in applying the ASA methodology in the Philippines, LBF excels at standardizing the lending approach, scaling-up operations, and producing profitable returns. Nonetheless, room for improvements could be made in the following areas: reducing operating expenses; managing the proper implementation of a computerized MIS to improve staff productivity; building staff capacity; and addressing market competition.



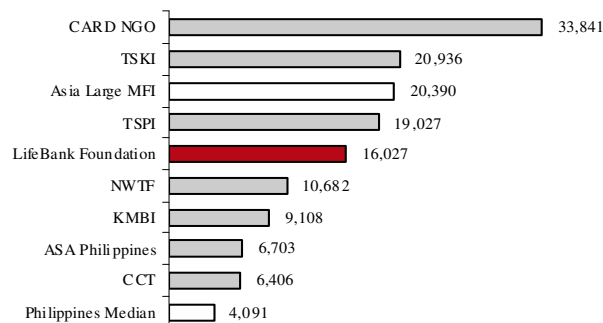
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

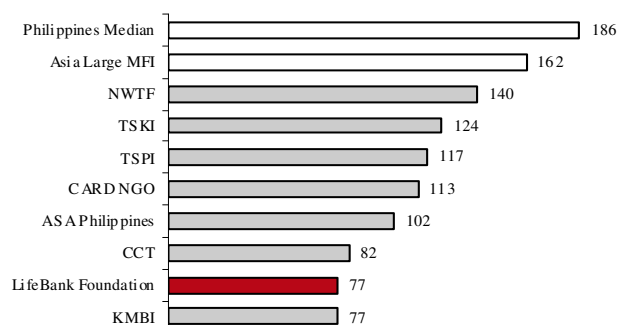
Active borrowers



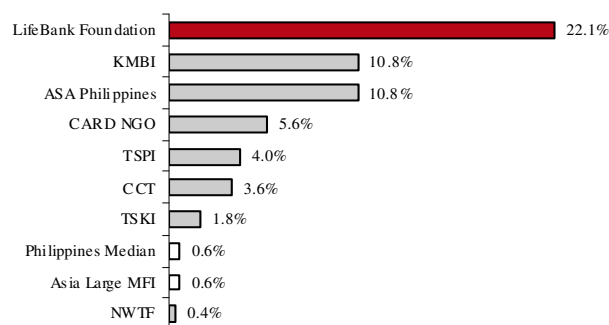
Loan portfolio ('000 USD)



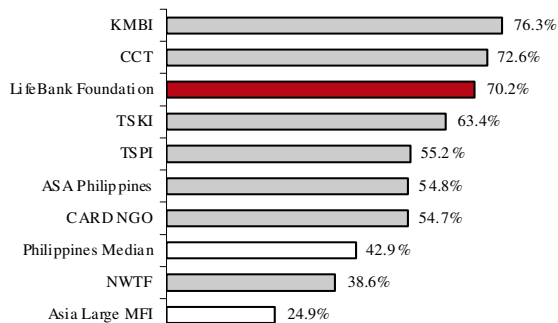
Average outstanding loan per client (USD)



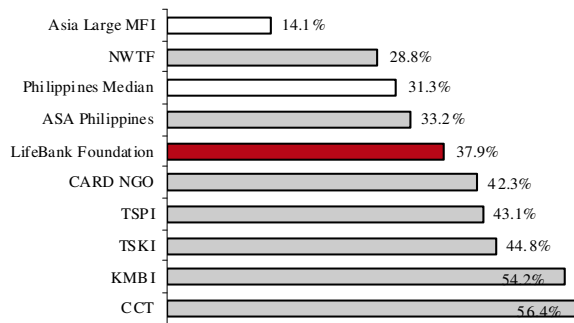
ROA



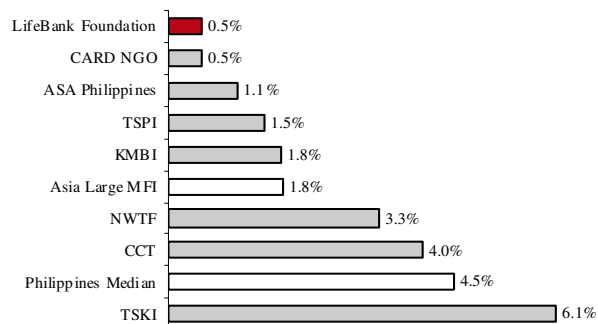
Portfolio yield



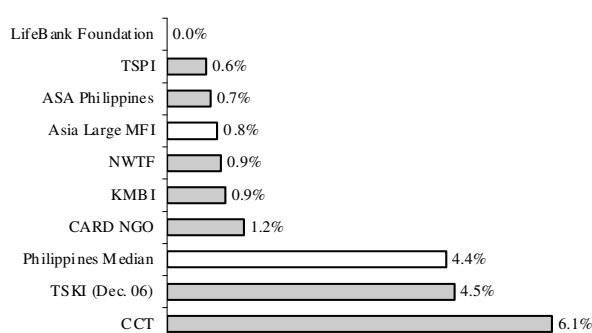
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Planet Rating data as of Dec 08 for Life Bank; MixMarket figures for Philippines MFIs as of Dec 2007, unless otherwise stated; MIX peer group: Asia Large MFI (Gross Loan Portfolio > 8 M USD). MIX Asia Benchmarks are for 2007.

Note: Life Bank's peer group in the Philippines include: CARD (Center for Agriculture and Rural Development), CCT (Center for Community Transformation), NWTF (Negroes Women for Tomorrow Foundation), KMBI (Kabaliakat para sa Maunlad na Buhay, Inc.), TSKI (Taytay Sa Kauswagan, Inc.), and TSPI (TSPI Development Corporation).

Data in USD, unless otherwise stated

## ■ Performance indicators

	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
<b>Loan Portfolio</b>						
<b>Loan portfolio evolution</b>						
Loan portfolio	884,312	1,703,965	4,703,678	11,496,801	16,027,237	17,084,364
Loan portfolio (PHP)	49,724,875	90,472,004	231,166,940	475,737,619	764,278,973	826,360,957
Growth	327.0%	81.9%	155.5%	105.8%	60.7%	8.1%
Active borrowers	15,252	25,852	61,524	130,667	207,545	223,601
Growth	262.5%	69.5%	138.0%	112.4%	58.8%	7.7%
Average outstanding loan per client	58	66	76	88	77	76
% of GDP per capita	5.6%	5.5%	5.4%	4.9%	4.4%	4.1%
Average amount disbursed per loan	93	113	126	143	123	130
% of GDP per capita	8.9%	9.4%	8.9%	7.9%	7.0%	6.9%
<b>Portfolio quality</b>						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.0%	0.1%	0.1%	0.1%	0.5%	0.5%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Credit risk coverage</b>						
Risk coverage ratio (PAR 30)	-	4,497.6%	2,063.4%	1,307.5%	370.4%	354.3%
PAR 30 net of loan loss provision / Equity	(19.1%)	(10.3%)	(9.6%)	(4.1%)	(3.2%)	(2.5%)
<b>Savings</b>						
Outstanding deposits	381,686	712,704	1,986,085	4,529,109	6,695,346	7,280,870
Outstanding deposits (PHP)	21,462,207	37,840,998	97,608,134	187,414,513	319,276,022	352,171,547
Growth	?	76.3%	157.9%	92.0%	70.4%	10.3%
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	15,974	27,354	66,542	136,396	220,139	240,138
Growth	210.6%	71.2%	143.3%	105.0%	61.4%	9.1%
Average outstanding deposit per saver	24	26	30	33	30	30
Voluntary savings	-	-	-	-	-	-
Cash collateral	24	26	30	33	30	30
<b>Staff</b>						
Total number of staff	172	277	498	740	1,050	1,147
% Credit officers	65.7%	64.6%	67.5%	66.2%	69.2%	69.0%
Turnover	11.5%	13.4%	9.3%	3.4%	11.1%	4.4%
<b>Profitability analysis</b>						
ROE	114.5%	110.6%	84.8%	72.5%	72.3%	68.9%
Liabilities / Equity	5.31x	3.17x	3.06x	2.92x	1.98x	1.42x
Core capital adequacy ratio	18.4%	27.0%	28.1%	28.7%	38.9%	47.7%
Total capital adequacy ratio	18.4%	27.0%	28.1%	28.7%	38.9%	47.7%
ROA	14.3%	23.3%	20.8%	18.3%	22.1%	26.0%
<b>Profitability structure</b>						
Total revenue ratio	63.7%	74.6%	78.0%	72.7%	71.6%	72.5%
Portfolio yield	57.8%	71.3%	74.9%	69.2%	70.2%	71.3%
Operating expense ratio	39.5%	38.0%	50.6%	44.9%	37.9%	34.0%
Cost per borrower	14	19	28	27	23	24
Staff productivity	89	93	124	177	198	195
Loan officer productivity	135	144	183	267	285	282
Average outstanding loan per client (USD)	58	66	76	88	77	76
Funding expense ratio	1.4%	5.3%	2.4%	2.6%	3.7%	2.8%
Cost of savings	7.1%	5.9%	6.2%	5.5%	5.7%	6.2%
Cost of borrowings	2.6%	12.4%	7.1%	6.4%	10.9%	11.1%
Loan Loss Provision expense ratio	3.8%	1.3%	0.0%	(0.1%)	1.1%	0.5%
PAR 31-365	0.0%	0.1%	0.1%	0.1%	0.5%	0.5%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	85.8%	85.5%	85.4%	86.2%	84.6%	79.6%
Revenue from investment as a % of financial revenues	0.4%	0.2%	0.2%	0.2%	0.2%	0.4%
<b>Liquidity</b>						
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	13.6%	11.2%	12.1%	11.1%	13.6%	13.7%
Current ratio (1 year)	208.8%	199.2%	206.2%	234.2%	221.7%	219.5%
Exchange rate 1 USD= xx PHP	56.2	53.1	49.1	41.4	47.7	48.4

## ■ Financial statements – PHP

Income Statement (PHP '000)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	17,745	48,068	127,465	222,637	418,116	272,786
Interest and fee income on investments	70	119	208	394	810	1,107
Interest and other financial expenses	1,152	5,214	8,792	15,861	35,787	21,117
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-	-
<b>Net financial income</b>	<b>16,663</b>	<b>42,974</b>	<b>118,881</b>	<b>207,171</b>	<b>383,140</b>	<b>252,776</b>
Fees and commissions on other financial services	-	505	1,139	4,901	3,324	1,392
Other operating income	1,718	1,603	4,015	5,944	4,522	1,903
Operating expenses	12,127	25,652	86,082	144,551	225,766	130,140
<i>Personnel expenses</i>	7,080	16,785	46,710	77,740	123,254	72,742
<i>Administrative and other expenses</i>	4,787	8,420	38,069	64,741	100,713	56,671
<i>Depreciation</i>	260	446	1,303	2,070	1,798	727
Non operating income (net)	-	-	-	-	-	-
<b>Gross operating income</b>	<b>6,254</b>	<b>19,431</b>	<b>37,953</b>	<b>73,464</b>	<b>165,220</b>	<b>125,931</b>
Net loan loss provision expense	1,177	909	-	(356)	6,802	1,916
<b>Net operating income</b>	<b>5,077</b>	<b>18,522</b>	<b>37,953</b>	<b>73,820</b>	<b>158,418</b>	<b>124,015</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>5,077</b>	<b>18,522</b>	<b>37,953</b>	<b>73,820</b>	<b>158,418</b>	<b>124,015</b>
Income Tax	-	-	-	-	-	-
<b>Net income before donations</b>	<b>5,077</b>	<b>18,522</b>	<b>37,953</b>	<b>73,820</b>	<b>157,944</b>	<b>124,015</b>
Donations	-	-	-	-	-	-
<b>Net Income</b>	<b>5,077</b>	<b>18,522</b>	<b>37,953</b>	<b>73,820</b>	<b>157,944</b>	<b>124,015</b>

Balance Sheet (PHP '000)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
<b>ASSETS</b>	<b>55,949</b>	<b>102,821</b>	<b>262,975</b>	<b>544,450</b>	<b>887,704</b>	<b>1,019,212</b>
Liquid assets	7,611	11,495	31,858	60,542	120,816	139,364
Net loan portfolio	48,030	87,868	224,623	469,550	751,290	811,455
<i>Gross loan portfolio</i>	49,725	90,472	231,167	475,738	764,279	826,361
<i>(Loan loss reserve)</i>	1,695	2,604	6,543	6,187	12,989	14,906
Interest receivable	-	-	-	-	-	-
Financial investments	-	-	-	-	-	50,000
Net fixed assets	146	1,896	3,152	10,354	10,228	10,599
Intangible assets	-	-	-	-	-	-
Other assets	163	1,562	3,341	4,003	5,370	7,793
<b>LIABILITIES AND EQUITY</b>	<b>55,949</b>	<b>102,821</b>	<b>262,975</b>	<b>544,450</b>	<b>887,704</b>	<b>1,019,212</b>
<b>Liabilities</b>	<b>47,079</b>	<b>78,186</b>	<b>198,127</b>	<b>405,699</b>	<b>589,491</b>	<b>597,526</b>
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	21,462	37,841	97,608	187,415	319,276	352,172
Borrowings	23,971	33,109	82,976	184,926	215,739	171,951
Subordinated debt	-	-	-	-	-	-
Other liabilities	1,646	7,236	17,543	33,358	54,476	73,403
<b>Equity</b>	<b>8,871</b>	<b>24,635</b>	<b>64,848</b>	<b>138,751</b>	<b>298,213</b>	<b>421,686</b>
Core capital	8,871	24,635	64,848	138,751	298,213	421,686
<i>Paid-in capital</i>	-	-	-	-	-	-
<i>Donated equity</i>	4,417	1,714	4,001	4,001	4,001	4,001
<i>Retained earnings</i>	4,454	22,921	60,847	134,750	294,212	417,686
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	30,685	67,451	170,244	321,895	596,002	764,802
Assets	35,623	79,385	182,898	403,712	716,077	953,458
Deposits	10,015	28,212	75,007	133,529	246,453	335,724
Borrowings and subordinated debt	16,942	28,540	58,042	133,951	200,333	193,845
Equity	4,435	16,753	44,741	101,799	218,482	359,950

## Financial statements – USD

Income Statement (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	315,583	905,322	2,593,606	5,380,315	8,768,070	5,639,637
Interest and fee income on investments	1,239	2,248	4,230	9,523	16,995	22,882
Interest and other financial expenses	20,490	98,199	178,905	383,295	750,474	436,569
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-	-
<b>Net financial income</b>	<b>296,331</b>	<b>809,371</b>	<b>2,418,931</b>	<b>5,006,543</b>	<b>8,034,591</b>	<b>5,225,950</b>
Fees and commissions on other financial services	-	9,515	23,181	118,437	69,700	28,784
Other operating income	30,552	30,197	81,697	143,638	94,831	39,339
Operating expenses	215,661	483,125	1,751,561	3,493,264	4,734,401	2,690,537
<i>Personnel expenses</i>	<i>125,906</i>	<i>316,136</i>	<i>950,428</i>	<i>1,878,679</i>	<i>2,584,696</i>	<i>1,503,887</i>
<i>Administrative and other expenses</i>	<i>85,126</i>	<i>158,592</i>	<i>774,615</i>	<i>1,564,550</i>	<i>2,111,998</i>	<i>1,171,628</i>
<i>Depreciation</i>	<i>4,629</i>	<i>8,397</i>	<i>26,519</i>	<i>50,035</i>	<i>37,707</i>	<i>15,022</i>
Non operating income (net)	-	-	-	-	-	-
<b>Gross operating income</b>	<b>111,222</b>	<b>365,959</b>	<b>772,247</b>	<b>1,775,354</b>	<b>3,464,720</b>	<b>2,603,535</b>
Net loan loss provision expense	20,924	17,112	-	(8,603)	142,639	39,616
<b>Net operating income</b>	<b>90,298</b>	<b>348,846</b>	<b>772,247</b>	<b>1,783,957</b>	<b>3,322,081</b>	<b>2,563,918</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>90,298</b>	<b>348,846</b>	<b>772,247</b>	<b>1,783,957</b>	<b>3,322,081</b>	<b>2,563,918</b>
Income Tax	-	-	-	-	-	-
<b>Net income before donations</b>	<b>90,298</b>	<b>348,846</b>	<b>772,247</b>	<b>1,783,950</b>	<b>3,312,141</b>	<b>2,563,918</b>
Donations	-	-	-	-	-	-
<b>Net Income</b>	<b>90,298</b>	<b>348,846</b>	<b>772,247</b>	<b>1,783,950</b>	<b>3,312,141</b>	<b>2,563,918</b>

Balance Sheet (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
<b>ASSETS</b>	<b>995,008</b>	<b>1,936,545</b>	<b>5,350,884</b>	<b>13,157,311</b>	<b>18,615,514</b>	<b>21,071,408</b>
Liquid assets	135,349	216,504	648,240	1,463,083	2,533,570	2,881,242
Net loan portfolio	854,165	1,654,926	4,570,534	11,347,272	15,754,843	16,776,202
<i>Gross loan portfolio</i>	<i>884,312</i>	<i>1,703,965</i>	<i>4,703,678</i>	<i>11,496,801</i>	<i>16,027,237</i>	<i>17,084,364</i>
<i>(Loan loss reserve)</i>	<i>30,147</i>	<i>49,039</i>	<i>133,143</i>	<i>149,529</i>	<i>272,393</i>	<i>308,162</i>
Interest receivable	-	-	-	-	-	-
Financial investments	-	-	-	-	-	1,033,711
Net fixed assets	2,595	35,705	64,128	250,223	214,480	219,130
Intangible assets	-	-	-	-	-	-
Other assets	2,899	29,410	67,982	96,733	112,620	161,124
<b>LIABILITIES AND EQUITY</b>	<b>995,008</b>	<b>1,936,545</b>	<b>5,350,884</b>	<b>13,157,311</b>	<b>18,615,514</b>	<b>21,071,408</b>
<b>Liabilities</b>	<b>837,250</b>	<b>1,472,563</b>	<b>4,031,392</b>	<b>9,804,225</b>	<b>12,361,869</b>	<b>12,353,380</b>
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	381,686	712,704	1,986,085	4,529,109	6,695,346	7,280,870
Borrowings	426,299	623,578	1,688,354	4,468,973	4,524,142	3,554,959
Subordinated debt	-	-	-	-	-	-
Other liabilities	29,265	136,281	356,953	806,144	1,142,381	1,517,551
<b>Equity</b>	<b>157,758</b>	<b>463,982</b>	<b>1,319,492</b>	<b>3,353,086</b>	<b>6,253,645</b>	<b>8,718,029</b>
Core capital	157,758	463,982	1,319,492	3,353,086	6,253,645	8,718,029
<i>Paid-in capital</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Donated equity</i>	<i>78,548</i>	<i>32,290</i>	<i>81,402</i>	<i>96,679</i>	<i>83,893</i>	<i>82,709</i>
<i>Retained earnings</i>	<i>79,210</i>	<i>431,692</i>	<i>1,238,090</i>	<i>3,256,407</i>	<i>6,169,751</i>	<i>8,635,320</i>
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	545,714	1,270,376	3,464,050	7,778,997	12,498,406	15,811,673
Assets	633,516	1,495,152	3,721,517	9,756,212	15,016,420	19,711,998
Deposits	178,110	531,340	1,526,211	3,226,900	5,168,226	6,940,826
Borrowings and subordinated debt	301,297	537,524	1,181,019	3,237,095	4,201,058	4,007,601
Equity	78,879	315,528	910,378	2,460,107	4,581,651	7,441,673

## ■ Formulas

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

## ■ Rating scale

Rating	Rating summary	
A++	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.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	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.	
A-	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.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B+	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.	
B	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.	SPECULATIVE INVESTMENT
B-	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.	
B+	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	
C	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	TECHNICAL ASSISTANCE REQUIRED
C+	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	
C++	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	
D	<b>High risk:</b> 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.	
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	