

Binh Minh Microfinance Programs, Vietnam

Binh Minh microfinance programs started in July 2003 under the financial support of Save the Children US and in collaboration with Vietnam Women's Unions and People's Committees. Originally managed by Binh Minh CDC (Community Development Consulting Co.), Binh Minh microfinance programs are now managed by the Centre of Small Enterprise Development Assistance (SEDA), a local NGO, in preparation to transform into a licensed MFI. The programs are spread in a network of three branches (including two regional offices) and supply credit and savings products to 4,868 active clients from 16 communes in the peri-urban districts of Hanoi (Dong Anh and Bac Ninh). As of March 2009, its staff of 26 monitored an outstanding loan portfolio of 503,926 USD and deposits of 150,891 USD.

GIRAFE Rating

Rating

C+

Outlook

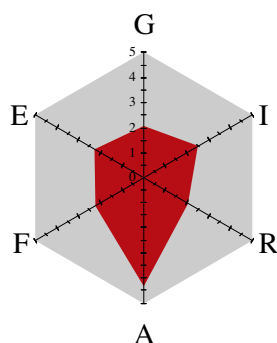
Stable

Date of the rating

April 2009

Valid until March 2010

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- Binh Minh microfinance programs have yet to reach operational self-sufficiency, a prerequisite to become a licensed MFI in Vietnam. Although steadily improving, ROA standing at (0.7%) in FY08 was still negative.
- Although competent in the running of its past operations, Binh Minh's management team has room to grow in its challenging role of overseeing and preparing an expanding organization to its planned registration as a licensed MFI.
- The oversight and strategic guidance of the board of directors could be improved with more technical skills and by avoiding overlaps with the management team.
- Based upon group lending, the credit methodology leads to well-informed and appropriate credit decisions, resulting in an excellent portfolio quality.
- Since SC/US disengagement from microfinance investing activities, Binh Minh now mostly relies on savings and limited concessional loans to finance its growth.
- The main challenges of Binh Minh will be to strengthen its governance, prepare to becoming regulated as a licensed MFI and successfully transition to its new automated MIS.

Outlook

Despite its excellent portfolio quality and continued progress towards sustainability, Binh Minh's performance is expected to remain stable, reflecting the prolonged process to qualify as a licensed MFI, a challenging competitive landscape, and delays expected in further economies of scale due to a costly expansion strategy.

Performance indicators

USD	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Assets	115,449	193,285	359,348	508,135	638,360	612,709
<i>Evolution</i>	219.6%	68.7%	95.0%	38.0%	36.6%	(2.0%)
Loan portfolio	96,110	188,435	351,408	475,148	548,618	502,926
<i>Evolution</i>	183.0%	97.5%	95.6%	32.0%	25.5%	(6.4%)
Active borrowers	1,340	1,877	3,642	4,068	4,425	4,338
Avg. outstanding loan per client	72	100	96	117	124	116
Outstanding deposits	5,522	3,762	35,071	99,002	132,619	150,891
<i>Evolution</i>	713.2%	(31.4%)	877.5%	175.5%	45.6%	16.2%
Active savers	300	105	3,911	4,643	4,971	4,868
Staff	20	23	22	25	26	26
ROE	(23.9%)	(23.7%)	(8.3%)	(3.5%)	(1.1%)	6.9%
ROA	(22.6%)	(22.4%)	(7.6%)	(2.9%)	(0.7%)	3.7%
Liabilities / Equity	0.07x	0.06x	0.13x	0.28x	0.76x	0.90x
Portfolio Yield	18.7%	18.6%	19.2%	21.2%	24.8%	28.2%
Operating expense ratio	51.0%	43.4%	26.2%	21.8%	23.3%	24.3%
PAR > 30	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%

Microfinance sector

The traditional market for microfinance services encompasses 24 million poor and low-income people,¹ out of a population of 86 million. From the early 1990's, the microfinance sector in Vietnam has developed with the support of both international NGOs and government initiatives. Operating in a crowded but fragmented market characterized by uneven competition, microfinance institutions (MFIs) fall broadly into three categories:

- **Formal institutions** regulated by the Law on Credit Organizations and supervised by the State Bank of Vietnam (SBV) - The Vietnam Bank for Social Policies (VBSP) and the Vietnam Bank for Agriculture and Rural Development (VBARD), both government owned development banks, dominate this sector, with services to an estimated 6.8 borrowers and 10 million households respectively.² In addition, over 900 People Credit Funds (PCFs) make up a smaller portion of the formal sector, serving an estimated 1.2 million clients.³ Together these regulated entities account for over 90% of the country's market share for micro-loans;
- **Semi-formal organizations** with broad social agendas and political affiliation – Government programs, specialized microfinance funds related to mass-organizations, and programs of international NGOs fall under this category. The largest ones include CEP Fund, TYM Fund (belonging to the Vietnam Women's Union - VWU), and the VWU itself. While not subject to prudential regulation, this market segment serves an estimated 285,000 borrowers; and
- **Informal initiatives** making up the rest of the market – This category includes various types of financial assistance given unofficially, such as aid from family, friends, moneylenders, and traditional structures.

Regulation of the microfinance sector in Vietnam has slowly but gradually improved, yet lacks a clear roadmap to encourage the industry's growth and sustainability under market-led principles. Nonetheless, efforts to formalize the sector continue, in particular with two SBV Decrees over the past four years (Nos. 28 and 165) and a related circular on microfinance. These new regulations allow for licensed and non-licensed MFIs⁴. Some MFIs have already applied for

their license. **Licensed MFIs** will be able to mobilize and intermediate voluntary savings, require a minimum capital of 5 billion VND (300,000 USD), and must have at least a 25% ownership stake from a socio-political organization as its largest owner. Foreign ownership cannot exceed 50%. Additional requirements include professional staff (as determined by SBV), a business plan, audited financial statements, and an organizational chart. **Non-licensed MFIs** can only mobilize compulsory deposits up to 50% of their equity but cannot borrow from international sources. Still, these regulations fail to address such areas as prudential norms and reporting requirements.⁵

Constrained on various fronts, the sector's commercializing faces numerous challenges, most notably from the slow deregulation of interest rates and subsidized lending from the large formal institutions. Financial institutions cannot lend at interest rates which exceed 150% of the prime rate published by the SBV.⁶ While semi-formal organizations and regulated MFIs under Decree 28/165 will not be subject to this cap, the predominant market share of formal institutions places an effective ceiling on interest rates for the entire sector. These economic distortions create uneven competition that greatly impedes the development of a healthy and sustainable market-led financial sector for the poor. Nonetheless, recent reforms have begun to introduce market discipline into the sector, most notably efforts at VBSP to professionalize, manage costs, and align interest rates more closely with market signals.

In February 2009, the SBV proposed additional changes to the status of semi-formal organizations and has supported the development of a Vietnam Microfinance Association to promote the sector's growth. Established in 2004 to advance the interest of the sector and its members, the Microfinance Working Group plays an important role not only as a network to facilitate information sharing but also as an advocate of favorable legislative initiatives. The group currently counts more than 50 MFIs as members.

In terms of funding, the formal microfinance sector enjoys the backing of the Vietnamese government, which channels low-cost funds to meet an array of social objectives. Meanwhile, various international NGOs (such as ActionAid, Save the Children (SC), SNV, and Plan International, among others) support the semi-formal sector. Specialized funds, such as CEP and TYM, have received strong support from their founding mass-organizations but have also relied on funds from NGOs and donors such as IFAD, Oxfam America, the Belgium Cooperation and AusAID.

¹ Or 5.4 million low-income households. Vietnam Industry Assessment, Banking With The Poor and SEEP Networks, August 2008.

² According to the MixMarket (VBSP) and corporate website (VBARD). With broad outreach, VBSP engages in directed-lending at low interest rates, enjoys a tax-exempt status, and is guaranteed by the Government.

³ As of December 2007. These PCFs began operation in 1993 as savings and credit cooperatives with initial support from CIDA.

⁴ So far, three erstwhile semi-formal organizations have applied for this transformation: CEP, TYM Fund, and one of the M7 NGOs. Other semi-formal organizations can operate as non-deposit taking MFIs or chose to transform to social funds.

⁵ See Planet Rating's initial comments on the Vietnam Microfinance Industry Note, December 2007.

⁶ At the end of 2008, this prime rate stood at 8.5%, capping the maximum lending rate to 12.8% p.a.

Political & economic environment

A marked slowdown in 2009

Strong inflation prompted implementation of tight fiscal and monetary policy in 2008 with economic growth slowing substantially in this context. Since the Lehman Brothers bankruptcy and the onset of the world economic and financial crisis, expansionary economic policies have, however, been adopted. Despite this policy shift and the easing of inflation, GDP growth could weaken further in 2009. Rising unemployment and sagging confidence will continue to undermine consumption. Investment, particularly from abroad, is moreover expected to slump as a result of the credit crunch and increasing aversion to risk. And exports could drop with the economies weakening in industrialised countries (the market for 60% of Vietnam's sales abroad) and emerging Asia. In this context, corporate payment behavior could deteriorate.

Significant financial deterioration

The fiscal deficit remained large in 2008 and is expected to widen in 2009 with the implementation of a fiscal stimulus and a drop in oil revenues from production shortfalls at the White Tiger oil field. And the expected increase in public sector debt - with half denominated in foreign currencies - will expose it to exchange rate risk. The current account deficit moreover widened in 2008 due mainly to a slowdown of exports, an increase in imports, particularly capital goods, and a surge in raw material prices. This deficit began to narrow in 2009, with commodity prices coming down again, and imports of capital goods and consumer goods declining due to the slowdown of domestic demand. Financing needs will nonetheless remain large with 30% covered by foreign direct investment. While dependent on financial markets, Vietnam was exposed to considerable volatility of portfolio investments in 2008, when the stock market index fell over 60%. This volatility is expected to persist in 2009 while a low level of foreign exchange reserves leaves the country with little capacity to cope with sudden capital flight.

Exchange rate risk will thus bear watching. After depreciating in 2008, the dong has continued to trend down, trading well below official parity on the black market. The de facto exchange rate peg thus does not appear very sustainable. With its extensive dollarization, the banking system has moreover been very vulnerable to exchange rate risk. Despite recent progress, Vietnamese banks are still very weak due to a high proportion of non-performing loans in conjunction with a lack of transparency and oversight.

Assets

- The economy benefits from a quality and low-wage workforce attractive to foreign investors.

- Participation in ASEAN and admission to the WTO in January 2007 attest to Vietnam's good diplomatic and economics relations with its main trading partners.
- The poverty rate eased from 58% to 14% in 1990-2007.
- The opening of the market to foreign banks, privatization of state-owned banks, and plans to strengthen the Central Bank's independence all augur well for the financial sector's future development.
- The economy has tended to diversify, particularly with the growth of tourism and financial services.

Weaknesses

- Vietnam's specialization is still overly focused on price competitiveness and dominated by low-end products.
- The civil service and legal systems notably continue to lag behind the major Asian economies.
- Inadequate and dilapidated infrastructure (electricity, roads, rail network, and ports) undermines the country's growth potential.
- With the public sector accounting for 31% of GDP, economic reforms and restructuring remain unfinished.
- Social and geographic inequality has been increasing, particularly between urban and rural areas.

COFACE Country Rating: **B** (with negative implication since June 2008) - Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behavior. Corporate default probability is appreciable.

COFACE Business Climate Rating: **C** - The business environment is difficult. Corporate financial information is often unavailable and when available often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Intercompany transactions run major risks in this difficult environment.

(USD billions)	2006	2007	2008	2009 (f)
Economic growth (%)	8.2	8.5	6.2	3.0
Inflation (%)	7.5	8.3	24.0	15.0
Public sector balance (%GDP)	-2.9	-5.4	-4.7	-6.8
Exports	39.8	48.6	62.0	49.3
Imports	42.6	58.9	76.6	60.0
Trade balance	-2.8	-10.3	-14.6	-10.7
Current account balance (%GDP)	-0.2	-7.0	-11.5	-7.6
Foreign debt (%GDP)	33.2	30.7	27.4	23.6
Debt service (%G&S exports)	4.8%	4.7%	4.7%	6.0%
Foreign currency reserves (in months of imports)	3.2	4.0	2.9	4.4

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

Institutional presentation

Legal form, supervision and audit

Binh Minh microfinance programs (Binh Minh MP) started in 2003 and have been implemented both by Binh Minh Community Development Consulting Company (CDC) since 2004 and by the Centre of Small Enterprise Development Assistance (SEDA) since 2007. These programs were financed by Save the Children US and first implemented based on successive memorandum of understanding signed in 2003 and 2006 between SC/US, Hanoi's and Dong Anh district's Women Unions as well as Dong Anh People's Committee. Binh Minh CDC was the implementing and supporting agency of these microfinance programs based on service contracts signed with SC/US since 2004. A new memorandum of understanding was signed later in 2007 between the Centre of Small Enterprise Development Assistance (SEDA) and Entrepreneurs Du Monde (EDM).

Binh Minh CDC was established in July 2004, is regulated under the Enterprise Law. It has been involved in market survey, investment, business consultancy and, until recently, microfinance. SEDA was established in April 2007 as an NGO under a registration with the Ministry of Science and Technology⁷. SEDA is involved in research, market surveys as well as pilot projects and experience sharing in microfinance and business development services.

Aiming to enhance access to commercial funding, all Binh Minh programs are being transferred to SEDA, which as an NGO provides the legal footing under which to apply for a licensed MFI under SBV Decrees 28/165. While not currently meeting the legal conditions to become a licensed MFI, SEDA nonetheless can raise non-refundable funds from domestic and foreign sources to provide microfinance services. SEDA submits quarterly operating and financial statements to the Vietnam Union of Scientific and Technical Associations (VUSTA), which must approve grants made to the microfinance programs managed by SEDA.

Over the period 2004-2008, the Auditing and Accounting Financial Consulting Company Ltd. (AFC) has provided audited financial statements mainly regrouping 1) the assets of the Binh Minh Microfinance Programs implemented by Binh Minh CDC and SEDA, 2) the liabilities due and donations received by Binh Minh CDC and SEDA to implement the different programs, and 3) the charter capital of Binh Minh CDC recently transferred to SEDA. For the financial year under review (running from January 1st

through December 31st), AFC fully certified the financial statements under the national accounting standards.

In January 2009, all staff contracts were transferred to SEDA. Memorandums of understanding have been progressively re-signed between SEDA and the People's committees.

Ownership

Binh Minh CDC and SEDA, the two Binh Minh microfinance programs implementing entities, are not the owners of the funds received by international NGOs for the different Binh Minh programs. The funds are owned by the People's committee (cf. section on 'donations').

Binh Minh MP, previously governed by the Board of SEDA and Binh Minh CDC⁸ are now governed only by the BOD of SEDA (6 members). The two BOD share three common members including their president and vice president (respectively Dong Anh Woman's Union Chairperson and Dong Anh people's committee secretary), all reelected in 2008 for a term of five years. Binh Minh MP's CEO and CFO seat as members of the board of SEDA with voting rights. Binh Minh CDC board has historically met at least quarterly and has recently combined meetings with its counterpart at SEDA. After its restructuring, both Binh Minh CDC's and SEDA's boards plan to report to a Center Council, made up of seven members, expected to also include members of the Management Team of Binh Minh MP.

Donations

Since its establishment, Binh Minh MP has received the bulk of its donations from SC/US, for a total of 6.5 M VND (400 K USD). SEDA recently received authorization by the Hanoi's people's committee to use these donations for on-lending. More recently, SEDA has received donations from Entrepreneur du Monde (1,220 K VND; 64 K USD) and City Group Foundation (295 K VND; 10 K USD).

Funding composition

As of March 2009, Binh Minh MP's funding structure took the following form: 52% equity, 25% deposits and 23% debt. Sourced in US dollars, outstanding interest-free Kiva loans of 142 K USD account for the debt portion of its current funding structure. SEDA also recently received an interest-free EUR loan from Babyloan.

⁷ SEDA operates under the Decree N081/2002/ND-CP, which provides instructions for implementing various articles of the Law on Science and Technology.

⁸ The BOD of Binh Minh CDC is made of 4 members representing Binh Minh CDC's owners.

Management team

The management staff working on the microfinance programs comprises the Managing Director (MD), Vice Director (VD), Microfinance Project Director (MPD), Chief Accountant (CA), Finance Manager (FM), and Human Resources & Administration Manager (HRM). The team is only involved in the microfinance programs now under SEDA⁹, with the notable exception of the VD managing other activities at SEDA and of the MD the entire SEDA/Binh Minh CDC activities.

The MD, Mrs. Dinh Thi Anh Tuyet transitioned into her current role via microfinance work with SC/US. Prior to this position, she has worked in community development and microfinance, in various capacities as project manager, finance/accounting, and training. She graduated from the National Economics University of Hanoi, with a focus on Banking Finance. Currently, Mrs. Tuyet pursues a Master of Business Administration degree (on-line) through Leipzig University.

Organization

Microfinance operations (Binh Minh MP) are now managed by SEDA. SEDA also focuses on microfinance project development while Binh Minh CDC currently only provides business consulting.

Binh Minh operates out of three branch offices (in two regions), centralized through a head office (HO) in Hanoi. The Bac Ninh and one of the Dong Anh branches also act as regional offices, which include an internal controller/credit supervisor, and an accountant. Branch Managers (BMs) oversee their respective offices and a pool of three to five Loan Officers (LOs).¹⁰

Where HO authorizes all property procurements of Binh Minh, the branches approve all loans based on lending guidelines established by HO. LOs process loan applications and collect repayment at the weekly meetings with group leaders from the same cluster. Quarterly cluster meetings bring together all the clients in one area. Only BMs can disburse loans and attend the weekly group meetings, as needed, for such purposes. Otherwise, BMs coordinate the LOs from the branches and act as the office cashier.

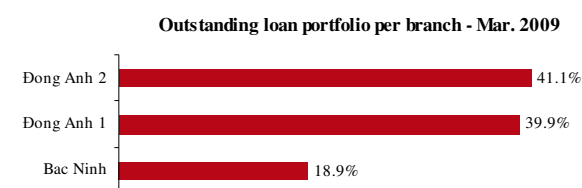
All branches operate through a manual system of record-keeping; and a computerized MIS currently is being piloted at one of the branches in Dong Anh. Developed in-house by an Australian volunteer, the computerized MIS relies on a web-based PHP general-purpose scripting language, with database managed on MySQL.

⁹ SEDA has six other staff not involved in the microfinance programs.

¹⁰ For Binh Minh, LOs are known as Credit Officers.

Market penetration

As of March 2009, Binh Minh maintained a network of three branches (with two regional offices) covering 16 communes in the peri-urban districts of Hanoi. A fourth branch (as the third region) in Quang Binh province (Central Vietnam), currently piloted by the research department of SEDA, is expected to be fully managed by SEDA as a microfinance program in the middle of 2009 with the acquisition of the currently donor-funded microfinance operation (Goodwillan and the Ford Foundation). Its main competitors in the region include VBSP, VBARD, and VN Insurance Corporation, which all have nation-wide coverage throughout Vietnam and TYM Fund, covering Northern Vietnam.



Products and services

Binh Minh uses a group lending methodology to provide loan products and services. Credit is provided based on group guarantee method (5-7 people per group), requires no collateral, but the borrower must maintain compulsory savings (*Mang Non*). Binh Minh offers three group loan products, all characterized by a residency requirement (12 months), weekly repayments, and flat interest rates. The average effective interest rate (EIR) is 28.8%.

- **General Loan:** With a term of 25 weeks, approved amounts reach 348 K - 4,060 K VND (20-225 USD). Average disbursed loan size runs about 2,240 K VND (125 USD). After two good loan cycles (during a 12-month period) in which the last round saw at least 20 repayments, clients can borrow at higher amounts, limited by 150% of the previous weekly repayments. For this service, Binh Minh charges a monthly interest rate of 1.3%, equivalent to an EIR of 30.3% (and 43.2% including the cost of savings).
- **Emergency Loan:** In the range of 400 K - 3,000 K VND (22-68 USD), this multi-purpose loan has flexible terms of 2 to 10 weeks and can be taken out within 24 hours from the time of loan application. Costing 0.5% per week (EIR of 46.6%), this loan averages 1,700 K VND (95 USD) per disbursement. Only those clients with existing short-term General Loans can qualify for this product. No more than 50% of members in each group can take out this loan at any given time.
- **Medium Loan:** Extending 50 weeks, this financial product has disbursements of 654 K - 9,810 K VND (36-543 USD), averaging 5,088 K VND (285 USD). Only those clients having already taken part in two General Loan cycles can qualify for this product, which runs to

1.22% per month (EIR of 28.6% and 41.3%, without and with the cost of savings, respectively). General and Medium Loans simultaneously outstanding are also possible. Two successful loan cycles (in which the last one saw at least 40 repayments) entitles the client loans of higher notional amounts, limited by 130% of the previous weekly repayments.¹¹

For its financial intermediation, Binh Minh requires a minimum weekly deposit of 5 K VND (0.28 USD), which collects interest at an annual rate of 9.4%. Clients can dip into this reserve once a month, so long as the savings balance remains above 300 K VND (17 USD). If savings are drawn below the minimum threshold, the client must henceforth begin borrowing from the first cycle as a new client.

Open to the general populace, Binh Minh's voluntary savings¹² plan (*Cay tre*) allows flexible deposits and withdrawals throughout the year. Minimum deposits of 1 K VND (0.06 USD) are allowed, although balances below 100 K VND (5.6 USD) do not collect interest, which currently run to 7.2% per annum.

Networks

Binh Minh CDC and SEDA belong to the Vietnamese Microfinance Working Group.

■ Governance

Governance and Decision making is rated “c”

Decision making

Because Binh Minh CDC was not legally eligible (because of ownership rules) to apply for an MFI license, its leadership timely established SEDA as the umbrella organization under which the Binh Minh microfinance programs could meet sufficient legal conditions to operate under SBV Decrees 28/165. The organization has set a two-year timeframe in which to qualify as a licensed MFI.

The Board of Directors (BOD) and the MD share a common vision to consolidate and expand the operations of Binh Minh MP. However, the specific details of how best to achieve these goals have not been formally articulated to the BOD. Basic portfolio and financial information is available to facilitate decision-making. As Binh Minh consolidates and expands its operations, more relevant, reliable, and

analytical monitoring information will greatly enable meaningful decision-making.

As the MD and VD of Binh Minh sit on the BOD of SEDA, the overlap of senior management on the BOD creates inherent conflicts of interest that limit the effective role of an independent board in projecting a strategic vision.¹³ In addition, the joint board meetings between SEDA and Binh Minh and the non-formalization of related decisions could potentially obscure the practical distinctions between the two boards. This fusion of board and management structures has not significantly hampered decision-making yet but is clearly not ideal for an effective exercise of meaningful ownership at SEDA, in general, and Binh Minh, in particular.¹⁴

Although possessing diversified backgrounds and skills in development, socio-political organizations, human resources management, finance and business, board members still lack some skills in risk management, finance, and microfinance to effectively oversee Binh Minh's restructuring and growth. With strong input from the management, the BOD does not project sufficient independence of thinking to provide adequate guidance during the restructuring. Better formalized board minutes (e.g. highlighting decisions) and clear guidance for follow-up would greatly foster a systematic and efficient control over the implementation of the decisions as well.

Planning

By 2010, Binh Minh hopes to serve 15,000 active clients as a licensed MFI in Vietnam. As of March 2009, the organization served 4,868 clients and aims to reach over 7,000 clients by year end, according to most recent projections. This optimistic forecast translates into a 44% growth in the number of clients in 2009 and over 100% in 2010, where the growth rates in 2007 and 2008 have been around 10%. It should be noted that a large part of the growth is expected to come from the absorption of another microfinance program.¹⁵ However, the planning and budgeting forecasts rely upon a confluence of positive factors to realize: secure funding, absorption of the Quang Binh program, capable human resource staffing, and

¹³ Although such an overlap is reportedly common in the local context, this is not in line with international best practices.

¹⁴ After restructuring, Binh Minh will have an added layer of oversight, the Center Council, which will oversee SEDA and Binh Minh CDC as well. The Center Council expects to have seven members, three of which also will sit on the current Management Board of Binh Minh.

¹⁵ The NAPA Microfinance program is managed by the Quang Binh Women's Union and operates in 4 districts with around 10,000 clients and 1 M USD loan portfolio.

¹¹ Exact rates on loans vary slightly per branch, depending on the level of market competition.

¹² Binh Minh collects voluntary savings from its members, in addition to compulsory savings. This is reportedly tolerated by the SVB, especially as total deposits did not exceed 50% of equity as of March 2009 (46.8%).

ultimately regulatory approvals, which all ought to be more conservatively analyzed and simulated in different scenarios.

Three-year financial projections have been updated in January 2009 but need to be refined and proof-checked (e.g. on profitability forecasts, funding needs, expansion to Central Vietnam) in order to strengthen planning. The tracking of targets at the regional level could be more actively pursued. Produced yearly, the budget is tracked on a quarterly basis (only for cost items but not on revenues and ratios). Because of its links to financial projections, the 2009 budget could also be better refined as well.

The planning process extends for six months and is participatory and bottom-up, ensuring the good communication and buy-in of strategic goals among staff members. The preparation of policies and strategic/operational plans is based on collecting suggestions from various levels. Staff have a general understanding of these plans, which are also regularly reviewed, evaluated, updated as needed. In general, existing organizational structure and management approach encourage a sense of responsibility, work efficiency, and appropriate coordination between staff and departments. Clear action plans and regular follow-ups by departments are carried out. On the whole, however, the outdated business plan greatly hampers the planning process overall.

Management team

Although sufficiently experienced at Binh Minh since its establishment in 2004, members of the MT still assume over-lapping roles (within the organization and the general SEDA structure) that are typical of small MFIs. For example, the MD handles treasury and financial planning. Recently transitioning to operations for SEDA, the VD covers MIS/IT for Binh Minh, while the new MPD helps out with Internal Controls until the new Internal Controller has been trained. The FM oversees finances for both entities. These multiple roles facilitate communication between departments, especially in the absence of a well-defined division of labor. Dominating this structure, the MD concentrates most of the decision making authority. Hence, key-person risk poses a concern, however partially mitigated by overlapping roles and responsibilities of the MT overall.

While possessing backgrounds in microfinance, community development, and socio-political organizations, the MT has room to grow in carrying out Binh Minh's strategy and goals for the coming years, particularly in areas of finance and planning. Over half of senior managers have recently been promoted and face a steep learning curve, particularly in

efforts to consolidate the operations of SEDA/Binh Minh and implement the expansion plans effectively. Their ability to execute plans and adjust operational strategies to accomplish defined objectives will be greatly tested by the current challenges (cf. the planning section).

As promoted from the MT to field staff, a culture of teamwork, communication, cohesiveness, and respect pervades Binh Minh. Organized regularly, MT meetings are documented in minutes and result in the update of action plans, allowing for smooth internal communication and important follow-up of decisions taken.

Human resource management

Administration of human resources (HR) runs professionally for the current size and operation of Binh Minh. In its commitment to strengthen HR, the MFI has recently upgraded the admin officer position to an HR & Admin Manager. The HR management benefits from the following:

- Standardized and well-organized recruitment process;
- Quarterly evaluations that help to identify the training needs and feeding the training plan;
- Training Plan that contains a good mix of internal and external trainings (although some training projects have yet to be implemented) allowing Binh Minh to train a credit staff to full working productivity within 6 months.
- Adequately motivating incentive system.

Despite raising salaries in the most recent past to keep pace with inflation, Binh Minh has recorded a moderate to high staff turnover (7.8% in 2008, 15.4% in 2009). However, Binh Minh enjoys good staff morale overall, thanks to sufficient remuneration, effective promotion mechanisms, and good team spirit reinforced by annual meetings (in June). Nonetheless, the current restructuring has magnified certain weakness in HR management, such as an out-of-date HR manual (although updates are planned); storage of staff contracts inadequately secured; and lack of job descriptions for all positions, particularly the newly formed Internal Controller. These weaknesses could limit the ability of Binh Minh to scale up operations and improve much needed efficiency.

Information

Information is rated "c"

In its current operations, Binh Minh administers a sufficiently well-designed manual MIS for loan/savings tracking and accounting, however time-consuming for operational and accounting staff. The organization produces reliable client and loan portfolio information in a timely manner. Binh Minh consolidates financial information monthly at the regional level, but only basic indicators (e.g.

loan portfolio and number of clients) are calculated at the branches. While producing adequate financial information, Binh Minh does not record interest receivables¹⁷, limiting its ability to monitor profitability with year-end targets. At its current size, indicators and information for portfolio management and financial analysis is sufficient to identify weak branches for targeted interventions (PAR, profitability, and staff productivity ratios are available).

Basic systems are in place to ensure data security, although additional procedural checks would greatly protect the integrity of the MIS. Additional efforts to secure loan documents and back up data storage would greatly improve data security, which appears uneven from the branches to the head office. Client loan documents are not properly secured, stored, or catalogued for easy retrieval. Anti-virus software, licensed software, and UPS protection are unevenly applied across the organization.¹⁸

The computerization of the loan tracking information system may potentially increase efficiencies in operations, although the costs and staff training will require initial resources to launch effectively. An internally-developed computerized MIS has been piloted in Dong Ang branch 2 and at the early stages of testing in Bac Ninh branch (only for Kiva loans). Its full roll-out and actual use is planned for Q409. An external analysis, advocating for the MIS continued development, has helped the current volunteer program developer identify areas for improvement (e.g. improve data input validation). Since the departure of the latter is planned for at the end of 2009, one staff member is currently being trained on the system's operation and maintenance. The full success of this training is crucial for Binh Minh to be able to handle and manage this automated MIS after the volunteer leaves.

■ Risk Management

Risk Management is rated “c”

Procedures and internal controls

Binh Minh has an appropriate internal control system, marked by hierarchical control, limitation of powers, and procedural checks at various levels of the organization. Separation of tasks is adequate to provide effective control at the branches. Staff has a general awareness of organizational practices and mode of operations. Procedures for each department have been developed in a single procedural manual that nevertheless needs updating.¹⁹ In general,

¹⁷ Interest receivables are available on the books but not included in financial statements (as required by national standards).

¹⁸ SEDA/Binh Minh has outsourced computer maintenance to a local company.

¹⁹ The manual goes through major updates every three years and minor updates through memos in between.

sufficient procedural checks are followed but not formalized. Operational manuals are being updated and will reportedly soon be disseminated to branches. The standardization of these checks would greatly improve a stronger culture of compliance, particularly as staff movements, turnover, and continuing restructuring impede institutional memory.

Processes are generally in place to guarantee data reliability, with basic checks at headquarters, regional, and branch levels carried out at least once a month. Data reconciliations are done but need to be better formalized to ensure accountability and allow checks for the internal audit work.

Binh Minh needs to address certain gaps in terms of cash security. Access to safes is adequately managed and branch ceilings well-defined. However, in some branches, staff handles cash in the open (instead of counting cash in a separate room). In order to mitigate the risk stemming from cash transit, Binh Minh sends two field staff for collections over 10 M VND (553 USD). Although currently no issues of theft or robbery have been reported, Binh Minh's expansion will require a more concerted effort to address issues of cash security.

Internal audit

Conducted quarterly, internal audit²⁰ occur sufficiently frequent but the scope of internal audits is not sufficient. Internal audits cover branch and client visits, with checks on credit and accounting operations. Other areas of risk, related to administrative procedures, staff compliance in general, and to other HO departments have yet to be addressed. This will need to be developed as Binh Minh matures and expands its operations.

Aided by the current OD, the internal audit team currently comprises one staff member, who recently took over the position in January 2009 and has room to grow in her position. In terms of content, audit reports lack 1) categorization of risks and prioritization of findings, and 2) clear follow-up on recommendations for corrective measures from previous audits (the follow-up file is kept separately). Besides, the distinction between the IA recommendation and management's response is not sufficiently clear in the reports.

The institutional set-up of the internal audit fails to guarantee the independence of the auditor, who reports to the management as well as the Board of Directors and relies on the staff support of other departments to carry out her duties. The external auditors have provided minimum support to internal controls. Internal audits have also been supplemented by an external evaluation from SC/US.

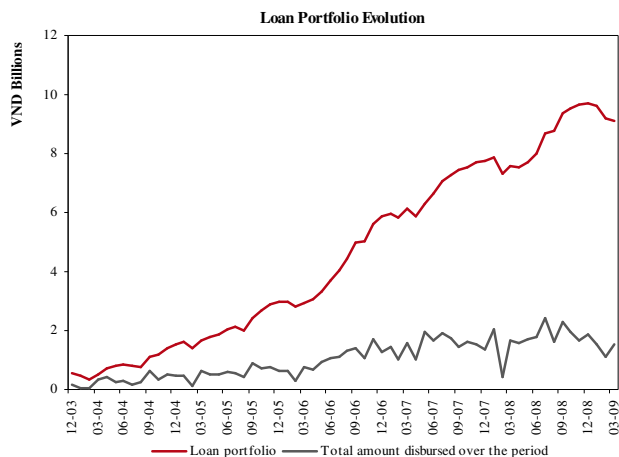
²⁰ Internal Audit is called “Internal Controls” at Binh Minh. Refer to the last paragraph of the section for an analysis of its independence.

■ Activities

Activities: products and services is rated “a”

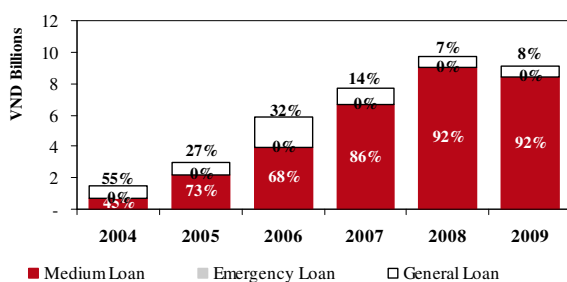
Financial services evolution

From 2005 to 2008, Binh Minh has grown its loan portfolio by an average of 63% per annum. Early figures for 2009 show a slight dip in loan portfolio, reflecting the seasonal nature of the activities of Binh Minh’s clients.



While initially split between the two main loan products in the early days of operations, the loan portfolio now draws mainly from the Medium Loans, which currently accounts for over 90% of the entire portfolio. As a proportion of the overall loan portfolio, the Emergency Loan remains minimal. Over the years, compulsory savings have taken up a larger portion of total deposits, currently over 80%.

Loan Portfolio per Product



Financial services management

With the following features, the credit methodology leads to well-informed and appropriate credit decisions:

- Effective solidarity mechanisms in which group members determine their own composition and effectively ensure repayment;
- Good monitoring and follow-up by LOs (No late loans are allowed);
- Manageable portfolio characterized by moderate growth;

- Cautious lending marked by a lag in new loan disbursements (for new clients, the period from loan application to approval and dispersal can take up to three weeks); and
- Adequate analysis of repayment capacity that includes cross-indebtedness. Cross-indebtedness is allowed, so long as repayment analysis reveals an ability to repay.²¹

LOs possess appropriate skills to implement the credit methodology and manage their portfolios. Yet, if the PAR were to take off, LOs will require a refresher training on delinquency management. Small teams and sufficiently well trained regional/branch managers ensure the close supervision of credit officers.

Credit risk

Since inception, Binh Minh has maintained PAR and write-off ratios at 0%, more than well contained within internationally accepted norms and internally defined targets.²² As a consequence, no loans are rescheduled. Nor do specific policies forbid rescheduled loans. Standard write-off procedures are in place.

Credit quality looks strong, although the capacity of staff to manage credit risk, if and when PAR appears, remains largely untested. Clear rules regarding connected lending are in place, and loans to related parties are kept to a very limited level. Yet, policies to anticipate and manage risk proactively could be better instituted. As for portfolio concentration, no specific limitation on risks is defined for specific areas or economic sectors. In the near term, product launches into newer markets or loan offerings will require operational improvements, increased staff capacity, and coordination between the branch networks.

Credit risk coverage

The general reserve on the loan portfolio fully covers the credit risk (i.e. no PAR exists). Planet Rating gains comfort from the fact that the provisioning policy is sufficiently conservative if the PAR were to increase. As of March 2009, compulsory savings accounted for over 25% of the outstanding loan portfolio. However, there is still room for improvement since no insurance covers risks on specific sector or activities (e.g. agriculture).

²¹ In the Bac Ninh branch, about 200 borrowers (or roughly one-third of branch clients) are known to have loans by a competitor (TYM Fund).

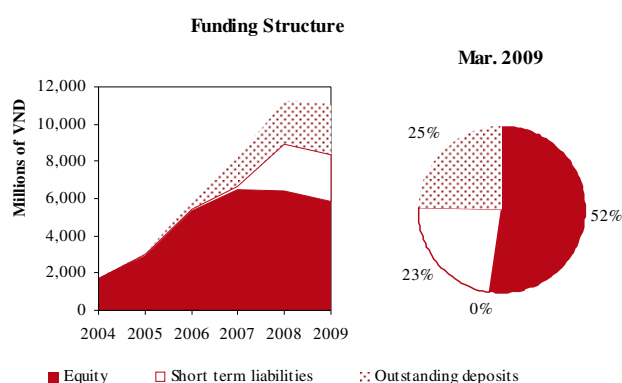
²² In East Asia and the Pacific for 2007, PAR averaged 3.1% and write-off ratio 0.8%.

■ Funding and liquidity

Funding and liquidity is rated “c”

Funding strategy and capitalization

With a Capital Adequacy Ratio (CAR) of 58% (as of March 2009), Binh Minh is more than adequately capitalized; and compliance with minimum capital requirements are ensured for the years to come. Because of increase in debt funding through the years, however, CAR has gradually decreased from a high of 108% in 2004 to its current level. As shown below, Binh Minh maintains a funding structure reliant upon compulsory/voluntary savings, short-term liabilities, and equity.



SC/US disengagement from microfinance investing activities has affected Binh Minh's access to donations. No other donations have been secured for the coming years although some discussions are currently being held. Moreover, the need for VUSTA approval for international grants adds delays and complicates the process.

Binh Minh could nevertheless grow over the last years thanks to the access to concessional borrowings since 2007 (Kiva and recently, Babyloan). The funding needs are roughly identified in the most recent financial projections (5 B VND, or 277 K USD, for debt funding) but could ideally be more frequently updated. Despite Binh Minh's active search additional grants, current funding sources are now quite limited as they are secured only through KIVA and recently Babyloan. The current legal status and profitability level of Binh Minh greatly impedes its ability to attract commercial funding.

Various staff members oversee relationship management with current and potential donors and lenders. As Binh Minh continues to mature and expand, this role could ideally be centralized into one staff member (as initiated by the recent arrival of the new FM) with good relationship management, communication skills, and capacity to negotiate with potential fund providers. As such, general negotiation skills of the MT could be strengthened to prepare Binh Minh for greater access to commercial and longer term funding.

Liquidity risk

While staffed with experienced professionals in accounting, the Finance department has room to improve its capacity, especially in Treasury management, as initiated with the arrival of a new Finance Manager. The basic funding structure (limited voluntary savings) effectively reduces the risk of not being able to renew or replace maturing liabilities. The Cash to Savings ratio exceeds 120% (as of December 2008). Maturity risk is manageable given the short-term nature of loans (all below one year) and the longer term nature of equity (debt from Kiva has the same maturity as loans). To the extent Binh Minh plans to mobilize more voluntary savings, its current liquidity management remains insufficient to ensure the match of maturities.

Liquidity management could be greatly improved, lacking both a defined policy of minimum standards and the basics of liquidity projections. The team is nevertheless sufficiently dynamic to timely monitor the main expenses and obligations coming due. In the recent past, the liquidity to total assets ratio fluctuated from 1.5% in December 2008 to 8% in March 2009. Swings in the liquid to asset ratio also show up in the operating expense coverage, in which cash has covered expenses from a high of seven months in 2004 to a low of one month at the end of 2008 (vs. 3 months as best practice). As of March 2009, Binh Minh had a sufficient cushion of five months thanks to the recent Babyloan disbursement. Still, no contingency plan exists to manage cases of cash shortages. The FM plans to implement dedicated software to address liquidity concerns.

Market risk

Funding from investors (e.g. KIVA) exposes the organization to market risk, where the open position runs to 36% of Tier 1 Capital. Thus, a depreciation of the VND by 2% against the USD would reduce the ROA by 0.4% – which is significant given the negative profitability of Binh Minh. Moreover, its foreign currency bank account could further expose Binh Minh to greater market risk. There is currently no interest rate risk.

■ Efficiency and Profitability

Efficiency and Profitability is rated “c”

Profitability analysis

Over the years, Binh Minh has gradually improved profitability and operational performance, although return on asset (ROA) remained negative through 2008. From -22% in 2004, ROA came close to break even with -0.7% for 2008. Return on equity (ROE) closely follows the same pattern.

This positive trend was achieved thanks to the reduction of operating expenses, increase in interest rates and still very limited loan loss provision and funding expenses.

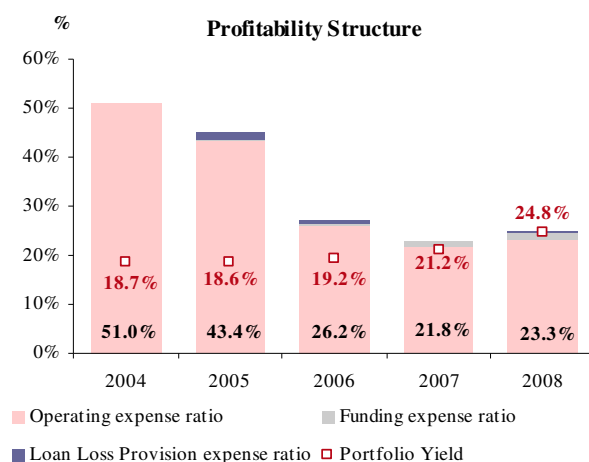
Overall, Binh Minh possesses low revenue quality, marked by a difficult market position where the current interest rates offered allow Binh Minh to remain competitive but not yet to reach profitability. Reflecting rising interest rates, the portfolio yield has increased over the years (from 18% in 2004 to 28% in early 2009) and closely resembles the theoretical yield. However, a competitive landscape dominated by subsidized government lending leaves little latitude in interest rate definition, which limits the ability for Binh Minh to charge sustainable interest rates in the long term. However, Binh Minh offers relatively high interest on its loans compared to its Vietnamese competitors, where the median MFI has a portfolio yield of 17% (2007). On the other side, Binh Minh is able to adjust its interest rates to the competition in the different branches and benefits from soft competitive advantages (e.g. clients’ proximity) when compared to country-wide competitors. Binh Minh’s slow access to funding has also somewhat hampered its competitive position (e.g. size of loans, speed of disbursement). In its product development, Binh Minh foresees a range of new services to attract clients (e.g SME, micro-insurance, and remittances), although the timeline for implementation remains uncertain

The profitability trend mirrors the historic reduction in operating expense ratios, from a high of 51% in 2004 to 24% in March 2009. Still, these figures run high in comparison to its competitors in Vietnam (median at 7.9%²³). Also above the median for the Asia Small peer group (19.6%), Binh Minh’s operating expense ratio reveals relatively inefficient operations given the institution’s environment, target clientele, and credit methodology. This relatively high ratio is despite a good staff productivity (167 clients per staff as of March 2009) that compares well with Asia benchmarks (at 129 in 2007). Binh Minh indeed does not take advantage of its relatively high LO productivity for its size (310 clients per LO) due to the still low share of loan officer in total staff (at 53.8% in March 2009). Moreover, Binh Minh’s expansion strategy, with branches relatively far from each others, is relatively costly. The level of operating costs is also a result of higher salary expenses in an effort to bring them closer to market levels and in line with inflation (24% in 2008).

Funding expense ratio has increased slightly over the years but remains low (from 0.9% in 2007 to 1.4% in 2008), reflecting its access concessional funding sources. Built on the healthy loan portfolio, Loan loss provision expenses are minimal (there are no delinquent loans).

The organization applies a relatively optimal use of available resources, with an outstanding loan portfolio historically above 80% of assets.

The profitability outlook for Binh Minh is stable. In a context of difficult competition in the areas where it operates, Binh Minh might indeed not break even in the short term due to a competitive landscape dominated by subsidized lending, the limited access to funding hampering its growth and the delays expected in further economies of scale due to a costly expansion strategy. Positive ROA figures have been registered in early 2009, but these unaudited numbers do not account for all expenses in the coming year.

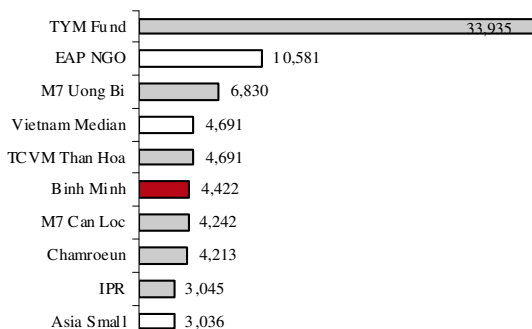


The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution’s performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

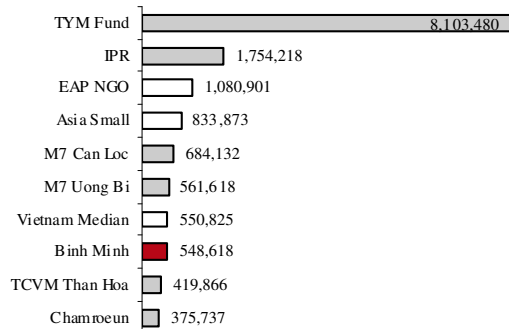
²³ MixMarket, 2007.

Benchmarking

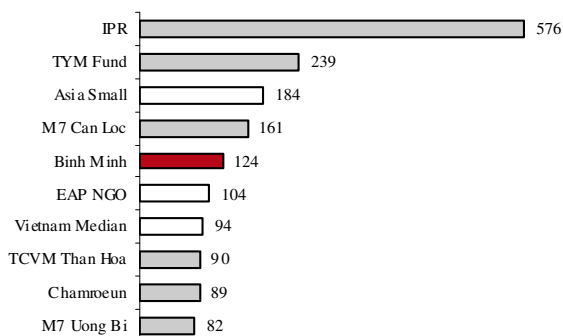
Active borrowers



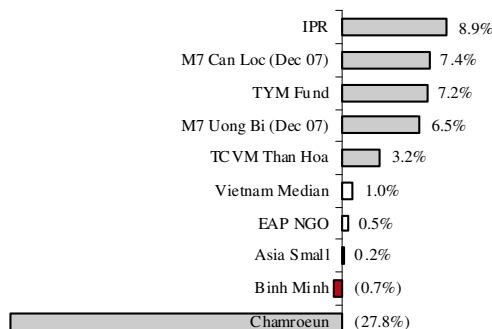
Loan portfolio (USD)



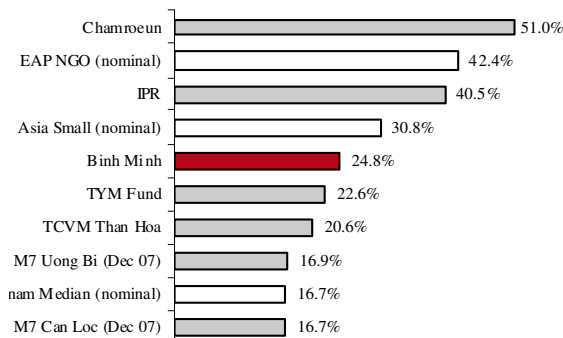
Average outstanding loan (USD)



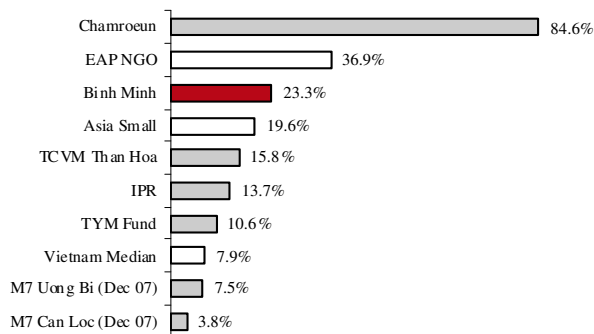
ROA



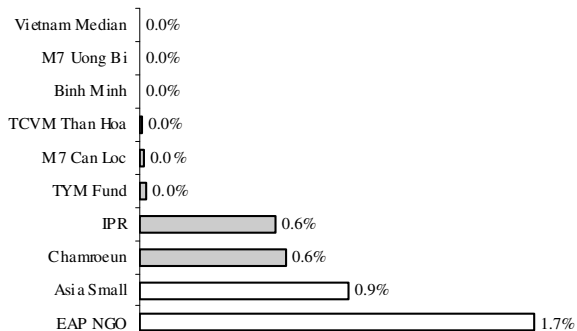
Portfolio Yield



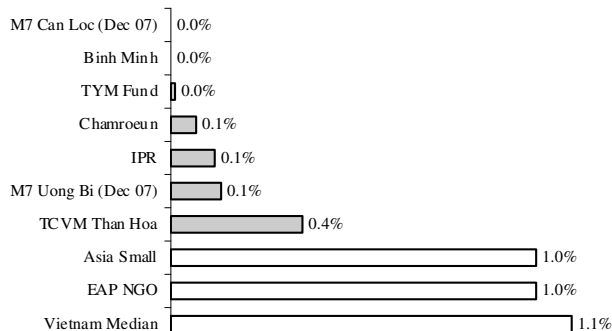
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Planet Rating data as of Dec 08 for Binh Minh; MixMarket for Vietnamese MFIs, including TYM Fund (Dec 08), M7 Uong Bi (Jun 08), TCVM Than Hoa (Dec 07), and M7 Can Loc (Jun 08); MixMarket for Cambodian MFIs including Chamroeun (Dec 08), and IPR (Intean Poalroath RongRoeurng); MIX peer groups: Asia Small (GLP < 2 M USD) and East Asia and Pacific (EAP). MIX Asia Benchmarks are for 2007.

■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	96,110	188,435	351,408	475,148	548,618	502,926
Loan portfolio ('000 VND)	1,517,387	2,997,052	5,860,791	7,734,927	9,709,493	9,091,896
Evolution	183.0%	97.5%	95.6%	32.0%	25.5%	(6.4%)
Average outstanding loan portfolio	52,819	130,144	236,385	412,271	474,007	520,296
Active borrowers	1,337	1,873	3,637	4,068	4,422	4,336
Evolution	93.5%	40.1%	94.2%	11.9%	8.7%	(1.9%)
Average outstanding loan per client	72	101	97	117	124	116
% of GDP per capita	13.0%	15.9%	14.0%	14.2%	12.8%	10.4%
Average amount disbursed per loan	249	142	357	183	198	221
% of GDP per capita	45.1%	22.4%	51.6%	22.3%	20.4%	19.9%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-90	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR > 90	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%
Credit risk coverage						
Risk coverage ratio (PAR 30)	N/A	N/A	N/A	N/A	N/A	N/A
PAR 31 net of loan loss provision / Equity	0.0%	(1.0%)	(1.1%)	(1.1%)	(1.5%)	(1.7%)
Savings						
Outstanding deposits	5,522	3,762	35,071	99,002	132,619	150,891
Outstanding deposits (PHP)	87,175	59,835	584,907	1,611,650	2,347,113	2,727,808
Evolution	713.2%	(31.4%)	877.5%	175.5%	45.6%	16.2%
Mandatory savings (%)	60.2%	48.4%	70.7%	81.9%	94.2%	83.7%
Voluntary savings (%)	39.8%	51.6%	29.3%	18.1%	5.8%	16.3%
Active savers	300	105	3,911	4,643	4,971	4,868
Evolution	160.9%	(65.0%)	3,624.8%	18.7%	7.1%	(2.1%)
Average outstanding deposit per saver	18	36	9	21	27	31
Mandatory	24	40	7	19	27	28
Voluntary	14	32	33	51	23	79
Staff						
Total number of staff	20	23	22	25	26	26
% Credit officers	70.0%	52.2%	45.5%	44.0%	53.8%	53.8%
Turnover	18.2%	9.3%	13.3%	17.0%	7.8%	15.4%
Profitability analysis						
ROE	(23.9%)	(23.7%)	(8.3%)	(3.5%)	(1.1%)	6.9%
Liabilities / Equity	0.07x	0.06x	0.13x	0.28x	0.76x	0.90x
Capital adequacy ratio	108.4%	96.5%	90.6%	82.4%	57.7%	57.7%
ROA	(22.6%)	(22.4%)	(7.6%)	(2.9%)	(0.7%)	3.7%
Profitability structure						
Portfolio Yield	18.7%	18.6%	19.2%	21.2%	24.8%	28.2%
Operating expense ratio	51.0%	43.4%	26.2%	21.8%	23.3%	24.3%
Cost per borrower	20	30	17	22	25	29
Staff productivity	67	81	165	163	170	167
Loan officer productivity	96	156	364	370	316	310
Average outstanding loan per client (USD)	72	101	97	117	124	116
Funding expense ratio	0.2%	0.1%	0.2%	0.9%	1.4%	0.1%
Cost of savings	2.2%	5.1%	3.8%	5.3%	6.1%	0.4%
Cost of liabilities	N/A	N/A	N/A	N/A	0.0%	0.0%
Loan Loss Provision expense ratio	0.0%	1.4%	0.7%	0.2%	0.3%	0.0%
PAR 31-90	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%
Resource optimization						
Outstanding Loan Portfolio / Assets	83.2%	96.5%	96.8%	92.6%	85.1%	81.2%
Revenue from investment as a % of financial revenues	0.2%	0.9%	0.5%	4.2%	1.3%	2.5%
Liquidity						
Liquidity / Total assets (LAR)	13.5%	1.9%	1.9%	4.8%	1.5%	8.7%
Exchange rate 1 USD= xx VND	15,788	15,905	16,678	16,279	17,698	18,078

GIRAFE Rating – Binh Minh Microfinance Programs, Vietnam – April, 2009

Binh Minh Microfinance Programs Income Statement	'000 VND						USD						Evolution		
	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Mar. 09	07/06	08/07	09/08
Financial Revenue (a)	156,417	388,636	759,551	1,488,745	2,103,780	678,959	9,907	24,435	45,542	91,452	118,870	37,557	96.0%	41.3%	(67.7%)
Financial Revenue from Loan Portfolio	156,033	385,256	755,389	1,425,816	2,077,254	662,303	9,883	24,222	45,293	87,586	117,372	36,636	88.8%	45.7%	(68.1%)
Interest on Loan Portfolio	156,033	385,256	755,309	1,425,816	2,077,224	662,303	9,883	24,222	45,288	87,586	117,370	36,636	88.8%	45.7%	(68.1%)
Fees and Commissions on Loan Portfolio	-	-	80	-	30	-	-	-	5	-	2	-	(100.0%)	-	(100.0%)
Financial Revenue from Investments	384	3,381	4,163	62,928	26,525	16,656	24	213	250	3,866	1,499	921	1,411.8%	(57.8%)	(37.2%)
Other Operating Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Expense (b)	1,435	3,050	7,825	60,111	121,596	2,366	91	192	469	3,693	6,871	131	668.2%	102.3%	(98.1%)
Interest paid on borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest paid on deposits	1,435	3,050	7,825	60,111	121,596	2,366	91	192	469	3,693	6,871	131	668.2%	102.3%	(98.1%)
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]	154,982	385,587	751,726	1,428,634	1,982,184	676,593	9,816	24,243	45,073	87,759	112,000	37,426	90.0%	38.7%	(65.9%)
Net Loan Loss provision expense (d)	-	29,971	28,637	15,892	22,595	-	-	1,884	1,717	976	1,277	-	(44.5%)	42.2%	(100.0%)
Loan loss provision expense and write-off	-	29,971	28,637	15,892	22,595	-	-	1,884	1,717	976	1,277	-	(44.5%)	42.2%	(100.0%)
Recovery from Loans written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)	425,235	898,168	1,033,399	1,462,417	1,950,618	571,732	26,934	56,471	61,962	89,835	110,216	31,626	41.5%	33.4%	(70.7%)
Personnel Expense (includes fringe)	249,019	540,714	615,794	879,878	1,266,914	366,207	15,773	33,997	36,923	54,050	71,585	20,257	42.9%	44.0%	(71.1%)
Administrative Expense (non-staff operating expenses)	176,216	357,454	417,606	582,539	683,704	205,525	11,161	22,474	25,039	35,785	38,631	11,369	39.5%	17.4%	(69.9%)
Depreciation and amortization	21,844	44,315	42,525	38,975	78,221	-	1,384	2,786	2,550	2,394	4,420	-	(8.3%)	100.7%	(100.0%)
Consulting fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office supplies, rental, maintenance	28,478	41,889	89,732	146,068	224,382	36,745	1,804	2,634	5,380	8,973	12,678	2,033	62.8%	53.6%	(83.6%)
Travel	31,847	39,568	25,310	30,003	38,902	16,698	2,017	2,488	1,518	1,843	2,198	924	18.5%	29.7%	(57.1%)
Utilities and communication expenses	10,400	27,008	34,160	55,912	69,775	16,081	659	1,698	2,048	3,435	3,943	890	63.7%	24.8%	(77.0%)
Marketing, social activities, and community development	41,524	29,027	53,114	87,195	106,919	114,378	2,630	1,825	3,185	5,356	6,041	6,327	64.2%	22.6%	7.0%
Training and institutional support costs	2,852	18,476	-	142,868	70,393	8,570	181	1,162	-	8,776	3,977	474	-	(50.7%)	(87.8%)
Others	39,271	157,171	172,764	81,519	95,113	13,053	2,487	9,882	10,359	5,008	5,374	722	(52.8%)	16.7%	(86.3%)
Net Operating Income Before Taxes and Donations [f=c-d-e]	(270,253)	(542,552)	(310,311)	(49,675)	8,971	104,861	(17,118)	(34,112)	(18,606)	(3,051)	507	5,800	(84.0%)	(118.1%)	1,068.9%
Income Taxes (g)	-	4,760	33,253	156,777	79,633	-	-	299	1,994	9,631	4,500	-	371.5%	(49.2%)	(100.0%)
Net Operating Income Before Donations [h=f-g]	(270,253)	(547,312)	(343,564)	(206,452)	(70,662)	104,861	(17,118)	(34,411)	(20,600)	(12,682)	(3,993)	5,800	(39.9%)	(65.8%)	(248.4%)
Non Operating Revenue (i)	-	16,238	13,700	29,403	25,996	-	-	1,021	821	1,806	1,469	-	114.6%	(11.6%)	(100.0%)
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]	(270,253)	(531,074)	(329,864)	(177,049)	(44,666)	104,861	(17,118)	(33,390)	(19,778)	(10,876)	(2,524)	5,800	(46.3%)	(74.8%)	(334.8%)
Donations (l)	-	-	2,724,307	1,342,718	291,784	-	-	-	163,347	82,482	16,487	-	(50.7%)	(78.3%)	(100.0%)
Net Income (after Taxes and Donations) [m=k+l]	(270,253)	(531,074)	2,394,443	1,165,669	247,118	104,861	(17,118)	(33,390)	143,569	71,606	13,963	5,800	(51.3%)	(78.8%)	(57.6%)

GIRAFE Rating – Binh Minh Microfinance Programs, Vietnam – April, 2009

Binh Minh Microfinance Programs Balance Sheet	'000 VND						USD						Evolution		
	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Mar. 2009	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Mar. 09	07/06	08/07	09/08
ASSETS	1,822,705	3,074,206	5,993,201	8,271,937	11,297,753	11,076,559	115,449	193,285	359,348	508,135	638,360	612,709	38.0%	36.6%	(2.0%)
Short Term Assets	1,783,454	3,036,924	5,934,661	8,214,532	11,180,541	10,937,112	112,963	190,941	355,838	504,609	631,737	604,996	38.4%	36.1%	(2.2%)
Cash and Due from Banks	246,750	57,127	115,304	396,297	174,443	967,001	15,629	3,592	6,914	24,344	9,857	53,491	243.7%	(56.0%)	454.3%
Short Term Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio	1,517,387	2,967,081	5,802,183	7,660,428	9,612,398	8,994,801	96,110	186,550	347,894	470,571	543,132	497,555	32.0%	25.5%	(6.4%)
Short Term Gross Loan Portfolio	1,517,387	2,997,052	5,860,791	7,734,927	9,709,493	9,091,896	96,110	188,435	351,408	475,148	548,618	502,926	32.0%	25.5%	(6.4%)
(Loan Loss Reserve)	-	29,971	58,608	74,500	97,095	97,095	-	1,884	3,514	4,576	5,486	5,371	27.1%	30.3%	0.0%
Interest Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	19,317	12,716	17,175	157,808	1,393,699	975,309	1,224	799	1,030	9,694	78,749	53,950	818.8%	783.2%	(30.0%)
Long term assets	39,251	37,282	58,539	57,405	117,212	139,447	2,486	2,344	3,510	3,526	6,623	7,714	(1.9%)	104.2%	19.0%
Long Term Net Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets	39,251	37,282	58,539	57,405	117,212	139,447	2,486	2,344	3,510	3,526	6,623	7,714	(1.9%)	104.2%	19.0%
Other Long Term Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY	1,822,705	3,074,206	5,993,201	8,271,937	11,297,753	11,076,559	115,449	193,285	359,348	508,135	638,360	612,709	38.0%	36.6%	(2.0%)
Liabilities	114,975	162,291	667,027	1,784,716	4,884,762	5,248,168	7,282	10,204	39,994	109,633	276,005	290,307	167.6%	173.7%	7.4%
Short term liabilities	114,975	162,291	667,027	1,784,716	4,884,762	5,248,168	7,282	10,204	39,994	109,633	276,005	290,307	167.6%	173.7%	7.4%
Demand Deposits (Voluntary Savings)	34,700	30,895	171,594	291,468	135,643	444,303	2,198	1,942	10,289	17,905	7,664	24,577	69.9%	(53.5%)	227.6%
Compulsory Deposits	52,475	28,940	413,314	1,320,183	2,211,470	2,283,506	3,324	1,820	24,782	81,097	124,955	126,314	219.4%	67.5%	3.3%
Short Term Borrowings	-	-	-	-	2,317,025	2,313,265	-	-	-	-	130,919	127,960	-	-	(0.2%)
Accounts Payable and Other	27,800	102,456	82,120	173,066	220,625	207,095	1,761	6,442	4,924	10,631	12,466	11,456	110.7%	27.5%	(6.1%)
Short Term Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	1,707,730	2,911,915	5,326,174	6,487,221	6,412,990	5,828,391	108,166	183,082	319,353	398,502	362,355	322,402	21.8%	(1.1%)	(9.1%)
Tier 1 Capital	1,707,730	2,911,915	5,326,174	6,487,221	6,412,990	5,828,391	108,166	183,082	319,353	398,502	362,355	322,402	21.8%	(1.1%)	(9.1%)
Paid-In Capital	30,000	50,000	50,000	50,000	50,000	50,000	1,900	3,144	2,998	3,071	2,825	2,766	0.0%	0.0%	0.0%
Donated equity	1,993,412	3,708,670	6,453,299	7,791,395	7,761,831	7,795,052	126,261	233,176	386,935	478,616	438,569	431,190	20.7%	(0.4%)	0.4%
Retained earnings without donations and reserves	(315,681)	(846,755)	(1,177,125)	(1,354,174)	(1,398,840)	(2,016,661)	(19,995)	(53,238)	(70,580)	(83,185)	(79,039)	(111,553)	15.0%	3.3%	44.2%
Tier 2 Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

■ Formulas

Return on assets (ROA):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Debt (savings + debts) / Equity (end of period)
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
Staff productivity:	Active borrowers / Total personnel (end of period)
Funding expense ratio:	Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings ratio:	Interest and fees paid on deposits / Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / Average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / Total assets (end of period)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / Average gross outstanding portfolio

■ 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-		
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.	INVESTMENT GRADE
B		
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.	SPECULATIVE INVESTMENT
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+		
C		
C-		
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	