

Community Economic Ventures, Inc., Philippines

In operation since 1998 initially within the World Vision Development Foundation (WVDF), Community Economic Ventures, Inc. (CEVI) provides credit, training, and consultancy services to the economically active poor in communities surrounding WVDF project areas of the Philippines. Officially registered as an NGO in 2000, CEVI is a partner organization of World Vision International (WVI) and its microfinance arm, Vision Fund International (VFI). Based in Tagbilaran City, CEVI maintains a network of 20 branches with a gross loan portfolio of 2,302 K USD from 24,156 active borrowers as of June 2009.

GIRAFE Rating

Rating

C+

Outlook

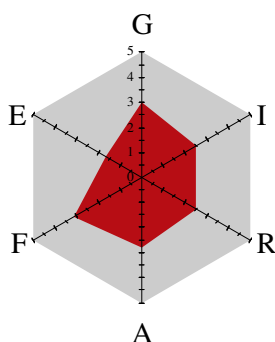
Positive

Date of the rating

August 2009

Valid until July 2010

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- Profitability has been volatile in the recent past. With an ROA (without donations) of 1.6% as of June 2009, however, CEVI is expected to post a profit in FY08/09.
- Its operating expense (Opex) ratio (46.0% as of June 2009) remains much higher than those of its Filipino peers. Low staff productivity reflects a moderate growth in the number of active borrowers, non aggressive productivity targets at the field level, and a historically high staff turnover.
- Contributing to a key-person risk, a gap exists between the Executive Director (ED) and his capable albeit young second line managers.
- The recent increase in PAR 30 (to 4.7%) can be attributed to cases of frauds, challenges to monitoring far-flung branches, and specific conditions of Mindanao.
- Despite the absence of an adequate liquidity management, liquidity risk is limited due to a very high level of cash.
- Offering its main loan product at rates in line with competitors, CEVI currently has limited room to decrease this pricing in light of its heavy cost structure.
- Although financial services have been refined over the years, CEVI could benefit from better marketing tools and competition analysis to improve its overall market position.

Outlook

Planet Rating assigns CEVI a positive outlook. In spite of minimal funding expenses, high operating costs, historically low portfolio quality, and a suboptimal use of assets continues to hamper overall profitability. Nonetheless, a good track record by the management generally bodes well for CEVI's operational performance in the near term.

Performance indicators

USD	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
Assets	1,603,156	1,836,948	2,225,196	2,768,662	3,361,880	3,579,354
Loan portfolio	1,009,287	1,179,565	1,139,159	1,702,163	1,954,011	2,302,341
Active borrowers	15,235	16,989	16,376	18,661	20,436	24,156
Average outstanding loan per client	66	69	70	91	96	95
Staff	81	108	129	132	183	186
ROE	12.5%	7.6%	(6.2%)	2.2%	(9.7%)	4.7%
ROA (without donations)	6.2%	4.1%	(3.4%)	1.1%	(3.9%)	1.6%
Liabilities / Equity	0.96x	0.72x	0.97x	1.10x	1.91x	1.89x
Portfolio yield	52.7%	49.2%	50.0%	51.8%	49.6%	46.2%
Operating expense ratio	37.7%	36.3%	50.5%	47.7%	53.4%	46.0%
Funding expense ratio	0.5%	0.2%	2.3%	1.7%	1.2%	0.8%
Loan Loss Provision expense ratio	5.4%	7.4%	5.6%	5.3%	5.3%	2.5%
PAR 31-365	5.1%	8.6%	15.8%	4.6%	3.9%	4.7%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	6.5%	15.1%	4.6%	1.3%

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.¹ 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

¹ 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 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 subsidized 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 7% 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.

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 business environment is mediocre. 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

Registered as a non-stock, non-profit corporation in 2000, CEVI 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. A member of the KPMG network, Manabat Sanagustin & Co. has provided audited financial statements to CEVI for the years under review. At no time has the auditor qualified its opinions. The financial year (FY) for CEVI starts on October 1st and ends on September 30th.

World Vision Area Development Programs

CEVI works in conjunction with World Vision (WV) Area Development Programs (ADPs), which implement a variety of development projects aimed at reducing the poverty rate in specific regions. Over a 10-15 year lifespan, ADPs develop activities in efforts to address the needs of these communities. Consolidating the growth of ADPs, CEVI increases the range of services available to these targeted areas. The Economic Development Department of WV is in charge of coordinating activities and integration with CEVI. Currently, CEVI provides microfinance services to 23 of the 48 ADPs throughout the Philippines.

Ownership

Operating as an NGO, CEVI has no shareholders. As a WV partner in the Philippines, the organization works in conjunction with WVDF to promote ADP rural clients. CEVI's governance body currently comprises seven members of a Board of Directors (BOD), chosen from WVDF recommendations. Elected yearly, members of the BOD can be re-elected indefinitely, although a board resolution expects to expand (to nine) and cap (three years) continuous membership.² The current board draws heavily from the WV family, including VFI, along with two external members. Headed by the Chairman (by design a WVDF staff) and Vice Chairman, the BOD meets quarterly. Two sub-committees complement the work of the BOD: the Governance & HR Committee and the Audit & Risk Committee (ARC).

Donations

Since 2004, CEVI has received 49.7 M PHP (1 M USD) in donations, drawn from WV and its partners (90%) for on-lending or from USAID Matching Grant (10%) for capacity building and implementation of its Credit Plus Education program.

² The amended BOD charter will reportedly be approved by the end of 2009.

Funding composition

As of June 2009, equity made up 35% of CEVI's funding structure, compulsory deposits 18%, and debt 47%. Drawn from WV ADPs in the Philippines (34.9%), WVI/VFI project partners (57.6%) or Kiva (7.5%), its debt reached 81.2 M PHP (1.7 M USD). All debt was offered on concessionary terms (at a maximum of 5% interest per annum) and only the loan from Kiva is in USD. All loans carry fixed interest rates.

Management team

Senior Management comprises the ED, Operations Manager, Finance/Admin Manager (FAM), Human Resource Manager (HRM), Research, Planning, and Development Manager, Information System Administrator, and the Micro-insurance Office (MO).

- The ED, Mr. Jonar Dorado, was recently promoted to his position in 2008. Prior to that time, he held various positions at CEVI (FAM, HRM) and earlier with WV (accounting and auditing). A CPA, Mr. Dorado holds a BS in accountancy from Filamer Christian College (1998) and has over ten years of training and experience in microfinance. He currently pursues an MBA at the University of Bohol College.

Organization

With a head office (HO) in Tagbilaran City, CEVI maintains a network of 20 branches. Reporting to HO, Area Managers (AMs) and Area Accountants (AAs) oversee about four branches. Each branch contains a Branch Manager (BM), one Branch Accountant (BA), and about four to six Loan Officers (LOs).³ With a target caseload of 300 clients, LOs take charge of a maximum of 15 clusters. Handling the bulk of credit processes, LOs act as the main intermediaries between CEVI and clients, who cluster into groups (called Cluster Associations, or CAs) of at most 30 members.⁴ Upon the recommendation of LOs, BMs approve all loan decisions, and BAs issue corresponding disbursement checks. By facilitating the work of LOs (particularly in remote and less populated areas), CAs also play an integral role in service delivery.

CEVI operates through a parallel manual (ASA) and computerized (eMerge) Management Information System (MIS) for loan tracking. Since early 2009, all branches scan daily new loan accounts into e-mail attachments that are sent to the HO for encoding into eMerge, whose server resides with the WVDF office in Manila. With the complete

³ In CEVI's organization, LOs are called Enterprise Development Officers, or EDOs.

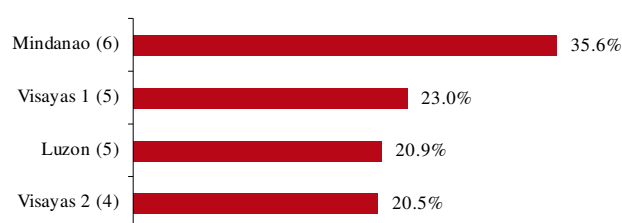
⁴ These activities include: cluster organization, client training and orientation, marketing, loan verification and processing, credit investigation, disbursements, collections, bank depositing, and delinquency management.

amortization of prior accounts, the loan data in eMerge is expected to reflect the actual loan portfolio by the end of Q309. For accounting, CEVI relies upon I-PASS (a software used within the WV network) for HO accounting⁵ and Excel for accounting at the branch and area levels. Consolidation is done on Excel.

Market penetration

As of June 2009, CEVI operates out of 20 branches, geographically dispersed throughout Luzon (primarily Palawan), Mindanao, and its base in the Visayas (province of Bohol). Future expansion focuses on Bohol, Mindanao and Cavite (in Luzon). Its main competitors include CARD, Inc., FCB Foundation, Inc., Life Bank Foundation, Negros Women for Tomorrow Foundation, and Taytay sa Kauswagan, Inc., among others.

Outstanding loan portfolio per area - June 2009



Note: The number of branches per area is stated between brackets. Visayas 1 covers Bohol and Leyte; Visayas 2 covers Cebu, Ilo-Ilo and Negros; Luzon covers branches in Palawan and Cavite.

Products and services

Catering to the enterprising poor,⁶ CEVI offers four loan products, including one individual loan. The main group loan product (Yaman) targets micro-entrepreneurs involved in trade while the Crop and Babe Loans target individuals involved in animal raising and farming. Group loans carry a service charge of 4% (2.5% for ASENSO) and a monthly (flat) interest rate of 2%, yielding an average Effective Interest Rate (EIR) of 53.6%. In case of late repayment, CEVI charges a 5% monthly penalty fee.

- The Yaman Loan covered the majority of the portfolio as of June 2009. Designed for micro-entrepreneurs, this commercial product has loan amounts ranging 2 K – 25 K PHP (41.4 – 517.5 USD), with a maximum term of five months (or 20 weeks) subject to weekly repayments. Disbursed under the Group Expanded Methodology (GEM) in 2009,⁷ the Yaman loan now relies on individual liabilities. Two guarantors are required, instead of the previous group liability. The upfront fee, usually deducted from the initial loan amount (Yaman A)

is offered to the clients if required by the competition (Yaman B).⁸ Yaman A clients benefit from a seven days grace period. The average EIR is roughly 61.5% for Yaman A and 46.4% for Yaman B.

- Crop Loans are geared towards farmers. Offered to a small share of the clientele (South Cotabato and Trento Branches only), these agricultural loans have a maximum term of five months (or 20 weeks), with a one month grace period and loan amounts of 2 K – 15 K PHP (41 – 311 USD) subject to a balloon repayment for the principal and monthly repayments for the interests. The average EIR comes to about 43.0%.
- BABE (*Baboy Alay sa Bukas at Edukasyon*) Loans finance various activities of hog production. Also offered to a small share of the clientele (Estancia and Bais Branches only), these products extend credit lines of 20 K – 30 K PHP (414 – 621 USD) with terms ranging from 4 to 10 months. Interests are repaid monthly while the principal may be repaid at the end of the loan (Hog Fattening), upon sale (Sow Raising) or start on the 8th month after loan release (Boar Maintenance). The average EIR is estimated at 41.8%.
- ASENSO (*Sama Tayo Sa Pag-Asenso*) Loans cater to existing clients (at the Bohol Branches only) with a record of strong repayment and higher capital needs. ASENSO 1 range from 26 K to 50 K PHP (538 – 1.0 K USD), is extended up to one year, repaid every two weeks, and require two co-makers. ASENSO 2 can reach 150 K PHP (3.1 K USD), extends over two years with monthly repayments, and requires (as collateral) two guarantors, chattel mortgage, and real property. The average EIR is about 50.1%.

To benefit from these loans, clients must sign an Affidavit of Voluntary Surrender (AVS)⁹ and contribute to a mandatory savings feature, called the Capital Build Up (CBU), which collects a 3% interest per annum (based upon minimum monthly balance of 500 PHP). For first time borrowers, a CBU of 200 PHP is required; and weekly contributions range from 20 to 30 PHP, depending on the loan cycle. Savings withdrawals are allowed up to the excess of the weekly CBU (in the first three cycles) and so long as 20% (15% for ASENSO) of the existing loan amount remains (from the 4th cycle onwards). With the cost of savings (i.e., CBU), the EIR increases to 78.0% for Yaman A, 59.5% for Yaman B, 46.5% for Crop, 43.5% for BABE, and 51.1% for ASENSO.

⁸ The client receives the desired loan amount, with the up-front fee added in the loan outstanding amount, and pays flat interests on the loan amount received.

⁹ Although the AVS has no legal value, clients commit to sell on a voluntary basis some assets to other members of the group in order to repay the loan. AVS is mostly used as a pressure mechanism. Refer to the Social Performance Rating for details.

⁵ CEVI also pilots the SUN system.

⁶ Target clients are entrepreneurial poor below the poverty threshold, aged 18 to 65 years old, and have economic activities.

⁷ CEVI's GEM was tested from 2006 to 2007, finalized in 2008 and is being rolled out since the beginning of 2009.

Prior to receiving a new loan, clients must also undergo a three-day training, called Pre-Credit Training, where LOs educate clients on CEVI's policies and attempt to instill Christian values, credit discipline, a culture of loan repayment, savings habits, and basic skills in business management. Additional trainings (e.g. Credit Plus Education) are provided during each cluster meeting to integrate informal education, values formation, and spiritual development in the microfinance process. To its clients, CEVI also offers micro-insurance products (through a partnership with third party provider, Mercantile Insurance), called TASAKA or *Tulong Alay sa Kapwa*, to provide coverage against death and disablement. Subject to a one-time payment of 250 PHP for five months, or requires a monthly payment of 50 PHP.

Networks

As a WV partner, CEVI belongs to WVI. The organization also holds membership with MCPI.

■ Governance

Governance and Decision making is rated "b"

Decision making

CEVI has an adequate decision making process that balances financial performance with social objectives of integration with the ADPs. Selected from WVDF recommendations, members of the BOD show a strong dedication to the mission of CEVI and its continued microfinance work in communities surrounding WV ADP sites. As a WV partner, CEVI must maintain a BOD comprised of WVDF staff in the majority. This governance set-up ensures close institutional ties between CEVI and WV. Drawn strongly from social development – but increasingly business, banking, microfinance, and government – board members offer sufficient capacity, effective oversight, and thoughtful guidance to CEVI's operations. In addition, a newly formed ARC of the BOD has the potential to help CEVI confront future challenges, although its influence on decision making remains untested.

Through regular quarterly meetings, the BOD provides adequate governance for CEVI; and management can rely on having access to board members for strategic guidance as needed. However, CEVI's efficiency and profitability could be debated more depth at the BOD level, with a formal monitoring of key financial ratios (e.g. ROA, Opex, loan loss provision expense ratio, portfolio yield, and PAR).¹⁰ The BOD receives detailed and relevant information prior to board meetings. Board meetings are well documented in

¹⁰ These discussions occur informally but could nevertheless benefit from a formal airing at board meetings.

minutes, which allow for sufficient follow-up of board decisions. Contributing to effective implementation, board minutes also identify main organization issues and challenges to be addressed (with responsible tasks and deadlines).

As a non-stock, non profit corporation, CEVI holds an appropriate legal set-up, which generally benefits its socio-economic mission in the Philippines and close association with WV. Still, oversight of NGO MFIs by the SEC remains lacking, especially in comparison to the regulatory demands of the BSP for banking institutions.¹¹

Planning

The current four-year strategy (FY07-10) sets out a list of admirable objectives, which could nonetheless be better integrated into CEVI's vision, mission, and core principals. Moreover, sustainability and efficiency are not clearly articulated with other objectives, for example through financial ratio or scenario analysis. Encouragingly, the current strategic planning process (to be concluded in August of this year) receives strong input from capable board members and expects to produce an analytically grounded strategy paper. More detailed business plans are produced yearly; yet the underlying environmental and institutional analysis of these plans could be complemented with a SWOT analysis, review of market competition, and scenario analysis. Investments needed to carry out core projects could also be incorporated. As of June 2009, CEVI has missed key performance indicators, e.g active borrowers (75% of target) and outstanding loan portfolio (87%).

Revised yearly, 3-year financial projections are based on a detailed analysis of specific portfolio and financial information. Contributing to realistic goals and targets, operational action plans per department are produced but could benefit from specific indicators to monitor and evaluate performance. The planning process involves good communication and a sufficiently participatory, bottom-up approach to ensure staff buy-in of CEVI's strategy. However, BMs do not actively track their objectives throughout the year. Budgets and costs control are centralized at the HO level and tracked monthly.¹²

Management team

While showing strong dedication and commitment to CEVI's mission, the Management Team (MT) could benefit from deeper independent thinking and leadership skills. Rising through the ranks at CEVI (and WV), the competent

¹¹ NGO MFIs cannot technically mobilize voluntary savings, although compulsory savings less than the value of the loans are permissible.

¹² Some discrepancies were noted in the budget tracking file but remain limited.

but cautious ED defers to the board but continues to grow in his role by taking more responsibilities and initiatives in carrying out the organization's strategy. Aided by his distinguished experience at CEVI's finance department, the ED has produced a good track (e.g. organizational performance, improved credit methodology, controlling PAR, and implementation of social performance management tools) in his brief tenure.

Contributing to a key-person risk, a gap exists between the ED and his capable albeit young second line managers, who show sufficient execution capacity and good management of CEVI's sprawling network operations, although overall operational performance and efficiency could be greatly improved. In general, the MT has strong operational experience with adequate assistance from middle management (AMs, BMs), whose skills could nonetheless be improved with focused training on financial analysis (e.g. profitability analysis, market position of the branches), stronger delinquency management, and marketing. Well documented in minutes, monthly management meetings allow for adequate internal communication at HO and follow-up with the far-flung branches.

Human resource management

The administration of human resources functions professionally, with staff contracts, job descriptions, HR budgets, updated HR manuals, and yearly plans. Adequate processes are in place to improve staff skills (e.g. yearly supervisors' training/orientation, and internal training). Contributing to stronger senior management, CEVI encourages continuing education for staff. External training for current staff is also available.

A lengthy and comprehensive recruitment process (from contracted apprenticeship, pre-selection training, formal trainee, to probationary period) enables the organization to identify appropriate staff, although high turnover raises questions about its effectiveness and concerns about staff motivation and morale, particularly at the LO level. A formal incentive system assesses staff performance and encourages internal promotion. Staff appraisals occur annually but could ideally identify areas of improvements and systematically be incorporated into the training plan. On the whole, staff retention remains weak, particularly with high turnover (at 22.8% for all staff and 16.7% after excluding LOs in their probationary periods).

■ Information

Information is rated "c"

With its current manual MIS at the branches, CEVI produces basic information for analysis of branch operations, which

could nonetheless benefit from more timely reporting and detailed indicators for loan portfolio management and financial monitoring of field operations. The consolidation of branch information by AAs is long and time-consuming, reflecting difficulties of reconciling field data and administrative inefficiencies in need of streamlining. Consolidation of branch data at HO occurs rather late, by the 18th of each month. The network of competent BAs maintains generally accurate portfolio information and financial data, which are summarized monthly into branch repayment reports and financial statements for performance tracking by management.

Information for portfolio management is basic, lacking detailed portfolio information per product. The MIS currently used for loan tracking in most branches fails to provide: (i) historic records of borrower (which would prevent delinquent borrowers from returning or switching between branches), (ii) regular reports on PAR, (iii) a clear summary of daily collections,¹³ and (iv) a list of written-off loans.¹⁴ Delinquency reports are produced by the branches regularly but do not disaggregate PAR by product, however. Financial information at the branches could ideally be produced more timely and include more extensive financial ratios to provide management with a comprehensive image of branch performance. Data on financial performance is limited to only OSS.

Systems are in place to ensure data security. Effective safeguard for legal files are standardized and followed, ensuring proper storage of loan documents. Digital data receive weekly back-up at the HO and branches (via external hard disks). Password security is adequately maintained with access based upon staff position, a minimum password complexity, and automatic expiration every six months. Adequate anti-virus software is being used and updated by the IT team at HO.

CEVI has invested in sufficient capacity to transition to an automated MIS, although continued support on eMerge and GlobalOne in the future will be needed. As for IT management, CEVI shows a strong capacity to maintain and improve its MIS, thanks to a large IT team comprising 11 staff members. With eight staff working mainly on eMerge encoding, the IT department currently has a satisfactory handle on the loan tracking software that failed in its initial launch back in 2006.¹⁵

¹³ Collection reports present all collections for a given cluster, including the collections expected on the following weeks.

¹⁴ Some branches can provide regular reports on PAR and written-off loans.

¹⁵ The initial launch of eMerge at CEVI in 2006 was undertaken without sufficient planning of staffing capacity, IT requirements or support. The current migration takes a more gradual approach.

■ Risk Management

Risk Management is rated “c”

Procedures and internal controls

The overall risk management approach shows some weaknesses in organizational set-up. CEVI has formalized a basic internal control system that could be greatly improved with more staff rotation, limitation of powers, and segregation of tasks at the field level. The introduction of AMs and AAs in 2008 reinforced field oversight. Yet, the dispersed area of coverage limits the effective hierarchical control by AMs and HO, particularly on the island of Palawan. With BAs reconciling both loan portfolio and accounting information, branches lack a clear segregation of tasks for data verification.

Overall, CEVI has implemented standardized procedures in operational, finance, and HR manuals. Staff have a general awareness of organizational practices and mode of operations, even though some instances of compliance lapses (e.g. unreconciled CBU accounts, lack of appropriate signatures, and late reporting) have been reported. As such, procedural checks could be greatly improved to enforce a stronger culture of compliance, particularly branches undergoing rehabilitation (e.g. Palawan). Greater monitoring of field staff by HO would also ensure stronger internal controls, particularly for financial data submitted by BAs. Processes are generally in place to guarantee data reliability, with basic checks at HO and branch levels carried out at least once a month. Reconciliations of bank accounts and accounting/operational data are adequate but time-consuming.

Cash security is sufficient, with branch safes providing storage of cash collections not deposited daily at the banks. Random cash counts are performed and signed by BMs and BAs. However, more than one field staff should have keys to these safes. Mitigating the risk of frauds (in particular by LOs), cash bonds (for all staff) are in place.

Internal audit

Based on WV’s audit guidelines, internal audits (IAs) are basic and could be improved in terms of frequency (at the minimum each branch once per year) and scope (from procedural to strategic). Currently, the IA department includes two staff members who perform meaningful due diligence, with checks at the branches (including client visits) and HO (for payroll back in 2006).

For the most part, however, the IA department provides mostly a procedural check of field operations, while broader institutional concerns (e.g. administrative, social performance management, legal, reputation risks) have

escaped systematic inspection. In general, the IA staff possess relevant skills and experience to carry out their current duties but will need more training to examine the broader risk profile. Complementing the work of the IA department, external auditors and WV have provided opinions on the internal controls. And some recommendations have been implemented.

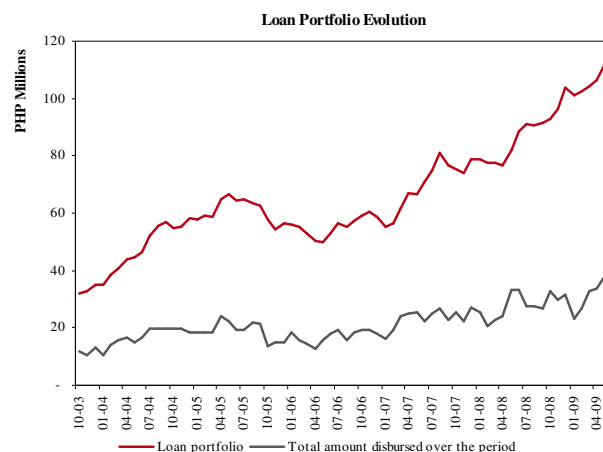
Administratively reporting to the ED instead of the BOD directly, the IA department lacks an adequate institutional set-up to guarantee the independence of internal auditors. However, recent efforts have been made to address this concern. The current set-up of the BOD’s ARC figures to ensure greater independence of the IA, moving forward. In principle also reporting to the Audit Manager at WV Philippines, the IA in practice works in conjunction with CEVI’s MT. In terms of content, audit reports are sufficient, providing the scope of the checks, clear follow-up on recommendations for corrective measures from previous audits, detail findings related to credit and finance operations, and management’s response.

■ Activities

Activities: products and services is rated “c”

Financial services evolution

In FY2004-2008, CEVI grew its loan portfolio from 56.9 M PHP (1.0 M USD) to 91.7 M PHP (2.0 M USD), equivalent to a compound annual growth rate (CAGR) of 12.7%. This moderate growth, however, hides fluctuations in the portfolio, which contracted in 2006 (-8.2%), when CEVI focused on controlling credit quality, but rebounded in 2007 (33.6%). Over the same period, CEVI grew its active borrowers from 15,235 to 20,436, equivalent to a CAGR of 7.6%. Average outstanding loan per client increased from 66 to 96 USD. CEVI’s portfolio is subject to seasonality with several slow-downs during the year (around January and July).



Since CEVI's establishment, the Solidarity Group Loan, modified to become the Yaman Loan in 2008, has been the main loan product and still accounts for the majority of the portfolio. An accurate breakdown of the outstanding loan portfolio per product is not available. Still, rough estimates of the product distribution (as of June 2009) give the following composition: 57.3% for the Yaman Loan (solidarity + Yaman A and B), 36.6% for the Crop, 5.8% for the BABE loan, 0.3% for the individual loan.

CEVI has mobilized a growing amount of compulsory savings over the years, in line with the minimum required amount of the CBU increasing. The savings to loan portfolio ratio went from 19% in September 2004 to 29% in June 2009. Most withdrawals occur only at the end of the cycle.

Financial services management

For CEVI's field operations, financial services management shows some limitations, depending on the credit methodology and branch locations. Its main group loan methodology has been recently upgraded to the GEM, which has led to satisfactory loan disbursement decisions. As of June 2009, most outstanding group loans have been disbursed under GEM and rely on more efficient and better accepted guarantee mechanisms (combination of individual liability and group pressure mechanisms).¹⁶ However, the full version of GEM (as planned over the next 10 months), expects to include more detailed manuals for field staff, specific trainings, and a better MIS for loan tracking.¹⁷ Indeed, LOs could greatly improve their skills to properly implement all GEM technical enhancements, such as client's rating and debt repayment capacity analysis.¹⁸ In a context of rising cross-indebtedness, the latter is particularly important, given the absence of a formal credit bureau.

Although relying on an adequate policy,¹⁹ CEVI's delinquency management is hampered by the lack of efficient monitoring tools and reporting (cf. Information section). Some monitoring reports can nevertheless be computed by branch managers at the expense of time-consuming work, and most of these issues are addressed under the full version of GEM. Moreover, the new methodology includes stricter requirements on the geographic proximity of clients, which in some past cases has hindered efficient delinquency management.

¹⁶ The previous group loan, based on group liability, showed limitations when borrowers reached higher loan cycles and had different needs.

¹⁷ As of August 2009, the full GEM was rolled out in two branches.

¹⁸ The client's debt repayment capacity is calculated by reporting the installment to the net income, after deducting the cost of other debts.

¹⁹ The delinquency management policy notably includes the immediate visit by LOs, the use of hierarchy as a pressure mechanism, the appointment of specialized staff where needed, and monthly reporting to HO.

To control the far-flung branch network better, CEVI has reinforced its field management staff with the set-up of areas in 2008. Assisted by the HO service quality assurance officers, AMs and BMs currently exercise satisfactory supervision. However, monitoring of distant branches (e.g. Palawan and Mindanao) remains challenging. BMs could also benefit from clearer guidelines to manage new LOs.

As for CBU accounts, instances of unreconciled balances (between CEVI's books and the clients' passbooks) have prevented some clients from withdrawing their collateral. Encouragingly, reconciliations have been performed in the problematic branches, and controls are being reinforced to address this issue.

Credit risk

From a high of 15.8% (in September 2006), PAR 30 has significantly improved over the years and currently measures 4.7% (as of June 2009). This credit risk level, comparable to Filipino MFI peers (PAR of around 4.5%) and just below the 5% internally defined target, remains nevertheless higher than the Asian median MFI (PAR of 1.7% in 2007). High credit risk levels are concentrated in seven branches (out of 20) where PAR 30 exceeds 5%.²⁰ The recent increase in PAR (from 3.9% in September 2008) can be attributed to cases of frauds, challenges to monitoring far-flung branches, and specific conditions of Mindanao (e.g. security issues combined with a poor harvest season).

Following a similar trend, the write-off ratio decreased from 4.6% (September 2008) to 1.3% (June 2009). Although CEVI implements a standard policy for writing-off loans (after 180 days), its application has not been systematic. Nor are loans rescheduled, except under extraordinary cases.²¹

A variety of factors contributes to the general de-risking of the loan portfolio. As of June 2009, connected loans (made of emergency and motorcycle loans to staff) covered 1.5% of the portfolio. Related credit risk is limited as a clear policy has been set up and repayment installments are directly deducted from salaries. Although not formalized into a policy, CEVI places limits on its concentration to the agriculture sector (at 30% maximum). As of June 2009, most of the loan portfolio is concentrated in trade (70%) and agriculture (20%) sectors. CEVI has designed a cautious product launching process by conducting sufficient pilot tests before scaling up. Finally, branch development is cautious and based on adequate studies. CEVI plans to open

²⁰ As of June 2009, the two branches with the highest credit risk level were Zamboanga City (22.8%) and Brooks in Palawan (18.5%).

²¹ In the aftermath of the devastation wrought by Typhoon Frank (in June 2008) that stormed through the Western Visayas, a few loans were rescheduled. CEVI has not set-up its own disaster management policy yet.

branches sufficiently close to existing ones, in order to facilitate supervision.

Credit risk coverage

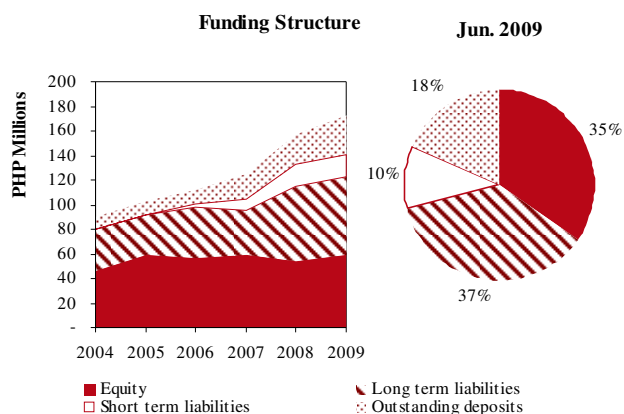
With a credit risk coverage ratio of only 74.5% (as of June 2009), the loan loss reserve fails to cover credit risk (PAR 30) completely. This coverage was higher back in September 2008, at 88.1%.²² Yet, CEVI adequately updates its provision on a monthly basis. In addition, CEVI's portfolio is also covered by (i) the required 20% cash collateral and (ii) the fact that all clients benefit from life and health insurance. However, there are currently no insurance to cover risks related to specific sectors.²³

■ Funding and liquidity

Funding and liquidity is rated "b"

Capitalization and funding strategy

CEVI is well-capitalized with a Capital Adequacy Ratio (CAR) of 49.9% as of June 2009 – although less comfortably than in September 2007, when CAR stood at a moderate 72%. Leverage has slightly increased over the years, although currently still low at 1.9x. Capitalization has been maintained at this level thanks to repeated donations from WV and USAID, while accumulated retained earnings have slightly decreased over the years. Compliance with minimum capital requirements is nonetheless ensured for the years to come.



Funding needs are updated annually for the following three years. In September 2008, CEVI's funding needs (in terms of debt) were estimated at 25 M PHP (518 M USD) for FY08/09 and 80 M PHP (1.7 M USD) through FY10/11. Yet, CEVI could formally update its funding needs on a more frequent basis.

²² Due to the increase of PAR 30-60 provisioned only at 25%. PAR 30-60 is notably made up of rescheduled loans.

²³ CEVI might subscribe to Land Bank Agriculture Loan Guarantee Fund in the future.

Although historically relying on concessionary funding obtained through WV and VFI, CEVI has maintained good contacts with local funders. For FY08/09, the organization could renew funding from most WV ADPs, postponing the recourse to funds from local commercial banks until FY09/10. The ED, in charge of the sourcing of funds, has sufficient knowledge of local market rates to properly negotiate with potential funding partners. Its current access to international funding is still limited to KIVA concessionary loans. As CEVI might have recourse to international commercial funding in the near future, VFI's expertise will greatly facilitate negotiations and overall access to funding on reasonable terms.

Liquidity risk

Despite the absence of an adequate liquidity management, liquidity risk is limited due to a very high level of cash. As of June 2009, cash covered 13 months of operating expenses (where best practice demands a minimum three months).²⁴ Currently only in charge of accounting and production of financial information, the finance department lacks proper treasury management, which will be essential as the funding structure becomes more sophisticated. Moving forward, CEVI would need frequent cash flow projections, pooling of cash from branches,²⁵ and stricter policies regarding cash levels.²⁶

Maturity risk is limited given the short-term nature of its assets (where most client loans last five months) and the longer-term nature of debt liabilities (in which the initial term of borrowings averages 21 months). CEVI nevertheless performs basic ALM analysis based on global balance sheet data.²⁷

Market risk

CEVI has minimal foreign exchange risks. Its only foreign currency exposure derives from Kiva (USD) loans, contributing to an open position of (2.3%) of core capital (as of June 2009). A 20% depreciation of PHP against USD would only result in a drop of ROA by 0.2%, which is reasonable despite the current low ROA.²⁸ With all debt on fixed-rate terms, CEVI currently faces no interest rate risk.

²⁴ Most of this cash is kept on bank accounts, collects an interest of 1.35% (in 2008), and can be withdrawn anytime.

²⁵ CEVI contemplates partnering with a commercial bank for cash pooling and cheaper cash transfers.

²⁶ Branches may currently keep as much as 1 M PHP (0.6% of assets) on their commercial bank accounts.

²⁷ As of June 2009, the current ratio stood at 338%. Short term assets/short term liabilities (balance sheet data).

²⁸ PHP depreciated by 16.8% against USD in 2008. CEVI may have recourse to KIVA support in the event of FX variations over 20%.

■ Efficiency and Profitability

Efficiency and Profitability is rated “d”

Profitability has been volatile over the last four years. From highs of 6.2% and 4.1% in FY03/04 and FY04/05, the ROA (without donations) turned negative in FY05/06 (-3.4%) and FY07/08 (-3.9%). With an ROA of 1.6% as of June 2009, however, CEVI is expected to post a profit in FY08/09. In spite of minimal funding expenses, high operating costs, historically low portfolio quality, and a suboptimal use of assets continues to hamper overall profitability.

Revenues derive mostly from its lending and micro-insurance activities, yielding a total revenue ratio of 53.1% at the end of FY07/08, when the portfolio yield stood at 49.6%. In the current FY, portfolio quality slightly deteriorated and lower-cost products took a larger share of the portfolio. As a result, a major yield gap (13.8%) separated the average EIR (53.6%) from the portfolio yield (46.2%) as of June 2009.

CEVI possesses moderate revenue quality, with no clear market position. Offering its main loan product at rates similar to those of its competitors,²⁹ CEVI currently has limited room to decrease this pricing in light of its heavy cost structure. Competitive pressure on interest rates is however expected to be mild, at least in the short term. CEVI’s pricing is generally more competitive for its other loan products. Offering grace periods and balloon payments, terms and conditions take into consideration clients’ feedback and are sufficiently demand-driven. In addition, CEVI manages to attract new clients thanks to its micro-insurance product and its moderate integration with WV programs. Although the micro-insurance and loan products were refined over the years, CEVI could benefit from better marketing tools and competition analysis to improve its overall market position.

On the expense side, CEVI’s Opex ratio (46.0% as of June 2009) remains much higher than those of its Filipino peers (31.3% for the median MFI in 2007) and the Asia Medium MBB benchmarks.³⁰ In the past, its Opex ratio increased first in FY05/06 to 50.5% (when CEVI experienced negative growth) and later to 53.4% in FY07/08 (with the reinforcement of staff supervision).³¹ High operating expenses can be mostly attributed to difficulties of managing a geographically dispersed network, particularly in comparison to its loan portfolio size. Moreover, the decrease

²⁹ In addition to the 2% flat interest rate (below the 3% rate charged by many competitors), the Yaman A GEM Loan also requires a high 4% up-front fee.

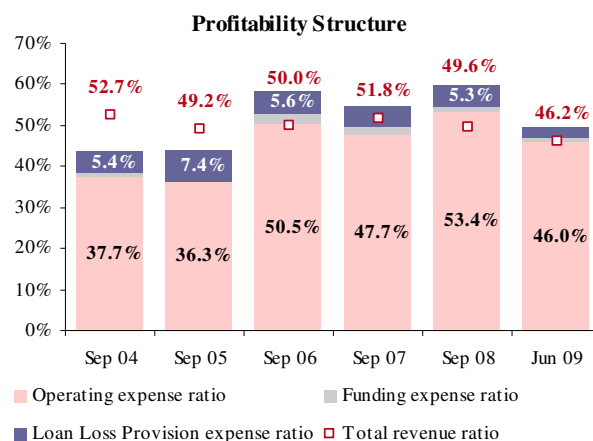
³⁰ In 2007, the median Opex stood at 12% and 18.7% for the Asia Medium FSS and Asia Medium Non FSS peer groups respectively.

³¹ Four area offices were set up.

in staff productivity over the years (from 188 borrowers/staff in September 2004 to 130 in June 2009), coupled with an increase in cost per borrower (from 18 USD to 40 USD), have also weighed down expenses. This lackluster productivity stands in sharp contrast to an increase in the average outstanding loan per client (from 66 to 96 USD) over the same period. The low staff productivity, in particular, reflects a moderate growth in the number of active borrowers, non aggressive productivity targets at the field level,³² and a historically high staff turnover.

Thanks to the improving portfolio quality, CEVI decreased its loan loss provision expense ratio to 2.5% in June 2009 from historical levels consistently over 5%. The funding expense ratio, (at 0.8% in June 2009) has remained low over the years, a consequence of access to mostly concessionary funding.

CEVI’s asset deployment ratio is low, reaching only 62% as of June 2009, which is significantly below international standards of 80-90%. This low resource optimization derives mainly from the high level of idle cash (cf. liquidity management).

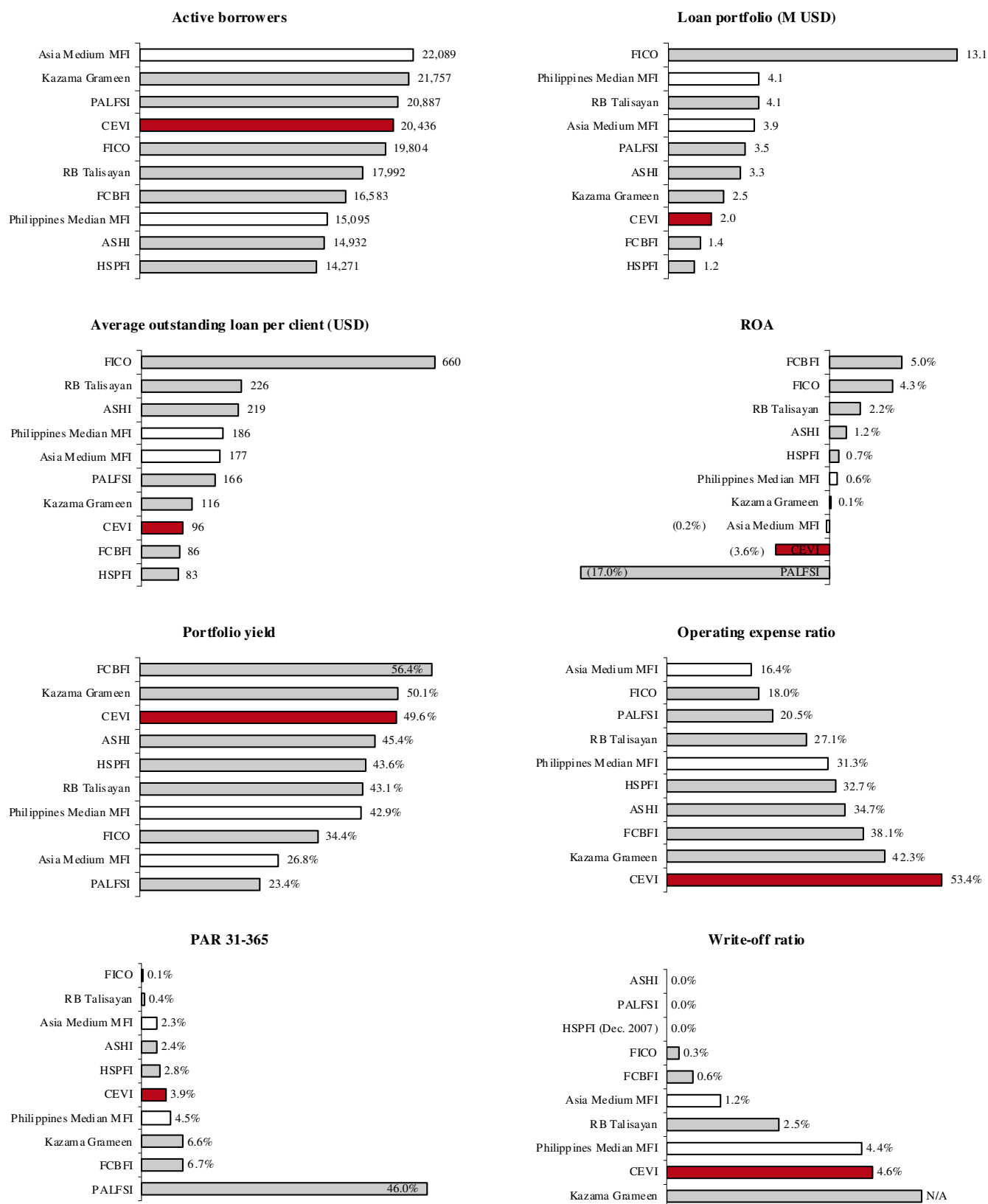


While expected to be profitable for FY09/10, CEVI has a stable profitability outlook in the near term. In spite of improved portfolio quality and economies of scale from the saturation of current market areas, low asset optimization and the planned recourse to commercial funding will constrain higher profitability levels.

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.

³² The target LO caseload was increased to 300 clients only recently.

Benchmarking



Source: Planet Rating data as of September 2008 for CEVI; MixMarket figures for Philippines MFIs as of Dec 2008, except for FCBFI (Dec 2007) or otherwise noted; MIX peer group: Asia Medium MFI (2M USD> Gross Loan Portfolio > 8 M USD). MIX Asia Benchmarks refer to median MFIs for 2007.

Note: CEVI's peer group in the Philippines includes: ASHI (Ahon Sa Hirap Inc.), FCBFI (FCB Foundation, Inc.), FICO (First Isabela Cooperative Bank), HSPFI (Hagdan Sa Pag-uswag Foundation Inc.), Kazama Grameen, PALFSI (People's Alternative Livelihood Foundation of Sorsogon, Inc), and RB Talisayan (Rural Bank of Talisayan).

■ Performance indicators

Data in USD, unless otherwise stated

	Sep.2004	Sep.2005	Sep.2006	Sep.2007	Sep.2008	Jun.2009
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	1,009,287	1,179,565	1,139,159	1,702,163	1,954,011	2,302,341
Loan portfolio (PHP)	56,859,201	66,120,509	57,398,788	76,704,572	91,676,316	111,221,477
<i>Growth</i>	91.6%	16.3%	(13.2%)	33.6%	19.5%	21.3%
Active borrowers	15,235	16,989	16,376	18,661	20,436	24,156
<i>Growth</i>	70.7%	11.5%	(3.6%)	14.0%	9.5%	18.2%
Average outstanding loan per client	66	69	70	91	96	95
<i>% of GDP per capita</i>	6.4%	6.1%	5.1%	5.5%	5.4%	5.1%
Average amount disbursed per loan	455	565	536	770	350	169
<i>% of GDP per capita</i>	43.9%	49.6%	38.9%	46.2%	19.6%	9.0%
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	5.1%	8.6%	15.8%	4.6%	3.9%	4.7%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	6.5%	15.1%	4.6%	1.3%
Credit risk coverage						
Risk coverage ratio (PAR 30)	101.9%	138.3%	87.7%	60.4%	88.1%	74.5%
PAR 30 net of loan loss provision / Equity	(0.1%)	(3.4%)	2.0%	2.3%	0.8%	2.2%
Savings						
Outstanding deposits	190,329	202,433	237,275	456,195	537,931	658,528
Outstanding deposits (PHP)	10,722,369	11,347,366	11,955,600	20,557,496	25,238,087	31,812,185
<i>Growth</i>	36.3%	5.8%	5.4%	71.9%	22.8%	26.0%
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	15,245	16,989	17,528	19,016	20,899	25,592
<i>Growth</i>	66.1%	11.4%	3.2%	8.5%	9.9%	22.5%
Average outstanding deposit per saver	12	12	14	24	26	26
Voluntary savings	-	-	-	-	-	-
Cash collateral	15	14	14	22	25	26
Staff						
Total number of staff	81	108	129	132	183	186
% Credit officers	72.8%	64.8%	59.7%	57.6%	60.7%	54.8%
Turnover	13.5%	16.9%	16.9%	29.9%	19.0%	22.8%
Profitability analysis						
	Sep.2004	Sep.2005	Sep.2006	Sep.2007	Sep.2008	Jun.2009
ROE	12.5%	7.6%	(6.2%)	2.2%	(9.7%)	4.7%
Liabilities / Equity	0.96x	0.72x	0.97x	1.10x	1.91x	1.89x
Core capital adequacy ratio	80.2%	95.4%	104.7%	72.0%	55.7%	49.9%
Total capital adequacy ratio	80.2%	95.4%	104.7%	72.0%	55.7%	49.9%
ROA	7.8%	4.4%	(1.6%)	2.2%	(3.6%)	4.4%
ROA (without donations)	6.2%	4.1%	(3.4%)	1.1%	(3.9%)	1.6%
ROA (microfinance operations)	6.2%	4.1%	(3.4%)	1.1%	(3.9%)	1.6%
Profitability structure						
Total revenue ratio	51.9%	50.4%	51.7%	56.6%	53.1%	52.0%
Portfolio yield	50.7%	49.2%	50.0%	51.8%	49.6%	46.2%
Operating expense ratio	36.3%	36.3%	50.5%	47.7%	53.4%	46.0%
Cost per borrower	18	23	34	37	45	40
Staff productivity	188	157	127	141	112	130
Loan officer productivity	258	243	213	246	184	237
Average outstanding loan per client	66	69	70	91	96	95
Funding expense ratio	0.5%	0.2%	2.3%	1.7%	1.2%	0.8%
Cost of savings	0.0%	0.0%	2.1%	1.7%	1.7%	1.5%
Cost of borrowings	0.9%	0.4%	3.0%	2.1%	1.4%	1.3%
Loan Loss Provision expense ratio	5.2%	7.4%	5.6%	5.3%	5.3%	2.5%
PAR 31-365	5.1%	8.6%	15.8%	4.6%	3.9%	4.7%
Write-off ratio	0.0%	0.0%	6.5%	15.1%	4.6%	1.3%
Resource optimization						
Outstanding Loan Portfolio / Assets	59.7%	57.0%	44.1%	59.8%	56.1%	62.1%
Revenue from investment as a % of financial revenues	2.2%	1.8%	2.6%	1.6%	1.2%	2.0%
Liquidity						
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	0.1%	0.2%	46.7%	0.3%	0.3%	0.3%
Current ratio (1 year)	813.2%	862.4%	753.9%	418.9%	362.7%	338.0%
Exchange rate 1 USD= xx PHP	56.3	56.1	50.4	45.1	46.9	48.3

■ Financial statements – PHP

Income Statement (PHP '000)	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
Interest and fee income on loan portfolio	21,933	30,222	27,385	33,590	40,289	35,467
Interest and fee income on investments	491	548	718	558	507	707
Interest and other financial expenses	208	114	1,247	1,070	1,140	973
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	(1)	(14)	150	391
Net financial income	22,217	30,657	26,854	33,064	39,806	35,591
Fees and commissions on other financial services	-	-	-	2,130	1,480	2,561
Other operating income	42	202	241	463	864	1,145
Operating expenses	15,704	22,312	27,652	30,972	43,350	35,340
<i>Personnel expenses</i>	<i>7,431</i>	<i>11,380</i>	<i>14,384</i>	<i>17,583</i>	<i>25,376</i>	<i>21,083</i>
<i>Administrative and other expenses</i>	<i>7,656</i>	<i>10,051</i>	<i>12,281</i>	<i>12,364</i>	<i>16,434</i>	<i>13,169</i>
<i>Depreciation</i>	<i>617</i>	<i>880</i>	<i>987</i>	<i>1,025</i>	<i>1,539</i>	<i>1,088</i>
Non operating income (net)	-	-	-	-	-	-
Gross operating income	6,556	8,547	(557)	4,685	(1,200)	3,958
Net loan loss provision expense	2,259	4,545	3,057	3,424	4,326	1,952
Net operating income	4,297	4,002	(3,614)	1,261	(5,526)	2,006
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	4,297	4,002	(3,614)	1,261	(5,526)	2,006
Income Tax	-	-	-	-	-	-
Net income before donations	4,297	4,002	(3,614)	1,261	(5,526)	2,006
Donations	1,111	242	1,880	1,299	401	3,507
Net Income	5,408	4,243	(1,734)	2,559	(5,125)	5,513

Balance Sheet (PHP '000)	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
ASSETS	90,315	102,970	112,121	124,764	157,729	172,911
Liquid assets	99	201	52,366	333	521	505
Net loan portfolio	53,917	58,701	49,456	74,596	88,531	107,298
<i>Gross loan portfolio</i>	<i>56,859</i>	<i>66,121</i>	<i>57,399</i>	<i>76,705</i>	<i>91,676</i>	<i>111,221</i>
<i>(Loan loss reserve)</i>	<i>2,942</i>	<i>7,420</i>	<i>7,942</i>	<i>2,109</i>	<i>3,146</i>	<i>3,924</i>
Interest receivable	-	-	-	-	-	-
Financial investments	32,793	39,974	5,455	41,967	59,780	53,892
Net fixed assets	2,423	2,456	2,858	4,167	3,919	3,157
Intangible assets	-	-	-	-	-	-
Other assets	1,083	1,638	1,985	3,701	4,978	8,060
LIABILITIES AND EQUITY	90,315	102,970	112,121	124,764	157,729	172,911
Liabilities	44,251	43,048	55,290	65,374	103,464	112,995
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	10,722	11,347	11,956	20,557	25,238	31,812
Borrowings	30,920	29,278	37,951	37,369	69,614	70,999
Subordinated debt	-	-	-	-	-	-
Other liabilities	2,608	2,422	5,383	7,447	8,611	10,184
Equity	46,065	59,922	56,831	59,391	54,266	59,916
Core capital	46,065	59,922	56,831	59,391	54,266	59,916
<i>Paid-in capital</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Donated equity</i>	<i>37,056</i>	<i>44,028</i>	<i>44,477</i>	<i>45,776</i>	<i>46,177</i>	<i>49,822</i>
<i>Retained earnings</i>	<i>9,009</i>	<i>15,894</i>	<i>12,354</i>	<i>13,615</i>	<i>8,089</i>	<i>10,095</i>
Other equity accounts	-	-	-	-	-	-

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

Balance Sheet Averages	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
Gross loan portfolio	43,266	61,490	54,809	64,885	81,234	102,335
Assets	69,526	96,643	107,546	118,443	141,247	165,320
Deposits	9,295	11,362	10,848	15,745	22,471	28,525
Borrowings and subordinated debt	24,405	30,099	33,614	37,660	53,492	70,307
Equity	34,488	52,994	58,377	58,111	56,828	57,091

■ Financial statements – USD

Income Statement (USD)	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
Interest and fee income on loan portfolio	389,331	539,157	543,490	745,391	858,722	734,187
Interest and fee income on investments	8,723	9,779	14,248	12,386	10,804	14,631
Interest and other financial expenses	3,692	2,034	24,755	23,752	24,294	20,151
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	(25)	(300)	3,195	8,085
Net financial income	394,362	546,903	532,959	733,725	848,427	736,752
Fees and commissions on other financial services	-	-	-	47,264	31,551	53,024
Other operating income	754	3,609	4,789	10,266	18,413	23,700
Operating expenses	278,752	398,037	548,794	687,299	923,969	731,546
<i>Personnel expenses</i>	<i>131,901</i>	<i>203,021</i>	<i>285,478</i>	<i>390,182</i>	<i>540,879</i>	<i>436,431</i>
<i>Administrative and other expenses</i>	<i>135,897</i>	<i>179,309</i>	<i>243,732</i>	<i>274,368</i>	<i>350,287</i>	<i>272,600</i>
<i>Depreciation</i>	<i>10,954</i>	<i>15,706</i>	<i>19,584</i>	<i>22,749</i>	<i>32,802</i>	<i>22,515</i>
Non operating income (net)	-	-	-	-	-	-
Gross operating income	116,365	152,476	(11,046)	103,956	(25,578)	81,930
Net loan loss provision expense	40,095	81,088	60,680	75,981	92,205	40,408
Net operating income	76,270	71,388	(71,725)	27,975	(117,782)	41,523
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	76,270	71,388	(71,725)	27,975	(117,782)	41,523
Income Tax	-	-	-	-	-	-
Net income before donations	76,270	71,388	(71,725)	27,975	(117,782)	41,523
Donations	19,723	4,309	37,310	28,818	8,547	72,597
Net Income	95,993	75,696	(34,415)	56,794	(109,235)	114,119

Balance Sheet (USD)	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
ASSETS	1,603,156	1,836,948	2,225,196	2,768,662	3,361,880	3,579,354
Liquid assets	1,753	3,586	1,039,271	7,390	11,104	10,464
Net loan portfolio	957,065	1,047,201	981,532	1,655,362	1,886,965	2,221,119
<i>Gross loan portfolio</i>	<i>1,009,287</i>	<i>1,179,565</i>	<i>1,139,159</i>	<i>1,702,163</i>	<i>1,954,011</i>	<i>2,302,341</i>
<i>(Loan loss reserve)</i>	<i>52,222</i>	<i>132,364</i>	<i>157,626</i>	<i>46,801</i>	<i>67,045</i>	<i>81,222</i>
Interest receivable	-	-	-	-	-	-
Financial investments	582,104	713,130	108,270	931,306	1,274,175	1,115,585
Net fixed assets	43,005	43,805	56,720	92,470	83,528	65,347
Intangible assets	-	-	-	-	-	-
Other assets	19,230	29,226	39,402	82,134	106,108	166,840
LIABILITIES AND EQUITY	1,603,156	1,836,948	2,225,196	2,768,662	3,361,880	3,579,354
Liabilities	785,477	767,957	1,097,298	1,450,714	2,205,249	2,339,059
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	190,329	202,433	237,275	456,195	537,931	658,528
Borrowings	548,855	522,314	753,184	829,252	1,483,779	1,469,712
Subordinated debt	-	-	-	-	-	-
Other liabilities	46,293	43,211	106,839	165,268	183,539	210,818
Equity	817,679	1,068,991	1,127,898	1,317,948	1,156,631	1,240,296
Core capital	817,679	1,068,991	1,127,898	1,317,948	1,156,631	1,240,296
<i>Paid-in capital</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Donated equity</i>	<i>657,763</i>	<i>785,448</i>	<i>882,712</i>	<i>1,015,819</i>	<i>984,225</i>	<i>1,031,331</i>
<i>Retained earnings</i>	<i>159,916</i>	<i>283,543</i>	<i>245,186</i>	<i>302,128</i>	<i>172,407</i>	<i>208,965</i>
Other equity accounts	-	-	-	-	-	-

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

Balance Sheet Averages	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007	Sep. 2008	Jun. 2009
Gross loan portfolio	767,993	1,096,956	1,087,756	1,439,874	1,731,445	2,118,396
Assets	1,234,134	1,724,070	2,134,391	2,628,378	3,010,567	3,422,215
Deposits	164,988	202,688	215,293	349,407	478,962	590,485
Borrowings and subordinated debt	433,211	536,960	667,126	835,711	1,140,131	1,455,383
Equity	612,179	945,385	1,158,569	1,289,551	1,211,249	1,181,811

■ Formulas

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

■ Rating scale

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-	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.	INVESTMENT GRADE
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.	
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+	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	
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
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.	
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.	