Paglaum Multi-Purpose Cooperative, Philippines

Since 1992, Paglaum Multi-Purpose Cooperative (PMPC) has served as the livelihood arm of the Paglaum Community Development Foundation, Inc. (PCDFI). The cooperative acts as a resource for economic and social development for its members, who benefit from a wide variety of financial services, savings products, insurance plans, and educational training programs. With its principal office located in Plaridel, Misamis Occidental, PMPC maintains ten branches and two satellite offices that together cover the whole Northwestern part of Mindanao in the Philippines. As of May 2009, PMPC comprised 27,806 members with a gross loan portfolio of 2.9 M USD.

GIRAFE Rating

Rating

C

Outlook

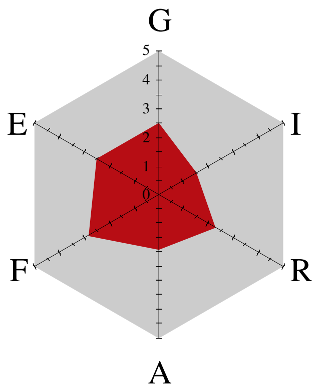
Stable

Date of the rating

July 2009

Valid until June 2010

Rating per evaluation area



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

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Rating highlights

- PMPC has shown solid and stable profitability over the past few years, with Return on Asset (ROA) increasing from 3.6% to 8.9% over the period 2004-2009.
- Showing strong commitment to PMPC's mission, the Management Team (MT) defers strongly to the General Manager (GM), who concentrates overall decision making. Contributing to key person risk, this imbalance in decision making is also evident in the Board of Directors (BOD), where the GM has strong influence.
- Information for portfolio management and accounting remains basic and shows some gaps and inefficiencies in need of streamlining, particularly to cope with the large array of product offerings and the demands of a growing organization.
- Financial services and delinquency management requires stronger supervision by field staff to implement effectively.
- As of May 2009, PAR 30 reached a high of 8.9%. With a 50.5% credit risk coverage ratio, the loan loss reserve does not adequately cover potential losses. Rescheduled loans account for 10.8% of the loan portfolio.
- With minimal liquidity management, PMPC relies on high cash buffers to cover operating expenses and cash potential shortfalls.

Outlook

Planet Rating assigns PMPC a stable outlook. As a reputable cooperative in Misamis Occidental, PMPC has notable competitive advantages. Nonetheless, imbalances in decision making, gaps in information management, deteriorating portfolio quality, and insufficient loan loss provisioning weigh upon its otherwise solid financial results.

USD	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
Assets	670,838	962,206	1,373,800	2,528,515	3,643,691	4,262,893
Loan portfolio	420,809	600,090	872,662	1,671,779	2,562,423	2,955,317
Active borrowers	-	7,030	8,404	11,483	17,865	17,464
Ave outstanding loan p	-	85	104	146	143	169
Outstanding deposits	155,968	249,481	374,711	681,742	1,055,556	1,271,387
Active savers	-	-	12,324	13,485	16,348	17,868
Staff	n/a	n/a	131	137	162	193
ROE	7.1%	17.6%	10.8%	12.4%	20.2%	25.1%
ROA (without donations)	n/a	5.0%	3.6%	4.6%	6.9%	8.9%
Liabilities / Equity	2.99x	2.26x	1.83x	1.61x	2.18x	1.59x
Portfolio yield	30.6%	49.0%	51.0%	45.1%	48.7%	47.5%
Operating expense ratio	24.2%	32.6%	42.4%	41.4%	37.0%	31.6%
Funding expense ratio	8.0%	7.5%	7.3%	2.4%	3.0%	4.7%
LLP expense ratio	1.3%	7.2%	3.0%	2.4%	2.9%	3.3%
PAR 31-365	0.0%	5.3%	4.1%	3.1%	6.0%	8.9%
PAR > 365	n/a	0.0%	0.6%	0.7%	1.0%	1.2%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Microfinance sector

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

Major providers of microfinance services (i.e. microfinance institutions or MFIs) 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]

The Philippine Cooperative Code of 2008 classifies multi-purpose cooperatives as financial services cooperative (FSC), subject to greater oversight and regulation. Article 121 of this Coop Code focuses on FSCs and provides the CDA with supervisory powers to issue rules and regulations; establish standards; prescribe ratios, ceilings, and limitations; investigate; conduct regular examination; inquire into the solvency and liquidity; and prescribe appropriate fees for supervision and examination. The new code also sets specific conflict of interest guidelines for cooperative board members. However, the code's changes have yet to be enforced.

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. 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).

MFIs in the Philippines 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 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 (NATCCO), the Philippine Federation of Credit Cooperatives, and the Mindanao Association of Self-help Societies Southern Philippines Educational Cooperative Center (MASS-SPEC).

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

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

[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.

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 exchange 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

PMPC was registered under the Cooperative Code of the Philippines on July 30, 1992 and serves as the livelihood arm of PCDFI. PMPC submits regular reports of its program of activities (including those pursuant to socio-civic undertakings with indications of progress/achievements) to its regulating body, the CDA. PMPC enjoys a tax-exempt status so long as transacting business activities reside with its members. A local auditor based in Cagayan de Oro City (in Mindanao), Pangilinan, Molo & Co. has provided audited financials for PMPC since 2004. During this period, the auditor has not qualified its opinion. The financial year for PMPC starts at January 1st and ends on December 31st.

Ownership

A jointly-owned and democratically-controlled enterprise, PMPC belongs to its members,[2] who number 27,806 as of May 2009. Annually, the separate branches gather for a General Assembly of regular members.[3] Its governance body comprises nine members of a Board of Directors (BOD), chosen from the cooperative annually for a one-year term. Members of the BOD can be re-elected for up to three consecutive years. In the most recent past, three vacancies have opened up every year. Headed by the Chairman and Vice Chairman, the BOD meets (monthly) to discuss issues faced by the cooperative, analyze operational performance, and take strategic decisions for the MT to carry out. Meeting once every two months, four sub-committees complement the work of the BOD: the CRECOM (credit), ELECOM (elections), EDCOM (education), and AICOM (audit and inventory). The AICOM comprises the chairperson and two other members of the BOD.

Donations

Since 2003, PMPC has received 12.8M PHP (270 K USD) in donations, drawn mostly from national sources and specifically allocated to subsidize some of the operating expenses.

Funding composition

As of May 2009, equity made up 38% of PMPC's funding structure, deposits (compulsory, demand and time) 30%, and debt 32%. Drawn from a diversified pool of commercial, national and international sources, its total debt reached 41 M PHP (867 K USD).[4] With 18.5% denominated in USD, this debt is subject to fixed interest rates only. Short term debt made up 53.4% of the total mix.

Management team

Senior Management includes the GM, Operations Manager (OM), MFI Project Advisor, Chief Finance Officer (CFO), Business Development Manager (BDM), Accountant, and HR/Admin Officer. A management team composed of the OM, CFO and BDM oversee the cooperative in the absence of the GM. Approving loans above a set limit, the Management Committee (ManCom) comprises the OM, BDM, and Internal Audit/Compliance Officer (IA/CO).

- The founder and GM, Mr. Gadwin E. Handumon divides his work running both PMPC and its foundation arm, PCDFI. [5] He holds a BS in Economics from the Mindanao State University and an MBA from Misamis University. Mr. Handumon currently pursues an MS in International Community Economic Development at Southern New Hampshire University.

Organization

With its head office (HO) in Plaridel, PMPC maintains ten branches and two satellite offices. Headed by the Branch Manager (BM), branch operations segregate into a mix of front office credit personnel, back office support functions (bookkeeper, accounting clerk, cashier, and teller), and a security guard. On the front end, credit support divides into individual or microfinance (i.e. group) lending. Area Supervisors (ASs) oversee group loans, and Technical

[2] To join PMPC, associate and regular members must commit at least 500 PHP (4.2 USD) and 1,500 PHP (31.6 USD) in share capital, respectively.

[3] Newly opened branches conduct an ownership meeting the first year of operation.

[4] Sources for its debt funding include: PCFC, MASS-SPEC, National Livelihood Development Corporation , United Coconut Planter Bank, SeedFinance Corporation, Landbank, and Kiva. In early 2009, PMPC signed a 32 M PHP loan from Oikocredit, whose first tranche was only released in June 2009.

[5] PCDFI was established in September 3, 1983 in order to improve the quality of life of the people in the underprivileged communities of Plaridel. It now focuses on child development.

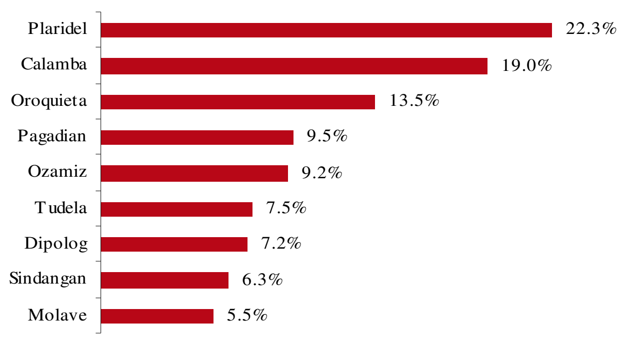
Officers (TOs) manage the loan portfolio.[6] Loan Officers (LOs) oversee individual loans, and Account Officers (AOs) manage this specific portfolio. Credit approvals pass through the Branch Credit Committee (BCC), which comprises the BM, AO, LO, and AS. Loan approvals involve the BCC up to 50 K PHP, the ManCom up to 100 K PHP, the GM up to 1 M PHP, and the BOD for higher amounts. Deposits withdrawal require the branch teller up to 20 K PHP, cashier up to 50 K PHP, BM up to 500 K PHP, and the GM above 500 K PHP.

All branches operate through a computerized system of recordkeeping; and monthly consolidation of their financial statements occurs at HO. With the exception of one satellite branch,[7] PMPC relies on MicroBanker, an off-the-shelf (DOS-based) integrated software for loan tracking and accounting that MASS-SPEC has adapted for cooperatives. Efforts are underway to upgrade the entire Management Information System (MIS). Yet, a timeline for implementation has yet to be finalized.[8] PMPC relies on the support of the IT team at MASS-SPEC for its MIS development and maintenance needs.

Market penetration

As of May 2009, PMPC's network of ten branches and two satellite offices covered Misamis Occidental, Zamboanga del Sur and del Norte. With 41.3% of its outstanding loan portfolio, Plaridel and Calamba branches account for the major bulk of PMPC's outreach. Future expansion focuses on the neighboring island of Siquijor in the Visayas. Its main competitors include Aurora Integrated Multi-Purpose Cooperative, CARD Inc., Gata Daku Multi-Purpose Cooperative, Kasanyangan-Mindanao Foundation, Rural Bank of Katipunan, Lorenzo Tan Multi-Purpose Cooperative, and the People's Bank of Caraga, among others.

Outstanding loan portfolio per branch - May 2009



[6] At PMPC, group loans are called microfinance loans.
[7] The Tangub satellite (of the Ozamis) branch has piloted a Windows-based loan-tracking and accounting system called Coop Plus, developed by LACCCAS Alliance Services Corporation based in Cebu.
[8] Through an MOU with the Philippine Long Distance Telephone Company, PMPC plans to implement an IP-VPN (Internet Protocol Virtual Private Network) to link all the branches to the HO.

Products and services

PMPC offers an extensive array of loans, savings and insurance products. ***Individual loans*** group into three broad categories:

- Productive Loans finance additional capital of members existing micro-enterprises from 1K PHP up to 500K PHP. Each loan cycle lasts between two to 12 months, with a monthly interest rate of 2.5% and flexible repayment schedule. The effective interest rate (EIR) varies between 80 to 90%;
- Financing Loans used for the acquisition of appliances and motor vehicles range from 20K PHP to 500K PHP, with terms of 1-3 years, an annual declining interest rate of 21.0%, and flexible repayment schedule; and
- Providential loans subdivide into another nine products:
  - Housing Loans for home purchases: The maximum loan amount is 300K PHP and payable within three years, with a monthly interest rate of 1.75% (or an EIR of 94.4%);
  - Rice Loans finance the purchase rice (one 50kg sack), repayable in eight weeks (at 0% interest);
  - Disconnection Loans for payment of bills: Payable within one month at no interest rate, loan amounts vary according to the bill; and
  - Pensions and Insurance loans charge an EIR that ranges around 70-73%.

A broad range of ***microfinance group lending products*** provide similar financing as the individual loans, although their terms and conditions may vary:

- Project Loans for additional capital to existing micro-enterprises: The first loan starts at 7K PHP up to 30K PHP (sixth cycle). With a monthly interest rate of 2.5% (EIR around 83%), repayment occurs weekly;
- Medical Loans for hospitalization needs: Payable within 13 weeks, at a monthly interest rate of 2.5%, this loan carries a maximum principal amount of 2K PHP;
- Education Loans financing tuition for members and their children: Payable within 12-25 weeks with a monthly interest rate of 2.5%, loan amounts reach a maximum of 10K PHP.
- Rice Loans, Disconnections Loans, Emergency Loans, Philhealth Loans and Housing Loans: Similar to their individual counterpart, these loans have minor characteristic differences but higher EIR (housing loans EIR is 94.4%).

All loans carry a 4% service fee, except for the rice loan.

Savings products include demand deposits, time deposits and savings plan:

- Regular savings and Youth/Kiddie savings require a minimum of 500 PHP balance, can be withdrawn at any time and generate a 3% interest rate per annum;

- Progressive Savings Deposits generate 4% interest per annum. Savers are not allowed to withdraw their savings before achieving at least 50% of their savings target;
- ATM Savings Deposits are demand deposit that can be withdrawn in any PMPC, Megalink, Expressnet, or Bancnet connected ATMs; and
- Time Deposits offer varying annual interest rates, depending on deposit balances (1K-500K PHP: 4.5%, 50K-100K PHP: 6.5%, 100K-500K PHP: 8.5%, and above 500K PHP: 10%. Time deposits require a minimum term of 90 days.

PMPC also offers a variety of ***insurance products***:

- Coop Loan Protection Plan: A compulsory loan insurance to borrowers, the plan offers premiums that vary from 1 to 1.35 PHP for every 1K PHP loan taken out per month;
- Life and Accident Insurance: Members Yearly Renewable Accident-Life Burial Plans (MYRACL) and Group Accidental Death, Dismemberments & Disablement (GADD&D) cover natural and accidental deaths, dismemberment, burial and medical expenses. Annual premium vary from 230 PHP to 1370 PHP depending on age and choice of plan.
- Group Family Insurance: Open to all members, these various plans cover death/funeral costs and carry a minimum stand balance of 200 PHP.[9]
- General all-purpose insurance: PMPC also recently set up a partnership with Philheath, a mainstream insurance company in the Philippines.

In addition, PMPC offers a variety of ***non-financial services*** to its cooperative members. Its Farm Level Grain Center provides harvesting assistance and training. A business center offers various office admin services. Travel & Tours caters to transportation and vacation needs of members. Its COOP Education & Training Program promotes entrepreneurial development.

Networks

PMPC belongs to NATCCO, the Misamis Occidental Federation of Cooperatives and MASS-SPEC. PMPC also holds membership with MCPI and its local equivalent, the Mindanao Microfinance Council. Regionally, PMPC links up with the Association of Asian Confederation of Credit Unions and internationally with the World Council of Credit Unions (WOCCU).

[9] Currently, PMPC is working on the set up of its own MBA entity in partnership with CARD MBA.

Governance

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

Decision making

Decision making at PMPC requires more balance, input, and capacity from various stakeholders. Strongly influential on the BOD, the GM provides overall financial guidance and strategic vision to board meetings. Board members show a strong dedication to the mission of PMPC but are overshadowed by the charismatic GM. Drawn from its pool of cooperative members, the BOD offers community connections and a strong orientation towards member development, although stronger backgrounds in microfinance, business development, and risk management would greatly improve the exercise of effective ownership. Aware of this need for capacity, PMPC has made efforts to strengthen the skills of board members (e.g. corporate governance training for all BOD members and finance training for the BOD treasurer in Bangkok).

Since its establishment, PMPC has articulated a broad social mission in support of its members. Through regular monthly meetings (and every two months for the AICOM), the BOD provides adequate governance for PMPC. Although the BOD receives detailed and relevant data, this information occasionally arrives late (i.e. during instead of prior to board meetings). While sufficiently outlining operational performance, financial indicators, and general information, management reports provided to the BOD could benefit from more analytical depth and critical perspectives. Board meetings are well documented in minutes, although clear follow-up of board decisions could be better formalized to allow for their effective implementation.[10]

PMPC holds an appropriate legal set-up, which generally benefits its socio-economic mission. The Cooperative Code of the Philippines (and its amendment in 2008) provides the basis for effective exercise of ownership at PMPC and the rules to manage conflicts of interest. Still, oversight of cooperatives by the CDA remains passive, especially in comparison to the regulatory demands of the BSP for banking institutions. However, recent regulatory changes have initiated efforts to provide more supervisory oversight of credit cooperatives.[11]

[10] Such a formalization might include: systematic approval of previous board minutes; clear approval of decisions taken (with board votes); assignment of tasks, staff responsibilities, and appropriate deadlines; and identification of main organizational issues and challenges (in priority of importance) to be addressed.

[11] See the Microfinance section for more background.

Planning

Although an appropriate strategy is in place, the planning capacity at PMPC has strong room for improvements. As outlined in its five-year strategic plan first established in 2007, PMPC has a well-articulated financial and market vision that originally targeted 75,000 members by 2011, when 17 offices and 205 personnel would oversee total assets of 425 million PHP (8.96 M USD). However, the underlying environmental and institutional analysis of this strategy could benefit from an assessment of the security challenges to geographic expansion in Mindanao, review of market competition, and scenario analysis. Furthermore, the business plan does not include a clear strategic analysis on key projects to be implemented (e.g. MIS, product development, credit risk management) nor an analysis on how the expansion will affect operational systems and staffing requirements. Nonetheless, the SWOT analysis, monthly monitoring of year-end targets, and a willingness to revise 2011 targets (usually downwards) point to a relevant business plan that remains achievable on the whole.

Derived from a MASS-SPEC planning template, financial projections (based on a percentage increase from one year to the next rather than a detailed analysis of specific organizational needs and constraints) are very basic. Moreover, operational action plans (that address current issues) per department would greatly contribute to more realistic goals and targets. The necessary adjustments to budgets every six-months not only show flexibility to adapt to changing situations, but also point to general limitations of planning projections to begin with. As facilitated by MASS-SPEC, the planning process involves adequate communication and staff participation, although more realistic targets could ensure better staff buy-in of PMPC's strategy.

Management team

While showing strong dedication and commitment to PMPC's cooperative mission, the MT defers strongly to the GM for strategic direction and guidance. Given his role at PCDFI, extensive business networking outside of Mindanao, and educational commitments, the GM exhibits strong management skills at delegating tasks to other members of the MT. As such, key-person risk exists, with the GM concentrating strategic vision and overall decision making.

Promoted through the ranks, the MT has either industry experience or strong community links. However, the MT would benefit from a broader range of analytical insights, independent thinking, and leadership skills, particularly with frequent absences of the GM. Adequately assisted by middle managers/field staff (BMs, LOs, and ASs), the MT has shown sufficient execution capacity and good management of membership and loan release targets, although overall operational performance and efficiency could be improved. Some management members have recently taken up their positions and have room to grow in their new roles.[12] Skills of BMs could also be improved with focused training on financial analysis (e.g. profitability analysis per product, market position of the branches) and delinquency management.

Weekly management meetings allow for adequate internal communication at HO and with the branches. To date, however, these meetings are not documented and could ideally be formalized to provide a more accountable process of decision-making, particularly in the absence of the GM.

Human resource management

Set up in 2006, PMPC HR Department runs professionally, yet requires further enhancement and coordination with the recently established training center. Basic HR procedures are formalized, even though more frequent updates and better tracking of relevant information (e.g. salary grid, list of personnel or follow up of staff turn over) are needed. Moreover, some HR polices are yet to be approved by the BOD. In the absence of an independent HR plan and budget, the HR Department and the training center could benefit from better planning. Staffing needs are identified according to requests from branches but could also adhere to a pre-defined recruitment plan.

Adequate processes are in place to recruit appropriate staff, e.g. series of tests (e.g. writing and accounting) and several rounds of interviews. Once hired, new staff receive comprehensive and in-depth training, including field exposure and classroom instruction. Focused trainings and refresher courses to current staff are also conducted both by the management team and by other external consultants. Adequate staff evaluation tools are currently not in place. Nor do staff have a clear vision of career promotion opportunities, although PMPC hopes to implement a Performance Assessment Tool linked to a promotion grid and an individual incentive plan.[13]

Staff turnover is reasonable (roughly 6% in 2008 and 5.6% as of May 2009). Strong staff identification with PMPC's values, the participatory nature of annual staff meeting, and the recent upgrading of the salary grid have contributed to good morale of staff, who are also cooperative members.

[12] Recently appointed in April, the CFO has yet to focus on the tasks of a finance manager and continues to focus on accounting tasks with the accountant.
[13] No specific date of its roll-out has been set.

Information

Information **is rated "d"**

Information for portfolio management and accounting remains basic and shows some gaps and inefficiencies in need of streamlining, particularly to cope with the large array of product offerings and the demands of a growing organization. The computerized MIS, MicroBanker, generates detailed reports for analysis and portfolio management, although difficulties of reconciling the information raise concerns about their general reliability. Branches maintain comprehensive portfolio information (such as disbursed loans by product, savings, PAR, delinquency, and staff targets, among others), which is available daily for follow-up and consolidated monthly into center monitoring reports for performance tracking by management staff.[14]

PMPC produces basic financial information both at the branch and HO level, with monthly financial statements and ratios (PEARL/WOCCU). However, the production of accurate, consolidated financial statements is time-consuming, with frequently mistakes of branch data identified by HO. Moreover, financial data is not always complete (e.g. reconciliation of the loan loss reserve, along with all inter-branch transfers)[15] or produced timely (with some branches reporting information later than others). These inefficiencies hamper proper financial analysis for effective decision making.

Adequate systems are in place to ensure data security, with daily back-up of information at the branches (on-site and off-site). Proper storage for loan documents are standardized and followed. Yet, additional improvements could be made to safeguard the integrity of the MIS. The data extraction process, for example, requires manual manipulation, which can be prone to human error or potential security breaches, particularly in the absence of stronger checks.[16] Password security remains inadequate, lacking a minimum complexity for passwords and proper deletion of old accounts. In addition, MIS servers are not sufficiently secured, lacking their own separate room with limited access. Adequate anti-virus software is being used and checks on their update occur during quarterly routine maintenance performed by the MASS-SPEC IT team.

PMPC's current MIS needs are adequately satisfied by MASS-SPEC. Having supported the implementation of MicroBanker for cooperatives throughout the southern Philippines, the IT team at MASS-SPEC possesses sufficient experience in system development. Yet, MASS-SPEC's responsiveness to PMPC's evolving MIS needs have prompted consideration for alternative MIS applications.

[14] The exception is the Tangub satellite branch, which pilots the Coop Plus.
[15] Other improvements could be done in the accounting of interest receivable, although the impact is expected to be minor.
[16] This potential risk is present even with the formal Microbanker security policy in place.

Risk Management

Risk Management **is rated "c"**

Procedures and internal controls

The internal control system remains basic, requiring greater monitoring of field staff by HO. The expanded network of branches has stretched the capacity of internal controls, where one OM oversees field operations. PMPC has formalized an appropriate internal control system, marked by hierarchical control, staff rotation, limitation of powers, and segregation of tasks. However, procedural checks could be greatly improved to enforce a stronger culture of compliance, particularly in newly opened branches and satellite offices, where instances of clerical/filing errors, lack of appropriate signatures, incomplete loan documentation, and their improper classification are more prevalent. Overall, however, staff have a general awareness of organizational practices and mode of operations. PMPC has implemented standardized procedures and operational policies, although HR manuals need to be updated and financial operations rely only on memos for guidance.

PMPC produces monthly financial statements, but only after time-consuming checks when consolidated at the HO level. However, portfolio reports (by branch and by product) are not cross-checked (and adjusted accordingly). The filing of related loan documents could be greatly enhanced to facilitate data verifications.

Through a variety of measures, cash security is sufficiently ensured at the branches: (i) the use of safes (although they require only one key); (ii) segregated areas for cash counting by bank tellers; (iii) security guards; and (iv) the transfer of excess cash to the banks (according to set guidelines for branches).

Internal audit

Internal audits occur sufficiently frequent but their scope could be greatly improved. As the sole member of the Internal Audit (IA) department, the IA/CO performs meaningful due diligence, with checks (including client visits) and report findings on both the network of branches and HO. However, the IA provides mostly procedural checks of field operations, while broader institutional concerns (e.g. financial, legal, reputation and security risks) have escaped systematic inspection.

Additional staff capacity is needed to undertake the necessary audits. In the most recent past, the IA/CO (with the support of two subordinates) has conducted audits of all the branches monthly, although this frequency has tailored off with the recent promotion of his staff to other departments. As a result, the rate of branch audits has reduced to four (from the previous nine) per month. The IA/CO possesses relevant skills to carry out his current duties but will need more training to examine the broader risk profile. Supporting the work of the IA/CO, one internal auditor is being trained, with another auditing staff planned in the near future.

In terms of content, audit reports lack clear follow-up on recommendations for corrective measures from previous audits. Management's response is also lacking in the reports, along with the (i) scope of the checks and (ii) a formalized policy to refine the process according to identified risks.

Reporting to the BOD and AICOM every two months, the IA department provides an adequate institutional set-up to guarantee the independence of internal auditors. Complementing the work of the IA, external auditors, PCFC, and Land Bank have provided opinions on the internal controls.

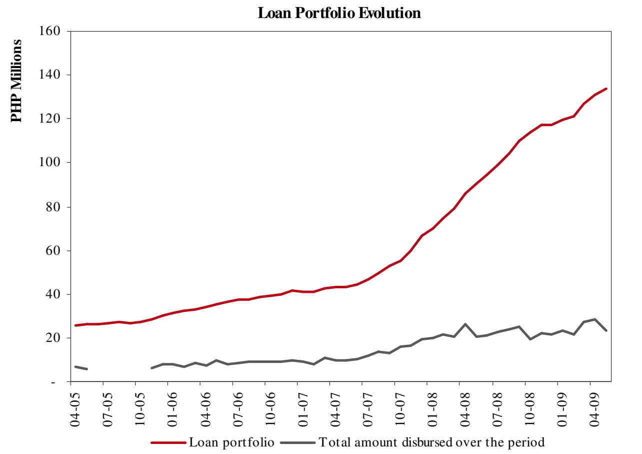
Activities

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

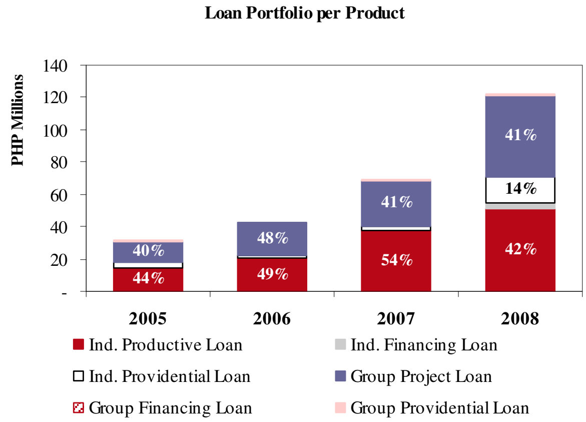
Financial services evolution

In 2005-2008, PMPC's portfolio expanded from 31.9 M PHP to 122.2 M PHP, the equivalent of a compound annual growth rate (CAGR) of 56.5%. Over the same period, active borrowers increased from 7,030 to 17,865, or a CAGR of 36.5%. Meanwhile, average outstanding loan per client steadily increased, from 85 USD to 143 USD. With the opening of new branches, the fastest growth occurred more recently, from 2007 onwards.

The expansion of Individual Productive and Group Project loans explains the major growth in the loan portfolio. At the end of 2008, these two loan products accounted for 83% of the total outstanding portfolio. With newly introduced pilot loan products (e.g. Individual and Group Financing, Individual and Group Providential), PMPC aims to satisfy various capital needs of its members. Their contribution to the overall loan portfolio, however, remains small by comparison. Despite efforts to diversify its product offering, PMPC continues to rely heavily on its main product offering.



Note: Outstanding portfolio per month could be reconciled with neither outstanding portfolio by product, nor with the balance sheet. Amounts of loans disbursed not available from July to October 2005.



Note: 2009 data is not stated because it could not be reconciled with balance sheet data.

PMPC's savings product has steadily grown over the years, from 13.2 M PHP to 50.3 M PHP in 2005-2008, or a CAGR of 56.0%. As of May 2009, outstanding deposits reached 60.2 M PHP, two-thirds in demand savings and the remaining one-third in time deposits.

Financial services management

PMPC has managed to implement an adequate credit methodology for group lending, while individual loans require further improvements to determine suitable borrower profile. As such, the capacity of LOs to implement the individual credit methodology remains limited. Although based on repayment capacity, business investigations lack both a systematic analysis of future cash flows and a loan applicant's level of indebtedness (e.g. through balance sheet analysis).[17]

[17] Due to the absence of a credit bureau, credit history investigations are not systematically conducted. For new clients, AOs and TOs perform checks with 19 other MFIs by exchanging lists of clients.

Delinquency management requires stricter supervision and monitoring by field staff. There is currently no clear and systematic delinquency management process. BMs only analyze PAR in absolute amounts, instead of the more standard ratio. Supervision of the field staff and monitoring of branche performance currently do not use specific targets (such as PAR ratio per AO/TO, per branch). Nor are collateral seizure rules ever applied. As a result, some delinquent clients have more than one year of loans in arrears. In the long term, this lack of actionable collateral can lead to reputation risk, with weak sanctions and little incentives for cooperative members to repay.

With the continuous development of new products, field staff will require more training on these new products, in general, and would benefit from further strengthening of business evaluation and financial analysis skills, in particular repayment capacity analysis.

PMPC's savings service is properly managed. Savings are sufficiently secured, with deposits kept at the bank and monitored by the staff through the MIS. Current mechanisms adequately prevent the risk of clients simultaneously withdrawing their deposits, such as: (i) compulsory savings cannot be withdrawn before the loan is fully repaid; (ii) members cannot withdraw amounts beyond their actual balance and without their passbook; and (iii) time deposits return attractive interest rates, ranging from 4.5% to 10%, depending on the terms and amounts.

Credit risk

PMPC's PAR 30 reached 8.9% in May 2009, notably high in comparison to its peers (median cooperative in Asia at 2.0% and East Asia Pacific at 0.0%).[18] Moreover, PMPC's PAR has surpassed even its own standards (<5%).[19] Difficulty in controlling portfolio quality derives, at least in part, from increasing cross-indebtedness of client members. With the largest proportion of the loan portfolio, Individual Productive and the Group Project loans also make up the largest concentration of PAR.[20]

With no clear write-off policy, PMPC does not write off loans. Nor are rescheduling decisions and methods adequate. The lack of a strict policy on loan rescheduling has contributed to a significant amount of rescheduled loans (10.8% of the loan portfolio as of May 2009). With 34.4% of rescheduled loans falling back into arrears in 2009, the rescheduling policy requires revamping.

Other areas of potential credit risk are worth monitoring as well:

- Connected lending to staff: Accounting for 9% of the total portfolio (as of May 2009), this lending poses some risks, although repayments are directly deducted from salaries. Greater credit risk derives from loans to related parties of staff (e.g. family members). Loans to BOD remain limited (1%);
- Exposure to certain business sectors and geographic regions: At present, no rules limit such exposure. Concentration risk is not monitored. Despite the diverse nature of financed businesses, such risks are not fully mitigated, particularly given PMPC's limited geographic reach; and
- Product launching: PMPC would benefit from a more cautious product launching process by conducting intensive pilot tests before scaling up. While some analysis is made on members' financial needs, but mainly through informal channels.

Branch expansion, on the other hand, is conducted cautiously. On an average, PMPC has opened two branches a year and systematically conducts demand assessments before deciding to expand.

Credit risk coverage

With a 50.5% credit risk coverage ratio as of May 2009, the loan loss reserve does not adequately cover potential losses. While in line with national cooperative standards, loan loss provisions nevertheless fail to meet international standards, despite PMPC's recent revision of its loan loss provisioning policy.[21] Significantly, PMPC does not provision for rescheduled loans, which are considerable.

In principle, a mix of guarantees ranging from fixed assets to cash collateral provides protection to the loan portfolio. In practice, PMPC rarely exercises its right to seize collateral from delinquent clients. Anyhow, evaluation of collateral, as currently done by LOs and ASs, could ideally be conducted by notary professionals to ensure proper valuation. More effective measures to de-risk the portfolio come from the compulsory loan insurance covering borrowers and their family in case of borrowers' death.

[18] For the latest available figures in 2007. Asia Microfinance Analysis and Benchmarking Report 2008.

[19] As set by the World Council of Credit Union (PEARLS ratios) and Association of the Asian Credit Unions benchmark.

[20] Since portfolio per product do not reconcile with total portfolio (as of May 2009), exact PAR figures by product provide only estimates.

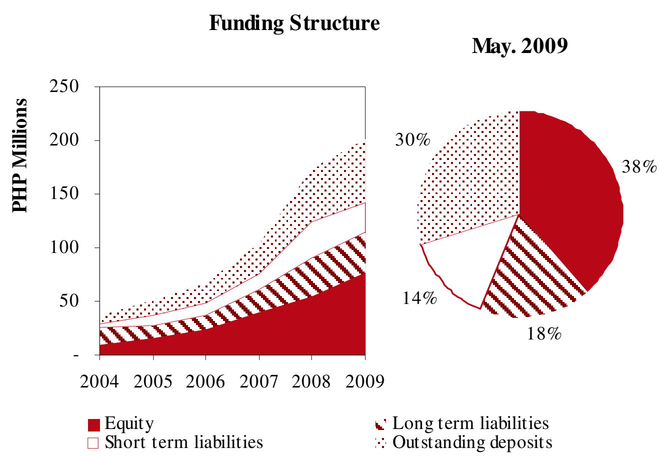
[21] PMPC has recently revised its loan loss provision, at least for the portion of its total portfolio dedicated to microfinance (i.e. group lending).

Funding and liquidity

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

Capitalization and funding strategy

With a low leverage of 1.59x and a Capital Adequacy Ratio at 45.2% (as of May 2009), PMPC remains well capitalized, a result of its intense focus on internal fund generation through members' equity build up and increase of retained earnings.[22] The annual increase of paid in capital during the period 2004-2009 averages 40%. Furthermore, the high level of profits (ROE at 25.1% as of May 2009) has enabled PMPC to attract new members every year.



Under the responsibility of the GM and assisted by the CFO, PMPC pursues a very pro-active fundraising strategy that relies on dynamic networking, building partnerships, and good marketing of programs/services related to community development. This approach has provided the cooperative with sufficient negotiation power with funders and resulted in access to funds at favorable market rates. In addition to well known national and regional funders such as Land Bank, PCFC, and MASS-SPECC, PMPC also recently received funding from international sources, such as Kiva and Oikocredit. Benefiting from existing credit lines at PCFC and Land Bank, PMPC can expect to finance its growth in the short term, although more frequent updates to the funding plan would solidify its overall long-term funding position.

Liquidity risk

Actual liquidity risk is minimal, given PMPC's decent cash buffer. Still, PMPC lacks sufficient capacity to undertake liquidity and ALM management. The Finance Department has so far only focused on accounting and production of financial ratios and has conducted very limited financial analysis. The recent recruitment of a new CFO is expected to improve the overall capacity and efficiency of the finance team. Yet currently, PMPC does not make use of liquidity management tools and cash flow projections are lacking. Nor does it conduct ALM management. As a result, a clear assessment of the balance sheet maturity profile is absent, leading to potential liquidity risks. Mitigating this risk, the liquidity to demand deposit ratio surpassed 71% (as of May 2009), which provides a solid cash buffer.[23]

Market risk

PMPC has minimum foreign exchange risks. Its only hard currency exposure derives from Kiva (USD) loans, contributing to an open position of 6.9% of core capital (as of May 2009). A 15% depreciation of the PHP against the USD, for example, would only result in a 0.4 percentage point decrease of the ROA. Aware of the possible need to mitigate foreign exchange risks, PMPC considered entering into a back-to-back hedging contract with a local bank. In realizing the high costs of such an arrangement,[24] however, PMPC wisely decided to look for less costly hedging mechanisms. Anyhow, the zero-interest hard currency loan provides PMPC with a buffer against a PHP devaluation.

With all debt on fixed-rate terms, PMPC is not currently exposed to interest rate risk, although the future disbursement of the (floating rate) Oikocredit loan opens the door to interest rate exposure.[25]

Efficiency and Profitability

Efficiency and Profitability **is rated "c"**

Profitability analysis

PMPC has shown a solid and stable profitability over the past few years, with ROA in the range of 3.6-6.9% over the period 2005-2008. This profitability derives from a relatively stable portfolio yield (47.5% as of May 2009) in the recent past, decreasing operating expenses, and limited funding expenses despite moderate to high loan loss reserve expenses. Still, these profits come at the expense of insufficient loan loss provisioning.[26] Raising issues about data reliability, a major gap exists in the yield, which theoretically comes to about 65.7%.

As a reputable cooperative in Misamis Occidental, PMPC has satisfactory revenue quality. Its current level of interest rates enables the cooperative to be sustainable while

[22] At PMPC, equity build up of members is referred to capital build up.

[23] Current and quick ratios were calculated but are not fully reliable due to the absence of systematic liquidity management.

[24] The interest rate offered by the local bank (Banco de Oro, BDO) was 8%.

[25] With the first loan disbursement of 10M PHP from Oikocredit (in June 2009), PMPC's open position will be around 13% of core capital.

[26] For example, if rescheduled loans were properly provisioned at 50%, PMPC's income in May 2009 would disappear.

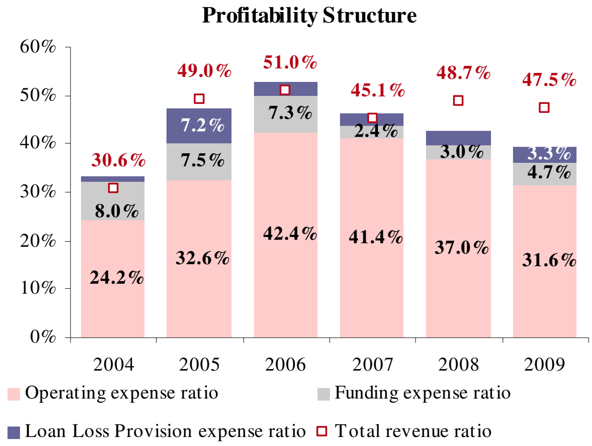
remaining competitive in the market. Indeed, while interest rates are higher than some of its competitors, PMPC gains strong competitive advantages from the fact that members benefit from dividends. Furthermore, PMPC is viewed as a socially responsible actor in its community. Because of extensive product offerings, PMPC is also perceived as a member-oriented institution. The recent set-up of a marketing department and the use of communication tools (e.g. participation in local radio programs, distribution of leaflets and organization of weekly promotional activities) also contribute to enhancing PMPC's overall reputation and visibility in the region. Nevertheless, product development processes could still be enhanced by systematically conducting product assessment, client satisfaction surveys, and pilot testing before launching new products.

Averaging about 35.5% over the period 2004-2008, PMPC's operating expense (Opex) ratios have historically been slightly higher than its Filipino peers, with the median MFI at 31.3% for the latest available figures in 2007.[27] The Opex ratio spiked to 42.4% with the opening of new branches in 2006. Since then, Opex ratios at PMPC have shown a downward trajectory (towards its Filipino peers), reaching a reasonable 31.6% in May 2009. Despite the introduction of the group lending methodology, costs per borrower has steadily increased, from 24 USD in 2005 to 50 USD in May 2009. In comparison to its East Asia and Pacific (EAP) Cooperative peers, PMPC works relatively efficiently. As measured by borrowers/LO, productivity of loan officers (i.e. AOs and TOs) stabilized to 192 (as of May 2009) from a high of 223 in 2008.[28]

After decreasing from 8.0% (in 2004) to 2.4% (in 2007), the funding expense ratio gradually increased to 4.7% in May 2009, a result of the growing recourse to debt financing (both from external borrowings and member savings). In the medium term, the funding expense ratio is expected to increase further with PMPC's strategy to diversify its funding sources away from members' equity contribution. With growing PAR, the loan loss provision expense ratio has slightly increased in the recent past, from 1.3% in 2004 to 3.3% of May 2009 (with a temporary peak of 7.2% in 2005). Due to the revision of the loan loss provision policy, this ratio is expected to increase further.

In terms of resource optimization, PMPC needs to define an optimal level for investment of its assets in the loan portfolio. Although its asset deployment ratio has increased from 62.1% in 2004 to over 66% today, room for improvements could be made, and best practices demand 80%.[29]

PMPC's profitability outlook is stable. The cooperative is expected to maintain a satisfactory competitive position and continue growing at least at the same pace as the market. However, a deteriorating portfolio quality due to some limitations in the individual lending methodology, compounded by saturated markets and growing concerns over cases of cross-indebtedness, will continue to hamper overall profitability. Efficiency and profitability could be improved with more cautious product launch and more in-depth analysis of product offerings.



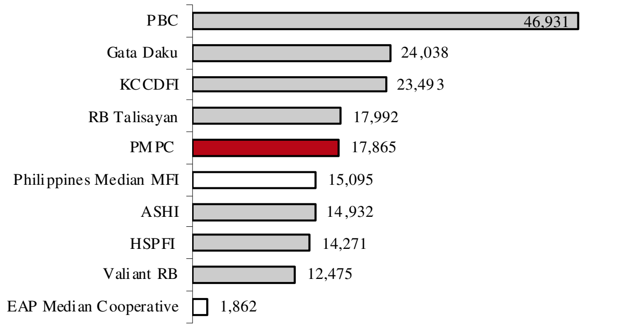
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee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

[27] Opex ratio for the median East Asia Pacific Cooperative was 33.4% in 2007. Asia Benchmarking Report 2008.
[28] The median EAP cooperative only carried 133 borrowers/LO in 2007.

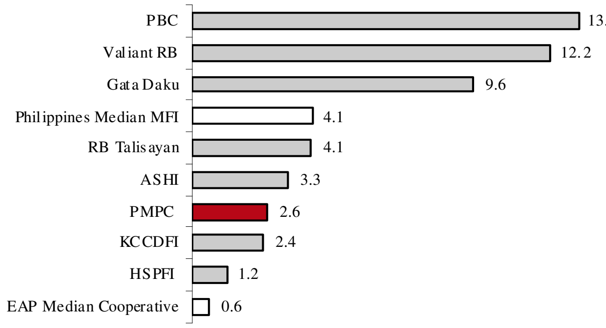
[29] Ratios were adjusted to account for PMPC's cash reserves needed to comply with PEARL/WOCCU practices.

▪ Benchmarking

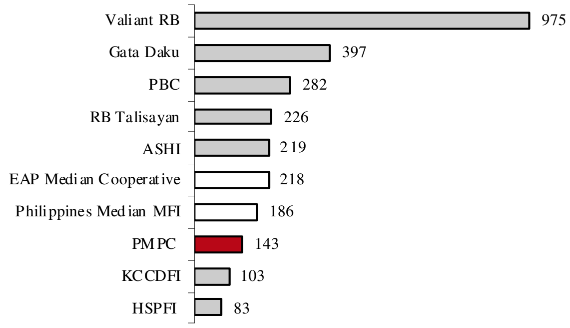
Active borrowers



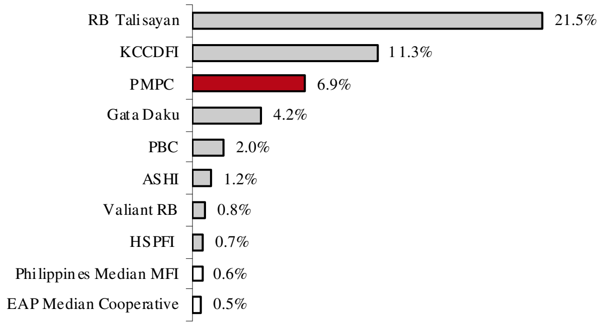
Loan portfolio (M USD)



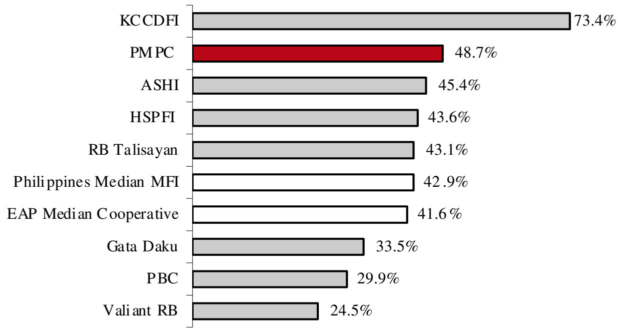
Average outstanding loan per client (USD)



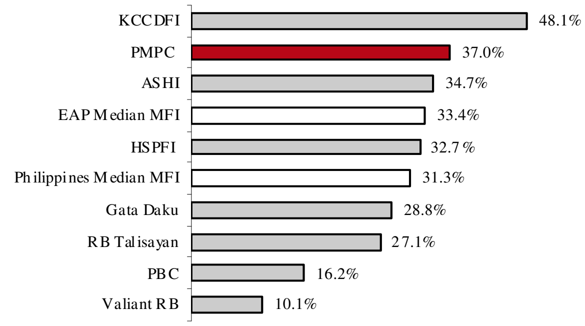
ROA



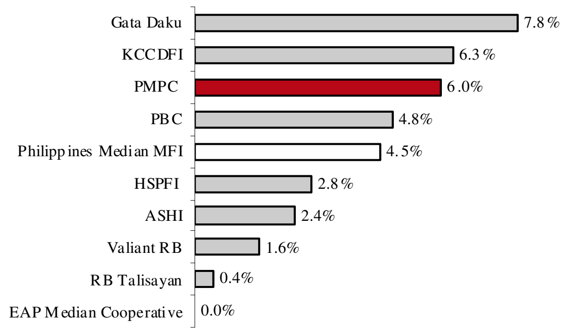
Portfolio yield



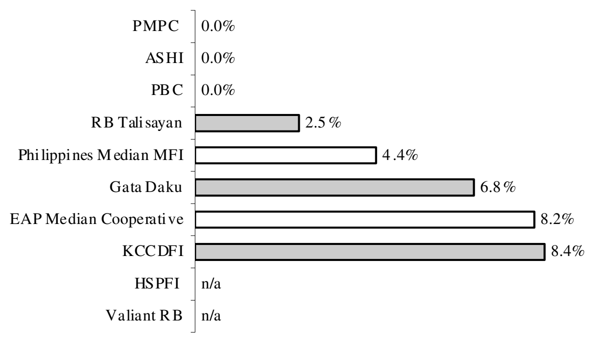
Operating expense ratio



PAR 31-365



Write-off ratio



Source: Planet Rating data as of Dec 08 for PMPC; MixMarket figures for Philippines MFIs as of Dec 2008, except for Gata Daku (Dec 2007); MIX peer group: East Asia Pacific (EAP) Cooperatives. MIX Asia Benchmarks are for 2007.
Note: PMPC's peer group in the Philippines include: ASHI (Ahon Sa Hirap Inc.), HSPFI (Hagdan Sa Pag-uswag Foundation Inc.), KCCDFI (Kasanyangan-Mindanao Foundation, Inc.), PCB (People's Bank of Caraga), RB Talisayan,(Rural Bank of Talisayan), and Valiant RB.

Performance indicators

Data in USD, unless otherwise stated

	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
Loan Portfolio						
Loan portfolio evolution						
Loan portfolio	420,809	600,090	872,662	1,671,779	2,562,423	2,955,317
Loan portfolio (PHP)	23,662,115	31,861,756	42,887,834	69,178,201	122,192,348	140,119,842
Growth	(10.3%)	34.7%	34.6%	61.3%	76.6%	14.7%
Active borrowers	-	7,030	8,404	11,483	17,865	17,464
Growth	n/a	n/a	19.5%	36.6%	55.6%	(2.2%)
Average outstanding loan per client	-	85	104	146	143	169
% of GDP per capita	0.0%	7.1%	7.4%	8.0%	8.2%	8.8%
Average amount disbursed per loan	n/a	n/a	n/a	n/a	n/a	n/a
% of GDP per capita	n/a	n/a	n/a	n/a	n/a	n/a
Portfolio quality						
Rescheduled loans	n/a	n/a	n/a	n/a	n/a	10.8%
PAR 31-365	0.0%	5.3%	4.1%	3.1%	6.0%	8.9%
PAR > 365	n/a	0.0%	0.6%	0.7%	1.0%	1.2%
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	103.0%	90.1%	115.8%	70.6%	50.7%
PAR 30 net of loan loss provision / Equity	(2.6%)	(0.3%)	0.7%	(0.9%)	3.9%	7.4%
Savings						
Outstanding deposits	155,968	249,481	374,711	681,742	1,055,556	1,271,387
Outstanding deposits (PHP)	8,770,070	13,246,205	18,415,553	28,210,492	50,335,529	60,280,036
Growth	(0.1%)	51.0%	39.0%	53.2%	78.4%	19.8%
Voluntary savings (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cash collateral (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Active savers	-	-	12,324	13,485	16,348	17,868
Growth	n/a	n/a	n/a	9.4%	21.2%	9.3%
Average outstanding deposit per saver	n/a	n/a	30	51	65	71
Voluntary savings	n/a	n/a	n/a	n/a	n/a	n/a
Cash collateral	n/a	n/a	n/a	n/a	n/a	n/a
Staff						
Total number of staff	n/a	n/a	131	137	162	193
% Credit officers	n/a	n/a	n/a	49.6%	49.4%	47.2%
Turnover	n/a	n/a	n/a	9.0%	6.0%	5.6%
Profitability analysis						
ROE	7.1%	17.6%	10.8%	12.4%	20.2%	25.1%
Liabilities / Equity	2.99x	2.26x	1.83x	1.61x	2.18x	1.59x
Core capital adequacy ratio	30.6%	36.5%	40.4%	39.5%	31.2%	45.2%
Total capital adequacy ratio	26.7%	35.5%	41.0%	42.6%	37.6%	45.2%
ROA	n/a	5.0%	3.6%	4.6%	6.9%	8.9%
ROA (without donations)	n/a	5.0%	3.6%	4.6%	6.9%	8.9%
ROA (microfinance operations)	n/a	5.9%	4.1%	5.1%	7.2%	7.2%
Profitability structure						
Total revenue ratio	37.6%	56.8%	59.2%	54.0%	53.2%	49.9%
Portfolio yield	30.6%	49.0%	51.0%	45.1%	48.7%	47.5%
Operating expense ratio	24.2%	32.6%	42.4%	41.4%	37.0%	31.6%
Cost per borrower	n/a	24	38	49	42	50
Staff productivity	n/a	n/a	64	84	110	90
Loan officer productivity	n/a	n/a	n/a	169	223	192
Average outstanding loan per client (USD)	-	85	104	146	143	169
Funding expense ratio	8.0%	7.5%	7.3%	2.4%	3.0%	4.7%
Cost of savings	0.0%	0.0%	12.8%	4.2%	4.0%	6.3%
Cost of borrowings	23.2%	12.2%	4.2%	1.8%	3.9%	6.4%
Loan Loss Provision expense ratio	1.3%	7.2%	3.0%	2.4%	2.9%	3.3%
PAR 31-365	0.0%	5.3%	4.1%	3.1%	6.0%	8.9%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Resource optimization						
Outstanding Loan Portfolio / Assets	62.1%	59.0%	61.2%	63.7%	67.4%	66.4%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.3%	0.3%	0.1%	0.2%
Liquidity						
Cash to demand deposits	26.2%	68.7%	62.3%	42.1%	77.2%	71.8%
Liquidity / Total assets (LAR)	6.1%	13.5%	13.8%	9.9%	16.4%	14.3%
Current ratio (1 year)	209.8%	172.7%	178.8%	199.9%	183.2%	193.4%
Exchange rate 1 USD= xx PHP	**56.2**	**53.1**	**49.1**	**41.4**	**47.7**	**47.4**

Financial statements – PHP

Income Statement (PHP '000)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
Interest and fee income on loan portfolio	7,644	13,616	19,074	25,257	46,621	25,937
Interest and fee income on investments	-	-	48	69	63	56
Interest and other financial expenses	1,993	2,096	2,735	1,322	2,830	2,574
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-	-
Net financial income	**5,652**	**11,520**	**16,388**	**24,004**	**43,855**	**23,420**
Fees and commissions on other financial services	1,764	2,157	3,017	4,919	4,251	1,280
Other operating income	-	-	-	-	-	-
Operating expenses	6,045	9,043	15,864	23,181	35,383	17,242
Personnel expenses	*3,310*	*4,814*	*8,486*	*12,679*	*20,370*	*9,747*
Administrative and other expenses	*1,796*	*3,380*	*5,914*	*8,211*	*11,769*	*6,067*
Depreciation	*939*	*850*	*1,464*	*2,292*	*3,245*	*1,428*
Non operating income (net)	(278)	(414)	(303)	(433)	(370)	1,260
Gross operating income	**1,092**	**4,219**	**3,238**	**5,309**	**12,353**	**8,718**
Net loan loss provision expense	319	2,008	1,105	1,332	2,764	1,784
Net operating income	**774**	**2,211**	**2,133**	**3,977**	**9,589**	**6,934**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**774**	**2,211**	**2,133**	**3,977**	**9,589**	**6,934**
Income Tax	-	-	-	-	-	-
Net income before donations	**774**	**2,211**	**2,133**	**3,977**	**9,589**	**6,934**
Donations	-	-	-	-	-	-
Net Income	**774**	**2,211**	**2,133**	**3,977**	**9,589**	**6,934**

Balance Sheet (PHP '000)	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Dec.2008	May.2009
ASSETS	**37,721**	**51,088**	**67,517**	**104,630**	**173,754**	**202,116**
Liquid assets	2,295	6,872	9,329	10,363	28,461	28,880
Net loan portfolio	23,417	30,124	41,296	66,662	117,044	134,198
Gross loan portfolio	*23,662*	*31,862*	*42,888*	*69,178*	*122,192*	*140,120*
(Loan loss reserve)	*246*	*1,738*	*1,592*	*2,516*	*5,148*	*5,921*
Interest receivable	-	-	-	-	-	-
Financial investments	361	729	900	1,013	2,616	8,538
Net fixed assets	7,315	8,552	10,680	13,739	15,636	15,786
Intangible assets	-	-	-	-	-	-
Other assets	4,334	4,812	5,313	12,853	9,997	14,713
LIABILITIES AND EQUITY	**37,721**	**51,088**	**67,517**	**104,630**	**173,754**	**202,116**
Liabilities	**28,272**	**35,399**	**43,664**	**64,467**	**119,086**	**123,998**
Demand deposits	8,770	10,005	14,965	24,636	36,870	40,198
Time deposits	-	3,241	3,450	3,575	13,465	20,082
Cash collateral	-	-	-	-	-	-
Borrowings	16,509	17,794	15,864	21,714	42,844	41,121
Subordinated debt	-	-	-	-	-	-
Other liabilities	2,993	4,359	9,385	14,543	25,907	22,597
Equity	**9,449**	**15,689**	**23,853**	**40,163**	**54,668**	**78,117**
Core capital	9,449	15,689	23,853	40,163	54,668	78,117
Paid-in capital	*9,572*	*14,751*	*21,599*	*35,212*	*42,273*	*47,529*
Donated equity	*1,280*	*1,380*	*1,880*	*2,011*	*3,098*	*3,127*
Retained earnings	*(1,403)*	*(442)*	*373*	*2,939*	*9,297*	*27,462*
Other equity accounts	-	-	-	-	-	-

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

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
Gross loan portfolio	25,021	27,762	37,375	56,033	95,685	131,156
Assets	18,861	44,405	59,303	86,073	139,192	187,935
Deposits	8,774	11,008	15,831	23,313	39,273	55,308
Borrowings and subordinated debt	8,587	17,151	16,829	18,789	32,279	41,982
Equity	10,852	12,569	19,771	32,008	47,415	66,393

Financial statements – USD

Income Statement (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
Interest and fee income on loan portfolio	135,947	256,441	388,108	610,368	977,665	547,052
Interest and fee income on investments	-	-	984	1,664	1,318	1,189
Interest and other financial expenses	35,440	39,471	55,643	31,940	59,336	54,284
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-	-
Net financial income	**100,508**	**216,970**	**333,449**	**580,092**	**919,646**	**493,957**
Fees and commissions on other financial services	31,363	40,622	61,395	118,885	89,152	26,996
Other operating income	-	-	-	-	-	-
Operating expenses	107,500	170,324	322,798	560,208	742,005	363,660
Personnel expenses	*58,863*	*90,666*	*172,674*	*306,408*	*427,172*	*205,584*
Administrative and other expenses	*31,934*	*63,655*	*120,329*	*198,417*	*246,793*	*127,964*
Depreciation	*16,703*	*16,003*	*29,795*	*55,384*	*68,039*	*30,112*
Non operating income (net)	(4,949)	(7,806)	(6,166)	(10,459)	(7,752)	26,580
Gross operating income	**19,422**	**79,462**	**65,881**	**128,309**	**259,042**	**183,873**
Net loan loss provision expense	5,665	37,824	22,477	32,191	57,954	37,628
Net operating income	**13,756**	**41,639**	**43,404**	**96,119**	**201,088**	**146,245**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**13,756**	**41,639**	**43,404**	**96,119**	**201,088**	**146,245**
Income Tax	-	-	-	-	-	-
Net income before donations	**13,756**	**41,639**	**43,404**	**96,119**	**201,088**	**146,245**
Donations	-	-	-	-	-	-
Net Income	**13,756**	**41,639**	**43,404**	**96,119**	**201,088**	**146,245**

Balance Sheet (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
ASSETS	**670,838**	**962,206**	**1,373,800**	**2,528,515**	**3,643,691**	**4,262,893**
Liquid assets	40,808	129,427	189,815	250,435	596,833	609,127
Net loan portfolio	416,443	567,353	840,266	1,610,972	2,454,461	2,830,427
Gross loan portfolio	*420,809*	*600,090*	*872,662*	*1,671,779*	*2,562,423*	*2,955,317*
(Loan loss reserve)	*4,367*	*32,737*	*32,396*	*60,806*	*107,962*	*124,890*
Interest receivable	-	-	-	-	-	-
Financial investments	6,427	13,739	18,309	24,492	54,864	180,072
Net fixed assets	130,092	161,065	217,307	332,015	327,893	332,950
Intangible assets	-	-	-	-	-	-
Other assets	77,069	90,623	108,102	310,601	209,641	310,317
LIABILITIES AND EQUITY	**670,838**	**962,206**	**1,373,800**	**2,528,515**	**3,643,691**	**4,262,893**
Liabilities	**502,799**	**666,708**	**888,455**	**1,557,936**	**2,497,283**	**2,615,295**
Demand deposits	155,968	188,439	304,503	595,356	773,181	847,839
Time deposits	-	61,042	70,208	86,386	282,375	423,549
Cash collateral	-	-	-	-	-	-
Borrowings	293,595	335,131	322,788	524,739	898,445	867,296
Subordinated debt	-	-	-	-	-	-
Other liabilities	53,235	82,096	190,956	351,455	543,282	476,611
Equity	**168,039**	**295,498**	**485,345**	**970,579**	**1,146,408**	**1,647,599**
Core capital	168,039	295,498	485,345	970,579	1,146,408	1,647,599
Paid-in capital	*170,237*	*277,830*	*439,495*	*850,948*	*886,477*	*1,002,441*
Donated equity	*22,763*	*25,990*	*38,252*	*48,597*	*64,965*	*65,956*
Retained earnings	*(24,960)*	*(8,323)*	*7,597*	*71,033*	*194,966*	*579,202*
Other equity accounts	-	-	-	-	-	-

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

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	May. 2009
Gross loan portfolio	444,969	522,873	760,485	1,354,109	2,006,559	2,766,259
Assets	335,419	836,327	1,206,660	2,080,071	2,918,912	3,963,800
Deposits	156,030	207,329	322,119	563,389	823,571	1,166,516
Borrowings and subordinated debt	152,720	323,031	342,424	454,053	676,895	885,462
Equity	192,999	236,730	402,293	773,505	994,316	1,400,309

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+ A A-	Current institutional, operational and financial performances are excellent when compared to industry standards. Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++ B+ B	Current institutional, operational and financial performances are satisfactory when compared to industry standards. Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
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++ C+ C C-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	**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.	