



Micro-Credit Ratings International Ltd.

Rating of Cambodian Business Integrated in Rural Development (CBIRD)

CBIRD MFI Ltd. <i>Limited Company licensed as an MFI</i>	Battambang, Cambodia <i>Report – January 2011</i>
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CREDIT RATING	β+
RATING OUTLOOK*	positive

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Date of visit : 17-20 Jan' 2011
Period of previous rating : 15-17 Dec' 2008
Previous rating : β

Investment Grade	Above	α	α+
			α
			α-
	Below	β	β+
			β
			β-
	Below	γ	γ+
			γ

Main Performance Indicators			
	Dec-08	Dec-09	Dec-10
Gross Portfolio (US\$'000)	1 018	1 255	1 282
No. of active borrowers	2 037	2 308	2 220
Return on Assets	2.9%	1.4%	5.3%
Portfolio Yield	38.8%	37.4%	39.6%
Portfolio at Risk (>30days)	1.0%	2.8%	2.0%
Operating Expense Ratio	26.8%	25.7%	26.7%
Avg. Loan O/S (US\$)	502	546	578
Avg. Loan Size (US\$)	642	738	697
Borrowers per field staff	146	128	101
Capital Adequacy Ratio	20.5%	18.0%	23.1%

Synopsis

CBIRD was established in 2000 as a local NGO and started microfinance program in August 2002. The organisation became an MFI in 2005 and received permanent license from the National Bank of Cambodia (NBC) on 10 July, 2008. Over the past two years, CBIRD has recorded an improvement on organisation & management and financial parameters.

CBIRD has a moderate quality Board with experienced leadership and well motivated, experienced staff. It has a good relationship with clients and high focus on profitability. CBIRD's overall portfolio quality (PAR60 of 1.5%) is good. It also has healthy capital adequacy which is expected to further improve with its plans of equity mobilisation. Although the MFI has been able to diversify its lender base, it failed to attract sufficient external funds to meet its portfolio requirements.

CBIRD's internal controls systems and loan tracking has improved however, not adequate for future scale of operations. Increased competition, high operational cost, low staff productivity, high client dropout and high effective rate of interest could be a challenge for further growth.

A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to no significant changes in the organisational structure and external operating environment.

Highlights

POSITIVE

- Improved HR systems and quality human resources
- Healthy capital adequacy
- Good portfolio quality
- Good profitability

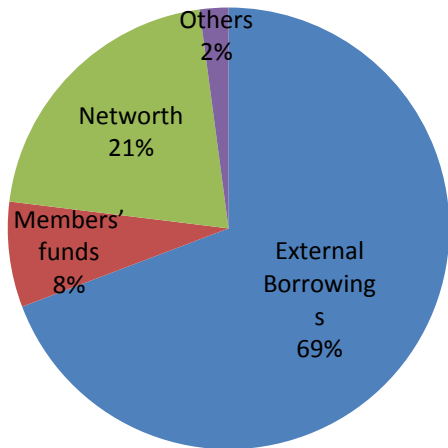
ISSUES

- High operating expenses
- High interest rate
- Low staff productivity
- High competition and client dropout

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Sources of Funding



Assessment Rationale

Improved HR systems and quality human resources: HR systems and quality of staff have improved as compared to the previous rating. CBIRD has invested a significant amount on capacity building of staff; trained middle management team has the capacity to manage present scale of operations. However staff attrition at around 20% is a concern area which needs to be urgently addressed.

Healthy capital adequacy: CBIRD has a comfortable capital adequacy ratio (CAR) of 23.1% as on 31 Dec'10. With equity mobilisation plans from Phillip Capital, a Singapore based company CBIRD would be in a better position to attract debt.

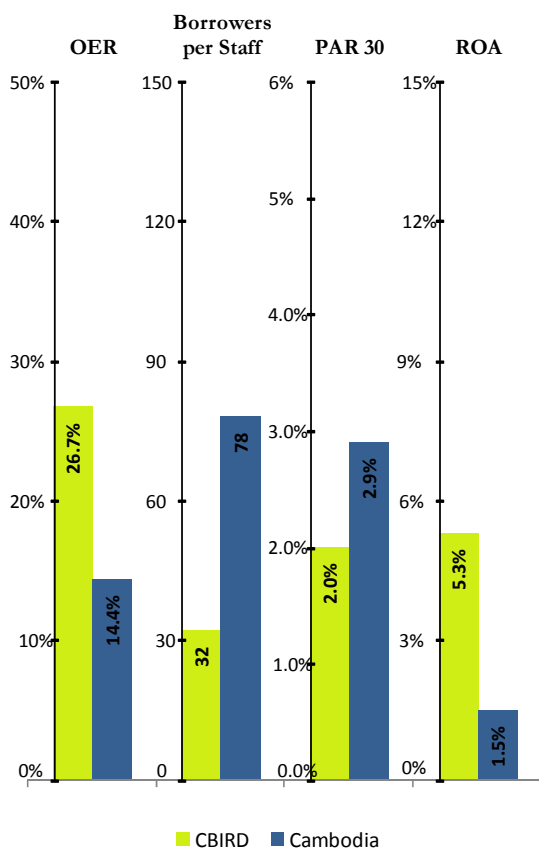
Good profitability: Returns on Assets (RoA) have been consistently positive for CBIRD and increased from 1.4% during 2009 to 5.3% during 2010 due to higher yield. The drivers for increased profitability are increase in other income coupled with reduction in financial costs and provisioning expenses. Mobilising funds at commercial rates, higher provisioning expense emerging from weak portfolio quality due to current tension at Thailand-Cambodia border, forex losses in absence of provisioning on this account have the ability to lower RoA in the future.

Good portfolio quality: The portfolio risk increased in 2009 due to the combined effect of economic crisis and closing of Thailand border; however, in 2010, the external environment has improved and border trade was restored enabling CBIRD to improve the portfolio quality (PAR₆₀ 1.5%). Nevertheless situation again appears to be volatile which can adversely affect CBIRD's portfolio quality since most of its clients are dependent on border trade.

High operating expenses: The OER has increased from 25.7% in 2009 to 26.7% in 2010 mainly due to lower portfolio growth. However in view of high staff attrition, efforts to retain staff through better compensation would lead to higher costs. CBIRD needs to considerably grow its portfolio to be able to cover such increase in expenses along with improving staff productivity and field staff to total staff ratio.

High competition and dropouts: CBIRD faces stiff competition in its operational area resulting in a significant number of CBIRD clients with multiple loans. The effective rate of interest ranges from 51% to 37% pa which is one of the reasons for client dropout which was high at roughly 20% during 2010. It would be a challenge for CBIRD to retain its clients.

Low staff productivity: Staff productivity is declining and has reached low levels at 101 borrowers per Credit Agent (CA) and 32 borrowers per total staff as on 31 Dec'2010. These figures are below international benchmarks even in difficult areas.



Comparison of CBIRD's performance with Cambodian MFIs - Source: MIX market

Comparative Performance Highlights

Comparative Rating Grades

Category	November 2008	December 2010
Governance & strategic positioning	β	β
Organisation & management	β	β+
Financial performance	β+	β+
Overall	β	β+

Select indicators/ratios

Indicator/ratio	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10 [^]
1 Growth						
Gross loans outstanding (US\$)	6 32 956	8 38 959	8 69 311	10 18 303	12 55 580	12 82 841
Outstanding borrowings (US\$)	5 69 000	6 01 000	6 29 333	7 76 051	11 37 685	10 25 063
Active borrowers	1 835	1 697	1 668	2 037	2 308	2 220
Avg. loan outstanding size (US\$)	347	498	522	502	546	578
Avg. loan disbursed size (US\$)	300	578	730	642	738	697
2 Credit performance						
Current repayment rate	98.8%	99.2%	99.2%	99.0%	97.2%	98.1%
Portfolio at risk (>=30 days)	1.2%	0.8%	0.8%	1.0%	2.8%	2.0%
Portfolio at risk (>=60 days)	1.1%	0.7%	0.6%	0.7%	2.8%	1.5%
3 Efficiency and profitability						
Active borrowers per field staff	153	154	128	146	128	101
Net loans to total assets	77.1%	85.6%	87.7%	89.3%	81.3%	85.4%
Annual return on assets	0.5%	5.9%	4.1%	2.9%	1.4%	5.3%
Operating expense ratio	19.9%	21.7%	24.3%	26.8%	25.7%	26.7%
Operating self-sufficiency	102.1%	120.9%	115.9%	110.9%	105.7%	118.7%
Capital adequacy ratio	23.1%	21.3%	19.8%	20.5%	18.0%	23.1%

[^] Financial period January 2010–December 2010 is unaudited and ratios are calculated based on reported financial statement as per CBIRD's MIS report

Country Profile¹

Cambodia is located on mainland Southeast Asia bordering Vietnam, Laos, Thailand and the Gulf of Thailand. The country has a history of invasions, wars, and political unrest. In 1953 it gained independence from the French; however the communist Khmer Rouge forces captured power in 1975. At least 1.7 mn persons were either executed or killed due to forced labour during the Khmer Rouge regime. In 1978, the Cambodian army together with Vietnamese army attempted to overthrow the Khmer Rouge, which started a 13 year period of civil war. The Paris peace Accord in 1991 brought about the establishment of a democratically elected coalition government in 1998. Hundreds of international organizations initiated relief and development programs to help reconstruct the country.

Quick Facts

Total population ¹	14.8 mn
GNI per capita (US\$) ²	600
GDP growth rate at constant prices in 2010(proj.)³	4.8%
Population below poverty line (2004) ⁴	35%
Total unemployment (% of labour force) (2007 est.) ⁴	3.5%
Inflation (2010 est)	4.0%

Sources

- 1 UN, 2009 2 World Bank 2008, www.worldbank.org
 3 IMF 2009-10, www.imf.org 4. CIA World fact book

From 2004 to 2007, the economy expanded by more than 10% per year, with the garment sector and the tourism industry driving the growth. However, the global economic slowdown caused a drop in demand and hit tourism levels in terms of arrivals resulting in a negative growth rate for 2009. In 2010, the liquidity has improved considerably and Cambodian economy is expected to bounce back to register a near 5% growth rate.

About half of the central government budget depends on donor assistance indicating heavy reliance on foreign assistance. In 2005, exploitable oil and natural gas deposits were found beneath Cambodia's territorial waters, representing a new revenue stream. Mining also is attracting significant investor interest, particularly in the northern parts of the country.

The major economic challenge for Cambodia over the next decade will be creating a suitable economic environment for the private sector to create enough jobs to handle Cambodia's demographic imbalance. Due to low levels of basic infrastructure, the population lacks education and productive skills. However, in terms of the contribution of different sectors to GDP, agriculture contributes only 35%. Today, Cambodia is one of the poorest countries in the region. Further, a weak social infrastructure evident by Human Development Index rank of 137 in 2007 has meant that gender inequality,

rural urban regional disparities and poor health facilities continue to be major hindrances to development.

The financial and banking sector were destroyed by the Khmer Rouge regime, which abolished money for a number of years. In 1996 National Bank of Cambodia (NBC), the central bank of the country was established which led to introduction of basic legal framework for financial sector in 1999. In 2000 NBC issued regulations to facilitate transformation of NGOs into formal MFIs. Currently 27 commercial banks, 2 foreign banks representative offices, 6 specialized banks are operating in Cambodia. Bolstered by the government steps, most of the recent performance indicators suggest that the banking system is reasonably profitable, efficient, has adequate liquidity, and is well capitalized.

However, their performance is restricted by the limited presence of commercial banks beyond the capital city. With the exception of ACLEDA Bank (commercial bank) and the RDB (specialized bank) formal banks do not yet serve the poor. In this context, microfinance operators and the informal financial sector have been the de facto providers of financial services in rural area. Currently there are at least 100 registered and unregistered lending bodies serving the rural population in Cambodia, including 20 licensed MFIs and 25 registered microfinance operators. Depending on scope of operations and size of outreach as mentioned below in the table, MFIs must either register with NBC or obtain a license.

	Registered MFIs	Licensed MFIs
Credit operations	Loan portfolio outstanding =>KHR100 million	Loan portfolio outstanding =>KHR1,000 million or =>1,000 borrowers
Deposit mobilisation	Savings mobilised from general public=KHR1 million or number of depositors is =>100	Savings mobilised from general public=KHR100 million or number of depositors is =>1,000

In Dec'07, NBC created a new category of MFIs which were allowed to mobilise savings from the general public called Microfinance Deposit-taking Institutions (MDIs). The minimum capital requirement for MDIs is KHR 10 bn (US \$ 2.5 mn), compared to only KHR 250 mn (US \$ 62,500) for licensed MFIs. The MDIs are required keep 10% capital deposits at NBC (5% for licensed MFIs).

Top Cambodian MFIs (Data on of December 2010)*

Rank	Name of the inst.	Portfolio (US\$ mn)	No. of client	Rank	Name of the inst.	Portfolio (US\$ mn)	No. of client
1	Aceda	222.1	224,919	11	SAMIC	6.1	10,410
2	Prasac	105.0	112,872	12	Camcapital	4.8	266
3	Amret	66.6	238,535	13	IPR	3.5	3,578
4	Sathapana	57.8	43,565	14	GCMF	2.8	1,411
5	HKL	44.3	47,952	15	firstfinance	2.0	157
6	Credit	32.8	49,964	16	maxima	2.0	2,587
7	AMK	31.7	251,352	17	EAP	1.9	193
8	Visionfund	30.0	108,047	18	Chamroeun	1.7	14,936
9	TPC	22.3	87,186	19	CBIRD	1.3	2,220
10	Seilanithih	7.7	14,395	20	FUDF	1.1	2,545

* Cambodia Microfinance Association

¹ Sources: http://en.wikipedia.org/wiki/East_Timor
<https://www.cia.gov/library/publications/the-world-factbook/geos/tt.html>
http://www.microfinancegateway.com/files/24150_file_FSSA_20R_eport_20Jan_2005_20ENG_20Annexes.pdf

Microfinance operations

Main Indicators	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Gross Loan Portfolio (US\$)	6 32 956	8 38 959	8 69 311	10 18 303	12 55 580	12 82 841
Total members	3 947	3 867	3 969	4 517	4 903	4 880
Number of Active Borrowers	1 835	1 697	1 668	2 037	2 308	2 220
Number of Branches	5	5	5	5	5	5
Asset Quality						
Portfolio at Risk (>30 days)	1.2%	0.8%	0.8%	1.0%	2.8%	2.0%
Portfolio at Risk (>60 days)	1.1%	0.7%	0.6%	0.7%	2.8%	1.5%
Current Recovery Rate	98.8%	99.2%	99.2%	99.0%	97.2%	98.1%
Loan Loss Provision /Gross Portfolio	1.6%	1.5%	1.0%	0.5%	3.9%	2.3%
Efficiency and Productivity						
Operating Expenses/Avg. Loan Portfolio	19.9%	21.7%	24.3%	26.8%	25.7%	26.7%
Cost per Borrower (US\$)	69	97	126	132	129	145
Average Loan Outstanding (US\$)	347	498	522	502	546	578
Number of Borrowers/Field staff	153	154	128	146	128	101
Number of Borrowers/Total Staff	37	32	28	38	34	32

^ Ratios are calculated based on un-audited financial statement provided by CBIRD

Cambodian Business Integrated in Rural Development MFI Ltd. (CBIRD) was established as a local Non Governmental Organization (NGO) in 2000 providing seed loan for agriculture and training services in computers. In August 2002, it received certificate of registration as a Rural Credit Operator from National Bank of Cambodia (NBC). Following satisfactory growth, CBIRD was registered by the Ministry of Commerce as Cambodian Business Integrated in Rural Development Micro Finance Institution (CBIRD MFI) in July 2005, making it compliant with the NBC as an approved micro credit provider. Later, CBIRD received permanent license from NBC on 10 July 2008.

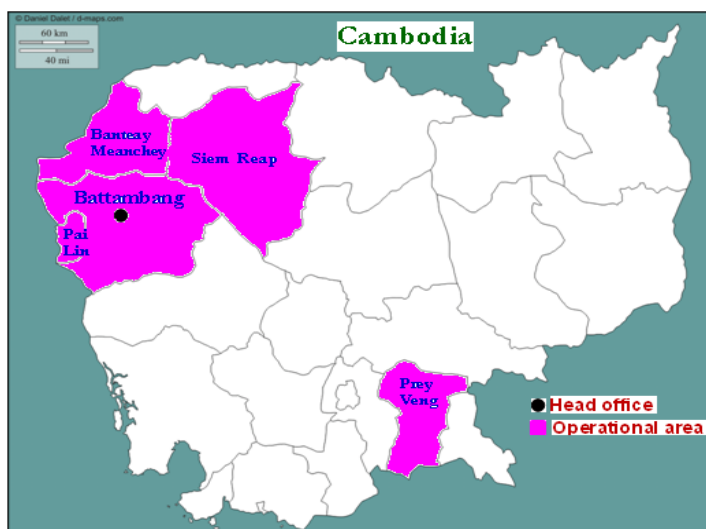
The shareholding pattern has changed from previous rating on account of equity infusion by staff through staff association. The present equity base of CBIRD is held by six individuals and staff association of CBIRD. 4 out of 7 shareholders are in the Board of Directors (incl. staff association representative) and hold 77% of shareholding. The shareholding pattern as on 31 December 2010 is given below:

Shareholders	No. of Shares	Face Value US\$	Share (%)
Mr. Prom Mary	707	70,700	54.3%
Mr. Prom Marykethya	150	15,000	11.5%
Ms. Kang Chhivkhiem	115	11,500	8.8%
Ms. Path Sothalay	101	10,100	7.8%
Mr. Prom Marypratna	80	8,000	6.1%
Mr. Sao Roeun	20	2,000	1.6%
Staff Association	129	12,900	9.9%
Total	1,302	130,200	100.0%

CBIRD is in discussion with Phillip Capital, Singapore regarding conversion of their debt into equity. Subsequently, shareholding pattern is likely to change.

CBIRD has its Head Office (HO) in Battambang, the second largest city in Cambodia. It has operations in the provinces of Battambang, Banteay Meanchey, Pailin, Prey Veng, and Siem Reap. CBIRD has one branch in each province and four sub-branch offices except Pailin branch covering 21 districts and 346 villages. CBIRD operates mainly in rural and semi-urban areas. As on 31 December 2010, CBIRD had a total client base of 2,220 with US\$ 1.28 mn loan outstanding.

Operational area

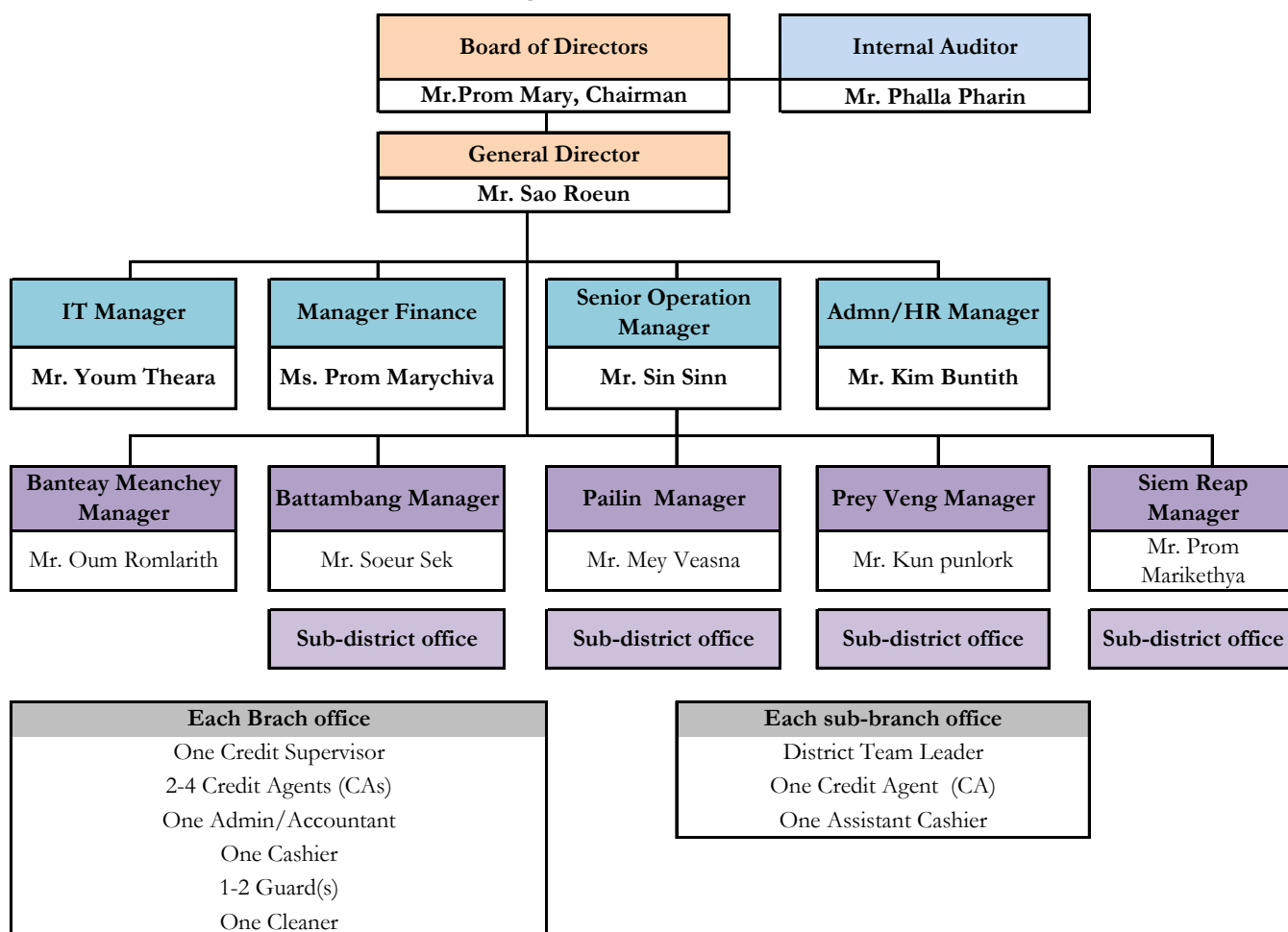


Organization

CBIRD’s microfinance operations are led by the General Director, Mr. Sao Roeun. He has over four decades of professional experience. He is one of the founders who joined the organization at its inception in 2000 as a Branch Manager and promoted to Deputy Director in 2005, later he became the General Director (GD) in 2009. He holds a Bachelor of Public Administration from IPA.

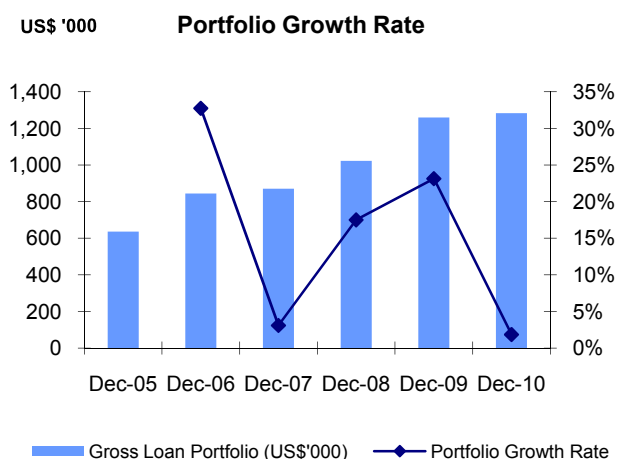
The functional responsibilities have been decentralized to various departments at the Head Office (HO). At HO, there are five departments namely Operations, Internal Audit, HR & Administration, Finance and IT. The Internal Auditor reports directly to the Chairman.

Organisational Chart



Each branch is staffed by Branch Manager, one Credit Supervisor (CS) who undertakes client level credit assessment, 2-4 Credit Agents (CAs), one Accountant, one Cashier, 1-2 Guards and one Cleaner. The sub-branch office consists of one District Team Leader, one CA and one Assistant Cashier. The organization structure of CBIRD is depicted in the diagram below.

CBIRD’s portfolio grew significantly during 2009 with funding support from ADA Luxembourg, DWM USA, and Planis of Planet Finance from France. However, in spite of funds from Phillip Capital (Poem Ple Ltd) in 2010, the portfolio growth rate reduced to 3% in 2010 due to repayment to DWM and Planis.



Microfinance policies

CBIRD lends through solidarity groups as well as to individual clients who may not be part of the solidarity group. Lending methodology does not differ for group or individual loans and groups are formed only in cases where a member has low income and is unable to provide collateral.

Prior to the establishment of a new branch office, an initial survey is conducted (by the CA, Senior Operational Manager and BM) for the selection of the area to determine the program’s operational feasibility and level of competition. After an initial selection of areas/commune based on its profile, the Credit Agent (CA) obtains permission from the area/commune authorities to work there. The CA markets the services of CBIRD door to door, and also relies on word-of-mouth from existing customers to generate business.

In case of group loans, potential clients are encouraged to form groups of 2-5 members on their own based on geographical proximity and similar economic status. Not more than one woman from a household can be member; member should be a permanent resident of the area/commune and should be economically active. Both the group and individual clients are initially screened through an in-depth survey which is conducted by the CA, in order to assess the asset-holding, income, and potential of the client’s business. The client’s attitude and business capacity are also assessed, to give a complete picture whether the business will succeed or not. The clients are trained by the CA about the loan terms and conditions and are visited by the Credit Supervisor (CS) for a final assessment. The visits by the CS are done for a wide sample of clients based on loan size. The CS checks 70% of sample loans for less than US\$ 1,000 and 100% checks for more than US\$ 1,000 loans. The BM also verifies 50% loans more than US\$ 1,000 and a small sample (around 20%) for less than US\$ 1,000 loans. The commune leader’s recommendation is usually sought before the CS approves the loan in addition to

neighbours and village banks. The CA seeks information from village chief regarding other loans availed by the potential customer; however is not captured in the loan application form. In absence of policy on multiple lending, the loans are lent to such customers based on the quality of business and capacity.

Loan Sanctioning authority	
Amount (US\$)	Authority
<=1,000	BM
1,001 to 5,000	Branch level Credit Committee (BM, CS and Accountant)
>5,000	HO level Credit Committee (Operations Manager, Credit Manager, Finance Manager and Admin Manager)

CBIRD takes collateral both in group and individual loans. In group loan, one or two members can give collateral, but it should be sufficient to cover the loans of all the group members. Maximum loan amount can be 50% of the value of collateral in both group and individual loans. Group members have the primary responsibility for ensuring repayment, but the CA ensures that the clients are able to repay the loans on time through regular monitoring visits. Based on their repayment history, and the development of their business, women in the group are allowed to take repeat loans for the same or a higher amount.

In few villages where IFAD loans are given, CBIRD uses Village Banker (VB) services for marketing, collection of loan recoveries and collection of overdues. CBIRD pays 5% of interest earned to the VB for his services. It is paid at the end of each loan cycle.

Loan products

At present, CBIRD offers two loan products to its clients – group loans and individual loans. Groups loans are essentially community based group loans with women members. Individual or Business loans are offered to individuals who are more entrepreneurial and whose businesses have already expanded. The group loan products have a ceiling which increases from one loan cycle to the next. Currently the maximum loan ceiling for each member under group loan is US\$ 1,000 and under individual loan is US\$10,000. CBIRD collects security deposits equal to 5% of the loan amount for loans less than US\$ 5,000. No interest is given on this deposit and it is refunded in full after the borrower fully repays the loan. For loans in excess of US\$5,000, CBIRD collects service charge of 1% on loan amount. The following table displays the products and their features:

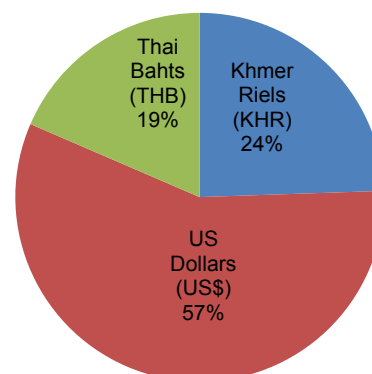
Loan product →	Group Loan	Individual loan
Eligibility	<ul style="list-style-type: none"> Similar economic background and neighborhood 2-5 members in a group 	Small entrepreneurs
Loan Size (Minimum-Maximum)	US\$ 250 – US\$ 1,000 (or 100,000 – 4 mn KHR or 1,000THB – 40,000 THB)	US\$ 250- US\$10,000 (or 1mn – 40mn KHR or 10,000 THB – 400,000 THB)
Loan term	3-12 months	3-24 months ($\leq \$1000$: 3-12 months; $> \$1000$: 3-24 months)
Repayment frequency	Declining repayment: Monthly principal and interest Balloon repayment: Monthly interest and principal end of the term. <i>(for agriculture loans)</i> As per contract: Monthly interest and principal as per the contract.	
Interest rate (Declining method)	<u>Loan in KHR</u> Loan size ≤ 10 mn: 3.5% - 4.0% pm Loan size 10mn-20mn: 3.0%-3.5% pm Loan size > 20 mn: 3.0% pm <u>Loan in THB</u> Loan size $\leq 40,000$: 3.5% - 4.0% pm Loan size 40,001 -200,000: 3.0%-3.5% pm Loan size $> 200,000$: 3.0% pm <u>Loan in US\$</u> Loan size $\leq 5,000$: 2.5% - 3.0% pm Loan size $> 5,000$: 2.0%-2.5% pm	
Service Charge	No	1% of loan amount ($\geq \$5000$) <i>(No compulsory saving)</i>
Security deposit	5% of loan amount for less than US\$5,000 loans	
Penalty on overdue	1% per day on overdue amount (including principal and interest)	
Guarantee/collateral	More than 100% of loan amount <i>(fixed assets like land, house and/ or building)</i>	
Prepayment	Prepayment allowed in balloon method	
Foreclosure of loan	Allowed <i>(but interest is charged for half term if the loan is closed before half-term and no extra interest charges after half term.)</i>	

The product mix of CBIRD has slightly changed from previous rating. By end of September 2008, individual business loans accounted for 80.4% of gross portfolio with 1,389 loans, which has reduced to 985 loans with 69.1% of portfolio share by end of December 2010.

Lending is done in three currencies: US dollar, Khmer Riel (local currency) and Thai Baht. The product currency mix and product range have remained similar to the previous rating. Differential interest rates are charged, based on whether the loan is extended in

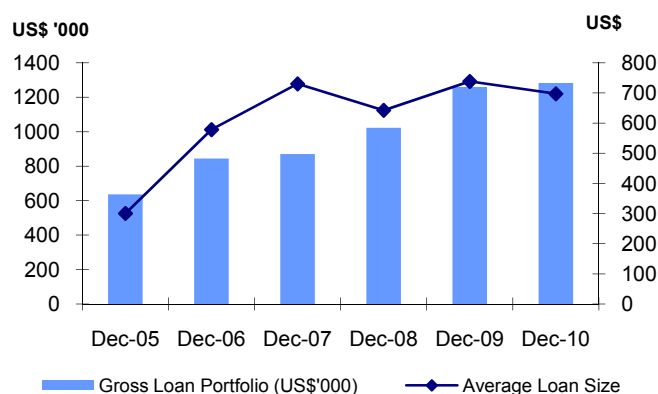
Khmer Riel (KHR), Thai Baht (THB) and US Dollar (US\$).

Currency wise loan distribution



Since inception, CBIRD witnessed a continuous increase in its loan outstanding size except in 2008 on account of clients graduating to higher loan sizes. However, average loan disbursed size decreased slightly from US\$ 738 in December 2009 to US\$ 697 in December 2010 due to lack of funds.

Portfolio and Avg. Loan Size



Saving products

CBIRD takes security deposit of 5% on loan amount from clients before disbursing loans. CBIRD is not legally permitted to collect voluntary savings, at present. As per NBC norms made applicable in 2007, an MFI can mobilise savings from the public only if it fulfils the minimum equity requirement of US\$2.5 million. At present, CBIRD pays an interest of 7% pa on yearly balance of compulsory deposits by members.

Governance and strategic positioning

Although CBIRD has displayed improved performance on diversifying its lender base and growth strategy in terms of equity mobilisation, it has maintained its rating grade of β on account of similar Board composition, low portfolio growth, high competition and high client dropout rate.

Governing Board

CBIRD currently has a four member Board and all of them are shareholders of the company including representative of staff association. One of the Board members resigned in 2009 and was replaced by staff association representative. Mr Sin Sinn, Senior Operational Manager of CBIRD, presently represents staff association in Board. In January 2011, Mrs Chun Nounnimol, a lecturer at the National University of Management at Phnom Penh resigned due to inability to attend Board meetings. CBIRD is yet to replace her. All the Board members are well experienced professionals.

Mr. Prom Mary, Chairman of the Board, is a Bachelor of Economics. He was a Deputy Chief Commune Authority and Chief Commander of Government Forces in Banteay Meanchey Province during 1985 to 1990. Later, he established a private import-export enterprise and successfully run the business during 1999 to 2000. He joined CBIRD in 2000 as a Branch Manager of Banteay Meanchey Branch and became a General Director in 2005. He was appointed as Chairman of Board in 2009. He has in-depth knowledge about CBIRD and provides necessary support.

The Board meetings take place twice in a year. The Board meeting is scheduled with proper notice and agenda with explanatory notes and material being distributed sufficiently in advance to the Board members. In the last Board meeting, the members discussed issues related to staff incentive, portfolio quality, internal audit, fund mobilisation and approved Phillip Capital to become an equity shareholder. Similar issues are discussed in Board meetings.

With the plans of mobilizing equity funds from Phillip Capital, structure of governing Board is also likely to change. The new composition of Board will be two members from CBIRD, two from Phillip Capital and one independent member.

Operational strategy and future plan

The organization will continue to follow the present lending methodology. There are no significant changes in operational strategy of CBIRD from the previous rating. CBIRD has expanded its operations to three new districts in the exiting provinces; the share of group loan portfolio in gross portfolio has increased from 19.6% to 30.9% from previous rating due to stiff competition in individual loans.

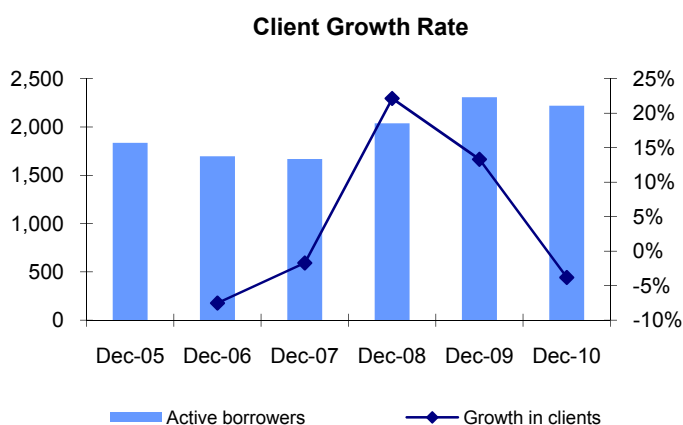
CBIRD has plans to restructure its governing Board, shareholding pattern and expand its operations to three new provinces. The Poems Ple Ltd (or Phillip Capital), Singapore based company has proposed to invest at least 50% in equity shares and also represent in CBIRD's

Board. CBIRD's Board has also approved the proposal of equity investment and inviting two members in the Board. CBIRD has plans to expand its operations in three provinces of Pursat, Kampong Thom and Kampong Chhnang in medium term. CBIRD hired a local consultant with the financial support of ADA to prepare strategic business plan and provide advisory services.

To effectively face competition, CBIRD provides flexible loan products to its clients in term of interest rate, loan term, loan size and repayment duration. The Branch Managers have flexibility in deciding the interest rates within the prescribed range. This has led to interest rates being set keeping in mind client's access to competitors' loans. However, CBIRD recorded roughly 20% client drop rate during 2010.

The exposure to agriculture remains high (53.1% of total loans) and CBIRD doesn't have any conscious loan diversification strategy in its lending policy. This poses some risk for CBIRD, given the natural risk prone nature of agriculture.

In the last five years, the active borrowers have marginally grown by 21%. During 2007-2008, CBIRD recorded negative growth rate and next two years had positive growth rate. During 2010, clients again declined due to insufficient funds for disbursing new loans.



Client drop-outs

CBIRD started to track the number of drop out members in 2010. The drop-out rate was around 20% for the year ending 31 December 2010. A high dropout rate remains a concern. The possible reasons for member drop-out could be competition from other MFIs, high interest rate and delays in disbursements of next cycle loans. The drop-out rate is expected to remain high till the time MFI is able to mobilise funds to meet its portfolio growth requirements. The management is also aiming to further reduce overall average interest rate which would also help in restricting dropout.

Competition and product pricing

CBIRD faces stiff competition in its operational area which is expected to increase in the near future. Currently, CBIRD's main competitors for group loans are Prasac, Sathapana, AMK, TPC, Vision Fund, Credit, HKL and Aceda bank for individual loans resulting in a significant number of clients with multiple borrowings. Maximum interest rate charged by AMK is 3% per month and so do for most of its competitors. Additionally small loans, no collateral requirements and easy documentation process of AMK poses a challenge for CBIRD to retain its clients.

To counter the competition, CBIRD slightly reduced its rate of interest on loans and plans to further reduce it to an average of 2.9% per month in the coming future. CBIRD believes that despite the presence of MFIs in its current operational area, there is sufficient untapped clientele. The organisation recognises that significant number of clients borrow from more than one source. CBIRD therefore will continue to monitor the market closely and act appropriately.

CBIRD offers loans with a term of 3-24 months. The effective rate of interest ranges from 51% to 37% pa which was observed to be a cause of dissatisfaction among some of its clients.

Second line of leadership

Although the functional heads have gained experience and possess reasonable expertise in their field, CBIRD still does not have someone to effectively carry out responsibilities of the General Director. The General Director is assisted by Senior Operational Manager, HR & Administration Manager, and Internal Auditor who constitutes the second line of management of CBIRD. . The General Director is making conscious and intensive efforts to hone the skills and boost the morale of the top and middle management staff. Though the second line of leadership is adequate for the existing level of operations, it could face challenges in case of expansion of operations.

Fund mobilisation

The organisation has improved its performance on fund mobilisation since last rating. CBIRD was able to diversify its lender base by raising funds from international funders although RDB continued to be the major lender. CBIRD received funds from LMDF Luxembourg, Developing World Markets USA and Planis of PlaNet Finance, France during 2009. During last year, CBIRD borrowed from Phillip Capital, Singapore. However, due to differences with DWM, CBIRD did not avail repeat loan from DWM. Repayment of loan from Planis further worsened fund

availability situation in 2010 resulting in marginal increase in portfolio. Since 70% of CBIRD's portfolio is individual loans which has tenure of 3 to 24 months, principal repayment conditions of borrowings would be a key issue to ensure liquidity in operations in addition to the fact that entire borrowings are in USD while only 57% of the portfolio was in the same currency in December 2010 leading to the forex risk.

To expand its operations, CBIRD is looking for equity investment from Phillip Capital, Singapore and fresh borrowings from local and international funders. As reported by CBIRD discussions with Etimos, Sri Lanka are in advanced stages and it expects to receive loan of US\$200,000 (for three years 8% pa interest rate + 1% service charge) in April 2011. CBIRD has also applied to local banks including DBS for loan of US\$200,000 in addition to another lender. Additionally CBIRD had compulsory deposit balance of US\$ 114,037 as on 31 December 2010. The following table shows the outstanding of borrowings as on 31 December 2010.

Name of the Financial Institution	Borrowing outstanding	Interest rate
Rural Development Bank	515,333	7.0%-9.0%
ADA	200,000	8.0%
Phillip Capital	309,730	5.0%-6.0%
Total loan outstanding	1,025,063	
Weighted average interest rate		7.6%

Organisation and management

Due to improved HR systems and policies, MIS and internal audit function CBIRD has received **β+** grade on organisation and management parameters. However improvement in staff productivity and operating efficiency is subject to availability of funds.

Human resource quality & management

CBIRD improved its HR systems and process from the previous rating. CBIRD now has a separate two member HR team.

CBIRD has a total of 69 staff including 15 women as on 31 December 2010. CBIRD has reasonably qualified and experienced managerial staff. Commitment and motivation at all staff levels is high. The functional heads for internal audit, finance, operations, IT and HR and administration have relevant experience and knowledge in their domain.

Recruitment of field cadre is a standardised exercise which involves advertisement in newspapers and university and also on radio. The applicants have to go through a written test, followed by an interview process after which the selected candidates are recruited. New

recruits are trained for a one-month period, including both classroom and on the job training at branches. The probation period is three months. After completion of the probation period, their performance is evaluated by the BM and the HR before being confirmed.

CBIRD is committed to revise and develop employees' capability and skills. CBIRD gives 50% sponsorship under Education Support Program for Master and Bachelor degrees with compulsory work agreement of 2 years after the education. CBIRD consistently concentrates on building staff capacity both through in-house and external training. In the last two years, CBIRD focused its trainings on computer basics, leadership and change management, operation management, risk management, collateral evaluation, strategic planning and internal audit. During the last year, CBIRD had given in-house trainings to 28 staff, sent several staff for external training to Cambodian Microfinance Association (CMA) and two senior staff were sent for International training at Luxembourg on Social Performance Management.

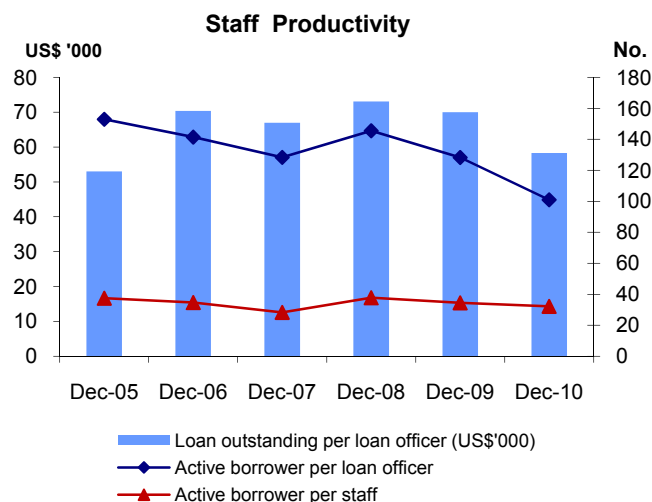
CBIRD has a performance-linked compensation. Good performers are being promoted or given a rise by one or two levels of salary. Performance evaluation is done by branch level performance committee (BM, CS and accountant) for field staff and HO performance committee (General Director, HR manager and department heads) for managerial and HO staff. The process is found to be effective and is seen as a process of feedback and also for assessing the potential of employees for handling bigger roles. However, CBIRD's salaries are lower than competitor MFIs and some staff have left for more lucrative positions in other MFIs. In the last year, CBIRD conducted an 'organisational climate and satisfaction survey' and it revealed that majority of staff are not happy with existing salary structure. CBIRD's staff attrition rate is quite high at 19.8% for the period of January to December 2010. As a part of staff retention strategy, CBIRD has a two year agreement with the staff, making them liable to pay a bond amounting to 6 months of their current salary before they can leave the organisation.

The organisation has a performance based incentive system for the staff. The incentives depend on branch performance on portfolio quality and profitability. CBIRD also gives bonus to all employees twice in a year (30% of basic salary each time) for Khmer New year and Phchum Ben (Festival).

Staff productivity

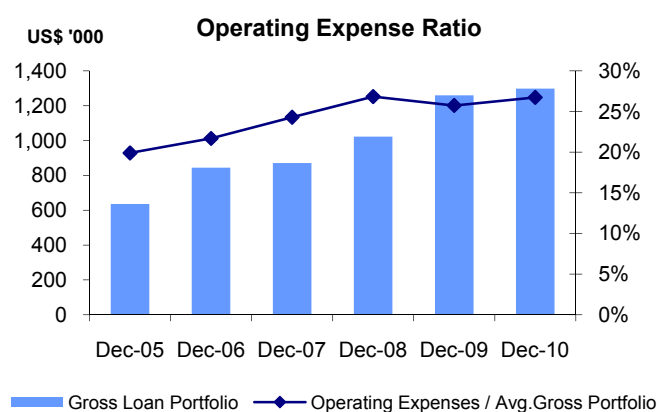
The staff productivity of CBIRD is low at 101 active borrowers and US\$ 59,061 loan portfolio outstanding per field staff as on 31 December 2010. The number of borrowers per field staff reduced from 146 in December 2008 to 128 in December 2009 and further decreased to

101 in December 2010 due to increase in loan officers and a declining trend in client growth rate.



Operating efficiency

The OER has increased from 25.7% in 2009 to 26.7% in 2010 due to decrease in staff productivity in terms of both loan outstanding and number of borrowers, a result of lower portfolio growth. Increase in portfolio will be critical for improvement in OER. At the same time lower field staff to total staff ratio contributes to lower overall productivity and higher OER. The management plans to give extra stress on opening of new branches for its horizontal and vertical growth without adding staff at HO; however subject to availability of funds.



Accounting

CBIRD maintains accounts in manual cum MS Excel as well as an unlicensed version of Quick Book software. The accounting software can not support multiple currencies. Hence in 2010 the organisation engaged an international company to develop multiple currencies accounting software but failed. CBIRD is still in the process to identify a developer for developing accounting software or which can be integrated with the existing MIS software. The accounting is decentralized and each branch has its

own bank account. The cashbook is maintained in every branch according to the accounting principles of the daily cash transactions. The cashier enters daily loan repayment in manual as well as excel based cashbooks on the same day. Three separate cash books are maintained for three different currencies in the excel worksheets. Thereafter, branch accountant enters in the Quick Book and Microfis software. Once the entries are posted, the transaction number is written against each Journal, which makes it easier to track it later.

All field level expenses are made from the branches and all vouchers are also generated at the branch level. The branch sends loan disbursement, loan repayment and expense vouchers along with the summary sheet (having figures in three currencies) on a monthly basis to the Financial and Internal audit department. Three copies of disbursement and repayment receipts are issued; one for customer, branch and HO each. Similarly three copies of deposit receipt are issued. End of month, Financial or/and Internal audit department verifies branch accounting entries with the MIS report. Both the Accounts and MIS amounting figures are reconciled on monthly basis. The final reports are placed before the top management for their information and control purposes. The monthly consolidated accounts are maintained in US dollars.

CBIRD follows accrual accounting both for income and expenses. Depreciation is calculated on the straight line method. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding. CBIRD does monthly reporting to NBC (central bank). As per these norms, CBIRD being a limited liability company is required to maintain 5% of its net worth as interest bearing statutory deposits with NBC. CBIRD pays transaction tax 1% of interest collection to Government end of every month. CBIRD still does not create provisioning for foreign exchange losses.

In compliance with the NBC Guidelines, a specific provision for sub-standard assets, doubtful and bad loans is made on loans that are identified as non-performing, as follows:

NPA Category	Past due (in days)		Provision
	Loan term (<=1 Yr)	Loan term (>1 Yr)	
Standard	0-30		0%
Sub-standard	31-60	31-180	10%
Doubtful	61-90	181-360	30%
Loss	> 90	> 360	100%

MIS

CBIRD uses in-house developed 'Microfis' software since April 2010 for the purpose of MIS. Due to gaps in the software previously used, the IT team with external support developed an online software after months of customisation and testing. Every branch has a separate server, branches sendbackup on a weekly basis for the IT Manager to integrate in the software. The software has different modules for loans and savings. Customer related entries including personal information and loan details are made in the software after loan is approved to generate a repayment schedule. Thereafter entries are made in the software for various transactions.

The software can generate relevant reports and also has internal checks in-built in it. Only Accountant has authorisation to use loan management system while cashier has the authorisation to use savings system. The CS can view reports pertaining to savings system whereas the BM can view those of loans. Only accountant has the authority for day end closing and any changes can be made by the end of the day. Changes made in the software can be traced through audit trail.

Tracking system for overdues

The tracking system for overdues is improved from the previous rating. The Microfis software provides information on overdues on a daily basis. In case of overdue, CA visits the client's house to find out the reasons for non-payment on the same day and ensuring collection (from other members of the group, if necessary) to the maximum extent possible. In some cases, flexibility is allowed to the client if she agrees to repay the overdue amount on a later date. In view of varied loan repayment options especially as per contract option, tracking of overdue might not always be easy and accurate. Few instances of incorrect reporting of overdues in such a repayment option were seen during branch visits by the rating team. CA has to resolve the overdue problem within two weeks. In case the overdue is more than four weeks, the BM makes a visit to the client as well as guarantor. The BM informs the commune leader and sends warning letter to the client. In case the overdue is for more than 3 months, HO may file case in the court as per Government rule for disposal of collateral. There are 10 overdue cases pending in the court.

Internal audit and control systems

CBIRD has improved quality of internal audit since the last rating. CBIRD has constituted Internal Audit Committee with Finance Manager, Credit Manager, HR manager, MIS Manager and internal auditor at HO. However due to limited staff, frequency of branch audit at twice a year is still low. The internal audit functions

under the direct supervision of the Board. The head of internal audit has been with the company since 2007. CBIRD has developed internal audit manual and an exhaustive report format. Observations made during audit visits are well documented in the internal audit reports. Gaps observed are categorised under credit risk, transactional risk, interest rate risk, market risk, liquidity risk, reputation risk, legal risk, strategic risk, compliance risk and security risk indicating wide coverage of internal audit function.

Usually the audit of the branch is conducted by 2-3 members of the internal audit committee on half yearly basis for 3-4 days. Scope of the audit includes checking of 100% accounting transactions, 50% of the loan disbursement, 30-50% of the loan utilisation, security deposits and MIS reports. Discrepancies related to expense and receipt vouchers sent to HO on a monthly basis are especially checked during audit visits. The team also visits around 20-60 clients (individual and group clients). After completion of the visit the team prepares a report and sends it to the Chairman, which is further shared with the branches. The audit committee also prepare a summary audit report. The BMs are supposed to respond to the issues highlighted in the report and take corrective action. However, it was observed that the follow up action of the internal report is not done on a regular basis. The internal audit committee also conducts internal audit at HO.

The quality of supervision has improved since the last rating. The BM monitoring visits have increased and BM spends 10-15 days in a month for monitoring, loan valuation and utilisation checks. The rating team observed some discrepancies in the CA wise loan outstanding and overdue client details with the aggregate overdues and loan outstanding for the branch. There was low focus on financial aspects, passbook checking and other checks for controlling fraud and misappropriation.

In order to strengthen internal controls, big disbursements and collections are attended by the BM and CS in addition to the CA. The branches are not allowed to maintain cash balance of more than US\$10,000 in the safe. CBIRD introduced loan follow up form for the CS and BM visit which covers condition of business activity, business trend, status of income levels, status of collateral apart from loan utilisation. Interest rate charged on loans at every branch is continuously monitored by HO especially through audits to control on flexibility allowed in deciding interest rate. The HO has also drafted guidelines for collateral valuation to enable the field staff to make accurate assessments.

Financial planning

The Finance Manager (FM) had resigned three months before the rating visit. CBIRD promoted the senior

accountant to the Finance Manager position whose capacity still needs to be developed. Financial planning is undertaken by the FM with assistance from the internal auditor and senior operational manager. A detailed yearly plan is prepared for the organisation to set targets and plan the fund requirement. Performance and analysis of variances are regularly tracked by the General Director. Branches send loan request (or loan contract) to the HO as and when it gets the sanction approval for the loans to be disbursed. Repayments to all the lenders are planned and schedule is followed. The average idle cash at bank and in hand for financial year 2010 is 5.8% which shows sub-optimum use of funds.

Quality of clients/member groups

The rating team visited group members and individual borrowers in Banteay Meanchy branch, Pailin branch, Battambang and Siem Reap branch. The visited borrowers showed good to moderate performance on repayment of loans and overall discipline. Few of the clients were seen making repayments couple of days in advance. The members viewed CBIRD as a better MFI compared to others due to its well mannered staff and efficient door step services. Client awareness on products offered by CBIRD was observed to be good. Majority of the clients were aware of the interest rate, collateral and loan term. Many clients are not happy with high rate of interest rate and expect lower rates.

Infrastructure

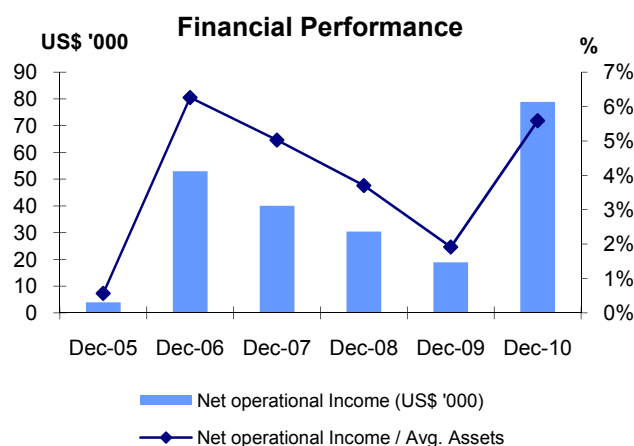
Head Office and branch offices operate from rented premises. CBIRD has good infrastructure at Head Office and at branch offices. The book value of its infrastructure base is US\$97,232 as on 31 December 2010 which constitutes 6.6% of total assets. This mainly includes office furniture & equipment, computers and photocopier. The current level of infrastructure seems more than adequate and is employed effectively.

Financial profile

CBIRD has maintained its rating grade of **β+** on financial parameters in spite of poor portfolio quality and low operating efficiency than previous rating. This is due to higher yield which has resulted in higher profitability in addition to better capital adequacy position. However it may be noted that increase in other income and reduction in loan loss provisioning expense has also largely contributed towards increased profitability.

CBIRD has been making profits from last six years despite small size of operations. However its profitability continuously declined during 2006 to 2009 due to increase in operating costs at similar yield on portfolio. In 2010 net operational income (after tax) increased substantially from US\$18,911 in 2009 to US\$ 78,855 due

to increased portfolio yield coupled with increase in other income and reduction in loan loss provisioning expense.



Financial Ratios`	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10 [^]
Capital Adequacy						
Risk Weighted Capital Adequacy Ratio	23.1%	21.3%	19.8%	20.5%	18.0%	23.1%
Asset Quality						
Portfolio at Risk (>30 days)	1.2%	0.8%	0.8%	1.0%	2.8%	2.0%
Portfolio at Risk (>60 days)	1.1%	0.7%	0.6%	0.7%	2.8%	1.5%
Current Recovery Rate	98.8%	99.2%	99.2%	99.0%	97.2%	98.1%
Loan Loss Provision /Gross Portfolio	1.6%	1.5%	1.0%	0.5%	3.9%	2.3%
Management						
Operating Expenses / Avg. Gross Loan Portfolio	19.9%	21.7%	24.3%	26.8%	25.7%	26.7%
Number of Borrowers / Field Staff	153	154	128	146	128	101
Number of Borrowers / total Staff	37	32	28	38	34	32
Loan outstanding / Field Staff	53 007	76 764	66 961	73 064	69 976	58 311
Earnings						
Net operational income / Avg. Assets (RoA)	0.5%	5.9%	4.1%	2.9%	1.4%	5.3%
Net operational income / Avg. Equity (RoE)	2.6%	31.1%	22.1%	15.6%	8.5%	29.1%
Portfolio Yield	35.7%	38.1%	38.9%	38.8%	37.4%	39.6%
Interest and Fee exp. / Avg. Gross Loan Portfolio	13.7%	12.3%	10.6%	8.6%	9.0%	8.1%
Interest and Fee exp./ Avg. Funding Liabilities	76.2%	22.2%	12.2%	10.7%	10.4%	8.5%
Liquidity						
Cash & Liquid Assets / Total Current Assets	13.3%	6.4%	6.2%	6.4%	11.3%	6.2%
Cash & Liquid Assets / Total Assets	12.2%	5.9%	5.8%	6.1%	10.4%	5.8%

[^] Ratios are calculated based on un-audited financial statement provided by CBIRD

Credit performance and portfolio quality

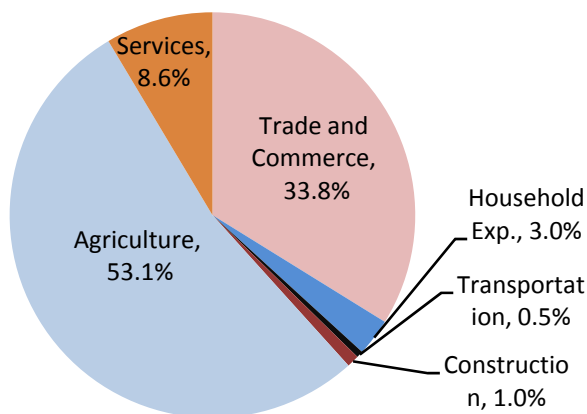
The portfolio quality of CBIRD is good with PAR₆₀ at 1.5% as on 31 December 2010 and current recovery rate for the year 2010 at 98.1%. The credit performance (PAR₆₀) improved from 2.8% as on 31 December 2009 to 1.5% as on 31 December 2010. Decline in portfolio quality during 2009 can be attributed to global economic crisis and closing of

Thailand border due to tension at Cambodia and Thailand border which adversely affected CBIRD's clients, especially clients involved in textile and construction industry.

CBIRD's portfolio is moderately concentrated in agriculture and trade with 53.1% in agriculture, while small micro-enterprises and commerce accounted for 33.8%, service sector for 8.6% and remaining 4.5% in

consumption activities. The portfolio in agriculture may be slightly risky given the seasonal nature of agriculture, its dependence on rainfall and the absence of crop insurance in the country. The risk is compounded by the balloon repayment of the organisation's loan products.

Portfolio Diversification



Asset, liability and equity composition

CBIRD succeeded in accessing funds from international funders and local banks. It has total debt outstanding of US\$ 1.03 million as on 31 December 2010 which formed 69.2% of the total liabilities and the networth accounted for 21.0% of the total source of funds.

Fund utilisation was reasonable with net loan portfolio forming 85.4% of the total assets as on 31 December 2010. Cash and bank balance formed 4.8% and bank deposits (including statutory deposit with NBC) formed 1.0% of the total assets as on 31 December 2010.

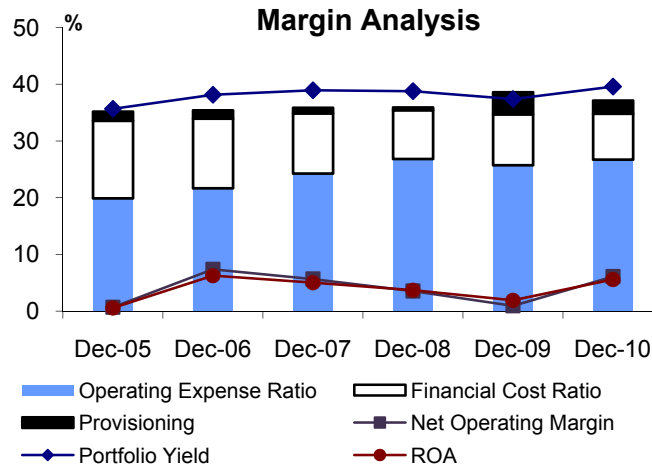
The capital adequacy position of the organisation on 31 December 2010 was good at 23.1%. As per NBC directive, MFIs must have a CAR of 20%. While CBIRD's CAR is currently at 23.1%, if it raises further debt funds, the ratio will fall below the required level. Therefore, CBIRD has approached Phillip Capital, Singapore for equity investment and negotiations are at an advanced stage. CBIRD will raise equity in order to continue funding its growth and to meet its capital requirements.

Profitability and sustainability

CBIRD has consistently performed well on profitability and sustainability. The Operating Expenses Ratio (OER) increased from 25.7% for 2009 to 26.7% during January-December 2010, but in the same period

portfolio yield increased from 37.4% to 39.6% primarily because of the improved portfolio quality. Lower PAR also resulted in lower provisioning expenses and overall increased profitability. However during the same period other income has also increased which along with reduction in financial costs and provisioning expenses have boosted the RoA from 1.4% during 2009 to 5.3% during 2010. The Operational Self Sufficiency (OSS) was good at 118.7% for 2010, an improvement from 105.7% in December 2009. Although for past few years C-BIRD has been earning foreign exchange surplus, considering it is currently profitable it needs to be prepared for any unforeseen loss on this account.

Margin Analysis



Future plans and prospects

CBIRD is a growing organization that has been consistently making profits from last six years. CBIRD plans to continue its expansion by consolidation of operations in existing branches as well as by establishing new branches. CBIRD plans to reach 5,000 active borrowers with US\$ 3 million loan outstanding and expanding its operations to three new provinces in medium term. It also plans to shift its Head Office to Phnom Penh (the country capital) in long term.

CBIRD hired a local consultant with the financial support of ADA to prepare strategic business plan for 2012-14. CBIRD has plans to raise equity investment from Phillip Capital and restructure its governing Board.

Overall, CBIRD has good prospects, provided it improves its staff productivity and consequently operational efficiency, improves portfolio quality and increases portfolio base by accessing equity funds and commercial borrowing.

Validity	This rating is valid, subject to no other significant changes in the organisational structure and external operating environment. A rating update (comprehensive repeat rating) is recommended whenever such changes take place or at the end of one year from the date of the initial assessment, <u>whichever is earlier</u> . Any substantial additional information that becomes available could also result in a rating update or a <u>rating review</u> (revision of rating grade based on a desk analysis).
Liability	The rating assigned is a professional <u>opinion</u> of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Financial statements for CBIRD
Balance sheets as on
Amount in US\$

Dec-05	Dec-06	Dec-07	Dec-08	ASSETS	Dec-09	Dec-10 Un-Audited
				Current assets		
77 215	46 691	28 450	55 581	Cash in hand and bank	1 41 019	70 808
15 577	5 241	22 030	6 899	Other deposits at banks	7 702	7 642
5 950	5 950	6 938	6 918	Statutory deposits	7 616	7 647
0	0	0	0	Accountable receivables	0	27 217
20 252	17 343	6 300	5 060	Advances & prepaid expenses	9 165	5 700
				Loans outstanding		
6 36 087	8 44 402	8 70 487	10 22 890	Gross loan outstanding	12 59 560	12 98 348
(3 131)	(5 443)	(1 176)	(4 587)	Less: Write off	(3 980)	(15,507)
(7 379)	-(6 471)	(5 831)	(5 913)	<i>Loan loss reserve</i>	(32 351)	(18 524)
6 25 577	8 32 488	8 63 480	10 12 390	Net loans outstanding	12 23 229	12 64 318
7 44 571	9 07 713	9 27 198	10 86 848	Total current assets	13 88 731	13 83 331
				Long term assets		
66 449	65 128	57 573	46 344	Net property and equipment	1 15 864	97 232
66 449	65 128	57 573	46 344	Total long term assets	1 15 864	97 232
8 11 020	9 72 841	9 84 771	11 33 192	Total Assets	15 04 595	14 80 563
				LIABILITIES AND NETWORTH		
				Current liabilities		
3 860	27 197	8 151	15 859	Accounts payable	11 296	28 366
0	0	5 015	4 982	Provision for tax	726	2 718
141	38 399	16 422	0	Other current liabilities	0	0
				Short term debt		
0	0	0	60 000	ACLEDA	0	0
0	0	0	0	PlaNet Finance	1 00 000	0
0	0	0	0	Veecus SARL	1 564	0
5 43 001	65 596	29 588	80 841	Total current liabilities	1 13 586	31 085
				Long term liabilities		
83 727	1 20 462	1 48 646	1 23 688	Members' funds	1 23 365	1 14 037
				Long term debt		
3 04 000	3 66 000	4 10 000	5 28 051	Rural Development Bank (RDB)	4 73 945	5 15 333
2 35 000	2 35 000	2 19 333	1 88 000	IFAD loan (by RDB)	1 56 667	0
0	0	0	0	LMDF (transferred by ADA)	2 00 000	2 00 000
0	0	0	0	DWM Funds	2 05 509	0
0	0	0	0	Phillip Capital (Poem Ple Ltd)	0	3 09 730
30 000	0	0	0	Other loans	0	0
1 13 727	7 21 462	7 77 979	8 39 739	Total long term liabilities	11 59 486	11 39 100
				Net worth		
1 17 300	1 17 300	1 17 300	1 30 200	Share capital	1 30 200	1 30 200
0	0	0	7 095	Share premium	7 095	7 095
36 917	18 000	0	0	Other capital item-1	0	0
75	50 483	59 904	75 317	Retained net surplus/(deficit)	94 228	1 73 083
1 54 292	1 85 783	1 77 204	2 12 612	Total net worth	2 31 523	3 10 378
8 11 020	9 72 841	9 84 771	11 33 192	Total Liabilities and Net worth	15 04 595	14 80 563

Income statements for the period ending
Amount in US\$

Dec-05	Dec-06	Dec-07	Dec-08		Dec-09	Dec-10 Un-Audited
				Income		
2 25 662	2 88 446	3 36 702	3 89 762	Interest & fees on loans	4 32 467	4 75 883
147	21	88	3 413	Interest received bank deposits	14 190	9 880
6 265	16 688	10 567	6 912	Other income	24 922	37 548
(4 742)	18 440	12 011	0	Foreign Exchange gain/(loss)	0	6 309
2 27 332	3 23 595	3 59 368	4 00 087	Total operational income	4 71 579	5 29 620
				Financial costs		
77 812	84 577	73 341	67 464	Interest and fee expenses on borrowings	93 176	88 655
8 586	8 155	11 534	15 276	Interest and fee expense on savings	10 802	8 658
289	0	6 678	3 766	Other financial cost	0	43
1 40 645	2 30 863	2 67 815	3 13 581	Gross financial margin	3 67 601	4 32 265
10 169	11 111	8 651	4 784	Provision for loan losses	44 757	27 640
1 30 476	2 19 752	2 59 164	3 08 797	Net financial margin	3 22 844	4 04 625
				Operating expenses		
68 221	90 250	1 20 911	1 36 896	Personal Cost	1 69 456	1 80 617
11 290	15 849	22 324	17 428	Travel	15 269	16 389
14 505	16 490	22 762	20 043	Office supply	22 235	41 097
15 549	17 294	17 113	14 253	Depreciation	14 978	20 245
16 325	24 010	26 866	80 963	Administrative expenses	75 650	62 851
1 25 890	1 63 893	2 09 976	2 69 583	Total Operating expenses	2 97 588	3 21 199
4 586	55 859	49 188	39 214	Net Surplus/Deficit (Before tax)	25 256	83 425
608	2 895	9 165	8 800	Income tax	6 345	4 570
3 978	52 964	40 023	30 414	Net Surplus/Deficit (after tax)	18 911	78 855
				Transferred to Balance Sheet		

Notes to the financial statements

1. CBIRD received permanent license from the National Bank of Cambodia on 10 July 2008.
2. Income includes interest income and fees (incl penalties on overdues).
3. Net loans outstanding are stated in the balance sheet as the amount of principal outstanding less any amounts written off and provisions. For loan loss provisioning and write-off, CBIRD follows the NBC guidelines as stated earlier in this report.
4. Financial costs (interest on borrowings, if any) and operating costs are calculated on an accrual basis.
5. Assets and liabilities expressed in currencies other than US\$ are converted into US\$ at the rates of exchange quoted by NBC on the balance sheet date.

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk (PAR_{30 or 60 days}): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 or 60 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
13. Risk weighted capital adequacy ratio: Ratio of networth to risk weighted assets
M-CRIL Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%.
14. Return on assets: Ratio of operational income/(loss) to average total assets
15. Return on equity: Ratio of operational income/(loss) to average net worth

Abbreviations

ADA	Appui au Developpement Autonome
BM	Branch Manager
BoD	Board of Director
CA	Credit Agent
CAR	Capital Adequacy Ratio
CBIRD	Cambodia Business Integrated in Rural Development
CM	Credit Manager
CMA	Cambodian Microfinance Association
CS	Credit Supervisor
DWM	Developing World Markets
FCR	Financial Cost Ratio
HO	Head Office
GD	General Director
HR	Human Resource
IFAD	International Fund for Agriculture Development
IT	Information Technology
KHR	Khmer Riel
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institutions
MIS	Management Information System
NBC	National Bank of Cambodia
NGO	Non Governmental Organization
NPA	Non Performing Assets
OER	Operating Expenses Ratio
OM	Operations Manager
OSS	Operational Self-Sufficiency
PAR ₃₀	Portfolio at Risk (>=30 days)
RDB	Rural Development Bank
RoA	Return on Assets
RoE	Return on Equity
THB	Thai Baht
US\$	United States Dollar
VB	Village Banker