

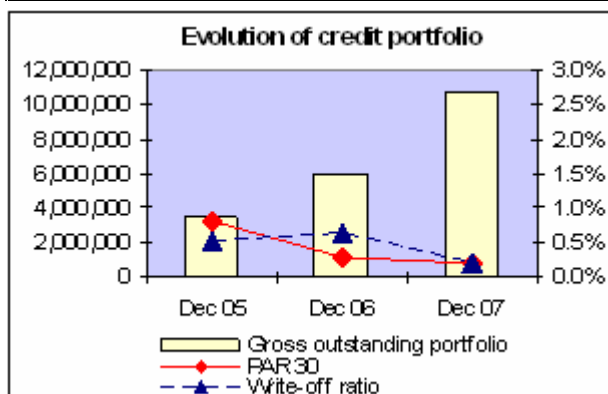
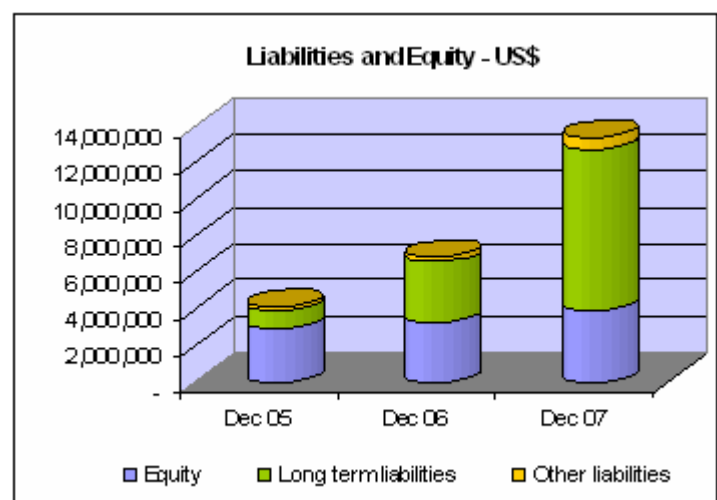
## VisionFund (Cambodia) – Cambodia

<b>Final rating</b>	<b>BBB +</b>
<b>First rating</b>	Validity: 1 year if no relevant changes in operations or within the operation context will happen.

VisionFund (Cambodia) is a non-banking financial institution resulting from the spin-off of the former World Vision Program MED. In 2003 VisionFund (Cambodia) was registered as a microfinance institution and it received the license from the National Bank in 2004. The ownership that was till 2003 entirely belonging to World Vision, in 2005 was transferred to a newly established body, Vision Fund International, an umbrella for all World Vision affiliates. VisionFund (Cambodia) provides financial services mainly to rural low income borrowers with a specific focus on areas where WVC is implementing its programme. Moreover over the years VisionFund (Cambodia) developed new partnerships with development NGOs such as Plan International, Khmer HIV/AIDS NGO Alliance (Khana) and ILO. Loans are disbursed using the community bank, solidarity group and individual lending methodology with the possibility to borrow both in Riel or Dollars. The main source of financing has been so far Vision Fund International; the same is currently in charge of the overall fundraising activity for all its affiliates. Savings products are also offered as pilot project in view of the expected license for savings mobilization.

Legal status	Non banking financial institution
Inception year	1990, licensed MFI in 2004
Area of intervention	Rural – Semi-rural - Urban
Credit methodology	Community Bank, Solidarity Group and Individual

Number	Dec 05	Dec 06	Dec 07
Active borrowers	25,347	35,289	53,885
Branches (hubs)	7	8	8
Total staff	191	229	330
Loan officers	103	113	174



US\$	Dec 07
Average disbursed loan size	238
Gross outstanding portfolio	10,700,478
Total assets	13,543,184

Financial Indicators	Dec 05	Dec 06	Dec 07
PAR 30	0.8%	0.3%	0.2%
Write-off ratio	0.5%	0.6%	0.2%
Restructured loans	0%	0%	0%
ROE	0.2%	8.0%	14.6%
AROE	-4.1%	1.2%	6.6%
Oper. Self-sufficiency (OSS)	107.9%	123.0%	131.2%
Fin. Self-sufficiency (FSS)	98.0%	107.4%	116.3%
Staff productivity (borrow.)	138	159	169
LO productivity (borrow.)	246	312	310
Operating expense ratio	35.5%	26.5%	22.1%
Funding expense ratio	1.2%	3.4%	5.8%
Provision expense ratio	0.7%	0.5%	0.2%
Portfolio yield - cash	39.5%	35.5%	35.3%
Risk coverage ratio	51.6%	50.0%	31.9%
Cost of funds ratio	4.9%	7.5%	7.8%
Debt/Equity ratio	0.4	1.1	2.4

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AREA	Risk factors	Relevance*
<i>External environment</i>	Increasingly competitive environment	Medium-high
	Lack of a credit bureau and exchange of clients information	Medium
	Not full availability of land titles	Medium
	Underdeveloped capital market	Medium-low
<i>Governance, management and operations</i>	Some shortcoming in the MIS	Medium
	Staff turnover to be monitored	Medium
	Sporadic use of legal procedures	Low
	Cash handling and security of documents	Medium-low
	Salary scale and information on market level of salary	Medium-low
	Relationships between VFC and WVC	Medium-low
<i>Financial products and asset quality</i>	Capacity building in process for savings mobilization	Low
	No formal monitoring and analysis of clients desertion	Medium
<i>Financial structure and ALM</i>	High liquidity	Medium
	Currency risk	Medium-high
	Improvable risk management framework	Medium
	Term deposits concentrated in ACLEDA	Medium-low
	Issues related to capital structure	Medium-low
	Some bottlenecks in the access to external finance	Medium-low
<i>Financial and operational results</i>	Profitability	Medium-low
	Improvable productivity	Medium
	Relatively high operating expenses	Medium-low
<i>Strategic objectives and future</i>	Lack of scenarios and of sensitivity analysis	Medium-low
	Lack of updated Business Plan document	Low

\* Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.

Strengths	Opportunities
→ Excellent portfolio quality	→ Access to saving mobilization
→ Strong governance	→ Product diversification
→ Widespread policies and procedures	→ Geographic expansion

### Final opinion

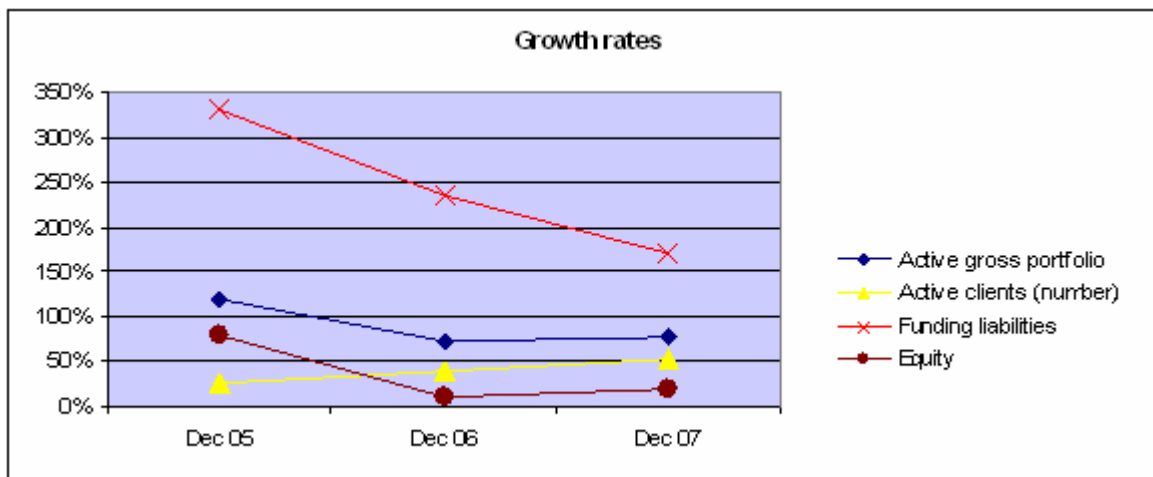
VisionFund Cambodia is a fast growing institution with a good outreach in depth in the increasing competitive market of Cambodia. The main strengths of the VCF include an excellent portfolio quality, coupled with a strong corporate governance, a good diversification of products, quite complete policies and procedures and a good management team. Nevertheless, also in view of the future growth and the expected introduction of savings products in the near future, the institution will have to cope with some challenges included to overcome some shortcomings in the MIS, reduce the staff turnover and increase productivity which is lower than some direct competitors. VFC presents a relevant exposure to currency risk and the risk management framework is improvable, especially for what concerns financial risks.



Map No. 3920 Rev. 4 UNITED NATIONS  
January 2004

Department of Peacekeeping Operations  
Cartographic Section

- VisionFund (Cambodia) headquarters and Kandal office
- VisionFund (Cambodia) provincial offices (operating in 8 provinces)  
 Battambang  
 Takeo  
 Kampong Speu  
 Kampong Thom  
 Kampong Chhnang  
 Phrea Vihea  
 Kampong Cham



## Benchmarking

All figures of peer groups are referred to the MicroBanking Bulletin (MBB) database updated as of December 2006 and data from the Mix Market. VisionFund (Cambodia) ratios indicated here do not fully correspond to the ratios presented in the report as they are calculated according to the MBB methodology<sup>1</sup>. Figures for VisionFund (Cambodia) refer to December 2007.

Financial indicators	VFC	Cambodian MFIs	NBFI	Asia Large FSS
<b>Gross Loan Portfolio</b> gross loan portfolio adj for standardised write-offs (US\$)	<b>10,694,613</b>	80,678,233	6,395,958	18,601,212
<b>Average Loan Balance per Borrower on per capita GNI</b> Average loan balance per borrower/ GNI per capita(%)	<b>35.8%</b>	43.0%	54.8%	18.0%
<b>Portfolio at Risk &gt; 30 Days</b> outstanding balance of loans overdue > 30days/gross loan portfolio (%)	<b>0.2%</b>	0.2%	2.2%	1.1%
<b>Adjusted Return on Equity AROE</b> adj net operating income after taxes/avg tot equity (%)	<b>4.2%</b>	9.9%	5.1%	12.3%
<b>Portfolio yield</b> Financial Revenue from Portfolio/ Adjusted Average Gross Portfolio	<b>35.3%</b>	34.4%	31.2%	27.8%
<b>Debt/ Equity Ratio</b> adj.tot.liabilities/adj.tot.equity	<b>2.4</b>	1.9	2.6	5.4
<b>Operating Expense/ Loan Portfolio</b> (operating expense + In-Kind donations)/avg gross loan portfolio (%)	<b>22.1%</b>	16.2%	20.8%	14.3%
<b>Borrowers per Loan Officer</b> n. of active borrowers/n. of loan officers	<b>310</b>	387	216	277
<b>Borrowers per Staff</b> n. of active borrowers/n. of staff	<b>169</b>	192	104	176

Asia Large FSS, Gross Loan Portfolio (US\$) > 8 million, Financial Self-Sufficiency > 100%

Though still not included between the biggest MFIs in Cambodia, VisionFund (Cambodia) presents satisfactory performances compared to Cambodian MFIs and to other peer groups (Asia Large and Non Bank Financial Institution).

Profitability stands at a slightly lower but acceptable level, due to still higher operating expenses compared to peer groups. Nevertheless a somewhat higher portfolio yield allows to partially cover the higher level of expenses.

Productivity still need to be improved in terms of borrowers per Client Service Officers and staff.

Portfolio quality is excellent – and this is a common characteristic for all Cambodian MFIs. Leverage is also satisfactory, even if there is still room for further exploitation of the capital.

<sup>1</sup> The MBB adjusts the financial data to produce a common treatment for the effect of: a) inflation, b) subsidies, and c) loan loss provisioning and write-off (see *MBB*, Appendix I: Notes to Adjustments and Statistical Issues).

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## 1. External Environment and VisionFund (Cambodia) positioning

### Institutional background

VisionFund Cambodia Limited (VisionFund (Cambodia)) is a non-bank microfinance institution resulting from the spin off of the **World Vision program MED**. Fully owned and governed by World Vision, in 2003 VisionFund (Cambodia) was registered as a microfinance institution and it obtained its MFI license from the National Bank of Cambodia in May 2004. The ownership that was till 2003 entirely belonging to World Vision, in 2005 was transferred to a newly established body, Vision Fund International, an umbrella for all World Vision affiliates all over the world.

VisionFund is predominantly a rural microfinance provider which started with **Community Bank loans**. Solidarity groups lending was introduced for clients with increased capitalisation needs and gradually individual lending was also introduced, to better serve clients' needs. Currently **VisionFund operates through 8 branches**, located in Kandal, Battambang, Kampong Speu, Kampong Thom, Kampong Chhnang, Kampong Cham, Phrea Vihea and Takeo. So far the **expansion strategy has followed World Vision's Area Development Programmes<sup>2</sup>** and areas of operations of Plan International, Khana<sup>3</sup> and ILO.

As of December 2007, **total outstanding portfolio overcame the US\$ 10 million, for a total 53,885 active clients served**. Since its inception VisionFund (Cambodia) has been financing its growth mainly with World Vision funds. However in the last years the institution has proven its ability to borrow in the international market and currently counts within its investors of BlueOrchard, Oikocredit, Plan International. In 2006 VisionFund (Cambodia) also gained access to the local market, receiving a loan from ANZ Royal Bank.

### Political and macroeconomic context

Cambodia's **macro-economic performance has been relatively good since 1999**, the year in which political stability - after 20 years of civil unrest - was restored. The ruling Cambodian People's Party (CPP) is set to win the next general election, scheduled for July 2008, and will retain its leading role in both local and central government in 2008-09.

#### Cambodia

Macroeconomic Indicators	Dec 05	Dec 06	Dec 07
<i>Exchange rate in USD (end of period)</i>	4,112	4,057	3,999
<i>Exchange rate variation</i>	2.1%	-1.3%	-1.4%
<i>Inflation rate (end of period)</i>	6.7%	2.8%	10.8%
<i>Inflation rate (average of the period)</i>	5.8%	4.9%	5.6%
<i>Deposit rate</i>	1.9%	1.8%	1.9%
<i>Lending rate</i>	17.3%	16.4%	16.2%
<i>Real GDP growth</i>	13.5%	10.8%	8%*
<i>GDP per head (USD)</i>	450	503	555

Source: International Finance Statistics, EIU and World Economic Outlook, IMF

\* Estimation for 2007

Private sector activities have developed, in particular thanks to easier access for Cambodian **textile products** to American<sup>4</sup> and European markets and the development of **tourism**. After achieving a **high growth rate of 13.5 % in 2005**, economic activities have stabilized in 2006, when Riel GDP grew by 10.8%, due to the increase in agricultural production, sustained growth of tourism, the continued growth in **garment exports**

and the expansion of **construction activities**. Economic growth is estimated to have dipped to 8% in 2007. Although still impressive, this marks the end of Cambodia's recent period of double-digit growth. Economic growth will remain impressive in 2008-09, but the pace of growth will continue to slow from the highs recorded in recent years.

Moreover, the Royal Government has succeeded in keeping a **manageable inflation rate over past years**, with annual average of 4.9% and 5.6% respectively for 2006 and 2007. Consumer

<sup>2</sup> Areas where World Vision Cambodia is implementing its activities.

<sup>3</sup> KHANA is a Cambodian non-governmental organization which fights against HIV/AIDS.

<sup>4</sup> The US and Cambodia signed a Bilateral Textile Agreement, which gave Cambodia a guaranteed quota of US textile imports.

price inflation continues to accelerate, largely owing to the general upward trend in food prices (in December 2007 food prices were up by 19.8% year on year). The Economist Intelligence Unit forecasts that consumer price inflation will reach an annual average of 7.4% in 2008, driven up by rising food and fuel prices.

Nevertheless, the growth registered over the last few years has had little impact on poverty, the **inequality** between the urban area of Phnom Penh and the rest of the country **having tended to accentuate**. With a **GDP per capita of US\$ 555**, Cambodia is one of the poorest countries in the region: **35% of population lives below the national poverty line**, and 20% of households are headed by a female. Social indicators are still out of touch with the Cambodian Millennium Development Goals. In particular, **access to water** still represents a major concern, with only 41% of population having access to an improved source of water supply.

### Microfinance sector

Microfinance started in the early 1990s as Cambodia came out from a long period of conflict. Microcredit was first provided by NGOs trying to fill the gaps left by the banking sector. The first microfinance experiments were credit-oriented, to provide a kick-start to new business activities. After 1993 with the international recognition of a new Cambodian government, aid started to flow in the country and, along the decade, such initiatives were transformed into a **sector led by profitable, regulated financial institutions**.

As of December 2007 there are **17 MFIs operating under licenses** from the NBC and **26** registered as **rural operators**. The microfinance sector in Cambodia reached almost **800,000 borrowers and 355,000 savers by the end of 2007**, although the vast majority of savings accounts were held at the only microfinance provider with a bank charter – ACLEDA Bank. The **total loan portfolio reached almost 470 million US\$** while savings mobilized totalled US\$ 350 million. Growth in outreach from 2003 – 2007 has been consistently around 20 percent per year. By December 2007, three institutions (AMRET, AMK and ACLEDA) had reached the 100,000 borrower mark, with AMRET overtaking ACLEDA as the largest institution.

ACLEDA Bank Plc. has nearly US\$ 160 million in loans and 12 percent of Cambodia's banking system's assets. Focusing on rural areas and small businesses, ACLEDA Bank has over fifty percent of the domestic microfinance market.

The **sector is rapidly growing**, as the loan portfolio increased by 88.6% and the number of borrowers by 29.7%, over the year. The microfinance sector in Cambodia appears to be splitting into two groups – those maintaining a focus on small-balance loans and outreach, and others working with a mixed product offering of micro- and SME-loans. This growth has mainly been fuelled by loans from foreign commercial sources, despite the presence of local banks and financial institutions such as the Rural Development Bank (state-owned) and Canadian Bank, which mainly channelled funds provided by international financial institutions such as ADB and KfW. Within Cambodia, the Rural Development Bank and the National Bank of Cambodia have extended funds to some MFIs, but beyond those institutions, **local financing has been much harder to come by**. Foreign microfinance investment funds (with varying degrees of 'commercial' approach) have filled this gap, providing approximately two-thirds of all funding from outside Cambodia, or 54 million US\$. The remainder is made up of subsidized funds from international NGOs and development financial institutions (DFIs; e.g. IFC, ADB).

**No formal mechanism** exists for MFIs **to exchange information** on borrowers, while banks have created their own credit bureau (even if just collecting negative information). In order to meet their specific needs, licensed MFIs established in 2004 the **Cambodian Microfinance Association (CMA)**, aiming at supporting the sector by providing training opportunities, policy advocacy, enhancing information exchange between the different operators. CMA plays an important role in creating local and international networks, promoting coordination and facilitating conflict resolution between institutions, therefore remaining rather weak compared to banking association. Recently, all MFIs within CMA signed a **Memorandum of Understanding about fair competition** and is pushing MFIs to facilitate information sharing in order to avoid clients' over indebtedness.

### Regulation and supervision

In November 1999 the National Bank of Cambodia (NBC) issued a **new law on banking and financial institutions**, followed in 2000 by a decree ('Prakas') **regulating the microfinance industry by licensing and registering major microfinance providers**. NGOs and microfinance projects were given the opportunity to transform into formal financial institutions (limited liability company or cooperative), or simply to be registered when they do not qualify for licensing criteria. The new prakas (2000 and 2002) marked **a shift toward the commercialization of microfinance and its integration into the formal financial system** of Cambodia. On 18<sup>th</sup> December 2007 the National Bank issued a new Prakas regulating savings mobilization. Amongst the main requirements introduced by the decree it is worth mentioning the need to have a minimum capital of US\$ 2.5 million and a liquidity ratio of 100%<sup>5</sup>.

Registered and licensed MFIs are submitted to a set of regulatory and supervisory provisions, out of which the main are the following:

- **Licensing requirements:** a microfinance institution is required to be incorporated as a limited liability company or a cooperative.
- **Supervision:** registered MFIs need to submit quarterly reports including: financial statements, breakdown of loans/deposits by sector and currency; loan classification and delinquency ratio and network of branches and offices. No on site supervision is required for registered MFIs. Supervision activities are concentrated on licensed MFIs, which need to present monthly and annual reports including: audited financial statements, BOD annual report, statistics of staff and salaries; updated organization chart. Suspicious transactions should also be reported. Off-site supervision focus on capital adequacy and loan performance. Yearly on-site supervision is planned for licensed MFIs.

NBC has proven to be flexible and supportive toward a growing microfinance sector, softening the capital adequacy (from 20% to 15% of total risk weighted assets), accepting to some extent the currency risk (all MFIs but also many commercial banks present relevant net position in US\$ and the NBC is pushing local banks to lend to MFIs in order to cross benefit for the open position). In April 2008 NBC implemented **new Charts of Accounts**, more similar to the ones of the banking sector.

### VisionFund (Cambodia)'s market positioning

As of December 2007, **VisionFund (Cambodia) is ranked number five in terms of active clients and number six in terms of total outstanding portfolio** - not including ACLEDA.

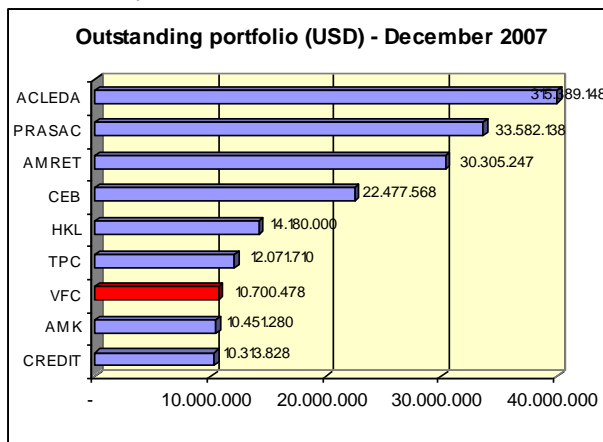
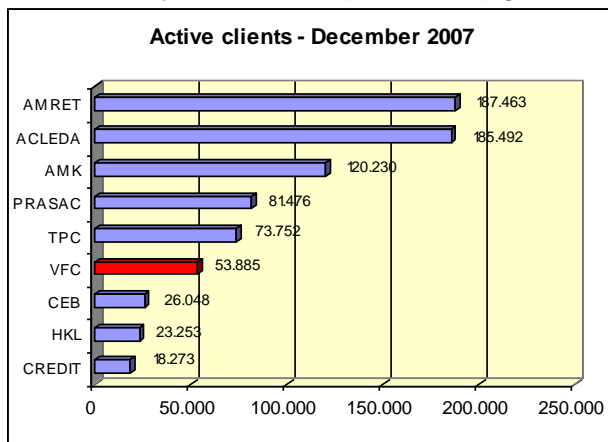
Being working in 8 provinces and in 53 districts all around Cambodia in close collaboration with World Vision and recently with other partners, such as Plan International and Khana, VisionFund (Cambodia) gained over the years a good reputation among clients and local authorities. Since its inception its approach has been very much focused to local communities as the original lending methodology has been based on Community Banks. Later on the institution developed solidarity group loans and individual loans, in order to satisfy clients' needs.

Over the last year, VisionFund (Cambodia) has maintained its market share, serving almost 9% of total microfinance borrowers, with an outstanding portfolio accounting for 7% of the total portfolio. Certainly its importance diminish if we include in the figures ACLEDA. (6,8% and 2,3%)

In recent years, **competition on the microfinance market has increased**, due to the rising number of practitioners and the inflow of available resources. This results into an increasing geographic overlapping, with previously specialized MFIs starting offering both individual and group loans in order to diversify their portfolios. The **main competitors for VisionFund (Cambodia) are AMRET and AMK**. The highest degree of competition is certainly felt in Phnom Penh which is also the only branch in which VisionFund (Cambodia) serves urban clients. However, to escape from saturation of existing areas, VisionFund (Cambodia) is planning to expand to new provinces and more remote districts, not yet served by competitors. The expansion strategy has been driven and will be still driven in the future by the collaboration with VisionFund

<sup>5</sup> Calculated as liquid assets (cash in hand + deposit with NBC + deposit with banks + loans maturing in the next 30 days) over adjusted amount of deposits (25% of voluntary savings).

(Cambodia) partners. First of all World Vision Cambodia, the mother institution of Vision Fund, Plan International, Khana and recently also ILO. The relationship with World Vision especially has been very tight as VisionFund (Cambodia) is still sharing offices with WV staff in almost all the provinces. Even though this could theoretically causes problems of misunderstanding of the work done by the financial service provider, so far clients demonstrate to appreciate such close link and on the contrary VisionFund (Cambodia) gained more visibility on the market.



In general, VisionFund (Cambodia) is regularly monitoring competitors and demand. The restructuring of the organizational chart, implemented in January 2008 created a new function, fully dedicated to the analysis of competition and clients' satisfaction called Product Development. Moreover a Product and Pricing Committee also exists, being in charge of the decision about

**Main competitors (US\$)**

Institution	Gross portfolio	Nr of provinces	Active borrowers	Interest rate	Guarantees
VFC	10,700,478	8	53,885	2% to 4%	Group Guarantee, Guarantors, Collateral
AMRET	30,305,246	13	187,463	3% to 3.5%	Fixed Assets
AMK	10,451,280	15	120,230	2% to 3.5%	Fixed Assets
PRASAC	33,582,438	14	81,476	3% to 3.5%	Fixed Assets
TPC	12,071,710	9	73,752	3%	Group Guarantee
CEB	22,477,567	11	26,048	2% to 3%	Fixed Assets

interest rate movements.

The combination of high competition and absence of an effective information exchange brings about a **risk of overindebtedness**, with potential

negative impact on the portfolio quality of MFIs. To overcome this, CMA is working to develop a Code of Ethic for all the MFIs and recently produced a Memorandum of Understanding about fair competition. At the same time CMA is starting to collect blacklists of clients from all members – even thus facing the problem of multiple tracking of clients, as per the use of IDs, passports, family books, driving licenses and so on for identification purposes by the MFIs).

The **main competitive advantages** of VisionFund (Cambodia) can be considered the following:

- Fast procedures;
- longer maturity;
- friendliness of staff and good customer service.

On the other side, **competitive disadvantages** are linked to the limited product offer (no credit line and no emergency loans) and from the upper limit in the loan amount. Slightly higher interest rate have also to be reported especially compared to one of the main competitor, AMK. This is however partially compensated by the possibility to get a life insurance.

Nevertheless, VisionFund (Cambodia) is continuously working on the development of new products: currently the **Business Development Department is working on “mobile phone banking” and “association loan”**.

The big challenge for VisionFund (Cambodia) lays now in the possibility to mobilize savings – once the application to the National Bank will be completed and approved - which will require a relevant change in the approach and organization and a strengthening of operations.

## 2. Governance and operational structure

### Ownership and Governance

VisionFund (Cambodia), originally a credit program of World Vision Cambodia since 1990s, is a Microfinance Institution registered with the Ministry of Commerce in 2003 and licensed by the National Bank of Cambodia in 2004. The entire paid-in capital of VisionFund (Cambodia) was initially owned by WVC, and later on, in March 2005, 99.99% of the shares were transferred to **Vision Fund International (VFI), an umbrella organisation for all the World Vision affiliates.**

Even though an important increase in share capital is foreseen in the short period - in order to meet the minimum capital requirement for the mobilization of savings – the **ownership structure will not change** and VFI has no plan in the medium term to open the capital structure. In fact the increase of equity will be fed by retained earnings and by the conversion of a VFI loan into capital.

### Board of Directors

Members	Charge	Background and current profession
<b>Esther Halim</b>	Chairperson	She joined VisionFund (Cambodia) and World Vision Cambodia - as Country Director - in 2006. Ms Halim has more than 25 years of work experience in diverse domains including emergency/relief services, communications, sponsor relations, national resource development, human resource development and administration in Indonesia and the South East Asia/Pacific Region. She completed Master of Business Administration at the Institute for Management Education and Development, Indonesia in 1993 and in medicine at Atmaja Catholic University, Indonesia in 1975.
<b>Bora OmSeng</b>	Non voting member	He has 10 years of experiences including private sector and NGO experience in teaching, financial management, auditing, organizational system development, management, leadership, and governance. In 2004, Mr. Bora formally took over leadership of VisionFund Cambodia. Prior to this he had been Internal Audit Manager of World Vision Cambodia since 1999, before which he was an auditor for Ernst and Young. In February 2008, Bora was elected as a member of the Board of Directors of the Cambodia Microfinance Association (CMA). Mr. Bora holds a Bachelor of Management Degree from Maharishi University, Cambodia, majoring in Accounting. He is currently writing thesis for a Master of Organizational Development in Microfinance Management Degree at Southeast Asia Inter-disciplinary Development Institute (SAIDI), the Philippines, and for a Master of Business Administration Degree at Preston University of Cambodia. In addition to extensive exposure visits worldwide, he has attended numerous trainings and workshops in the US, the UK, Singapore, Thailand, and the Philippines.
<b>Neil Rodrigues</b>	member	He joined VisionFund Cambodia BoD in 2007. Neil has over 20 years of banking experience comprising a mix of finance skills. Currently Head of Treasury, ANZ Royal Bank, Cambodia. For a large part of his career Neil has been involved in the domestic financial markets across Dubai, Australia, Philippines, Pakistan and the Pacific Islands. Neil is passionate about contributing to VisionFund's growth in a way which is "both sustainable and aligned to VF's core values" within Cambodia's growing and challenging finance sector environment. He holds a Bachelor of Commerce Degree, is an associate of the Financial Services Institute of Australasia (FINSIA) and member of the Australian Financial Markets Association (AFMA).
<b>Talmage Mark Payne</b>	member	He joined VisionFund Cambodia in 2003 as the founding Chairperson. He obtained a Bachelor of Arts Degree from Wheaton College, majoring in International Development Studies. For the previous 17 years he has held a number of leadership positions in emergency relief, community development, human resource management and entrepreneurship. Talmage was National Director of World Vision Cambodia from 2002 through 2005. Talmage is currently the CEO of Hagar Cambodia and Chairperson of First Home PLC.
<b>Rommel Dacillo Caringal</b>	member	He has been working in various leadership roles in the microenterprise/ microfinance sector for over 15 years. He has 20 years of work experience in numerous areas such as organization management, product and services development, human resource development, Management Information System, fisheries, indigenous peoples, urban poor development and relief and emergency programming. Currently VFI Regional Director, Asia Pacific Region.
<b>Nop Vanthy</b>	member	She joined VisionFund Cambodia in 2004. Ms Vanthy has 16 years of work experience in community development with child focus approach, operations and staff management, urban development, agriculture development, administration, human resource, protocol writing and street children program. She served as Board Member for WBNK and as Executive Committee Member of CCC for 2 years each. Currently Senior Operations Manager, Urban Zone, World Vision Cambodia. She holds a Master of Agriculture Science Degree from Vasil Kolarov Agriculture Institute, Bulgaria.
<b>Jonathan Peter Hartley</b>	member	He joined VisionFund Cambodia in 2005. He has many years of experience including general management, merger and acquisition transactions, valuations, strategy and planning work, finance, business initiation and banking. He graduated from Newcastle upon Tyne University, England, majoring in Economics and Accounting. He is currently a director of several companies in New Zealand.

**The main governing body is for its majority composed by World Vision and Vision Fund International staff**, even though the efforts made to broaden the BoD brought in also three independent members (even if one is the former country director of World Vision and chairman of VisionFund (Cambodia) with banking and management expertise. The Executive Director of VisionFund (Cambodia) also participates to BoD meeting but without voting right. BoD members work on a voluntary basis. Overall the BoD composition results to be **satisfactory and well balanced between the social mission of VisionFund (Cambodia) as affiliate of World Vision and the sustainability and profitability of the MFI itself.**

The strict relationship with WVC, demonstrated by the strong presence of WVC staff in the BoD of VisionFund (Cambodia) (2 persons included the chairwomen) together with the strong operational relationship (sharing of offices and joint strategies) among the two organizations, implies a potential relevant influence of WVC on the operations and strategy of VisionFund (Cambodia). In order to clarify this issue a contract which regulates the relationship among the two institutions has been signed even if a potential risk still exists.

The Board is moreover structured in two committees: **the Audit and Risk Committee and the Resource and Leadership Committee.** Both Committees were established two years ago and usually meets 4-6 times per year thus strengthening and speeding up the decision making process in official BoD meetings which take place on a quarterly basis. The Audit and Risk Committee which consists of some member of the BoD plus some VisionFund (Cambodia) staff has been established to monitor and assess internal audit effectiveness and to follow up external auditors recommendations. Moreover The Audit and Risk Committee is also responsible for overseeing overall risks in VisionFund (Cambodia). The Resource and Leadership Committee on the other side deals with HR issues and analyzes staff turnover and market trends.

On a yearly basis BoD is performing **self-assessment and assessment of the work done by the ED.** Moreover continuous and effective communication exists between the management and the BoD, thanks to the longstanding relationship with some members of the Board and also to the fact that World Vision offices are in the same building of VisionFund (Cambodia) – which allows an immediate communication.

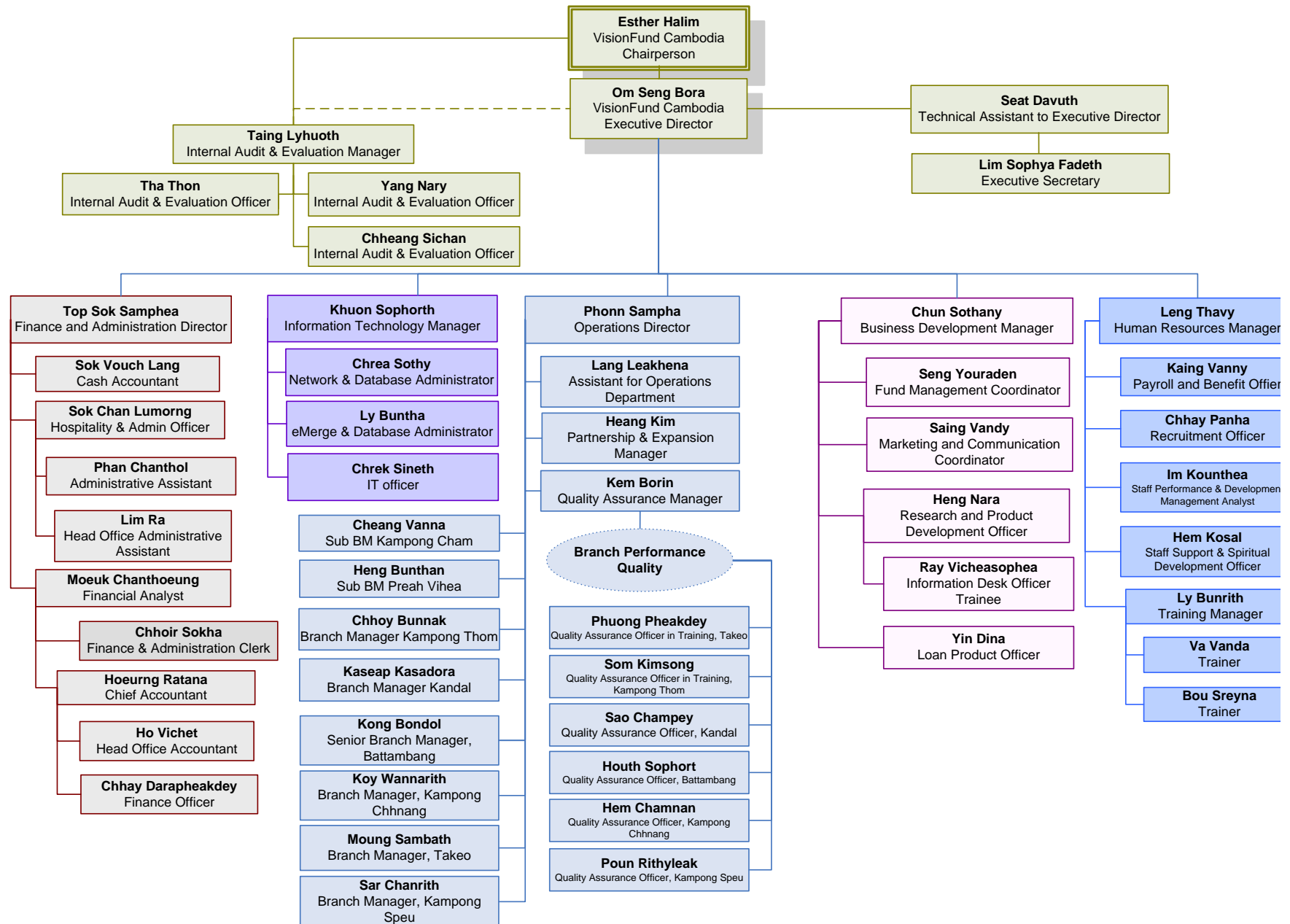
VFI plays also an important role in terms of constant control of the performance and the operations of VisionFund (Cambodia). As in the case of all the affiliates of VFI, data are collected on a periodical base, analyzed at a network level and monitored. Moreover the headquarters of VFI have frequent contacts with the management of the MFIs.

#### Organisation and structure

VisionFund (Cambodia) developed over the years a **network of 8 branches**, which cover 8 provinces and 53 districts of Cambodia. Since its inception VisionFund (Cambodia) established branches in **areas where World Vision started its Area Development Programs**; moreover a formal policy of the BoD requires VisionFund (Cambodia) to have 80% of its operations in ADPs areas. Nevertheless the decisions have been always supported by market studies, analyzing the potential of this market, both for credit and savings services.

For 2008 VisionFund (Cambodia) is planning to **open 3 more branches in Banteay Meanchey, Siem Reap and Pursat.** collaborating closely in the regions also with other partners such as Plan International, Khana and ILO.

VisionFund (Cambodia)'s **organizational structure has been revised at the beginning of 2008 with the main purpose to support the future growth and strengthening the operations.** As a consequence some Managers are new in their positions and some new functions at middle-management level have also been created thus further enhancing an already good management structure.



Microfinanza Rating – organizational chart as of December 2007

Within the organization there exists an **Executive Team** which meets once a week gathering together all Top Managers to discuss policies, strategies and problems solving. A more operational **Management Team** is in place, with the participation of branch managers, unit managers and department heads who meet on a quarterly basis to get the perceptions and suggestions directly from the field. In addition, even though not holding formal and regular meetings, 12 other Committees exist and meet based on need. Among these the Legal Compliance Review Committee, External Environment Analysis Committee, Performance Development and Management Committee, Social Performance and Integration Review Committee, Asset and Liability Management Committee, Product Development and Pricing Committee.

### Human Resources

As of December 2007, **VisionFund (Cambodia) counts on 330 employees**, out of which **174 are Client Service Officers** (51 of them are on training), with a staff allocation ratio worth of 54.5%. Over the years VisionFund (Cambodia) has been continuously employing new people in view of the expansion to new markets and as back up policy for staff turnover.

Personnel	Dec 05	Dec 06	Dec 07
<b>Total</b>	<b>191</b>	<b>229</b>	<b>330</b>
<i>Loan officers</i>	103	113	174
<i>Management</i>	16	18	18
<i>Other staff</i>	65	91	127
<i>Support staff</i>	7	7	11

VisionFund (Cambodia) relies on a **sound and motivated management team**. Though all staff at management level is young all of them are skilled and counts with a deep knowledge and a longstanding experience in World Vision and Vision Fund. Overall, **the staff is competent and committed to the institution's goals**. As of December 2007 overall staff turnover stands at 19.4%; nevertheless when excluding staff on training and volunteers, turnover drop to a lower but still relevant 15.9%. Certainly VisionFund (Cambodia) is losing Client Service Officers and lower level staff to World Vision and other partners while is acquiring skilled and experienced staff from WV and other players in the market. Indeed salaries at management level in VisionFund (Cambodia) are not in line with the market and in general salaries are not aligned between WV and VisionFund (Cambodia) and this pushes exchange of staff between the two organization. Being aware of such an important issue VisionFund (Cambodia) studied the turnover in the market completing a comparative study with its main competitors. The results showed that the phenomenon is an outcome of the strong competition characterizing the Cambodian labour market and that in general many MFIs are affected by a similar problem.

There are 8 people in the HR Department, and 2 more people will be hired in April 2008 to support trainer and recruitment officer. There exist **Job descriptions** for all the staff and **the HR Manual has been updated at the beginning of 2007**.

**Recruitment** is done on inventory basis, especially for CSOs, looking for young and flexible people. Every new staff undergoes a 3 to 6 months training on the job after which a formal assessment is done. For Top Management position the selection come mainly from internal promotion. Presently the HR Manager is developing a Succession Plan for Top Management position and efforts are spent in doing capacity building for management in general.

**Training offered to staff is based on a staff appraisal**, performed at the end of each year and consists of external, internal and international workshops. External trainings are mostly provided by CMA while international ones are the summer schools promoted by World Vision and Vision Fund International. Recently VisionFund (Cambodia) also established a collaboration with a **Cambodian University** to offer degree on microfinance to VisionFund (Cambodia) staff. The budget for training is defined as 10% of total salaries and currently satisfies the needs of the institution.

**Salaries**, mainly at management level, **seems to be slightly lower than the market levels even if no fully reliable information is available**. VisionFund (Cambodia) is closely monitoring the level fo salaries in the market, using the service of an HR company which conducted last year and will conduct again in April a salary survey for the institution (even if data for management positions are not fully reliable). Beside the base salary VisionFund (Cambodia) staff receives the **individual incentive and a team bonus**. The first one which mainly depends on number of clients, portfolio

quality and volume of portfolio allows the CSOs to double their salary. The team bonus on the other side is based on overall performances of VisionFund (Cambodia) and will be paid for the first time in 2008. The institution does not offer staff loans; however being aware that this could help increasing staff motivation and reducing staff turnover it is currently discussing the opportunity to introduce internal loans.

#### Internal control and risk management

Various elements of a **risk management framework are already in place** even if there is space of improvement in terms of formalization of policies and procedures, definition of limits to risk exposure and monitoring of some risks, in particular for what concern financial risk management. A further strengthening of an integrated risk management framework is needed. On the one side the Audit and Risk Committee is monitoring and taking actions to limit the exposure to risks. At the same time the effectiveness of the ALCO Committee is still limited also given the quite low frequency of the meetings.

Despite this, VisionFund (Cambodia) relies on a **good Internal Audit Department**, the same composed by 5 people and **directly reporting to the Audit and Risk Committee** (established within the BoD).

The annual **Audit Plan** is approved by the Audit and Risk Committee which on quarterly basis meets the Auditors to discuss and analyze audit reports. Regular audits twice a year of each branch, spot checks and special investigations are systematically performed as well as follow-ups of the recommendations given to the branches. Regular audits are complete and comprehensive (including audit of cash, MIS, operations and funding) and comprises a 3 to 5% checks on clients each time (quite satisfactory but improvable according to the experience of other MFIs). Undoubtedly **the introduction in 2006 of the Quality Assurance Officer in each branch improved a lot the overall standardization of procedures and control over operations**. Being spending 85% of his time in the field, the QAO supports the branch in capacity building for CSOs and verify compliance with policies and procedures through visit to clients. Results so far have been satisfactory. QAOs are independent at branch level as they report to the Quality Assurance Manager at HQ (a fact that somehow limits the independence of the control function).

Presently, the most common issues arising from the audit of operations refer to the MIS which still involves a relevant number of manual transactions leaving space to human errors, to security and cash handling which in some cases result in frauds and to currency exposure as VisionFund (Cambodia) not yet meet NBC requirement for open position in foreign currency. Policies and clear limits exist to reduce the risk involved in cash handling and the overall outcome results satisfactory. Minor cases of frauds occurred in the past but immediate dismissal of staff in case of fraud is in place and assure a conducive control environment.

#### Accounting and external audit

For the last 4 years VisionFund (Cambodia) has appointed **PriceWaterhouseCoopers** and **KPMG** as external auditor. The auditors have expressed an unqualified opinion on VisionFund (Cambodia)'s financial statements.

VisionFund (Cambodia)'s accounting policies and reporting are **in accordance with the IAS and International Financial Reporting Standards (IFRS)** and **fully comply with the Disclosure Guidelines for Financial Reporting by the Microfinance Institutions**.

Internal financial statements are produced on a monthly basis but there is a certain delay in getting the report available as the same is ready only on the 12-15<sup>th</sup> of the following month. Moreover the financial statements per branches are improvable in terms of clear separation of financial expenses (currently included in the operating expenses). This could give a better representation of efficiency per branch.

As far as reversal of accrued interest<sup>6</sup> on non performing loans is concerned it is longer than usual Microfinance Practice even if it is prescribed by the National Bank.

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<sup>6</sup> Accrued interest are computed till 180 and 360 days respectively for short and long term loans .

### Management Information System

VisionFund (Cambodia) **implemented eMerge LTS in 2005** following the policies of World Vision while uses **SunSystem as accounting software**.

Branches which were till last year connected through lease line due to slow internet connection since 2007 are not working anymore online. Only the most distant branch, Battambang, kept active the connection with the HQs while the rest of the branches send every day using a taxi loan documents to the HQs. However **the consolidation and update of information into eMerge implies a time lag and a certain delay** (usually of 5 days).

LTS and accounting system are not integrated and thought a sort of interface between the two systems exists, the **degree of manual work, especially for cash movements, is still relevant and requires double controls**. Accounting is centralized having branches responsible only for basic bookkeeping and sending weekly the consolidated information at branch level to HQs. To overcome such limitations of the system, complementary procedures have been developed in specific cases, so cash reconciliation is done daily as well as monitoring of portfolio at risk (via sending sms to Service Post Manager and Branch Manager). Overall, apart from the above-mentioned delays in data consolidation, the difficulties in working online due to the slowness of the connection **may represent a problem as soon as the planned savings service will be massively implemented**. Nevertheless VFC is currently testing ADSL connection in some branches for the future introduction of savings. Moreover in case of need, larger bandwidth is available in the market to manage on-line increasing transactions related to savings evn if with a quite high cost.

Reporting is not still fully customized to VisionFund (Cambodia) needs and appears to be slow, due to the volume of clients managed by the system. Reports are produced at HQ and sent to the branches on a weekly and monthly basis. Besides, monitoring of important data, such as information on drop-out ratio, are not undertaken on an automated basis.

Overall **security of the system in terms of backups and password is satisfactory**. Backups are made daily in the branches and a weekly backup is sent to the HQ. At the HQ backups are made in two copies (one copy kept outside the building). Passwords to access to the system have to be changed every 6 months. A disaster recovery plan has been recently developed.

The current MIS represents one of the area for improvement for VisionFund (Cambodia), especially in view of the planned transformation into a savings-based organization. **Plans for changing the MIS have been already discuss at VFI level** (including all WV affiliates) and a decision on the possible purchase of a new software for all the affiliates will be taken in 2009.

### 3. Lending and saving operations

#### Lending products

The **core product** for VisionFund (Cambodia) has been since the very beginning the **community bank loan**. Designed to provide financial services for the poor micro entrepreneurs, build civil society and strengthen community participation a community bank is composed of four to unlimited members (within the village). Loans are given to individual clients and guaranteed by the peer group member. Later in order to meet the rising demand of upgrading clients VisionFund (Cambodia) introduced also **solidarity group loans** (for 2 to 10 members) and in 2004 the offer was completed with individual loans. **Individual loan** focuses on asset creation of the poor, including land and housing acquisition as well as working assets investment. Depending on the preference of the client, loans can be given in both local riel (KHR) and US\$ currencies.

Even though **less than half (48%) of the outstanding portfolio is dedicated to Community Bank loans, the concentration of clients into this category of loans turns to be much higher with 86% of total borrowers**. VisionFund (Cambodia) social focus is reflected also in the analysis of clients' profile using scorecards and monitoring the effective impact of the loan. In fact VisionFund (Cambodia) measures its success in moving its clients to the next economic tier, categorizing them as: the poorest of the poor, the poor, the not-so poor and the non poor is achieving a 60-60-60 target for the movement from one category to the other. Back in 2004 World Vision Australia did a complete study on clients and clearly showed VisionFund (Cambodia)'s level of success with an 80-83% movement of client from being poorest to poor after joining community banks for two to three years, and a 70% movement of client from being poor to not so poor. Apart from a concrete possibility to repeat the same study this year VisionFund (Cambodia) has also recently created a dedicated function, namely, **Social Performance and Integration, which will be responsible for setting guidelines on Social Performances and for monitoring results achieved**.

To be more appealing in a very competitive market not putting pressure on interest rates, VisionFund (Cambodia) pioneered a **micro insurance product**. Even though the legal ownership of the micro insurance is under World Vision operations<sup>7</sup>, VisionFund (Cambodia) represents the commercial vehicle for the insurance which is **included to the loan product as additional benefit and offered to VisionFund (Cambodia) clients**.

**Further product diversification is expected in 2008 with the launch of Association Loans:** loans offered to a category of people working in the same sector and benefiting from the sharing-purchase of a machinery. Moreover the recently restructured Business Development Department is designing new products and seeking for partnership to maintain a pioneer role in the microfinance market. Though presenting a quite interesting product diversification, VisionFund (Cambodia) is taking into consideration the interest rate pressure and the other characteristics of the loan products having the Pricing Committee performing a survey in all the branches, to eventually decide a possible minor reduction of interest rate that, at the moment, are in line with the market, except AMK which is lower.

<sup>7</sup> As well as all costs and revenues. VFC receive only a fee for its service.

## Credit methodology

	Credit products							
	CB Small Business Loan	CB Agricultural Loan	SG Small Business Loan	SG Agricultural Loan	SG Asset Creation Loan	IL Small Business Loan	IL Agricultural Loan	IL Asset Creation Loan
<b>Credit methodologies</b>	Community Bank	Community Bank	Solidarity Group	Solidarity Group	Solidarity Group	Individual Lending	Individual Lending	Individual Lending
<b>Currency of the credit</b>	Riels / USD	Riels / USD	Riels / USD	Riels / USD	Riels / USD	Riels / USD	Riels / USD	Riels / USD
<b>Type of interest</b>	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance
<b>Min. interest rate (%)</b>	3.0%	3.0%	3.0%	3.0%	3.00%	2.00%	2.00%	2.00%
<b>Max. interest rate (%)</b>	4.0%	4.0%	4.0%	4.0%	4.00%	3.50%	3.50%	3.50%
<b>Average interest rate (%)</b>	3.3%	3.3%	3.2%	3.2%	3.19%	2.20%	2.20%	2.20%
<b>Commissions</b>	Passbook fee	Passbook fee	Passbook fee	Passbook fee	Passbook fee	Passbook fee	Passbook fee	Passbook fee
<b>Min. credit amount (US\$)</b>	1	1	251	251	251	1,001	1,001	1,001
<b>Max. credit amount (US\$)</b>	250	250	1,000	1,000	1,000	5,000	5,000	5,000
<b>Max credit amount for the first loan (US\$)</b>	250	250	1,000	1,000	1,000	5,000	5,000	5,000
<b>Avg credit amount (US\$)</b>	119	119	438	438	438	1,642	1,642	1,642
<b>Min. loan maturity</b>	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months
<b>Max. loan maturity</b>	14 months	14 months	18 months	18 months	18 months	24 months	24 months	24 months
<b>Avg loan maturity</b>	11	11	15	15	15	21	21	21
<b>Periodicity of interests payments</b>	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
<b>Periodicity of principal payments</b>	Monthly	every 2 or 3 or 4 or 5 or 6 months	Monthly	every 2 or 3 or 4 or 5 or 6 months	based on cash flow	Monthly	every 2 or 3 or 4 or 5 or 6 months	based on cash flow
<b>Grace period (months)</b>	1 month	-	1 month	-	-	1 month	-	-
<b>Collaterals / guarantees</b>	Group guarantee	Group guarantee	Group guarantee or Family guarantee and collateral (land title)	Group guarantee or Family guarantee and collateral (land title)	Group guarantee or Family guarantee and collateral (land title)	Guarantor and collateral ( land title)	Guarantor and collateral ( land title)	Guarantor and collateral ( land title)

Lending procedures

VisionFund (Cambodia) relies on **sound and widespread Credit policies and procedures**. In the past some inaccuracies and differences in the implementation of credit policies were existing between different branches, with the introduction of the Quality Assurance Officer in each branch, a more precise compliance with policies and procedures has been achieved.

Overall, the **credit process is smooth and rapid, taking 3 days for the disbursement of an individual loans and up to a maximum one week for a community bank loan**. The assessment of the clients' repayment capacity and the monitoring of clients appear to be adequate and effective. Different loan application and evaluation formats exist for community bank, solidarity and individual loans. For individual loans, the evaluation of the client's ability to repay is based on the analysis of the cash flow of the business for the coming year and on the collateral, which should represents 180% of the value of the loan. On the other side it is worth mentioning that for Community Bank loans, Client Service Officers are supported by **Community Bank Management Coordinators** – part time employees of VisionFund (Cambodia) who follow the whole loan process creating a stronger local linkage with clients. In general products are well tailored to clients' needs and results to be satisfactory for final borrowers.

**Monitoring** of the client is performed one week after disbursement to verify the effective use of the loan and subsequently once a month. On average a CSO visits 10 clients per months but also service post manager as well as branch manager and quality assurance officers visit clients on a regularly basis. Similarly is done the follow up of delinquent clients, what results in a successful control over delinquencies.

A risk related to **cash handling and transportation** still exists, as CSOs collect repayments directly on the field. Notwithstanding this, VisionFund (Cambodia) has implemented a set of policy with specific limits and insurance which adequately protects against this risk. Moreover each branch has a bank account in ACLEDA and daily excess of cash is deposited to the bank.

**Loan approval** is done one by one and this allows to speed up the credit process as different level of approval are defined. Service Post Manager: approve up to US\$10,000 for CB and SG and up to US\$2500 for IL. Branch Manager: approves up to US\$15,000 for CB and SG and US\$5,000 for IL. Operations Manager/Senior Operation Manager: approve up to US\$20,000 for his/her supervised branch (CB and SG) and co signed with COO for IL US\$,5000 to US\$10,000. COO: approves up to US\$2,5000 for CB and SG and co-signed with OM or SOM for IL from US\$5000 to US\$10,000. Above this has to get the approval from Executive Director or Board as per Level of Authority.

Collaterals and accessibility

In general **accessibility to loans offered by VisionFund (Cambodia) is good and sustainable for final borrowers**. Clients gathering to access a Community Bank loans are divided in sub-groups and are required a joint liability. For clients accessing solidarity group and individual loans apart from the joint liability, **land titles** are also requested and the collateral should have a value to loan of 150% for SG and 180% for individual loans. The use of collateral is usual for the individual methodology, it is not for the solidarity group methodology, which is usually based only on the joint liability in order to facilitate the access to poorer clients.

VisionFund (Cambodia) applies a quite strict and prudential policy on the use of collateral; CSOs and Service Post Managers are responsible for the evaluation of collateral. The **limited availability of land titles** issued by the government still represents a problem in Cambodia, although the government is currently working on a project to solve this problem. Moreover the effectiveness of land titles when used in front of the Court is still limited.

The institution appears to be theoretically well backed with guarantees and is able to maintain a very good quality of portfolio. For this reasons, due to the lengthy and bureaucratic procedures of the legal cases and also to the social mission and image of VisionFund (Cambodia) and WV **cases of clients brought to Court are very rare**.

### Savings and other banking services

**During 2007 VisionFund (Cambodia) launched a pilot project for savings mobilization in two branches:** Kandal and Kampong Cham. The institution developed two different kind of savings product, one called **voluntary savings** and the other one called **social investors deposits**. As the name clearly disclosed the target clientele for the two product is pretty different. On the first case it includes usual VisionFund (Cambodia) borrowers who want to save very little amount of money (the minimum accepted balance is just US\$ 1). In the second case savers are people who have the capacity to deposit from a minimum of US\$ 500 up to a maximum of US\$ 25,000. Social investor deposits are remunerated at a competitive market rate ranging from 4 to 9.5% in US\$ and from 5 to 10.5% in local currency. Voluntary savings on the other side earn a less competitive 2% in US\$ and 2.4% in Riel.

2007 registered a limited amount of transactions which summed less than **US\$ 150,000 for a total of 70 savers**. Nevertheless, along with the formal application to the National Bank Licence for savings mobilization, expected by the end of 2008, VisionFund (Cambodia) started to study how to solve connectivity problems and is currently testing ADSL, at least for the initial period while the amount of transactions will still be limited. At the same time VisionFund (Cambodia) IT department is developing a new system for cash management called XCash.

<b>Credit products</b>				
	<b>Voluntary Saving in KHR</b>	<b>Voluntary Saving in US\$</b>	<b>Social Investor Term Deposit in KHR</b>	<b>Social Investor Term Deposit in US\$</b>
<b>Min. interest rate (%)</b>	2.4%	2.0%	5.0%	4.0%
<b>Max. interest rate (%)</b>	2.4%	2.0%	10.5%	9.5%
<b>Average interest rate (%)</b>	2.4%	2.0%	9.5%	8.5%
<b>Min. accepted balance</b>	4,000	1	2,000,000	500
<b>Average balance</b>	N/A	N/A	4,000,000	10,000
<b>Term</b>	N/A	N/A	Up to 24 months	Up to 24 months
<b>Average term (months)</b>	N/A	N/A	12	12
<b>Periodicity of interest repayments</b>	yearly	yearly	at maturity	at maturity
<b>Penalty in case of anticipated withdrawal (if applicable)</b>	\$1 charged if the account is closed within 3 months after opening	\$1 charged if the account is closed within 3 months after opening	No interest will be paid if withdrawal is made prior to matured date	No interest will be paid if withdrawal is made prior to matured date

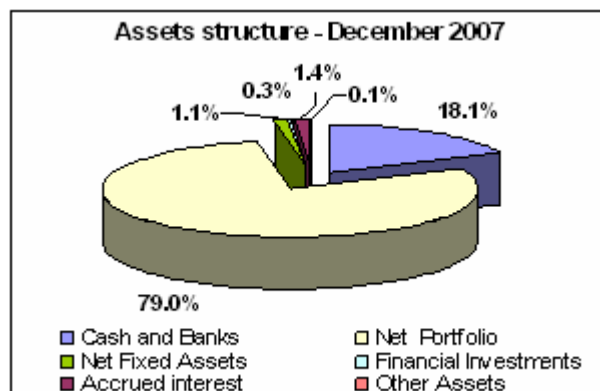
Although the current capacity to mobilize savings is still limited due to the general lack of trust towards financial institutions and the lack of savings culture within Cambodian people, VisionFund (Cambodia) with the support of an international consultant from Vision Fund International is working on implementing the necessary changes which will allow a safe and sound management of savings.

## 4. Assets structure and quality

### Assets structure

VisionFund (Cambodia) **average net portfolio represents 86.3% of total assets**, showing a constant and adequate concentration into the core business. As of December 2007 the concentration into portfolio results to be considerably lower, due to the inflow of the BlueOrchard loan. However on **average cash and banks during the whole year stands at a high 10.3%**. Even though currently the financial structure of VisionFund (Cambodia) does not call for such a considerable level of liquidity, the **Board established to keep liquidity between 5-10% of total assets**.

The residual 3% is almost equally divided into net fixed assets, accrued interests, other assets and fixed deposit with the National Bank at 6 months.



### Portfolio structure

As of December 2007 VisionFund (Cambodia) total **outstanding portfolio overcame the US\$ 10 million**, registering a continuous and stable **growth of 78.5%** (compared to the 74% of the previous year). Almost half of the portfolio is distributed in Community Bank loans, which in terms of number of borrowers represent more than 86% of total VisionFund (Cambodia) clients. On the other hand, individual clients, in number only 4.8% gather 31.7% of total portfolio.

Portfolio features	Jan 05 - Dec 05	Jan 06 - Dec 06	Jan 07 - Dec 07
<b>Gross outstanding portfolio (USD)</b>	<b>3,445,767</b>	<b>5,995,026</b>	<b>10,700,478</b>
CB Small Business Loan	475,651	859,633	785,159
CB Agricultural Loan	1,203,349	1,937,872	4,361,075
SG Small Business Loan	324,007	211,808	887,649
SG Agricultural Loan	0	273,342	1,275,000
SG Asset Creation Loan	0	0	0
IL Small Business Loan	1,442,761	1,711,633	2,053,741
IL Agricultural Loan	0	1,000,738	1,337,854
IL Asset Creation Loan	0	0	0
<b>Growth of active gross portfolio</b>	<b>120.3%</b>	<b>74.0%</b>	<b>78.5%</b>
<b>Average disbursed loan amount (USD)</b>	<b>171</b>	<b>210</b>	<b>238</b>
<b>Av. disbursed loan size on per capita GDP</b>	<b>38%</b>	<b>42%</b>	<b>43%</b>
<b>Average residual maturity (months)</b>	<b>11</b>	<b>12</b>	<b>12</b>
<b>Number of active borrowers</b>	<b>25,347</b>	<b>35,289</b>	<b>53,885</b>
<b>% of active borrowers women</b>	<b>79.4%</b>	<b>81.0%</b>	<b>84.3%</b>
<b>Drop-out ratio</b>	<b>na</b>	<b>16.5%</b>	<b>26.1%</b>

na = not available

The social focus of VisionFund (Cambodia) is moreover confirmed by the **low average disbursed loan amount**. As of December 2007, an average client was receiving **US\$ 238**, slightly more than the US\$ 210 of 2006. Indeed the average disbursed loan size on per capita GDP stays at around 40-45% and together with an 84.3% of women borrowers<sup>8</sup> demonstrates a satisfactory outreach in depth.

<sup>8</sup> It is worth mentioning that this figure may be distorted as in many cases women are borrowing on behalf of their husband who is then using the loan.

Thanks to the introduction of the Product Development position, which will have on board its manager in April 2008 and a team of 3 more people, VisionFund (Cambodia) aim to strengthen the analysis of clients' satisfaction and of competitors. So far clients' satisfaction and reasons for desertion were informally collected by Client Service Officers in the field with the risk of losing useful information. Even though as of December 2007 **drop out ratio stands at 26.1%** which should be considered an acceptable level, it is worth noting that **in the last year drop out registered an remarkable growth (+59%)**.

December 2007

Branch	outstanding portfolio (USD)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR > 30 weighted
Battam Bang	2,488,747	23.3%	22.3%	0.1%	0.03%
Takeo	1,484,203	13.9%	12.1%	0.2%	0.02%
Kandal	1,727,234	16.1%	19.1%	0.2%	0.04%
Kampong Speu	1,519,099	14.2%	12.0%	0.0%	0.00%
Kampong Thom	1,268,043	11.9%	12.1%	0.2%	0.02%
Kampong Chhnang	1,470,207	13.7%	17.5%	0.7%	0.09%
Phrea Vihea	528,199	4.9%	3.0%	0.0%	0.00%
Kampong Cham	214,747	2.0%	1.9%	0.0%	0.00%
<b>TOTAL</b>	<b>10,700,478</b>	<b>100%</b>	<b>100%</b>		<b>0.21%</b>

Distribution of portfolio among different branches is satisfactory, having the oldest branch covering 23.3% of portfolio and keeping an excellent portfolio branch. Overall, the only branch which experienced some problems in delinquency has

been Kampong Chhang due to over indebtedness of clients having multiple loans with several MFIs. Over the next years, VisionFund (Cambodia)'s aims at consolidating its presence in existing operational areas, while expanding to the northern part of the country.

December 2007

By sector	outstanding portfolio (USD)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR > 30 weighted
Service	223,833	2.1%	1.0%	0.0%	0.0%
Unclassified	110,452	1.0%	0.8%	0.1%	0.0%
Sales/Trading	3,372,460	31.5%	23.9%	0.3%	0.1%
Manufacturing/Production	166,794	1.6%	1.0%	0.0%	0.0%
Deposits	850	0.0%	0.0%	0.0%	0.0%
Agriculture	6,826,194	63.8%	73.3%	0.2%	0.1%
<b>TOTAL</b>	<b>10,700,583</b>	<b>100%</b>	<b>100%</b>		<b>0.21%</b>

Even though 64% of the portfolio is concentrated in agriculture, is the trade which presents the higher risk (with 0.3% of PAR 30).

The analysis of the portfolio by amount does not reveal important concentration. However it clearly shows a concentration of risk in the bracket US\$ 2,000 – 5,000. PAR > 30 days is 0.44% for this category of loans and overall represents half of the total delinquencies for a relative small part of portfolio (12.2%).

December 2007

By amount (USD)	outstanding portfolio (USD)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR > 30 weighted
up to 200	3,841,946	35.9%	76.3%	0.14%	0.05%
201-500	2,330,606	21.8%	16.2%	0.24%	0.05%
501-1000	1,442,419	13.5%	3.9%	0.24%	0.03%
1001-2000	1,775,851	16.60%	2.79%	0.12%	0.02%
2001-5000	1,309,653	12.2%	0.8%	0.44%	0.1%
>5001	0	0.0%	0.0%	0.0%	0.0%
<b>TOTAL</b>	<b>10,700,476</b>	<b>100%</b>	<b>100%</b>		<b>0.21%</b>

December 2007

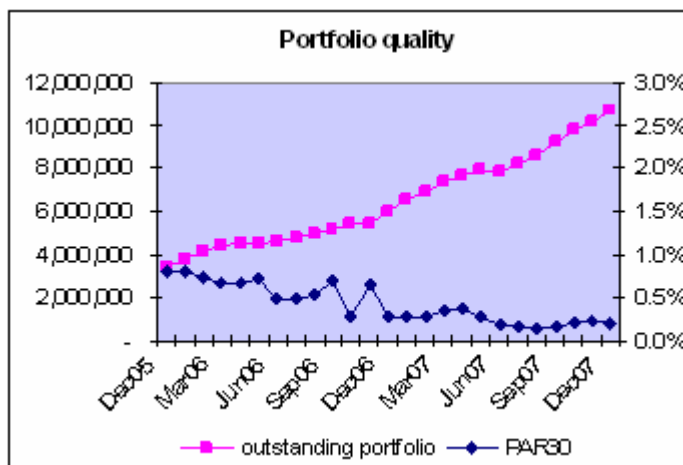
By term (months)	outstanding portfolio (USD)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR > 30 weighted
up to 6	5,968,627	55.8%	87.9%	0.2%	0.08%
6-12	91,892	0.9%	1.5%	0.0%	0.00%
12-18	3,531,463	33.0%	6.1%	0.2%	0.1%
18-24	1,108,494	10.4%	4.5%	0.5%	0.1%
<b>TOTAL</b>	<b>10,700,476</b>	<b>100%</b>	<b>100%</b>		<b>0.21%</b>

Analysis of portfolio by term shows an important concentration of portfolio and clients in short term loans. Nevertheless the higher risk is held by long term loans which represents 10% of total portfolio.

Loan portfolio quality

As of December 2007, VisionFund (Cambodia) shows an excellent portfolio quality, following a continuous decreasing trend over the last three years with a PAR > 30 days worth 0.21% and a PAR > 1 day of 0.30%.

So far VisionFund (Cambodia) never applied neither restructuring nor refinancing of loans. Nevertheless policies and procedures exist for these kind of riskier loans.



As of December 2007 write-off ratio stands at 0.2%, confirming the good quality of portfolio.

Even though VisionFund (Cambodia) has demonstrated so far an adequate capacity to keep delinquencies under control, the low accumulated loan loss reserve (of 2% as of

December 2007) does not allow to achieve full coverage. In fact risk coverage ratio stands at a low 32%. To improve risk coverage ratio at the beginning of 2008 the management introduced a general provision of 0.1% of total portfolio.

Portfolio Quality Indicators	Jan 05 - Dec 05	Jan 06 - Dec 06	Jan 07 - Dec 07
<b>Consolidated PAR30</b>	<b>0.81%</b>	<b>0.28%</b>	<b>0.21%</b>
31-60	0.11%	0.07%	0.03%
61-90	0.17%	0.04%	0.05%
91-180	0.35%	0.13%	0.06%
181-365	0.19%	0.04%	0.05%
>365	0.00%	0.00%	0.00%
<b>Arrears rate (&gt; 1 day)</b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.1%</b>
<b>Restructured portfolio</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Provision expense ratio</b>	<b>0.7%</b>	<b>0.5%</b>	<b>0.2%</b>
<b>Loan loss reserve ratio</b>	<b>0.4%</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Risk coverage ratio (30 days)</b>	<b>51.6%</b>	<b>50.0%</b>	<b>31.9%</b>
<b>Write off ratio</b>	<b>0.5%</b>	<b>0.6%</b>	<b>0.2%</b>

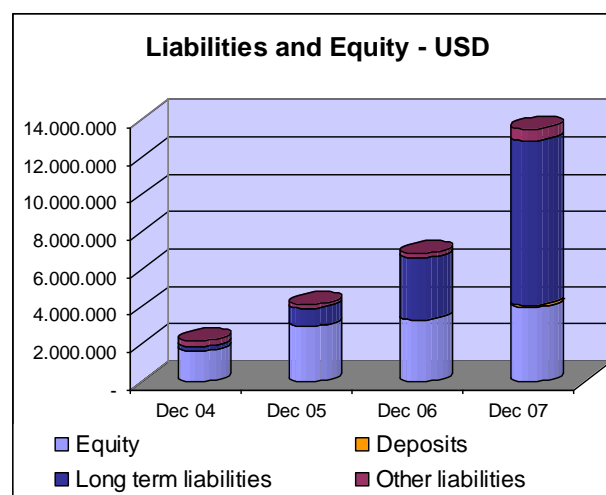
## 5. Financial structure and ALM

The **debt to equity ratio** is equal to 2,4 as of December 2007, with a strong increase during the last two years (1,1 as of December 2006 and 0,4 as of December 2005). Capital adequacy stands at around 33.4%, thus fully complying with the NBC regulation which requires a CAR (on Risk Weighted Assets) higher than 20%.

The current financial leverage leave space for a relevant increase; nevertheless it is worth noting that the rapid expansion of portfolio coupled with a ROE lower than portfolio growth will ask in the medium term a more aggressive capitalization.

### Liabilities and equity structure

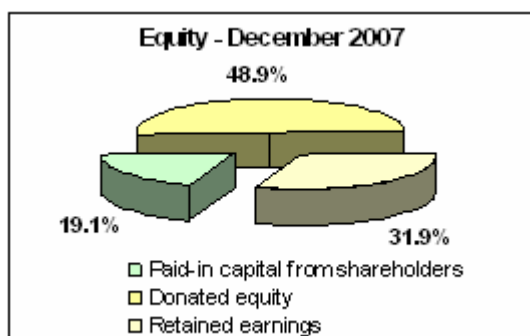
As of December 2007, VisionFund (Cambodia) **liabilities** stand at US\$ 9,6 millions out of which US\$ 8,8 millions are loans. **Funding liabilities have shown a remarkable growth** compared to the previous years (+170% in 2007 and +236% in 2006). Since 2007 VisionFund (Cambodia) has started a **process of diversification** of its funding sources which were till that time provided only by Vision Fund (and World Vision). VisionFund (Cambodia) has now a loan from Blue Orchard (US\$ 2 millions), Oikocredit (US\$ 1 million), Plan International and from a local bank, ANZ Royal bank of Cambodia which have disbursed two loans for a total amount of US\$ 1,3 million. These funding sources represent now 52% of total borrowing of the institution with a more satisfactory diversification of the resources even if 48% of the total still comes from Vision Fund. All the loans have a medium term (between 2 and 5 years) and, apart from a small loan of Plan International (US\$ 264.000) and some of the older loans of VFI with a fixed interest rate, **bear commercial conditions**. The increasing commercial feature of VisionFund (Cambodia)'s borrowing is confirmed by the **trend of the cost of funds** which has passed from 4,9% in 2005 to 7,8% in 2008.



**Most of the funding sources are denominated in US\$** (88,3% as of December 2007), with the only exception being for the loan of Oikocredit, which coupled with a large portfolio in KHR generate a large open position in FX (see below). Given the appreciation of the Real against the US\$, this mismatching has originated a gain. While the NBC is promoting the concession of loans in local currency to the MFIs from local banks (which have a short position in US\$), at the moment the access to loans in local currency is almost inexistent. International investors instead are starting to offer loans in local currency. It is worth to mention that VisionFund (Cambodia) have not accessed to the back-to-back scheme promoted by the NBC to cover the exchange risk.

In the previous years VisionFund (Cambodia) experienced sometimes delays in the reception of loans from VisionFund International compared to the planned schedule with consequences in terms of liquidity crunches and occasional lower growth compared to the planned one. For example VisionFund (Cambodia) had to obtain a loan from ANZ Royal bank of Cambodia to cover a liquidity need generated by delays in the approval by VFI of new loans from external investors. Starting from 2007 **the fundraising activity has become direct responsibility of VFI** and all the loans contracted by VisionFund (Cambodia) has to be approved by VFI. These constrains seem to be mitigated now as VFI is improving its operations. The umbrella organization for all World Vision affiliates is indeed designing a **global funding strategy** which aims at gathering together the financial needs of all the affiliates and negotiating large loans to be allocated to the different MFIs with a potential benefit in terms of lower interest rate and in general more favourable conditions.

In order to **satisfy the future financial needs** VisionFund (Cambodia), in collaboration with VFI, is discussing with several current and new (as Developing World Market) international investors. Moreover it is in negotiation with a new local bank, the Foreign Trade Bank.



As of December 2007, VisionFund (Cambodia)'s **total equity** is equal to US\$ 3.958.430, with **paid-in capital counting for 19%**. The 49% of donated equity (which can be considered an hybrid capital) is constituted by funds received from World Vision while the remaining part is retained earnings.

**Equity has posted a growth** of 11,9% in 2006 and 20,1% in 2007 explained by an increasing level of profitability. VisionFund (Cambodia) is in the process to convert part of the retained earnings and a loan from VFI in share capital to fulfil the minimum capital

requirement **of US\$ 2,5 millions** to collect savings. The conversion has been approved by the BoD (still not by the shareholders) but has not yet obtained approval by the NBC due to some procedural objections. Moreover the NBC is questioning the inclusion of donations (or hybrid capital) in the total equity of VFC with potential consequences on the compliance of capitalization ratios. On both issue VFC is working with the NBC to clarify the issues. No enlargement of the shareholder structure is planned in the medium term.

VisionFund (Cambodia) so far has not distribute any profits to its shareholder.

#### Assets and Liabilities Management

VisionFund (Cambodia) is in the process to **strengthen its financial management**. ALCO has started to work and its ToR has been drafted even if it functioning has still to be consolidated. On the other side the Audit and Risk Committee is also dealing with financial risks. Notwithstanding this, given its planned evolution, VisionFund (Cambodia) will need to strengthen complete tools and reporting for financial management (especially on financial mismatching).

Reports on liquidity risk, solvency and foreign currency position are regularly produced and ratios are monitored, in compliance with the NBC regulation.

Liquidity management is very conservative with the board requiring to keep between 6% and 10% of liquidity on portfolio. This limit has been respected and average liquidity during 2007 has been equal to 9,3% of total assets and 11,1% of the portfolio. This high level of liquidity is a relevant protection against possible shock but implies a significant opportunity cost. Yearly **cash-flow projections** (with monthly breakdown) are prepared in Excel.

VisionFund (Cambodia) presents a **constant relevant open position** in KHR generated by the fact that a large part of the portfolio is denominated in KHR (61% as of December 2007) while 88% of the borrowing is in US\$. The net position represents 42% of total assets and 144% of total capital. This very high rate **violate the limit of 20% of total equity established by the NBC**. Despite

December 07	USD	KHR
<b>Total assets</b>	<b>6.614.891</b>	<b>6.941.457</b>
Cash and banks	641.646	255.394
Investments	1.605.000	-
Outstanding portfolio	4.130.162	6.563.212
Net fixed assets	149.937	-
Other assets	88.146	122.852
<b>Total liabilities</b>	<b>8.335.333</b>	<b>1.244.957</b>
Deposits	146.317	2.360
Loans	7.778.978	1.026.507
Other liabilities	410.038	218.450
<b>Net position</b>	<b>- 1.720.442</b>	<b>5.696.501</b>

this it is important to note that this is a common problem for several financial institutions in Cambodia and consequently, is for the moment tolerated by NBC. Given its financial structure, concentrated on medium term loans at fixed rate on the liabilities side and a short term portfolio on the assets side (66% has a residual maturity of less than one year as of December 2007), **VisionFund (Cambodia) is not exposed to significant maturity risk**. In terms of interest rate risk, the institution is assets sensitive from the time brackets shorter than one year.

## 6. Financial and operational results

Over the period of analysis, VisionFund (Cambodia) shows **increasing levels of profitability and sustainability**, both non-adjusted and adjusted.

Since 2005, ratios have steadily increased: **ROA and OSS** have reached 5,6% and 131,2% in 2007 up from 0,1% and 107,9% in 2005. Along with the boost of an increasing leverage, the **ROE** shows a stronger upward trend, reaching 14,6% for 2007 from 0,2% in 2005. Even if they are at satisfactory levels, these ratios are lower than other major MFIs in Cambodia.

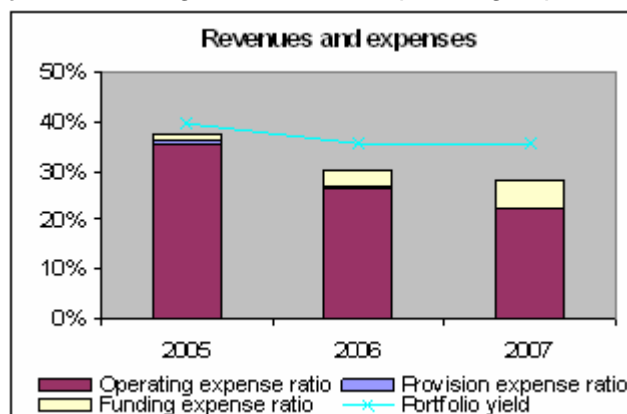
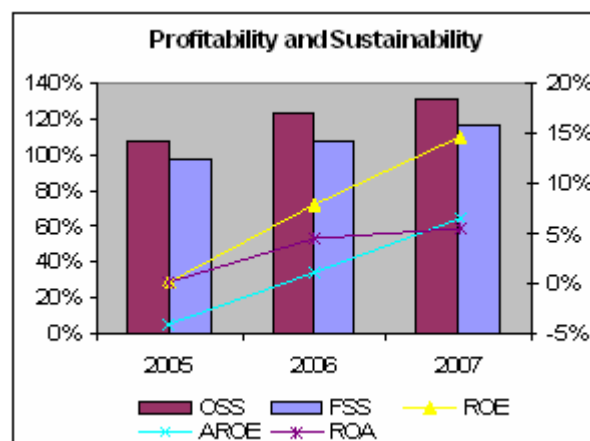
VisionFund (Cambodia) is fully sustainable also in term of adjusted results since 2006. The evolution of adjusted ratios follows the path of non-adjusted ratios given that inflation constitutes the main adjustment items. **FSS**<sup>9</sup> stands at 116,3% for 2007, **AROE** at 6,6% and **AROA** at 2,3% (as of 2005 they stood at 98%, -4,1% and -2,9%, respectively).

The **main driver behind the increased profitability** is the strong decline in the operating expense ratio. The dynamic of the different costs and revenues components reflects the maturation of the institution towards a more commercial financial structure and relevant increase in scale and efficiency.

**Financial expenses** have constantly increased their weigh in VisionFund (Cambodia) cost structure over the period of analysis, with a funding expense ratio of 5,8% in 2007 compared to 1,2% in 2005. This evolution is explained by the strong increase in the leverage (debt/equity ratio has increased six times in the last two years) coupled with a higher cost to funds which passed from 4,9% in 2005 to 7,8% in 2007.

While revenues are almost exclusively financial revenues from loan portfolio, the **portfolio yield** of the institution has been constant in the last two years at around 35% after a small reduction of 5% in 2006 due to a reduction of the interest rates charged on loans. Until now the increasing level of competition in the market has no put yet excessive pressure on interest rate but such a reduction has to be expected in the next years. On the other hand, the high quality of loan portfolio has been maintained and even improved during the last two years, allowing to keep a low and decreasing **provision expense ratio**, 0,2% in 2007 (and 0,7% in 2005).

Efficiency measured by the **operating expenses ratio**<sup>10</sup> have strongly improved during the period of analysis from 35,5% in 2005 to 22,1% in 2007 fostering the profitability of the institution. This improvement is mainly due to the increase in the outstanding portfolio<sup>11</sup>. This trend is the results of economies of scale coupled with an increase in staff productivity in number and amount and a higher branch productivity. Nevertheless the efficiency is still lower than some competitors and there is room for improvement.



<sup>9</sup> Operational and financial self-sufficiency (OSS and FSS) do not include taxes unlike ROA and ROE. This is because we consider the first two ratios as a comparable measure of the sustainability of the MFI without taking into consideration external factors like taxes

<sup>10</sup> On average gross portfolio.

<sup>11</sup> In the period 2005-2007 portfolio growth rate registered +211%, more than double the growth rate of the operating expense (+99%).

On the other hand, the institution has managed to keep **cost per borrower** constant during the period of analysis to around US\$40. In the medium term, operating expenses may be pushed upwards by costs related to saving collection.

**Productivity** shows a steady increase both in terms of number of clients and amount. As of December 2007, the number of loans per Client Service Officers is 310 (169 per staff member) from 246 in 2005 (138 per staff member), with a slight decline compared to 2006 due to the hiring of several new Client Service Officers. In terms of amount productivity has doubled during the

Financial Indicators	Jan 05 - Dec 05	Jan 06 - Dec 06	Jan 07 - Dec 07
Operating expenses ratio (aver. gross portf.)	35.5%	26.5%	22.1%
Staff allocation ratio	56.0%	50.9%	54.5%
Loan officer productivity (borrowers)	246	312	310
Loan officer productivity (amount)	33,454	53,053	61,497
Staff productivity (borrowers)	138	159	169
Staff productivity (amount)	18,727	27,005	33,544
Branch productivity (amount)	492,252	749,378	1,337,560
Cost per loan lent	29	30	29
Cost per borrower	40	41	41
Funding expense ratio	1.2%	3.4%	5.8%
Provision expense ratio	0.7%	0.5%	0.2%
<b>Portfolio yield (gross portfolio)</b>	<b>39.5%</b>	<b>35.5%</b>	<b>35.3%</b>

period of analysis. While productivity is quite satisfactory compared to international benchmark, it is still lower compared to best Cambodian MFIs with a similar target.

Given the strong current and planned growth of the institution, the current level of profitability implies a strong increase in the leverage (in 2007 portfolio grew of 79% against a growth of 20% in the equity). While there is still space to increase the leverage of VisionFund (Cambodia), the institution should consolidate its level of profitability in the medium term to support the growth. This could be the results of the increase and consolidation of staff productivity and a further improvement of efficiency, even if possible downward pressure on interest rates, the future costs related to saving collection and the increasing funding expenses can have a negative effect on profitability.

## 7. Strategic objectives and financial needs

The main features of the projected institutional, operational and financial development of VisionFund (Cambodia) are included in the **Business Plan 2006-2010** and were internally developed through a bottom-up approach involving all the branches. VisionFund (Cambodia) Management is currently in the process of updating the old Business Plan, with a complete review of the Strategic and Operational Plan.

Financial projections, usually produced once a year based on Excel, are the responsibility of the Finance Manager in cooperation with the COO and the ED. The last version, updated at the end of 2006 is developed according to a **conservative scenario**. Moreover a sensitivity analysis on the main variables is still missing.

Financial Projections	2007 (actual)	2008	2009	2010
Outstanding portfolio	10,700,478	20,303,649	32,231,580	44,662,006
Portfolio growth	78%	90%	59%	39%
Number of active borrowers	53,885	82,247	116,611	149,508
Savings	148,677	307,248	556,156	860,078
Equity	3,958,430	4,893,492	7,308,517	10,611,178
Liabilities	9,584,754	17,865,593	27,928,130	37,949,023
Portfolio yield	35%	35%	34%	33%
Debt to equity	2.4	3.7	3.8	3.6
Operating expense ratio	22.1%	21.3%	18.2%	15.4%
ROA	5.6%	3.2%	3.0%	5.6%
ROE	14.6%	12.9%	14.1%	30.9%
CSOs productivity (in number)	308	303	335	376
Tot staff	330	525	679	772

According to the projections 2007-2010, VisionFund (Cambodia) **outstanding portfolio will grow 90% in 2008** and then gradually slow down to 60% in 2009 and 40% in 2010, serving by the end of 2010 almost 150,000 borrowers. Less relevant will be on the other side the growth of **savings which are expected to double by 2008** and to reach US\$ 860,000 by 2010. Liabilities will continue to follow an upward trend, even if thanks to the increase of equity, **debt / equity will stay at around of 3.7** over the next coming years. Growing competition is expected to slightly reduce the portfolio yield over time, which would be offset by important decreasing of operating expense ratio especially in 2009 and 2010. Nevertheless the hypothesis of the business plan on the evolution of the interest rate seems too much optimistic and at least a scenario analysis should be included. Profitability is expected to consolidate with ROE and ROA achieving interesting rates in 2010. Though the planned increase of staff is significant, VisionFund (Cambodia) is also planning to push productivity to a satisfactory level of 376 borrowers per CSOs in 2010.

The **main strategic objectives for the 2008** are the followings:

- to **open 3 new branches** and 7 more service post offices continuing its expansion strategy along with its partners;
- to **increase the equity** and meet all the necessary requirements from the NBC in order to start mobilize savings;
- to maintain its social focus and keep its **average loan size at around US\$ 250**;
- to **develop new products** such as association, educational and mobile phone loans
- to develop Social Performance procedures and to systematically assess social performances.

Furthermore, during the last year, the management together with the support of the BoD, started up a study of the Cambodian microfinance market called the **“Better Future Project”**. The aim of the study is to identify the main drivers of evolution of the microfinance sector during the next 5-10 years in order to continuously push VisionFund (Cambodia) evolution.

Even if the market is growing at a high pace and some of the largest MFIs have reached a considerable size, competition is still manageable and there is still space for expansion in various areas of the country. Indeed at the moment, even though some discussions about merger and acquisition have started, the topic is not yet high in the agenda. In order to emerge as a winner in the future possible wave of consolidation and face the likely increase of competition VisionFund (Cambodia) has to be able to continue its growth and increase the resource available for investments and future expansion. A special remark has to be done for what concerns capitalization, as most of its competitors are opening the door to new shareholders, thus pushing for a strong capitalization.

#### Financial needs

**VisionFund (Cambodia) financial needs for 2008 amount to US\$ 8.5 million**, out of which US\$ 4 million will come from Developing World Market and the rest most probably from Oikocredit or BlueOrchard. Additionally, VisionFund (Cambodia) has also started negotiations with Foreign Trade Bank, a Cambodian commercial bank, for a US\$ 4 million deal.

Beside the continuous access to fresh borrowed funds VisionFund (Cambodia) is planning to increase equity by 24% in 2008, thus meeting the minimum capital requirement fixed by the NBC. **The capitalization strategy foresees the use of a significant part of retained earnings (US\$ 1 million) and the conversion of a VFI loan.** A similar approach will be used also in the next coming periods as no opening to new shareholders is expected in the short or medium run.

## 8. Details of the risk factors

According to our analysis, the main **risk factors** of VisionFund (Cambodia) are the following:

AREA	Risk factors	Relevance*	Main measures implemented and/or to implement in the short term	Observations
<b>External environment</b>	<i>Increasingly competitive environment</i>	Medium-high	VFC is constantly monitoring competition and is working to adjust the conditions (pricing and processing) of its lending products to those offered by competitors. Moreover the expansion strategy is directed towards new region and to a very specific clientele (low target).	VFC has a comparative advantage in terms of visibility as all over the provinces the institution works in close collaboration with World Vision and other partners (Plan International and KHANA).
	<i>Lack of a credit bureau and exchange of clients information</i>	Medium	CMA is promoting the exchange of blacklists of clients.	-
	<i>Not full availability of land titles</i>	Medium	-	Though the situation improved compared to some years ago, the effectiveness of land titles in the Court is still limited.
	<i>Underdeveloped capital market</i>	Medium-low	-	Possibilities to place extra liquidity are limited by the still underdeveloped Cambodian capital market.
<b>Governance, management and operations</b>	<i>Some shortcoming in the MIS</i>	Medium	VFC is currently testing ADSL connection for the future introduction of savings. In case of need larger bandwidth is available in the market even if it is expensive. There exists clear and widespread policies and procedures for a rapid flow of information from branches to HQs. Moreover VFI is studying at a network level the introduction of a new MIS for all the affiliates.	The MIS is not integrated and due to the slowness of the connection branches are not working on-line. Process for data entering and verification requires cross-checks and manual operations which are time and resource consuming and exposed to errors. Moreover this imply a certain time gap in reporting and monitoring.
	<i>Staff turnover to be monitored</i>	Medium	A detailed analysis of drop-out per category of staff is regularly performed.	Staff turnover seems to be driven mainly by opportunities arising with partners (especially World Vision). Nevertheless so far VFC has been losing field level staff and attracting skilled people in WV.
	<i>Sporadic use of legal procedures</i>	Low	-	Being closely connected in terms of image to World Vision, VFC is reluctant to use legal procedures. This however may negatively impact on the operations of the MFIs.
	<i>Cash handling and security of documents</i>	Medium-low	Comprehensive policies are in place to mitigate the risk implicitly involved in cash handling.	No fireproof cabinets for documents. Accessibility and protection of cash desks could be improved in some cases.
	<i>Salary scale and information on market level of salary</i>	Medium-low	Yearly salary survey	Salaries seems to be slightly lower than the market only for management position but fully reliable information is not available.

	<b>Relationships between VFC and WVC</b>	<b>Medium-low</b>	In order to clarify this issue a contract which regulates the relationship among the two institution has been signed.	The strict relationship with WVC, demonstrated by the strong presence of WVC staff in the BoD of VFC (2 persons included the chairwomen) together with the strong operational relationship (sharing of offices and joint strategies) among the two organizations, implies a potential relevant influence of WVC on the operations and strategy of VFC.
<b>Financial products and asset quality</b>	<b>Capacity building in process for savings mobilization</b>	<b>Low</b>	Board members and a consultant from VFI are supporting VFC Top Management in strengthening operations, system and image for savings mobilization. Ad hoc committees, action plan and pilot projects to support the introduction of savings.	Organization and institutional culture need to be updated to support savings mobilization. The current connections between branches and HQ partially constraint the management of savings.
	<b>No formal monitoring and analysis of clients desertion</b>	<b>Medium</b>	Credit officers are informally gathering information about client desertion and reasons for leaving.	Drop out ratio is 26.1% as of December 2007, however in the last year client desertion grew 59%.
<b>Financial structure and ALM</b>	<b>High liquidity</b>	<b>Medium</b>	-	Average liquidity for 2007 stands at 10.3% with a relevant opportunity cost. This high level of liquidity corresponds to a specific requirement of the BoD.
	<b>Currency risk</b>	<b>Medium-high</b>	VFC is looking for possible solutions to mitigate the problem. However this is a common problem for several financial institutions in Cambodia and is currently tolerated by NBC.	Currency exposure is equal to 144% of equity. The NBC recently increased from 15 to 20% the limit to exposure in foreign currency.
	<b>Improvable risk management framework</b>	<b>Medium</b>	A board committee on audit and risk has been created. Moreover an ALCO exists, even if it has still to be consolidated.	The risk management framework has still to be completed and strengthened. In particular tools, analysis, reporting and limits for financial risk management has still to be completed.
	<b>Term deposits concentrated in ACLEDA</b>	<b>Medium-low</b>	-	This is a consequence of the underdeveloped capital market of Cambodia.
	<b>Issues related to capital structure</b>	<b>Medium-low</b>	On both issue VFC is working with the NBC to clarify the issues.	The capital increase needed to comply with the minimum capital needed to collect savings conversion has not yet obtained approval by the NBC due to some procedural objections. Moreover the NBC is questioning the inclusion of donations (or hybrid capital) in the total equity of VFC with potential consequences on the compliance of capitalization ratios.
	<b>Some bottlenecks in the access to external finance</b>	<b>Medium-low</b>	A new agreement has been drafted between VFI and VFC which details the respective responsibility concerning fund raising	VFI is responsible for the fundraising activity and this could slow the process. In the past year VFC experienced various delays in the disbursements of funds with an effect on growth.

<b>Financial and operational results</b>	<b>Profitability</b>	Medium-low	-	ROA and ROE stands respectively at 5.6% and 14.6% as of December 2007. Profitability lower than competitors and not enough to sustain capitalization given the growth. Moreover there is a certain degree of uncertainty related to the capacity of VFI to inject new capital in VFC.
	<b>Improvable productivity</b>	Medium	-	As of December 2007 LOs manage 310 borrowers, much lower of some direct competitors.
	<b>Relatively high operating expenses</b>	Medium-low		As of December 2007 operating expense ratio stands at 22% registering an important improvement with respect to the previous periods (35.5% in 2005 and 26.5% in 2006).
<b>Strategic objectives and future evolutions</b>	<b>Lack of scenarios and of sensitivity analysis</b>	Medium-low	-	VFC is currently developing projections based on a conservative scenario.
	<b>Lack of updated Business Plan document</b>	Low	VFC is currently in the process of updating the whole Business Plan document.	-

## Annex 1 - Financial statements

VisionFund				
Balance Sheet (USD)	Dec 04	Dec 05	Dec 06	Dec 07
<b>ASSETS</b>				
<i>Cash and bank deposits</i>	489,811	460,501	612,378	2,456,592
<i>Short term financial assets</i>	-	-	37,466	45,448
<i>Net outstanding portfolio</i>	1,555,167	3,431,316	5,986,505	10,693,374
<i>Gross outstanding portfolio</i>	1,564,321	3,445,767	5,995,026	10,700,478
<i>Performing portfolio</i>	1,553,294	3,417,759	5,977,991	10,678,236
<i>Portfolio at risk &gt; 30 days</i>	11,027	28,009	17,035	22,241
<i>(Loan loss reserve)</i>	9,154	14,451	8,521	7,104
<i>Accrued interest</i>	29,899	56,671	94,205	183,956
<i>Other short term assets</i>	28,206	22,023	13,582	13,876
<b>Total short term assets</b>	<b>2,103,083</b>	<b>3,970,511</b>	<b>6,744,136</b>	<b>13,393,246</b>
<i>Long term financial assets</i>	-	-	-	-
<i>Net fixed assets</i>	58,455	131,789	118,352	149,938
<i>Other long term assets</i>	37,745	38,428	-	-
<b>Total long term assets</b>	<b>96,200</b>	<b>170,217</b>	<b>118,352</b>	<b>149,938</b>
<b>Total assets</b>	<b>2,199,283</b>	<b>4,140,728</b>	<b>6,862,488</b>	<b>13,543,184</b>
<b>LIABILITIES and EQUITY</b>				
<b>LIABILITIES</b>				
<i>Sight deposits</i>	6,007	605	-	148,677
<i>Short time deposits</i>	-	-	-	-
<i>Short term loans</i>	-	-	1,400,000	-
<i>Other short term liabilities</i>	324,233	205,997	245,738	630,592
<b>Total short term liabilities</b>	<b>330,240</b>	<b>206,602</b>	<b>1,645,738</b>	<b>779,269</b>
<i>Long term time deposits</i>	-	-	-	-
<i>Long term loans</i>	223,475	988,841	1,919,934	8,805,485
<i>Other long term liabilities</i>	-	-	-	-
<i>Restricted funds</i>	-	-	-	-
<b>Total Long term liabilities</b>	<b>223,475</b>	<b>988,841</b>	<b>1,919,934</b>	<b>8,805,485</b>
<b>Total liabilities</b>	<b>553,715</b>	<b>1,195,443</b>	<b>3,565,672</b>	<b>9,584,754</b>
<b>EQUITY</b>				
<i>Paid-in capital from shareholders</i>	757,916	757,916	757,916	757,916
<i>Donated equity</i>	885,798	1,902,492	1,937,107	1,937,107
<i>Quasi-capital</i>	-	-	-	-
<i>Reserves</i>	-	-	-	-
<i>Total retained earnings</i>	1,854	284,877	601,793	1,263,407
<i>Other equity accounts</i>	-	-	-	-
<b>Total equity</b>	<b>1,645,568</b>	<b>2,945,285</b>	<b>3,296,816</b>	<b>3,958,430</b>
<b>Total liabilities and equity</b>	<b>2,199,283</b>	<b>4,140,728</b>	<b>6,862,488</b>	<b>13,543,184</b>

<b>VisionFund</b>			
<b>Income Statement (US\$)</b>	<b>Jan 05 - Dec 05</b>	<b>Jan 06 - Dec 06</b>	<b>Jan 07 - Dec 07</b>
<i>Interest &amp; commissions received on loans</i>	1,016,923	1,675,421	2,906,544
<i>Financial revenue from investment</i>	10,320	8,702	20,036
<i>Other financial revenues</i>	-	51,806	79,692
<b>A) Financial revenue</b>	<b>1,027,243</b>	<b>1,735,929</b>	<b>3,006,272</b>
<i>Interest paid on borrowings</i>	29,970	161,825	477,843
<i>Interest paid on savings</i>	-	-	-
<i>Interest paid on mortgage</i>	-	-	-
<i>Other financial expenses</i>	-	-	-
<i>Inflation adjustment</i>	-	-	-
<b>B) Financial expenses</b>	<b>29,970</b>	<b>161,825</b>	<b>477,843</b>
<b>Gross financial margin (A - B)</b>	<b>997,273</b>	<b>1,574,104</b>	<b>2,528,429</b>
<i>Loan loss provision</i>	18,477	23,095	14,668
<b>Net financial margin</b>	<b>978,796</b>	<b>1,551,009</b>	<b>2,513,761</b>
<i>Other operating revenue</i>	12,496	29,646	29,339
<i>Personnel expenses</i>	530,003	695,802	1,079,789
<i>Administrative expenses</i>	384,879	555,125	741,322
<b>C) Operating expenses</b>	<b>914,882</b>	<b>1,250,927</b>	<b>1,821,111</b>
<b>Net operating income</b>	<b>76,410</b>	<b>329,728</b>	<b>721,989</b>
<i>Extraordinary revenue</i>	484	-	470
<i>Extraordinary expense</i>	-	-	-
<b>Net income before donations, before tax</b>	<b>76,894</b>	<b>329,728</b>	<b>722,459</b>
<i>Taxes</i>	72,655	83,250	188,902
<b>Net income before donations</b>	<b>4,239</b>	<b>246,478</b>	<b>533,557</b>
<i>Donations in cash</i>	278,784	70,438	128,056
<i>Revenue not from the operations</i>	-	-	-
<i>Expenses not from the operations</i>	-	-	-
<b>Net income</b>	<b>283,023</b>	<b>316,916</b>	<b>661,613</b>

## Annex 2 - Financial statements adjustments

The financial statements in Annex 1 are the result of **standard reclassification**. They are based on audited financial statements according to international standards.

**Financial statements have been then adjusted** in order to make them comparable to financial reporting and performances of institutions using different accounting standards and operating in different environment and to evaluate the level of sustainability of the institution with market conditions. The main adjustments include:

- adjustment for the accrued interest on delinquent loans > 90 days
- elimination of subsidies (donations in kind<sup>12</sup> and soft loans<sup>13</sup>)
- provisions are calculated with a standard formula<sup>14</sup>
- adjustments for inflation
- adjustments for write-offs

Adjustments (USD)	Jan 05 - Dec 05	Jan 06 - Dec 06	Jan 07 - Dec 07
Reversal of accrued interest on non-perf loans	671	328	92
Subsidized cost of fund adjustment	12,597	17,478	35,181
Inflation adjustment	74,573	186,105	249,568
Loan loss provision adjustment	9,333	4,815	10,688
In-kind subsidy adjustment	-	-	-
<b>Total variation of net income</b>	<b>97,174</b>	<b>208,727</b>	<b>295,529</b>

The bulk of the adjustments for VisionFund (Cambodia) are related to the to inflation. Minor adjustments are due for the loan loss provisioning and subsidized cost of fund. The cumulative effect of all these adjustments reduces the net income in all the periods.

<sup>12</sup> Donations in kind are valorized and added to operational expenses.

<sup>13</sup> In the income statement it is registered the value of the difference between financial costs of the institutions and financial cost evaluated at the market rate. In particular, in the case of loans in local currency, it is considered 75% of the average lending rate in the national market (IFS Line 60P). In the case of loans denominated in foreign currencies (US\$ and Euro), it is considered the average value of Libor/Euribor 1 year plus 3%.

<sup>14</sup> Provisions are calculated according to the following formula:

Portfolio:	1-30 days	10%	Restructured loans	1-30 days	50%
	31-60 days	30%		> 1 day	100%
	61-90 days	50%			
	>90 days	100%			

## Annex 3 - Financial ratios

## VFC-US\$

Jan 05 - Dec 05

Jan 06 - Dec 06

Jan 07 - Dec 07

**PROFITABILITY**

Return on Equity (ROE)	0.2%	8.0%	14.6%
Adjusted Return on Equity (AROE)	-4.1%	1.2%	6.6%
Return on Assets (ROA)	0.1%	4.5%	5.6%
Adjusted Return on Assets (AROA)	-2.9%	0.7%	2.3%
Operational self-sufficiency (OSS)	107.9%	123.0%	131.2%
Financial self-sufficiency (FSS)	98.0%	107.4%	116.3%
Profit Margin	7.3%	18.7%	23.8%

**LOAN PORTFOLIO QUALITY**

Portfolio at risk (PAR30)	0.8%	0.3%	0.2%
Arrears rate (> 1 day)	0.4%	0.2%	0.1%
Provision expense ratio	0.7%	0.5%	0.2%
Loan loss reserve ratio	0.4%	0.1%	0.1%
Risk coverage ratio (30 days)	51.6%	50.0%	31.9%
Write-off ratio	0.5%	0.6%	0.2%

**EFFICIENCY AND PRODUCTIVITY**

Staff allocation ratio	56.0%	50.9%	54.5%
Loan officer productivity (borrowers)	246	312	310
Loan officer productivity (amount)	33,454	53,053	61,497
Staff productivity (borrowers)	138	159	169
Staff productivity (amount)	18,727	27,005	33,544
Branch productivity (amount)	492,252	749,378	1,337,560
Operating expenses ratio (average gross portf.)	35.5%	26.5%	22.1%
Operating expenses ratio (average assets)	29.1%	22.9%	19.1%
Cost per loan lent	29	30	29
Cost per borrower	40	41	41
Personnel expenses ratio (average gross portf.)	20.6%	14.7%	13.1%
Admin. expenses ratio (average gross portfolio)	14.9%	11.8%	9.0%

**ASSETS/LIABILITIES MANAGEMENT**

Portfolio yield (gross portfolio)	39.5%	35.5%	35.3%
Funding expense ratio**	1.2%	3.4%	5.8%
Cost of funds ratio**	4.9%	7.5%	7.8%
Adjusted provision for inflation (av. gross portf.)	2.9%	3.9%	3.0%
Current ratio	nc	4.10	17.19
Liquidity over total assets	11.1%	8.9%	18.1%
Debt/equity ratio	0.41	1.08	2.42
Capital adequacy ratio	71.1%	48.0%	29.2%

\*\* exchange rate variations are not included in the calculation of the ratio

**OUTREACH**

Average disbursed loan size	171	210	238
Average outstanding balance	136	170	199
Average disbursed loan size on per-capita GDP	38.0%	41.8%	42.9%
Average outstanding balance on per-capita GDP	30.2%	33.8%	35.8%
Percentage of active borrowers women	79.4%	81.0%	84.3%

**GROWTH (amount in US\$)**

Growth of active gross portfolio	120.3%	74.0%	78.5%
Growth of active borrowers	25.5%	39.2%	52.7%
Growth of total assets	88.3%	65.7%	97.4%
Growth of staff	40.5%	20.7%	43.7%
Growth of funding liabilities	331.2%	235.5%	169.7%
Growth of operating expenses**	40.6%	36.7%	45.6%
Growth of equity	79.0%	11.9%	20.1%

## Annex 4 - Definitions

	Description of the ratio	Formula
<b>Profitability</b>	<b>Return on equity (ROE)</b>	Net income before donations / Average equity
	<b>Adjusted return on equity (AROE)</b>	Adjusted net income before donations / Average equity
	<b>Return on assets (ROA)</b>	Net income before donations / Average assets
	<b>Adjusted return on assets (AROA)</b>	Adjusted net income before donations / Average assets
	<b>Operational self-sufficiency (OSS)</b>	(Financial revenue + Other operating revenue) / (Financial expenses + Loan loss provision expenses + Operating expenses).
	<b>Financial self-sufficiency (FSS)</b>	(Adjusted financial revenue + Other operating revenue) / (Adjusted financial expenses + Adjusted loan loss provision expenses + Adjusted operating expenses)
	<b>Profit margin</b>	Net operating income / operating revenue
<b>Portfolio quality</b>	<b>Portfolio at Risk (PAR30)</b>	Portfolio at Risk > 30/ Gross outstanding portfolio
	<b>Provision expense ratio</b>	Loan loss provision expenses / Average gross portfolio
	<b>Loan loss reserve ratio</b>	Accumulated reserve / Gross portfolio
	<b>Risk coverage ratio (&gt;30 days)</b>	Accumulated reserve / Portfolio at risk >30 days
	<b>Write-off ratio</b>	Write-off of loans / Average gross portfolio
<b>Efficiency and productivity</b>	<b>Staff allocation ratio</b>	Client Service Officers / Total staff
	<b>Client Service Officer productivity – Borrowers</b>	Number of active borrowers / Number of Client Service Officer
	<b>Client Service Officer productivity – Amount</b>	Gross portfolio / Number of Client Service Officer
	<b>Staff productivity – Borrowers</b>	Number of active borrowers/ Number of staff
	<b>Staff productivity – Amount</b>	Gross portfolio / Number of staff
	<b>Operating expenses ratio</b>	Operating expenses / Average gross portfolio
	<b>Cost per borrower</b>	Operating expenses / Average number of borrowers
	<b>Administrative expenses ratio</b>	Administrative expenses / Average gross portfolio
	<b>Personnel expenses ratio</b>	Personnel expenses / Average gross portfolio
<b>Financial management</b>	<b>Portfolio yield</b>	Interest income from portfolio / Average gross or net portfolio
	<b>Funding expense ratio</b>	Interests and fee expenses on funding liability / Average gross portfolio
	<b>Cost of funds ratio</b>	Interest expenses on funding liability / Period average funding liability
	<b>Current ratio</b>	Short term assets / Short term liability
	<b>Debt/Equity ratio</b>	Total liability / Equity
	<b>Capital adequacy ratio</b>	Total equity / Total assets
<b>Outreach</b>	<b>Average disbursed loan size</b>	Amount issued in the period / Number of issued loans
	<b>Average disbursed loan size on per-capita GDP</b>	Average disbursed loan size / Per-capita GDP

**Other definitions:**

**Funding liability:** Liability that finance the loan portfolio and the cash investments necessary to manage the loan portfolio

**Operating expenses:** Personnel expenses + Administrative expenses

**Recovery from write-off ratio:** Income from write-off (payments received from loan already written-off) / Average gross portfolio

**Restructuring of delinquent loans:** includes rescheduling loans (extending the term of the loan or relaxing the schedule of required payments) and refinancing loans (paying off a problem loan by issuing a new loan).

**Drop-out ratio:** calculated as follows: (number of active clients at the beginning of the period + number of new (first time) clients entering during the period – clients written off during the period – number of active clients at the end of the period) / (number of active clients at the beginning of the period).

## Annex 5 - Guidelines of reporting and accounting

### Financial statements

VisionFund (Cambodia)'s financial statements are audited by the Cambodian affiliate of KPMG Limited in accordance with Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia. The audit also reflects International Standards on Auditing.

### Loan loss provision and write-offs

VisionFund (Cambodia) is following the standard classification of loans according to NBC regulation, which includes 4 classes of risk. Standard, sub-standard; doubtful loans and loan losses. The provisioning differs depending on the aging of arrears but also taking into consideration the duration of the loan. Loans are classified as losses, when short term loans are overdue more than 90 days past due and long term loans more than 360 days. All loans past due for more than 180 days late with an original term < 1 year; and loans past due for more than 360 days late with original term of more than one year are written off. VisionFund (Cambodia) writes off loans past due every six 6 months.

Loans with maturity < 1 year		Loans with maturity > 1 year	
Aging portfolio in arrears	% provision	Aging portfolio in arrears	% provision
0 - 30 days	0%	0 - 30 days	0%
31 - 60 days	10%	31 - 180 days	10%
61 - 90 days	30%	181 - 360 days	30%
> 91 days	100%	> 361 days	100%

### Restructured loans

In case of clients with no ability but willingness to repay (due to failures of businesses because of uncontrollable factors, e.g. serious family health or economic problems, natural disasters): loans are restructured. Restructuring involves either rescheduling, i.e. changing repayment schedule to reduce instalment payment to the amount that client can pay, or refinancing, i.e. provide more loan the client so that he/she can restart/or refinance his/her business. ED should approve the restructuring with recommendation from OD after careful assessment to the client's ability. Rescheduling is allowed only once per cycle, and the maximum additional extension of rescheduled loan term should not exceed 5 months. Maximum refinanced loan amount should not exceed 50% of the original loan provided that this also meet the required collateral and guarantor guidelines, and debt to equity ratio. Refinancing is allowed only once per cycle, and the maximum additional extension of refinanced loan term should not exceed 50% of the original loan term.

### Insider loans

VisionFund (Cambodia) does not provide staff loans.

### Donations

In the table below are listed the donations received by VisionFund (Cambodia) since 2005. Since its inception VisionFund (Cambodia) has been receiving donations from various World Vision (from Canada, New Zealand, Australia etc.). Recently VisionFund (Cambodia) counts among its donors also of KHANA and Plan International.

#### Donations received (USD)

Year	Amount	Destination	Source
2005	87,378	Operating expenses	NZL
	7,000	Operating expenses	Japan
	15,215	Operating expenses	CAN
	128,171	Operating expenses	AusAid
	6,811	Operating expenses	USA
	7,271	Operating expenses	various
	-20,190	Fixed assets	fixed asset
	40,000	Operating expenses	Grant income
	1,237	Operating expenses	Grant for expart
	-7,000	Loan capital	various
	-6,154	Loan capital	various
19,044	Operating expenses	VFI-NZL	
<b>Sub-total</b>	<b>278,784</b>		
2006	15,715	Operating expenses	VFI-NZL
	28,800	Operating expenses	CAN
	46,101	Operating expenses	NZL & AUSAID
	2,080	Operating expenses	WVC CAN (From PBAS)
	13,672	Operating expenses	NZL
	-35,930	Operating expenses	NZL
<b>Sub-total</b>	<b>70,438</b>		
2007	36,393	Operating expenses	PLAN
	44,665	Operating expenses	KHANA
	-371	Operating expenses	Offset grant with KHANA
	6,261	Operating expenses	VFI-NZL
	-9,288	Operating expenses	Refund back to KHANA
	15,000	Operating expenses	KCC (BR & SC ADP)
	37,500	Operating expenses	KCC (SL, RM, KL, BN, BB)
<b>Sub-total</b>	<b>130,160</b>		
<b>TOTAL</b>	<b>479,382</b>		

Details of funding liability

As of December 2007, VisionFund (Cambodia) has the following borrowings from different sources:

**December 2007**

<b>Loans borrowed</b>						
<b>Source</b>	<b>Currency (in which the loan is due)</b>	<b>Outstanding Balance (USD)</b>	<b>Agreement, kind of product and collateral</b>	<b>Disbursement date</b>	<b>Maturity date</b>	<b>Interest rate</b>
VFI	US\$	100,000	uncollateralized loan	03/08/2005	08/03/2010	6%
VFI	US\$	40,461	uncollateralized loan	25/06/2005	25/06/2010	6%
VFI	US\$	94,815	uncollateralized loan	29/08/2005	29/08/2010	6.00%
VFI	US\$	53,565	uncollateralized loan	29/12/2005	30/12/2010	6.00%
VFI	US\$	151,523	uncollateralized loan	06/02/2006	30/12/2010	6.00%
VFI	US\$	370,000	uncollateralized loan	26/05/2006	30/06/2009	8.80%
VFI	US\$	214,444	uncollateralized loan	01/08/2006	30/06/2011	6.98%
VFI	US\$	96,396	uncollateralized loan	03/10/2006	30/06/2011	8.80%
VFI	US\$	248,730	uncollateralized loan	01/12/2006	30/06/2011	7.27%
VFI	US\$	250,000	uncollateralized loan	28/12/2006	30/06/2009	9.30%
VFI	US\$	182,673	uncollateralized loan	01/02/2007	30/06/2011	7.27%
VFI	US\$	350,000	uncollateralized loan	12/02/2007	30/06/2009	9.24%
VFI	US\$	230,000	uncollateralized loan	01/03/2007	30/06/2009	10.00%
VFI	US\$	55,529	uncollateralized loan	19/03/2007	30/06/2011	8.50%
VFI	US\$	1,400,000	uncollateralized loan	30/06/2007	30/06/2009	10.35%
VFI	US\$	250,000	uncollateralized loan	10/07/2007	30/06/2009	10.35%
VFI	US\$	127,082	uncollateralized loan	15/11/2007	30/12/2012	8.90%
ANZRoyal Bank	US\$	300,000	loan backed by letter of credit	19/10/2006	30/09/2011	7.65%
ANZRoyal Bank	US\$	1,000,000	loan backed by letter of credit	28/09/2007	28/09/2009	9.85%
BlueOrchard	US\$	2,000,000	uncollateralized loan	16/11/2007	16/11/2009	10.00%
Plan International	US\$	263,760	uncollateralized loan	01/01/2007	31/12/2009	1.00%
OIKOCredit	KHR	1,026,507	uncollateralized loan	19/07/2007	16/07/2011	12.79%
<b>TOTAL</b>		<b>8,805,485</b>				

## Annex 6 - Rating Scale

Rating grade	Definition
<b>AAA</b>	Extremely strong capacity to meet its financial obligations. Excellent operations. Very stable and highly unlikely to be adversely affected by foreseeable events.
<b>AA</b>	Very strong capacity to meet its financial obligations. Very good operations. Stable and unlikely to be adversely affected by foreseeable events.
<b>A</b>	Strong capacity to meet its financial obligations. Very good operations. Stable even if it could be affected by major internal or external events.
<b>BBB</b>	Adequate capacity to meet its financial obligations. Good operations. Quite stable even if it could be affected by significant internal or external events.
<b>BB</b>	Limited vulnerable capacity to meet its financial obligations. Adequate operations. Quite stable even if it could be affected by internal or external events.
<b>B</b>	Partially vulnerable capacity to meet its financial obligations. Sufficient operations. Not completely stable and vulnerable to internal or external events.
<b>CCC</b>	Vulnerable capacity to meet its financial obligations. Basic operations. Potentially unstable and vulnerable to external or internal events.
<b>CC</b>	Highly vulnerable capacity to meet its financial obligations. Poor operations. Potentially unstable and vulnerable to external or internal events.
<b>C</b>	Very high vulnerable capacity to meet its financial obligations. Very poor operations. Unstable and very vulnerable to external or internal events.
<b>D</b>	Not able to meet its financial obligations. Insufficient operations. Very unstable and completely vulnerable to external or internal events.

The rating grade can be corrected with a + or – sign, which implies a slight positive or negative variation respect to the main grade.