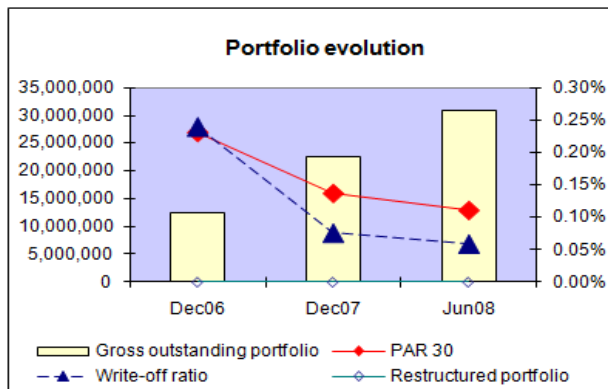


SATHAPANA Ltd. – Cambodia

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

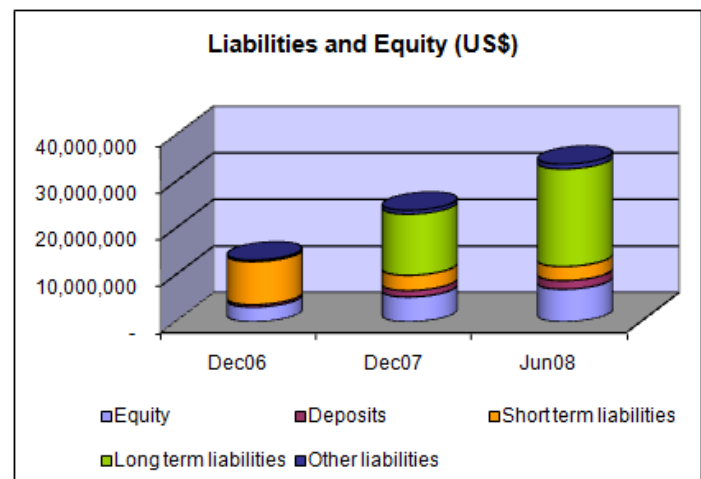
SATHAPANA Ltd. is a limited liability company and licensed since 2003 to operate as a regulated MFI. Prior to its transformation into a private company, the institution was established in 1995 as a local Cambodian NGO offering financial and health education services to poor communities. In 1999 the NGO adopted a minimalist microfinance approach to focus solely on savings and loan services and in 2003 was registered as a private company under the name of Cambodian Entrepreneurship Building with the ownership taken up by the original NGO and the staff association. In december 2004 ShoreCap International entered as the first international shareholder and was followed by FMO and Triodos in 2006. SATHAPANA provides financial services to urban and rural low income borrowers with a particular focus on female clients. Loans are available both in Riel or Dollars and are disbursed primarily through individual lending although solidarity group methodology is also offered. Savings products have also been offered as a pilot project since 2005 and are expected to be rolled out in the branch network upon licensure from the NBC. The main funding sources thus far include a variety of the main international microfinance investors.

Legal status	Limited Liability Company
Inception year	1995, licensed in 2003
Area of intervention	Rural – Semi-rural - Urban
Credit methodology	Individual and Solidarity Group



US\$	Jun08
Average disbursed loan size	1,287
Gross outstanding portfolio	30,831,233
Total assets	33,808,443

Number	Dec06	Dec07	Jun08
Active borrowers	15,112	26,048	30,050
Branches	6	12	15
Sub-branches	16	17	18
Total staff	279	465	569
Loan officers	126	204	232



Financial Indicators	Dec06	Dec07	Jun08
PAR 30	0.23%	0.14%	0.11%
Write-off ratio	0.24%	0.08%	0.06%
Restructured loans	0.0%	0.0%	0.0%
ROE	16.5%	30.5%	36.8%
AROE	11.3%	21.7%	20.0%
Oper. Self-sufficiency (OSS)	123.0%	138.3%	137.9%
Fin. Self-sufficiency (FSS)	115.7%	130.1%	125.3%
Staff productivity (borrow.)	54	56	53
LO productivity (borrow.)	120	128	130
Operating expense ratio	14.6%	11.8%	12.4%
Funding expense ratio	8.8%	8.6%	9.3%
Provision expense ratio	1.1%	0.8%	0.9%
Portfolio yield - cash	29.9%	28.7%	30.9%
Risk coverage ratio	543.0%	913.1%	1130.9%
Cost of funds ratio	10.8%	10.2%	10.7%
Debt/Equity ratio	3.2	3.5	3.8

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AREA	Risk factors	Relevance*
<i>External environment</i>	Lack of a credit bureau or client information exchange	Medium
	Land titles are not fully available	Medium
	Increasingly competitive environment	Medium-high
<i>Governance, management and operations</i>	Members of the management team within the BoD	Medium-high
	Pending license for savings mobilization	Medium-low
	Over aggressive growth in personnel	Medium-low
	Capacity and skills of field staff to be consolidated	Medium-high
	Limited availability of professional training to field staff	Medium
	Cash handling	Medium-low
<i>Financial products and asset quality</i>	Inadequate policy for solidarity group loan product	Medium-low
	Assessment of client repayment capacity is improvable	Medium
	Branch Manager verifying and visiting most clients	Medium-low
<i>Financial structure and ALM</i>	Capitalization to be strengthened to enable projected growth	Medium-low
	Interest rate risk	Medium-low
	Currency risk	Medium-low
	Risk management framework is improvable	Medium
<i>Financial and operational results</i>	Improvable productivity	Medium
<i>Strategic objectives and future evolutions</i>	Lack of scenario and sensitivity analysis	Medium

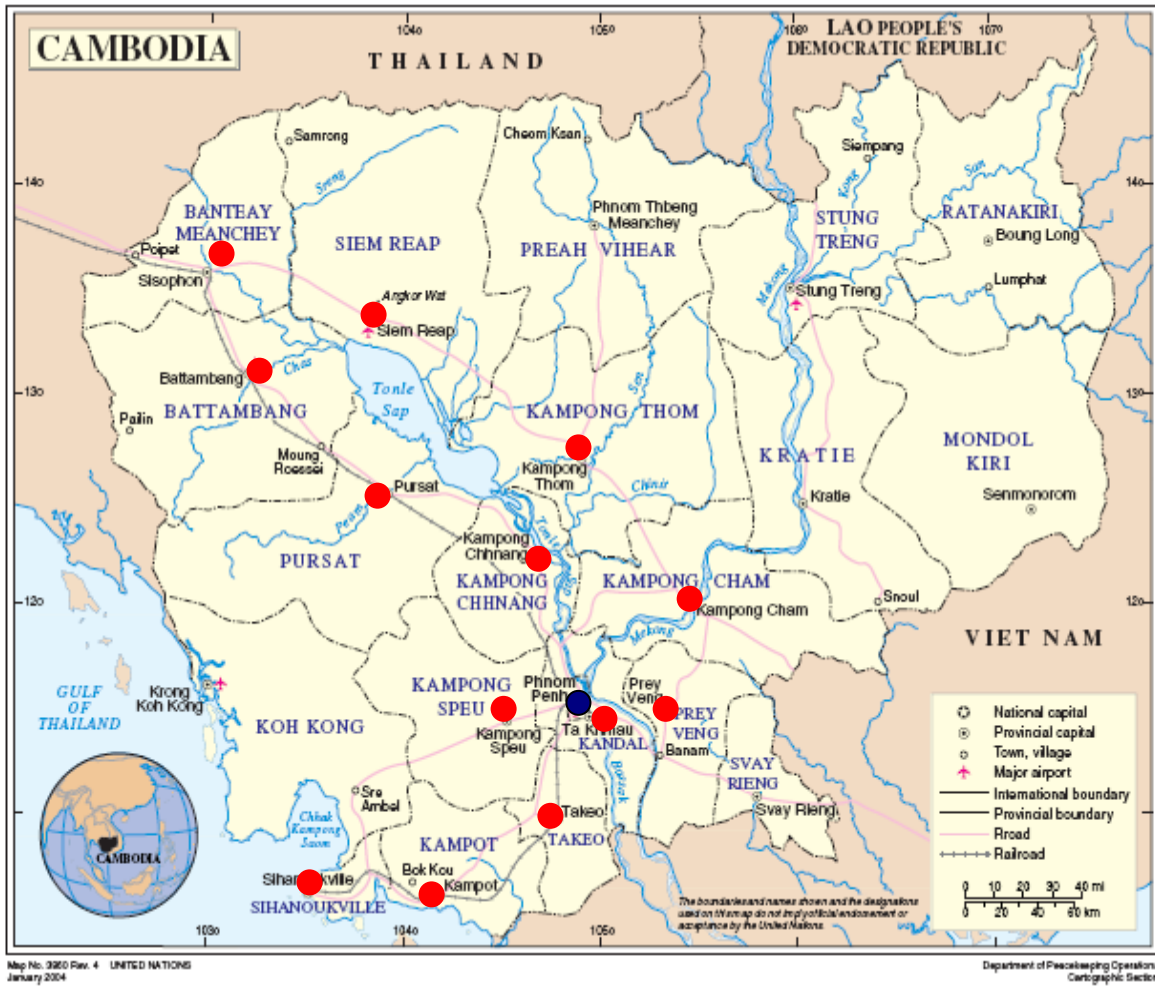
* Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.

Strengths	Opportunities
→ Excellent portfolio quality	→ Access to saving mobilization
→ Steady expansion on the national territory	→ Product diversification
→ Access to international funders	→ Continued access to diversified funding sources
→ Integrated MIS capable of supporting expansion strategy	→ Favourable credit culture

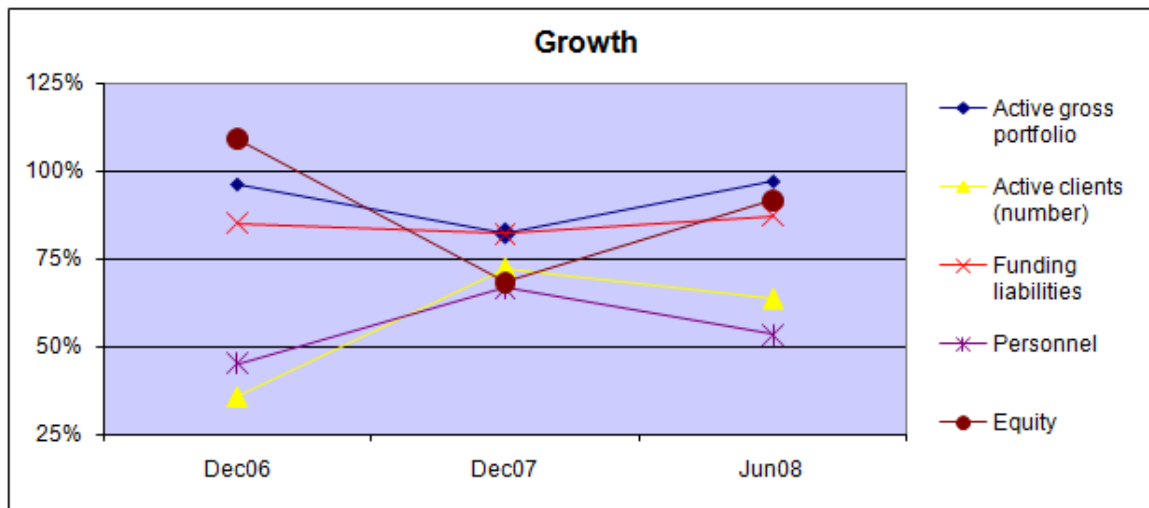
Final opinion

SATHAPANA is one of the pioneer and fastest growing MFIs in Cambodia for individual lending. During the period of analysis the institution registered outstanding growth rate, remarkable profitability, excellent portfolio quality and a good operational structure.

Nevertheless, especially given the very important growth of both portfolio and personnel, capacities and skills of staff - mainly at field level - need to be further consolidated. Potential conflicts of interest could be then generated by the presence of two managers with voting rights in the board of directors. While the internal control system is adequately structured and organized, the risk management function and framework are still a little bit deficient. Although main challenges are represented by the increasingly competitive environment, SATHAPANA could still benefit from a very positive credit culture and growth opportunities. The debt to equity ratio is increasing but it still at a reasonable level, given the financial and strategic support received by the international shareholders.



- SATHAPANA Ltd. headquarters and Phnom Penh provincial branch
 - SATHAPANA Ltd. provincial offices (operating in 14 provinces)
- | | |
|--------------|-----------------|
| Kandal | Kampong Cham |
| Siem Reap | Kampong Chhnang |
| Kampong Thom | Battambang |
| Pursat | Kampong Speu |
| Banteay | Kampot |
| Kampot | Prey Veng |
| Takeo | Sihanouk Ville |



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. Cambodian MFIs is a peer group created and studied by the MIX Market in November 2007. SATHAPANA Ltd. ratios indicated here do not fully correspond to the ratios presented in the report as they are calculated according to the MBB methodology¹. Figures for SATHAPANA Ltd. refer to June 2008 except in the case of average loan balance on per capita GNI which refers to December 2007.

Financial indicators	SATHAPANA Ltd.	Cambodian MFIs	NBFI	Asia Large FSS
Gross Loan Portfolio gross loan portfolio adj for standardised write-offs (US\$)	30,815,881	80,678,223	6,395,958	18,601,212
Average Loan Balance per Borrower on per capita GNI Average loan balance per borrower/ GNI per capita(%)	160%	43%	54.8%	18.0%
Portfolio at Risk > 30 Days outstanding balance of loans overdue > 30days/gross loan portfolio (%)	0.11%	0.2%	2.2%	1.1%
Adjusted Return on Equity AROE adj net operating income after taxes/avg tot equity (%)	17.3%	9.9%	5.1%	12.3%
Portfolio yield Financial Revenue from Portfolio/ Adjusted Average Gross Portfolio	30.9%	34.4%	31.2%	27.8%
Debt/ Equity Ratio adj.tot.liabilities/adj.tot.equity	3.65	1.9	2.6	5.4
Operating Expense/ Loan Portfolio (operating expense + In-Kind donations)/avg gross loan portfolio (%)	12.4%	16.2%	20.8%	14.3%
Borrowers per Loan Officer n. of active borrowers/n. of loan officers	130	387.0	215.7	277
Borrowers per Staff n. of active borrowers/n. of staff	53	192.0	104.4	176

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

SATHAPANA Ltd. presents better than average performance compared to the peer groups (NBFI and Asia Large FSS) and satisfactory performance compared to Cambodian MFIs even if some of the productivity indicators remain to be consolidated. Nonetheless when comparing SATHAPANA to other Cambodian MFIs it is worth remembering that the institution is one of the few focussed on individual lending and thus having almost 100% of portfolio dedicated to individual loans.

Profitability registers at higher levels than all the considered peer groups and concurrently the portfolio quality is excellent and on par with Cambodian MFIs peer group for which this is a common characteristic. The portfolio yield is in line with the peer groups, even if slightly lower than the Cambodian MFIs, although the efficiency in terms of operating expenses is stronger than all members of the peer group.

Leverage is satisfactory and above average for Cambodian MFIs while there is still room for further exploitation of the capital to reach the level of the Asian Large FSS peer group.

Productivity still leaves room for improvement, both in terms of borrowers per Loan Officer and borrowers per staff, even though the concentration in individual lending necessarily entails lower levels for the ratios than group or mixed group lending methodologies. The average loan balance per borrower on per capita GNI results notably higher than the peer group, also in part due to the concentration in individual lending to graduated microbusinesses.

¹ 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 SATHAPANA Ltd. positioning

Institutional background

SATHAPANA Ltd. was established in 1995 as a Cambodian non-government organization (NGO) under the name Cambodia Community Building (CCB), to offer financial and health education services to poor communities². In 1999, CCB adopted a minimalist microfinance approach to focus solely on saving and loan services. Beginning in 2000, the institution began the transformation process into a licensed microfinance institution (MFI) and **in 2003 the institution incorporated as a private Limited Company** registered with the Ministry of Commerce under the new name, Cambodian Entrepreneur Building Limited (CEB Ltd.) **and obtained the license from the NBC to operate as a regulated MFI**. In 2007 the Board of Directors (BoD) in line with the review of the institutional image and the important marketing campaign (launched to attract savers) voted to change the institution's name to SATHAPANA Ltd³ and in late 2008 the institution plans to launch the new name and logo at the grand opening of the new headquarters in Phnom Penh.

Since adopting a minimalist microfinance approach in 1999, **SATHAPANA lending operations** have gradually shifted from village banking group loans to **predominantly individual lending as well as some solidarity group lending** to better serve clients' capitalization needs. In 2005, SATHAPANA began pilot testing public savings deposits in some of the provincial branches. Pending NBC licensure (see chapter 3), the institution plans to roll out savings mobilization to all of the branches and utilize the affordable funding to help support the expansion plans.

Currently SATHAPANA operates through a branch network of provincial and city branch offices (14), district branch offices (18), a service post and the Head Office in Phnom Penh for **a total of 34 offices in 14 provinces**.

As of June 2008, SATHAPANA **total outstanding portfolio stands at US\$ 30.8 million** with a total of **30,050 active borrowers**. Since its inception, SATHAPANA has been financing its growth through a mix of long and short term commercial loans from international investors (see annex 5) and plans to gain access to the local funding market in the short to medium term.

Political and economic 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. Recent general elections held in July 2008 saw the ruling Cambodian People's Party (CPP) retain its leading role in both local and central government in 2008-09 by obtaining over 58%. The biggest opposition party, Sam Rainsy Party, made some gains in rural areas but lost to CPP in Phnom Penh and ended up with around 21% of the vote overall. International election observers reported that the elections were conducted in a generally peaceful manner and are considered legitimate.

Private sector activities have continued to develop in recent years, in particular thanks to easier access for Cambodian **textile products** to American⁴ and European markets and the development of the **tourism sector**. After achieving a **high growth rate of 13.5 % in 2005**, economic activities

Cambodia			
Macroeconomic Indicators	Dec06	Dec07	Jun08
Exchange rate in US\$ (end of period)	4,057.0	3,999.0	4,092.0
Exchange rate variation	-1.3%	-1.4%	0.2%
Inflation rate (end of period)	2.8%	10.8%	26.1%
Inflation rate (average of the period)	4.9%	5.6%	14.2%
Deposit rate	1.8%	1.9%	1.9%
Lending rate	16.4%	16.2%	16.0%
Real GDP growth	10.8%	10.3%	8%*
GDP per head (US\$)	424	466	480

Source: International Finance Statistics, EIU. *WB estimate na = not applicable.

stabilized in 2006, when real GDP grew by 10.8%, due to the increase in agricultural production, the sustained growth of tourism, the continued growth in **garment exports** and the expansion of **construction activities**. Economic growth is dipped slightly to 10.3% in 2007 and is estimated to fall further to around 8% in 2008. Although still impressive, this marks the end of

² CCB NGO was started and operated by a group of Cambodian managers and staff in partnership with GTZ of Germany and World Relief USA.

³ SATHAPANA is the literal translation of Cambodian Entrepreneurs Building into the Khmer language.

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

Cambodia's recent period of double-digit growth and though economic growth will remain notable in 2008-09, the growth pace will continue to slow from the highs recorded in recent years.

Inflation has been kept at a manageable rate in recent years, with annual averages of 4.9% and 5.6% for 2006 and 2007, respectively. Nonetheless, consumer 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. This seems to be confirmed by data from the first half of 2008 which places the rate slightly higher at around 14%.

While the country has registered impressive growth over the past few years, the actual impact on poverty reduction has been poor. Indeed, the **inequality** between the urban area of Phnom Penh and the rest of the country **has tended to swell**. With a **GDP per capita of US\$ 480**, 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** represents a major concern, with only 41% of population having access to an improved source of water supply.

Microfinance industry

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

As of December 2007 there were **17 MFIs operating under licenses** from the NBC and **26** registered as **rural operators** with operations in all 24 provinces of Cambodia. Overall, the Cambodian MF 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 US\$ 470 mil** while savings mobilized totalled US\$ 350 mil. 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 in terms of number of borrowers.

ACLEDA Bank Plc. has nearly US\$ 160 mil in loans and 12 percent of the entire Cambodian banking systems' 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 2007. 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 NBC 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 US\$ 54 mil. The remaining resources are 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 it only collects negative information). In order to meet their specific needs, licensed MFIs established 2004 the **Cambodian Microfinance Association (CMA)**, which aims at supporting the sector by providing training opportunities, policy advocacy, and enhancing information exchange between the different operators. CMA plays an important role in fostering local and international networks, promoting coordination and facilitating conflict

resolution between institutions. Recently, all MFIs within CMA signed a **Memorandum of Understanding about fair competition** that pushing MFIs to facilitate information sharing in order to avoid clients' over indebtedness. While this represents an important step for the sector, other issues remain to be addressed such as the fact that **land titles**, which are utilized by many MFIs in guarantee requirements, **are not fully available**.

Regulation and supervision in microfinance

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 if 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 18th 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 mil and a liquidity ratio of 100%⁵.

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 focuses on capital adequacy and loan performance. Yearly on-site supervision is planned for licensed MFIs.

The 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) and 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 the NBC implemented **new Charts of Accounts**, more similar to the ones of the banking sector. Many MFIs are currently concluding the implementation of the new COA as a requirement to obtain the license for savings mobilization (expected in late 2008/early 2009).

Competition and SATHAPANA market positioning

As of June 2008, **SATHAPANA is ranked 7th in terms of active clients, 3rd in terms of total outstanding portfolio**. Regarding the pilot of public savings products, SATHAPANA is ranked 3rd in terms of number of savers and 1st in terms of savings balance among the sector..⁶

Working within 14 provinces and 103 districts across Cambodia, SATHAPANA registers a **good breadth of outreach** on the national territory, considering the average operational areas of 9 provinces and 54 districts among the 17 MFIs tracked by the CMA.⁷ Moreover, the **variety of financial services** offered by SATHAPANA is in line with the sector and should continue to evolve should the institution be granted the license to mobilize clients' savings.

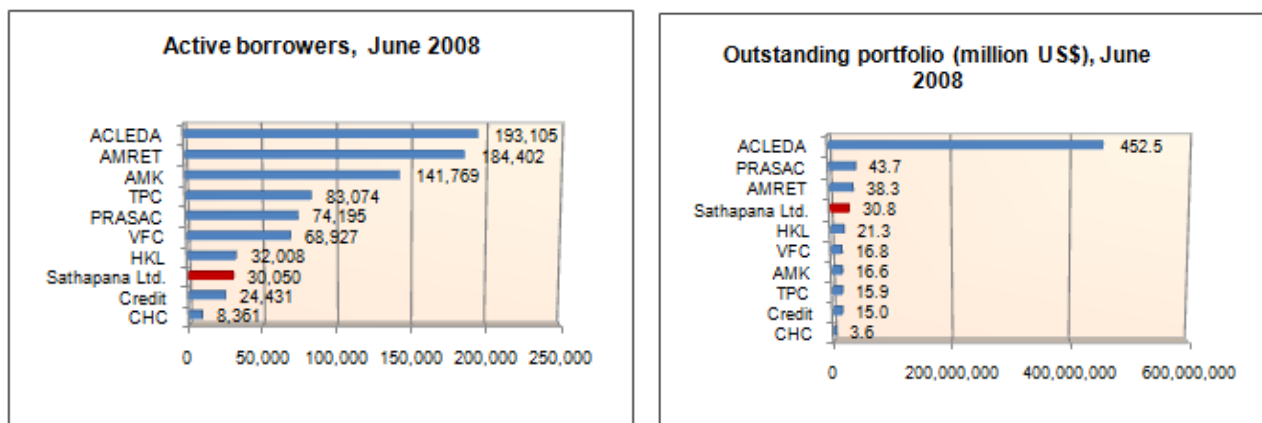
As of June 2008, **SATHAPANA serves 4.5% of the market share of clients** with a portfolio that registers around 14% of the market share. On the other hand, if ACLEDA is included in the figures

⁵ 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).

⁶ .Rankings do not include ACLEDA.

⁷ CMA Microfinance Operator Information as of June 2008.

SATHAPANA Ltd.’s figures fall of 3.5% of clients and 4.5% of the portfolio, respectively. The trend over recent years has been rather steady, with SATHAPANA maintaining its position in the market.



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 in an increasing overlap of geographic coverage, with previously specialized MFIs starting to offer a better variety of credit products (both individual and group loans) in order to diversify their portfolios. The **main competitors for SATHAPANA are HKL, PRASAC and ACLEDA**. HKL represents SATHAPANA’s strongest competition at the moment as the MFIs share a similar market segment and lending methodology. The competition is particularly evident in urban Phnom Penh where there is high saturation with many MFIs operating on the market. All the same, SATHAPANA’s continued expansion strategy to new provinces and within the current provincial operations help to ensure its access to new and unsaturated markets.

SATHAPANA monitors demand and competition in the market through the CMA publications as well as observations on the branch level and a specific analysis carried out by the Operations

Main competitors

Institution	Gross portfolio (US\$)	No. of provinces	Active borrowers	Interest rate	Guarantees
Sathapana Ltd.	30,861,437	14	30,050	2% to 3.5%	Fixed Assets, Group Guarantee, Personal Guarantee
PRASAC	43,700,880	17	74,195	3% to 3.5%	Fixed Assets
AMRET	38,363,148	13	184,402	3% to 3.5%	Fixed Assets
HKL	21,290,078	10	32,008	2% to 4%	Personal Guarantee, Collateral
VFC	16,756,354	11	68,927	2% to 4%	Group Guarantee, Guarantors, Collateral
AMK	16,578,395	18	141,769	2% to 3.5%	Fixed Assets
TPC	15,851,417	9	83,074	3%	Group Guarantee

Manager and department and submitted to the BoD 2-3 times per year. The analysis by the Operations Manager includes a specific review of interest rates, fees and penalties of five main competitor MFIs. In addition, client satisfaction is informally monitored at the branch level.

The combination of high competition and the absence of an effective information exchange bring about a **risk of client over-indebtedness**, with a potential negative impact on the portfolio quality of MFIs. As previously mentioned, the CMA is working to develop a Code of Ethic for all the MFIs and recently produced a MoU on fair competition in order to combat the issue. At the same time, the 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 SATHAPANA can be considered the following:

- quick loan disbursement and customer service;
- more flexible guarantee requirements;
- strong public image.

In contrast, the **competitive disadvantages** of SATHAPANA include the fixed loan fees attached to lending products and the lack of client incentives such as discounts or refunds upon good repayment or death. Compulsory savings for certain products is also a deterrent for some SATHAPANA clients; however, the requirement is in the process of being phased out.

The central challenge for SATHAPANA in the near future is to strengthen operations to meet NBC requirements for the savings mobilization license and in order to be able to roll out the savings product throughout the entire branch network.

2. Governance and operational structure

Ownership and Governance

SATHAPANA Ltd. originated as a local Cambodian microfinance NGO in 1995. In 2000 the institution began a transformation process whereby in 2003 it became licensed by the Ministry of Commerce as a private limited company⁸ and by the National Bank of Cambodia as a regulated microfinance institution. The initial ownership was divided between two shareholders, with the original NGO (Cambodia Community Building)⁹ holding an 81% share and the staff association, CEBEC¹⁰, holding 19% of total shares. In 2005, ShoreCap International came in as the first international shareholder by acquiring 43% of the institution. The following year (April 2006), FMO and Triodos also entered the equity of the institution. As of June 2008, the **paid in share capital stands at US\$ 2.23 million** and the ownership structure is composed of 33.6% held by ShoreCap, 23.4% held by CCB NGO, 18.5% held by FMO, 18.5% held by Triodos and 6% held by CEBEC. An increase in share capital is foreseen in the short term in order to meet the minimum capital requirements for savings mobilization through a possible increase in current shareholder equity and the utilization of subordinated debt. In the medium term ShoreCap plans to sell its stake to a pair of local banks while there are no further plans to open the capital structure.

The **main governing body is composed of seven members, out of which five directors represent the shareholders in CEB and two independent directors**. Three are internationals and serve the interests of ShoreCap, FMO and Triodos while the remaining directors are all locals: two independent directors plus the GM representing the CCB NGO stake and the Deputy GM representing the interests of the CEBEC. The BoD is composed of members with strong professional backgrounds in finance, microfinance and audit who serve on a remunerated basis¹¹ and place a strong emphasis on the financial sustainability and profitability of the institution while also considering the social mission. Nevertheless, **the presence of two members of the management team on the BoD with full voting rights represents a relevant risk to the institution**. Best practice in corporate governance dictates the separation of functions between the BoD and the management in order to maintain adequate control of the structure among other things. While the GM's presence on the BoD and position as chairman have been encouraged by the shareholder's in the past in order to sustain the commitment of local directors, the BoD is currently working to appoint a different BoD chairman. A search has been carried out and an internal BoD director and as well as an external candidate have been identified so that the issue may be again discussed at the upcoming BoD meeting.

The BoD is structured into two committees: an **Audit Committee and a Risk Management Committee**. The committees were both established in 2006 and meet quarterly before the regular BoD meeting. It is worth mentioning that until recently, both committees were composed of all members of the BoD as well as members of the management team. From July 2008 it was decided to change the committee structure and limit membership in each committee. The Audit Committee is now composed of 2 directors (the FMO representative and an independent director) and the Internal Auditor. The Risk Committee is now made up of a director (the Triodos representative), and the Operations, IT and Financial Managers.

The BoD committees receive regular reports from the management team on the progress of the institution as well as issues to be addressed at the BoD level. The Audit Committee concerns itself with the assessment and monitoring of the internal audit function and the follow through with internal audit recommendations. Moreover, within the BoD as a whole a particular emphasis has been placed on strengthening the IA function within SATHAPANA in recent years and remains one

⁸ Licensed under the name Cambodia Entrepreneurship Building Ltd. (CEB).

⁹ Eventually, CCB NGO was registered as an NGO trust with the Ministry of Interior that has no activities except the investment in CEB Ltd.

¹⁰ Cambodian Entrepreneur Building Employee Company (former staff association of CCB NGO) registered with the Ministry of Commerce in 2003 as a private limited company with approximately 85 employees in participation.

¹¹ As of July 2008, Directors receive an attendance fee of US\$ 500 for regular meetings and a small stipend for committee meetings.

of the BoD's central objectives. The Risk Committee, on the other hand, focuses on financial, operational and IT risk management and control within the institution. Two departments present a risk analysis related to their functions at each of the committee meetings.

Board of Directors

Members	Charge	Background and current profession
Dr. Bun Mony	Chairperson	Dr. Mony is the GM of Sathapana Ltd. He joined the board in 1996 and has been the chairman since 2001. Dr. Mony served as the founder and executive director of CCB NGO in 1995 before shifting his role to GM of CEB. Dr. Mony holds a B.B.A., a MBA from Utara University of Malaysia and a PhD in Business Administration from Preston University, USA.
Mr. Davis Golding	Director	Mr. Golding currently serves as executive vice president and chief investment officer of ShoreCap International, Ltd. He has 25 years experience in finance service, mergers and acquisitions and executive management. Mr. Golding obtained a B.B.A. from Duke University.
Mr. Michael Th. Moormann	Director	Mr. Moormann is a consultant with extensive experience with ABN Amro worldwide. His past positions include regional manager and country manager for ABN AMRO in several countries including Vietnam, Sri Lanka and the Philippines.
Mr. Eelco Baan	Director	Mr. Baan has more than 15 years experience in SME development, particularly in rural areas. Since 1999, he has worked with SNV Netherlands in Cameroon, Nepal, and Laos where he has served various roles as a senior microfinance advisor. Mr. Baan holds a MSc in Business Administration from Erasmus University, the Netherlands.
Mr. Var Muth	Director	Mr. Var Muth is the Deputy GM of SATHAPANA and serves as the CEBEC representative to the BoD. He has worked at SATHAPANA since 1997 and has served as Deputy GM since 2006. Mr. Muth holds a MBA from Norton University in Cambodia and a Medical Degree from the Faculty of Medicine in Cambodia.
Mr. Hun Monivann	Director	Mr. Monivann is an entrepreneur and a member of the Siem Reap Chamber of Commerce in charge of finance. He has served the last six years as finance director of Sepakor Angkor Co., Ltd. (Artisans d'Angkor). He began his career as a senior auditor at Ernst & Young, Phnom Penh. He holds a B.A. in Management specializing in accounting from Maharishi Vedic University, Cambodia.
Mr. Phai Touch	Director	Mr. Touch is currently the internal audit manager of AZ Group. He has extensive experience in finance, credit and internal audit management in various private companies. Mr. Touch holds a professional accounting degree, a Master of Finance from Australia and a PhD in Business Administration from Preston University, USA.

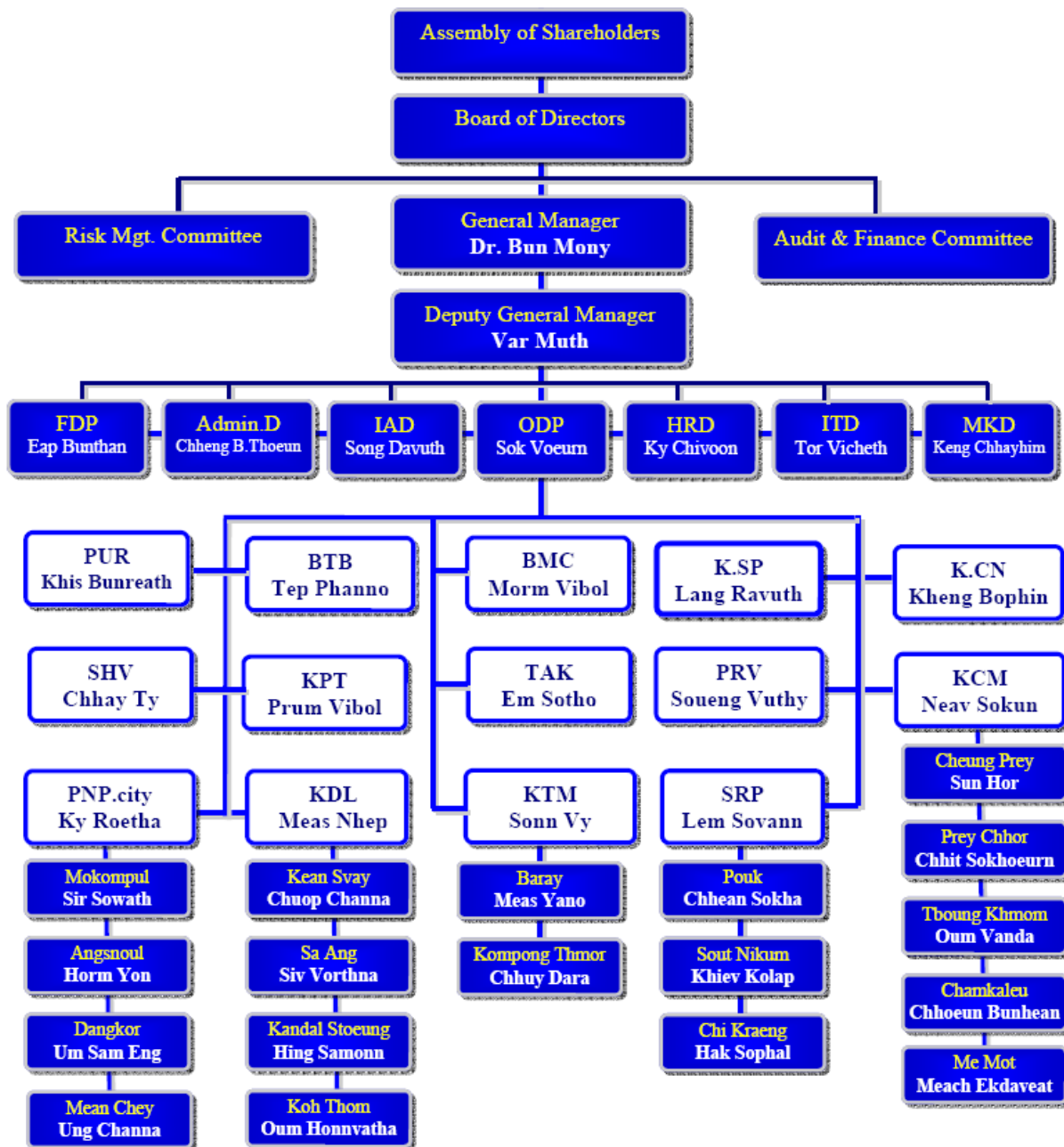
The BoD conducts an **annual performance review of the GM** every October that excludes the participation of the GM and Deputy GM BoD members; however, the BoD does not undertake any self-assessment exercise to date. The communication flow between the management and the BoD is strong and continuous and is undoubtedly facilitated by the presence of two management team members as directors.

Organisation and structure

SATHAPANA Ltd. currently operates through a **network of 33 branches** and one post office which covers an area of 14 provinces and 103 districts of Cambodia. Since its transformation into a commercial institution, SATHAPANA has realized a steady expansion of the branch network on the national territory, including the opening of 3 new provincial branches in March 2008. Geographic expansion decisions are based on the analysis of potential market areas through market surveys and focus group discussions with clients carried out by the operations department.

In **2009, SATHAPANA plans to open 5-7 new district branches** within the current provinces of operations.

SATHAPANA's organizational chart



SATHAPANA utilizes a functional organizational structure that has been revised in late 2007 in order to include the recently established Marketing Department for the purpose of supporting the future growth of the institution and strengthening the operations structure.

The top management of the institution meets together weekly as the **Executive Team** in order to discuss relevant policy issues, problem solving and strategy. The more operational **Management Team** also includes the branch managers of the structure and comes together for specific training or issue meetings. An ad-hoc committee was also formed in 2008 to design and implement the upcoming re-launch of the institution in October 2008 and is headed by the Deputy GM and includes staff from throughout the structure.

Human Resources

As of June 2008, **SATHAPANA counts on a staff of 569 personnel**, out of which **232 are Loan Officers** (118 new in 2008), with a staff allocation ratio of 40%. Increases in personnel have registered notable growth in recent years, rising from 45% in 2006 to nearly 67% in 2007 and 53%

in the period July 2007 to June 2008. While the increase in personnel is a necessary element of the overall expansion strategy, the potential of **over aggressive growth in personnel represents a potential risk for the institution.** Even if, the SATHAPANA

Personnel	Dec06	Dec07	Jun08
Total	279	465	569
Loan officers	126	204	232
Management	42	58	71
Other staff	153	261	337
Staff allocation ratio	47%	44%	41%

staff orientation and training policies as well as the ongoing assistance for branch level staff provided by members of the HO operations department team on field visits help to mitigate the risk, this certainly impacts the overall operating costs and an increased efficiency could be achieved with more professional and skilled field staff.

SATHAPANA activities are guided by an **experienced and dedicated management** team that relies on the support of a young field staff. At the top management level, many of the staff has long experience in the microfinance sector (also within other MFIs) as well as training both locally and abroad. Branch managers at the field level are often internally promoted from prior positions within the institution. Considering the number of new field staff joining the institution regularly and their limited experience, **the capacity and skills of the field staff still needs to be consolidated.** Overall staff turnover stood at 13% in 2007, up from 12 % in 2006. Considering the strong competition of the Cambodian labor market and the specific competition for human resources within the microfinance sector, the results are satisfactory.

As of June 2008, the Human Resource department is composed of 6 staff including the HR Manager and HR Officers. The department organizes all of the SATHAPANA recruitment and training activities and charged with the development and retention of human resources to achieve the long-term strategy. Job descriptions are available for all of the staff and the most recent **HR Manual update was undergone in April 2007.**

Staff recruitment is spearheaded by the HR Manager and is done on an inventory basis, although Loan Officer recruitment is often carried out in large cohorts (e.g. 67 new LOs in June 2008). All new staff participates in a 3 week orientation training at the HO followed by on the job training for LOs and some additional technical training for operations and finance department staff. A probationary period of 3 months is followed for skilled staff according to Cambodian law. Internal promotion from among the staff is encouraged although some of the top management positions have come from outside the institution. Currently the HR Manager is working to develop a more formalized career path for staff within the organization.

Staff appraisal is carried out annually by the relevant supervisors and utilizes both quantitative and qualitative indicators. At the annual retreat a training assessment based on staff assessment interviews is also carried out. **Staff training is offered based on the annual staff appraisal** as well as special issues as needs arise, **even if training activities are yet to be professionalized** and most external training is only available for top management with many years of service. External trainings accessed to date include courses and workshops offered by the CMA, as well as a few international trainings undertaken by members of the top management (for example the Boulder Institute in Turin).

SATHAPANA staff benefits are good and are based on social policies outlines in the Code of Conduct and Health and Safety guidelines. The **salary levels are slightly above average for the industry** and are monitored through the CMA industry survey. Loan Officers salary is based on an **incentive scheme** that includes a base pay and individual incentive pay based on the amount of interest income collected that is discounted for the amount of portfolio at risk. All other staff (as well as LOs) receive an **annual bonus** of one month salary as well as bonuses connected to specific Cambodian festivals based on the annual profit of the institution. **Other staff benefits include** medical benefits, a staff loan fund available to those employed over 2 years at SATHAPANA, participation in the employee share ownership programme (CEBEC Ltd.), and partial scholarships (75% of tuition fees) for skills training courses to employees in the upper staff categories.

Internal control and risk management

SATHAPANA has established some of the basic elements of a risk management framework through the adoption of a risk management policy, the adoption of some NBC prudential levels in financial management and the continual strengthening of the internal audit function. Nevertheless, the **risk management is improvable**, particularly in view of the upcoming roll-out of savings mobilization on a large scale after the licensure from the NBC. While the BoD Risk Management Committee has recently been strengthened by the consolidation of its membership, more formalized procedures and monitoring practice is yet to be established. Moreover, there is not yet an ALCO Committee at the institutional level. It is worth mentioning that in regards to internal control, operations department staff also makes regular visits to the field offices in order to monitor and to strengthen compliance with policy and procedures.

The Internal Audit Manager and function is independent and under the direct supervision of the BoD through the Audit Committee. The **IA function was created in 2003 and significantly strengthened in 2006** upon the entry of the two new international shareholders. Indeed, the achievement of a strong internal audit function remains a central objective of the BoD which plans to have an external assessment performed on the SATHAPANA IA department in order to assess the adequacy of the function and identify areas for improvement. The IA Manager is an experienced auditor¹² and presents a good knowledge of the departments role and needs; on the other hand, the rest of IA Officers directly responsible for the visits to the branches and to perform the audit (10 in the department) have no prior audit experience. As a consequence, the Audit Department still need to be consolidated.

The SATHAPANA Internal Audit Policy was formulated in 2007 by external consultants and recently updated and reviewed by the IA Manager. The policy sets up in-depth guidelines for the duties and responsibilities of the IA department, as well as specific guidelines for the various types of audit to be carried out. On the other hand, currently **no annual audit plan is formulated**, but rather, plans are made on a quarterly basis by the IA Manager. This lack of more long-term planning represents a relevant weakness to the institution that the IA Manager is aware of. Regular **audits are performed 2-3 times per year at each branch**, with the larger branches (Phnom Pehn, Siam Riep) visited more often (3-4 visits). Special investigations are also carried out by the department with although spot checks are not institutionalized and have been carried out only once to date.

Regular audits are comprehensive and include audit of cash, collection, MIS, operations and savings and are comprised of loan file reviews of 50-100 clients as well as client visits related to credit review, cash collection and write-off. Audit visits are carried out by a team of 3-4 IA Officers with the assistance of the IA Manager when necessary.

Accounting and external audit

Financial statements for the period of analysis (Dec 2005, Dec 2006, Dec 2007) have been externally audited by **KPMG Cambodia**. The auditors have expressed an unqualified opinion on SATHAPANA's financial statements. SATHAPANA's accounting policies and reporting standards are in accordance with Cambodian Accounting Standards, accounting principles generally accepted in Cambodia and the guidelines issued by the National Bank of Cambodia. Audits have been conducted **in accordance with Cambodian Standards on Accounting and IAS**.

Internal financial statements are produced both in US\$ - which is its functional currency - and KHR - which is the reporting currency for the NBC - and the audited statements are reflected in both currencies for the year as well. Internal financial statements and reporting are produced on a monthly, quarterly and yearly basis and submitted to the BoD, NBC and various other stakeholders and seem to be produced in an efficient manner. Recurrent issues arising from external audit of operations management letter include the lack of cash insurance and the non-compliance with the NBC Prakas on foreign currency exposure requirements (see chapter 5).

¹² He previously worked for 6 years in KPMG Cambodia.

Management Information System

SATHAPANA utilizes **Micro Bankers for Windows (MBWin) as an integrated LTS and GL system**. The system was installed in 2005 with the support of ShoreCap Exchange (USA) and Novib (Oxfam Netherlands) to replace the prior separate Lotus System and IDEAS accounting system.

Nine of the 14 Provincial Branches are currently **connected to the HO through a Virtual Private Network (VPN)** and upload the full database of information collected also from the District Branch level on a weekly and monthly basis. Each branch has a standalone database which it utilizes to send email reports on loans disbursed, cash flows and reconciliation, etc. to the Operations department and GM on a daily basis. Monthly, the database information is collected at the Provincial Branch level and uploaded through the VPN where it is consolidated manually by the system at the HO. Accounting is centralized and the consolidated information from the branch level is sent weekly to the HO, with the branches only responsible for basic bookkeeping activities.

Reporting is customized by the IT department and the **system automatically produces daily, weekly, monthly and quarterly reports** both for internal use and for submission to the NBC and other relevant stakeholders. Access to reports is dependent on the staff function and limits staff access outside the management level.

IT security systems and management in terms of backups and password protection is good.

Branches carry out a daily backup activity whereby information is both kept in a safe at the institution as well as a copy taken home with the Branch Manager. Weekly, District Branches update the backup data to a CD which is submitted to the associated Provincial Branch. Provincial Branches then upload the information on the VPN system on a weekly and monthly basis (9 of the 14 Provincial Branches are online) which is then uploaded to the HO. At the HO level, data is kept in three separate systems while the IT Manager also maintains a copy offsite. System access is controlled by individual user ID's and password protection which classifies different levels of accessibility. Passwords are changed every three months based on an automatic prompt from the system.

Overall, the integrated MIS currently utilized by SATHAPANA represents an adequate foundation for the upcoming transformation into a public savings mobilizing institution.

3. Lending and saving operations

Lending products

SATHAPANA Ltd. provides **Business, SME, Balloon and Group loans to urban and rural low income clients** mainly for enterprise development requirements. SATHAPANA aims to provide poor borrowers and especially women with the funds with which to expand businesses and enhance living standards in anticipation of future income. To this end, the institution helped pioneer the individual lending methodology in Cambodia in the late 1990s. Individual loans remain the predominant methodology at the institution, as **Business Loans are the core lending product**, while SME and Balloon loans represent smaller portions of the portfolio. Solidarity group loans and loans to staff make up a minor percentage of lending operations. Depending on the preference of the client, loans can be given in both local riel (KHR) and US\$ currencies.

The conditions of the loan products are presented in the table below:

Credit products					
	Business Loan	SME Loan	Balloon Loan	Staff Loan	Group Loan
<i>Credit methodologies</i>	Individual	Individual	Individual	Individual	Solidarity Group
<i>Currency of the credit</i>	KHR and US\$	KHR and US\$	KHR and US\$	US\$	KHR and US\$
<i>Type of interest</i>	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance
<i>Min. interest rate (%)</i>	2.00%	2.00%	2.00%	1.00%	3.00%
<i>Max. interest rate (%)</i>	3.50%	3.50%	3.50%	1.00%	3.50%
<i>Description of commissions</i>	ranges from US\$ 1 to US\$ 5 or equivalent	ranges from US\$ 10 to US\$ 50 or equivalent	ranges from US\$ 1 to US\$ 5 or equivalent	None	US\$ 1 or equivalent
<i>Min. credit amount (US\$)</i>	\$100 or equivalent	\$5,000 or equivalent	\$100 or equivalent	\$100	\$100 or equivalent
<i>Max. credit amount (US\$)</i>	\$5,000 or equivalent	\$10,000 or equivalent	\$5,000 or equivalent	12 months of net salary	\$350 or KHR1.5 ml
<i>Max credit amount for the first loan (US\$)</i>	\$5,000 or equivalent	\$10,000 or equivalent	\$5,000 or equivalent	12 months of net salary	\$350 or KHR1.5 ml
<i>Average credit amount (US\$)</i>	\$1,200	\$7,000	\$1,000	\$3,500	n.a.
<i>Min. loan maturity (months)</i>	1 month	1 month	1 month	1 month	1 month
<i>Max. loan maturity (months)</i>	18 months	24 months	12 months	24 months	12 months
<i>Average loan maturity (months)</i>	14 months	18 months	8 months	24 months	n.a.
<i>Periodicity of interests payments</i>	Monthly	Monthly	Monthly	Monthly	Monthly
<i>Periodicity of principal payments</i>	Monthly	Monthly	At maturity date	Monthly	Monthly
<i>Grace period (months)</i>	No	No	No	No	No
<i>Collaterals / guarantees</i>	Land or house collateral valued at least 200% of loan size and/or guarantor.	Land or house collateral valued at least 200% of loan size and/or guarantor.	Land or house collateral valued at least 200% of loan size and/or guarantor.	Loans \geq 40% of 12 months net salary must be secured by registered land title certificate to extent permitted by loan mortgage signed by village and commune chief acknowledging the debt.	Group guarantee and land or house collateral from one group member.
<i>Obligatory savings*</i>	Max. 5% of loan amt in KHR or max. 2% loan amt in US\$; however, Branch Manager can waive the requirement upon request.	Max. 5% of loan amt in KHR or max. 2% loan amt in US\$; however, Branch Manager can waive the requirement upon request.	Max. 5% of loan amt in KHR or max. 2% loan amt in US\$; however, Branch Manager can waive the requirement upon request.	Personal Passbook Savings account with SATHAPANA must be opened for the purposes of receiving salary and making repayments by Direct Debit.	Max. 5% of loan amt in KHR or max. 2% loan amt in US\$; however, Branch Manager can waive the requirement upon request.

* will be phased out by the end of 2008. n.a. not available

Over **80% of the total outstanding portfolio is concentrated in the Business Loan** product as of June 2008 while concurrently it represents 83% of SATHAPANA's total borrowers. The Business Loan product is exclusively for the working capital and investment needs of entrepreneurial 'medium-poor' women and men to expand and/or diversify their micro-businesses. Clients are required to have a successful business track record of at least one year. The strong portfolio concentration in the Business Loan product has been consistent over the period of analysis, even if it has registered a decrease since 2006 (around 90% of borrowers and portfolio as of Dec 2006) due to the growth of the other individual lending products.

The **SME Loan** product was introduced in 2006 to respond to market demand from successful graduating Business Loan clients with higher capitalization needs on longer loan terms. In terms of number of borrowers, the SME product has registered a slight growth in the period of analysis, up from 1% in 2006 to 2% as of June 2008, as well as growth in terms of portion of the portfolio, up from 9% in 2006 to 12% as of June 2008.

The **Balloon Loan** was introduced in 2007 as a product aimed at agricultural clients for crop production and agricultural products in need of a bullet repayment schedule that allows them to repay the principal at the end of the loan period. The product has seen a steady growth to date and in 2007 accounted for around 4% of the portfolio and total borrowers, while as of June 2008 counts **6% of total borrowers and 5% of the total portfolio**. The product is currently limited at 5% of the total portfolio by policy as it is a higher risk product; nevertheless, the rate will be allowed to increase once SATHAPANA staff gain more experience with the product to ensure adequate risk mitigation.

The **Staff Loan** is meant as an incentive to SATHAPANA staff as part of their benefit plan. According to policy, SATHAPANA should set aside a maximum of 5% of the total outstanding portfolio to provide medium term loans to interested personnel of the institution.

The **Group Loan** product is primarily for working capital and investment needs of entrepreneurial poor women to expand and/or diversify their infant micro business or income-generating activities. Group members come together from local communities to form solidarity groups of 2-8 members in order to gain access to the loan. In addition to group liability for the loan, at least one member must present collateral as a guarantee as well. The Group Loan represents a minor portion of the portfolio (1% as of June 2008); although due to the nature of the methodology presents a stronger portion of the number of borrowers, standing at 9% as of June 2008. According to SATHAPANA policy, the Group Loan product is limited to 10% of the total portfolio; however, there are currently plans to phase the product out by the end of 2008.

SATHAPANA is currently considering **further product diversification into services such as revolving credit lines and overdraft facilities**; however, no set timeline for the new product roll-out has been defined and the introduction of new products will be based on its ability to generate a profit. In order for a new loan product to be introduced, it must generate sufficient return to cover all costs, including appropriate risk margin, plus a profit margin for financial reserves.

Lending procedures

In general, SATHAPANA Ltd. relies on **updated and current Credit policies and procedures** for its lending activities, even if there is some room for improvement, particularly in regards to **policy for the solidarity group loan product which results inadequate**. Since the majority of the portfolio is now concentrated in individual lending, not enough attention has been paid to the particulars of the solidarity group lending methodology which still represents a small portion of the portfolio. Nonetheless, the institution plans to phase out the product in the near future which may negate the need to develop more adequate and sound policy and procedures for the product.

The SATHAPANA **credit process is quick and slightly better than the sector average**, taking on **average 1-3 days for the disbursement of individual loans** and only slightly longer in the case of group loans. Different loan application and evaluation formats exist for the different loan products and collaterals are assessed by the LOs. Group Loan appraisals concentrate on the client's character and the current cash flow of the household and business. For individual loans,

the evaluation of the client's ability to repay is based on a cash flow analysis of the business and on the collateral which represents 200% of the value of the loan. Nevertheless, **the assessment of the client repayment capacity is improvable** in terms of both the cash flow and collateral analysis. Indeed, within current practice **the Branch Manager verifies and visits most clients**, which represent a potential bottleneck in the credit process. On the other hand, capacity building among the LOs to strengthen the initial client assessment should allow for a more delineated credit process that would free up the BM from making individual checks on each client. SATHAPANA operations department staff from the HO is systematically working with LOs in the field to strengthen their client assessment capacity – especially in recently established branches.

Loan approval takes place within a three tiered system whereby according to policy, Head Credit Officers approve loans up to US\$3,000 or equivalent, Branch Managers approve loans up to US\$5,000 or equivalent, and a Credit Committee¹³ at the HO level approves loans from US\$ 5,000 to 10,000 or equivalent. In practice, the Branch Manager visits and personally approves the majority of clients (see above) which represents a potential bottleneck in the credit process.

Pre-termination of loans is allowed under SATHAPANA policy and determines that the client will be charged the interest from the start date of the loan until the half of the loan term agreement.

Client monitoring is performed at least once a month for individual clients according to SATHAPANA policy and entails an evaluation of the use of loan funds for investment, the repayment status and the security of the deposited collateral. Follow-up for delinquencies takes place immediately by telephone call or personal visit to the clients and client arrears reports are distributed to LOs daily at the field level, resulting in successful control over delinquencies to date. In addition to the regular visits by the LOs, Branch Managers and HO operations staff makes periodic visits to clients in order to check up on activities of the LO.

Cash handling and transport represent a risk in SATHAPANA operations that has been consistently identified by the external auditors. To date, SATHAPANA has had no cash insurance to adequately protect against possible theft or misappropriation of cash. Nevertheless, the management is aware of the risk and is working to identify an insurance provider that could provide an affordable service. Moreover, SATHAPANA sets specific policy on cash limits by branch – depending on the volume of portfolio and amount of savings - and in transport and maintains a bank account in nearby ACLEDA branches to deposit daily excess of cash deposited to the bank.

Collaterals and accessibility

Initially, SATHAPANA offered the community bank loan model to enhance clients' accessibility to loans through joint liability. Upon the introduction of individual lending in 1998, however, and its subsequent dominance of the portfolio, **accessibility to loans offered by SATHAPANA is limited to those able to offer collateral in the form of house or land**. Moreover, even in the small percentage of the portfolio still allocated to group solidarity lending, at least one group member is required to provide collateral in addition to the joint liability guarantee in order for the group to gain access to credit.

The collateral requirement for SATHAPANA loans varies in relation to the loan size and credit risk. In general, **land or building collateral valued at least 200% of the loan size is required** in addition to a personal guarantor. The collateral must be secured by a registered land title certificate to the extent permitted by the loan mortgage and signed by the local commune leader or provincial land title department to acknowledge to mortgage. These certificates are then held by SATHAPANA in the vault of the clients' local branch. The **personal guarantor** or co-borrower is usually the client's spouse who must agree in writing to personally guarantee the loan and sell the deposited collateral to realize payment if necessary.

¹³ The Credit Committee is made up of the Deputy General Manager, the Operations Manager and the relevant Branch Manager.

SATHAPANA LOs are responsible for the evaluation of collateral and the institution applies a prudential policy on the use 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. Nevertheless, SATHAPANA's excellent portfolio quality as well as the lengthy and bureaucratic procedures connected to legal cases has ensured that cases of clients brought to Court are very rare.

Savings and other banking services

SATHAPANA began a limited design and pilot testing of voluntary savings products in 2005. In April 2007, **two public savings deposit products**, the passbook account and the fixed deposit account, were rolled out in provincial branches such as Kandal, Phnom Penh, Siem Reap, Kampong Cham and Kampong Thom. The **passbook deposit** is meant for clients who wish to save small amounts of money (min. US\$5 or equivalent) while the **fixed term deposit** is meant for clients with a larger capacity to save (min. balance US\$100 or equivalent). Both products offer competitive interest payments in both US\$ and KHR currency.

As of June 2008, SATHAPANA registers **19,394 active savers** of which 9,965 hold voluntary savings accounts (of which only 52 are fixed deposit). **Total savings as of June 2008 is nearly US\$ 1.9 million**, of which over US\$1.6 million is voluntary savings. For the time being, SATHAPANA has delayed active savings mobilization while awaiting full approval and licensure of their application from the NBC.

Savings products		
	Passbook deposit	Fixed term deposit
<i>Currency of the deposit</i>	KHR or US\$	KHR or US\$
<i>Min. interest rate (%)</i>	4.0% p.a.	4.5% p.a.
<i>Max. interest rate (%)</i>	4.0% p.a.	8.5% p.a.
<i>Minimum accepted balance</i>	US\$ 5 or equivalent	US\$ 100 or equivalent
<i>Term</i>	n.a.	1, 3, 6, or 12 months
<i>Periodicity of interest repayments</i>	monthly	monthly
<i>Service fee</i>	US\$ 5 per year for dormant account (1 year without transaction) and US\$ 2 for those below maintaining balance	None, however a 4% per annum is applied if account is pre-terminated
<i>Withdrawal policy</i>	At any time during office hours	Notice be given two days to pre-terminate
<i>Penalty in case of early withdrawal (if applicable)</i>	US\$ 5 if closed within one month	US\$ 10 if closed within one month
<i>Withholding tax</i>	4% on interest earned	6% on interest earned

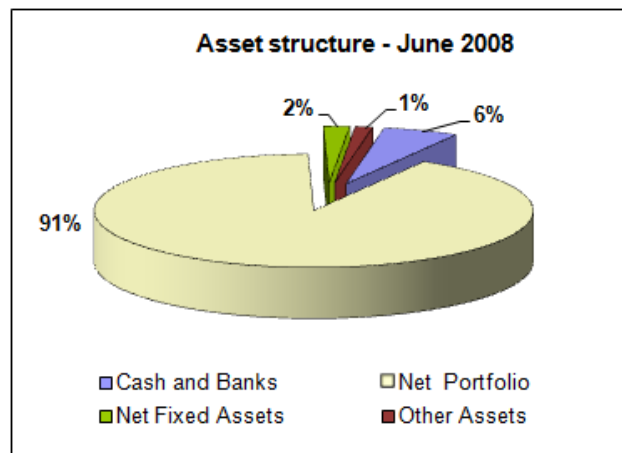
n.a. not applicable

While SATHAPANA hopes to utilize the mobilization of public savings as an affordable and long term refinancing source to support its expansion plans, **the pending license as a deposit-taking institution from the NBC still represents a relevant risk to the institution** should there be a delay in the licensing process that would affect SATHAPANA's strategic growth strategy. The SATHAPANA management is aware of the risk and is working diligently to achieve full compliance with NBC requirements, including the installation of the new Chart of Accounts, and plans to receive the new license by late 2008 or early 2009.

4. Assets structure and quality

Assets structure

SATHAPANA **net portfolio stands at 91% of total assets** as of June 2008 which represents a strong concentration into the core business and a relatively stable figure over time (94% in 2007, 93% in 2006 and 90% in 2005, respectively). **Cash and banks stand at 6%** as of June 2008, down from the 9% registered at June 2007; however, up from the 3% registered at year end December 2007. Average liquidity stands at a satisfactory 5.2% and this reflects SATHAPANA efforts to maximize profitability through active liquidity management. Net fixed assets register at 2% of the asset structure while the remaining 1% of assets includes prepayments and prepaid insurance.



Portfolio structure

As of June 2008, SATHAPANA total **outstanding portfolio stands at over US\$ 30.8 million**. Over the period of analysis portfolio grew at very important rates: it grew 97% in the period July 2007 to June 2008, 82% in 2007 and 96% in 2006.

Over 80% of the portfolio is concentrated in the primary individual Business Loan product while only around 1% of the portfolio is distributed to Group Loans. In terms of total number of clients, the Group Loan registers 9% of clients as of June 2008, which represents a steady portion recent years (8% in 2006 and 10% in 2007, respectively). Over the period of analysis the share of

Portfolio features	Jan06-Dec06	Jan07-Dec07	Jul07-Jun08
Gross outstanding portfolio (US\$)	12,326,795	22,455,107	30,831,233
Business Loan	11,084,070	19,475,312	24,716,470
SME Loan	1,052,888	1,550,787	3,843,218
Balloon Loan	0	902,133	1,616,808
Staff Loan	39,396	161,522	277,329
Group Loan	150,440	365,353	377,408
Growth of active gross portfolio	96.2%	82.2%	97.0%
Average disbursed loan amount (US\$)	860	1,130	1,287
Av. disbursed loan size on per capita GDP	203%	243%	na
Number of active borrowers	15,112	26,048	30,050
Number of active loans	15,112	26,048	30,050
% of active borrowers women	97.7%	78.9%	75.8%

business loan gradually decreased leaving space to SME and Balloon loans which have a share respectively of 12.5% and 5.2% of portfolio.

The average disbursed loan amount in US\$ has demonstrated an increasing trend in the period of analysis, growing from 203% of per capita GDP in 2006 to 243% in 2007. As of June 2008, the **average disbursed loan amount is US\$ 1,287**, a 60% increase from 2006 (US\$ 860). Female borrowers still represent an important portion of active borrowers, though the share has been decreasing over time and may also represent cases of women borrowing on behalf of their husband. Although this is explained by the individual target of SATHAPANA, it certainly demonstrates a limited outreach.

Client satisfaction is currently monitored by the Operations department through informal surveys, focus groups with clients and monitoring at the branch level. Branches also undertake an analysis of client desertion through tracking dropout rates and reasons for client departure that are

consolidated in reports for submission to the HO. For the period July 2007 – June 2008 the SATHAPANA **dropout ratio is 47.6%**, gradually increasing from the figure registered in 2007 (42.6%) and from the figure of 2006 (20.7%). Nevertheless it is worth mentioning that this trend is partially explained by the fact that till 2007 the institution was lending with a strong focus on women while it happened to have the husband borrowing on the second cycle, instead of the wife, but still being registered in the MIS as a new client. This partially blow up the number of new borrowers and so negatively impact on the drop out.

The SATHAPANA **portfolio demonstrates a satisfactory distribution of portfolio among the different branches** with the biggest branch being Phnom Penh (with 24.2% of portfolio). All

June 2008

Branch	outstanding portfolio (US\$)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR 30 weighted
<i>Phnom Penh</i>	3,159,011	10.2%	6.2%	0.0%	0.0%
<i>Dang Kor</i>	1,187,356	3.9%	2.5%	0.0%	0.0%
<i>Ang Snuol</i>	1,776,077	5.8%	4.6%	0.0%	0.0%
<i>Mean Chey</i>	550,043	1.8%	1.2%	0.0%	0.0%
<i>Mokampoul</i>	801,767	2.6%	2.2%	0.0%	0.0%
<i>sub-tot</i>	7,474,253	24.2%	16.8%	0.1%	0.0%
<i>Kandal</i>	1,625,146	5.3%	4.1%	0.2%	0.01%
<i>Kean Svay</i>	1,503,562	4.9%	4.3%	0.07%	0.003%
<i>Saang</i>	1,277,616	4.1%	5.9%	0.2%	0.0%
<i>Koh Thom</i>	1,005,530	3.3%	4.4%	0.0%	0.0%
<i>Kandal Stoeung</i>	1,110,697	3.6%	3.0%	0.0%	0.0%
<i>sub-tot</i>	6,522,551	21.2%	21.7%	0.4%	0.0%
<i>Kampong Cham</i>	1,420,348	4.6%	4.2%	0.0%	0.0%
<i>Chamkarleu</i>	838,233	2.7%	2.9%	0.0%	0.0%
<i>Prey Chhor</i>	659,723	2.1%	2.9%	0.0%	0.0%
<i>Choeung Prey</i>	596,725	1.9%	2.1%	0.0%	0.0%
<i>Tbong Khmum</i>	763,420	2.5%	2.0%	0.0%	0.00%
<i>Memot</i>	809,782	2.6%	2.1%	0.00%	0.000%
<i>sub-tot</i>	5,088,231	16.5%	16.2%	0.0%	0.0%
<i>Siem Reap</i>	2,804,920	9.1%	7.7%	0.0%	0.0%
<i>Pourk</i>	560,101	1.8%	2.6%	0.0%	0.0%
<i>Sotnikum</i>	998,225	3.2%	3.5%	0.0%	0.0%
<i>Chi Kraeng</i>	372,040	1.2%	2.7%	0.0%	0.0%
<i>sub-tot</i>	4,735,285	15.4%	16.5%	0.0%	0.0%
<i>Kampong Thom</i>	911,772	3.0%	3.6%	0.1%	0.0%
<i>Baray I</i>	980,326	3.2%	4.2%	0.5%	0.0%
<i>Baray II</i>	665,641	2.2%	3.2%	0.2%	0.0%
<i>sub-tot</i>	2,557,739	8.3%	11.0%	0.8%	0.0%
<i>Kompong Chhnang</i>	529,605	1.7%	2.9%	1.6%	0.03%
<i>Pursat</i>	456,756	1.5%	2.4%	0.10%	0.002%
<i>Battambang</i>	680,489	2.2%	2.8%	0.4%	0.0%
<i>Banteay Meanchey</i>	605,933	2.0%	1.9%	1.0%	0.0%
<i>Kampong Speu</i>	726,469	2.4%	2.9%	0.0%	0.0%
<i>Kampot</i>	424,121	1.4%	2.5%	0.2%	0.0%
<i>Peam Ror</i>	136,620	0.4%	0.8%	0.0%	0.0%
<i>Takeo</i>	264,752	0.9%	1.0%	0.0%	0.0%
<i>Sihanouk Ville</i>	351,948	1.1%	0.5%	0.0%	0.0%
<i>Head Office</i>	276,479	0.9%	0.1%	0.0%	0.00%
TOTAL	30,831,233	100%	100%		0.11%

branches maintain an excellent portfolio quality: indeed, as of June 2008, the only branch with a PAR30 greater than 1% was the Kompong Chhnang Branch that experienced recent flooding which affected the repayment for some of the clients involved in agriculture related activities.

Trade and commerce represent the largest sector funded by the SATHAPANA portfolio (43%) as well as the sector with the greatest concentration of borrowers (37%). Services, agriculture and household/family represent the majority of the other funded activities. Although agriculture holds 17% of the portfolio share and 26% of total borrowers, it represents a low absolute risk level (0.3% PAR > 30) as well as a lower level than many of the other sectors.

June 2008

By sector	outstanding portfolio (US\$)	% of outst. portfolio	% number of credits	% number of borrowers	PAR > 30 days	PAR 30 weighted
<i>Agriculture</i>	5,339,997	17.3%	26.2%	26.2%	0.1%	0.02%
<i>Construction & Manufacturing</i>	1,188,278	3.9%	3.4%	3.4%	0.3%	0.01%
<i>Food Processing</i>	156,164	0.5%	0.7%	0.7%	0.3%	0.00%
<i>Household/Family</i>	3,948,532	12.8%	11.8%	11.8%	0.1%	0.02%
<i>Services</i>	5,708,381	18.5%	16.4%	16.4%	0.0%	0.01%
<i>Trade and Commerce</i>	13,284,439	43.1%	37.1%	37.1%	0.1%	0.05%
<i>Transportation</i>	906,369	2.9%	3.1%	3.1%	0.3%	0.01%
<i>Other</i>	299,073	1.0%	1.3%	1.3%	0.0%	0.00%
TOTAL	30,831,232	100%	100%	100%		0.1%

56.6% of portfolio is disbursed at more than US\$2,000 while taken together loans over US\$1,000 represent only 45% of borrowers but over 84% of the portfolio. Risk is concentrated in the lowest bracket (0.3% PAR30 for

June 2008

By amount (US\$)	outstanding portfolio (US\$)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR 30 weighted
<\$500	2,395,235	7.8%	39.2%	0.3%	0.0%
>\$500 to \$1000	2,492,256	8.1%	15.6%	0.2%	0.0%
>\$1000 to \$2000	8,494,133	27.6%	25.7%	0.1%	0.0%
>\$2000 to \$5000	13,462,493	43.7%	17.5%	0.1%	0.1%
>\$5000	3,987,116	12.9%	2.0%	0.0%	0.0%
TOTAL	30,831,233	100%	100%		0.1%

loans <\$500)—which also has the lowest percentage of the portfolio at 7.8%—and has an inverse relationship with loan amount which in loans >\$5,000 stands at 0% for PAR > 30.

June 2008

By term	outstanding portfolio (US\$)	% of outst. portfolio	% number of borrowers	PAR > 30 days	PAR 30 weighted
<6 months	196,073	0.6%	0.7%	0.0%	0.0%
6 to 12 months	7,637,596	24.8%	54.7%	0.1%	0.0%
12 to 18 months	22,997,564	74.6%	44.6%	0.1%	0.1%
TOTAL	30,831,233	100%	100%		0.1%

The portfolio analysis by term demonstrates a notable concentration in the long term 12 to 18 month

bracket even if the majority of borrowers fall within the 6 to 12 month term. The risk is also concentrated in these brackets while short term loans (<6 months) represent less than 1% of both the outstanding portfolio and the number of borrowers.

An analysis of the portfolio by product type reveals a strong concentration of risk in the Business Loan which reflects the products relative weight in the portfolio. The Group Loan also presents minor delinquency problems, while as of June 2008 Balloon and Staff Loan register a 100% repayment rate.

June 2008

Loan product	% of outst. portfolio	PAR >30 days	PAR 30 weighted	PAR >1 day	PAR > 1 weighted
<i>Business Loan</i>	80.2%	0.13%	0.11%	0.16%	0.13%
<i>SME Loan</i>	12.5%	0.0%	0.0%	0.0%	0.0%
<i>Balloon Loan</i>	5.2%	0.0%	0.0%	0.0%	0.0%
<i>Staff Loan</i>	0.9%	0.0%	0.0%	0.0%	0.0%
<i>Group Loan</i>	1.2%	0.19%	0.00%	0.25%	0.00%
TOTAL	100.0%		0.11%		0.13%

Loan portfolio quality

As of June 2008, SATHAPANA exhibits an excellent portfolio quality that has followed a continual decreasing trend in delinquency over the last three years with a PAR > 30 days worth 0.11% and a PAR > 1 day of 0.13%. The structure of delinquencies does not reveal any concentration in specific time brackets.

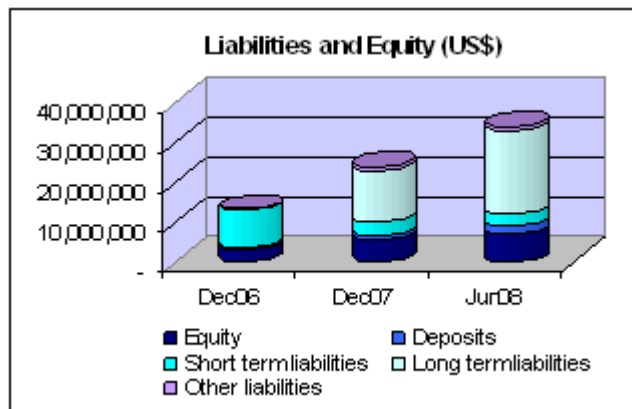
Portfolio Quality Indicators	Jan06-Dec06	Jan07-Dec07	Jul07-Jun08
PAR > 1	0.32%	0.17%	0.13%
PAR > 30	0.23%	0.14%	0.11%
31-60	0.01%	0.05%	0.01%
61-90	0.02%	0.03%	0.02%
91-180	0.06%	0.03%	0.03%
181-365	0.09%	0.04%	0.03%
>365	0.05%	0.00%	0.02%
Arrears rate (> 1 day)	0.17%	0.06%	0.07%
Restructured portfolio	0.0%	0.0%	0.0%
Provision expense ratio	1.08%	0.77%	0.88%
Loan loss reserve ratio	1.25%	1.25%	1.25%
Risk coverage ratio (30 days)	543.0%	913.1%	1130.9%
Write off ratio	0.24%	0.08%	0.06%

To date, SATHAPANA has never restructured or refinanced any loans as it is not allowed under the current policies.

As of June 2008, SATHAPANA write off ratio stands at 0.06%, also a decreasing trend on the previous years. The relatively non-existent need for write off confirms the excellent portfolio quality. The loan loss reserve ratio maintains 1.25% yearly as per policy, while the **high risk coverage ratio** (1131% as of June 2008) ensures that the institution achieves full coverage.

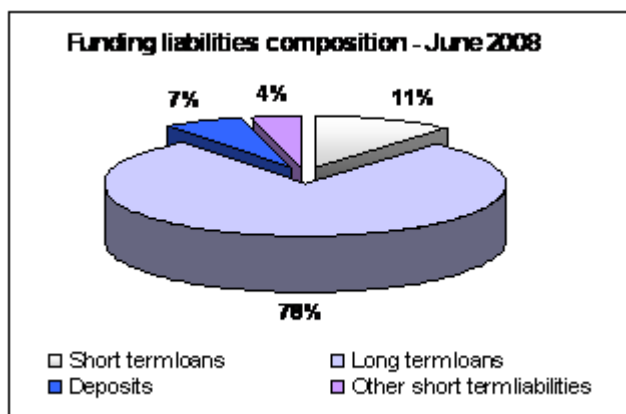
5. Financial structure and ALM

As of June 2008 the **debt to equity is equal to 3.8**, showing a constant but gradual increase since 2006 (3.4 as of December 2007 and 3.2 as of December 2006). Such a level of financial leverage pushes the capital adequacy, which according to Microfinanza Rating calculation stands at 20.7% as of June 2008. **CAR** (on Risk Weighted Assets) computed according to NBC regulation **corresponds to 18.1% and fully complies with the requirement of 15%**. The current financial leverage and solvency ratio ask for a further capitalization which is necessary in order to sustain portfolio growth.



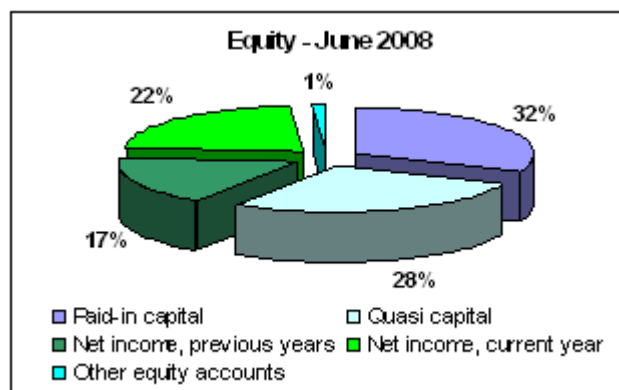
Liabilities and equity structure

As of June 2008, SATHAPANA liabilities are worth more than US\$ 26 million, out of which almost 90% are loans. **Funding liabilities have shown a remarkable and constant growth** in the last three years (at around 80% for 2005, 2006 and 2007) reaching a growth rate of 87% during the period July 2007 – June 2008. As shown in the graph the institution is financing its portfolio mainly with **long term liabilities which present an average maturity of 35 months**. All the



loans, apart from a US\$ 2 ml loan from FMO are disbursed in Dollars, which is the functional currency for the institution. Nevertheless, the loan from FMO is used to keep the currency gap under control and to balance the part of the portfolio distributed to clients in local currency. In general, all lenders¹⁴ apply commercial conditions and 37% of the liabilities bear floating interest rates. The commercial nature of SATHAPANA borrowing is confirmed by the **cost of funds which stands at a quite stable 10-11%**.

As of June 2008, SATHAPANA **total equity is equal to almost US\$ 7 ml**, thanks to the US\$ 2 ml in the form of **subordinated debt which allowed the institution to keep a satisfactory capital adequacy ratio**. Paid-in capital represents 32% of total equity while the subordinated debt counts for 28%. The remaining 39% is given by retained earnings, almost half of it being net income for the current year. Equity has posted an interesting growth of 109% in 2006 thanks to the entrance of two new shareholders: FMO and Triodos. Nevertheless, **in the last period July 2007 – June 2008 equity maintained a remarkable growth (91.7%) thanks to the subordinated debt offered by Triodos Doen & FS and to the positive performance of the institution**. SATHAPANA indeed presents increasing levels of profitability. Since 2007, SATHAPANA has been paying dividends to its shareholders in the measure of 25% of net income.



¹⁴ See the list on Annex 5

It is worth mentioning that **ShoreCap International is planning to exit the capital of SATHAPANA**, selling its shares to a couple of local banks. Negotiations have not been concluded yet, however discussions are ongoing between the actors.

Further capitalization will come with retained earnings and with a US\$ 1 ml subordinated debt SATHAPANA is currently negotiating with Developing World Market. Though currently shareholders appears to be not willing to further open the capital structure to new actors, a possible injection of equity from existing shareholders may be undertaken.

Assets and Liabilities Management

Even though a Risk Management Committee exists within the BoD, SATHAPANA still needs to **strengthen its financial management**. Only recently the BoD decided to change the composition of the two BoD Committees, with the main aim to improve its functioning and effectiveness. As a consequence, under the new structure the Committees gathered for the first time in July 2008. Certainly, given the important growth realized by the institution in the last years and its planned evolution, SATHAPANA will need to strengthen the complete tools and reporting for financial management (especially in regards to financial mismatch). At the moment a set of reports on liquidity risk, solvency and foreign currency position are regularly produced and ratios are monitored, in compliance with the NBC regulation.

Liquidity management aims at minimizing cash held in order to maximize profitability. Cash and bank has been equal to 5.2% during the period July 2007 – June 2008. As per internal policy each branch should keep a maximum amount of cash defined depending on the volume of portfolio and of savings (most of the branches can keep up to maximum US\$ 25,000). Cash flow projections are produced on a monthly basis by the Finance manager together with the Operations Manager.

Given that US\$ is the functional currency, SATHAPANA presents a **constant open position** in KHR, which is worth¹⁵ 6.7% of total assets and 45.4% of pure equity, while being 32.4% of equity after including also the subordinated loan.

SATHAPANA systematically presents a report to the NBC and calculates the net position in both currencies by using the formula required by the NBC¹⁶. As of June 2008, the net open position stands at 7.9% in KHR and -7.9% in US\$, well below the NBC limit worth **20% for each currency**.

June 2008

US\$*	US\$	Local currency
Assets	29,393,011	4,415,432
Cash and banks	1,702,737	160,598
Financial assets		
Portfolio	26,268,345	4,177,498
Fixed assets	640,917	
Other assets	781,012	77,336
Liabilities	26,670,022	2,152,891
Deposits	1,706,934	144,658
Loans	22,015,000	1,948,486
Subordinated debt	2,000,000	
Other liabilities	948,088	59,746
NET POSITION	2,722,989	2,262,542

* Exchange rate KHR / US\$: 4,092

With **83% of the portfolio having a residual maturity of less than 1 year** (as of June 2008) and having on the other side liabilities with an average residual maturity of 35 months, SATHAPANA **does not result to be exposed to significant maturity risk**. It is worth mentioning that starting from 2006 and in accordance with a requirement from Global Microfinance Facility (GMF), SATHAPANA started to monitor on a monthly basis maturity mismatch.

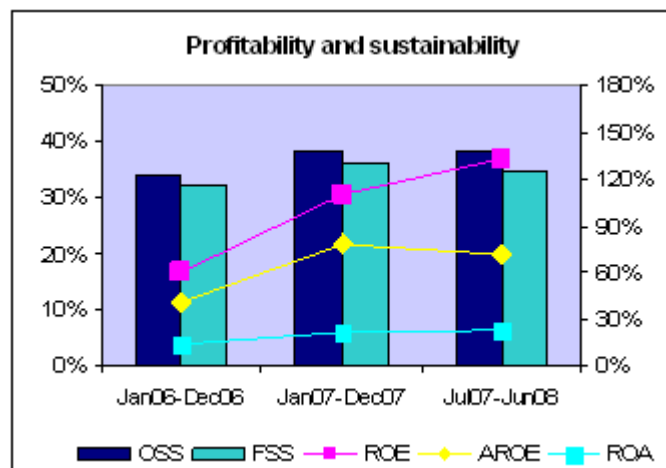
Although 37.2% of liabilities bears floating interest rates against fixed rates on the active side, the exposure of the institution to interest rate risk is mitigated by wide financial margins. SATHAPANA is assets sensitive from the all time brackets shorter than one year and may consequently be negatively affected by a decrease of market rate.

¹⁵ According to MicroFinanza Rating calculation and to international best practices.

¹⁶ The equity accounts -denominated in two different currencies- are included also in the numerator.

6. Financial and operational results

Over the period of analysis, **SATHAPANA strengthened its profitability and sustainability**, reaching quite interesting level for the closing period. Indeed **for July 2007 – June 2008 ROE and ROA stands respectively at 36.8% and 6.3%**, following a rising path in comparison to the last two years (ROE was 15.6% in 2005, 16.5% in 2006 and 30.5% in 2007 while ROA was 3.8% in 2005, 4% in 2006, 5.9% in 2007). The significant increase of 2007 has been driven by the rapid augment of financial revenues from portfolio (+93% in one year) and a positive gain on exchange rate variations (which represents 3% of net income) coupled with an important portfolio growth which allowed to reduce operating expense ratio. **The institution is fully sustainable since 2005 as its Operational Self-Sufficiency has always been kept above the acceptable level of 100%**; in 2006 OSS was 123%, in 2007 138.3% and for the period July 2007 – June 2008 OSS stands at 137.9%.



Adjusted results remain positive for all the period of analysis, even though in the last semester inflation¹⁷ showed a sharp rise and mounted to a perturbing level. The evolution of adjusted ratios follows the path of non-adjusted ratios till the end of 2007 and then reverse the trend for the last period given that inflation constitutes the only adjustment item. Nevertheless, for the period July 2007 – June 2008 **AROE and AROA stands at satisfactory 20% and 4.1%. Financial Self-Sufficiency¹⁸ has also been strengthening in the last years, passing from 115.7% of 2006 to 130.1% of 2007 and to a slight smaller 125.3% for July 2007 – June 2008.**

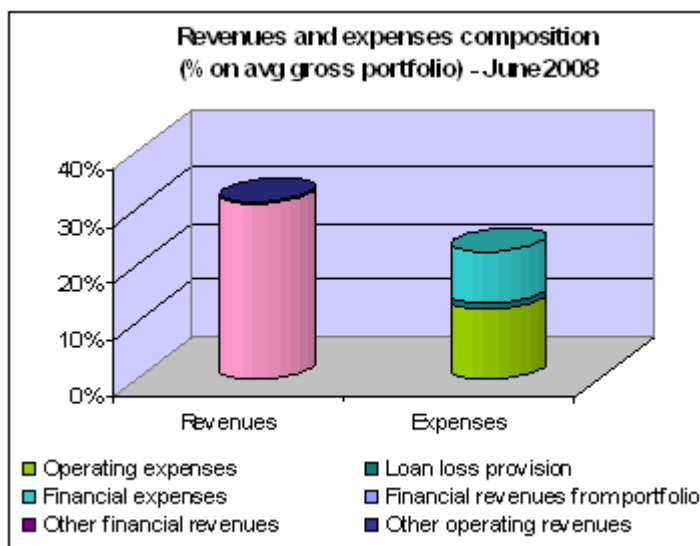
As far as efficiency is concerned SATHAPANA finds itself between the best performing MFIs in Cambodia, having being able to **reduce operating expenses over portfolio from 17.4% of 2005 to 12.4% of the period July 2007 – June 2008.** This improvement is mainly due to the increase in the outstanding portfolio as the results of economies of scale regardless of the important investment in terms of staff (in 2005 the institution had 192 staff, as of June total staff is 626). On the other hand however, **cost per borrower** has gradually increased from US\$ 89 in 2005 to US\$ 101 as of June 2008. **In the medium term, operating expenses may be pushed upwards by costs related to saving collection.**

Financial expenses follow a gradual rising path along with the gradual increase of the financial leverage but have maintained their weight in SATHAPANA cost structure, ranging always in between 8-9%. For the period July 2007 – June 2008 **funding expense ratio stands at 9.3%** (it was 8.1% in 2005).

Revenues are almost exclusively financial revenues from portfolio which are measured with a **portfolio yield of 30.9%** (for the period July 2007 – June 2008). Over the period of analysis portfolio yield follows an erratic path – decreasing in 2006 and 2007 – and then rising in 2008, even if the institution has decreased over the period of analysis interest rates. On the other hand the structure of portfolio has changed in the last years, with SME and Balloon loans gaining a

¹⁷ Inflation is widely believed to have accelerated this year, although official data have not been published, pending a revision to the method for calculating the consumer price index. Higher prices for domestically produced food have contributed to rising inflation. The 2008 inflation forecast is raised sharply to 25%.

¹⁸ 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



higher share against the traditional business loan product and this – given the higher rates linked to the balloon loans - justifies the rise in portfolio yield. Beside this **SATHAPANA is closely monitoring market trends and will most probably continue its downward pricing policy in the future.**

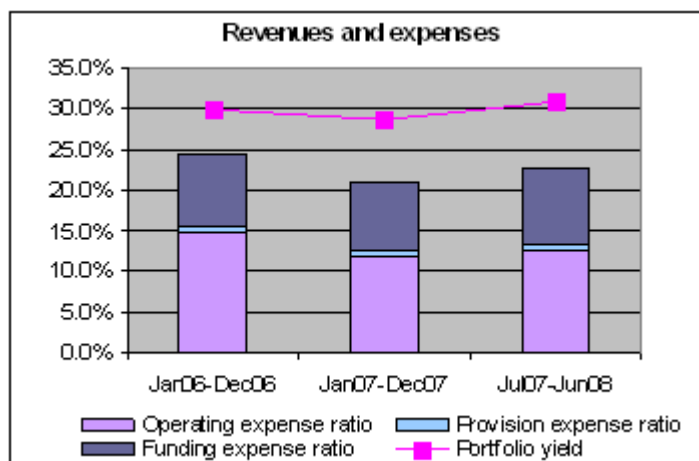
On the other hand, **the high quality of portfolio has been maintained and even improved during the last two years, allowing to keep a low and decreasing provision expense ratio, 1,1% in 2006 0,8% in 2007 and 0,9% for the period July 2005).**

Productivity is quite stable in terms of number of clients while it shows a positive trend analysing the amount managed by LOs or staff. Over the periods of analysis LOs productivity as number of borrowers has been kept around 130 borrowers (120 in 2006, 128 in 2007 and 130 for the period July 2007 – June 2008) while for staff it has been kept at around 55 borrowers (54 in 2006, 56 in 2007 and 48 for the period July 2007 – June 2008). **The trends of productivity are due to the continuous important hiring of new staff:** in the first semester of 2008 SATHAPANA hired 30 new loan officers and 76 other staff. **It is worth mentioning that while productivity is slightly below international benchmarks, it lags behind the average results achieved by Cambodian MFIs.** In terms of amount productivity per LOs has grown by 27% compared to 2006.

Financial Indicators	Jan06-Dec06	Jan07-Dec07	Jul07-Jun08
Operating expenses ratio (aver. gross portf.)	14.6%	11.8%	12.4%
Staff allocation ratio	45.2%	43.9%	40.8%
Loan officer productivity (borrowers)	120	128	130
Loan officer productivity (amount)	97,832	110,074	132,893
Cost per loan lent	54	68	74
Cost per borrower	104	101	114
Funding expense ratio*	8.8%	8.6%	9.3%
Provision expense ratio	1.1%	0.8%	0.9%
Adjusted provision for inflation (av. gross portf.)	1.5%	1.3%	2.3%
Portfolio yield (gross portfolio)	29.9%	28.7%	30.9%

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

As shown in the graph SATHAPANA with its portfolio yield is able to cover operating, financial and provisioning expenses and to generate a positive margin of 8 percentage points.



and to generate a **positive margin of 8 percentage points.** If including as a cost a provision for inflation the margin remains positive but reduces to 6 percentage points. SATHAPANA is not suffering from strong interest rate pressure at the moment but the increasing competition in the market will certainly push down interest rates. Undoubtedly the institution should closely monitor and control operating expenses (as a consequence of the very fast employment of new staff and opening of new branches) and given the outstanding growth of portfolio control quality.

7. Strategic objectives and financial needs

The main features of the projected institutional, operational and financial development of SATHAPANA are included in the **Five-Years Business Plan 2008-2012** approved in November 2007. The Business Plan appears quite complete and detailed with a focus on the market, on competitors and a SWOT analysis. However, **the Operational Plan needed to implement strategies defined in the BP does not exist**. SATHAPANA undertakes yearly updates on the whole Business Plan document as well as financial projections (that are produced using Microfin). Moreover, for 2008 the institution also contracted an external consultant¹⁹ to support the Business Planning. **The backbone of the strategy for the coming year is to complete the process to obtain a license to mobilize savings from the public.**²⁰

Financial projections are the direct responsibility of the GM as he has the necessary expertise to use Microfin, with inputs utilized from the Operation and Financial Department. Nevertheless, **a sensitivity analysis on the main variables is still missing**. It is worth noting that over the period of analysis SATHAPANA always achieved and surpassed targets set in the Business Plan, especially in regards to portfolio growth.

The table below illustrates a summary of the projections contained in the 5 years Business Plan.

Projected figures	June 2008 Actual	2008	2009	2010	2011	2012
Net portfolio	30,445,843	34,450,462	50,389,029	66,142,732	80,971,194	93,410,882
growth rate	97.0%	55.4%	46.3%	31.3%	22.4%	15.4%
Number of active loans	30,050	36,773	49,784	62,039	71,479	78,878
Equity	6,985,528	7,129,394	8,985,064	11,641,983	15,108,496	19,720,334
Liabilities	26,822,913	30,600,966	44,511,988	59,021,194	69,740,397	77,204,717
Savings	1,851,593	3,200,151	6,740,040	12,062,532	20,247,247	28,660,193
ROA	6.3%	4.0%	4.6%	5.0%	5.4%	6.3%
Net income	1,589,568	1,516,114	2,474,227	3,542,558	4,622,018	6,149,118
LOs productivity	121	118	120	125	126	130

According to the projections, SATHAPANA **portfolio will decelerate its important growth (registered in the last two years) and slow to a more prudential 55.4% in 2008** then maintaining for 2009 a growth rate of 46.3% in 2009. In 2010 portfolio will grow at a lower pace: 31.3% in 2010 till finally reaching almost US\$ 100 ml by the end of 2012. The objective in terms of number of clients served is to reach almost 80,000 borrowers by the end of 2012.

Equity together with savings will realize a positive growth path as equity is expected to double by 2010 and to register a fourfold increase by 2012 while savings (supposing the NBC license is issued by 2009) should overcome the US\$ 12 ml by 2010. Less relevant on the other hand will be the growth of **liabilities**. Profitability is expected to consolidate with ROA maintaining a level of 5-6%. Due to the planned significant increase of staff SATHAPANA productivity will remain at improvable levels (130 borrowers per LO in 2012).

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

- to **open 3 new branches** continuing the expansion strategy;
- to increase portfolio by almost 50%;

¹⁹ SATHAPANA contracted Emergency Market Consultant (EMC), a Cambodian company that provides consulting services to private companies in the country. The consultancy for the BP will cost around US\$ 30,000.

²⁰ In view of this the institution launched a massive marketing campaign and moved its offices to a more commercial and bank-type building.

- to **increase the equity** and conclude the new ownership structure once ShoreCap will sell its shares;
- to meet all the necessary requirements from the NBC in order to get the license which will allow them to mobilize savings from the public.

During the last year and in these months many efforts have been spent on the **restyling of SATHAPANA** that translated its name into Khmer and that moved to a new building. This is part of an extensive marketing campaign that the institution is undergoing in order to increase the image of SATHAPANA towards the clients and the public in general in view of future mobilization of savings.

Overall, it is worth mentioning that 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 SATHAPANA keeps its interesting positioning having been a pioneer in offering individual lending. Certainly competition in such methodology is expected to tighten further in the future, especially from HKL and some commercial banks.

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 SATHAPANA must be able to continue its growth and increase the resource available for investments and future expansion.

Financial needs

SATHAPANA financial needs for 2008 amount to US\$ 20 million, all of them already covered with existing agreements. For 2009 financial needs will stand at around another US\$ 17-20 ml coming from three different sources: equity, savings and borrowed funds.

Beside the access to borrowed funds SATHAPANA is also looking for subordinated loan agreements which will allow them to keep the financial leverage under control. A new deal (worth US\$ 1ml) is expected to be closed in September 2008. Moreover, the capitalization strategy also foresees an increase of paid-in capital, most probably with fresh contribution from existing shareholders. At the same time, ShoreCap is due to exit the capital and to sell its shares to two local banks.

8. Details of the risk factors

According to our analysis, the main risk factors of SATHAPANA are the following:

AREA	Risk factors	Relevance ^a	Main measures implemented and/or to implement in the short term	Observations
External environment	Lack of a credit bureau or client information exchange	Medium	Recently, all MFIs within CMA signed a Memorandum of Understanding about fair competition that pushing MFIs to facilitate information sharing in order to avoid clients' over indebtedness.	No formal mechanism exists for MFIs to exchange information on borrowers.
	Land titles are not fully available	Low	SATHAPANA requires certification from Village Officials on land ownership and maintains it for each client within the branch vaults.	Land titles, which are utilized by many MFIs in guarantee requirements, are not fully available.
	Increasingly competitive environment	Medium-high	SATHAPANA monitors market competition through CMA publications and field level observations. In addition, the OM carries out a specific analysis of interest rates, fees and penalties of five main competitor MFIs.	In recent years, competition on the microfinance market has increased which has resulted in an increasing overlap of geographic coverage.
Governance, management and operations	Members of the management team within the BoD	Medium	A search has been carried out and an internal BoD director and as well as an external candidate have been identified so that the issue may be again discussed at the upcoming BoD meeting.	Two top management sit on the Board of Directors, with the GM also acting as BoD Chairman.
	Pending license for savings mobilization	Medium-low	The SATHAPANA management is working diligently to achieve full compliance with NBC requirements, including the installation of the new Chart of Accounts.	The pending license represents a risk to the institution should there be a delay in the licensing process that would affect SATHAPANA's strategic growth strategy.
	Over aggressive growth in personnel	Medium-low	SATHAPANA staff orientation and ongoing assistance for branch level staff provided by members of the HO operations department team on field visits help to mitigate the risk.	While the increase in personnel is a necessary element of the overall expansion strategy, the potential of over aggressive growth in personnel represents a relevant risk for the institution.

^a 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.

AREA	Risk factors	Relevance*	Main measures implemented and/or to implement in the short term	Observations
Governance, management and operations	<i>Capacity and skills of field staff to be consolidated</i>	Medium-high	Staff training is offered based on the annual staff appraisal as well as special issues as needs arise.	Considering the number of new field staff joining the institution regularly and their limited experience, the capacity and skills of the field staff still needs to be consolidated.
	<i>Limited availability of professional training to field staff</i>	Medium	The HR Manager is aware of the weakness and seeks to maximize the external training opportunities available for staff.	Training activities are yet to be professionalized and most external training is only available for top management with many years of service.
	<i>Cash handling</i>	Medium-low	The management is working to identify an insurance provider that could provide an affordable service.	Lack of cash insurance policies.
Financial products and asset quality	<i>Inadequate policy for solidarity group loan product</i>	Medium-low	The institution plans to phase out the product in the near future which may negate the need to develop more sound policy and procedures for the product.	Not enough attention has been paid to the particulars of the solidarity group lending methodology which represents a small portion of the portfolio.
	<i>Assessment of client repayment capacity is improvable</i>	Medium	SATHAPANA operations department staff from the HO are currently working with LOs in the field to strengthen their assessment capacity.	The assessment of the client repayment capacity is improvable in terms of both the cash flow and collateral analysis (especially for new LOs and less experienced staff).
	<i>Branch Manager verifying and visiting most clients</i>	Medium-low	-	The Branch Manager verifies and visits most clients which represent a potential bottleneck in the credit process.
Financial structure and ALM	<i>Capitalization to be strengthened to enable projected growth</i>	Medium-low	Further capitalization will come with retained earnings and with a US\$ 1 ml subordinated debt SATHAPANA is currently negotiating with Developing World Market. Moreover a possible injection of equity from existing shareholders may be undertaken.	The current financial leverage and solvency ratio ask for a further capitalization which is necessary in order to sustain portfolio growth.
	<i>Interest rate risk</i>	Medium-low	-	37.2% of liabilities bear floating interest rates while portfolio bears fixed rates.

* 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.

AREA	Risk factors	Relevance*	Main measures implemented and/or to implement in the short term	Observations
<i>Financial structure and ALM</i>	<i>Currency risk</i>	Medium-low	The net open position in KHR and US\$ are well below the limit of 20% on net worth according to the formula required by the National Bank of Cambodia	According to int.l standards, the open net position in KHR (given that US\$ is the functional currency) is worth 45% on pure net worth
	<i>Risk management framework is improvable</i>	Medium	The BoD Risk Management Committee has recently been strengthened by the consolidation of its membership and the BoD plans to have an external audit performed on the IA department.	More formalized procedures and monitoring practice is yet to be established, particularly in view of the upcoming roll-out of savings mobilization on a large scale after the licensure from the NBC.
<i>Financial and operational results</i>	<i>Improvable productivity</i>	Medium	The trends of productivity are due to the continuous important hiring of new staff: in the first semester of 2008 SATHAPANA hired 30 new loan officers and 76 other staff.	It is worth mentioning that while productivity is slightly below international benchmarks, it lags behind the average results achieved by Cambodian MFIs.
<i>Strategic objectives and future evolutions</i>	<i>Lack of scenario and sensitivity analysis</i>	Medium	-	The BP is not a complete tool.

* 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.

Annex 1 - Financial statements

Sathapana Ltd.				
Balance sheet (US\$)	Dec05	Dec06	Dec07	Jun08
ASSETS				
<i>Cash and bank deposits</i>	371,910	594,339	744,964	1,863,334
<i>Short term financial assets</i>	-	-	-	-
<i>Net outstanding portfolio</i>	6,204,011	12,172,323	22,174,418	30,445,843
<i>Gross outstanding portfolio</i>	6,282,784	12,326,795	22,455,107	30,831,233
<i>Performing portfolio</i>	6,220,002	12,298,349	22,424,366	30,797,154
<i>Portfolio at risk > 30 days</i>	62,782	28,446	30,741	34,079
<i>(Loan loss reserve)</i>	78,773	154,472	280,689	385,390
<i>Accrued interest</i>	148,000	172,752	330,497	431,508
<i>Other short term assets</i>	30,700	77,835	260,753	426,840
Total short term assets	6,754,621	13,017,249	23,510,632	33,167,525
<i>Long term financial assets</i>	-	-	-	-
<i>Net fixed assets</i>	199,121	254,668	423,656	640,917
<i>Other long term assets</i>	-	-	-	-
Total long term assets	199,121	254,668	423,656	640,917
Total assets	6,953,742	13,271,917	23,934,288	33,808,442
LIABILITIES and EQUITY				
LIABILITIES				
<i>Sight deposits</i>	-	206,887	845,887	1,321,820
<i>Short time deposits</i>	154,087	303,163	530,361	529,773
<i>Short term loans</i>	1,217,500	9,232,500	3,277,000	3,040,000
<i>Other short term liabilities</i>	165,946	333,537	800,631	1,007,834
Total short term liabilities	1,537,533	10,076,087	5,453,879	5,899,427
<i>Long term time deposits</i>	44,799	30,038	25,094	-
<i>Long term loans</i>	3,857,500	-	13,125,500	20,923,486
<i>Other long term liabilities</i>	-	-	-	-
<i>Restricted funds</i>	-	-	-	-
Total Long term liabilities	3,902,299	30,038	13,150,594	20,923,486
Total liabilities	5,439,832	10,106,125	18,604,473	26,822,913
EQUITY				
<i>Paid-in capital from shareholders</i>	1,158,470	2,233,510	2,233,510	2,233,510
<i>Donated equity</i>	-	-	-	-
<i>Quasi-capital</i>	-	-	1,000,000	2,000,000
<i>Reserves</i>	-	-	-	-
<i>Total retained earnings</i>	355,440	757,322	1,921,345	2,799,951
<i>Net income, previous years</i>	85,589	355,440	757,322	1,892,463
<i>Net income, current year</i>	269,851	401,882	1,164,023	907,488
<i>Other equity accounts</i>	-	174,960	174,960	47,932
Total equity	1,513,910	3,165,792	5,329,815	6,985,529
Total liabilities and equity	6,953,742	13,271,917	23,934,288	33,808,442

Income Statement (US\$)	Jan05-Dec05	Jan06-Dec06	Jan07-Dec07	Jul07-Jun08
<i>Interest & commissions received on loans</i>	1,589,670	2,696,489	5,189,514	7,154,657
<i>Financial revenue from investment</i>	4,782	13,741	16,540	18,729
<i>Other financial revenues</i>	-	428	34,758	34,758
A) Financial revenue	1,594,452	2,710,658	5,240,812	7,208,144
<i>Interest paid on borrowings</i>	404,466	790,000	1,511,669	2,100,979
<i>Interest paid on savings</i>	1,912	6,153	37,378	62,725
<i>Interest paid on mortgage</i>	-	-	-	-
<i>Other financial expenses</i>	7,972	-	-	874
B) Financial expenses	414,350	796,153	1,549,047	2,162,830
Gross financial margin (A - B)	1,180,102	1,914,505	3,691,765	5,045,314
<i>Loan loss provision</i>	35,104	97,213	139,433	203,788
Net financial margin	1,144,998	1,817,292	3,552,332	4,841,526
<i>Other operating revenue</i>	988	10,975	44,396	32,268
<i>Personnel expenses</i>	501,658	731,423	1,285,360	1,763,382
<i>Administrative expenses</i>	370,314	588,689	846,560	1,118,648
C) Operating expenses	871,972	1,320,112	2,131,920	2,882,030
Net operating income	274,014	508,155	1,464,808	1,991,764
<i>Extraordinary revenue</i>	-	-	-	-
<i>Extraordinary expense</i>	-	-	-	-
Net income before donations, before tax	274,014	508,155	1,464,808	1,991,764
<i>Taxes</i>	64,163	106,273	300,785	402,196
Net income before donations	209,851	401,882	1,164,023	1,589,568
<i>Donations in cash</i>	60,000	-	-	-
<i>Revenue not from the operations</i>	-	-	-	-
<i>Expenses not from the operations</i>	-	-	-	-
Net income	269,851	401,882	1,164,023	1,589,568

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 kind²¹ and soft loans²²)
- provisions are calculated with a standard formula²³
- adjustments for inflation
- adjustments for write-offs

Adjustments (US\$)	Jan05-Dec05	Jan06-Dec06	Jan07-Dec07	Jul07-Jun08
Reversal of accrued interest on non-perf loans	-	-	-	-
Subsidized cost of fund adjustment	-	-	-	-
- Interest rate used (national currency)	13.0%	12.3%	12.1%	12.0%
- Interest rate used (foreign currency)	7.0%	8.3%	8.1%	7.0%
Inflation adjustment	42,493	138,451	242,071	527,799
- Inflation rate used	6.7%	2.8%	10.8%	26.1%
Loan loss provision adjustment	-	-	-	-
In-kind subsidy adjustment	-	-	-	-
Total variation of net income	42,493	138,451	242,071	527,799

Write off adjustment	-	17,700	8,508	15,352
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The bulk of the adjustments made for SATHAPANA Ltd. are related to the inflation, while a minor portion is related to write-offs.

The cumulative effect of all the adjustments reduces the net income in all the periods.

²¹ Donations in kind are valorized and added to operational expenses.

²² 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%.

²³ 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

Sathapana Ltd. (US\$)

Jan06-Dec06

Jan07-Dec07

Jul07-Jun08

PROFITABILITY

Return on Equity (ROE)	16.5%	30.5%	36.8%
Adjusted Return on Equity (AROE)	11.3%	21.7%	20.0%
Return on Assets (ROA)	4.0%	5.9%	6.3%
Adjusted Return on Assets (AROA)	2.6%	5.0%	4.1%
Operational self-sufficiency (OSS)	123.0%	138.3%	137.9%
Financial self-sufficiency (FSS)	115.7%	130.1%	125.3%
Profit Margin	18.7%	27.7%	27.5%

LOAN PORTFOLIO QUALITY

Portfolio at risk (PAR30)	0.2%	0.14%	0.11%
Arrears rate (> 1 day)	0.2%	0.06%	0.07%
Restructured loans	0.0%	0.0%	0.0%
Provision expense ratio	1.1%	0.8%	0.9%
Loan loss reserve ratio	1.3%	1.3%	1.2%
Risk coverage ratio (30 days)	543.0%	913.1%	1130.9%
Write-off ratio	0.2%	0.1%	0.1%
Adjusted write-off ratio	0.4%	0.1%	0.1%

EFFICIENCY AND PRODUCTIVITY

Staff allocation ratio	45.2%	43.9%	40.8%
Loan officer productivity (borrowers)	120	128	130
Loan officer productivity (amount)	97,832	110,074	132,893
Staff productivity (borrowers)	54	56	53
Staff productivity (amount)	44,182	48,291	54,185
Branch productivity (amount)	2,054,466	1,871,259	2,055,416
Operating expenses ratio (average gross portf.)	14.6%	11.8%	12.4%
Operating expenses ratio (average assets)	13.2%	10.9%	11.4%
Cost per borrower	104	101	114
Personnel expenses ratio (average gross portf.)	8.1%	7.1%	7.6%
Admin. expenses ratio (average gross portfolio)	6.5%	4.7%	4.8%

ASSETS/LIABILITIES MANAGEMENT

Portfolio yield (gross portfolio)	29.9%	28.7%	30.9%
Funding expense ratio*	8.8%	8.6%	9.3%
Cost of funds ratio*	10.8%	10.2%	10.7%
Adjusted provision for inflation (av. gross portf.)	1.5%	1.3%	2.3%
Current ratio	0.55	2.26	2.79
Liquidity over total assets	4.5%	3.1%	5.5%
Debt/equity ratio	3.19	3.49	3.84
Capital adequacy ratio	23.9%	22.3%	20.7%

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

OUTREACH

Average disbursed loan size	860	1,130	1,287
Average disbursed loan size on per-capita GDP	202.7%	242.6%	268.0%
Percentage of active borrowers women	97.7%	78.9%	75.8%

GROWTH (amount in national currency)

Growth of active gross portfolio	96.2%	82.2%	97.0%
Growth of active borrowers	35.9%	72.4%	63.7%
Growth of active loans	35.9%	72.4%	63.7%
Growth of total assets	90.9%	80.3%	88.7%
Growth of staff	45.3%	66.7%	53.4%
Growth of funding liabilities	85.3%	82.2%	87.3%
Growth of operating expenses*	51.4%	61.5%	236.6%
Growth of equity	109.1%	68.4%	91.7%

Annex 4 - Definitions

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

SATHAPANA'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

SATHAPANA follows 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 takes into consideration the duration of the loan. Loans are classified as losses when short term loans are more than 90 days past due and long term loans more than 360 days past due. All loans past due for more than 180 days with an original term < 1 year; and loans past due for more than 360 days with an original term of more than one year are written off. SATHAPANA does not allow for the restructuring of loans.

Loans with maturity < 1 year

Aging portfolio in arrears	% provision
0 - 30 days	0%
31 - 60 days	10%
61 - 90 days	30%
> 90 days	100%

Loans with maturity > 1 year

Aging portfolio in arrears	% provision
0 - 30 days	0%
31 - 180 days	10%
181 - 360 days	30%
> 360 days	100%

Insider loans

SATHAPANA provides staff loan privileges through the Staff Loan Fund to qualified members of its staff. The loans are in US\$ on a 2 year term for a maximum of 12 months the net salary at 12% interest p.a. declining balance and are secured to the extent permitted by Cambodian law by a pledge of future salary, bonus and personal property. A limit is set as a maximum of 5% of the total outstanding portfolio shall be available for Staff Loans. Eligibility is limited to permanent members of SATHAPANA staff who have completed a minimum of three years satisfactory services excluding the probation period.

Details of funding liabilities

As of June 2008, SATHAPANA has the following borrowings from different sources:

Loans borrowed					
Source	Currency (in which the loan is due)	Outstanding Balance (US\$)	Agreement, kind of product and collateral	Disbursement date	Maturity date
BlueOrchard	US\$	325,000	uncollateralized loan	10/02/2006	10/02/2009
BlueOrchard 1	US\$	1,000,000	uncollateralized loan	27/05/2008	27/05/2011
BlueOrchard 2	US\$	1,000,000	uncollateralized loan	16/06/2008	16/08/2011
Triodos Fair Share	US\$	500,000	uncollateralized loan	01/12/2005	01/11/2008
Triodos Inv Mgt	US\$	2,000,000	uncollateralized loan	06/12/2006	01/01/2011
Oikocredit	US\$	250,000	uncollateralized loan	02/11/2005	02/11/2008
Oikocredit	US\$	2,225,000	uncollateralized loan	12/01/2006	12/01/2009
ShoreCap Int'l	US\$	375,000	uncollateralized loan	15/03/2006	15/03/2009
BIO	US\$	340,000	uncollateralized loan	11/03/2005	31/12/2008
GMF	US\$	2,000,000	uncollateralized loan	01/07/2006	01/07/2009
GMF	US\$	1,000,000	uncollateralized loan	17/09/2007	17/09/2011
FMO	US\$	2,500,000	uncollateralized loan	01/09/2006	15/01/2012
FMO	KHR	2,000,000	uncollateralized loan	01/02/2008	01/04/2012
Deutsche Bank	US\$	3,000,000	uncollateralized loan	01/03/2007	01/11/2010
Symbiotics	US\$	1,000,000	uncollateralized loan	08/02/2007	08/02/2010
NORFUND	US\$	1,500,000	uncollateralized loan	30/01/2008	15/01/2011
DWM	US\$	3,000,000	uncollateralized loan	01/03/2008	01/04/2011
Sub-total		24,015,000			
Triodos Doen & FS	US\$	2,000,000	subordinated debt	14/12/2007	01/01/2018
TOTAL		26,015,000			

Funding liabilities features					
Source	Outstanding balance (short term) US\$	Outstanding balance (long term) US\$	Interest repayments	Type of Interest	Interest rate
BlueOrchard	325,000	-	semi-annually	floating	6 month Libor + 6%
BlueOrchard 1	-	1,000,000	semi-annually	fixed	7.47%
BlueOrchard 2	-	1,000,000	semi-annually	fixed	7.50%
Triodos Fair Share	500,000	-	quarterly	fixed	9%
Triodos Inv Mgt	-	2,000,000	quarterly	fixed	9%
Oikocredit	250,000	-	semi-annually	fixed	9%
Oikocredit	2,225,000	-	semi-annually	fixed	9%
ShoreCap Int'l	375,000	-	quarterly	fixed	9%
BIO	340,000	-	semi-annually	floating	USD Swap rate 4yrs + 5.375%
GMF	-	2,000,000	quarterly	fixed	9%
GMF	-	1,000,000	quarterly	fixed	8.25%
FMO	-	2,500,000	semi-annually	floating	6 month Libor + 4.5%
FMO	-	2,000,000	semi-annually	floating	NBC rate + 5.8%
Deutsche Bank	-	3,000,000	semi-annually	floating	6 month Libor + 4.5%
Symbiotics	-	1,000,000	semi-annually	fixed	9%
NORFUND	-	1,500,000	semi-annually	floating	6 month Libor + 3.75%
DWM	-	3,000,000	semi-annually	fixed	8.5%
Triodos Doen & FS	-	2,000,000	quarterly	fixed	10.00%

Annex 6 - Rating Scale

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