

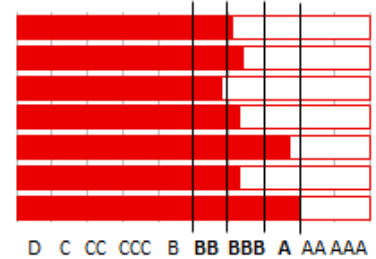
# Thaneakea Phum (Cambodia) LTD. - Cambodia

**FINAL RATING** **BBB+**
**OUTLOOK** **Stable**

**Mission date:** November 2013  
**Date Rating Committee :** 28<sup>th</sup> January 2014  
**Validity:** 1 year if no relevant changes in operations or in the external context occur  
**Previous Rating :** First Rating

**RATING SCORING BY AREA**

Microfinance Sector and R&S  
 Mission, Governance and Strategy  
 Systems and Controls  
 Client Protection  
 Assets quality and structure  
 Capital Adequacy and ALM  
 Financial and operational results



D C CC CCC B BB BBB A AAAA

**RATING RATIONALE**
**FINANCIAL ANALYSIS  
AND CAPITAL  
ADEQUACY**

TPC has consolidated its financial performance over the period of analysis. TPC has achieved strong profitability and sustainability results through sustained portfolio growth, improved assets allocation, excellent portfolio quality, decreasing cost of funds and good efficiency and productivity levels. TPC solvency is moderate and might come under pressure given the strong projected growth. On the other hand, TPC relies on a strong internal capital generation capacity and negotiations for accessing tier two capital are quite advanced.

**GOVERNANCE, RISK  
MANAGEMENT AND  
CLIENT PROTECTION**

TPC leverages on a reputable shareholder which has proved its capacity to support the strengthening of the institution's performance and positioning. TPC governing body ensures effective supervision and actively contributes to strategic planning. An adequate risk management framework informs the decision-making process, which is mainly guided by operational and financial considerations with room for improvement in the formalization of social objectives. Given the institution's business model, high growth rates and decentralization processes, the internal control systems need continuous upgrades especially when referring to MIS. Client protection systems are overall adequate with room for improvement in the formalization of policies to ensure a fair treatment of clients and an effective follow-up of clients' complaints.

|                               |   |
|-------------------------------|---|
| <b>Legal form</b>             | Limited Liability Company                     |
| <b>Ownership</b>              | Development World Market, ESOP                |
| <b>Year of inception</b>      | 1994 as a programme, 2002 as LLC, 2003 as MFI |
| <b>Regulator / Supervisor</b> | National Bank of Cambodia (NBC)               |
| <b>Networks of reference</b>  | CMA   |
| <b>Area of intervention</b>   | Rural   |
| <b>Financial Services</b>     | Credit  |
| <b>Credit methodology</b>     | Group and individual                          |

| <b>Institutional data</b>                | <b>Dec11</b> | <b>Dec12</b> | <b>Sep13</b> |
|--|--------------|--------------|--------------|
| <b>Active borrowers (#)</b>              | 96,542       | 122,077      | 148,292      |
| <b>Active loans (#)</b>                  | 96,673       | 122,195      | 148,554      |
| <b>Branches (#)</b>                      | 29           | 37           | 43           |
| <b>Total staff (#)</b>                   | 545          | 695          | 849          |
| <b>Loan officers (#)</b>                 | 289          | 384          | 484          |
| <b>Gross outstanding portfolio (USD)</b> | 33,155,327   | 48,402,754   | 68,961,668   |
| <b>Total assets (USD)</b>                | 45,941,925   | 61,763,206   | 85,370,673   |
| <b>Average loan balance/GDP pc</b>       | 40.2%        | 39.0%        | 46.5%        |
| <b>Female borrowers</b>                  | 89.4%        | 86.7%        | 85.0%        |

| <b>Indicators</b>                                 | <b>Dec11</b> | <b>Dec12</b> | <b>Sep13</b> |
|---|--------------|--------------|--------------|
| <b>Credit risk ratio</b>                          | 2.0%         | 0.3%         | 0.3%         |
| <b>PAR 30</b>                                     | 0.1%         | 0.2%         | 0.2%         |
| <b>PAR 90</b>                                     | 0.1%         | 0.1%         | 0.2%         |
| <b>Risk coverage ratio</b>                        | 100%         | 100%         | 100%         |
| <b>ROE</b>  | 21.0%        | 22.7%        | 28.0%        |
| <b>ROA</b>  | 3.8%         | 4.1%         | 5.1%         |
| <b>Portfolio yield</b>                            | 31.5%        | 30.4%        | 30.1%        |
| <b>Operating expense ratio</b>                    | 15.8%        | 14.0%        | 13.3%        |
| <b>LO productivity (borrow.)</b>                  | 334          | 318          | 306          |
| <b>Cash Ratio</b>                                 | 42.5%        | 28.9%        | 16.5%        |
| <b>Capital Adequacy Ratio (MFR)</b>               | 17.3%        | 19.0%        | 18.1%        |
| <b>Equity to Assets Ratio</b>                     | 17.6%        | 18.2%        | 18.2%        |
| <b>Client drop-out ratio</b>                      | 38.7%        | 41.4%        | 41.9%        |
| <b>Average annual percentage rate (APR) (TPL)</b> |              |              | 38.4%        |
| <b>Average annual percentage rate (APR) (SGL)</b> |              |              | 38.4%        |
| <b>Average annual percentage rate (APR) (IL)</b>  |              |              | 35.9%        |
| <b>Average transparency index (TPL)</b>           |              |              | 100%         |
| <b>Average transparency index (SGL)</b>           |              |              | 100%         |
| <b>Average transparency index (IL)</b>            |              |              | 92.3%        |

As of September 2013 data are annual

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| AREA                                       | Rating Factors   | Judgment* | Description   |
|--|--|-----------|---|
| <b>1. External Context</b>                 | Political and Macroeconomic Context  | Moderate  | <ul style="list-style-type: none"> <li>+ Positive GDP outlook.</li> <li>+ Stable FX environment.</li> <li>- Narrow base of the Cambodian economy.</li> <li>- Post-election impasse possibly leading to political unrest.</li> </ul>   |
|  | Microfinance sector and Regulation   | Adequate  | <ul style="list-style-type: none"> <li>+ Strong portfolio quality.</li> <li>+ Adequate regulation for microfinance institutions.</li> <li>- Stiff competition and high credit penetration in certain areas.</li> </ul>  |
| <b>2. Mission, Governance and Strategy</b> | Ownership and Governance   | Good      | <ul style="list-style-type: none"> <li>+ Proved capacity of the main shareholder to support institutional development and growth through capital injections and strict oversight.</li> <li>+ Effective strategic guidance, supervision and control by the Board.</li> </ul>   |
|  | Governance alignment to the mission  | Moderate  | <ul style="list-style-type: none"> <li>+ Initial implementation of SPM and Board commitment to the institution's reputation.</li> <li>- Moderate social strategic guidance provided by the Board.</li> <li>- Decision making mainly guided by financial and operational considerations.</li> </ul>  |
|  | Risk Management and decision making  | Adequate  | <ul style="list-style-type: none"> <li>+ Adequate risk management approach in the decision making process and ongoing upgrading of risk management monitoring and reporting tools.</li> <li>+ Adequate top management quality and composition.</li> <li>- Tolerance and alert limits for risk management to be further defined.</li> <li>- Top management positions to be further streamlined.</li> </ul>               |
|  | Strategy   | Adequate  | <ul style="list-style-type: none"> <li>+ Adequate strategic planning capacity.</li> <li>+ Updated and detailed financial projections based on realistic assumptions.</li> <li>- Lack of a narrative business plan formalizing a medium-term strategy.</li> </ul>  |
|  | Market positioning   | Adequate  | <ul style="list-style-type: none"> <li>+ Adequate market positioning in agricultural and group lending.</li> <li>+ Good geographical coverage and large breadth of outreach.</li> <li>- Franchise value to be strengthened.</li> </ul>  |
| <b>3. Systems and Controls</b>             | Human Resources  | Adequate  | <ul style="list-style-type: none"> <li>+ Formalized, updated and adequately disseminated policies and procedures.</li> <li>+ Adequate social responsibility towards the staff.</li> <li>- Increasing staff turnover (17.7% over the last period) and middle management skills to be strengthened.</li> </ul>  |
|  | Internal Control and Internal Audit  | Adequate  | <ul style="list-style-type: none"> <li>+ Adequate preventive controls thanks to the formalized policies and procedures, the hierarchical and dual controls, the segregation of functions.</li> <li>+ Adequate internal audit function and effective follow-up.</li> <li>- Significant exposure to operational risk given the business model.</li> </ul>   |
|  | Management Information System  | Moderate  | <ul style="list-style-type: none"> <li>+ Adequate reporting and adequate data reliability and security.</li> <li>- Off-line MIS and limited scalability.</li> <li>- Significant customization to meet the institution's information needs.</li> </ul>   |
| <b>4. Client Protection</b>                | Appropriate product design and delivery                                    | Adequate  | <ul style="list-style-type: none"> <li>+ Use of client feedback for product development and refinement.</li> <li>+ Appropriate credit products meeting clients' needs.</li> <li>- Room for improvement in the formalization of collateral-related policies.</li> </ul>  |
|  | Prevention of over-indebtedness  | Adequate  | <ul style="list-style-type: none"> <li>+ Prudent approach towards overindebtedness and good related policies.</li> <li>+ Adequate repayment capacity and uniform dissemination in the field.</li> <li>- High context risk.</li> </ul>   |
|  | Transparency and Responsible pricing                                       | Good      | <ul style="list-style-type: none"> <li>+ Simple cost structure resulting in high transparency index and adequate written and oral communication provided to clients.</li> <li>+ Non-discriminatory and market-based pricing.</li> <li>- Room for better value distribution considering the high returns.</li> </ul>   |
|  | Fair and respectful treatment of clients, Privacy and Complaint resolution | Adequate  | <ul style="list-style-type: none"> <li>+ Adequate set of measures to protect clients' data despite the lack of a specific privacy policy and adequate system security.</li> <li>+ Overall adequate complaint resolution system with room for improvement in terms of feedback loop.</li> <li>- Policies and procedures in place to ensure fair and respectful treatment of clients to be further formalized.</li> </ul> |

\*Ranking: Excellent, Good, Adequate, Moderate, Weak, Very Weak. The judgment and description contribute to determine the rating of the institution.

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| AREA  | Rating Factors                        | Judgment* | Description  |
|---|---------------------------------------|-----------|--|
| <b>5. Assets structure and quality</b>      | Assets structure and concentration    | Good      | + Good concentration in the core business with net portfolio over total assets at 80.6% as of September 2013.<br>+ Very good loan book granularity and even distribution of portfolio by branches and provinces.<br>- Some concentration in agriculture (i.e. 54.3% of total portfolio at September 2013). |
|   | Assets quality                        | Excellent | + PAR 30 at 0.2% as of September 2013 and write-off ratio at 0.1% over the last 12 month-period.<br>+ Adequate recovery capacity.  |
|   | Credit risk management                | Good      | + Good monitoring of portfolio quality and evolution.<br>+ Good formalization and dissemination of credit policies and procedures.   |
|   | Credit risk coverage                  | Adequate  | + 100% risk coverage on PAR30.<br>- Low loan loss reserve (September 2013: 0.2%).  |
| <b>6. Capital Adequacy and ALM</b>          | Capital adequacy                      | Moderate  | + Ongoing negotiation to attract subordinated debts. Compliance with regulatory requirements.<br>- Moderate solvency (MFR CAR at 18.1%).   |
|   | Funding and liquidity risk management | Good      | + Good visibility of financing needs and diversified funding structure.<br>+ Adequate liquidity risk management and safe cash cushion (cash ratio at 16.5%).   |
|   | Market risk management                | Excellent | + Limited exposure to FX risk and good FX risk management.<br>+ Limited exposure to interest rate risk and regular monitoring by the ALCO.   |
| <b>7. Financial and Operational results</b> | Profitability                         | Excellent | + ROE at 28.0% and ROA at 5.1% as of September 2013.   |
|   | Efficiency and productivity           | Good      | + Improved cost efficiency ratio (OER at 13.3% at September 2013).<br>+ Good productivity considering the institution's business model.  |
|   | Responsible financial performance     | Adequate  | + Transparent and responsible funding structure.<br>- Return expectations not fully defined.   |

\*Ranking: Excellent, Good, Adequate, Moderate, Weak, Very Weak. The judgment and description contribute to determine the rating of the institution.