Micro-Finance Rating - Risk Assessment

Cooperative Rural Bank of Bulacan (CRBB)

Plaridel, Bulacan (Philippines)

<Rating Update> **Rating grade**	$\alpha-$ alpha minus	**Assessment**: Recommended Reasonable safety, good systems
Visit dates: 20-24 March 2006	**Operational head**: Mr Nestor Custodio, General Manager	
Maximum validity of rating*: till March 2007		

Rating

In M-CRIL's view, on account of significant institutional presence, overall good performance, commendable approach to sustainability and self-reliance, as well as the growth plans of the organisation, CRBB can absorb – from all sources – additional loan funds of US$10 million (PHP510 million) over the next one year for on-lending to its borrowers.

However, given the relatively low capital adequacy position of the organisation, it is recommended that lenders should monitor the situation and provide a substantial flow of funds only if the capital adequacy ratio stays above 10% after the inflow of funds. The weak second line of leadership and weakening internal controls are also becoming causes of concern and lenders should monitor the situation on these issues as well.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

for Micro-Credit Ratings International Ltd

Sanjay Sinha
Managing Director

***Validity** This rating is valid till the next loan proposal made by the bank to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Category wise rating

Category	Rating grade[1]
A *Governance and strategy*	α
B *Managerial factors*	α–
C *Financial performance*	α–
Overall	α–

Key Risk Factors

1 **Capital adequacy:** CRBB continues to face difficulty in mobilising capital, mainly because of the limited resources of its primary cooperative members. Though some equity has been mobilised from existing members and as preferred equity from individuals and private institutions, this is not sufficient to finance the growth plans of the organisation. In addition to soliciting paid-up capital from existing and new member cooperatives and preferred stock from individuals, CRBB is negotiating with Blue Orchard to obtain subordinate debt, which can be treated as capital.

2 **Leadership and internal control:** The organisation has a well qualified and experienced operations team and good management systems for its operations. However, it lacks a good second line of leadership to support the General Manager in his functions. The recent incidents of lapses in policies related to interest rates and restructuring of loans in two of the branches points towards a weakening of internal controls. The absence of a strong second line of leadership and weak internal control could adversely affect the future performance of the bank.

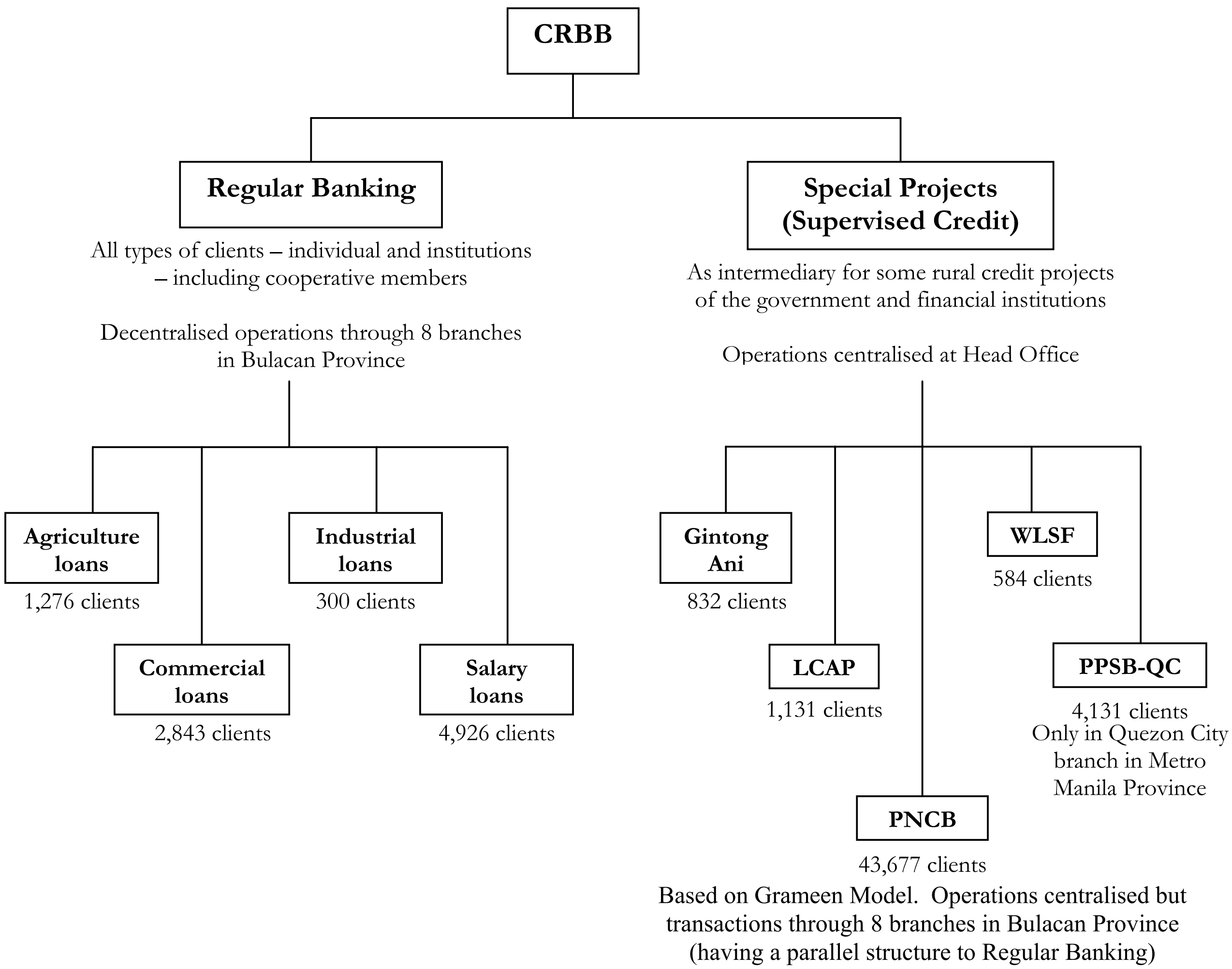
3 **Falling yield and profitability:** The organisation's overall programme has witnessed a decrease in all the profitability indicators mainly due to a decline in the yield on portfolio.

Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
1 Long years of experience in banking 2 Active Board	1 Qualified and stable staff resources 2 Very good accounting system and MIS 3 Good tracking system for overdues 4 Well developed financial planning system 5 Good infrastructure base	1 Good repayment rate and portfolio quality 2 Productive deployment of assets in loans 3 Good credit-deposit ratio

[1] M-CRIL's grading sheet is attached at the end of the report.

Operational structure of CRBB's financial services



Organisational Profile – Overall operations (includes PNCB numbers also)

Legal form	Years of Operation	Number of				
		Loan Accounts	*Savings accounts*	*Staff*	*Branches*	*Loan accounts/ staff member*
Cooperative Rural Bank	27 years	59,703	83,759	217	9	275

Operational highlights

Deposits (million)	Outstanding borrowings (million)	Loan portfolio (million)	Loans disbursed in 2005 (million)	Average loan size to clients
PHP657.4 US$12.9	PHP386.2 US$7.6	PHP951.2 US$18.7	PHP1841.1 US$36.2	PHP25,050 US$492

(1US$=PHP50.9)

Key financial ratios – overall operations

Past-due ratio (>0 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of borrowed funds	Credit-deposit ratio
4.4%	94.5%	13.7%	10.2%	144.7%
Yield on portfolio	**Other income to average portfolio**	**Financial cost ratio**	**Loan loss provisioning ratio**	**Operating expense ratio**
20.9%	2.9%	11.7%	0.9%	9.1%
Total income to average total assets	**Total expenses to average total assets**	**Return on average total assets**	**Operational Self Sufficiency**	**Financial Self Sufficiency**
19.2%	18.0%	1.2%	109.9%	103.7%

Notes

1 All figures are for the organisation's overall programme – regular banking (non-Grameen) as well as "supervised credit" programmes (includes PNCB's Grameen operations), as on 31 December 2005.

2 CRBB is registered as a cooperative and has obtained a licence from the *Bangko Sentral ng Pilipinas* (BSP) – the Central Bank of Philippines, to function as a rural bank.

3 Other income includes penalty from loans, service charges for closed accounts, sale of acquired assets and inspection fees.

4 Loan loss provision and the existing reserve on the loans are in accordance with the regulations of BSP resulting in 2% LLR.

5 Yield on portfolio includes interest and service charges on loans but does not include loan insurance premium collected.

6 Past-due ratio is the ratio of past due (the loans that have exceeded their maturity dates and restructured loans, as a proportion of the total outstanding portfolio of CRBB. This includes a loan of PHP12 million, given to a cooperative, which became overdue. CRBB is in the process of acquiring the collateral and recovering the loan. Past-due (>0 days) ratio excluding this loan is 3.1%.

7 The Current Repayment Rate measures the total collection on loans in 2005, compared with the total amount that became due in 2005.

8 Calculation of Risk-based Capital Adequacy Ratio (CAR) has been done on the basis of norms for qualifying capital and risk weights prescribed by BSP.

Highlights of PNCB programme of CRBB

Operational Methodology	Years of Operation	Number of				
		Total Clients	*Active borrowers*	*Staff*	*Branches*	*Active borrowers/ Staff member*
Grameen Model of microfinance	7 years	52,453	43,677	132	8	331

Savings deposits (millions)	Outstanding borrowings (millions)	Loan portfolio (millions)	Loans disbursed in 2003 (millions)	Average loan size to clients
PHP57.6 US$1.1	PHP177.4 US$3.5	PHP194.3 US$3.8	PHP562.2 US$11.0	PHP12,031 US$236.4

(1US$=PHP50.9)

Key financial ratios – PNCB

Portfolio at Risk (>60 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of borrowed funds	Yield to APR ratio
0.1%	98.5%	8.0%	13.0%	47.9%
Yield on portfolio	**Other income to average portfolio**	**Financial cost ratio**	**Loan loss provisioning ratio**	**Operating expense ratio**
31.3.%	1.5%	13.4%	0.8%	16.2%
Total income to average total assets	**Total expenses to average total assets**	**Return on average total assets**	**Operational Self Sufficiency**	**Financial Self Sufficiency**
24.3%	23.0%	1.2%	108.1%	106.8%

Notes

1 All figures have been estimated for the *Paluwagang Nayon ng Bulacan* (PNCB) Programme of CRBB, as on 31

2 December 2005. CRBB runs this programme under its “Special Projects” Division and follows the Grameen Model of Microfinance.

3 Under PNCB, CRBB has covered 366 *Barangays (*the smallest political unit in the Philippines, usually composed of one village) under 31 municipalities, and is working with 8,767 Groups under 1,438 Centres.

4 The financial ratios are based on the segmented financial statements prepared for the PNCB Programme. Estimates have been made for the allocation of expenses and for the loan loss provision.

5 Other income includes interest on bank deposits and loan penalties.

6 The PAR_{60} and Current Repayment Rate have been estimated from the information generated from the MIS of CRBB. The LLR of the PNCB programme is 0.8%.

7 CAR for the PNCB programme has been calculated based on M-CRIL’s (rather than BSP) norms for risk weights attached to different types of assets.

Comparative highlights

Grade distribution

Category	Rating grade		Movement [2]
	January 2004	March 2006	
Governance	α	α	⇔
Management	α	α–	↓
Financial performance	α	α–	↓
Overall	α	α–	↓

Select indicators/ratios - overall operations

Indicator/ratio	January 2004	March 2006	Change[2]
1 Growth			
Loans outstanding (PHP million)	594.5	951.2	↑
Outstanding borrowings (PHP million)	182.2	386.2	↑
Loan accounts	43,548	59,703	↑
Average loan size (PHP)	17,170	25,050	↑
2 Credit performance			
Current repayment rate	92.7%	94.5%	↑
Past-due ratio (>=0 days)	5.7%	3.1%	↑
3 Efficiency and profitability			
Active loan accounts per staff	218	275	↑
Loans to total assets	80.4%	80.1%	↓
Return on average total assets	2.3%	1.2%	↓
Operating self-sufficiency	114.7%	109.9%	↓
Financial self-sufficiency	113.5%	103.7%	↓
Capital adequacy ratio	12.2%	13.7%	↑

Select indicators/ratios - PNCB

Indicator/ratio	January 2004	March 2006	Change
1 Growth			
Loans outstanding (PHP million)	105.9	194.3	↑
Outstanding borrowings (PHP million)	92.3	177.4	↑
Active borrowers	28,439	43,677	↑
Average loan size (PHP)	6,684	12,031	↑
2 Credit performance			
Current repayment rate	99.4%	98.5%	↓
Portfolio at Risk (>=60 days)	3.1%	0.1%	↑
4 Efficiency and profitability			
Active borrowers per staff	237	331	↑
Loans to total assets	74.2%	75.9%	↑
Return on average total assets	2.2%	1.2%	↓
Operating self-sufficiency	109.4%	108.1%	↓
Financial self-sufficiency	107.7%	106.8%	↓
Capital adequacy ratio	10.5%	8.0%	↓

<u>Note</u>: The tables above present information as on 31 December 2003 and 31 December 2005 which was collected during rating visits conducted in January 2004 and March 2006 respectively.

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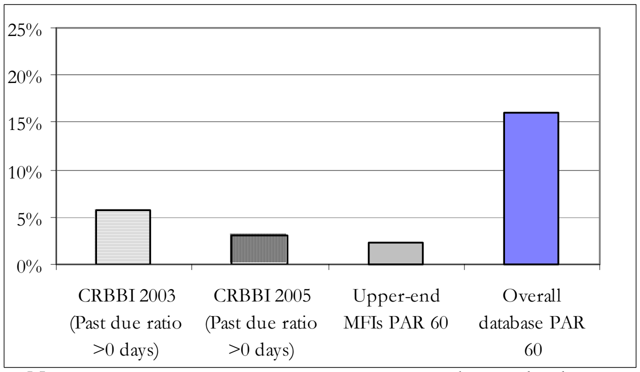
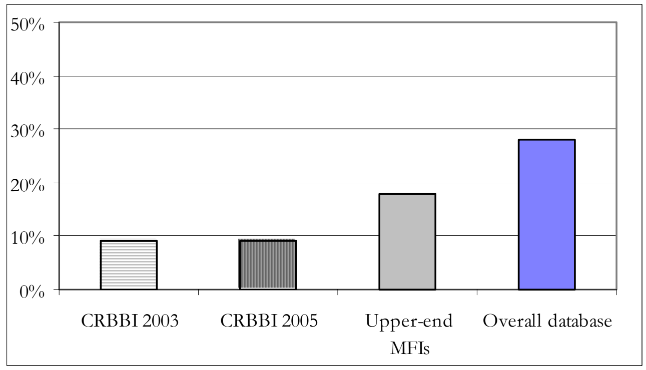
[2] An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.

CRBB (overall) – financial overview

Portfolio at risk : 31 December 2005

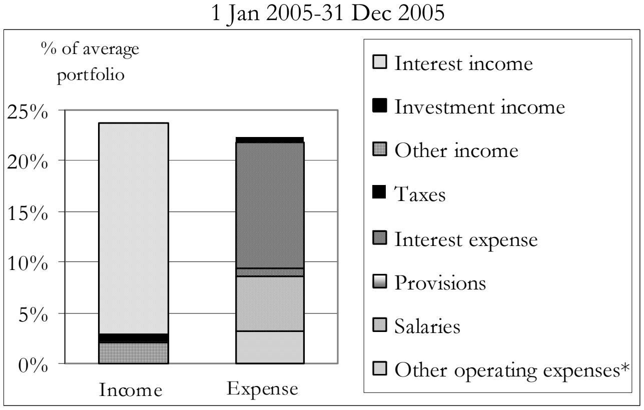


Operating expense ratio: 1 January 2005-31 December 2005



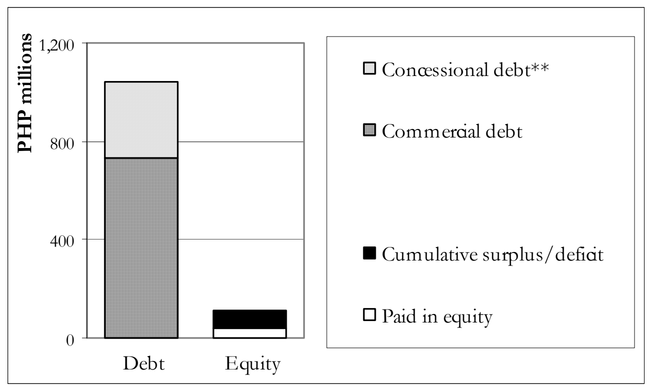
Note: 1. $n_{upper\text{-}end} = 9$ $n_{database} = 86$; Database updated as on 31 December 2004.
2. Outliers and rated NGOs with no direct lending have been removed for analysis. Upper-end figures reflect MFIs with top 10% scores.
3. The upper-end MFIs and overall database ratios represent simple averages for their respective samples.
4. The performance of either the Upper-end MFIs or all MFIs (overall database), do not necessarily reflect M-CRIL's rating standards.

Income and expense distribution:
1 Jan 2005-31 Dec 2005



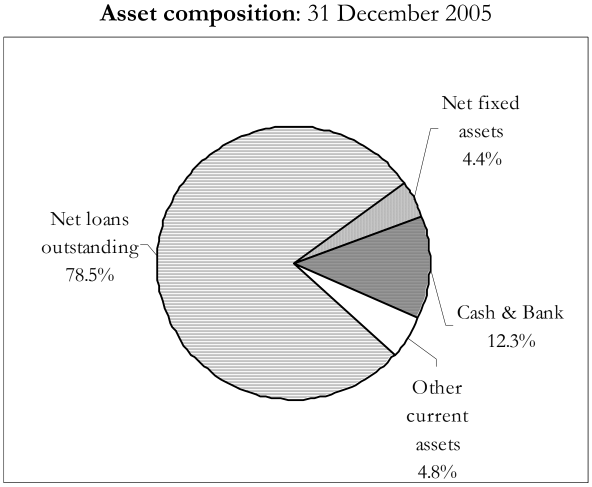
* Other operating expenses include travel, depreciation and administrative expenses

Debt and equity composition:
31 December 2005

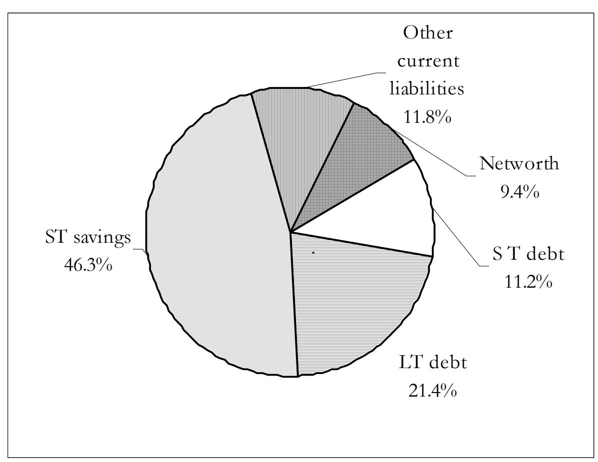


** Concessional debt is borrowing + comp. savings taken at < Bank PLR +50 basis points, & voluntary savings taken at < bank deposit rates

Asset composition: 31 December 2005

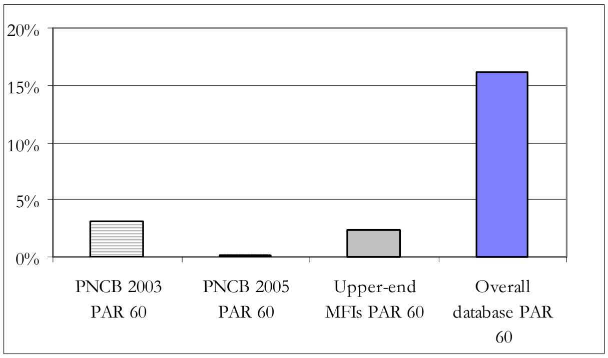


Liability & net worth composition: 31 December 2005

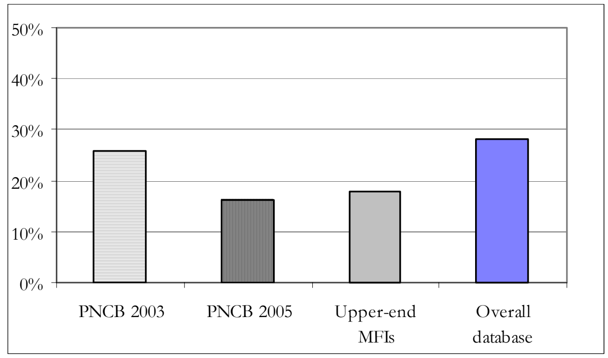


CRBB (PNCB) – financial overview

Portfolio at risk : 31 December 2005



Operating expense ratio: 1 January 2005-31 December 2005



Note: 1. $n_{upper\text{-}end} = 9$ $n_{database} = 86$; Database updated as on 31 December 2004.
2. Outliers and rated NGOs with no direct lending have been removed for analysis. Upper-end figures reflect MFIs with top 10% scores.
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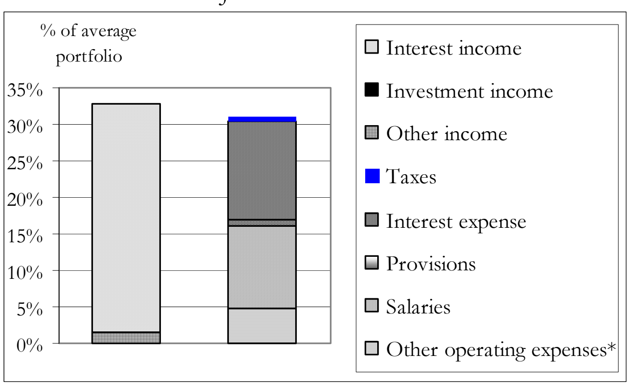
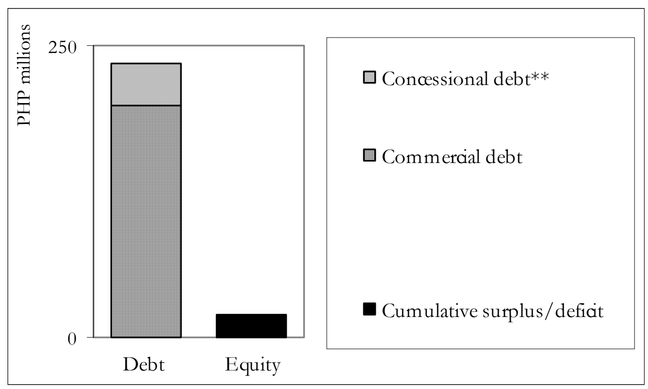
Income and expense distribution:
1 Jan 2005-31 Dec 2005



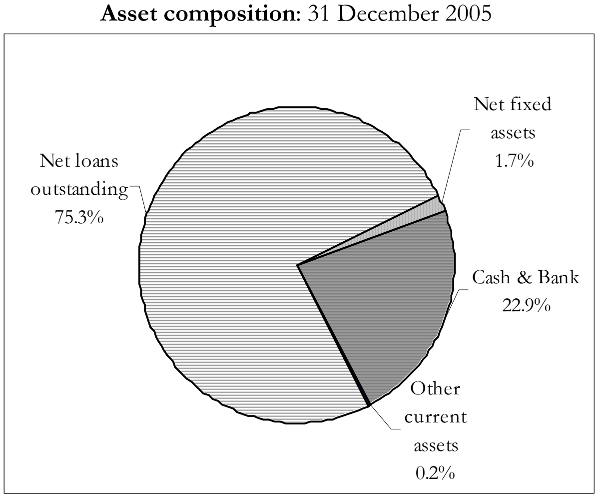
* Other operating expenses include travel, depreciation and administrative expenses

Debt and equity composition:
31 December 2005

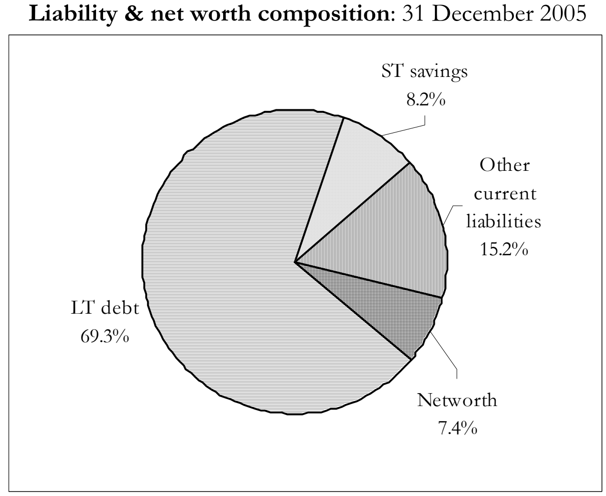


** Concessional debt is borrowing + comp. savings taken at < Bank PLR +50 basis points, & voluntary savings taken at < bank deposit rates

Asset composition: 31 December 2005



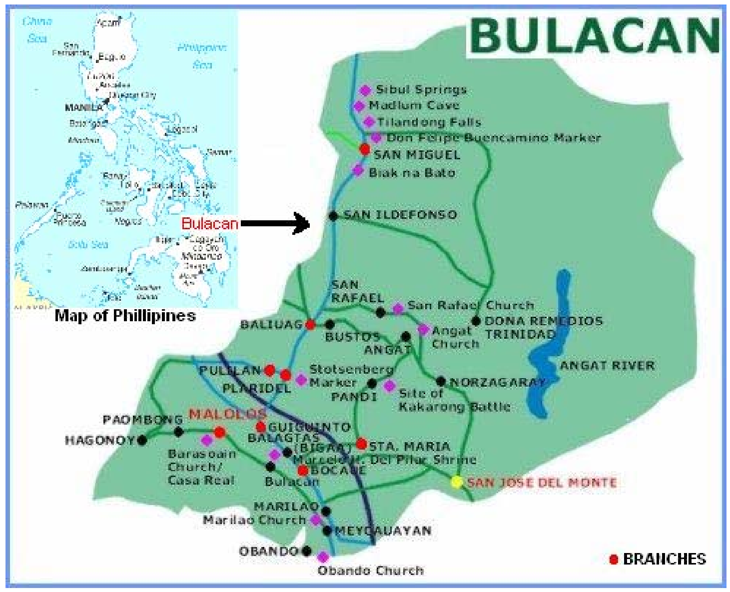
Liability & net worth composition: 31 December 2005



Country Profile: Philippines

The Philippines comprises an archipelago of some 7,107 islands located off Southeast Asia, between the South China Sea on the west and the Philippine Sea on the east. The total area is about 300,000 sq kms, including about 298,000 sq kms of land and about 2,000 sq kms of water. The total population of the Philippines was 76.5 million, evenly divided between males and females, at the last census in May 2000. The bulk of the population lives on 11 of the 7,107 islands. The major islands are Luzon in the north, the Visayan Islands in the middle, and Mindanao in the south.

The Philippines has undertaken substantial economic reform since 1986 and has a per capita income of around US$1,982. However, it is estimated that, 37% of the population still lives below the poverty line. In the last decade, while the Asian financial crisis and the El Nino weather phenomenon have had a negative impact on Philippines' economic growth, the country was the least affected compared to its ASEAN neighbours. The present administration has further taken steps to improve economic management facilitating structural reform especially in the banking sector. This has brought greater coherence and urgency the country's economic policies and changed its risk profile from negative to a stable outlook. From a 0.6% decline in 1998, GDP expanded by 2.4% in 1999, and 4.4% in 2000, but slowed to 3.2% in 2001. GDP growth accelerated to 4.3% in 2002, 4.7% in 2003, and about 6% in 2004, reflecting the continued resilience of the service sector, & improved exports & agricultural output.



Historically, Philippines economy has been an anomaly in the Asia-Pacific region as it has lagged behind other economies, such as those of Singapore, South Korea, and Taiwan. From a position as one of the wealthiest countries in Asia after World War II, the Philippines is now one of the poorest. Since the 1970s, which were a relatively prosperous decade, the Philippines has failed to achieve a sustained period of rapid economic growth and has suffered from recurring economic crisis. This persistent underperformance has occurred in spite of the Philippines' rich natural and human resources. The reasons are rooted partly in history, partly in policy. As a legacy of the U.S. colonial period, oligopolies have dominated the economy, particularly in agriculture, where farmland continues to be concentrated in large estates.

A traditional policy of trade restrictions, plus widespread graft and corruption, have suppressed in-bound foreign direct investment into the Philippines. A historically low rate of taxation—only about 15 percent of gross domestic product (GDP), partly as a result of widespread tax evasion—has led to underinvestment in infrastructure and uneven economic development. The National Capital Region around Manila, which produces about 36% of GDP with only 12% of the population, is much more prosperous than rural areas, where much of the population depends on subsistence living. The traditional lack of job opportunities has led many Filipinos to seek employment outside the country, notably in the Persian Gulf states. Remittances to family members back home—equivalent to 10% of GDP—have partially offset a relatively low national rate of savings of about 15 to 18%, about average for the Organization for Economic Cooperation and Development, but below average for the region. Current Account and budget deficits exacerbate the impact of the low savings rate on growth. Although trade barriers were scaled back, industrial cartels split up, and limited reform measures taken in the late twentieth century, political instability, continuing high levels of corruption, and resistance to reforms by entrenched interests have prevented the Philippines from pursuing a consistent and effective economic course.

The Philippines also faces higher oil prices, higher interest rates on its dollar borrowings, and higher inflation. Fiscal constraints limit Manila's ability to finance infrastructure and social spending. The Philippines' consistently large budget deficit has produced a high debt level and has forced Manila to spend a large portion of the national government budget on debt service. Large, unprofitable public enterprises, especially in the energy sector, contribute to the government's debt because of slow progress on privatization. Credit rating agencies are increasingly concerned about the Philippines' ability to sustain the debt; legislative progress on new revenue measures will weigh heavily on credit rating decisions.

Sources: www.mongabay.com/country-profile/Philippines.html; www.cia.gov/cia/publications/factbook/index.html; March 2005, Country Profile: Philippines, Library of Congress – Federal Research Division

1 Organisational background

Cooperative Rural Bank of Bulacan (CRBB) [3] was organised in 1975, by 135 Primary Cooperatives in the Bulacan province of the Philippines – located in Northern part of the country and 50-60 Km from Manila – with the objective of providing financial services to all types of cooperatives and their members

In November 1977, it was registered with the Securities and Exchange Commission of Philippines and was granted license by the Central Bank, *Bangko Sentral ng Pililipinas* (BSP), to operate as a Rural Bank in February 1978. It was also granted the authority to accept savings and time deposits by the BSP.

At present, CRBB has ~144 Primary Cooperatives as its members and its total paid up share capital is PHP15 million (US$294,695). Over the years, CRBB has broadened its objectives to provide financial services to all types of clients (in addition to its member cooperatives) and also promote the rural economy of Bulacan province. In order to achieve this, CRBB has developed partnerships with government and private financing entities and acts as intermediary in their rural credit programmes. CRBB continues to maintain its reputation of a reliable, client-focused and responsive bank that it had built over two and a half decades of its operations.

CRBB has an eleven-member Board, who are elected by the General Assembly, consisting of the representatives of all member Cooperatives of CRBB. Elections for the Board take place every year, for nearly half of the Board members each time. The Board meets at least once monthly, to review operations and to take policy decisions.

CRBB has formed three key committees - audit[4], corporate governance[5] and risk management[6] - on the basis of the recent circular by BSP that directs the Board of all banks and quasi-banks to create these committees. Members (representatives from the Board, including at least two independent directors) of all these committees meet once every month. The other committees include the Executive Committee (formed by six Board members), which meets weekly for approval of loans and taking up various matters, subject to confirmation of Board.

2 Microfinance operations

2.1 Background of microfinance operations

CRBB got the license to operate as a rural bank in February 1978. Till 1996, CRBB operated on a very small scale with only its Head Office in Plaridel lending mainly to its members. Its clients during that period were concentrated few, with limited types of services. In 1996, license from BSP to open branches provided a major thrust to CRBB's operations. In the next two years,

[3] There has been a change in name – earlier CRBB was known as Cooperative Rural Bank of Bulacan, Inc. (CRBBI)

[4] The audit committee oversees the banks' financial reporting and control as well as internal and external audit activities

[5] The corporate governance committee is tasked to review and evaluate the qualifications of all persons nominated to the Board and those nominated to other positions requiring appointment by the Board of Directors

[6] The risk management (RM) committee is responsible for the development of the institution's RM programme that includes identifying & evaluating exposures, prioritising risks that are likely to occur, defining the strategy for managing and controlling major risks, implement the RM plan and review and revise plan as needed.

between 1996 and 1998, seven new branches were opened at strategic locations, to establish its presence in the entire Bulacan Province. In December 2005, CRBB was operating through eight branches in Bulacan Province and 1 new branch in Quezon City in Metro Manila Province, covering nearly 60,000 borrowers and 84,000 depositors.

The overall programme of CRBB can be broadly divided into Regular Banking and Special Projects. While the 'Regular Banking' provides financial services to all types of clients – individuals and institutions – including cooperative members, the 'Special Projects' consist of projects in which CRBB acts as intermediary for some rural credit projects of the government and the financial institutions. CRBB sources credit for these projects from the respective sponsors (generally in the form of refinance), and has to follow the criteria specified by the sponsors. These activities are also referred to as 'supervised credit' and include one major microfinance programme 'PNCB' based on Grameen Model, which has a parallel structure to the regular banking programme of CRBB. PNCB constitutes around 20% of overall gross outstanding portfolio of CRBB. A brief description of the various activities, (including PNCB) under the "Special Projects" is presented below.

Project	Sponsor	Objective	Number of Clients
Paluwagang Nayon ng CRB Bulacan (PNCB)	People's Credit and Finance Corporation (PCFC)	Provision of financial services to low income clients under the Grameen Bank methodology. Individual lending, group guarantee	43,677
Puhunang Pangkaunlaran ng Sikap Buhay (PPSB)	National Livelihood Support Fund (NLSF) through CRBB-NLSF-Quezon City Microfinance Tie-up	To develop the capacity of the city government in operating and managing a microfinance unit. Using Grameen Bank methodology for providing financial services to low income clients	4,134
Livelihood Credit Assistance Programme (LCAP)	National Livelihood Support Fund (NLSF)	Provision of credit assistance to Agrarian Reform Beneficiaries. Individual lending, group guarantee.	1,131
Gintong Ani	Agriculture Credit Policy Council (ACPC)	Provision of credit assistance to farmers who till land. Individual lending	832
Women's Livelihood Support Fund (WLSF)	Provincial Government of Bulacan	Provision of credit assistance to women entrepreneurs. Individual lending	584

2.2 Organisational structure

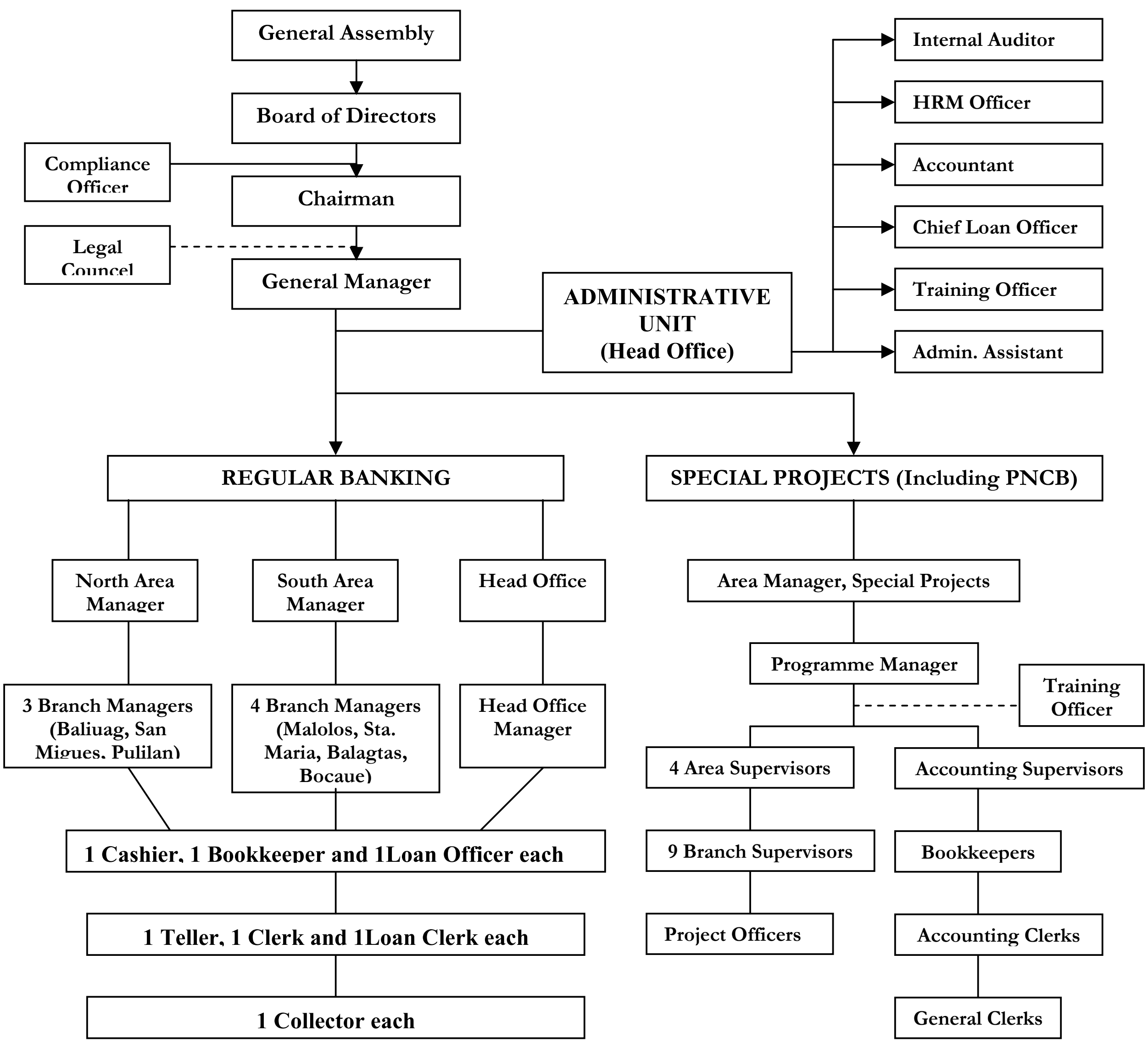
The organisation is led by Atty Jacinto S Jose, Jr, Chairman of the Board, and operational management is delegated to Mr Nestor Custodio, the General Manager (GM) of CRBB. A new post of Compliance Officer (after separation of the audit and compliance team) has been recently introduced; it reports to the BoD. Other staff at the Head Office include an Internal Auditor, Human Resource Manager, Accountant, Chief Loan Officer (& Executive Assistant to GM), Training Officer and Administrative Assistant.

The Head Office also acts as one of the branches and is responsible for managing the "Special Projects". While the Head Office Manager and Area Managers (North and South) are responsible for the Regular Banking operations in their respective branches, the Area Manager, Special Projects is responsible for all the Special Projects of CRBB including PNCB.

The Regular Banking operations at the branches are led by the Branch Mangers. Additionally, the branches have cashier, book-keepers, tellers, clerks, a loan officer and a loan collector for regular banking operations.

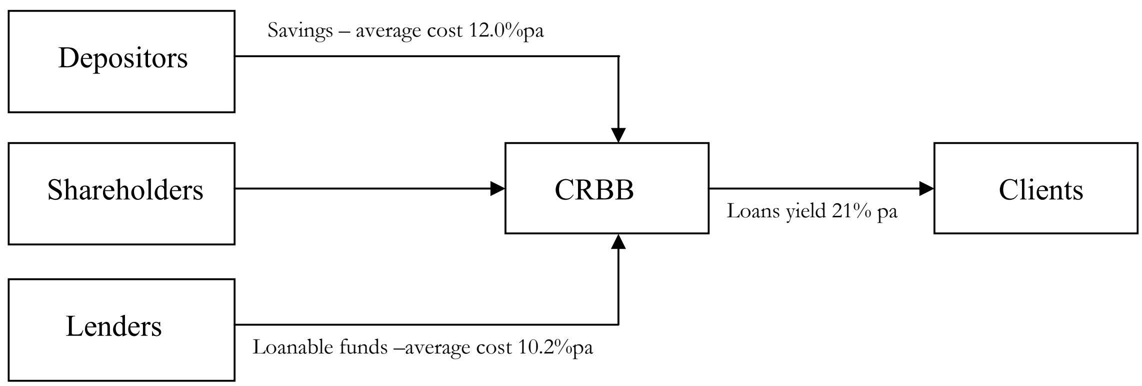
The PNCB, which started in June 1998 as a Special Project, with financial & technical support of PCFC and CARD Bank, now has a separate organisation structure. At present, PNCB has more staff and clients than those of all other programmes of CRBB taken together, including regular banking. However, it continues to be part of the Special Projects Division. The organisational chart of CRBB is depicted below

Organisational chart of CRBB



PNCB has a parallel structure in all the branches including Head Office. The PNCB section at the Head Office is led by the Programme Manager. This section also handles the accounts, MIS, administration and training of PNCB staff and clients. The Programme Manager leads a team of four Area Supervisors, each responsible for 2 branches. Each branch is managed by a Branch Supervisor, who leads a team of 6-10 Project Officers, who are responsible for the field operations of PNCB.

The overall flow of funds to and from the organisation is as given in the following diagram:



For its operations, CRBB has obtained loan funds from various sources. The details of funds received by CRBB are summarised in a table below

Source of funds	Amounts received in 2005 (PHP million)	Outstanding on 31 December 2005 (PHP million)	Rate(s) of Interest
Land Bank of Philippines (LBP)-RED	199.7	99.0	9%
LBP-Hold Out	45.7	24.8	8%
National Livelihood Support Fund (NLSF)-Quezon City	24.4	8.7	9%
People's Credit and Finance Corporation (PCFC)-Institutional	3.4	1.1	3%
RISE	3.2	5.0	13%
NLSF-LCAP Soft Loan		0.2	3%
NLSF -Querzon City Soft Loan		0.4	3%
Blue Orchard	24.4	30.4	6%
OP-PSF		1.0	6%
Philam Savings	0.5	0.3	0%
Quendacor		8.0	3%
PCFC-Investment	65.0	173.6	13%
PCFC-Institutional (Long Term)		2.7	3%
Women Livelihood Support Fund (WLSF)		2.2	0%
NLSF-LCAP (Long Term)	36.8	26.8	9%
Cooperative Development Authority (CDA)		0.5	3%
BANGKOOP		1.0	0%
BAI-MLDLP		0.4	3%
Total	**403.1**	**386.2**	

2.2 Savings and credit policies

The organisation's operational polices are largely the same as before. The financial services provided by CRBB could be broadly divided into three categories - regular banking, "special projects" other than PNCB and PNCB.

2.2.1 Regular Banking

Savings products

CRBB provides three deposit products to the public – savings deposits, time deposits and current account deposits. These are

Product	Rate of interest, other terms	Deposits, 31 Dec 2005 million PHP
Savings Deposits	2%pa. The savings are fully withdrawable, subject to a minimum balance of PHP500	105.77
Time Deposits	Rate of interest varies from 5-6%pa to 14%pa depending on the term and the size of the deposit. Rate of interest is often negotiable	549.68
Current Account Deposits	These are checking deposits and no interest is paid	1.95

During 2005, CRBB reduced the rate of interest on savings deposits from 3% to 2%pa and increased the minimum balance from PHP100 to 500 in order to decrease costs. However, CRBB has kept the interest rate higher than what is offered by the commercial banks (1%) in order to be competitive.

Loan products

CRBB has a range of four loan products. Loans are provided to individuals and institutions for a number of purposes including working capital and consumption, and are backed by collateral (real estate, vehicle or fixed deposits). The ratio of collateral to loan amount is usually 10:4 in case of land as collateral and 10:3 in case of vehicles as collateral.

The loan applications are submitted to the concerned branch office of CRBB. The appraisal is undertaken by the Loan Officer at Branch level and two persons from the Head Office (Area Loan Officer and Chief Loan Officer). The appraisal process includes on-site inspection of business and valuation of the collateral. Revaluation of the collateral is done for each and every loan renewal. The Branch Managers are authorized to approve loans upto PHP20,000. Loans between PHP20,000 and PHP100,000 must be approved by the General Manager and loans of more than PHP100,000 are approved by the Board of Directors.

The borrowers, in most cases, visit the branches to make repayments. In a very small number of cases, when the loans are to be repaid in weekly or monthly installments, loan officers visit the borrowers to collect the installments. Below is the description of loan products of CRBB under regular banking.

Product	Rate of interest, loan term, other condition	O/s on 31 Dec 05 million PHP
Agricultural loans	Option 1: 21%pa flat+ 5% service charge collected upfront. Lump sum payment Option 2: 18%pa flat+ 5% service charge collected upfront. Interest deducted upfront and principal amortised monthly Option 3: 24%pa flat+ 5% service charge collected upfront. Monthly amortisation of Principal+ Interest Loan term depends on the crop cycle, usually payable lump sum between six months to one year. Collateralised	143.28
Commercial loans	Same terms and conditions as that for agriculture loans.	355.34
Industrial loans	Same terms and conditions as that for agriculture loans.	27.06
Salary loans	Option 1: 14%pa flat+ 5% (1 year loan term) or 7.5% (2 year loan term) service charge collected upfront. Interest deducted upfront and principal amortised monthly. Option 2: 15%pa flat+ 5% (1 yr) or 7.5% (2 yr) service charge collected upfront. Monthly amortisation of Principal + interest. Secured by a Memorandum of understanding between the employer of the borrower and CRBB.	122.92

All loans are insured with private insurance companies like Cooperative Insurance System of Philippines (CISP) and Country Bankers Life Insurance Company (CBLIC) against the death of borrowers, and insurance premium @1.3%pa on the loan amount is collected by CRBB and remitted to the insurance companies. CRBB receives 50% of the premium as commission from the insurance companies.

2.2.2 Special Projects other than PNCB

For the Special Projects, other than PNCB, CRBB follows criteria specified by the concerned sponsors, as regards selection of clients, loan terms and the interest rates. The loan applications are received and appraised by the Special Project Division of CRBB. The approved loan applications are then forwarded to the concerned sponsors, who provide refinance on these. There has been no change in the terms and conditions for these products since the last rating. The loan products under Special Projects are

Product	Rate of interest, loan term	Other characteristics	O/s on 31 Dec 05 million PHP
Gintong Ani	Manila Reference Rate (MRR)+5% declining; Service charge @3% for members and @5% for non-members. Loan term depends on the harvest cycle – in most cases six months.	Lump sum payment. Maximum loan size P15,000 per hectare for farming and P4,000 per swine for livestock – can increase with collateral. Compulsory insurance with Philippines Crop Insurance Corporation (PCIC)	62.39

Product	Rate of interest, loan term	Other characteristics	O/s on 31 Dec 05 million PHP
LCAP	24% flat. To be paid in a maximum of six months, usually lump sum.	Loans to be given to the residents of identified Agrarian Reform Beneficiary Communities (ARB) for purposes other than farming. Loans size start with a maximum of P10,000, increasing by P5,000 in each subsequent loan cycle. Compulsory insurance of livestock with PCIC.	24.08
WLSF	12% flat. To be paid in a maximum of six months, usually lump sum.	Loans to be given to entrepreneurial women for income generating activities. Maximum loan size P2,000, increasing by P1,000 per cycle.	3.39
PPSB-QC	18% flat + 5% of the loan amount paid upfront as service charge	Loans to be given business activities to low income clients. Fist loan cycle of P5,000 which increases by P2,000-5,000 in subsequent cycles. Maximum loan term of 25 weeks	18.49

2.2.3 PNCB

CRBB follows the Grameen Model of Microfinance, to provide financial services to the low income clients in its operational area. The clients are organised into homogeneous groups of five members each. Upto eight such groups form a centre. There is a well-defined procedure for identification of *Barangays*, selection of villages, training of clients. These procedures are largely as prescribed under the Grameen Model, though some have been modified according to the specific requirements of CRBB.

All the financial transactions of the groups – collection of savings and loan instalments – take place in the weekly centre meetings, which are attended by the Project Officers of CRBB. The savings products offered by CRBB under the PNCB are

Savings products

Group Fund	Centre Fund	Special Savings
Compulsory. PHP10 per member per week. To be used by the group in case of default by the member. Interest @2%pa.	Compulsory. Seven percent of the loan amount deposited in the Centre Fund. Non-withdrawable, unless the centre is dissolved. Interest @2%pa.	Voluntary. Minimum deposit, PHP100. Any amount can be withdrawn or deposited in weekly meetings. Interest@2%pa. These can also be converted into time deposits @5-6%.

Loan products

Under PNCB, only one loan product is offered to the clients. The loans are payable in equal weekly instalments, along with interest @24%pa.flat. Additionally, 5% of the loan amount is paid upfront as service charge. The loan size and the term of the loan, depends on the loan cycle. The maximum loan size in the first loan cycle is PHP5,000, which increases by PHP2,000-5,000 per cycle in the subsequent cycles. The loan term is a maximum of 25 weeks till the third cycle and increases to 50 weeks from the fourth cycle.

Loans are given to individuals on a guarantee by the concerned Group and the Centre. Loan applications are made in the weekly centre meetings and the Project Officer of CRBB undertakes primary appraisal. The final loan approval is given by the Programme Manager, PNCB. Disbursal of loans is done at the branches of CRBB. The collection of loans takes place at weekly centre meetings by the Project Officers.

3 Observations

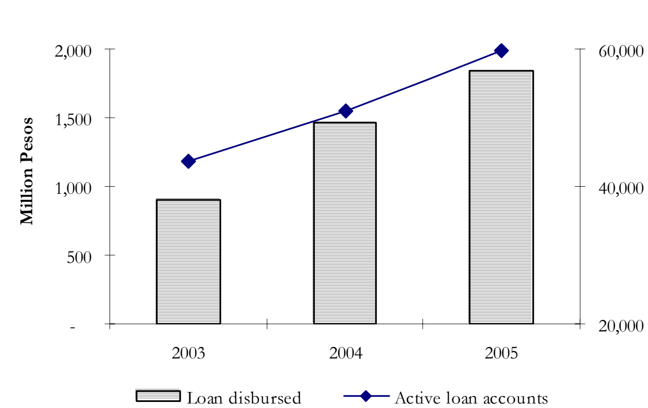
3.1 Governance & strategy

CRBB has good performance on governance and strategy, with a grade of α. This is the same as previous rating. The organisation has considerable experience of working in its area of operation and has a focussed microfinance strategy. The organisation is also supported by an active Board and highly committed staff.

- Operational strategy

Growth: CRBB has shown a rapid growth in the last three years. Though there is no increase in the number of branches for regular banking, (except one new branch in Quezon City for microfinance) the organisation has been able to expand its client base, portfolio and geographical coverage within the Bulacan province. **Figure 1** along-side shows the growth trend of CRBB.

Figure 1: Yearly growth of CRBBI



The organisation has been able to mobilise higher deposits from its clients without increasing the number of branches. This has been made possible mainly because of the quality of service delivery while remaining competitive in comparison with commercial banks and other rural banks. The reduction in the interest rates on deposits have also helped in bringing down the weighted average cost of savings for overall operations from 15%pa at the time of previous rating to 12%pa. The low client drop out rate of 3% for the PNCB programme in 2005 shows that CRBB has been able to maintain the loyalty of its clients.

Expansion strategy: CRBB is authorised by BSP to operate only in Bulacan province for the Regular Banking programme. The existing branches have expanded their operational area and outreach which has resulted in the increase in portfolio. As most of the branches have reached a stage of saturation in terms of number of villages covered, CRBB is focussing on expanding the outreach of its PNCB programme, as it considers the latter to be the major contributor to its growth in the future. This is also because BSP does not restrict expansion of its microfinance programme to other provinces, unlike regular banking. The organisation has applied to BSP for establishing two new branches outside Bulacan province and is awaiting authorisation for this.

- Board competence & leadership:

  CRBB Board members have gained good experience in microfinance, as some of them have been associated with the organisation since its inception, while others have been there for around 7-10 years. Though the average age of Board members is ~65 years, they are regular in attending monthly meetings and actively participate in discussing operational issues and formulating organisational policy. Apart from the regular monthly Board meetings, the Board members also attend 2-3 special meetings during a month for approving loans above PHP100,000. The Board members also represent in the three newly formed committees - audit, corporate governance and risk management. However, at present, the role of these committees in governance is limited.

  The General Manager of CRBB has experience of ~28 years with CRBB and has been the operational head of the organisation since 1995. He has shown excellent leadership skills and has been able to manage the organisation efficiently. However, the organisation lacks a good second line of leadership to support the General Manager in his functions, and in ensuring continuity of organisational policies and preparing themselves to hold the reins of the entire organisation at some later stage. This is a matter of concern and may impact the organisation's future performance.

- Geographical coverage: CRBB has its presence in almost all the areas of Bulacan province. Though its geographical presence is excellent, there is still scope for increasing its depth of operations in terms of the number of target households covered in the existing villages.

- Fund mobilisation: CRBB has paid-up capital of P15 million distributed among 144 primary cooperatives. Mobilisation of capital has been an area of concern for the organisation and has affected its capital adequacy. Members of CRBB are mostly farmers' cooperatives, whose capacity to contribute capital is limited.

  At the time of previous rating, CRBB had mobilised nearly PHP20 million from private individuals and existing shareholders (including a small part of the capital subscription from employees through CRBB Employees Credit Cooperative, which is a shareholder of the bank). Since, the authorized capital stock prescribed by the BSP is fully subscribed, the deposit for capital subscription is not yet converted into capital. As part of the strategy to further increase the bank's Capital, CRBB is contemplating conducting raffles and or/concerts, proceeds of which can be used as additional capital in the form of reserves for the bank. The bank would continue to solicit paid-up capital from existing and new member cooperatives and preferred stock from individuals. In addition, the organisation is negotiating with Blue Orchard Finance for a long term unsecured subordinate debt, which can be considered as Lower Tier 2 Capital, as per BSP regulations.

The funds mobilised by CRBB through savings/deposits as on 31 December 2005 is PHP657.4 million and borrowings of PHP386.2 million.

- Competition: CRBB faces competition in savings products mainly from four Rural Banks [7] in Bulacan province that offer an interest rate of 2-3%pa on savings. Though CRBB has good systems and financial products to deal with this competition, it can hamper its resource mobilisation plans for growth. The Regular Banking programme of CRBB is also facing competition from these rural banks as the area of operations for all these banks is limited to Bulacan province. In comparison, the PNCB programme has little competition as its operations can be expanded to other provinces.

- Regulatory environment: CRBB is regulated by both BSP and the Cooperative Development Authority (CDA). Though there are some conflicts between the BSP and CDA, it does not create any problems for the organisation, as in case of conflict, the Central Bank regulation prevails. CRBB calculates loan loss provision according to BSP guidelines. However, the BSP supervision team usually revises the loan loss provision amount while conducting annual audits of the bank. Apart from this, the BSP also conducts special audits for cash verification and capitalisation.

  The existing regulatory environment seems quite conducive for microfinance operations as the Central Bank has exempted microfinance from its moratorium on opening new branches. Therefore, rural banks are allowed to open micro-finance oriented branches, even outside the province, where it operates. CRBB plans to take advantage of this opportunity and develop a focussed strategy for the growth of their microfinance programme. . Apart from Bulacan province, CRBB has started its microfinance programme in Metro Manila also.

3.2 Managerial factors

CRBB has good performance on managerial factors, with a grade of $\alpha-$, a lower grade than α obtained during the previous rating. This has mainly resulted from weakening internal control, which has led to lapses in the bank's polices in at least two of the branches.

- Human resource quality and management

  CRBB has highly qualified and professional managerial staff. The low drop-out rate (~3%) since December 2004 reflects the high commitment and motivation of the staff.

  Most of the staff (including PNCB staff) have received professional training in microfinance and related aspects. The organisation is also planning to organise customised microfinance training for its staff by hiring experts in this field. The understanding of the staff of the various operational and procedural aspects of their responsibility areas is adequate. In order to strengthen the operations staff and also develop a second line of leadership, CRBB has identified few persons from within the organisation and have posted them with some of the branches as Understudy Managers. Their main job is to support the Branch Managers and develop skills to take up similar responsibilities in future.

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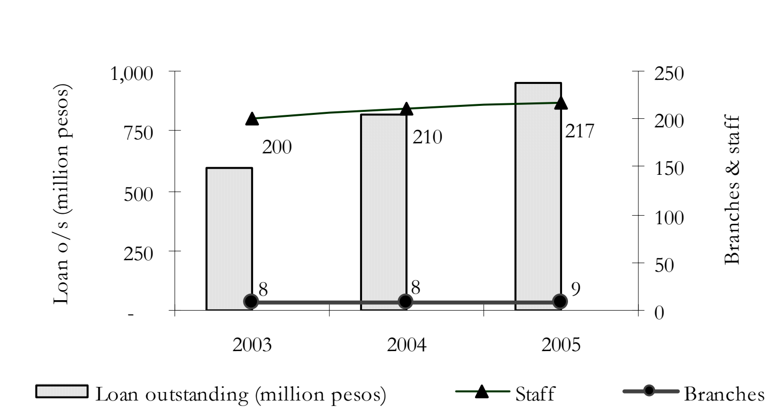
[7] Rural Bank is owned by individual/family whereas Cooperative Bank is owned by institutions (primary cooperatives)

Staff incentive system is linked with the performance of a branch, in comparison with the budget and is distributed four times in a year. The distribution of incentive is done on a pro rata basis.

Staff efficiency has been improving steadily over the years. The active loan accounts to total staff ratio has improved from 218 in December 2004 to 275 in December 2005 and similarly the active borrowers to staff ratio for PNCB improved from 237 to 331. **Figure 2** shows the growth in portfolio vis-à-vis the growth in the number of staff members and offices during the period 2003-05.

Figure 2: Portfolio vis-à-vis staff and offices



While portfolio has grown at 20% per annum during this period, the number of branches and staff has increased only marginally. On an average, each staff member was handling a portfolio of PHP3.0 million in December 2003, whereas by December 2005, the portfolio had gone up to PHP4.4 million per staff member. The present staff strength is sufficient for further consolidating CRBB's operations in its existing branches and the staff efficiency can further improve with increased outreach.

- <u>Accounting and MIS</u>

CRBB has a computerised accounting system both at the Branch and Head Office levels. The organisation continues (like in the previous rating) to use Microbanker' accounting and MIS software for its regular banking as well as the microfinance programme. The quality of software is very good and can generate user-friendly reports for tracking operational and financial performance on a regular basis along with efficient tracking of due and overdue portfolio. CRBB is planning to install a new software for the microfinance programme (PNCB) from Java Softech (an Indian firm), which will be customised to the bank's requirement. Apparently, this software is more comprehensive and will be suited to the microfinance programme of CRBB, where in the future, there is to be further growth, accompanied with huge volume of transactions. The new software for the Head Office will cost PHP325,000 and an additional PHP25,000/branch.

In terms of reporting, information from all the branches is sent to the Head Office for consolidation. The branches send liquidity status and cash flow report to the Head Office on a daily basis to enable it to monitor compliance with the cash reserve regulations of BSP. The financial statements (balance sheets, profit and loss accounts), summary of loan releases, list of current accounts and list of overdue and past-due accounts are sent to the Head Office on a monthly basis for monitoring and consolidation.

In case of PNCB, the accounting and MIS is centralised at the Head Office - the branches do not maintain records. Most of the transactions – disbursement of loans and collection of loan instalments, as well as savings – take place at the branches or in the Centre Meetings.

The accounting vouchers for all the transactions are prepared by the Project Officers, and sent to the Head Office for recording and consolidation. The weekly collection sheet for each Centre are prepared at the Head Office and sent to the concerned field-workers on a weekly basis. The Project Officers, in turn, send the filled-up collection sheets to the Head Office daily for recording. The monthly reports generated for PNCB include report on loan releases; past due report, including ageing analysis; monthly loan report by interest rate category; schedule of loan portfolio classified on the basis of loan term and year-end report on list of past-due loans.

The branches are treated as profit centres and the financial statements, therefore, reflect all expenses, including the cost of funds transferred by the Head Office. However, there is no system of allocating head office overheads to the branches.

The quality of accounts is good. CRBB follows accounting policies as stipulated by the BSP. Accounting for expenses as well as income is done on an accrual basis. For overdue cases, the entire accrued income is reversed.

CRBB follows the BSP norms for asset classification and provisioning, and maintains loan loss reserves accordingly. The organisation has a well documented write-off policy for bad loans. However, write-offs have not been implemented till now as CRBB believes that overdue and past-due loans are recoverable. As on 31 December 2005, around 0.83% (~ PHP7.91 million) of the Portfolio was Past-Due (> 12 months) and could be written off.

- <u>Tracking system for overdues</u>

CRBB has very good systems for tracking overdues, both for its Regular Banking and the PNCB. The list of maturities for Regular Banking (both for loans payable in lump sum and in monthly amortisation) is generated on a daily basis by all the branches. The loan collector in each branch follows-up on the daily maturities and past-due loans. The loan collector also has the responsibility of informing all the borrowers, particularly those with loans repayable in lump sum, about their due date of repayment at least a week in advance. This often includes visiting the premises of the borrowers. Past due loans are also discussed in the weekly meetings of the Branch Managers.

In case of overdue loans, three letters of warning are sent to the borrowers at intervals of 3, 5 and 7 days after a payment has become overdue. In the meanwhile, the loan officer and collector follow-up with the borrowers and persuade them to repay the loan or else face legal action.

For the PNCB, CRBB mainly depends on the weekly collection sheets, carried by the Project Officers to Centre meetings, for tracking overdues. Additionally, a list of over dues is generated at the end of every week, which is discussed by the Branch Supervisors in their weekly meetings with Project Officers.

- <u>Financial planning and control systems</u>

The financial planning system of CRBB is good and comprehensive. Each branch prepares an annual budget, which is approved by the BoD. The budgets have monthly operational and financial targets. The variance analysis of actual performance from targeted performance, as well as from the previous year's performance, is carried out each month and is discussed in the meeting of Branch Managers.

CRBB's organisational structure has an in-built internal control mechanism, as there are internal checks and supervision at various levels (Chief Area Supervisor, Area Supervisor and Branch Supervisor) to detect and prevent accounting errors and misappropriation. The regular banking has not experienced any misappropriation of funds. However, in PNCB, there have been some isolated cases of deposits (collected by Solicitors) not fully credited to the depositors account. Such cases have been promptly identified and the concerned Solicitors have been asked to resign from the organisation.

In spite of above measures, inconsistencies in at least two of the branches in relation to non-adherence to lending policies [8] indicate weakening internal control. The rating team observed that in two of the branches, several unsecured loans were sanctioned at an interest rate of 0% to 5%pa. These loans included new loans, restructured loans and loans >=PHP100,000 approved by the Board. The bank has not only lost on interest income with the reduced interest rate, but has also increased the risk associated with these loans in the absence of collateral (deposits). Moreover, the management was not aware of these inconsistencies. All this has affected the yield/profitability, which has decreased since the previous rating. Weakening internal control is a serious issue and may negatively affect the future performance of the organisation.

Though the compliance and the internal audit division have been separated, internal audit system of the organisation continues to be weak. The separate internal audit division has become functional only in January 2006, and at present there are only three staff in the team. It is evident that the internal audit team is not functioning properly, as it could not detect the anomaly regarding irregular approval of loans in two of the branches and inform the management to take corrective action. It is expected that the internal audit team would gradually increase its scope of work, which is presently limited mainly to reconciliation of cash and verification of inventory.

- Quality of member groups in PNCB

The quality of the groups visited was found good in terms of repayment of loans, awareness about organisation's rules/norms and understanding of the loans products, amounts, instalments and interest rates. Though a few of the groups visited showed irregular attendance of members at the Centre Meetings, the group ensured that even if a particular member is not able to attend the meeting, the repayment is sent on time through other members/representatives.

- Infrastructure

CRBB has an infrastructure base of PHP51.82 million as on 31 December 2005. This includes the land and building at the Head Office, vehicles, furniture and fixture and the software at the Head Office and at the Branches. The office building, at most of the branches, is on rent. The current level of infrastructure is adequate and is being employed effectively in the overall operations. However, CRBB will have to increase its infrastructure base when it expands its microfinance operations to other provinces.

[8] In a memorandum to all the Branch Managers by the GM, the management had allowed the Branch Managers to provide loans at an interest rate not less than 5% pa only for loans with deposits as collateral. In such cases the bank would not pay the interest on deposit to the clients. If the interest on deposit is paid then the interest rate on loan would be interest rate of deposit + 5%.

3.3 Financial performance

The financial performance grade of CRBB is good at $\alpha-$. This is a downgrade from the previous rating of α mainly because of falling yield & profitability, steep fall in ROA, decline in OSS & FSS and low CAR.

- Credit performance and asset quality

  CRBB has good credit performance for both: its regular banking, as well as for its PNCB Programme. The current repayment rate of all the programmes taken together is 94.5% for the year 2005. The Past Due ratio is 4.4% as on 31 December 2005, which is an improvement from 5.7% during the previous rating.[9] In the case of the PNCB programme, there has been exceptional improvement of PAR_{60} from 3.1% as on 31 December 2003 to just 0.1% as on 31 December 2005. The current repayment rate has dropped slightly from 99.4% (2003) to 98.5% for the year 2005.

  However, the rating team observed that a number of Regular Banking loans have been restructured in a couple of branches, with the organisation agreeing to lower the interest rate to even 0%pa. Restructuring[10] of loans pose a huge risk to the organisational image and portfolio quality as it may encourage the borrowers not to pay on time.

  CRBB portfolio is reasonably diversified with about 35% as consumption loans (including education, house, health and social service), 28% in trade and service, 19% in agriculture, 7% in manufacturing, 5% in construction, 4% in fishing and 2% in transportation. Around 48% of the portfolio is secured - 23% through real estate mortgage, 16% through chattel mortgage and 9% by holdout deposits - and 52% of the portfolio is unsecured, which includes loans with personal guarantees, salary and microfinance loans (including PNCB).

  In terms of loan size and term, it was observed that some of the branches have disbursed a few loans of size greater then PHP1,000,000 and term of 2-3 years. All such loans are being managed by the Head Office (including loan appraisal, follow-up and security aspects).

- Mobilisation of funds

  CRBB has obtained grant and loan funds from a variety of sources and has been regular with its repayments to lenders. Besides external loans, the organisation has been able to mobilise a good amount of deposits from its clients. Deposits constitute a significant source of funds for on-lending.

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9 This includes an overdue loan of PHP12 million to a cooperative which is in the process of being recovered by acquisition of the collateral. Excluding this the Past-Due (>0 days) ratio becomes 3.1%

10 Though the Management insists that restructuring of loans is not a part of its strategy, the organisation has allowed restructuring of loans mainly because realisation of collateral in the Philippines is a long process. The borrower gets one year to redeem the collateral by paying off the loan, interest and all incidental expenses. Only if the borrower fails to repay within an year can an organisation realise the collateral.

CRBB is in the process of availing the Special Purpose Vehicle (SPV) Act of 2002, incorporated under Republic Act 9182 to help banks mitigate the deleterious effects of their onerous non-performing assets (NPA), consisting of non-performing loans (NPL). This would allow CRBB to sell the collateral through a registered a registered real estate agent who will charge a service fee.

While deposits form a significant source of funds for the regular banking operations of CRBB, in the case of Supervised Credit the major portion of the portfolio is financed by borrowings from their respective sponsors. For the PNCB, the entire portfolio continues to be from loans from PCFC, savings deposits of the PNCB clients and internal accruals.

The overall cost of funds at 11.3%pa is relatively high for CRBB. The average cost of public deposits for the year 2005 is 12.0%pa - a decrease from 15.0%pa at the time of previous rating. This has decreased because of reduction in the interest rate on savings and time deposits by CRBB this year. However, CRBB is consciously still offering higher interest rates than the commercial banks in the Philippines to attract public deposits. The average cost of borrowed funds at 10.2%pa has also marginally decreased from 10.6%pa during the previous rating.

- Asset, liability and equity composition

The deployment of assets in loans is good at 78.5%. The organisation has minimised its total assets deployed as cash (in hand and bank) at just 0.8% and has liquid deposits with BSP and other banks at 11.3%. This is in accordance of BSP regulations on liquidity (2% of total deposit liabilities and 7% of demand deposits). On the liability side, the organisation has relied on external debt and savings. Borrowings and savings mobilised from the clients constitute 32.5% and 46.3% respectively of total liabilities.

The risk weighted capital adequacy ratio of the organisation has improved to 13.7% as on 31 December 2005 in comparison with 12.2% at the time of previous rating in 2003. Though this has improved, it continues to be an area of concern as it is relatively close to the BSP requirement of minimum CAR of 10%. The organisation will require additional equity to finance its growth plans. Since its inception, the organisation has mobilised P15 million from its members. The preferred equity mobilised from individuals & private institutions stands at P20.65 million. As the inability of the member cooperatives to contribute more equity has restricted its growth, CRBB is planning to mobilise subordinate debts from financial institutions (like Blue Orchard), which could be treated as equity.

Since the last rating, the external borrowings have grown by almost 56%pa; deposits from the clients have grown by 21%pa and the net worth of the organisation has grown only by 33%pa. The growth in the net worth has been mainly due to increase in internal accruals.

- Profitability and Sustainability

The organisation's performance on profitability and sustainability has witnessed a downfall since the previous rating. While the Return on Assets (RoA) has decreased from 2.3% at the time of previous rating to 1.2% in Dec 2005, the OSS has dropped from 114.7% to 109.9% and FSS from 113.5% to 103.7%. The main reason is the decrease in yield on portfolio from 24.0% to 20.9%.

The lower yield could be because of a number of reasons including lower rate of interest (0% to 5%pa) charged on several loans and lower collection of service fees on salary loans[11]. However, the drop in yield despite a growth in portfolio is a cause of concern and indicates some operational problems.

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[11] Earlier a number of salary loans were allowed for a single borrower, which allowed the organisation to collect service fees for each loan disbursed. Now the organisation allows a second loan only after the borrower has paid off the previous one.

There has been a slight increase in overall Operating Expense Ratio (OER), which was expected with the increase of microfinance loans in the overall portfolio. However, the present OER of 9.1% is still low and reflects the efficiency of the organisation.

The segmented financial statement for the PNCB displays a similar trend to that of the overall programme, showing a decrease in OSS (108.1%) and FSS (106.8%) in comparison to the previous rating. RoA has decreased to 1.2% from 2.2%. Yield on portfolio has also decreased to 31.3% from 36.6% and the Yield to APR is poor at 47.9%. The decrease in yield and therefore RoA could be attributed to high pre-payments by clients. The prepayments collected during the year ended 31 Dec 05 have been around 10% of the total principal collected. The organisation has significantly improved OER from 25.7% at the previous rating to 16.2% at present, which could be due to increased staff efficiency and the increase in scale of operations.

4 Conclusions

Strengths	Weaknesses
<u>Organisational</u> ✓ Long years of experience in banking operations ✓ Active Board	<u>Organisational</u> ✗ Moderately developed second line of leadership ✗ Constraints in equity mobilisation
<u>Managerial</u> ✓ Qualified and stable staff resources ✓ Very good accounting system and MIS ✓ Good tracking system for overdues ✓ Well developed financial planning system ✓ Good infrastructure base	<u>Managerial</u> ✗ Weakening internal control ✗ Relatively weak internal audit
<u>Financial</u> ✓ Good repayment rate and portfolio quality ✓ Productive deployment of assets in the loan portfolio ✓ Good credit-deposit ratio of 144.7% (in comparison to CD ratio of 67.7% of all banks in Philippines as on 31 Dec 2005)	<u>Financial</u> ✗ Moderate capital adequacy ✗ High cost of public deposits ✗ Decreasing yield, RoA and OSS (since the previous rating)

5 Creditworthiness

CRBB has achieved a rating grade of ***alpha minus (α–)***.[12] In terms of creditworthiness, this implies **reasonable safety**. CRBB's performance on governance, management and financial indicators is good. It has displayed good growth in operations and strong performance on portfolio quality. It has also been able to maintain its good performance on profitability and sustainability. However, CRBB's problem in mobilising equity continues and can be a limiting factor to its growth plans. Besides this, other areas of improvement include the second line of leadership and internal audit mechanism. The organisation can improve its rating grade in future if is able to mobilise adequate equity (while maintaining/improving its portfolio quality and growth in operations), strengthens its internal controls and develop a strong second line of leadership.

In M-CRIL's view, on account of significant institutional presence, overall good performance, commendable approach to sustainability and self-reliance, as well as the growth plans of the organisation, CRBB can absorb – from all sources – additional loan funds of US$10 million (PHP510 million) over the next one year for on-lending to its borrowers.

However, given the relatively low capital adequacy position of the organisation, it is recommended that lenders should monitor the situation and provide a substantial flow of funds only if the capital adequacy ratio stays above 10% after the inflow of funds. The weak second line of leadership and weakening internal controls are also becoming a cause of concern and lenders should monitor the situation on these issues as well.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

[12] The Rating Grade given measures performance on the rigorous standards established by M-CRIL. The assessment uses an instrument designed specifically for the conditions and nature of MFIs operating in Asia and is comparable with other ratings done by M-CRIL in this region.

Financial statements for CRBB's overall operations

Balance Sheet

As on 31 Dec 04 US$		PHP	PHP	US$	As on 31 Dec 05 US$
	Assets				
	Current assets				
170,627	Cash in hand		9,557,994		187,780
3,366	Check and other cash items		3,237,563		63,606
68,683	Deposits with BSP		4,172,489		81,974
1,849,272	Deposits with other banks		129,520,017		2,544,598
82,469	Investments in Bonds		660,000		12,967
149,912	Investments in Debt Instruments (Private)		12,007,154		235,897
404,554	Accrued interest		27,465,188		539,591
11,635	Accounts receivable		562,841		11,058
132,136	Deferred expenditure		12,207,542		239,834
57,668	Other current assets		2,605,752		51,194
15,520	Deferred charges (incl. goodwill)		1,120,051		22,005
	Loans outstanding				
15,454,511	Current	921,335,981		18,100,903	
647,836	Past due	29,009,988		569,941	
19,032	Items in litigation	896,489		17,613	
16,121,379	Gross loans outstanding	951,242,458		18,688,457	
-209,074	(Loan loss reserve)	(18,679,070)		-366,976	
15,912,305	Net loans outstanding		932,563,388		18,321,481
18,858,147	**Total current assets**		**1,135,679,980**		**22,311,984**
	Long term assets				
587,072	Net property and equipment	51,819,064		1,018,056	
587,072	**Total long term assets**		**51,819,064**		**1,018,056**
19,445,219	**Total Assets**		**1,187,499,043**		**23,330,040**
	Liabilities and Net worth				
	Current liabilities				
38,306	Demand Deposits		1,952,312		38,356
1,896,935	Savings Deposits		105,770,853		2,078,013
8,988,220	Time deposits		549,689,341		10,799,398
11,150	Expenses payable		982,572		19,304
444,416	Other liab (a/c & divds. payable)		32,433,351		637,197
2,936	Insurance payable		149,449		2,936
18,896	Unearned income & deferred credit		220,203		4,326
	Short term debt				
1,374,042	LBP-RED	98,968,781		1,944,377	
337,352	LBP-Hold Out	24,798,968		487,210	
294,645	NLSF-LCAP (Short)				
481,611	NLSF-QC	8,692,247		170,771	
2,487,650	Total short term debt		132,459,997		2,602,357
13,888,510	**Total current liabilities**		**823,658,077**		**16,181,888**

As on 31 Dec 04 US$		PHP	PHP	US$	As on 31 Dec 05 US$
	Long term liabilities				
	Long term debt				
0	PCFC Institutional (Medium)	1,102,759		21,665	
58,939	RISE (Medium)	5,000,000		98,232	
8,372	NLSF-LCAP Soft Loan (Medium)	216,220		4,248	
13,499	NLSF-QC Soft Loan (Medium)	436,594		8,577	
385,200	Blue Orchard (Medium)	30,415,650		597,557	
0	OP-PSF (Medium)	1,000,000		19,646	
0	Philam Savings (Medium)	312,416		6,138	
250,241	Quendacor (Long)	8,006,788		157,304	
2,794,107	PCFC Investment (Long)	173,635,010		3,411,297	
75,245	PCFC Institutional (Long)	2,701,597		53,077	
43,036	WLSF (Long)	2,190,540		43,036	
0	NLSF-LCAP (Long)	26,828,500		527,083	
9,576	CDA (Long)	487,404		9,576	
19,646	Bangkoop (Long)	1,000,000		19,646	
7,859	BAI-MLDLP (long)	400,000		7,859	
3,665,721	Total long term debt		253,733,478		4,984,941
3,665,721	**Total long term liabilities**		**253,733,478**		**4,984,941**
	Net worth				
294,695	Common Equity	15,000,000		294,695	
403,811	Preferred Equity	20,646,000		405,619	
0	Stock dividends distributable	960,000		18,861	
0	Reserve for contingencies	1,000,000		19,646	
0	Reserve for self-insurance	1,500,000		29,470	
39,293	Donated equity	3,000,000		59,939	
908,313	Retained net surplus/(deficit)	58,697,314		1,153,189	
244,875	Current net surplus/(deficit)	9,304,174		182,793	
1,890,988	**Total net worth**		**110,107,488**		**2,163,212**
19,445,219	**Total Liabilities and Net Worth**		**1,187,499,043**		**23,330,040**

1US$=PHP50.9

Financial statements for CRBB's overall operations

Income Statement – for the period January-December 2005

	PHP	PHP	US$	US$
Income				
Interest on loans	132,936,529		2,611,720	
Service charges	50,901,743		1,000,034	
Bank commission	5,427,489		106,630	
Other income	19,904,949		391,060	
Total income		**209,170,710**		**4,109,444**
Financial costs				
Interest on borrowings	18,818,565		369,716	
Interest on savings	83,890,851		1,648,150	
Gross financial margin		**106,461,293**		**2,091,577**
Loan loss provision	8,037,179		157,901	
Net financial margin		**98,424,113**		**1,933,676**
Operating expenses				
Salaries	46,796,216		919,376	
Management & other prof. chgs.	897,841		17,639	
Depreciation	3,422,930		67,248	
Taxes & licenses	4,629,863		90,960	
Other administrative expenses	23,906,419		469,674	
Total Operating expenses		**79,653,269**		**1,564,897**
Profit before tax		18,770,845		368,779
Tax		6,006,670		118,009
Profit after tax		**12,764,174**		**250,770**
Appropriations				
Provision for dividends		960,000		18,861
Reserve for contingencies		1,000,000		19,646
Reserve for self-insurance		1,500,000		29,470
Transferred to Balance Sheet		**9,304,174**		**182,793**

Segmented Financial statements for PNCB

Balance Sheet

As on 31 Dec 04 US$		PHP	PHP	US$	As on 31 Dec 05 US$
	Assets				
	Current assets				
1,022,058	Deposits with other banks		58,606,321		1,151,401
30,000	Other current assets		434,498		8,536
	Loans outstanding				
3,204,504	Gross loans outstanding	194,283,346		3,816,962	
(3,074)	(Loan loss reserve)	(1,499,322)		(29,456)	
3,201,430	Net loans outstanding		192,784,025		3,787,505
4,224,077	**Total current assets**		**251,824,844**		**4,947,443**
	Long term assets				
83,024	Net property and equipment	4,314,169		84,758	
83,024	**Total long term assets**		**4,314,169**		**84,758**
4,307,101	**Total Assets**		**256,139,013**		**5,032,201**
	Liabilities and Net worth				
	Current liabilities				
728,174	Client Savings		36,742,035		721,847
392,927	Time deposits		20,906,592		410,739
-	Interest payable on savings		654,509		12,859
4,347	Other liabilities		1,557,732		30,604
1,125,448	**Total current liabilities**		**59,860,868**		**1,176,048**
	Long term liabilities				
	Long term debt				
2,869,353	PCFC	177,439,366		3,486,039	
2,869,353	Total long term debt		177,439,366		3,486,039
2,869,353	**Total long term liabilities**		**177,439,366**		**3,486,039**
	Net worth				
271,347	Retained net surplus/(deficit)	15,896,102		312,301	
40,954	Current net surplus/(deficit)	2,942,676		57,813	
312,301	**Total net worth**		**18,838,778**		**370,114**
4,307,101	**Total Liabilities and Net Worth**		**256,139,013**		**5,032,201**

Segmented Financial statements for PNCB

Income Statement – for the period January-December 2005

	PHP	PHP	US$	US$
Income				
Interest on loans	33,368,482		655,569	
Service charges	21,667,211		425,682	
Other income	2,659,260		52,245	
Total income		**57,694,953**		**1,133,496**
Financial costs				
Interest on borrowings	21,268,720		417,853	
Interest on savings	2,321,921		45,617	
Gross financial margin		**34,104,311**		**670,026**
Provision for loan losses	1,342,860		26,382	
Net financial margin		**32,761,452**		**643,643**
Operating expenses				
Salaries	19,990,763		392,746	
Taxes and Licenses	395,039		7,761	
Depreciation	815,760		16,027	
Other administrative expenses	7,232,426		142,091	
Total Operating expenses		**28,433,987**		**558,625**
Profit before tax		4,327,464		85,019
Tax		1,384,789		27,206
Profit after tax		**2,942,676**		**57,813**

Notes to the financial statements – PNCB

1. Income includes interest income, fees and earnings from other microfinance related services offered by the Bank. All loan portfolio related income is recognised only when it is actually received (**cash basis**). Grants allocated to the organisation's microfinance programme are treated as donated equity in the balance sheet (and not regarded as operational income).
2. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**. Loan loss provisioning expense and the corresponding balance sheet entry (loan loss reserve) has been computed based on the quality of the portfolio, as per BSP regulations.

Glossary

1. Current repayment rate
   Ratio of principal recovered in the current year to the principal due in the current year..
2. Portfolio at risk (PAR_{60}) Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.
3. Past Due Ratio: This is the ratio of all loans that has remained unpaid beyond their maturity dates together with all the restructured loans, with the total outstanding portfolio.
4. Yield on portfolio
   The interest income on loans divided by the average loan portfolio for the year.
5. Other income to average portfolio
   Total income other than from the interest on loans divided by average portfolio.
6. Financial cost ratio
   Total interest expense for the year divided by the average portfolio.
7. Loan loss provisioning ratio
   Total loan loss provisioning expense for the year divided by the average portfolio.
8. Operating expense ratio
   Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
9. Average loan portfolio
   This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets
    This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency
    Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency
    Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
13. Risk weighted capital adequacy ratio
    Ratio of networth to risk weighted assets (Risk weights: 100% for all assets except the following: fixed assets: 50%; cash 0%, Near cash 20%) – used for calculating CAR for PNCB. For Overall operations, the BSP definition for CAR has been used.

Projected Cash Flows and Financial Statements for five years- Overall Operations

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the main risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions

(see also Notes to Cash Flow Projections below)

For the year ending:	31-Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Loan accounts	59,703	67,000	75,000	90,000	100,000	120,000
Savings accounts	83,759	96,323	110,771	127,387	146,495	168,469
Savings per client/year (PHP)	1,142	1,313	1,510	1,736	1,997	2,296
Yield on average portfolio	20.9%	21.3%	21.7%	22.2%	22.6%	23.1%
Interest paid on savings	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Cost of external funds	10.2%	10.9%	10.3%	10.3%	10.4%	10.4%
Current Repayment rate	92.7%	95.0%	96.0%	96.0%	96.0%	96.0%
Loan loss reserve ratio	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Number of loans disbursed	73,498	74,169	88,617	101,910	117,196	134,775
Average loan size to borrowers	25,050	25,500	27,000	29,000	31,000	33,000

2 Projected Balance Sheets

in US $

As on:	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Assets						
Cash	187,780	1,108,013	2,265,903	2,725,260	2,895,767	3,841,771
Near Cash	63,606	73,430	269,893	466,357	564,589	662,820
Deposits	2,626,572	2,636,395	3,422,250	3,913,409	4,109,872	4,306,336
Loans outstanding	18,688,457	25,153,721	30,648,890	37,720,680	46,387,362	56,795,961
Loan loss reserve	-366,976	-503,074	-612,978	-754,414	-927,747	-1,135,919
Net loans outstanding	18,321,481	24,650,647	30,035,912	36,966,266	45,459,615	55,660,042
Investments	248,864	258,687	317,626	376,565	435,504	494,443
Other assets	863,681	1,079,602	1,317,114	1,578,377	1,865,767	2,181,896
Net fixed assets	1,018,056	1,022,341	1,273,741	1,323,185	1,367,683	1,407,732
Total Assets	**23,330,040**	**30,829,114**	**38,902,439**	**47,349,419**	**56,698,798**	**68,555,041**
Liabilities and Net Worth						
External borrowings	7,587,298	11,675,783	15,594,516	18,782,718	21,185,065	23,832,991
Savings deposits	12,915,766	15,151,975	18,109,361	22,020,504	27,192,990	34,033,604
Other liabilities	663,764	862,893	1,081,935	1,322,881	1,587,922	1,879,467
Provision for dividends	18,861	54,662	64,485	69,397	74,308	79,220
Equity	700,314	1,093,242	1,289,705	1,387,937	1,486,169	1,584,401
Reserves and surplus	1,261,244	1,444,037	1,990,559	2,762,436	3,765,982	5,172,344
Current surplus/deficit	182,793	546,522	771,877	1,003,546	1,406,362	1,973,015
Net worth	2,144,351	3,083,800	4,052,141	5,153,919	6,658,513	8,729,759
Total Liabilities and Net Worth	**23,330,040**	**30,829,114**	**38,902,439**	**47,349,419**	**56,698,798**	**68,555,041**

3 Projected Income Statements

in US $

For the year ending:	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Income						
Interest and service charge	2,502,927	3,511,415	4,578,016	5,612,475	6,938,114	8,654,361
Other income	239,470	263,418	289,764	318,743	350,609	385,678
Total Income	**2,742,397**	**3,774,833**	**4,867,780**	**5,931,198**	**7,288,723**	**9,040,039**
Cost						
Financial	2,017,867	2,345,513	3,026,887	3,791,367	4,636,107	5,622,726
Loan loss provision	157,901	136,099	109,903	141,436	173,334	208,172
Depreciation	67,248	113,593	141,527	147,021	151,965	156,415
Operating expenses (excl. depr.)	1,497,649	1,866,378	2,379,247	2,933,540	3,616,404	4,414,238
Total Cost	**3,740,665**	**4,461,583**	**5,657,565**	**7,013,363**	**8,577,810**	**10,401,551**
Profit before taxes	**368,779**	**884,094**	**1,229,945**	**1,577,857**	**2,177,457**	**3,017,992**
Taxes	118,009	282,910	393,582	504,914	696,786	965,758
Profit after taxes	**250,770**	**601,184**	**836,363**	**1,072,943**	**1,480,670**	**2,052,235**
Provision for Dividends	18,861	54,662	64,485	69,397	74,308	79,220
Addition to reserves	**231,909**	**546,522**	**771,877**	**1,003,546**	**1,406,362**	**1,973,015**

4 Projected Cash Flow Statements

in US $

For the year ending:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Inflows					
Opening cash	187,780	1,108,013	2,265,903	2,725,260	2,895,767
External borrowings	9,823,183	10,314,342	11,787,819	14,243,615	16,208,251
Repayment of loans	30,691,890	41,511,896	50,990,640	62,710,063	76,970,353
Equity inflow	392,927	196,464	98,232	98,232	98,232
Savings deposits	2,484,676	3,285,984	4,345,714	5,747,207	7,600,682
Interest income	4,673,795	6,067,814	7,582,994	9,515,149	11,906,599
Net change in other assets and liabilities	-16,791	-18,470	-20,317	-22,349	-24,584
Other income	671,882	819,696	1,008,226	1,240,118	1,512,944
Total Inflow	**48,909,342**	**63,285,738**	**78,059,211**	**96,257,295**	**117,168,244**
Outflows					
Disbursement	37,157,154	47,007,065	58,062,430	71,376,746	87,378,952
Repayments to lenders	5,734,697	6,395,609	8,599,618	11,841,268	13,560,325
Withdrawals of savings deposits	248,468	328,598	434,571	574,721	760,068
Operating expenses (excl. depr.)	1,866,378	2,379,247	2,933,540	3,616,404	4,414,238
Interest paid on borrowings	661,449	1,031,207	1,383,575	1,683,298	1,949,130
Interest paid on savings	1,684,064	1,995,680	2,407,792	2,952,810	3,673,596
Addition to near cash	9,823	196,464	196,464	98,232	98,232
Deposits with the banks	9,823	785,855	491,159	196,464	196,464
Investments	9,823	58,939	58,939	58,939	58,939
Taxes	282,910	393,582	504,914	696,786	965,758
Dividends paid	18,861	54,662	64,485	69,397	74,308
Fixed assets purchase	117,878	392,927	196,464	196,464	196,464
Total Outflow	**47,801,329**	**61,019,835**	**75,333,951**	**93,361,527**	**113,326,473**
Net cash balance	**1,108,013**	**2,265,903**	**2,725,260**	**2,895,767**	**3,841,771**

5 Key projected performance ratios

For the year ending:	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Operational self-sufficiency	110%	119.8%	121.7%	122.5%	125.4%	129.0%
Return on average assets	1.2%	2.2%	2.4%	2.5%	2.8%	3.3%
Operating expense ratio	9.1%	9.0%	9.0%	9.0%	9.0%	8.9%
Average outstanding/borrower (PHP)	15,933	24,817	26,000	26,666	29,514	30,114
Portfolio growth rate	15.9%	34.6%	21.8%	23.1%	23.0%	22.4%
Savings to total assets	55.4%	49.1%	46.6%	46.5%	48.0%	49.6%
Risk weighted capital adequacy ratio	11.2%	12.1%	12.8%	13.4%	14.2%	15.3%

6 Notes to the projections

1. The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
2. Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment (credit rating).
3. Equity investments are estimated to be as per the plans of the organisation.
4. Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity. Average increase in the number of loan clients is estimated to be between 10-20% pa and that in the savings clients by 10%pa.
5. Interest income is taken as [yield on portfolio*average portfolio for the year]. Yield movements are projected to increase with an increase in the proportion of PNCB loans in the portfolio of CRBB.
6. Operating Expense Ratio is also expected to remain at the same level for a few years considering increase in the proportion of PNCB loans in the portfolio of CRBB and then decrease as the operations stabilize.
7. Other income of the organisation is expected to increase in the ratio of increase in portfolio.
8. Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
9. Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
10. The average assets and average liabilities are expected to bear the same proportion to average assets in all the years as in the current year.
11. The proportion of cash and liquid deposits to total assets has been taken to be between 10-12.5% for all the years.
12. Total taxes are 32% of the Profit Before Taxes.
13. Provision for dividend @5% on equity has been made for all the years.
14. In the projections, the net worth figure includes donations and equity, retained surpluses and current surplus.

List of abbreviations

ACPC	Agriculture Credit Policy Council
ARB	Agrarian Reform Beneficiary Communities
APR	Annual Percentage Rate
BoD	Board of Directors
BSP	Bangko Sentral ng Pilipinas
CAR	Capital Adequacy Ratio
CBLIC	Country Bankers Life Insurance Company
CDA	Cooperative Development Authority
CISP	Cooperative Insurance System of Philippines
CRBB	Cooperative Rural Bank of Bulacan
FSS	Financial Self Sufficiency
GM	General Manager
LBP	Land Bank of Philippines
LCAP	Livelihood Credit Assistance Programme
M-CRIL	Micro-Credit Ratings International Limited
MIS	Management Information Systems
MRR	Manila Reference Rate
NLSF	National Livelihood Support Fund
NPA	Non-Performing Assets
NPL	Non-Performing Loans
OER	Operating Expenses Ratio
OSS	Operational Self Sufficiency
PAR_{60}	Portfolio At Risk (greater than 60 days)
PCFC	People's Credit and Finance Corporation
PCIC	Philippines Crop Insurance Corporation
PNCB	Paluwagang Nayon ng CRB Bulacan
PPSB	Puhunang Pangkaunlaran ng Sikap Buhay
RoA	Return on Assets
SPV	Special Purpose Vehicle Act of 2002
WLSF	Women's Livelihood Support Fund

M-CRIL's Microfinance Rating Symbols

M-CRIL Grade	Description
α++ alpha double plus	Highest safety, very good systems ➢ most highly recommended
α+ alpha single plus	Very high safety, good systems ➢ highly recommended
α alpha	High safety, good systems ➢ highly recommended
α– alpha minus	Reasonable safety, good systems ➢ recommended
β+ beta plus	Reasonable safety, reasonable systems ➢ recommended, needs monitoring
β beta	Moderate safety, moderate systems ➢ acceptable, needs improvement to handle large volumes
β– beta minus	Significant risk, poor to moderate systems ➢ acceptable only after improvement
γ+ gamma plus	Substantial risk, poor systems ➢ needs considerable improvement
γ gamma	Highest risk, poor systems ➢ not worth considering