Planet Rating
THE GLOBAL MICROFINANCE RATING AGENCY

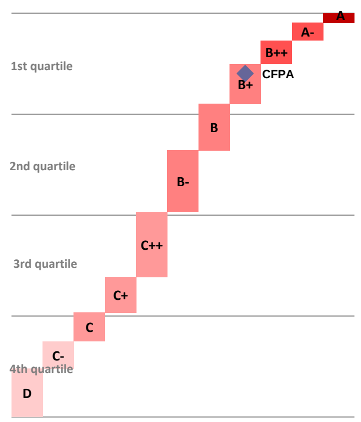
CFPA Microfinance Management Company Ltd., China

Chinese NGO CFPA (Chinese Foundation for Poverty Alleviation) began microfinance activities in 1996 through a joint program of the World Bank and the Chinese government. In 2008, CFPA Microfinance Management Company Ltd. (CFPA-MMC) was established as a separate entity to take over management of these activities. CFPA Foundation retains majority ownership in CFPA-MMC. Based out of Beijing, CFPA-MMC operates in 16 of 23 Chinese provinces in North, Northeast, South, and Southwest China through a widespread branch network including 144 branches and 11 regional offices. As of Mar. 2015, CFPA-MMC maintained a loan portfolio of 2.2 Billion CNY (360 M USD) and 265,900 active borrowers. CFPA-MMC offers group and individual loan products, mainly to women residing in rural areas.

Smart GIRAFE Rating

Rating	Date of the rating	G	I	R	A	F	E	+CP	**Previous rating:**
B+	**April 2015**	**b**	**b**	**b**	**b**	**b**	**b**	**b**	*B+, August 2011*
Stable	*Valid until March 2016*								

Rating distribution



Performance indicators

M USD	Dec. 2013	Dec. 2014
Assets	242.8	365.0
Loan portfolio	193.4	305.0
Active borrowers	174,577	237,817
ROA	1.0%	1.0%
NPL 30 + r	0.8%	0.3%
Portfolio yield	21.7%	20.6%

Planet Rating Contact

Ben Wallingford
bwallingford@planetrating.com
+254 718 814 421

MFI Contact

Dongwen Liu,
liudongwen@cfpamf.org.cn
+86 10 828 726 88

REF: BW/090615

Rating highlights

- CFPA-MMC (referred to as "CFPA" in this report, distinguished from "CFPA Foundation") benefits from its leading market position in the microfinance industry in China. Financial performance is moderate (1.0% ROA as of Dec. 2014).
- The mother NGO and largest shareholder (CFPA Foundation, 60.7%), prioritizes social goals due to its social background. The risk of social mission drift is limited.
- The decision-making process is overall clear/efficient at CFPA. Sufficient information is provided to the Board of Directors (BOD) by management, however it could be reported in a more timely matter and include comprehensive social performance reporting.
- The long-term strategy is not sufficiently clear as a complete business plan with a clear strategy, financial/social goals, and a thorough analysis of the internal/external environment has not been developed, however annual 3-year financial projections are produced and translated into detailed action plans and Key Performance Indictor (KPI) targets for all departments, regions, and branches.
- A risk management framework is partially in place. Appropriate risk levels are defined for some risks (e.g. credit risk) but not all risks. These risks are not centrally tracked in a risk register or other comprehensive tracking tool.
- CFPA historically has a good portfolio quality, with total credit risk (NPL 30 + rescheduled loans + write-offs) ranging from 0.1%-1.1% over the past 5 years, standing at 0.9% as of Dec. 2014.
- Funding needs are well projected for the coming three years (2015-2017) and fully secured for the coming six months. The funding strategy is generally relevant and effective, even if the legal set-up hinders CFPA's capability of forming a more precise or longer-term funding strategy.
- Client protection principles are partially embedded in procedures, with improvements needed in some areas such as prevention of over-indebtedness and transparency.

Outlook

CFPA's outlook is stable, as short-medium term risks are modest and well-managed. CFPA benefits from its strong market position and is expected to maintain this through continued satisfactory institutional, operational, and financial performance.

▪ CFPA's profile

Credit	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
% women borrowers	93.0%	100.0%	93.6%	93.5%
% rural borrowers	98.8%	98.3%	97.0%	96.6%
% borrowers providing no hard collateral	100.0%	100.0%	100.0%	100.0%
% borrowers with credit life insurance	100.0%	100.0%	100.0%	100.0%
% loans for agricultural activities	65.6%	64.4%	62.7%	62.5%
% loans in local currency	100.0%	100.0%	100.0%	100.0%

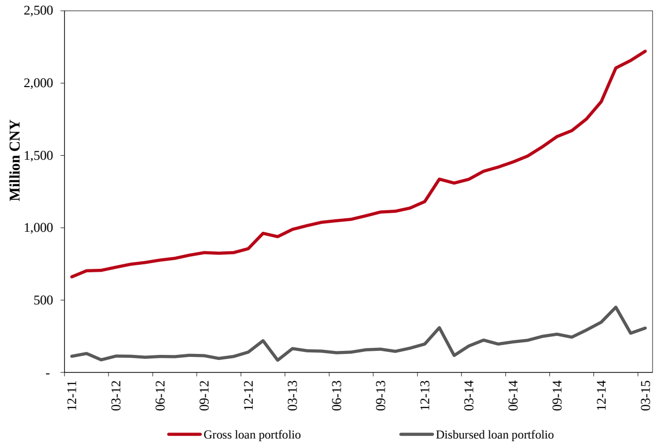
Purpose of the loans		Methodology		Collateral		Repayment frequencies	
Microenterprise	✓	Solidarity group	✓	Group guarantee	✓	Weekly	×
SME	×	Village Banking	×	Guarantor	✓	Bi-Weekly	×
Agriculture	✓	SHG	×	Chattel	×	Monthly	✓
Overdraft	×	Individual	✓	Mortgage	×	Flexible	×
Education	×						

Purpose of the loans (cont.)		Amount (% of GDP per capita)		Term (in months)		APR	
Consumption	×						
Housing	✓	Min	0.2%	Min	1.0	Min	21.4%
Credit card	×	Average	22.5%	Average	12.0	Average	n/a
Other	×	Max	376.8%	Max	36.0	Max	24.9%

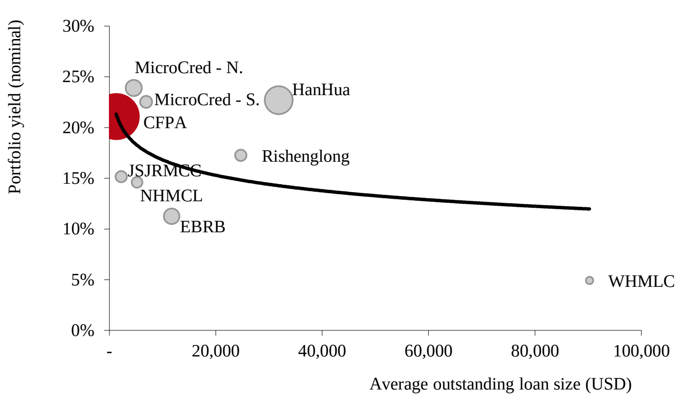
Savings		Amount (% of GDP per capita)		Term (in months)		APR	
Current account	×						
Voluntary savings	×						
Term deposits	×	Min	n/a	Min	n/a	Min	n/a
Specific deposits	×	Average	0.0%	Average	n/a	Average	n/a
Savings facilitation	×	Max	n/a	Max	n/a	Max	n/a

Insurance		Transaction services		Non-financial services			
Type of insurance		**Type of service**		**Theme**	Awareness Raising	Training	Services
Credit life	✓	Debit/ATM card	×	Business Development	✓	✓	×
Term life	×	Check	×	Education, Health	✓	✓	✓
Housing	×	Credit card	×	Women Empowerment	×	✓	×
Agricultural	×	Mobile money	×	Democracy & Human Rights	×	×	×
Health	×	Remittances	×	Environment	✓	✓	×
Disability	✓	Payment of services	×				

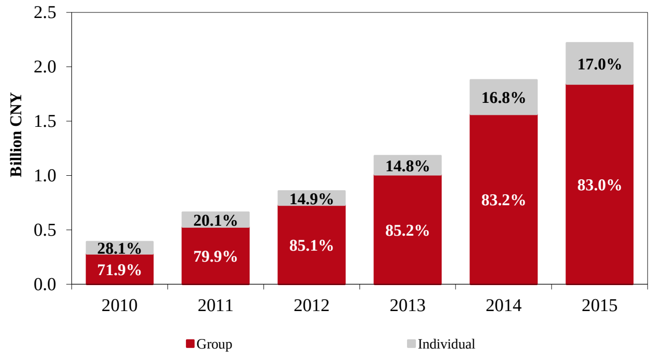
Loan Portfolio Evolution



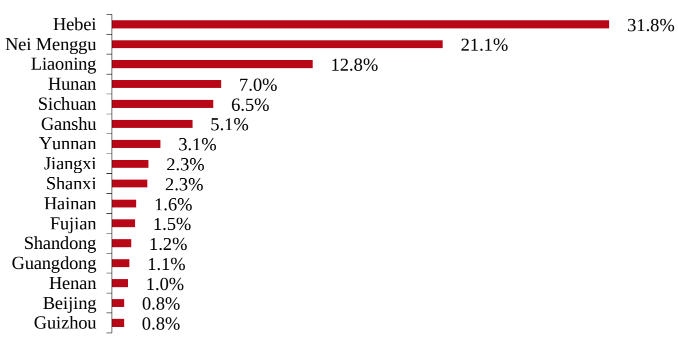
Loan Size and Portfolio Yield in China



Loan Portfolio per Product



Outstanding loan portfolio per region - Mar. 2015



China country snapshot

Political and business environment	Source	Date	Grade	Scale (worst to best)	Rank	Number of countries
Sovereign ratings	*Moody's*	2014	Aa3	C to Aaa	n/a	n/a
(long term, foreign currency)	*Standard & Poor's*	2014	AA-	D to AAA	n/a	n/a
Country and business climate risk ratings	*COFACE (Country risk)*	2014	A3	D to A1	n/a	n/a
	COFACE (Business climate)	2014	B	D to A1	n/a	n/a
Indexes and rankings						
Corruption Perceptions Index	*Transparency International*	2013	40	*1 to 100*	80	*175*
Global Competitiveness Index	*World Economic Forum*	2013	4.84	*1 to 7*	29	*148*
Ease of Doing Business	*World Bank*	2013	n/a	n/a	96	*185*

Microfinance environment		Date	Grade	Scale (worst to best)	Rank	Number of countries
Indexes and rankings						
Regulatory framework	*Economist Intelligence Unit*	2013	50	*1 to 100*	21	*55*
Supporting Institutional framework	*Economist Intelligence Unit*	2013	50	*1 to 100*	21	*55*

Microfinance ratings (no. of ratings)	Source	2009	2010	2011	2012	2013
Microfinance institutional ratings	*Specialized rating agencies*	0	0	0	0	0
Social ratings	*Specialized rating agencies*	0	0	0	0	0

Economic & social indicators		2009	2010	2011	2012	2013
Economy	GDP growth (annual %)	9.2	10.4	9.3	7.7	7.7
	Inflation, consumer prices (annual %)	-0.7	3.3	5.4	2.7	2.6
	Current account balance (% of GDP)	4.9	4.0	1.9	2.3	n/a
	Central government debt, total (% of GDP)	n/a	n/a	n/a	n/a	n/a
HDI	Rank out of 186 countries	92	89	101	101	91
Population (millions)	Population (Total)	1331.3	1337.7	1344.1	1350.7	1357.4
	Urban population (% of total)	47.9	49.2	50.5	51.8	53.1
Poverty	Poverty headcount ratio at $1.25 a day (PPP) (% of population)	11.8	n/a	n/a	n/a	n/a
	Poverty headcount ratio at $2 a day (PPP) (% of population)	27.2	n/a	n/a	n/a	n/a
Health	Life expectancy at birth, total (years)	74.7	74.9	75.0	75.2	n/a
	Mortality rate, under-5 (per 1,000 live births)	17.1	16.0	14.9	14.0	n/a
Education	Literacy rate, adult total (% of people ages 15 and above)	n/a	95.1	n/a	n/a	n/a
	School enrollment, primary (% net)	n/a	n/a	n/a	n/a	n/a
Equality	Proportion of seats held by women in national parliaments (%)	21.3	21.3	21.3	21.3	23.4

Institutional presentation

Social mission

CFPA's vision is to provide "doorstep banking for everyday people." Its mission is "to enable micro-entrepreneurs to realize their dreams, by offering loan support to micro-entrepreneurs, inspiring entrepreneurs to become independent, and achieving sustainable development of the organization."

CFPA has established the following core values:

- "To our clients: Build confidence in clients' abilities and provide comprehensive support;
- To our employees: Provide an open platform to use their skills and expertise;
- To society: Promote development of financial services at the grassroots level to help eradicate poverty and support community development in rural areas"

Legal form, supervision and audit

In 2008, CFPA-MMC was approved by the Beijing Administration of Industry and Commerce and was registered as a standard Limited Liability Company (LLC). It was created to take over the microfinance activities of CFPA Foundation, which began in 1996 under a joint pilot program between the World Bank and the Chinese government. CFPA-MMC is comprised of two branches[1] operating under Microcredit Company (MCC) licenses and active service agreements with CFPA Foundation to manage 141 local associations called Support Service Cooperatives of the Poor (SSCOP). SSCOPs are legally independent entities, registered with the Bureau of Civil Affairs at the county level and regulated by agreements with both CFPA Foundation and the local Poverty Alleviation Office. CFPA-MMC's financial statements are denominated in CNY and have been audited according to Chinese standards, consolidating the statements of all entities. Throughout the rest of the report, "CFPA-MMC" will be referred to as "CFPA."

Ownership

CFPA Foundation, a well-established Chinese NGO, is the majority shareholder of CFPA, owning 60.7% of total shares. Other main shareholders include IFC (19.2%) and Multi Ace Ltd. (Sequoia Capital) (18.1%), the latter an American venture capital firm. Over the years, CFPA Foundation and Sequoia Capital's share has reduced (from 64% and 12% in 2010 respectively), while IFC's has increased (from 12% in 2010). The registration capital for SSCOPs funded by CFPA Foundation is also part of paid-in

[1] Deyang and Kangping branches.

Supervision, audit and networks	
Regulatory body	n/a
Frequency of reporting	n/a
Latest supervision visit	n/a
Financial year	Jan. 1 - Dec. 31
External Auditor	Ruihua CPAs
Since	2010
Accounting Standards	National
Opinion	Without reserve
Networks	BWTP, AVPN, APRACA
Chairperson profile	
Name	Daofeng He
Date elected	2010
Previous mandate in MFI	Founder of CFPA Microfinance
Professional background	Development
Education	M.A., Economics
CEO profile	
Name	Liu Dongwen
Date at current position	2008
Year started in MFI	2002
Previous mandate in MFI	Head MF Dept. CFPA Foundation
Professional background	Development
Education	M.A., Agriculture
Organization	
Head office location	Beijing
Number of branches	144
Level of loan approval	
Branch manager	All Group Loans
Branch credit committee	All Individual Loans
Cash handling	Yes
Deposits	n/a
Disbursements	Branch / Field
Reimbursements	Branch / Field
MIS	
MIS for portfolio management	Internal system
Provider	n/a
Location	n/a
MIS for accounting	Kingdee
Frequency:	
Portfolio reports	Daily
Financial statements	Monthly

Shareholding - Mar. 2015	# shares	Value (CNY)	%
CFPA Foundation	255,519,000	255,519,000	60.7%
IFC	80,771,000	80,771,000	19.2%
Multi Ace (Sequoia Capital)	76,231,000	76,231,000	18.1%
Beijing Sunshine & CCI Capital	8,662,000	8,662,000	2.1%
Total	**421,183,000**	**421,183,000**	**100%**

Funding partners - Dec. 2014	M CNY	M USD	%
CDB	913.2	149.5	58%
Asset Securitization	432.0	70.7	27%
IFC	126.0	20.6	8%
Bank of Beijing	60.0	9.8	4%
Others	41.9	6.9	3%
Total	**1,573.1**	**257.5**	**100%**

capital (6.8 M CNY – 1.1 M USD), however SSCOPs are not part of the shareholding structure. The General Assembly elects a BOD made up of seven members to three-year renewable terms. Four of the members are mandated to represent CFPA Foundation, two from Sequoia Capital, and one from IFC, designed so CFPA Foundation has a controlling vote. Election of each individual representative is the shareholder's prerogative. The BOD meets quarterly and has three committees including Audit/Risk, Strategy, and Nomination/Remuneration (see section: "Governance" for an analysis of the institutionalization of these committees). The BOD is chaired by Mr. He Daofeng, an experienced development professional who founded CFPA Microfinance and is the current Senior Vice President of CFPA Foundation where he has worked since 1999. He has experience working with the Development Research Center of the State Council Leading Group Office of Poverty Alleviation and Development and has been involved in microfinance since leading the microfinance pilot programs of the World Bank Qinba Poverty Reduction Project in 1996.

Management team

CFPA's senior management team is composed of the General Manager (GM), four Deputy General Managers (including the Chief Operations Officer (COO), Chief Financial Officer (CFO), Chief Branding Officer (CBO), and Chief Risk Management Officer (CRMO)), and an Assistant General Manager (the IT Manager). These six individuals are complemented by a middle management team made up of department heads, including Human Resources (HR), Training, Public Affairs, Operations Management, and Internal Audit (IA). The CFO serves as the Funding/Investment Dept. Head, the Finance Dept. Head, and the current BOD secretary. The GM is Mr. Liu Dongwen, an experienced development professional who joined CFPA Foundation in 2002 and became the head of microfinance operations in 2005, followed by becoming the head of CFPA in 2008. His experience includes the Foreign Capital Project Management Center (FCPMC) of the State Council Leading Group Office of Poverty Alleviation and Development, where he participated in the research and execution of many joint projects between the Chinese government, the World Bank, and UNDP.

Organization

CFPA operates out of its head office (HO) in Beijing, with no branch located at HO itself as CFPA's target clients are predominantly located in rural areas. There is however one branch in a suburban area of Beijing. CFPA operates through a wide network of 144 branches as of Mar. 2015, reaching 16 of 23 total provinces located in North, Northeast, South, and Southwest China. Branch staff include Loan Officers (LOs), branch supervisors (i.e. LO supervisor), branch managers (BM), cashiers, and accountants. Some branches also include an information officer. A regional management level was introduced in 2010. There are 11 regional offices which include a Regional Manager (RM), Regional Supervisor (RS), and various department representatives (e.g. finance). The RM is responsible not only for monitoring of branch performance (e.g. twice-yearly onsite visits to each branch, reviewing of performance reports, reviewing of Internal Audit findings) and follow-up guidance, but other aspects including branch expansion (e.g. management of relationship with provincial and county governments, intensive support of branch day-to-day operations in first 3-6 months of branch opening) and quality control in the recruitment process. RMs meet with HO management on a monthly basis. The Operations Management department is responsible for the creation and management of regional offices. All Group Loans are approved by the BM, and all Individual Loans are approved by the branch credit committee, which consists of 3-4 individuals (can be BM, LO supervisor, accountant, or cashier) who have passed an exam administered by the Risk Management department on credit approvals. During the first 3-6 months of branch opening, a team within the Risk Management department at HO double-checks and verifies loan approvals.

Market penetration

CFPA is the largest financial service provider primarily focused on the provision of microfinance services in China in terms of branch network, loan portfolio, and number of active borrowers. CFPA is focused on group lending (94.4% of clients) in small amounts (11,928 CNY – 1,945 USD average disbursement amount), with limited competition including Postal Savings Bank (PSB), Rural Credit Banks (RCBs), Rural Credit Cooperatives (RCCs), and some MCCs. CFPA's overall penetration rate is 0.44 per 1,000 adults in the provinces it is active (see section: "Outreach to the Underserved" in the Social Rating for more information).

Financial products and services

Refer to the table on loans and savings products in the appendix for details.

CFPA's financial services consist of only lending and the portfolio is split between two products: Group Loan and Individual Loan. Both products have various sub-products with similar design. Loan repayment for both products is monthly (except for ongoing pilot products for agriculture and pastoral activity), the loan term ranges from 1 to 36 months, and loan amounts range from 100 CNY (16 USD) to 200,000 CNY (32,615 USD). The smallest active loan is 400 CNY (65 USD) and the largest is 200,000 CNY. Nominal interest rates vary from 13.4%-16.0% per year (with one exception: 9.9% for disaster area loans), calculated using a flat balance method.[2] Loans are used for a variety of purposes with the most common one being agriculture (63% of clients as of Dec. 2014).

Smart GIRAFE rating

▪ Governance

Governance and decision making **is rated “b”**

Alignment of interests

Key shareholders share a common understanding of CFPA’s mission and vision which are well-defined. CFPA transformed from a non-profit microfinance project into a commercial social enterprise. The risk of social mission drift is limited. CFPA Foundation is still the largest shareholder (60.7%), prioritizing social goals due to its social background. Overall, the interests and incentives of CFPA Foundation are focused on social goals given a certain level of financial sustainability. The other investors (IFC and Sequoia Capital) focus more on profitability but still with commitment to social goals. CFPA Foundation has no plan to seek more profit-driven investors in order for it to keep the majority of the shareholding and safeguard the social mission. To date, profits have been ploughed back into retained earnings to invest in branch expansion and improvement of the business infrastructure such as IT and staff training. As of Dec. 2014, the average annual remuneration of the five top paid staff was 13.5x times that of the five least paid staff, compared to 11.4x in 2013, which is not excessive. Management and BOD compensation is not disclosed in the audited financial statements, although it is not required by local regulations.

Over the years (2010-2014), CFPA has managed to maintain a moderate but sustainable financial performance (ROA ranging from 1%-4%, ROE ranging from 2%-6%), while over these years the branch network only expanded to poverty-stricken counties[3] and disaster-hit areas. As of Dec. 2014, 97% of borrowers resided in rural areas, 94% were women, and the average loan size disbursed was 11,333 CNY (1,846 USD). In the coming years (2015-2017), the lending portfolio is projected to increase on average 43% per year. CFPA projects opening 40 branches each of these years and ROA targets are set at 0.72% (2015), 1.14% (2016), and 1.48% (2017), which are quite moderate. Overall, financial and social goals are appropriately balanced. CFPA has a formalized conflict of interest policy in place in the Articles of Association by-laws that any BOD member, management team member, or shareholder must disclose any potential conflict of interest. No significant conflicts of interest were identified while onsite.

Decision making

The decision making process is overall clear and efficient at CFPA. The BOD meets on a quarterly basis and receives comprehensive information from senior management’s reports, including information on all areas of operations such as the business operation (e.g. branch opening and clients/portfolio per region/branch), financial situation (e.g. funding, business model and financial performance per region/branch, budget control), risk management (e.g. detailed portfolio quality by product/branch/LO, credit risk, operational risk, compliance risk), and internal auditing (e.g. findings per branch). However, the information could be reported in a more timely way to the BOD as it is currently only provided a couple of days prior to the BOD meeting. Regarding social performance reporting, there are no special social reports to the BOD. Instead, CFPA publishes the monthly operation report and annual report covering social indicators (including % female clients, % rural clients, % minority clients, % clients without access to any formal financial institutions, etc.) to the public, through the CFPA website and other channels such as the monthly internal newsletter.

The BOD is committed to the sustainability of CFPA and exhibits sufficient independence of thinking. The BOD members have strong technical and management skills with diversified experiences including microfinance, government relations, finance, investment, and law. It is unclear whether the BOD has systematic and efficient control over the implementation of decisions as Planet Rating did not have sufficient access to BOD minutes due to CFPA’s confidentiality policies. CFPA and the Foundation share the same office building and the CEO of CFPA reports to the Foundation frequently in addition to BOD meetings.

At the beginning of 2015, the National Audit Office formally questioned the reasonability behind China Development Bank (CDB) offering wholesale funds (with a preferential annual interest rate of 6-7%) to CFPA while in the National Audit Office’s opinion CFPA charges a comparatively high interest rate (21.4-24.9% APR) to clients. CDB therefore suspended their funding effective since Jan. 2015, which is a significant portion of total funding (CDB funds accounted

[2] The nominal interest rate for Individual Loans was reduced from 13.4%-14.8% flat to 11.9%-12.6% flat in June 2015. APR calculations employ the former rates, as they were the existing rates as of the date of the rating – April 2015.

[3] Poverty-stricken counties are defined by the Chinese government according to certain standards (latest definition in 1992) which are: 1) % of the population that is poor (for majority counties yearly income < 1,300 CNY i.e. 213 USD, for minority counties < 1,500 CNY, i.e. 246 USD); 2) the average net income of the county population; 3) GDP per capita (< 2,700 CNY, i.e. 442 USD) and 4) fiscal revenue per capita (< 120 CNY, i.e. 20 USD).

for 58% of the total borrowing as of Dec. 2014). CFPA exhibited outstanding public relations ability and brought the issue to the State Council who gathered all related parties including CBRC, PBOC, CDB, National Audit Office, CFPA Foundation and CFPA. CDB has reportedly reversed their decision and has begun lending to CFPA again, with a loan of 100 M CNY (16 M USD) disbursed in May 2015.

CFPA does not have a proper legal set-up due to historical reasons (i.e. transformed from a government-run microfinance project) and the current regulatory/supervisory environment as there is currently no national regulation on non-deposit-taking MFIs, and MCC licenses are only granted at the provincial level but not at the national level. The State Council shows a positive attitude to the social achievements of CFPA and has pushed the supervisory bodies to study how to develop and grant a proper license to CFPA. CFPA takes it as an opportunity and optimistically expects to receive legal license (i.e. a pilot non-deposit-taking MFI license) within 2015. Without proper legal status, it increases potential reputation risk, and limits the funding channels and the scaling up of the institution. Nevertheless, due to the strong government background of CFPA, legal risk and reputation risk are limited.

Strategy and planning

CFPA produces a 3-year rolling business projection, which is updated at year-end for the coming three years. The projection is mainly based on the speed of branch expansion and defines the growth of branches, staff, clients, portfolio, profit level, and funding ratios. CFPA has developed a precise profit model for branches based on branch maturity and the accuracy of the model is tracked using the integrated accounting system. The business projection is translated into detailed action plans and Key Performance Indictor (KPI) targets for all departments, regions, and branches on a yearly basis. However, a complete business plan with a clear growth strategy, financial and social goals, and a thorough analysis of the current internal and external environment has not been developed, making the long-term strategy unclear. The legal set-up situation also hampers long-term planning capability.

CFPA opened 48 branches in 2014, averaging four branches every month, which was quite a challenge in terms of management capacity and risk control. For the coming three years (2015-2017), CFPA plans to slow down the expansion speed by opening 40 branches each year with the loan portfolio projected to grow on average 43% each year. While this is still fast growth and CFPA does not conduct any studies on market saturation, given the large untapped market in China the growth strategy is socially responsible and sustainable for the microfinance market. CFPA targets underserved clients (81% of their clients have no access to other FIs except for CFPA, according to the client satisfaction survey done in 2014) and encounters limited but increasing competition from PSB, RCBs, and RCCs. CFPA’s average loan size was 11,333 CNY (1,846 USD) as of Dec. 2014. Typically, that of PSB, RCBs and RCCs ranges from 10 K to 100 K CNY (1.6 K to 16 K USD); that of City Commercial Banks (CCBs) ranges from 100 K to 1 M CNY (16 K to 163 K USD). Therefore, CFPA’s target market is less competitive and the growth potential is significant. Also, the growth strategy is sustainable for CFPA itself as there is a good identification of operational projects to implement the business projections, such as a P2P lending platform (launched in 2014, currently under internal pilot testing), a mobile application project (for LOs to use for recording loan appraisal details), and IT improvement projects. The expansion strategy is to gain strong support from provincial governments by signing an agreement to approve opening of branches in rural regions, to facilitate the registration for disbursing microfinance loans to clients, and even to provide supporting funds.

The yearly work plan is translated into a very detailed yearly budget plan for all functional departments and business regions/branches. Budget control is integrated into the accounting system and is checked by the finance department on a frequent basis, reporting monthly to the management team meeting, quarterly to the BOD meeting, and to give early warnings if the expenses reach certain limits. The budget control performance is evaluated in the Department KPIs yearly. The annual planning process is participatory, e.g. LOs meet with the BM to set realistic targets depending on the branch location, seniority of LOs, etc. The targets are consolidated at the branch level, the regional level, and further to the HO level. The Operations Management Department makes reasonable adjustments to the targets based on market potential and branch business models. There is a healthy communication and buy-in of strategic goals – the targets and KPIs are well communicated through annual staff meetings and semi-annual BM meetings.

Management team

The management team of CFPA demonstrates sufficient skills and experience in key areas (credit, finance, funding, risk management, and HR), shows sufficient leadership quality, and is adequately assisted by middle managers. There is a basic understanding of social risks among senior management. Senior and middle managers receive valuable external and internal training (see section: “HR management” for more details). Key-person risk is mitigated through collective decision-making and the high commitment/stability of the current senior management team. However, it is notable that it might be difficult for CFPA to find a replacement for some specialized positions given the lower remuneration compared to the market level for comparable positions (e.g. it took more than one year to hire a new Risk Department Head after the previous one quit in 2013) and no formal succession plans have been defined so far. However, other senior management positions have either been filled for several years or had a reasonable new hire time after the former staff's departure. At the regional level, CFPA launched the talent reserve plan for middle managers (i.e. training BMs at the regional level and sending HO staff to branches for a certain period) in order to enhance the capability and stability of middle management.

The senior management team meets on a monthly basis for regular issues and meets more frequently for any special issues as requested by key departments. The management keeps a smooth and convenient internal communication through WeChat, a mobile messaging application. The management team meetings are formalized in minutes including topics, actions, and person responsible (although deadlines for implementation are not indicated). Overall, the management demonstrates sufficient ability to execute plans and adjusts operational strategies to accomplish set targets as needed. There is appropriate division of tasks among units, the management team is highly motivated, and there exists a good teamwork, communication, cohesiveness, and respect among employees at CFPA.

Human resources management

HR management is generally sufficient with some improvement needed in terms of the evaluation process, identification of specific training needs, and reducing staff turnover which is on the high side (17.4% in 2014, 16.5% in 2013) but is manageable and consistently reported to the BOD and management team. The HR Manager has been in place since the HR department became a separate function in 2011. HR handles recruitment, compensation, and HR administration while a discrete Training Department manages all trainings. The recruitment process is decentralized as the RM and BM conduct interviews at the branch level, along with another relevant person from the regional office for some back office position hires (e.g. accountant, cashier). Reference checks, basic background checks (home visit, family member / neighbor interviews, and credit bureau check), and a written test are also carried out by the BM/RM. As is common with employers in China, criminal records are not checked. LOs are not required to have any formal education but must come from the local area. HO is not involved in recruitment, however the regional office handles aspects of quality control in the recruitment process, for instance checking resumes and written test results to short-list candidates for interviews. This level of quality control should be reviewed since the main reason for staff exit is CFPA dismissal.

The induction training process is sufficient for all staff and covers CFPA's mission, vision, operating model, code of ethics, and institutional goals. After a job shadowing process lasting on average three months, staff undergo a written test and an evaluation of key task performance (e.g. for LOs, a loan disbursement). The probationary period is six months after which branch staff are either awarded a semi-permanent contract or released. A training plan is developed annually along with a monthly activity plan. The Training Department is comprised of six staff in addition to a number of staff in various departments with training responsibilities, who participate in a 4-day Training of Trainers session with content from ACCION International, which includes training on public speaking, leadership, facilitation/coordination, and coaching skills. These trainers must be an employee for one year and for more specialized topics must pass a practice test training evaluation to earn an internal Training of Trainers certification. Systems are partially in place to continually build staff skills. Refresher trainings are provided every 6-12 months for branch staff, many useful trainings are provided for free on the HR online portal system, and 1,000 CNY (163 USD) is provided for staff to undergo external trainings on their own, however there could be a better identification of specific training needs for each employee especially at the branch level. RMs and BMs train staff on policy/procedure updates learned at semi-annual RM/BM meetings at HO, and policy/procedure updates are also communicated to RMs/BMs through the online Office Administration system. Management skills training and "study tours" (both international and domestic) focused on senior management and BMs provide relevant and useful training, although BM management skills training is only annual.

Performance evaluations are handled at the regional and branch level. Due to a lack of an evaluation template or quality control on evaluations from HO, consistency in evaluation processes cannot be ensured across the entire institution. However, RMs/BMs are instructed to carry out two levels of evaluation for all staff: a basic monthly evaluation to determine the incentive payment and a more detailed quarterly one including measurement of achievement to all the position's KPIs which forms the basis of a discussion with the staff member to address poor performance if needed. Career paths are not formalized but in practice there exist multiple possibilities and a number of department heads were promoted internally (Operations Management, IT, Branding). CFPA always pays at least the appropriate province-level or city-level minimum wage or higher. Annual staff satisfaction surveys are collected via an online portal, with questions on career growth, capacity of supervisor, and overall satisfaction. The results are presented to the BOD with the main feedback for 2014 being requests for higher salary. All staff are interviewed upon exit, including a question on the reason for leaving, the most common of which being a lack of incentive bonus due to sub-par performance. Based on exit survey and client satisfaction survey results, CFPA has taken some actions to reduce staff turnover including emphasizing career development opportunities to staff, conducting more team building activities, and a recent salary increase in 2015 for HO staff where turnover is highest (branch-level salaries have not been revised since 2012). The LO incentive structure has no upper limit and is based on the amount of loan repayments (promoting portfolio growth) with gradual reductions for poor portfolio quality. Variable salary accounts for a large proportion of total compensation (ranging from 0% to 91%), averaging 61% in 2014. 62.5% of LOs received some variable salary in Dec. 2014. This makes personal financial planning difficult for some staff. CFPA has a staff representative body, which convenes every two months at HO with the main purpose of sharing staff complaints. It is comprised mostly of HO staff and does not have sufficient branch staff participation due to a lack of stipend covering the cost/time of travel.

Information

Information **is rated "b"**

CFPA benefits from an efficient MIS. The loan tracking system was largely developed internally with some support from external consultants. Accounting and portfolio information is integrated. All 144 branches are fully connected to the system, with power or internet disruptions uncommon. All data is real-time and potential data loss is limited to < 24 hours. Disbursement and repayment transactions require a level of verification by the cashier/accountant before the change is reflected in the system. The IT team is well staffed (32 total staff) and is expected to nearly double in size by the end of 2015. CFPA has good capacity to manage the MIS and adapt it as needed (e.g. adding an Agriculture Loan pilot product with a different repayment schedule design, creation of HR and Office Administration components, development of IA findings/recommendations tracking system, and tracking of social indicators such as % of minority ethnic group clients). CFPA also understands well when it is needed to seek external consultants for certain aspects (e.g. development of a mobile application for more efficient loan appraisals, development of a P2P lending platform). External consultant salaries accounted for 20.1% of the total IT department budget in 2014. Induction training for new IT department staff is time-intensive as the loan tracking system is unique to CFPA. Nevertheless, overall the MIS is cost-effective as CFPA owns the loan tracking system and other key components of the MIS. CFPA does not foresee an evolution to a new loan tracking system or accounting system in the next 5 years, instead planning to continually improve the existing system.

Data security is moderately well ensured at CFPA. The accounting and HR components are fully backed up to a cloud service (Aliyun by Alibaba Cloud Computing) once a day. The portfolio and office administration components are stored on a server located offsite in a Beijing suburb, at a company specialized in maintaining servers in an appropriate environment (e.g. fireproof, air conditioned, high security). A daily backup of this server is stored at HO on an external hard drive. For the accounting system the cloud service provides a reliable backup, but for the portfolio system there is no disaster recovery plan in place and simulating an unexpected disaster has not been tested yet. Electronic data security is otherwise well ensured due to an audit trail detailing the username, change made, and time of change for each change. This audit trail is reviewed for accuracy on a weekly basis by supervisors in the IT Department. User access rights are well managed through a review of all users' profiles each quarter by the HR department, with only necessary information accessible based on the requirements of the position. The system does not require an automatic password change after any period of time. Anti-virus is installed on some computers at HO and branches, however there is no policy or checking on this to ensure all computers have up-to-date and functional anti-virus software. Physical data is well organized in branches and filed in a locked cabinet with restricted access approved by the BM, although security could be improved by storing them in a locked room and maintaining an access log.

Interesting and useful information is produced in a timely manner to monitor the loan portfolio and financial performance. Detailed portfolio quality indicators are available and reported including PAR 1 and PAR 30 per product, per branch, per LO, and per loan purpose. While the portfolio is monitored closely to identify any deterioration in loan portfolio quality, a vintage analysis is not yet performed. Financial performance information includes the reporting of each branch as a profit center, analyzing branch performance from a variety of perspectives including how a particular branch's performance compares with the profit model for a typical branch of similar maturity. Relevant profitability, efficiency, and liquidity indicators are generated easily in Excel using exports of system information. The IT team is focused on developing and producing reports based on user requests, and the content, format, and frequency of reporting is designed according to user needs. Users access common reports efficiently by logging into a report generation application within the system, with appropriate reports available depending on the user's position.

Some responsible practices are monitored and the MIS is capable of creating and tracking indicators on responsible practices, yet indicators integrated into the MIS specifically for this purpose are currently limited. CFPA submits complete positive and negative information to the credit bureau, and checks the credit history of all clients (including guarantors) with proposed loan amounts >30,000 CNY (4,911 USD). Credit bureau information is generally reliable but there are rare cases of missing information as not all competitors submit regular/accurate data. No reports are produced to monitor the cross-indebtedness or frequency of multiple borrowing among CFPA clients. Furthermore, while preventing the risk of over-indebtedness is built into the loan appraisal process, there are no indicators tracked on over-indebtedness. CFPA does track complaints per LO and per branch, although the current level of complaints received via the hotline phone number and suggestion boxes are limited (8 total in 2014). KYC data is collected from all clients (and guarantors) including client photograph, national ID photograph, telephone number, residence/business location and photographs, and information on the business activity. Each client is assigned a unique ID in the MIS and historical information on individual clients is easily accessible including repayment history on previous loans, used as part of the loan appraisal process to determine credit history within CFPA.

Risk management

Risk management **is rated "b"**

Enterprise risk management

A risk management framework is partially in place and there is a Risk Management department that has identified key risks and monitors them (with financial risks monitored by the Finance Department), even if the framework is not formalized in an institutionalized policy or manual. Appropriate risk levels are defined for main risks such as credit risk (e.g. 2.0% PAR 30) and operational risk (e.g. KPI achievement), however some do not have risk levels defined (e.g. FX risk, interest rate risk). These risks are not centrally tracked in a risk register or other comprehensive tracking tool. Some systemic risks are researched (e.g. monitoring of the PBOC base lending rate and the regulatory environment) however the macro-economic risk, political/country risk, and risk of over-indebtedness is not systematically monitored. An Audit/Risk Committee is in place at the BOD level and meets each quarter as part of BOD meetings. However, the effectiveness of this function cannot be fully confirmed as Planet Rating did not have sufficient access to BOD minutes due to CFPA confidentiality policies. Lender covenants are also not tracked in a systematic way (for example the CAR is not calculated or monitored by CFPA, despite an IFC covenant), although there were no breaches reported in 2014. There is no formal business continuity plan in place to set procedures for responding to an unexpected increase in risk levels.

Procedures and internal controls

The basics of internal controls are in place. CFPA has comprehensive procedures and internal control systems in place, most of which are well documented and communicated to staff. Polices are in place for key functions (e.g. credit, finance, HR, IT, etc.), however an internal control policy or charter is not in place. Tasks are appropriately separated, notably in branches where LOs, BMs, accountants, cashiers, and information officers hold distinct responsibilities. The regional managers are not involved much in ex-post controls, as cross-checks of information are the BM and LO supervisor's responsibility. Cash security is only partially ensured as nearly all (>90%) of Group Loans are disbursed and most repaid in the field. The risk in loss during disbursement is mitigated by all Individual Loans being disbursed by cashless methods (e.g. check), and for Group Loans transporting the cash in company cars with the LO, BM, and one other branch staff present for disbursements 100 K CNY (16 K USD) and above.[4] In the branches, there are appropriate daily cash counts, cashier desk cash limits, and low safe limits in place which are also checked during IA visits. The cash security risk is most significant during repayments, however LOs are trained during induction on cash security and transportation safety and no robberies/assaults were reported in the last five years. Appropriate hierarchical controls and approval levels are in place. >95% of loans are approved at the branch level meaning BM's have a large workload in this regard, however the BM is assisted in monitoring visits including field checks by the RM. Compliance to procedures is generally sufficient, although unevenly applied in the field. Fraud is normally found in a reasonable timeframe, so long as multiple task-owners including the BM are not colluding together (which did happen once in 2014). The reliability of data is ensured through the integrated MIS, banking reconciliations, and internal audit methodology. Irregularities are discovered promptly and are reportedly immaterial even though the amount of money loss due to fraud is not explicitly tracked. KYC procedures are adequate, and the IFC exclusion list is integrated into all loan appraisals to ensure no environmentally or socially harmful activities are funded. Reference checks are performed on all staff and some basic background checks are also done for all staff (home visit, family member / neighbor interviews, and credit bureau check). Criminal history is not formally checked, in-line with other employers in China. BOD members, shareholders, and funders aren't formally vetted but undergo a close informal evaluation by current members.

[4] As of Mar. 2015, 90% of disbursements are 100 K CNY and above. By the end of Q2 2015, CFPA plans for all Group Loan disbursements to be cashless.

Internal audit

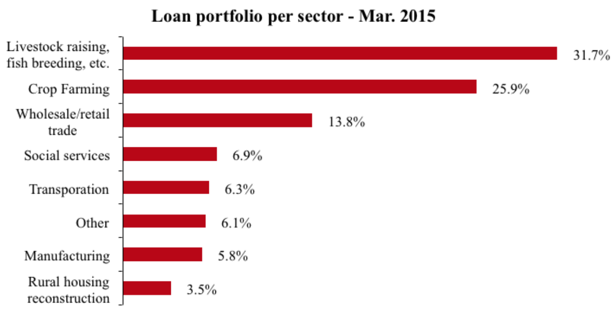
The Internal Audit department provides an identification of the main risks at CFPA. The scope of internal audits is focused on branches (including credit, accounting, HR), which have been under IA's responsibility for several years. Head office auditing began only in 2014 and is not done for all departments. So far, only the Public Affairs department (which is responsible for procurement) has been audited. The total staff in IA is 13, which is sufficient for CFPA's size, and one new IA staff will be recruited in 2015. The institutional setup provides for the independence of IA (reporting directly to the BOD Audit/Risk Committee). Minutes from these committee meetings are not taken, limiting the quality of oversight. Branch audits include a sufficient level of onsite field visits (once a year for each branch), document reviews including loan files, data verification checks, and client visits (3.1% of total clients visited by IA in 2014, improving from 1.7%-1.8% in 2012-2013 respectively). Aspects of the loan portfolio, accounting, MIS entries, and cash management are sufficiently checked using a detailed check-list template. Branches are informed of an upcoming audit one working day prior to the onsite visit, an improvement from past years (3 working days). Completely random visits, while more effective to identify branch issues, are not conducted as CFPA considers this unsuitable in a Chinese context. There is a moderately good reporting of internal audit findings for each branch visit (e.g. summary of key findings and material risks discovered) and a clear risk ranking by branch and LO depending on various parameters including portfolio quality, portfolio growth, maturity of branch/LO, LO turnover, and a score assigned by IA findings. The audited branch's BM and corresponding RM review the report and provide comments. While recommendations are followed up on during the next audit, there is no formalized documentation of this, making efficient follow-up difficult. An internally-developed IA tracking software introduced in Mar. 2015 will facilitate more efficient follow-up on previous year recommendations. The IA team has the capacity to visit a branch more than once a year, even if in practice this has not been deemed necessary by CFPA. The length of the audit visit however is increased for more risky branches. Furthermore, the risk ranking assigned by IA is shared with RMs who use the rankings and the audit reports to determine the frequency of onsite monitoring visits in the coming year. As with all departments at CFPA, IA (along with HR) sets an annual plan for each year including relevant KPI targets, and achievement to the plan is checked each quarter. Achievement in 2014 was >100%, as IA audited more branches (89) than its target (88). This figure is lower than the number of total branches at CFPA because new branches (in first 12 months of operation) are not audited. IA staff are recruited using the same transparent recruitment process of all staff. To fill the gap in terms of supervisory oversight, IA is supplemented by external audits each year (with management letters issued every two years) and external evaluations such as a social results study carried out in 2014.

▪ Asset quality

Asset quality **is rated "b"**

Loan portfolio evolution

CFPA's loan portfolio has grown significantly over the years, posting yearly growth rates of between 30%-70% between 2011 and 2014, posting 58.5% growth in 2014 compared to 2013. Over the same time period, active borrowers have grown by 28%-58% each year and the average outstanding loan amount has increased from 6,205 CNY (977 USD) in 2011 to 8,326 CNY (1,356 USD) in 2014. In terms of active borrowers, the portfolio has consistently been made up of a majority Group Loan clients (93%-95%, 2011-2014), and the outstanding portfolio amount similarly is concentrated in Group Loans (80%-85%, 2011-2014). There is a slight trend towards Individual Loans comprising more of the overall portfolio (from 14.9% in Dec. 2012 to 17.0% in Mar. 2015). The majority of the portfolio is utilized for agricultural purposes and has maintained a significant proportion over time (56%-60% between Dec. 2010 and Mar. 2015), split between crop farming (25.9% as of Mar. 2015) and livestock raising and fish breeding (31.7% as of Mar. 2015).



Loan portfolio management

CFPA's credit methodologies are sound and generally lead to well-informed and appropriate credit decisions, demonstrated by posting a total credit risk (NPL 30 + rescheduled loans + write-offs) of 1.1% or less over the past five years. Nevertheless, CFPA could improve its credit methodologies and refine tools to analyze the risks that come with fast growth.

Group Loan clients (comprising 94.4% of total clients as of Mar. 2015) undergo induction training covering topics such as group liability and loan terms/conditions. The induction training period however is short (<1 week between group formation and loan disbursement) when compared with best practice, limiting the development of group cohesion and allowing less time for group members to appraise each other informally. LOs are required by policy to visit each client's residence and business (along with one additional back office staff) to verify information provided in the loan application form, and in practice this is usually done but not always. Internal credit history within CFPA is checked and interviews with neighbors are sometimes conducted to gather information on other outstanding loans, however the credit bureau is only checked for loans >30,000 CNY (4,911 USD) which includes no Group Loans. The internal rate of default (i.e. the rate at which group members pay for defaulting members, to keep the group loan in good standing) is not monitored. For Group Loans, a net income or debt threshold calculation is not formally recorded, limiting the effectiveness of the repayment capacity analysis. For Individual Loans, a more sophisticated analysis is done, including a detailed cash flow analysis, household expenses, and other debts, including information gathered from the credit bureau check. Credit bureau information is generally reliable but there are rare cases of missing information as not all competitors submit regular/accurate data. A best/worst case scenario analysis or seasonality analysis is not done, however the figures analyzed are based on the worst case and CFPA does not lend to Individual Loan clients without a stable income. There is no limit to the number or amount of outstanding loans with other institutions or individuals, so long as the debt threshold ratio (installment to net income) does not exceed 70%. This is applied accurately and consistently by LOs, even if the ratio maximum is considered high as per best practice. The loan files reviewed onsite did not exceed a debt threshold of 50%, which is sufficiently conservative. There are cases of loans disbursed with debt thresholds exceeding 70% based on an exceptionally strong guarantor and these cases, while rare and requiring the approval of RM/HO, are not tracked separately in the system. Appropriate approval limits are in place for both products, depending on type of product and loan amount (see section "Institutional presentation" for specific levels). The Risk Management Department notably double-checks all disbursements approved during a branch's first six months of operation. Parallel loans within CFPA are not offered and pre-payment is allowed under certain circumstances with a penalty fee charged. The thoroughness of the appraisal does not differ if the loan is first-cycle or a loan renewal. After loans are written off, recovery efforts continue by the LO and back office staff. These efforts are effective; from 2011 to 2014, 3,961,655 CNY (645 K USD) of written-off loans were collected, compared with 15,155,431 CNY (2.5 M USD) written off during the same time period.

After disbursement, checks are carried out by LOs to ensure the loan was used for the stated purpose. Delinquency management is well designed and formalized, with a detailed timeline outlining steps for escalating collection efforts, including a reminder visit/call by the LO, written warning, BM/RM involvement, and contacting the guarantor. No physical collateral is taken by CFPA for any loans. There is a good management of transfer of low-performing portfolio of an LO to current LOs (e.g. shared, not all given to one LO), which is important given high staff turnover (17.4% as of Dec. 2014). LOs have up-to-date reports on their loan portfolio provided from the system to track repayment dates and late loans. For Group Loans, delinquency management relies mainly on the group itself with generally appropriate supervision from the LO. Loan officers are required to come from the local branch area and are generally skilled, although there are some gaps among new LOs. Overall there is a good knowledge of credit procedures. Trainings are received on a regular basis, even if training needs for specific staff could be better identified through a formalized evaluation process (see section: HR management). The branch supervisor (i.e. LO supervisor), BM and RM provide valuable oversight, doing spot-checks of loan appraisals and scaling up monitoring and guidance of low-performing LOs. Targets at the LO level are detailed into various KPIs and customized based on LO maturity, branch maturity, branch location, and other factors. Achievement to KPIs is monitored on a quarterly basis. In 2014, 75% of LOs fully met their KPI targets and in Dec. 2014 62.5% of LOs received a monthly incentive bonus.

Credit risk

CFPA historically has an impressive portfolio quality, with total credit risk (NPL 30 + rescheduled loans + write-offs) ranging from 0.1%-1.1% over the past 5 years, standing at 0.9% as of Dec. 2014. The NPL 30 + rescheduled loans component (0.3% as of Dec. 2014) compares well with the East Asia and the Pacific benchmark of 0.7%.[5] Credit risk is well-managed by CFPA, with various useful indicators regularly monitored including PAR 30 per LO, branch, product, and loan purpose. The risk level is evenly split across products; total credit risk stood at 0.9% for Group Loans and 1.2% for Individual Loans as of Dec. 2014. NPL is strictly monitored and sufficient systems are in place to manage deteriorating portfolio quality, notably by RMs increasing monitoring visits to low-performing branches and BMs providing a higher level of coaching, guidance, etc. with low-performing LOs. A clear write-off policy is followed well, with all loans over 360 days late written off. While there is no policy containing the conditions for rescheduling and refinancing and in practice loans are generally not rescheduled/refinanced, there are rare cases of rescheduling for clients suffering a significant business disruption due to natural disaster (with RM/HO approval).

[5] MIX, 2013.

These rescheduled loans are not tracked separately in the MIS and are estimated to be an insignificant amount. Connected lending is limited to staff loans (by policy, no BOD members can receive loans) and the amount of staff loans in a particular branch compared to the total loan portfolio in that branch is monitored, although there are no limits set.

CFPA monitors certain aspects of concentration in the loan portfolio, including per branch, per branch maturity categories, per industry/sector financed, and staff loans per branch (as a percentage of the total portfolio in each branch). There are however no concentration limits set, limiting CFPA's ability to limit exposure to potentially risky portfolio. For example, CFPA's most concentrated industry/sector is agriculture (58% of clients), which is susceptible to rapid portfolio quality deterioration in the case of natural disasters. It is notable that the 58% figure is comprised of 32% livestock raising and fish breeding, while 26% is crop farming, spreading out these risks across various agricultural activities (and different regions). Furthermore, given the demographics of CFPA's clients, the vast majority have other income sources outside of agriculture. CFPA approaches product development cautiously to mitigate credit risk.

Credit risk coverage

CFPA's provisioning policy is sufficiently conservative. Over the past five years, anticipated loan losses (NPL 30) have been sufficiently covered by CFPA's provisions, with all these years well above 100% (804% as of Dec. 2014, representing 2.6% of GLP). The theoretical minimum amount of the reserve exceeds the actual balance sheet figure each of the past five years, in insignificant amounts except a 6.6% difference in 2013, suggesting the provisioning policy was not fully adhered to in that year. Furthermore, the movement in the loan loss reserve is not monitored and related data (e.g. provisioning expense, write-offs) is not always consistent. CFPA provides credit life insurance to all clients to cover the risk of death or accidental injury, however there is no other insurance to protect the portfolio, for instance against natural disasters which is relevant to CFPA given past natural disasters and the high proportion of loans in agriculture exposed to these risks. It is notable that this type of insurance is not widely available in China. No physical collateral or cash collateral is collected for any loans, however only 5.2% of loans are > 4,900 USD. All Individual Loans (17.0% of portfolio as of Mar. 2015) are backed up by a guarantor (checked with credit bureau for loans >30,000 CNY), and all Group Loans have co-guarantees of each group member, the effectiveness of which is generally strong.

▪ Client Protection

Client protection **is rated "b"**

CFPA Microfinance	Dec. 2014
% loans checked with a credit bureau	5.2%
Required Installment / Disposable income	70%*
% borrowers with credit life insurance	100%
% borrowers bearing FX risk (hard currency)	0%
APR disclosure to clients	No
Type of interest rate	Flat**
Additional fees	No
Transparency index***	56-70%
% borrowers visited by non-operations staff (2014)	4.0%
Institutional policy on privacy of client data	No
Formal client agreements prior to sharing private data with third parties	Yes

* Individual Loans only. For Group Loans there is no net income calculation.

** Total interest is calculated using a flat rate, however payments are organized with decreasing interest and increasing principal throughout the loan term.

*** The transparency index compares the nominal annualized interest rate with the APR, 100% signifying perfect transparency. An index of more than 85% is considered a good level of transparency.

Appropriate product design and delivery

See Adaptation of Services in Efficiency in Profitability.

Prevention of over-indebtedness

Procedures are in place to prevent over-indebtedness of clients but are not totally sufficient. While CFPA is not regulated by PBOC, it was granted special permission to submit data and to check potential clients with the credit bureau. Most key competitors share data with the credit bureau, which has sufficiently reliable data but there are rare cases of missing information as not all competitors submit regular/accurate data. Due to the cost involved (6 CNY; 1 USD per report) and to improve efficiency since the credit bureau checks slow down loan processing times, CFPA only checks clients (and their guarantors) with proposed loan amounts >30,000 CNY (4,911 USD), so ~5% of total clients are checked (in 2014, 5.2% of clients). However, given the low level of estimated penetration of microfinance services in China and especially in the rural areas in which CFPA operates, the level of cross-indebtedness of CFPA's active borrowers is likely low. Also, the gap in credit bureau checking is partially mitigated by a debt threshold calculated as part of the repayment capacity analysis for all Individual Loans, which includes other loans with institutions or individuals. The calculation also appropriately includes household expenses, however the maximum debt threshold is set at 70% installment to net income (not by policy – it is a commonly used rule of thumb), regarded as high when compared to best practices especially since there is no formalized sensitivity analysis. Furthermore, some loans are approved by the loan committee at >70% if the guarantor demonstrates exceptional reliability. These exceptions to the debt threshold guidelines are not tracked separately in the MIS. For Group Loans, there is no net income calculation and repayment capacity determination is largely delegated to the groups themselves except for a home/business visit from the LO (which is not always done for all clients, although the credit procedures require this for all loans), and group members don't have formal access to each fellow member's repayment history. For all loans, the loan appraisal process is the same regardless of loan cycle and renewals are treated as a new loan, and there is a good internal tracking of repayment history in the MIS. The incentive structure for LOs appropriately balances portfolio growth (measured through the amount of repayments) and portfolio quality. Credit life insurance is provided for all clients and covers not only death but also accidental injuries and disabilities. There is no policy outlining refinancing and rescheduling conditions, however in practice rescheduling is done for clients suffering a significant business disruption due to natural disaster (with RM/HO approval). These rescheduled loans are not tracked separately in the MIS and are estimated to be an insignificant amount. Warnings on the dangers of over- and multiple- borrowing are not part of the standardized induction process for new clients. As per policy multiple loans within CFPA are not allowed, however there is no limit on the number of loans with other institutions a potential client can have so long as the installment to net income ratio is not too high.

Transparency

Pricing information is provided to clients but is not sufficiently transparent. The APR is not provided for any clients. While as per best practice the interest rate is the only component of the total price for all loans, Transparency Index (TI) values are relatively low-to-moderate ranging from 63-70 for Group Loans and 56-59 for Individual Loans, indicating that 56-70% of the true loan price is communicated to the borrower through the nominal interest rate. This is due to the use of the non-transparent flat balance interest rate calculation method. CFPA quotes interest using a flat method but then converts the rate to a corresponding declining rate (i.e. roughly twice the flat rate), in order to organize the repayment schedule with declining interest payments. Also the principal payments are adjusted to start small and gradually increase throughout the loan term, so each month's total installment is an equal amount. Although it would be far more transparent to simply quote the rate as declining (which CFPA plans to do for 100% of loans by the end of 2015), CFPA's re-organization of payments actually decreases the total APR (Group Loans range from 21.4%-22.7% and Individual Loans from 23.9%-24.9%) when compared to a standard generated repayment schedule at the quoted flat rate. Group leaders and all Individual Loan clients receive a copy of a repayment schedule.

Loan conditions are partially transparent for clients. LOs explain the terms and interest payment calculation to clients, however the interest rate is not included in promotional brochures, is not on public display in branches, and is not quoted in loan contracts (only the installment and total payment amounts are quoted). Early and late repayment penalty fees are clearly disclosed in the contract. Contract copies are provided to all Individual Loan clients and the group leaders. The loan contracts are generally clear (e.g. avoiding fine print, etc.) and clearly define the rights and obligations of clients. A separate document is signed by Individual Loan clients to authorize sharing of their information with the credit bureau, and for Group Loans this authorization is included in the contract. Clients receive receipts for all transactions. The key terms and conditions are communicated to the client in their local language and all LOs must be from the local area to facilitate smooth communication. Clients have adequate time to review the contract prior to signing.

Responsible Pricing

CFPA's loan products are offered at prices based on a basic product costing analysis and reasonable margins, and credit risk and operating expenses are both low. Prices tend to be in-line with competitors. CFPA complies with PBOC regulations that the interest rate charged to borrowers cannot exceed four times the PBOC base lending rate. CFPA usually revises its prices so the maximum possible interest rate is charged. No limits are set on profitability, and ROA and ROE are projected to increase in the coming years, but would still be within reasonable levels (ROA to 1.5% in 2017 and ROE to 10.9%). No dividends have been paid to date and there is a general understanding amongst all shareholders on the use of profits. Transaction fees and penalties are not excessive, and CFPA makes efforts to reduce costs to the client (e.g. the majority of disbursements and repayments are done in the field).

Fair and respectful treatment of clients

The work environment and institutional culture promotes ethical behavior and fair treatment towards clients. The code of ethics is in place including topics such as treating clients equally (e.g. regardless of age, education level, or income level), a forbidding of the use of inappropriate practices (e.g. threatening language, aggressive pressuring, offering of bribes), and the importance of finding a workable solution in the case of delinquency issues. A summary of the code of ethics is signed by all staff upon accepting employment and is part of orientation training. Internal Audit checks with clients on topics relevant to fair and respectful treatment of clients (e.g. quality of treatment by CFPA staff). CFPA does not provide specific guidelines for Group Loan members to fairly treat other group members, but in practice clients have not reported unfair treatment. The management of delinquent loans is formalized in the credit manuals including a timeline of when to take which steps, along with who performs the action. The LO incentive structure and performance evaluation do not incorporate collections practices, but the former appropriately balances portfolio growth (measured through the amount of repayments) and portfolio quality, ensuring healthy LO incentives. The use of PAR 1 in the incentive calculation has the potential to lead to unhealthy incentives, however so far it has not due to CFPA's sanctions for unfair treatment to clients. CFPA strictly does not collect physical collateral for any loans. Violations to the code of ethics are reported and adequately sanctioned as are other aspects of the HR manual disseminated in branches, following an order of escalation depending on the frequency and severity of the offense. Policies are not discriminatory based on race, gender, or ethnicity.

Privacy of client data

A summary of the code of ethics is signed by all staff upon accepting employment and it includes the importance of keeping client data secure/private and emphasizes the policy to share client information only with expressed written consent. Clients sign a form permitting sharing of their information with the credit bureau. Physical loan files are kept safely in a locked cabinet away from public space and access is restricted to one back office staff in the branch (normally the information officer). Security could be improved by storing the cabinet in a locked room and maintaining an access log. LOs do not have access to add or edit data in the MIS except for use of the mobile application (with changes approved by cashier/accountant); other data entry is performed exclusively by the information officer or other appointed staff. Electronic data is protected through user passwords and tiered access depending on staff role which is reviewed every month by the IT head, however antivirus software use is decided at the branch level and there is no process to force password changes for MIS access (see section: "Information" for more information).

Mechanisms for complaint resolution

The main mechanism for complaint resolution besides direct branch complaints is a hotline phone number used not only for complaints but inquiries and other feedback, with all calls handled by one staff under the Public Affairs department at HO. Complaints received through the hotline and suggestion boxes are recorded. The number is included in marketing brochures and is visible on posters in branches. However, clients are informed of this mechanism unevenly across LOs and actual use of the hotline is very limited (three complaints were registered in 2014). Local cultures play a role since clients are more comfortable voicing concerns in person at the branch level rather than over the phone. The vast majority of complaints are made at the branch level, with no formal recording of the complaint or its resolution. Given the limited amount of complaints formally recorded, there are no reports on common complaints, and the resolutions to complaints are not clearly used to improve procedures.

▪ Funding and liquidity

Funding and liquidity **is rated "b"**

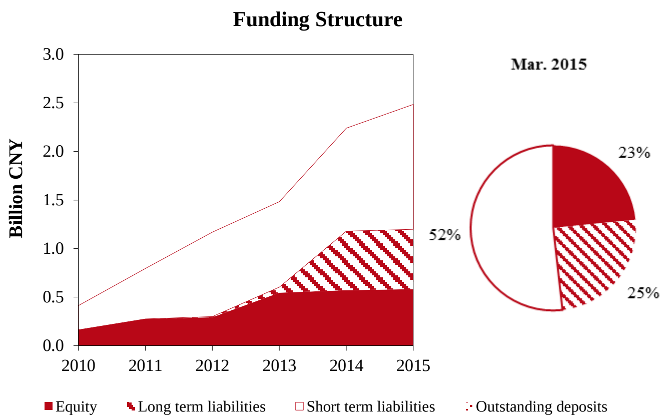
Capitalization and funding strategy

CFPA is sufficiently capitalized with core CAR standing at 25.2% and the total CAR at 29.3% as of Dec. 2014, above the requirement of >15% by IFC as funds provider.[6] As CFPA is not regulated, there is no supervisory CAR requirement and CFPA does not actively monitor this ratio. The core CAR level has decreased from ~39% (2010-2011) to 30.9% (2012) and increased to 37.7% (2013) due to the increase of paid-in capital from shareholders. The core CAR dropped to 25.2% in 2014 due to the fast growth of the portfolio. CFPA plans to increase the paid-in capital to 1 B CNY (163 M USD) by 2016. Leverage is moderate and manageable for CFPA, standing at 2.92x as of Dec. 2014 and 3.27x as of Mar. 2015.

Funding needs are well projected for the coming three years (2015-2017) and one-year needs are precisely projected based on disbursement projections. The borrowing cost has slightly increased due to the CDB ceasing funding in the beginning of 2015 (5.0% as of Dec. 2014 and 5.4% as of Mar. 2015), however CDB reportedly resumed lending in May 2015 with a 100 M CNY (16.4 M USD) loan disbursement to CFPA. CFPA aims at limiting the cost of funds to < 7% and further diversifying funding sources through an asset securitization product (500 M CNY – 81.9 M USD reportedly issued in May 2015), international funders, and a recently developed P2P platform (currently 20 M CNY – 3.3 M USD outstanding as of Mar. 2015 under the pilot phase, with expectations to rapidly grow when it is open for the public). The funding strategy is generally relevant and effective, even if the legal set-up hinders CFPA's capability of forming a more precise or longer-term funding strategy. Funding needs are fully secured for the coming six months. About 694 M CNY (114 M USD) of debt financing will be due within six months and 485 M CNY (79 M USD) will be due within three months; the 500 M CNY funds raised through asset securitization were

[6] Paid-in capital, current period earnings, and retained earnings included in core capital. Capital reserve and surplus reserve included in non-core capital.

reportedly secured in May 2015, along with the 100 M CNY CDB loan. CFPA does not have a deposit-taking license and disbursements are sometimes delayed. To minimize significant disbursement delays, CFPA Foundation provides an overdraft facility up to 100 M CNY (16.4 M USD) for short-term emergency needs.



CFPA has good communication with a variety of potential funders through the CFO, CEO and BOD members and has sufficient experience negotiating terms and conditions. Type of interest (floating or fixed), the interest rate itself, and convernants are typically negotiated. Compliance with covenants should be better monitored even though no breach or waiver request has occurred so far.

Liquidity risk

The Funding/Investment Department was set up in 2012, with the responsibility for managing liquidity risk. The department staff has sufficient experience in technical aspects of liquidity management supported by a comprehensive MIS system. The liquidity positon is monitored daily and cash flow projections with 1-year, 6-month and 3-month time horizons are updated monthly. The risk management department is responsible for monitoring asset-liability management (ALM) risks although maturity matching is not regularly monitored. CFPA has kept a sufficient liquidity level over the past years. The coverage level of the average cash balance for the average monthly operating expenses has ranged from 6.8 months to 15.3 months over recent years (2010-2013). It dropped to 3.7 months in 2014 and stood at 6.7 months as of Mar. 2015, however this is still within reasonably high liquidity levels. CDB notably consisted of 58% total funding as of Dec. 2014.

The Funding Department and the Risk Management Department are in parallel monitoring the maturity matching. As of Dec. 2014, CFPA had a positive cumulative position in all maturity bands. The quick ratio (1 month) and the current ratio (1 year) are sufficient, the latter standing at 214.7% as of Dec. 2014. A contingency plan is in place to manage cases of cash shortage including a guaranteed overdraft facility up to 100 M CNY (16.4 M USD) from CFPA Foundation at the lending base rate and then to disbursements are reduced as needed.

Market risk

The exposure to FX risk is limited. CFPA does not hold FX assets or liabilities (loans are disbursed only in local currency) and the source of FX losses/gains is equity in foreign currency with fluctuation in value reflected in the converting year. These gains/losses are insignificant as over the past 5 years the ROA impact of these fluctuations has been between 0.0%-0.14%.[7] The risk department regularly monitors the lending interest rate to clients, which must comply with the legal requirement to be <=4 times the PBOC base rate to prevent compliance risk. However, the interest rate risk of funding is not effectively monitored. The interest rate risk (open position of 163.5%) is not hedged, but the interest rate risk is mitigated by the short-term maturity of loans (on average 12 months). A 0.5% increase of the PBOC lending base rate would result in a 22 basis points change in ROA as of Dec. 2014, from 1.0% to 0.8%. CFPA is not currently tracking the open position for either interest rate risk or FX risk.

▪ Efficiency and profitability

Efficiency and profitability **is rated "b"**

Profitability analysis

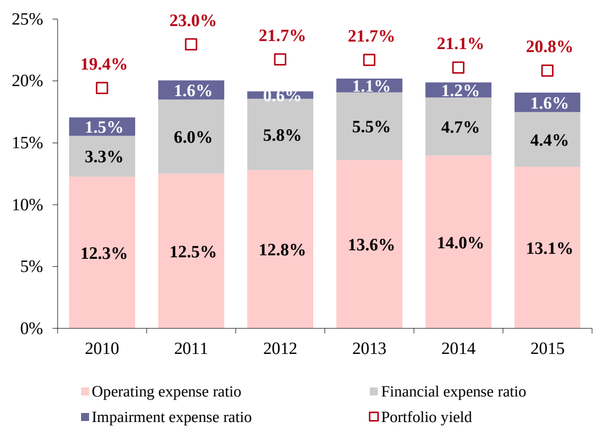
CFPA has posted a modest ROA consistently, ranging from 1.0%-1.8% (0.6%-1.7% not counting donations) between Dec. 2012 and Mar. 2015. Profitability levels have declined since a high of a 4.0% ROA in 2011 (2.3% without donations) and are relatively similar or low when compared with competitors (e.g. MicroCred Nanchong 5.7%, MicroCred Sichuan 1.0%) and low compared to the East Asia and the Pacific (EAP) median of 4.0%.[8] The main drivers of CFPA's stable profitability have been decreasing funding expenses compensating for small increases in operating expenses and impairment expenses. The financial expense ratio is consistently decreasing, from 6.0% in 2011 to 4.6% in 2014, reflecting CFPA's strategy to reduce funding costs (see section: Capitalization and funding strategy). Due to significant investments in HR, IT, etc. to finance projected growth, the operating expense ratio has remained generally stable but has steadily increased each year from 2011 (12.5%) to 2014 (13.7%). The rising trend in operating expenses is consistent with a decline in LO productivity, from 265 to 197 from 2011 to 2014. These

[7] 759 K CNY (119 K USD) loss in 2011, 254 K CNY (40 K USD) gain in 2012, 813 K CNY (133 K USD) loss in 2013, and 0.5 K (80 USD) gain in 2014.

[8] MiX, 2013.

levels are low considering the significant proportion of the Group Loan portfolio (94.4% of clients). Operating expense ratio levels are marginally above most competitors including MicroCred Nanchong (9.3%) and MicroCred Sichuan (12.6%), but these institutions are not perfectly comparable (i.e. geographic client targeting) and CFPA's operating expense ratio levels are below the EAP median of 17.0%.[9] It is notable however that CFPA offers relatively smaller loan sizes when compared with competition. Loan loss provisioning expenses have increased each year since 2012, with the impairment expense ratio standing at 0.6% in 2012 and 1.2% in 2014. This is due mostly to evolution in credit risk levels. Portfolio yield fluctuates from year to year and does not follow a clear trend, as it is linked to CFPA revisions in nominal interest rates charged based on changes in the PBOC prime lending rate (by law, interest rate charged to clients cannot exceed four times the prime rate). The estimated yield gap[10] as of Mar. 2015 is at a normal level.

Profitability Structure



The portfolio to assets ratio hit a 5-year low as of Dec. 2012 (71.6%) and since then has rebounded to reach 81.8% in Dec. 2014, suggesting increasingly efficient asset deployment.

Responsible financial performance

The significant growth rates (about 60% portfolio growth per year during 2010-2014) have been sustainable and responsible, considering good and stable portfolio quality (1.0%-1.9% total credit risk between 2010-2014) and heavy investment in infrastructure such as IT (self-developed and continuous upgrade of the loan tracking system, the integrated accounting system, mobile phone application and P2P platform development) and staff. The levels of ROE (~3%) and ROA (~1%) are within commonly acceptable limits to avoid reputation risk, and are generally lower than competitor levels. The productivity levels (around 200 active borrowers per loan officer) allow for a good quality of service and a decent staff lifestyle. The branch staff remuneration level is competitive and full social insurance is provided.

Adaptation of services

The range of services is limited at CFPA as only two different types of loan products are offered, however there is some variation within the product (e.g. loan size, loan term, and lower interest rates in disaster-stricken areas). Also, CFPA has a proven capacity to improve existing products through feedback collected through consistent/formalized annual client satisfaction surveys. CFPA adapts these loan products with the intention to improve the product and make them accessible/beneficial to more people. LOs are all recruited from the respective local branch area and trained to provide a loan adapted to a client's need, but only to the extent that the well-defined and relatively rigid product design allows.

CFPA has a product development function under the Operation Management department that has recently become active with two pilots in 2014, but without documented policy and procedures. Due to the large proportion of Group Loans used for agricultural purposes without a product designed specifically for this, CFPA conducted a pilot in 2014 for an Agriculture Loan which saw 828 loans disbursed in 10 different branch areas, designed with the assistance of an external consultant. Interest payments are monthly while principal is repaid in a bullet payment at the end of the loan term. The pilot phase was completed in Q4 2014 and the product will be rolled out as a fully-fledged (and small scale) product to additional branches (in Q1 2015, six new branches began offering the loan). Additionally in 2014, 147 Pastoral Loans specifically designed for nomadic herders with more flexible loan terms and a smaller group size in Inner Mongolia province were issued in a pilot phase which concludes in Q3 2015. Feasibility studies are conducted for some pilot products, but not all as a standardized practice. CFPA's focus is to further define current products rather than design new ones.

CFPA's client satisfaction surveys cover a number of relevant topics including overall satisfaction, product design (e.g. loan amount, interest rate), CFPA staff behavior (e.g. attitude, offering of bribes), and service quality (e.g. processing/delivery time, degree of convenience, quality of complaints mechanism). CFPA enjoys high levels of client satisfaction, as 96% are satisfied with the "service efficiency," (86% of clients receiving loans within 7 days), 98% feel the interest rate charged is affordable, and if needed a renewal loan 98% would borrow from CFPA again.

[9] MiX, 2013.
[10] The difference between the theoretical yield determined from APR calculations compared with the actual portfolio yield.

The survey identifies some areas for improvement at CFPA also, as only 61% of clients are aware of all complaint mechanisms and not all clients had their homes visited by LOs or knew their interest rate, emphasizing the need for adequate client orientation training and staff compliance with credit procedures. Drop-out surveys of exiting clients are not yet conducted.

Market position

CFPA is the leading microfinance institution in China targeting underserved rural women clients with an average loan size of about 11,928 CNY (1,952 USD). As of Mar. 2015, CFPA has developed a nationwide network with 144 branches in rural poverty-stricken counties and disaster-hit areas covering 16 provinces with 265,900 active clients. CFPA is able to maintain and increase its market share due to the vast potential in China's rural regions and very few financial institutions entering its market segment. CFPA also has strong support from local governments. The loan prices are a bit higher than the traditional rural financial institutions but significantly lower than the informal lending market. Services are much better than the competition (no corruption, no extra costs except for the interest rate, cash disbursement and payment at clients' households) which attracts clients. Overall, CFPA is well known and respected in the microfinance industry and has the ability to protect this strong reputation in the future.

Profitability outlook

The profitability outlook for CFPA is stable in the short-to-medium term, although modest increases in profitability levels are likely in the coming years. Significant investments are planned to manage the high projected growth levels, including staffing (e.g. IT) and the fixed costs of setting up new branches.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

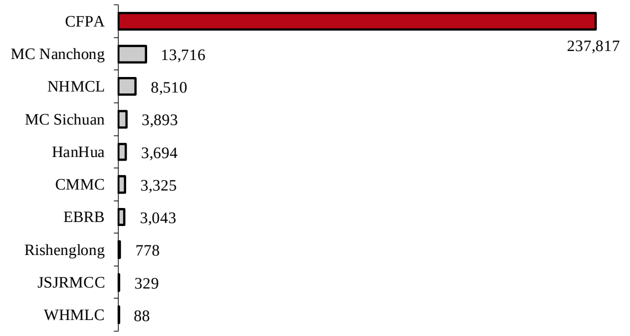
Financial Services and Products

As of Mar. 2015	Group	Individual
% of the portfolio	83.0%	17.0%
% of the borrowers	94.4%	5.6%
Methodology	Group	Individual
Creation Date	1996	2007
Purpose of the loans		
Working capital	✓	✓
Investment	×	✓
Consumption	×	✓
Loan size (CNY/USD)		
Average disbursed	10408 / 1704	38618 / 6321
Average outstanding	7343 / 1202	25216 / 4128
Min	100 / 16	2000 / 327
Max	16000 / 2619	200000 / 32738
Repayment Schedule	monthly	monthly
Loan duration		
Average	12	12
Min	1 months	3 months
Max	12 months	36 months
Grace period	2 months	0 months
Nominal annualized interest rate	13.5%-16.0%	13.4%-14.8%[11] (9.9% disaster areas)
Interest type	Flat	Flat
Disbursement fees	n/a	n/a
Administrative fees	n/a	n/a
Compulsory credit-life insurance	Provided at no extra fee	Provided at no extra fee
Cash collateral	n/a	n/a
Annual Percentage Rate (APR)	21.4%-22.7%	23.9%-24.9%
Collateral	n/a	n/a
Collateral		
No guarantee	×	×
Group guarantee	✓	×
Individual guarantors	×	✓
Chattel (tv, fridge, furniture)	×	×
Salary	×	✓
Vehicles (car, motor, truck)	×	×
Mortgage (land, property)	×	×

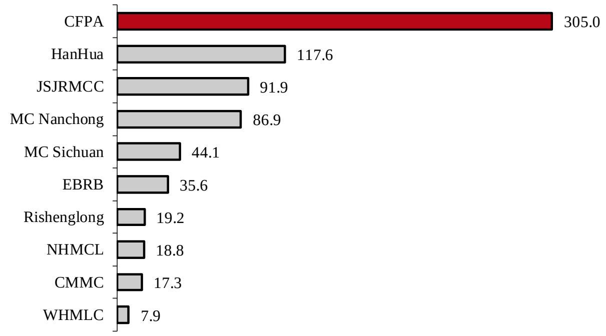
[11] The nominal interest rate for Individual Loans was reduced from 13.4%-14.8% flat to 11.9%-12.6% flat in June 2015.

Benchmarking

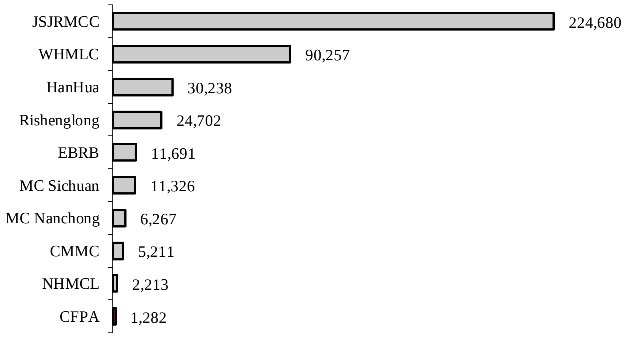
Active borrowers



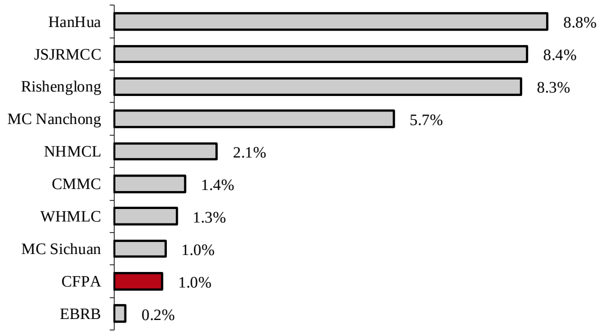
Loan portfolio (M USD)



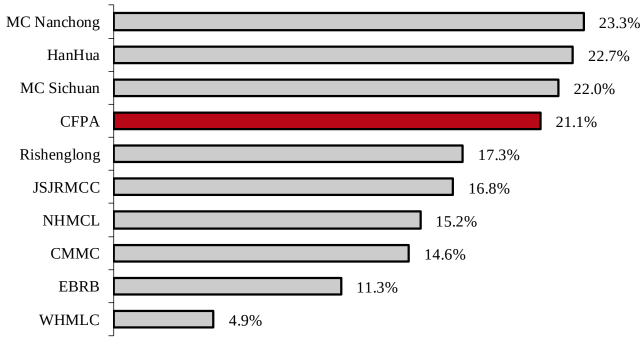
Average outstanding loan amount per borrower (USD)



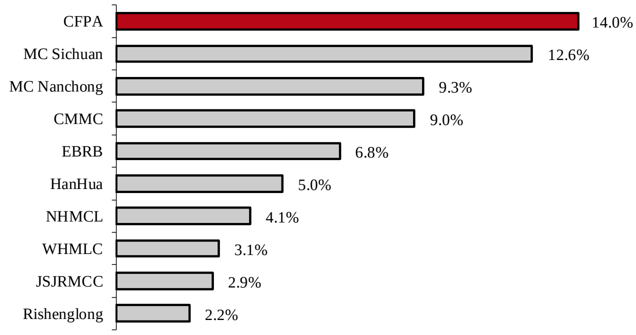
ROA



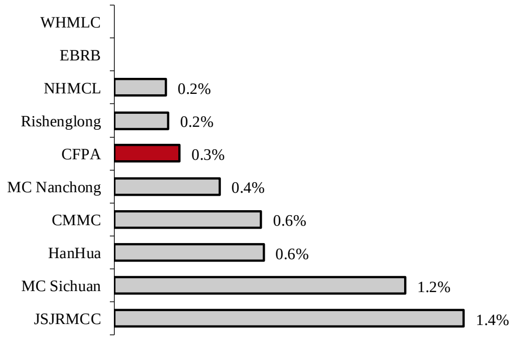
Portfolio yield



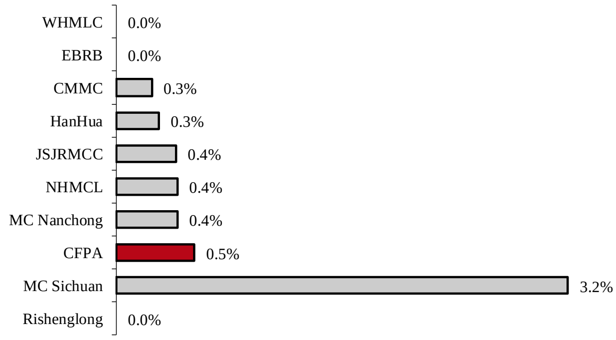
Operating expense ratio



NPL 30 + r



Write-off ratio



Source: CFPA: Planet Rating, Dec. 2014. All others MiX, 2012 (except for MicroCred Nanchong and MicroCred Sichuan, MiX 2014).

▪ Performance indicators

Data in USD, unless otherwise stated

Outreach and service offering	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
Credit						
Active borrowers	67,238	106,491	130,682	174,577	237,817	265,900
Growth	84.6%	58.4%	22.7%	33.6%	36.2%	11.8%
Loan portfolio	59,033,815	104,027,191	135,879,058	193,352,487	304,986,304	362,407,487
Loan portfolio (CNY)	389,138,512	660,811,924	856,191,608	1,181,457,171	1,872,155,380	2,213,987,204
Growth	107.0%	69.8%	29.6%	38.0%	58.5%	18.3%
Average outstanding loan amount per borrower	878	977	1,040	1,108	1,282	1,363
% of GDP per capita	*19.3%*	*17.6%*	*17.0%*	*16.1%*	*16.6%*	*15.7%*
% of loans below 30% of GDP per capita (2607 USD)	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Average original loan term (months)	12.0	12.0	12.0	12.0	12.0	12.0
% of loans with term over 12 months	n/a	n/a	n/a	n/a	n/a	n/a
Retention rate (Schreiner)	79.4%	74.7%	71.8%	74.3%	72.8%	92.3%
Savings						
Outstanding deposits	-	-	-	-	-	-
Outstanding deposits (CNY)	-	-	-	-	-	-
Growth	-	-	-	-	-	-
Voluntary savings (%)	-	-	-	-	-	-
Cash collateral (%)	-	-	-	-	-	-
Active savers	-	-	-	-	-	-
Growth	-	-	-	-	-	-
Average outstanding deposit per saver	-	-	-	-	-	-
Voluntary savings	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-

Staff	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
Total number of staff	494	650	830	1,251	1,860	1,929
Turnover	18.2%	18.5%	13.4%	16.5%	17.4%	3.3%
% Credit officers	62.6%	61.8%	61.3%	62.7%	65.1%	64.5%
5 highest remunerated to 5 lowest remunerated staff	14.22x	21.00x	11.17x	11.43x	13.47x	n/a
% Women among staff	48.4%	47.5%	45.9%	42.0%	42.7%	n/a
% Women among management	75.0%	66.7%	60.0%	60.0%	40.0%	40.0%
% Women BOD members	n/a	0.0%	0.0%	0.0%	0.0%	0.0%

Portfolio quality	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
NPL 30 + r	0.0%	0.6%	0.2%	0.8%	0.3%	0.3%
NPL 30 + r + write-offs ratio	0.1%	0.8%	0.8%	1.1%	0.9%	n/a
NPL 31 - 365	0.0%	0.6%	0.2%	0.8%	0.3%	0.3%
NPL 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.5%	0.1%	0.5%	0.0%
Risk coverage ratio (NPL 30)	4,464.4%	397.7%	928.3%	313.0%	803.9%	669.5%
Uncovered capital ratio (NPL 30)	≤0%	≤0%	≤0%	≤0%	≤0%	≤0%

Profitability analysis	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
ROE	4.9%	6.2%	1.9%	3.2%	3.2%	6.9%
Liabilities / Equity	1.53x	1.89x	3.01x	1.72x	2.92x	3.27x
Core capital adequacy ratio	39.3%	39.6%	30.9%	37.7%	25.2%	22.5%
Total capital adequacy ratio	40.5%	40.3%	31.8%	43.4%	29.3%	26.0%
ROA	2.8%	4.0%	1.6%	1.3%	1.0%	1.8%
ROA (without donations)	2.1%	2.3%	0.6%	1.0%	1.0%	1.7%
ROA (microfinance operations)	2.2%	3.0%	1.2%	1.2%	1.0%	1.7%
Total revenue ratio	19.6%	23.2%	22.0%	22.3%	21.5%	21.1%
Portfolio yield	19.4%	23.0%	21.7%	21.7%	21.1%	20.8%
Net interest margin	16.2%	17.9%	15.9%	15.0%	15.1%	15.8%
Operating expense ratio	12.3%	12.5%	12.8%	13.6%	14.0%	13.1%
Cost income ratio	62.5%	54.1%	58.2%	61.1%	65.0%	62.0%
Cost per borrower	99	119	130	149	165	179
Staff productivity	136	164	157	140	128	138
Loan officer productivity	218	265	257	222	197	214
Financial expense ratio	3.3%	6.0%	5.8%	5.5%	4.7%	4.4%
Cost of savings	n/a	n/a	n/a	n/a	n/a	n/a
Cost of borrowings	4.6%	6.8%	5.7%	6.0%	5.0%	5.4%
Financial expense ratio (FX gains/loss portion)	(0.2%)	(0.1%)	0.0%	(0.1%)	0.0%	0.0%
Impairment expense ratio	1.5%	1.6%	0.6%	1.1%	1.2%	1.6%
Portfolio to assets	92.3%	81.1%	71.6%	77.7%	81.8%	87.2%
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	2.4%	14.1%	15.7%	4.3%	6.3%	8.8%
Current ratio (1 year)	161.3%	149.8%	132.3%	165.8%	208.2%	191.2%
Exchange rate 1 USD= xx CNY	**6.6**	**6.4**	**6.3**	**6.1**	**6.1**	**6.1**

Financial statements – CNY

Income Statement (CNY)	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
Interest and fee income on loan	53,652,753	120,543,282	164,912,011	221,092,863	314,276,787	109,541,344
Interest and fee income on	331,822	969,048	1,656,189	6,106,949	3,163,575	1,047,496
Interest and other financial expenses	8,695,603	30,625,557	43,954,024	54,822,431	69,855,629	23,151,606
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income	(449,370)	(759,949)	254,678	(813,561)	502	-
Net financial income	**44,839,602**	**90,126,824**	**122,868,854**	**171,563,820**	**247,585,235**	**87,437,234**
Fees and commissions on other	-	-	-	-	-	-
Other operating income	172,959	22,504	355,150	3,667	3,370,347	241,016
Operating expenses	33,860,489	65,741,474	97,108,084	138,759,919	208,470,317	68,741,355
Personnel expenses	*21,090,970*	*40,002,454*	*60,215,277*	*87,286,119*	*129,568,856*	*46,519,581*
Administrative and other expenses	*11,877,118*	*24,730,148*	*35,596,724*	*50,173,718*	*75,398,883*	*22,221,774*
Depreciation	*892,401*	*1,008,872*	*1,296,082*	*1,300,082*	*3,502,578*	-
Non operating income (net)	(325,277)	(4,523,691)	(5,875,937)	(2,722,644)	350,274	(34,391)
Gross operating income	**10,826,795**	**19,884,163**	**20,239,983**	**30,084,923**	**42,835,539**	**18,902,503**
Net impairment expense	4,085,974	8,188,672	4,524,263	11,306,398	17,936,084	8,239,442
Net operating income	**6,740,820**	**11,695,491**	**15,715,720**	**18,778,525**	**24,899,455**	**10,663,062**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**6,740,820**	**11,695,491**	**15,715,720**	**18,778,525**	**24,899,455**	**10,663,062**
Income Tax	336,435	(2,001,815)	10,197,906	5,548,812	6,754,105	644,060
Net income before donations	**6,404,386**	**13,697,307**	**5,517,814**	**13,229,713**	**18,145,350**	**10,019,001**
Donations	2,227,149	10,694,859	10,357,736	4,213,126	1,285,079	898,489
Net Income	**8,631,534**	**24,392,166**	**15,875,550**	**17,442,839**	**19,430,429**	**10,917,490**

Balance Sheet (CNY)	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
ASSETS	**412,837,422**	**795,069,205**	**1,169,327,170**	**1,483,319,455**	**2,240,366,702**	**2,484,969,464**
Liquid assets	10,004,213	111,733,738	183,270,739	64,012,796	140,418,387	218,302,972
Net loan portfolio	381,228,409	644,801,555	837,821,074	1,151,832,681	1,832,073,544	2,165,921,080
Gross loan portfolio	*389,138,512*	*660,811,924*	*856,191,608*	*1,181,457,171*	*1,872,155,380*	*2,213,987,204*
(Impairment loss allowance)	*(7,910,103)*	*(16,010,369)*	*(18,370,534)*	*(29,624,490)*	*(40,081,836)*	*(48,066,124)*
Interest receivable	1,859,978	2,765,684	4,859,060	6,918,584	13,885,247	18,108,340
Financial investments	8,800,000	18,800,000	85,800,000	202,900,000	188,000,000	30,000,000
Net fixed assets	4,206,434	5,969,675	8,378,305	11,986,126	17,891,305	18,157,029
Intangible assets	244,563	334,514	114,863	503,964	734,184	767,866
Other assets	6,493,825	10,664,039	49,083,129	45,165,304	47,364,036	33,712,177
LIABILITIES AND EQUITY	**412,837,423**	**795,069,198**	**1,169,327,164**	**1,483,319,449**	**2,240,366,700**	**2,484,969,464**
Liabilities	**249,677,639**	**519,744,192**	**877,406,605**	**937,133,995**	**1,669,150,816**	**1,902,636,438**
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-
Borrowings	235,997,432	501,826,623	843,498,341	895,762,758	1,573,061,404	1,816,624,327
Subordinated debt	-	-	-	-	-	-
Other liabilities	13,680,207	17,917,569	33,908,264	41,371,237	96,089,412	86,012,111
Equity	**163,159,784**	**275,325,006**	**291,920,559**	**546,185,454**	**571,215,884**	**582,333,026**
Core capital	158,247,757	270,349,988	283,947,983	473,813,821	492,219,248	504,696,911
Paid-in capital	*147,370,000*	*253,780,000*	*254,080,000*	*426,503,000*	*427,983,000*	*428,013,000*
Earnings - current period	*8,631,534*	*24,392,166*	*15,875,550*	*17,442,839*	*19,430,429*	*10,917,490*
Retained earnings	*2,246,223*	*(7,822,178)*	*13,992,433*	*29,867,982*	*44,805,819*	*65,766,420*
Other equity accounts	4,912,027	4,975,018	7,972,576	72,371,633	78,996,636	77,636,116

▪ Financial statements - USD

Income Statement (USD)	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
Interest and fee income on loan portfolio	8,139,330	18,976,321	26,171,815	36,183,161	51,197,735	17,930,819
Interest and fee income on investments	50,339	152,551	262,840	999,438	515,367	171,465
Interest and other financial expenses	1,319,156	4,821,176	6,975,578	8,972,017	11,379,937	3,789,686
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	(68,171)	(119,634)	40,418	(133,144)	82	-
Net financial income	**6,802,341**	**14,188,062**	**19,499,495**	**28,077,439**	**40,333,247**	**14,312,598**
Fees and commissions on other financial	-	-	-	-	-	-
Other operating income	26,239	3,543	56,363	600	549,051	39,452
Operating expenses	5,136,767	10,349,239	15,411,217	22,708,885	33,961,172	11,252,270
Personnel expenses	*3,199,582*	*6,297,318*	*9,556,266*	*14,284,892*	*21,107,611*	*7,614,789*
Administrative and other expenses	*1,801,805*	*3,893,101*	*5,649,260*	*8,211,227*	*12,282,969*	*3,637,481*
Depreciation	*135,381*	*158,820*	*205,690*	*212,766*	*570,593*	-
Non operating income (net)	(49,346)	(712,134)	(932,521)	(445,577)	57,062	(5,629)
Gross operating income	**1,642,467**	**3,130,230**	**3,212,120**	**4,923,576**	**6,978,188**	**3,094,150**
Net impairment expense	619,858	1,289,088	718,008	1,850,359	2,921,905	1,348,714
Net operating income	**1,022,608**	**1,841,143**	**2,494,111**	**3,073,217**	**4,056,283**	**1,745,436**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**1,022,608**	**1,841,143**	**2,494,111**	**3,073,217**	**4,056,283**	**1,745,436**
Income Tax	51,038	(315,132)	1,618,425	908,096	1,100,288	105,426
Net income before donations	**971,570**	**2,156,275**	**875,686**	**2,165,121**	**2,955,996**	**1,640,010**
Donations	337,867	1,683,620	1,643,790	689,503	209,348	147,074
Net Income	**1,309,437**	**3,839,895**	**2,519,477**	**2,854,624**	**3,165,343**	**1,787,084**

Balance Sheet (USD)	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Mar. 2015
ASSETS	**62,629,031**	**125,162,414**	**185,574,202**	**242,754,044**	**364,970,327**	**406,764,564**
Liquid assets	1,517,678	17,589,493	29,085,377	10,476,074	22,875,070	35,734,006
Net loan portfolio	57,833,822	101,506,786	132,963,623	188,504,263	298,456,712	354,539,545
Gross loan portfolio	*59,033,815*	*104,027,191*	*135,879,058*	*193,352,487*	*304,986,304*	*362,407,487*
(Impairment loss allowance)	*(1,199,993)*	*(2,520,405)*	*(2,915,435)*	*(4,848,224)*	*(6,529,592)*	*(7,867,942)*
Interest receivable	282,166	435,383	771,141	1,132,267	2,261,997	2,964,154
Financial investments	1,334,994	2,959,558	13,616,605	33,205,791	30,626,424	4,910,699
Net fixed assets	638,132	939,766	1,329,651	1,961,601	2,914,610	2,972,123
Intangible assets	37,101	52,660	18,229	82,477	119,603	125,692
Other assets	985,138	1,678,768	7,789,576	7,391,570	7,715,910	5,518,345
LIABILITIES AND EQUITY	**62,629,031**	**125,162,413**	**185,574,201**	**242,754,043**	**364,970,327**	**406,764,564**
Liabilities	**37,877,062**	**81,819,844**	**139,245,914**	**153,367,548**	**271,915,539**	**311,442,491**
Demand deposits	-	-	-	-	-	-
Time deposits	-	-	-	-	-	-
Cash collateral	-	-	-	-	-	-
Borrowings	35,801,722	78,999,201	133,864,615	146,596,899	256,261,948	297,363,172
Subordinated debt	-	-	-	-	-	-
Other liabilities	2,075,340	2,820,643	5,381,299	6,770,649	15,653,591	14,079,319
Equity	**24,751,969**	**43,342,570**	**46,328,287**	**89,386,495**	**93,054,788**	**95,322,073**
Core capital	24,006,796	42,559,386	45,063,026	77,542,448	80,185,721	82,613,819
Paid-in capital	*22,356,598*	*39,950,884*	*40,322,926*	*69,799,751*	*69,721,218*	*70,061,433*
Earnings - current period	*1,309,437*	*3,839,895*	*2,519,477*	*2,854,624*	*3,165,343*	*1,787,084*
Retained earnings	*340,761*	*(1,231,393)*	*2,220,623*	*4,888,073*	*7,299,160*	*10,765,303*
Other equity accounts	745,174	783,184	1,265,261	11,844,048	12,869,066	12,708,253

Formulas

Return on assets (ROA):	Net operating income / Average assets
ROA (without donations):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Liabilities / Equity (end of period)
Capital adequacy ratio:	Capital / Risk weighted assets (end of period)
Total revenue ratio:	Total revenue / Average gross outstanding portfolio
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Net interest margin:	Interest income - Interest expense / Average earning assets
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
Cost income ratio:	Operating expense / Total revenue
Cost per borrower:	Operating expense / Average active borrowers
Staff productivity:	Active borrowers / Total personnel (end of period)
Financial expense ratio:	Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings:	Interest and fees paid on deposits / Average deposits
Cost of borrowings:	Interest and fees paid on borrowings / Average borrowings
Impairment expense ratio:	Net impairment expense / Average gross outstanding portfolio
Write-off ratio:	Loans written off / Average gross outstanding portfolio
Risk coverage ratio:	Loan loss reserve / Portfolio at risk > 30 days
Cash to demand deposits:	Instantly available liquid assets / Demand deposits (end of period)
Current ratio (1 year):	Short term assets / Short term liabilities (end of period)

Rating scale

Planet Rating		**Common Rating Grade classification for all microfinance rating agencies**	
Rating grade	**Rating summary**	***Classification***	***Definition***
A++ A+ A A-	Current institutional, operational and financial performance is excellent when compared to industry standards. Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	*Excellent*	*Excellent performance: Low or well-managed short-medium term risk*
B++ B+ B B-	Current institutional, operational and financial performance is satisfactory when compared to industry standards. Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	*Good*	*Good performance: Modest or well-managed short-medium term risk*
C++ C+ C C-	Current institutional, operational and financial performance is below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	*Fair*	*Fair performance: Moderate to medium-high risk*
D	**High risk**: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	*Weak*	*Weak or poor performance High to very-high risk*
E	**Immediate risk of default:** Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.		

Planet Rating
THE GLOBAL MICROFINANCE RATING AGENCY

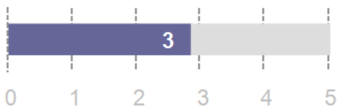
CFPA Microfinance Management Company Ltd., China

Chinese NGO CFPA (Chinese Foundation for Poverty Alleviation) began microfinance activities in 1996 through a joint program of the World Bank and the Chinese Government. In 2008, CFPA Microfinance Management Company Ltd. (CFPA-MMC) was established as a separate entity to take over management of these activities. CFPA Foundation retains majority ownership in CFPA-MMC. Based out of Beijing, CFPA-MMC operates in 16 of 23 Chinese provinces in North, Northeast, South, and Southwest China through a widespread branch network including 144 branches and 11 regional offices. As of Mar. 2015, CFPA-MMC maintained a loan portfolio of 2.2 Billion CNY (360 M USD) and 265,900 active borrowers. CFPA-MMC offers group and individual loan products, mainly to women residing in rural areas.

Social Performance Rating — April 2015

*Overall, CFPA's Social Performance is rated **"4-"***

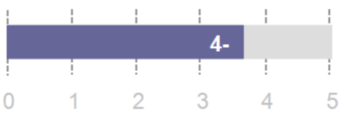
Social Performance Management	Financial Inclusion	Client Protection & Ethical Finance	Human Resources Policy	Social Change
3	4-	3	3+	***



Indicators	Mar. 2015
Intent to have an impact	Yes
Risk of mission drift	Limited

Social performance management

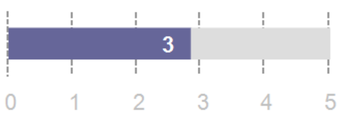
- The social mission covers all facets of social performance, including the target clientele and the type of services. The social mission and vision do not explicitly state the intended social impact, although CFPA-MMC (referred to hereafter as "CFPA", distinguished from "CFPA Foundation") has a clear intent to have a social impact.
- Currently CFPA does not have a clear impact pathway by detailing its social mission into relevant and well-defined social objectives, however in practice there are social goals and some defined indicators which are tracked including % of clients without access to another formal financial institution.
- Most key decisions take the social mission into account, for example the branch opening strategy.



Indicators	Mar. 2015
Clients in provinces <5 MFIs	2.4%
Female clients	93.5%
Rural clients	96.6%
Clients with social collaterals	100.0%
Penetration of households	0.27
Retention rate (Schreiner)	72.8%

Financial inclusion

- CFPA makes strong efforts to expand to underserved areas. The branch expansion strategy and geographic targeting model is to expand only to underserved rural areas, particularly those identified as poverty-stricken counties by the national government.
- Loans are accessible to the underserved as for example CFPA does not require hard collateral registration for any loans (only social collateral is required).
- The range of services is limited at CFPA as only two different types of loan products are offered, however there is some variation within the products and the institution has a proven capacity to improve existing products through feedback collected through consistent/formalized annual client satisfaction surveys.
- CFPA's unparalleled branch network in China reduces transaction costs to clients, especially as it emphasizes "doorstep" service (e.g. any repayments and disbursements can be done in the field).



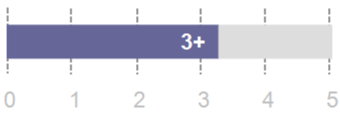
Client protection & ethical finance

- Procedures are in place to prevent over-indebtedness of clients but are not totally sufficient. CFPA only checks clients (and their guarantors) through the credit bureau with proposed loan amounts >30,000 CNY (4,911 USD), so ~5% of total clients are checked. For Individual Loans, the maximum debt threshold is set at 70% installment to net income, regarded as high when compared to best

Indicators	Dec. 2014
Loans checked with credit bureau	5.2%
Borrowers with credit life-insurance	100.0%
Borrowers bearing FX risk	0.0%
Annual Percentage Rate (APR)	21.4%-24.9%
Portfolio yield	20.6%
Clients visited by non-op staff	4.0%

practices especially since there is no formalized sensitivity analysis.

- Pricing information is provided to clients but is not sufficiently transparent. While as per best practice the interest rate is the only component of the total price for all loans, Transparency Index (TI) values are relatively low-to-moderate ranging from 63-70 for Group Loans and 56-59 for Individual Loans.
- The work environment and institutional culture promotes ethical behavior and fair treatment towards clients.



Indicators	2014
% Staff receiving >2 training days	24.0%
Yearly salary increase/inflation	-10.9%
Staff turnover	17.4%
Traffic accidents per LO	0.002x

Human resources policy

- CFPA's HR procedures ensure an equal treatment of staff in most aspects of HR management. Evaluations are likely comparable in their administration but it is unclear since Head Office (HO) does not provide quality control over the regional-level evaluation, which lacks a common comprehensive template.
- CFPA offers reasonable working conditions to its staff. The physical security risk is most significant during collection of repayments, but CFPA has a safety policy and elements of it are included in training orientation for new staff (e.g. transportation safety, cash security).

Education, health and basic services	★★★☆☆
Gender equality and women empowerment	★★☆☆☆
Fight against unemployment	★☆☆☆☆
Democracy & human rights	★☆☆☆☆
End poverty	★☆☆☆☆
Environment sustainability	★☆☆☆☆

Social change

- CFPA has taken on several social projects and initiatives and offers a number of non-financial services to both clients and non-clients, especially related to education and health.
- Other initiatives are at a low level of institutionalization.

CFPA profile

Financial services

✓ Credit Services: 265,900 borrowers

- Individual lending: 17.0% of portfolio, Group lending: 83.0% of portfolio
- Average outstanding loan size: 1,363 USD (15.7% of GDP per capita)
- Average disbursed loan size: 1,953 USD (22.5% of GDP per capita)
- Annual Percentage Rate (APR): 21.4%-24.9%

× Savings Services

× Microinsurance Services

× Money Transfer Services

Non-financial services

	Awareness Raising	Training	Services
Education, Health and Basic Services	✓	✓	✓
Women Empowerment	×	✓	×
Democracy & Human Rights	×	×	×
Environment	✓	✓	×

Country profile

Indicators	China	EAP
Demography		
Urban population (%)	53%	49%
Health		
Life expectancy at birth	75.3	74
Mortality rate (<5) per 1,000 births	14	21
Education		
Adult literacy rate (%)	95%	94%
Combined school enrollment ratio (%)	87%	84%
Gender		
Parliament seats held by women (%)	23.4%	18.7%
Poverty lines		
Population below $1.25/day (%)	11.8%	n/a
Gini index	42.1	n/a
HDI		
Rank out of 187 countries	91	n/a
2008-2013 progress	+10	n/a
Economy (2013)		
GDP per capita growth (%)	7.1	n/a
Inflation (%)	2.6	n/a

Source: UNDP, Human Development Report 2014 statistical tables. Economic growth and inflation: World Bank.
Note: EAP: East Asia and the Pacific

Contacts: CFPA Microfinance Management Company Ltd: Dongwen Liu; liudongwen@cfpamf.org.cn
Planet Rating: Ben Wallingford; bwallingford@planetrating.com

REF: BW/090615

Refer to the end of the report for the institutional presentation of CFPA.

Social Performance Rating

Social performance management

Social performance management is rated **"3"**

Definition of the social mission

CFPA	
Definition	In progress
Intent to have a social impact	Yes

CFPA shows a clear intent to have a social impact. Its social mission is defined to "enable micro entrepreneurs to realize their dreams" by providing loan support to mainly married middle-aged women in rural regions. The institution revises the social mission according to relevant institutional changes (the most recent change was replacing "help the poor" into "enable micro entrepreneurs to realize their dreams" to make the mission more empowering to clients). The social mission covers all facets of social performance, including the target clientele ("micro entrepreneurs"), the type of services ("loan"), and it touches on social responsibility ("to inspire entrepreneurs to become independent and to achieve sustainable development of the institution"). The social mission and vision do not explicitly state the intended social impact.

Currently CFPA does not have a clear impact pathway by detailing its social mission into relevant and well-defined social objectives. The 3-year rolling business projections do not have systematic social objectives, but new branches only expand to poverty stricken counties[1] and disaster-hit areas. CFPA is motivated to improve its SPM performance. CFPA developed a SPM work plan in 2013 and revised it in 2014 aiming to: 1) promote SPM in the governance structure by setting up the SPM committee and Working Group, 2) monitor and publish social indicators for inclusive finance, 3) implement client protection principles, 4) improve HR management by ensuring compliance to the staff code of conduct and implementing the staff satisfaction survey, 5) contribute to social change by organizing more social activities (e.g. client trainings). CPFA tracks SPM performance by setting deadlines, department responsible, evaluation standards, status of progress, etc. Achievement to the plan is limited and the plan does not include some key aspects of SPM, for instance aspects of social performance monitoring (e.g. tracking client poverty levels over time). The concept of SPM has been widely accepted, but not fully implemented in practice, such as aspects of client protection. CFPA is actively looking for external consulting support to assist in their implementation.

Alignment of interest

CFPA	
Social mission and decision-making	In progress
Social mission and planning	In progress
Investment in social performance skills	In progress
Risk of mission drift	Limited

Key shareholders share a common understanding of CFPA's mission and vision which are well-defined. CFPA transformed from a non-profit microfinance project into a commercial social enterprise. The risk of social mission drift is limited. CFPA Foundation is still the largest shareholder (60.7%), prioritizing social goals due to its social background. Overall, the interests and incentives of CFPA Foundation are focused on social goals given a certain level of financial sustainability. The other investors (IFC and Sequoia Capital) focus more on profitability but still with commitment to social goals. CFPA Foundation has no plan to seek more profit-driven investors in order for it to keep the majority of the shareholding and safeguard the social mission. To date, profits have been ploughed back into retained earnings to invest in branch expansion and improvement of the business infrastructure such as IT and staff training. As of Dec. 2014, the average annual remuneration of the five top paid staff was 13.5x times that of the five least paid staff, compared to 11.4x in 2013, which is not excessive. Management and Board of Director (BOD) compensation is not disclosed in the audited financial statements, although it is not required by local regulations.

Over the years (2010-2014), CFPA has managed to maintain a moderate but sustainable financial performance (ROA ranging from 1%-4%, ROE ranging from 2%-6%), while over these years the branch network only expanded to poverty-stricken counties and disaster-hit areas. As of Dec. 2014, 97% of borrowers resided in rural areas, 94% were women, and the average loan size disbursed was 11,333 CNY (1,846 USD). In the coming years (2015-2017), the lending portfolio is projected to increase on average 43% per year. CFPA projects opening 40 branches each of these years and ROA targets are set at 0.72% (2015), 1.14% (2016), and 1.48% (2017), which are quite moderate. Overall, financial and social goals are appropriately balanced. CFPA has a formalized conflict of interest policy

[1] Poverty-stricken counties are defined by the Chinese government according to certain standards (latest definition in 1992) which are: 1) % of the population that is poor (for majority counties yearly income < 1,300 CNY i.e. 213 USD, for minority counties < 1,500 CNY, i.e. 246 USD); 2) the average net income of the county population; 3) GDP per capita (< 2,700 CNY, i.e. 442 USD) and 4) fiscal revenue per capita (< 120 CNY, i.e. 20 USD).

in place in the Articles of Association by-laws that any BOD member, management team member, or shareholder must disclose any potential conflict of interest. No significant conflicts of interest were identified while onsite.

Institutionalization of the social mission

Social mission’s inclusion in HR management	
Recruitment	Convincing
Trainings	Convincing
Appraisal	In progress
Incentive Schemes	In progress

Most key decisions take the social mission into account, for example the branch opening strategy – to expand to poverty-stricken counties and disaster-hit areas. CFPA clearly strives towards achieving its social mission, with the most widespread network of any MFI predominately focused on provision of microfinance services in China, consistently reaching to less saturated areas. Useful social performance information is generally defined (gender, minorities, regions, % of excluded clients, etc.). The institution has general social goals including serving primarily women (% of female clients increased from 84% in 2012 to 97% in 2014) and underserved clients, however it is unclear to what extent the BOD and management team use social indicators and corresponding targets as part of the decision-making process.

CFPA is in the process of developing social management capacities. In 2014, the institution set up a SPM committee at the HO level and a SPM Working Group, however the functionality of these is unclear. HR processes sufficiently ensure staff members are committed to social goals, as all staff receives induction training and refreshing training on social goals (e.g. target clients) and the code of conduct. A SPM manual (including governance, HR, CPP, inclusive finance, society improvement, and the environmental and social management manual) and work plan (deadline, dept. responsible, standards, and evaluation criteria) have been developed to further implement SPM and CPP. The field staff evaluation is very limited and mainly based on the quantitative lending result (e.g. client repayment, portfolio quality). In 2014, CFPA started to award social performance prizes annually to teams and individuals. Overall, social performance is not sufficiently included in the staff evaluation process or incentive systems.

Social performance monitoring

Social performance indicators	
Existence	Convincing
Relevance	In Progress
Tracking	Convincing
Reliability	Convincing

A number of social indicators are defined in line with social goals and integrated in the MIS, including % female clients, % minority clients, % of clients in poverty-stricken counties, % female staff, % minority staff, and % of clients without access to another formal financial institution. These social indicators are tracked in the integrated MIS (loan tracking, accounting, and HR system), and are published in monthly operation reports via the CFPA website in order to track the institution’s development in line with its social mission. Meanwhile, CFPA shares the social report (including the staff insurance level) on a quarterly basis to funders who request it (currently just IFC). Furthermore, these indicators are reported in the public annual report which is also shared with key parties (the State Council Leading Group Office of Poverty Alleviation and Development as supervision body, shareholders, funders, donors etc.), however these indicators are not comprehensive as client-level information to measure the poverty level of clients and potential impact of CFPA loan products and services is missing. Also, the social reports are not integrated into the decision-making process in a standardized way.

Additional tools to monitor social performance at the client level include the annual client satisfaction survey which covers many social aspects such as the family members’ need to be supported (e.g. children and old parents), household income level in the village, client treatment (e.g. service satisfaction, complaints, understanding of credit bureau check, client training feedback, etc.). No systematic client drop-out studies or surveys have been conducted yet. An environmental impact report is under development currently for a reporting requirement from IFC. CFPA has the capacity and flexibility to produce reliable client-level and staff-level information, demonstrated through the mobile phone application designed for loan appraisal data collection, and the sophistication of the MIS. Some social data (poverty level of clients, % underserved clients, % of clients in poverty-stricken regions, etc.) was verified by an external auditor in 2014 as requested by IFC. However, social performance monitoring aspects are not included in the internal audit checking list. The current external auditors carried out an evaluation in 2013 to study the social impact of funds raised by CFPA using public welfare lottery funds (raised by CFPA Foundation) as deposit collateral. The study included ~1,000 client interviews representing 10 different branch areas, verification of CFPA’s target market (i.e. underserved and poverty-stricken areas), and research on client self-evaluation topics (e.g. impact of CFPA loan on the client, how the income level of the client compares to other villagers, etc.).

Financial inclusion

Financial inclusion is rated **"4-"**

Outreach to the underserved

Context: China	
Loan from a financial institution (% of adults)*	10.2%
Penetration of MF services (% households)**	0.5%
# microfinance branches per 100,000 adults	n/a
# com. banks branches per 100,000 adults	n/a
% MF clients in provinces where <5 MFIs operate	n/a

Sources: * World Bank, Global Findex, 2014. Denotes the percentage of respondents who report borrowing any money in the past 12 months (by themselves or together with someone else) from a bank or another type of financial institution. ** CGAP 2010 Financial Access Study report.

CFPA	**2014**
Distribution of the clientele in counties where:	
0 MFIs operate	n/a
1-4 MFIs operate	96.2%
5+ MFIs operate	3.8%

CFPA is the largest financial service provider primarily focused on the provision of microfinance services in China in terms of loan portfolio and number of clients. CFPA has an impressively wide branch network of 144 branches reaching 16 of 23 provinces in China. According to CFPA's 2014 client satisfaction survey results which have been verified by an external auditor, 81% of clients have no access to other formal financial institutions except CFPA. CFPA has a clear focus on reaching out to rural areas, with >95% of clients located in rural areas and 99% of clients located outside of Beijing as of Mar. 2015.

CFPA makes strong efforts to expand to underserved areas. The branch expansion strategy and geographic targeting model is to expand only to underserved rural areas, particularly those identified as poverty-stricken counties by the national government. Competitive areas where Postal Savings Bank (PSB), Rural Credit Cooperatives (RCCs), Rural Credit Banks (RCBs), and Microcredit Companies (MCCs) already work are generally avoided if the market is estimated to be approaching saturation, although no formal studies on market saturation are done. Only 3.8% of clients are located in branch areas with greater than five MFIs directly competing with CFPA also present in the branch area. This figure does not include the high number of formal financial service providers in China that have a small portion of their portfolio dedicated to SMEs, generally well above CFPA's target market (average loan size of 11,928 CNY - 1,952 USD and 69% of loans below 10,000 CNY – 1,637 USD). Furthermore, while some of these formal financial service providers technically have over-lap with CFPA's clientele, due to a number of important reasons (e.g. corruption issues, complicated loan application requirements, long processing time) the services are not easily accessible to potential clients. Another aspect of the branch expansion strategy is to expand to areas dealing with recent disasters (e.g. earthquake, flood) to assist in the development of the area. Loans are accessible to the underserved as for example CFPA does not require hard collateral registration for any loans (only social collateral such as group guarantees and guarantors are required).

Outreach indicators	**China**	**CFPA**
% women	48.2%	93.5%
% rural	46.8%	96.6%
% clients providing social collaterals	n/a	100.0%
% clients with access to formal savings	n/a	n/a

Source: World Bank, 2013.

Poverty indicators	**China**	**CFPA**
% < national extreme poverty line	n/a	n/a
% < national poverty line	n/a	n/a
% < $1.25 per day	6.3%	n/a
% < $2.00 per day	18.6%	n/a

Source: World Bank, 2011.

No specific client-level individual targeting tool is in place, however as part of the overall strategy CFPA focuses on women (93.5% of clients), a preference for those who are married, those residing in rural areas (96.6% of clients), and those residing in areas excluded from proper access to formal financial services with the need for modest loan amounts. CFPA does not yet collect data on the poverty level of its clients, except for client satisfaction surveys and a 2014 social impact report by the external auditor, which asks clients to rank themselves in five subjective categories of household income level. CFPA has in the past included poverty level questions as part of the client satisfaction survey, however these were removed after struggles with finding indicators that can be generalized as countrywide indicators of poverty. CFPA also makes efforts to reach out to underprivileged people, such as the ongoing tracking of clients who are ethnic minorities (23% of total clients as of Dec. 2014).

CFPA	**Mar. 2015**
Active borrowers – end of the period	265,900
Penetration rate – adult population	0.27

Note: Penetration rate in number of clients per 1,000 adults.

Despite CFPA's wide branch network serving 265,900 clients, the countrywide penetration rate remains low at 0.27 per 1,000 adults in China and 0.44 per 1,000 adults of the population only in the provinces CFPA is active in. These very low levels of penetration demonstrate the significant potential for growth in China in the coming years. Inner Mongolia province registers the highest CFPA penetration rate at 3.1 per 1,000 adults in the province having a CFPA loan.

Adaptation of the services

CFPA	2013	2014
Client research related to		
New product development	Yes	Yes
Client satisfaction	Yes	Yes
Reasons for client exit	No	No
Frequency of client research	Annual	Annual
% clients with access to		
Savings services	0%	0%
Credit life insurance	100%	100%
Av. amount disbursed per loan	1,603	1,846
% of GDP per capita	*23.0%*	*23.8%*
% clients with a loan > 12 months	0.1%	0.1%
Retention rate (Schreiner)	74.3%	72.8%

The range of services is limited at CFPA as only two different types of loan products are offered, however there is some variation within the product (e.g. loan size, loan term, and lower interest rates in disaster-stricken areas). Also, CFPA has a proven capacity to improve existing products through feedback collected through consistent/formalized annual client satisfaction surveys. CFPA adapts these loan products with the intention to improve the product and make them accessible/beneficial to more people. LOs are all recruited from the respective local branch area and trained to provide a loan adapted to a client's need, but only to the extent that the well-defined and relatively rigid product design allows.

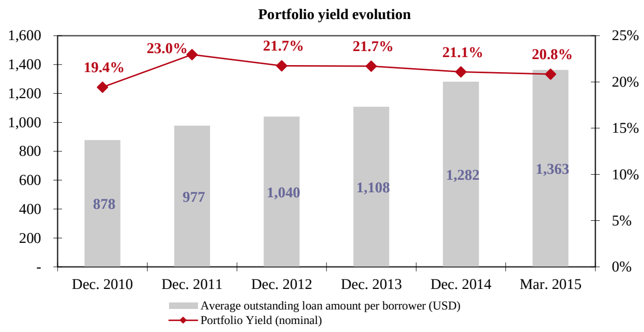
CFPA has a product development function under the Operation Management department that has recently become active with two pilots in 2014, but without documented policy and procedures. Due to the large proportion of Group Loans used for agricultural purposes without a product designed specifically for this, CFPA conducted a pilot in 2014 for an Agriculture Loan which saw 828 loans disbursed in 10 different branch areas, designed with the assistance of an external consultant. Interest payments are monthly while principal is repaid in a bullet payment at the end of the loan term. The pilot phase was completed in Q4 2014 and the product will be rolled out as a fully-fledged (and small scale) product to additional branches (in Q1 2015, six new branches began offering the loan). Additionally in 2014, 147 Pastoral Loans specifically designed for nomadic herders with more flexible loan terms and a smaller group size in Inner Mongolia province were issued in a pilot phase which concludes in Q3 2015. Feasibility studies are conducted for some pilot products, but not all as a standardized practice. CFPA's focus is to further define current products rather than design new ones.

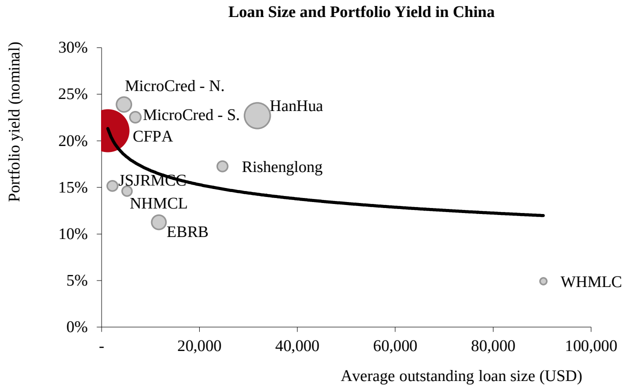
CFPA's client satisfaction surveys cover a number of relevant topics including overall satisfaction, product design (e.g. loan amount, interest rate), CFPA staff behavior (e.g. attitude, offering of bribes), and service quality (e.g. processing/delivery time, degree of convenience, quality of complaints mechanism). CFPA enjoys high levels of client satisfaction, as 96% are satisfied with the "service efficiency," (86% of clients receiving loans within 7 days), 98% feel the interest rate charged is affordable, and if needed a renewal loan 98% would borrow from CFPA again. The survey identifies some areas for improvement at CFPA also, as only 61% of clients are aware of all complaint mechanisms and not all clients had their homes visited by LOs or knew their interest rate, emphasizing the need for adequate client orientation training and staff compliance with credit procedures. Drop-out surveys of exiting clients are not yet conducted.

Cost of the services

CFPA's APRs are generally in-line with competitors. CFPA complies with the PBOC regulation to charge an interest rate no more than four times the prime lending rate. The interest rate used is usually revised accordingly based on a change in the prime rate to ensure the maximum interest rate is charged. This is evidenced by a portfolio yield varying from year to year and not following a clear trend, with a decrease from 21.7% in Dec. 2013 to 20.6% in Dec. 2014, but a subsequent increase in the partial year to 21.4% in Mar. 2015. Prices vary by product, ranging from 21.4%-22.7% APR for Group Loans and 23.9%-24.9% APR for Individuals, due mostly to a uniform two-month grace period on Group Loans while Individual Loans have no grace period. CFPA does not carry out any formal studies on the pricing of competitors. The average loan size has increased over time from 878 USD in 2010 to 1,363 USD as of Mar. 2015.

CFPA staff makes a clear effort to charge on clients only valuable services and transaction costs are kept to a minimum. There are no cash collateral requirements linked to any loans, as this practice is banned in China. The interest rate is the only price component as no administrative/application fees or insurance fees are charged, in contrast to many competitors who reportedly charge upfront fees at loan disbursement or other types of fees. CFPA's unparalleled branch network as the leading MFI in China focused primarily on the provision of microfinance services reduces transaction costs to clients, especially as CFPA emphasizes "doorstep" service (e.g. repayments and disbursements can be done in the field). CFPA closely tracks service delivery times, reporting in 2014 that 86% of clients received their loans within 7 days after loan application. At no extra fee to all clients, CFPA provides insurance covering client death, accidental injuries, and disabilities.





Source: Mix Market data as of Dec. 2012.
Note: The size of circles is relative to the outstanding loan portfolio.

Client protection and Ethical finance

Client protection and Ethical finance **is rated "3"**

For "Appropriate product design and delivery" refer to "Adaptation of the services" under "Financial inclusion."

Prevention of over-indebtedness

CFPA	2014
% loans checked with a credit bureau	5.2%
% loans checked with other loan providers	n/a
Required Installment / Disposable income	70%*
% borrowers with credit life insurance	100%
% borrowers bearing FX risk (hard currency)	0%

* Individual Loans only. For Group Loans there is no net income calculation.

Procedures are in place to prevent over-indebtedness of clients but are not totally sufficient. While CFPA is not regulated by PBOC, it was granted special permission to submit data and to check potential clients with the credit bureau. Most key competitors share data with the credit bureau, which has sufficiently reliable data but there are rare cases of missing information as not all competitors submit regular/accurate data. Due to the cost involved (6 CNY; 1 USD per report) and to improve efficiency since the credit bureau checks slow down loan processing times, CFPA only checks clients (and their guarantors) with proposed loan amounts >30,000 CNY (4,911 USD), so ~5% of total clients are checked (in 2014, 5.2% of clients).

However, given the low level of estimated penetration of microfinance services in China and especially in the rural areas in which CFPA operates, the level of cross-indebtedness of CFPA's active borrowers is likely low. Also, the gap in credit bureau checking is partially mitigated by a debt threshold calculated as part of the repayment capacity analysis for all Individual Loans, which includes other loans with institutions or individuals. The calculation also appropriately includes household expenses, however the maximum debt threshold is set at 70% installment to net income (not by policy – it is a commonly used rule of thumb), regarded as high when compared to best practices especially since there is no formalized sensitivity analysis. Furthermore, some loans are approved by the loan committee at >70% if the guarantor demonstrates exceptional reliability. These exceptions to the debt threshold guidelines are not tracked separately in the MIS. For Group Loans, there is no net income calculation and repayment capacity determination is largely delegated to the groups themselves except for a home/business visit from the LO (which is not always done for all clients, although the credit procedures require this for all loans), and group members don't have formal access to each fellow member's repayment history. For all loans, the loan appraisal process is the same regardless of loan cycle and renewals are treated as a new loan, and there is a good internal tracking of repayment history in the MIS. The incentive structure for LOs appropriately balances portfolio growth (measured through the amount of repayments) and portfolio quality. Credit life insurance is provided for all clients and covers not only death but also accidental injuries and disabilities. There is no policy outlining refinancing and rescheduling conditions, however in practice rescheduling is done for clients suffering a significant business disruption due to natural disaster (with RM/HO approval). These rescheduled loans are not tracked separately in the MIS and are estimated to be an insignificant amount. Warnings on the dangers of over- and multiple- borrowing are not part of the standardized induction process for new clients. As per policy multiple loans within CFPA are not allowed, however there is no limit on the number of loans with other institutions a potential client can have so long as the installment to net income ratio is not too high.

Transparency

Context	
Adult literacy rate in China (2014)	95%
% literate clients at CFPA (2014)	n/a
CFPA	
APR disclosure to clients	No
Type of interest rate	Flat
Fees	None

Pricing information is provided to clients but is not sufficiently transparent. The APR is not provided for any clients. While as per best practice the interest rate is the only component of the total price for all loans, Transparency Index (TI) values are relatively low-to-moderate ranging from 63-70 for Group Loans and 56-59 for Individual Loans, indicating that 56-70% of the true loan price is communicated to the borrower through the nominal interest rate. This is due to the use of the non-transparent flat balance interest rate calculation method. CFPA quotes interest using a flat method but then converts the rate to a corresponding declining rate (i.e. roughly twice the flat rate), in order to organize the repayment schedule with declining interest payments. Also the principal payments are adjusted to start small and gradually increase throughout the loan term, so each month's total installment is an equal amount. Although it would be far more transparent to simply quote the rate as declining (which CFPA plans to do for 100% of loans by the end of 2015), CFPA's re-organization of payments actually decreases the total APR (Group Loans range from 21.4%-22.7% and Individual Loans from 23.9%-24.9%) when compared to a standard generated repayment schedule at the quoted flat rate. Group leaders and all Individual Loan clients receive a copy of a repayment schedule.

Loan conditions are partially transparent for clients. LOs explain the terms and interest payment calculation to clients, however the interest rate is not included in promotional brochures, is not on public display in branches, and is not quoted in loan contracts (only the installment and total payment amounts are quoted). Early and late repayment penalty fees are clearly disclosed in the contract. Contract copies are provided to all Individual Loan clients and the group leaders. The loan contracts are generally clear (e.g. avoiding fine print, etc.) and clearly define the rights and obligations of clients. A separate document is signed by Individual Loan clients to authorize sharing of their information with the credit bureau, and for Group Loans this authorization is included in the contract. Clients receive receipts for all transactions. The key terms and conditions are communicated to the client in their local language and all LOs must be from the local area to facilitate smooth communication. Clients have adequate time to review the contract prior to signing.

Responsible pricing

Context	**2013**	**2014**
Inflation	2.6%	2.0%
CFPA		
APR	n/a	21.4%-24.9%
Portfolio yield (nominal)	21.7%	20.6%
Operating expense ratio	13.6%	13.7%
Funding expense ratio	5.5%	4.6%
Loan loss provision expense ratio	1.1%	1.2%
ROA	1.3%	1.0%

CFPA's loan products are offered at prices based on a basic product costing analysis and reasonable margins, and credit risk and operating expenses are both low. Prices tend to be in-line with competitors. CFPA complies with PBOC regulations that the interest rate charged to borrowers cannot exceed four times the PBOC base lending rate. CFPA usually revises its prices so the maximum possible interest rate is charged. No limits are set on profitability, and ROA and ROE are projected to increase in the coming years, but would still be within reasonable levels (ROA to 1.5% in 2017 and ROE to 10.9%). No dividends have been paid to date and there is a general understanding amongst all shareholders on the use of profits. Transaction fees and penalties are not excessive, and CFPA makes efforts to reduce costs to the client (e.g. the majority of disbursements and repayments are done in the field).

Fair and respectful treatment of clients

CFPA	
Procedure for appropriate practices	In Progress
Formally included in the scope of Internal Audit	In Progress
Code of Conduct signed by field staff	Convincing
Training on the Code of Conduct	Convincing
Incentive scheme fostering ethical behavior	Convincing
Anti-fraud & corruption policies in place	In Progress

The work environment and institutional culture promotes ethical behavior and fair treatment towards clients. The code of ethics is in place including topics such as treating clients equally (e.g. regardless of age, education level, or income level), a forbidding of the use of inappropriate practices (e.g. threatening language, aggressive pressuring, offering of bribes), and the importance of finding a workable solution in the case of delinquency issues. A summary of the code of ethics is signed by all staff upon accepting employment and is part of orientation training. Internal Audit checks with clients on topics relevant to fair and respectful treatment of clients (e.g. quality of treatment by CFPA staff). CFPA does not provide specific guidelines for Group Loan members to fairly treat other group members, but in practice clients have not reported unfair treatment. The management of delinquent loans is formalized in the credit manuals including a timeline of when to take which steps, along with who performs the action. The LO incentive structure and performance evaluation do not incorporate collections practices, but the former appropriately balances portfolio growth (measured through the amount of repayments) and portfolio quality, ensuring healthy LO incentives. The use of PAR 1 in the incentive calculation has the potential to lead to unhealthy incentives, however so far it has not due to CFPA's sanctions for unfair treatment to clients. CFPA strictly does not collect physical collateral for any loans. Violations to the code of ethics are reported and adequately sanctioned as are other aspects of the HR manual disseminated in branches, following an order of escalation depending on the frequency and severity of the offense. Policies are not discriminatory based on race, gender, or ethnicity.

Mechanisms for complaint resolution

CFPA	
Formal complaint mechanism in place	Convincing
% borrowers visited by non-operations staff (2014)	4.0%

The main mechanism for complaint resolution besides direct branch complaints is a hotline phone number used not only for complaints but inquiries and other feedback, with all calls handled by one staff under the Public Affairs department at HO. Complaints received through the hotline and suggestion boxes are recorded. The number is included in marketing brochures and is visible on posters in branches. However, clients are informed of this mechanism unevenly across LOs and actual use of the hotline is very limited (three complaints were registered in 2014). Local cultures play a role since clients are more comfortable voicing concerns in person at the branch level rather than over the phone. The vast majority of complaints are made at the branch level, with no formal recording of the complaint or its resolution. Given the limited amount of complaints formally recorded, there are no reports on common complaints, and the resolutions to complaints are not clearly used to improve procedures.

Privacy of client data

CFPA	
Institutional policy on privacy of client data	Convincing
Formal client agreements prior to sharing private data with third parties	Convincing

A summary of the code of ethics is signed by all staff upon accepting employment and it includes the importance of keeping client data secure/private and emphasizes the policy to share client information only with expressed written consent. Clients sign a form permitting sharing of their information with the credit bureau. Physical loan files are kept safely in a locked cabinet away from public space and access is restricted to one back office staff in the branch (normally the information officer). Security could be improved by storing the cabinet in a locked room and maintaining an access log. LOs do not have access to add or edit data in the MIS except for use of the mobile application (with changes approved by cashier/accountant); other data entry is performed exclusively by the information officer or other appointed staff. Electronic data is protected through user passwords and tiered access depending on staff role which is reviewed every month by the IT head, however antivirus software use is decided at the branch level and there is no process to force password changes for MIS access (see section: Information in the Smart GIRAFE rating).

Ethical finance

Context	
National AML/CFT law for microfinance	No*
CFPA has systems in place to	
Know its clients	Yes
Know its staff and BOD members	Convincing
Know its funders	Convincing
Track suspicious transactions	No

* The national AML/CFT law is only applicable to commercial banks.

CFPA does not have a policy in place regarding anti-money laundering and combating the financing of terrorism (AML/CFT), and there are no measures in place specifically to identify suspicious transactions. KYC procedures at CFPA are integrated into the appraisal a process. CFPA does not perform specific background checks on fund providers or BOD members, however fund providers to date are reputable entities.

Human resources policy

Human resources policy **is rated "3+"**

Equal rights

CFPA	**2013**	**2014**
% of women among professional staff	42.0%	42.7%
% of women among management	60.0%	40.0%
% of staff with disabilities	0.0%	0.0%
% of staff who received >2 training days	44.7%	24.0%

CFPA's HR procedures ensure an equal treatment of staff in most aspects of HR management. Open positions are communicated to the public equally and there is no discrimination in hiring processes based on race, gender, religion, or any other basis. All employees applying for a given position follow the same hiring process, which includes a written test. Women have a sizable representation at CFPA, accounting for 42.7% of total staff and 40.0% of management as of Dec. 2014. There is however only one female BOD member out of seven total. Employment conditions are transparent and equal for all staff (probationary period of three months for HO staff and six months for branch staff) except for salaries, as internal salary grids are not transparently shared with staff and some staff receive a lower salary based on the appropriate province-level or city-level minimum wage. While career paths do exist in practice for most positions, these are not formalized. Evaluations are likely comparable in their administration but it is unclear since HO does not provide quality control over the regional-level evaluation, which lacks a common comprehensive template. Training is equally provided across staff in similar positions, and all staff benefit from a budget of 1,000 CNY (164 USD) per year to be externally trained in a topic of their choice, which contributes to the development of staff's employability. LO induction training is sufficient at 3-6 days (three for Group Loan officers, six for Individual Loan officers) followed by a job shadowing process lasting an average of three months.

Compensation policy

CFPA	2013	2014
Yearly salary increase / inflation	-2.5%	-9.9%
Yearly LO salary increase / inflation	-11.4%	-10.9%
Health insurance expense / staff expense	0.02%	0.01%

CFPA fairly compensates its staff when compared to the cost of living. Fixed salary levels either match or exceed the province-level or city-level minimum wage regulation. Including incentive compensation and the annual bonus, the variable component of the overall salary can be significant (73.1% as of Dec. 2014). There is no upper limit on the possible incentive compensation, which has the potential to make personal financial planning difficult for staff. CFPA has not carried out any formal sector-wide salary surveys to compare with competitors, but based on informal information gathering generally CFPA knows branch salaries are in-line with the market, while HO salaries are lower when compared to comparative options in Beijing. Based on this information and 2014 staff satisfaction survey results, CFPA raised salaries for HO staff in 2015. CFPA complies with legal requirements in terms of social security and health insurance, the latter of which CFPA provides additional benefits to cover a higher portion of incurred medical costs and to cover accidental injuries. There are some other additional benefits provided including one free health check-up a year, and in cases of accidental injury during which CFPA provides full salary during the recovery period.

Labor conditions

CFPA	2013	2014
Staff turnover (all staff)	16.5%	17.4%
Staff turnover (excluding contract staff)	n/a	n/a
Traffic accidents per loan officers	0.003x	0.002x

CFPA offers reasonable working conditions to its staff. There is some risk due to LOs carrying cash in the field (without any limits in place), however this risk is mitigated for disbursements which are never in cash for Individual Loans, and Group Loan disbursements are transported in company cars for loans above 100 K CNY (16 K USD) with the LO, BM, and one other branch staff present at all times. The physical security risk is most significant during collection of repayments. No assaults on LOs were reported in the past five years. CFPA has a safety policy and elements of it are included in training orientation for new staff (e.g. transportation safety, cash security). A representative body of 6-8 staff convenes every two months at HO allowing staff to voice complaints and other feedback, although the body consists almost entirely of HO staff as no stipend is provided to cover the cost of travel/time for branch staff to HO. Middle and senior management nominate representatives to form a pool of candidates that staff elect annually. In addition to the annual staff satisfaction survey, as part of the online HR portal staff can submit complaints, suggestions, and other feedback, although the latter mechanism could be better designed/utilized as currently feedback is not anonymous. Nevertheless there is a good internal communication between staff at all levels of the institution. There is no compensation for overtime during weekdays, but weekend overtime is compensated.

Social change

Social change **is rated "✳✳✳"**

Management of non-financial services

CFPA has taken on several social projects and initiatives, especially related to education and health. Some activities are identified based on results from the client satisfaction survey (e.g. the need for financial of education of clients from the 2014 survey). There is no separate budget allocated to or centralized coordination of social change activities, making institutionalization of ongoing projects difficult. However, CFPA has a strong intention to offer more non-financial services and to better design the management of them. In 2013, CFPA began awarding branches that offer exceptional non-financial services with appreciation awards.

Education, health, and basic services ✳✳✳✳✳

CFPA	2013	2014
Number of beneficiaries who received:		
Financial Education services	0	26,693
Agriculture Education services	12,000	20,000
Healthcare services	80	3,085
Budget allocated (USD)	17,933	33,713
Related expenses / net income	0.6%	1.1%

CFPA provides a number of non-financial services related to education, health, and basic services. Financial education training services covering topics such as personal financial management, budgeting, etc. are administered to both CFPA clients and non-clients in a variety of branch areas, including 12 branches in 2014. The trainings last one day and benefited a total of 26,693 people in 2014 after beginning in 2010. Trainings materials are also distributed which cover topics related to the training content. Separately, CFPA provides training specifically on agriculture given the high proportion of portfolio used for agricultural purposes (57% as of Dec. 2014). These trainings are administered to both clients and non-clients and benefited a total of 20,000 people in 2014 after beginning in 2010. Both financial education trainings and agriculture trainings are administered by either CFPA staff (e.g. LO, BM) or external consultants.

CFPA provides various healthcare services to clients and non-clients. These include quarterly or annual doctor visits to some branch areas, providing a free physical health check-up. In some branch areas in which the county government provides funds, annual cancer exams for women (focusing on breast and ovarian cancer screenings) are facilitated by CFPA. Also, it is notable that CFPA provides insurance for all clients with an active CFPA loan, which covers accidental injuries. In addition to financial education trainings, agriculture trainings, and healthcare services, CFPA provides other one-off non-financial services on a smaller scale in some branch areas, such as the provision of free family photograph sessions for 500 clients in one branch location in 2014.

Gender equality and empowerment

The vast majority of CFPA's loans are provided to women (93.5% of total clients as of Mar. 2015). CFPA provides some services related to gender equality and empowerment, including trainings on business development specifically to women on typically women-run businesses (handicrafts, etc.).

Democracy and human rights

CFPA does not provide any specific training or service related to democracy and human rights.

Fight against unemployment

CFPA's aim is to create jobs by providing loans for clients to expand existing businesses and it is likely this is the case, however CFPA has not collected data to determine the number of jobs created over time by CFPA's clients.

End poverty

CFPA has the intention to increase clients' economic well-being and the institution's target clients are low-income people, however it does not measure the poverty level of its clients and monitor it over time to determine the impact of its services.

Environmental sustainability

CFPA has not developed any products specifically to protect the environment, however the institution has a comprehensive environmental and social management system policy in place with encouragement from IFC which includes an exclusion list of forbidden loan purposes to finance, integrated into the loan appraisal process. CFPA also makes clear efforts to reduce the negative environmental impact of its operations, for instance the recent development of a mobile application, used for client registration and all loan appraisals for GLs, reducing paper waste. A one-off training to raise awareness on environmental topics was conducted in 2014 for 90 clients and non-clients in one branch location. More trainings of this type are planned for 2015.

Institutional presentation

Social mission

CFPA's vision is to provide "doorstep banking for everyday people." Its mission is "to enable micro-entrepreneurs to realize their dreams, by offering loan support to micro-entrepreneurs, inspiring entrepreneurs to become independent, and achieving sustainable development of the organization."

CFPA has established the following core values:

- "To our clients: Build confidence in clients' abilities and provide comprehensive support;
- To our employees: Provide an open platform to use their skills and expertise;
- To society: Promote development of financial services at the grassroots level to help eradicate poverty and support community development in rural areas"

Characteristics of outreach

As of Mar. 2015, CFPA had 265,900 total active borrowers located throughout North, Northeast, South, and Southwest China. The institution operates through a wide network of 144 branches, reaching 16 of 23 total provinces. Nearly all clients are women who reside in rural areas (see section: "Outreach to the Underserved" for more information).

Penetration of the services

CFPA is the largest financial service provider primarily focused on the provision of microfinance services in China in terms of branch network, loan portfolio, and number of active borrowers. CFPA is focused on group lending (94.4% of clients) in small amounts (11,928 CNY – 1,952 USD average disbursement amount), with limited competition including Postal Savings Bank (PSB), Rural Credit Banks (RCBs), Rural Credit Cooperatives (RCCs), and some Microcredit Companies (MCCs). CFPA's overall penetration rate is 0.44 per 1,000 adults in the provinces it is active (see section: "Outreach to the Underserved" for more information).

Province	Active borrowers	Penetration rate	# of branches
Liaoning	34,502	1.1	21
Nei Menggu	54,952	3.1	30
Ganshu	15,655	0.8	9
Hebei	82,557	1.6	44
Shandong	3,810	0.1	2
Shanxi	6,078	0.2	3
Sichuan	15,040	0.3	9
Guizhou	2,122	0.1	1
Hainan	5,535	0.9	1
Henan	3,259	0.0	1
Beijing	2,551	0.2	1
Yunnan	8,975	0.3	5
Hunan	15,991	0.3	12
Guangdong	3,232	0.0	1
Fujian	4,289	0.2	2
Jiangxi	7,352	0.2	2
MFI operating area	**265,900**	**0.4**	**144**

*Note: Penetration rate represents number of clients per 1,000 adults.

Financial products and services

Refer to the table on loans and savings products in the appendix for details.

CFPA's financial services consist of only lending and the portfolio is split between two products: Group Loan and Individual Loan. Both products have various sub-products with similar design. Loan repayment for both products is monthly (except for ongoing pilot products for agriculture and pastoral activity), the loan term ranges from 1 to 36 months, and loan amounts range from 100 CNY (16 USD) to 200,000 CNY (32,738 USD). Nominal interest rates vary from 13.5%-14.8% per year (with one exception: 9.9% for disaster area loans), calculated using a flat balance method.[2] Loans are used for a variety of purposes with the most common one being agriculture (63% of clients as of Dec. 2014).

Non financial services and partnerships

CFPA offers various non-financial services, mostly related to education and healthcare. These are administered by LOs or external consultants (see section: "Social Change" for more information.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

[2] The nominal interest rate for Individual Loans was reduced from 13.4%-14.8% flat to 11.9%-12.6% flat in June 2015. APR calculations employ the former rates, as they were the existing rates as of the date of the rating – April 2015.

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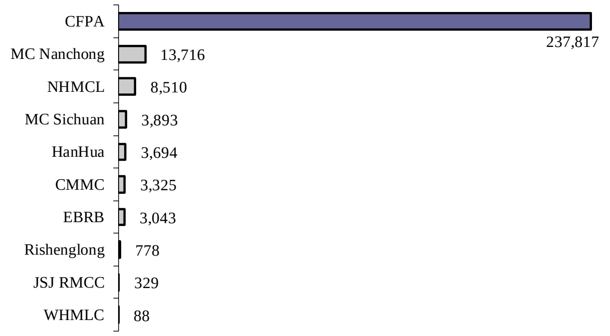
Financial Services and Products

As of Mar. 2015	Group	Individual
% of the portfolio	83.0%	17.0%
% of the borrowers	94.4%	5.6%
Methodology	Group	Individual
Creation Date	1996	2007
Purpose of the loans		
Working capital	✓	✓
Investment	✗	✓
Consumption	✗	✓
Loan size (CNY/USD)		
Average disbursed	10408 / 1704	38618 / 6321
Average outstanding	7343 / 1202	25216 / 4128
Min	100 / 16	2000 / 327
Max	16000 / 2619	200000 / 32738
Repayment Schedule	monthly	monthly
Loan duration		
Average	12	12
Min	1 months	3 months
Max	12 months	36 months
Grace period	2 months	0 months
Nominal annualized interest rate	13.5%-16.0%	13.4%-14.8%[3] (9.9% disaster areas)
Interest type	Flat	Flat
Disbursement fees	n/a	n/a
Administrative fees	n/a	n/a
Compulsory credit-life insurance	Provided at no extra fee	Provided at no extra fee
Cash collateral	n/a	n/a
Annual Percentage Rate (APR)	21.4%-22.7%	23.9%-24.9%
Collateral	n/a	n/a
Collateral		
No guarantee	✗	✗
Group guarantee	✓	✗
Individual guarantors	✗	✓
Chattel (tv, fridge, furniture)	✗	✗
Salary	✗	✓
Vehicles (car, motor, truck)	✗	✗
Mortgage (land, property)	✗	✗

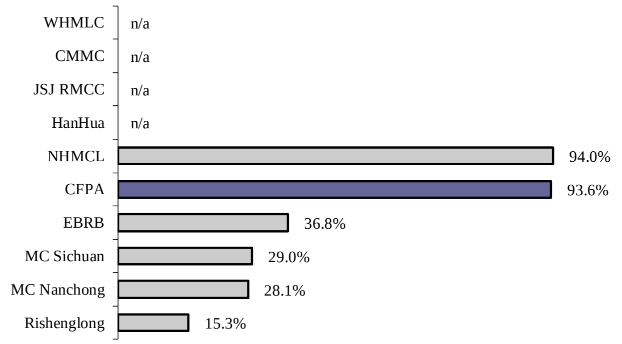
[3] The nominal interest rate for Individual Loans was reduced from 13.4%-14.8% flat to 11.9%-12.6% flat in June 2015.

Benchmarking

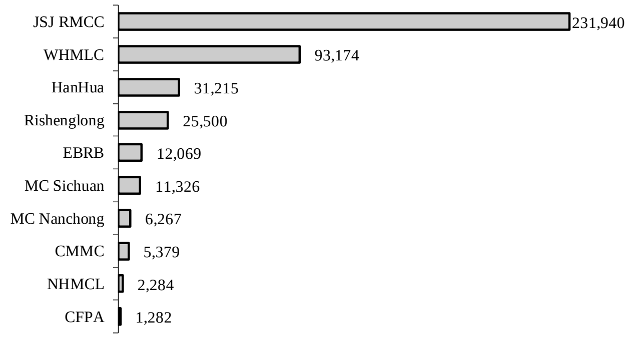
Active borrowers



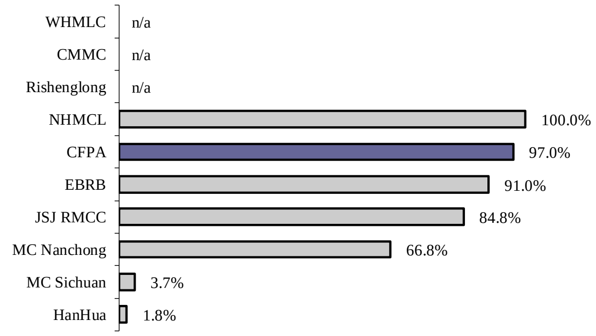
% women borrowers



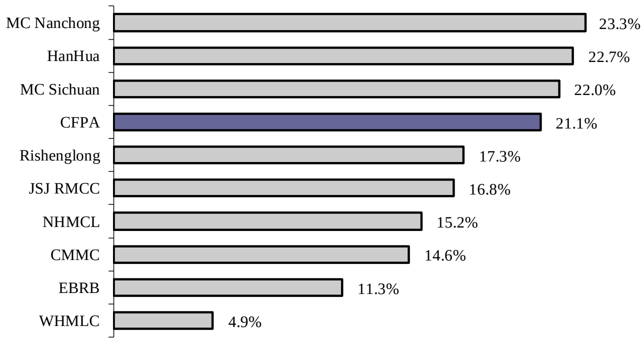
Average outstanding loan amount per borrower



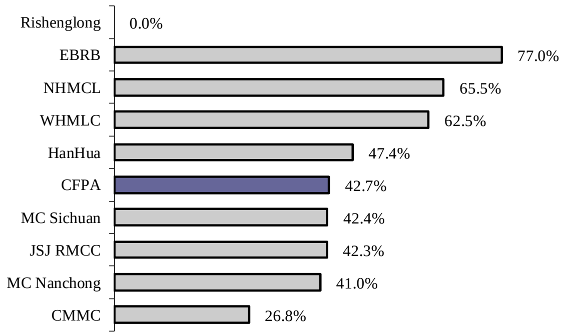
% rural borrowers



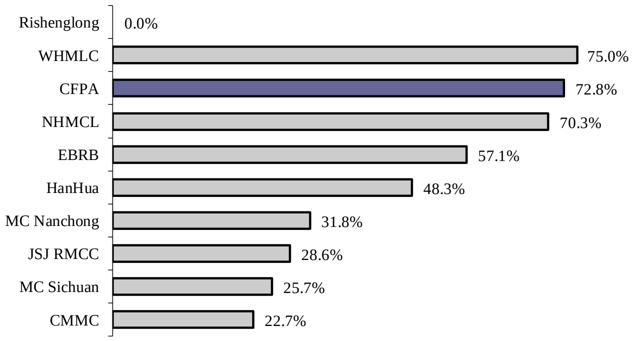
Portfolio yield



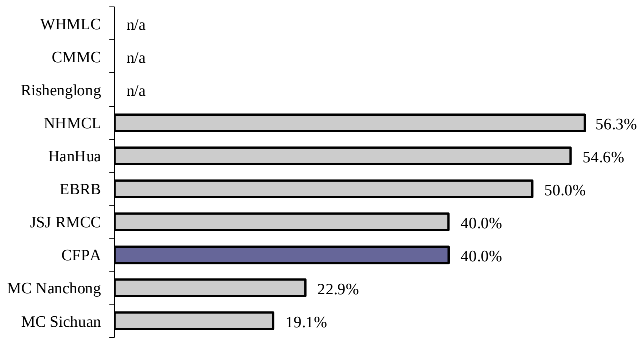
% Women among staff



% Women among LOs



% Women among management



Source: CFPA: Planet Rating, Dec. 2014. All others MiX, 2012 (except for MicroCred Nanchong and MicroCred Sichuan, MiX 2014).

Formulas

Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio.
Staff turnover:	Number of salaried staff who left during the period / Average staff during the period.
Penetration rate:	Active clients / Adult population
Retention rates formulas:	
▪ Waterfield/CGAP n°1:	Repeat loans / Repaid loans.
▪ Schreiner formula:	End borrowers / (Beginning borrowers + new borrowers).
▪ Waterfield/CGAP n°2:	(End borrowers - borrowers with the same loan during the period) / (beginning borrowers + new borrowers - borrowers with the same loan during the period).

Rating Scale

Rating	Definition
5+ 5 5-	**Advanced:** Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact.
4+ 4 4-	**Convincing:** Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact.
3+ 3 3-	**In progress:** Clear intent to reach social goals; social performance management systems being implemented.
2+ 2 2-	**Incipient:** Clear intent to reach social goals; low capacity to manage social performance.
1+ 1 1-	**Intangible:** Intention to reach social goals is non tangible; low level of management of social performance.
0	**Negative:** No intention to reach social goals; mismanagement leads to negative social performance.