Intean Poalroath Rongroeurng Ltd (IPR)

Limited Liability Company with MFI license from National Bank of Cambodia

Phnom Penh, Cambodia July 2013

Microfinance Institutional Rating -update

Mission:
To provide convenient financial services adapted to agriculture-related businesses in order to improve the economic conditions of farmers while sustaining the institution's profitable growth.

Investment Grade	Above	α	α+
			α
			α–
		β	β+
			β
	Below		β–
		γ	γ+
			γ

RATING	β+
RATING OUTLOOK*	*positive*

Dimensions rated	Grade
Governance & strategy	β+
Organisation & Management systems	β
Financial performance	α–

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

M-CRIL: Visit: 10-12 July 2013

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Structure

Context

- Cambodia has a history of wars and political unrest but has been largely politically stable since 1998.
- Cambodia's economy grew at ~10% per year between 1998 and 2008. This growth was slowed by the global economic downturn in 2008-09; however, it grew by 7.2% in 2012. The momentum is expected to continue with projected growth rates of 6.7% in 2013 and 7% in 2014. [World Bank, country overview].
- The rapid economic growth created employment opportunities which contributed to a decline in the poverty headcount from 34.7% in 2004 to 20% in 2011.

Indicators	2012
Population (mn)	14.8
GDP growth rate, %	7.2
Inflation, % (2011)	5.5
GNI/capita ($) (2011)	830
HDI Rank (out of 187)	138

- In 2011, services, agriculture and industry accounted for 38%, 32% and 22% of GDP respectively.
- Garment exports and tourism are the two main industries in the country.
- Cambodia faces a number of challenges – corruption and poor public services impede inclusive development.
- In 1996, the National Bank of Cambodia (NBC), the central bank, was established and led to the introduction of a basic legal framework for the financial sector in 1999. In 2000, NBC issued regulations to facilitate the transformation of NGOs into formal MFIs.
- The players in the financial sector are divided into three main categories (i) Commercial and Specialized Banks (ii) Licensed Microfinance Institutions and (iii) Registered Rural Credit Operators

	2011
Commercial Banks	31
Specialized Banks	7
MDIs	7
MFIs	25

- In Dec 2007, NBC created a new category of MFIs called Microfinance Deposit-taking Institutions (MDIs)which were allowed to mobilise savings from the general public. The minimum capital requirement for MDIs is KHR10 bn (US $2.5 mn), compared to only KHR250 mn (US$ 62,500) for licensed MFIs. The MDIs are required keep 10% capital deposit at NBC (5% for licensed MFIs).
- The Cambodian microfinance sector has grown tremendously from 50,000 borrowers in 1995 with outstanding loans of just $3mn to 1.1mn borrowers in 2012 with outstanding loans of $732mn.
- In 2008-09, the microfinance sector was affected by the global economic crisis and significant multiple lending. The sector has now successfully emerged from the crisis; for most of the MDIs the current priority is to widen their product range by offering deposit and remittance services. Also, leading MDIs are shifting their focus to mainstream clients and intend to transform into banks.

Synopsis

- Intean Poalroath Rongroeurng Ltd (IPR) was formed to meet the capital requirements of the members of Federation of Cambodian Rice Millers Associations (FCRMA). IPR was created as a unit within the association by Mr Phou Puy and Mrs Hao Simorn in 2002. In 2005, it was registered as a separate limited liability company and was granted an MFI license by the National Bank of Cambodia (NBC).
- IPR continues to focus on lending to paddy cultivators but to achieve risk diversification, it also lends for other crops as also for small agri-businesses. In the last 5 years of its operations, IPR has not grown much in scale, it still operates from 6 branches (including one branch that has been integrated into the head office) and number of active borrowers has remained almost the same. However, owing to an increase in average size of loans from US$896 to US$1,667, its portfolio has increased by 70%. Debt mobilisation remains below growth projections. IPR provides comparatively larger sized loans backed by collateral to individuals as against pre-dominant group model used by other MFIs in the region.
- There was a significant change in the shareholding and governance of IPR in 2010. An international private equity fund Leopard Capital Fund invested equity (through a special purpose vehicle IPR (HK) Ltd.) in the company and now has a share of 33.65% of the total capital. The other shareholder is Mr Phou Puy, the founder Chairman of the company. Post equity investment, Leopard Capital has nominated two members to represent it in the Board. There has been an increased focus on risk management, with the formation of a risk committee, risk executive team, setting up of risk limits and risk registers.
- IPR has developed a strong tool for credit appraisal and trained its staff to use it. It is in the process of transferring its database to a new robust software; the current system which uses MS Excel is susceptible to errors and other risks. The scope of operational audit is good, however, the audit staff strength is not adequate. IPR also needs to control high staff attrition and increase emphasis on staff training.
- IPR has a strong balance sheet. Capital Adequacy is high at 73.5%, it has a good portfolio quality and high profitability. However, it has a high open/unhedged foreign exchange exposure.

Synopsis...contd

Main Performance Indicators				
	Dec-10	**Dec-11**	**Dec-12**	**Jun-13**
Number of active borrowers	2,968	3,485	3,421	4,153
Gross Portfolio ($ million)	3.50	4.59	5.43	7.05
Average Loan size disbursed ($)	855	1 158	1 450	1 750
Average Loan Outstanding ($)@	977	1,289	1,562	1,667
RoA	0.3%	6.8%	12.5%	9.6%*
RoE	0.4%	8.9%	16.3%	13.2%*
Portfolio Yield	28.9%	32.1%	32.1%	30.8%*
Portfolio at Risk (>60days)	13.8%	0.9%	0.3%	0.5%
Write-off (as a % of average portfolio)	6.5%	12.4%	0.6%	0.1%
Operating Expense Ratio	18.0%	17.5%	13.5%	11.8%*
Borrowers per field staff	110	109	98	104
Capital adequacy ratio	118.9%	87.8%	87.3%	73.5%

* Annualized

@The loan outstanding as on year end 2010, 2011 and 2012 is higher than the average loan size disbursed for the year because most of the loans have balloon repayment and loan outstanding also includes bigger size loans disbursed in previous years.

A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to no other significant changes in the organisational structure and external operating environment.

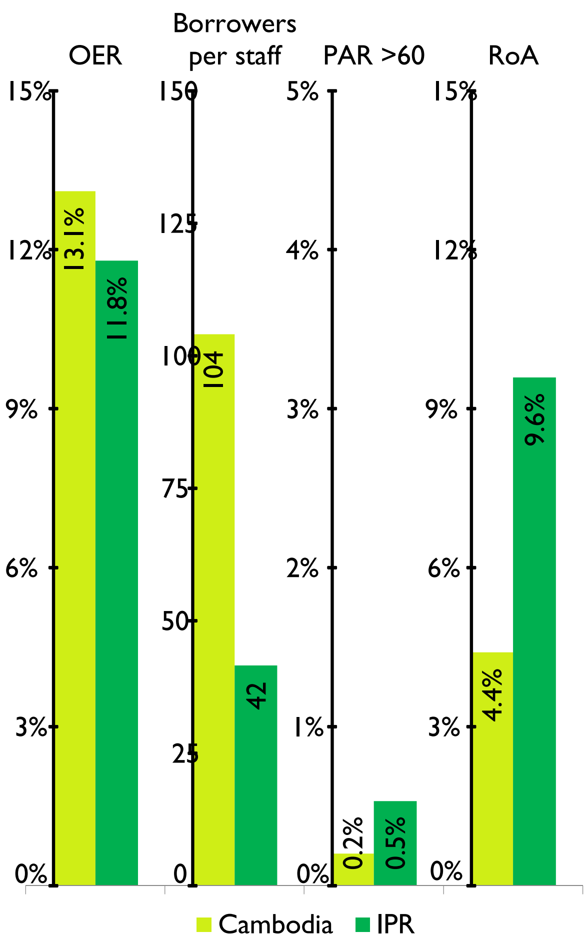
Strengths

- Strong Board with audit and risk committees. Comprehensive review by the Board and proactive in ensuring mission adherence as well as reducing risk.
- Highly profitable operations riding on low leverage and low OER
- High Capital Adequacy Ratio (CAR – 73.5%)
- Low PAR>60 days at 0.5%
- Loan products designed to suit cash flows of the clients
- Good credit assessment tool – also aimed to control over indebtedness
- Positive actions towards risk management
- Wide scope of operations audit

Issues

- Board has only one independent member
- Social Performance and client protection not actively monitored
- Risk of ever greening since most loans have balloon repayment (96.6%) and absence of policy prescribing cooling period between loan closure and fresh loan
- Inadequate training to staff to use new credit assessment tool
- Low staff productivity; debt mobilisation will put pressure on margins unless productivity improves.
- Inadequately staffed Internal Audit
- Data security issues in current MIS: need to speed up migration to new software
- High foreign exchange open exposure – exceeds regulatory limits
- Client grievance redressal system needs to be strengthened

Comparison of IPR's performance with MIX benchmarks for 13 MFIs in Cambodia



*** Borrower per staff ratio is not comparable since IPR has individual loans while most MFIs in Cambodia offer group loans**

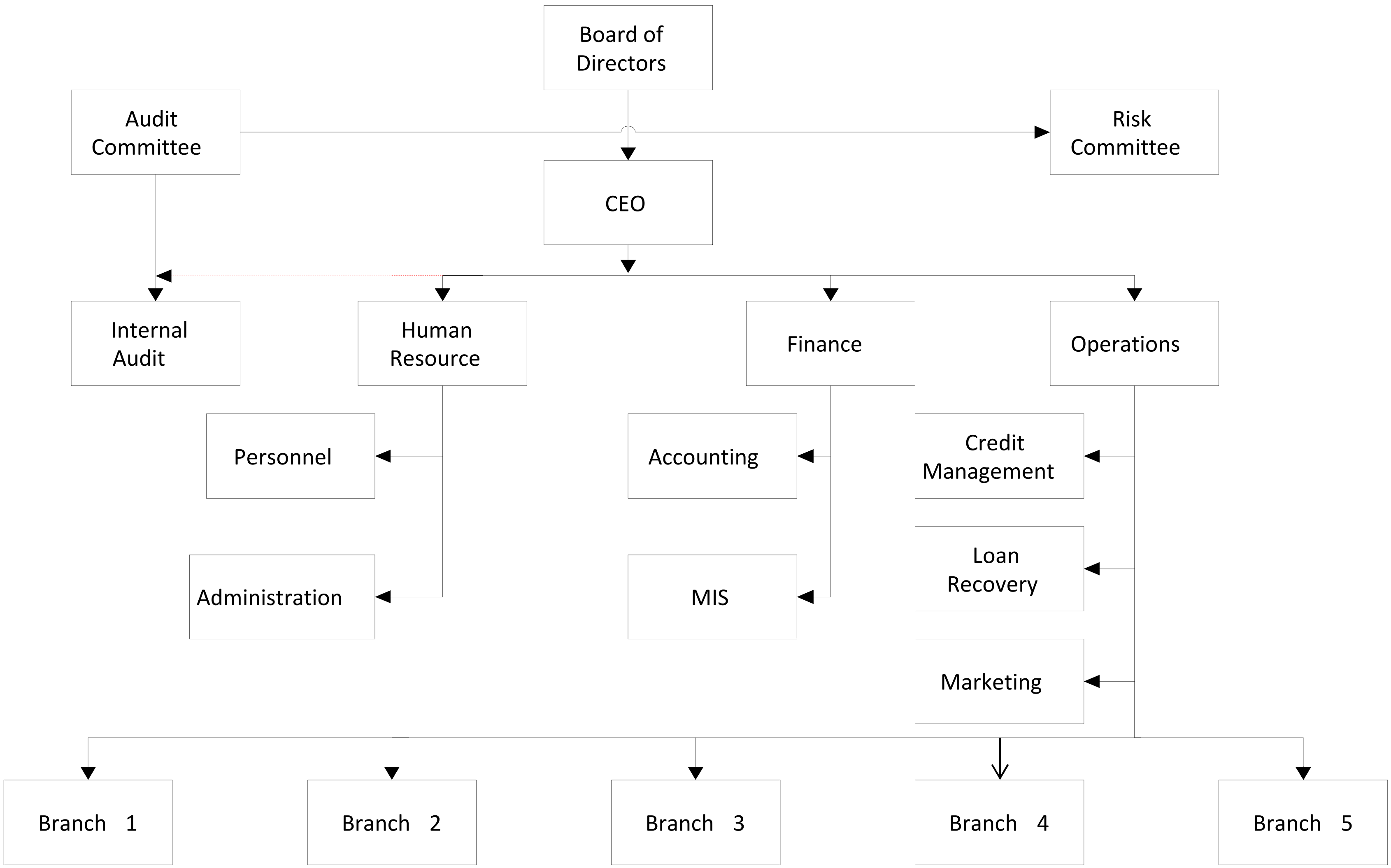
Rating rationale

- **Governance & Risk Management**: The Board plays a proactive role through its biannual meetings and risk and audit committee. IPR has formed a risk committee and has also strengthened its risk management systems through risk limits and risk registers. These systems are at a formative stage.
- **Portfolio quality**: Portfolio quality worsened in 2009 and 2010 , due to the global financial crisis and after a major fraud. Since then IPR has maintained PAR>60 at less than 1% after write-off in 2011. It however, faces a relatively higher portfolio quality risk as compared to other MFIs because of high average disbursed loan size of USD1,750, balloon repayments and high concentration in paddy (60%) and cassava (35.4%).
- **Good commitment to mission and client protection principles**: IPR has maintained its focus on funding for rice cultivation (60%) though for risk diversification it also lends for other crops. It has designed loan products suitable for the farmers and is transparent in pricing. It needs to however, strengthen the client grievance redressal mechanism.
- **MIS**: The current client database is maintained in Excel which does not have sufficient security mechanisms. IPR is in process to migrate its database to a new robust software which is expected to be completed by the end of 2013.
- **Credit appraisal system:** IPR has a well designed credit appraisal tool. Field staff has been trained to use it but operations show that staff members need more training to use it fully.
- **Staff attrition:** Staff attrition rates for 2011 and 2012 were high at ~23%. IPR has strengthened its HR systems, introduced an incentives scheme and has also revised the salary structure.
- **High Capital Adequacy**: IPR has a low level of financial leverage. Its capital adequacy ratio is very high at 73.5%.
- **Forex risk:** As on 30 June 2013, IPR had an open position of 38% in Riel and 35% in Thai Baht which is more than the regulatory limit of 20%.
- **High RoA:** Low leverage, good portfolio quality and higher loan size drive IPR's current high profitability [RoA for 2012 was at 12.5%]

Introduction

- Intean Poalroath Rongroeurng Ltd (IPR) was formed in 2002 to meet the credit needs of the members of the Federation of Cambodian Rice Millers Associations (FCRMA). IPR was created as a unit within the association and was headed by Mr Phou Puy and Mrs Hao Simorn.
- In 2005, the unit was registered as a separate private limited company and was also registered with the National Bank of Cambodia (NBC) as an MFI. Mr Phou Puy and Mrs Hao Simorn were the initial shareholders of the company with 55% and 45% of the shares respectively.
- IPR continues to focus on financing agriculture mainly paddy and has designed its loan terms accordingly. It gives an option to borrowers to avail comparatively higher sized loans at flexible repayment schedules. Most of its loans are with balloon repayment. Loans are offered in three currencies: US Dollar, Khmer Riel and Thai Baht.
- In 2010, IPR received investment from international private equity fund Leopard Capital, which now owns 33.65% of its equity. The other two promoters consolidated their holdings and 66.35% shares are now held by Mr Phou Puy.
- The Board saw a change with three new members. A two member Risk Committee of the Board was formed, consisting of one Board member and an external finance professional.
- IPR operates through a network of five branches located in Takaev, Pursat, Battambong and Banteay Meanchey provinces. It closed one branch in Kandal near the capital because of a large fraud involving fake loans and embezzlement of money. For deeper penetration through existing branches, it has opened some Service Posts which are attached to specific branches.
- From 2008 to 2012, IPR's portfolio grew by 68% (CAGR of 14%) to USD 5.4 million on account of increase in average loan size however the number of clients has not shown growth. In the first half of 2013, number of clients has grown by around 20%.
- In the last one year, IPR has significantly strengthened its risk management systems with setting up of risk limits and regular monitoring of risk events. It is in the process of migrating to a robust MIS and has also introduced a much improved credit appraisal system. It however faces a challenge to attract and retain skilled human resources.

Organisational structure



Microfinance/credit policies

- IPR lends to individual borrowers for farming or agri-business. Most of its lending is for paddy cultivation, however, it has also lent for the cultivation of other crops, trade and services.
- All loans require collateral and the loan size cannot be more than 50% of the value of the collateral. At least 70% of the collateral should consist of immovable property. Collateral can also be provided by a guarantor. Original official land titles are required to be submitted for loans higher than USD8,000. IPR has a detailed policy on collateral requirements.
- All loans up to USD 8,000 are approved by a Branch Credit Committee comprising of Branch Manager, Deputy Branch Manager/Service Post Manager. Bigger loans are approved by Head Office Credit Committee comprising of the Chief Executive Officer, the Head of Operations and the Credit Manager. The table below provides the hierarchy of authority in credit appraisal and loan sanction process.

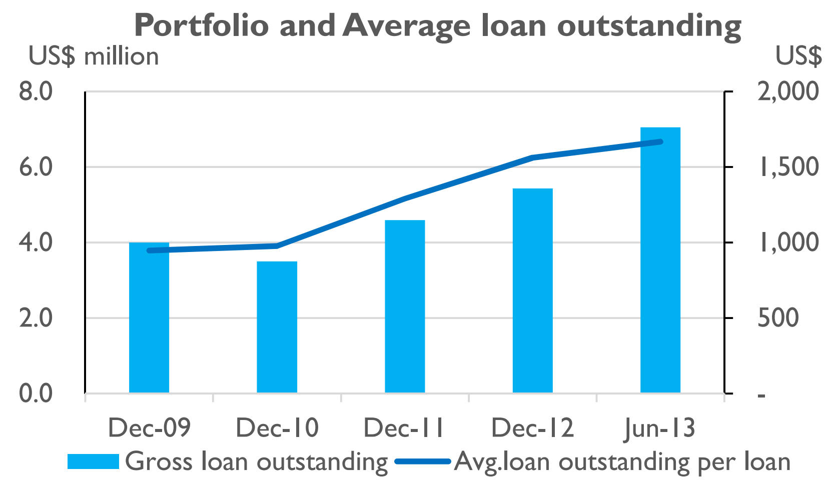
Loan size (USD)	Preliminary field verification	Review of application	Decision
<300	One Credit Officer (CO)	Service Post Manager (SPM) or Deputy Branch Manager (DBM)	Branch Credit Committee (BCC)
300 -1,500	2 COs	SPM or DBM	BCC
1500-4,000	Service Post Manager/DBM + CO	SPM or DBM	BCC
4,000-8,000	Branch Manager (BM)+CO	BM	BCC
>8,000	HO staff + BM + CO	Head of Operations + Credit Manager	Head office Credit Committee (HCC)

Microfinance policies

- CO generates the loan proposals by visiting the prospective clients in the area assigned to him/her by the BM. A preliminary appraisal is conducted followed by filling up of the newly developed credit appraisal form by the CO. The appraisal form along with all the necessary documents (ID card, certificate of property ownership, etc.) are verified by the authorised staff and collateral is evaluated. Client's credit bureau report is generated and verified. If satisfied, the verifying staff recommends the loan to either the BCC or HCC as per the policy.
- Loan is disbursed by the Branch Teller (BT), the Service Post Teller (SPT), the Service Post Manager (SPM) or an assigned Credit Officer at branch office or Service Post office. For loan repayment, client visits the branch or service post office and makes the payment as per the repayment schedule.
- The client has three repayment options :
  - Principal and interest is paid every month, bi-monthly, quarterly, every 4 months or every six months.
  - Principal at the end of the loan term and interest is paid monthly,
  - Principal at the end of the loan term while 50% of the interest is paid upfront and the rest paid at the end of the loan term
- In case of early repayment, no penalty is charged, however, if the loan is closed within three months, client has to pay interest for full three months.
- In case of overdue loans, a penalty equal to double the interest on the overdue amount from the day of overdue till the actual date of payment, is charged. Penalty can be waived if delay of repayment is due to an external factor (natural disaster, etc.).
- The CO is required to visit the client one month after the loan disbursement. This is to verify the actual utilization of loan, existence and quality of collateral and changes, if any, to the liabilities or cash flows of the client.

Loan products

- IPR offers two types of product
  1. Working capital loan for a maximum tenor of 12 months
  2. Investment Loan for a tenor of more than 12 to 36 months
- Loan are given in three currencies – US Dollar, Khmer Riel and Thai Baht. Rate of interest for loans in US Dollar is slightly (10 basis points) lower than loans in other currencies.
- IPR offers flexibility in loan tenor and repayment frequency - decided based upon clients' cash flows.
  1. Equal Principal Instalment (EPI): instalment frequency can be monthly, bi-monthly, quarterly, every four months or every six months. Equal Repayment Instalment (ERI): monthly instalment frequency.
  2. Balloon – principal is paid at the end of the loan term while interest can be paid monthly or 50% in advance and rest 50% at the end of loan term.



Rate of Interest is negotiated by the Branch and the client within the following range:

Loan size ($ loans)	Interest rate per month
<= 1,000	2.6% - 3.0%
> 1,000 - <= 3,000	2.5% - 2.7%
> 3,000 - <= 5,000	2.4% - 2.6%
> 5,000 - <= 8,000	2.0% - 2.5%
> 8,000	Negotiable

Governance and strategy

Governing Board
Operational growth and strategy
Competition & second line management
Fund mobilisation

Governance and strategy

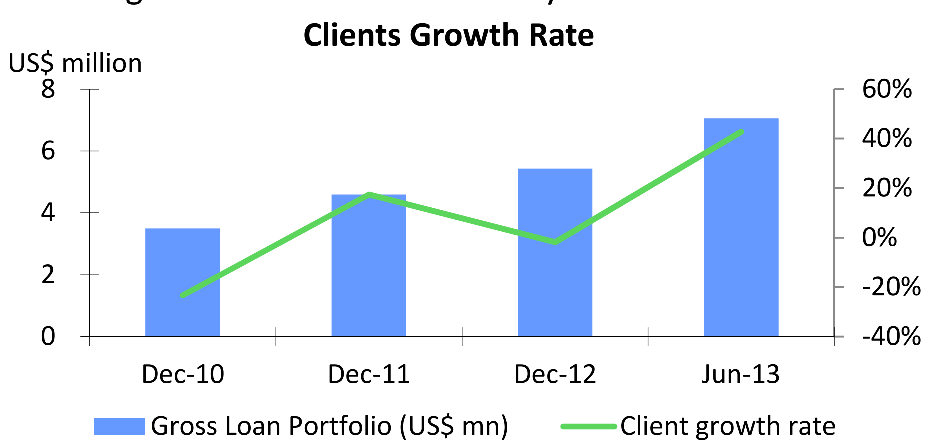
IPR has achieved a grade of β+ in Governance and Strategy. It has a highly qualified and experienced Board which actively participates in reviewing the management's performance, risk management and formulation of strategies. However, there is only one independent Director and Board' involvement in social performance and client protection issues in particular is limited.

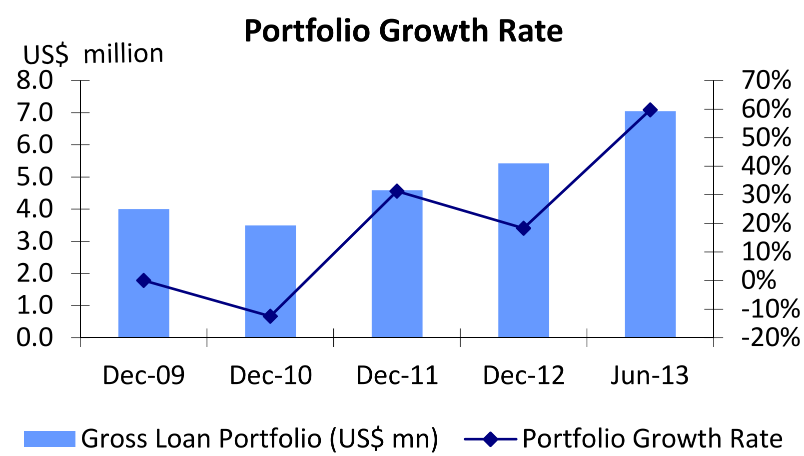
Governance & Mission Alignment

- IPR has a seven member Board which includes four Directors nominated by the individual investor and two by the private equity investor. The Board has only one independent member.
- Board has two committees – Audit & Risk. Both Audit and Risk committees have two members. Audit committee contains two Board members, one of which is independent. Risk committee has one board member and one external member. Composition and involvement of the committees is good.
- Board meetings and audit committee meetings are held twice a year. Risk committee meetings are held four times a year. The frequency of Board meetings is low. Agenda documents are well prepared and include strategy documents like business planning, performance reports and explanation on proposed resolutions. The minutes are properly documented.
- The minutes of the Board and committee meetings suggest good discussion on risk management issues, company's financial performance, regulatory issues, growth strategy and operational matters, however there is less focus on social performance and client protection issues.
- The governance structure has ensured that the focus of IPR remains on its target segment- farmers as captured in the mission. Board discussions show serious intent in adhering to mission. Product flexibility to align service offering to its target segment also reflects strong sense of mission alignment.
- The private equity investor is comfortable with the agriculture lending focus of IPR.

Operational and growth strategy

- IPR's portfolio grew at a compounded annual growth rate (CAGR) of 18% since December 2009. Overall growth in number of clients remained negative during 2009-2012 due to write-off, but increased by around 20% in the first six months of 2013. This has resulted in a meagre 2% CAGR in number of borrowers since December 2009.
- IPR has a well drafted strategy plan for next three years (2013-2015). It has a stable product strategy and will continue to focus on agricultural financing. However, in order to diversify its portfolio risks, the Board has decided to limit the lending to paddy/rice sector to 50%.
- The business plan approved by the Board projects a CAGR of 39% in portfolio in next three years taking the portfolio to USD 14.6 million by December 2015.
- Only two new branches are planned to be added and focus will be to increase outreach in the existing areas by opening more service posts.
- At present, IPR does not plan to become a deposit taking MFI, however, it may review its strategy once it strengthens its MIS and control systems.

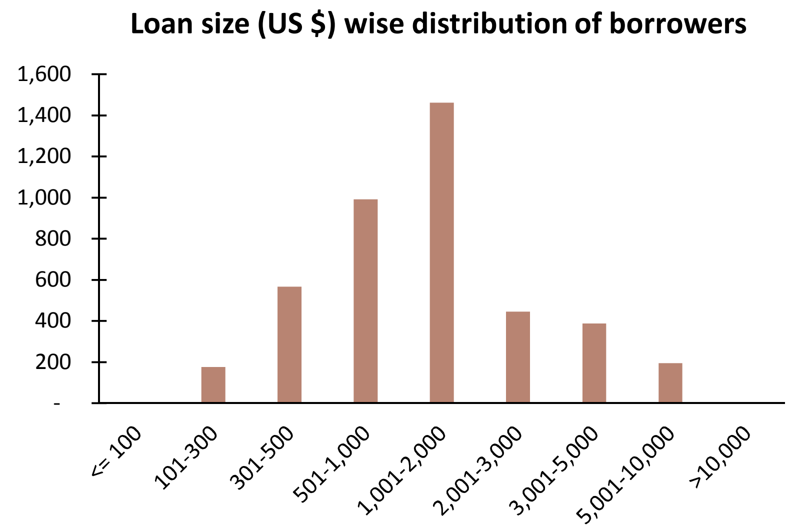


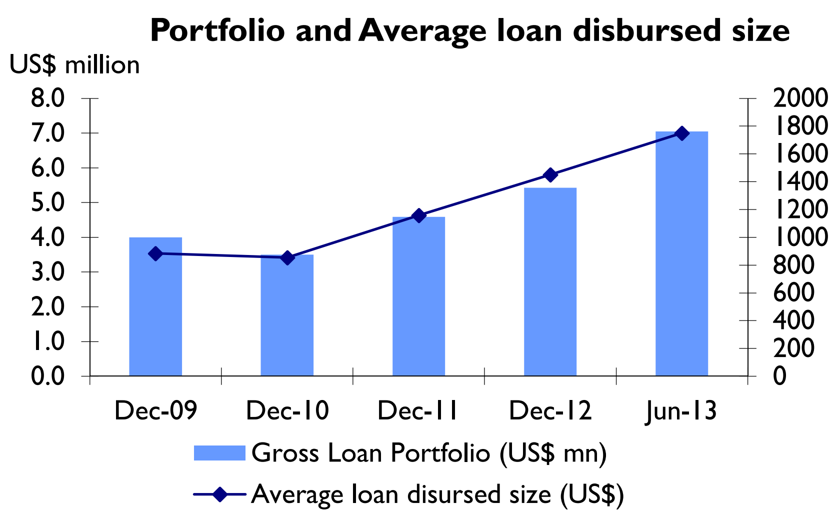


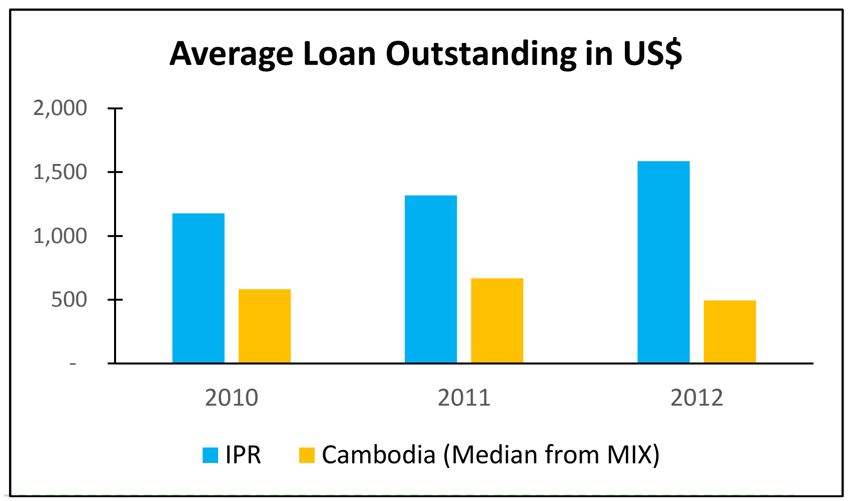
* Growth rates for 2013 have been annualised

Operational and growth strategy...continued

- IPR's average disbursed loan size has increased significantly over last four years. It has grown by 98% since December 2009 - part of increase is accounted by inflation. Most loans being with balloon repayment, average loan outstanding is also very high. This sharp increase has increased the risk profile and IPR's current focus is to improve risk management practices, reduce foreign exchange open position, improve credit assessment methodologies, improve productivity and staff skills and upgrade the MIS.
- IPR is encouraging more smaller loans to control





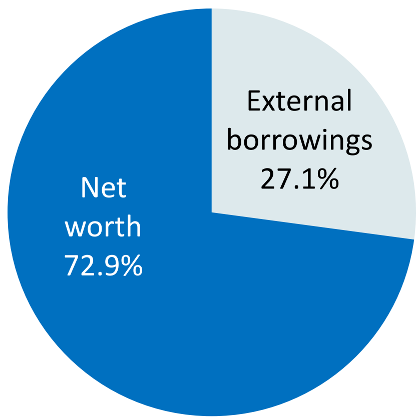


Competition – *high*

- Cambodia is a highly competitive market and there is a high risk of multiple lending among microfinance clients. In western region where IPR operates, most leading Cambodian MFIs have their presence. According to a study of over-Indebtedness commissioned by investors in June 2012, 21% of borrowers had more than 1 loan (though the view of industry observers is that this is an underestimate). A study by Blue Orchard, Oikocredit and Incofin done in March 2013 in areas with high saturation, found that 22% of clients were over-indebted
- IPR does not refuse a loan in case the client has already a loan from another MFI, however, the staff needs to take this into account while analysing the cash flows. In case it is observed that the client has misinformed about her/his existing loan, the loan application is to be rejected as per policy. However, it was observed that these policies are not strictly followed and staff sometimes does not take existing loans into account while making the cash flow projections.
- IPR's model and loan product is different from most MFIs. It provides higher sized individual loans with the option of balloon repayments. Most of its competitors provide group based loans. This is valued by the borrowers which provides IPR a competitive advantage.
- However, its main competitors like AMRET have started providing individual loans albeit with monthly repayment unlike the balloon repayment of IPR.

Fund mobilisation

- Fund mobilisation has been IPR's biggest constraint. The figure alongside shows that debt funds accounted for 27.1% of the total funds as on 30 June 2013.
- IPR is primarily reliant of net worth as its source of funds. It received equity of USD 1.36 million (share capital plus premium) from Leopard Capital Fund in 2010, routed through a special purpose vehicle, IPR (HK) Ltd.
- IPR has received loans from six sources and its biggest lender is Luxembourg Microfinance Development Fund (LMDF) which has so far lent it USD 1 million. 300,000$ were lent by LMDF in Thai Baht which is the only loan that IPR has received in a currency other than US Dollar. This has helped IPR in reducing its open foreign exchange exposure.
- IPR also received a loan of USD 500,000 from IPR (HK) Ltd in 2011, which has been paid back. In 2013, for the first time IPR received loans from two commercial banks, Hwang DBS Bank and MB Bank of USD 500,000 and USD 200,000 respectively.
- The weighted average duration of the borrowings raised by IPR has been 2.93 years.



Year of Joining	Senior Mgt. including CEO
2011-2013	2
Before 2005	3
Total	**5**

Second line of management – *improved but moderate*

- IPR has a small team of professionally qualified second line of management. IPR has witnessed a high turnover at the senior management level. The senior management team consists of the CEO, Head of Operations (HOO), Head of Finance (HOF), HR Head and the Head of Internal Audit. The HOO joined in 2011 while the new HR head joined in 2012. Both the HOF and the Head of Internal Audit have been promoted internally, HOF started as a Branch Assistant while the Head of Internal Audit joined as a Credit Officer.

Organisation & Management Systems

Human resource quality and management
Staff productivity & operating efficiency
Accounts and MIS
Internal audit and control
Risk Management
Financial planning and cash management
Infrastructure
Quality of clients

Organisation & Management systems

IPR has a grade of β on management which is due to its weak current MIS, high staff attrition resulting in lack of skilled and trained human resource in the field and in the audit function. IPR has significantly improved its risk management systems, HR policies and is in the process of migrating to a robust MIS. The scope of audit is good. Though the current grade is moderate, there is positive outlook of its improving in next 6 to 12 months.

Human resource quality and management

- IPR faced a high staff attrition both at field as well as at the managerial level. The staff attrition rate was around 23% in 2011 and 2012. The quality of human resource is moderate keeping in view the detailed appraisal process required for its higher sized loans.

	2009	2010	2011	2012	2013 first half
Staff attrition rate	15.3%	14.8%	22.5%	22.7%	16.5%

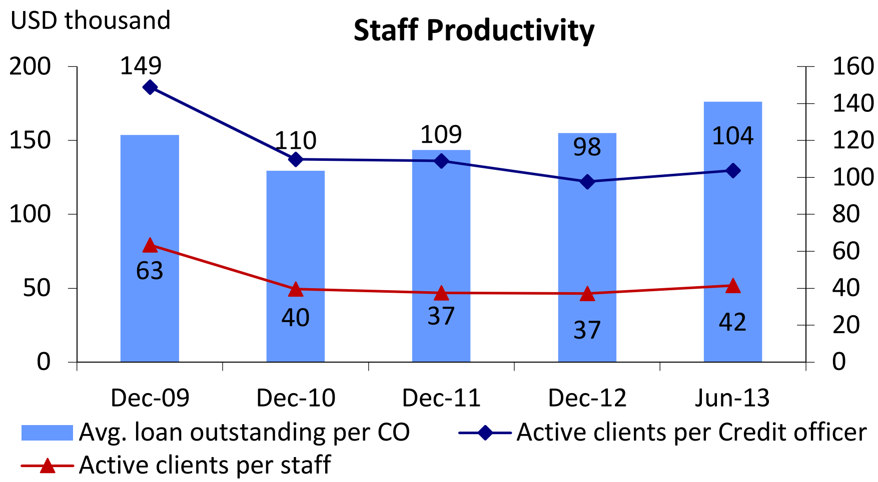
- IPR has well designed and documented HR systems and processes including a policy for recruitment, induction, remuneration, trainings need assessment and exit surveys. Staff attrition rate is being monitored by the risk management team and Board’s risk committee too. Human resource policy, especially the remuneration package, was revised in 2012 with reference to industry standards.
- Apart from induction training for new staff, IPR offers trainings on newly introduced policies, new IT & MIS systems, risk management and soft skills. The HR department engages internal as well as external trainers. Every year training needs analysis is done through a discussion with the staff and senior management and a training calendar is prepared. Trainings listed for 2013 appeared relevant, however, only 13% of the planned training were delivered till the end of the half year.

Human resource quality and management…contd

- Field staff were aware of the processes, product terms and conditions; however they have moderate understanding of client protection issues. Also, some staff members were not adept in using the newly designed credit appraisal tool. The total number of staff on 30 June 2013 was 100 including 40 Credit Officers. With around 4,000 clients, the overall staff productivity appears moderate even though some key positions such as positions in internal audit function are vacant. IPR needs to review and rationalize its staff requirements.
- Variable Incentive for the field staff is based on outstanding loan portfolio, number of clients, PAR, collection rate and recovery of written off portfolio. However, staff has strict targets and if they miss any one of these, they become ineligible to receive variable incentives. 60% of the staff did not receive any variable incentive in 2012.
- IPR provides equal employment opportunities to men and women. At present only 20% of its staff are women.
- For each job, Key Performance Indicators (KPIs) are laid out. Immediate supervisors evaluate a staff on these KPIs annually. Apart from KPIs there is a 12 point competence assessment checklist which is filled by the supervisor after discussions with the staff. HR department receives scores on both these parameters and discusses with the staff and their supervisors before finalising it. Promotions are based on performance appraisal score, recommendation, written test and interview.

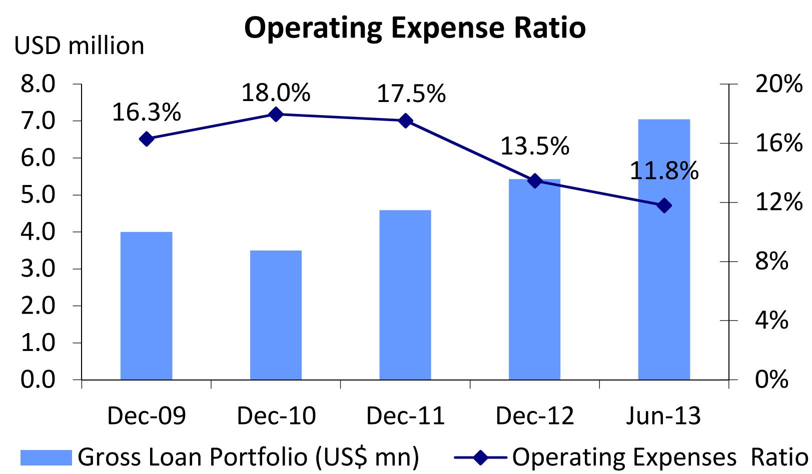
Staff productivity – *moderate*

- Though there has been a steady increase in average loan outstanding managed per CO due to an increase in average loan size, the active clients to total staff ratio has remained low at around 40.
- Bigger size loans require more staff in credit and control functions, however, there is a scope to improve the productivity of total staff by reviewing and rationalising staff at various functions and by the use of better MIS technology.



Operating efficiency – *reasonable*

- The operating expense ratio (OER) has significantly improved in 2012 and 2013. This is due to a significant [40%] increase in the average portfolio for the year 2012 as compared to 2011. The average portfolio increased by 22.4% in 2013 within the first 6 months.
- OER for IPR is lower than other MFIs in Cambodia (MIX average of 13.1%). However, the average loan size of IPR is significantly higher as compared to other MFIs and there is a scope for further improvement in IPR's operating efficiency.



Accounting and MIS

- The accounting systems and policies of IPR are reasonable. It uses a widely used local accounting software.
- Branches maintain their accounts manually and send loan disbursement, loan repayment and expense vouchers along with a summary cash book (having figures in three currencies) on a weekly basis to the Finance department at HO. The accounting unit at the HO verifies the vouchers and prepares branch wise weekly receipt and payments accounts. Thereafter, entries are made in the accounting software.
- US dollars is IPR's accounting and base currency. It follows accrual accounting principle.
- Provisional financial statements are prepared monthly while audited financial statements are prepared annually. IPR reports monthly to NBC (the Central Bank).
- For standard loans, IPR maintains a loan loss reserve of 1.5% of the loan amount, though not required by the regulator. For sub-standard, doubtful and loss loans, it follows NBC's loan loss provisioning policies.

Loan classification	Tenor ≤ 12 months	Tenor > 12 months	Provision
Standard	On time and overdue 1-30 days	On time and overdue 1-30 days	1.5%
Sub-standard	Overdue between 31-60 days	Overdue between 31-180 days	10%
Doubtful	Overdue between 61-90 days	Overdue between 181-360 days	30%
Loss	Overdue over 91 days	Overdue over 361 days	100%

- The current loan loss reserves are more than 4 times its PAR>60 ratio. Considering relatively higher portfolio risk that it faces because of higher sized loans and concentration of portfolio in paddy and Cassava, the provisioning seems adequate.

Accounting and MIS

- IPR uses a well designed MS Excel based MIS which is able to correctly compute portfolio outstanding, interest to be collected from the clients and also the portfolio quality in loans with balloon principal repayments. However, for loans with monthly/quarterly or semi annual repayments, it might understate the PAR. Majority of IPR's loans have balloon repayment and hence the impact on PAR is minimal. The current MIS, being manual Excel based, does not have required security features and is prone to errors and back dated entries.
- Service posts give data through USB to the branch every Friday. The branch consolidates the data and sends the loan data to Head office every week. Detailed credit report is sent monthly.
- The current system is also not adequate to capture and analyse social and economic data of the clients.
- IPR is in advanced stages to migrate to a robust new MIS software Abacus. Data is being migrated. The required hardware is made available at all the branches.
- The current system also requires regular reconciliation of accounting and MIS records and there are often small mismatches which require reconciliation by HO and branch accounting staff.

Tracking system for overdues– *reasonable*

- IPR has reasonable systems for tracking the overdues. It has well laid out processes which are to be followed by the staff for tracking the overdues.
- During disbursement meetings, clients are given orientation on the importance of on-time recovery. They are also briefed about the penalty on delayed payment.
- At the branch level, the list of overdues is prepared monthly. The follow up process starts immediately when the loan becomes overdue.
- When principal or interest are overdue by more than 30 days, the CO and BM try to recover loans within the same month by visiting the client and encouraging them to pay.
- If a loan becomes overdue and client does not pay even after the initial meeting, the staff approaches the village and commune chiefs to get their assistance.
- As a last resort, the operation department may ask the concerned CO and BM to take legal action against the client or the guarantor and to liquidate her/his collateral.

Internal audit and control –*detailed but under staffed*

- At the time of rating visit, the internal audit at IPR was managed by one person after two auditors left the company in early 2013. Post rating, IPR has informed that one auditor has been appointed who has joined IPR from September 2013. The head of internal audit has been with the company since 2003 and started as a CO.
- The internal audit is under the supervision of the Audit committee of the Board; however, it also reports to the CEO and is not independent of the management.

Internal audit and control

- The scope of audit focuses mainly on audit of field operations, compliance with credit policies and accounting and cash management at the branches. Functions at the HO are audited once a year.
- The scope of branch audit is good, however, it does not cover adherence to client protection principles. Deficiencies pointed out by audit are classified based on their severity.
- As per the revised policy, each branch has to be audited four times a year. However, in 2012, all the branches were audited only two to three times due to shortage of staff. Frequency of internal audit is low considering the small size of operations (5 branches) of IPR.
- The Audit department has an audit policy. An annual audit plan which is further broken down into quarterly plan is prepared and shared with the audit committee at the beginning of the year.
- A branch is effectively audited for three to four days. The internal auditor spends two days at the branch office and two days in the field visiting 10 to 20 clients at random. At the branch office, a sample of loan records, property documents, and accounting records are verified. IPR has planned to extend the branch audit time to two weeks and client sample to 30 from the fourth quarter 2013.
- The auditor uses a checklist for asking questions to the clients. Though the checklist is well designed, it does not cover verifying client awareness. IPR plans to include this in the scope of the audit from the third quarter of 2013. Information in the loan application form is verified, loan utilisation as well as outstanding balance and repayments are cross-checked with client documents. Quality of collateral and source of income is verified. Clients with overdues and those with their loans written-off are also visited.
- At the end of the audit visit, a draft report is prepared and submitted to the BM for his feedback. Later, a summary report is prepared and submitted to the Audit Committee. Branch Managers have to submit a report of actions taken by them to the Head of Internal Audit. The auditor verifies these in the next audit visit.

Internal audit and control

- IPR does not have a policy for monitoring visits by the HO staff, though such visits are foreseen in the annual action plan and are being implemented.
- For operational control, IPR has formulated comprehensive loan sanction and client verification guidelines which include a compulsory Credit Bureau check. However, as mentioned earlier staff skills in credit analysis especially in cash flow analysis need to be strengthened.
- IPR does not have a policy on minimum gap between closure of a loan and disbursement of a fresh loan; this gap is needed to avoid ever-greening of loans with balloon repayment.

Risk Management – *formative*

- IPR introduced risk management systems in 2012. The risk committee of the Board has laid down risk limits for
  - Exposure to foreign exchange
  - Portfolio exposure at any single branch and Loan usage (concentration in terms of loan usage)
  - Liquidity
  - Solvency
  - Efficiency
  - Portfolio at Risk and
  - Staff attrition
- IPR has also started maintaining a risk register to systematically record risk events, key risk indicators, likelihood and consequence score and an action plan to manage risks.
- IPR has a risk manual, though it mainly provides general guidance on risk management and a few tools and processes for the IPR management.
- The management team consisting of all the senior management personnel review the risk limits on a monthly basis and report to the risk committee.

Financial planning and cash management – *reasonable*

- The organisation has prepared a three year strategic business plan for 2013 to 2015. The plan provides details of its growth strategy, analyses competition and covers all the operational and financial parameters.
- Financial projections are prepared on the basis of discussion with various department heads and inputs from the branches. The projections also take into account the return on equity target set by the Board of Directors.
- For repayment to lenders, the finance department prepares the expected recovery for all branches and informs them about the funds that they need to remit to the HO a month in advance. Based on this, branches plan their disbursements.
- Each branch sends a monthly funds request on the basis of their expansion plan. Funds are transferred to the branches in consultation with the Head of Operations.
- Each branch as well as HO has a separate bank account. The funds are transferred internally to the respective branch accounts. Repayments from clients are usually deposited in the bank account on the same day or the next morning. Cash limit for the service post offices is USD5,000 while for branches it is USD10,000. However, these limits are not strictly followed.
- IPR has utilised its assets effectively with only around 8% of average assets invested in liquid assets during 2012 and 2013. However, IPR needs to further improve its liquidity management practices considering it has irregular nature of cash inflows on account of balloon repayments and unpredictable cash flows due to large proportion of prepayments made by clients.

Infrastructure – *adequate*

- IPR has adequate infrastructure at the HO. The branch offices are also adequately equipped with required infrastructure.
- Fixed assets mainly include computers, vehicles, office equipment, furniture and fixtures. The book value of its net fixed assets was $152,095 on 30 June 2013, which is 1.9% of its total assets. This is comparable with other MFIs.

Quality of clients – *moderate awareness, satisfied with IPR loan product*

- Visited clients had good performance on repayment of their loans. Utilisation of loans was however, observed to be different than reported in some cases. In some cases while the loan was used for a regular income activity, the loan was still given with balloon repayment.
- Client awareness about product features was observed to be moderate; clients were aware of tenor and number of instalments paid but not the interest rate. Clients also knew the amount paid towards the Credit Bureau. Almost all clients visited were unaware of the phone number provided for complaints.
- A printed repayment schedule and receipts for all payments are provided to the clients and were available with them.
- Clients were observed to be satisfied with the loan size and balloon repayment facility offered by IPR.

Client Protection

Appropriate product design and delivery
Prevention of over-indebtedness
Responsible pricing
Transparency
Fair and respectful treatment of clients
Mechanism for compliant resolution
Privacy of client data

Client protection – adherence to client protection principles

IPR has endorsed Client Protection Principles in order to ensure fair and equal treatment of clients. It has also drafted a code of conduct for the staff. The staff has been given training on these.

1 Appropriate product design and delivery

- IPR was promoted with an intent to finance rice millers and the objective was later revised to finance the rural farmers. It has largely retained its focus with some level of diversification for better risk management. The products are designed to cater to the needs of the farmers. There is sufficient flexibility in the product design to match the cash flows of the cultivators.
- IPR offers a variety of repayment options to meet the diverse needs of clients. For those who have cash inflows after the harvesting of their crops, it offers balloon repayment which is very popular among the clients. It offers the choice of making monthly interest repayments or paying 50% interest in advance and rest at the end of the loan term.
- It offers higher loan sizes to fulfil the credit needs of its clients.
- IPR has designed its products based on its experience in the sector and has not conducted any formal study to gauge the needs of the target clients.
- Though IPR can mobilise savings from its members, it has not done so. As per regulations, it is not allowed to offer insurance or remittance facilities.

2 Prevention of over-indebtedness

- Cash flow analysis is an important part of client appraisal for all loans. Loan amount and repayment terms are decided based on the cash inflows, expenses and other loans. The loan repayment obligations should not be more than 50% of the net cash flows (cash surplus). The maximum loan amount is also linked to the value of collateral and can not be more than 50% of the value of the collateral.
- Information regarding loans from other sources is captured in the appraisal form. Though IPR does not have a policy of not lending to clients who have loans from other MFIs, in case of misrepresentation of other loans, loans are rejected. Before loan approval, IPR verifies the clients' credit history with the credit bureau reports.
- Client appraisal is detailed and focuses on Character, Cash flow, Capital and Collateral and CBC check. Cash flow analysis is detailed. The credit appraisal system is new and some staff lack adequate training in using the tool.
- In some cases, it was observed that the cash flow analysis is performed casually and omits other loans even when they appear in the credit bureau statements. This happens on account of cash flow analysis being prepared by the CO and CBC check done later at the time of sanction.
- Further, the cash flow analysis was observed to be casually done in some cases and the appraisal/sanction relying more on collateral.
- IPR also has the policy to check the actual utilization of loan, one month post disbursement.

Client protection...continued

3 Responsible Pricing

- IPR's interest rate range from 2.0%-3.0% per month on a declining basis for loans in US Dollar. For loans in other two currencies, the rates are higher by 0.1%. Rates are lower for loans of higher sizes.
- Apart from interest, IPR charges the cost of credit bureau verification from the approved client.
- The branch Manager has the flexibility of charging rates in a range of around +-0.15% depending upon risk assessment and competition. It was observed that the rates are mainly decided based on the competitive factors.
- The rates are comparable to the rates charged in Cambodia by other MFIs.

4 Transparency

- Communication to new clients regarding policies and products is done during introductory meetings by the COs and at the time of loan disbursement.
- Printed repayment schedules along with the interest rate are provided to all the clients. A copy of the loan contract is given to the clients. Receipts are provided for all transactions.
- During the M-CRIL team's interaction with clients, it was observed that the clients were well aware of the total interest amount and tenor but not the effective interest rate.

Client protection...continued

5 Fair and respectful treatment of clients

- Fair and respectful behaviour is part of the orientation and training of staff. IPR's code of conduct for the staff states that clients should be treated respectfully at all times. Clients are encouraged to inform the management in case any undue charges are collected or if there is any issue with staff behaviour.
- IPR also has the policy of not unduly pressurising client in case of overdues.

6 Mechanism for complaint resolution

- IPR has printed the phone number of its Head Office on the client repayment schedule. Clients are informed about this number.
- Awareness of clients about this number was however observed to be very low. Also, IPR has not designed a system for maintaining a systematic record or escalation of complaints received on this number. Clients rarely call on this number and no complaint has ever been made by any client on this number.

7 Privacy of client data

- IPR shares indebtedness information of its clients with the Credit Bureau of Cambodia (CBC). Application forms for all loans have a 'Consent and Privacy Clause' wherein clients agree to share their information with the CBC.
- Client data is kept confidential and staff is instructed not to share it with any outsider.

Financial Performance

Portfolio quality
Portfolio diversification/analysis
Profitability and sustainability
Capital adequacy
Asset & Liability composition

Financial Performance

IPR's financial performance is rated at $\alpha-$ on account of very high CAR, low PAR and high profitability. However, the grade is limited due to high unhedged forex position, weak portfolio diversification and risk to portfolio on account of higher loan size and balloon repayment.

Financial Ratios	Dec-10	Dec-11	Dec-12	June-13
Capital Adequacy				
Risk Weighted Capital Adequacy Ratio	118.9%	87.8%	87.3%	73.5%
Asset Quality				
Portfolio at Risk (>60 days)/ Gross Loan Portfolio	13.8%	0.9%	0.3%	0.5%
Loan Loss Reserves/ Gross Portfolio	14.8%	2.4%	1.7%	1.9%
Write-off for the year / Average portfolio for the year	6.5%	12.4%	0.6%	0.1%
Management				
Operating Expenses/Average Gross Loan Portfolio	18.0%	17.5%	13.5%	11.8%*
Number of Borrowers/Field Staff	110	109	98	104
Number of Borrowers/Total Staff	40	37	37	42
Earnings				
Net income from operations/Average Assets (RoA)	0.3%	6.8%	12.5%	9.6%*
Net income from operations/Average Equity (RoE)	0.4%	8.9%	16.3%	13.2%*
Portfolio Yield	28.9%	32.1%	32.1%	30.8%*
Interest and fee expense/Average Gross Loan Portfolio	3.7%	2.2%	2.2%	2.8%*
Liquidity				
Cash & Liquid Assets/Total Assets (year end)	33.8%	11.9%	9.7%	5.4%

*Annualised

Portfolio quality

- IPR has a very low portfolio at risk. PAR >60 days as on 30 June 2013 was at 0.5%. Portfolio quality deteriorated in 2009 and 2010 due to the global economic downturn and a major fraud in one of the branches which was subsequently closed down. The bulk of the problem portfolio was written off in 2011.
- IPR has made adequate loan loss reserves which as on 30 June 2013 were 1.9% of the outstanding portfolio.

Portfolio diversification/analysis

- A disaggregation of portfolio by purpose (in the table), shows that paddy cultivation has a high share of ~60%. It has diversified to Cassava cultivation also. Paddy and Cassava together constitute more than 95% of its portfolio. It was observed in the field that the classification suffers from some errors and some clients have used the loan amount for purposes other than that stated in the loan documents.
- Share of portfolio in paddy cultivation is gradually being reduced to the long term limit of 50% set by the risk committee.

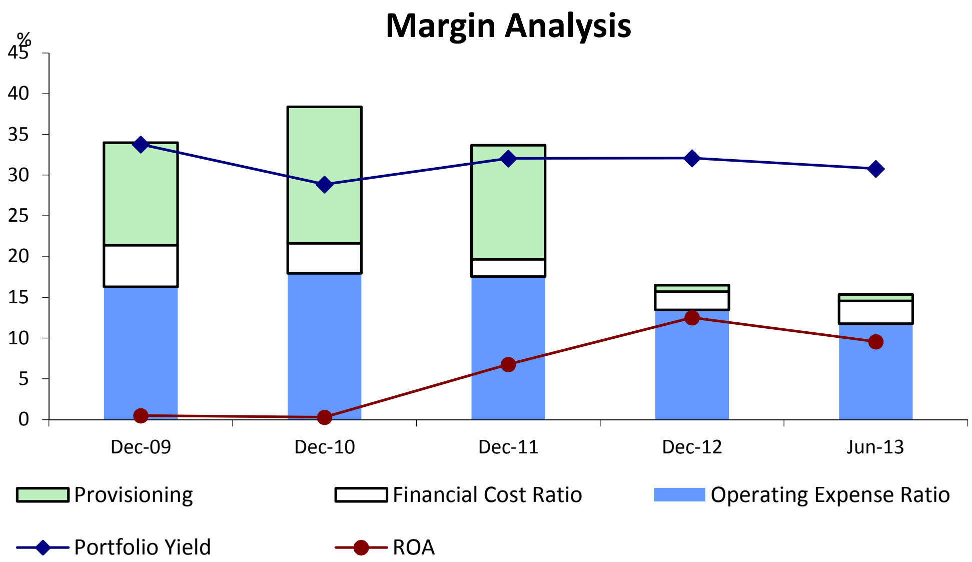
Purpose wise portfolio	% of portfolio	
	Dec 2012	June 2013
Paddy cultivation (Dry season)	32.6%	25.0%
Paddy cultivation (Rainy season)	31.5%	34.7%
Cassava cultivation	31.1%	35.4%
Maize cultivation	1.7%	2.3%
Beans cultivation	1.2%	1.2%
Small enterprises	1.9%	1.5%

	Dec-2011	Dec-2012	June-2013
Working capital loan	99.56%	95.45%	96.38%
Investment loan	0.44%	4.55%	3.62%

- Geographically, the portfolio is concentrated in three provinces in the west of the country.
- Overall portfolio faces risk from lack of adequate diversification.

Profitability and sustainability – *high*

- High provisioning for loan losses in 2009 and 2010 reduced the profitability of IPR, however, it maintained a good portfolio quality in 2011 and 2012 which resulted in a sharp increase in its profitability. RoA increased from 0.3% in 2010 to 6.8% in 2011 and 12.5% in 2012.
- Profitability is also high because of a very low interest cost as a proportion of its loan portfolio. IPR has a very low debt. With an increase in debt, RoA will come down.



- OER has come down on account of increase in loan portfolio and loan size, however, it still has scope to bring it down considering that borrowers to total staff ratio is low at 42.

Capital Adequacy – *high*

- Due to low level of debt mobilisation, IPR has maintained a very high CAR. It increased after equity investment from Leopard Capital Fund in 2010. CAR as on 30 June 2013 was high at 73.5%. Compared to other MFIs, IPR may need to maintain a higher CAR due to relatively higher risks faced by its portfolio, however, it has scope to bring it down to below 40%.

Asset, liability and equity composition – *reasonable*

- IPR had 88.6% of its total assets in loans outstanding on 30 June 2013. Cash in hand and at bank were at 5.4% which is reasonable considering IPR does not take deposits. Average liquid assets were 7.7% in 2012 and 8.3% in first six months of 2013. The liquid assets were high in 2011 due to funds received from the equity investment in December 2010 which were gradually deployed in 2011.
- External borrowings constituted only 15% of the total source of funds as 31 December 2012 but increased sharply to 26% as on 30 June 2013, on account of fresh funds received from Luxembourg Microfinance Development Fund (LMDF), Hwang DBC Bank and MB Bank. It had a total loan fund of USD 2.0 million denominated in US Dollars except for one loan of USD300,000 from LMDF denominated in Thai Baht.
- All of IPR's sources of funds except for a loan of USD 300,000 (4%) are denominated in US Dollar (including equity since USD is the base currency). However, only 47% of its assets are in USD denomination. That leaves a foreign exchange mismatch of around 49%. As can be seen from the table below, open foreign exchange exposure has reduced by around 8% since December 2011.

Gross Loan Portfolio by currency	**Dec-11**	**Dec-12**	**Jun-13**
Khmer Riel	32%	33%	27%
US Dollar	39%	37%	43%
Thai Baht	28%	30%	30%
Borrowings and Equity by currency			
US Dollar	100%	94.9%	95.9%
Thai Baht	0%	5.1%	4.9%

- In terms of maturity, more than 96% of IPR's portfolio has maturity of less than 12 months, while its borrowings (which constitute only 26% of total source of funds) have an average remaining maturity of more than 2 years. Both assets and borrowings are at fixed rates.

Financial Statements of IPR, Cambodia

Balance Sheet as on

in USD

ASSETS	31-Dec-10	31-Dec-11	31-Dec-12	30-June-13
Current assets				
Cash in hand & bank	1,650,484	513,588	473,036	254,096
Deposits and Investments	86,100	154,432	154,432	166,932
Prepaid expenses	24,895	27,425	34,031	26,839
Receivables	171,175	175,827	228,654	199,184
Others	4,266	116,266	94,451	94,451
Loans outstanding				
Gross loan Outstanding	3,497,035	4,591,239	5,429,002	7,050,517
Loan loss reserve	(517,503)	(110,424)	(91,648)	(135,426)
Net loans outstanding	**2,979,532**	**4,480,815**	**5,337,354**	**6,915,091**
Total current assets	**4,916,452**	**5,468,353**	**6,321,958**	**7,656,593**
Long term assets				
Net property and equipment	228,300	136,729	148,471	152,095
Total long term assets	228,300	136,729	148,471	152,095
Total Assets	**5,144,752**	**5,605,082**	**6,470,429**	**7,808,688**

Balance Sheet as on

in USD

LIABILITIES AND NET WORTH	31-Dec-10	31-Dec-11	31-Dec-12	30-June-13
Liabilities				
Interest payable	2,509	2,509	10,141	22,612
Borrowed fund – short term	-	500,000	100,000	100,000
Others	155,331	375,936	471,738	409,095
Total current liabilities	**157,840**	**878,445**	**581,879**	**531,707**
Borrowings	1,075,000	450,000	854,956	1,901,071
Total long term liabilities	**1,075,000**	**450,000**	**854,956**	**1,901,071**
Net worth				
Share Capital	3,088,645	3,088,645	3,088,645	3,088,645
Retained net surplus/(deficit)	808,877	823,267	1,187,992	1,944,948
Current net surplus/(deficit)	14,390	364,725	756,956	342,317
Total net worth	**3,911,912**	**4,276,637**	**5,033,593**	**5,375,910**
Total Liabilities and Net Worth	**5,144,752**	**5,605,082**	**6,470,428**	**7,808,688**

Income Statements for the period

in USD

	Jan-Dec 10	Jan-Dec 11	Jan-Dec 12	Jan-June 13
Income				
Interest on loans	1,056,028	1,209,512	1,693,710	995,594
Investment income	103	183	293	140
Recovery of written off loans	7,391	49,941	8,627	6,079
Other income	6,836	34,606	16,219	15,174
Total operational income	**1,070,358**	**1,294,242**	**1,718,849**	**1,016,987**
Financial costs				
Interest and fee expenses on borrowings	134,958	81,237	118,489	89,165
Foreign Exchange loss/(gain)	(122,486)	72,937	(83,722)	59,719
Gross financial margin	**1,057,886**	**1,140,068**	**1,684,082**	**868,103**
Provision for loan losses	374,069	59,764	11,393	49,364
Net financial margin	**683,817**	**1,080,304**	**1,672,689**	**818,739**
Operating expenses				
Personnel Cost	296,471	352,905	390,720	218,187
Depreciation	41,978	45,249	39,371	17,180
Administrative expenses	318,709	263,339	280,942	145,757
Total Operating expenses	**657,158**	**661,493**	**711,033**	**381,124**
Net Surplus/Deficit – operational	**26,659**	**418,811**	**961,656**	**437,615**
Taxes	12,269	54,086	204,700	95,298
Net Surplus/Deficit	**14,390**	**364,725**	**756,956**	**342,317**

Profile of the Board

Board Member	Experience	Years of association
Mr. Oknha Phou Puy, Chairman	He is the Founder and Chairman of the Board of Directors of IPR since inception in 2005. Oknha Phou Puy is a successful entrepreneur who started out as a rural rice miller during the 1990's in Banteay Meanchey province and grew to become a reputed businessman and established player in the agriculture sector and rice milling industry.	8
Mr. Scott Lewis	He is a former Managing Partner at Leopard Capital. Currently he is Head of Finance at Oryx Petroleum, but remains consultant partner at Leopard Capital. He has 18 years experience in investment banking and private equity. He was previously a Director of Merrill Lynch's Global Energy & Power investment banking group in London, Houston and Calgary. He has experience of working for private equity groups. He received a MPA and a BBA (Accounting) with High Honors from the University of Texas in Austin.	3
Mr. Richard Intrator	He has a long and distinguished career in finance, private equity, management consulting, and operations. He is currently Chief Investment Officer of Leopard Capital. He earlier held senior roles with IMAX, Petry Media (a portfolio company of Patriarch Partners), PaineWebber, Kidder, Peabody, & Co., and Booz, Allen & Hamilton. He is a Certified Public Accountant, and has a B.S. from the Wharton School and an M.B.A. from Harvard Business School.	New
Mr. Chan Sophal	Mr. Chan Sophal is the President of the Cambodian Economic Association (CEA), a professional society he has been leading for five years on a voluntary basis. He currently works as a director for policy and enabling environment in a large donor funded project managed by Fintrac Cambodia. He is one of the most knowledgeable agricultural economists in Cambodia, with substantial practical experience working in the past 20 years with a leading research institute (Cambodia Development Resource Institute), donor agencies (Worldbank and World Food Program), the private sector (Leopard Cambodia) and the Cambodian government. Mr. Chan Sophal received a Master of science in agricultural economics from the University of London, Imperial College at Wye, United Kingdom, in 2000.	4

Profile of the Board

Board	Experience	Years of association
Mr. Mao Savin	Mr. Mao Savin, Investment Manager at Emerging Markets Investments, has over 10 years' business experience, including financier with a multi-national manufacturing company and business consultant. As a keen development practitioner involving in community development, social network and enterprise, Mr. Mao Savin co-founded Cambodian Rural Development Team (CRDT) and continues to serve as its Chairman of the Board. He holds a BBA (Accounting) from Maharishi Vedic University in Cambodia and is completing a Master of Business Administration in Finance from Charles Sturt University, Australia.	4
Mr Mak Sarun	Mr. Mak Sarun is a founding shareholder of SOKIMEX Co. Ltd since its inception in 1990. He is a member on the Board of Directors of the parent company SOKIMEX since 1995. He obtained a master degree in Public Administration in 2008.	New
Mr. Min Kimsan	Owner of Kimsan Farming, an animal raising farm contracted with C.P. Cambodia Co., Ltd, Cambodia's most famous animal raising and breeding company. Owner of a few garment factory buildings in Phnom Penh.	New

Abbreviations

BCC	Branch Credit Committee
BM	Branch Manager
BT	Branch Teller
CAR	Capital Adequacy Ratio
CBC	Credit Bureau Cambodia
CEO	Chief Executive Officer
HOF	Head of Finance
CAGR	Compounded Annual Growth Rate
CO	Credit Officer
HOO	Head of Operations
DBM	Deputy Branch Manage
FCR	Financial Cost Ratio
FCRMA	Federation of Cambodian Rice Millers Associations
FD	Fixed Deposit
FTB	Foreign Trade Bank of Cambodia
FSS	Financial Self-Sufficiency
GDP	Gross Domestic Production
HCC	Head Office Credit Committee
HO	Head Office
HR	Human Resources
IPR	Intean Poalroath Rongroeurng Ltd
KPI	Key Performance Indicator
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
LUC	Loan Utilisation Check
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institution
MIS	Management Information System
NBC	National Bank of Cambodia
OER	Operating Expenses Ratio
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
ROA	Return on Assets
ROE	Return on Equity
SPM	Service Post Manager
SPT	Service Post Teller
US$	United States Dollar

Glossary

Capital adequacy ratio: Total net worth reduced by intangible assets divided by risk weighted assets (*M-CRIL Risk weights:* 100% for all assets except fixed assets, 50%; cash & bank, 0%)

Portfolio at risk (PAR (>60days): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.

Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.

Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.

Financial expense ratio: Total interest expense for the year divided by the average portfolio.

Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.

Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.

Net operating margin: Difference of (yield on portfolio + yield on other income) and (financial expense ratio + loan loss provisioning + interest loss provisioning) – also known as spread on portfolio

Staff turnover rate: Total staff left/staff at the beginning of the year+ staff joined during the year.

M-CRIL rating grades

M-CRIL Grade	Description
α+	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➢ Most highly recommended
α	Good governance, excellent/good systems, healthy financial position ➢ Highly recommended
α–	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➢ Recommended
β+	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➢ recommended, needs monitoring
β	Moderate systems. Low safety ➢ acceptable only after improvements are made on specified areas
β–	Weak governance, weak systems. Significant risk ➢ not acceptable but can be considered after significant improvements
γ+	Weak governance, poor quality systems. High risk ➢ needs considerable improvement
γ	Weak governance, poor systems, weak financial position. Highest risk ➢ not worth considering

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution will lower its rating performance by one notch in one year period.