

AMK Microfinance Institution Plc (AMK)

Microfinance Deposit-taking Institution – licensed by National Bank of Cambodia

Phnom Penh, Cambodia

July 2018

Microfinance Institutional Rating - 5th Update

Investment Grade	Above	α	α+	Dec 2006	Mar 2008	Jun 2013	July 2015	July 2018	
			α	α	α	α	α	α	α
			α-	RATING					
			β+	RATING OUTLOOK*					
			β	positive					
			β-	positive					
	Below	γ	γ+	Dimensions rated					
γ			Grade						
			Governance & strategy	α-	α	α	α	α	
			Organisation & Management systems	α	α	α	α	α	
			γ	Financial performance	α+	α+	α+	α+	α

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

Visit: 9 July 2018 - 13 July 2018

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Disclaimer

- ▶ Our services were performed and this Report was prepared in accordance with the Engagement Letter dated 27 June 2018 subject to the terms and conditions included therein.
- ▶ The information presented in this Report is based on the documentation and information received from time to time from AMK Microfinance Institution Plc . The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 20 August 2018, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
- ▶ We have relied upon representations of employees of AMK Microfinance Institution Plc that all data and information provided by them are correct to the best of their knowledge. We accept no responsibility for any fact or information that has been intentionally withheld or otherwise omitted which could have had a material bearing on our findings.
- ▶ M-CRIL has relied upon the information supplied in connection with this engagement including management information. M-CRIL did not audit or otherwise verify the information supplied in connection with this engagement, from whatever source obtained, except as may be specified in this Report.
- ▶ In no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we make information requests.
- ▶ The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with findings in this Report.
- ▶ All the information presented in this Report from our market sources / third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain or that which has been provided to the client, however, we have not done so independently.
- ▶ The Report will be furnished by us is solely for the information of the AMK Microfinance Institution Plc which had requested M-CRIL to undertake the engagement. Hence, the Report should not be used, circulated, quoted or otherwise referred either wholly or in part.
- ▶ AMK Microfinance Institution Plc shall be fully and solely responsible for applying independent judgment, with respect to the findings included in this Report, to make appropriate decisions in relation to future course of action, if any. We shall not take responsibility for the consequences resulting from decisions based on information included in the Report.

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Rating Rationale

- ↑ AMK is amongst the top five MDIs in the country in terms of gross loan portfolio and second largest in terms of the borrower and depositor base as on 31 December 2017.
- ↑ Strong and professional Board; provides strategic guidance and overall supervision.
- ↑ Recent dilution of stake by the existing shareholders will not impact the operational, financial and social performance of AMK. M-CRIL believes that infusion of fresh capital will enhance the scale of operations.
- ↑ Professional, experienced and motivated team with stable second line of management
- ↑ Effective use of client feedback and market research for product design
- ↑ Diversified resource profile with increasing share of deposits
- ↑ Excellent portfolio quality and sustainable operations
- ↓ The microfinance sector in Cambodia is witnessing saturation levels with respect to new client enrolment
- ↓ Profitability to be under pressure owing to stiff competition and high level of multiple borrowing by clients
- ↓ Moderate credit monitoring mechanisms relative to the sharp increase in loan ticket size
- ↓ Challenges with roll out of core banking software hindering growth
- ↓ Widening gap between borrowers and depositors may impact the overall margins going forward

Operational & Financial Performance

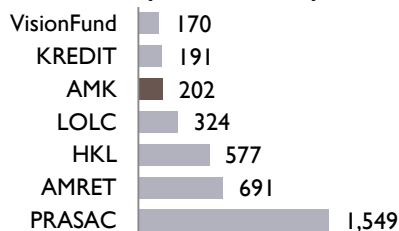
Main Performance Indicators

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Gross Portfolio (US\$ mn)	77.88	94.58	125.87	148.37	202.16
Number of active borrowers	324,499	330,597	335,801	345,126	344,754
Average Loan O/S/borrower (US\$)	240	286	375	430	586
Total Savings (US\$ mn)	18.30	38.72	64.00	86.75	117.50
Number of savers	58,642	95,281	163,856	271,077	575,471
Portfolio at Risk (PAR ₆₀)	0.1%	0.1%	0.4%	1.1%	1.4%
Borrowers per field staff	463	417	349	340	321
Portfolio Yield	34.8%	33.9%	33.2%	33.2%	26.6%
Operating Expense Ratio (OER)	17.3%	17.4%	17.6%	16.7%	15.0%
Financial Cost Ratio (FCR)	11.7%	11.0%	10.7%	11.2%	10.0%
Return on Assets (RoA)	3.6%	3.5%	3.5%	3.5%	2.1%
Capital Adequacy Ratio (CAR)	24.6%	23.8%	21.3%	21.9%	18.8%
Debt Equity Ratio	4.0	4.0	4.5	5.1	6.0

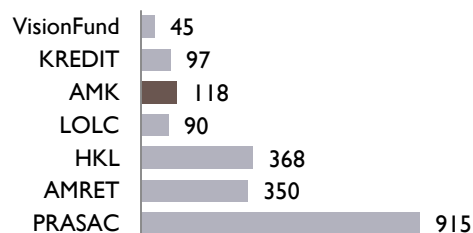
A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to no other significant changes in the organisational structure and external operating environment.

Benchmarking, December 2017

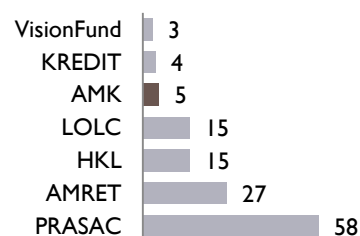
Gross Loan Portfolio (US\$ Million)



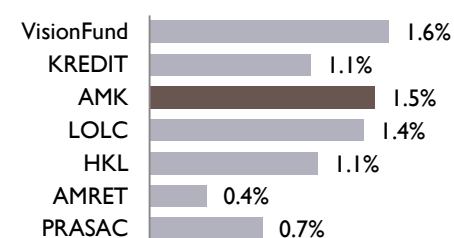
Deposits (US\$ Million)



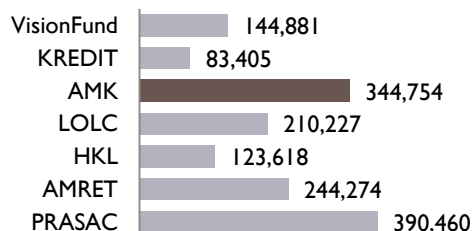
Profit After Tax (US\$ Million)



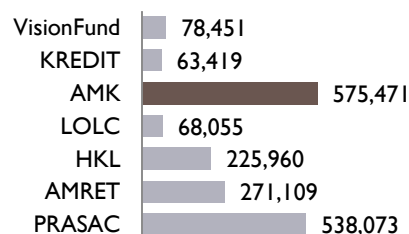
Portfolio at Risk - 30 Days



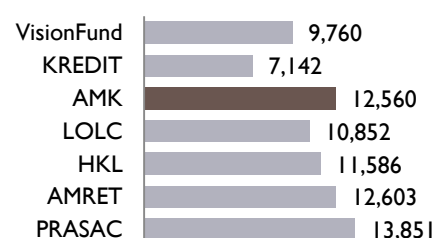
No. of borrowers



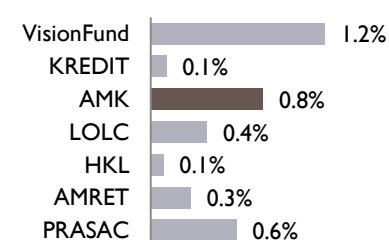
No. of Depositors



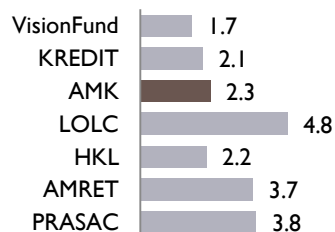
Villages Covered (Nos)



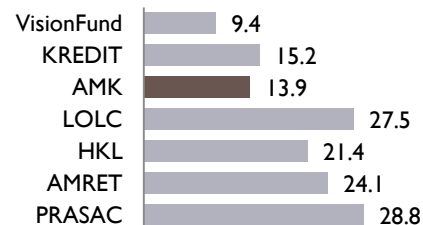
Write off



Return on Assets (%)



Return on Equity (%)



Cambodia – Political & Economical Environment

- ▶ The Kingdom of Cambodia is a unitary state that is governed within the framework of a constitutional monarchy, in which the monarch serves as the Head of State, while the Prime Minister is the Head of Government.
- ▶ The 1993 constitution, which is currently in force, was promulgated as a result of the 1991 Paris Peace Agreements, followed by the elections organized under the aegis of the United Nations Transitional Authority in Cambodia. Cambodia concluded its most recent general elections in July 2018 and the same government continues till the next term due in 2023.
- ▶ The Cambodian economy maintained its robust growth at around 6.9% during 2017, mainly supported by the garment, construction and tourism sectors. The economy also witnessed gradual recovery of the agriculture sector.
- ▶ Inflation rate remained low at nearly 2.9% during 2017, quite similar to the previous year and the average rate of the last five years. The high degree of dollarization of the economy helps keep limit inflation.
- ▶ Growth of Broad money (M2) helped improve financial deepening from 71% in 2016 to 79% in 2017, illustrating the increasing important role of the banking sector in the country's economic development.
- ▶ Cambodia's banking sector has been growing very strongly. In 2017, the banking sector's assets, including those of MFIs, increased to 20.2% year on year. The NPA levels was 2.4% for banks and 2% for MFIs during 2017.

Cambodia – Financial Inclusion

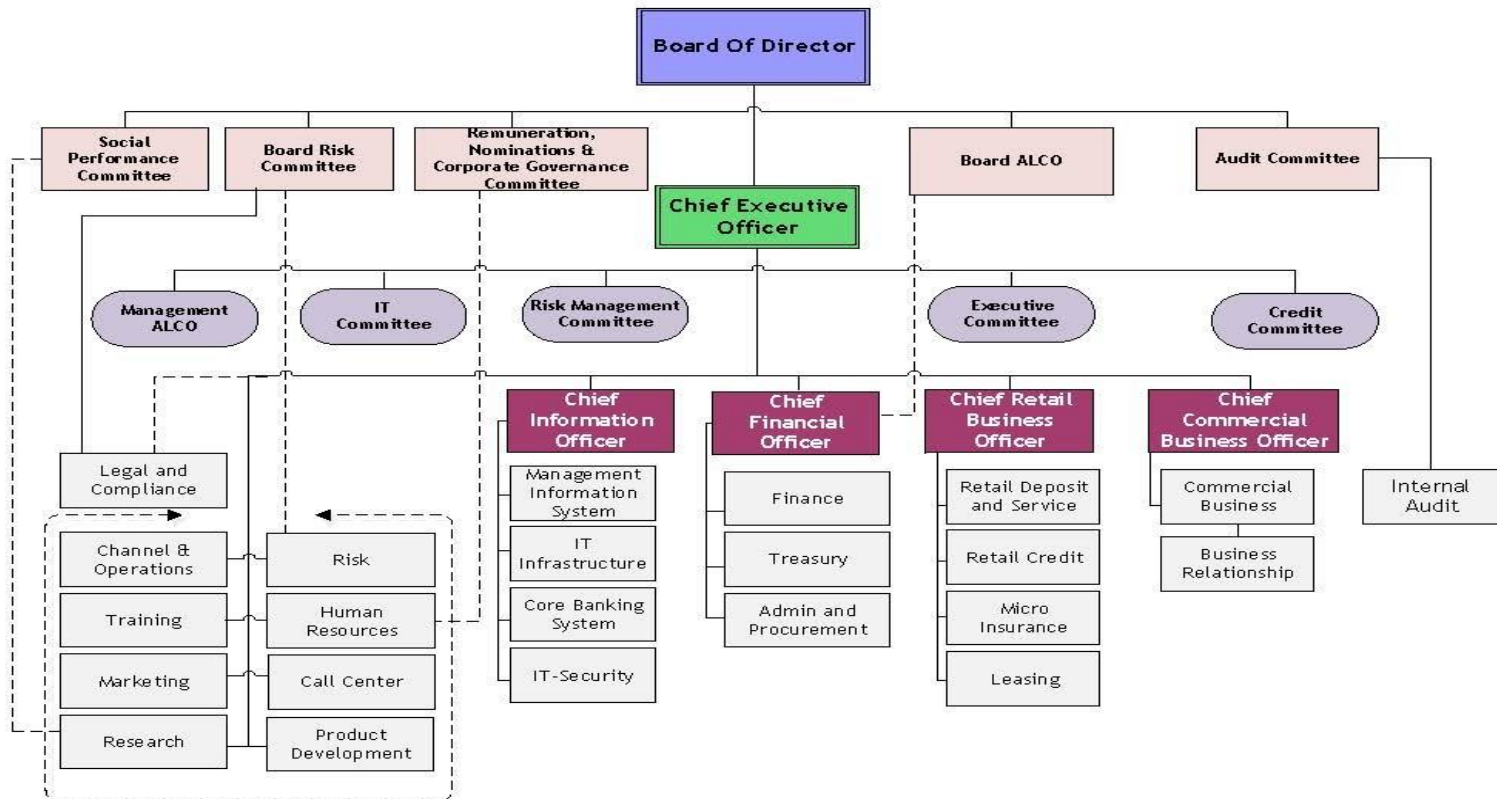
- ▶ The National Bank of Cambodia has implemented the regulation and mechanism to handle complaints of financial services consumers with banks & MFIs; it set the interest rate ceiling at 18% per year for MFIs and rural credit operators beginning April 2017.
- ▶ NBC has continued to develop its financial infrastructure and has developed a modern payment system in order to make transactions faster, affordable and secure. In order to streamline this, they have issued new licenses to 9 payment service providers during 2017.
- ▶ The rapid growth of financial technology has enabled many banks and MFIs to develop a wide range of banking services that harness new technologies enabling their customers to access financial services through internet and mobile devices. All these developments have helped financial inclusion reach 58% during 2017.
- ▶ NIX-Data of Cambodia Microfinance Association (2008-2017) reveals that the borrower base has declined by 10% during 2017 in comparison with 2016, whereas the average loan size (USD) has increased by 29% during the same period to USD 2,302 during 2017 from USD 1,784 during 2016 of the MFI sector. This signifies intense competition within the MFI segment in Cambodia. As per the National Bank of Cambodia Economic and Monetary Statistics 2017 report, there are 76 MFIs in total and 7 out of them are registered as MDIs; there are 287 registered NGOs.

Introduction

- ▶ AMK Microfinance Institution Plc (AMK) originated from the credit and savings programme of Concern Worldwide in Cambodia in the 1990s. As operations grew, in 2002 Concern Worldwide decided to create a separate microfinance company. In 2003, AMK was registered and subsequently received license from the National Bank of Cambodia (NBC).
- ▶ In 2010, AMK obtained a licence as a Microfinance Deposit-taking Institution (MDI) and in line with its mission, this allowed AMK to implement several new products and channels. Savings products were rolled out to all branches by mid-2011 and a domestic money transfer product was launched in the same year.
- ▶ AMK operates in 12,560 villages. This outreach represents 89% of all villages nationwide. As of 31 December 2017, it operates from 150 offices, 61 ATMs/CDMs and over 3,000 agents operating in 25 provinces and cities. Recently, the Foreign Trade Bank of Cambodia (FTB) and AMK Microfinance Institution Plc signed an MOU to provide international remittance services to all AMK customers with the permission of the National Bank of Cambodia.
- ▶ AMK currently offers a range of financial products and services including various types of group and individual loans, deposits, money transfers, micro-insurance, payment and other e-banking products and services.
- ▶ The MFI has expanded its coverage across all provinces and districts of the country reaching 98% of communes. As on 31 December 2017, AMK reported 344,754 active borrowers with US\$202.1 million portfolio. AMK also offered micro-insurance for health and accident to 284,957 of its loan clients nationwide to cover them from undue financial stress.

Organisational Structure

- ▶ As an ongoing process, the organizational structure has been streamlined leading to better accountability and clarity on responsibilities. Recently, the overall operations vertical has been separated into two different verticals namely Retail and Commercial. The CEO, Mr Kea Borann, is supported by senior management including Chief Retail Business Officer (CRBO), Chief Commercial Business officer (CCBO) , Chief Financial Officer (CFO). Chief Information Officer (CIO) and 18 Heads of Departments.



Governance and Strategy

Governance

Operational Growth & Strategy

Competition & Second Line Management

Fund mobilization

Human Resource Management

Governance

- ▶ The principal shareholder, Agora Microfinance has partially exited while three institutional shareholders namely Incofin, PROPARCO and CLDF have made a complete exit. With this capital infusion, Shanghai Commercial & Savings Bank Ltd of Taiwan holds 80% stake while the rest 20% will be owned by Agora Microfinance and AMK-Staff Association.
- ▶ Post the changes in the shareholding, the new board is being constituted. Mr. Tanmay Chetan is elected as the Chairman of the board.
- ▶ AMK's Board of Directors comprises of qualified professionals with extensive experience in microfinance, commercial and investment banking, finance, accounts, taxation and audit. The board is chaired by Mr Tanmay Chetan, ex-CEO of AMK.
- ▶ AMK has five Board level committees – ALCO, Audit, Risk, Remuneration, nominations and governance and social performance. The audit committee and risk committee are headed by the Independent Directors. The committees are active and provide valuable advice to the Board. Besides board committees, AMK has 5 management committees – executive, product development, credit, IT and management risk.
- ▶ The Board meets four times a year and strategic matters, policies and key issues are deliberated at the Board meetings. The Board provides leadership and strategic guidance, objectively reviews management decisions and discusses detailed performance of each department during Board meetings.

Operational & Growth Strategy

- ▶ AMK prepares five year business plan that is vetted by the board. The business plan is revised every year based on market conditions. Variance analysis is performed by the finance department and presented in the ALCO.
- ▶ AMK follows a bottom-up approach for revision of business plan with focus on client growth & retention, deposits & remittance targets, micro insurance and introduction of new products.
- ▶ Going forward, AMK's expansion will be in rural and semi-urban areas with plans to open sub-branches to cater their clientele.
- ▶ Given the change in regulations, AMK plans to enhance non-credit income by collaborating/partnering with service providers. They plan to enhance the agent banking service provider model to 5,000 by 2020 from 3,000 on 31 December 2017.
- ▶ AMK has modified its savings product which has resulted in significant enhancement in their depositor base during 2017. Based on a market survey, AMK has launched two new savings products viz: Happy Old Age Account and Pension Fund Scheme.
- ▶ To arrest member dropout during the first half of 2018, AMK has modified and lowered the fee on services. The client dropout rate increased from 26% during 2017 to 35% during January-June 2018.
- ▶ AMK have plans to venture into SME lending during 2018. Currently, they are in process of streamlining the risk management systems.
- ▶ To support its growth, AMK is currently implementing a robust core banking software which will allow additional capability on its customer interface with faster and better agent banking experience as well as online banking capabilities. This is likely to be implemented by September 2018.

Competition & Second Line Leadership

Competition

- ▶ AMK faces competition from its peers and MFIs which is significantly limiting its borrower base.
- ▶ Competition is bound to increase in AMK's operational area; to address this, the MFI intends to enhance mobile banking and channel banking services aimed at reducing the dormancy rate.
- ▶ AMK actively monitors market penetration using data from various sources and in-house market research. AMK has restructured its operational policies recently based on inputs from its market research team.

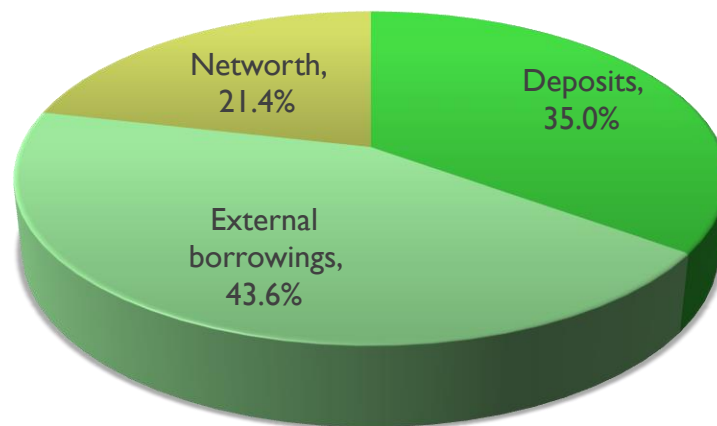
Second Line Leadership

- ▶ AMK has a strong, qualified, experienced and stable second line of management which is comprised of CFO, CIO, CRBO & CCBO and 15 heads of department.
- ▶ The CEO, CFO, CIO, CCBO and CRBO form the Executive Committee. The committee in turn oversees the broader management team. All heads of departments are part of the management team.

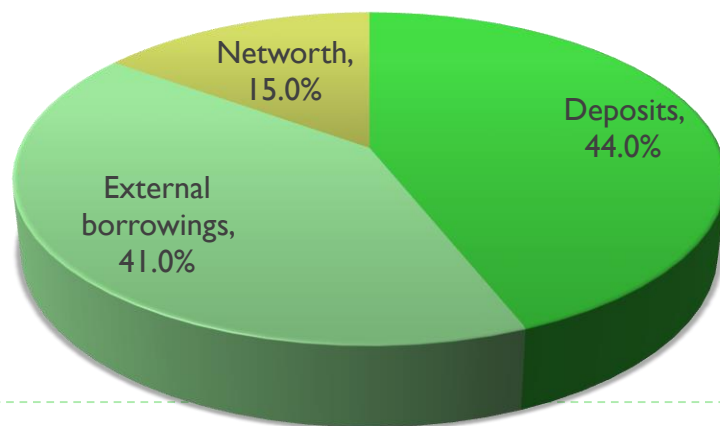
Fund mobilization

- ▶ AMK has a diversified resource profile as it has raised resources from varied investors. During 2017, AMK has also raised resources from Cambodia based banks.
- ▶ AMK has a comfortable liquidity profile with strong funding support from financial institutions and depositors.
- ▶ The share of external borrowings has marginally reduced to 41% as of 31 December 2017 in comparison to 43.6% as of 31 December 2014 as deposits have grown.
- ▶ AMK has significantly improved its resources through deposits. This accounted for 44% of the total funding as of 31 December 2017. In future, AMK will be focussing on garnering deposits from its depositor base. AMK has significantly expanded its depositor base during CY 2017.
- ▶ The deposit to gross loan ratio has improved substantially to 58% in CY 2017 from 41% during CY 2014. This is likely to further improve to 68% in CY 2022.

Resource Profile – Dec 2014



Resource Profile – Dec 2017



Human Resource Management

- ▶ AMK has separate Human Resource (HR) and Training departments. It has well defined HR policies and procedures for recruitment, training, compensation, appraisal, transfer, promotion, exit and grievance mechanisms. AMK has also introduced a whistleblower policy.
- ▶ AMK has a well designed training schedule for all staff. Every year, the training team conducts training needs assessment (TNA) through a self assessment process and discussion with the respective supervisors. A training calendar is prepared based on the TNA.
- ▶ AMK has a explicit induction programme for new staff with classroom and on the job training.
- ▶ Staff attrition continues to be high at 19% on 31 December 2017. Attrition is high at the branch level in comparison with the head office. Most of the senior management and mid level staff have been with AMK for more then 5 years.
- ▶ AMK has a detailed and adequately designed performance based incentive structure for all levels including office staff. CO, CRO and MBO's receive monthly incentives while other branch staff receive it yearly.
- ▶ AMK conducts 360 degree performance appraisal for staff above branch manager. They also frequently conduct staff satisfaction surveys which is conducted internally.
- ▶ To motivate the branch staff, AMK has recently initiated a monthly reward programme for business development staff.

Risk Management Mechanism

Credit Methodology

Internal Control Systems

Internal Audit

Financial Planning & Cash Management

Credit Methodology

- ▶ AMK's credit assessment and monitoring mechanisms are robust given the current level of operations where the group loan constitutes 60% of the total loan portfolio.
- ▶ Given, the high level of competition, AMK has recently inducted one more level of check above the Branch Manager for credit underwriting and quality management
- ▶ AMK share's its borrower data with the credit bureau. A detailed product manual is in place and this is updated frequently given the changes in the market conditions.
- ▶ AMK maintains a zero tolerance approach to loan portfolio defaults. The credit monitoring team does daily, weekly and monthly follow ups at various levels.
- ▶ Group based loans are vetted by the branch manager/credit underwriting team in consultation with the Village Bank President (VBP) and individual loans are vetted in a structured approach depending upon the loan size.
- ▶ During October 2017, AMK launched commercial loans specially targeted towards small and medium enterprises with a ticket size of US\$ 20,000-US\$50,000. The sourcing and the underwriting team is separate for commercial loans. A Credit Committee is instituted for vetting and approval of commercial loans.
- ▶ Loan utilization check (LUC) is compulsory for all individual clients and is conducted by CO/AM/BM/PM, depending upon the loan amount, within 3 months of disbursement. LUC is not formally undertaken for group loans.

Internal Control Systems

- ▶ AMK's risk management framework is adequate and dedicated committees are in place both at Board and management level, ensuring an adequate feedback loop. The credit control team along with risk management team monitors operations at all levels.
- ▶ AMK's credit assessment mechanism is moderate given the increased share of large ticket size individual loans. As of 31 December 2017, the individual loan composition had increased to 42% from 30% as of 31 December 2014.
- ▶ AMK has a moderate loan tracking system as the group guarantee dynamic is no longer the driving force for regular payment. The Village Bank president plays an important part in loan monitoring mechanisms.
- ▶ The risk and compliance team is responsible for operational risk and compliance and other risks are monitored by the respective departments.
- ▶ The various management level committees (namely Executive, ALCO, Credit, Management Risk and IT Committees) act as the main reference and are in charge of setting risk thresholds for their business units, designing strategies and control mechanisms, defining responsibilities and reporting to the BRC. The committees meet every month and the Risk team participates in every management committee meeting.
- ▶ AMK's branches are fully computerized and equipped with appropriate infrastructure, which can handle the current level of operations.
- ▶ A business continuity plan is in place and is expected to be improved going ahead.

Internal Audit, Financial & Cash Management

Internal Audit

- ▶ AMK has a detailed internal audit manual, guidelines, checklist and reporting template. The internal audit function is overall adequate. Staff Incentives are linked to IA opinion; only branches with good and satisfactory opinion are eligible for incentives.
- ▶ The IA team prepares a summary IA findings report bi-weekly and presents to the Board Audit Committee quarterly. The monthly Executive Committee also discusses IA findings for preventive action and follow-up.

Financial & Cash Management

- ▶ The financial planning system at AMK is appropriate as the necessary funds are transferred to branches through an online banking system.
- ▶ AMK has a centralized system of financial planning, fund management and cash management. The Treasury team & Finance team are responsible for cash management.
- ▶ Each branch & sub-branch has a fire proof safe to keep the cash. AMK has standard policies for cash limits and cash controls which are reviewed frequently.
- ▶ The collection mechanism adopted by AMK is adequate. It has plans to improve the efficiency of collections through technology interventions.

Financial Performance

Portfolio Composition

Efficiency

- Staff Productivity
- Operating Efficiency

Asset Quality

Asset & Liability Management

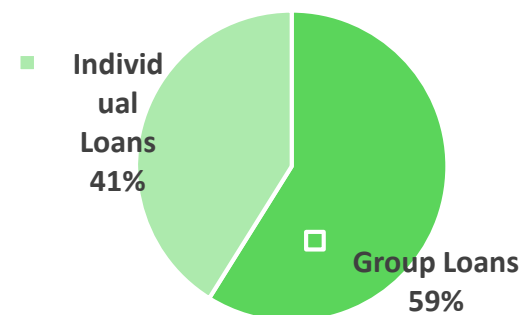
Capital Adequacy

Profitability and Sustainability

Portfolio composition

- ▶ AMK's borrowers are slowly graduating from group based lending to individual lending. The latter constitutes 41% of the total portfolio on 31 December 2017 as against 34% on 31 December 2015.
- ▶ AMK plans to increase the individual portfolio to 60% by December 2020.
- ▶ Given the above focus, AMK is increasing its exposure towards trade & commerce and service sector. These sectors jointly constitutes 45% of the total portfolio as of 31 December 2017, which has doubled during the last two years.
- ▶ During the last three years, the agriculture segment's share has declined sharply. This decline can be attributed to external factors including weather conditions which has impacted the agriculture portfolio.

Loan Segmentation-Dec 17



Sector Distribution (%)

Sectors	Dec-15	Dec-16	Dec-17
Agriculture	54.3	50.3	40.4
Trade & Commerce	18.9	20.7	26.2
Services	3.9	4.2	19.3
Construction	17.3	18.8	12.6
Household	4.5	4.9	1.4
Transportation	0.8	0.8	0.1
Others	0.3	0.3	0.0
Total	100.0	100.0	100.00

Efficiency

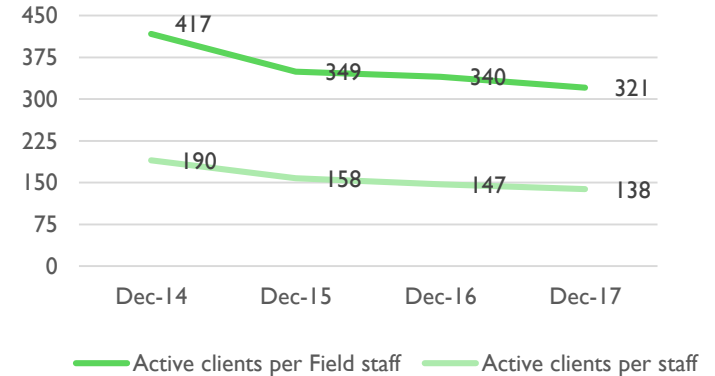
Productivity

- ▶ AMK's staff productivity has declined over the last three years. This decline in productivity is mainly due to high client dropout in both loan segments (group & individual).
- ▶ AMK is implementing varied strategies to arrest the client dropout rate. As of 31 December 2017, this was at 26%.
- ▶ During 2017, the borrower base has registered a decline of 0.1% from 2.1% growth in comparison to 2016.

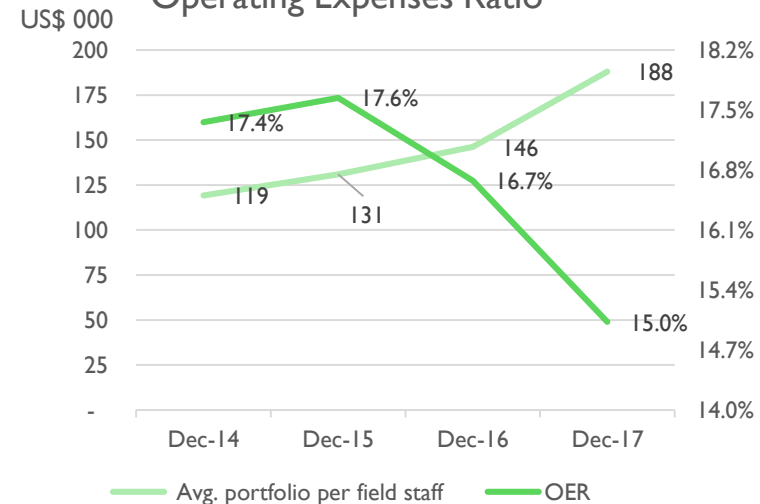
Operating Efficiency

- ▶ The operating expense ratio has declined sharply from 17.6% during CY 2015 to 15% during CY 2017. This improvement could be attributed to a significant increase in average portfolio per field staff which increased from US\$ 131,000 as at 31 December 2015 to US\$ 188,000 as of 31 December 2017. This has resulted from the increased emphasis on larger individual loans.

Staff Productivity

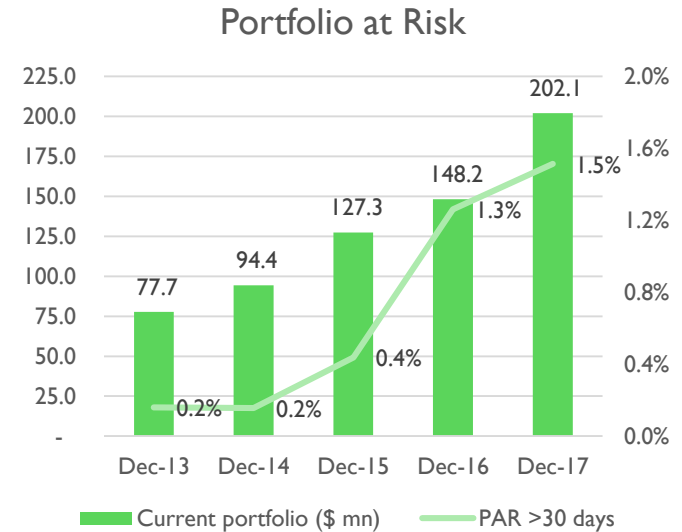


Operating Expenses Ratio



Asset Quality

- ▶ AMK's PAR₃₀ has increased to 1.5% during 2017 from 0.2% during 2013. This is mainly due to external events in certain key areas of operation. AMK tracks the instances of indirect PAR where joint liability has been enforced to collect group repayments. A dilution in group cohesiveness (attendance, waiting for other group member for longer time, group disintegration owing to defaults) has put pressure on Asset Quality.
- ▶ AMK has a zero tolerance policy for delays in the payment of loans. Even a single day's delay calls for the branch manager to take action.



Asset Liability Management

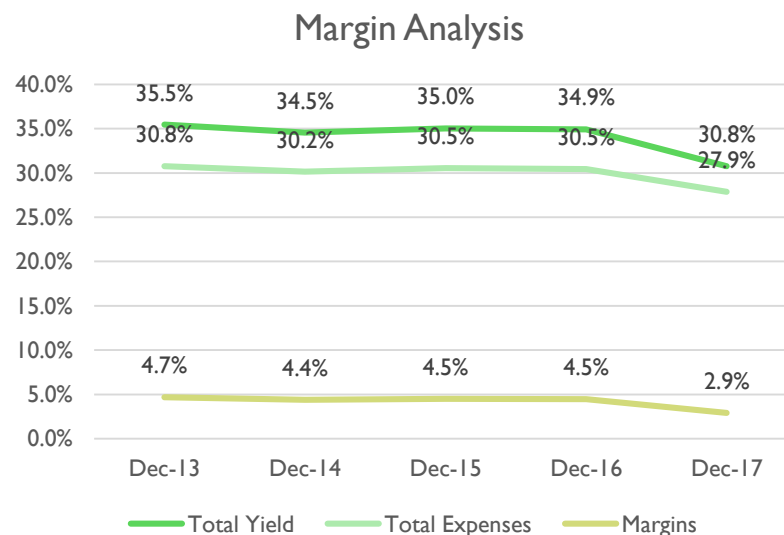
- ▶ AMK has a good asset liability profile, providing sufficient cash turnover to meet their debt obligations. AMK has total deposits equal to 58% of its gross portfolio on 31 December 2017, improved from 41% on 31 December 2014.
- ▶ AMK has adequate liquidity management mechanisms to address any unforeseen circumstances.
- ▶ Net loan portfolio to total assets ratio has been in the range of 70% to 78% for the last three years which is reasonably efficient.

Capital adequacy (CAR)

- ▶ AMK's risk weighted Capital Adequacy Ratio (CAR) was good at 18.8% on 31 December 2017. In the past two years, capital adequacy has declined sharply from 26% on 31 December 2015. However, the CAR is higher than the NBC requirement (15%) for MDIs.
- ▶ M-CRIL believes that the new investors will be able to shore up the capital base as and when required by AMK to achieve its growth objectives.

Profitability & Sustainability

- ▶ AMK's overall yield has declined from 35% during 2015 to 31% during 2017 owing to the interest cap imposed by the regulator.
- ▶ An improvement in the operating expense ratio has mitigated the impact of the interest cap on net margins, which declined to 2.9% in 2017 from 4.5% in 2015. M-CRIL believes that margin will be under pressure during short term given the focus of AMK on shoring the deposit base.
- ▶ This has impacted the RoE significantly, reducing it to 13.7% during 2017 from 20.2% during 2016. However, M-CRIL believes that AMK will be able to scale and sustain its operations going forward.





Annexes

Financial Ratios

Financial Ratios	31 Dec-13	31 Dec-14	31 Dec-15	31 Dec-16	31 Dec-17
Capital Adequacy					
Risk Weighted Capital Adequacy ratio	24.6%	23.8%	21.3%	21.9%	18.8%
Asset Quality					
Portfolio at Risk60/ Gross Loan Portfolio	0.14%	0.12%	0.38%	1.1%	1.4%
Loan Loss Provision / Avg. Gross Loan Portfolio	0.7%	0.6%	1.0%	1.5%	1.8%
Write-offs / Average Gross Portfolio	0.4%	0.4%	0.4%	0.6%	0.9%
Management					
Operating Expenses/ Average Gross Portfolio	17.3%	17.4%	17.6%	16.7%	15.0%
Personnel Expenses/ Average Gross Portfolio	10.5%	10.2%	10.1%	9.9%	8.4%
Number of Borrowers/Field staff	463	417	349	340	321
Number of Borrowers/ Staff	224	190	158	147	138
Earnings					
RoE (Net operating income/Average Equity)	17.7%	17.3%	18.6%	20.2%	13.7%
RoA (Net operating income/Average Assets)	3.6%	3.5%	3.5%	3.5%	2.1%
Portfolio Yield	34.8%	33.9%	33.2%	33.2%	26.6%
Fin. Cost Ratio (Interest & Fee exp. /Avg Portfolio)	11.7%	11.0%	10.7%	11.2%	10.0%
Operational Self-Sufficiency (OSS)	119.4%	119.3%	119.3%	119.0%	114.5%
Liquidity					
Debt-equity ratio	3.77	3.74	4.53	5.09	6.02

Annex- 1: Financial Statements of AMK

Balance Sheet on

	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17
ASSETS					(amounts in US\$)
<u>Current assets</u>					
Cash and cash equivalents	14,428,879	11,631,280	16,035,139	23,738,497	27,507,591
Deposits at NBC	3,701,643	6,218,198	7,257,659	29,400,092	41,957,889
Deferred Tax assets	373,613	447,067	735,105	879,085	1,478,600
Interest receivable	1,436,694	1,504,622	1,974,486	2,330,227	2,147,782
Other assets	649,441	1,010,059	1,580,131	1,721,821	2,255,486
Staff loans	1,430,093	1,758,188	2,446,324	2,771,737	3,230,388
Gross loans outstanding	77,878,716	94,575,515	125,872,345	148,374,961	202,156,888
(Loan loss reserve)	(862,262)	(1,039,575)	(1,655,551)	(2,980,549)	(4,564,447)
Net loans outstanding	77,016,454	93,535,940	124,216,794	145,394,412	197,592,441
Total current assets	99,036,817	116,105,354	154,245,638	206,235,871	276,170,177
<u>Long term assets</u>					
Property and equipment	2,038,378	2,745,663	4,556,715	6,528,813	6,418,860
Intangible/other assets	530,579	369,733	380,441	266,875	210,513
Total long term assets	2,568,957	3,115,396	4,937,156	6,795,688	6,629,373
Total assets	101,605,774	119,220,750	159,182,794	213,031,559	282,799,550

...Balance Sheet on

	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17
LIABILITIES AND NETWORTH	(amounts in US\$)				
<u>Current liabilities</u>					
Deposits	8,614,902	18,712,365	64,660,634	87,789,295	118,131,003
Payable	2,976,639	3,503,539	6,946,183	8,575,337	10,695,969
Provision for retirement & pension	1,427,514	1,790,556	2,282,237	2,882,677	3,491,555
Other current liabilities	282,496	159,650	1,080,399	-	-
Total current liabilities	23,925,914	46,324,346	74,969,453	99,247,309	132,318,1527
<u>Long term liabilities</u>					
Long term debt	57,257,966	48,872,096	55,427,371	78,794,636	110,213,543
Total long term liabilities	57,257,966	48,872,096	55,427,371	78,794,636	110,213,543
Total liabilities	81,183,880	95,196,442	130,396,824	178,041,945	242,532,070
<u>Net worth</u>					
Share Capital	8,731,245	8,620,196	8,673,407	8,701,338	19,600,520
Share premium	31,786	36,688	36,915	37,034	37,034
Reserves	67,208	2,755,394	3,429,169	4,065,919	4,660,566
Retained net surplus/(deficit)	8,282,540	11,364,089	11,630,306	15,571,143	10,691,494
Current net surplus/(deficit)	3,309,115	4,003,335	5,016,173	6,614,180	5,277,866
Total net worth	20,421,894	24,024,308	28,785,970	34,989,614	40,267,480
Total liabilities and net-worth	101,605,774	119,220,750	159,182,794	213,031,559	282,799,550

Income Statement for the period

	1-Jan-13 to 31-Dec-13	1-Jan-14 to 31-Dec-14	1-Jan-15 to 31-Dec-15	1-Jan-16 to 31-Dec-16	1-Jan-17 to 31-Dec-17
<u>Income</u>					
Interest income	24,034,379	29,034,421	36,256,519	47,891,365	47,182,867
Loan fee	518,764	642,778	782,144	840,083	4,568,943
Income from bank deposits	440,580	228,733	23,928	112,412	291,705
Bad debt recovered	15,614	13,605	12,160	13,023	16,772
Other income	35,788	28,979	67,113	93,280	353,937
Gain/(Loss) on foreign exchange	(213,655)	(100,801)	(303,917)	(108,618)	(23,330)
Payroll & payment fee		8,621	40,883	98,772	185,798
Micro insurance commission		6,988	280,245	338,683	580,459
Gain/(Loss) on disposal of properties	(44)	10,628	-	-	31,257
Remittance fees	201,481	343,514	1,134,040	1,137,221	1,443,757
Total income	25,032,907	30,217,466	38,293,115	50,416,221	54,632,165
<u>Financial costs</u>					
Interest on borrowings	5,385,914	5,130,206	5,753,625	7,906,247	8,487,617
Interest on deposits	1,117,351	2,264,556	3,919,027	5,815,624	6,898,080
Other financial expenses	1,779,932	2,216,592	2,073,065	2,432,804	2,409,532
Gross financial margin	16,749,710	20,606,112	26,547,398	34,261,546	36,836,936

...Income Statement for the period

	1-Jan-13 to 31-Dec-13	1-Jan-14 to 31-Dec-14	1-Jan-15 to 31-Dec-15	1-Jan-16 to 31-Dec-16	1-Jan-17 to 31-Dec-17
Gross financial margin	16,749,710	20,606,112	26,547,398	34,261,546	36,836,936
Provision for loan losses	500,981	537,511	1,078,321	2,152,775	3,225,600
Net financial margin	16,248,729	20,068,601	25,469,077	32,108,771	33,611,336
<u>Operating expenses</u>					
Personnel	7,443,341	8,917,027	11,027,354	14,260,294	14,839,830
Administrative expenses	2,791,118	3,553,581	5,568,638	6,962,402	8,902,211
Travel	826,767	1,058,388	1,041,372	997,407	1,038,722
Other	520,817	790,205	401,976	283,262	463,526
Depreciation	592,620	864,429	1,240,300	1,568,650	1,429,690
Total operating expenses	12,174,663	15,183,630	19,279,640	24,072,015	26,673,979
Tax	764,951	1,043,010	1,268,690	1,582,191	1,781,220
Net surplus (after tax before grants)	3,309,115	3,841,961	4,920,747	6,454,565	5,156,137
Non operational income (grants)		161,374	95,426	159,615	121,729
Profit after tax & grants	3,309,115	4,003,335	5,016,173	6,614,180	5,277,866

Annex- 2: Profile of the Board

S.No.	Board Member	Position on Board
1	Mr. Tanmay Chetan	Director, Board Chairman, Chairperson of Remuneration, Nominations, and Corporate Governance Committee, and Member of Audit Committee
2	Mr. John Con-Sing Yung	Director and Chairperson of Social Performance Committee (SPC), Member of Audit & Finance Committee (AFC), Remuneration, Nominations and Corporate Governance Committee (RNCG) and Board Asset and Liability Committee (B.ALCO)
3	Mr. Kea Borann	Director & Chief Executive Officer
4	Mr. Peter Power	Director, Member of SPM and AFC
5	Ms. Heng Seida	Director & Chairperson of AFC and member of Board Risk Committee (BRC)
6	Mr. Tip Janvibol	Director and Member of B.ALCO
7	Mr. Ru-Hung Wei	Director, Member of Remuneration, Nominations and Corporate Governance Committee
8	Mr. Chin-Kang Liu	Director and Chairperson of BRC
9	Ms. Pi-Fen Hsieh	Director and Member SPC

Annex- 3: Abbreviations

ALCO	Asset and Liability Committee	HR	Human Resources
AM	Area Manager	KHR	Khmer (or Cambodian) Riel
AMK	Angkor Mikroheranhvatha (Kampuchea) Co Ltd	KRI	Key Performance Indicator
ATM	Automated Teller Machine	LLP	Loan Loss Provision
BM	Branch Manager	LLR	Loan Loss Reserve
BRC	Board Risk Committee	IAO	Internal Audit Officers
CAR	Capital Adequacy Ratio	ICO	Internal Control Officers
CBC	Credit Bureau Cambodia	LUC	Loan Utilisation Check
CBO	Chief Business Officer	MBO	Mobile Banking Officer
CBS	Core Banking Solution	M-CRIL	Micro-Credit Ratings International Ltd
CDM	Cash Deposit Machine	MDI	Microfinance Deposit Taking Institution
CEO	Chief Executive Officer	MFI	Micro Finance Institution
CFO	Chief Financial Officer	MIS	Management Information System
CIO	Chief Information Officer	NBC	National Bank of Cambodia
CL	Credit Line	OER	Operating Expense Ratio
CO	Credit Officer	OSS	Operational Self-Sufficiency
COO	Chief Operating Officer	PAR	Portfolio at Risk
EoT	End of Term	RM	Regional Manager
FCR	Financial Cost Ratio	RoA	Return on Assets
FD	Fixed Deposit	RoE	Return on Equity
FTB	Foreign Trade Bank of Cambodia	TNA	Training Needs Assessment
FSS	Financial Self-Sufficiency	THB	Thai Baht
FX	Foreign Exchange (1 USD = 4,000 Riel)	US\$	United States Dollar
HO	Head Office	VB	Village Bank

Annex- 4: Glossary

- ▶ **Average outstanding:** Gross portfolio/Number of active borrowers
- ▶ **Average loan size:** Total loan amount disbursed in the period / Number of disbursed loans
- ▶ **Portfolio at risk (PAR (>30days)):**The principal balance outstanding on all loans with overdues greater than or equal to 30 days /Total loans outstanding on a given date.
- ▶ **Loan loss provisioning ratio:** Total loan loss provisioning expense during period /Average portfolio
- ▶ **Yield on portfolio:** Loan related income during the period /Average loan portfolio for the year
- ▶ **Financial cost ratio:** Total interest expense during the period /Average portfolio
- ▶ **Operating expense ratio:** Total operating expenses (incl. depreciation) during the period / average loan portfolio
- ▶ **Personnel expenses ratio:** Personnel (or staff cost) during the period / Average loan portfolio
- ▶ **Cost per Borrower (active client) :** Operating expenses / Average number of active borrowers
- ▶ **Net operating margin:** Difference of (yield on portfolio+ yield on other income) and (operating expense ratio + financial cost ratio+ loan loss provisioning) – also known as spread on portfolio
- ▶ **Return on asset (RoA):** Operational income (or loss) after tax during the period /Average assets
- ▶ **Return on Equity (RoE):** Ratio of operational income (after tax)/(loss) to average net worth
- ▶ **Operational Self-Sufficiency (OSS):** Ratio of total income to total costs for the period
- ▶ **Staff attrition rate:** Number of staff who left the institution during the period / (total staff beginning of period+ number of staff left during period)
- ▶ **Client drop-out ratio:** Number of clients' dropped during the period / (total clients beginning of period+ number of clients' dropped during period)
- ▶ **Active borrowers per CO (or field staff):** Number of borrower / Number of COs (or field staff)
- ▶ **Active borrower per staff:** Number of borrower / Total staff
- ▶ **Liquidity Coverage Ratio:** Liquid asset/Net cash outflow (or Liability run-off within 30 days)
- ▶ **Debt to Equity Ratio:** Total liabilities / Total equity
- ▶ **Capital Adequacy Ratio:** Total net worth / Total risk weighted assets

Annex- 5: M-CRIL rating grades

M-CRIL Grade	Description
$\alpha+$	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
$\alpha-$	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➤ Recommended
$\beta+$	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
$\beta-$	Weak governance, weak systems. Significant risk ➤ not acceptable but can be considered after significant improvements
$\gamma+$	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.