

# AMK Microfinance Institution Plc (AMK)

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

July 2015

## Microfinance Institutional Rating - 4<sup>th</sup> Update

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

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

Visit: 29 June -3 July 2015

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# Structure

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# Synopsis

- ▶ AMK Microfinance Institution Plc (AMK) originated from the credit and savings programme of Concern Worldwide in Cambodia in the 1990s, got registered in 2003 by the National Bank of Cambodia (NBC) and obtained a Microfinance Deposit-taking Institution (MDI) licence in 2010.
- ▶ Concern Worldwide, the principal shareholder exited completely in 2014 and two new shareholders (PROPARCO and CLDF; Agora and Incofin before fully divested to PROPACO and CLDF) joined the institution in 2014; one representative each of new shareholders inducted in the Board. AMK has gained financial and risk management expertise with the change in the Board profile.
- ▶ AMK is operational in all provinces and districts; in line with mission increased depth of outreach by covering 98% of communes and 86% of the villages by December 2014. Adopting a cautious growth strategy, AMK reported low growth in borrowers (2.1%) however portfolio grew by 21.4% in 2014 which was mainly driven by the increase in share of individual loans. AMK continued product innovation and improved delivery channels by expanding agent network and ATM/CDMs. Increased focus and significant marketing efforts resulted in an impressive growth in depositors and deposit base (increased by 62.5% and 110% respectively) in 2014.
- ▶ Client protection policies are reasonably formalized and disseminated, but needs to improve awareness of staff and clients on the policies.
- ▶ AMK has liberalized its cross-finance (multiple borrowing) policy to deal with stiff competition and thereby prevent the slight increase in client attrition rate from 13% in 2012 to 16% in 2014.
- ▶ AMK has maintained good portfolio quality with low PAR<sub>30</sub> of 0.16% in 2014. The portfolio quality could be undermined by significant multiple lending in the market, increased high ticket size individual loans, limited group cohesiveness and moderate quality of credit appraisal.
- ▶ Increase in deposit base has resulted in reduced dependence on debt funds. Due to various repayment options and terms of its loan products vis-à-vis varied maturity of liabilities including deposit and borrowings, asset liability management plays an important role at AMK. The foreign exchange and interest rate exposure are also regularly monitored and are within prudent limits.
- ▶ Though OER is still high (17.4% in 2014) vis-à-vis weighted average of NBFIs of Cambodia (10.3% for 2014) owing to high personnel cost and small loan size, AMK has managed to generate decent profits in 2014 with RoA of 3.5%.

# ...Synopsis

Main Performance Indicators					
	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
Gross Portfolio (US\$ mn)	31.33	47.25	61.37	77.88	94.58
Number of active borrowers	250,930	275,251	291,859	324,499	330,597
Average Loan O/S (US\$ )	125	172	210	240	286
Total Savings (US\$ mn)	1.15	4.18	8.22	18.30	38.72
Number of savers	2,781	8,924	29,910	58,642	95,281
Average deposit (US\$)	413	469	275	312	406
Portfolio at Risk (PAR)60	1.4%	0.1%	0.1%	0.1%	0.1%
Borrowers per field staff	531	549	487	463	417
Portfolio Yield	35.7%	35.9%	36.2%	34.8%	33.9%
Operating Expense Ratio (OER)	20.3%	18.2%	17.7%	17.3%	17.4%
Financial Cost Ratio (FCR)	12.0%	12.5%	12.3%	11.7%	11.0%
Return on Asset (RoA)	1.9%	2.9%	3.8%	3.6%	3.5%
Capital Adequacy Ratio (CAR)	35.7%	27.7%	26.1%	24.6%	23.8%
Debt Equity Ratio	2.67	3.91	3.94	3.98	3.96

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

- ▶ Oldest and one of largest microfinance providers in the country and operational in provinces and districts.
- ▶ Strong and professional Board; provides strategic guidance and overall supervision.
- ▶ Professional, experienced and motivated team with stable second line of management.
- ▶ Range of products and services; effective use of client feedback and market researches for product design.
- ▶ Diversified source of funds and increasing share of deposits – the share of deposits (incl. staff deposits) was 35.0% of total funds on 31 December 2014, up from 19.4% in 2013.
- ▶ Strong loan tracking, internal audit and improved risk management system.
- ▶ Commitment towards its mission and Code of Practice for Client Protection across all levels.
- ▶ Excellent portfolio quality (0.16% of PAR30) and profitable operations (3.5% of RoA during 2014).
- ▶ Healthy Capital Adequacy Ratio (23.8% on 31 Dec'14).
- ▶ Formalised risk policies, set the risk limits and well monitoring.
- ▶ Positive Net Open Position (NOP) after hedging and safe cash buffer.

## Issues

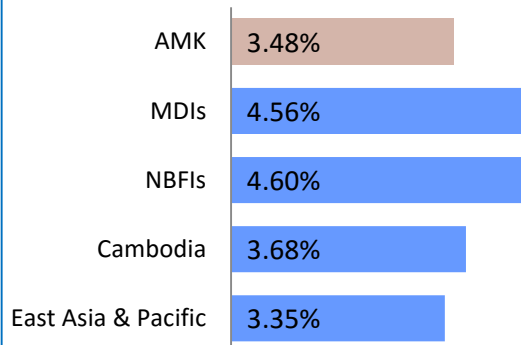
- ▶ Stiff competition and high level of multiple borrowing by clients.
- ▶ The operating cost seems comparatively higher (17.4% in 2014) than peer MDIs due to high personnel cost and small loan size. The average loan outstanding for AMK is low at US\$291 (\$1,223 for MDIs).
- ▶ Scope of improvement in quality of credit appraisal by staff.
- ▶ Low awareness amongst clients on grievance redressal mechanism.
- ▶ High cash balance in safe at branches/sub-branches; often exceeds permissible limit. However, AMK has standard authorisation procedure over cash limits and monitor regularly
- ▶ Increase in adjusted client dropout rate (13% in 2012 to 16% in 2014).

# Rating rationale

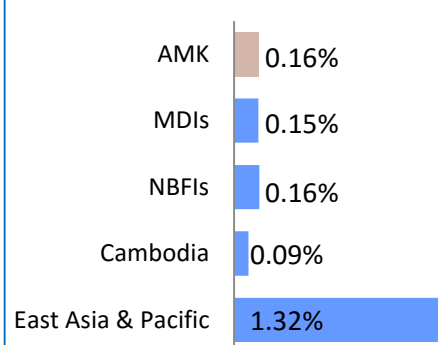
- ▶ **Strong governing Board and stable second line management:** AMK has a proactive nine member Board committed to social mission. AMK has a strong and qualified second line of management; around 40% management team members have been with AMK for over 9 years. Key-person risk is efficiently mitigated through participatory decision making process at the management level.
- ▶ **Commitment to mission and client protection principles:** All policies and systems are geared towards achievement of mission. A Code of Practice for client protection is adopted and practiced across all levels.
- ▶ **Good staff productivity:** Staff productivity is high at 417 borrowers per field staff and 190 borrower per staff in 2014; these figures are well above benchmarks for Cambodia. However, it has been declining from 487 borrower per field staff and 246 borrower per staff in 2012.
- ▶ **Portfolio quality:** AMK has maintained a good portfolio quality. PAR<sub>30</sub> was at 0.16% and PAR<sub>60</sub> was at 0.12% on 31 Dec'14. Clients' cross-indebtedness, increased high ticket individual loans, high exposure to agriculture sector, limited group cohesiveness and quality of appraisal may adversely affect the portfolio quality.
- ▶ **Profitability:** Despite high OER, AMK has achieved decent profits during 2014. RoA decreased marginally from 3.6% (2013) to 3.5% (2014) on account of reduced portfolio yield (34.8% in 2013 to 33.9% in 2014).
- ▶ **Risk management:** AMK has a risk management framework for informed decision making. AMK has set risk limits and regularly monitor credit, operational, liquidity, interest rate, IT and foreign exchange risks.
- ▶ **High competition:** AMK faces stiff competition from MFIs as well as commercial banks in all its operational areas. As the result, client drop out rate slightly increased to 16% in 2014.
- ▶ **High OER:** Though it has high staff productivity, AMK had high OER at 17.4% in 2014 vis-à-vis Cambodia benchmark (weighted average for MDIs is 10.03% for 2014) due to high personnel cost (10.2% for AMK and 5.9% for MDIs), small loan size and cost of up gradation of branches. However, the average cost per borrower (\$46) and personnel cost per borrowers (\$27) of AMK is much less than average of cost per borrower for MDIs (\$101) and personnel cost per borrower for MFI (\$60).
- ▶ **Moderate quality of loan appraisal:** Staff capacity needs to be improved to accurately assess client household income and capture all liabilities particularly from sources not sharing data with CBC.

# Benchmarking

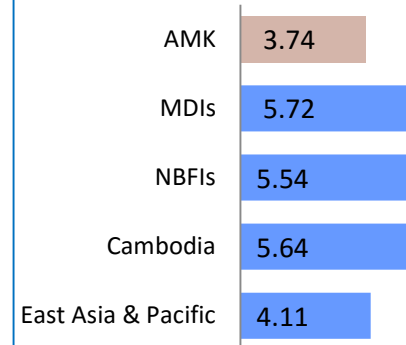
## Return on Asset



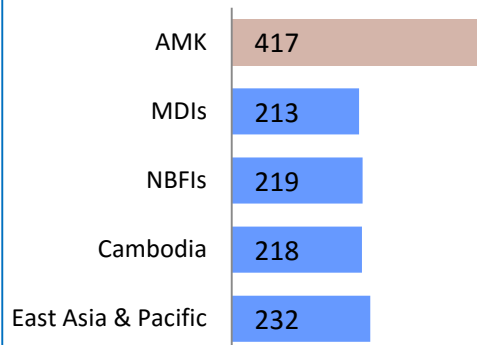
## PAR>30days



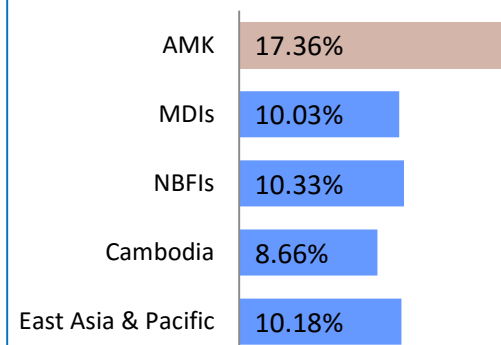
## Debt equity



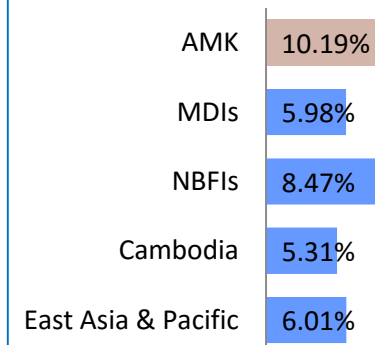
## Borrowers per CO



## Operting efficiency



## Personnel Expense Ratio



**Note:** All data (weighted average) for the peer groups refer to the Microfinance Information Exchange (MIX), as of FY 2014. Number of institution in the peer groups are: MDIs-7, NBFIs-13, Cambodia MFIs-15 and East Asia & Pacific-63.

# 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, it 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.
- ▶ In order to make deposits easily accessible to the poor, AMK rolled out an agent based mobile banking service in 2012 and the agent network increased from 294 in 2013 to 1,261 in 2014. Furthermore in 2013, AMK also launched ATMs/CDM as additional delivery channels to its customers. AMK added 20 ATMs/CDMs at all branch offices nationwide by the end of 2014.
- ▶ AMK offers a range of products and services including various product lines for credit, deposits and remittance. The products are designed and modified based on market research and client feedback. AMK successfully piloted health and accident insurance product in 2014 in association with Forte Insurance Company and rolled out the micro insurance across all branches in 2015.
- ▶ The MFI expanded its coverage across all provinces and districts of the country reaching 98% of communes and covering 86% of the villages. As on December 2014, AMK reported 330,597 active borrowers with US\$94.6 million portfolio and 95,281 depositors (excl. staff deposits) with US\$ 38.7 million savings (34.5% of total source of funds). Roughly 83% of these borrowers were women and 92% from rural areas. AMK has adopted both Village Bank (VB) and Individual lending methods; VB borrowers are 86% of the client base. AMK had a total staff strength of 1,740, of which 28.3% were women.

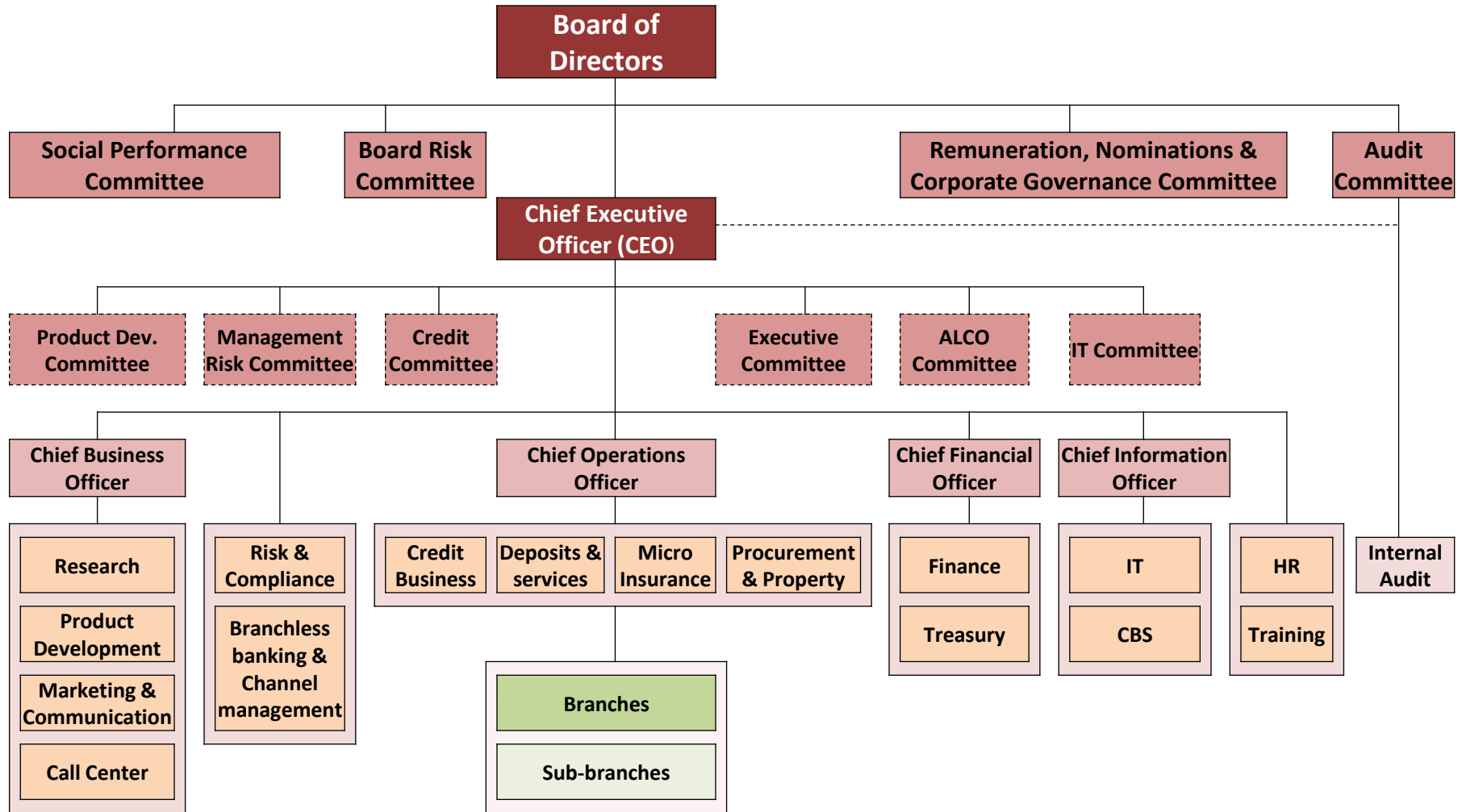


# Organisational Structure

- ▶ Over the past few years, the organizational structure has been streamlined leading to better accountability and clarity on responsibilities.
- ▶ AMK is led by its Chief Executive Officer (CEO), Mr Kea Borann, supported by senior management including the Chief Operations Officer (COO), Chief Business Officer (CBO), Chief Financial Officer (CFO), Chief Information Officer (CIO) and 15 Heads of Departments. Each department is headed by Senior Executive.
- ▶ AMK follows a hub and spoke model for expansion with branch being the central entity, having sub-branches (small units/offices) attached to it, each sub-office is supervised by a Sub-Branch Manager (SBM) or Area Manager (AM). To maintain a simple management structure, one AM can supervise one or more complete districts depending on the size and geography. As on 31 December 2014, AMK has 28 branches and 111 sub-branches (total of 139 offices), divided into 6 regions each led by a Regional Manager (RM); 4-5 sub-offices report to each Branch Manager (BM). Besides, AMK has around 1,200 agents across the branches. AMK plans to increase the number of agents to 2,500 by end of 2015 and 3,500 by end of 2016.
- ▶ AMK changed vertical structures and added/separated few new departments – training, procurement & property, core banking system and branchless & channel management.
- ▶ At present, risk & compliance, branch less banking & channel management, HR and Training departments are directly reporting to the CEO.
- ▶ There is no change in the structure of branch and sub-branch.

Branch	BM, SBM, 2 AMs, 8 COs , Customer Relation Officer, MBO , 3 Tellers, Chief Teller, Chief Account Officer (CAO)+ Admn + 1 Customer Service Officer (CSO)+ Driver + Guard
Sub-office (big)	SBM, 2 AMs, 2 Tellers, 6-8 Cos
Sub-office (small)	AM, 2 Tellers, 3-4COs

# ...Organisational structure



# Microfinance policies

- ▶ AMK's operational policies and products are largely the same as at the time of last rating. AMK follows the VB and individual methodologies to offer its financial services, with a primary focus on poor, rural women.
- ▶ For expansion to a new village, the Credit Officer (CO) and AM conducts village survey and prepare village demand risk profile (covering number of households, economic activities, competition, MFI penetration level, default rate, culture, migration level and accessibility). If the village has acceptable scoring, the CO meets the Village Chief who invites the community to a promotion meeting. In this meeting, staff shares information about AMK background, the product range, methodology and procedures to access services. After 2-3 days, a refresher meeting is held.

## Methodology and process

- ▶ AMK offers group loan products using a hybrid Grameen methodology: 2-6 members form a group (staff can form a group with 2 members in special condition) and usually 5 to 10 groups form a VB. AMK does not use any targeting tool for client identification, however, AMK considers to achieve depth in outreach through strategic interventions like selection of village, product design and HH verification. Groups are self-formed by members. A Village Bank President (VBP) is elected by its members to serve as a representative of the VB. The CO visits every clients' house along with the VBP to fill up the loan application form. Details of household, assets, income, expenses and collateral (in case of individual loans) are recorded in the application form. Both movable and immovable assets are accepted as loan collateral.
- ▶ Information on the applicant's indebtedness is sought from the Village Chief. The credit history of the applicant is also checked at the branches by sending data to the Credit Bureau of Cambodia (CBC). As per revised policy in 2013, AMK lends to a VB client who already has 2 loans from other MFIs. For existing IL clients applying >\$500, AMK can be the 2<sup>nd</sup> lender but does not allow multiple loan for a new IL client.

# ...Microfinance policies

## Appraisal and disbursement

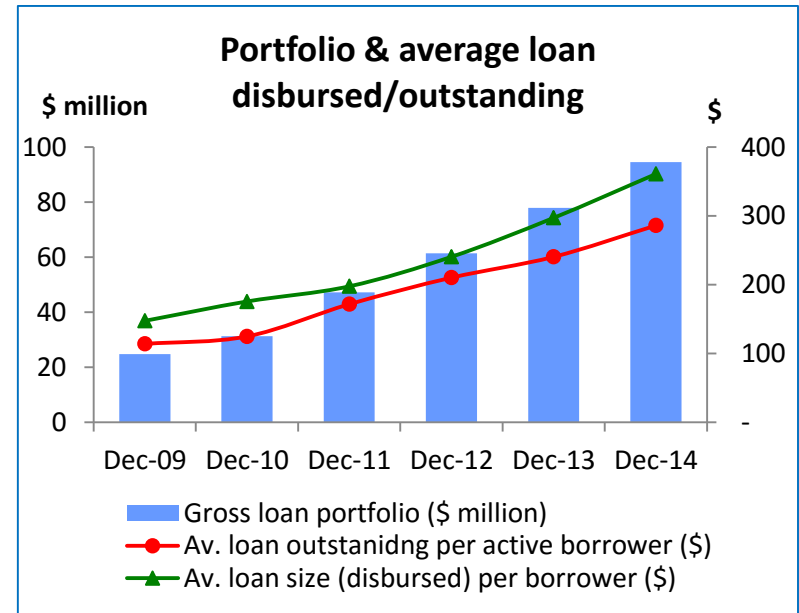
- ▶ While all group loans are appraised by COs, AM cross verifies the repayment capacity and business of the clients (at least 10% for group loans and 100% for individual loans). Loan appraisal process is fairly decentralized with BM having final authority for appraisal and sanctioning of loan.
- ▶ Individual loans (high ticket size) are appraised by specialized credit officers using an objective risk assessment and detailed cash flow analysis. In case of individual loans, AM verifies collateral valuation and loan guarantor information during house verification. Subsequently, the loan is approved by the AM/SBMs.
- ▶ Cash disbursements are made in VB meeting in the community in presence of the VBP and AM and all the borrowers are required to be present at the time of disbursement. At the time of disbursement, loan fee and insurance fee (only from interested members) is collected from the borrowers. Printed loan cards are provided to borrowers. Disbursement of individual loans are made at branches or at clients' location. Group loans are disbursed in Riel (KHR) and Thai Baht (THB) and individual loan in KHR, THB and US\$.
- ▶ Loan approval authority varies with the maximum loan amount for individual loans or per VB and differs for old and new VBs.
- ▶ Loan utilization check (LUC) is compulsory for all individual clients and is conducted by CO/AM/BM depending upon the loan amount within 3 months of disbursement. LUC for group loans is not formally undertaken.

## Loan collection

- ▶ Collection of loan installment is done at the VB meetings by the CO on the designated day. CO records transactions in the loan cards of the borrowers. CO enters the amount in the Table (soft copy of monthly collection sheet). Cash collected by the COs is deposited to the Teller. Verification is done by the AM/BM at the end of the day by reconciling all collection sheets with the demand sheets. The front office individual loans are directly collected by the Teller.
- ▶ A VBP is eligible for an incentive of 4.5% of interest collected if repayments are on time.

# Loan products

- ▶ AMK has a wide range of loan products. It offers 9 types of loans to its clients - three group based products (end of term, installment and credit line) and five individual (ID) loans (business, seasonal, credit line, easy and home improvement) and one emergency loan.
- ▶ A few changes have been made in the product features (loan size, interest rate, tenure) based on client feedback.
- ▶ Water filter loan introduced in 2014 and discontinued due to vendor related issues. AMK plans to introduce motor cycle and agri-equipment loans in 2015.
- ▶ AMK increased maxi. loan size to \$5,000 for business and house improvement loans (from \$2,000) and group loan increased to \$500 (from \$300) since previous rating.
- ▶ Interest rate ranges from 2.6%-3.0% pm for group loans depending upon product and 2.0%-2.8% for individual loans. Interest rate for individual loans is based on place of disbursement (branch/client location), currency, loan cycle (up to 2<sup>nd</sup> cycle s and 3<sup>rd</sup> cycle onwards) and size of loan.
- ▶ AMK charges 0.5% loan processing fee/upfront fee on loan amount and overdue penalty of 1.0% on the installment amount.
- ▶ Both average loan disbursed and average loan outstanding balance have been increasing gradually for the last 5 years. For the period Jan-Dec 2014, the average loan disbursement per member and average loan outstanding per active borrower were \$361 and \$286 respectively.



## ...Loan products

Product Name	Group Loan (Village Bank-VB)			Emergency loan
	Endo of Term (EoT-VB)	Installment (I-VB)	Credit line (CL-VB)	
Target	Group members with seasonal cash flow	Group members with regular cash flow	Group members with seasonal cash flow (>1yr members)	Individual /group clients (>6 months clients)
Currency	KHR & THB	KHR & THB	KHR & THB	KHR & THB
Loan amount	Up to 2 mn KHR (\$500)			Up to US\$100
Term	3 – 12months		3 – 24months	3 – 10months
Repayment Frequency	Interest: Monthly Principal: End of term	Monthly interest & principal	Interest: Monthly Principal: Flexible	Interest: monthly P: within EoT
Rate of Interest % (pm)	KHR loan: 3.0% THB loan: 2.8%	KHR loan: 2.8% THB loan: 2.6%	KHR loan: 3.0% THB loan: 2.8%	2.5%
Processing fee	0.5% loan amount on loan amount			
Penalty on overdues	1.0% on overdue principal amount			
Guarantee	Group guarantee			
Collateral	Not required			
Prepayment & foreclosure	Allowed with out extra charges			
Share in portfolio 31-Dec-2014	24.1%	23.3%	17.8%	0.4%

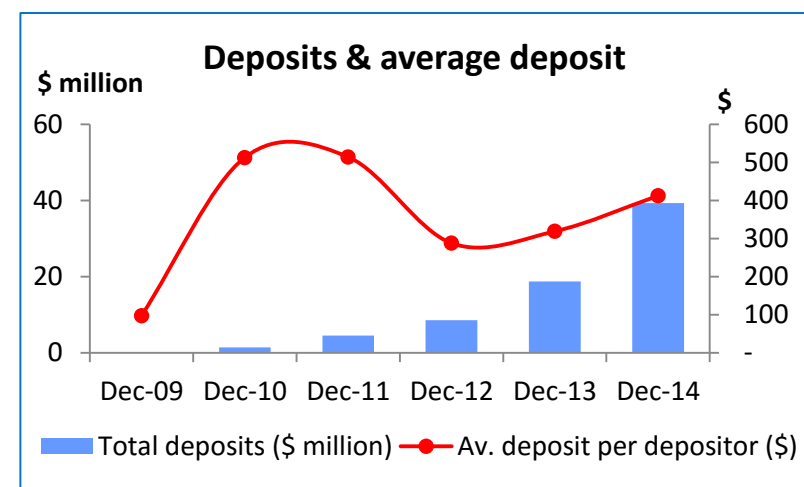
## ...Loan products

Product Name	Individual loans (ID)				
	Business loan (ID-BL)	Seasonal loan (ID-SL)	Credit Line Seasonal (ID-CSL)	House improv. loan (ID-HIL)	Easy loan (ESL)
Target	Individual –new & expansion of business	Individual – invest/buy for agri production	Farm owners – agriculture	Individual – home improvement	Low income urban dwellers
Currency	KHR, THB and US\$				
Loan amount	Up to \$5,000	Up to \$1,500	Up to \$1,500	Up to \$5,000	Up to \$300
Term	3-36 months	3-12 months	3-12 months	3-36 months	3-12 months
Repayment Frequency	P & I: Monthly	I: Monthly P: End of term	I: Monthly P: Flexible	P & I: Monthly (Fixed EMI)	P & I: Monthly
Rate of Interest % (pm)	2.0% - 2.8%	2.0% - 2.8%	2.0% - 2.8%	2.0% - 2.8%	2.3% - 3.0%
Processing fee	0.5% loan amount on loan amount				
Penalty on overdues	1.0% on overdue principal amount				
Guarantee	Personal guarantee				
Collateral	Required				
Prepayment & foreclosure	Allowed with out extra charges				
Share in portfolio 31-Dec-2014	9.8%	6.8%	6.4%	9.3%	2.0%

# Savings products

- ▶ After receiving MDI license from NBC in 2010, AMK has been offering deposit products to meet the saving needs of its customers. AMK currently offers five distinct deposit products - easy savings, lucky savings, fixed deposit (FD), future savings and smart kid savings.
- ▶ The Smart Kid Saving account has been launched in 2015. It is an insurance linked product; 300% of savings balance would be provided in case of death of the parent.
- ▶ Interest rate on deposits depends upon currency, amount, term and deposit mode.
- ▶ To facilitate easy access to deposit services to its poor clients, AMK has introduced agent based e-banking services. The agent has to open two accounts in KHR (*at least worth of KHR 4mn*) and US\$ (*\$1,000*) with AMK as security deposit. An agent receives a commission of 0.1% of the deposit per month and 50% of the withdrawal fee between 600-1,400 KHR based on withdrawal amount.
- ▶ The depositors increased by 62.5% (*reached to 95,281*) and deposit amount increased by 111.6% (*US\$38.7mn*) during 2014. Around 67% of the total deposit balance is in KHR. The average deposit balance increased from \$312 in 2013 to \$406 in 2014.

Product Name	Easy Saving	Lucky savings	Fixed savings	Future
Min. balance (equiv. in US\$)	N/A	\$500	\$25	\$5
Currency	KHR, TBH & US\$			
Interest rate (per annum)	3.00% - 5.50%	3.50% - 5.75%	4.25% - 12.00%	4.25% - 10.00%
Terms	NA	1-36 months	N/A	3-36 months
Frequency of deposit	N/A	N/A	N/A	Monthly
Share on 31-Dec-2014	38.7%	60.5%		0.8%





# Other products

## Insurance

- ▶ Based on market survey and clients' need, AMK piloted micro insurance product in 2014 in four branches. AMK entered into a partnership with Forte Insurance Company, the leading insurance company in Cambodia, to offer health and accident insurance to its loan clients. AMK charges 25,000 KHR (\$6) premium to clients. Coverage of \$500 is provided for permanent disability and \$1,000 for accidental death. AMK sold 9,886 policies in 2014.
- ▶ AMK receives 30% of commission and profit sharing (*up to 50% based on claim rate*) from Insurance Company. AMK launched insurance services across all branches in 2015.

## Payment services

- ▶ Currently, AMK provides bill payment services to clients (in cash or between accounts) throughout branch network. To make this process more convenient for its customers, AMK plans to expand the service to all channels of agent network nationwide by 2015. AMK gets 500-1000KHR commission per transaction.

Insurance details	2014
No. of policies sold	9,886
Total Premium collected (\$)	59,304
Claim settlements	
<i>Number of claims</i>	255
<i>% claim rate</i>	2.6
<i>Amount (\$)</i>	16,035
<i>% of claim amount</i>	27.0

	June'15
No. of payroll companies	25
No. of payroll employees	1,987
No. of payment company	20
No. of bill pay	20,011

# ...Other products

## Money transfer

- ▶ AMK launched a nationwide money transfer service in 2011. AMK offers the service with simple documentation. The fee for the remittance service depends size of transaction & type of transfer and fee ranges from \$1-1.5 (4,000-6,000KHR) or 0.10% of the transfer amount. In agent banking, agents allow to transfer up to \$1,000 per transaction. AMK pays commission to agent ranging from \$0.30-0.85 based on size of transaction.
- ▶ Money transfer has gained popularity. It was apparent during branch visits and client interaction, that money transfer services were viewed as highly useful also reflected in the significant increase in the number of transactions.

Money transfer details	2011	2012*	2013	2014
No. of transactions	1,700	78,655	165,107	312,460
Total amount of transactions (US\$ in million)	0.43	29.26	75.08	134.34
Average per transaction (US\$)	252	372	455	430

\* Data as reported during previous rating but differs in 2014 Annual Report

- ▶ At present, AMK does not provide non-financial services to customers.

# Governance and strategy

Board Composition

Alignment of Mission with practise

Operational growth & Strategy

Competition

Second line of leadership

Fund mobilization

# Governance and strategy

AMK has a good and stable performance on governance with a grade of  $\alpha$ . AMK has a highly qualified and proactive Board. AMK has strengthened its financial and risk management expertise with the change in the Board profile. AMK also has a strong and stable second line of management. Expansion in all provinces and districts and focusing on using mobile banking technology and agent network to increase outreach has also helped to deal with competition; marginal increase in client dropout rate needs to be monitored.

## Governing Board

- ▶ Concern Worldwide, the principal shareholder and promoter exited completely in 2014 and two new institutional shareholders (PROPARCO and CLDF) joined; at the same time Agora Microfinance increased its shareholding to 51% and became principal shareholder.
- ▶ **Board composition changed to reflect changes in shareholding.** AMK now has one representative each of new shareholders on its Board and two Directors (Mr. Tom O'Higgins and Mr. Howard Dalzell) retired from the Board. **The composition of the governing body has gained financial and risk management expertise after induction of new Board members including the independent member in sub-committee.**
- ▶ AMK has a nine member Governing Board (incl. the CEO) chaired by Mr. Tanmay Chetan, ex-CEO of AMK. The Board members have a mix of finance, audit, law, and development, as well as extensive experience in microfinance, commercial, and investment banking. AMK has 4 independent Directors.
- ▶ AMK has four Board level committees – 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 6 management committees – executive, product development, credit, ALCO, 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 the Board meetings.

# Alignment of Mission with practice

- ▶ In line with its mission and poverty orientation, the institution will continue targeting the low-end market segment aiming to increase depth of outreach. As many as **42% of new group loans are to clients below Cambodia's rural poverty line and 83% of clients are female.**
- ▶ **AMK regularly monitors the quality of its products and services.** The research department conducts several studies and surveys to understand clients' felt needs, satisfaction and impact for enhancement of products and services.
- ▶ Based on clients' feedback, AMK introduced micro insurance product and smart kids saving account and plans to offer motorbike and agri-equipment loan products.
- ▶ Moreover, a number of **branch offices have been upgraded to standardized front offices** and allow the public to have easier access to products and services and increased ATMs & CDMs facilities to reach depositors. 92% of depositors have deposit balance of \$300 or less, indicating reach amongst the smaller depositors.
- ▶ AMK also worked with several NGOs to deliver cash transfers to their beneficiaries in rural Cambodia and **increased mobile agent network to 1,261 by December 2014** to reach closer to its clients.
- ▶ AMK plans to expand agent network to provide better access and increase rural outreach. It intends to continue investing in technology, human resources and enhancement of products and services to improve quality of services.

## Vision:

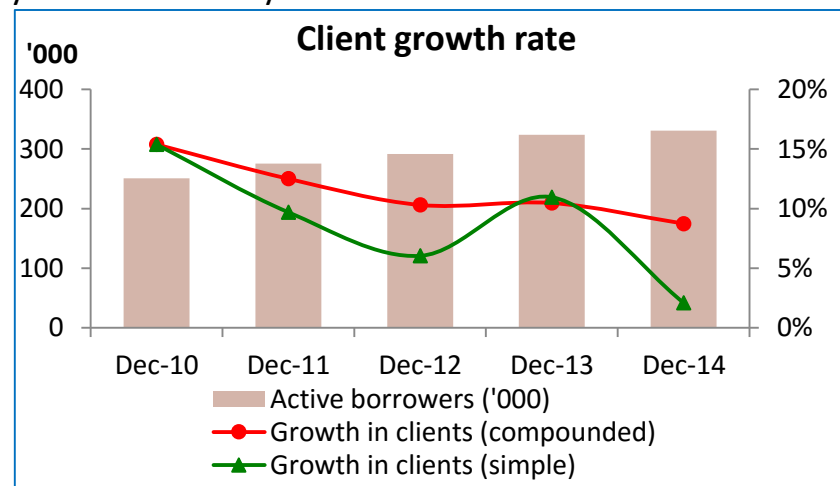
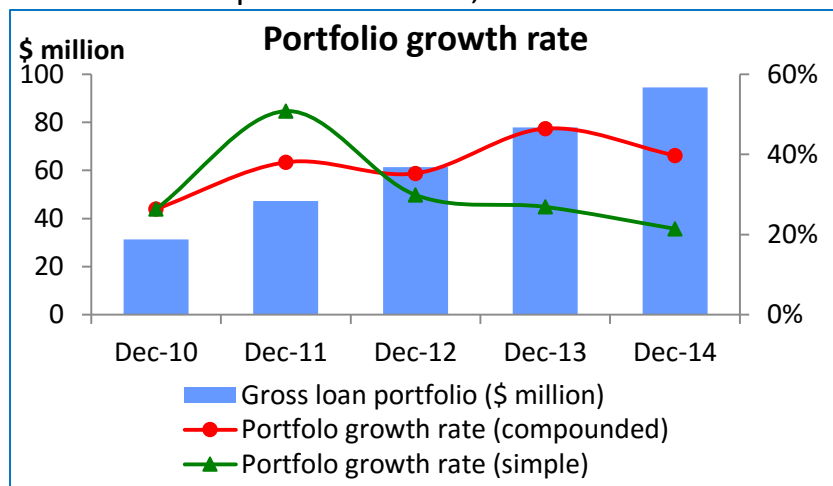
AMK's long-term vision is of a Cambodian society where citizens have equal and sufficient economic and social opportunities to improve their standards of living & where they can contribute productively towards the overall development of the country.

## Mission:

To help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services.

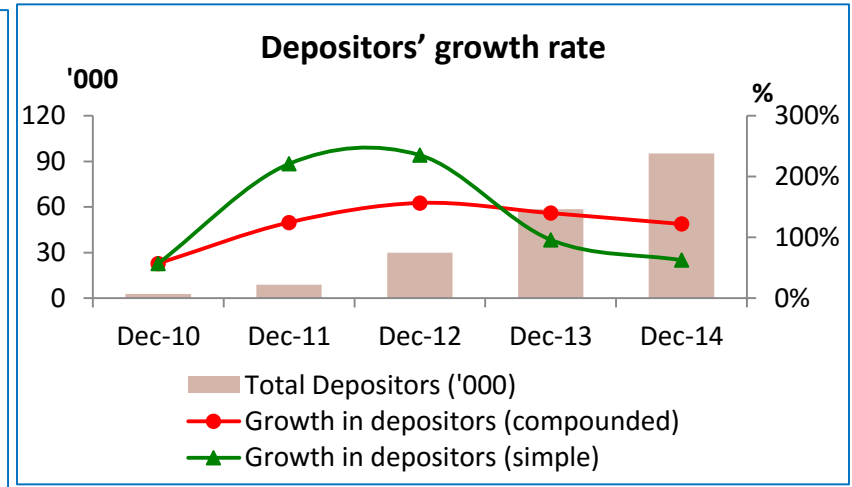
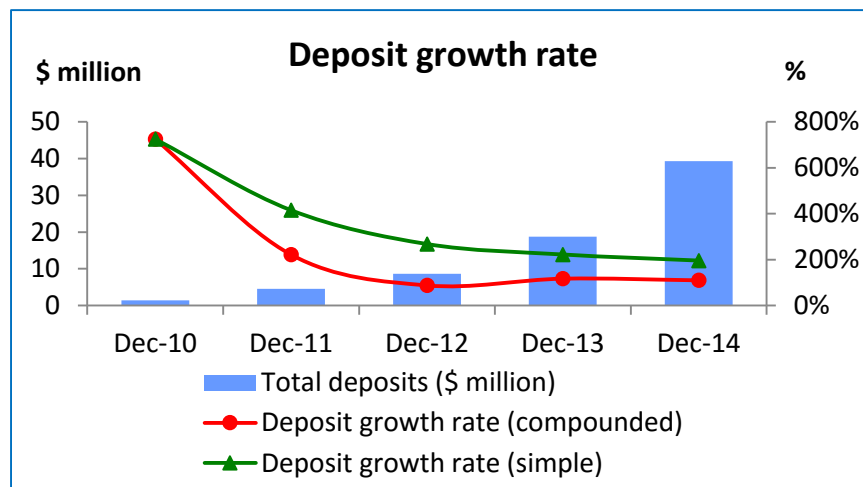
# Operational and growth strategy

- ▶ AMK has continued to focus on rural areas as it believes this helps to increase its poverty outreach. Based on its mission, AMK diversified its products and services. **AMK adopted 4 pillar strategy** – one stop shop of financial service provider, most trusted partner, maximize use of channels and employer of choice for future expansion. **AMK is now focusing on using mobile banking technology and agent network** to provide better access to villagers who have previously had limited accesses to formal financial institutions. The agent network increased from 294 on 31 December 2013 to 1,261 on 31 December 2014 (1,758 on 30 June 2015). AMK plans to increase agent network to 2,500 in 2015 and further increase to 5,000 in next 5 years.
- ▶ **AMK had slow growth in borrowers (2.1%) and decent growth in portfolio (21.4%) in 2014**, however, the growth in portfolio was mainly driven by the increase in individual lending (representing 24.8% and 34.8% of total portfolio as of Dec'13 and Dec'14 respectively). **AMK recorded slight increase in client dropout (13% in 2012 to 16% in 2014)** due to competition and it has negative impact in borrower growth rate. **Competition and the quality of the services are adequately monitored** through regular market surveys, effective feedback loop from the field, annual satisfaction surveys and exit surveys.



## ...Operational and growth strategy

- AMK continued investing in technology and expands its products and services to improve customer service. AMK has 20 ATMs/CDMs at all branch offices nationwide by the end of 2014. A number of branch offices have been upgraded to standardized front offices and allow the customers to have easier access products and services. AMK plans to add 25 more ATMs in 2015.
- Introduction of ATMs/CDMs, expansion of agent network and upgradation of branch offices led to **impressive growth in depositors (62.5%) and deposit amount (110%)** during 2014. The average deposit balance per account is at \$412 of which over 92% of depositors have a balance of less than \$ 300.



- AMK worked with several NGOs to deliver cash transfers to their beneficiaries in rural Cambodia. Cash payments to 46,898 beneficiaries with the total amount of US\$ 1.5 million were made during 2014. In 2014, **money transfer business also increased from 165,107 to 312,460 transactions**, with a total value of US\$ 134.3 million from US\$ 75.1 million in 2013, indicating increasing trust amongst clients to use AMK as their preferred channel for domestic remittances.

## ...Operational and growth strategy

- ▶ In order to deal with competition, **AMK liberalized its cross-finance policy** (AMK could be the 3<sup>rd</sup> lender for VB Loans, 2<sup>nd</sup> lender for existing IL clients applying for loan>\$500) but for new IL clients, multiple loans are not allowed; however emphasizes on using village level penetration data (penetration data shared with 3 large MFIs in the country namely TPC, Amret & VF) to increase outreach in the under and unserved areas.
- ▶ Multiple Loan study, competitive analysis through Product Positioning study and Client Satisfaction study are conducted on a periodic basis which guides operational strategies.
- ▶ Going ahead, the senior management of AMK feels that there is a very good market for individual loans which can be tapped for stimulating growth, but it **needs to strengthen capacity of branch staff on cash flow and business analysis** and upgrade the reporting system.
- ▶ AMK will continue to grow and diversify credit operations by expanding to new villages with some new and innovative products. AMK plans to launch motor and agri-equipment loans in addition to expanding smart kid saving and micro insurance products across branches, increasing ATM/CDM (one for each branch) facilities and agent work in the next financial year in order to meet different client requirements more effectively and efficiently.



## Competition –*Very high*

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- ▶ **Cambodia is a highly competitive market** with diversified product range but slight differentiation. The phenomenon of multiple borrowings possibly leading to over-indebtedness has become a concern among institutions; multiple borrowing (more than 1 loan) is estimated at over 20% (source: Over-indebtedness study, 2012) .
- ▶ **AMK actively monitors market penetration** using data from CMA and CBC and in-house market research. However, many unregistered NGO MFIs and cooperatives are not sharing the data with CBC which restricts realistic estimation of the overall level of indebtedness of clients and poses risk of default as well on account of over-indebtedness. Staff in the visited branches shared that roughly 40% of clients with overdue defaulted due to multiple borrowing.
- ▶ **Competition has partly contributed to client dropout as well as staff turnover.** Around 40% clients were rejected by AMK due to multiple lending. **AMK conducts client exit interview to understand the reasons for dropout.**
- ▶ AMK's core competence lies in its wide branch network in the operational area, good relationship with clients, agent network and the speed of services. AMK's innovative products (*like emergency loan, smart kid savings account, micro insurance*), ATM facilities, polite staff, and a low fee for money transfers provide it a competitive edge.

## Second line of leadership –*Stable and increased experience*

- ▶ **AMK has a strong and qualified second line of management.** The second line consists of the CFO, COO, CBO, CIO and 15 heads of departments. They are well trained and experienced professionals.
- ▶ The CEO, CFO, COO, CBO and CIO form Executive Committee. The committee in turn oversees the broader management team. All heads of departments are part of management team. Around 40% management team members have been with AMK for over 9 years.

# Fund mobilization

- ▶ AMK has a wide base of lenders. It's largest lender, ICO of Spain, provides 38.4% of total borrowing followed by Oikocredit (12.5% of total borrowings). On 31 December 2014, AMK had debt funds from 14 lenders (reduced from 16 in 2013).
- ▶ To reduce its dependence upon foreign institutional lenders, AMK has put a greater emphasis on raising the share of deposits in its fund source. Though this may yield some benefit in financial cost, efficient asset liability management in terms of maturity and currency would be required.
- ▶ AMK had deposit balance of \$38.7 million (32.5% of total source of funds) and equity \$24.0 million (20.2% of total funds) on 31 December 2014. **The share of borrowings reduced** from 67.8% of total funds in 2012 to 59.4% in 2013 and further reduced to 43.6% in 2014.
- ▶ **Board approved the Contingency Funding Plan to deal with emergencies.** AMK has overdraft facility with Oikocredit (\$2.5 million) and Vattanac Bank (\$1.0 million) and credit line facility with FTB (\$1 million).
- ▶ AMK also mobilized grant funds of \$161,374 in 2014 from Agence Française De Development (AFD) for technical assistance for HR, risk management, internal audit and product development.
- ▶ AMK's paid up share capital is 1,405,092 shares (1,395,253 shares in 2013) @ KHR25,000 per share. The additional shares were issued to AMK-Staff Association in 2014.
- ▶ Concern Worldwide, the principal shareholder exited from AMK in 2014 and sold it's shares to Agora Microfinance N.V (437,528 shares), PROPARCO (210,000 shares) and CLDF (94,200 shares). Agora microfinance N.V. became the principal shareholder and consists 50.7% of total shareholding.

Shareholding pattern	December 2014	
	Amount, \$	%
Agora MF N.V	4,372,871	50.7
Rural Impulse Fund II	2,121,423	24.6
PROPARCO	1,288,344	14.9
CLDF	577,914	6.7
AMK – SA	259,644	3.0
<b>Total</b>	<b>8,620,196</b>	<b>100.0</b>

**Note:** Concern Worldwide exited completely in 2014

# Organisation and Management

- Human resource quality and management
- Staff productivity
- MIS and Accounting
- Internal control systems
- Financial planning and cash management
- Client Protection

# Organisation and management

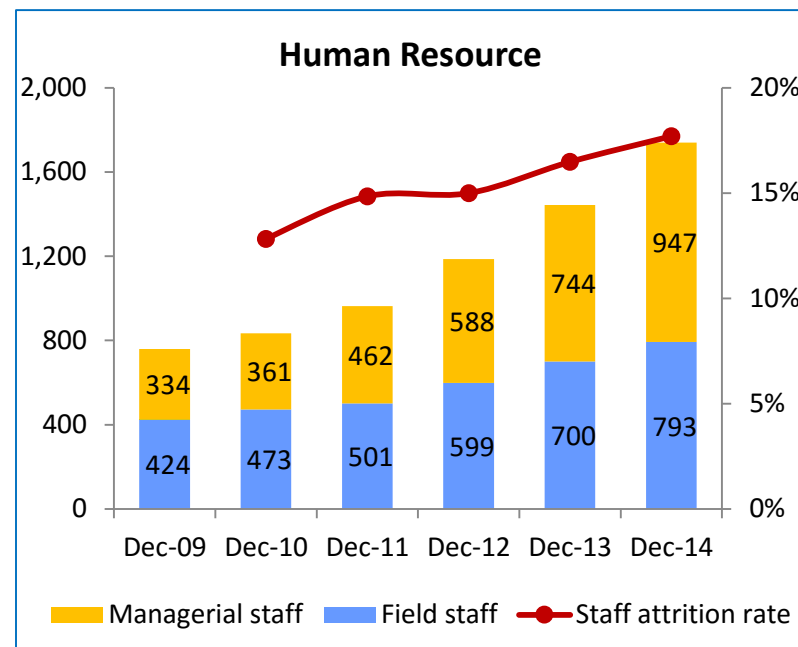
AMK's organisation and management performance is stable at  $\alpha$ . The human resource quality is good with low attrition rate. AMK has high staff productivity and has good processes related to monitoring & supervision, internal control and risk management. Adherence to client protection principles is moderate.

## Human resource quality and management – good

- ▶ AMK has separate Human Resource (HR) and Training departments with 17 member team 13 member team respectively. All of them are based at HO. HR and Training teams are directly reporting to the CEO.
- ▶ **AMK has a detailed employee manual** with protocols for recruitment, training, compensation, appraisal, transfer, exit and staff satisfaction surveys.
- ▶ Multiple channels are used for identifying suitable candidates - advertisements in local newspapers, website, network, career expos and in universities. Applicants are selected through two rounds of interviews followed by a written test for the post of CO and Teller. The induction training (3 months) begins with classroom training at HO followed by on-the job training. The training covers AMK's vision, mission, products and services, client protection principles as well as the MFI's policies and procedures.
- ▶ To prevent operational and staff related risks, house visits of trainee is made and personal guarantee taken from his/her parents before issuing the appointment letter.
- ▶ Staff are confirmed after successful completion of 3 months of probation period. Structured induction and various trainings have helped the staff to perform their roles effectively.
- ▶ **The quality of staff at AMK is good.** The improvement in staff capacities is visible as the experienced staff in particular have adequate understanding of organizational processes and microfinance operations; however they displayed moderate understanding of mission and client protection issues.
- ▶ **AMK has a structured training programmes for all staff.** Every year, the training team conducts training needs assessment (TNA) through a self assessment process and discussion with the respective supervisor. A training calendar is prepared based on the TNA. **AMK**

## ...Human resource quality and management

- ▶ During 2014, trainings were provided to a total of 6,582 staff (of which 91.8% is branch staff) which translates into more than 4 trainings/staff member. Around 75% of branch staff attended 6 or more trainings ; 70% of trainings were refresher trainings on various topics.
- ▶ As on 31 December 2014, AMK had a total staff strength of 1,740 (28.3% of women) including 793 COs (45.6% of total staff), an increase of 20.5% during the year.
- ▶ **staff attrition continues to be low** at 15.0% in 2014, though up from 14.1% from the previous year, mainly due to increased competition in sector. The rate is below than the weighted average of Cambodian industry average (17.3% for 2014). AMK conducts formal exit interviews which indicates better job opportunities, starting own business and personal issues as the most common reasons for staff exit.
- ▶ **AMK has a detailed performance linked incentive system** for all levels including office staff. COs receive monthly incentive while other branch staff receive quarterly. Incentive for the COs is based on the number of clients and PAR, maintaining a certain number of active clients (at least 400) and restricting PAR30 to 1% or below. Adjusted RoA, PAR, growth in borrowers, savers, savings balance and number of money transfer transactions are incentive parameters for AM and BM.
- ▶ There is no change in the performance appraisal (PA) system since the last rating. AMK conducts PA twice a year. Parameters for PA include - outputs vs objectives, organisational development, work ethics and work quality. Increments and promotions are based on the PA; only A to C grade employees (grade A- 14%, B-12% and C-10%) are eligible for increments.

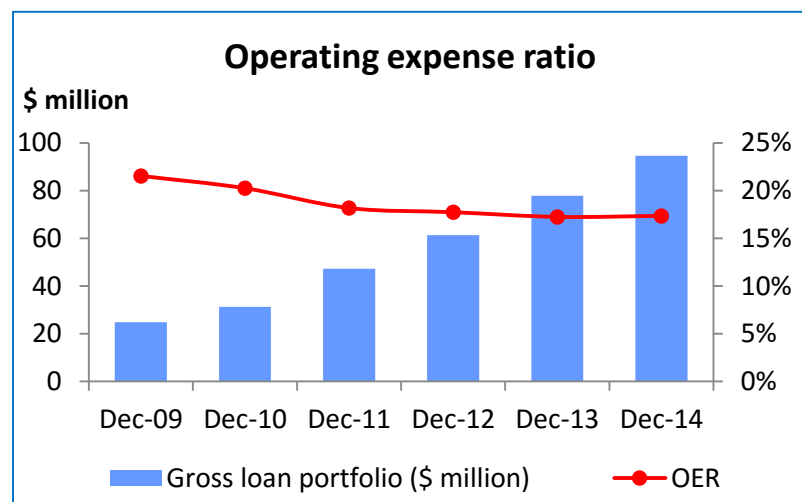
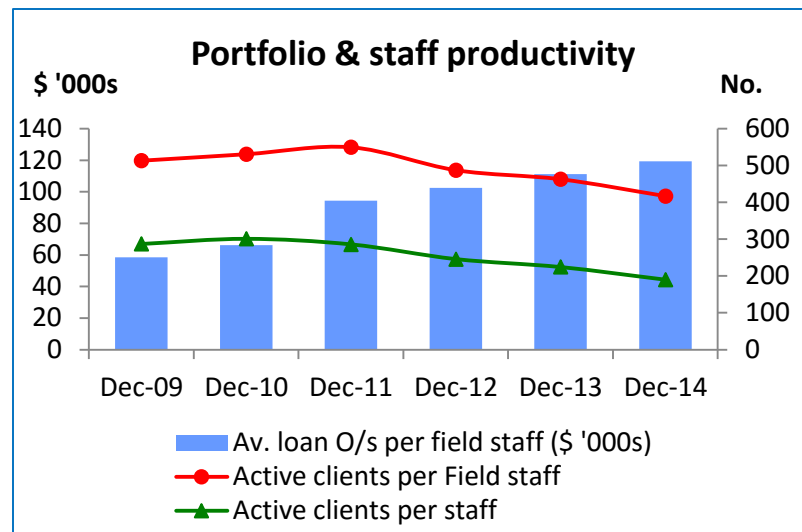


## Staff productivity – Good

- ▶ **AMK has high staff productivity** with 417 active borrowers/CO and 190 borrowers/staff. It is high by country benchmarks (218 and 71 respectively).
- ▶ Owing to significant proportion of cashier, accountant, MBO etc. in the branches who serve deposit and remittance clients, overall staff productivity is considerably lower than CO productivity.
- ▶ Declining trend in the productivity level over last three years could be attributed to high client rejection rate based on cross-finance policy.
- ▶ Due to increase in share of bigger sized individual loans portfolio per field staff has been gradually increasing.

## Operating efficiency – High, but stable for the last 3 years

- ▶ Despite high staff productivity, **AMK had high OER at 17.4% in 2014** vis-à-vis weighted average of country benchmark (8.66% for 2014 and 10.03% for MDIs). This is primarily due to high personnel cost (10.2% for AMK, 5.9% for MDIs) and small loan size (avg. loan outstanding for AMK \$291 and 1,223 for MDIs). Technological interventions and marketing of new products and services are other factors.
- ▶ The average cost per borrower (\$46) and personnel cost per borrowers (\$27) of AMK is much less than average of cost per borrower for MDIs (\$101) and personnel cost per borrower for MFI( \$60). In view of small loan size and average cost per borrower, AMK is one of the efficient MFIs in the country.
- ▶ AMK is planning to undertake loan collection by leveraging the existing agent network. In 2015 it has shifted from manual to tablet based loan processes for improving efficiencies.



# MIS and accounting

- ▶ AMK has two separate team for IT (14 member team) and Core Banking Solution (CBS) (8 member team). The team members are well qualified and experienced.
- ▶ AMK has not changed its software since the last rating. 'Abacus 1 World' for accounting and MIS is used while a different application, 'Under Tree (UT)' is being used for front end transactions. Abacus acts as back end software. An in-house developed Cube module is used for data analysis to generate report. The UT application is also installed in tablets for COs and mobiles for agents. The current **MIS is not adequate to support future expansion** in terms of scale, services and delivery channels of mobile and ATM technology..
- ▶ The management feels the need to upgrade its IT infrastructure to be able to handle the demand for mobile banking, remittance, ATM services and tablet technology. Abacus has some issues such as requiring significant time for configuration of new products and customization of existing products, lack of business intelligence (reporting) module for analysis and gaps in tablet/mobile security. AMK plans to shift to a new CBS software and in process of finalizing the vendor.
- ▶ The Abacus software works on a real time basis and is installed in all branches. The branches have internet connectivity through fibre optic channel. The Tellers are responsible for all savings and front office transactions (incl. collections). The COs enter the collection transactions in Tablets in off-line mode at the field. The Tellers verifies the cash collections and uploads the data in the software, checked by the BM or SBM/AM in sub-branch every day. **System security is adequate** coupled with regular back-ups and the availability of a disaster recovery plan; a Business Continuity Planning (BCP) conducted at least twice a year.
- ▶ Reports enable disaggregated analysis based on product, loan cycle, CO and gender. However, **the MIS is not always accurate; discrepancies in information in different reports were found during the branch visit.** The software has restricted access depending upon the user, hence management level staff at HO cannot access credit reports. Loan portfolio information is viewed by HO staff through Cube Reports. Various reports as per the requirements of the NBC and various management departments are prepared regularly.

## ...MIS and accounting

- ▶ AMK has decentralised accounting system. All expenses at branch/sub-branch level are entered by Teller and verified by the Branch Account Officer (BAO). All sub-branches accounts are managed and reconciled by the BAO. The cash balance in various currencies is also inputted in the software for the purpose of fund request.
- ▶ The branches are treated as profit centres and online accounting of branches is done. HO administrative costs and cost of funds are allocated to the branches. Performance of the branches is carefully analysed. Branch profit is one prerequisite for BMs/SBMs/AMs' incentive structure.
- ▶ All income and expenses are recorded on accrual basis. Depreciation on property and equipment is accounted on the straight line method.
- ▶ All income and expenses are recorded on accrual basis. Depreciation on property and equipment is accounted on the straight line method.
- ▶ AMK makes loan loss provision as per NBC guidelines for MDI. Besides, it provides 1% provisioning on outstanding current loans excluding staff loans. as illustrated in the table alongside
- ▶ Based on this, the loan loss reserve at 1.1% for PAR<sub>30</sub> of 0.2% as on 31 Dec'14 seems adequate.
- ▶ The financial statements and other financial information are required to be submitted to the NBC on regular basis. Consolidated financial and portfolio reports are presented to the Board during quarterly Board meetings. Various financial reports for lenders and other authorities are also generated.

Classification	No. of days past due		Allowance
	Short term (<=1 year)	Long term (>1 year)	
Sub-standard	31-60 days	31-60 days	10%
Doubtful	61-90 days	61-180 days	30%
Loss	>90 days	>180 days	100%



# Internal control systems

## Loan tracking system – *moderate*

- ▶ **The loan tracking system is of moderate quality.** AMK gives detailed orientation to group members and individual borrowers related to importance of on-time recovery during loan disbursement.
- ▶ VBP is paid commission of 4.5% on total interest collection for on-time recovery. S/he is involved in exercising group guarantee in case of overdue. In case of defaults, VBP follow it up through member house visit and ensure the repayment at the earliest. AMK charges 1% pm penalty on overdue instalments.
- ▶ AMK follows a policy of 'talk and negotiate'. In case of genuine reasons for default, a grace period is given by the CO and AM and the BM is informed. Even in case of intentional default, staff use soft collection practices. Though collateral is taken for individual loans, AMK has so far not seized collateral.
- ▶ Though follow up is done, **joint liability has not been effectively leveraged.** Group cohesiveness appeared to be weak during interaction with clients with overdue. Members paying regularly in the overdue groups were neither aware of reasons for overdue nor willing to take responsibility of ensuring regular repayment.

## Monitoring and supervision – *scope for improvement*

- ▶ There is no change in monitoring structure since the last rating. Each BM manages 3-6 sub-branches and is required to visit each sub-branch at least once in a month. However, BM may not be able to cover all sub-branches in a month.
- ▶ At the Branch/Sub-branch level, the AM/SBM is responsible for supervising the COs and ensuring compliance of procedures. AM and BM/SBM are required to visit at least 4 VBs each in a month. During sub-branch/branch visit, supervisors (RM & BM) check sample accounts and verify various operational activities.
- ▶ **During branch visits, it was observed that the new monitoring checklist was not used and findings recorded in the old format were not very qualitative.**
- ▶ To minimise operational risk, 3 VBs per month per CO has to be rotated which is not strictly done. CO maintains a Warning Sign Book which is verified by AM and BM regularly.

# ...Internal control systems

## Internal audit – *detailed*

- ▶ AMK has a separate Internal Audit (IA) team headed by a qualified and experienced professional who joined in August 2006 and reports to the Board level Audit Committee. AMK has 32 member IA team (including 21 IA Officers, 3 of them are based at HO) and plans to add 11 additional IA officers in 2015. **AMK has a detailed IA manuals, guidelines, checklist and reporting template.** The **internal audit function is overall adequate.**
- ▶ As per the policy, each branch has to be audited twice a year and HO department audit once in a year. The internal audit visit to a branch is for 2-4 weeks based on size of the branch. During branch audit, IA officer covers sub-branches attached to the branch.
- ▶ The scope of audit focuses mainly on verifying new loans, CB files, savings, money transfer, compliance with credit policies and accounting, cash management and agent transactions at the branches. At least 1% of borrowers (or 20 clients per CO covering of 50% COs), 5% of overdue clients, 2% of death clients, 1% of written off clients and 5% of agents are visited and documents are reviewed for 1%-2% of savers (different saving accounts) and 1% of remittance and micro insurance transactions.
- ▶ A report is prepared separately for every sub-office and findings are shared with the branch offices. The branch has to comply within 3 days. The IA opinion is based on various parameters and each parameter has a score and composite score is given to each branch. The audit opinion is classified into 4 categories with achieved score. The opinions are good ( $\geq 80\%$  score), satisfactory ( $\geq 70\% - < 80\%$ ), marginally deficient ( $\geq 60\% - < 70\%$ ) and deficient ( $< 60\%$ ). **Staff Incentives are linked to IA opinion;** only good and satisfactory opinion branches are eligible for incentives.
- ▶ Each IA officer is rotated once in 2 years.
- ▶ The IA team prepares a summary IA findings report bi-weekly and presents to Board Audit Committee quarterly. The monthly Executive committee also discusses IA findings for preventive action and follow-up.
- ▶ The functional audit is conducted once in a year by HO team for 1-2 weeks (including 1-2 sub-office).

# ...Internal control systems

## Risk Management – *improved risk culture and practice*

- ▶ **AMK's risk management framework is adequate and** dedicated committees are in place both at Board and management level, ensuring an adequate feedback loop. AMK has a separated risk and compliance department with 4 member team directly reporting to Board Risk Committee (BRC). AMK plan to recruit new CRO in September 2015 to strengthen risk management.
- ▶ The MFI has a detailed Risk Management Framework (RMF) and Operational Risk Management Policy approved by the Board.
- ▶ The risk and compliance team is responsible for operational risk and compliance and other risks are monitored by the respective departments. Each department has own Key Risk Indicators (KRIs) monitored monthly.
- ▶ The various management level committees (*namely Executive, ALCO, Credit, Management Risk, Product Development and IT Committees*) act as main reference and are in charge of setting risk thresholds for their business unit, 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.
- ▶ Given AMK's business model, the high volume of transactions and the continuous expansion of operations, **the operational risk is the most relevant risk area after credit risk.** The Risk Incident Report requires everyone to report an occurred incident through the online incident report form as and when incident occurs; a Heat Map consolidates all events reported on quarterly basis and presented to the BRC. Each branch has a risk register, updated by SBM and consolidated by the risk team at HO quarterly. Branches have to report all transactions >=\$10,000 to the Risk department.
- ▶ Compliance Risk has been monitored by AMK to ensure full compliance with both internal and external rules and regulations .

## Financial planning & cash management – *good, but requires cash limit at field offices*

- ▶ **The financial planning system at AMK is good.** AMK has a centralised system of financial planning and overall fund management but decentralised cash management.
- ▶ The finance department prepares various reports on a monthly basis to ensure proper asset liability management (ALM). It monitors and manages mismatches in duration, currency and interest on various assets and liabilities to analyse liquidity, interest rate and foreign exchange risks on a monthly basis.
- ▶ Business plan is revised every year and is based upon market forces and competitor analysis. Variance analysis is performed by the finance department and presented in ALCO Committee. 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.
- ▶ Cash planning is done at the branch and monitored & controlled by the Treasury department. The Teller at the branch/sub-branch updates cash sheet and fund request sheet daily in the software. The Treasury team daily monitors cash and bank balances and transfers the funds if funds are insufficient. During the assessment team's visits the branches were not found to have faced any notable fund crisis.
- ▶ Each branch has a safe (big and small safe based on size of the sub-branch) to keep the cash. Each branch/sub-branch has an account with Aceda Bank. Each branch/sub-branch has different cash limits based saving balance, average money transfer transactions, loan disbursement and loan outstanding. The branch has authority to keep excess up to 25% of cash limit with the approval of BM; the sub-branch has authority to keep excess up to 25% with the approval of AM, for >25%-35% approval is required from SBM and >35% of cash limited need to take approval from BM. Excess amount needs to be deposited at the bank. Average daily cash balances at the visited branches were often beyond the maximum permissible limit mainly to meet demand for deposit and remittance withdrawal which cannot be predicted.
- ▶ **AMK has started conducting behavioral saving analysis,** and has run several liquidity stress test scenarios to test the relevance of its contingency funding plan.

# Client Protection

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

# Client Protection Principles (CPP)

*Assessment with reference to the seven client protection principles (Smart Campaign)*

AMK formally adopted a Code of Practice for client protection in 2005 which fairly covers the client protection principles of the Smart Campaign. Additionally it includes 'inclusion' and 'freedom of choice' for clients. Commitment to client protection is also emphasized in the guiding principles of AMK.

## CPP 1: Appropriate product design and delivery

- ▶ **AMK offers its customers variety of financial services-** loans, savings , insurance, money transfer, payment services and money banking to cater to the needs of its customer base.
- ▶ AMK is planning to offer agricultural equipment and motor bike loan from July 2015. Based on client feedback home improvement loan was introduced in 2013. Increase in maximum loan size from \$2,000 to \$5,000 for individual business loan and \$300 to \$500 for VB Loan was also to meet clients' need for higher loan amount. The focus continues to be on poor which is reflected by lowest average loan size vis-à-vis competitors.
- ▶ To facilitate convenient repayment capacity, clients in same group can choose different type of products and repayment options amongst EoT, Instalment and CL based on their cash-flow. Earlier all groups in a VB had same product & tenure. However VB loans are not offered in US\$.
- ▶ Additionally to fulfil other needs of the customer base, health insurance product and a smart kid saving Account have been launched. In order to improve delivery of its services, ATM and agent network are being expanded.
- ▶ AMK has flexible repayment period based on type of product & loan size range from 3-36 months and flexible instalment payment based on type of product and cash flow (with and without monthly principal).
- ▶ **AMK develops and modifies products based on various studies like market research, client feedback, client exit and cash-flow survey.** Regular product positioning studies also leads to revision in product terms.

# ...Client Protection Principles

## CPP2: Prevention of over-indebtedness

- ▶ Sufficient emphasis is given to self-selection of members during group formation.
- ▶ The field staff visit client's home and conduct detailed analysis of the household's cash-flow (including debt repayment). The loan amount is based on the affordability of the client with loan amount not exceeding 60% of the net income of the household for VB loans. For VB loans, the maximum loan amount cannot exceed 60% of net income less other loans and for IL the value of collateral has to be at least 1.7 times of the loan amount. There is **room for improvement in the cash flow analysis** (specially individual loans) as this is not based on the actual income but estimates the potential income generated by the funded activity.
- ▶ Further cross-finance policy prevents over-indebtedness of the clients. However in last few years in order to face competition, **AMK has liberalized its cross-finance policy for VB Loans**. AMK could be the third lender subject to BM's approval if loan outstanding from all sources including AMK is within \$1,000. In practice AMK does not provide loans to clients who have borrowed from more than 2 sources. Therefore, many clients have been rejected in the 2<sup>nd</sup> cycle (around 100,000 loans were rejected for the last 3 years). RM's approval would be required if loan outstanding from all sources is between \$1,000-2,000 and approval by Head of Credit if loan is between \$2,000-3,000. **Staff in few of the visited branches were not clearly aware of the cross finance policy.**
- ▶ **CBC check is compulsorily done for all loans.** Information regarding loans from other sources is also captured in the application form.
- ▶ **CBC does not have the capacity at present to facilitate credit investigation of non-registered microfinance clients.** It is essential that this information is collected at the application stage to accurately assess the repayment capacity of the clients.
- ▶ AMK writes-off the loan outstanding in the event of client's death.

# ...Client Protection Principles

## CPP3: Transparency

- ▶ **Openness and transparency is emphasised in both Guiding Principles and Code of Practice for Client Protection.** The principle 'Freedom of Choice' complements transparency and encourage clients to make an informed choice as AMK offers a wide range of products with varied terms.
- ▶ Terms and conditions are communicated to the clients both verbally and in written form in local language. A banner with information about the products is used as a backdrop at each meeting location.
- ▶ **Loan product details not displayed at branches.**
- ▶ Loan passbook provided to clients have printed repayment schedule along with the interest rate. Details of other loan products are also printed on the flip side of the passbook. A copy of the loan agreement is given to the individual clients or VB President in case of VB Loans which specifies the loan terms. Receipts are provided for all transactions to client (IL) or VBP (VB Loan).
- ▶ The clients can also walk into any of AMK's branches and contact the branch staff to get any information.

## CPP4: Responsible pricing

- ▶ AMK charges differential interest rates (*range from 2.6%-3.0%pm for group loans and 2.0%-2.8% for individual loans*) based on place of disbursement (front office & back office), type of currency (KHR/THB/US\$), loan cycle (up to 2<sup>nd</sup> cycle s and 3<sup>rd</sup> cycle onwards) and size of loan. Besides interest rate, it charges 0.5% loan processing fee/upfront fee on loan amount and premium of 25,000 KHR (\$6) for optional accident and health insurance product. Peer MFIs (Amret, Vision Fund and TPC) also offers IL at interest rate lower than 2.0% but the maximum interest rate is 3.5%.
- ▶ **AMK charges overdue penalty of 1.0% on the installment amount.**
- ▶ Foreclosure & part pre payment allowed without any charges.



# ...Client Protection Principles

## CPP5: Fair and respectful treatment of clients

- ▶ **'Ethical Staff Behaviour' and 'Appropriate Collection Practices' codes highlight importance of treating clients with respect.** Staffs are recruited local & AMK gives adequate emphasis to behavior and communication aspects.
- ▶ Behaviour with clients is one of the parameters for performance assessment of the CO and AM. Disciplinary actions were taken against the two staffs (in 2014 & 2015) for breach of code of conduct.
- ▶ Staff incentive based on quantitative parameters (active loans and portfolio quality), however, maximum slab for active loans is >800 and staff are eligible for incentive till PAR<sub>30</sub> of 1% to avoid coercive collection.
- ▶ **The rescheduling policy at AMK allows rescheduling only after loan maturity.** The policy is yet to be approved by the Board.
- ▶ The IA and supervisory visits observe the staff behavior with clients.

## CPP6: Privacy of client data

- ▶ AMK shares indebtedness information of its clients with the CBC on a daily basis. By undersigning the 'Consent and Privacy Clause' in the application form, clients provide their consent to share their information with the CBC and NBC.
- ▶ **Staff are trained to maintain confidentiality of client information.** Agents do not have access to any data and transaction is facilitated by the pin code which is available only with the client.
- ▶ The IT systems are secure and access is role based; IT systems are audited three times in a year.

# ...Client Protection Principles

## CPP7: Mechanisms for Complaint Resolution

- ▶ Clients can register their complaint with AMK in three ways. The client can either call the field staff or walk into the branch or register their complaints on the helpline . All calls are recorded in a Helpdesk system and categorised into complaint services, customer support services and staff support services (staff calls on behalf of clients).
- ▶ Though helpline number is printed on loan card and informed to clients during the disbursement. M-CRIL team observed **extremely low awareness of the grievance redressal mechanism amongst the clients.**
- ▶ Monthly dashboard is sent to the management and discussed in quarterly Board meetings.
- ▶ AMK does not have a policy on turnaround time and escalation for client issues; however all issues are generally resolved in a day.
- ▶ Complaints related to staff fraud or misbehavior get escalated to the Head of HR, which conducts a thorough investigation for required action.

AMK has been consistently maintaining good financial performance and rated at  $\alpha+$ . It continues to maintain an excellent portfolio quality. The profitability, liquidity position, and asset liability management continues to remain good. Though the CAR has declined over the years, it is well above the regulatory requirements.

## Financial performance

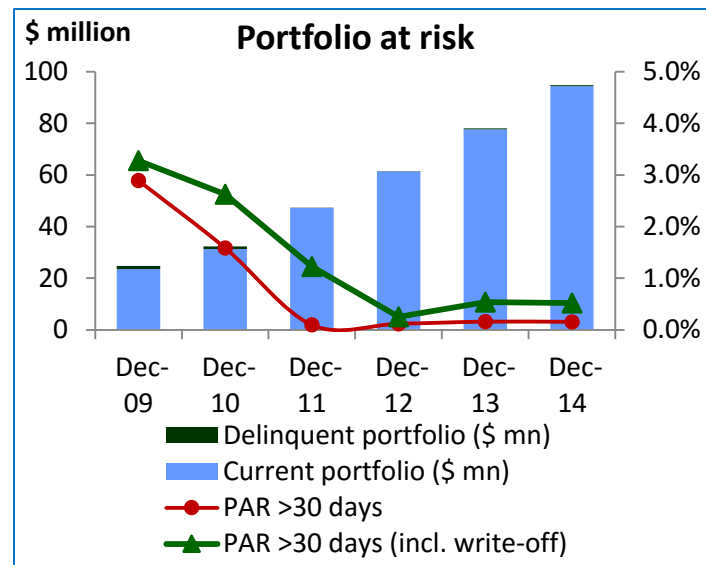
- Credit performance and portfolio quality
- Asset & Liability composition
- Capital adequacy
- Profitability and sustainability

# Financial profile

Financial Ratios	31 Dec-10	31 Dec-11	31 Dec-12	31 Dec-13	31 Dec-14
<b>Capital Adequacy</b>					
Risk Weighted Capital Adequacy ratio	35.7%	27.7%	26.1%	24.6%	23.8%
<b>Asset Quality</b>					
Portfolio at Risk30/ Gross Loan Portfolio	1.59%	0.10%	0.12%	0.16%	0.16%
Loan Loss Provision / Avg. Gross Loan Portfolio	1.4%	1.2%	0.4%	0.7%	0.6%
Loan Loss Reserve/Gross portfolio (incl. staff loans)	2.3%	1.4%	1.1%	1.1%	1.1%
Write-offs / Average Gross Portfolio	1.2%	1.4%	0.1%	0.4%	0.4%
<b>Management</b>					
Operating Expenses/ Average Gross Portfolio	20.3%	18.2%	17.7%	17.3%	17.4%
Personnel Expenses/ Average Gross Portfolio	12.7%	12.1%	10.9%	10.5%	10.2%
Number of Borrowers/Field staff	531	549	487	463	417
Number of Borrowers/ Staff	301	286	246	224	190
<b>Earnings</b>					
RoE (Net operating income/Average Equity)	6.9%	12.8%	18.6%	17.7%	17.3%
RoA (Net operating income/Average Assets)	1.9%	2.9%	3.8%	3.6%	3.5%
Portfolio Yield	35.7%	35.9%	36.2%	34.8%	33.9%
Fin. Cost Ratio (Interest & Fee exp. /Avg Portfolio)	12.0%	12.5%	12.3%	11.7%	11.0%
Operational Self-Sufficiency (OSS)	111.5%	117.5%	121.4%	119.4%	119.3%
<b>Liquidity</b>					
Av. Cash & Liquid Assets/Av. Total Assets	9.7%	7.4%	7.7%	16.2%	10.5%
Debt-equity ratio	2.56	3.76	3.74	3.77	3.74

# Credit performance and portfolio quality – *very good*

- ▶ **AMK has maintained a very good portfolio quality**; PAR<sub>30</sub> was at 0.16% on 31 December 2014 and has been low for the last four years.
- ▶ **However the portfolio quality could be undermined by considerable level of clients' cross-indebtedness** in the market and increase high ticket individual loans coupled with limited group cohesiveness and discipline and moderate quality of credit appraisal.
- ▶ **Geographically the portfolio is well diversified** across all provinces. The outstanding portfolio by sector shows a **high concentration in the agriculture sector** (55.8% of the loan portfolio), also above the internal safe limit. It however includes both animal husbandry and agri-production entailing an adequate diversification, even though a complete mapping on the crop and agri-allied is not available at the moment. Given the type of clientele and the outreach in rural areas, the agriculture sector is the core business for the institution.
- ▶ The write-off was 0.4% of the average gross portfolio during 2014 and same in the previous year.
- ▶ AMK has created a net loan loss reserve of 1.1% on portfolio outstanding on 31 December 2014, which seems adequate (over 5.5 times than total overdue loan outstanding).



## Portfolio ageing on 31 Dec 2014

O/D period (in days)	Portfolio (US\$)	PAR %
Current	94,386,749	
Up to 30 days	40,500	0.04%
31 to 60 days	31,361	0.04%
>60days	116,905	0.12%
<b>Gross portfolio</b>	<b>94,575,515</b>	<b>0.20%</b>
Write-off	343,370	0.36%

## Asset & liability structure and management – good

- ▶ Net loan portfolio to total assets ratio has been in the range of 72% to 78% for the last three years. The 78.5% ratio on 31 December 2014 is reasonable by international standards (78.4% of East Asia and Pacific) and close to 82.7%, median for all Cambodian MFIs for 2014. The net worth of AMK constituted 20.2% of the total funds on 31 December 2014 and it has been stable for the last 4 years (~20%). The deposits (incl. staff deposits) constituted 35.0% of total funds on 31 December 2014, up from 19.4% in the previous year and 10.8% in 2012. At the same time, borrowing declined from 67.8% in 2012 to 43.6% in 2014.
- ▶ **AMK has displayed good liquidity management skills and has a strong team in place** to manage the liquidity. Regular monitoring of all inflows/outflows and maturity gaps is done and is reported periodically.
- ▶ AMK has set Cash Position Ratio (cash & bank balance/total non-cash assets) target between 10%-15%; the ratio was within limit at 13.4% as on 31 Dec'14. **The cash position has been supported by an adequate cash buffer** over the last 12 months (the average liquid assets excluding balance in current account maintained with NBC stood at 10.5% over average total assets).
- ▶ The Liquidity Coverage Ratio (liquid asset/net cash outflow within 30 days) target ranges from 100% to 150%. **The liquidity coverage ratio was high** at 214.3% on 31 Dec 2014 (189.4% in May 2015).
- ▶ AMK has positive liquidity gap ratio for 3-12 months period (*see Annex-2*). **The cash and bank balance to deposits (liquid asset to savings) ratio is around 30% which is higher than the regulatory requirements** of NBC (25%), however, the ratio has been continuously declining over the years.
- ▶ AMK is exposed to Foreign Exchange (FX) risk, primarily with respect to the US\$ and THB. **AMK's FX risk management is strong.** Short position in USD is well managed through overdraft facility with Oikocredit (\$2.5 mn) and Vattanac Bank (\$1.0 mn) and also credit line facility with FTB (\$1.0mn). Moreover, the USD/KHR exchange rate has proved to be stable over the last few years. The Net open position after hedging is good at 5.1% of net worth for US\$ and 4.1% for THB (*see Annex-4*). Reduced dependence on borrowings with increased share of deposits in the fund sources is expected to lower the foreign exchange risk in next few years.

## ... Asset & liability structure and management

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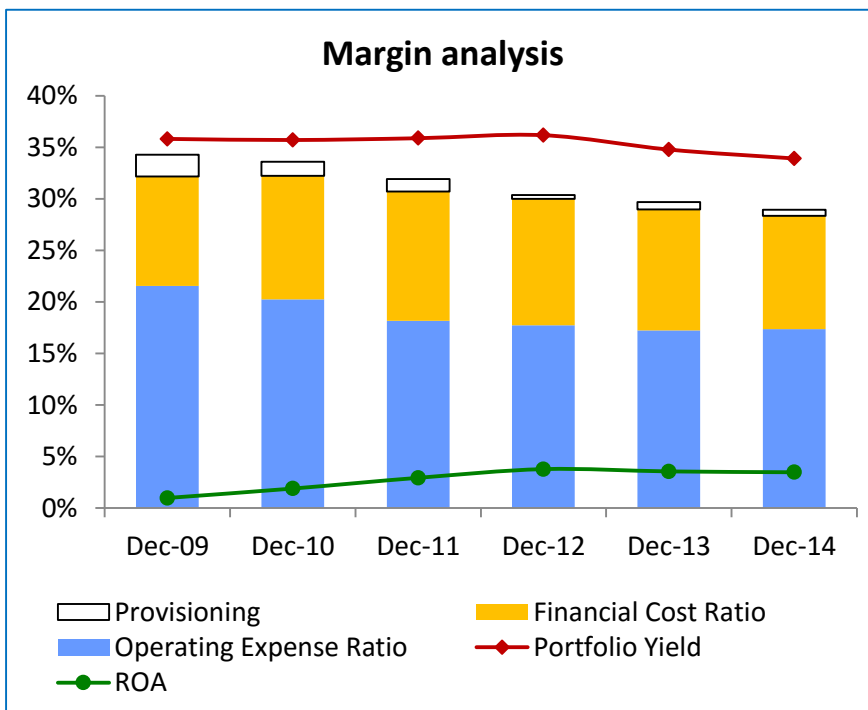
- ▶ AMK has not used any derivatives financial instruments to hedge the interest risk, since it considers that the majority of the financial assets are short term, and the interest rates can change with the market rates. **AMK conducts regular sensitivity analysis to see the impact of interest rate change on its profitability.** AMK has set Interest rate Sensitivity Exposure (Interest gap  $\leq$  12 months/Net worth) limit range from 100% to 200% and the ratio stood at 122.6% as on 31 Dec'14 (146.5% in May'15). The weighted average Net Interest Margin (NIM) is at 19% by end of May 2015.

### Capital adequacy – adequate

- ▶ **AMK's risk weighted Capital Adequacy Ratio (CAR) was good at 23.8% on 31 December 2014**, declined from 24.6% in the previous year and 26.1% before that. However, the CAR is higher than the NBC requirement (15%) for MDI. The AMK net worth increased from \$20.42 million on 31 December 2013 to \$24.02 million by end of December 2014, mainly contributed from retained surplus.
- ▶ AMK has been able to sufficiently leverage its net worth position by mobilizing borrowings to finance its portfolio.

# Profitability and sustainability – good

- ▶ **AMK has been reporting decent profitability for the last 3 years.**
- ▶ **The OER has been stable** ~17% for the last 3 years, however, still on the higher side as discussed earlier. Similarly, loan loss provisioning expenses are also stable around 0.6% of average portfolio.
- ▶ **The financial cost ratio has reducing** over the years (12.3% in 2012 to 11.0% in 2014) due to increase share of deposits (9.8% in 2011 to 32.5% in 2014) in total funds. For the same period, the portfolio yield has decreased from 36.2% in 2012 to 33.9% in 2014 because of increased proportion of low interest individual loans (22.8% of gross portfolio in 2012 to 34.8% in 2014). As a result, **RoA has declined marginally (3.8% in 2012 to 3.5% in 2014).**
- ▶ The operational sustainability of the MFI was nearly 119% for the last two years.







# Annexes

# Annex- 1: Financial Statements of AMK

## Balance Sheet on

	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
<b>ASSETS</b>					(amounts in US\$)
<b><u>Current assets</u></b>					
Cash and cash equivalents	9,079,380	16,748,193	16,973,253	14,428,879	11,631,280
Deposits at NBC	1,286,709	1,202,115	1,675,130	3,701,643	6,218,198
Deferred Tax assets	59,755	196,452	242,611	373,613	447,067
Interest receivable	643,752	1,163,512	1,291,479	1,436,694	1,504,622
Other assets	311,431	487,080	535,032	649,441	1,010,059
Staff loans	385,721	475,725	934,685	1,430,093	1,758,188
Gross loans outstanding	31,329,857	47,248,600	61,367,475	77,878,716	94,575,515
(Loan loss reserve)	(726,475)	(660,987)	(655,147)	(862,262)	(1,039,575)
Net loans outstanding	30,603,382	46,587,613	60,712,328	77,016,454	93,535,940
<b>Total current assets</b>	<b>42,370,130</b>	<b>66,860,690</b>	<b>82,364,518</b>	<b>99,036,817</b>	<b>116,105,354</b>
<b><u>Long term assets</u></b>					
Property and equipment	941,060	1,077,233	1,219,180	2,038,378	2,745,663
Intangible/other assets	586,727	459,662	539,238	530,579	369,733
<b>Total long term assets</b>	<b>1,527,787</b>	<b>1,536,895</b>	<b>1,758,418</b>	<b>2,568,957</b>	<b>3,115,396</b>
<b>Total assets</b>	<b>43,897,917</b>	<b>68,397,585</b>	<b>84,122,936</b>	<b>101,605,774</b>	<b>119,220,750</b>

## ...Balance Sheet on

	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
<b>LIABILITIES AND NETWORTH</b>					
<b><u>Current liabilities</u></b>					
Deposits	173,003	1,426,531	4,588,785	8,614,902	18,712,365
Payable	874,765	1,104,793	2,468,596	2,976,639	3,503,539
Provision for retirement & pension	503,159	745,551	1,037,140	1,427,514	1,790,556
Other current liabilities			300,797	282,496	159,650
<b>Total current liabilities</b>	<b>3,034,483</b>	<b>7,802,932</b>	<b>12,929,478</b>	<b>23,925,914</b>	<b>46,324,346</b>
<b><u>Long term liabilities</u></b>					
Long term debt	28,911,773	46,672,916	54,147,887	57,257,966	48,872,096
<b>Total long term liabilities</b>	<b>28,911,773</b>	<b>46,672,916</b>	<b>54,147,887</b>	<b>57,257,966</b>	<b>48,872,096</b>
<b>Total liabilities</b>	<b>31,946,256</b>	<b>54,475,848</b>	<b>67,077,365</b>	<b>81,183,880</b>	<b>95,196,442</b>
<b><u>Net worth</u></b>					
Share Capital	8,405,934	8,561,327	8,655,620	8,731,245	8,620,196
Share premium	-	23,646	23,906	31,786	36,688
Adv. Capital contribution			83,505	67,208	
Retained net surplus/(deficit)	2,610,488	3,558,017	5,395,539	8,282,540	11,364,089
Current net surplus/(deficit)	935,239	1,778,747	2,887,001	3,309,115	4,003,335
<b>Total net worth</b>	<b>11,951,661</b>	<b>13,921,737</b>	<b>17,045,571</b>	<b>20,421,894</b>	<b>24,024,308</b>
<b>Total liabilities and networkth</b>	<b>43,897,917</b>	<b>68,397,585</b>	<b>84,122,936</b>	<b>101,605,774</b>	<b>119,220,750</b>

## Income Statement for the period

	1-Jan-10 to 31-Dec-10	1-Jan-11 to 31-Dec-11	1-Jan-12 to 31-Dec-12	1-Jan-13 to 31-Dec-13	1-Jan-14 to 31-Dec-14
<b><u>Income</u></b>					
Interest income	9,893,958	13,466,836	19,484,349	24,034,379	29,034,421
Loan fee	201,187	306,337	381,253	518,764	642,778
Income from bank deposits	329,240	578,722	556,493	440,580	228,733
Bad debt recovered	5,011	26,968	29,527	15,614	13,605
Other income	52,860	28,548	38,069	35,788	28,979
Gain/(Loss) on foreign exchange	106,916	(10,500)	(356,797)	(213,655)	(100,801)
Payroll & payment fee					8,621
Micro insurance commission					6,988
Gain/(Loss) on disposal of properties	-	3,393	19,889	(44)	10,628
Remittance fees		1,935	100,121	201,481	343,514
<b>Total income</b>	<b>10,589,172</b>	<b>14,402,239</b>	<b>20,252,904</b>	<b>25,032,907</b>	<b>30,217,466</b>
<b><u>Financial costs</u></b>					
Interest on borrowings	2,836,265	3,857,297	5,072,176	5,385,914	5,130,206
Interest on deposits	57,288	199,756	462,251	1,117,351	2,264,556
Other financial expenses	498,897	757,752	1,201,305	1,779,932	2,216,592
<b>Gross financial margin</b>	<b>7,196,722</b>	<b>9,587,434</b>	<b>13,517,172</b>	<b>16,749,710</b>	<b>20,606,112</b>

## ...Income Statement for the period

	1-Jan-10 to 31-Dec-10	1-Jan-11 to 31-Dec-11	1-Jan-12 to 31-Dec-12	1-Jan-13 to 31-Dec-13	1-Jan-14 to 31-Dec-14
<b>Gross financial margin</b>	<b>7,196,722</b>	<b>9,587,434</b>	<b>13,517,172</b>	<b>16,749,710</b>	<b>20,606,112</b>
Provision for loan losses	382,782	467,693	203,340	500,981	537,511
<b>Net financial margin</b>	<b>6,813,940</b>	<b>9,119,741</b>	<b>13,313,832</b>	<b>16,248,729</b>	<b>20,068,601</b>
<b><u>Operating expenses</u></b>					
Personnel	3,594,529	4,650,176	6,001,542	7,443,341	8,917,027
Administrative expenses	1,119,905	1,196,503	2,088,363	2,791,118	3,553,581
Travel	361,407	473,555	689,935	826,767	1,058,388
Other	228,030	204,863	444,542	520,817	790,205
Depreciation	420,679	450,914	515,896	592,620	864,429
<b>Total operating expenses</b>	<b>5,724,550</b>	<b>6,976,011</b>	<b>9,740,278</b>	<b>12,174,663</b>	<b>15,183,630</b>
Tax	313,281	493,057	688,057	764,951	1,043,010
<b>Net surplus (after tax before donations)</b>	<b>776,109</b>	<b>1,650,673</b>	<b>2,885,497</b>	<b>3,309,115</b>	<b>3,841,961</b>
Non operational income (grants)	159,130	128,074	1,504		161,374
<b>Profit after tax &amp; donations</b>	<b>935,239</b>	<b>1,778,747</b>	<b>2,887,001</b>	<b>3,309,115</b>	<b>4,003,335</b>

## Annex- 2: Liquidity risk analysis

Description (KHR in million)	Total	up to 1 month	1-3 months	3-12 months	1-5 years	>5 years	Non- maturity
Cash & bank balance	<b>25,603</b>	25,603					
Deposit with banks	<b>21,794</b>	20,897			897		
Reserve with NBC	<b>25,339</b>			3,513	-		21,826
Loan to clients	<b>388,324</b>	9,799	36,984	234,954	104,188	2,398	
Other assets	<b>7,157</b>	3,717		148	9	303	2,979
	<b>468,217</b>	<b>60,017</b>	<b>36,984</b>	<b>238,614</b>	<b>105,095</b>	<b>2,702</b>	<b>24,805</b>
Deposits	<b>160,109</b>	68,496	17,939	41,543	32,130		
Borrowings	<b>199,154</b>	6,400	8,900	41,533	85,831	56,490	
Other liabilities	<b>17,488</b>	3,628	12,164	1,696			
<b>Total Liabilities</b>	<b>376,750</b>	<b>78,525</b>	<b>39,003</b>	<b>84,772</b>	<b>117,961</b>	<b>56,490</b>	
<b>Maturity gap</b>	<b>91,467</b>	<b>(18,508)</b>	<b>(2,019)</b>	<b>153,842</b>	<b>(12,866)</b>	<b>(53,788)</b>	<b>24,805</b>

## Annex- 3: Interest rate risk analysis

Description (KHR in million)	Total	up to 1 month	1-3 months	3-12 months	1-5 years	>5 years	Non- interest
Cash & bank balance	<b>25,603</b>						25,603
Deposit with banks	<b>21,794</b>	19,559			897		1,338
Reserve with NBC	<b>25,339</b>			3,513			21,826
Loan to clients	<b>388,324</b>	9,799	36,984	234,954	104,188	2,398	-
Other assets	<b>7,157</b>						7,157
	<b>468,217</b>	<b>29,358</b>	<b>36,984</b>	<b>238,466</b>	<b>105,085</b>	<b>2,398</b>	<b>55,924</b>
Deposits	<b>160,109</b>	68,496	17,939	41,543	32,130		
Borrowings	<b>199,154</b>	6,400	8,900	41,533	85,831	56,490	
Other liabilities	<b>17,488</b>						17,488
<b>Total Liabilities</b>	<b>376,750</b>	<b>74,896</b>	<b>26,839</b>	<b>83,076</b>	<b>117,961</b>	<b>56,490</b>	<b>17,488</b>
<b>Maturity gap</b>	<b>91,467</b>	<b>(45,538)</b>	<b>10,145</b>	<b>155,390</b>	<b>(12,875)</b>	<b>(54,091)</b>	<b>38,437</b>
<b>Interest Rate Sensitivity Exposure (a/b)</b>				<b>122.6%</b>			
<i>Interest rate gap ≤ 12 months (a)</i>				119,996			
<i>Net worth (KHR in mn) (b)</i>				97,899			

## Annex- 4: Foreign exchange risk

Description (KHR in million)	KHR (million) equivalent			
	Total	KHR	US\$	THB
Cash & bank balance	<b>25,603</b>	13,432	11,186	985
Deposit with banks	<b>21,794</b>	14,058	6,302	1,434
Reserve with NBC	<b>25,339</b>	25,117	222	
Loan to clients	<b>388,324</b>	303,177	61,073	24,073
Other assets	<b>7,157</b>	5,229	1,566	361
	<b>468,217</b>	<b>361,014</b>	<b>80,350</b>	<b>26,853</b>
Deposits	<b>160,109</b>	107,787	50,194	2,128
Borrowings	<b>199,154</b>	79,971	102,954	16,228
Other liabilities	<b>17,989</b>	10,969	6,697	323
<b>Total Liabilities</b>	<b>377,252</b>	<b>198,728</b>	<b>159,845</b>	<b>18,679</b>
<b>Gap</b>	<b>90,965</b>	<b>162,286</b>	<b>(79,495)</b>	<b>8,174</b>
<b>Off-balance sheet item</b>				
Foreign exchange swap		(51,801)	55,998	(4,197)
Foreign exchange forward contracts		(28,525)	28,525	
<b>Net open position after hedging</b>	<b>90,965</b>	<b>81,960</b>	<b>5,028</b>	<b>3,977</b>
<b>Net open position/Equity</b>		<b>83.7%</b>	<b>5.1%</b>	<b>4.1%</b>



## Annex- 5: Profile of the Board

SNo.	Board Member	Position on Board	Experience	Since
1	Mr. Tanmay Chetan	Chairman & Chairperson of Remuneration, Nominations & Governance Committee	Microfinance (Ratings, Consulting & Implementation)	Inception
2	Mr. Patrick Peter Power	Director, Member of Social Performance Committee & Audit Committee	Microfinance, Development	2006
3	Ms. Rebecca Ann McKenzie	Director, Member of Remuneration, Nominations & Governance Committee	Investment Banking, microfinance	2008
4	Mr. Tip Chanvibol	Director, Member of Remuneration, Nominations & Governance Committee	Law	2006
5	Mr. Adrian Graham	Director, Chairperson of Audit and Finance Committee & Member of Risk Committee	Finance (Audit & Advisory)	2010
6	Ms. Blandine Claudia Marie Pons	Director, Chairperson of Risk Committee, Member of Social Performance Committee	Microfinance (Ratings, Consulting & Investments)	2013
7	Mr. Joshua Morris	Director, Member of Remuneration, Nominations & Governance Committee	Marketing, Investment Advisory	2014
8	Ms. Hannah Siedek	Director, Member of Risk Committee	Microfinance Strategy & Technology	2014
9	Mr. Kea Borann	Executive Member	Development, Microfinance	2012

Additionally, Frances Sinha (co-founder and ED of EDA Rural Systems) and Olga Torres (Head of Research at the Agora Microfinance Partners LLP) are members of the Social Performance Committee at AMK. Heng Seida, CA and CFA by profession is a member of the Audit and Finance Committee and Michael Goh (Adjunct Senior Lecturer for Risk Management with UOL-LSE and the Master Trainer for HSBC-Global Compliance Risk Project in Asia) is a member of the Risk Committee.

## Annex- 6: 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- 7: 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- 8: M-CRIL rating grades

M-CRIL Grade	Description
$\alpha+$	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➤ Most highly recommended
$\alpha$	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
$\beta$	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
$\gamma$	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.*