

AMK Microfinance Institution Plc (AMK)

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

March 2023

Microfinance Institutional Rating – update 6

Investment Grade	Above	α	α+	Jun 2013	July 2015	July 2018	March 2023	
			α					
			α-					
		β	β+					
β								
Below		β	β-					
			γ	γ+				
		γ						
	RATING				α	α	α	α
RATING OUTLOOK*				positive	positive	Positive	Positive	
Dimensions rated				Grade				
Governance & strategy				α	α	α	α	
Organisation & Management systems				α	α	α	α	
Financial performance				α+	α+	α	α	

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

Visit: 12-20 December 2022

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Disclaimer

- ▶ Our services were performed and this Report was prepared in accordance with the Engagement Letter subject to the terms and conditions included therein.
- ▶ The information captured in this Report is based on the documentation and information received from time to time from AMK Microfinance Institution Plc (AMK). The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 30 September 2022, 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 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 AMK 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.
- ▶ Fusion 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.
- ▶ Based on the information provided by AMK, M-CRIL has undertaken desk and e-interview based analysis for this rating report. The revised rating report will then be issued upon completion of the full rating process. Further, owing to lockdown in various states, M-CRIL team was unable to verify all the credit bureau data with loan pass-book of the borrowers.

Structure

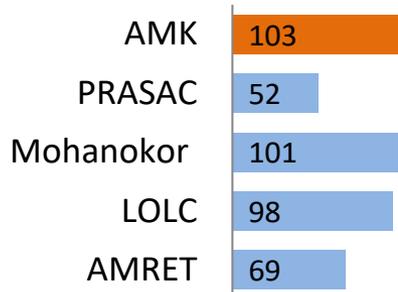
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Rating rationale

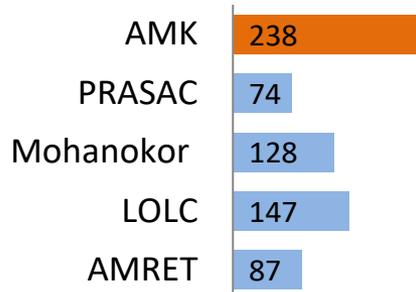
- ↑ **Experienced MFI, Board and management team:** AMK is the one of the country's oldest and largest microfinance institutions. It has an active nine-member Board of Directors (including three independent directors and three women members). There is a strong and qualified second line of management with extensive domain experience.
- ↑ **Diversified funding profile:** AMK has a diverse funding profile, having relationships with a variety of lending partners, including NBFCs and banks. On 30 September 2022, the share of borrowings was approximately 88.1% from banks and 11.4% from NBFCs.
- ↑ **Adequate systems and internal controls:** AMK has standardised its operational processes, HR system, and management information system (MIS). AMK's accounting, MIS, monitoring, and internal audit systems are adequate.
- ↑ **Reasonable capital adequacy:** On 30 September 2022, AMK has a reasonable risk-weighted Capital Adequacy Ratio (CAR) of 20.6%, compared to the minimum regulatory requirement of 15.0%. The CAR is now 18.6% which is higher than it was in December 2021.
- ↑ **Comfortable liquidity position:** For the last three years, AMK has had a comfortable liquidity position. On 30 September 2022, cash and bank balances accounted for 10.0% of total assets, sufficient to cover debt servicing obligations for the next three months.
- ↑ **Stable profitability:** A high portfolio risk ratio is putting pressure on margins but AMK still generates positive returns, with its Return on Assets (RoA) remaining stable at around 1.9% over the last three years.
- ↑ **Improving operating efficiency** Because of an increase in the share of individual loan portfolio, the Operating Expense Ratio (OER) has been decreasing (from 11.3% in FY2019 to 8.4% in Jan-Sep 2022).
- ↓ **High competition:** AMK faces stiff competition from MDIs, banks, and MFIs in all of its operational areas. As a result, the majority of clients have multiple loans, and there is a high rate of client dropout (21.2%) and staff attrition (17.3% between January and September of this year).
- ↓ **Lower Portfolio quality:** A spillover of the COVID pandemic has meant that the Portfolio at Risk (PAR30) was high at 4.1% on September 30, 2022, significantly higher than Peer MDIs. AMK is working to reduce its PAR to pre-COVID levels of 1%.

Benchmarking (September 2022)

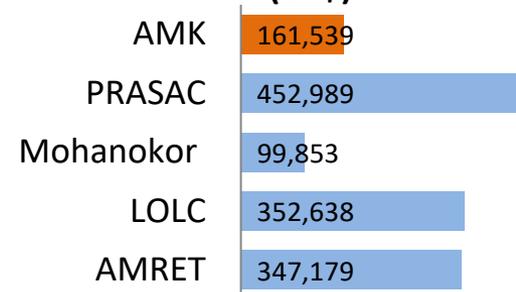
Borrowers per staff



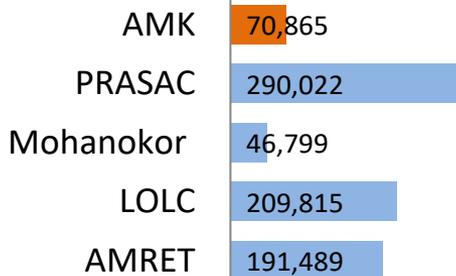
Depositors per staff



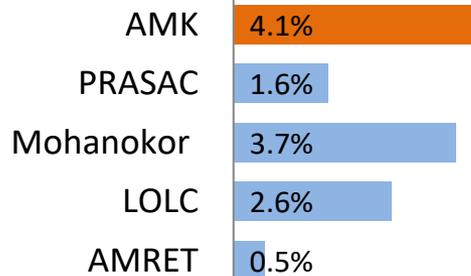
Avg. Outstanding per staff (US\$)



Avg. Deposit per staff (US\$)



PAR30



Loan Restructure Ratio



Source: CMA data Q3 of 2022 (for MDIs)

Operational & Financial Performance

Main Performance Indicators

	Dec-19	Dec-20	Dec-21	Sep-22
Gross Portfolio (US\$ mn)	321.04	366.12	481.83	579.12
Number of active loan accounts	398,465	386,640	396,239	399,017
Average Loan Outstanding (US\$)	806	947	1,216	1,451
Total Savings (US\$ mn)	182.84	209.68	251.66	258.87
Number of deposit accounts	1,359,755	1,451,813	1,450,506	1,451,508
Average deposit (US\$)	134	144	174	178
Portfolio at Risk (PAR ₃₀)	0.86%	1.24%	1.05%	4.10%
Borrowers per field staff	197	187	170	177
Portfolio Yield	20.8%	20.8%	19.5%	18.5%*
Operating Expense Ratio (OER)	11.27%	10.47%	9.63%	8.42%*
Financial Cost Ratio (FCR)	8.26%	7.28%	6.84%	6.35%*
Return on Assets (RoA)	1.83%	1.71%	1.85%	1.89%*
Capital Adequacy Ratio (CAR)	20.73%	20.43%	18.60%	20.57%
Debt Equity Ratio	2.29	2.09	2.52	2.50

* Annualized

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.

Introduction

- ▶ AMK Microfinance Institution Plc (AMK) is a licenced microfinance deposit-taking institution founded in 1990 by Concern Worldwide Cambodia and incorporated as a public limited company with the Ministry of Commerce in 2003. In 2010, AMK obtained a licence as a Microfinance Deposit-taking Institution (MDI) from The National Bank of Cambodia (NBC)
- ▶ AMK is one of Cambodia's leading financial institutions in terms of outreach. AMK operates over 150 branches (including 115 sub-branches) and has approximately 6,000 agents nationwide. AMK offers a wide range of products and services, such as loans, deposits, remittances, microinsurance, bill payment services, payroll, leasing, ATMs, and CDMs, particularly the mobile banking app. Market research and customer feedback are used to design and improve the products.
- ▶ The MDI has expanded its coverage across the country's provinces, districts, and communes, reaching 90% of the villages. AMK reported 399,017 active borrowers with US\$579.1 million in portfolio and 1.45 million deposit accounts with US\$ 258.9 million (38.0% of total source of funds) as of 30 September 2022. Some 79.7% of these borrowers were women. AMK uses both Group or Village Bank (VB) and individual lending methods; VB borrowers account for 62% (reduced from 70% in December 2021) of the total number of clients. AMK had a total of 3,585 employees, with 62.8% working in the field.
- ▶ AMK is owned by Shanghai Commercial and Savings Bank (SCSB) Limited, one of Taiwan's largest commercial banks.

Organisational Structure

- ▶ The organisational structure has been streamlined, resulting in increased accountability and clarity of responsibilities.
- ▶ Mr Kea Borann, the CEO, is assisted by the Chief Retail Business Officer (CRBO), the Chief Finance Officer (CFO), the Chief Information Officer (CIO), and the Chief Commercial Business Officer (CCBO); in addition, various department heads report to the CEO.
- ▶ The company has 22 departments, including Retail Credit, Retail Deposits & Services, Bancassurance, Leasing, Commercial Credit, Commercial Deposits & Services, Value Chain Finance, Finance, Treasury, Internal Audit, Product Development, Core Banking Support, Contact Center, Human Resource (HR), Training, Agent Management, IT Infrastructure, Legal & Compliance, Risk Management, Research, and Marketing & Communication
- ▶ AMK's expansion strategy is based on a hub and spoke model, with the branch serving as the central entity and sub-branches (small units/offices) attached to it.

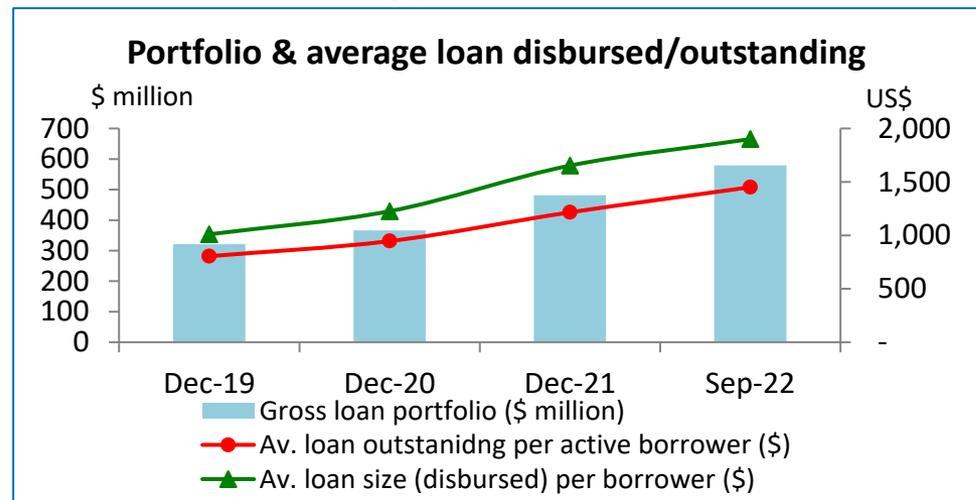
The organisation structure is set out in **Annex 3**

Microfinance policies

- ▶ A detailed credit and product manual is in place; it is updated on a regular basis to reflect changes in market conditions.
- ▶ Loan applications are completed by a Credit Officer (CO), appraised by the CUQM, and verified by the Area Manager (AM)/Branch Manager (BM). A senior member of the team approves the loan depending on its size.
- ▶ CO performs a thorough cash flow analysis. The Debt Service Ratio (DSR) (average monthly net income/total monthly debt liabilities) is required to be greater than 1.33 times net monthly income.
- ▶ In case of individual loans, the AM verifies collateral valuation and loan guarantor information for individual loans. Subsequently, the loan is approved by the AM/BMs . AM can approve small loans up to USD 5,000.
- ▶ Before making a decision and disbursing a loan, the branch has to conduct a credit history check with the Credit Bureau Cambodia (CBC).
- ▶ Loans are disbursed in the field for group loans and at the branch for individual loans. Borrowers are charged a loan fee and an insurance fee at the time of disbursement. Loan Utilisation Checks (LUC) are required for all loans and are performed by CO/AM within one month of disbursement.
- ▶ Normally, the CO collects loan instalments at VB meetings on the designated day for group loans and groups may choose to pay at branch office or an Agent. But clients who have individual loans deposit their instalment amount at AMK branches or with Agents.
- ▶ For group loans, the Village Bank President (VBP) is eligible for an incentive of 4.5% of interest collected for on-time payment. VBP receives 3% for the enabling the collection loan overdues.

Loan products

- ▶ AMK offers a diverse range of loan products. It provides 16 different types of loans to its clients (including one group loan product) and three different loan products to its employees.
- ▶ Responding to client demand, AMK launched a car leasing product in 2022. This product is customized according to client needs.
- ▶ AMK charges 18% per annum (pa) for retail loans and 7.5% to 18.0% pa for commercial loans, depending on the type of product, loan size, and loan currency. AMK charges 7.5% p.a. on SME bank loan and 10% p.a. on staff loans (except housing loans, which are at 5%).
- ▶ Furthermore, AMK charges a loan processing fee ranging from 1% to 4%, depending on the type of product and loan size. AMK also collects 10% of the loan amount for mandatory saving for group loans.
- ▶ Loan product details are provided in **Annex 4** and **Annex 5** saving products.
- ▶ Both average loan disbursed and average loan outstanding balance have been increasing gradually for the last 4 years. For the period Jan-Sep 2022, the average loan disbursement per client and average loan outstanding per active borrower were US\$1,901 and US\$1,451 respectively.



Governance and strategy

Board Composition

Alignment of Mission with practise

Operational growth & Strategy

Competition

Second line of leadership

Fund mobilization

Governance and strategy

Governing Board – *strong*

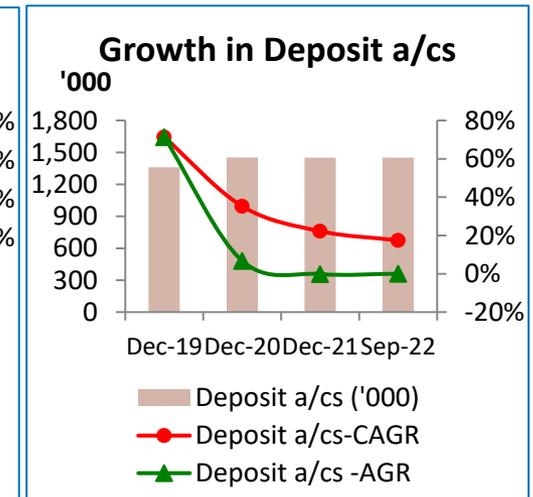
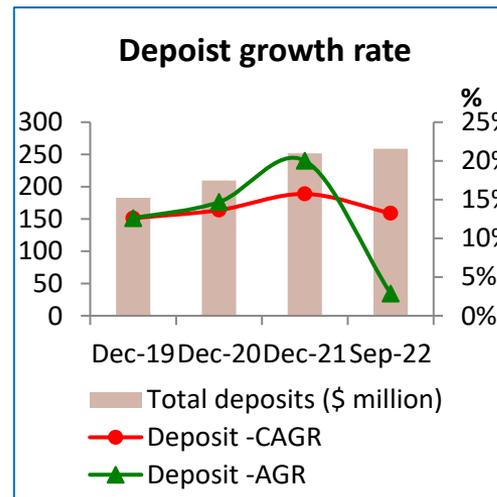
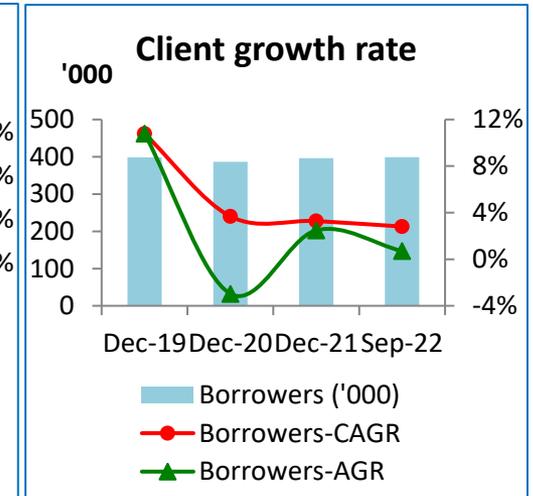
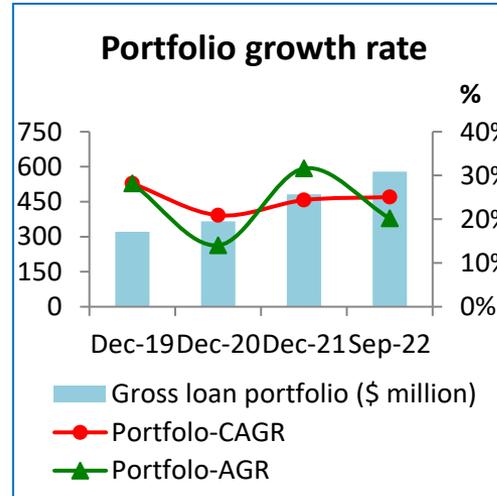
- ▶ Agora Microfinance transferred its ownership in AMK to the Shanghai Commercial and Savings Bank (SCSB) in two stages, which were completed in August 2020. SCSB now owns all of AMK's equity.
- ▶ After the changes in the shareholding, the new Board is being constituted. The Chairman of the Board is Mr. John Con-Sing Yung, Managing Director of SCSB.
- ▶ AMK's governance currently consists of eight non-executive Directors, in addition to the CEO, who serves as the management representative on the Board. There are three independent directors and three women directors. AMK's Board of Directors is made up of qualified professionals with extensive experience in banking and finance, management, commercial Cambodian law, human resource development, microfinance, commercial banking, and social performance management
- ▶ There are five Board committees: Remuneration, Nominations, and Corporate Governance Committee (RNCG), the Asset and Liability Committee (ALCO), the Social Performance Committee (SPC), the Audit and Finance Committee (AFC), and the Board Risk Committee (BRC). The audit committee and BRC and RNCG are led by the Independent Directors. The committees are active and provide valuable advice to the Board.
- ▶ Besides the Board committees, AMK has eight executive committees: Asset and Liability Management Committee, IT, Credit risk, Management risk, Branch Management, Product Development, IT Strategy, and Learning and Development.
- ▶ The Board meets four times a year. During these meetings, strategic initiatives and key policies are discussed. The Board meets to provide leadership and strategic direction, objectively review management decisions, and discuss the specific performance of each department.

Operational and growth strategy – good

- ▶ As of 30 September 2022. Among the country's MDIs, **AMK ranks first in terms of depositors, second in terms of borrowers**, and fourth in terms of loan portfolio and deposit amount.
- ▶ AMK's borrowers are **graduating from group-based lending to individual lending**. As on 31 December 2022, the individual loan portfolio made up 74% of the overall portfolio, up from 40% on 31 December 2017.
- ▶ In order to compete, AMK plans to **concentrate on the agricultural sector** with value chain finance & crop insurance, **environmental/climate** protection with green finance, **education sector** with educational loans and **affordable housing**, and so on.
- ▶ AMK will continue to **grow and diversify credit operations by expanding to new villages** with some new and innovative products and **plan to cover 100% of villages in the country**. Periodic loan studies, competition analyses, and client satisfaction surveys are used to inform operational strategy.
- ▶ AMK is currently concentrating on **innovative technology and agent network** to give customers and depositors improved access to a variety of products and services.
- ▶ Following Wing, a mobile banking service provider, **AMK has a large agent network (~6,000 agents) in the country** that it uses to reach every village and client with its range of products and services.
- ▶ **A five-year business plan** is prepared by AMK and approved by the Board. Every year, the business plan is updated to reflect changes in the market. For business plan modification, AMK uses a bottom-up approach with an emphasis on client acquisition and retention, deposits and remittance, microinsurance, and the launch of new products. According to business plan, **AMK intends to increase its portfolio to US\$1.7 billion and US\$1.1 billion in deposits** by the end of 2027.

...Operational and growth strategy

- ▶ In the last four years,, AMK had modest **growth in its portfolio (CAGR of 25.0%)** and **slow growth in its borrower base (CAGR of 2.8%)**. Despite the fact that COVID-19 caused a decrease in borrowers' growth rates (*-3.0% of annual growth rate—AGR in 2020*), portfolio growth rates have been progressively rising as a result of an increase in average loan size and the switch from group loans to individual loans.
- ▶ Due to competition, AMK has had **significant client dropout rates over the past four years** (ranging from 20.5% to 25.3%). Competition and the quality of services are adequately assessed by monthly market surveys, effective feedback, annual satisfaction surveys and exit surveys.
- ▶ Deposit accounts grew at a CAGR of 17.5%, while deposit amounts grew at a CAGR of 13.2% over the past four years.



Competition – *very high*

- ▶ **Cambodia is a highly competitive market** with a diverse product range but slight differentiation.
- ▶ **AMK competes with MDIs, Banks, and MFIs.** AMK is experiencing increased **client dropout as well as staff turnover as a result of competition.** Currently, AMK rejects approximately 20% of its clients due to multiple lending. AMK conducts client exit interviews to determine the reasons for dropouts.
- ▶ Despite the increase in multiple loans, AMK will be able to expand its client and depositor base and portfolio due to its strong client relationships, stringent member selection, and competitive interest rates.
- ▶ AMK actively monitors market penetration using data from various sources. AMK has revised its operational policies and products in response to feedback from field personnel and clients.
- ▶ AMK intends to diversify its products and services in order to remain competitive.

Second line of leadership – *stable and well experienced*

- ▶ **AMK has a strong and qualified second line of management.** The second line consists of the CFO, CRBO, CIO CCBO and 22 heads of departments. They are well qualified and experienced professionals.
- ▶ Department heads are part of the various executive committees, and their ownership has been built through involvement in monthly review meetings for taking strategic decisions. The committee in turn oversees the broader management team.

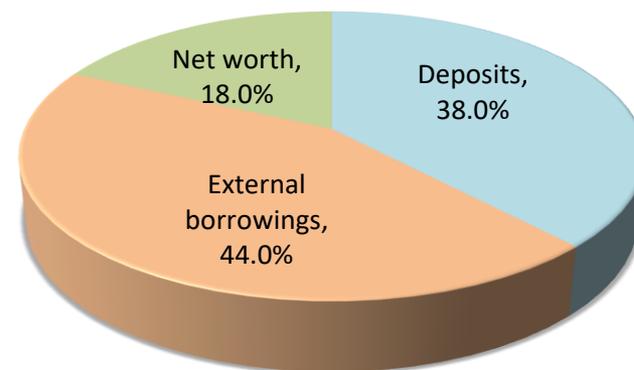
Fund mobilization

- ▶ AMK has a diverse funding profile, with relationships with a variety of lending partners, including non-bank finance companies (NBFCs), banks, and microfinance institutions (MFI).
- ▶ External borrowings by AMK include term loans, overdrafts, sub-debt, and bank to bank loans.
- ▶ AMK raised borrowings of US\$115.68 million in FY2021 and US\$ 151.86 million in the third quarter of FY2022.
- ▶ As of 30 September 2022, AMK had US\$291.4 million borrowing, with banks accounting for 88%, NBFCs for 11%, and MFIs accounting for the rest.
- ▶ AMK has a comfortable liquidity profile with strong funding support from financial institutions and depositors, with the share of external borrowings increasing from 38.9% in December 2021 to 44.0% in September 2022.

Mobilisation of Borrowings

Year	Bank	MFI	NBFC	Total
2020	44.57		10.77	55.34
2021	96.68	1.36	17.64	115.68
2022	149.16		2.70	151.86

Source of Funds on 30-Sep-22



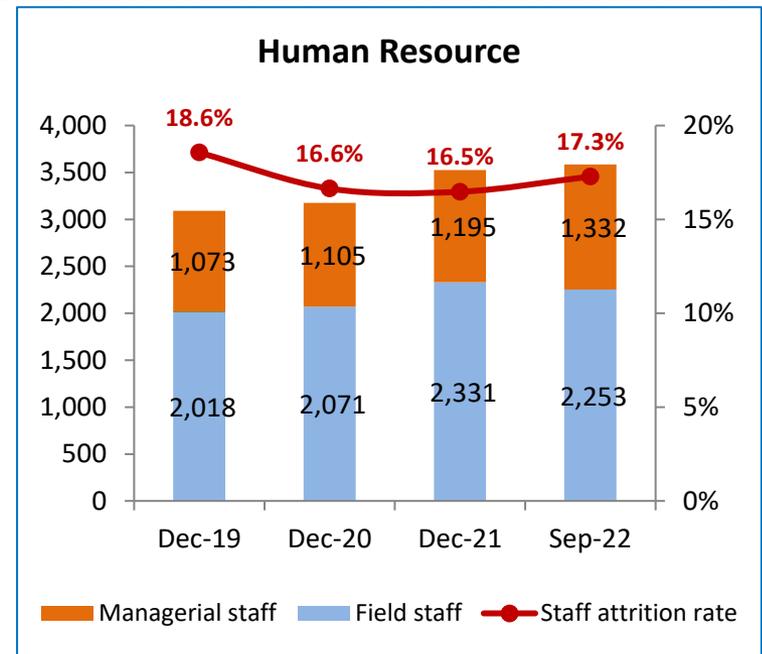
Organisation and Management

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

Organisation and management

HR quality and management – good

- ▶ AMK has separate Human Resources (HR) and Training departments. Both teams report to the CEO directly.
- ▶ HR policies and procedures for recruiting, training, remuneration, appraisal, transfer, promotion, exit, and grievance procedures are clearly defined.
- ▶ Suitable candidates are found through a variety of channels. For new employees, it has a formal induction programme that includes both classroom (2-3 weeks at HO) based on different positions and on-the-job training (at least 2 weeks).
- ▶ The staff of AMK is of good quality. Employees are well-versed in the organization's processes and microfinance operations.
- ▶ AMK has a performance incentive system based on portfolio quality, number of clients managed, and portfolio size
- ▶ AMK provides a well-structured training programme. In FY2021, the training team delivered 1,041 trainings (including 519 refresher courses) to 36,637 attendees.
- ▶ Employee turnover is significant, with 17.6% during January-September 2022 (up from 16.5% in FY2021), which is slightly higher than the industry average of 14.4%. For the past four years, AMK has the same level of staff attrition.



MIS and accounting

- ▶ AMK has three departments within IT & MIS: Core Banking System (CBS), Management Information System (MIS), and IT infrastructure, all of which report to the CIO.
- ▶ AMK's MIS and accounting practices have been centralised. It has been using T24 software, a core banking system (developed by Temenos) since 2019 and stored all products.
- ▶ AMK uses the mobile/tablet application for client sourcing, appraisal, processing, and disbursement, which is integrated with the CBC for checking of credit history.
- ▶ The system is secure, with proper user-level controls and regular MFI back-ups, and data is saved in the cloud.
- ▶ AMK made significant investment on its IT infrastructure and continues to invest in innovative technology. The MIS is capable of disaggregating data on social indicators, portfolio quality and financial performance. The software generates flexible reports.
- ▶ AMK maintains internal servers at AMK HO for data storage and backup. In case of system downtime, a mirror interface of the server is kept. A daily automatic backup is performed. For user access, a physical firewall is in place to protect data, and passwords must be changed on a quarterly basis.
- ▶ AMK has a Business Continuity Plan (BCP) and Disaster Recovery plan in place that is reviewed on a regular basis and drills are also held at pre-determined intervals.

Internal control systems

Loan tracking system – *Scope for improvement*

- ▶ Follow-up of loan overdues is formalised and systematic. The AMK MIS can track loan overdues in real time. The VB President (VBP) plays an important part in loan monitoring and collection. VBP is paid a commission of 4.5% on total interest collection for on-time recovery.
- ▶ AMK's credit assessment mechanism is moderate given the increased share of large size IL loans.
- ▶ In the event of a late payment, the CO invokes joint liability at the first instance of overdue. If the CO is unable to collect repayment on the day of default, the AM and BM will make every effort to recover the overdue loans.
- ▶ The loan overdue of members is also tracked daily at the HO.

Monitoring and supervision – *scope for improvement*

- ▶ AMK has an effective monitoring and management system in place. Each BM oversees 3-5 sub-branches, and they must make at least one monthly visit to each one. Each PM is responsible for 2 to 8 sub-branches and must visit at least once per month.
- ▶ The AM/BM is in charge of managing the COs at the Branch/Sub-Branch level and ensuring that protocols are followed.
- ▶ For MSME loans (loan size USD 5,000-20,000), SCO performs a 100% utilisation check within a month of disbursement and a yearly post check. For SME (USD 20,000-100,000), the AM/RS/SME manager performs a 100% utilisation check after one month of disbursement, as well as a yearly post check.
- ▶ Every 6 months, AM must rotate VBs among COs under their supervision.

...Internal control systems

Internal audit – *detailed*

- ▶ AMK maintains an independent Internal Audit (IA) team as well as a risk management team, both of which are led by qualified and experienced individuals who report to the Board.
- ▶ The internal audit team consists of 47 people (incl. 15 members at HO). At least once a year, the IA team visits all branches and departments. If a branch is rated as High Risk, it may be visited more than once. Departments are visited based on the annual plan developed from risk assessments.
- ▶ An IA report is prepared separately for every branch and findings are shared with the branch offices. The detailed report is shared and responded to on a daily basis, and the summary report with audit opinion is shared within 10 working days.
- ▶ The auditors compile their observations and share them with AFC and senior management on a monthly basis. The consolidated findings are presented to the Board level AFC on a quarterly basis.

Risk Management – *improved and adequate*

- ▶ AMK has an 11-person team led by the Head of Risk. AMK's risk management framework is adequate, and dedicated committees at both the Board and management levels are in place.
- ▶ The governance and operations have been linked with risk management measures. Appropriate processes and tools are in place for identifying, assessing, measuring, reporting, and managing risks.
- ▶ They monitor regularly the Key Risk Indicators (KRIs) with threshold limits for each department.
- ▶ During COVID, AMK's ALCO assessed the liquidity risk, reviewed and monitored stress testing modelling, and reviewed & monitored the impact of Covid-19 on Asset and Liabilities Management.
- ▶ The risk team has reviewed and updated the required policies on a regular basis. The risk policies are approved by the Risk Committee (RC) at the Board level. The RC is in charge of reviewing the RM strategy, ensuring its effectiveness, and ensuring compliance with various risk parameters.

Cash Management and Liquidity – *adequate*

- ▶ AMK has centralised financial planning and cash management. Cash planning is performed at the branch and monitored and controlled by the Treasury department. The Teller at the branch/sub-branch updates the cash sheet and fund request sheet in the software on a daily basis. The Treasury team monitors cash and bank balances on a daily basis and transfers funds if funds are insufficient.
- ▶ To keep the cash, each branch and sub-branch has a fireproof safe. AMK has standard policies for cash limits and cash controls that are reviewed on a regular basis.
- ▶ AMK's collection mechanism is satisfactory. It intends to improve collection efficiency through the use of a mobile application.
- ▶ **The liquidity position of AMK is adequate:** As on 30 September 2022, cash and bank balances (*excluding NBC deposits*) represented 10.0% (*if NBC deposits are included, the figure rises to 18.1%*) of total assets (up from 7.4% in December 2021). As on 30 September 2022, the current cash and bank balance of US\$69.6 million is sufficient to cover debt servicing obligations for the next three months.



Financial performance

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

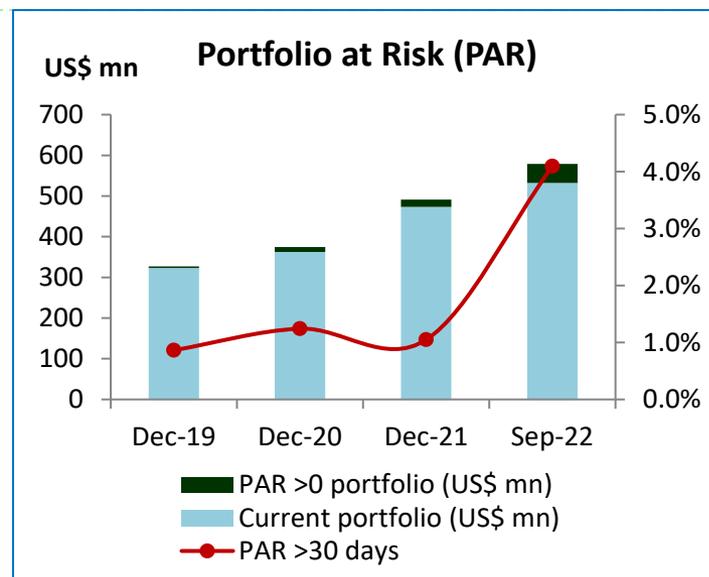
Financial profile

Financial Ratios	Dec-19	Dec-20	Dec-21	Sep-22
Capital Adequacy				
Risk Weighted Capital Adequacy ratio	20.7%	20.4%	18.6%	20.6%
Asset Quality				
Portfolio at Risk30 days/Gross Loan Portfolio	0.9%	1.2%	1.0%	4.1%
Loan Loss Provision/Average Gross Loan Portfolio	0.6%	1.8%	1.7%	1.8%*
Risk Coverage Ratio (Loan Loss Reserve/PAR30)	412.6%	120.2%	113.3%	145.2%*
Write-offs/Average Gross Portfolio	0.6%	0.4%	0.5%	0.02%*
Management				
Operating Expenses/Average Gross Portfolio	11.3%	10.5%	9.6%	8.4%*
Number of Borrowers/Field staff	197	187	170	177
Number of Borrowers/Staff	129	122	112	111
Earnings				
RoE (Net operating income/Average Equity)	12.2%	10.3%	11.5%	11.3%*
RoA (Net operating income/Average Assets)	1.8%	1.7%	1.9%	1.9%*
Portfolio Yield	20.8%	20.8%	19.5%	18.5%*
Financial Expense Ratio	8.3%	7.3%	6.8%	6.4%*
Operational Self-Sufficiency (OSS)	116.1%	113.8%	116.0%	116.8%
Liquidity				
Average Cash & Liquid Assets/Average total assets	11.2%	10.7%	10.4%	11.6%
Debt-equity ratio (excluding Deposits)	2.29	2.09	2.52	2.50

* Annualised

Credit performance and portfolio quality – declined recently

- ▶ Before COVID-19, AMK had very high portfolio quality. During COVID-19, AMK restructured the overdue loans multiple times in accordance with NBC guidelines. As a result, PAR30 appeared to be good until December 2021. AMK has now stopped COVID-19 restructuring loans, so **PAR30 has increased to 4.1% on 30 September 2022**.
- ▶ The current **PAR30** is significantly higher than Peer MDIs (see the benchmark graph in **Slide 5**), but lower than the banks (Philip Bank, 4.50% and Sathapana, 4.72%).
- ▶ AMK has implemented a variety of strategies to reduce PAR, including a greater emphasis on collection of overdues, portfolio quality linked incentives, and improved internal IT systems, processes, and tracking of overdues. The management believes that collection efficiency will improve significantly over the next year.
- ▶ AMK has written off overdue loans totalling US\$1.94 million in FY2021 and US\$115,135 during Jan-Sep-22. In September 2022, the **Risk Coverage Ratio (RCR) was good at 145.2%** (measured as loan loss reserve/PAR30).
- ▶ The portfolio is geographically diverse, spanning all provinces. Outstanding portfolio by sector is **highly concentrated in agriculture (93.8% of the loan portfolio)**.



Sectoral Distribution of Portfolio %

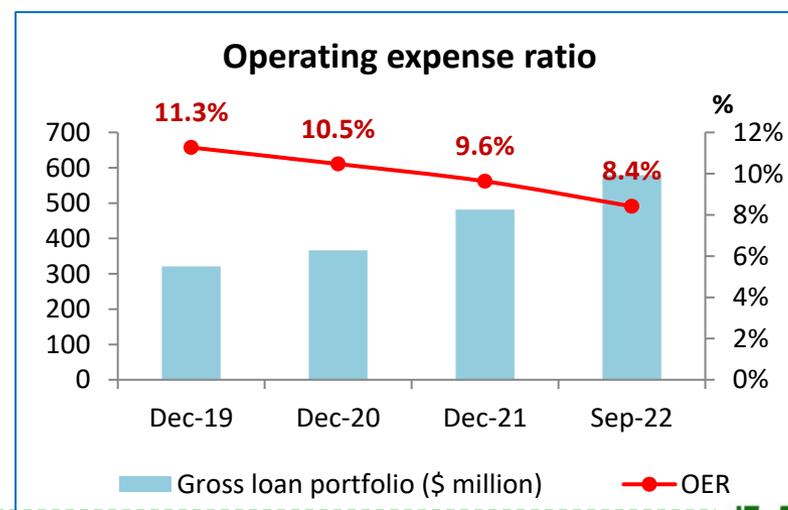
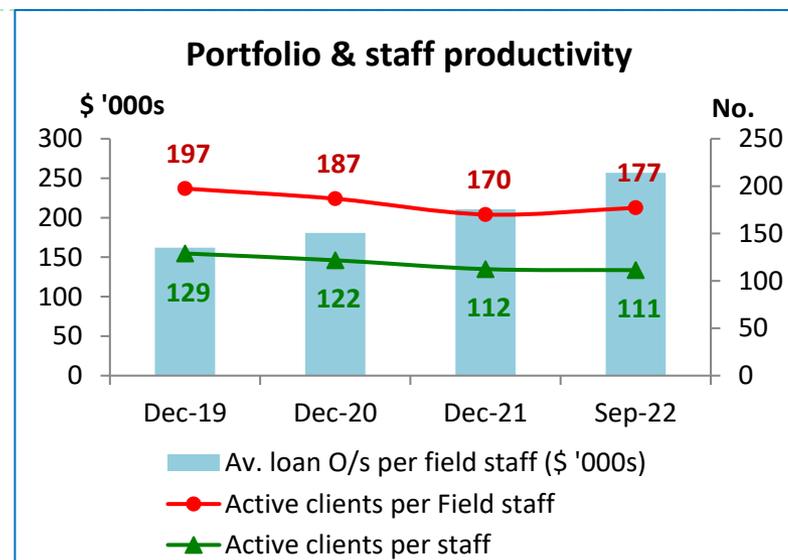
Particulars	Dec-20	Dec-21	Sep-22
Agriculture	32.5	81.8	93.8
Production	3.5	0.9	0.3
Trade/Commerce	16.4	4.5	1.7
Service	45.3	12.0	4.0
Others	2.3	0.7	0.3

Staff productivity – reasonable

- ▶ **AMK's staff productivity is reasonable**, with 177 active clients/field staff (and 266 per CO). It is higher than for peer MDIs.
- ▶ **Staff productivity has been declining since the pandemic began**, owing to a decrease in the overall number of active clients, the hiring of new field staff for collection, and a shift from group to individual loans. Since December 2019, the number of **active clients per staff** has decreased (from 197 to 111 in Sep-22)
- ▶ However, **the loan portfolio per field staff has gradually increased** from US\$161,961 in December 19 to US\$257,042 in September 2022 due to an increase in the share of individual loans.

Operating efficiency – Low and decreased for the last 4 years

- ▶ For the last four years, the Operating Expense Ratio (OER) has been decreasing due to an increase in the share of individual loan portfolio.
- ▶ **AMK had a low OER of 8.4% (annulled)** from January to September 2022. Over the next two years, it is expected to fall to around 7.0% as individual portfolios grow and portfolio quality improves.



Asset-liability structure & management + capital adequacy

Asset and liability structure and management – *good*

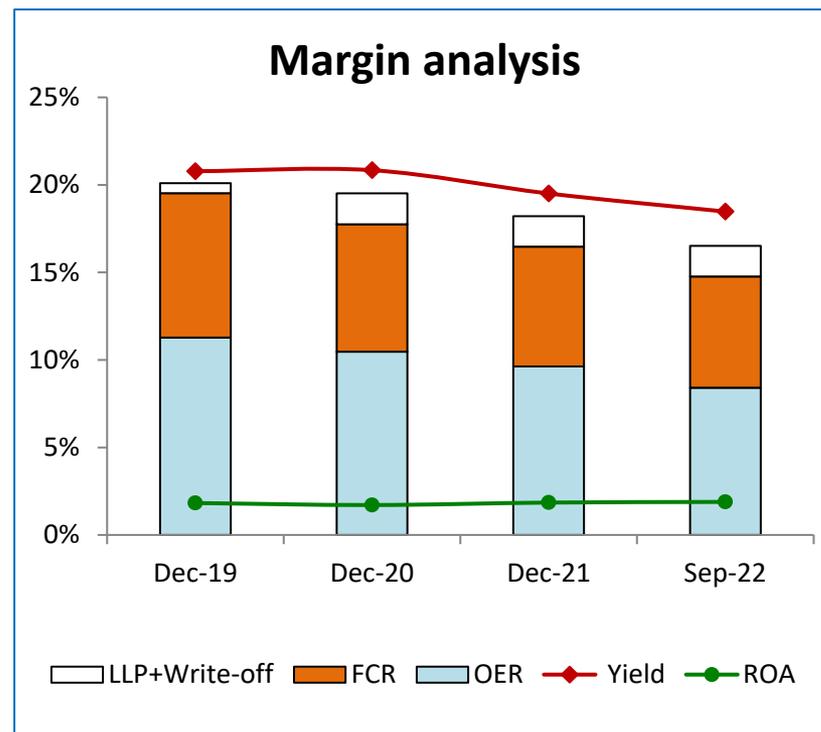
- ▶ The net loan portfolio to total assets ratio has ranged from 70% to 79% over the last four years. By industry standards, the 78.5% ratio on 30 September 2022 is reasonable.
- ▶ As previously stated, cash on hand and in the bank as of 30 September 2022 is reasonable at 10.0% of total assets.
- ▶ AMK has shown successful liquidity management strategies. All inflows and outflows, as well as maturity gaps, are tracked on a regular basis.
- ▶ On 30 September 2022, AMK's net worth was 18.0% of total sources of funds, but it had increased from 16.4% in December 2021. Borrowings accounted for 44.0% of total funds (up from 38.9% in December 2021), while deposits accounted for 38.0% (down from 44.7% in December 2021).

Capital Adequacy – *adequate*

- ▶ AMK had a reasonable risk-weighted Capital Adequacy Ratio (CAR) of 20.6% on September 30, 2022, up from 18.6% in December 2021. This CAR is higher than the NBC requirement for MDIs (15%) due to equity infusion from its main investor and retained surplus.
- ▶ AMK's net worth has increased from US\$77.4 million on 31 December 2020 to US\$122.8 million on 30 September 2022. AMK has no issues raising equity from its main shareholder.

Profitability and sustainability – good

- ▶ Despite the effects of COVID-19, AMK has maintained operations and generated positive returns. AMK earned US\$7.7 million in profit after tax (PAT) in FY2020, US\$9.9 million in FY 2021, and US\$9.1 million during January-September 2022.
- ▶ Higher provisioning and write-offs due to COVID have limited profitability over the last 3 years.
- ▶ Yield has decreased from 20.8% in FY2021 to 18.5% in Jan-Sep22), but OER and FER have decreased for the same period (from 10.5% to 8.4% and 7.3% to 6.4%, respectively). For the last three years, provisioning has remained constant at ~1.8%.
- ▶ As a result, the Return on Assets (RoA) has remained stable over the last three years at around 1.9%. Similarly, the Return on Equity (ROE) is around 11.3%, and the OSS is 116.8%.
- ▶ M-CRIL believes that AMK's improving portfolio quality, increasing deposits, and staff productivity, as well as effective use of technology will enhance its profitability.





Annexes

Annex 1: Financial Statements of AMK

Balance Sheet of

	Dec-19	Dec-20	Dec-21	Sep-22
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	22,820,408	35,161,885	43,912,761	69,654,583
Deposits at NBC	62,166,826	49,551,619	59,397,150	55,803,857
Deferred Tax assets	2,679,626	3,500,417	4,378,928	4,902,136
Interest receivable	-	-	-	-
Other assets	3,306,655	3,393,859	4,095,984	6,971,978
Staff loans	-	-	-	-
Gross loans outstanding	321,044,954	366,121,298	481,827,013	579,115,570
(Loan loss reserve)	-4,162,681	- 9,034,762	-14,354,484	- 33,587,012
Net loans outstanding	316,882,273	357,086,536	467,472,529	545,528,558
Total current assets	407,855,788	448,694,316	579,257,352	682,861,112
<u>Long term assets</u>				
Property and equipment	4,569,168	3,792,384	3,468,843	3,408,524
Intangible/other assets	8,533,152	8,373,009	9,396,944	8,645,908
Total long term assets	13,102,320	12,165,393	12,865,787	12,054,432
Total assets	420,958,108	460,859,709	592,123,139	694,915,544

...Balance Sheet of

	Dec-19	Dec-20	Dec-21	Sep-22
LIABILITIES AND NET WORTH				
<u>Current liabilities</u>				
Deposits	182,840,456	209,680,482	251,663,265	258,872,289
Payable	6,186,470	5,844,363	7,647,673	-
Provision for retirement & pension	2,713,671	3,963,882	5,255,158	6,640,530
Other current liabilities	1,963,192	1,940,374	2,254,831	9,657,011
Total current liabilities	193,703,789	221,429,101	266,820,927	275,169,830
<u>Long term liabilities</u>				
Long term debt	158,108,009	161,978,074	232,885,637	296,965,072
Total long term liabilities	158,108,009	161,978,074	232,885,637	296,965,072
Total liabilities	351,811,798	383,407,175	499,706,564	572,134,902
<u>Net worth</u>				
Share Capital	39,061,337	39,351,038	44,667,391	66,439,051
Share premium	5,503,155	5,543,968	5,504,505	5,444,369
Adv. Capital contribution				
Reserves	6,723,681	5,778,192	23,566,913	23,660,821
Retained net surplus/(deficit)	17,858,137	26,779,336	18,677,766	27,236,401
Total net worth	69,146,310	77,452,534	92,416,575	122,780,642
Total liabilities and net worth	420,958,108	460,859,709	592,123,139	694,915,544

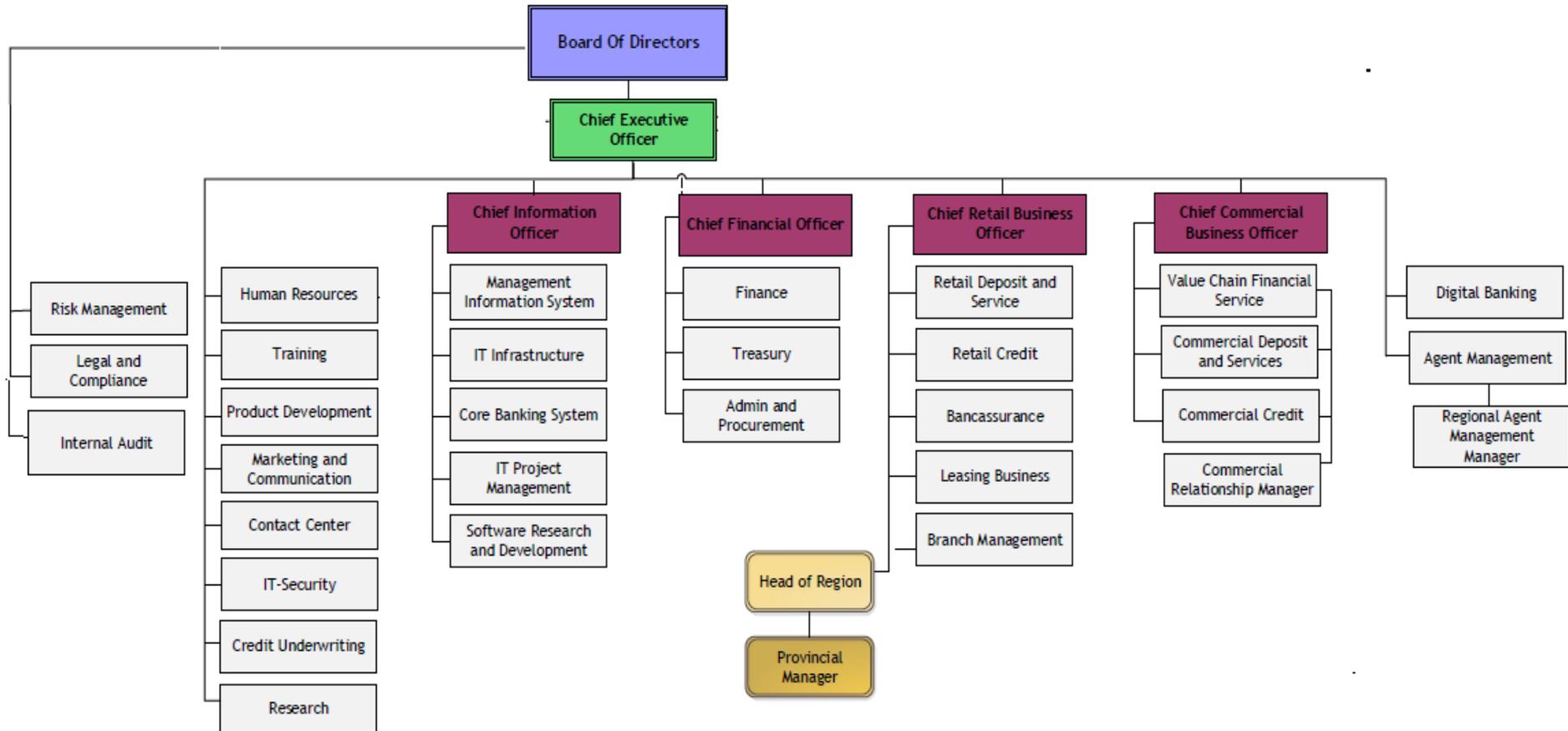
Income Statement for the period

	1-Jan-19 to 31-Dec-19	1-Jan-20 to 31-Dec-20	1-Jan-21 to 31-Dec-2	1-Jan-22 to 30-Sep-22
<u>Income</u>				
Interest income	59,269,072	72,715,722	83,540,625	74,794,950
Loan fee	2,812,131	624,406	970,423	-
Income from bank deposits	476,015	351,879	527,053	-
Bad debt recovered	226,322	207,126	387,421	-
Other income	1,381,353	1,055,890	1,884,733	6,078,216
Gain/(Loss) on foreign exchange	207,418	207,961	184,337	-
Payroll & payment fee	347,897	555,958	708,926	-
Micro insurance commission	738,377	653,674	682,578	-
Gain/(Loss) on disposal of properties	-	102,904	169,707	-
Remittance fees	1,083,527	1,034,011	1,439,238	-
Total income	66,542,112	77,509,531	90,495,041	80,873,166
<u>Financial costs</u>				
Interest on borrowings	9,830,100	11,340,442	12,799,653	22,185,049
Interest on deposits	10,296,431	10,362,060	11,535,796	-
Other financial expenses	3,421,078	3,684,952	4,967,727	3,524,239
Gross financial margin	42,994,503	52,122,077	61,191,865	55,163,878

Income Statement for the period

	1-Jan-19 to 31-Dec-19	1-Jan-20 to 31-Dec-20	1-Jan-21 to 31-Dec-2	1-Jan-22 to 30-Sep-22
Gross financial margin	42,994,503	52,122,077	61,191,865	55,163,878
Provision for loan losses	1,608,467	6,168,245	7,445,262	9,458,891
Net financial margin	41,386,036	45,953,832	53,746,603	45,704,987
<u>Operating expenses</u>				
Personnel	20,210,435	23,299,335	26,797,608	22,238,378
Administrative expenses	7,454,022	8,631,014	9,744,829	8,651,819
Travel	-	-	-	-
Other	460,367	598,722	626,013	-
Depreciation	4,026,945	4,014,427	4,081,096	3,187,602
Total operating expenses	32,151,769	36,543,498	41,249,546	34,077,799
Tax	2,138,798	1,877,132	2,745,811	2,513,124
Net surplus/deficit (after tax before donations)	7,095,469	7,533,202	9,751,246	9,114,064
Non operational income (donor grants)	205,434	199,027	182,288	-
Profit after tax & donations	7,300,903	7,732,229	9,933,534	9,114,064

Annex 2: Organisational structure



Annex 3: Loan Products

Name of the product	Loan size (USD)	Loan term ()	Collateral	Interest rate (p.a)	Processing fee (%)
Group	Upto 1,000	3 to 24	N/A	18.0%	1% to 7%
SME Investment	20,001 to 100,000	3 to 96	Yes	18.0%	1%
MSME Investment	5,001 to 200,00	3 to 72	Yes	18.0%	1%
Affordable housing	>5,00 to 50,000	3 to 120	Yes	18.0%	1%
General	10 to 5,000	3 to 60	Yes	18.0%	1% to 5%
Emergency	10 to 100	3 to 10	N/A	18.0%	No
Overdraft Facility	UP to 100,000	UP to 12	Yes	18.0%	1%
Value Chain Financing	UP to 300,000	UP to 36	Yes/No	15.6%	1%
Motor Leasing/	Up to 3,000	12 to 36	Yes	18.0%	4%
Tricycle Leasing/	Up to 5,000	12 to 36	Yes	18.0%	2%
Equipment Leasing	Up to 100,000	12 to 84	Yes	13.2%-18%	1% - 4%
Agri-Biz Leasing	Up to 30,000	12 to 48	Yes	13.2%-18%	2% - 4%
Auto Leasing/Car	Up to 50,000	14 to 72	Yes	13.2%-18%	1% - 4%
General Staff	10 to 5,000	3 to 36	Yes	10.0%	No
Asset Acquisition (Staff)	10 to 100,000	3 to 60	Yes	10.0%	No
Housing (staff)	10 to 100,000	3 to 240	Yes	5.0%	No

Annex 4: Deposit Products

Savings Products	Easy Saving	Lucky	Smart Kid	Corporate Saving	Corporate Saving FI	Term Deposit
Minimum deposit (US\$)	KHR1,000/ US\$1/ THB10	KHR2,000,00 0/ US\$500/ THB 20,000	KHR40,00 0/ US\$10	KHR400,000/ US\$100/ THB4,000	KHR400,000/ US\$100/ THB4,000	KHR100,000/ US\$25/ THB1,000
Currency	KHR/US\$/ THB	KHR/US\$/TH B	KHR/US\$	KHR/US\$/THB	KHR/US\$/TH B	KHR/US\$/THB
Interest rate (p.a) (Min-Max)	0.50% - 3.50%	1% - 4.25%	2.0%	0.50% - 2.50%	0.20% - 0.50%	1.50% -8.50%
Frequency of deposit	daily	daily	Monthly	daily	daily	N/A
Interest payment frequency	End of month	End of month	End of month	End of month	End of month	End of month
Fee	N/A	N/A	N/A	N/A	N/A	N/A

Other financial services	No. of users (30-Sep-22)
ATM Card	408,685 User (Total all)
Credit card	N/A
AMK Mobile Banking	160,152 user (Data from Oct-2019 untill Sep-2022)
Remittances (Local - International)	1,235,922 Transaction (Data only 2022)
UPI	4,452 User (Data only 2022)

Annex 5: Profile of the Board

No	Name	Position	Brief profile
1	Mr. JOHN CON-SING YUNG	<ul style="list-style-type: none"> • Chairman of the Board of Directors, • Audit and Finance committee • Social Performance Committee • Remuneration, Nomination, and Corporate Governance Committee 	JOHN CON-SING YUNG is currently a Managing Director of the Shanghai Commercial and Savings Bank, Ltd. He was a Board member, Senior Executive Vice President and Chief Information Officer of the Shanghai Commercial and Savings Bank, Ltd, in charge of IT, Risk, Compliance, Operation, Legal, Oversea expansion, Mainland China Business, and three Shanghai Bank cooperation until mid-2021. He also holds several key positions on behalf of the Shanghai Commercial and Savings Bank subsidiaries and affiliated companies. He received his BA and MBA degree from the University of Chicago.
2	Mr. CHETAN TANMAY	<ul style="list-style-type: none"> • Director • Member of Social Perfor. Committee • Member of Remuneration, Nomination, and Cor. Governance Comm. 	Tanmay Chetan is the co-founder and CEO of the Agora Group, wherein he manages the group's investments across Asia and Africa. Tanmay's previous experience includes microfinance ratings, consulting and operations, including as the first Chief Executive Officer ("CEO") of AMK during 2003 to 2007. Tanmay holds an MBA from IIFM, India, and a Master's in Public Administration from the Harvard Kennedy School.
3	Mr. KEA BORANN	Director and CEO	Borann appointed as Chief Executive Officer of AMK in 2012. He has been with AMK for over 15 years since 2004 in different roles. He has held various leadership posts throughout the development of the organization, including Finance Manager, Chief Financial Officer, and Deputy CEO. He received ACCA Accreditation and accepted as an ACCA member in 2008.

...Annex 5: Profile of the Board

No	Name	Position	Brief profile
4	Ms. HENG SEIDA	<ul style="list-style-type: none"> • Independent Director • Chair of Audit and Finance committee • Board Risk Committee 	Seida is a certified public accountant, an active member of Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA), a fellow member of ACCA, UK, and a certified internal auditor from USA. She also holds a Bachelor Degree in Accounting. Seida has over 19 years of experience in auditing and financial management. She is the Managing Partner of FII & Associates Prior to this, Seida was a financial management specialist with the World Bank for a period of 5 years.
5	Mr. TIP JANVIBOL	<ul style="list-style-type: none"> • Independent Director • Chair of Remuneration, Nomination, and Corporate Governance Committee 	Dr. Tip Janvibol, founder and senior managing partner of Tip & Partner, brings over 20 years of legal experience to the Board of Directors of AMK. He is a licensed attorney and member of the Cambodian Bar Association. He holds a Doctorate Degree (PhD) from California Coast University, Master's Degree from the University of Massachusetts, Lowell, Bachelor's degree from University of Maine, Presque Isle.
6	Mr. RU-HUNG WEI	<ul style="list-style-type: none"> • Director, • Chair of Board Asset and liability Committee • Board Risk Committee 	RU-HUNG WEI is currently Deputy Executive Vice President, Overseas Regional Manager of the Shanghai Commercial and Savings Bank, Ltd, in charge of Overseas Branches, including Singapore, Vietnam, and Hong Kong. He served the Shanghai Commercial and Savings Bank, Ltd over 29 years with the various position including Import, Export, Foreign Exchange and Credit Investigation. He received his BBA degree from Soochow University and an MBA degree from the University of New Haven.

...Annex 5: Profile of the Board

No	Name	Position	Brief profile
7	Mrs. FANG-HUI HSIEH	<ul style="list-style-type: none"> • Director, • Audit and Finance committee • Board Asset and liability Committee 	<p>Ms. Fang-Hui Hsieh has been mainly in charge of debt management, Legal affairs, and compliance, and also responsible for AML/CFT since 2015. She was also appointed by the Shanghai Commercial & Savings Bank, Ltd. as directors of related companies. For the past decade, she has been actively involved in the affairs of The Bankers Association of The Republic of China (BAROC) and The Trust Association of the Republic of China (TAROC). She currently serves as the chairman of Regulations and Disciplinary Committee of the TAROC, and a member of Financial Regulations and Disciplinary Committee of the BAROC.</p>
8	Mr. WEI-KUO YEN	<ul style="list-style-type: none"> • Director, • Chair of Board Risk Committee • Audit and Finance Committee • Board Asset and liability Committee 	<p>Mr. WEI-KUO YEN obtained a Bachelor's degree in Arts in Economics from Fu Jen Catholic University in 1984 and then pursuing his Master of Science in Business at the University of Wisconsin-Madison in the USA after the first few years in the banking business. Mr. WEI-KUO YEN started his career as a Deputy Executive Vice President and Head of Treasury Department. He is currently serving as an Executive Vice President of the Shanghai Commercial & Savings Bank, Ltd. He has had experiences in banking sector for over 30 (thirty) years.</p>

...Annex 5: Profile of the Board

No	Name	Position	Brief profile
9	Ms. BLANDINE CLAUDIA MARIE PONS	<ul style="list-style-type: none"> • Independent Director • Chair of Social Performance Committee 	<p>Dina is Incofin East Asia Regional Director and Social Performance Manager, based in Phnom Penh Cambodia. She also sits at the BOD of the Social Performance Task Force (SPTF) and co-chairs the Social Investors Working group. Dina manages a portfolio of US\$ 80 million, serving more than a dozen financial service-providers across East Asia. Previous to joining Incofin, Dina lived in the Philippines, where she worked as a senior analyst for the microfinance specialized rating agency Planet Rating. Dina also lived in China, and she was part of the team which set up MicroCred Nanchong in Sichuan.</p>

Annex 6: Abbreviations

ALCO	Asset and Liability Committee	KHR	Khmer (or Cambodian) Riel
AM	Area Manager	KRI	Key Risk Indicator
AMK	Angkor Mikroheranhvatha (Kampuchea) Co Ltd	LLP	Loan Loss Provision
ATM	Automated Teller Machine	LLR	Loan Loss Reserve
BM	Branch Manager	LUC	Loan Utilisation Checks
BCP	Business Continuity Plan	IAO	Internal Audit Officers
BRC	Board Risk Committee	ICO	Internal Control Officers
CAGR	Compound Annual Growth Rate	IT	Information & Technology
CAR	Capital Adequacy Ratio	LUC	Loan Utilisation Check
CBC	Credit Bureau Cambodia	MBO	Mobile Banking Officer
CBO	Chief Business Officer	M-CRIL	Micro-Credit Ratings International Ltd
CBS	Core Banking Solution	MDI	Microfinance Deposit Taking Institution
CCBO	Chief Commercial Business Officer	MFI	Micro Finance Institution
CDM	Cash Deposit Machine	MIS	Management Information System
CEO	Chief Executive Officer	NBC	National Bank of Cambodia
CFO	Chief Financial Officer	OER	Operating Expense Ratio
CIO	Chief Information Officer	OSS	Operational Self-Sufficiency
CO	Credit Officer	PAR	Portfolio at Risk
COO	Chief Operating Officer	RM	Regional Manager
CRBO	Chief Retail Business Officer	RMF	Risk Management Framework
EoT	End of Term	RoA	Return on Assets
FCR	Financial Cost Ratio	RoE	Return on Equity
FD	Fixed Deposit	SCSB	Shanghai Commercial and Savings Bank
FTB	Foreign Trade Bank of Cambodia	TNA	Training Needs Assessment
FSS	Financial Self-Sufficiency	THB	Thai Baht
GDP	Gross Domestic Production	US\$	United States Dollar
HO	Head Office	VB	Village Bank or Group
HR	Human Resources	VBP	Village Bank President

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 loan 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 loan portfolio
- ▶ **Operating expense ratio:** Total operating expenses (incl. depreciation) during the period/avge 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 assets (RoA):** Operational income (or loss) after tax /average assets during the period
- ▶ **Return on Equity (RoE):** Ratio of operational income (after tax)/(loss) to average net worth during the period
- ▶ **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 out during the period/(total clients beginning of period+ number of clients' dropped out during period)
- ▶ **Active borrowers per CO (or field staff):** Number of borrowers/Number of COs (or field staff)
- ▶ **Active borrowers per staff member:** Number of borrowers/Total staff members on date
- ▶ **Liquidity Coverage Ratio:** Liquid assets/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
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.