

Intean Poalroath Rongroeurng Ltd (IPR)

Limited Liability Company
with MFI license from NBC

{Update}
February 2016

Microfinance Institutional Rating

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

	Jul 13	Feb 16
RATING	β+	β+
RATING OUTLOOK*	<i>Positive</i>	<i>Neutral</i>

Category	Grade	
Governance & strategic positioning	β+	β+
Organisation & Management	β	β
Financial performance	α-	α-

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

Visit dates: 8-11 February 2016

M-CRIL:

Alok Misra alokmisra@m-cril.com

Swetan Sagar swetansagar@m-cril.com

Tel: +91 124 4911939

IPR

Hort Bunsong

ceo@iprmfi.com



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Data Synopsis

Main Performance Indicators

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Number of active borrowers	3,485	3,421	4,199	4,424	4,629
Gross Portfolio (\$ million)	4.59	5.43	6.64	7.58	9.39
Average Loan size disbursed (\$)	1,158	1,450	1,592	1,696	2,168
Average Loan Outstanding (\$)@	1,317	1,587	1,582	1,714	2,028
RoA	6.8%	12.5%	9.5%	10.2%	6.1%
RoE	8.9%	16.3%	12.8%	14.6%	9.6%
Portfolio Yield	32.1%	32.1%	31.0%	29.9%	26.7%
Portfolio at Risk (>60days)	0.9%	0.3%	0.5%	0.5%	1.1%
Write-off (% of average portfolio)	12.3%	0.6%	0.4%	0.6%	0.3%
Operating Expense Ratio	17.5%	13.5%	14.0%	12.5%	12.6%
Borrowers per field staff	109	98	108	123	77
Capital adequacy ratio	75.8%	78.7%	70.5%	70.0%	57.9%

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

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

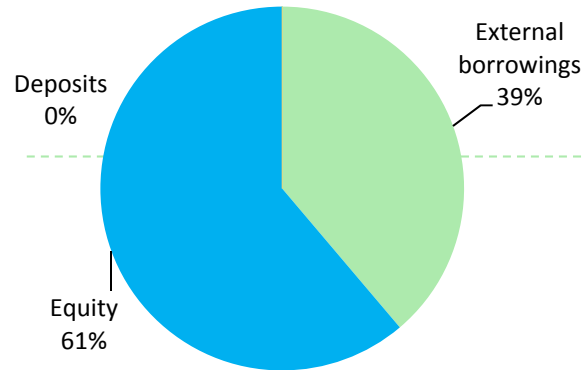
Strengths

- ❖ Proactive Board with good involvement in the operations of IPR through strategic guidance, overall supervision and ensuring mission adherence.
- ❖ Good quality of portfolio – PAR 60 of 1.1% as on 31 Dec'15.
- ❖ Profitable operations with ROA of 6.1% and OSS of 157.9% during 2015, riding on low leverage and low OER.
- ❖ Healthy Capital Adequacy Ratio (CAR – 57.9%).
- ❖ MIS upgraded to Core Banking System (Abacus) enabling closer monitoring of operations
- ❖ Loan products designed to suit cash flows of the clients.
- ❖ Good transparency in communicating policy and product details to clients & printed loan schedules.

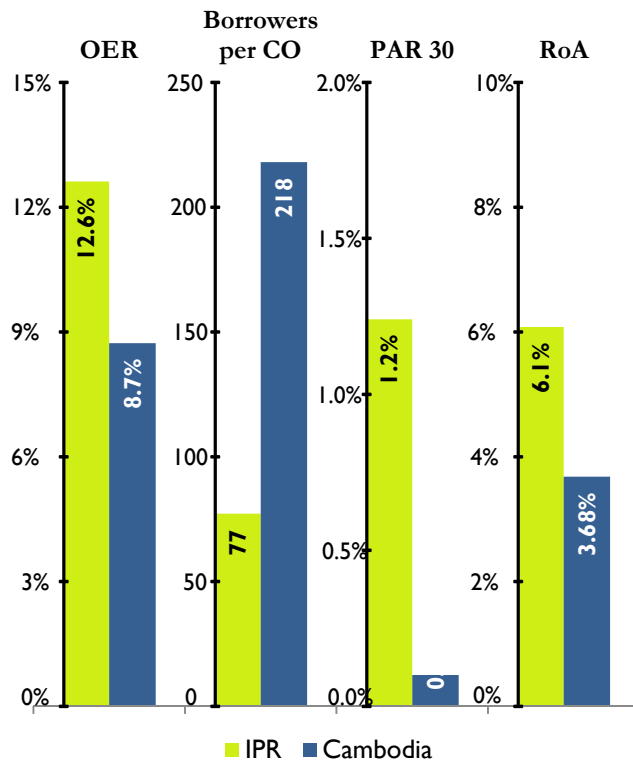
Issues

- ❖ High staff attrition (>25% in 2015), owing to competition. Staff incentive systems need revamp.
- ❖ Low staff productivity related to slow client growth due to limited funds.
- ❖ High reliance on CEO leading to excessive work load, particularly after exit of head of operations and head of audit.
- ❖ High portfolio concentration risk – 93% in agri sector, 56% in western region, 62% balloon loans and 58% high value loans of \$3,000 to \$8,000.
- ❖ Risk of ever greening due to balloon repayment and absence of policy prescribing cooling period between loan closure and fresh loan
- ❖ Inadequately staffed Internal Audit which effects the frequency of branch audits
- ❖ Social performance and client protection not actively monitored. Client grievance redressal system needs strengthening.

Sources of funding



Comparison of IPRC's performance with MIX benchmarks for Cambodia (19 MFIs)



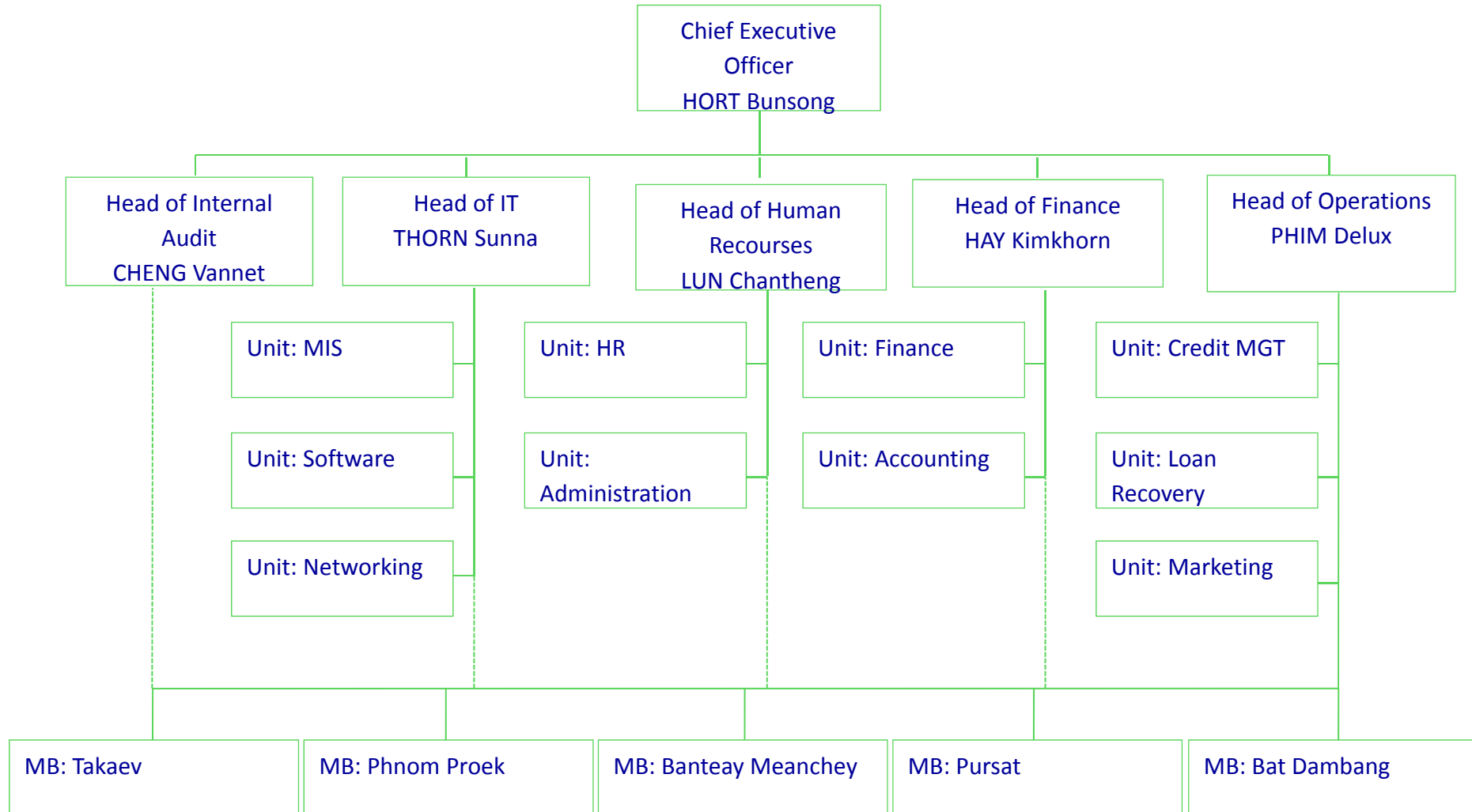
Rating rationale

- ▶ **Governance & Risk Management:** IPR has a proactive Board that engages in biannual meetings and reviewing audit and risk profiled through the sub-committees. The risk management systems are at formative stage and the risk limits need review.
- ▶ **Slow growth:** The portfolio of IPR grew moderately by a CAGR of 21.8% during the period 2011 to 2015. The growth in number clients has been much slower during this period at a CAGR of 9.3%. The main reason for slow growth has been lack of funds & timeliness (new funds arriving after peak disbursement season) for further on-lending and stiff competition.
- ▶ **Good portfolio quality:** IPR has been able to maintain a good portfolio quality with PAR 60 of 1.1%. At present, two out of five branches are facing issues of overdue portfolio. However, overall portfolio faces risk from lack of adequate diversification with high exposure to paddy (50%) & cassava (43%), mostly balloon loans (62%), concentration in western region (56%) and high average disbursed loan size of USD2,168.
- ▶ **Mission alignment & commitment to client protection principles:** Despite the high concentration risk, IPR has maintained its focus on funding for rice cultivation which is well reflected by the type of loan products developed, flexibility in the payment terms that suits the cash flows of the farmers & transparency in pricing. It needs to strengthen the client grievance redressal mechanism.
- ▶ **MIS:** IPR has upgraded its MIS to CBS (Abacus). Data migration has been completed and roll out is scheduled in the first quarter of 2016.
- ▶ **Staff attrition:** IPR continues to face staff attrition problem and it has compounded over the last few years – 13.7% in 2013, 40.3% in 2014 & 25.7% in 2015. The main reason is high competition from other MFIs.
- ▶ **High Capital Adequacy:** IPR has a low level of financial leverage. Its capital adequacy ratio is high at 57.9% as on 31 Dec'15. However, it has comparatively reduced after the exit of Leopard Capital in 2015 that made equity investments in 2010.
- ▶ **Forex risk:** As on 31 Dec'15, IPR had an open position of 17% in Riel and 19% in Thai Baht which is within the regulatory limit of 20%. IPR has achieved this by decreasing dollar lending rates to encourage more borrowings by clients in Dollar.
- ▶ **Profitability:** Low leverage, good portfolio quality and higher loan size drive IPR's current good profitability [RoA for 2015 was at 6.1%].

Introduction

- ▶ Intean Poalroath Rongroeurng Ltd (IPR) was formed in 2002 to meet the credit needs of the members of the Federation of Cambodian Rice Millers Associations (FCRMA). IPR was created as a unit within the association and was headed by Mr Phou Puy and Mrs Hao Simorn.
- ▶ In 2005, the unit was registered as a separate private limited company and was also registered with the National Bank of Cambodia (NBC) as an MFI. Mr Phou Puy and Mrs Hao Simorn were the initial shareholders of the company with 65% and 35% of the shares respectively.
- ▶ IPR continues to focus on financing agriculture mainly paddy and more recently for cassava. The design of loan products gives an option to borrowers get comparatively higher sized loans at flexible repayment schedules. Most of its loans are with balloon repayment. Loans are offered in three currencies: US Dollar, Khmer Riel and Thai Baht.
- ▶ In 2010, IPR received investment from international private equity fund Leopard Capital, which exited in 2015. At present, Mr Phou Puy is the sole owner of IPR.
- ▶ With the exit of Leopard Capital, its representatives from the Board have resigned. Mingyee, an individual lender has joined the Board while a new women member was appointed in Feb'16.
- ▶ IPR operates through a network of five main branches located in Takaev, Banteay Meanchey, Pursat, and Battambang provinces. In addition there are 8 district branches – 1 attached with Pursat, 3 with Rakaev and 4 with Battambang which has two main branches. The district branches were created (upgrade of service posts) in response to NBCs circular in 2013 which allowed issuance of loans only through licenced branches.
- ▶ During 2011 to 2015, IPR's portfolio grew by CAGR of 21.8% to USD 9.39 million mainly on account of increase in average loan size however the number of clients has not shown growth. During the same period the number of clients grew by a CAGR of 9.3%.
- ▶ IPR has migrated its MIS to CBS (Abacus) and plans to roll it out for Q1 2016 though parallel MIS will be maintained till Apr'16. It closely monitors risk events, though the risk limits (particularly related to portfolio concentration) needs revisiting. It continues to face the challenge of attracting & retaining skilled human resources.

Organisational structure



Note: MB: Main Branch Office

Microfinance policies

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

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

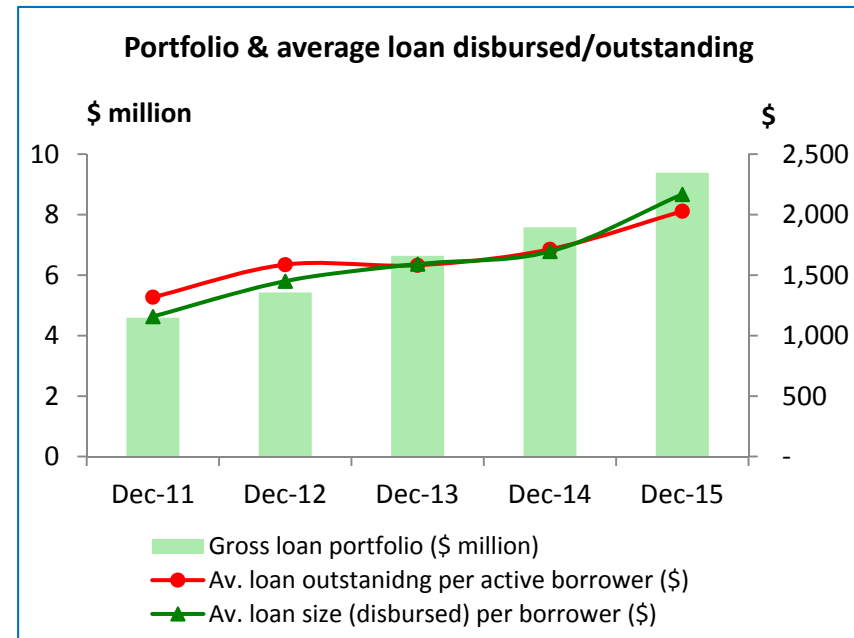
...microfinance policies

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

Loan products

- ▶ IPR offers two types of loan products: (i) Working capital loans for a maximum tenure of 12 months and (ii) Investment loans for a tenor of >12 to 36 months.
- ▶ Loan are given in three currencies – US Dollar, Khmer Riel (KHR) and Thai Baht (THB). Rate of interest (ROI) for loans in US Dollar is slightly (10 basis points) lower than loans in other currencies. Rate of Interest is negotiated by the Branch and the client. Accordingly, the ROI varies from 20.4% to 36% as shown alongside.
- ▶ In order to reduce the surplus of KHR and THB in the net open position, the management decided to increase the USD portfolio for which the interest rate for Dollar loans were decreased.
- ▶ IPR offers flexibility in loan tenor and repayment frequency - decided based upon clients' cash flows.
 1. Equal Principal Instalment (EPI): instalment frequency can be monthly, bi-monthly, quarterly, every four months or every six months.
 2. Equal Repayment Instalment (ERI): monthly instalment frequency.
 3. Balloon – principal is paid at the end of the loan term while interest can be paid monthly or 50% in advance (half balloon) and rest 50% at the end of loan term.

Loan size (\$ loans)	Interest rate per month	
	Earlier	Revised
<= 1,000	2.6% - 3.0%	2.6% - 3.0%
> 1,000 - <= 3,000	2.5% - 2.7%	2.2% - 2.6%
> 3,000 - <= 5,000	2.4% - 2.6%	1.9% - 2.2%
> 5,000 - <= 10,000	2.0% - 2.5%	1.7% - 1.9%
> 10,000	Negotiable	



Savings and Insurance products

- ▶ At present, IPR does not offer saving products to its clients. However, in future, the management would like to start savings mobilization which would provide an important source of funds. But IPR also realizes that for this a more experience team is required, brand image will have to be built up and marketing will have to be done. Moreover, the minimum capital requirement to obtain the license for microfinance deposit taking institution from NBC is KHR 10,000 million (~USD 2.5 million).
- ▶ IPR also does not provide insurance facilities to its clients at all branches.
- ▶ Health insurance was introduced at Pursat branch and was made mandatory for all clients to bring down the premium per client. However, due to not so good experience some of the clients have dropped out and as a result the management has decided to make this facility voluntary from second quarter of 2016. The premium of \$3 which is currently being charged will increase to >\$6.

IPR has a reasonable performance on governance with a grade of $\beta+$. It has a well qualified Board and has good representation of independent members. The Board actively participates in strategic decision making and in reviewing management performance, risk management and audit findings through its sub-committees. However, its involvement in SPM and CPP is limited. High reliance on owner's equity continues, particularly after the recent exit of Leopard Capital that invested in 2010, which has restricted the growth of IPR.

Governance and strategy

Governing structure

Alignment of Mission with practise

Operational growth & Strategy

Competition

Second line of leadership

Fund mobilization

Governance and strategy

Governing structure

- ▶ IPR has a seven member Governing Board, out of which, three are independent Directors, one is an individual investor, and the rest have been appointed by the Chairman (the sole owner of IPR). All the Board members are qualified and experienced professionals in economics, community development and entrepreneurship.
- ▶ Leopard Capital which had made equity investments in IPR in 2010 exited in 2015. As a result, their two representative directors resigned. They have been replaced by a new independent Director (Ms Pok Nivilay) who is expected to join the Board in Apr'16 and Mr Mingyee who is an individual lender.
- ▶ The Board has two sub-committees – audit and risk. Both Audit and Risk committees have two members. Audit committee contains two Board members, one of which is independent. Risk committee has one board member and one external member. Composition and involvement of the committees is good.
- ▶ Board meetings and audit committee meetings are held twice a year. Risk committee meetings are held four times a year. The frequency of Board & sub-committee meetings is low. Agenda documents are well prepared and include strategy documents like business planning, performance reports and explanation on proposed resolutions. The minutes are properly documented.
- ▶ The minutes of the Board and committee meetings suggest good discussion on risk management issues, company's financial performance, regulatory issues, growth strategy and operational matters.
- ▶ The Board also advised IPR to undergo social audit by Cerise. However, overall there is less focus on social performance and client protection issues.

Alignment of mission with practice

- ▶ Having evolved from the Federation of Cambodian Rice Millers Associations to alleviate the capital constraints of rice mill entrepreneurs who lacked access to credit to expand their production, IPR is committed to provide financial services to the agriculture sector.
- ▶ This is well reflected by the type of loan products developed and the flexibility in the payment terms that suits the cash flows of the farmers. Despite having high risk, balloon loans forms nearly 63% of the overall portfolio, as this is the need of its clients.
- ▶ In the past, loans for paddy cultivation was the main lending activity but more recently it has diversified to cassava plantation lending. It has also started lending for other crops like maize, beans and vegetables.
- ▶ While the focus continues to be agriculture lending it is aware of the associated risks and therefore is making a conscious effort to limit the agri-portfolio to around 80% (currently it is 90%) and increase the non-farm and small-business portfolio.

Vision:

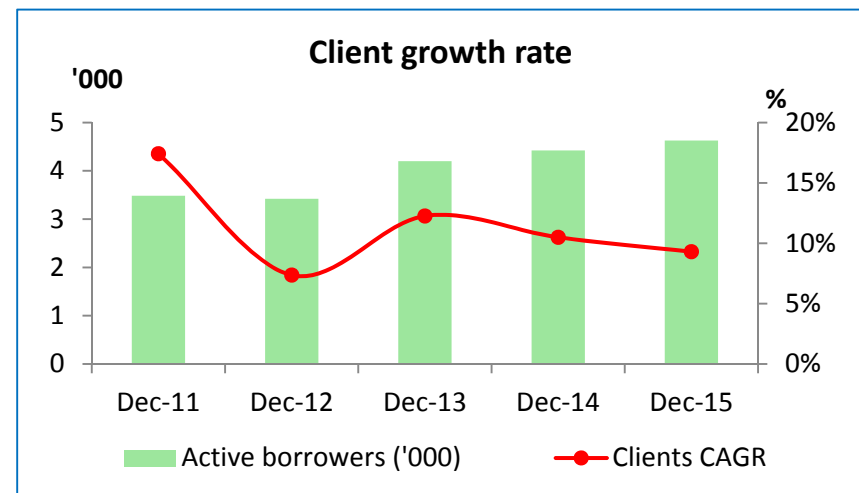
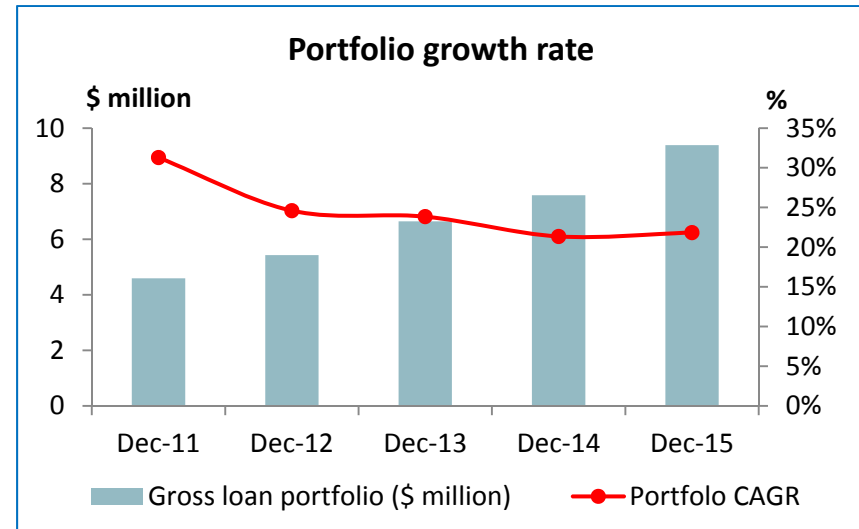
To be the leading Cambodian microfinance institution serving the agricultural sector.

Mission:

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

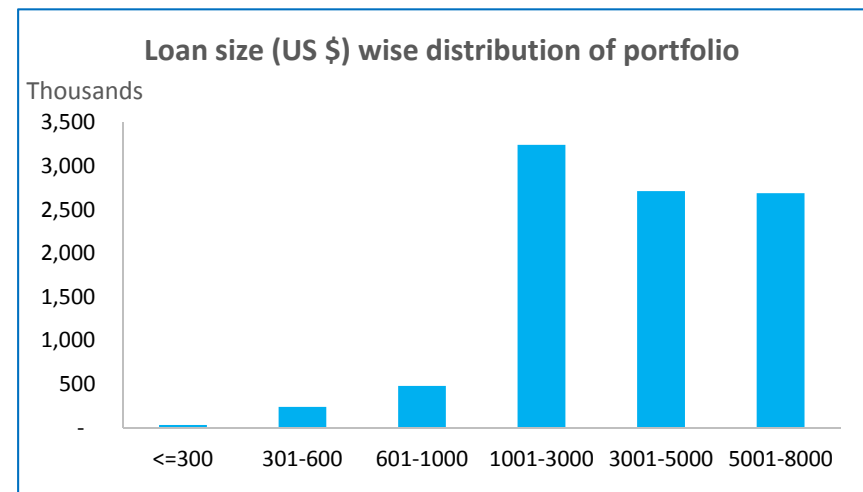
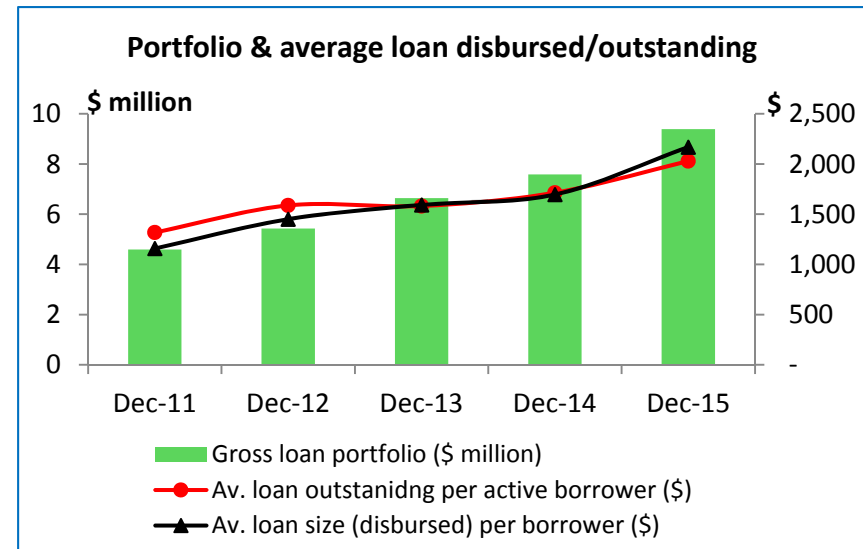
Operational and growth strategy

- ▶ The portfolio of IPR grew moderately by a CAGR of 21.8% during the period 2011 to 2015 – gross portfolio nearly doubled from USD 4.6 million on Dec'11 to USD 9.4 million on Dec'15 in 4 years.
- ▶ The growth in number clients has been much slower during this period at a CAGR of 9.3%. The simple annual growth rates in the last two years has been just around 5%. This indicates that the growth in portfolio has been due to increased loan size and that IPR has barely been able to maintain its clients base.
- ▶ Total number of branches is now 13 which includes 5 main and 8 district branches. Two branches (Baval in Battambang & Phnum Kravanh in Pursat provinces) were opened in 2015 while the plan is to open one more branch (Samlout, Battambang) in 2016.
- ▶ The business plan (2015-17) approved by the Board projects IPR to reach total portfolio of USD 12.88 million by Dec'16. As per the plan it has been able to reach 92% of the projected portfolio of USD 10.18 million by Dec'15. The revised business plan (2016-18) is under preparation. The understanding of business plan at branch level seems inadequate – focus in on achieving portfolio growth but not clients reached.



...operational and growth strategy

- ▶ IPR expects to grow further through increased outreach through the new branches and diversification of its agriculture portfolio with relatively lesser focus on paddy. Its investors have also advised to limit the paddy concentration to <70% (which is still on the higher side).
- ▶ The main reason for slow growth has been lack of funds & timeliness (new funds arriving after peak disbursement season) for further on-lending and the stiff competition that it faces from several MFIs in its operating areas. The lack of funds has also had an impact on the portfolio quality in a couple of branches (Prey Kabas & Koh Andeth) where new disbursements were seized by the Board.
- ▶ IPR's average loan size nearly doubled from \$1,158 in 2011 to \$2,168 in 2015. The average loan portfolio also continues to increase, part of which is accounted by inflation. Most loans being with balloon repayment, average loan outstanding is very high. The Board has advised to consider collateral free smaller loans (<KHR 1 million) to lower the risk of big loans. IPR continues to focus on strengthening its risk management practices, reduce foreign exchange open position, improve credit assessment methodologies and improve productivity & staff skills.



Competition –*Very high*

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

Second line of leadership –*Strong reliance on the existing CEO*

- ▶ IPR is led by the CEO who has been with IPR for several years and has been guiding the institution. IPR has witnessed a high turnover at the senior management level. With the recent moving out of the head of operations (HOO) and head of audit, the reliance on the CEO has further increased.
- ▶ The other senior management staff includes the Head of Finance (HOF), Acting HOO, HR Head and IT Head. HOF and the acting HOO were promoted internally.

Fund mobilization

- ▶ Fund mobilisation has been IPR's biggest constraint. The best investors prefer a more diversified equity base and equity investors feel that IPR is too small – a problematic situation for IPR. As on 31 Dec'15 debt accounted for 39% of the total funds while equity was the main source of fund contributing 61%.
- ▶ IPR had received equity of USD 1.36 million (share capital plus premium) from Leopard Capital Fund in 2010, routed through a special purpose vehicle, IPR (HK) Ltd. Leopard Capital exited in 2015 with USD 2.24 million leaving Mr Phou Poy as the sole owner of IPR. Total networth of IPR as on 31 Dec'15 is USD 7.3 million.
- ▶ At present (as on Dec'15), IPR has debt funds from four foreign institutional investors and two individual investor. Among the institutional investors Hivos-Triodos Fonds is the largest funder with USD 1.5 million loan, followed by Triple Jump with USD 1 million, Luxembourg Microfinance Development Fund (LMDF) with USD 0.9 million and Hwang DBS Bank with USD 0.5 million.
- ▶ The borrowings from these institutions in USD has helped IPR in maintaining its net open position in foreign exchange. Since the entire networth of IPR is in USD the net exposure (assets – liability) in KHR and THB cannot be more than 20% of the total networth. The current strategy is to reduce lending in KHR and THB and borrow & lend more in USD. It is for this reason the interest rate on dollar loans were decreased to encourage higher uptake.
- ▶ The average duration of the current borrowings raised by IPR is 2.8 years and the weighted average cost of funds is 10.6%.

IPR's has a grade of β on organisation and management performance. This is mainly due to high staff attrition, particularly at the senior management level, low intensity of audit in terms frequency of visits to branch and staff strength, MIS being in a transformational mode, continued high risk profile due to large sized loans and very high concentration in agriculture sector. However, IPR has improved its risk management practices though setting of risk limits would need review.

Organisation and Management

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

Organisation and management

Human resource quality and management

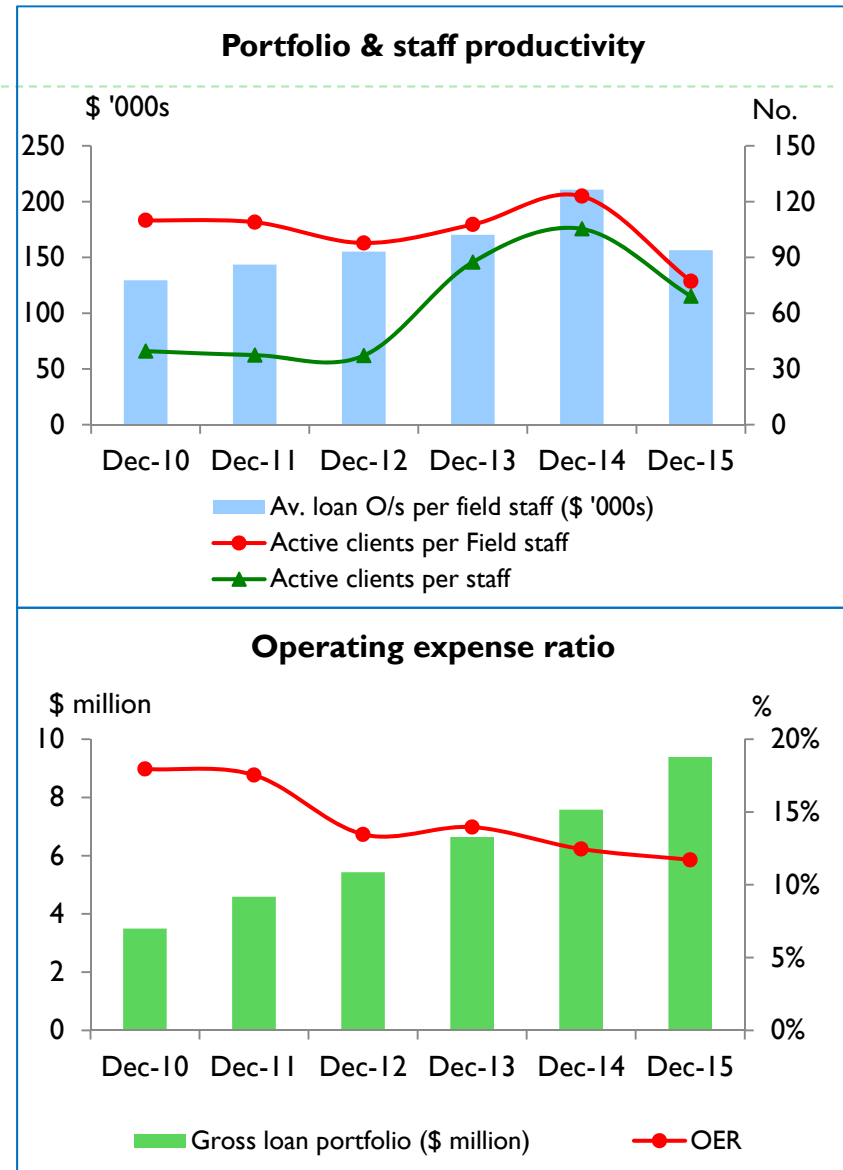
- ▶ As on 31 December 2015, IPR had a total staff strength of 67 including 60 field staff (~90% of total strength). Of these nearly 94% of the staff were recruited in 2015 and the pattern of new staff to total staff ratio has steeply increased over the years – 52% in 2013 and 69% in 2014.
- ▶ IPR has been facing the staff attrition problem and it has compounded over the last few years – 13.7% in 2013, 40.3% in 2014 & 25.7% in 2015. The main reasons are high competition from other MFIs.
- ▶ While new staff undergo on-the-job training at a branch for 3 months before they can conduct loan appraisals, there are limited opportunities to build their capacity. New staff are not able to undergo the 10-day HO induction training immediately after joining as there has to be at least a batch of three to organize it.
- ▶ IPR has well designed and documented HR systems and processes including a policy for recruitment, induction, remuneration, trainings need assessment and exit surveys. Staff attrition rate is being monitored by the risk management team and Board's risk committee too.
- ▶ Variable Incentive for the field staff is based on outstanding loan portfolio, number of clients, PAR, collection rate & recovery of written off portfolio. However, staff has strict targets and if they miss any one of these, they become ineligible to receive incentives. 80% of the staff did not receive any variable incentive in 2015.
- ▶ Field staff were aware of the processes, product terms and conditions; however they have moderate understanding of client protection issues. With around 4,600 clients, the overall staff productivity of 69 clients/staff appears weak even though some of the departments like internal audit function are understaffed. IPR needs to review and rationalize its staff requirements.
- ▶ For each job, Key Performance Indicators (KPIs) are laid out. Immediate supervisors evaluate a staff on these KPIs annually. Apart from KPIs there is a 12 point competence assessment checklist which is filled by the supervisor after discussions with the staff. HR department receives scores on both these parameters and discusses with the staff and their supervisors before finalising it. Promotions are based on performance appraisal score, recommendation, written test and interview.

Staff productivity – moderate to low

- ▶ The productivity of field staff as measured by active borrowers to credit officer ratio is at 77 which is low even for the individual lending methodology (against the country benchmark of 218 which includes mostly group based lending methodology). It decreased significantly from 123 on 31 Dec'14.
- ▶ The average loan outstanding/field staff showed an increase from 2012 to 2014 but sharply decreased to USD 156,000 in 2015.
- ▶ Bigger size loans require more staff in credit and control functions, however, there is a scope to improve the productivity of total staff by reviewing and rationalising staff at various functions

Operating efficiency – an improving trend

- ▶ Operating Expenses Ratio (OER) has shown an improving trend and was at 12.6% during 2015. This is due to a steady increase in the total gross portfolio.
- ▶ OER for IPR is higher than other MFIs in Cambodia (MIX average of 8.7%). The average loan size of IPR of \$2,028 as of Dec'15 is significantly higher as compared to other MFIs (MIX average of \$1,080 for 2014) and there is a scope for further improvement in IPR's operating efficiency.



MIS and accounting

- ▶ The accounting systems and policies of IPR are reasonable. It has recently migrated to Core Banking System Software Abacus for both accounting as well as MIS. The migration has been completed and IPR plans to roll it out by 1st quarter of 2016.
- ▶ Branches maintain their accounts in Abacus and is synced with the HO servers at the end of the day. Since IPR did not choose an on-line module for accounts and MIS integration due to cost aspects, an off-line module has to be run for calculation of interest, loan loss classifications etc. The Consolidation module was introduced in Jan 2016 and testing is on-going. Prior to this the consolidation was done in Excel.
- ▶ US dollars is IPR's accounting and base currency. It follows accrual accounting principle.
- ▶ Provisional financial statements are prepared monthly while audited financial statements are prepared annually. IPR reports monthly to NBC (the Central Bank).
- ▶ For standard loans, IPR maintains a loan loss reserve of 1% of the loan amount (reduced from the earlier 1.5% till 2013), though not required by the regulator. For sub-standard, doubtful and loss loans, it adopts NBC's loan loss provisioning policies.

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

...MIS and accounting

- ▶ The current loan loss reserves (LLR) are around 1.7 times its PAR>60 ratio as on Dec'15. Over the past few years (2012-14) IPR was maintaining LLR of around 4 time of PAR>60. Considering relatively higher portfolio risk that it faces because of higher sized loans and concentration of portfolio in paddy and Cassava, the current level of provisioning is just about adequate.
- ▶ The MIS has also been migrated to Abacus CBS software which is used for generating loan schedules, computation of portfolio outstanding, interest to be collected from clients and also the portfolio quality. The calculation of PAR was found accurate on random checks during the branch visits. Majority of IPR's loans have balloon repayment and hence the impact on PAR in any case is minimal.
- ▶ The branches (including the district branches) send the MIS data to HO at the end of day which is consolidated using the consolidation module. While the MIS captures various types of data including historical loan data of clients, at present the data beyond last two loan cycles is not being generated (is expected to be correct upon rollout).

Internal control systems

Loan tracking system

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

Internal audit

- ▶ At the time of rating visit, the internal audit had a three member team – Head of Audit (HOA) and two operational auditors. The existing HOA had resigned and the acting Head of Operations was made the HOA.
- ▶ The internal audit is under the supervision of the Audit committee of the Board; however, it also reports to the CEO and the Risk Committee of the Board and is not independent of the management. Monthly reports are also sent to Cambodia Financial Intelligence Unit (CAFIU).
- ▶ The scope of audit focuses mainly on audit of field operations, compliance with credit policies and accounting and cash management at the branches. Functions at the HO are audited once a year. The scope of branch audit is good, however, it does not cover adherence to client protection principles. Deficiencies pointed out by audit are classified based on their severity.

...internal control systems

Internal audit

- ▶ As per policy all branches are to be visited at least two time a year. In 2015 each branch was covered thrice a year but HO audit was not conducted. Frequency of internal audit is low considering the small size of operations (5 main branches & 8 district branches) of IPR. However, there are plans to conduct quarterly audits of all branches during 2016.
- ▶ Audits are conducted by a single person team due to staff shortage. A branch is effectively audited for three to four days. The internal auditor spends two days at the branch office and two days in the field visiting 30 clients at random. This includes visit to clients with overdues and those with their loans written-off. At the branch office, a sample of loan records, property documents, and accounting records of all new disbursements (since the previous audit visit) are verified.
- ▶ At the end of the audit visit, a draft report is prepared and submitted to the BM for his feedback. Later, a summary report is prepared and submitted to the Audit Committee. Branch Managers have to submit a report of actions taken by them to the Head of Internal Audit. The auditor verifies these in the next audit visit.
- ▶ IPR does not have a policy for monitoring visits by the HO staff, though such visits are foreseen in the annual action plan and are being implemented.
- ▶ For operational control, IPR has formulated comprehensive loan sanction and client verification guidelines which include a compulsory Credit Bureau check. However, as mentioned earlier staff skills in credit analysis especially in cash flow analysis need to be strengthened.
- ▶ IPR does not have a policy on minimum gap between closure of a loan and disbursement of a fresh loan; this gap is needed to avoid ever-greening of loans with balloon repayment.

...internal control systems

Risk management

- ▶ IPR introduced risk management systems in 2012. The risk committee of the Board has laid down risk limits for exposure to foreign exchange, portfolio exposure at any single branch and Loan usage (concentration in terms of loan usage), liquidity, solvency, efficiency, portfolio at risk and staff attrition. The risk limits have been revised since then but are set at a very conservative level for any breach to happen indicating imminent risk event (for example exposure limit to rice sector is set at 70% of total portfolio).
- ▶ IPR has also started maintaining a risk register to systematically record risk events, key risk indicators, likelihood and consequence score and an action plan to manage risks. It also has a risk manual, though it mainly provides general guidance on risk management and a few tools and processes for the IPR management.
- ▶ A credit risk management course was developed in the beginning of 2015 but has not been used so far to train and orient staff of IPR.
- ▶ The risk management team (RMT) consisting of all the senior management personnel (CEO and Head of all departments) review the risk limits on a monthly basis and report to the risk committee.

Financial planning and cash management

- ▶ The financial planning system at IPR is reasonable. The organisation prepared a three year strategic business plan for 2015 to 2017 and is currently in the process of updating the plan for 2016 to 2018. The plan provides details of its growth strategy, analyses competition and covers all the operational and financial parameters. As per the plan IPR was expected to reach a portfolio of USD 10.18 million by Dec'15 and USD 16.0 million by Dec'17. It was able to achieve 92% of the projected portfolio target on Dec'15.
- ▶ Financial projections are prepared on the basis of discussion with various department heads and inputs from the branches. The projections also take into account the return on equity target set by the Board of Directors.
- ▶ For repayment to lenders, the finance department prepares the expected recovery for all branches and informs them about the funds that they need to remit to the HO a month in advance. Based on this, branches plan their disbursements.
- ▶ Each branch sends a monthly funds request on the basis of their expansion plan. Funds are transferred to the branches in consultation with the Head of Operations.
- ▶ Each branch as well as HO has a separate bank account. The funds are transferred internally to the respective branch accounts. Repayments from clients are usually deposited in the bank account on the same day or the next morning. Cash limit for the service post offices is USD5,000 while for branches it is USD10,000. However, these limits are not strictly followed at the district branch offices.
- ▶ IPR has utilised its assets effectively with only around 8 to 9% of average assets invested in liquid assets during 2014 and 2015. However, IPR liquidity management practices remains similar (as at the time of previous rating visit) & needs improvement considering it has irregular nature of cash inflows on account of balloon repayments and unpredictable cash flows due to large proportion of prepayments made by clients.

Infrastructure

- ▶ IPR has adequate infrastructure at the HO. The branch offices are also adequately equipped with required infrastructure.
- ▶ Fixed assets mainly include computers, vehicles, office equipment, furniture and fixtures. The book value of its net fixed assets was \$118,661 on 31 December 2015, which is 1.0% of its total assets. This has reduced gradually over the years from 2.4% on Dec'11, to 1.8% on Dec'13 and 1.3% on Dec'14 but is comparable with other MFIs.

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

- ▶ One of the visited clients had overdue loans but was unavailable at the time of visit. The reason cited was illness and business not doing well.
- ▶ Other visited clients had good performance on repayment of their loans but the clients tended to hide the loans taken from other sources despite all the information being available in their credit bureau report.
- ▶ Client awareness about product features was observed to be moderate; clients were aware of tenor and number of instalments paid but not the interest rate. Clients were also aware of the phone numbers provided on printed IPR calendars.
- ▶ A printed repayment schedule and receipts for all payments are provided to the clients and were available with them. Clients were observed to be satisfied with the loan size and balloon repayment facility offered by IPR which was the main reason of them continuing the relationship with IPR.



Client Protection Principles

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

Client Protection Principles (CPP)

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

CPP 1: Appropriate product design and delivery

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

Client Protection Principles (CPP)

CPP2: Prevention of over-indebtedness

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

...Client protection principles

CPP3: Transparency

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

CPP4: Responsible pricing

- ▶ IPR's interest rate range from 2.0%-3.0% per month on a declining basis for loans in US Dollar. For loans in other two currencies, the rates are higher by 0.1%. Rates are lower for loans of higher sizes.
- ▶ The Dollar loans were decreased in 2014 by 0.1% to 0.6% depending on loan amounts, to encourage higher uptake of such loans.
- ▶ Apart from interest, IPR charges the cost of credit bureau verification from the approved client.
- ▶ The branch Manager has the flexibility of charging rates in a range of around $\pm 0.15\%$ depending upon risk assessment and competition. It was observed that the rates are mainly decided based on the competitive factors.
- ▶ The rates are comparable to the rates charged in Cambodia by other MFIs.

...Client protection principles

CPP5: Fair and respectful treatment of clients

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

CPP6 – Privacy of client data

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

CPP7 – Mechanism for complaint resolution

- ▶ IPR has printed the phone number of its Head Office on the client repayment schedule. Clients are informed about this number. The calendar provided to clients also contain contact number of the respective branch.
- ▶ Awareness of clients about the number on calendar was good.
- ▶ IPR has fixed complaint boxes at the branch. In one of the visited branches 15 complaints/enquiries were received during Oct-Dec'15, which was sent to the HO. However, there is no mechanism of recording and analysing these complaints and initiating follow-up action. The responsibility is with the Marketing Officer, a position which is currently vacant.

IPR's financial performance is rated at $\alpha-$. It has maintained a healthy CAR despite exit of Leopard Capital, has profitable operations and the quality of portfolio is good. However, the grade is limited due to high unhedged forex position, weak portfolio diversification and risk to portfolio on account of higher loan size and balloon repayment.

Financial performance

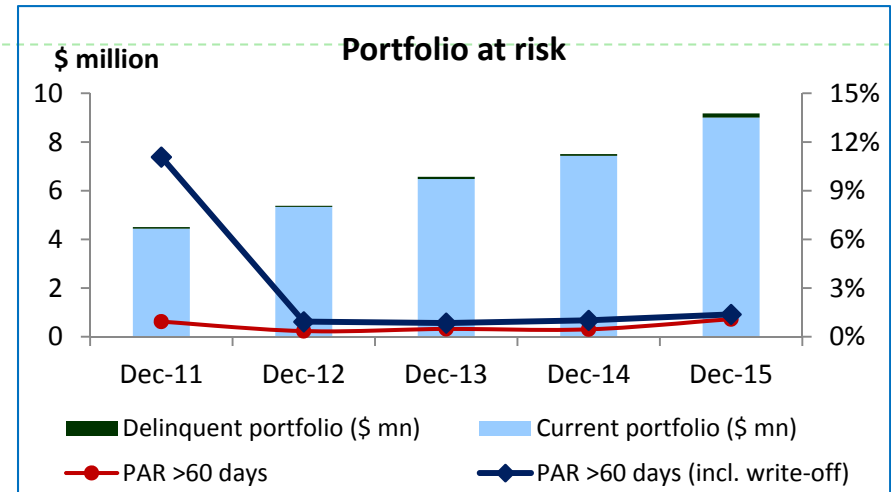
- Credit performance and portfolio quality
- Profitability and sustainability
- Asset & Liability composition

Financial profile

Financial Ratios	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Capital Adequacy					
Risk Weighted Capital Adequacy Ratio	75.8%	78.7%	70.5%	70.0%	57.9%
Asset Quality					
Portfolio at Risk (>60 days)/ Gross Loan Portfolio	0.9%	0.3%	0.5%	0.5%	1.1%
Loan Loss Reserves/ Gross Portfolio	2.4%	1.7%	1.9%	1.4%	1.8%
Write-off for the year / Average portfolio for the year	12.3%	0.6%	0.4%	0.6%	0.3%
Management					
Operating Expenses/Average Gross Loan Portfolio	17.5%	13.5%	14.0%	12.5%	12.6%
Number of Borrowers/Field Staff	109	98	108	123	77
Number of Borrowers/Total Staff	37	37	87	105	69
Earnings					
Net income from operations/Average Assets (RoA)	6.8%	12.5%	9.5%	10.2%	6.1%
Net income from operations/Average Equity (RoE)	8.9%	16.3%	12.8%	14.6%	9.6%
Portfolio Yield	32.1%	32.1%	31.0%	29.9%	26.7%
Interest and fee expense/Average Gross Loan Portfolio	4.1%	0.7%	2.8%	2.4%	4.5%
Liquidity					
Cash & Liquid Assets/Total Assets (year end)	20.4%	7.7%	6.9%	8.3%	9.2%

Credit performance and portfolio quality

- ▶ IPR's portfolio has grown at CAGR of 21.8% over the last five years to reach USD 9.39 million on Dec'15. The overall quality of portfolio quality is good with PAR60 of 1.1% though it has increased from the 0.5% level maintained over the last few years. Even after accounting for written off loans, PAR 60 is good at 1.1%.
- ▶ At present, only two branches (Takeav and Phonm Proek) are facing issues of overdue portfolio. In the past, due to the global economic downturn and a major fraud in 2010 one branch was closed down & problem portfolio was written off in 2011.
- ▶ The disaggregation of portfolio shown alongside shows high concentration in agriculture sector of 96%. Though according to the internal risk limits set for paddy at 70%, IPR's exposure in paddy is within limits, it poses significant risk.
- ▶ Balloon loans contribute 62% to the portfolio.
- ▶ Geographically, 56% of portfolio is concentrated in three provinces in the west of the country.
- ▶ Overall portfolio faces risk from lack of adequate diversification and the risk limits needs to be revisited.



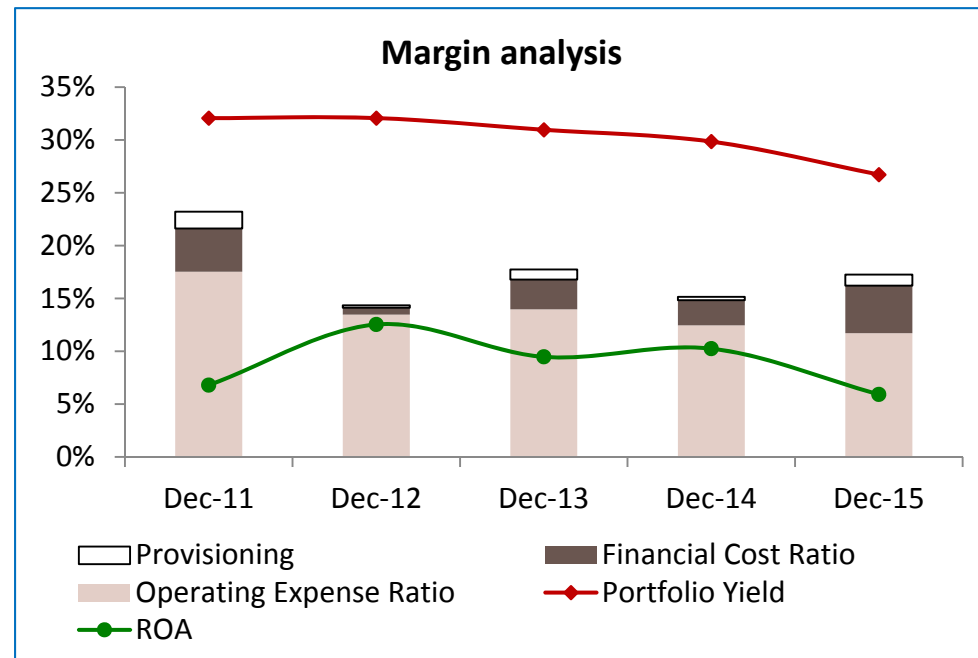
Portfolio diversification	% of portfolio				
	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
By Sector					
Paddy (Dry)	34	33	24	24	16
Paddy (Rainy)	35	33	37	35	34
Cassava cultivation	21	29	33	36	43
Other crops/agri activities	8	2	4	4	3
Small business	3	2	2	1	4
By tenure					
Loans <1 year	100	96	88	79	63
Loans >1 year	~0	4	12	21	37
By product					
Interest half baloon	78	78	73	65	53
Interest monthly baloon	22	22	23	14	9
Equal repayment instalment				~0	~0
Equal principal instalment			3	21	38

Profitability and sustainability

- ▶ The portfolio yield for 2015 was 26.7% which has dropped from 29.9% in 2014 and 31% in 2013. This decrease is mainly due to the reduction in the interest rate charged on the dollar loans.
- ▶ The OER has shown an improving trends and was at 12.6% for 2015 in comparison to 12.5% in 2014 and 14.0% in 2013. The weighted average cost of funds for 2015 was 10.6% and a financial cost ratio (FCR) of 4.5%, which has increased in comparison to the last couple of years.
- ▶ As a result, IPR continues to be profitable though the profitability has decreased in comparison to previous years The RoA decreased to 6.1% in 2015 in comparison to 10.2% in 2014 and 9.5% in 2013.
- ▶ Similarly, Operational Self-Sufficiency (OSS) dropped to 157.9% in 2015 from 200.3% in the previous year.

Capital adequacy

- ▶ Due to low level of debt mobilisation, IPR has maintained a very high CAR. With the exit of Leopard Capital Fund in 2015 it has decreased but still very healthy. CAR as on 31 December 2015 was at 57.9%. Compared to other MFIs, IPR may need to maintain a higher CAR due to relatively higher risks faced by its portfolio, however, it has scope to bring it down to below 40% by leveraging it to obtain more external borrowings.



Asset & liability composition

- ▶ IPR had 76% of its total assets in loans outstanding on 31 December 2015. Average liquid assets (cash in hand and at bank to total average assets) were at 9.2% which is reasonable considering IPR does not take deposits.
- ▶ On the liability side, external borrowings constituted 39% of the total source of funds as 31 December 2015. It has shown an increase in comparison to previous year ending ratios of 25.3% in 2014 and 24.3% in 2013. It is mainly because of more than USD 1.8 million of debt (44% of total outstanding debt of USD 4.1 million as on 31 Dec'15) that was received from Triple Jump, Hivos-Triodos Fonds and individual lender Mr. Hsu Mingyee in the last quarter of 2015.
- ▶ All of IPR's sources of funds in 2015 except for a loan of USD 444,444 (4%, in Thai Baht) are denominated in US Dollar (including equity since USD is the base currency). The foreign currency mismatch for IPR has been in the range of around 45% to 50% in the past few years but as of Sep'15 it has been brought down to 17%. Overall, 77.4% of total assets are in USD denomination while 88.4% of total liability & equity is in USD as of Sep'15.

Gross Loan Portfolio by currency	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Khmer Riel	32%	33%	32%	26%	10%
Thai Baht	28%	30%	28%	26%	17%
US Dollar	39%	37%	40%	47%	73%
Borrowings and Equity by currency					
US Dollar	100%	95%	96%	100%	96%
Thai Baht	0%	5%	4%	0%	4%

- ▶ In terms of maturity, ~71% of IPR's portfolio has maturity of less than 12 months, while its borrowings (which constitute only 39% of total source of funds) have an average remaining maturity of more than 2 years. Both assets and borrowings are at fixed rates.

Financial Statements of IPR

Balance Sheet on

ASSETS	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Current assets					
Cash in hand & at bank	71,370	168,201	114,074	87,848	94,852
Deposits & investment	596,650	459,267	775,748	1,142,879	2,398,169
Deferred tax	58,087	36,272	35,425	70,193	89,015
Profit tax credit	58,179	58,179	58,179	58,179	63,835
Other assets	203,252	262,684	470,959	473,605	513,271
Loans outstanding					
Gross loan Outstanding	4,591,239	5,429,002	6,641,485	7,583,128	9,389,014
<i>Loan loss reserve</i>	(110,424)	(91,648)	(127,881)	(107,738)	(168,733)
Net loans outstanding	4,480,815	5,337,354	6,513,604	7,475,390	9,220,281
Total current assets	5,468,353	6,321,957	7,967,989	9,308,094	12,379,423
Long term assets					
Net property and equipment	136,729	148,471	141,935	126,146	118,661
Total long term assets	136,729	148,471	141,935	126,146	118,661
Total Assets	5,605,082	6,470,428	8,109,924	9,434,240	12,498,084

...Balance Sheet on

LIABILITIES AND NET WORTH	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
<u>Liabilities</u>					
Interest payable	2,509	10,141	17,260	34,951	-
Others	201,341	211,408	223,661	214,357	291,286
Provision for Severance pay	74,819	88,657	111,026	119,283	137,527
Income tax liabilities	99,776	171,673	193,965	194,835	168,326
ST borrowings	500,000	100,000	385,169	775,000	-
Total current liabilities	878,445	581,879	931,081	1,338,426	597,139
Long term debt	450,000	854,956	1,455,000	1,473,333	4,611,961
Total long term liabilities	450,000	854,956	1,455,000	1,473,333	4,611,961
Total Liabilities	1,328,445	1,436,835	2,386,081	2,811,759	5,209,100
<u>Net worth</u>					
Share Capital	3,088,645	3,088,645	3,088,645	3,088,645	3,088,645
Retained net surplus/(deficit)	823,267	1,187,992	1,944,948	2,635,198	3,533,836
Current net surplus/(deficit)	364,725	756,956	690,250	898,638	666,503
Total net worth	4,276,637	5,033,593	5,723,843	6,622,481	7,288,984
Total Liabilities and Net Worth	5,605,082	6,470,428	8,109,924	9,434,240	12,498,084

Income Statement for the period

	Jan-Dec 11	Jan-Dec 12	Jan-Dec 13	Jan-Dec 14	Jan-Dec 15
Income					
Interest on loans	1,209,512	1,693,710	2,055,696	2,125,670	2,334,287
Investment income	183	293	595	696	-
Recovery of written off loans	49,941	8,627	9,537	9,902	15,490
Other income	34,606	16,219	23,428	24,220	28,349
Total operational income	1,294,242	1,718,849	2,089,256	2,160,488	2,378,126
Financial costs					
Interest and fee expenses on borrowings	81,237	118,489	187,741	169,026	313,566
Foreign Exchange loss/(gain)	72,937	(83,722)	-	-	-
Gross financial margin	1,140,068	1,684,082	1,901,515	1,991,462	2,064,560
Provision for loan losses	59,764	11,393	62,850	22,385	91,145
Net financial margin	1,080,304	1,672,689	1,838,665	1,969,077	1,973,415
Operating expenses					
Personnel Cost	352,905	390,720	469,512	459,222	554,046
Depreciation	45,249	39,371	41,447	50,569	55,465
Administrative expenses	263,339	280,942	415,934	377,305	492,277
Total Operating expenses	661,493	711,033	926,893	887,096	1,101,788
Net Surplus/Deficit – operational	418,811	961,656	911,772	1,081,981	871,627
Taxes	54,086	204,700	221,522	183,343	205,124
Net Surplus/Deficit	364,725	756,956	690,250	898,638	666,503



Annexes

Profile of the Board

Board Member	Experience	Years of association
Mr. Oknha Phou Puy, Chairman	He is the Founder and Chairman of the Board of Directors of IPR since inception in 2005. Oknha Phou Puy is a successful entrepreneur who started out as a rural rice miller during the 1990's in Banteay Meanchey province and grew to become a reputed businessman and established player in the agriculture sector and rice milling industry.	11, Since inception
Mr. Mao Savin	Mr. Mao Savin, Investment Manager at Emerging Markets Investments, has over 10 years' business experience, including financier with a multi-national manufacturing company and business consultant. As a keen development practitioner involving in community development, social network and enterprise, Mr. Mao Savin co-founded Cambodian Rural Development Team (CRDT) and continues to serve as its Chairman of the Board. He holds a BBA (Accounting) from Maharishi Vedic University in Cambodia and is completing a Master of Business Administration in Finance from Charles Sturt University, Australia.	7, Since 2009
Mr. Chan Sophal	Mr. Chan Sophal is the President of the Cambodian Economic Association (CEA), a professional society he has been leading for five years on a voluntary basis. He currently works as a director for policy and enabling environment in a large donor funded project managed by Fintrac Cambodia. He is one of the most knowledgeable agricultural economists in Cambodia, with substantial practical experience working in the past 20 years with a leading research institute (Cambodia Development Resource Institute), donor agencies (Worldbank and World Food Program), the private sector (Leopard Cambodia) and the Cambodian government. Mr. Chan Sophal received a Master of science in agricultural economics from the University of London, Imperial College at Wye, United Kingdom, in 2000.	7, Since 2009

...profile of the Board

Board	Experience	Years of association
Mr Mak Sarun	Mr. Mak Sarun is a founding shareholder of SOKIMEX Co. Ltd since its inception in 1990. He is a member on the Board of Directors of the parent company SOKIMEX since 1995. He obtained a master degree in Public Administration in 2008.	3, Since 2013
Mr. Min Kimsan	Owner of Kimsan Farming, an animal raising farm contracted with C.P. Cambodia Co., Ltd, Cambodia's most famous animal raising and breeding company. Owner of a few garment factory buildings in Phnom Penh.	3, Since 2013
Mr. HSU Mingyee	Independent investor. A Luxembourg and Republic of China (Taiwan) citizen, Mr. Hsu Ming-Yee graduated in economics from the University of Trier in Germany in 2000. From 2001 to 2004, he worked in the Financial Stability section of the Central Bank of Luxembourg. In 2005 and 2006, he worked at the European Commission, mainly as its Economic and Trade Officer in Malaysia. From 2007 to February 2011, he worked at ADA, a Luxembourg NGO specialized in microfinance. He then joined IPR as Adviser in March 2011 and was its Head of Operations Department from February 2012 to June 2014. From July 2014 onwards, he has been an independent microfinance consultant.	New (September 15 onwards)
Ms. Pok Nivilay	Has been appointed as an independent director recently and she will join the Board from 1 st April 2016.	New

Abbreviations

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

Glossary

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

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

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

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

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

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

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

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

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

M-CRIL rating grades

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