

## CREDIT Ltd., Cambodia

Cambodia Rural Economic Development Initiatives for Transformation Co. Ltd. (CREDIT) was initiated by the Christian US based NGO World Relief (WR/US) in 1993 and transformed into a Limited Liability Company in 2003. CREDIT received its operating license from National Bank of Cambodia (NBC) in May 2004. CREDIT offers both group and individual loans for business and agriculture purposes in both USD and KHR. As of June 2009, CREDIT serves 35,065 clients with a portfolio of 18.7 M USD across nine provinces, through a network of seven branches and 31 sub-branches.

### GIRAFE Rating

#### Rating

**B+**

#### Outlook

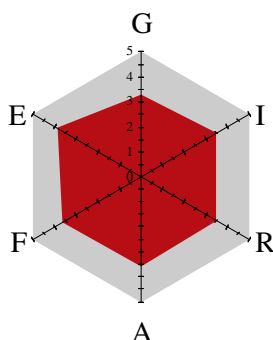
**Stable**

#### Date of the rating

**September 2009**

Valid until August 2010

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Amidst the economic recession in Cambodia, CREDIT has suffered an increase in credit risk in 2009 with PAR 30 up from 0.3% at FYE08 to 2.5% at June 2009.
- Subsequently, profitability levels have decreased, mainly as a result of increased provisioning expenses with ROA sliding from a solid 5.6% for FY08 to 3.7% (annualized) for the first six months of 2009.
- Since Planet Rating's previous rating in 2007, CREDIT has solidified its management team, who has shown good execution capacity to proactively manage the downward pressure on portfolio quality and profitability.
- However, the BOD requires further strengthening in specific microfinance and/or banking expertise, which continues to remain limited among the BOD members.
- CREDIT has been able to strengthen its market position in the competitive Cambodian market, increasing its market share from 2.7% at FYE06 to 4.4% as of June 2009 and demonstrates a moderate to good revenue quality.
- In its ambition to obtain a deposit taking license, CREDIT will have to further enhance its financial projections, maturity risk management and Internal Audit function as well as the connectivity and efficiency of its MIS.

#### Outlook

The stable outlook reflects Planet Rating's opinion that CREDIT will be able to stabilize the downward trend in portfolio quality and profitability while preparing for the institution to obtain a deposit-taking license.

#### Performance indicators

USD	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Assets	1,952,654	2,933,624	5,578,304	11,410,017	20,665,049	22,518,777
Loan portfolio	1,595,727	2,576,065	4,622,004	10,303,487	19,060,212	18,746,427
Active borrowers	10,909	11,451	10,796	18,273	33,887	35,065
Avg. outst. loan per client	146	225	428	564	562	535
Outstanding deposits	217,778	349,922	571,268	1,190,584	863,484	537,752
Active savers	11,094	11,669	11,024	12,924	3,429	2,837
Staff	118	128	142	222	391	422
ROE	(4.4%)	1.8%	6.8%	16.3%	22.4%	16.0%
ROA (without donations)	(3.5%)	1.4%	3.8%	5.7%	5.6%	3.7%
Liabilities / Equity	0.30x	0.38x	1.14x	2.45x	3.41x	3.36x
Portfolio yield	41.9%	38.8%	34.1%	30.2%	29.6%	29.3%
Operating expense ratio	46.1%	28.6%	23.7%	16.5%	14.7%	12.5%
Funding expense ratio	1.1%	3.5%	2.8%	5.4%	7.6%	8.9%
LLP expense ratio	1.0%	4.2%	1.3%	0.0%	(0.0%)	3.9%
PAR 31-365	3.5%	4.5%	3.0%	0.3%	0.3%	2.4%
PAR > 365	0.0%	0.0%	0.3%	0.0%	0.0%	0.1%
Write-off ratio	1.6%	3.9%	1.1%	0.2%	0.0%	0.0%

## Microfinance sector

Microfinance services started in Cambodia in the early 1990s and were initially provided by internationally-backed NGOs. The Royal Government of Cambodia (RGC) strongly supports rural finance and by extension microfinance as effective tools to fight poverty. Micro/rural finance is one of the two core functioning elements of the current financial system. The National Bank of Cambodia (NBC) uses a self-described “market-based approach” to develop the sector and favors “light” intervention. Overall, the responsibilities for the sector were divided between the Ministry of Finance (MOF), NBC and the Cambodian Microfinance Association (CMA), with MOF supporting policy development and funding coordination, NBC responsible for regulation and supervision, and CMA and the industry responsible for the operational aspects.

In 1999, the RGC introduced banking regulations adopting a two-tier system for supervising microfinance. A ‘Prakas’ (i.e. government decree) on microfinance was enacted in 2000 and implemented by the NBC. MFIs with a portfolio over 1 billion KHR (250,000 USD) needed to be licensed, as Limited Liability Company (LLC) or as a cooperative. After receiving license and registration certificates, the MFIs are regulated and supervised by NBC. At the end of 2008, there were 18 licensed MFIs and 25 registered as rural credit operators. All licensed MFIs must provide monthly reports and comply with well defined prudential regulations. There is good supervision by the NBC with yearly supervisory visits.

One MFI, ACLEDA, transformed to a commercial bank in 2003. Few other MFIs have investigated this option, but this has become difficult given the increase in minimum capital requirement from 13 M USD to 36.5 M USD as of early 2009.

NBC has issued a new Prakas in late 2007 (N° B7-07-163) on licensing of deposit taking institutions. With this Prakas all MFIs had to stop mobilizing savings – previously they were allowed to mobilize savings from their clients/members. To date two MFIs have obtained a deposit taking license (AMRET and CEB) and three others have submitted an application.

Estimated demand for microfinance services is around 1 to 1.5 million active clients out of a total potential client base estimated at 3 million clients/households. The industry has shown significant growth in the past years (55% in 2007 and 65% in 2008). At present the industry is reaching saturation in some provinces, whereas other provinces still show untapped demand. Although estimates on cross-indebtedness may vary, out of the total number of active borrowers of just

over one million (see table below), it is estimated there are only around 700,000 unique clients. Such level of cross-indebtedness highlights the urgent need for the implementation of a credit bureau in Cambodia which to date remains absent, even for commercial banks. With support of IFC, NBC is currently working on drafting legislation and investigating options for the institutional set-up of the credit bureau. Likely, the bureau will only become active in early 2011.

MFI As of June 2009	Portfolio in M USD	%	Active borrowers	%
Aceda	163.7	38.4%	210,892	20.4%
Amret	54.6	12.8%	227,405	22.0%
Prasac	50.4	11.8%	81,202	7.8%
Sathapana	34.5	8.1%	36,106	3.5%
HKL	26.9	6.3%	44,037	4.3%
AMK	22.3	5.2%	194,039	18.7%
<b>Credit</b>	<b>18.7</b>	<b>4.4%</b>	<b>34,520</b>	<b>3.3%</b>
TPC	17.2	4.0%	92,890	9.0%
VisionFund	17.4	4.1%	83,606	8.1%
Others	20.3	4.8%	31,181	3.0%
<b>Total</b>	<b>426.2</b>	<b>100%</b>	<b>1,035,878</b>	<b>100%</b>

Source: CMA. Data for ACLEDA only includes microfinance loans.

**Economic recession:** Cambodia has not escaped the global economic recession, see Political & economic environment below. As a result, the non-performing loans in the industry have increased from 0.4% PAR 30 at Dec. 2008 to 1.3% in March, 2.7% in June 2009 and 3.2% as of September 2009 (data excludes Aceda Bank).

## Political & economic environment

**A growth slowdown:** Economic growth slowed in 2008 due essentially to a drop in exports particularly of textile to the United States, which represents 60% of sales abroad. Moreover, the slowdown of industrialized and Asian economies affected tourism. Domestic demand also weakened. Investment in construction, particularly FDI, suffered from the credit crunch and the risk of property prices collapsing. Household consumption sagged, meanwhile, amid growing inflation attributable to the rise of raw material prices. Exports are expected to stagnate in 2009 as a result of weaker demand from the United States and increased competition in textile with the protective measures imposed on China by the European Union and United States no longer in force. Therefore, the economy is expected to fall into recession in 2009.

**Dependence on international financial backers:** Although official transfers have helped limit its size, the fiscal deficit is nonetheless expected to widen in 2009 with implementation of a fiscal stimulus. The current account deficit moreover widened in 2008 amid the rise of raw material prices and slowdown of textile exports. With those prices now trending down, the deficit could ease slightly in

2009. Foreign direct investment and concessional aid will cover Cambodia's growing financing needs. A lack of progress on improving the business environment and especially in combating corruption has, however, been a source of concern to donors.

**Political stability:** The domestic political situation has been stable. The July 2008 elections resulted in victory by Prime Minister Hun Sen's Cambodian People's Party, which won two-thirds of the seats in the National Assembly. The government will thus likely maintain the continuity of economic and social policy. Relations with Thailand have soured meanwhile over the disputed borderline near the Preah Vihear temple. Despite the troops stationed at the border by the two countries, armed conflict remains unlikely.

COFACE Country Rating: D – A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behaviour. Corporate default probability is very high.

COFACE Business Climate Rating: D – The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in the highly risky environments rated D.

(USD millions)	2,007	2,008	2009f	2010f
Economic growth (%)	10.2	6.0	-0.5	0.5
Inflation (%)	5.9	19.7	5.2	6.2
Public sector balance (%GDP)	-2.9	-1.7	-3.2	-2.7
Exports	4,089	4,363	3,300	3,500
Imports	5,419	6,400	5,300	5,500
Trade balance	(1,330)	(2,037)	(2,000)	(2,000)
Current account balance (%GDP)	-3.4%	-10.9%	-10.5%	-9.5%
Foreign debt (%GDP)	30.0%	27.0%	26.0%	26.0%
Debt service (%G&S exports)	1.2%	1.1%	1.4%	1.4%
Foreign currency reserves (in months of imports)	2.5	3.5	3.1	2.8

Source: COFACE's Country Risk Rating Guidebook 2009. (e) estimates (f) forecasts. [Disclosure Statement](#). Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

CREDIT was founded as a NGO by World Relief US in 1993. In May 2004, it became a limited liability company and received a three-year renewable license from the National Bank of Cambodia (NBC). Since then, it has been

regulated and supervised by the NBC. It received a permanent operating license from NBC in April 2007.

CREDIT has been audited by PriceWaterhouseCoopers (Cambodia) Ltd. between 2001 and 2007, and by KPMG for the year 2008. Neither of the auditors have qualified their opinion for the period under review. CREDIT's financial year starts on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

### Ownership

As of September 2009 CREDIT is owned by World Relief US (WR/US at 77%), World Relief Canada (17%) and World Hope (6%) with a total paid-up share capital of 750,000 USD.

The Board of Directors (BOD) composition is quite diverse, mixing US expatriate and local Cambodian members. The Chairman, Tim Amstutz is a US citizen who has been living in Cambodia for the past eight years. Involved in World Relief for the past 22 years, he is currently acting as the Asia Director. Two other members are also US expatriates with long time work experience in the Cambodian NGO sector. The two Cambodian members have strong expertise in social development work and microfinance through several work experiences in microfinance institutions, NGO and international agencies. Recently, CREDIT has applied to the NBC for the approval of two new BOD members (the members being elected by the shareholders but pending approval from NBC). One is the president of WR/US, while the other one has been selected for its extensive work experience in marketing and business development in the private sector.

There is one sub-committee, the Audit Committee, which is composed of one BOD member and the Internal Auditor.

### Donations

Since its inception, CREDIT has received 2 M USD in loan funds, operating subsidies and technical assistance, principally from WR/US.

### Funding composition

As of June 2009, CREDIT's funding structure is composed for 23% of equity, 75% debt and 2% deposits. CREDIT's lenders are drawn from a diversified pool of national and international sources. As of June 2009, CREDIT's total debt reaches 16M USD, with 97% denominated in USD, and 13.9% subject to floating interest rate based on the LIBOR. Most loans are long term, with a short term portion of 13%.

## Management team

CREDIT's management system is structured in two levels: the Management Team (MT) and the Executive Committee (ExCom). The later is made up of senior management and branch managers that meet quarterly. The MT is made up of the General Manager (GM), Finance Manager (FM), Operations Manager (OM), Marketing Manager, IT Manager, HR Manager and Internal Auditor.

- Mr. Mach Chan is the first Cambodian acting as General Manager (GM) following the localization process of the management team in 2006. He had eight years of experience working inside the organization in various positions, including the last position as Operations Manager (OM) before being promoted.

## Organization

Microfinance operations are done at the branch and sub-branch levels. Branch offices function more or less as regional offices and are staffed with a Branch Manager (BM) and IT assistant. A branch might have up to seven sub-branches whose staff comprises a Sub-Branch Manager (SBM), Loan Officers (LOs)<sup>1</sup>, a Head Teller and one or multiple tellers. Tellers can either be Office Tellers working at the sub-branch office or Field Tellers, collecting repayments from clients in the field.<sup>2</sup>

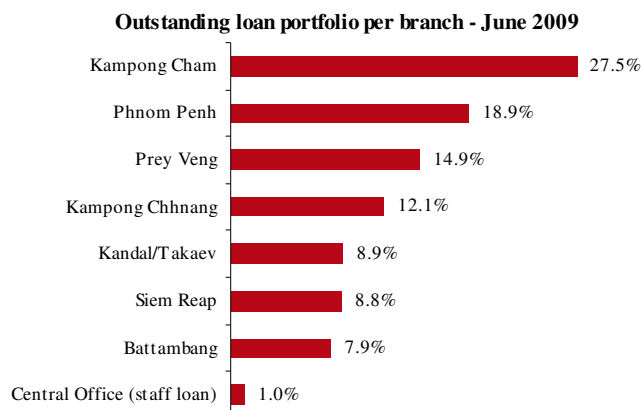
Loan evaluation process is essentially done at sub-branches by the LOs whereas the loan approval process is decentralized according to loan sizes. Loan amounts less than 1,000 USD can be approved by the SBM. Loans between 1,000 USD to 5,000 USD are approved by the BM. Loans exceeding 5,000 USD must be approved by a credit committee at the head office (HO) in Phnom Penh. All transactions are done in cash. Disbursements and repayments are mostly done at the office by the office teller (OT).

In order to track information on its portfolio, CREDIT uses an off-the-shelf, stand alone, decentralized MIS called Kredits, developed by Technical Development Solutions in Salt Lake City in the US. All transactions are recorded daily in the MIS at sub-branch level, with weekly consolidation at Branch level and monthly at HO level. For accounting information SUN is used at the HO only, with portfolio transactions transferred monthly to SUN.

## Market penetration

CREDIT currently operates in nine provinces through seven branches and 31 sub-branches serving 68 districts and nine provinces in central Cambodia. Its areas of operations

correspond to the most populous areas where one can also find most other MFIs.



## Products and services

Loan products are categorized in either individual or group loans, given in KHR or USD. Individual loans in KHR range from 200 K to 40 M KHR (50-10,000 USD). Individual loans in USD range from 100 to 10,000 USD. Group loans in KHR maximum amount is 1.2 M KHR (300 USD) while disbursement can start at 100K KHR (25 USD). USD group loans amount vary from 50 to a maximum of 300 USD. Loans are further categorized in business or agriculture and agriculture loans are limited to 4 M KHR (1,000 USD). Loan terms range from four to 24 months for individual loans and from four to 12 months for group loans. Repayments are flexible where clients can choose one of the four options (weekly, bi-weekly, four weekly or monthly) and are conducted at the branch most of the time even though exceptional field collection can be allowed. Loan EIRs range from 24% to 36% depending on the terms and the repayment methods.).

Since 2007, CREDIT launched the Vulnerable Services Unit (VSU) unit and started offering community bank loans which are group micro loans (a joint-liability group of four to six), with loan amounts from 500 K KHR to 1 M KHR (125-250 USD) (for the whole group), which do not require physical collateral. It aims to serve the most vulnerable (the family of HIV/AIDS infected persons, the family of the victim of human trafficking) in the rural communities. Loan EIR is around 34%, repayment is conducted monthly.

## Networks

CREDIT is a member of the Cambodian Microfinance Association (CMA) and is affiliated with the World Relief International network.

<sup>1</sup> Internally CREDIT uses the term Credit Officer.

<sup>2</sup> While field repayment is still possible, CREDIT has recently started to decrease the use of this practice.

## ■ Governance

Governance and decision making is rated “b”

### Decision making

There is a shared vision and mission among the BOD and MT for the future direction of CREDIT. The institution has an appropriate legal set-up to achieve its vision and mission, and is planning to apply for an MDI license. Overall there is adequate decision-making in process in place for CREDIT.

The BOD members have a diverse background although mostly focused on social development and only to a lesser extent in microfinance. Two new candidate BOD members have been elected and submitted to the NBC for approval, although not bringing in needed additional microfinance expertise. One BOD committee exists on Audit but its integration into the overall decision making process is limited (cf. Internal audit). A second committee on Risk Management is being considered.

The BOD receives concise but analytical reports from the GM which detail the main ongoing concerns for every BOD meeting. However the report is only made available a few days before the BOD meeting and could be added onto by reports from different departments. The frequency of BOD meetings is low with two meetings in 2008 and two meetings in 2009, while one additional meeting is planned before the end of 2009. Aware of the difficulty of ensuring a proper follow-up of decisions made, the BOD anticipates holding quarterly meetings from now on. Furthermore, while well documented in minutes to date, the follow-up from one meeting to the next has been limited. This has been noted by the BOD and stronger follow-up of decisions taken is planned for.

### Planning

CREDIT has an appropriate strategy in place focusing on growth with quality with an aim of steadily improving its market position. This strategy is well documented in a Business Plan (BP), which contains a sufficient analysis of both internal and external factors, even though the BP could more clearly identify and plan for key projects to be achieved. For example, the transformation to an MDI is only very briefly addressed even though it will require significant attention from management to effectively establish savings services once the MDI license is obtained.

Financial projections have been adequate in general but their current relevance is undermined by the change in strategy due to financial and economic crisis for which the projections have not yet been updated. Furthermore, the planned commencement of savings services has not yet been included.

Overall there is a good participatory planning process with input from LOs, SBMs and BMs allowing for strong buy-in of strategic goals. These initial projections are finalized after input from the BOD. While the BP and financial projections are updated annually, it would further benefit from scenario planning, especially in the current situation where the future development of the market is difficult to predict (e.g. end of recession and recovery speed, adoption of saving services). For 2009 the consequences to the financial position of the revised strategy have not yet been sufficiently analyzed.

### Management team

CREDIT has an adequate management team (MT) in place for its current size. All MT members have grown well into their positions for the past two to three years and now form a cohesive team. Recently, the MT has shown good execution capacity in dealing with the financial and economic crisis, acting proactively and adopting an appropriate strategy to manage increasing credit risk while maintaining its market position. Furthermore, well-organized and regular monthly meetings allow a smooth internal communication, documented in clear minutes allowing good follow-up. In between there is open communication between the senior MT members. Quarterly meetings are held for the ExCom allowing good interaction between operational and senior management.

However, as CREDIT further expands and aims to become an MDI, the MT members will have to further grow in their roles and increase their polyvalence in order to be able to better cover for a potential absence within the team. Indeed, currently, a moderate key-person risk exists on the GM, even though it is partly mitigated by joint decision making. Succession planning for GM and other MT positions is being considered (e.g. through setting-up deputy positions) but is not yet strongly formalized.

The MT is moderately well assisted by a cadre of BM and SBM who are often technically capable but could increase their management skills in supervising sub-branches and LOs respectively. This is acknowledged by CREDIT and BMs and SBMs are exposed to a significant amount of training.

### Human resource management

The HR department functions professionally: 1) HR manuals (employee manuals, recruitment policies, job descriptions) are in place and systematically revised every two years; 2) the HR manager monitors an independent HR plan and budget with clear targets; 3) the HR department systematically tracks analytical tools and HR indicators such as turnover ratio, exit interviews and incentive schemes.

The overall recruitment process is efficient and fine tuned to the characteristics of each job position, with differentiated profile requirements and actual process (test content and interview committee). Newly recruited staffs undergo a three-week comprehensive training course, with specialized training modules designed and conducted by each HO department depending on its area of expertise. Furthermore, the newly set up training unit is in charge of facilitating the implementation of the annual training plan (refresher courses are conducted at least once a year in every branch for field staff), and conducts an annual training needs assessment (the first assessment is expected to be finalized by the end of 2009).

Staff performance assessments (including qualitative and quantitative criteria) are systematically conducted every year and feed compensation scheme as well as career development decisions. From 2010, it will also feed the training needs assessment.

Aware of the high risk of staff poaching by commercial banks, CREDIT has made some concerted efforts to improve its staff compensation structure. This results in a satisfactory staff morale with a moderate to low staff turnover (6.8% in 2008). However, the incentive scheme is not always fully understood by all staff and even though calculated monthly, bonuses are only paid annually, which reduces its effectiveness as a motivational tool.

## ■ Information

Information is rated “b”

CREDIT has a cost-effective MIS in place, although overall efficiency of the system is only moderate. The stand-alone, decentralized operating mode of Kredits reduces efficiency although it is managed well by CREDIT. The consolidation and the data interface between Kredits and its accounting software SUN is also managed well.

There is sufficient internal capacity to maintain and adapt Kredits and SUN systems. For more technical updates there is adequate support from the developers if needed. However, staff capacity to use Kredits is variable, except for tellers who are well trained. As such, in each branch there is sufficient capacity to produce relevant reports from the system, although not by each individual user.

Data security at CREDIT is moderate. There are weekly back-ups at branch and HO level, although branch back-ups are not securely stored as they are often taken home by the branch IT staff. Anti-virus software is installed but maintenance and updates are not sufficiently monitored. Similarly there is a policy in place for minimum password complexity, but its implementation is not sufficiently

monitored. For paper data the level of security is variable. On the one hand collateral documents are securely stored in locked, fireproof cabinets; whereas on the other hand client files – including the loan contract – are not stored securely in open filing racks and thus susceptible to manipulation or fire/water damage.

Availability of information on activities is adequate. All relevant information for loan monitoring is available on a timely basis in sub-branches. However, consolidated information for CREDIT as a whole is only available monthly. Improvements to make this weekly are under way and expected to be available before year-end. Portfolio information can be broken down along various dimensions (product, LO, branch, sector, etc.) although the template of some reports could be more efficient. Additional analysis, when needed, can be done through system queries.

Financial statements are available monthly on a timely basis and as of August 2009 will also be based on accrual accounting.<sup>3</sup> Relevant financial indicators are calculated on a monthly basis although not annualized and thus more difficult to interpret. At present, branches are analyzed as cost centers, but not yet as profit centers. Furthermore, additional product costing would allow CREDIT more insight into setting appropriate interest rates per product, especially now that it is in the process of developing an SME loan.

## ■ Risk management

Risk management is rated “b”

### Procedures and internal controls

CREDIT has good internal controls embedded in its procedures, which are well documented in the various manuals. The internal controls include almost all necessary aspects such as separation of tasks where needed, hierarchical control and limitation of powers (e.g. on loan approval). Furthermore, a good initiative was taken by testing a staff rotation policy, where sub-branch managers in the Kampong Chhnang branch were rotated. However, underperformance of branches, sub-branches and individual LOs is not officially regulated. Furthermore, the internal controls could be strengthened by more automated use of the Kredits system. One particular weakness was noted which requires urgent attention as clients sign the loan contract during business appraisal when the loan amount, term and interest rate are not yet filled in and the loan is still to be approved internally by CREDIT.

<sup>3</sup> Since 2007 financial expenses and income were only accrued at year end for the year-end financial statements.

The policies are well known by staff whose compliance is good. A moderate number of minor inconsistencies continue to be noted by the Internal Audit and could be better managed through stronger BM and SBM supervision.

Cash is well managed at the branches, as well as for collection in the field with appropriate controls embedded in the procedures in place to ensure cash security. However, no cash insurance is in place for cash in branch or cash in transit. Adequate controls are in place to ensure data reliability with weekly bank reconciliation at branch level and monthly at HO level and monthly reconciliation between Kredits and SUN systems.

Overall risk management is adequate. However, specific internal risk levels have not yet been defined, although a first step was taken by developing a Treasury Policy. CREDIT is intending to set-up a Risk Committee as part of the BOD to strengthen its risk management.

### Internal audit

CREDIT has an adequate Internal Audit (IA) process in place that shows moderate weaknesses in certain specific areas. The scope of the IA according to the IA charter is all inclusive but in practice there is limited focus on financial and regulatory risks, although both audits of branches and HO processes are conducted.

The IA team has sufficient skills for the current scope of operations, but requires strengthening in global risk assessment of the company as well as in risks related to savings services should CREDIT receive its license from NBC to mobilize savings. In terms of man-power the IA has sufficient staff and conducts a sufficient number of audits. CREDIT is currently testing the usefulness of one auditor staffed in the branch office, which when considered appropriate would be extended to all branches.<sup>4</sup>

The IA charter guarantees independence in theory but this is partly undermined in practice. The Audit Committee consists of only one BOD member and the IA. However, there is very limited discussion of IA findings during BOD meetings. Furthermore, at present the balance of when the GM is and is not present during Audit Committee meetings is not fully appropriate.

Finally, there is good support for the verification of internal controls from both the External Auditors as well as from NBC in their annual supervisory visits.

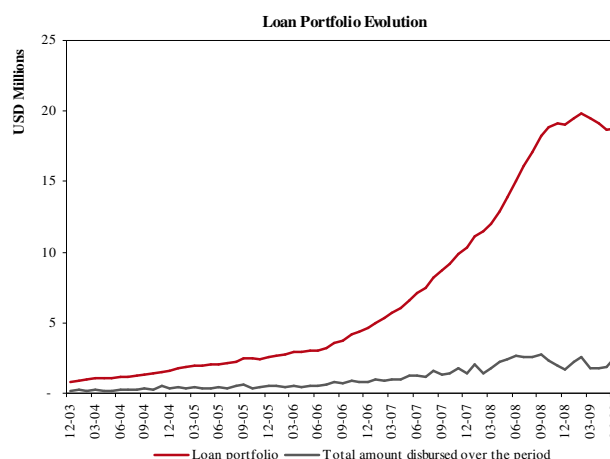
<sup>4</sup> In July the first two branch auditors were posted to Kampong Cham and Kampong Chhnang branches.

## Activities

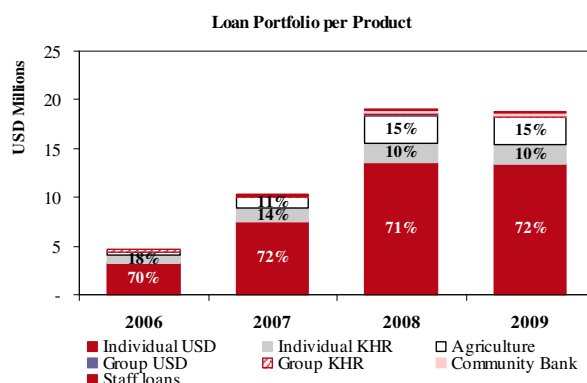
Activities: products and services is rated “b”

### Financial services evolution

CREDIT has shown high growth rates in the past years with a compounded annual growth rate of 86% between 2004 and 2008, with a peak in FY07 of 123%. Due to the present economic recession the portfolio has contracted by 1.6% since January 2009, as compared to 0.8% contraction for the industry as a whole. CREDIT maintained growth until February 2009 after which the portfolio contracted 5.5% until June.



Over the years the portfolio composition has been relatively stable with the individual loans (including agriculture) comprising 95+% since 2006. A slight shift has taken place with the agricultural loan (denominated in KHR) increasing from 7.8% to 15.4% within the portfolio. In 2009 the group loan products (Solidarity and Community Bank loans) have reduced from 2.6% to 1.7% of the portfolio and their percentage of active borrowers from 15.3% to 10.6%.



With the new Prakas on deposit taking activities for MFIs coming out in late 2007, CREDIT had to stop mobilizing deposits from its members. Since then the deposit base has decreased as no new deposits could be accepted. CREDIT is currently in the process to ensure compliance with the NBC

criteria<sup>5</sup> and is expecting to apply later this year for a deposit taking license.

### Financial services management

CREDIT has adequately developed credit methodologies for its products leading to appropriate credit decisions, although some minor weaknesses are noted per product:

- Individual loans: the client analysis is appropriately based on household and business income, but documentation of the business analysis is relatively light for the higher range of loan amounts.
- Agricultural loans: a bullet payment is inherently risky and international best practice has shown that alternatives are possible which better balance risk management and customer service.
- Group loan: at present CREDIT is not able to sufficiently enforce the group liability within the groups.<sup>6</sup>

For all loans cross-indebtedness remains a concern which will be difficult to fully limit without a credit bureau. The local authorities are used where possible to verify client indebtedness, but the effectiveness of local authorities is highly variable.

LOs in general have sufficient capacity to apply the credit methodologies and receive frequent refresher trainings (cf. HR management). There is adequate supervision by SBMs, although there are no clear policies in place to address the underperformance of LOs with high PAR.

Delinquency management is efficient in general. The procedure for follow-up of late loans is documented in the Loan Policy, but does not include a detailed time frame to go with it. CREDIT appropriately uses collateral and the local authorities as a deterrent for late payments.

### Credit risk

As of June 2009 CREDIT has a moderate level of credit risk with PAR 30 at 2.5%, up from a low 0.3% as of Dec. 2008. The main reason for the increase in credit risk is external as a result of the economic recession (cf. Political & economic environment) which led to the increase of the industry PAR 30 from 0.4% to 2.7% for the same period. However, CREDIT has been sufficiently proactive in adapting its systems and adopting a more conservative credit policy. Furthermore, it has appropriately slowed down its portfolio growth from the high growth rates in previous years.

Credit risk is higher in the group loans (PAR 30 of 7.9%) as compared to the individual loans (2.7%). Agricultural loans

continue to show a low PAR of 0.9% even if the credit methodology is relatively risky (see above). On a per province basis, credit risk varies sharply for CREDIT, but so do industry averages, most notably due to differing performance of the local economy. It is noted that in each province where CREDIT is active, it performs better than the industry average. However, within each province there are stark differences per district and village, which requires stronger management by CREDIT.

Even if the write-off policy is not according to international best practice<sup>7</sup>, given the current credit risk level, this does not create a material distortion of CREDIT's financial position. The write-off ratio has remained low since 2006. Clear rules are in place regarding connected lending which is also limited by NBC regulation. Staff loans are well managed and kept at a reasonable level (0.8% of total portfolio).

Concentration risk per business sector or geographic region is not strongly monitored by CREDIT. For its exposure to the agricultural sector CREDIT has set a maximum exposure of 30%. As of June 2009 it stood at 15.4%. However, given current differences in credit risk per province – for CREDIT as well as for the whole industry – stronger management of concentration risk is necessary for CREDIT although at present its portfolio is sufficiently diversified.

### Credit risk coverage

CREDIT has a good credit risk coverage with the loan loss provision covering PAR 30 for exactly 100% as of June 2009. CREDIT adheres to the NBC provisioning level or when needed tops it up to 100% of PAR 30. There is sufficient coverage of loans by collateral as all individual loan (including agricultural loans) and group loans above 150 USD are covered for at least 200% of the loan amount. However, the collateral has limited use for reclaiming the loan amount due to lengthy court processes and is mostly used as a deterrent (cf. Financial services management).

### ■ Funding and liquidity

Funding and liquidity is rated “b”

### Capitalization and funding strategy

CREDIT is sufficiently capitalized with a capital adequacy ratio as of June 2009 of 27.0%.<sup>8</sup> A needed capitalization increase is planned for 2010 through further influx of funds from the current shareholders.

<sup>5</sup> The main challenges for CREDIT are adapting its accounting to the new chart of accounts and reducing its open FX position (cf. Market risk).

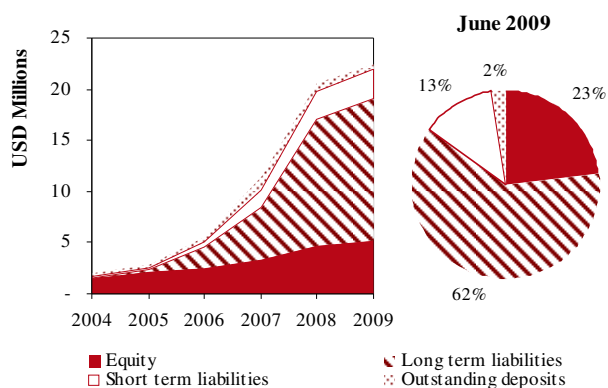
<sup>6</sup> The limited number of group loans did not allow for a sufficient analysis to identify the exact underlying reasons for this.

<sup>7</sup> CREDIT performs the write-offs six months after the expiration of the loan term.

<sup>8</sup> Capital adequacy stands at 21.1% according to NBC method of calculating, which is above the minimum requirement of 15%.

Since 2007 CREDIT has been able to build up a well diversified debt portfolio, almost entirely from international investors. This is based on a good funding strategy and a good identification of funding needs (cf. Planning). However, at the time of the rating CREDIT did not yet closely monitor the funding covenants, although no breaches of covenant at the date of this rating. Given the increase in credit risk, some covenants will likely have to be renegotiated in the near future. Otherwise, adequate negotiation skills are present within CREDIT, although at this time they are still mostly contained within the GM rather than with the FM.

Funding Structure



## Liquidity risk

The finance department has sufficient capacity for Asset Liability Management and has recently been strengthened by a Treasury Management position. Furthermore, Treasury Management has recently been documented in a manual, which is adequate but requires further refinement (e.g. on management of interest rate risk).

Overall liquidity risk is low for CREDIT. There is good overall as well as internal liquidity management. Frequent funding requests from sub-branches allows for weekly monitoring of funds across the branch network. On an institutional level, detailed cash flow projections are available with a six-month-time horizon that is updated monthly to ensure proper liquidity management. Liquidity levels are sufficient – as also prescribed by NBC guidelines – representing over 100% of deposit coverage for the remaining deposits as well as more than 3 months coverage of operating expenses.

Maturity risk is absent given the short term nature of assets and the longer term nature of debt and equity. At present maturity risk is however not monitored, which – should CREDIT obtain a deposit taking license and attract voluntary deposits – will become necessary.

## Market risk

CREDIT is exposed to both interest rate risk and FX risk. The interest rate risk is manageable with an open position of 43% as of June 2009 based on the LIBOR. A 100 basis point increase in the LIBOR would only result in a minimal drop of ROA of 0.1 percentage point.

FX risk is moderate to high with an open position on USD of 34% as of June 2009. At present CREDIT is above the minimum required open position of 20% as per NBC regulation. The open position according to the NBC way of calculating is 38%.<sup>9</sup> CREDIT is working to reduce its open position through transferring retained earnings (that are denominated in USD) to registered share capital (in KHR) by Q4 2009. Furthermore, CREDIT is in the process of contracting further debt in KHR. Both actions are expected to reduce the open position below the NBC standard before the end of 2009.

## Efficiency and profitability

Efficiency and profitability is rated “b”

## Profitability analysis

CREDIT has shown strong profitability in the past years with ROA at 5.7% and 5.6% for FY07 and FY08 respectively. This is based on a stable portfolio yield which closely matches the theoretical yield and where increases in efficiency have been able to compensate for increased financial expenses. CREDIT has been able to improve its operating efficiencies in the past years with the operating expense ratio trending down from 23.7% in 2006 to 14.7% in 2008. As a result of increasing leverage the funding expense ratio increased in the same period from 2.8% to 7.6%. The increasing leverage from 1.1x at FYE06 to 3.4x at FYE08 also boosted the return on equity from 6.8% in 2006 to 22.4% in 2008.

CREDIT’s revenue quality is moderate to good. The pricing of CREDIT’s loans is similar to most of its direct competitors. The current market is showing increased signs of competition on pricing with several MFIs reducing their interest rates in Q3 2009. CREDIT aims to follow this reduction in pricing, while closely monitoring its margins. However, despite being a relatively small actor, CREDIT has been able to increase its market share from 2.7% in 2006, to 3.8% in 2007, stabilizing at 4.4% in December 2008 and June 2009. Furthermore, the present product range provides only a minimal differentiation with competition in terms of loan amount and loan term. Capacity for product development is present within CREDIT but needs to be proven in practice as in recent times only limited product

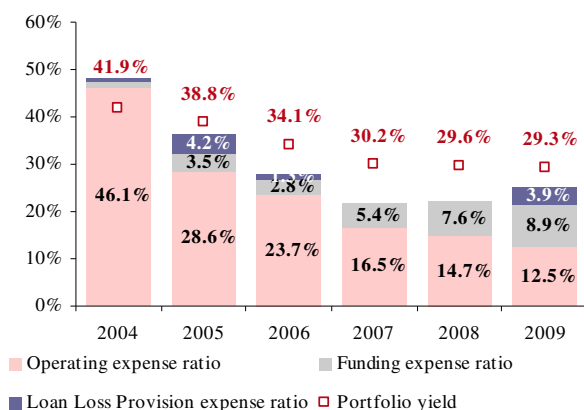
<sup>9</sup> The difference is due to a differing classification of Tier 1 capital.

updates have taken place. In this competitive market, branding will become increasingly important. Support can be expected from the newly BOD member with marketing experience.

Asset deployment improved in 2007 and 2008 with the loan portfolio as a percentage of total assets increasing to 90%. However, 2009 has seen a reduction to 81% on the back of the portfolio contraction and a more conservative disbursement policy.

The profitability outlook is negative as increased provisioning costs reduced ROA for the first six months in 2009 to 3.7%. Improvements in operating efficiency are so far still compensated by higher funding expenses. Furthermore, the planned decrease in interest rates to remain competitive will further reduce operating margins for CREDIT. However, CREDIT is expected to remain profitable as management is closely monitoring its financial bottom line.

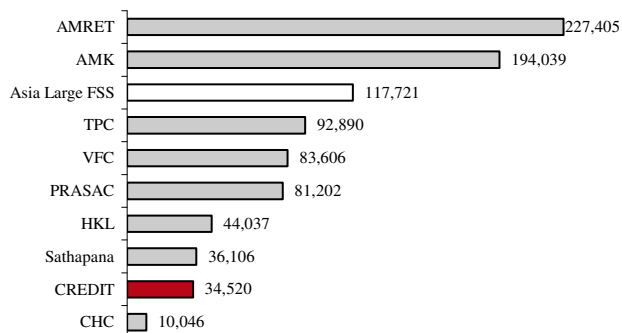
**Profitability Structure**



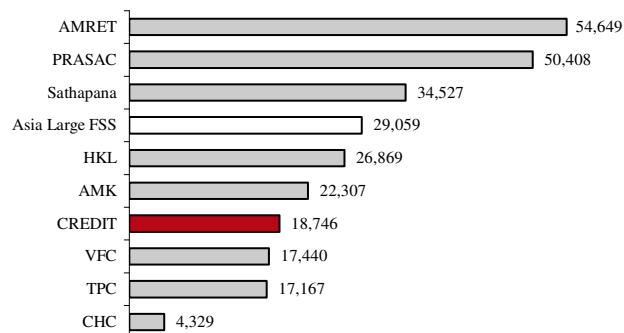
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.*

## Benchmarking

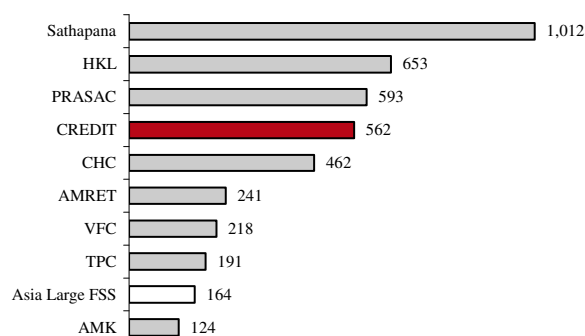
Active borrowers



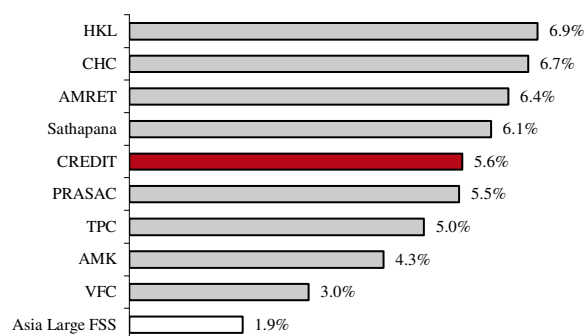
Loan portfolio ('000 USD)



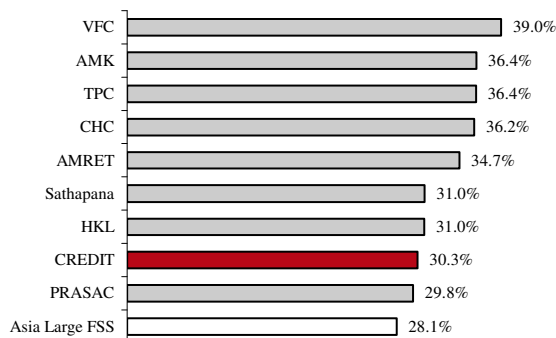
Average outstanding loan per client (USD)



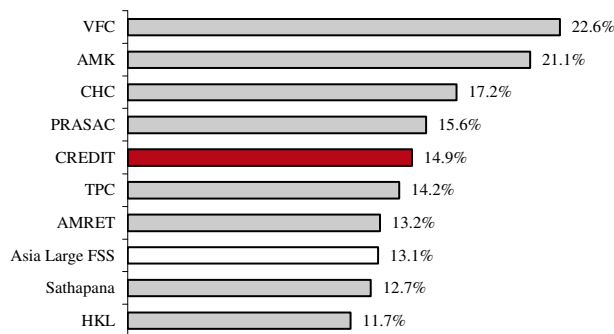
ROA



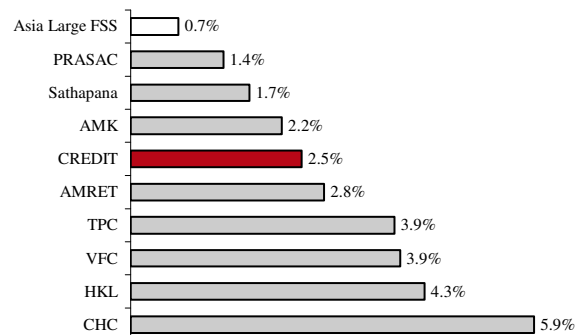
Portfolio yield



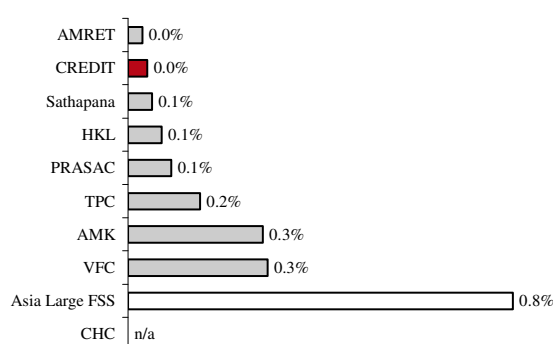
Operating expense ratio



PAR 30



Write-off ratio



Source: CMA data for Active borrowers, Loan portfolio and PAR 30, data as of June 2009; www.mixmarket.org for other indicators, data as of December 2008; Asia Large FSS as of December 2007.

Data in USD, unless otherwise stated

## ■ Performance indicators

Loan Portfolio	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
<b>Loan portfolio evolution</b>						
Loan portfolio	1,595,727	2,576,065	4,622,004	10,303,487	19,060,212	18,746,427
Growth	95.0%	61.4%	79.4%	122.9%	85.0%	(1.6%)
Active borrowers	10,909	11,451	10,796	18,273	33,887	35,065
Growth	95.0%	5.0%	(5.7%)	69.3%	85.4%	3.5%
Average outstanding loan per client	146	225	428	564	562	535
% of GDP per capita	37.2%	49.5%	83.5%	86.9%	68.8%	62.7%
Average amount disbursed per loan	422	700	881	679	694	731
% of GDP per capita	107.2%	154.1%	171.7%	104.7%	84.9%	85.7%
<b>Portfolio quality</b>						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	3.5%	4.5%	3.0%	0.3%	0.3%	2.4%
PAR > 365	0.0%	0.0%	0.3%	0.0%	0.0%	0.1%
Write-off ratio	1.6%	3.9%	1.1%	0.2%	0.0%	0.0%
<b>Credit risk coverage</b>						
Risk coverage ratio (PAR 30)	87.8%	71.6%	65.5%	253.7%	133.0%	100.0%
PAR 30 net of loan loss provision / Equity	0.5%	1.6%	2.0%	(1.6%)	(0.4%)	(0.0%)
<b>Savings</b>						
Outstanding deposits	217,778	349,922	571,268	1,190,584	863,484	537,752
Growth	47.8%	60.7%	63.3%	108.4%	(27.5%)	(37.7%)
Voluntary savings (%)	13.3%	25.0%	44.6%	71.6%	89.5%	85.5%
Cash collateral (%)	86.7%	75.0%	55.4%	28.4%	10.5%	14.5%
Active savers	11,094	11,669	11,024	12,924	3,429	2,837
Growth	34.4%	5.2%	(5.5%)	17.2%	(73.5%)	(17.3%)
Average outstanding deposit per saver	20	30	52	92	252	190
Voluntary savings	168	466	1,113	1,709	1,463	844
Cash collateral	17	23	29	27	29	32
<b>Staff</b>						
Total number of staff	118	128	142	222	391	422
% Credit officers	49.2%	46.1%	40.8%	38.7%	39.4%	41.5%
Turnover	13.2%	11.4%	5.2%	7.1%	6.9%	2.7%
<b>Profitability analysis</b>						
ROE	(4.4%)	1.8%	6.8%	16.3%	22.4%	16.0%
Liabilities / Equity	0.30x	0.38x	1.14x	2.45x	3.41x	3.36x
Core capital adequacy ratio	93.3%	81.5%	55.4%	29.7%	23.6%	27.0%
Total capital adequacy ratio	93.3%	81.5%	55.4%	29.7%	23.6%	27.0%
ROA	(1.2%)	3.9%	5.9%	7.6%	6.1%	4.2%
ROA (without donations)	(3.5%)	1.4%	3.8%	5.7%	5.6%	3.7%
ROA (microfinance operations)	(3.5%)	1.4%	3.8%	5.7%	5.6%	3.7%
<b>Profitability structure</b>						
Total revenue ratio	43.6%	39.0%	34.5%	30.8%	29.7%	30.0%
Portfolio yield	41.9%	38.8%	34.1%	30.2%	29.6%	29.8%
Operating expense ratio	46.1%	28.6%	23.7%	16.5%	14.7%	12.7%
Cost per borrower	49	53	73	65	65	68
Staff productivity	92	89	76	82	87	83
Loan officer productivity	188	194	186	212	220	200
Average outstanding loan per client (USD)	146	225	428	564	562	535
Funding expense ratio	1.1%	3.5%	2.8%	5.4%	7.6%	9.1%
Cost of savings	7.1%	7.0%	7.9%	6.8%	9.6%	14.7%
Cost of borrowings	0.0%	5.1%	6.6%	9.2%	10.7%	9.0%
Loan Loss Provision expense ratio	1.0%	4.2%	1.3%	0.0%	(0.0%)	4.0%
PAR 31-365	3.5%	4.5%	3.0%	0.3%	0.3%	2.4%
Write-off ratio	1.6%	3.9%	1.1%	0.2%	0.0%	0.0%
<b>Resource optimization</b>						
Outstanding Loan Portfolio / Assets	79.2%	85.0%	81.1%	89.5%	91.8%	81.2%
Revenue from investment as a % of financial revenues	1.0%	0.3%	0.3%	0.2%	0.2%	0.4%
<b>Liquidity</b>						
Cash to demand deposits	1,201.1%	333.2%	2,085.7%	603.3%	515.2%	1,471.2%
Liquidity / Total assets (LAR)	17.8%	9.9%	14.6%	6.0%	4.0%	15.1%
Current ratio (1 year)	358.5%	353.1%	319.2%	157.7%	268.9%	321.6%

## ■ Financial statements – USD

Income Statement (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	486,812	823,066	1,134,679	2,179,472	4,446,237	2,819,210
Interest and fee income on investments	4,981	2,825	3,929	4,581	7,070	11,817
Interest and other financial expenses	13,022	28,511	114,192	442,903	1,173,636	728,365
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	(45,536)	22,456	56,205	32,448	(130,928)
<b>Net financial income</b>	<b>478,771</b>	<b>751,844</b>	<b>1,046,872</b>	<b>1,797,355</b>	<b>3,312,119</b>	<b>1,971,734</b>
Fees and commissions on other financial services	-	-	-	-	-	-
Other operating income	14,406	1,509	9,085	42,562	7,305	1,887
Operating expenses	536,183	607,572	788,910	1,192,008	2,215,654	1,200,326
<i>Personnel expenses</i>	335,879	364,838	433,091	727,978	1,433,808	804,243
<i>Administrative and other expenses</i>	169,775	213,035	296,227	386,941	660,347	328,867
<i>Depreciation</i>	30,529	29,699	59,592	77,089	121,499	67,216
Non operating income (net)	-	-	-	-	-	193
<b>Gross operating income</b>	<b>(43,006)</b>	<b>145,781</b>	<b>267,047</b>	<b>647,909</b>	<b>1,103,770</b>	<b>773,488</b>
Net loan loss provision expense	11,896	88,500	43,246	-	(632)	378,283
<b>Net operating income</b>	<b>(54,902)</b>	<b>57,281</b>	<b>223,801</b>	<b>647,909</b>	<b>1,104,402</b>	<b>395,205</b>
Extraordinary income (net)	-	-	-	-	-	-
<b>Net income before tax</b>	<b>(54,902)</b>	<b>57,281</b>	<b>223,801</b>	<b>647,909</b>	<b>1,104,402</b>	<b>395,205</b>
Income Tax	7,580	23,862	61,699	164,815	208,175	-
<b>Net income before donations</b>	<b>(62,482)</b>	<b>33,419</b>	<b>162,102</b>	<b>483,094</b>	<b>896,227</b>	<b>395,205</b>
Donations	41,980	61,698	87,828	159,532	79,115	55,957
<b>Net Income</b>	<b>(20,502)</b>	<b>95,117</b>	<b>249,930</b>	<b>642,626</b>	<b>975,342</b>	<b>451,162</b>

Balance Sheet (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
<b>ASSETS</b>	<b>1,952,654</b>	<b>2,933,624</b>	<b>5,578,304</b>	<b>11,410,017</b>	<b>20,665,049</b>	<b>22,518,776</b>
Liquid assets	347,134	291,826	815,610	685,121	826,152	3,404,470
Net loan portfolio	1,546,087	2,492,495	4,523,148	10,216,909	18,979,470	18,286,393
<i>Gross loan portfolio</i>	1,595,727	2,576,065	4,622,004	10,303,487	19,060,212	18,746,427
<i>(Loan loss reserve)</i>	49,640	83,570	98,856	86,578	80,742	460,034
Interest receivable	-	-	-	132,743	267,036	-
Financial investments	-	31,543	43,886	68,750	81,250	37,072
Net fixed assets	43,342	66,392	103,400	176,469	271,939	283,987
Intangible assets	-	-	57,223	62,818	47,344	42,216
Other assets	16,091	51,368	35,037	67,207	191,858	464,638
<b>LIABILITIES AND EQUITY</b>	<b>1,952,654</b>	<b>2,933,624</b>	<b>5,578,304</b>	<b>11,410,017</b>	<b>20,665,049</b>	<b>22,518,777</b>
<b>Liabilities</b>	<b>454,527</b>	<b>806,687</b>	<b>2,966,054</b>	<b>8,100,816</b>	<b>15,975,237</b>	<b>17,349,768</b>
Demand deposits	28,901	87,586	39,104	113,555	160,340	231,409
Time deposits	-	-	215,800	739,360	612,099	228,427
Cash collateral	188,877	262,336	316,364	337,669	91,045	77,916
Borrowings	100,000	250,000	2,072,582	6,129,766	13,985,045	16,009,008
Subordinated debt	-	-	-	-	-	-
Other liabilities	136,749	206,765	322,204	780,466	1,126,708	803,008
<b>Equity</b>	<b>1,498,127</b>	<b>2,126,937</b>	<b>2,612,250</b>	<b>3,309,201</b>	<b>4,689,812</b>	<b>5,169,009</b>
Core capital	1,498,127	2,126,937	2,612,250	3,309,201	4,689,812	5,169,009
<i>Paid-in capital</i>	500,000	500,000	500,000	500,000	750,000	750,000
<i>Donated equity</i>	1,018,629	1,552,322	1,787,705	1,842,030	1,997,299	2,025,334
<i>Retained earnings</i>	(20,502)	74,615	324,545	967,171	1,942,513	2,393,675
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	19,180	67,779	96,644	100,243	100,966	99,093
Guarantees	-	-	-	-	-	-

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	1,161,932	2,120,843	3,323,091	7,225,024	15,037,594	18,903,320
Assets	1,778,780	2,443,139	4,255,964	8,494,161	16,037,533	21,591,913
Deposits	182,932	280,310	477,776	970,602	1,009,042	700,618
Borrowings and subordinated debt	50,000	175,000	1,161,291	4,101,174	10,057,406	14,997,027
Equity	1,415,880	1,812,532	2,369,594	2,960,726	3,999,507	4,929,411

## ■ Formulas

Return on assets (ROA):	$\text{Net operating income} / \text{Average assets}$
ROA (without donations):	$\text{Net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Liabilities} / \text{Equity (end of period)}$
Capital adequacy ratio:	$\text{Capital} / \text{Risk weighted assets (end of period)}$
Total revenue ratio:	$\text{Total revenue} / \text{Average gross outstanding portfolio}$
Portfolio yield:	$\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{Average gross outstanding portfolio}$
Cost per borrower:	$\text{Operating expense} / \text{Active borrowers (end of period)}$
Staff productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{Average gross outstanding portfolio}$
Cost of savings:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
Loan loss provision expense ratio:	$\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$
Write-off ratio:	$\text{Loans written off} / \text{Average gross outstanding portfolio}$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk} > 30 \text{ days}$
Cash to demand deposits:	$\text{Instantly available liquid assets} / \text{Demand deposits (end of period)}$
Current ratio (1 year):	$\text{Short term assets} / \text{Short term liabilities (end of period)}$

## ■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	SPECULATIVE INVESTMENT
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	
B++	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
B+	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	TECHNICAL ASSISTANCE REQUIRED
C+	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C++	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	<b>High risk:</b> Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	
E	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	