MICROFINANZA RATING

This document certifies that MicroFinanza Rating has assigned to

LOLC Cambodia Plc. - Cambodia

the Microfinance Institutional Rating grade: A-

Outlook: Stable

rating field visit: *April 17*
cut-off period for the financial and operational data analysis: *December 16*

Grade	Definition
A-	Strong capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Strong and stable fundamentals. Good client protection systems.

This rating remains valid until: *June 18*

Milan, June 17

Aldo Moauro

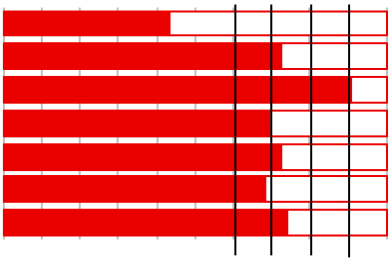
Executive Director - MicroFinanza Rating

LOLC Cambodia Plc. - Cambodia

Final Rating	**A-**
Outlook	Stable

Field visit date: April 2017
Date Rating Committee : June 2017
Validity: 1 year if no relevant changes in operations or in the external context occur
Previous Rating : BBB+, MFR, January 2014

Competitive Environment
Governance and Strategy
Profitability and Sustainability
Solvency and ALM
Loan Portfolio Quality
Systems and Controls
Client Protection



Rating Rationale

Financial Analysis and Capital Adequacy

LOLC continues to register high profitability ratios, although results decreased in 2016, due to a slowdown of the portfolio growth and a worsening portfolio quality, mainly related to deteriorating external conditions. Efficiency level is good and on an improving trend over the periods of analysis, mostly thanks to an increasing average loan balance. Solvency is adequate. LOLC counts on a well-diversified range of funding liabilities thanks to a good negotiating capacity and deposits have registered significant growth in 2016. Liquidity management is good and the liquidity position is adequate. Market risks are regularly monitored and the exposure to such risks is low. The impact of the interest rate cap imposed by the NBC is adequately taken into account within LOLC strategy and revised projections and the Institution is expected to maintain adequate profitability results.

Governance, Risk Management and Client Protection

The majority shareholder demonstrates strong commitment to LOLC growth and solvency and offers adequate technical and financial support. LOLC relies on a skilled Board, with diversified profiles, effectively performing its strategic guidance and supervision function. The decision-making process is effective and based on a comprehensive risk management framework, with adequate tools and formalized limits and alert levels. The internal control system is overall good and adequately mitigates the exposure to operational risks. The migration to the new MIS has been delayed and should be completed soon. Client protection policies are adequately formalized and implemented, although the effectiveness of the measures adopted to prevent the risk of client over-indebtedness needs to be further proven given the high context risk.

Institution details	
Legal form	NBFI
Ownership	LOLC Ltd(60%),DWM(37%),TPC ESOP(3%)
Year of inception	1994(programme), 2002(LLC), 2003(MFI)
Financial Services	Credit, savings
Credit methodology	Individual/Solidarity
Regulator / Supervisory Authority	National Bank of Cambodia (NBC)

Institutional data	Dec14	Dec15	Dec16
Clients (#)	189,345	218,411	209,124
Active borrowers (#)	189,345	218,411	208,393
Female borrowers	84.6%	83.9%	81.5%
Active loans (#)	190,208	219,653	210,009
Branches (#)	53	66	72
Total staff (#)	1,156	1,498	1,873
Loan officers (#)	644	840	1,038
Gross outstanding portfolio (US$)	115,372,296	188,285,100	219,131,689
Average loan balance/GDP p.c.	56%	74%	90%
Total assets (US$)	134,307,474	222,321,461	252,383,018
Total savings (US$)	0	275,117	19,315,817
Active savers (#)	0	410	26,605

Indicators	Dec14	Dec15	Dec16
ROE	37.2%	40.8%	32.0%
ROA	6.7%	6.9%	5.6%
Oper. Self-sufficiency (OSS)	150.8%	154.2%	141.2%
Capital Adequacy Ratio (MFR)	18.7%	17.0%	20.8%
Equity to Assets Ratio	17.7%	16.2%	19.2%
Cash Ratio	7.0%	24.5%	20.5%
Operating expense ratio	11.1%	10.2%	9.6%
Financial expense ratio	8.5%	8.2%	8.5%
Provisioning expense ratio	0.1%	0.3%	1.8%
Portfolio yield	29.2%	28.6%	27.8%
PAR 30	0.1%	0.2%	1.4%
PAR 90	0.1%	0.2%	0.8%
Restructured portfolio	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.1%	0.6%
Credit risk ratio	0.2%	0.3%	1.3%
Risk coverage ratio	100.0%	100.0%	100.0%
Staff productivity (borrowers)	164	146	111
Average annual percentage rate (APR)			21.4%
Average transparency index			84.5%
Average disbursed loan size, US$	712	980	1,165

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Annex 5 –Rating Scale

The final rating grade does not consider the Country Sovereign Rating Risk, but it takes into account the effects of the political and economic context on FI's performance.

Microfinance Institutional Rating		*Common scale for microfinance rating agencies*	
Grade	**Definition**	**Classification**	**Definition**
AAA	*Excellent capacity to manage risks. This capacity is not expected to be affected by a foreseeable deterioration of the operations or economic conditions. Extremely strong and stable fundamentals. Excellent client protection systems.*	EXCELLENT	Low or well-managed short to medium term risk. Strong performance
AA+, **AA**, AA-	*Very strong capacity to manage risks. This capacity may be marginally affected by a deterioration of the operations or economic conditions. Very strong and stable fundamentals. Excellent client protection systems.*		
A+, **A**, A-	*Strong capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Strong and stable fundamentals. Good client protection systems.*		
BBB+, **BBB**, BBB-	*Good capacity to manage risks. This capacity may be affected by a deterioration of the operations or economic conditions. Good fundamentals. Adequate client protection systems.*	GOOD	Modest or well-managed short to medium term risk. Good to moderate performance
BB+, **BB**, BB-	*Adequate capacity to manage risks. However, this capacity may be significantly affected by a deterioration of the operations or economic conditions. Adequate fundamentals. Adequate client protection systems.*		
B+, **B**, B-	*Moderate capacity to manage risks. This capacity is vulnerable to a deterioration of the operations or economic conditions. Moderate fundamentals. Moderate client protection systems.*	FAIR	Moderate to moderate-high risk. Moderate performance
CCC+, **CCC**, CCC-	*Modest capacity to manage risks. This capacity is highly vulnerable to a deterioration of the operations or economic conditions. Modest fundamentals. Modest client protection systems.*		
CC+, **CC**, CC-	*Weak capacity to manage risks. Modest fundamentals. Poor client protection systems.*	POOR	High risk. Poor performance
C	*Weak capacity to manage risks. Weak fundamentals. Poor client protection systems.*		
D	*Extremely weak capacity to manage risks. Extremely weak fundamentals. Poor client protection systems.*		

MODIFIERS	**The modifiers "+" or "-" may be assigned to a rating to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" or below "CC" grades.**
OUTLOOK	**indicates the direction a GRADE is likely to move to, over a one-year period**
POSITIVE	*Probable upgrade of the rating grade*
STABLE	*Rating grade is not likely to change*
NEGATIVE	*Probable downgrade of the rating grade*
UNDER OBSERVATION	*The rating grade and/or outlook cannot be assigned, due to unexpected internal/external events or insufficient information provided. It may be assigned only after a monitoring will be held in the short term.*

The information used in the current rating has been partly provided by the institution subject to the evaluation process and partly collected during the meetings with the head executives. The analysis is based on audited financial statements and other official sources. MicroFinanza Rating cannot guarantee the reliability and integrity of the information, as it does not conduct auditing exercises, and therefore does not bear responsibility for any mistake or omission coming from the use of such information. The rating has to be considered as an external and independent opinion and it has not to be considered as a recommendation to realize investments in a specific institution.