

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CONTENTS

	Pages
Statement of the Board of Directors	1 – 3
Independent auditor's report	4 – 5
Balance sheet	6
Income statement	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 – 51

APPENDIX 1: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS*

* This Appendix does not form part of the audited financial statements



STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors ("the Directors") are pleased to submit their report together with the audited financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd ("the Company") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd is to provide micro-finance services to the economically active poor population of Cambodia through its head office in Phnom Penh and its various branch offices in Phnom Penh and provinces in the Kingdom of Cambodia.

RESULTS

The financial performance for the year ended 31 December 2010 is set out in the income statement on page 7 of the financial statements.

ASSETS

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to the assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances that have arisen that would render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

- (a) any charge on the assets of the Company that has arisen since the end of the year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Company that has arisen since the end of the year.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year that, in the opinion of the Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company, that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

There were no items, transactions or events of a material and unusual nature that, in the opinion of the Board of Directors, materially affected the financial performance of the Company for the year ended 31 December 2010.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the current year.

SIGNIFICANT EVENTS

At the date of this report, no significant events have occurred after the balance sheet date which would require adjustments or disclosure other than as disclosed in the financial statements.

THE BOARD OF DIRECTORS

The members of the Board of Directors during the year and as at the date of this report are:

- Mr. Tanmay Chetan, Chairman (Appointed on November 17, 2010)
- Mr. Peter Power, Director and Chief Executive Officer
- Mr. Howard Dalzell, Director
- Ms. Frances Sinha, Director
- Mr. Tip Janvibol, Director
- Ms. Rebecca McKenzie, Director
- Mr. Marcus Fedder, Director (Appointed on November 17, 2010)
- Ms. Irina Ignatieva, Director (Appointed on November 17, 2010)
- Mr. Adrian Graham, Director (Appointed on November 17, 2010)
- Mr. Thomas James O'Higgins, Chairman (Retired on November 17, 2010)
- Mr. Paul Luchtenburg, Director (Retired on September 30 2010)
- Mr. Gerhard Bruckermann, Director (Retired on November 17, 2010)
- Mr. Pradip Sanyal, Director (Retired on 17 November 2010)

DIRECTORS' INTEREST

No directors held any interest in the equity of the Company. No arrangement existed to which the Company is a party with the object of enabling directors of the Company to acquire benefit by means of the acquisition of share in or debentures of the Company or any other body corporate.

DIRECTORS' BENEFITS

During and at the end of the year, no arrangement existed, to which the Company was a party, with the object of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate body.

No director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Company or with a firm of which the director is a member, or with a company in which the director has a material financial interest other than as disclosed in the financial statements.

THE DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2010 and of its financial performance and cash flows for the year then ended. In preparing these financial statements, the Directors are required to:



- a) Adopt appropriate accounting policies in accordance with Cambodian Accounting Standards, which are supported by reasonable and prudent judgments and estimates, and then apply them consistently;
- b) Comply with the disclosure requirements of Cambodian Accounting Standards or, if there has been any departure from such standards in the interest of true and fair presentation, ensure that this has been appropriately disclosed, explained and quantified in the financial statements;
- c) Maintain adequate accounting records and an effective system of internal controls;
- d) Prepare the financial statements on a going-concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- e) Effectively control and direct the Company and be involved in all material decisions affecting its operations and performance and ensure that such matters have been properly reflected in the financial statements.

The Directors confirm that the Company has complied with the above requirements in preparing the financial statements.

STATEMENT BY THE DIRECTORS

On behalf of the Directors of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd, we do hereby affirm that the accompanying financial statements, together with the notes thereto, present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended and have been properly drawn up in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

On behalf of the Directors



Mr. Tanmay Chetan
Chairman

Phnom Penh, Kingdom of Cambodia
Date: 10 March 2011

Independent auditor's report

To the shareholders of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

We have audited the accompanying financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd that comprise the balance sheet as of 31 December 2010, the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of accounting policies and other explanatory information.

Management's responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2010, and its financial performances and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia.

For PricewaterhouseCoopers (Cambodia) Limited



By Kuy Lim
Director



Phnom Penh, Kingdom of Cambodia
Date: 10 March 2011

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**BALANCE SHEET
AS AT 31 DECEMBER 2010**

		2010		2009	
	Note	Riel'000	US\$	Riel'000	US\$
ASSETS					
Cash on hand	4	830,527	204,917	681,603	163,493
Balances with the Central Bank	5	5,215,031	1,286,709	1,806,823	433,395
Balances with other banks	6	35,968,198	8,874,463	43,261,149	10,376,865
Loans to customers	7	125,598,833	30,989,103	102,059,270	24,480,516
Other assets	8	3,871,358	955,183	4,909,263	1,177,564
Property and equipment	9	3,814,118	941,060	4,062,737	974,511
Intangible assets	10	2,378,004	586,727	368,972	88,504
Deferred tax assets	11	242,186	59,755	688,155	165,065
TOTAL ASSETS		177,918,255	43,897,917	157,837,972	37,859,913
LIABILITIES					
Deposits from customers	12	5,781,731	1,426,531	721,249	173,003
Due to shareholder	13	76,664	18,917	3,709	891
Current tax liabilities	14	430,862	106,307	516,218	123,823
Other liabilities	15	3,970,194	979,569	3,126,964	750,051
Borrowings	16	117,179,417	28,911,773	106,820,745	25,622,630
Provisions for retirement benefits and staff pension funds	17	2,039,305	503,159	2,125,786	509,903
Total liabilities		129,478,173	31,946,256	113,314,671	27,180,301
SHAREHOLDERS' EQUITY					
Share capital	18	34,069,250	8,405,934	34,069,250	8,172,044
Reserve	19	1,550,618	382,585	-	-
Retained earnings		12,820,214	3,131,697	10,454,051	2,566,711
Currency translation differences		-	31,445	-	(59,143)
Total shareholders' equity		48,440,082	11,951,661	44,523,301	10,679,612
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		177,918,255	43,897,917	157,837,972	37,859,913

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010		2009	
		Riel'000	US\$	Riel'000	US\$
Interest income	20	42,814,752	10,223,198	35,304,623	8,521,512
Interest expense	21	(12,118,198)	(2,893,553)	(9,217,660)	(2,224,876)
Net interest income		30,696,554	7,329,645	26,086,963	6,296,636
Fee and commission expenses		(2,089,381)	(498,897)	(1,174,237)	(283,427)
Other operating income	22	1,532,699	365,974	758,539	183,089
Other operating expenses	23	(23,974,417)	(5,724,550)	(21,551,521)	(5,201,912)
Provision for possible loan losses	7-a	(1,603,090)	(382,782)	(2,063,542)	(498,079)
Operating income		4,562,365	1,089,390	2,056,202	496,307
Grant income	24	666,438	159,130	321,699	77,649
Profit before income tax		5,228,803	1,248,520	2,377,901	573,956
Income tax expense	25	(1,312,022)	(313,281)	(509,471)	(122,972)
Net profit for the year		3,916,781	935,239	1,868,430	450,984

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Share capital		Reserve		Retained earnings		Currency translation differences		Total	
	Riel'000	US\$	Riel'000	US\$	Riel'000	US\$	US\$	Riel'000	US\$	US\$
Year ended 31 December 2009										
Balance as at 1 January 2009	34,069,250	8,348,260	-	-	8,585,621	2,115,727	(11,924)	42,654,871	10,452,063	
Net profit for the year	-	-	-	-	1,868,430	450,984	(2,812)	1,868,430	448,172	
Currency translation differences	-	(176,216)	-	-	-	-	(44,407)	-	(220,623)	
Balance as at 31 December 2009	34,069,250	8,172,044	-	-	10,454,051	2,566,711	(59,143)	44,523,301	10,679,612	
Year ended 31 December 2010										
Balance as at 1 January 2010	34,069,250	8,172,044	-	-	10,454,051	2,566,711	(59,143)	44,523,301	10,679,612	
Movement of reserves for the year	-	-	1,550,618	370,253	(1,550,618)	(370,253)	(12,332)	-	(12,332)	
Net profit for the year	-	-	-	-	3,916,781	935,239	31,151	3,916,781	966,390	
Currency translation differences	-	233,890	-	12,332	-	-	71,769	-	317,991	
Balance as at 31 December 2010	34,069,250	8,405,934	1,550,618	382,585	12,820,214	3,131,697	31,445	48,440,082	11,951,661	

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

		2010		2009	
	Note	Riel'000	US\$	Riel'000	US\$
Cash flows from operating activities					
Cash used in operations	26	(13,189,811)	(3,149,430)	(15,768,542)	(3,806,069)
Income tax paid	14	(951,408)	(227,175)	(1,412,416)	(340,916)
Redundancy and staff pension fund paid		<u>(245,686)</u>	<u>(58,664)</u>	<u>(76,864)</u>	<u>(18,553)</u>
Net cash used in operating activities		(14,386,905)	(3,435,269)	(17,257,822)	(4,165,538)
Cash flows from investing activities					
Capital guarantee deposit with the Central Bank		(1,703,462)	(406,748)	-	-
Purchases of property and equipment		(1,181,296)	(282,067)	(2,455,984)	(592,803)
Purchases of intangible assets		(2,364,762)	(564,652)	(93,593)	(22,450)
Proceeds from sale of property and equipment		<u>10,122</u>	<u>2,417</u>	<u>33,360</u>	<u>8,052</u>
Net cash used in investing activities		(5,239,398)	(1,251,050)	(2,516,217)	(607,201)
Cash flow from financing activities					
Proceeds from borrowings		46,333,469	11,063,388	55,444,433	13,382,678
Repayments on borrowings		<u>(35,974,797)</u>	<u>(8,589,971)</u>	<u>(19,951,481)</u>	<u>(4,815,709)</u>
Net cash from financing activities		10,358,672	2,473,417	35,492,952	8,566,969
Net (decrease)/increase in cash, cash equivalents		(9,267,631)	(2,212,902)	15,718,913	3,794,230
Cash and cash equivalents at the beginning of the year		28,385,362	6,808,674	12,666,449	3,103,761
Currency translation differences		<u>-</u>	<u>121,161</u>	<u>-</u>	<u>(89,317)</u>
Cash and cash equivalents at the end of the year	4	19,117,731	4,716,933	28,385,362	6,808,674

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. BACKGROUND INFORMATION

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. (“the Company” or “AMK”), a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under register number Co. 1698/03E dated 30 April 2003. AMK is engaged primarily in the provision of micro-finance services to the economically active poor of Cambodia through its headquarters in Phnom Penh and various provincial offices in the Kingdom of Cambodia. The Company is 99.99% owned by Concern Worldwide (Dublin).

The Company was initially established in 1999 as Thanakea Ponleu Thmey (“TPT”) Program by Concern Worldwide, Cambodia (“CWC”). All assets, liabilities and accumulated donations of TPT were transferred to the Company on 1 July 2003 against the issue of shares. The Company commenced to trade on the date of the asset transfer.

On 29 January 2010, the Company obtained a Microfinance Deposit Taking Institution (“MDI”) license to conduct deposit taking business from the National Bank of Cambodia. Concern Worldwide intends to divest up to 90% of its equity holding to a proposed specialised microfinance vehicle, subject to approvals from the respective regulatory authorities. Three of AMK's current board members will be shareholders in this proposed vehicle.

AMK provides credit services to poor families in through its head office and twenty-three branches located in Banteay Meanchey, Battambang, Dangkor, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kandal, Kratie, Kampot, Mondulhiri, Muk Kampoul, Otdor Meanchey, Preah Vihear, Prey Veng, Pursat, Ratanakiri, Siem Reap, Sihanouk Ville, Stung Treng, Svay Rieng, and Takeo. AMK has the following main guiding principles:

- AMK provides micro-finance services to poor people in Cambodia that are grounded in sound financial discipline at all levels.
- AMK is committed to openness and transparency in all areas of management and operations.
- AMK is committed to developing processes/services and to adopting behaviours and standards that ensure optimum social performance, including client protection.
- AMK is a learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and system improvements.

The registered office of the Bank is currently located at No. 442, Street 193, Sangkat Toul Svayprey I, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia

As at 31 December 2010, the Company had 844 employees (31 December 2009: 767).

The financial statements were approved for issue by the Board of Directors on March 10, 2011.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Company's financial statements have been prepared in accordance with the guidelines issued by the National Bank of Cambodia ("the Central Bank") and Cambodian Accounting Standards ("CAS"). In applying CAS, the Company also applies CFRS 4: Insurance Contracts and CFRS 7: Financial Instruments: Disclosures. The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are addressed only to those who are informed about Cambodian accounting principles, procedures and practices

The financial statements have been prepared in Khmer Riels ("Riel") under the historical cost convention.

The preparation of financial statements in accordance with the guidelines issued by the Central Bank and CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2.2 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The Company maintains its accounting records and presents its financial statements in Khmer Riel ("Riel"), the Company's functional currency and presentation currency. The functional currency is Riel because of the significant influence of the Riel on their operations.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies (continued)

(ii) Presentation currency in US Dollar

The Company also presents the financial statement in US Dollar ("US\$") by translating Riel to US\$ as follows:

- Assets and liabilities for each balance sheet presented and shareholders' capital are translated at the closing rate as at the date of that balance sheet.
- The income statement and the cash flow statement are translated into US Dollar using the average rate for the year.
- All resulting exchange differences arising from the translation are recognised as a separate component of equity.

Under prior year reporting and for the solely presentation purpose, the Company translated into US Dollar the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements as of and for the year ended 31 December 2009 using the average official exchange rate as at the reporting date.

The changes in presentation of correspondent figures in US\$ for the year ended 31 December 2009 resulted in the increases in US\$ retained earnings by US\$ 59,143 and currency translation loss at the same amount in the statement of changes in equity. There was an increase in US\$ net profit for the year amounted to US\$ 2,812. The presentation of the correspondent figures in the notes to the financial statements for the year ended 31 December 2009 were changed accordingly.

(iii) Transactions and balances

Transactions in currencies other than Riel are translated into Riel using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than Riel are recognised in the income statement.

2.3 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with original maturity of less than three months from the date of acquisition, including cash on hand, non-restricted balance with the Central Bank and balances with other banks.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general provisions. Short-term loans are those with a repayment date within one year of the date the loan was advanced. Long-term loans are those with a final repayment date of more than one year of the date the loan was advanced.

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

Loans are written off to the income statement when the loans remain unpaid one year after maturity date or when the client is death. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss. Recovery of previously written-off loans to customers is recognised in the income statement.

2.5 Provisions for bad and doubtful loans

The Company follows the mandatory credit classification and provisioning as required Prakas B7-02-186 dated 13 September 2002. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes and ensure that the minimum mandatory level of specific provisioning is provided:

Classification	Number of days past due	Provision
<i>Short term loan (less than one year):</i>		
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
<i>Long term loan (more than one year):</i>		
Substandard	31 - 180 days	10%
Doubtful	181 - 360 days	30%
Loss	Over 360 days	100%

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrual interest and is charged as expense.

In addition to the specific provision, an additional general provision for bad and doubtful loans is made at the rate of 1% of all outstanding performing loans excluding staff loans as at year end.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation.

Depreciation of property and equipment is calculated on the declining balance method to write off the cost of each asset to its residual values over the shorter of its estimated useful life as follows:

Motor vehicles	25%
Motorcycles	25%
Computer and office equipment	50%

Residual value and the estimated useful life of the assets are reviewed, or revised as necessary, in every reporting balance sheet date.

Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is the higher of the anticipated discounted cash flows from the continuing use of the asset and the amount obtainable from the sale of the asset less any costs of disposal.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

2.7 Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. The core banking system is amortised using straight line method over the estimated useful life of 5 years. Other software are amortised on declining method at the rate of 50%.

Costs associated with maintaining computer software are recognised as an expense when incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

2.9 Deposits

Deposits from customers are stated at placement value.

2.10 Borrowings

Borrowings are stated at the amount of the principal outstanding. Fees paid on the establishment of borrowing facilities are capitalised and amortised over the period of the borrowings using the straight-line method.

2.11 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are re-measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Provisions for retirement benefits and staff pension funds

Provision for retirement benefit:

Provision for retirement benefits for the Company employees is calculated on a pro-rata basis at the rate of one month's salary for every year worked. These obligations will be paid:

- (i) when the employees reach a retirement age of 60 years, or when they are made redundant by the Company, they are entitled to retirement benefit in full.

Or

- (ii) if the employees resign before retirement age, they are entitled to the following benefits:

<u>Number of working months</u>	<u>Total pension provided to employees</u>
Less than six months	Nil
Six months to one year	Seven days of wages and benefits
More than one year	Fifteen days for each year of employment, up to six - months' wages and benefits.

During the year, the Company ceased providing the above scheme to the employee. The outstanding balances entitled by each employee were calculated and maintained as the balances to be carried forward and paid to the employee when they resign.

Staff pension funds

Starting from 01 January 2010, the Company provides its employees with benefits under the staff pension fund policy. Employees who complete the services with the Company over 6 months period have the option of participating in the staff pension fund scheme. The fund is sourced from the following:

- Employees contribute 3% of their monthly salary, and the Company contributes at 6%. The Company's contribution is charged to the income statement.
- The Company contributes interest on the cumulative balance of the staff pension fund computed at 7% per annum. This interest is charged to the income statement.

The staff pension fund will be paid to employees (who have contributed to the fund) upon their retirement, resignation or termination of employment. The employee's contribution and interest are paid in full accordingly.

Those who have been terminated due to serious misconduct are only entitled to his/her contribution plus interest, regardless of how long they have been employed by the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Current and deferred taxation

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the reporting date in Cambodia where the Company operates and generates taxable income.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14 Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis.

Loan fee income is recognised as income when the loan is disbursed to customers. The loan fee income is calculated using the principal and fee rate.

Expenses are recognised on an accrual basis.

2.15 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.16 Related parties

Parties are considered to be related to the Company if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Company and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

In accordance with the Law on Banking and Financial Institutions, related parties are defined as parties who hold, directly or indirectly, at least 10% of the entity's capital or voting rights and include any individual who participates in the administration, direction, management or internal control of the Company.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Rounding of amounts

The presenting amounts in the financial statements have been rounded off to the nearest dollars and thousand Khmer Riel amounts, respectively.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Impairment losses on loans to customers*

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas No. B7-02-186 dated 13 September 2002 on the classification and provisioning for bad and doubtful debts. The National Bank of Cambodia requires microfinance institutions to classify their loan portfolios into four classes and ensure that the minimum mandatory level of specific provision is made depending on the classification concerned and regardless of the assets (except for cash) pledged as collateral. For the purpose of loan classification, the Company is required to take into account the borrower's historical payment experience and financial condition.

In addition to the specific provision, an additional general provision for bad and doubtful loans is made at the rate of 1% of all outstanding performing loans excluding staff loans as at year end.

(b) *Income tax*

Taxes are calculated on the basis of current interpretations of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expenses will be made following inspection by the tax authorities.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CASH ON HAND

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Head office	23,953	5,910	9,763	2,342
Branches	806,574	199,007	671,840	161,151
	<u>830,527</u>	<u>204,917</u>	<u>681,603</u>	<u>163,493</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

4. CASH ON HAND (continued)

For the purpose of cash flow statement, the cash and cash equivalents comprise:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Cash on hand	830,527	204,917	681,603	163,493
Balances with the Central Bank	1,368,106	337,554	76,360	18,316
Balances with other banks:				
Current accounts	9,866,098	2,434,270	8,931,674	2,142,402
Term deposits (maturity less than 3 months)	7,053,000	1,740,192	18,695,725	4,484,463
	<u>19,117,731</u>	<u>4,716,933</u>	<u>28,385,362</u>	<u>6,808,674</u>

5. BALANCES WITH THE CENTRAL BANK

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Statutory capital deposit	3,406,925	840,593	1,703,463	408,602
Reserve deposit	440,000	108,562	27,000	6,476
Current accounts	1,368,106	337,554	76,360	18,317
	<u>5,215,031</u>	<u>1,286,709</u>	<u>1,806,823</u>	<u>433,395</u>

(i) Statutory capital deposit

In compliance with Prakas B7-07-163 dated 13 December 2007 on the Licensing of Deposit-Taking Microfinance Institutions, the Company is required to maintain a statutory capital deposit with the NBC of 10% of registered capital. This deposit is refundable should the Company voluntarily liquidate and have no deposit liabilities.

(ii) Reserve deposit

The reserve deposit represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on the Licensing of Deposit-Taking Microfinance Institutions.

(iii) Interest rates

Reserve deposit and current accounts are non-interest bearing. The statutory capital deposit in KHR earns interest 3% per annum. The interest payment is settled semi-annually.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

6. BALANCES WITH OTHER BANKS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Current accounts	777,265	191,775	56,552	2,045,420
Savings accounts	9,088,833	2,242,495	8,875,122	4,869,893
Fixed accounts	26,102,100	6,440,192	34,329,475	3,461,552
	35,968,198	8,874,462	43,261,149	10,376,865

Current accounts are non-interest bearing. Annual interest rates on other deposits are summarised as follows:

	2010	2009
Fixed accounts	4.25%	4.25%
Savings accounts	0.10% to 2%	0.10% to 2%

All balances with others banks deposited with local banks and financial institutions are as follows:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Acleda Bank Plc	8,914,929	2,199,588	8,527,357	2,045,420
Foreign Trade Bank of Cambodia	23,976,951	5,915,853	20,302,582	4,869,893
ANZ Royal Bank	3,030,993	747,839	14,431,210	3,461,552
Wing Cambodia LTD	45,325	11,182	-	-
	35,968,198	8,874,462	43,261,149	10,376,865

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

7. LOANS TO CUSTOMERS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Village Bank loans:				
End of term	60,716,134	14,980,541	37,103,899	8,899,952
Credit line	22,854,322	5,638,866	23,413,245	5,616,034
Installment	24,838,507	6,128,425	18,519,916	4,442,292
Individual loans:				
Installment	17,820,506	4,396,868	23,297,726	5,588,325
Emergency - end of term	750,441	185,157	1,039,239	249,277
Staff loans	1,563,326	385,721	1,380,679	331,178
	<u>128,543,236</u>	<u>31,715,578</u>	<u>104,754,704</u>	<u>25,127,058</u>
Provision for bad and doubtful Loans				
Specific	(1,694,739)	(418,144)	(1,003,853)	(240,790)
General	<u>(1,249,664)</u>	<u>(308,331)</u>	<u>(1,691,581)</u>	<u>(405,752)</u>
	<u>(2,944,403)</u>	<u>(726,475)</u>	<u>(2,695,434)</u>	<u>(646,542)</u>
	<u>125,598,833</u>	<u>30,989,103</u>	<u>102,059,270</u>	<u>24,480,516</u>

(a) Provision for bad and doubtful loans

The movements in provision for bad and doubtful loans to customers are as follows:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
At beginning of the year	2,695,434	646,542	1,022,689	250,598
Provision for the year	1,603,090	382,782	2,063,542	498,079
Bad debts written-off	(1,361,597)	(325,119)	(396,561)	(95,718)
Currency revaluation	<u>7,476</u>	<u>22,270</u>	<u>5,764</u>	<u>(6,417)</u>
At the end of the year	<u>2,944,403</u>	<u>726,475</u>	<u>2,695,434</u>	<u>646,542</u>

(b) By maturity

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Less than 1 month	5,084,423	1,254,483	4,512,138	1,082,307
1 month and less than 3 months	13,241,340	3,267,047	16,039,268	3,847,270
3 months and less than 12 months	91,857,213	22,664,005	44,119,509	10,582,756
1 year and less than 5 years	<u>18,360,260</u>	<u>4,530,043</u>	<u>40,083,789</u>	<u>9,614,725</u>
	<u>128,543,236</u>	<u>31,715,578</u>	<u>104,754,704</u>	<u>25,127,058</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

7. LOANS TO CUSTOMERS (continued)

(c) By currency

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Khmer Riel	117,824,122	29,070,842	96,122,438	23,056,473
Thai Baht	7,839,869	1,934,337	7,209,526	1,729,318
US Dollars	2,879,245	710,399	1,422,740	341,267
	<u>128,543,236</u>	<u>31,715,578</u>	<u>104,754,704</u>	<u>25,127,058</u>

(d) By economic sector

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Agriculture	95,606,848	23,589,156	64,653,167	15,508,076
Trade and commerce	18,882,714	4,658,947	29,487,625	7,073,069
Household/family	6,868,771	1,694,737	5,335,032	1,279,691
Construction	1,791,266	441,961	1,654,096	396,761
Services	2,008,774	495,626	1,487,470	356,793
Transportation	470,102	115,989	322,314	77,312
Other categories	2,914,761	719,162	1,815,000	435,356
	<u>128,543,236</u>	<u>31,715,578</u>	<u>104,754,704</u>	<u>25,127,058</u>

(e) By relationship

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
External customers	126,979,910	31,329,857	103,374,025	24,795,880
Staff loans	1,563,326	385,721	1,380,679	331,178
	<u>128,543,236</u>	<u>31,715,578</u>	<u>104,754,704</u>	<u>25,127,058</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

7. LOANS TO CUSTOMERS (continued)

(f) By location

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Head office	1,563,326	385,721	1,380,679	331,177
Banteay Meanchey	7,967,705	1,965,878	7,209,526	1,729,318
Battambang	8,713,521	2,149,894	7,806,637	1,872,544
Kampong Cham	11,229,018	2,770,545	8,031,399	1,926,457
Kampong Chhnang	4,195,426	1,035,141	3,619,761	868,256
Kampong Speu	9,150,817	2,257,789	7,739,829	1,856,519
Kampong Thom	5,794,089	1,429,580	6,207,786	1,489,035
Kandal	6,327,139	1,561,100	4,282,464	1,027,216
Kratie	8,052,501	1,986,800	6,357,972	1,525,060
Otdor Meanchey	5,134,619	1,266,869	4,232,400	1,015,208
Preah Vihear	2,891,839	713,506	2,793,335	670,025
Prey Veng	11,525,148	2,843,609	8,004,641	1,920,039
Pursat	6,643,139	1,639,067	6,105,649	1,464,536
Siem Reap	6,477,175	1,598,119	5,718,310	1,371,626
Svay Rieng	7,781,849	1,920,022	6,815,771	1,634,869
Takeo	7,561,064	1,865,547	6,590,084	1,580,735
Kampot	4,265,485	1,052,427	3,260,762	782,145
Mondulkiri	1,835,130	452,783	1,395,524	334,738
Ratanakiri	2,553,170	629,946	1,739,361	417,213
Sihanouk Ville	3,676,403	907,082	3,209,319	769,805
Stung Treng	1,260,401	310,980	861,459	206,634
Dangkor	868,882	214,380	365,202	87,599
Mokom Poul	3,075,390	758,793	1,026,834	246,304
	128,543,236	31,715,578	104,754,704	25,127,058

(g) Analysis by security on performing and non-performing loans

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Standard loans:				
Secured	16,802,990	4,145,815	22,986,789	5,513,742
Unsecured	109,726,721	27,072,963	78,768,009	18,893,742
Sub-standard loans:				
Secured	30,302	7,476	392,260	94,090
Unsecured	152,311	37,580	281,472	67,515
Doubtful loans:				
Secured	63,859	15,756	886,390	212,615
Unsecured	156,762	38,678	144,719	34,713
Loans loss:				
Secured	1,141,858	281,732	456,139	109,412
Unsecured	468,433	115,578	838,926	201,229
	128,543,236	31,715,578	104,754,704	25,127,058

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

7. LOANS TO CUSTOMERS (continued)

(h) By interest rate

	2010	2009
External customers	27.60% - 36.00%	30.00% - 36.00%
Staff loans	2.00% - 12.00%	2.00% - 12.00%

8. OTHER ASSETS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Interest receivable	2,609,127	643,752	2,017,447	483,916
Prepayments and deposits	1,082,438	267,071	2,811,796	674,453
Others	179,793	44,360	80,020	19,195
	3,871,358	955,183	4,909,263	1,177,564

9. PROPERTY AND EQUIPMENT

	Motor Vehicles Riel'000	Motor- cycles Riel'000	Computers and office equipment Riel'000	Total Riel'000	Total US\$
At 1 January 2009					
Cost	1,516,679	2,098,150	1,204,864	4,819,693	1,181,008
Accumulated depreciation	(651,764)	(658,137)	(593,194)	(1,903,095)	(466,331)
Net book value	864,915	1,440,013	611,670	2,916,598	714,677
Year ended 31 December 2009					
Opening net book value	864,915	1,440,013	611,670	2,916,598	714,677
Additions	498,234	1,239,652	718,098	2,455,984	592,803
Disposals – net	(11,231)	-	-	(11,231)	(2,711)
Depreciation charge	(296,312)	(566,078)	(436,224)	(1,298,614)	(313,448)
Currency translation	-	-	-	-	(16,810)
Closing net book value	1,055,606	2,113,587	893,544	4,062,737	974,511
At 31 December 2009					
Cost	1,977,363	3,337,802	1,922,962	7,238,127	1,736,178
Accumulated depreciation	(921,757)	(1,224,215)	(1,029,418)	(3,175,390)	(761,667)
Net book value	1,055,606	2,113,587	893,544	4,062,737	974,511

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

9. PROPERTY AND EQUIPMENT (continued)

	Motor Vehicles Riel'000	Motor- cycles Riel'000	Computers and office equipment Riel'000	Total Riel'000	Total US\$
Year ended 31 December 2010					
Opening net book value	1,055,606	2,113,587	893,544	4,062,737	974,511
Additions	-	374,641	806,655	1,181,296	282,067
Disposals – net	-	-	(6,640)	(6,640)	(1,585)
Depreciation charge	(263,935)	(605,207)	(554,133)	(1,423,275)	(339,846)
Currency translation	-	-	-	-	25,913
Closing net book value	<u>791,671</u>	<u>1,883,021</u>	<u>1,139,426</u>	<u>3,814,118</u>	<u>941,060</u>
At 31 December 2010					
Cost	1,977,354	3,712,443	2,643,107	8,332,904	2,055,984
Accumulated depreciation	<u>(1,185,683)</u>	<u>(1,829,422)</u>	<u>(1,503,681)</u>	<u>(4,518,786)</u>	<u>(1,114,924)</u>
Net book value	<u>791,671</u>	<u>1,883,021</u>	<u>1,139,426</u>	<u>3,814,118</u>	<u>941,060</u>

10. INTANGIBLE ASSETS

	Computer software Riel'000	Computer software US\$
At 1 January 2009		
Cost	774,320	189,738
Accumulated amortisation	<u>(176,876)</u>	<u>(43,341)</u>
Net book value	<u>597,444</u>	<u>146,397</u>
Year ended 31 December 2009		
Opening net book value	597,444	146,397
Additions	93,593	22,591
Amortisation charge	(322,065)	(77,737)
Currency translation	-	(2,747)
Closing net book value	<u>368,972</u>	<u>88,504</u>
At 31 December 2009		
Cost	867,913	208,183
Accumulated amortisation	<u>(498,941)</u>	<u>(119,679)</u>
Net book value	<u>368,972</u>	<u>88,504</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

10. INTANGIBLE ASSETS (continued)

	Computer software Riel'000	Computer software US\$
Year ended 31 December 2010		
Opening net book value	368,972	88,504
Additions	2,364,762	564,652
Written off	(17,200)	(4,107)
Amortisation charge	(338,530)	(80,833)
Currency translation	-	18,511
	<u>2,378,004</u>	<u>586,727</u>
Closing net book value	<u>2,378,004</u>	<u>586,727</u>
At 31 December 2010		
Cost	3,060,200	755,046
Accumulated amortisation	<u>(682,196)</u>	<u>(168,319)</u>
Net book value	<u>2,378,004</u>	<u>586,727</u>

11. DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Deferred tax assets	582,877	143,814	822,769	197,354
Deferred tax liabilities	<u>(340,691)</u>	<u>(84,059)</u>	<u>(134,614)</u>	<u>(32,289)</u>
	<u>242,186</u>	<u>59,755</u>	<u>688,155</u>	<u>165,065</u>

The movement of net deferred tax assets is as follows:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Balance at beginning of year	688,155	165,065	335,516	82,214
Credited to income statement	(445,969)	(106,487)	352,639	85,117
Currency translation	-	1,177	-	(2,266)
	<u>242,186</u>	<u>59,755</u>	<u>688,155</u>	<u>165,065</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

11. DEFERRED TAX ASSETS (continued)

Deferred tax assets/(liabilities) are attributable to the following:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Provision for retirement benefits and staff pension funds	271,907	67,088	479,904	115,112
General provision	249,978	61,677	200,771	48,158
Khmer new year bonus	150,544	37,144	46,336	11,115
Unrealised exchange (gain)/loss	(89,553)	(22,095)	95,758	22,969
Depreciation and amortisation	(340,690)	(84,059)	(134,614)	(32,289)
	242,186	59,755	688,155	165,065

12. DEPOSITS FROM CUSTOMERS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Saving accounts	402,792	99,381	81,904	62,648
Loan-linked saving accounts	26,986	6,658	75,488	18,381
Staff savings accounts	1,124,560	277,464	563,857	91,974
Term deposits	4,227,393	1,043,028	-	-
	5,781,731	1,426,531	721,249	173,003

Saving accounts comprise of general saving and easy account. The general savings are voluntary saving for the Company's borrowers and bear interest at 6% per annum. All savings under this type are in Khmer Riel. The easy account is a new product launched during the year; it is available for the public and multiple currencies. The easy account bears interest at 5% per annum for deposit in Khmer Riel and 3% per annum for deposits in US Dollar and Thai Baht.

The loan-linked saving is a compulsory deposit on individual loan as required by the Company. 2% of the principal loan amount disbursed to borrower is recorded as loan-linked savings and bears interest at the rate of 12% per annum. The deposit is refundable at the end of loan cycle. The loan-linked savings were removed on 1 July 2008.

Staff savings bear interest at the rate of 5% per annum.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

12. DEPOSITS FROM CUSTOMERS (continued)

Deposits from customers analysis by types:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Staff	1,124,560	277,464	383,438	91,974
Corporate	1,216,001	300,025	-	-
Public individual	3,441,170	849,042	337,811	81,029
	5,781,731	1,426,531	721,249	173,003

The Company received a license on 29 January 2010 from the Central Bank to take deposits from the customers.

The term deposits bear interest at the following annual rates:

	2010	
	US\$/THB	Riel
One-month term	3%	6%
Three-month term	4%	7%
Six-month term	5%	8%
Nine-month term	6%	10%
Twelve-month term	7%	11%
Eighteen-month term	8%	12%

13. DUE TO SHAREHOLDER

Amounts due to Concern Worldwide (Dublin) are non-interest bearing and have no fixed repayment term.

14. CURRENT TAX LIABILITIES

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
At beginning of the year	516,218	123,823	1,066,524	261,339
Current income tax expenses during the year (note 25)	866,052	206,794	862,110	208,088
Payments during the year	(951,408)	(227,175)	(1,412,416)	(340,916)
Currency translation	-	2,865	-	(4,688)
	430,862	106,307	516,218	123,823

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

14. CURRENT TAX LIABILITIES (continued)

Income tax is calculated by applying the corporate tax rate to accounting net income before tax. Tax effect has been taken into account of items deemed not deductible by the Law on Taxation.

15. OTHER LIABILITIES

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Accrued interest payable	2,335,292	576,189	1,892,656	453,983
Staff bonus payable	752,723	185,720	601,516	144,283
Staff incentive	277,266	68,410	317,486	76,154
Other tax payables	234,995	57,981	167,033	40,065
Other Accrued	369,918	91,269	148,273	35,566
	<u>3,970,194</u>	<u>979,569</u>	<u>3,126,964</u>	<u>750,051</u>

16. BORROWINGS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
BlueOrchard	2,295,000	566,247	5,419,700	1,300,000
Clann Credo	2,624,972	647,661	-	-
Foreign Trade Bank of Cambodia (i)	25,400,000	6,266,963	21,050,000	5,049,172
Hivos-Triodos Fonds	18,000,000	4,441,155	6,000,000	1,439,194
ICO *	21,580,259	5,324,515	22,197,903	5,324,515
KIVA Microfunds	5,110,058	1,260,809	4,079,328	978,491
Moringaway (ii)	18,940,000	4,673,082	25,193,500	6,043,056
Oikocredit	6,120,000	1,509,993	7,222,400	1,732,406
Oxfam Novib	4,423,194	1,091,338	-	-
Rural Impulse Fund	4,552,109	1,123,146	4,314,114	1,034,808
Symbiotics SA Information	8,103,825	1,999,463	11,313,800	2,713,792
The Minerva Treehouse	30,000	7,401	30,000	7,196
	<u>117,179,417</u>	<u>28,911,773</u>	<u>106,820,745</u>	<u>25,622,630</u>

(*) Instituto de Credito Oficial of the Kingdom of Spain ("ICO")

(i) Borrowings from Foreign Trade Bank of Cambodia are secured by the fixed deposits with the Foreign Trade Bank of Cambodia and the letter of credit from Deutsche Bank Trust Company Americas.

(ii) As at 31 December 2010, the Company has undrawn facilities with Moringaway amounting to KHR 10,132,500 (US\$ 2,500,000). The facilities will be expired on 15 June 2011.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

16. BORROWINGS (continued)

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Less than 1 month	-	-	-	-
1 month and less than 3 months	12,370,265	3,052,126	14,923,850	3,579,719
3 months and less than 12 months	31,421,253	7,752,591	21,613,166	5,184,257
1 year and less than 5 years	51,807,640	12,782,541	48,115,828	11,541,336
Over 5 years	21,580,259	5,324,515	22,167,901	5,317,318
	117,179,417	28,911,773	106,820,745	25,622,630

The borrowings bear interest at fixed rates set out as follow:

	2010	2009
Khmer Riel	0% - 14.30%	0% - 15.10%
US Dollars	0% - 11.63%	0% - 11.63%
Thai Baht	9.59% - 12.56%	11.40% - 12.56%

17. PROVISIONS FOR RETIREMENTS BENEFITS AND STAFF PENSION FUNDS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Provision for staff retirements benefits (a)	1,045,281	257,903	2,125,786	509,903
Staff pension funds (b)	994,024	245,256	-	-
	2,039,305	503,159	2,125,786	509,903

(a) Provision for staff retirement benefits

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
At beginning of the year	2,125,786	509,903	1,206,083	295,536
Charge during the year	-	-	996,567	240,542
Payment during the year	(108,580)	(25,926)	(96,103)	(23,196)
Reversal of over provision	(880,592)	(210,266)	-	-
Translation currency	(91,333)	(15,808)	19,239	(2,979)
	1,045,281	257,903	2,125,786	509,903

The Company ceased providing staff retirements benefits during the year. The remaining balance of the staff retirements benefits were calculated and maintained as a balance to be carried forward and paid to the employee when they resign.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

17. PROVISIONS FOR RETIREMENTS BENEFITS AND STAFF PENSION FUNDS (continued)

(b) Staff pension funds

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
At beginning of year	-	-	-	-
Addition:				
Employer contributions at 6%	680,980	162,603	-	-
Employee contributions at 3%	280,475	66,971	-	-
Interest earned	78,342	18,706	-	-
Payments made during the year	(42,118)	(10,057)	-	-
Currency translation	(3,655)	7,033	-	-
	<u>994,024</u>	<u>245,256</u>	<u>-</u>	<u>-</u>

18. SHARE CAPITAL

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Concern Worldwide (Dublin)	34,066,750	8,405,317	34,066,750	8,171,444
Currency translation (UK)	<u>2,500</u>	<u>617</u>	<u>2,500</u>	<u>600</u>
	<u>34,069,250</u>	<u>8,405,934</u>	<u>34,069,250</u>	<u>8,172,044</u>

19. RESERVE

Under the loan agreement with ICO, the Company is required to transfer every year a reserve amount of 3.5% of the loan outstanding with ICO from net profit each year into a capital strengthening reserve account. ICO has no entitlement to this reserve. The loan is matured on 22 June 2021.

20. INTEREST INCOME

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Loans to customers	41,435,896	9,893,958	34,421,605	8,308,377
Deposits and placements with banks	<u>1,378,856</u>	<u>329,240</u>	<u>883,018</u>	<u>213,135</u>
	<u>42,814,752</u>	<u>10,223,198</u>	<u>35,304,623</u>	<u>8,521,512</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

21. INTEREST EXPESE

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Borrowings	11,878,279	2,836,265	9,171,093	2,213,636
Deposits from customers	239,919	57,288	46,567	11,240
	<u>12,118,198</u>	<u>2,893,553</u>	<u>9,217,660</u>	<u>2,224,876</u>

22. OTHER OPERATING INCOME

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Loan fee income	842,573	201,187	616,510	148,808
Bad debts recovered	20,988	5,011	34	8
Gains on foreign exchange	447,764	106,916	-	-
Gains on disposal of properties and equipments	-	-	22,129	5,341
Other income	221,374	52,860	119,866	28,932
	<u>1,532,699</u>	<u>365,974</u>	<u>758,539</u>	<u>183,089</u>

23. OTHER OPERATING EXPENSES

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Staff costs	15,053,886	3,594,529	13,005,918	3,139,251
Depreciation and amortisation	1,761,805	420,679	1,620,679	391,185
Transportation costs	1,513,572	361,407	1,252,498	302,317
Office supplies and equipment	868,934	207,482	1,100,186	265,553
Office rentals	1,199,015	286,298	933,313	225,275
Professional services	1,222,627	291,936	923,652	222,943
Technical support costs	568,304	135,698	772,295	186,410
Communications	453,692	108,331	632,364	152,634
Utilities	363,869	86,884	261,270	63,063
Losses on foreign exchanges	-	-	478,265	115,439
Losses on disposal of properties and equipment	13,718	3,276	-	-
Other expenses	954,995	228,030	571,081	137,842
	<u>23,974,417</u>	<u>5,724,550</u>	<u>21,551,521</u>	<u>5,201,912</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

24. GRANT INCOME

Grant income represents the grant received from the International Labour Office (“ILO”) for the data collection on work and/or services in connection with the Microfinance for decent work action research performed by AMK in head office and two other provinces of Kampong Cham and Kampong Thom, and the UNITUS Inc. for assisting with the continuing development of Ultra Poor Program. The Program’s purpose is to design and deliver products and services that sustainably elevate the poorest people to a higher standard of living.

25. INCOME TAX EXPENSE

	2010		2009	
	Riel’000	US\$	Riel’000	US\$
<i>Current tax:</i>				
Current year tax based on profit for the reporting period	835,062	199,394	843,687	203,642
Under/(over) provision in respect of prior years	30,991	7,400	18,423	4,446
	<u>866,053</u>	<u>206,794</u>	<u>862,110</u>	<u>208,088</u>
<i>Deferred tax</i>				
Current year origination and reversal of temporary differences	445,969	106,487	(270,167)	(65,210)
Prior year under/(over) recognition of deferred tax assets	-	-	(82,472)	(19,906)
	<u>445,969</u>	<u>106,487</u>	<u>(352,639)</u>	<u>(85,116)</u>
Total income tax expenses	<u>1,312,022</u>	<u>313,281</u>	<u>509,471</u>	<u>122,972</u>

a) Reconciliation between income tax expense and accounting profit:

The reconciliation of income tax expense computed at the statutory tax rate to the income tax expense shown in the income statement is as follows:

	2010		2009	
	Riel’000	US\$	Riel’000	US\$
Profit before income tax	5,228,803	1,248,520	2,377,901	573,956
Tax calculated at a rate of 20%	1,045,761	249,704	475,580	114,791
Tax effect of non-deductible expenses	235,270	56,177	97,940	23,641
Under/(over) provision of tax in prior years	30,991	7,400	18,423	4,446
Prior year under/(over) recognition of deferred tax assets	-	-	(82,472)	(19,906)
Total income tax expenses	<u>1,312,022</u>	<u>313,281</u>	<u>509,471</u>	<u>122,972</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

25. INCOME TAX EXPENSE

a) Reconciliation between income tax expense and accounting profit: (continued)

In accordance with Cambodian tax laws, the Company has an obligation to pay corporate income tax in the form of either Tax on Profit at the rate of 20% of taxable profit or minimum tax at 1% of turnover, whichever is higher.

b) Other tax matters

The Company's tax returns are subject to periodic examination by the General Department of Taxation. Some areas of tax laws and regulations may be open to different interpretation; therefore, the tax amounts reported in the financial statements could be changed at a later date upon final determination by the General Department of Taxation.

26. CASH USED IN OPERATIONS

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Profit before income tax	5,228,803	1,248,520	2,377,901	573,956
<i>Adjustments for:</i>				
Depreciation (note 9)	1,423,275	339,846	1,298,614	313,448
Amortisation (note 10)	338,530	80,833	322,065	77,737
Provision for bad and doubtful loans (note 7-a)	1,603,090	382,782	2,063,542	498,079
Provision for staff pension fund obligation	159,205	38,015	996,567	240,542
Net gain on sale of property and equipment	(3,481)	(831)	(22,129)	(5,341)
Written off of intangible assets	17,200	4,107	-	-
Operating profit before changes in operating assets and liabilities	8,766,622	2,093,272	7,036,560	1,698,421
<i>Changes in operating assets and liabilities</i>				
Balances with the Central Bank	(413,000)	(98,615)	(5,000)	(1,207)
Balances with other banks	(3,415,352)	(815,509)	(10,226,425)	(2,468,362)
Loans to customers	(25,142,653)	(6,003,499)	(9,553,862)	(2,306,025)
Other assets	1,037,905	247,828	(2,654,544)	(640,730)
Deposits from customers	5,060,482	1,208,329	90,640	21,878
Due to shareholder	72,955	17,420	(151,373)	(36,537)
Other liabilities	843,230	201,344	(304,538)	(73,507)
Cash used in operations	<u>(13,189,811)</u>	<u>(3,149,430)</u>	<u>(15,768,542)</u>	<u>(3,806,069)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

27. RELATED PARTY TRANSACTIONS AND BALANCES

The Company entered into a number of transactions with related parties in the normal course of business. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

(a) Related-party balances

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Due from:				
Loans to key management personnel	<u>111,833</u>	<u>27,593</u>	<u>46,743</u>	<u>11,212</u>
Due to:				
Concern Worldwide Dublin	76,664	18,915	3,709	890
Deposits from directors and key management personnel	<u>787,678</u>	<u>194,344</u>	<u>-</u>	<u>-</u>
	<u>864,342</u>	<u>213,259</u>	<u>3,709</u>	<u>890</u>

(b) Interest income loan key management personnel

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Interest income from loan to key management personnel	<u>128,830</u>	<u>30,762</u>	<u>108,483</u>	<u>26,185</u>

(b) Director and Key management personnel remuneration

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Board of Director expenses	<u>193,264</u>	<u>46,147</u>	<u>105,488</u>	<u>25,303</u>
Remuneration and other short-term benefits	<u>1,670,283</u>	<u>398,826</u>	<u>1,588,810</u>	<u>381,101</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

28. COMMITMENTS

Operating lease commitments

These operating leases mainly relate to the office and car park rental which are renewable upon mutual agreement. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
No later than 1 year	131,717	32,499	645,560	154,848
Later than 1 year and no later than 5 years	2,380,883	587,437	1,755,336	421,045
	<u>2,512,600</u>	<u>619,936</u>	<u>2,400,896</u>	<u>575,893</u>

29. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Company entered into the currency hedge agreements such as foreign exchange forward rate agreement and back-to-back lending agreement where the Company obtained loans in Riel against it fixed deposits in US Dollar to manage its risk exposure.

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Financial assets				
Cash on hand	830,527	204,917	681,603	163,493
Balances with the Central Bank	5,215,031	1,286,709	1,806,823	433,395
Balances with other banks	35,968,198	8,874,463	43,261,149	10,376,865
Loans to customers	125,598,833	30,989,103	102,059,270	24,480,516
Other assets	2,874,295	709,177	2,175,276	521,774
Total financial assets	<u>170,486,884</u>	<u>42,064,369</u>	<u>149,984,121</u>	<u>35,976,043</u>
Financial liabilities				
Deposits from customers	5,781,731	1,426,531	721,249	173,003
Due to shareholder	76,664	18,917	3,709	891
Other liabilities	3,735,199	921,588	2,959,931	709,986
Borrowings	117,179,417	28,911,773	106,820,745	25,622,630
Total financial liabilities	<u>126,773,011</u>	<u>31,278,809</u>	<u>110,505,634</u>	<u>26,506,510</u>
Net financial assets	<u>43,713,873</u>	<u>10,785,560</u>	<u>39,478,487</u>	<u>9,469,533</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparties will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposure arises principally in lending activities that lead to loans to customers. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management is carried out by the Company's credit committee.

The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, and credit approval processes and procedures implemented to ensure compliance with NBC guidelines.

(a) Credit risk measurement

The Company assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flow. The credit committee is responsible for approving loans to customers.

(b) Risk limit control and mitigation policies

The Company operates and provides loans to individuals or small-medium enterprises within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified.

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are:

- Collateral pledges over residential properties (land, building and other properties); and
- Charges over business assets such as land and buildings

(c) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning. The Central Bank requires microfinance institutions to classify their loan portfolio into four classes and ensure that the minimum mandatory level of specific provision is made depending on the classification concerned and regardless of the assets (except for cash) pledged as collateral, as follows:

	2010	2009
Standard	0%	0%
Substandard	10%	10%
Doubtful	30%	30%
Loss	100%	100%

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
<i>Credit exposure relating to on-balance sheet assets:</i>				
Balances with other banks	35,968,198	8,874,463	43,261,149	10,376,865
Loans customers	125,598,833	30,989,103	102,059,270	24,480,516
Other assets	3,871,358	955,183	4,909,263	1,177,564
	<u>165,438,389</u>	<u>40,818,749</u>	<u>150,229,682</u>	<u>36,034,945</u>

The above table represents a worst case scenario for credit risk exposure to the Company at 31 December 2010 and 2009, without taking into account any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposure set out above is based on net carrying amounts.

As shown above, 76% of total maximum exposure is derived from loans to customers (2009: 68%).

Management is confident in its ability to continue to control and sustain minimal credit risk exposure to the Company relating to its loans to customers on the following basis:

- 98% of the loans in the portfolio are considered to be neither past due nor impaired (2009: 97%)
- The Company has introduced a more stringent selection and collection process for granting loans to customers

(e) Loans to customers

Loans to customers are summarised as follows:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Loans to customers neither past due nor impaired	126,369,142	31,179,162	101,636,675	24,379,150
Loans to customers past due but not impaired	160,569	39,617	129,307	31,016
Loans to customers individually Impaired	2,013,525	496,799	2,988,722	716,892
Gross Loan	<u>128,543,236</u>	<u>31,715,578</u>	<u>104,754,704</u>	<u>25,127,058</u>
Provision for bad and doubtful loans	<u>(2,944,403)</u>	<u>(726,475)</u>	<u>(2,695,434)</u>	<u>(646,542)</u>
Net loans to customers	<u>125,598,833</u>	<u>30,989,103</u>	<u>102,059,270</u>	<u>24,480,516</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

(e) Loans to customers (continued)

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirements. The total provision for bad and doubtful loans is KHR2,944,403 thousand (2009: KHR2,695,434 thousand), which represents the mandatory provision required by the Central Bank and additional provision for the loan losses.

(i) Loans to customers neither past due nor impaired

Loans to customers not past due are not considered impaired, unless other information is available to indicate the contrary.

(ii) Loans to customers past due but not impaired

Loans to customers less than 30 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans to customers that were past due but not impaired are as follows:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Past due up to 30 days	160,569	39,617	129,307	31,016
Value of collateral (*)	-	-	-	-

(iii) Loans to customers individually impaired

In accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning, loans past due more than 30 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Past due 30-60 days	182,613	45,056	664,364	159,358
Past due 60-90 days	11,507	2,839	83,784	20,097
Past due 90-180 days	368,447	90,907	1,024,608	245,768
Past due 180-360 days	209,113	51,595	915,094	219,500
Past due 360 days or more	1,241,845	306,401	300,872	72,169
	2,013,525	496,798	2,988,722	716,892
Value of collateral (*)	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

(e) Loans to customers (continued)

(iii) Loans to customers individually impaired (continued)

(*): Most of the customers' collaterals are in the form of land or house title receipts (which are not official land title deeds), as the Company generally issues loans to poor in the provinces. The Company does not perform a revaluation of collateral either internally or externally. Since no legal official land title deeds have been obtained, no values have been ascribed to the collateral. Under the Central Bank's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

(iv) Loans to customers renegotiated

There were no renegotiated loans to customers at 31 December 2010 (2009: nil).

(f) Repossessed collateral

During the year ended 31 December 2010, the Company did not obtain any assets by taking possession of collateral held as security (2009: nil).

29.2 Market risk

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Company does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge its risk exposure.

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency. The Company operates in Cambodia and transacts in Riel, THB and US\$ and is exposed to currency risks, primarily with respect to US\$ and THB.

Management monitors its foreign exchange risk against functional currencies. The Company hedged its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward rate agreement and back-to-back lending agreement with a local bank.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2010. Included in the table are the Company's financial instruments at carrying amount by currency in Riel.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

(i) Foreign exchange risk (continued)

	Riel'000			
	US\$	THB	KHR	Total
At 31 December 2010				
Financial assets				
Cash on hand	213,504	25,553	591,470	830,527
Balances with the Central Bank	-	-	5,215,031	5,215,031
Balances with other banks	26,609,039	1,331,700	8,027,459	35,968,198
Loans customers	2,879,245	7,839,869	114,879,719	125,598,833
Other assets	152,068	-	2,722,227	2,874,295
Total financial assets	29,853,856	9,197,122	131,435,906	170,486,884
Financial liabilities				
Deposits from customers	4,668,563	27,369	1,085,799	5,781,731
Due to shareholder	76,664	-	-	76,664
Other liabilities	1,491,153	207,331	2,036,715	3,735,199
Borrowings	37,635,766	6,630,458	72,913,193	117,179,417
Total financial liabilities	43,872,146	6,865,158	76,035,707	126,773,011
Net on-balance sheet position	(14,018,290)	2,331,964	55,400,199	43,713,873
In US\$ equivalent	(3,458,744)	575,367	13,668,937	10,785,560
At 31 December 2009				
Financial assets				
Cash on hand	132,131	69,363	480,109	681,603
Balances with the Central Bank	-	-	1,806,823	1,806,823
Balances with other banks	32,406,428	2,111,314	8,743,407	43,261,149
Loans customers	1,422,740	7,209,526	93,427,004	102,059,270
Other assets	10,124	-	2,165,152	2,175,276
Total financial assets	33,971,423	9,390,203	106,622,495	149,984,121
Financial liabilities				
Deposits from customers	563,857	21,095	136,297	721,249
Due to shareholder	3,709	-	-	3,709
Other liabilities	1,410,911	128,167	1,420,853	2,959,931
Borrowings	47,122,231	6,456,114	53,242,400	106,820,745
Total financial liabilities	49,100,708	6,605,376	54,799,550	110,505,634
Net on-balance sheet position	(15,129,285)	2,784,827	51,822,945	39,478,487
In US\$ equivalent	(3,628,996)	667,984	12,430,546	9,469,534

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

(ii) Price risk

The Company is not exposed to securities price risk because it does not have any investment held and classified on the balance sheet either as available for sale or at fair value through profit or loss. The Company does not currently have a policy to manage its price risk.

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes but may reduce losses in the event that unexpected movements arise. The Company at this stage does not have a policy to set limits on the level of mismatch of interest rate re-pricing that may be undertaken; however, management regularly monitors the mismatch.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at the carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month Riel'000	1 to 3 months Riel'000	3 to 12 months Riel'000	1 to 5 Years Riel'000	Over 5 years Riel'000	Non- interest bearing Riel'000	Total Riel'000
At 31 December 2010							
Financial assets							
Cash on hand	-	-	-	-	-	830,527	830,527
Balances with the Central Bank	-	-	-	-	3,626,925	1,588,106	5,215,031
Balances with other banks	16,141,833	-	19,049,100	-	-	777,265	35,968,198
Loans to customers	3,141,972	13,074,141	90,892,385	18,171,549	-	318,786	125,598,833
Other assets	-	-	-	-	-	2,874,295	2,874,295
	<u>19,283,805</u>	<u>13,074,141</u>	<u>109,941,485</u>	<u>18,171,549</u>	<u>3,406,925</u>	<u>6,608,979</u>	<u>170,486,884</u>
Financial liabilities							
Deposits from customers	1,571,904	492,187	2,566,591	1,151,049	-	-	5,781,731
Due to shareholder	-	-	-	-	-	76,664	76,664
Other liabilities	-	-	-	-	-	3,735,199	3,735,199
Borrowings	-	12,370,265	31,421,253	46,667,582	21,580,259	5,140,058	117,179,417
	<u>1,571,904</u>	<u>12,862,452</u>	<u>33,987,844</u>	<u>47,818,631</u>	<u>21,580,259</u>	<u>8,951,921</u>	<u>126,773,011</u>
Total interest rate repricing gap	<u>17,711,901</u>	<u>211,689</u>	<u>75,953,641</u>	<u>(29,647,082)</u>	<u>(18,173,334)</u>	<u>(2,342,942)</u>	<u>43,713,873</u>
Total interest rate repricing gap – In US\$ equivalent	<u>4,370,072</u>	<u>52,230</u>	<u>18,740,105</u>	<u>(7,314,849)</u>	<u>(4,483,922)</u>	<u>(578,076)</u>	<u>10,785,560</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Up to 1 month Riel'000	1 to 3 months Riel'000	3 to 12 months Riel'000	1 to 5 Years Riel'000	Over 5 years Riel'000	Non- interest bearing Riel'000	Total Riel'000
At 31 December 2009							
Financial assets							
Cash on hand	-	-	-	-	-	681,603	681,603
Balances with the Central Bank	-	-	-	-	1,703,463	103,360	1,806,823
Balances with other banks	2,212,302	12,065,930	16,485,438	12,200,000	-	297,479	43,261,149
Loans to customers	4,512,138	15,374,904	43,120,631	38,758,308	-	293,289	102,059,270
Other assets	-	-	-	-	-	2,175,276	2,175,276
	<u>6,724,440</u>	<u>27,440,834</u>	<u>59,606,069</u>	<u>50,958,308</u>	<u>1,703,463</u>	<u>3,551,007</u>	<u>149,984,121</u>
Financial liabilities							
Deposits from customers	721,249	-	-	-	-	-	721,249
Due to shareholder	-	-	-	-	-	3,709	3,709
Other liabilities	-	-	-	-	-	2,959,931	2,959,931
Borrowings	-	14,923,850	21,613,166	44,006,500	22,167,901	4,109,328	106,820,745
	<u>721,249</u>	<u>14,923,850</u>	<u>21,613,166</u>	<u>44,006,500</u>	<u>22,167,901</u>	<u>7,072,968</u>	<u>110,505,634</u>
Total interest rate repricing gap	<u>6,003,191</u>	<u>12,516,984</u>	<u>37,992,903</u>	<u>6,951,808</u>	<u>(20,464,438)</u>	<u>(3,521,961)</u>	<u>39,478,487</u>
Total interest rate repricing gap – In US\$ equivalent	<u>1,439,959</u>	<u>3,002,395</u>	<u>9,113,193</u>	<u>1,667,500</u>	<u>(4,908,716)</u>	<u>(844,798)</u>	<u>9,469,534</u>

29.3 Liquidity risk

Liquidity risk is the risk of the Company being unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

(a) Liquidity risk management process

The Company's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the reviewing of the daily cash position and projections for the next day, week and month, as these are key periods for liquidity management. Management monitors the movement of the main depositors and lenders and projections of their withdrawals.

(b) Funding approach

The Company's main sources of liquidity arise from the shareholders' paid-up capital and customers' deposits. The sources of liquidity are reviewed regularly through management's review of the maturity of term deposits, key depositors, borrowings and subordinated debts.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk (continued)

(c) Non-derivative cash flows

The table on the following page presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on the expected undiscounted cash flows.

	Up to 1 month Riel'000	1 to 3 months Riel'000	3 to 12 months Riel'000	1 to 5 Years Riel'000	Over 5 years Riel'000	Total Riel'000
At 31 December 2010						
Financial liabilities						
Deposits from customers	1,572,382	512,238	2,778,359	1,299,342	-	6,162,321
Due to shareholder	76,664	-	-	-	-	76,664
Other liabilities	544,150	752,723	-	-	-	1,296,873
Borrowings	2,201,705	14,554,434	37,692,522	62,673,571	25,143,576	142,265,808
Total financial liabilities						
(contractual maturity dates)	4,394,901	15,819,395	40,470,881	63,972,913	25,143,576	149,801,666
In US\$ equivalent	<u>1,084,358</u>	<u>3,903,132</u>	<u>9,985,414</u>	<u>15,784,089</u>	<u>6,203,695</u>	<u>36,960,688</u>
At 31 December 2009						
Financial liabilities						
Deposits from customers	721,249	-	-	-	-	721,249
Due to shareholder	3,709	-	-	-	-	3,709
Other liabilities	448,964	601,516	-	-	-	1,050,480
Borrowings	-	17,053,693	26,078,335	54,782,237	27,054,087	124,968,352
Total financial liabilities						
(contractual maturity dates)	1,173,922	17,655,209	26,078,335	54,782,237	27,054,087	126,743,790
In US\$ equivalent	<u>281,584</u>	<u>4,234,879</u>	<u>6,255,297</u>	<u>13,140,378</u>	<u>6,489,347</u>	<u>30,401,485</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk (continued)

(d) Off-balance sheet items

i. Loans commitments

The dates of the contractual amounts of the Company's off-balance sheet that it commits to extend credit to customers are summarised in the table below.

ii. Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases (note 28) are summarised in the table below.

	No later than 1 year Riel'000	1-5 years Riel'000	Total Riel'000
As at 31 December 2010			
Unused portion of approved credit facility	4,474,009	-	4,474,009
Operating lease commitments	<u>131,717</u>	<u>2,380,883</u>	<u>2,512,600</u>
	<u>4,605,726</u>	<u>2,380,883</u>	<u>6,986,609</u>
In US\$ equivalent	<u>1,136,375</u>	<u>587,437</u>	<u>1,723,812</u>
As at 31 December 2009			
Unused portion of approved credit facility	2,952,890	-	2,952,890
Operating lease commitments	<u>645,560</u>	<u>1,755,336</u>	<u>2,400,896</u>
	<u>3,598,450</u>	<u>1,755,336</u>	<u>5,353,786</u>
In US\$ equivalent	<u>863,145</u>	<u>421,045</u>	<u>1,284,190</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.4 Fair value of financial assets and liabilities

As at the balance sheet date, the fair values of financial instruments of the Company approximate their carrying amounts.

The estimated fair values are based on the following methodologies and assumptions:

i. Balances with other banks

Balances with other banks include non-interest bearing current accounts, savings deposits and short term deposit. The fair value of balances with other banks approximates the carrying amount.

ii. Loans to customers

Loans to customers are net of provision for doubtful and bad loans and their carrying value approximates fair value. The provision for doubtful and bad loans is made under the requirements of the Central Bank's Prakas.

iii. Deposits from customers and borrowings

The fair value of deposits from customers approximates the carrying amount. The fair value of deposits from customers with no stated maturities which include non-interest bearing deposits is the amount repayable on demand.

The fair value of fixed interest-bearing deposits and borrowings are not quoted in an active market. Their value approximates the carrying amount.

iv. Other assets and other liabilities

The carrying amounts of other financial assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

29.5 Capital management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The Central Bank requires all licenced deposit-taking microfinance institutions to i) fulfill the minimum capital requirements, and ii) comply with solvency, liquidity and other requirements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. FINANCIAL RISK MANAGEMENT (continued)

29.5 Capital management (continued)

The table below summarises the composition of regulatory capital:

	2010		2009	
	Riel'000	US\$	Riel'000	US\$
Tier 1 Capital				
Share capital	34,069,250	8,405,934	34,069,250	8,172,044
Reserve	1,550,618	382,585	-	-
Retained earnings	12,820,214	3,131,697	10,454,051	2,566,711
Currency translation differences	-	31,445	-	(59,143)
	<u>48,440,082</u>	<u>11,951,661</u>	<u>44,523,301</u>	<u>10,679,612</u>
Less: Loan to related parties	<u>(111,833)</u>	<u>(27,593)</u>	<u>(46,743)</u>	<u>(11,212)</u>
Total regulatory capital	<u>48,328,249</u>	<u>11,924,068</u>	<u>44,476,558</u>	<u>10,668,400</u>

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation of the financial statements and to comply with the requirement of Prakas No. B7-04-204 dated 29 December 2004.

	As per previous report Riel'000	Reclassification Riel'000	Reclassified balance Riel'000
<u>Balance sheet</u>			
Balances with the Central Bank	-	1,806,823	1,806,823
Balances with other banks	43,337,509	(76,360)	43,261,149
Statutory deposits	<u>1,730,463</u>	<u>(1,730,463)</u>	<u>-</u>
	<u>45,067,972</u>	<u>-</u>	<u>45,067,972</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

31 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

31.1 New standards, amendments to existing standards and interpretations effective in the year 2010

There were no standards, amendments to existing standards and interpretations which became effective in the financial year ended 31 December 2010.

31.2 Standards and amendments to existing standards issued but not yet effective

On 28 August 2009, the National Accounting Council announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on all standards published by International Accounting Standard Board including other interpretation and amendment that may occur in any circumstances to each standard by adding "Cambodian". Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company:

The following Cambodian International Accounting Standards ("CIAS") or CIFRS and amendments to existing standards, which have been published are relevant and mandatory for the Company for accounting periods beginning on or after 1 January 2012, but have not been early adopted by the Company:

- CIAS 1 (Revised), 'Presentation of Financial Statements'.
The revised standard prohibits the presentation of income and expense items (i.e., 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity are to be shown in a performance statement. Entities can opt to present one performance statement (i.e. statement of comprehensive income) or two statements (i.e. income statement and statement of comprehensive income). Entities which restate or reclassify comparative information are required to present a restated balance sheet as at the beginning comparative period. The revised standard also clarifies that potential settlement of a liability by issue of equity is not relevant in determining the classification of a liability as current or non-current. In addition, the standard clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

The Company will apply CIAS 1 (Revised) from 1 January 2012. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- CIAS 16 (Amendment), 'Property, Plant and Equipment' (and consequential amendment to CIAS 7, 'Statement of Cash Flows')
The amended standard requires entities whose ordinary activities comprise renting and subsequently selling assets, to present proceeds from the sale of those assets as revenue and to transfer the carrying amount of an asset to inventories when the asset becomes held for sale. The consequential amendment to CIAS 7 requires cash flows arising from the purchases, rental and sale of those assets to be classified as cash flows from operating activities. This is not expected to have a material impact on the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

31 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

**31.2 Standards and amendments to existing standards issued but not yet effective
(continued)**

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company (continued)

- **CIAS 19, 'Employee Benefits'**
The objective of this standard is to prescribe the accounting and disclosure requirements for employee benefits. The Standard requires an entity to recognise: (a) a liability when an employee has provided services in exchange for employee benefits to be paid in the future; and (b) an expense when the entity consumes the economic benefit arising from the services provided by an employee in exchange for employee benefits. This is not expected to have a material impact on the Company's financial statements.
- **CIAS 24 (Revised), 'Related Party Disclosures'**
CIAS 24 was revised by (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and (b) providing a partial exemption from the disclosure requirements for government-related entities. CIAS 24 (Revised) will not have a material impact on the Company's financial statements
- **CIAS 32, 'Financial Instruments: Presentation'**
The objective of this standard is to establish the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments as well as classification of related interest, dividends, losses and gains. CIAS 32 will not have significant impact on the classification and presentation of the Company's financial instruments as it mainly has loans and receivables as financial assets and deposits from customers as financial liabilities.
- **CIAS 36 (Amendment), 'Impairment of Assets'**
The amended standard states that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment will not have a material impact on the Company's financial statements.
- **CIAS 38 (Amendment), 'Intangible Assets'**
The revised standard provides clarification in respect of fair value measurement of an intangible asset acquired in business combination and it permits the grouping of intangible assets as a single asset if the individual assets have similar useful economic lives. The amendment will not have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

31 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

31.2 Standards and amendments to existing standards issued but not yet effective
(continued)

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company (continued)

- CIAS 39, "Financial Instruments: Recognition and Measurement"
The standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Adoption of CIAS 39 will result in the following revisions to the accounting policies on financial instruments:

Loans to customers

Loans to customers are currently stated in the balance sheet at outstanding principal, less any amounts written off and provision for loan losses. Under CIAS 39, loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Impairment of financial assets

The Company currently follows the mandatory credit classification and provisioning as required by Prakas No. B7-02-186 dated 13 September 2002 issued by the Central Bank, as disclosed in note 2.7 to the financial statements. CIAS 39 requires the Company to assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired, either on an individual or collective assessment basis. Impairment loss is measured as the difference between an asset's carrying amount and present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. For the purposes of collective impairment assessment, assets are grouped on the basis of similar credit risk characteristics.

Deposits from customers

The Company currently measures deposits from customers at the deposit amount. CIAS 39 requires financial liabilities (which include deposits from customers) to be measured at amortised cost.

Interest income and interest expense

The Company currently recognises interest income and expense on an accrual basis at contractual rates, except where serious doubt exists as to the collectability, in which case interest is suspended until it is realised on a cash basis. CIAS 39 requires interest income and expense for all interest-bearing financial instruments to be recognised using the effective interest method. In respect of a financial asset or a group of similar financial assets which are impaired, interest income is to be recognised at the interest rate used in discounting future cash flows for the purpose of measuring the impairment loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

31 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

**31.2 Standards and amendments to existing standards issued but not yet effective
(continued)**

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company (continued)

- CIFRS 7 (Amendment), 'Financial Instruments - Disclosures'
The revised standard requires enhanced disclosures in respect of fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair values by fair value measurement hierarchy as follows:
 - Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly; and
 - Level 3 - Inputs for an asset or liability that are not based on observable market data.

The standard also emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- CIFRS 9, 'Financial Instruments'
This standard establishes principles for financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. CIFRS 9 specifies the bases for classification and measurement of financial assets, including some hybrid contracts. They require all financial assets to be: (a) classified on the basis of an entity's business model for managing the financial assets and the contractual cash flow characteristics of a financial asset; (b) initially measured at fair value, plus transaction costs in the case of a financial asset not at fair value through profit or loss; and (c) subsequently measured at amortised cost or fair value based on asset classification.

Other than the standards, improvements and amendments to existing standards as set out above, the other published standards, amendments and interpretations to existing standards, which are applicable for accounting periods beginning on or after 1 January 2010, are not relevant to the Company's operations.

(b) Early adoption of standards

In the year 2010, the Company did not early-adopt any new or amended standards.

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2010****1. SOLVENCY RATIO, Prakas No. B7-07-163**

A licenced deposit-taking microfinance institution shall at all times maintain a solvency ratio of more than 15%. As at 31 December 2010, the solvency ratio of the Company was 27.42%.

The net worth and solvency ratio calculation are detailed in Schedule 1.

2. LIQUIDITY RATIO, Prakas No. B7-07-163

A licenced deposit-taking microfinance institution shall at all times maintain a liquidity ratio of at least 50%. As at 31 December 2010, the liquidity ratio of the Company was 2318%.

The liquidity ratio calculation is detailed in Schedule 2.

3. NET OPEN POSITION IN FOREIGN CURRENCY, Prakas No. B7-07-134

A licenced microfinance institution shall at all times maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Company's net worth. As at 31 December 2010, the net open position in Khmer Riel was 26.29%.

As required by the Central Bank, on 13 January 2011, the Company has submitted a written explanation of the origin of this excess to the Central Bank with the measures taken to remedy. The net open position in Khmer Riel returned to 18% as at 31 January 2011.

The net open position calculation is detailed in Schedule 3.

4. RESERVE REQUIREMENT, Prakas No. B7-07-163

A licenced deposit-taking microfinance institution shall deposit 8% of its deposits into an account maintained with the Central Bank. As at 31 December 2010, the reserve requirement was KHR 623,482,000, and the Company has deposited KHR 640,000,000 with the Central Bank in January 2011 following the annual schedule set by the Central Bank.

The reserve requirement calculation is detailed in Schedule 4.

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 20105. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,
Prakas No. B7-02-186

Licensed microfinance institutions shall classify their loan portfolios into the following four classes, depending on the financial situation of the borrower and the timeliness of principal and interest payments.

Loan term of one year or less than one year

- **Standard:** good financial condition and punctual payment of principal and interest
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more
- **Doubtful:** some payments of principal and/or interest are overdue by 60 days or more
- **Loss:** some payments of principal and/or interest are overdue by 90 days or more

Loan term of more than one year

- **Standard:** good financial condition and punctual payment of principal and interest
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more
- **Doubtful:** some payments of principal and/or interest are overdue by 180 days or more
- **Loss:** some payments of principal and/or interest are overdue by 360 days or more

Mandatory provisions on the loans are classified as follows:

- **Sub-standard:** 10% regardless of the collateral value except cash
- **Doubtful:** 30% regardless of the collateral value except cash
- **Loss:** 100%

As at 31 December 2010, the mandatory provision provided by the Company was KHR 1,694,739,000, which is in compliance with the Central Bank's Prakas.

Loan classification, provision and delinquency ratio calculation are detailed in Schedule 5

SCHEDULE 1

NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2010

	<u>Riel '000</u>
I- Sub-total A: Items to be added	
- Capital or endowment	34,069,250
- Reserve, other than revaluation reserves	1,550,618
- Premium related to capital (share premium)	-
- Provision for general banking risks, with the prior agreement of the NBC	-
- Retained earnings	8,903,433
- Audited net profit for the latest financial year	3,916,781
- Other items approved by the NBC	-
	<u>48,440,082</u>
II- Sub-total B: Items to be deducted	
- For shareholders, directors, managers and their next of kin	
> Unpaid portion of capital	-
> Advances, loans, security and the agreement of the persons concerned as defined above	111,833
- Holding of own shares at their book value	-
- Accumulated losses	-
- Formation expenses	-
- Losses determined on dates other than the end of the annual accounting period (including provisions to be made for doubtful debt and securities)	-
	<u>111,833</u>
III- Total C: BASE NET WORTH = A – B	<u>48,328,249</u>
IV- Sub-total D: Items to be added	
- Revaluation reserves, with the prior agreement of the NBC	-
- Subordinated debt, with the prior agreement of the NBC, up to 100% of base net worth	-
- Other items, with the prior agreement of the NBC, could be included in the calculation of net worth and shall not be more than the base net worth	-
	<u>-</u>
	<u>-</u>
V- Sub-total E: Items to be deducted	
- Equity participation in banking and financial institutions	-
- Other items	-
	<u>-</u>
VI- Total F: TOTAL NET WORTH = C + D – E	<u>48,328,249</u>

SCHEDULE 1

NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2010

	<u>Riel'000</u>	
I- Numerator (A)		
Net worth	<u>48,328,249</u>	
II- Denominator (B)		
Assets (*)	Riel'000	Weighting
- Cash	830,527	0%
- Gold	-	0%
- Claims on the NBC	5,215,031	0%
- Assets collateralised by deposits	-	0%
- Claims on sovereigns rated AAA to AA-	-	0%
- Claims on sovereigns rated A+ to A-	-	20%
- Claims on banks rated AAA to AA-	-	20%
- Claims on sovereigns rated BBB to BBB-	-	50%
- Claims on banks rated A+ to A-	-	50%
- All other assets	171,760,864	100%
- All off-balance sheet items	<u>4,474,009</u>	<u>100%</u>
	182,280,431	176,234,873
III- Solvency ratio (A/B)	<u>27.42%</u>	

(*): The denominator of the ratio shall comprise the aggregate of the assets (net amount after deduction of provision and depreciation) and off-balance sheet items, weighted to their degree of risk. It excludes the items which are deducted in calculating the net worth according to the provisions of the Prakas on the calculation of microfinance institutions' net worth.

SCHEDULE 2
LIQUIDITY RATIO AS AT 31 DECEMBER 2010

			<u>Riel'000</u>
1- Numerator: liquid assets			
- Cash on hand			830,527
- Balance with the Central Bank			5,215,031
- Balances with other banks			<u>35,968,198</u>
Sub-Total (A)			<u>42,013,756</u>
Less:			
- Amount owed to the Central Bank			-
- Amount owed to other banks			<u>-</u>
Sub-total (B)			<u>-</u>
Net liquidity (A – B)			42,013,756
Plus:			
- Portion of loans outstanding maturing in less than one month			<u>3,141,033</u>
Liquid assets (L)			<u>45,154,789</u>
2- Denominator: Adjusted amount of deposits (A)			
Category of deposits	Riel'000	%	
- Voluntary savings	7,793,520	25%	<u>1,948,380</u>
LIQUIDITY RATIO (L/A)			<u>2318%</u>

SCHEDULE 3

NET OPEN POSITION IN FOREIGN CURRENCY AS AT 31 DECEMBER 2010

Currency	Assets Riel'000	Liabilities and capital Riel'000	Net open position (NOP) Riel'000	NOP/ Net worth %	Limit %
US\$	30,920,246	(45,961,920)	(15,041,674)	-31.12%	20%
THB	9,214,564	(6,878,436)	2,336,128	4.83%	20%
KHR	<u>137,783,445</u>	<u>(125,077,899)</u>	<u>12,705,546</u>	<u>26.29%</u>	<u>20%</u>
Total	<u>177,918,255</u>	<u>(177,918,255)</u>	<u>-</u>		
Net worth			<u>48,328,249</u>		

SCHEDULE 4
RESERVE REQUIREMENT AS AT 31 DECEMBER 2010

	<u>Riel'000</u>
1- Voluntary	
1-1 Demand	-
1-2 Savings	1,526,822
1-3 Term	6,266,698
1-4 Other	-
	<u> </u>
1-5 Total reservable deposits	<u>7,793,520</u>
2- Compulsory	
2-1 Program	-
2-2 Program	26,986
2-3 Program	-
	<u> </u>
2-4 Total compulsory savings	<u>26,986</u>
3- Total savings mobilised	<u>7,820,506</u>
8% Reservable deposits	<u>623,482</u>

SCHEDULE 5

LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO
AS AT 31 DECEMBER 2010

Loan classification	Amount Riel'000	Rate %	Mandatory Provision Riel'000
1-Loans of one year or less			
1-1 Standard	92,323,928	0%	-
1-2 Substandard past due ≥ 30 days	14,247	10%	1,425
1-3 Doubtful past due ≥ 60 days	11,507	30%	3,452
1-4 Loss past due ≥ 90 days	368,447	100%	368,447
Sub-total 1	<u>92,718,129</u>		<u>373,324</u>
2-Loans of more than one year			
2-1 Standard	34,205,783	0%	-
2-2 Substandard past due ≥ 30 days	168,366	10%	16,837
2-3 Doubtful past due ≥ 180 days	209,113	30%	62,733
2-4 Loss past due ≥ 360 days	1,241,845	100%	1,241,845
Sub-total 2	<u>35,825,107</u>		<u>1,321,415</u>
Grand total 1+2	<u>128,543,236</u>		<u>1,694,739</u>
All loans past due > 30 days (A)			2,013,525
Loans outstanding (B)			<u>128,543,236</u>
Delinquency ratio (A/B)			<u>1.57%</u>