Angkor Mikroheranhvatho (Kampuchea) AMK – Cambodia

AMK – which started its operation in 1999 as the credit component of Concern Worldwide program - is a non-banking financial institution licensed in 2004 as microfinance institution and in 2010 as micro deposit taking institution. AMK is wholly owned by the Irish NGO Concern Worldwide. The ownership structure will undergo a significant change by the end of 2011. AMK will continue its commitment to help large numbers of poor people in Cambodia.

FINAL RATING	**A**
OUTLOOK	Stable

Date Rating Committee : 13/07/2011

Validity : 1 year if no relevant changes in operations or within the operational context occur.

Previous Rating : March 2008 (M-Cril): α+

RATING RATIONALE

FINANCIAL ANALYSIS AND CAPITAL ADEQUACY

AMK is well capitalized and shows positive and improving performance results after the decrease registered in 2009. Although lower compared to top MFIs in Cambodia, profitability and sustainability levels are adequate considering AMK's business model and target clientele, that is the low end market segment. Such levels are achieved through outstanding productivity, which however has no negative impact on portfolio quality. Although the latter is good, there is some risk concentrated in individual loans mainly linked to loans disbursed in 2009. Expertise in the individual lending methodology needs to be strengthened considering the lack of specialization of credit staff and an assessment that, although adequate, might be more prudential in the estimation of the clients' repayment capacity.

GOVERNANCE, RISK MANAGEMENT AND QUALITATIVE RISK ANALYSIS

The current business model exposes the institution to some operations risk given the high number of transactions, which is however adequately controlled through effective segregation of functions and dual controls. The relevance of the cash handling risk increases with transactions of small and large individual loans with higher amounts. The current risk management framework ensures an effective control with some room for improvement in financial risk management policies and tools. The BoD is proactive and promptly monitors the evolution of the institution in all the key areas. The country risk of clients' over-indebtedness remains significant, while the Credit Bureau is still in the process of being established.

Legal form	Limited Liability Company
Client typology	Low-end market
Year of inception	2003
Year of inception of the operations	1999
Regulator / Supervisor	National Bank of Cambodia
Networks of reference	Cambodian Microfinance Association
Area of intervention	Rural
Credit methodology	Group and individual lending

Indicators	Dec09	Dec10	Mar11
Active borrowers (#)	217,818	251,352	247,747
Active loans (#)	221,072	253,663	249,851
Branches (#)	20	22	22
Total staff (#)	767	844	869
Loan officers (#)	510	482	498
Gross outstanding portfolio (USD)	25,151,189	31,731,236	33,016,098
Total savings (USD)	173,169	1,427,235	1,749,283
Total assets (USD)	37,896,272	43,919,589	46,825,091

Financial Indicators	Dec09	Dec10	Mar11
PAR 30	2.9%	1.6%	1.4%
PAR 90	2.1%	1.4%	1.4%
Write-off ratio	0.4%	1.1%	1.1%
Restructured loans	0.0%	0.0%	0.0%
ROE	3.5%	7.0%	7.5%
ROA	1.1%	1.9%	2.0%
AROE	3.0%	3.3%	4.4%
Oper. Self-sufficiency (OSS)	106.0%	111.5%	112.4%
Fin. Self-sufficiency (FSS)	105.3%	106.9%	108.6%
Staff productivity (borrow.)	284	298	285
LO productivity (borrow.)	427	521	497
Operating expense ratio	22.5%	22.0%	22.2%
Operat. expense ratio (over asset	16.3%	15.5%	15.8%
Funding expense ratio	9.3%	10.2%	10.1%
Provision expense ratio	2.1%	1.4%	1.0%
Portfolio yield	35.5%	35.8%	35.8%
Other products yield	0.1%	0.1%	0.1%
Risk coverage ratio	90.2%	146.2%	156.6%
Cost of funds ratio	10.7%	10.6%	10.7%
Debt/Equity ratio	2.5	2.7	2.8
Capital adequacy ratio	28.2%	27.2%	26.4%

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Main Risk Factors

AREA	Risk Factors	Relevance*	Key Points	Risk Mitigation
1. External Context and MFI Positioning	Increasing tension at the Thai-Cambodia border	Medium	Some AMK's areas of operations are affected.	Following the victory of the Puea Thai Party, new hopes for the resolution of the Thai-Cambodia border dispute .
	Over-indebtedness	Medium-high	Some areas see a high presence of microfinance lenders with already a percentage of multiple borrowings (AMK estimated 15-20%).	The Credit Bureau should be launched by the end of the year. AMK signed a MoU with Amret, VisionFund and TPC aiming at exchanging the list of active borrowers.
	Competition	Medium	AMK has 3 main competitors (AMRET, TPC and VisionFund), but the evolution of the individual lending might expose the institution to further competitors (i.e. MFIs strongly engaged in individual lending).	AMK is the leading MFI in its core market segment and it is well positioned in areas less covered by other lending providers.
2. Governance, Organization and Operational Risk	Ownership transition not finalized yet	Low	Uncertainty in the timeframe of the transition from Concern Worldwide to Agora Microfinance Fund (linked with the closure of Agora Microfinance Fund).	Agora already committed with a convertible debt through the investment company Moringaway and through presence in the BoD. A shareholder agreement has already been signed.
	On-going definition of Top Management structure	Medium-low	Centralization of the reporting line to the CEO position. Positions immediately below the CEO to be strengthened.	Gradual definition and involvement of Deputy CEO and Head of Operations as Top Managers. Updated organizational chart for 2012 has been already designed.
	Transaction Risk	Medium	High cash handling given the high number of operations especially concerning individual loans (higher amount) and sub-branches (no MIS at this level). Sometimes monitoring and rotation policies are not timely implemented.	Only small frauds have happened and have been promptly detected. Good control and supervision in the Operations department. Well defined cash limits at field level.
	Shortcomings in the MIS	Medium-low	Sub-branches (especially those that are becoming larger) do not have the MIS installed.	Good and flexible MIS. On-going implementation of the system in the sub-branches

AREA	Risk Factors	Relevance*	Key Points	Risk Mitigation
3. Assets Structure and Quality	Room for improvement in individual lending assessment criteria	Medium	Repayment capacity analysis policy is based on aggressive assumptions also taking into consideration the low level of specialization of loan officers in individual loans.	Good Monitoring of new product. Caution in disbursement of new individual loans.
	Limited incentive for clients retention in group lending	Medium-low	Loans terms (i.e. interest rate) do not change, possibly affecting clients retention starting from the second cycle.	Future plans to decrease the i.r. along with the cycles.
	Agriculture concentration	Medium-low	Agriculture sector represents 71.5%. Limits per sub-agriculture sectors are not fully defined.	Good specialization in the sector with a very good performance. There is an initial analysis on sub-sector agriculture portfolio
	PAR concentration into small individual loans	Medium-low	PAR for loans less than 500 USD stands at 6.3% as of March 2011.	PAR concentrated in the oldest aging category. The PAR is gradually decreasing (as of June 2011 it stands at 5.71% along with a slight decrease of portfolio)
	PAR concentration in some branches	Medium-low	4 branches have the largest exposure, mainly due to individual loan defaults disbursed in 2009 and to areas characterized by high lending providers presence.	PAR concentrated in the oldest aging category
	Clients drop-out	Medium-low	Especially after the second cycle.	Drop-out is regularly monitored.
4. Financial Structure and ALM	Concentration in funding liabilities	Medium-low	Borrowings from 4 lenders represent 70% of total AMK borrowings.	Loan from AECID at cheap interest rate and with long term , loan from FTB secured by fixed deposits.
	Room for improvement in ALM tools	Medium-low	Financial Risk Management tools (gap analysis and alert system) not formally introduced yet.	ALCO and Treasury department are pro-active to AMK main risk exposures.
	Currency risk mitigation strongly relies only on one source	Medium-low	Large use of Foreign Trade Bank back-to-back, which by the end of the year might reach its ceiling.	Good control on Net position/total equity. A swap facility with ANZ (local bank) has recently been signed.
5. Financial and Operational Results	No major risks			
6. Business Plan and Financial Needs	No major risks			

* Relevance refers to the damage/loss brought about by negative events (associated to each risk factor) and to the probability that damage/loss eventually occurs.

STRENGTHS	**OPPORTUNITIES**
➢ Large clients base and network ➢ Good financial services offer ➢ Good market penetration in rural areas ➢ Portfolio quality ➢ Capacity to attract funding	➢ Saving mobilization in rural areas ➢ Low-end market segment in urban areas ➢ Other fee-based financial services (money transfer and micro-insurance) ➢ Credit Bureau implementation

	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
OUTREACH				
Average disbursed loan size	141	147	157	159
Average outstanding balance	119	114	125	132
Average disbursed loan size on per-capita GDP	17.7%	19.3%	19.1%	19.2%
Average outstanding balance on per-capita GDP	14.9%	14.3%	15.3%	16.0%
CROISSANCE (montant en devise nationale)				
Growth of active gross portfolio	128.7%	9.6%	22.7%	20.6%
Growth of active borrowers	57.1%	15.3%	15.4%	14.7%
Growth of active loans	60.8%	12.1%	14.7%	14.2%
Growth of total assets	144.3%	31.0%	12.7%	17.7%
Growth of staff	60.0%	33.2%	10.0%	0.5%
Growth of funding liabilities	125.6%	49.0%	13.9%	15.4%
Growth of operating expenses*	100.6%	43.8%	17.1%	6.0%
Growth of equity	190.0%	4.4%	8.8%	9.2%

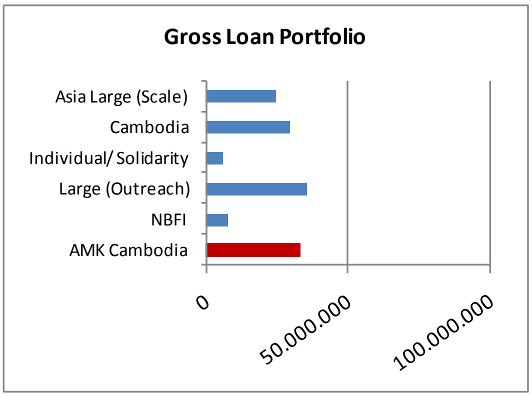
* At March 2011 the growth referts to December 2010

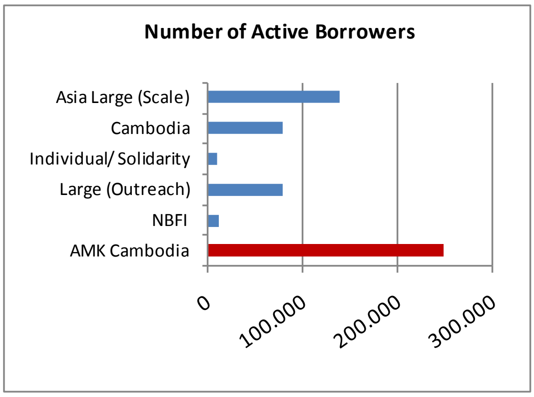
na: not available

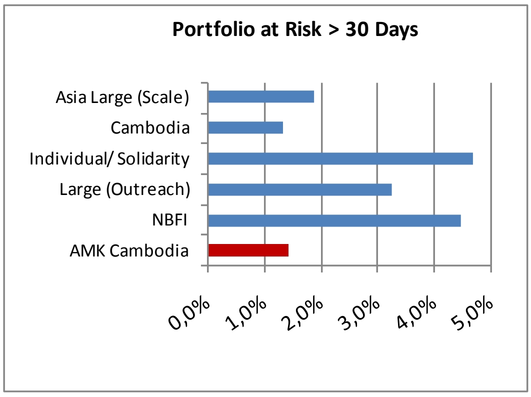
● Head Office

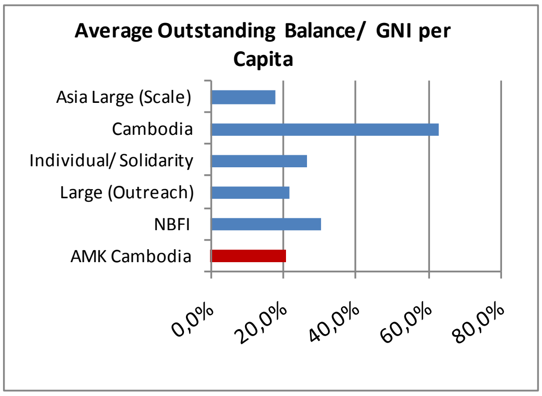
● Branches

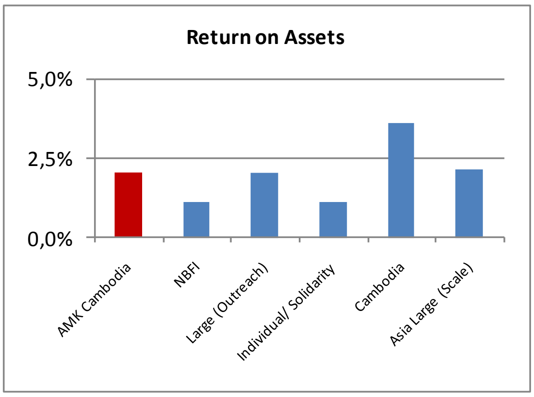
Benchmarking [1]

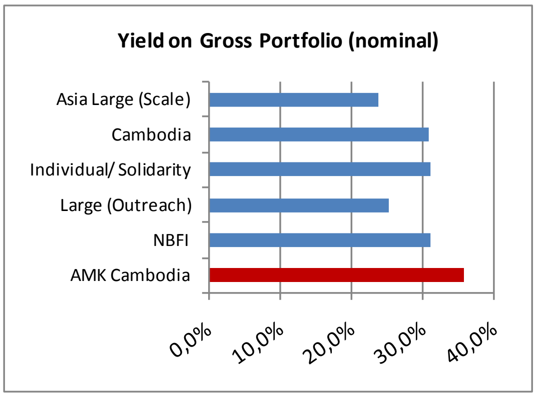


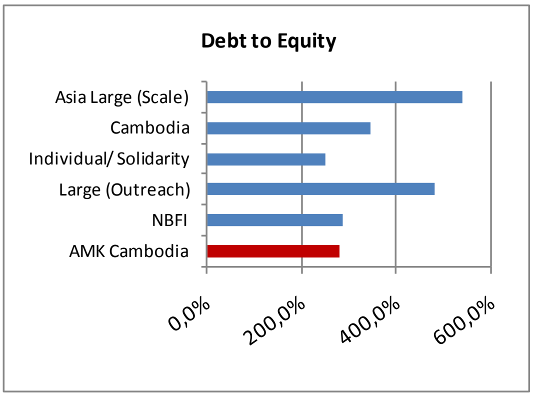


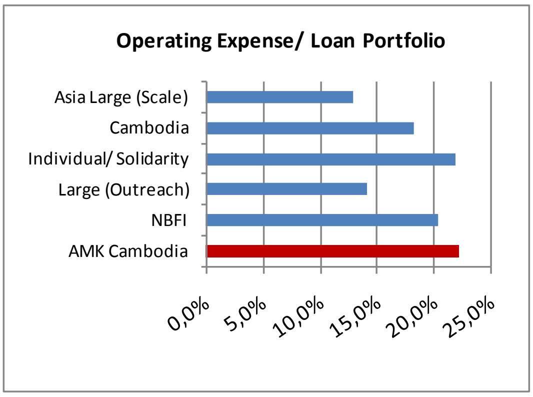












[1] All figures of peer groups are referred to the MicroBanking Bulletin (MBB) and to the Microfinance Information Exchange (MIX) as of **December 2009**. As for Cambodia, data from the MIX stands at December 2010 (based on 13 MFIs, excluded ACLEDA). The ratios of the rated MFI indicated here do not fully correspond to the ratios presented in the report as they are calculated according to the MBB methodology. The MBB adjusts the financial data to produce a common treatment for the effect of: a) inflation, b) subsidies, and c) loan loss provisioning and write-off (see MBB, Appendix I: Notes to Adjustments and Statistical Issues).

Table of Contents

1. External Context and MFI positioning

Name of the MFI	**Angkor Mikroheranhvatho (Kampuchea) Co. Ltd (AMK)**
Legal Form	Limited Liability Company
Client typology	Low end market
Year of inception	1999 as a project, 2001 as a Rural Credit Operator, 2003 as a Limited Liability Company
Ownership	See Chapter 2
Audit Company	PricewaterhouseCoopers (Cambodia) Limited
Rating Agency	M-CRIL (2008)
Regulator / Supervisor	National Bank Cambodia (NBC)
Networks of reference	Cambodia Microfinance Association (CMA)
Area of Intervention	Rural
Credit Methodology	Group and individual lending

1.1 Institutional Background

Angkor Mikroheranhvatho (Kampuchea) Co. Ltd (AMK) is a non-banking financial institution serving the low-end market segment, especially in rural areas.

AMK started its operations as savings and credit component of Concern Worldwide community work in Cambodia and in 2001 it became a "Rural Credit Operator" under the name of Thaneakea Ponleu Thmey (TPT). AMK registered as a Limited Liability Company in 2003 also to comply with NBC requirements. In 2004, AMK obtained the MFI license from the National Bank of Cambodia (NBC) and in January 2010 the license as a **Microfinance Deposit-taking Institution**, which allows it to mobilize savings from the public.

Through a network of 22 branches and 56 sub-branches, AMK covers all Cambodian provinces and 57% of total villages. The largest Cambodia MFI in terms of number of clients, as of March 2011 AMK counts 247,747 active borrowers with an outstanding portfolio of US$ 33,016,098. AMK targets the poor and has one of the lowest average disbursed loan sizes in the market (US$ 159). AMK offers both group loans (83% of outstanding portfolio) and individual loans, focusing on rural areas (95% of active clients) and mostly financing the agricultural sector (72%).

Sound capitalization and attraction of borrowings from various international lending providers has enabled scaling up of operations over the years.

1.2 Country Risk Political and Macroeconomic Context

Cambodian political scene both at central and local level is dominated by the **Cambodian People's Party** (CPP), which was re-elected in the last 2008 national with a large majority (75%). According to the EIU, the CPP, guided by PM Hun Sen, will maintain its political leadership in 2011 and 2012. The **Thai-Cambodia border dispute** over the ownership of territories around Preah Vihear Temple remains unsolved. However, the victory of Puea Thai Party in the last Thai national election opens the way for new cooperation between Cambodia and Thailand.

After years of fast economic growth (8.6% in 2004, 13.5 % in 2005, 10.8% in 2006 and 10.2% in 2007) fuelled by expansion in the garment sector, construction, agriculture, and tourism, real GDP growth rate started to slow down in 2008 standing at 6.7% for then contracting to -2% in 2009 due to the global economic crisis. **In 2010, Cambodia economy achieved a stronger than expected recovery**, with GDP standing at 4.8%, mainly thanks to rebound in tourism and clothing exports as well as to a good year in agriculture. Industry was the main contributor to GDP growth, expanding by an estimated 11.6% (it had contracted in 2009), followed by tourism and agriculture, expanding by 4.3% and 4.2% respectively.

Bank lending to the private sector notably increased from 6.5% year on year at end-2009 to 27% in 2010, in line with the good economic performance. The riel appreciated by 2.7% against the US dollar over 2010.

Forecast for 2011 is positive and consolidating the 2010 figures. GDP is projected to expand by 6.5% in 2011 and in 2012. Growth in industry is projected at 10.8% in 2011, while only at 3% in construction. The exploitation of oil and gas reserves is expected to provide an additional source of export revenue and impact the GDP in 2012. Growth in services is expected to increase up to 5% in 2011.

Cambodia

Macroeconomic Indicators	Dec08	Dec09	Dec10	Mar11
Exchange rate in US$ (end of period)	4,077	4,165	4,051	4,007
Exchange rate variation	2.0%	2.2%	-2.7%	-4.2%
Inflation rate (average)	24.2%	0.6%	4.1%	3.5%
Inflation rate (end of period)	12.5%	5.3%	3.1%	3.8%
Deposit rate	1.9%	1.7%	1.3%	1.3%
Lending rate	16.0%	15.8%	15.6%	15.5%
Real GDP growth	6.7%	-2.0%	4.8%	6.5%
GDP per head (US$)	798	761	818	827

Source: International Finance Statistics, IMF

After reaching 24.2% in 2008 mainly due to the general upward trend in food and oil prices, inflation has decelerated standing at 5.3% as of December 2009 and at 3.1% as of December 2010, in line with the recovery in domestic demand. Inflation is forecast to average 5.5% in 2011, with price increases triggered by the strengthening of domestic demand, generally expansionary fiscal policy, and higher global prices for food and fuel.

The high degree of dollarization of the economy (amounting to as much as 95% of currency in circulation) limits the effectiveness of monetary policy, which most likely should be tightened in response to the inflationary pressure.

Latest available data show that **30% of the population lived in poverty in 2007, with the majority of the poor and vulnerable living in rural areas.** There are indications that poverty has increased since 2007 as a result of sharply higher food prices in 2008 and the economic slowdown in 2009. A social protection strategy is expected to be launched this year, including programs such as free health care for the poor and the pilot testing of conditional cash.

1.3 Industry Risk: Financial System and Microfinance Sector

Microfinance in Cambodia began in the early 1990s when NGOs filled the gap left by the banking sector by providing microcredit. After the international recognition of a new Cambodian government in 1993, aid started to flow into the country and within the decade the initial experiments were transformed into a **sector led by profitable, regulated financial institutions**.

As of December 2010, there are **25 MFIs**[2] licensed by National Bank of Cambodia (NBC), overall covering the 24 provinces of Cambodia. The Cambodia Microfinance Association (CMA) regularly collects figures of its 27 members. As of March 2011, the Cambodian MF sector in Cambodia serves **988,428 borrowers** with a **total loan portfolio of USD 473.66 million**. The sector also serves **207,137 savers** with a deposit balance of USD 52.10 million as of March 2011. In terms of number of borrowers, as of December 2010 two institutions have reached more than 200,000 borrowers (AMK and AMRET) and two more than 100,000 (PRASAC and VisionFund) [3].

After having registered a modest growth pace in 2009, microfinance portfolio has recovered good levels passing from an increase of 12% y-o-y in 2009 to a more solid growth of 32% in 2010, even though lower than the one registered in 2008 (61%). Similarly, portfolio quality improved passing from a 4%-5% in 2009 to 1% in 2010. Alongside the increase of portfolio quality, **the risk of over-indebtedness has become an issue** with a phenomenon of multiple borrowings detected by MFIs. Cambodian

[2] Source: National Bank of Cambodia
[3] Cambodia Microfinance Association Network Information Exchange, March 2011. Data do not include ACLEDA BANK.

practitioners estimate 10 to 30% of multiple borrowings in the areas of operations. According to the data collected by the CMA, 8 provinces out of 24 have more than 9 lending providers (excluded ACLEDA Bank). On average, AMK operates in districts with 5.9 additional microfinance providers (excluding ACLEDA Bank).

By the end of this year, the microfinance sector should have its credit bureau in place. The credit bureau is a partnership between IFC, NBC, CMA (10% of shares) and the vendor itself (which has already been selected). Rules have not been designed yet.

Interest rates are gradually decreasing as are operational margins of MFIs. Savings mobilization becomes of critical importance to lower the cost of funds, even though some of the licensed MDIs still focus their strategy on time deposits offering high interest rates, which might expose them to some risks (high cost of fund and interest rate risk).

The microfinance sector in Cambodia appears to be split into two groups – those maintaining a focus on small-balance loans and outreach, and others working with a mixed product offering of micro- and SME-loans. As of March 2011, only AMK and other 3 providers have average loan sizes below USD 300. Foreign borrowings still play a significant role in the MFI growth coupled with an increase in foreign equity injections. Specialized microfinance investors are relevantly present in the market, while local funding is still limited to some initiatives of ANZ bank.

CMA plays an important role in fostering local and international networks, promoting coordination and fair competition and facilitating conflict resolution between institutions.

1.4 Regulatory Risk

In November **1999,** the NBC issued a **law on banking and financial institutions**, followed in **2000** by a decree ('Prakas') **regulating** the **microfinance** industry by **licensing and registering major microfinance providers**. The Prakas (2000 and 2002) marked **a shift towards the commercialization of microfinance (as limited liability company or cooperative) and its integration into the formal financial system** of Cambodia. Furthermore, in December 2007 the NBC issued a new Prakas regulating savings mobilization. Amongst the main requirements introduced by the decree, it is worth mentioning the need to have a minimum capital of US$ 2.5 million and a liquidity ratio of 100%[4].

Registered and licensed MFIs are subject to a set of regulatory and supervisory provisions, including the following:

- **Licensing requirements:** a microfinance institution is required to be incorporated as a limited liability company or as a cooperative.
- **Supervision:** registered MFIs need to submit quarterly reports including: financial statements, breakdown of loans/deposits by sector and currency; loan classification and delinquency ratio and network of branches and offices. No on site supervision is required for registered MFIs. Supervision activities focus on licensed MFIs, which need to present monthly and annual reports including: audited financial statements, BOD annual reports, statistics of staff and salaries; updated organization chart. Suspicious transactions should also be reported. Off-site supervision focuses on capital adequacy and loan performance. Yearly on-site supervision is conducted for licensed MFIs.

The NBC has proven to be flexible and supportive towards the growing microfinance sector, **softening the capital adequacy (from 20% to 15% of total risk weighted assets)** and regulating the currency risk. In April 2008, the NBC implemented a **new Charts Of Accounts**, which is more similar to that of the banking sector.

[4] Calculated as liquid assets (cash in hand + deposit with NBC + deposit with banks + loans maturing in the next 30 days) over adjusted amount of deposits (25% of voluntary savings).

1.5 Local and Regional Risk: MFI Market Positioning

AMK is the largest Cambodian MFI in terms of clients, serving 247,747 active borrowers as of March 2011. Through a network of 22 branches and 56 sub-branches, AMK covers all Cambodian provinces and 57% of total villages. AMK targets the poor and has one of the lowest average disbursed loan sizes in the market (US$ 159). AMK offers both group loans (83% of outstanding portfolio) and individual loans, focusing on rural areas (99% of active clients) and mostly financing the agricultural sector (72%).

AMK regularly monitors and analyzes competitors. Considering its target and areas of operation, AMK's main competitors are Amret, Vision Fund and TPC.

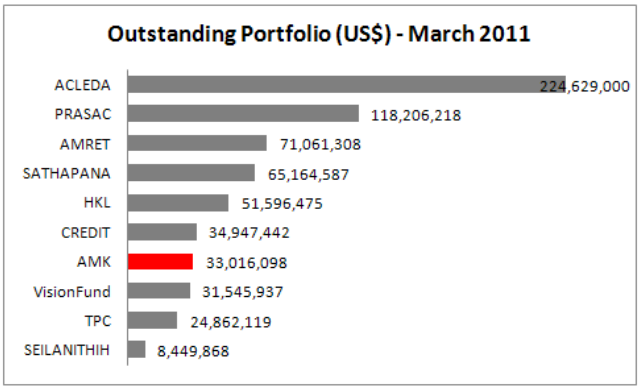
AMK's main competitive advantage are:

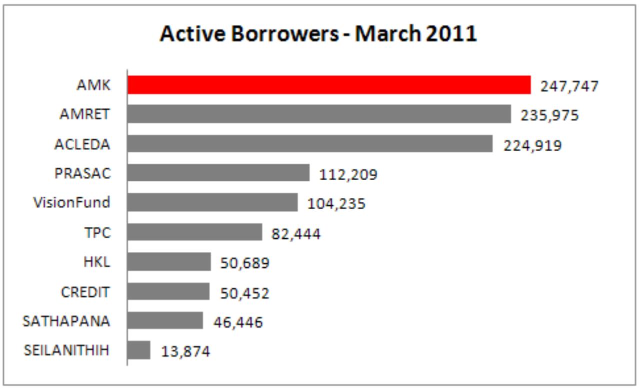
- The Finance at your Doorstep delivery service
- Flexibility of repayment schedule (including end of term and credit line products)
- No penalty for pre-repayment
- Low service charge
- Loan off-set in case of clients' death

AMK's main disadvantages are:

- Slow disbursement time
- Higher interest rate for larger loans size
- Less experience in individual lending

AMK's franchise value is very high at district and village level – also thanks to the Finance at your Doorstep – whereas AMK is less known in provincial town. This might have an impact on savings mobilization (time deposit), although AMK's strategy is to mobilize rural savings through developing of mobile banking.





2. Governance, Organization and Operational Risk

2.1 Ownership and Governance

AMK's governance is well diversified in terms of microfinance and finance expertise and provides good guidance to the management, especially in the current ownership transition phase.

AMK is fully owned by the Irish NGO Concern Worldwide, which is currently in the process of transferring the majority of shares to Agora Microfinance Fund (hereinafter Agora). The process started in 2009 and its finalization is expected by the third quarter of 2011.

Agora will be the major shareholder holding 90% of the shares, which might be reduced to 80% with the entrance of another shareholder with which AMK is already negotiating. Concern Worldwide will maintain 10% of shares. Although the shareholder structure will relevantly change, Agora partners have been involved in AMK since 2003 (when the current Chairman was AMK's CEO). This ensures a good continuity of AMK mission and approach. A shareholder agreement between Concern Worldwide and Agora has been already approved.

AMK is studying the most effective way to set up an Employee share acquisition plan (ESAP), initially at 2-3%, allowing employees to participate in the shareholder structure.

Board of Directors (BoD)

Members	Charge	Background and current profession
Tanmay Chetan	Chairperson	Mr. Chetan served as first CEO of AMK from 2003 to 2007 and is a Co-Founder and Managing Partner at Agora Microfinance Partners LLP. He is the Chairman of the Remuneration, Nominations and Governance Committee.
Howard Dalzell	Member	Mr. Dalzell is the Chairman of the Social Performance Committee. He has over 30 years' experience in development and humanitarian assistance and has recently retired form Concern Worldwide Senior Management Team.
Marcus Fedder	Member	Mr. Fedder is the Chairman of the Risk Committee and a Member of the Audit and Finance Committee. He has over 20 years banking experience and is a Co-Founder and Managing Partner at Agora Microfinance Partners LLP.
Adrian Graham	Member	Mr. Graham is the Chairman of the Audit and Finance Committee and a Member of the Risk Committee. He is the current Finance Director at UNICEF Australia and was Finance Director at Concern
Irina Ignatieva	Member	Ms. Ignatieva is a Member of the Social Performance Committee. She is Microfinance Advisor at Concern Worldwide and has over 15 years of experience as microfinance consultant and trainer.
Tip Janvobil	Member	Mr. Janvibol is a Managing Partner at Tip & Partners Law Firm and has served as legal consultant on numerous projects for various international organizations (UN, WB, ADB).
Rebecca McKenzie	Member	Ms. McKenzie is a Member of the Remuneration, Nominations and Governance Committee. She is Co-Founder and Managing Partner at Agora Microfinance Partners LLP and has extensive experience in capital markets.
Pete Power	Member	Mr. Power is the current CEO of AMK. He has extensive experience in management consulting, NGO and private sector development.
Frances Sinha	Member	Ms. Sinha is a Member of the Social Performance Committee. She has over 25 years of experience in research and capacity building in Asian microfinance.

The BoD composition reflects the ownership change strategy, with the Chairman and other 3 members representing Agora. As of March 2011, the BoD is composed of 9 members with a good balance between financial and social expertise. 4 members left the institution since, but the BoD remains solid and pro-active in providing institutional guidance. **Different committees are set and effective communication** with the management is ensured by regular quarterly meetings with a good presence of all members. Although the CEO sits on the Board, the conflict of interest is not an issue given the good control and supervision exercised by the BoD. However, a formalized policy to prevent conflict of interest is not yet in place.
The CEO is formally evaluated every year based on qualitative and quantitative objectives.

The Board is quite unbalanced towards the presence of foreign members, even though off-site communications are frequent. The institution is aware of this issue and is trying to involve Cambodian nationals as BoD members.
The Internal Audit Committee as well as the Risk Management Committee ensures a good feedback loop with the management.

Overall, the BoD enjoys a good communication flow with the management team and information is quickly available. However, a risk alert system on credit and financial risks is not fully implemented to quickly position the institution within the desired risk appetite.

2.2 Management and Decision Making

AMK's management team is committed and pro-active to the objectives set by the BoDs. Social and financial performance are well integrated in the whole decision making process.

The communication between managers is satisfactory, while the two main centres of responsibilities (COO and CFO) are in the process of being strengthened.

In September 2010, the new CEO, who was previously sitting on AMK BoD, was appointed, quickly establishing a good and mutual synergy with the whole management team.

Considering the size of the institution, the **CEO still centralizes a quite large volume of reporting** even though this is partly explained by his recent appointment. COO and CFO are gradually gaining experience in leading different departments and acting as main centres of responsibilities (and reporting). Management committees (Executive, ALCO, etc.) are adequately set ensuring an adequate decision making process.

The decision making process is supported by adequate reporting from branches to Head Office and between departments, which timely and regularly receive relevant financial reports.

2.3 Organization and Structure

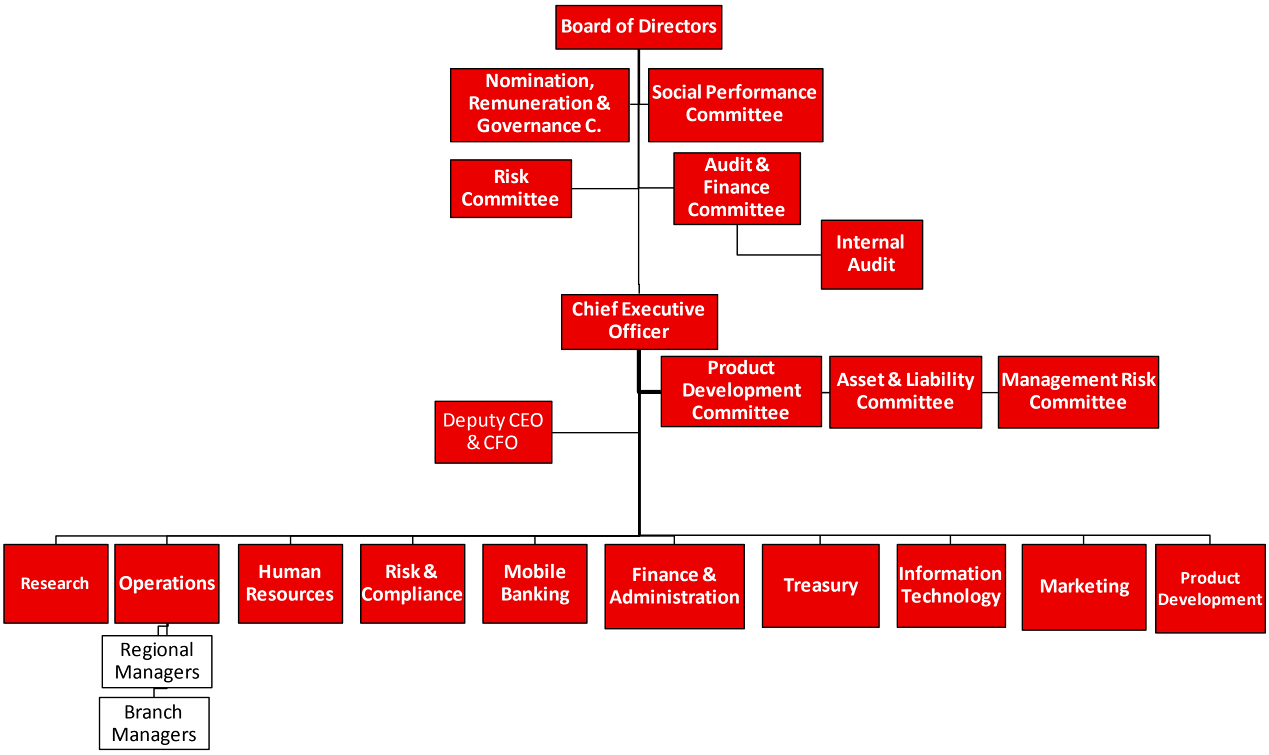
The organization structure is adequate and evolving along with the institutional growth. Departments are well defined following a hierarchal structure with an acceptable intra-department communication, while the CEO still acts as main pivot.

AMK still presents a flat organizational chart in terms of reporting line with all departments directly linked to the CEO and his deputy. As mentioned, the definition of the COO and CFO is on-going with gradual changes especially in the credit operations. In fact, product development is currently under the CFO position, while in the future there might be a dedicated resource linked with the operations department. Treasury and Finance departments reports directly to the CFO and CEO, thus ensuring a good control in decision making.

The operations department is the largest one and its structure is positively evolving considering the business model of AMK, which is based on high scalability. A gradual division of centres of responsibilities between credit management and network management might reduce the workload in the head of operations position and to increase accountability.

Branches are treated as cost centres and enjoy a good level of decentralization, with regional managers ensuring good control and acting as liaison with the operational department. Considering the already quite large number of personnel and of sub-branches, he analysis and budgeting of costs might be further enhanced by implementing an activity-based cost analysis.

The research department, which was originally mainly devoted to Social Performance research, has been positively integrated and now supports on product development and portfolio analysis through ad hoc studies (e.g. on clients' drop-out and multiple borrowing).



2.4 Human Resources (HR) and Staff Policy

Human resources in AMK show an adequate level of expertise vis-à-vis the business model adopted. The expected increase in saving mobilization will require a strengthening of financial management both at branch and head office level. Although still limited, the development of large individual loans will also require a better specialization of credit officers given the different kinds of product.

Personnel	Dec08	Dec09	Dec10	Mar11
Total	**576**	**767**	**844**	**869**
Loan officers	378	510	482	498
Other staff	198	257	362	371
Staff allocation ratio	65.6%	66.5%	57.1%	57.3%
Staff turnover	10.9%	10.9%	13.3%	13.6%

Staff is composed of a good mix of experienced and young personnel with the majority of them having grown together with the institution. The commitment towards the main objectives and goals is good.
Over the last two years, the institution has experienced a **slight increase in the staff turnover**, mainly due to loan officers' voluntary desertion. This is an aspect to be monitored along with a very competitive environment. Salary framework, including incentives, is well designed allowing AMK to be in line with its peers in the industry.

HR policies and procedures are adequately formalized. Training and coaching opportunities are systematically proposed and modulated along the year according to the regular and well designed staff appraisal.
The management is actively working to ensure a succession plan in the critical positions through internal promotions or management training for new entry personnel. However, a carrier path has not been formalized yet.

2.5 Risk Management, Internal Control and Internal Audit

Risk Management framework relies on an adequate feedback loop between the management and the Board, with satisfactory risk identification and management.

The Risk Manager mainly focuses its analysis on operational and credit risks. Financial risks are monitored by the treasury department. Operations risks are classified by relevance and regularly reported to the risk management committee. Credit risk exposures have been recently set even though this area shows margins for improvement. In fact, current credit limits are not completely in line with the actual portfolio evolution. Credit scoring has been recently (January 2011) launched and is still under development.

Operation risk represents the main critical area for AMK considering its business model and the high volume of transactions. **Transaction risk is well managed by a good segregation of functions and controls**, even though sometimes staff rotation as well as monitoring are not timely implemented. The compliance with internal procedures is an area to be addressed in order to limit the exposure of transaction risks, considering the high cash handling involved. AMK is not very exposed to fraud risk linked to potential staff fraudulent activities, with just few cases detected in the past and involving small amounts. Repayment transactions are the most exposed as loan officer deal with cash. Compliance on staff rotation is important for the control mechanisms in the credit delivery system.

Overall, **processes and procedures are adequately formalized.**

The Internal Audit Department is well staffed and performs two audit visits per branch each year, as well as two audits at Head Office level. The portfolio audit is good and based on a sampling of about 200 clients per branch and loan documents verification. Clients are regularly visited. Main findings of the internal audit department reveal some level of cross-financing and recurring inaccuracies in the clients' assessment performed by the credit staff. Findings are adequately summarized and reported to the internal audit committee at Board level.

At Head Office level, budget and policies are regularly reviewed.

2.6 Information Technology (IT) and Management Information System (MIS)

Since August 2010, all AMK branches have Fern Software Abacus as loan tracking and accounting system. Each branch is endowed with its own database and a central database is in place for consolidation. All information is automatically uploaded into the consolidated database at Head Office level on a daily basis. Data consolidation for reporting purposes is done on a monthly basis as information flow from sub-branches to branches is sometimes delayed due to distance issues. Sub-branches do not have the system and transactions are recorded manually and reported to the branch on a daily/weekly basis (depending on the distance).

15 basic reports are included in the system, while ad hoc reports are elaborated directly by each senior management (using an OLAP tool based on MS SQL) according to their needs.

Back-ups are regularly (on a daily basis) and systematically kept in HQ and outside.

2.7 Supervision Compliance, Contingencies, External Audit and Accounting Policies

Accounting policies are adequate and quite in line with International Accounting Standards.

Over the period of analysis (2008 to 2010) AMK's financial statements were **audited by KPMG (2008) and PwC (2009 and 2010). Auditors expressed a fair opinion on the Financial statements** for all the periods of analysis. AMK accounting policies and reporting are compiled according the **Cambodian Financial Reporting Standards** and the guidelines of the National Bank of Cambodia. The functional currency is expressed in KHR.

The institution is supervised by the NBC and liquidity, solvency and net open position in foreign currency should be maintained on a daily basis and reported to the NBC on a monthly basis. **The institution has sometimes breached the regulation on FX exposure, but it has promptly corrected its position.**

2.8 Credit Products and Policies (Annexe 6)

AMK offers an adequate range of credit products to the low end market segment. Both individual and group lending methodology are employed, with a strong specialization in the first methodology (see next chapter). For the group loans (which are included in a "village bank"[5]) repayment conditions are flexible (principal can be paid at maturity) matching the businesses of clients in rural areas, which are the targeted ones. Loans are offered both in local and foreign currency (USD) and also in THB in Banteay Meanchey branch.
The Credit line is a group loan product which allows the clients to draw-dawn a first amount within three months from the loan approval. **The product, which has been designed especially for agriculture, has registered a drop of 21% of clients as of March 2011 year on year**. This decrease might be due to the fact that staff does not actively offer the product and/or that clients do not see significant benefits[6].
Emergency loans are also available for all clients, including clients in groups who have completed at least 1 cycle.

Product development is a strategic area for AMK to expanding its offer and increase the clients' loyalty. Individual loans – after being stopped due to high PAR – have been re-introduced starting from 2010 and since 2011 are offered in all branches. Besides, larger individual loans as seasonal and SME loans have been launched in the second half of 2010. SME loans are among individual loans and are intended for business expansion.
Moreover, a loan product specifically targeting the urban poor in Phnom Penh has been launched to enhance the penetration in that market.

The institution is actively evolving from a pure "village banking" approach to a more diversified product offer, however maintaining a strong focus on the target clientele.
Group loans show some gap starting from the 2nd cycle where the clients drop-out increase. Given the recent trends, the impact of the credit line product on clients' retention need to be proved in the following periods. Clients' retention might also be negatively affected by the fact that conditions do not change among cycles in terms of interest rates and service charges.
The development of a package of different services is of strategic importance in such a competitive market where the portfolio yield is decreasing and the economy has recovered.

[5] A village bank is composed of 20-60 members.
[6] As of June 2011, active borrowers of the credit line product have grown by 17%, improving the recent trend of the product.

2.9 Credit Procedures

The Operations manual also includes the procedures regarding the credit delivery system, which could be separated for a better policy segregation and dissemination.

Overall, the formalization of credit policy and procedures is satisfactory, with clear description of the main credit phases. Nevertheless, credit appraisal and clients' cash flow analysis is not completely detailed in the procedures and guidelines. Especially for the individual loans – which are relatively new for the staff – it is advisable to increase the formalization.

The whole credit process for group loans is quite long – compared to competitors – and relies on different checks and visits. Between 2 (for repeated loans) and 4 (new villages) weeks are requested to generate a loan disbursement both for individual and group lending methodology.

Credit approvals are completely decentralized at branch level with group loans approved by the Area Manager (with spot reviews done by the Branch Manager). Individual loans more than USD 500 are approved by the Branch Manager together with the Area Manager (who directly approves loans below USD 500).

Clients' cash flow assessment is adequately undertaken for group loans (analysis over a 12 months period) with a reasonable 60% of net cash flow indicated as loanable amount. A more sophisticated analysis considering 1 month business cost-revenue flow is conducted for large individual loans, whereas the analysis of small individual loans consider the cash flow over a 12 months period. Considering the lack of specialization of loan officers for individual loans, **the repayment capacity analysis is based on aggressive assumptions** as the clients result to be eligible just if the total net cash flow covers the monthly credit instalment.

Collateral is requested for individual loans with 100% loan to collateral value (for large loans 170% should be the minimum).

In general, **individual loan policies and procedures present some shortcomings in their formalization.** Given the credit history of individual loans and the new products launched, this is considered a medium risk which can affect the transaction of AMK.

Post-disbursement monitoring is regularly carried out by credit officers, area managers and branch managers. Rotation of credit staff implies change of 4 credit officers per month (in terms of villages served), while area managers and branch managers should visits respectively 8 and 4 village banks per month.

Follow up on late loans is acceptable and based on close monitoring of delinquent clients.

2.10 Savings and Other Financial Services (Annexe 6)

Since January 2010, AMK is legally allowed to mobilize savings from the public. Saving products are adequate for the current volume of deposits. Time and saving deposits are mainly offered. So far, the "easy account" and time deposits (future and term) are branch based products, while the general savings are collected at field level during the monthly village meetings. By June 2011, the institution should endow all the branches with the saving products.

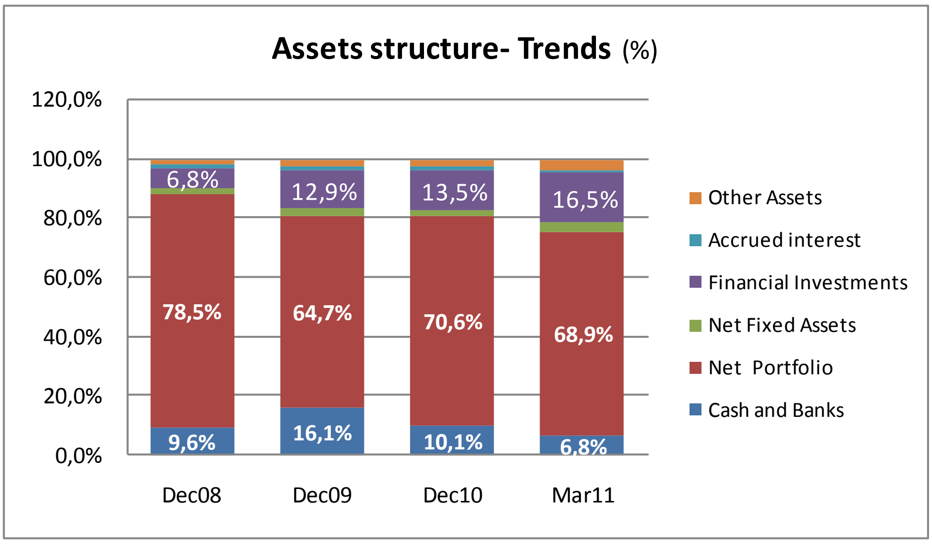
Term deposits – whose clientele is different from the targeted one - still represent the core product also given the high interest offered compared to commercial banks.

The current credit delivery system limits mobilization of savings, on the one hand due to the limits imposed on loan officers to reduce cash handling and, on the other, to the fact that client rarely go to the branch. The institution is launching a system of agents using the mobile banking or the points of sale (POS) for promoting savings. Mobile banking is expected to be tested in July 2011. The agents will be selected by AMK according to specific criteria and will be located in the villages (e.g. chief of villages, or trust people, or existing businesses with high turnover).

3. Assets Structure and Quality

3.1 Assets Structure

AMK's concentration of resources in the core business is adequate with net portfolio over total assets standing just below 70%. This is explained by the back-to-back mechanism in place with the Foreign Trade Bank, which allows AMK to hedge the currency mismatching (see next chapter). As shown in the graph below, financial investments (which include the deposits guarantee for the back-to back scheme) have increased over the periods of analysis. The level of cash and banks has remained however prudential over the last three years with values between 7-10%, in line with the NBC regulation[7]. Excess of liquidity is deposited with banks (ACLEDA and ANZ Royal Bank) through savings and fixed deposits (i.r. ranges between 0.1% and 4.25%).



3.2 Portfolio Structure, Seasonality and Concentration Risk

After having experienced an outstanding growth pace in 2008, AMK portfolio evolution slowed down in 2009 due to the effect of the global economic turmoil as well as to internal decisions aiming at controlling the quick portfolio expansion. The 2008 growth was partly due to an increase in individual loans (+308%), which have been lately stopped due to raise in clients' defaults. Starting from January 2011 all branches have started again to gradually offer individual loans. If the temporary discounting in individual loans has affected the portfolio growth, the clients base has continued to expand by 15% y-o-y, positioning AMK as the largest microfinance provider in Cambodia. At the same time, AMK continues to strongly focus on its market segment with an average disbursed loan size standing at less than 20% on GDP per capita, one of the lowest in the market although slightly increasing

The clients' reduction in the first quarter 2011 reflects the seasonality of large share of agriculture businesses served through the Village Bank/group lending methodology. In terms of portfolio, individual loans have counterbalanced the seasonal effect. In the second and third quarters, the number of clients is expected to scale up along with the higher credit demand for agriculture.

Clients' evolution and drop-out are regularly monitored by the Operations department, while the Research Department provides an ad hoc study on exit clients on a yearly basis. **Clients drop out has ranged between 35-37% over the last two years and it is likely concentrated in the first two cycles** (as of March 2011 64% of total clients are concentrated in the first two cycles). Besides, village bank loans (with principal payable at maturity) and individual loans result to be the most exposed.

[7] Liquid assets / 25% total voluntary savings > 50% according to the NBC. Besides, the institution should maintain a statutory capital deposit of 10% of registered capital and a reserve deposit equal to 8% of the total deposits.

According to internal research, reasons behind clients desertion are primarily associated with the fact that clients do not need further loans and that probably conditions for subsequent loans are less attractive (i.e. loan size, term). The institution regularly calculates the clients drop-out (which includes clients who do not renew the loan within 12 months). According to this definition, AMK drop-out is equal to 28%.

The institution is well aware of the clients' trends and has recently launched two new individual loans (SME and Seasonal Loans) to meet the needs of upgraded clients. Besides, the Credit Line product was designed for upgraded group clients but it registered a drop in terms of clients by 21% Y-o-Y at March 2011. Branches do not strongly promote such product (maybe because it is deemed quite risky) and clients likely do not see big differences from the village bank standard product. Currently Credit Line is offered starting from the 2nd cycle, while before it was granted from the 3rd cycle onwards[8].

Portfolio Features	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
Gross outstanding portfolio (USD)	**23,446,564**	**25,151,189**	**31,731,236**	**33,016,098**
Village Bank (End of Term)	5,710,468	8,908,389	14,987,818	15,217,793
Village Bank (Installment)	3,734,780	4,446,669	6,131,816	6,368,422
Credit Line	5,084,753	5,621,427	5,641,649	5,708,564
Emergency Loan	705,483	249,517	185,248	170,203
ID Loan	7,975,177	5,583,593	4,337,165	4,831,920
Seasonal Loan	0	0	10,620	154,618
Urban Poor	0	0	51,009	121,192
Staff Loan	235,903	341,594	385,911	443,386
Gross outstanding portfolio (Khmer Riel)	**95,591,642,546**	**104,754,704,000**	**128,543,236,749**	**132,295,505,524**
Growth of gross portfolio (Khmer Riel)	128.7%	9.6%	22.7%	20.6%
Average disbursed loan amount (USD)	141	147	157	159
Av. disbursed loan size on per capita GDP	18%	19%	19%	19%
Number of active borrowers	188,919	217,818	251,352	247,747
Number of active loans	197,222	221,072	253,663	249,851
Drop-out ratio	30.4%	37.2%	33.8%	34.1%

As of March 2011, 83% of total portfolio is offered through the group lending methodology, which has increased since 2008 (62%) when individual loans reached their peak (34%). Nowadays, individual loans also include SME loans (up to USD 1,500), while seasonal loans are gradually increasing. Both new products have some limitation in expansion[9] in order to both maintain the focus on the low end market segment and to control the credit risk.

93% of clients are served through group loans and 72% of clients are engaged in agriculture, which is in line with the fact that AMK clients' base is mainly located in rural areas. Portfolio by sector denotes a **concentration in agriculture, which implies both seasonality and risk triggered by access to market and weather volatility**. On the other hand, AMK shows a good specialization in such a sector, with a quite broad limit set by the BoD (up to 80% of total portfolio). Portfolio exposure limits for agriculture might be better detailed, including sub-sectors tolerance ranges. Besides, limits for the other sectors (trade and services) need to be revised.

AMK mainly offers loans in Khmer Riel (91% as of March 2011), thus meeting the needs of its market segment.

Portfolio by amount and by term do not show any particular concentration with the majority of loans and portfolio characterized by a term ranging between 6 and 12 months and an amount lower than USD 300. Portfolio breakdown by branches does

[8] Active clients for Credit Line product increased by 17% as of June 2011, compared to March 2011. The increase is partially explained by the seasonality of agriculture and partly by the institution's capacity to re-launch this product. It is worth mentioning that such increase represents almost the whole increment of AMK's borrowers from March to June 2011.

[9] Limits for small and large individual loans stand at respectively 20% and 10%. Seasonal loans might reach 10% of total portfolio.

not highlight specific concentration with all branches counting less than 10% of total portfolio.

March 11

By sector	outstanding portfolio (USD)	% of outst. portfolio	% number of credits	PAR > 30 days	PAR > 30 weighted
Trade	5,421,871	16.4%	15.5%	1.7%	0.3%
Services	1,279,100	3.9%	3.6%	1.7%	0.1%
Agriculture	23,617,616	71.5%	71.9%	1.3%	1.0%
Consumption	1,872,311	5.7%	6.1%	2.0%	0.1%
Other	825,200	2.5%	2.9%	1.2%	0.0%
TOTAL	33,016,098	100%	100%		1.4%

3.3 Portfolio Quality and Credit Risk

AMK portfolio quality stands at good and improving levels with PAR30 equals to 1.4% as of March 2011 and write off ratio worth 1.1% over the last 12 months.

The institution shows good improvements from 2009 when the PAR30 reached its peak (2.8%). As shown by the table, the PAR30 is currently concentrated in the oldest aging category (67%) indicating that problematic loans are mainly those disbursed in late 2008 and early 2009. In 2008 the significant increase in individual loans has contributed to a portfolio quality deterioration of that product starting from the middle of 2009 onwards (Individual loans' PAR30 was standing around on average 7% in the period June 2009 – December 2010).

Portfolio Quality Indicators	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
PAR 1	0.4%	3.2%	1.7%	1.5%
Consolidated PAR30	**0.4%**	**2.8%**	**1.6%**	**1.4%**
Consolidated PAR90	**0.0%**	**2.1%**	**1.4%**	**1.4%**
31-60	0.3%	0.6%	0.1%	0.0%
61-90	0.0%	0.1%	0.0%	0.0%
91-180	0.0%	1.0%	0.3%	0.3%
181-365	0.0%	0.9%	0.2%	0.2%
>365	0.0%	0.3%	1.0%	1.0%
Arrears rate (> 30 days)	0.2%	2.2%	1.5%	1.4%
Restructured portfolio	0.0%	0.0%	0.0%	0.0%
Provision expense ratio	1.2%	2.1%	1.4%	1.0%
Loan loss reserve ratio	1.1%	2.6%	2.3%	2.3%
Risk coverage ratio (30 days)	297.3%	90.2%	146.2%	156.6%
Write off ratio	0.3%	0.4%	1.1%	1.1%

The effects are still visible as shown by the portfolio breakdown by amount and by term, which highlights a PAR30 concentration in the longer term loans with amounts ranging between USD 300 and 500. Small Individual loans (with amount less than USD 500) have a PAR30 equal to 6.3%[10] with an aging structure showing a concentration of 90% in PAR more than 365 days.

Beside individual loans, emergency loans show a relatively high PAR, which is in line with the peculiarities of the product. However, the product is well monitored by the institution which has fixed an internal maximum exposure of 5% of total portfolio.

[10] As of June 2011, PAR30 of Small individual loans decreased down to 5.7%.

March 11

By term	outstanding portfolio (USD)	% of outst. portfolio	% number of credits	PAR > 30 days	PAR > 30 weighted
0-6	369,504	1.1%	1.1%	0.0%	0.0%
6-12	24,187,442	73.3%	82.8%	0.4%	0.3%
>12	8,459,152	25.6%	16.1%	4.5%	1.2%
TOTAL	33,016,098	100%	100%		1.4%

March 11

By amount (USD)	outstanding portfolio (USD)	% of outst. portfolio	% number of credits	PAR > 30 days	PAR > 30 weighted
0-50	621,009	1.9%	7.2%	0.2%	0.0%
51-100	5,341,711	16.2%	25.4%	0.3%	0.0%
101-150	6,847,736	20.7%	22.7%	2.2%	0.4%
151-300	15,198,844	46.0%	39.0%	0.1%	0.1%
300-500	3,548,752	10.7%	5.1%	8.2%	0.9%
>500	1,458,046	4.4%	0.6%	0.0%	0.0%
TOTAL	33,016,098	100%	100%		1.4%

March 11

Loan Product	% of outst. portfolio	PAR > 30 days	PAR > 30 weighted	PAR > 1 day	PAR > 1 weighted
Village Bank (End of Term)	46.1%	0.2%	0.1%	0.2%	0.1%
Village Bank (Installment)	19.3%	0.6%	0.1%	0.6%	0.1%
Credit Line	17.3%	1.9%	0.3%	2.0%	0.4%
Emergency Loan	0.5%	4.1%	0.0%	4.6%	0.0%
ID Loan	14.6%	6.1%	0.9%	6.3%	0.9%
Seasonal Loan	0.5%	0.0%	0.0%	0.0%	0.0%
Urban Poor	0.4%	0.0%	0.0%	0.2%	0.0%
Staff Loan	1.3%	0.0%	0.0%	0.0%	0.0%
TOTAL	100.0%		1.4%		1.5%

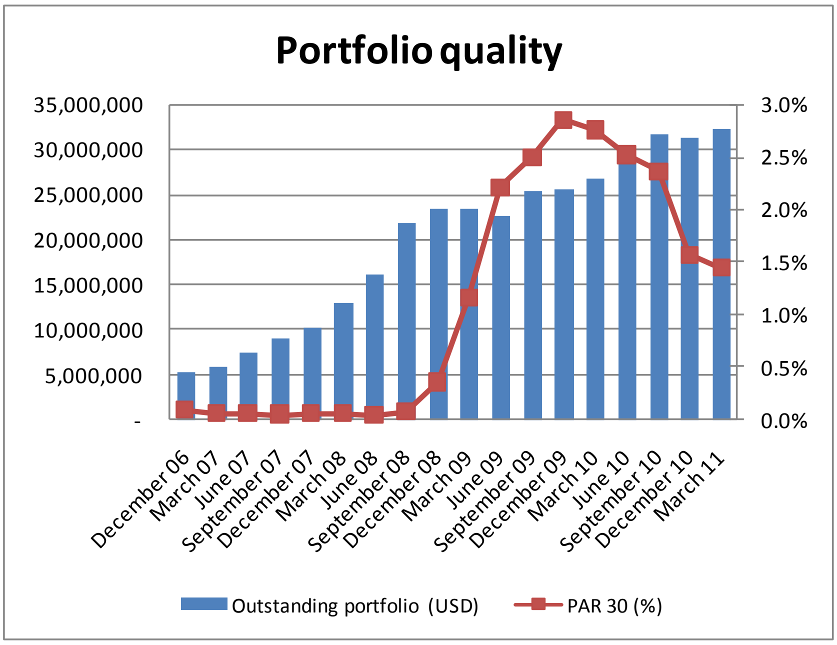
Portfolio quality in the first quarter of 2011 shows good trends especially looking at the youngest PAR aging categories. **Overall, portfolio quality volatility cannot be completely ruled out as the clients' over-indebtedness represents a significant risk** in the microfinance sector in Cambodia. AMK market coverage is quite diversified and reaches areas with the lowest presence of lenders. However, areas like Kampong Cham, Siem Reap, Kandal – which have one of the highest lenders presence (on average 8) – have experienced a deterioration of portfolio quality in the past years (CMA, 2010). Also for AMK those areas marked highest PAR30 during 2009 and 2010. Besides, branches in Kampong Thom and Sihanoukville highlighted bad portfolio quality with respectively 10% and 9% in the middle of 2009, with a very high concentration in individual clients' defaults.

March 11

Branch	outstanding portfolio (USD)	% of outst. portfolio	% number of credits	PAR > 30 days	PAR > 30 weighted
AMK Head Office	443,386	1.3%	0.2%	0.0%	0.0%
Banteay Mean Chey	1,879,364	5.7%	4.0%	0.8%	0.0%
Battambang	2,201,178	6.7%	6.5%	0.6%	0.0%
Kandal	1,601,785	4.9%	6.1%	2.5%	0.1%
Kampong Cham	2,700,521	8.2%	9.2%	3.1%	0.3%
Kampong Chhnang	1,119,918	3.4%	4.3%	3.2%	0.1%
Kampot	1,175,879	3.6%	4.1%	1.2%	0.0%
Kratie	2,057,510	6.2%	5.1%	0.1%	0.0%
Kampong Speu	2,354,105	7.1%	6.9%	0.7%	0.1%
Kampong Thom	1,587,913	4.8%	5.8%	5.5%	0.3%
Mondul Kiri	507,770	1.5%	0.7%	0.0%	0.0%
Mukh Kampul	850,560	2.6%	3.1%	0.0%	0.0%
Oddar Meanchey	1,224,940	3.7%	3.7%	0.6%	0.0%
Phnom Penh	358,995	1.1%	0.7%	0.0%	0.0%
Preah Vihear	681,199	2.1%	2.0%	1.1%	0.0%
Prey Veng	3,053,087	9.2%	9.2%	0.4%	0.0%
Pursat	1,683,093	5.1%	4.7%	1.5%	0.1%
Ratanak Kiri	618,519	1.9%	1.2%	0.0%	0.0%
Sihanoukville	981,165	3.0%	3.3%	4.5%	0.1%
Siem Reap	1,678,833	5.1%	6.3%	3.2%	0.2%
Stung Treng	368,707	1.1%	1.1%	0.0%	0.0%
Svay Rieng	1,996,366	6.0%	6.1%	0.3%	0.0%
Takeo	1,891,303	5.7%	5.9%	0.6%	0.0%
TOTAL	33,016,098	100%	100%		1.4%

As of March 2011, those branches still show the lowest portfolio quality even though trends are positive. The updated strategy on individual loans which are now closely monitored in their expansion has positively affected the overall portfolio quality. Nevertheless, the capacity of clients' cash flow analysis in the individual lending methodology is an area for improvement (see chapter 2).

The **institution has an adequate risk coverage policy** – which is in line with NBC requirements - standing at 156% as of March 2011. AMK's write offs have mostly been carried out in 2010 as the internal policy allows to write off loans that are 12 months past due. Considering the PAR aging structure, a write off ratio almost equal to 1% is expected for 2011.

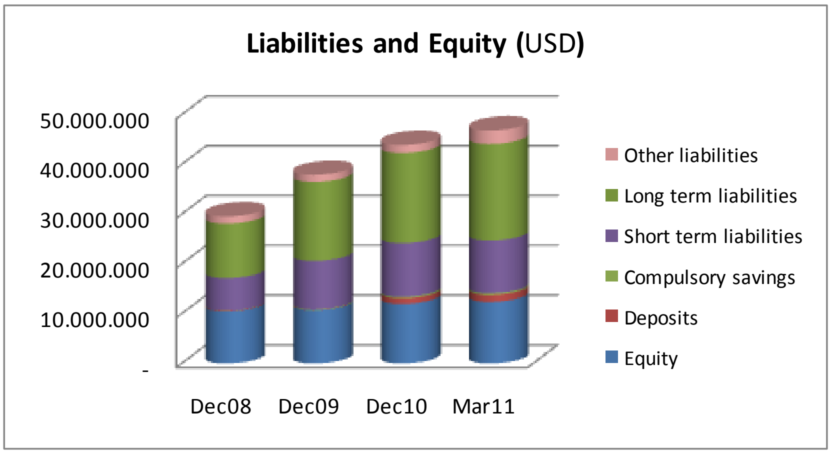


4. Financial Structure and Assets and Liabilities Management

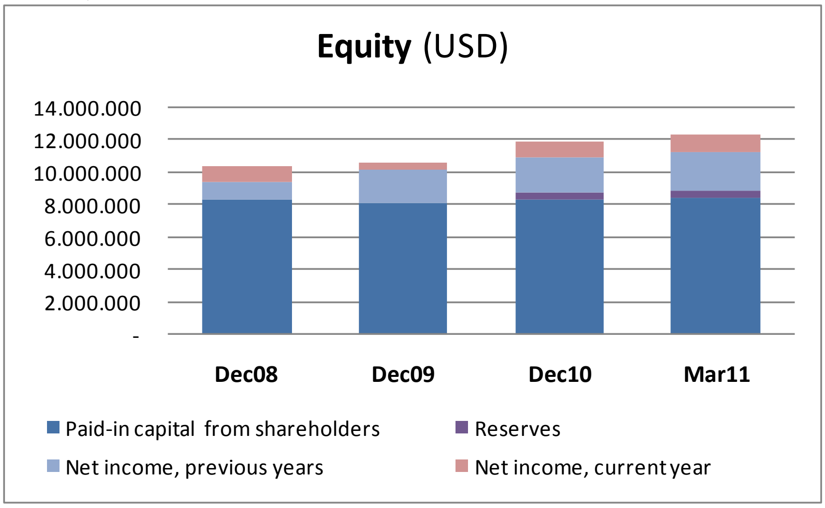
4.1 Equity and Solvency Risk

AMK's capitalization is adequate considering the company's risk profile. AMK is in the process of ownership restructuring with Agora Microfinance Fund committed to become the majority shareholder.

Capital adequacy ratio (CAR) stood at 27.42% at the end of December 2010 and the equity to assets ratio is equal to 25.41% as of March 2011, which is well above the NBC requirements (15%) and adequate to absorb unexpected losses. The ratio is expected not to fall below 25% in the medium term given the capital injection in late 2011. Considering the planned portfolio growth we do not expect the need to further increase the capital.



After the last capital injection in the fourth quarter of 2008, equity has increased through capitalization of retained earnings (no dividends are distributed in AMK) with positive performance in 2010. For 2011, retained earning capitalization of more than USD 1 M is expected.



Debt to equity ratio stands at 2.79 as of March 2011, showing room for further expand the leverage also considering the additional borrowings to be contracted within the back-to-back scheme[11]. Hedging mechanisms are needed in order to be in line with FX exposure limits provided by the NBC.

[11] AMK entered in agreement with Foreign Trade Bank (FTB) which provides loans in local currency back to deposits in foreign currency. If we calculate the funding liabilities at net value of the fixed deposits amount the debt to equity adjusted will result equal to 1.92 as of March 2011.

4.2 Liabilities and Concentration Risk

AMK's source of funding is adequately diversified including international microfinance investors and one local bank.

As of March 2011, about 70% of total liabilities are concentrated in 4 lenders (Triodos, Moringaway, AECID and FTB) as illustrated in annex 5. Although **this represents a concentration risk**, liabilities with FTB accounting for 24% of total liabilities are within back-to-back agreement and liabilities with AECID[12] (17%) are cheap and characterized by long term. Both lenders are expected to increase their share in the liability structure in the short term.

As of March 2011, 31% of total borrowings are denominated in USD and 5% in THB. 56.4% of liabilities have a residual maturity over 1 year (65% of total borrowings) as of March 2011, maintaining a similar composition over the last 3 years. Other liabilities include the staff pension fund, which started in January 2010[13].

30% of the borrowings carry an interest rate comprised between 7.25% and 9%, while the remaining share bears an interest equal or more than 10%. Only Kiva loans are at concessional rate (4.1%), even though AMK is phasing out its partnership with the P2P lender. The cost of funds maintained a constant level over the last two years, standing on average at 10.6%. The loan from AECID might affect the cost of fund, even though it will require additional resources for hedging.

AMK saving mobilization is still marginal (as of March 2011, total deposits over liabilities stands at 6%) with the majority as term deposits (73% of total deposits). Term deposits are offered mainly in Phnom Penh city to middle-high market segment thanks to very attractive interest rates (up to 11%). Average saving balance for term deposit stands at USD 6,400 with **a certain concentration risk as the holders of the 10 largest time deposits represents 66% of AMK time deposits** (and 7% of the total equity)[14]. Analysis of volatility on deposits and their management have not been implemented yet, which is still reasonable for the saving volume mobilized so far.

However, AMK saving strategy focuses on mobilizing rural savings through mobile banking technology. Although not strategic for funding purposes in the medium term, we consider this a good strategic decision for improving the access to financial services and the client retention in a competitive environment.

Interest rate risk, March 2011, USD	30 days or less	31 to 90 days	91 to 180 days	181 to 365 days	1 to 5 years	Non interest sensitive	Total
Total assets	**1,284,286**	**5,162,531**	**7,808,273**	**17,241,091**	**12,146,621**	**3,182,287**	**46,825,091**
Cash and banks	0	1,329,253	0	1,591,687	7,705,765	260,669	10,887,374
Investments	0	0	0	0	0	25,019	25,019
Outstading portfolio	1,284,286	3,833,278	7,808,273	15,649,404	4,440,856	0	33,016,098
Net fixed assets	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	2,896,600	2,896,600
Total liabilities	**924,119**	**3,084,106**	**2,667,354**	**7,993,344**	**12,336,140**	**7,452,436**	**34,457,500**
*Deposits**	624,643	89,347	109,331	782,248	707,160	0	2,312,729
Loans	299,476	2,994,759	2,558,023	7,211,097	11,628,979	5,328,501	30,020,836
Other liabilities	0	0	0	0	0	2,123,935	2,123,935
Net position	**360,167**	**2,078,425**	**5,140,919**	**9,247,747**	**-189,518**	**-4,270,149**	**12,367,591**
Gap	**1.4**	**1.7**	**2.9**	**2.2**	**1.0**		
Comulative Gap		**1.6**	**2.1**	**2.1**	**1.6**		

**Include the Staff pension fund*

[12] Loan from AECID (Spanish Cooperation).

[13] Staff pension fund is composed of staff (3%) and company (6%) contribution. The fund is accessible for staff who worked at least for 6 month with AMK. AMK contributes interest on the cumulative balance of the staff pension fund at 7% per annum (which is recorded in income statement).

[14] In December 2010, AMK decided to stop collecting corporate deposits, while maintaining the cap for individual savers up to USD 10,000.

4.3 Assets and Liabilities Management (Liquidity Risk and Market Risk)

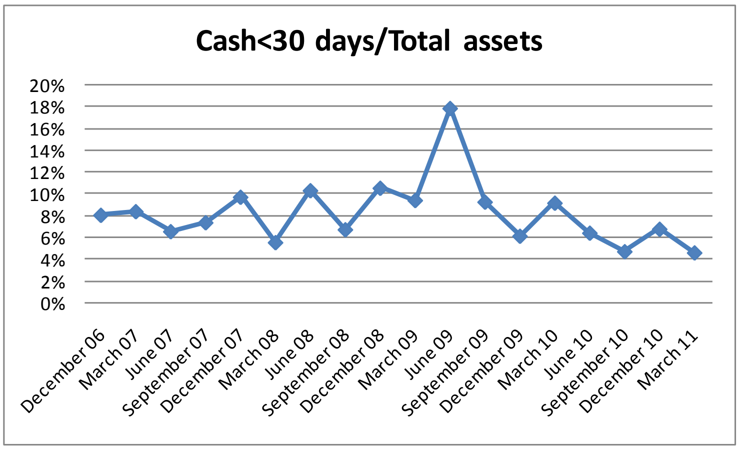
Assets and liabilities management is adequate, even though capabilities and tools show room for improvement especially in view of the introduction of savings in all branches. Alert systems and maturity gap analysis with stress testing assessment are not formally implemented yet.

ALCO[15] meets on a monthly basis with formalized minutes regularly compiled. ALCO is pro-active in liquidity and currency risk management and adequately manages the institution's exposure.

AMK relies on cash flow projections – based on three months period – which are regularly updated. The process involves regional manager at field level, while the treasury department is responsible for the consolidation and monitoring. Liquidity is adequately managed with prudent levels kept overtime (cash within 1 month stands on average at 7% over total assets, with minimum peaks at 5%). However, the analysis on liquidity show some volatility, which only from September 2009 seems to be partly in line with the portfolio seasonality. The institution does not have specific internal ratio (e.g. liquidity over total assets) to be monitored. ALCO has recently decided to maintain a minimum USD 1 M for the branches and USD 1 M for the head office. Besides, AMK can rely on a credit line of about USD 2.5 M (in local currency) from Moringaway[16].

Based on the maturity gap analysis, the institution does not show negative gaps within 90 days as well as within 1 year.

Overall, the liquidity analysis is adequate for the complexity of assets and liabilities characterized by 46% of portfolio payable at maturity and 61% of borrowings payable as well at maturity. Maturity mismatching is favourable through, on average, shorter portfolio maturity than borrowings.



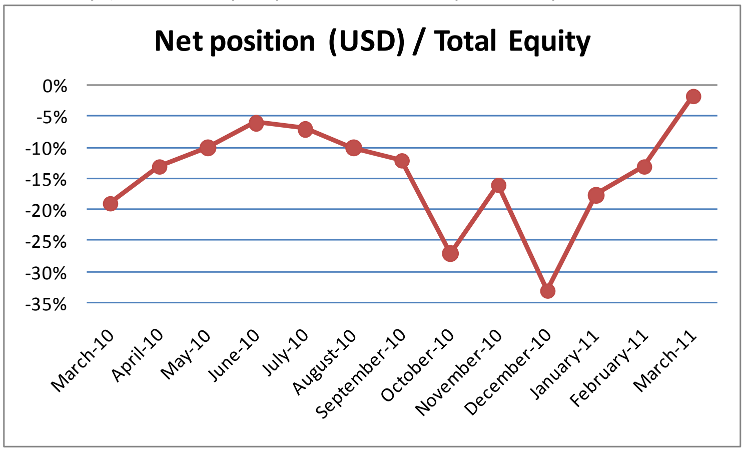
AMK does not suffer from relevant interest gap with only 20% of borrowings bearing floating interest rate (on a yearly basis). Therefore, similarly to the maturity gap, AMK results asset sensitive in all aging categories with a **low interest rate risk** triggered by downward interest rates. Cumulative gap up to 90 days over total assets stands at 5% indicating assets will not reprise fast[17].

AMK adequately controls the currency risk exposure. With 90% of portfolio in local currency, the institution does not transfer the currency risk to a credit risk to hedge the exposure in foreign currency. The institution engages back-to-back agreements with Foreign Trade Bank (FTB) as well as increasing the access to local currency borrowings.

15 Composed of Treasury Manager, CEO, Operation Manager, Risk Manager, CFO and 2 Board Members.
16 Maturity June 2011. The credit line has been renewed until 2013.
17 A static analysis of the interest rate gap shows that an impact on 1year net interest rate sensitive income due to +/-200bps interest rate shift is worth 2.6% of equity.

FX Risk - March 2011 (USD)	USD	THB
Assets	11,311,936	2,064,119
Liabilities	11,521,749	1,657,191
Net position	-209,813	406,928
Net position / Equity	*-1.7%*	*3.29%*
Exchange rate US$/KHI	4007	
Exchange rate US$/THI	30.297	

As result, AMK has a very narrow net position at March 2011 both in USD and THB, which is in line with NBC requirements (+/- 20% of total equity).
In the last 12 months, AMK breached the limit only in few circumstances aiming at reaching a net position close to zero.
So far AMK works mainly through FTB and back-to-back mechanism with USD 7.7 M borrowings secured to back-to-back deposits (24% of total borrowings). AMK can increase such agreements with FTB up to USD 15 M[18]. Looking at a specific source of funding (i.e. AECID), **we see a certain concentration risk in the FTB back-to-back scheme**. It is worth mentioning that the institution is seeking alternative options (swap with ANZ and TCX hedging fund) to mitigate such a risk.
The exchange rate in Cambodia is rather stable, even though it is characterized by a certain seasonality (KHR usually depreciates from April to September.



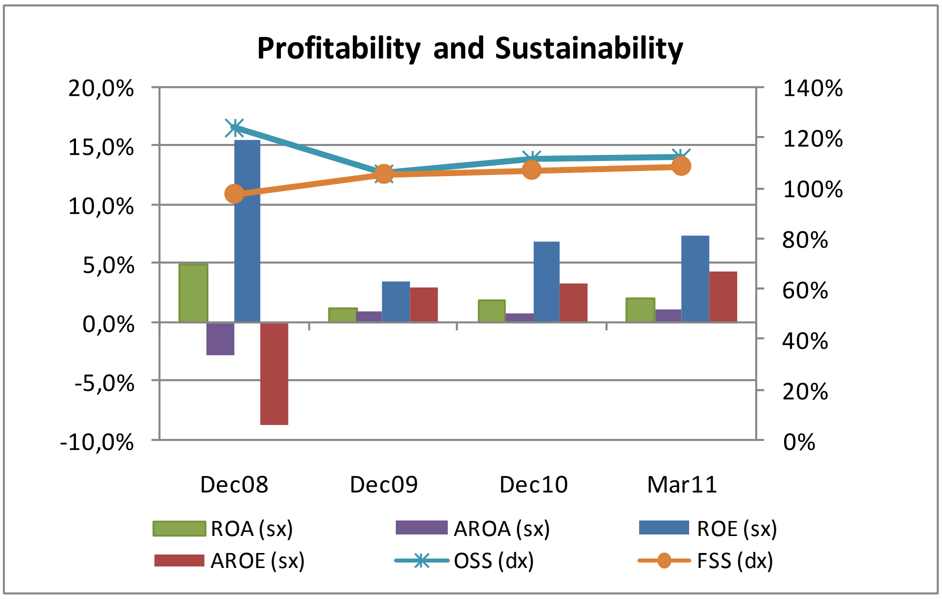
[18] With USD 15 M, AMK will reach an exposure equal to 20% of FTB net worth (which is the limit for the bank).

5. Financial and Operational Results

5.1 Profitability and Sustainability

The financial performance analysis is based on the annual audited financial statements for the years 2008, 2009 and 2010, and partly on internal financial statements for the period April 2010 – March 2011.

Given the business model and market positioning, AMK profitability level is satisfactory, with ROA and ROE respectively worth 2% and 7.5% in the last period of analysis. Despite the drop in 2009, due to a worsening of portfolio quality, a slow portfolio growth and higher funding expenses, ROA and ROE stood at positive levels registering 1.1% and 3.5% respectively. Similarly, sustainability shows a similar trend in the last years with OSS passing from 124% in 2008 to 106% in 2009 along with a portfolio quality decrease which affected the provision expenses and the portfolio yield. In 2010 and in the last period of analysis, the improved portfolio quality coupled with consolidation of portfolio yield allowed AMK to reach a net income in line with the one in 2008[19]. Since 2008 the institution has engaged hedging mechanisms (back-to-back scheme), which has however lowered the assets productivity limiting the profitability despite the higher leverage.



The adjusted results prove the full sustainability of AMK in the last two years (see annex 5 for more details). In 2008, adjusted results were negative due to the large adjustment applied for high inflationary pressure in the country. Inflation adjustment plays a minor role in the remaining periods. In the period April 2010 – March 2011, FSS and AROA are worth 108.6% and 1.2% respectively, with a slight improvement compared to 2009 (105.3% and 0.9%).

5.2 Revenues and Expenses Structure and Margins

On the revenues side, portfolio yield has been overall stable over the periods of analysis with a slight decrease in 2009 mainly due to a worsening of portfolio quality and a different portfolio structure (village banks share increased compared to that of individual loans). The institution plans to adjust the interest rates among the loan cycles.

On the costs side, operating expenses ratio indicates a constant pattern (slightly above 22% over the last three years), reflecting AMK business model and target population. Finance at doorstep delivery method coupled with a low average loan size let economies of scale to play a minor role. Personnel and administrative expenses maintain also a similar pattern over the years.

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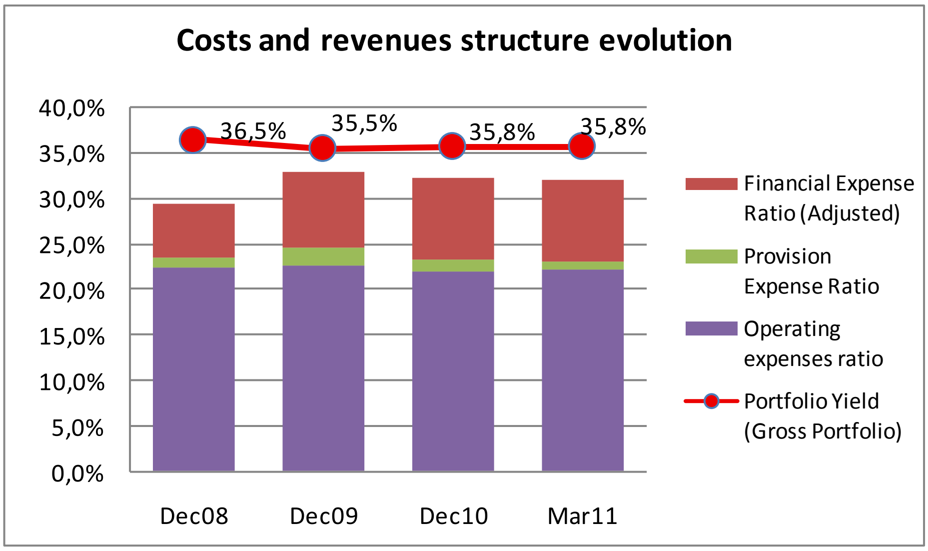
[19] In 2008 the average equity was lower due to capital injection in the fourth quarter.

Funding expenses ratio increased over the last years reaching 10.1% in March 2011 (it was equal to 6.2% and 9.3% in 2008 and 2009 respectively) mainly due to the back-to-back mechanism (especially from 2008 to 2009). Considering the interests earned through the fixed deposits within the back-to-back scheme the funding expenses ratio drops down to 9% in March 2011. The saving collection will not impact the cost of funds in the medium term given the strategy of AMK (see chapter 4).



Portfolio quality therefore remains crucial to ensure positive margins as seen in 2009 when the increase in the loan loss provision expenses (2.1%) triggered the drop in the sustainability. In March 2011 – on the past 12 months – the ratio stands at 1%.

Productivity stands at about 500 borrowers per loan officers with a reduction in the first quarter 2011 along with the seasonality of the village bank product (see chapter 3). Overall, productivity levels are good.

Performance Indicators	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
Operating expenses ratio (average assets)	18.9%	16.3%	15.5%	15.8%
Operating expenses ratio (aver. gross portf.)	**22.3%**	**22.5%**	**22.0%**	**22.2%**
Staff allocation ratio	65.6%	66.5%	57.1%	57.3%
Loan officer productivity (borrowers)	500	427	521	497
Loan officer productivity (amount)	62,028	49,316	65,832	66,297
Staff productivity (borrowers)	328	284	298	285
Staff productivity (amount)	40,706	32,792	37,596	37,993
Branch productivity (amount)	1,563,104	1,257,559	1,442,329	1,500,732
Cost per borrower	25	27	27	29
Average disbursed loan size	141	147	157	159
Funding expense ratio*	**6.3%**	**9.3%**	**10.2%**	**10.1%**
Adjusted Funding expense ratio**	**6.0%**	**8.4%**	**9.1%**	**9.0%**
Provision expense ratio	**1.2%**	**2.1%**	**1.4%**	**1.0%**
Adjusted provision for inflation (av. gross port.)	**8.1%**	**0.2%**	**1.4%**	**1.2%**
Portfolio yield (gross portfolio)	36.5%	35.5%	35.8%	35.8%
Other financial investment yield (gross portfolio)	0.3%	0.9%	1.2%	1.1%

* exchange rate variations are not included in the calculation of the ratio
** Adjusted including inocme from deposits back to borowings

AMK will maintain good profitability and sustainability levels, even though the expected downward trend of portfolio yield in a very competitive market will likely happen. On the other hand, operating expenses might gradually benefit from some economies of scale through a different portfolio composition (with the introduction of the new individual loan products). Besides, funding expenses look to be positively affected by a long term deal with AECID. While savings mobilization will not change in the medium term the cost of funds, productivity and portfolio quality will continue to be key elements in the profitability.

6. Business Plan and Financial Needs

6.1 Strategic and Operational Plan

AMK business plan 2010-2014 is updated and includes the following main objectives:

- Continue to expand in the existing rural areas of operations;
- Enhance the market penetration in urban areas with a dedicated product (Urban poor loan product);
- Work on product development and innovation: individual loans, savings, money transfer and micro-insurance;
- Employ banking technology to expand outreach in saving mobilization;
- Improve risk management processes (also leveraging the new core banking system adopted in 2010).

After having experienced good growth pace in the past years (2003-2008) the institution plans to focus on product development in order to improve the quality of service delivery and in turn client retention.
The current objectives and operating strategy are well defined in the Business Plan and will be likely revised at the end of 2011 under the supervision of the new CEO.
Financial and Social objectives are balanced in the assumptions and strategic direction undertaken by AMK.

6.2 Financial Projections

Financial projections are completed for the period 2010-2014.

Projected Financial Indicators	Apr10-Mar11	2011	2012	2013	2014
Portfolio growth (Y-o-Y)	**20.0%**	33.0%	26.0%	25.0%	17.0%
Active clients growth (Y-o-Y)	**15.0%**	13.0%	11.0%	4.0%	4.0%
ROE	**7.5%**	10.2%	15.5%	14.8%	15.3%
ROA	**2.0%**	2.8%	4.1%	3.7%	3.7%
Oper. Self-sufficiency (OSS)	**112.4%**	114.1%	123.4%	120.9%	120.7%
Debt/Equity ratio	**2.8**	2.6	2.9	3.2	3.2
Operating expenses ratio (aver. gross portf.)	**22.2%**	20.9%	19.0%	17.6%	16.9%
Loan officer productivity (borrowers)	**497**	563	603	609	620
Funding expense ratio*	**10.1%**	9.7%	9.5%	10.3%	10.3%
Provision expense ratio	**1.0%**	1.2%	1.3%	1.2%	1.1%
Portfolio yield (gross portfolio)	**35.8%**	34.2%	34.4%	33.0%	32.1%

* exchange rate variations are not included in the calculation of the ratio

AMK covers 8% of the household in Cambodia and aims at expanding its coverage up to 11% by 2014. Based on this assumption, clients will grow by 11% on year basis, reaching more than 350,000 by 2014.

With a diversified product mix, portfolio will reach USD 81 M in 2014 maintaining an average loan outstanding size of USD 230. Expansion will be more focused on areas which are still underserved, while in the branches where AMK is a market leader (or characterized by high coverage) the growth will be less than 10%.

Portfolio yield is expected to decrease overtime. At same time operating costs are also expected to drop even if economies of scale of portfolio growth will likely have no significant impact on the ratio considering AMK business model. Within this perspective, the product composition will certainly play a role (i.e. individual loans vs. village banks). Individual loans are expected to reach 18% of total portfolio (as of March 2011, individual loan portfolio stands at 14%).

6.3 Financial Needs and Funding Plan

AMK' capacity to meet financial obligations is good.

On the equity side, the change in ownership structure will bring an additional USD 4.5 M through either convertible debt from Moringaway (Agora MicroFinance Fund) or another investor.

On the debt side, the institution has already signed a contract with ICO for USD 15 M (maturity 2021 at 5.5% i.r) which will be draw dawn in two tranches (2011 and 1012). Oikocredit will provide the remaining portion (in local currency) to meet the funding needs for 2011. A bridge loan is available with Moringaway.

Annex 1 – Financial Statements

Balance sheet (US$)	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
ASSETS				
Cash and bank deposits	2,849,206	6,109,722	4,452,433	3,181,609
Short term financial assets	2,007,119	4,874,570	5,918,773	7,705,765
Net outstanding portfolio	23,195,721	24,504,026	31,004,402	32,269,388
Gross outstanding portfolio	23,446,564	25,151,189	31,731,236	33,016,098
Performing portfolio	23,362,183	24,433,609	31,234,192	32,539,419
Portfolio at risk > 30 days	84,381	717,580	497,044	476,679
(Loan loss reserve)	250,844	647,163	726,834	746,710
Accrued interest	385,768	484,381	644,070	510,848
Other short term assets	167,266	694,314	311,585	1,644,967
Total short term assets	**28,605,080**	**36,667,013**	**42,331,263**	**45,312,576**
Long term financial assets	0	0	0	0
Net fixed assets	715,378	975,447	941,525	1,512,515
Other long term assets	228,835	253,812	646,801	0
Total long term assets	**944,213**	**1,229,259**	**1,588,326**	**1,512,515**
Total assets	**29,549,293**	**37,896,272**	**43,919,589**	**46,825,091**
LIABILITIES and EQUITY				
LIABILITIES				
Sight deposits	119,315	37,789	106,092	148,101
Staff deposits	35,359	135,380	277,601	323,376
Short time deposits	0	0	1,043,543	1,277,806
Short term loans	6,519,479	9,751,823	10,810,051	10,597,392
Other short term liabilities	841,674	875,604	1,105,337	2,123,935
Total short term liabilities	**7,515,828**	**10,800,596**	**13,342,624**	**14,470,609**
Long term time deposits	0	0	0	0
Long term loans	10,975,687	15,895,415	18,115,996	19,423,445
Other long term liabilities	595,460	510,393	503,408	563,446
Restricted funds	0	0	0	0
Total Long term liabilities	**11,571,147**	**16,405,807**	**18,619,403**	**19,986,891**
Total liabilities	**19,086,975**	**27,206,404**	**31,962,028**	**34,457,500**
EQUITY				
Paid-in capital from shareholders	8,356,451	8,179,892	8,410,084	8,502,433
Donated equity	0	0	0	0
Quasi-capital	0	0	0	0
Reserves	0	0	382,774	381,986
Total retained earnings	2,105,867	2,509,976	3,164,704	3,483,171
Net income, previous years	1,118,755	2,061,374	2,197,836	2,442,172
Net income, current year	987,113	448,603	966,868	1,041,000
Total equity	**10,462,318**	**10,689,868**	**11,957,562**	**12,367,591**
Total liabilities and equity	**29,549,293**	**37,896,272**	**43,919,589**	**46,825,091**

Income Statement (US$)	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
Interest & commissions received on loans	6,198,564	8,424,274	10,475,337	11,086,824
Financial revenue from investment	51,599	212,009	340,374	351,097
Other financial revenues	0	0	110,532	109,856
A) Financial revenue	**6,250,163**	**8,636,283**	**10,926,243**	**11,547,776**
Interest paid on borrowings	1,049,412	2,201,943	2,932,184	3,037,268
Interest paid on savings	15,370	11,181	59,225	92,353
Other financial expenses	67,221	114,830	0	1,640
B) Financial expenses	**1,132,003**	**2,327,953**	**2,991,409**	**3,131,261**
Gross financial margin (A - B)	**5,118,160**	**6,308,330**	**7,934,834**	**8,416,515**
Loan loss provision	197,315	495,448	395,727	302,598
Net financial margin	**4,920,845**	**5,812,881**	**7,539,107**	**8,113,917**
Other operating revenue	99,405	17,027	21,042	34,813
Personnel expenses	2,136,912	3,122,669	3,716,091	4,046,974
Administrative expenses	1,657,041	2,218,866	2,714,439	2,822,930
C) Operating expenses	**3,793,953**	**5,341,535**	**6,430,531**	**6,869,904**
Net operating income	**1,226,297**	**488,373**	**1,129,618**	**1,278,826**
Extraordinary revenue	0	5,313	0	0
Extraordinary expense	0	0	3,386	3,424
Net income before donations, before tax	**1,226,297**	**493,686**	**1,126,232**	**1,275,403**
Taxes	239,185	122,322	323,876	390,775
Net income before donations	**987,113**	**371,364**	**802,356**	**884,628**
Donations in cash	0	77,239	164,512	156,372
Net income	**987,113**	**448,603**	**966,868**	**1,041,000**

Annex 2 – Financial Statements' Adjustments

The financial statements in Annex 1 are the result of standard reclassification and they are based on the annual audited financial statements. As for the infra-annual periods the internal financial statements are used.

Financial statements have been adjusted in order to make them comparable to financial reporting and performances of institutions using different accounting standards and operating in different environment and to evaluate the level of sustainability of the institution with market conditions.

The main adjustments include:

- Accrued interest on delinquent loans > 90 days.
- Subsidies: donations in kind[20] and soft loans[21]).
- Provisions (calculated with a standard formula[22]).
- Inflation.

Adjustments (US$)	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
Reversal of accrued interest on non-perf loans	0	0	0	0
Subsidized cost of fund adjustment	0	0	0	0
- Interest rate used (national currency)	12.0%	11.9%	11.7%	11.6%
- Interest rate used (foreign currency)	6.1%	4.6%	3.9%	3.9%
Inflation adjustment	1,383,269	54,109	418,274	361,157
- Inflation rate used	24.2%	0.6%	4.1%	3.5%
Loan loss provision adjustment	0	0	0	0
In-kind subsidy adjustment	0	0	0	0
Total variation of net income	1,383,269	54,109	418,274	361,157

[20] Donations in kind are valorized and added to operational expenses.

[21] In the income statement it is registered the value of the difference between financial costs of the institutions and financial cost evaluated at the market rate. In particular, in the case of loans in local currency, it is considered 75% of the average lending rate in the national market (IFS Line 60P). In the case of loans denominated in foreign currencies (US$ and Euro), it is considered the average value of LIBOR 1 year plus 3%.

[22] Provisions are calculated according to the following formula:

Portfolio at risk:	1-30 days	10%	Restructured loans	0-30 days	50%
	31-60 days	30%		> 30 days	100%
	61-90 days	50%			
	>90 days	100%			

Annex 3 – Financial Ratios

	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Apr10-Mar11
PROFITABILITY				
Return on Equity (ROE)	15.6%	3.5%	7.0%	7.5%
Adjusted Return on Equity (AROE)	-8.7%	3.0%	3.3%	4.4%
Return on Assets (ROA)	4.9%	1.1%	1.9%	2.0%
Adjusted Return on Assets (AROA)	-2.7%	0.9%	0.9%	1.2%
Operational self-sufficiency (OSS)	123.9%	106.0%	111.5%	112.4%
Financial self-sufficiency (FSS)	97.6%	105.3%	106.9%	108.6%
Profit Margin	19.3%	5.6%	10.3%	11.0%
LOAN PORTFOLIO QUALITY				
Portfolio at risk > 30 days (PAR 30)	0.4%	2.9%	1.6%	1.4%
Portfolio at risk > 90 days (PAR 90)	0.0%	2.1%	1.4%	1.4%
Restructured loans	0.0%	0.0%	0.0%	0.0%
Provision expense ratio	1.2%	2.1%	1.4%	1.0%
Loan loss reserve ratio	1.1%	2.6%	2.3%	2.3%
Risk coverage ratio (30 days)	297.3%	90.2%	146.2%	156.6%
Write-off ratio	0.3%	0.4%	1.1%	1.1%
Adjusted write-off ratio	0.4%	0.4%	1.1%	1.1%
EFFICIENCY AND PRODUCTIVITY				
Staff allocation ratio	65.6%	66.5%	57.1%	57.3%
Loan officer productivity (borrowers)	500	427	521	497
Loan officer productivity (amount)	62,028	49,316	65,832	66,297
Staff productivity (borrowers)	328	284	298	285
Staff productivity (amount)	40,706	32,792	37,596	37,993
Branch productivity (amount)	1,563,104	1,257,559	1,442,329	1,500,732
Operating expenses ratio (average gross portf.)	22.3%	22.5%	22.0%	22.2%
Operating expenses ratio (average assets)	18.9%	16.3%	15.5%	15.8%
Cost per loan lent	17	26	23	24
Cost per borrower	25	27	27	29
Personnel expenses ratio (average gross portf.)	12.6%	13.2%	12.7%	13.1%
Admin. expenses ratio (average gross portfolio)	9.8%	9.4%	9.3%	9.1%
ASSETS/LIABILITIES MANAGEMENT				
Portfolio yield (gross portfolio)	36.5%	35.5%	35.8%	35.8%
Other financial investment yield (gross portfolio)	0.3%	0.9%	1.2%	1.1%
Funding expense ratio*	6.3%	9.3%	10.2%	10.1%
Cost of funds ratio*	11.0%	10.7%	10.6%	10.7%
Provision for inflation (average gross portfolio)	0.0%	0.0%	0.0%	0.0%
Adjusted provision for inflation (av. gross port.)	8.1%	0.2%	1.4%	1.2%
Current ratio	12.4	23.5	8.1	3.1
Liquidity over total assets	9.6%	16.1%	10.1%	6.8%
Liquidity + investments over total assets	16.4%	29.0%	23.6%	23.3%
Liquidity over total savings + other short term liabilities	296.5%	668.9%	197.4%	89.6%
Debt/equity ratio	1.8	2.5	2.7	2.8
Capital adequacy ratio	35.4%	28.2%	27.2%	26.4%

* exchange rate variations are not included in the calculation of the ratio

Annex 4 – Definitions

	Description of the ratio	Formula
Profitability	**Return on Equity (ROE)**	Net income before donations / Average equity
	Adjusted Return on Equity (AROE)	Adjusted net income before donations / Average equity
	Return on Assets (ROA)	Net income before donations / Average assets
	Adjusted Return on Assets (AROA)	Adjusted net income before donations / Average assets
	Operational Self-sufficiency (OSS)	(Financial revenue + Other operating revenue) / (Financial expenses + Provision expenses + Operating expenses)
	Financial Self-sufficiency (FSS)	(Adjusted financial revenue + Other operating revenue) / (Adjusted financial expenses + Adjusted loan loss provision expenses + Adjusted operating expenses)
	Profit Margin	Net operating income / operating revenue
Portfolio Quality	**Portfolio at Risk (PAR30)**	Portfolio at Risk > 30/ Gross outstanding portfolio
	Provision Expense Ratio	Loan loss provision expenses / Average gross portfolio
	Loan Loss Reserve Ratio	Accumulated reserve / Gross portfolio
	Risk Coverage Ratio (>30 days)	Accumulated reserve / Portfolio at risk >30 days
	Write-off Ratio	Write-off of loans / Average gross portfolio
Efficiency and Productivity	**Staff Allocation Ratio**	Loan officers / Total staff
	Loan Officer Productivity – Borrowers	Number of active borrowers / Number of loan officer
	Loan Officer Productivity – Amount	Gross portfolio / Number of loan officer
	Staff Productivity – Borrowers	Number of active borrowers/ Number of staff
	Staff Productivity – Amount	Gross portfolio / Number of staff
	Operating Expenses Ratio	Operating expenses / Average gross portfolio
	Cost per Borrower	Operating expenses / Average number of borrowers
	Administrative Expenses Ratio	Administrative expenses / Average gross portfolio
	Personnel Expenses Ratio	Personnel expenses / Average gross portfolio
Financial Management	**Portfolio Yield**	Interest income from portfolio / Average gross portfolio
	Funding Expense Ratio	Interests and fee expenses on funding liabilities / Average gross portfolio
	Cost of Funds Ratio	Interest expenses on funding liabilities / Average funding liabilities
	Current Ratio	Short term assets / Short term liabilities
	Debt/Equity Ratio	Total liabilities / Equity
	Capital Adequacy Ratio	Total equity / Total assets
Outreach	**Average Disbursed Loan Size**	Amount issued in the period / Number of issued loans
	Average Disbursed Loan Size Per-C. GDP	Average disbursed loan size / Per-capita GDP

Other Definitions:

Funding Liability: Liability that finance the loan portfolio and the cash investments necessary to manage the loan portfolio
Operating Expenses: Personnel expenses + Administrative expenses
Recovery from Write-off Ratio: Income from write-off (payments received from loan already written-off) / Average gross portfolio
Restructuring of Delinquent Loans: includes rescheduling loans (extending the term of the loan or relaxing the schedule of required payments) and refinancing loans (paying off a problem loan by issuing a new loan).
Drop-out Ratio: calculated as follows: (number of active clients at the beginning of the period + number of new (first time) clients entering during the period – clients written off during the period – number of active clients at the end of the period) / (number of active clients at the beginning of the period).

Annex 5 – Main Guidelines on Reporting and Accounting

Financial Statements

The audited financial statements are prepared in accordance to the National Bank of Cambodia (NBC), the Cambodian Accounting Standard. AMK does not provide non-financial services, thus its financial statements reflect only the results of financial activities.

Accounting Policy for the Accrued Interest

AMK uses accrual basis accounting principle. Accrued interest income and expense is recognized according to the International Accounting Standard

Loan Loss Provision and Write-Offs

AMK loan loss provisioning policy is based on the policy of the NBC. The specific provision for bad and doubtful loans is made on loans that are identified as non-performing, according to the number of days overdue (different parameters for short and long term loans). The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrued interest, and is charged as an expense. Accrued unpaid interest after the loan is 30 days in arrear are stopped. In addition to the specific provision, an additional general provision is made at the rate of 1% of total loan outstanding if the risk coverage ratio (on PAR30) is less than 100%.

Loans which are 365 days late after the maturity will be propose by branch manager to Operation Manger for write off. Operation team and/or Internal audit are in charge of the loan document verification. The report is submitted then to the credit committee at HQ level and to the board for final approval.

Restructured Loans

Restructured loans are not allowed.

Insider Loans

March 11

Insider loans (USD)	Outstanding balance	Loan term	Interest rate	PAR > 1 day
Management	11,956	12-24 months	12%	-
Staff	431,431	12-24 months	12%	-

Off-balance Sheet Items

As of March 2011:

i) Undrawn facilities (credit line) with Moringaway amounting to c. USD 2.5. The facility will expire on 15 June 2011.

ii) Undrawn facility from AECID senior loan

iii) Letter of Credit with Deutsche Bank within the back-to-back scheme with Foreign Trade Bank

Donations

USD 256,879 from January 2009 to March 2011

Funding Liabilities

Loans borrowed (March 11)

Source	Currency	Outstanding Balance (USD)	Outstanding Balance ST (USD)	Outstanding Balance LT (USD)	Agreement, kind of product and collateral
AECID	USD	5,328,501	0	5,328,501	Senior loan
BlueOrchard	THB	560,020	560,020	0	Senior loan
Clann Credo	USD	594,747	224,215	370,532	Senior loan
FTB Bank	KHR	998,253	0	998,253	Back to back loan
FTB Bank	KHR	511,605	511,605	0	Senior loan
FTB Bank	KHR	2,046,419	2,046,419	0	Back to back loan
FTB Bank	KHR	1,023,209	0	1,023,209	Back to back loan
FTB Bank	KHR	1,023,209	0	1,023,209	Back to back loan
FTB Bank	KHR	736,212	0	736,212	Back to back loan
FTB Bank	KHR	998,253	998,253	0	Back to back loan
Incofin	USD	553,332	0	553,332	Senior loan
Incofin	THB	563,957	0	563,957	Senior loan
KIVA	USD	1,237,965	1,158,218	79,747	Senior loan
Moringaway	KHR	1,693,536	1,693,536	0	Senior loan
Moringaway	KHR	3,033,192	0	3,033,192	Senior loan
Moringaway	KHR	0	0	0	Credit line, US$ 2,500,000
Oikocredit	KHR	299,476	299,476	0	Senior loan
Oikocredit	KHR	1,227,851	613,926	613,926	Senior loan
Symbiotics	USD	1,000,749	0	1,000,749	Senior loan
Symbiotics	USD	500,374	500,374	0	Senior loan
Symbiotics	THB	493,971	493,971	0	Senior loan
Triodos	KHR	1,497,380	1,497,380	0	Senior loan
Triodos	KHR	2,994,759	0	2,994,759	Senior loan
Triple Jump	KHR	1,103,867	0	1,103,867	Senior loan
TOTAL		**30,020,836**	**10,597,392**	**19,423,445**	

Annex 6 – Financial Products

Credit products	End of Term- Village Bank	Installment-Village Bank	Credit Line - Village Bank	Emergency loan	Standard Individual Loan	Seasonal Loan	Business Expansion Loan	Urban Poor	Staff Loan
Credit methodology	Group	Group	Group	Individual	Individual	Individual	Individual	Individual	Individual
Currency of the Credit	KRH, TBH*	KRH, TBH*	KRH, TBH*	KRH, TBH*	KHR, USD, TBH*	KHR, USD, TBH*	KHR, USD, TBH*	KHR, USD, TBH*	USD
Type of interest	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance
Min. interest rate (%)	3%	2.8%	3%	2.5%	3% and 2.5% after the third cycle	2.4%	2.2%	2.6%	2%
Max. interest rate (%)	3%	2.8%	3%	2.5%	3% and 2.5% after the third cycle	3.0%	2.8%	3%	12%
Description of commission	Upfront fee: 0.5% of loan amount	Upfront fee: 0.5% of loan amount	Upfront fee: 0.5% of loan amount	None	Upfront fee: 0.5% of loan amount	Upfront fee: 0.5% of loan amount	Upfront fee: 0.5% of loan amount	Upfront fee: 0.5% of loan amount	None
Min. credit amount (US$)	-	-	-	-	-	500	500	-	-
Max. credit amount (US$)	250	250	250	100	500	1,500	2,000	250	12 month of salary
Max. credit amount - 1st loan (US$)	150	150	200	100	500	1,500	2,000	250	-
Avarage credit amount (US$)	125	175	185	85	475	1,000	n.a.	220	1,520
Min. loan maturity (months)	3	3	3	3	3	3	n.a.	3	3
Max. loan maturity (months)	12	12	24	10	18	8	18	12	24
Avarage loan maturity (months)	12	12	22	9	14	7	n.a.	11	16
Periodicy of interest payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Periodicy of principal payments	At maturity date	Monthly	At maturity date	At maturity date	Monthly	At maturity date	Monthly	Monthly	Monthly
Grace period (months)	No	No	No	No	No	No	No	No	No
Collateral/Guarantee	Group guarantee	Group guarantee	Group guarantee	Guarantor	Collateral and guarantor	Collateral and guarantor	Collateral and guarantor	No guarantor up to USD 100 if the client owns a house, guarantor for loans above USD 100	Collateral and guarantor

* Loan in Thai Baht only availabe in Bantay Meanchy Province.

Savings Products	General Savings	Easy Account	Staff Savings	Future Account	Term Deposit
Currency	KHR, USD, THB	KHR, USD, THB	USD	KHR, USD, THB	KHR, USD, THB
Min. interest rate (%)	1.5%	3.0%	5.0%	3.5%	3.3%
Max. interest rate (%)	3.0%	5.0%	5.0%	9.0%	11.0%
Average interest rate (%)					
Commissions	None	None	None	None	None
Min. accepted balance	None	None	None	5	25
Average balance	18	210	375	47	6385
Term (months)	None	None	None	3 to 60 months	3 to 24 month
Average term	-	-	-	19	10
Interest repayments frequency	Semi-annualy	Semi-annualy	Semi-annualy	At maturity	At maturity
Penalty in case of anticipated withdrawal	None	None	None	Interest rate equivalent to a correspondent Easy Account rate	Interest rate equivalent to a correspondent Easy Account rate

Annex 7 – Rating Scale

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

Grade	Definition
AAA+ **AAA** AAA-	*Excellent operations and performance. Exposure to risks is minimum and risks are very well monitored and managed. Very stable and highly unlikely to be adversely affected by foreseeable events.*
AA+ **AA** AA-	*Very strong operations and performance. Exposure to risks is minimum and risks are very well monitored and managed. Stable and unlikely to be adversely affected by foreseeable events.*
A+ **A** A-	*Very good operations and performance. Exposure to risks is minimum and risks are well monitored and managed. Stable even if it could be affected by major internal or external events.*
BBB+ **BBB** BBB-	*Good operations and performance. Exposure to risks is limited and risks are quite well monitored and managed. Quite stable even if it could be affected by significant internal or external events.*
BB+ **BB** BB-	*Adequate operations and performance. Exposure to risks is limited and risks are monitored and managed. Stable even if it could be affected by internal or external events.*
B+ **B** B-	*Sufficient operations and performance. The institution is exposed to some risks and they are sufficiently monitored and managed. Not completely stable and vulnerable to internal or external events.*
CCC+ **CCC** CCC-	*Basic operations and performance. The institution is exposed to some risks even if they are in part monitored and managed. Potentially unstable and vulnerable to external or internal events.*
CC+ **CC** CC-	*Very basic operations and performance. Exposure to risks and weak capacity to monitor and manage the risks. Potentially unstable and vulnerable to external or internal events.*
C+ **C** C-	*Poor operations and performance. Relevant exposure to risks and poor capacity to monitor and manage the risks. Potentially unstable and vulnerable to external or internal events.*
D	*Very poor operations and performance. Relevant exposure to risks and very poor capacity to monitor and manage the risks. Unstable and very vulnerable to external or internal events. Risk of default.*

OUTLOOK indicates the direction a rating is likely towards to move over a one year period

POSITIVE *Probable upgrade*

STABLE *It is not likely to change*

NEGATIVE *Probable downgrade*