

*Finance at your
doorstep*

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Amk



Annual Report **2009**





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AMK Head Office in Phnom Penh

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd (AMK) operations can be traced back to the micro-credit interventions of Concern Worldwide Cambodia, in the mid - 1990's. Around 2001-2, Concern decided to create a separate company for its microfinance operations in Cambodia. This materialized in 2003, and AMK started independent operations and received its license from the National (Central) Bank in 2004.

By 2005, AMK made its first annual operating profit, had its first external loan approved and created a social performance management mechanism. By end of 2007, AMK nearly doubled in size for that year, and by December 2009, AMK was one of two MFI's in Cambodia serving more than 220,000 clients. AMK's priorities as a provider of rural finance are centered in its operational and financial sustainability, while maintaining its social objectives.

Currently, AMK reaches the entire country with financial services with its 767 staff.

The long-term vision of AMK is of a Cambodian society where citizens have equal and sufficient economic and social opportunities to improve their standard of living, and where they can contribute productively towards the overall development of the country.

VISION

MISSION

To help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services.

AMK'S GUIDING PRINCIPLES

- ✓ AMK is committed to openness and transparency in all areas of management and operations;
 - ✓ AMK is committed to developing processes/services, and to adopting behaviors and standards that ensure optimum social performance, including client protection;
 - ✓ AMK is a learning organization where the exchange and sharing of information will contribute to staff development, training and in policy and systems improvement.
 - ✓ AMK will provide microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels.
- 3 **Transparent Pricing:** We will provide complete information to clients about policies and procedures, and ensure transparency in transactions and pricing.
 - 4 **Ethical staff behavior:** We will ensure ethical and respectful behaviour towards clients by staff.
 - 5 **Appropriate collections practices:** Debt collection practices will work with our clients and will neither be abusive nor coercive.*
 - 6 **Effective Mechanisms for redress of grievances:** We will have in place timely and responsive mechanisms for complaints and problem resolution for clients.
 - 7 **Privacy of client Data:** The privacy of client data will always be respected.

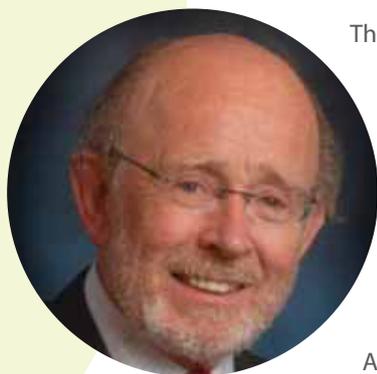
AMK's Code of Practice for Client Protection:

- 1 **Inclusive:** We will maximize the inclusion of the poor and other marginalized populations with AMK products and services.
- 2 **Avoidance of Over-Indebtedness:** We will minimize the exposure clients (especially poor clients) have to products which may prove harmful and avoid putting any client at risk over-indebtedness.

This code is translated into operating standards within AMK's policies and is monitored through the internal audit function and social research findings.

* AMK's CEO is on the Steering Committee of the Smart Campaign for client protection.

Chairman's Report 2009



The directors of Angkor Mikroheranhvatho (Kampuchea) Co. Ltd (AMK) are pleased to report that the financial year to 31 December 2009 was one of steady growth in portfolio and clients, despite demanding trading conditions. Our principal activity and objective remained focused on working with large numbers of poor in Cambodia to enable them to improve the quality of their lives through the provision of appropriate microfinance services.

2009 was a difficult year for the world economy, with deep recession, growing unemployment and economic contraction in many countries. At AMK, we continued to control our cost base while expanding, with care, our operations and product offering. Management remained focused on the development of our customer base, on the quality of our portfolio and on the growth of our branch network throughout Cambodia. As shown elsewhere in the report, we exceeded our targets on each of these fronts. AMK added a further 30,000 customers (15%), our loan portfolio grew by almost 10%, or US \$1.7M. The provincial, branch and village sub-branch growth continued; at year end we had 22 branches and 43 sub branches in 6,253 villages across Cambodia.

During the year we have continued to place emphasis on the recruitment and development of talented staff to support and drive the growth of our business and the expansion of our branch network. AMK invests significant time and effort to skills training, management development and in our business and information technology systems to ensure that all our staff are equipped with the capacity and resources to provide excellent services to our customers.

The Board of Directors met on four occasions during the year. Frances Sinha and Tom Kolbeck joined the board. At the AGM, Adam Mooney retired, because of other work responsibilities. We look forward to working with Frances and Tom. We are grateful to Adam for his excellent contribution to AMK's work, both as a director and as Chairman of the Audit Committee. As part of the board's commitment to best practice governance at AMK, during the year we formed a separate Risk Committee, a Nominations Committee and a Remuneration Committee.

The Audit and Finance Committee, chaired by Adam Mooney and later by Peter Power, continued to bring strong professional oversight to the risk management and assurances systems and the supervision of the internal audit service's work plan. The service continued to carry out important reviews and brought a series of valuable reports to the Committee. The Committee provides an essential role in assisting the service to bring a quality, risk-based focus to its work.

We continued to receive vital administrative and other assistance from our shareholder and promoter, Concern Worldwide. We are pleased acknowledge too the funding and support of other donors and lenders who enabled us to maintain our development and growth strategy.

The Social Performance Committee (SPC), chaired by Howard Dalzell, again provided an important role in advising the board and management, in ensuring that, consistent with our mission, AMK continues to emphasize quality and on supplying the services and products that are required and appreciated by our clients.

We continued to receive vital administrative and other assistance from our shareholders and promoter, Concern Worldwide. We are pleased acknowledge too the funding and support of other donors and lenders who enabled us to maintain our development and growth strategy.

Our CEO, Paul Luchtenburg, and his senior management team brought the leadership skill and commitment that inspired and motivated all of AMK's nearly 800 staff, throughout Cambodia, to continue to perform so effectively in challenging conditions. We are grateful for their first-class work and dedication throughout the year.

Finally, In 2009, AMK was recognized for a number of achievements. AMK received from the Unitus organization its first annual award for Effectiveness (which looks at how well an MFI is meeting the needs of its clients). The National Bank also presented AMK with an award from the Microfinance Transparency group for being the first organization in Cambodia to report to them. Additionally, AMK was a recipient of the first Gold Award from CGAP for exceptional achievement in Social Performance reporting. In the 2009 MIX Global 100 Composite rating AMK was ranked #16 in the world. AMK was rated #1 in Cambodia and in the top 20 in the world for the third year in a row. The board is proud of this external recognition of AMK's commitment to excellence in its work and governance.



Thomas J O'Higgins,
Chairman, AMK Board of Directors



Chief Executive Officer's Report



In the 2009 the MIX Global 100 Composite rating, AMK was ranked #16 in the world. AMK was rated #1 in Cambodia for the third year in a row and is one of only two organizations who finished in the top 20 organizations worldwide for the last three years.

Despite the global slowdown and challenges of 2009 AMK was able to achieve solid performance in maintaining focus on both its social mission and financial objectives.

AMK broke the 200,000 client barrier as the number of clients increased by 15% for the year, resulting in 217,523 clients. The portfolio also increased by 7% to more than 25 million dollars leading to a profit of nearly half million US dollars. We continued to decrease our operating expense ratio which finished 2009 at 21.9% which helped us to reach an operating Self Sufficiency (OSS) of 107%.

In terms of coverage, AMK is still the only MFI which reaches every province of Cambodia. Currently, from its 22 branches and 43 sub-branches AMK is able to reach 88% of all the districts and 45% of all villages in the country.

The average loan size still remains the lowest in Cambodia at US\$116. The group loan average is less than \$99 with average individual loans at less than \$200. In all, 91% of total loans are less than \$300.

AMK was again recognized by a number of organizations. The UNITUS network presented AMK with its first annual award for Effectiveness; The National Bank of Cambodia presented AMK with an award of recognition from the Microfinance Transparency Organization and CGAP also awarded AMK a Gold Award for Social Performance Management and reporting.

In the 2009 the MIX Global 100 Composite rating, AMK was ranked #16 in the world. AMK was rated #1 in Cambodia for the third year in a row and is one of only two organizations who finished in the top 20 organizations worldwide for the last three years.

AMK continues to keep a strong focus on Social Performance Management (SPM). AMK's internal research once again confirmed that we continue to reach a very poor segment of the market, helping AMK achieve its vision and mission. As part of our social mission to reach out to the underserved and un-served groups, AMK has set up a unit to begin working with victims of human trafficking. This unit, SIGU, partners with aftercare organizations and provides financial education, savings services and loans.

AMK plays a leadership role for a number of key industry groups such as the Campaign for Client Protection in Microfinance (the Smart Campaign) and was elected to serve on the Social Performance Task Force (which gives overall guidance on SPM for the MF industry) and is on the governing board of the Clean Business Initiative in Cambodia,

2009 was a challenge but a healthy one which made AMK a stronger organization. I would like to offer a big thanks to all of the AMK staff for their hard work, dedication and professionalism. It should be noted that because of the remote rural focus of AMK, many of our staff work in extremely challenging conditions, and the consistent exceptional results they continue to achieve are truly remarkable.

I would like to express my thanks to Mr. Thomas O'Higgins the board chairman and the entire board for their strong support, guidance and leadership. Special thanks to Agora Microfinance fund and our shareholder Concern Worldwide for their guidance and support.

2010 will bring many new challenges and opportunities. The year is already off to a great start as AMK received its Deposit Taking License in January. This will bring the opportunity to offer clients a safe place to keep their money as well as providing an important source of local currency for AMK.

In 2010 AMK will continue its expansion to unreachable villages in Cambodia. At the same time we will add new products and services to help improve the lives of our clients as we head towards our goal of reaching 1 million clients.



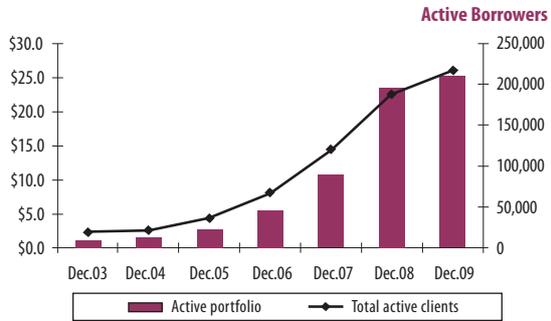
Paul Luchtenburg
Chief Executive Officer
AMK Co. Ltd.

AMK Highlights

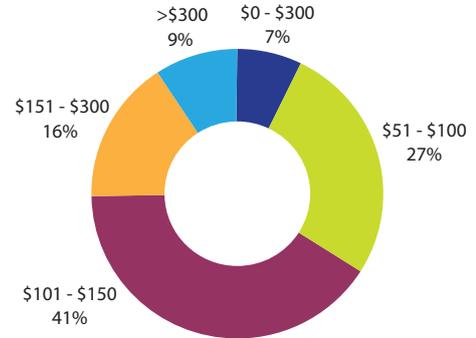
	DEC-06	DEC-07	DEC-08	DEC-09
OPERATIONAL HIGHLIGHTS				
Number of branches	9	15	20	22
Number of sub-branches	0	0	25	43
Number of villages	1,586	2,999	4,762	6,253
<i>% coverage of total villages in Cambodia</i>	11%	22%	36%	45%
Total staff	188	349	566	766
<i>% field officers over total staff</i>	48%	52%	57%	57%
Number of active borrowers (exc. staff)	67,006	120,111	188,696	217,477
• Group Loan Borrowers (%)	95%	94%	85%	88%
• Individual Loan Borrowers (%)	5%	6%	15%	12%
Loan portfolio (US\$, exc. staff loans)	\$5,230,443	\$10,306,981	\$23,187,911	\$24,795,880
• Group Loans (%)	85%	80%	65%	77%
• Individual Loans (%)	15%	20%	35%	23%
Number of voluntary savers	1,460	1,842	1,702	1,770
Voluntary Savings Balance (US\$)	\$8,335	\$27,851	\$11,494	\$19,342
Active borrowers/Avg Field Officer	937	880	746	542
Active borrowers/ Field Officer	736	660	582	502
Loans outstanding/Avg Field Officers (US\$)	\$73,801	\$76,490	\$92,583	\$62,661
FINANCIAL HIGHLIGHTS - (% and US\$)				
Net Profit (after tax, US\$)	\$393,442	\$823,222	\$986,145	448,172
Operational Self Sufficiency (OSS) (YTD)	121%	125%	118%	106%
Return on Assets (RoA) (YTD)	8.3%	8.9%	4.3%	1.3%
Return on Equity (RoE)	15.1%	25.4%	12.7%	4.2%
Portfolio Yield	36.0%	35.0%	35.9%	34.5%
Operating Cost Ratio	28.5%	24.5%	22.4%	22%
Average Cost of Funds	1.1%	2.2%	8.3%	10.2%
Leverage Ratio (Debt to Equity)	1.22	2.35	1.82	2.55
PAR30days	0.09%	0.06%	0.35%	2.85%
Write off Ratio (only for client deaths)	0.01%	0.08%	0.19%	0.38%
SOCIAL HIGHLIGHTS				
Women Borrowers (%)	85%	84%	85%	85%
Loans below US\$300 (%)	99%	96%	89%	91%
<i>Loan accounts below US\$300 (#)</i>	66,068	114,842	168,046	197,471
Rural borrowers (%) – estimation	90%	88%	95%	93%
Avg outstanding loan per borrower (US\$)	\$79	\$87	\$124	\$116
• Group borrowers	\$66	\$68	\$77	\$99
• Individual borrowers	\$227	\$263	\$286	\$196
Avg Loan Disbursed (US\$)	\$87	\$100	\$149	\$155
• Group borrowers	\$75	\$82	\$115	\$123
• Individual borrowers	\$322	\$374	\$357	\$359
Avg voluntary savings per saver (US\$)	\$5.71	\$15.12	\$6.75	\$10.93
Drop-out rate (%)	21%	27%	24%	*35%
Adjusted drop-out rate (minus resters, %)	12%	14%	11%	*19%
Depth of outreach: New Clients (< 1 year) below poverty line				
• <i>Estimation below rural food poverty line (%)</i>	71%	75%	63%	56%
• <i>Estimation below rural food poverty line (#)</i>	25,325	48,192	56,605	47,151

* % of resters is based on exit surveys (2006,2007, and 2009) and survey revisited client (2008)

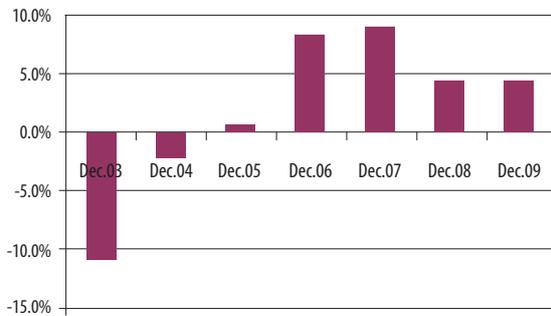
Graph1. Loan Portfolio, US\$, Millions



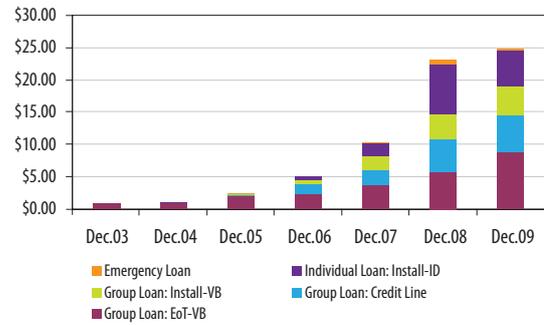
Graph2. Loans by Size (Loans Outstanding, Dec 09)



Graph3. Return On Average Total Assets (YTD)



Graph4. Loan Portfolio by Type of Product (US\$. Millions)



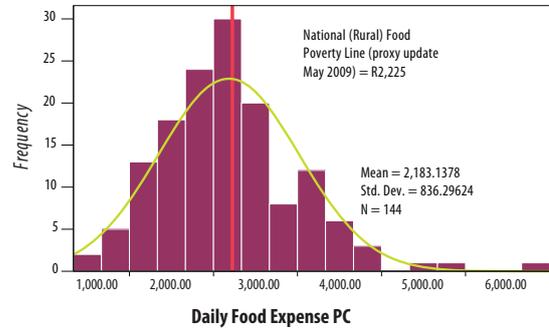
Clients in BTB

Graph5. AMK Wellbeing Score (ID)

AMK Quartile Analysis - Poverty Outreach, 2009



Graph6. Daily Food Expenditure per Capita (ID)



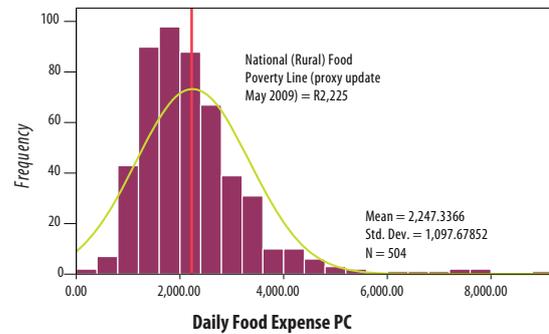
Graph7. AMK Wellbeing Score (VB)

AMK Quartile Analysis - Poverty Outreach, 2009



Graph8. Daily Food Expenditure per Capita (VB)

-Group Clients



AMK Wellbeing Score

Each household is assigned a Wellbeing Score, with higher scores indicating wealthier households. Quartile analysis equally divides non-client households into four categories and compares it with the pattern of poverty among new client households. Among new village bank clients (n=504), AMK is reaching a higher percentage of poorest and medium clients compared with the overall population but a slightly lower percentage of poor-level households and better-off client households (See Graph 5). As for ID client (144), new clients are underrepresented in the better-off, medium and poorest category but AMK is reaching a higher percentage of poor clients compared with the general population (See Graph 7).

Daily Food Expenditure Per Capita

Graph 6 and graph 8 maps the distribution of the sample in relation to daily per capita food expenditure. The majority (56% group clients and 58% of individual clients) are below the level defined by National Rural Food Poverty Line as sufficient to provide a subsistence-level dietary intake of 2,100 calories per day in rural areas). This daily per capita food expenditure figure also includes the monetary value of food produced, gathered and consumed within the household (rice and other food items).



Ownership, Governance And Management Structure

AMK Board Meeting at Phnom Penh Head Office

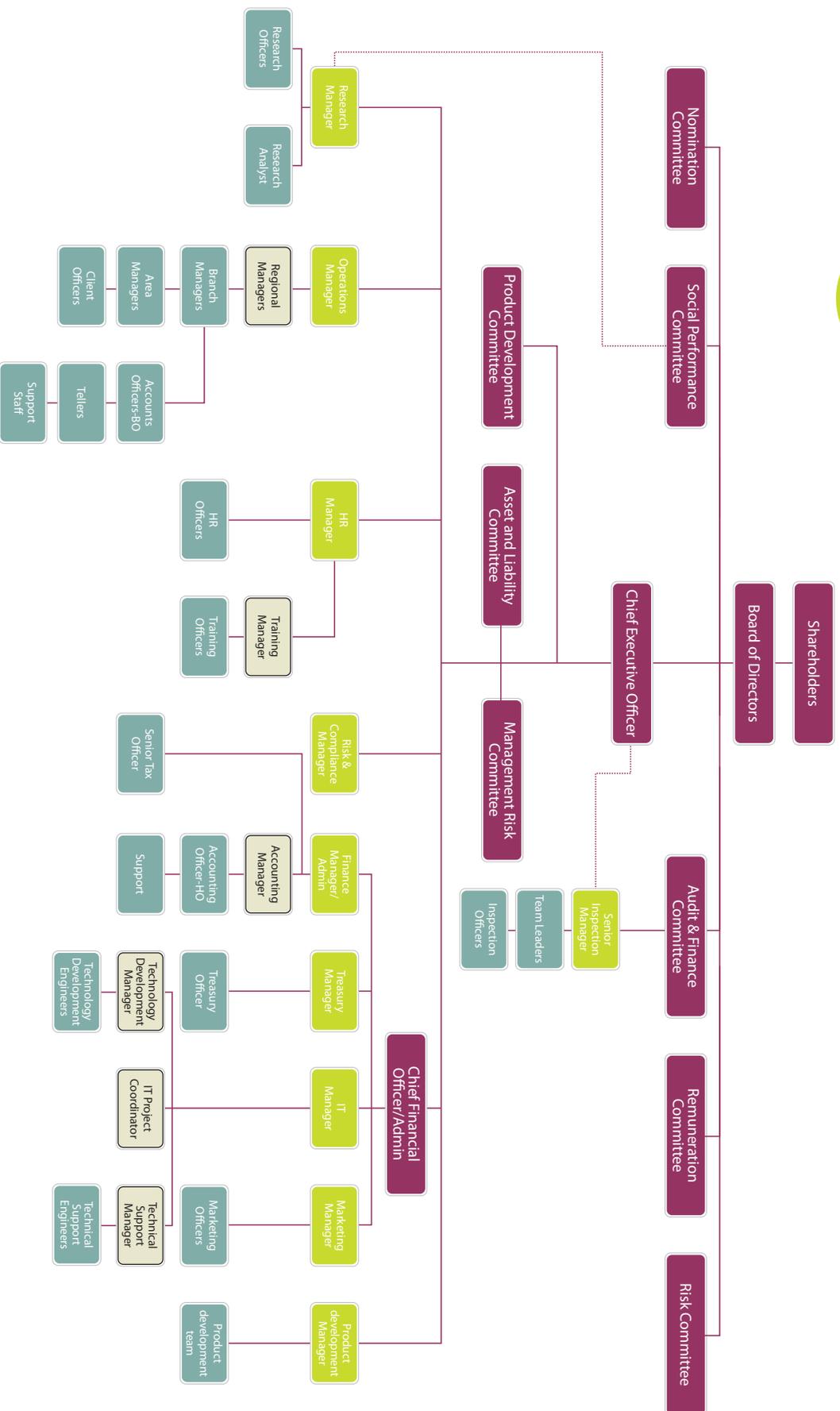
The shareholders of AMK are Concern Worldwide (Dublin) and Concern Worldwide UK.

AMK's shareholders appoint the Board of Directors which is responsible for overall governance and strategic guidance of the institution. The ten-member Board has broad expertise in areas such as auditing, Cambodian law, management, financial systems, human resource development, micro-finance and extensive experience in commercial banking.

The Board of Directors has five standing committees: Audit and Finance Committee, Risk Committee, Remuneration Committee, Nomination Committee, and Social Performance Committee. The Social Performance Committee, which advises the Board on AMK's social performance in terms of poverty outreach, product suitability, client protection, and overall social responsibility. The Social Performance Committee was established and began functioning in 2006. Most committees have external experts as members in addition to Directors.

The Board of Directors appoints the Chief Executive Officer (CEO). AMK's management brings together professionals from microfinance and related backgrounds. The CEO heads the management team, which includes ten departments (Operations, Finance, Human Resources, Information Technology, Inspections/Internal Audit, Marketing, Treasury, Research, Risk, and Product Development department).

AMK Organizational Chart



Board of Directors and Advisory committee

Tom O'Higgins

AMK Chairman and Member, Audit Committee. Tom is a former partner at Pricewaterhouse Coopers (PwC) and an expert in human resources, audit committees and corporate governance. He is a member of the board and a former chairman of Concern Worldwide, and a member of the Irish Human Rights Commission.



Howard Dalzell

Director, AMK Chairperson, Social Performance Committee. Howard recently retired from Concern Worldwide's Senior Management Team having been Overseas Director and Policy Director.



Tip Janvibol

Director, AMK. Tip Janvibol is Managing Partner of Tip and Associates law firm, Cambodia.

Pete Power

Director, AMK. Pete is the chairman of the Audit Committee and member of the risk committee, is the chief operating officer of prosperity initiative, a private sector development NGO based in Vietnam. Pete was formally a financial System Manager.



MEMBERS OF SOCIAL PERFORMANCE COMMITTEE

Gerhard Bruckermann

Director, AMK. Gerhard is a Partner with Agora Microfinance Partners LLP and the former Chairman and CEO of DEPFA Bank Plc.



Manfred Zeller

Member, Social Performance Committee. Manfred is a Professor at the University of Hohenheim, Germany.



Chan Sophal

Member, Social Performance Committee. Sophal is an Investment Manager at the Leopard Cambodia Fund, a President of CEA, and a part-time Research Manager at CDRI.

Tanmay Chetan

Director, AMK, member, Nomination and Remuneration Committee. Tanmay is the Managing Partner with Agora Microfinance Partners, London. He is also the former CEO of AMK.





Frances Sinha

Director of AMK, Member, Social Performance Committee. Frances is the Executive Director of EDA Rural Systems, based in Gurgaon, India, with 25 years experience in research and capacity building in microfinance in the Asia region (Appointed on 22 May 2009, pending approval from NBC).



Rebecca McKenzie

Director, AMK, Rebecca is Managing Partner at Agora Microfinance Partners in London. Formally, she was employed at DEPFA Bank plc where she was head of the Chairman's Office and worked in investor relations. She also acted as the bank's representative in its extensive sponsorship of and cooperation with Concern Worldwide.



Thomas Kolbeck

Director, AMK, Thomas held various positions in international banking institutions and emerging markets over 25 years experience. He was a deputy Chairman of a European Bank, serves as a non executive Director on the Board of Droege International, a Chairman of a charitable Foundation in Germany and KBR Finance Ltd (Appointed on 22 May 2009, pending approval from NBC).



Pradip Sanyal

Director, AMK, Pradip has 22 years work experience in development programmes in Microfinance. He is working as Country Director with Concern Worldwide Cambodia and has working experience in Bangladesh, South Sudan, and India.



Paul Luchtenburg

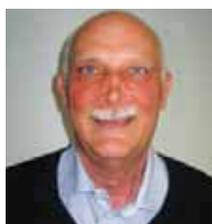
Director, AMK and current CEO (of AMK). Paul has nearly 20 years experience in microfinance, with primary focus on Cambodia. He has supported numerous organizations in Eurasia, from Mongolia to Kosovo.

MEMBERS OF THE AUDIT / RISK COMMITTEE



Irina Ignatieva

Member, Social Performance Committee. Irina is a Microfinance Advisor, Concern World, has 15 years experience with microfinance in developing countries, and holds an EMBA from Stockholm School of Economics, and MA from St. Petersburg University, Russia



Hajo Leucht

Member, Audit Committee. Hajo is the retired Chief Auditor of DEPFA Bank plc, Dublin.



Adrian Graham

Member, Audit and Finance Committee. Adrian is the finance director for Concern Worldwide.



Marcus Fedder

Chairperson, Risk Committee. Marcus Fedder is a former Vice Chairman and Head of Europe and Asia Pacific of TD Securities, the Toronto Dominion Bank and was, prior to that, Treasurer of the European Bank for Reconstruction and Development

Meet AMK's Senior Management Team



Mr. Ngeth Chou
Product Development Manager



Mr. Soeung Phyr
Risk Manager



Ms. Ly Theeda
Human Resources Manager



Ms. Long Chantha
Treasury Manager



Ms. Roeung Viriny
Finance Manager



Mr. Thun Vathana
Research Manager



Mr. Chum Paulette
Senior Inspections Manager



Mr. Mam Cheourn
Operations Manager



Mr. Paul Luchtenburg
Chief Executive Officer



Mr. Kea Borann
Chief Financial Officer



Mr. Meas Chanra
Training Manager



Mr. Pakk Yourng
IT Manager



Mr. Nang Kinal
Marketing Manager



Awards & Recognitions

2009

The UNITUS presented AMK with its first annual award for effectiveness. This award was in recognition for doing an outstanding job of understanding and meeting its clients' needs.

The National Bank of Cambodia presented AMK with an award of the recognition from the Microfinance Transparency Organization.

In the 2009 the MIX Global 100 Composite rating, AMK was ranked #16 in the world. AMK was rated #1 in Cambodia for the third year in a row and is one of only two organizations who finished in the top 20 organizations worldwide for the last three years. Further information at <http://www.themix.org/sites/default/files/2009%20MIX%20Global%20100%20Composite.pdf>

AMK received Gold Award for Transparency in Social Performance Reporting from the Microfinance Information Exchange (MIX) sponsored by CGAP, Dell Foundation, and Ford Foundation. Further information at <http://www.themix.org/publications/2009-social-performance-reporting-award-recipients>

2008

AMK received the Runners Up honour in the 2nd European Microfinance Award, in Luxembourg, Europe. The award was presented by the Grand Duchess of Luxembourg. Three finalists were selected from 45 applications, and AMK's award was based on initiative with its Social Performance Committee (SPC) and Social Performance Reporting Framework - Operationalizing a social reporting framework at the governance level.

AMK was recognized by the National Bank of Cambodia with an award for its contribution to enhance financial services outreach throughout Cambodia.

For the second year in a row, the MIX GLOBAL 100 (Washington-based) Composite Ranking, ranked AMK as the highest rated microfinance institution in Cambodia (and 19th in the World) based on outreach, efficiency and transparency. The MIX information also noted that at the end of 2007 AMK was the 67th largest provider of MF in the world in terms of clients. <http://www.mixmbb.org/Publications/001-IND/01-IND.ANLS/02-IND.ANLS.MFI/Global%20100%20Final.pdf>

AMK received an Alpha Social Rating and Alpha Plus Credit Rating (2008) from M-CRIL. AMK was one of the first organizations in the world to receive a Social Rating, and the combination of both ratings indicates good overall performance and the potential to emerge as a market leader.

2006
2007

MEMBERSHIPS

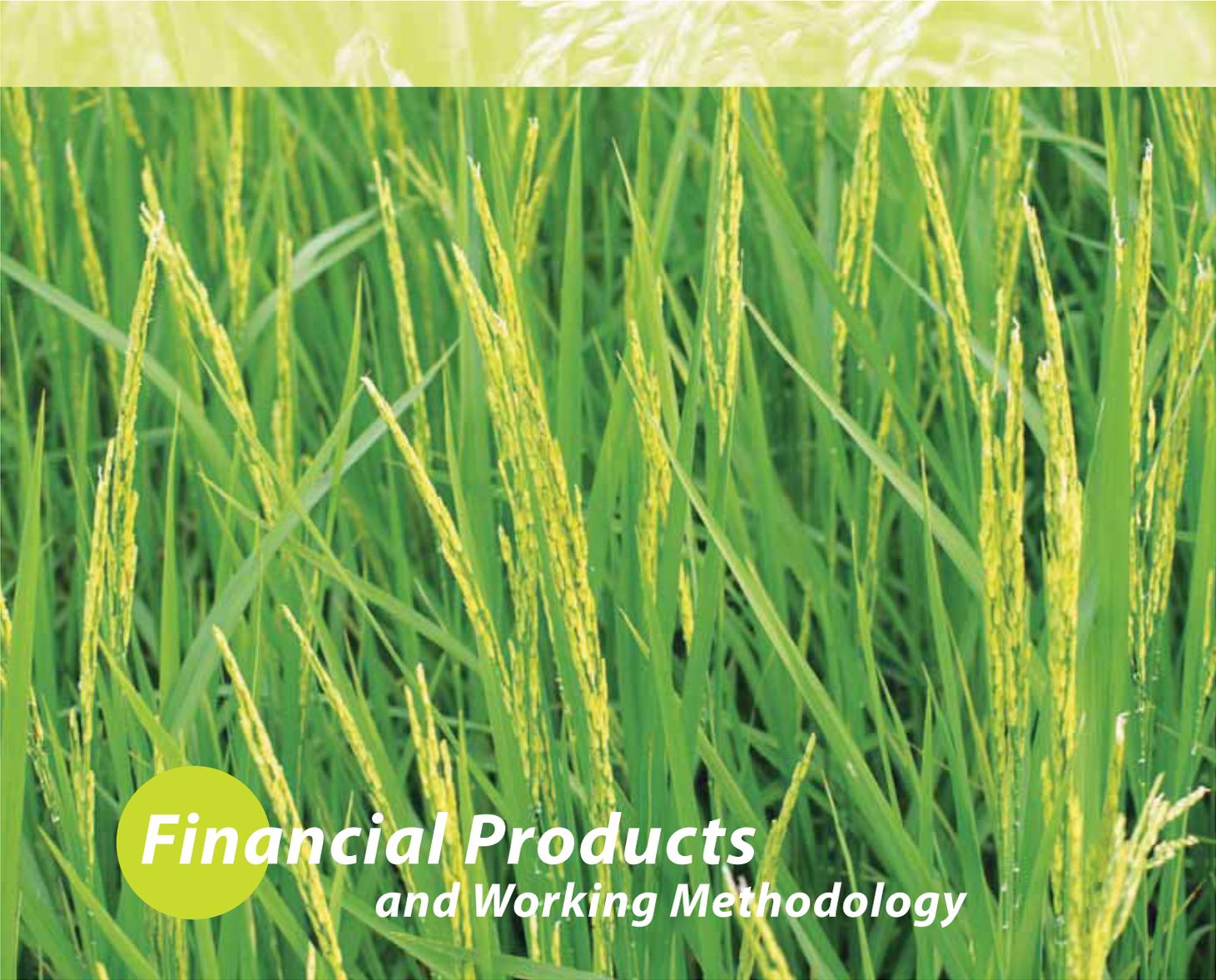
Member of the Social Performance Task Force and signatory to common statement of principles in support of social performance. Further information at http://www.microfinancegateway.org/resource_centers/socialperformance/

2006

AMK wins the CGAP Financial Transparency Award for the second year in a row (also won in 2005 - one in three MFIs in the world that have won the award in consecutive years).

AMK selected to participate in the Imp-Act Consortium Global Action Research Program. Further information available at <http://www.ids.ac.uk/impact/index.html>





Financial Products and Working Methodology

AMK offers five different credit products: three group-guaranteed loans without any physical collateral requirement, one individual loan product that requires physical collateral and two personal guarantors, and an emergency loan option that is restricted to clients that have completed at least six months with AMK and remain with existing balance outstanding. The group loans have three distinct repayment modalities: end-of-term, instalments and credit-line, while the individual loan has to be repaid in monthly instalments. The emergency loan provides a flexible end-of-term repayment option.

AMK's flagship product is the solidarity group loan product, which offers flexible repayment terms where clients can borrow and repay at any point during the cycle. AMK's end-of-term repayment product is delivered to members through a solidarity group lending methodology. These village solidarity groups are called Village Banks (VBs) and constitute the group loan delivery mechanism; they are in effect a "Village Association" or "Village-level client group."

The potential clients self-select themselves into solidarity groups of 4 to 6 members and these, in turn, are organized into VBs of 4 to 12 groups (or 20 to 60 clients). Being part of a self-selected solidarity group entails that three to five other villagers trust the loan applicant to let him/her join



their solidarity group. All loans are guaranteed by the respective group members and appraised and approved by AMK's Client Officer (CO) and the Village Bank President (VBP) before the disbursements take place in the presence of the group members and AMK's Area/Branch Manager.

Solidarity Group Methodology: Clients, Group Leaders, Village Bank Presidents

In order to be part of a group, the potential client needs to fulfil the following conditions:

(i) must be willing to be part of a solidarity group and offer moral guarantee for each other; (ii) should have at least one economic activity in the household; (iii) no two members in one group can be from the same family or household; (iv) cannot have existing (outstanding) loans from other microfinance institutions, programs, banks or moneylenders.

There are no requirements for gender but women are encouraged to participate and currently represent 86% of AMK's client base. Each group nominates a group leader who is in charge of ensuring member attendance to meetings, troubleshooting and liaison with VBP, CO and other members.

A VBP is the management representative of the VB, is elected through secret ballot by all members of the VB and is paid an incentive depending upon the VB's performance. VBPs are responsible for helping COs in organizing collection and repayment meetings; informing COs in advance in cases of potential non-payment and following-up with delinquent clients; solving membership related problems; and ensuring that all clients have been enrolled according to group and VB formation criteria.

AMK has a General Voluntary savings product which allows complete freedom for deposit and withdrawal amounts and earns 0.5% interest per month (6% per annum). Interest calculation will be based on a daily basis and recorded in the passbook at the end of June and December. Accounts can be opened with a deposit of R500 (US\$0.125, which is also the minimum savings balance to be maintained in the account), and the minimum denomination for transactions would be R100 or multiples of R100. At the time of enrolment, each individual is provided with a savings passbook free of cost where all transactions must be recorded by AMK staff. Transactions for deposits and withdrawals can take place at the village (on the day of the monthly VB meeting or individual meeting/visit) or at the branch office on all working days, from 8am to 12am.

In January 2010, AMK received its deposit license (MDI) from the National Bank, allowing it to collect savings from the general public. A Term Deposit product was added with terms of one month, 3 months, 6 months, 9 months, 12 months, and 18 months. The interest rate varies based on the length of the deposit.

	End Of Term - Village Bank	Installment - Village Bank	Credit Line - Village Bank	Installment - Individual	Emergency Loan
Clientele	Group members with seasonal (lumpy) cashflow	Group members with regular cashflow	Group members who have completed two cycles	Individual clients with regular cashflow	Individual or group clients who have completed at least 6 months
Loan Size	1 st cycle: 400,000R 2 nd cycle: 600,000R 3 rd cycle: 800,000R	Up to 800,000R	Up to 800,000R	Up to 2,000,000R 500\$	Up to 400,000R
Loan Guarantee	Social guarantee – No need for physical collateral or guarantors			Physical collateral and two personal guarantors	One personal guarantor
Loan Denomination	Riel, and Thai Baht (in Banteay Meanchey) and US\$ in Kandal				
Disbursement Deadline	1 to 2 weeks from signature, if there are no changes in the application form				4 working hours from time of request
Maximum Term	12 months		24 months	18 months	10 months
Repayment Amount and Frequency	3% monthly interest, end-of-term principal (or before)	Monthly fixed principal, declining 2.8% interest	3% monthly interest, on the outstanding loan principal on or before the end of term	Monthly fixed principal, declining 3% interest. From the 3rd loan/ 2 years: 2.5% interest	2.5% monthly interest on the outstanding loan; principal on or before the end of the term
Prepayment Penalties	None				
Late Payment Fee	Additional 1% per month (from first payment after the end of the term)		Additional 1% per month on pending principal (starting from the month a payment has been missed)		Additional 1% per month (from first payment after the end of the term).
Other Fees	Up-front fee: 0.5% of loan amount			None	
Loan-Linked Compulsory Savings	None		None		None
Note: In 2010, we have US\$ 2,000-ID throughout the country					



Risk Management

In 2009 AMK strengthened its risk management practices by appointing a Risk Manager, a Risk and Compliance Department. The department spearheaded the development of a comprehensive risk management framework covering:

Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people, systems and/ or from external events

Credit Risk – the risk to earnings or capital due to borrowers' late and non-payment of loan obligations, credit risk encompasses both the loss of income resulting from AMK's inability to collect anticipated interest earnings as well as the loss of principle resulting from loan defaults. Credit risk includes transaction risk and portfolio risk.

Financial Risk

- (i) Foreign currency exchange risk – the risk of loss arising from adverse movement in exchange rates
- (ii) Liquidity risk – the risk that AMK will not be able to meet its obligations when they fall due



Social Performance In Progress

The global financial crisis has greatly affected the performance of MFIs in Cambodia and the world. Despite this, AMK has kept a strong commitment to its social and financial objectives, with an ever constant focus on providing the best products and services for its clients. Its commitment to the double bottom line can be viewed as follows:

Management level: The AMK Research Department has conducted social and market research in order to understand the current issues regarding AMK's clients and staff. The Research Department works in cooperation with other AMK departments, including Operations, HR, Inspections, Finance and others in order to ensure good understanding of inter-related issues.

Governance level: Research results are reported to AMK Management as well as to its Social Performance Committee (SPC). The SPC members are nominated by the Board for a two year term and who have extensive research backgrounds – see page 16-17). The SPC advises and summarizes to the Board of Directors the research results. The purpose of doing so is to give the Board a balanced view of AMK's overall institutional performance, so that governance decisions are appropriately aligned to the institution's dual objectives.

Social Performance Management Approach

The Research Department is in charge of social and market research while other departments -notably Inspections, Human Resources, Marketing, and Operations- collaborate in assessing issues around AMK's social responsibility towards clients and staff.

MANAGEMENT
LEVEL

GOVERNANCE
LEVEL

The Social Performance Committee advises the Board of Directors broadly mirroring the role played by the Audit and Finance Committee but in respect to AMK's social performance. This dual-committee structure attempts to give the Board a balanced view of AMK's overall institutional performance, so that governance decisions are appropriately aligned to the institution's dual objectives.

AMK has worked in relevant partnerships with organizations such as Unitus, Oikocredit and The International Labor Organization (ILO) towards better understanding of its clients.

COLLABORA-
TIONS:

Collaboration with external partners: AMK's Research Department has worked with relevant partners such as Unitus, Oikocredit and International Labor Organization (ILO) towards gaining better understanding of clients and findings ways to serve them effectively, in addition to protecting their rights and privacy.

Social Performance Assessment Framework

Social performance management is a process which involves setting clear social objectives, monitoring and assessing progress towards achieving these objectives, and using information to improve overall organizational performance.

The Research Department cooperates with other departments in AMK including HR, Inspections, Operations and Marketing in order to achieve AMK's social goals. Our methodology focuses on:

1	Depth of outreach	We evaluate whether AMK's activities reach significant numbers of poor. We also check whether these activities meet clients' needs and if clients are satisfied with AMK's products and services. This is done by using tools such as the cash-flow household survey, exit survey or other ad hoc surveys.
2	Demand- driven products and services	These tools allow us to produce client reports - Client Profile, Wellbeing/ Poverty Score, Satisfaction, Loan Use and others.
3	Client Protection and Transparency	These areas inspect AMK's social responsibility with regards to AMK's clients, staff and community. Besides in-house surveys, we cooperate with the Marketing Department to record client grievances through the customer satisfaction hotline, client awareness reports by the inspections department and staff satisfaction by HR Department.
4	Other Social Responsibility	
5	Change studies on clients	It is also crucial to examine how well we achieve our social performance mission. We do this by assessing the wellbeing score of client households and tracking this information over time to highlight the change - whether client are less poor or better off than when they first became clients.

Social Performance Achievements

Information is vital in social performance management as it can help indicate if AMK is on the right track or not with its mission and social goals. Information is based on AMK research that is regularly conducted. AMK estimates the client poverty level by calculating a wellbeing score for each client. By tracking client wellbeing score over time, we are able to see if a client's livelihoods are improving. Information is useful as well for Marketing and also for decision making and external reporting. In 2009, information came from these four main research activities:

- Cash-flow survey (including client outreach, client satisfaction, client profile and loan use): The Research team collected data on 810 new clients, conducted interviews with 150 existing clients and carried out ad hoc surveys on 150 non-performing loan clients.
- Non-performing loan study: AMK's non-performing loans have increased gradually since the last quarter of 2008. As a result, AMK decided to take the initiative in understanding why AMK clients faced more difficulty in paying back loans. The study was conducted with 150 clients who had overdue payments. These clients were from the three provinces that have the highest levels of non-performing loans.

- Exiting client survey: In this survey, 150 exiting clients were randomly selected and interviewed in five provinces.
- Financial education survey with support from ILO: AMK is doing a pilot project of providing financial education to its client officers that they in turn should pass on to the clients they work with. This survey is a baseline for measuring the impact on clients of AMK providing financial education to its client officers. By using this survey, we can determine if this project actually has an effect on clients. The Research Department has now collected data on 1,200 clients who should have received basic financial education training from client officers. If the analysis of data shows that clients receiving financial education are less likely to be over indebted, AMK may expand this program.

Note

Note. Due to the increased workload resulting from the collaboration with different partners the Research Department recruited two new staff in the latter half of 2009—one Research Officer and one Research Assistant, making the total number of researchers six. Apart from those researchers, the Research Department provided opportunities for two local and two international students to intern with the Department in 2009.

To strengthen and accomplish the social performance framework, the Research team also cooperates with other departments to ensure effectiveness of AMK’s social responsibility towards clients and staffs. The major activities include installation of suggestion and complaint boxes for the staff, recording client grievances by launching the AMK customer satisfaction hotline, and conducting client awareness surveys as well as staff satisfaction surveys. Main highlights of AMK’s social performance achievements of 2009 are illustrated in the following pages:

:: Market and Social Intelligent Reports

DEPTH OF OUTREACH (measuring poverty on entry):							
Is AMK reaching at least an equal share of poor households as compared to what is found in the general rural population?		Yes – see below:					
		Total clients	Total non-clients	Group		Individual	
				Clients	Non-clients	Clients	Non-clients
New clients (< 1year) below the Food Poverty Line in Rural Areas	%	56% ^[*]	51%	56%	49%	58%	56%
	#	366	82	283	62	83	20
Wellbeing groups for new clients		See Graph 5 and 7 in page 12 – Quartile Analysis Wellbeing Score					
Estimation: actual number of poor new clients being served who fall below the National Food Poverty Line		47,151		42,870		4,281	

[*]Based on representative sample data of new clients. (648) and non-clients (162)

ADEQUATE PRODUCTS (range, quality of services)

- There is general satisfaction among new AMK clients (The primary sources for satisfaction are very similar between group and Individual client: The fact that AMK provides loans when clients need them, that the loans are easy to get, with fair interest rates and that AMK provides loans at their doorstep are high sources of satisfaction).
- "Income problems" is the main reason for client exiting AMK, followed by the "Insufficient capital" reason.

OTHER CORPORATE SOCIAL RESPONSIBILITY

- There are 3 hotlines for clients to report their grievances on AMK's services, products and other related problems.
- Most staff are satisfied with AMK regarding training, procedures and policies.
- Overall clients are aware of the importance of keeping pass books, loan transaction documents, and are aware of what to do if they have a complaint.
- Liaising with International Labor Organization for "Microfinance Decent Work Action Research" program: innovation project on Finance Education.

:: Balancing of social and financial performance of AMK

Microfinance should be driven by two objectives, both social and financial, which contribute to the development of marginalized groups through the use of sustainable financial services. AMK is trying to achieve this balance by a strong focus on achieving its mission which, in turn, drives its values. One of these is financial sustainability. Below are some initial working templates for monitoring performance and facilitating decision-making at different management levels:

As of 31/Dec/2009 (Active Borrowers only)	Total	Group			Individual installment
		End-of-Term	Installment	Credit line	
Women Active Borrowers	85%	85%	87%	88%	75%
Effective Interest Rate (Eir) [Or Apr]	30.7-37.1%	37.1%	34.7%	36.7%	30.7-36.8%
Portfolio Distribution by Product					
<i>Share of Active Loan Accounts</i>	217,477	45%	23%	21%	12%
<i>Share of Loan Portfolio (US\$, million)</i>	\$24.79m	36%	18%	23%	23%
Account Distribution Within Products					
<i>New client to AMK and to product</i>	39%	54%	49%	-	29%
<i>Senior client changing from another AMK loan product</i>	26%	8%	15%	73%	36%
<i>Continuing client in same product</i>	35%	39%	36%	27%	35%
LOAN AVERAGES					
<i>Average Loan Outstanding</i>	\$116	\$91	\$89	\$126	\$196
<i>Average Loan Disbursed</i>	\$155		\$123		\$359

The portfolio analysis templates will also include drop-out rates and rural households by product in new MIS which is coming soon.

:: External Report Standard

Externally, AMK has also been developing a standard report to ensure that what AMK reports is matching the information collected by external organizations such as the MIX. Here is a sample of information that is regularly reported to the MIX:

Achievement of Social Goals – Excerpt from AMK’s Report to the MIX Social Performance Standard Reporting		
Does AMK track whether clients’ children are attending school? Does AMK collect this information separately for new clients (< 1 year) and for older clients (> 3 years)?	Yes	
	Yes – see below:	
	New Clients	Older Clients[*]
Clients’ daughters in school / Clients’ daughters of primary school age	88%	91%
Clients’ sons in school / Clients’ sons of primary school age	85%	91%
Clients’ daughters in school / Clients’ daughters of secondary school age	51%	52%
Clients’ sons in school / Clients’ sons of secondary school age	63%	69%

[]The sample of older clients is data of 2008 and much smaller, therefore conclusions are only preliminary.*

:: Social Performance Framework Report

AMK developed a Social Performance Framework which is monitoring tool for improving management processes. The tool is used and then presented to the overall board during social performance meetings. This framework won the second runner up award from the European Social Performance Awards in 2008.



Promotional Meeting in Siemreap

:: Case Study—SPM of AMK

The case study of social performance management (SPM) of AMK captures the learning emerging within AMK as part of the *Imp-Act* Consortium Global Learning Programme on SPM, a two-year project which seeks to gather evidence of effective SPM and understand its organisational value. So far, the lesson from AMK's experience can be divided into lessons at board level, at management level and at the intersection of both governance and management levels.

At **board level**, there are two main lessons:

- The mission, vision and guiding principles are fundamental and guide social performance assessment and management within AMK.
- The advisory role of the SPC has been instrumental in prioritising areas of focus, addressing gaps and simplifying processes and formats.

Lessons that affect both governance and management level include:

- SMART objectives cannot be set without information on which to base them (e.g. depth of outreach). It is best if data can be triangulated so that when information is available, it comes from different angles within the organisation. Thus, when setting (SMART) objectives or 'red flags' (warning points), decisions should be based not only on one source of information (for example, a research finding) but also on others (for instance, the data from finance or assessment from operations).

For instance, research can provide data on drop-out rates. But to set a red flag or an absolute value above which alarms will ring loud and clear, it is best to look not only at the trends over time but also at what Operations would feel comfortable with, or what other department heads think about that potential level/figure/data point. Another (historical) example is the comparison of households' cash-flow data (from research) and disbursement trends.

- So far, strategic systems have ensured very substantial depth of outreach. In the future, as outreach strategies focus more on expansion, AMK may need to consider SMART objectives (or red flags) for outreach. The interactive process between the board and management in setting these targets or red flags becomes a great opportunity for further enhancing the balance between social and financial performance.

At **management level**, lessons include the following:

- The research function can get complicated: the skill requirement is not only to be able to analyse strategically and concisely, but for the reporting to highlight the issues that have implications for AMK strategy and decision-making. And once these have been identified, management must decide on the best decision-making mechanism (informal when the institution is small, formalised as it grows).
- The process of balancing social and financial performance is as important as the outputs themselves. Consultation within senior management has been vital because institutional learning happens in the process of analysing together and not only in sharing the results of the studies. (Leadership, of course, remains key.)

Research Output for Decision Making

In response to management needs and requests, the Research team conducts additional studies which provide valuable information for business decision making. The core of social performance management is using information to improve performance. The decision making at all levels of organization need to be based on both social and financial performance information. Summarized below are two requested studies that were carried out by research, and then used for decision-making going forward:

Non-Performing Loan study:	The main reasons for client default were related to a decrease in the income from business activities, followed by health problems and issues with the loan. Increasing economic activities is the most common solution for defaulted client to repay AMK. About 95% of clients in default are trying to repay their AMK loan.
Multiple Loan study:	The poor are more likely to have multiple loans, particularly poor individual clients; generally the high amount of average loan size was not the main reason clients faced repayment difficulties, it was more due to high rates of interest.
Suggestion to management team :	<ul style="list-style-type: none">• Should attempt to maintain existing clients, they have a willingness to pay when they have repayment problems.• Provide support in terms of how clients can sell their products. It is important to convey a message that AMK will only be flexible in the case that a client has exhausted all reasonable options of payment in the near term, and will not be put in a poverty state by needing to pay in the future.• Staff should carefully screen clients before giving loans.• Also do a careful review of the guarantors. Guarantors must understand their responsibility. In addition, ensure that the guarantors are willing to fulfill this responsibility when the borrower cannot pay.

Looking Ahead

The Research team is constantly attempting to strengthen SPM as AMK grows and matures. The near future activities plan includes:

Ensure staff buy-in – Keeping all staff up to date on SPM through ongoing training and providing information that is useful for all departments

Capacity Building – Strengthen the capacity of the Research staff. In the following year the Research Department will collaborate with partners in sending staff for training, and also improve the overall research function.

New tool – In the year of 2010, the Research Department will launch the Progress out of Poverty Index (PPI) tool developed by the Grameen Foundation; it consists of 10 simple questions that measure the poverty likelihood of the client household. The tool can be used to track poverty at entry to AMK, as well as to track change in poverty level overtime.

Special Interest Group Unit

The Special Interest Group Unit (SIGU) was established in September 2009 to further reflect AMK's social mission. SIGU's goal is to extend AMK's services to vulnerable populations who are currently underserved by Micro Finance Institutes in Cambodia. Target clients include women who are victims of trafficking, domestic violence and other gender-based traumas, people living with HIV/AIDS, street people and people with disabilities.

SIGU works in partnership with organisations whose expertise lies in providing rehabilitation, support and vocational skills training to vulnerable client groups. In 2009 the Unit developed and delivered financial literacy training sessions and created a credit pilot to provide start-up capital for micro-entrepreneurs. This is an innovative new project which is being supported by the Sorenson / Unitus Ultra Poor Initiative.

AHKUN

Ahkun.org is a non-profit online marketplace which connects Kiva.org entrepreneurs who have taken out a microloan with the global marketplace. Just like Kiva.org, the entrepreneurs you see on Ahkun are real individuals who want to sell their goods abroad. Ahkun hopes to help each entrepreneur in two ways:

- (1) By providing them access to a larger market.
- (2) By allowing them to receive a higher price for their goods.

All proceeds from Ahkun will be split between the entrepreneurs, the microfinance institutions that service their loans, Kiva.org and the rest will be reinvested into Ahkun.

Ahkun and AMK are partnering together to help AMK's delinquent clients escape their difficult situation. AMK will train groups of clients who are having a difficult time paying back their loans, to teach them how to make products. These products will then be sold on Ahkun.org with the proceeds going to the clients so that they can pay off their loans.



Loan Disbursement in PRH



Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd (“the Company” or “AMK”) for the year ended 31 December 2009.

Principal activity

The principal activity of AMK is to provide micro-finance services to the economically active poor population of Cambodia through its head office in Phnom Penh and its various provincial offices in the Kingdom of Cambodia.

Financial results

The financial results of the Company for the year ended 31 December 2009 were as follows:

	KHR'000
Profit before income tax	2,377,901
Income tax expense	(509,471)
Net profit for the year	1,868,430

Reserves and provisions

There were no material movements to or from reserves and provisions during the financial year other than as disclosed in the financial statements.

Bad and doubtful loans

Before the income statement and balance sheet of the Company were prepared, the Board of Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad loans and the making of allowance for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate allowance had been made for bad and doubtful loans.

At the date of this report, the Board of Directors is not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Company, inadequate to any substantial extent.

Current assets

Before the income statement and balance sheet of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company had been written down to an amount which they might be expected to realise.

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

Valuation methods

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

Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person;
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

Change of circumstances

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

Items of unusual nature

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

Events since the balance sheet date

No significant events occurred after the balance sheet date that require disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements.

The Board of Directors

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

- Mr. Thomas James O'Higgins *Chairman*
- Mr. Alastair Land *Secretary (Appointed on 21 October 2009)*
- Mr. Howard Dalzell *Director*
- Mr. Peter Power *Director*
- Mr. Gerhard Bruckermann *Director*
- Mr. Tip Janvibol *Director*
- Mr. Tanmay Chetan *Director*
- Mr. Paul Luchtenburg *Director and Chief Executive Officer*
- Mr. Pradip Sanyal *Director (Appointed on 18 August 2009)*
- Ms. Rebecca McKenzie *Director (Appointed on 18 August 2009)*
- Mrs. Frances Sinha *Director (Appointed on 22 May 2009, pending approval from NBC)*
- Mr. Tom Kolbeck *Director (Appointed on 22 May 2009, pending approval from NBC)*
- Mr. Adam Mooney *Director (Resigned on 23 October 2009)*

Directors' interests

No members held any interest in the equity of the Company. No arrangements existed to which the Company is a party with the object of enabling the members to obtain an interest in the Company or in any body corporate.



PRH Branch office

Directors' benefits

During and at the end of the financial year, no arrangements existed to which the Company is a party with the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Responsibilities of the Board of Directors in respect of the financial statements

The Board of Directors is responsible for ascertaining that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2009, and of the results of its operations and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;*
- (ii) comply with Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;*
- (iii) maintain adequate accounting records and an effective system of internal controls;*
- (iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and*
- (v) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.*

The Board of Directors confirms that the Company has complied with the above requirements in preparing the financial statements.

Signed in accordance with a resolution of the Board of Directors,



Mr. Thomas James O'Higgins

Chairman

Date: 25 March 2010



Report of the Independent Auditors

To the shareholders

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd

We have audited the accompanying financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd (“the Company” or “AMK”), which comprise the balance sheet as at 31 December 2009, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 7 to 53.

Management’s Responsibility for the Financial Statements

The Company’s management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

Balance Sheet

As at 31 December 2009

	Note	2009		2008	
		KHR'000	US\$	KHR'000	US\$
Assets					
Cash on hand	5	681,603	163,493	567,753	139,121
Deposits and placements with banks	6	43,337,509	10,395,181	17,506,021	4,289,640
Statutory deposits	7	1,730,463	415,079	1,725,463	422,804
Loans to customers	8	102,059,270	24,480,516	94,568,950	23,172,985
Other receivables	9	4,909,263	1,177,563	2,254,719	552,492
Intangible assets	10	368,972	88,504	597,444	146,396
Property and equipment	11	4,062,737	974,511	2,916,598	714,677
Deferred tax assets	12	688,155	165,065	335,516	82,214
Total assets		157,837,972	37,859,912	120,472,464	29,520,329
Liabilities and shareholders' equity					
Deposits from customers	13	721,249	173,003	630,609	154,523
Due to a shareholder	14	3,709	890	155,082	38,001
Borrowings	15	106,820,745	25,622,630	71,327,793	17,478,018
Other liabilities	16	3,126,964	750,051	3,431,502	840,849
Provision for income tax	17	516,218	123,823	1,066,524	261,339
Provision for retirement benefits	18	2,125,786	509,903	1,206,083	295,536
Total liabilities		113,314,671	27,180,300	77,817,593	19,068,266
Shareholders' equity					
Share capital	19	34,069,250	8,172,044	34,069,250	8,348,260
Retained earnings		10,454,051	2,507,568	8,585,621	2,103,803
Total shareholders' equity		44,523,301	10,679,612	42,654,871	10,452,063
Total liabilities and shareholders' equity		157,837,972	37,859,912	120,472,464	29,520,329



The accompany notes form part of these financial statements

Income Statement

Year ended 31 December 2009

	Note	2009		2008	
		KHR'000	US\$	KHR'000	US\$
Interest income	20	35,304,626	8,468,368	24,875,427	6,095,424
Interest expenses	21	(9,217,663)	(2,211,001)	(4,341,115)	(1,063,738)
Net interest income		26,086,963	6,257,367	20,534,312	5,031,686
Other operating income	22	758,539	181,947	644,154	157,842
Operating income		26,845,502	6,439,314	21,178,466	5,189,528
Fee and commission expenses	23	(1,174,237)	(281,659)	(860,542)	(210,866)
Operating and other expenses	24	(21,551,521)	(5,169,470)	(14,881,466)	(3,646,524)
Provision for bad and doubtful loans	8	(2,063,542)	(494,973)	(804,452)	(197,121)
Profit from operations		2,056,202	493,212	4,632,006	1,135,017
Grant income	25	321,699	77,165	367,608	90,078
Profit before income tax		2,377,901	570,377	4,999,614	1,225,095
Income tax expense	17	(509,471)	(122,205)	(975,156)	(238,951)
Net profit for the year		1,868,430	448,172	4,024,458	986,144



MKP Branch Office Staff

The accompanying notes form part of these financial statements

Statement of Changes in Equity

Year ended 31 December 2009

	Share capital	Retained earnings	Total
	KHR'000	KHR'000	KHR'000
Balance as at 1 January 2008	10,148,925	4,561,163	14,710,088
Conversion of amounts due to shareholder	23,920,325	—	23,920,325
Net profit for the year	—	4,024,458	4,024,458
Balance as at 31 December 2008	34,069,250	8,585,621	42,654,871
Net profit for the year	—	1,868,430	1,868,430
Balance as at 31 December 2009 (US\$ equivalent)	34,069,250 8,172,044	10,454,051 2,507,568	44,523,301 10,679,612



Counters at Phnom Penh Head Office

The accompanying notes form part of these financial statements

Statement of Cash Flows

Year ended 31 December 2009

	Note	2009		2008	
		KHR'000	US\$	KHR'000	US\$
Cash flows from operating activities					
Net cash used in operating activities	26	(30,309,510)	(7,270,211)	(52,895,773)	(12,961,973)
Cash flows from investing activities					
Purchase of intangible assets		(93,593)	(22,450)	(641,813)	(157,269)
Purchase of property and equipment		(2,455,984)	(589,106)	(1,999,358)	(489,918)
Proceeds from disposal of property and equipment		33,360	8,002	—	—
Net cash used in investing activities		(2,516,217)	(603,554)	(2,641,171)	(647,187)
Cash flows from financing activities					
Proceeds from borrowings		55,444,433	13,299,216	64,497,927	15,804,441
Repayments of borrowings		(19,951,481)	(4,785,675)	(1,088,886)	(266,818)
Net cash generated from financing activities		35,492,952	8,513,541	63,409,041	15,537,623
Net increase in cash and cash equivalents					
		2,667,225	639,776	7,872,097	1,928,463
Cash and cash equivalents at beginning of year		12,666,449	3,103,761	4,794,352	1,197,690
Translation difference		—	(65,515)	—	(22,392)
Cash and cash equivalents at end of year	27	15,333,674	3,678,022	12,666,449	3,103,761
Significant non-cash transactions					
During the year, there were following significant non-cash transactions:					
Conversion of loans into Share Capital		—	—	23,920,325	5,861,388

The accompanying notes form part of these financial statements



Note to the Financial Statements – 31 December 2009

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements.

(b) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis.

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel (“KHR”), United States Dollars (“US\$”) and Thai Baht (“THB”). Management have determined

the KHR to be the Company’s currency for measurement and presentation purposes as it reflects the economic substance of the underlying events and circumstances of the Company as the majority of the loan transactions are in KHR.

Transactions in currencies other than KHR are translated to KHR at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than KHR at the balance sheet date are translated into KHR at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

(d) Use of estimates and judgements

The preparation of financial statements requires management make judgements, estimates and assumptions that affect the application of

accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

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

(a) Financial instruments

The Company's financial assets and liabilities include cash and cash equivalents, originated loans and receivables, deposits, other receivables and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(b) Segment information

The Company operates within one business segment, commercially oriented micro-finance services, and within one geographical segment, the Kingdom of Cambodia.

(c) Basis of aggregation

The financial statements comprise the financial statements of the head office and the twenty-two branches in Banteay Meanchey, Battambang, Dangkor, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kandal, Kratie, Kampot, Mondulkiri, Muk Kampoul, Otdor Meanchey, Preah Vihear, Prey Veng, Pursat, Ratanakiri, Siem Reap, Sihanouk Ville, Stung Treng, Svay Rieng and Takeo after the elimination of all inter-branch balances and transactions.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(e) Deposits and placement with banks

Deposits and placements with banks are carried at cost.

(f) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general provisions. Short-term loans are those with a repayment date within one year of the date the loan was advanced. Long-term loans are those with a final repayment date of more than one year of the date the loan was advanced. The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

(g) Provision for bad and doubtful loans

In compliance with the NBC Guidelines, a specific provision for bad and doubtful loans is made on loans that are identified as non-performing, as follows:



Client at Phnom Penh Head Office Counters

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

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrual in interest and is charged as expense. Interest on non-performing loans is not accrued.

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

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

The provision will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The provision shall be recorded in the institution's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard. The analysis of overdue loans is set out in note 8.

An uncollectible loan or portion of a loan classified is written off when, in the judgment of the management, there is no prospect of recovery, after taking into consideration the realisable value of the collateral, if any or when the client death.

Recoveries on loans previously written off are disclosed as other operating income in the income statement.

(h) Other receivables

Other receivables are carried at estimated realisable value. An estimate is made for doubtful receivables based on a review of outstanding amounts at the end of the fiscal year.

(i) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised on a declining basis at the rate of 50% per annum.

(j) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a declining basis over the estimated useful lives of the individual assets at the following rates:

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

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

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

(vi) The carrying amounts of property and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3 (f).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment losses are recognised in the incom statement.

An impairment loss is reversed if the reversal can be related objuctively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future

cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

(l) Deposits from customers

Deposits from customers are stated at placement value.

(m) Borrowings

Borrowings are stated at cost.

(n) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Provision for retirement benefits

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

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

Or

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

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

No separate fund is maintained, i.e., there is no separate interest-bearing bank account or any other asset maintained for this fund.

(p) Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes nonperforming, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

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

Expenses are recognised on an accrual basis.

(q) Operating leases

Payments made under operating leases are recognised in the income statement on a straightline basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay become due.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholder equity, in which case it is also disclosed as a component of shareholder equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to permit the realisation of the asset. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Related parties

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

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10 percent of the capital of the Company or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

(t) New standards and interpretations not yet adopted

The National Accounting Council of Cambodia, as mandated by Prakas (Circular) No. 068-MEFPr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia on the adoption of Cambodian Financial Reporting Standards, has decided to adopt International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) effective for financial statements with periods beginning on or after 1 January 2012. The new standards will be referred to as “Cambodian

International Financial Reporting Standards” (CIFRS). The adoption of CIFRS is expected to have a significant impact on the financial statements of the Company.

4. Translation of Khmer Riel into United States Dollars

The financial statements are stated in Khmer Riel. The translations of Khmer Riel amounts into United States Dollars are included solely for presentation purposes and have been made using the prescribed official exchange rate of US\$1: KHR4,169 (2008: KHR4,081) published by the NBC on 31 December 2009. These translations should not be construed as representations that the Khmer Riel amounts have been, could have been, or could in the future be, converted into United States Dollars at this or any other rate of exchange.

5. Cash on hand

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Head office	9,763	2,342	12,214	2,993
Provincial branches				
Banteay Meanchey	69,795	16,741	70,873	17,367
Battambang	16,324	3,915	26,494	6,492
Dangkor	8,922	2,140	—	—
Kampong Cham	24,984	5,993	13,787	3,378
Kampong Chhnang	21,317	5,113	34,010	8,334
Kampong Speu	22,945	5,504	49,941	12,237
Kampong Thom	35,102	8,420	19,342	4,740
Kandal	53,979	12,948	30,039	7,361
Kratie	12,430	2,981	7,815	1,915
Kampot	60,837	14,593	24,320	5,959
Mondulkiri	27,908	6,694	14,805	3,628
Muk Kampoul	18,596	4,461	—	—
Otdor Meanchey	34,489	8,273	18,158	4,449
Preah Vihear	30,496	7,315	61,313	15,024
Prey Veng	44,760	10,736	23,921	5,862
Pursat	43,086	10,335	12,695	3,111
Ratanakiri	7,323	1,757	8,513	2,086
Siem Reap	40,004	9,595	9,068	2,222
Sihanouk Ville	10,825	2,597	29,984	7,347
Stung Treng	22,100	5,301	15,857	3,885
Svay Rieng	45,165	10,833	37,517	9,193
Takeo	20,453	4,906	47,087	11,538
	681,603	163,493	567,753	139,121

The above amounts are analysed as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
By currency:				
Khmer Riel	494,277	118,560	456,619	111,889
Thai Baht	55,194	13,239	67,751	16,602
US Dollar	132,132	31,694	43,383	10,630
	681,603	163,493	567,753	139,121

6. Deposits and placements with banks

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Foreign Trade Bank of Cambodia	20,302,582	4,869,893	8,183,025	2,005,152
ANZ Royal Bank (Cambodia) Ltd	14,431,210	3,461,552	—	—
Acleda Bank Plc.	8,527,357	2,045,420	8,058,432	1,974,622
National Bank of Cambodia	76,360	18,316	1,264,564	309,866
	43,337,509	10,395,181	17,506,021	4,289,640

The above amounts are analysed as follows:

(a) By maturity:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Within 1 month	2,586,141	620,327	12,098,696	2,964,640
2 to 3 months	12,065,930	2,894,202	—	—
3 to 6 months	16,485,438	3,954,291	1,224,300	300,000
More than 12 months	12,200,000	2,926,361	4,183,025	1,025,000
	43,337,509	10,395,181	17,506,021	4,289,640

(b) By currency:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Khmer Riel	8,743,407	2,097,243	5,157,620	1,263,813
Thai Baht	2,111,314	506,432	855,919	209,733
US Dollars	32,482,788	7,791,506	11,492,482	2,816,094
	43,337,509	10,395,181	17,506,021	4,289,640

(c) By interest rate (per annum):

	2009		2008	
Foreign Trade Bank of Cambodia	0.75% - 5%		0% - 0.75%	
ANZ Royal Bank (Cambodia) Ltd	0.75% - 3.6%		—	
Acleda Bank Plc.	0% - 0.5%		2% - 5%	

7. Statutory deposits with banks

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Statutory deposits on:				
Registered share capital	1,703,463	408,602	1,703,463	417,413
Customers' deposits	27,000	6,477	22,000	5,391
	1,730,463	415,079	1,725,463	422,804

The statutory deposits are maintained with the NBC in compliance with Prakas No B7-00-006 and B7-06-209 on the Licensing of Micro-Finance Institutions, the amounts of which are determined by defined percentages of the Company's registered share capital and customers' deposits with the Company.

The statutory deposit on registered share capital is refundable when the Company voluntarily liquidates and has no deposit liabilities. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

From September 2006, the statutory deposit on registered capital placed with NBC earns interest at the rate of 3% per annum. The statutory deposit relating to customers' deposits does not earn interest.

8. Loans to customers

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Village Bank loans:				
End of term	37,103,899	8,899,952	23,281,576	5,704,870
Credit line	23,413,245	5,616,034	20,730,537	5,079,769
Installment	18,519,916	4,442,292	15,226,696	3,731,119
Individual loans:				
Installment	23,297,726	5,588,325	32,514,796	7,967,360
Emergency - end of term	1,039,239	249,277	2,876,257	704,792
Staff loans	1,380,679	331,178	961,777	235,672
	104,754,704	25,127,058	95,591,639	23,423,582
Allowance for bad and doubtful loans				
Specific	(1,691,581)	(405,752)	(80,034)	(19,611)
General	(1,003,853)	(240,790)	(942,655)	(230,986)
	(2,695,434)	(646,542)	(1,022,689)	(250,597)
	102,059,270	24,480,516	94,568,950	23,172,985
Total number of loans		221,072		197,222

The movements in allowance for bad and doubtful loans to customers were as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
At beginning of year	1,022,689	250,597	421,082	105,192
Provision during the year	2,063,542	494,973	804,452	197,121
Written off during the year	(396,561)	(95,121)	(193,024)	(47,298)
Translation difference	5,764	(3,907)	(9,821)	(4,418)
At end of year	2,695,434	646,542	1,022,689	250,597

The loan to customers are analyzed as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(a) By maturity:				
Within 1 month	4,512,138	1,082,307	1,194,155	292,613
1 to 3 months	16,039,268	3,847,270	10,073,069	2,468,285
3 to 12 months	44,119,509	10,582,756	30,101,560	7,376,025
More than 12 months	40,083,789	9,614,725	54,222,855	13,286,659
	104,754,704	25,127,058	95,591,639	23,423,582

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(b) By currency:				
Khmer Riel	96,122,438	23,056,473	86,964,416	21,309,585
Thai Baht	7,209,526	1,729,318	7,665,446	1,878,325
US Dollars	1,422,740	341,267	961,777	235,672
	104,754,704	25,127,058	95,591,639	23,423,582

(c) By economic sector:				
Agriculture	64,653,167	15,508,076	48,119,335	11,791,065
Trade and commerce	29,487,625	7,073,069	36,187,078	8,867,208
Household/family	5,335,032	1,279,691	6,401,035	1,568,496
Construction	1,654,096	396,761	1,591,855	390,065
Services	1,487,470	356,793	1,386,633	339,778
Transportation	322,314	77,312	435,205	106,642
Other categories	1,815,000	435,356	1,470,498	360,328
	104,754,704	25,127,058	95,591,639	23,423,582

(d) By residency status:				
Residents	104,754,704	25,127,058	95,591,639	23,423,582

(e) By relationship:				
External customers	103,374,025	24,795,880	94,629,862	23,187,910
Staff loans	1,380,679	331,178	961,777	235,672
	104,754,704	25,127,058	95,591,639	23,423,582

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(f) By locations:				
Head office	1,380,679	331,178	961,777	235,672
Provincial branches				
Banteay Meanchey	7,209,526	1,729,318	7,665,447	1,878,326
Battambang	7,806,637	1,872,544	6,981,378	1,710,703
Dangkor	365,202	87,599	–	–
Kampong Cham	8,031,399	1,926,457	8,571,644	2,100,378
Kampong Chhnang	3,619,761	868,257	4,080,110	999,782
Kampong Speu	7,739,829	1,856,519	8,169,384	2,001,809
Kampong Thom	6,207,786	1,489,035	8,150,610	1,997,209
Kandal	4,282,464	1,027,216	5,048,896	1,237,171
Kratie	6,357,972	1,525,059	4,570,653	1,119,984
Kampot	3,260,762	782,145	3,579,969	877,228
Mondulhiri	1,395,524	334,738	364,691	89,363
Muk Kampoul	1,026,834	246,302	–	–
Otdor Meanchey	4,232,400	1,015,208	3,337,410	817,792
Preah Vihear	2,793,335	670,025	2,462,978	603,523
Prey Veng	8,004,641	1,920,039	4,665,494	1,143,223
Pursat	6,105,649	1,464,536	6,181,233	1,514,637
Ratanakiri	1,739,361	417,213	720,396	176,524
Siem Reap	5,718,310	1,371,626	6,770,460	1,659,020
Sihanouk Ville	3,209,319	769,805	3,209,088	786,349
Stung Treng	861,459	206,634	583,105	142,883
Svay Rieng	6,815,771	1,634,870	4,810,591	1,178,778
Takeo	6,590,084	1,580,735	4,706,325	1,153,228
	104,754,704	25,127,058	95,591,639	23,423,582

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(g) By performance:				
<i>Standard loans:</i>				
Secured	22,924,106	5,498,706	33,250,553	8,147,649
Unsecured	78,841,875	18,911,460	61,997,064	15,191,635
<i>Sub-standard loans:</i>				
Secured	390,884	93,760	203,572	49,883
Unsecured	273,480	65,598	62,537	15,324
<i>Doubtful loans:</i>				
Secured	857,015	205,568	11,464	2,808
Unsecured	141,863	34,028	23,521	5,764
<i>Loans loss:</i>				
Secured	486,600	116,719	10,985	2,692
Unsecured	838,881	201,219	31,943	7,827
	104,754,704	25,127,058	95,591,639	23,423,582

(h) By interest rate (per annum):

	2009	2008
External customers	30% - 36%	30% - 36%
Staff loans	2% - 12%	2% - 12%

During the year there was no renegotiation of delinquent loans, i.e., refinancing or restructuring. Loans disclosed above are based on the original loan agreements entered into with customers.

Staff loans consist of general staff loans and asset purchase loans. General staff loans are unsecured whereas asset purchase loans are secured by the asset purchased or any other asset equal to or more than the value of the loans. Repayments of principal and interest are made on a monthly basis. As at 31 December 2009, there are 341 staff loans (2008:222), and all loans are classified as standard or performing loans.

9. Other receivables

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Interest receivable	2,017,447	483,916	1,572,777	385,390
Prepayments and deposits	2,811,796	674,453	573,267	140,472
Others	80,020	19,194	108,675	26,630
	4,909,263	1,177,563	2,254,719	552,492

10. Intangible assets

	Micro Banker – Software license	
	KHR'000	US\$
Cost		
At 1 January 2009	774,320	189,737
Additions	93,593	22,450
Translation difference	–	(4,004)
At 31 December 2009	867,913	208,183
Less: Accumulated amortisation		
At 1 January 2009	176,876	43,341
Charge for the year	322,065	77,252
Translation difference	–	(914)
At 31 December 2009	498,941	119,679
Net book value		
At 31 December 2009	368,972	88,504
At 31 December 2008	597,444	146,396

11. Property and Equipment

	Motor Vehicles	Motorcycles	Computer and office equipment	Total	Total
	KHR'000	KHR'000	KHR'000	KHR'000	US\$
Cost					
At 1 January 2009	1,516,679	2,098,150	1,204,864	4,819,693	1,181,008
Additions	498,234	1,239,652	718,098	2,455,984	589,106
Disposal	(37,550)	-	-	(37,550)	(9,007)
Translation difference	-	-	-	-	(24,929)
At 31 December 2009	1,977,363	3,337,802	1,922,962	7,238,127	1,736,178
Less: Accumulated Depreciation					
At 1 January 2009	651,764	658,137	593,194	1,903,095	466,331
Charge for the year	296,312	566,078	436,224	1,298,614	311,493
Disposal	(26,319)	-	-	(26,319)	(6,313)
Translation difference	-	-	-	-	(9,844)
At 31 December 2009	921,757	1,224,215	1,029,418	3,175,390	761,667
Net book value					
At 31 December 2009	1,055,606	2,113,587	893,544	4,062,737	974,511
At 31 December 2008	864,915	1,440,013	611,670	2,916,598	714,677

12. Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Deferred tax assets	822,769	197,354	476,055	116,651
Deferred tax liabilities	(134,614)	(32,289)	(140,539)	(34,437)
	688,155	165,065	335,516	82,214

The movement of net deferred tax assets is as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Balance at beginning of year	335,516	82,214	–	–
Credited to income statement	352,639	84,586	335,516	82,214
Translation difference	–	(1,735)	–	–
Balance at end of year	688,155	165,065	335,516	82,214

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

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Provision for retirement benefits	479,904	115,112	241,217	59,107
General provision	200,771	48,158	106,059	25,988
Khmer new year bonus	46,336	11,115	73,967	18,125
Unrealised exchange losses	95,758	22,969	54,812	13,431
Depreciation	(134,614)	(32,289)	(140,539)	(34,437)
	688,155	165,065	335,516	82,214

13. Deposits from customers

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
General savings	81,904	19,646	47,187	11,562
Loan-linked savings	75,488	18,107	439,262	107,636
Staff savings	563,857	135,250	144,160	35,325
	721,249	173,003	630,609	154,523

The general (voluntary) savings is available for the Company's borrowers only and bears interest at the rate of 18% per annum. The interest charge is accrued to individual borrowers' accounts every six months in June and December.

The loan-linked savings is a compulsory deposit on individual loans disbursed as required by the Company. 2% of the principal loan amount disbursed to borrowers is recorded as loan-linked savings and bears interest at the rate of 12% per annum, and refunded at the end of the loan cycle. The loan-linked savings were not required since 1 July 2008.

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

On 26 September 2008, the Board of Directors has approved applying for a saving deposit license from the National Bank of Cambodia. On 29 January 2010, the National Bank of Cambodia approved this license for the Company.

The deposits from customers are analysed as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(a) By currency:				
Khmer Riel	136,297	32,693	444,260	108,861
Thai Baht	21,095	5,060	42,194	10,339
US Dollars	563,857	135,250	144,155	35,323
	721,249	173,003	630,609	154,523

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(b) By maturity:				
Within 1 month	165,121	39,607	203,898	49,963
1 to 3 months	127,376	30,553	64,911	15,906
3 to 12 months	191,064	45,830	357,440	87,586
More than 12 months	237,688	57,013	4,360	1,068
	721,249	173,003	630,609	154,523



Clients at Phnom Penh Office Counters

14. Due to a shareholder

Amounts due to a shareholder are unsecured, interest free and have no fixed term of repayment.

15. Borrowings

	Note	2009		2008	
		KHR'000	US\$	KHR'000	US\$
Moringaway	i	25,193,500	6,043,056	25,061,500	6,141,019
ICO *	ii	22,197,903	5,324,515	—	—
Foreign Trade Bank of Cambodia	iii	21,050,000	5,049,172	4,000,000	980,152
Symbiotics SA Information	iv	11,313,800	2,713,792	9,897,500	2,425,263
Oikocredit	v	7,222,400	1,732,406	9,244,800	2,265,327
Hivos-Triodos Fonds	vi	6,000,000	1,439,194	6,000,000	1,470,228
BlueOrchard	vii	5,419,700	1,300,000	9,051,800	2,218,035
Rural Impulse Fund	viii	4,314,114	1,034,808	4,040,202	990,003
KIVA Microfunds	ix	4,079,328	978,491	3,914,575	959,220
The Minerva Treehouse	x	30,000	7,196	—	—
Micro Finance Alliance Fund	viii	—	—	117,416	28,771
		106,820,745	25,622,630	71,327,793	17,478,018

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

The borrowings are analysed as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(a) By maturity:				
Within 1 year	40,616,344	9,742,467	26,579,916	6,513,089
1 to 5 years	44,006,500	10,555,649	44,747,877	10,964,929
Above 5 years	22,197,901	5,324,514	—	—
	106,820,745	25,622,630	71,327,793	17,478,018

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
(b) By currency:				
Khmer Riel	53,242,400	12,771,024	38,302,216	9,385,498
Thai Baht	6,456,114	1,548,600	11,562,702	2,833,301
US Dollars	47,122,231	11,303,006	21,462,875	5,259,219
	106,820,745	25,622,630	71,327,793	17,478,018

i. Moringaway

Terms	First loan:	The loan is convertible debt.
	Second loan:	36 Months, from 21 April 2008 to 31 March 2011. The loan is convertible debt.
	Third loan:	36 months, from 21 August 2008 to 21 August 2011. The loan is convertible debt.
Total credit facilities	First loan:	KHR6,786,000,000
	Second loan:	KHR12,154,000,000
	Third loan:	US\$1,500,000
Repayment	Principal is due on the maturity date and interest is paid annually.	
Security	These loans are unsecured.	

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

The principal of the loan is US\$5,324,515 with the 12 years period. The principal will be repaid in six equal annual installments after six years of grace period and the interest shall be settled on a quarterly basis, starting from 22 June 2009 to 22 June 2021. The loan is unsecured.



Clients access services at Phnom Penh Office Counters

iii. Foreign Trade Bank of Cambodia (“FTB”)

Terms	First loan:	24 months, from 15 December 2008 to 15 December 2010.
	Second loan:	12 months, from 27 April 2009 to 30 March 2010.
	Third loan:	30 months, from 3 September 2009 to 18 April 2012.
	Fourth loan:	12 months, from 10 September 2009 to 10 September 2010.
	Fifth loan:	24 months, from 6 November 2009 to 6 November 2011.
Total credit facilities	First loan:	KHR4,000,000,000
	Second loan:	KHR4,000,000,000
	Third loan:	KHR4,000,000,000
	Fourth loan:	KHR2,050,000,000
	Fifth loan:	KHR8,200,000,000
Repayment	First loan:	Principal is due on 1 April 2010 and 5 October 2010 of KHR1,200 million and KHR1,600 million respectively, and on 10 July 2009 the principal of KHR1,200 million has been paid.
	Second loan:	This loan was fully paid in January 2010.
	Third, Fourth and Fifth loan:	Principal is due on maturity date and interest is paid on monthly basis.
Security	These loans are secured by fixed deposits which are used to hedge against devaluation and depreciation risk, except for the fourth loan is secured by the letter of credit from Deutsche Bank Trust Company Americas.	

iv. Symbiotics SA Information

Terms	First loan:	
	• First half (US\$250,000):	18 months, from 4 September 2008 to 4 March 2010.
	• Second half (US\$250,000):	24 months, from 4 September 2008 to 4 September 2010.
	Second loan:	
	• First (US\$300,000):	12 months, from 13 October 2008 to 13 October 2009.
	• Second (US\$300,000):	18 months, from 13 October 2008 to 13 April 2010.
	• Third (US\$400,000):	24 months, from 13 October 2008 to 13 October 2010.
	Third loan:	
		36 months, from 23 April 2009 to 23 April 2012.

	Fourth loan:	12 months, from 5 October 2009 to 5 October 2010.
Total credit facilities	First loan:	US\$500,000
	Second loan:	US\$1,000,000
	Third loan:	US\$1,000,000
	Fourth loan	THB17,000,000
Repayment	Principal is due on the maturity date and interest is paid semi-annually.	
Security	These loans are unsecured.	
v. Oikocredit		
Terms	First loan:	36 months, from 5 November 2007 to 5 November 2010.
	Second loan:	36 months, from 12 April 2008 to 30 April 2011.
	Third loan:	36 months, from 23 December 2009 to 23 December 2012.
Total credit facilities	First loan:	KHR4,056,000,000.
	Second loan:	KHR6,000,000,000.
	Third loan:	KHR6,150,000,000.
Repayment	First loan:	Principal of five equal semi-annual payments of KHR811,200,000 each; the first payment will be paid twelve months after the first disbursement and every six months thereafter. The interest is payable semi-annually, the first payment is paid six months after the first disbursement and every 6 months thereafter.
	Second loan:	Principal of five equal semi-annual payments of KHR1,200,000,000 each; the first payment will be paid twelve months after the first disbursement and every six months thereafter. The interest is payable semi-annually, the first payment is paid six months after the first disbursement and every six months thereafter.
	Third loan:	Principal of five equal semi-annual payments of KHR 1,230,000,000 each, the first payment will be paid twelve months after the first disbursement and every six months thereafter. The interest is payable semi-annually, the first payment is paid six months after the first disbursement and every six months thereafter.
Security	These loans are unsecured.	

vi. Hivos-Triodos Fonds

The principal of the loan is KHR6,000 million with the 36 months period, starting from 27 November 2008 to 1 November 2011. The principal is due on the maturity date while the interest is paid semi-annually. The loan is unsecured.

vii. BlueOrchard

Terms	First loan:	24 months, from 5 February 2008 to 5 February 2010.
	Second loan:	24 months, from 26 February 2008 to 26 February 2010.
	Third loan:	24 months, from 26 March 2008 to 26 March 2010.
Total credit facilities	First loan:	US\$500,000
	Second loan:	US\$300,000
	Third loan:	US\$500,000
Repayment	Principal is due on the maturity date and interest is paid semi-annually.	
Security	These loans are unsecured.	

viii. Rural Impulse Fund

The principal of the loan is THB34 million with the two years period, matures on 23 September 2010. The repayment of principal is due on the maturity date and interest is payable quarterly. The loan is unsecured.

ix. KIVA Microfunds

The loan is initially disbursed by AMK to the individual and group borrowers, and then the loan is disbursed upon request from AMK through access to website maintained by KIVA. The loan is unsecured and the principal will be paid by AMK on a monthly basis.

x. The Minerva Treehouse

The principal of the loan is KHR300 million and disbursed by tranches. The loan period is 60 months, from 30 November 2009 to 30 November 2014. The repayment of principal is due on the maturity date. The loan is unsecured.

(c) By interest rate:

	2009	2008
(b) By currency:		
Khmer Riel	0% - 15.12%	10.50% - 13.95%
US Dollars	0% - 11.63%	0% - 11.63%
Thai Baht	11.40% - 12.56%	11.83% - 12.56%



Client in KHH

16. Other liabilities

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Interest payable	1,892,656	453,983	2,398,130	587,633
Staff bonus	601,516	144,283	369,836	90,624
Staff incentive	317,486	76,154	303,586	74,390
Other tax payables	167,033	40,065	155,206	38,032
Others	148,273	35,566	204,744	50,170
	3,126,964	750,051	3,431,502	840,849

17. Provision for income tax

(a) Provision for income tax

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Balance at beginning of year	1,066,524	261,339	552,357	137,986
Income tax expense	862,110	206,791	1,310,672	321,165
Income tax paid	(1,412,416)	(338,790)	(796,505)	(195,174)
Translation difference	—	(5,517)	—	(2,638)
Balance at end of year	516,218	123,823	1,066,524	261,339

In accordance with Cambodian law, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

(b) Income tax expense

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Current income tax	862,110	206,791	1,310,672	321,165
Deferred tax	(352,639)	(84,586)	(335,516)	(82,214)
	509,471	122,205	975,156	238,951

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



	2009			2008		
	KHR'000	US\$	%	KHR'000	US\$	%
Profit before income tax	2,377,901	570,377		4,999,614	1,225,095	
Income tax using statutory rate	475,580	114,075	20	999,923	245,019	20
Tax effect of:						
<i>Non-deductible expenses</i>	97,940	23,492	4	83,475	20,455	2
<i>Recognition of prior year under recognised deferred tax asset</i>	(82,472)	(19,782)	(3)	—	—	—
<i>Effect of over provision in prior year</i>	18,423	4,420	1	—	—	—
<i>Prior year deferred tax not recognised</i>	—	—	—	(166,477)	(40,793)	(3)
<i>Effect of temporary difference</i>	—	—	—	58,235	14,270	1
	509,471	122,205		975,156	238,951	

The calculation of taxable income is subject to the review and approval of the tax authorities.

18. Provision for retirement benefits

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Balance at beginning of year	1,206,083	295,536	633,563	158,272
Payment during the year	(96,103)	(23,052)	(51,877)	(12,712)
Charge during the year	996,567	239,042	595,881	146,013
Translation difference	19,239	(1,623)	28,516	3,963
Balance at end of year	2,125,786	509,903	1,206,083	295,536

19. Share capital

The details of shareholding are as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Shares 1,362,770 of KHR25,000 each:				
Concern Worldwide (Dublin)	34,066,750	8,171,444	34,066,750	8,347,648
Concern Worldwide (UK)	2,500	600	2,500	612
	34,069,250	8,172,044	34,069,250	8,348,260



AMK Football Team

20. Interest income

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Loans to customers	34,421,605	8,256,562	24,665,058	6,043,876
Deposits and placements with banks	883,021	211,806	210,369	51,548
	35,304,626	8,468,368	24,875,427	6,095,424

21. Interest expenses

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Borrowings	9,171,093	2,199,830	4,278,452	1,048,383
Deposits from customers	46,570	11,171	62,663	15,355
	9,217,663	2,211,001	4,341,115	1,063,738

22. Other operating income

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Loan fee income	616,510	147,880	602,352	147,599
Gain on disposal	22,129	5,308	—	—
Bad debts recovered	34	8	470	115
Other income	119,866	28,751	41,332	10,128
	758,539	181,947	644,154	157,842

23. Fee and commission expenses

The commission expenses represent the payments towards the village bank committee incentive. The basis of the incentive is calculated at a rate of 4.5% of interest collection.



SRP Branch Office

24. Operating and other expenses

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Staff costs	13,005,918	3,119,673	8,712,192	2,134,818
Depreciation and amortisation	1,620,679	388,745	884,205	216,664
Transportation costs	1,252,498	300,431	1,227,566	300,800
Office supplies and equipment	1,100,186	263,897	806,847	197,708
Office rentals	933,313	223,870	506,262	124,053
Professional services	923,652	221,552	551,219	135,070
Technical support costs	772,295	185,247	852,506	208,896
Communications	632,364	151,683	392,789	96,248
Utilities	261,270	62,670	215,656	52,844
Foreign exchange loss	478,265	114,719	274,060	67,155
Other expenses	571,081	136,983	458,164	112,268
	21,551,521	5,169,470	14,881,466	3,646,524

Technical support costs represent the salaries of the Chief Executive Officer and the Research Advisor which are paid directly by Concern Worldwide (Dublin).

25. Grant income

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

26. Net cash used in operating activities

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Profit before income tax	2,377,901	570,377	4,999,614	1,225,095
Adjustments for:				
<i>Depreciation and amortisation</i>	1,620,679	388,745	884,205	216,664
<i>Provision for bad and doubtful loans</i>	2,063,542	494,973	804,452	197,121
<i>Gain on disposal of property and equipment</i>	(22,129)	(5,308)	—	—
<i>Provision for retirement benefits</i>	996,567	239,042	595,881	146,013
<i>Operating profit before changes in operating assets and liabilities</i>	7,036,560	1,687,829	7,284,152	1,784,893
Increase in:				
<i>Deposits and placements with banks</i>	(23,278,113)	(5,583,620)	(5,407,325)	(1,325,500)
<i>Statutory deposits</i>	(5,000)	(1,199)	(1,196,017)	(293,069)
<i>Loans to customers</i>	(9,553,862)	(2,291,644)	(53,999,815)	(13,232,005)
<i>Other receivables</i>	(2,654,544)	(636,734)	(1,390,278)	(340,671)
Increase/(decrease) in:				
<i>Deposits from customers</i>	90,640	21,741	113,216	27,742
<i>Due to a shareholder</i>	(151,373)	(36,309)	(152,949)	(37,478)
<i>Other liabilities</i>	(381,402)	(91,485)	2,649,748	649,289
Cash used in operations	(28,897,094)	(6,931,421)	(52,099,268)	(12,766,799)
Income tax paid	(1,412,416)	(338,790)	(796,505)	(195,174)
Net cash used in operating activities	(30,309,510)	(7,270,211)	(52,895,773)	(12,961,973)

27. Cash and cash equivalents

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Cash on hand	681,603	163,493	567,753	139,121
Deposits and placements with banks	14,652,071	3,514,529	12,098,696	2,964,640
	15,333,674	3,678,022	12,666,449	3,103,761

28. Financial risk management

The guidelines and policies adopted by the Company to manage the risks that arise in the conduct of their business activities are as follows:

(a) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

The Company holds collateral against loans to customers in the form of mortgage interests over property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as doubtful.

(b) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

The operational risk management entail the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

(c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

(i) Foreign currency exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$ and Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by National Bank of Cambodia. Management has entered into currency hedging transactions with a bank by obtaining loan in Khmer Riel against its United States Dollars fixed deposit since it considers that back-to-back lending is the most commonly used method to hedge against devaluation or depreciation risk.

Concentration of currency risk

The aggregate amounts of assets and liabilities, by currency denomination, are as follows:

	(KHR equivalent)			Total
	KHR	US\$	THB	
31 December 2009				
Assets				
Cash on hand	494,277	132,132	55,194	681,603
Deposits and placements with banks	8,743,407	32,482,788	2,111,314	43,337,509
Statutory deposits	1,730,463	-	-	1,730,463
Loans to customers	93,545,398	1,422,182	7,091,690	102,059,270
Other receivables	1,961,334	2,810,069	137,860	4,909,263
Total financial assets	106,474,879	36,847,171	9,396,058	152,718,108
Liabilities				
Deposits from customers	136,297	563,857	21,095	721,249
Due to a shareholder	-	3,709	-	3,709
Borrowings	53,242,400	47,122,231	6,456,114	106,820,745
Other liabilities	1,522,120	1,496,760	108,084	3,126,964
Provision for income tax	516,218	-	-	516,218
Provision for retirement benefits	-	2,125,786	-	2,125,786
Total financial liabilities	55,417,035	51,312,343	6,585,293	113,314,671
Net asset/(liability) position	51,057,844	(14,465,172)	2,810,765	39,403,437
31 December 2008				
Total assets	95,093,645	12,851,939	8,677,322	116,622,906
Total liabilities	41,802,101	24,121,862	11,893,630	77,817,593
Net asset/(liability) position	53,291,544	(11,269,923)	(3,216,308)	38,805,313

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loans and bank deposits.

Management does not enter into interest rate hedging transactions since it considers that the cost of such instruments outweigh the potential risk of interest rate fluctuation.

The following table indicates the effective interest rates at the balance sheet date and the periods in which the financial instruments re-price or mature, whichever is earlier.

2009								
	Up to 1 month KHR'000	1 – 3 months KHR'000	3 - 12 months KHR'000	1 - 5 years KHR'000	Over 5 years KHR'000	Non- interest sensitive KHR'000	Total KHR'000	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	681,603	681,603	0%
Deposits and placements with banks	2,212,302	12,065,930	16,485,438	12,200,000	-	373,839	43,337,509	2.8%
Statutory deposits	-	-	-	-	1,703,463	27,000	1,730,463	2.95%
Loans to customers								
<i>Performing</i>	4,512,138	15,374,904	43,120,631	38,758,308	-	-	101,765,981	34.01%
<i>Non performing</i>	-	-	-	-	-	2,988,723	2,988,723	0%
<i>Allowance</i>	-	-	-	-	-	(2,695,434)	(2,695,434)	0%
Other receivables	-	-	-	-	-	4,909,263	4,909,263	-
Deferred tax assets	-	-	-	-	-	688,155	688,155	-
Total assets	6,724,440	27,440,834	59,606,069	50,958,308	1,703,463	6,973,149	153,406,263	
Liabilities								
Deposits from customers	163,977	127,376	191,064	237,688	-	1,144	721,249	6.8%
Due to a shareholder	-	-	-	-	-	3,709	3,709	-
Borrowings	-	14,923,850	21,613,166	43,976,500	22,197,901	4,109,328	106,820,745	8.59%
Other liabilities	-	-	-	-	-	3,126,964	3,126,964	-
Provision for income tax	-	-	-	-	-	516,218	516,218	-
Provision for retirement benefits	-	-	-	-	-	2,125,786	2,125,786	-
Total liabilities	163,977	15,051,226	21,804,230	44,214,188	22,197,901	9,883,149	113,314,671	
Maturity gap	6,560,463	12,389,608	37,801,839	6,744,120	(20,494,438)	(2,910,000)	40,091,592	



2008

	Up to 1 month KHR'000	1 – 3 months KHR'000	3 - 12 months KHR'000	1 - 5 years KHR'000	Over 5 years KHR'000	Non- interest sensitive KHR'000	Total KHR'000	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	567,753	567,753	-
Deposits and placements with banks	11,678,042	-	1,224,300	4,183,025	-	420,654	17,506,021	1.92%
Statutory deposits	-	-	-	-	1,703,463	22,000	1,725,463	2.87%
Loans to customers								
<i>Performing</i>	1,194,155	10,073,069	30,101,560	53,878,833	-	-	95,247,617	35.8%
<i>Non performing</i>	-	-	-	-	-	344,022	344,022	-
<i>Allowance</i>	-	-	-	-	-	(1,022,689)	(1,022,689)	-
Other receivables	-	-	-	-	-	2,254,719	2,254,719	-
Deferred tax assets	-	-	-	-	-	335,516	335,516	-
Total assets	12,872,197	10,073,069	31,325,860	58,061,858	1,703,463	2,921,975	116,958,422	
Liabilities								
Deposits from customers	203,610	64,911	357,440	4,360	-	288	630,609	10.9%
Due to a shareholder	-	-	-	-	-	155,082	155,082	-
Borrowings	-	117,416	26,462,500	44,747,877	-	-	71,327,793	8.7%
Other liabilities	-	-	-	-	-	3,431,502	3,431,502	-
Provision for income tax	-	-	-	-	-	1,066,524	1,066,524	-
Provision for retirement benefits	-	-	-	-	-	1,206,083	1,206,083	-
Total liabilities	203,610	182,327	26,819,940	44,752,237	-	5,859,479	77,817,593	
Maturity gap	12,668,587	9,890,742	4,505,920	13,309,621	1,703,463	(2,937,504)	39,140,829	

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate liabilities at fair value through profit or loss, and the Company does not have derivatives as at the period end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Company does not have significant variable-rate instruments. Therefore, no cash flow sensitivity analysis for variable-rate instruments was presented.

(d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the Management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment:

2009

	Up to 1 month KHR'000	1 – 3 months KHR'000	3 - 12 months KHR'000	1 - 5 years KHR'000	Over 5 years KHR'000	No fixed terms	Total KHR'000
Assets							
Cash on hand	681,603	-	-	-	-	-	681,603
Deposits and placements with banks	2,586,141	12,065,930	16,485,438	12,200,000	-	-	43,337,509
Statutory deposits	-	-	-	-	-	1,730,463	1,730,463
Loans to customers	4,512,138	15,374,904	43,120,631	38,758,308	-	-	101,765,981
<i>Performing</i>	-	-	-	-	-	2,988,723	2,988,723
<i>Non performing</i>	-	-	-	-	-	(2,695,434)	(2,695,434)
<i>Allowance</i>	-	-	-	-	-	-	-
Other receivables	2,667,202	2,092,344	86,334	63,383	-	-	4,909,263
Deferred tax assets	-	-	-	-	-	688,155	688,155
Total assets	10,447,084	29,533,178	59,692,403	51,021,691	-	2,711,907	153,406,263
Liabilities							
Deposits from customers	165,121	127,376	191,064	237,688	-	-	721,249
Due to a shareholder	-	3,709	-	-	-	-	3,709
Borrowings	-	14,923,850	21,613,166	44,006,500	22,197,901	4,079,328	106,820,745
Other liabilities	1,079,523	924,965	1,122,476	-	-	-	3,126,964
Provision for income tax	35,298	480,920	-	-	-	-	516,218
Provision for retirement benefits	-	-	-	-	-	2,125,786	2,125,786
Total liabilities	1,279,942	16,460,820	22,926,706	44,244,188	22,197,901	6,205,114	113,314,671
Maturity gap	9,167,142	13,072,358	36,765,697	6,777,503	(22,197,901)	(3,493,207)	40,091,592

2008

	Up to 1 month KHR'000	1 – 3 months KHR'000	3 - 12 months KHR'000	1 - 5 years KHR'000	Over 5 years KHR'000	No fixed terms	Total KHR'000
Assets							
Cash on hand	567,753	-	-	-	-	-	567,753
Deposits and placements with banks	12,098,696	-	1,224,300	4,183,025	-	-	17,506,021
Statutory deposits	-	-	-	-	-	1,725,463	1,725,463
Loans to customers	1,194,155	10,073,069	30,101,560	53,878,833	-	-	95,247,617
<i>Performing</i>	-	-	-	-	-	344,022	344,022
<i>Non performing</i>	-	-	-	-	-	(1,022,689)	(1,022,689)
<i>Allowance</i>	-	-	-	-	-	-	-
Other receivables	1,715,404	83,130	111,804	292,768	-	51,613	2,254,719
Deferred tax assets	-	-	-	-	-	335,516	335,516
Total assets	15,576,008	10,156,199	31,437,664	58,354,626	-	1,433,925	116,958,422
Liabilities							
Deposits from customers	203,898	64,911	357,440	4,360	-	-	630,609
Due to a shareholder	-	155,082	-	-	-	-	155,082
Borrowings	-	117,416	26,462,500	44,747,877	-	-	71,327,793
Other liabilities	664,550	1,573,637	1,193,315	-	-	-	3,431,502
Provision for income tax	34,363	1,032,161	-	-	-	-	1,066,524
Provision for retirement benefits	-	-	-	-	-	1,206,083	1,206,083
Total liabilities	902,811	2,943,207	28,013,255	44,752,237	-	1,206,083	77,817,593
Maturity gap	14,673,197	7,212,992	3,424,409	13,602,389	-	227,842	39,140,829

(e) Capital management

(i) Regulatory capital

The Company's lead regulator, the National Bank of Cambodia ("NBC"), sets and monitors capital requirements for the Company as a whole.

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(ii) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

29. Commitments and contingencies

a) Operations

In the normal course of business, the Company makes commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated from these transactions which consist of:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Forward rate agreement	4,169,000	1,000,000	-	-
Credit line	2,952,890	708,297	-	-
	7,121,890	1,708,297	-	-

(b) Lease commitments

The Company has lease commitments in respect of the lease of the Company's registered office in Phnom Penh, and branches in Banteay Meanchey, Battambang, Dangkor, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kandal, Kratie, Kampot, Mondulhiri, Muk Kampoul, Otdor Meanchey, Preah Vihear, Prey Veng, Pursat, Ratanakiri, Siem Reap, Sihanouk Ville, Stung Treng, Svay Rieng and Takeo. The total remaining rental commitments as at 31 December are due as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
Within 1 year	645,560	154,848	102,214	25,046
2 to 3 years	1,425,706	341,978	36,113	8,849
Over 3 years	329,630	79,067	-	-
	2,400,896	575,893	138,327	33,895

(c) Taxation contingencies

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

30. Related party transactions

The Company had related party transactions during the year as follows:

	2009		2008	
	KHR'000	US\$	KHR'000	US\$
With shareholder				
Technical support charged	3,709	890	155,082	38,001
Conversion of loans and Interest payable	-	-	23,920,325	5,861,388

31. Fair values of financial assets and liabilities

The aggregate fair values of financial assets and liabilities carried on the balance sheet are approximately equal to their carrying values as at 31 December 2009.



KRT Branch Office



Contact Us

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For further information on AMK's activities, please visit www.amkcambodia.com



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