



2010
ANNUAL REPORT

Finance at your doorstep



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History

The origins of Angkor Mikroheranhvatho (Kampuchea) Co. Ltd (AMK) trace back to Concern Worldwide's microcredit interventions in the 1990s. As operations grew, Concern decided to create a separate microfinance company, which became known as AMK. By 2003, AMK was functioning independently of Concern and subsequently received its license from the National Bank of Cambodia in 2004.

By 2005, AMK made its first operating profit, had its first external loan approved, and created a social performance management mechanism. In the following years, AMK experienced rapid growth in its core credit business, extending its branch network to every province of the country. By 2010, it became the largest microfinance institution (MFI) in Cambodia in terms of client numbers.

In the same year, AMK began a strategic transformation, turning from a rural credit-only business into a broader provider of microfinance services. This strategy is driven by a desire to provide a broader array of financial services to Cambodia's underserved poor population and thereby assist these people in improving their livelihood options.

The granting of AMK's Microfinance Deposit Institution (MDI) license in 2010 represented a key milestone in this journey. It allowed AMK to implement several new savings and credit products.

Throughout its history, AMK's commitment to social impact has been absolute. AMK has developed a comprehensive social performance management framework which ensures that the organization stays focused on its mission of assisting large numbers of poor people. Currently, AMK's 844 staff serve over 250,000 clients in over 8,000 villages across Cambodia. This outreach represents 57% of total villages and approximately 9% of total households in the country.



Guiding Principles

- ▶ AMK provides microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels;
- ▶ AMK is committed to openness and transparency in all areas of management and operations;
- ▶ AMK is committed to developing processes and services, and to adopting behaviours and standards that ensure optimum social performance, including client protection;
- ▶ AMK is a learning organization where appropriate exchange and sharing of information contributes to staff development, training, and to improvements in policies and systems.



VISION

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

MISSION

AMK's mission is to help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services.

Code of Practice for Client Protection

- 1 **Inclusion:** AMK will maximize the inclusion of the poor and other marginalized populations with AMK's products and services.
- 2 **Avoidance of Over-Indebtedness:** AMK will limit client exposure to their capacity to repay and will seek to avoid client over-indebtedness.
- 3 **Transparent Pricing:** AMK will provide its clients with complete information on its product features, costs, and obligations, and will ensure transparency in all product and transaction pricing.
- 4 **Ethical Staff Behavior:** AMK will ensure ethical and respectful behavior of staff towards clients.
- 5 **Freedom of Choice:** AMK will facilitate and promote freedom of choice to its clients.
- 6 **Appropriate Collection Practices:** AMK's debt collection practices will be reasonable and collaborative, never abusive or coercive.
- 7 **Mechanisms for Redress of Grievances:** AMK will provide clients with appropriate and accessible mechanisms for complaint and problem resolution.
- 8 **Privacy of Client Data:** The privacy of client data will be respected unless disclosure is required by law.

This Code is enshrined in AMK's operating policies and procedures and is monitored through AMK's internal audit and social performance management functions.

Chairman's Report



I am delighted to report on another successful year for AMK. Notwithstanding the slow recovery in the Cambodian economy, we were able to exceed most expectations and finished the year on a strong footing. At the end of 2010, AMK was the largest microfinance provider in Cambodia in terms of client outreach. At the same time, it had a healthy bottom-line and asset quality, while continuing to reach the poorer communities in the country.

Today, AMK's more than 250,000 clients come from every province in Cambodia. A vast majority of clients remain rural, with our presence in more than half of all of Cambodia's villages. More than half of our clients are very poor on entry when compared against the national measure of poverty. This is noteworthy in a market where temptations are strong to move into the more affluent urban and entrepreneurial markets. We believe in a committed approach towards the unbanked, which offers longer-term sustainable returns to the institution whilst retaining its original focus.

More importantly, we saw the first steps in the realization of our vision of being a comprehensive financial solutions provider for Cambodia's unbanked, rather than just a micro-lender. The first step was in the form of a deposit license from the National Bank of Cambodia, allowing us to raise deposits from the public. In addition to formulating our strategy for deposits, we piloted mobile based payment systems and continued our search for ways to make micro-insurance products accessible to our clients. All these initiatives will continue to be pursued in 2011.

There were some important changes in the governance and management of AMK in 2010. Paul Luchtenburg completed a successful three year term as CEO and made way for Pete Power at the end of June 2010. Paul had been instrumental in the rapid growth of AMK from 2008 to 2010. We are grateful to him for his commitment to the institution and wish him well in his next assignment. Pete Power, who has been a Director of AMK for over five years, brings a unique blend of development, entrepreneurial, and business

acumen to AMK, which will be critical in the next phase of AMK's development. Needless to say, the Board welcomes him wholeheartedly.

There were some noteworthy retirements from the Board. Gerhard Bruckermann retired after an association of over six years with AMK as a Director. Gerhard's visionary thinking and his banking expertise were of immense value to AMK, and are reflected in the development of AMK's product lines and its overall approach. Tom O'Higgins, who chaired the Board since 2005 and was deeply involved with AMK since its inception, also retired during the year. Tom was the institution's guiding light and its strongest supporter within Concern Worldwide. Both Gerhard and Tom's absence will be sorely missed but we are confident that we can reach out to them and continue to harness their ideas.

2011 promises to be an exciting, eventful year. New developments are being planned and tested in a number of areas, especially in the use of technology to strengthen the quality and effectiveness of AMK's services. AMK's social performance systems provide a deeper understanding of the effect of our services on clients' lives, and we see this as integral to the business.

In conclusion, I would like to thank the staff, management, Board, and other stakeholders of AMK for their unyielding commitment to improving the quality of financial services to Cambodia's unbanked. Clients are at the center of all we do, and we will together continue to strive towards their well-being.

A handwritten signature in black ink, appearing to read 'Tanmay Chetan'. The signature is fluid and cursive, with a horizontal line underneath the name.

Tanmay Chetan
Chairman, AMK Board of Directors



Chief Executive Officer's Report

During 2010, AMK embarked on a strategic journey to transform itself from a lending institution into a much broader financial services provider.

2010 also saw many changes and new initiatives at AMK:

- AMK received a Microfinance Deposit Institution (MDI) license from the National Bank of Cambodia (NBC), thereby allowing AMK to offer savings products to the public
- Several new credit products were also rolled out during the year, including Business Expansion, Seasonal, and Urban loans
- AMK successfully implemented a new core banking system which will provide the necessary infrastructure to support our new product initiatives
- AMK began investigating several new products, including money transfer and mobile banking services, which we hope to bring to market in 2011.

2010 earnings were very positive, with AMK returning profits of USD 935,239, translating into a Return on Equity of 8.3%, compared to 4.2% in 2009.

AMK's traditional credit business fared well in 2010. As Cambodia recovered from the economic downturn of 2009, demand for credit continued to grow. AMK client numbers increased over 15%, reaching 250,930 at year end. During 2010, AMK surpassed all other MFIs in Cambodia to become the largest MFI in terms of client outreach.

Portfolio value increased by 26% to more than USD 31.3 million, with PAR 30 days decreasing from 2.85% to 1.57% during the year. Much of the outstanding PAR amount was disbursed during 2008 and early 2009. PAR 30 rates for 2010 disbursements are currently less than 0.1%.

AMK's average loan size remains the lowest among MFIs in Cambodia at USD 126. With an average group loan size of USD 115 and an average individual loan size of USD 245, over 94% of all AMK loans disbursed are for less than USD 300.

AMK continues to focus on Social Performance Management (SPM). With more than half of our clients below the food poverty line, we are confident that we continue to reach the poorest segments of society. Currently with operations in every province in Cambodia, with 22 branches and 56 sub-branches, AMK now reaches 8,032 or 57% of all villages in the country.

I wish to express my thanks to Mr. Thomas O'Higgins, who retired as Chairman of the Board during 2010, and to his successor as Chairman, Mr. Tanmay Chetan. Both have provided AMK with strong leadership, support, and insight throughout the year. I also thank all other board members and shareholders for their ongoing support and leadership. Most importantly, I would like to recognize all AMK staff for their hard work and diligence during the year. All are critical to AMK's ongoing success.

2011 will bring new challenges and opportunities for AMK. We will continue the expansion of new credit products. We will make savings products available at all AMK branches throughout the country. We will leverage our systems and network to investigate and implement innovative technologies such as mobile banking. Through these and other ongoing initiatives, we are confident that AMK's transition into a broader provider of microfinance services will greatly advance our mission of helping large numbers of poor people improve their livelihood options.



Pete Power
Chief Executive Officer
AMK Co.,Ltd

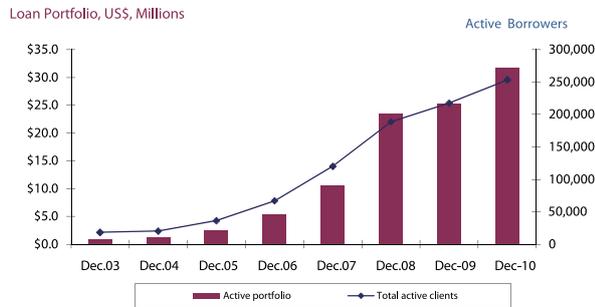
Performance Highlights

	DEC-07	DEC-08	DEC-09	DEC-10
OPERATIONAL HIGHLIGHTS				
Number of Branches	15	20	22	22
Number of Sub-Branches	0	25	43	56
Number of Villages	2,999	4,762	6,253	8,032
• Coverage of Total Villages in Cambodia	22%	36%	45%	57%
Total Staff	349	566	766	844
• Field Officers Over Total Staff	52%	57%	57%	57%
Number of Active Borrowers (exc. staff)	120,111	188,696	217,477	250,930
• Group Loan Borrowers	94%	85%	88%	93%
• Individual Loan Borrowers	6%	15%	12%	7%
Loan Portfolio (USD, exc. staff loans)	\$10,306,981	\$23,187,911	\$24,795,880	\$31,329,857
• Group Loans	80%	65%	77%	86%
• Individual Loans	20%	35%	23%	14%
Number of Voluntary Savers	1,842	1,702	1,770	2,781
Voluntary Savings Balance (USD)	\$27,851	\$11,494	\$19,342	\$1,142,409
Active borrowers/Avg. Client Officer	880	746	542	548
Loans Outstanding/Avg. Client Officers (USD)	\$76,490	\$92,583	\$62,661	\$69,324
FINANCIAL HIGHLIGHTS				
Net Profit (after tax, USD)	\$823,222	\$986,145	\$448,172	\$935,239
Operational Self Sufficiency (OSS)	125%	118%	106%	108%
Return on Assets (RoA)	8.9%	4.3%	1.3%	2.5%
Return on Equity (RoE)	25.4%	12.7%	4.2%	8.3%
Portfolio Yield	35.0%	35.9%	34.5%	34.5%
Operating Cost Ratio	24.5%	22.4%	22.0%	22.3%
Average Cost of Funds	2.2%	8.3%	10.2%	10.9%
Leverage Ratio (debt to equity)	2.35	1.82	2.55	2.58
PAR30days	0.06%	0.35%	2.85%	1.57%
Write Off Ratio	0.08%	0.19%	0.38%	1.17%
SOCIAL HIGHLIGHTS				
Women Borrowers	84%	85%	85%	86%
Loans Below USD300	96%	89%	91%	94%
Loan Accounts Below USD300	114,842	168,046	197,471	236,743
Rural Borrowers (estimation)	88%	95%	93%	92%
Avg. Outstanding Loan Per Borrower (USD)	\$87	\$124	\$116	\$126
• Group Borrowers	\$68	\$77	\$99	\$115
• Individual Borrowers	\$263	\$286	\$220	\$245
Avg. Loan Disbursed (USD)	\$100	\$149	\$155	\$165
• Group Borrowers	\$82	\$115	\$123	\$141
• Individual Borrowers	\$374	\$357	\$359	\$427
Avg. Voluntary Savings Per Saver (USD)	\$15	\$7	\$11	\$411
Drop-Out Rate *	27%	24%	35%	31%
Adjusted Drop-Out Rate (minus resters) *	14%	13%	19%	15%
Depth of Outreach: New Clients (<1 year) Below Poverty Line				
• Percentage of New Clients Below National Food Poverty Line (estimation)	75%	63%	56%	50%
• New Clients Below National Food Poverty Line (estimation)	48,192	56,605	47,151	54,652

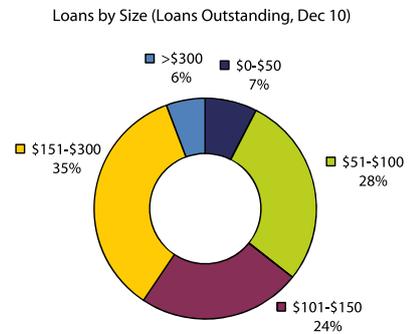
*% of resters is based on exit surveys (2007, 2009, and 2010) and revisited client surveys (2008)

Performance Highlights

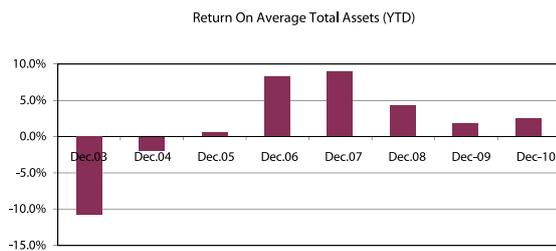
Loan Portfolio, USD, Millions



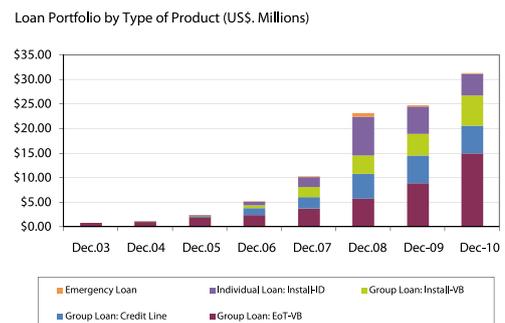
Loans by Size (Loans Outstanding, Dec. 10)



Return On Average Total Assets (YTD)



Loan Portfolio by Products (USD, Millions)



Focus On the Poor

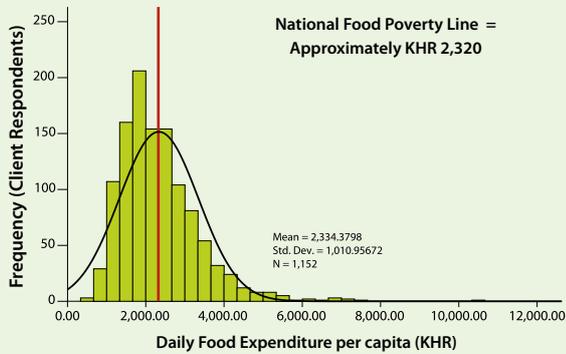
AMK uses a measure of daily per capita food expenditure to determine the poverty level of its clients. This figure is calculated based on the monetary value of food produced by households, gathered from common property resources, and consumed within the household. Clients' food expenditures are then compared to the National Food Poverty Line of approximately 2,320 Khmer Riel per day, which represents an expenditure level corresponding to a sufficient degree of subsistence-level dietary intake in rural areas. In 2010, AMK's Research Department conducted a poverty study which showed that the majority of its clients are below the National Food Poverty Line. These findings indicate that AMK is achieving its social mission of reaching large numbers

of the poorest individuals in Cambodia through access to its microfinance service. The following graph details the findings of the Research Department's poverty study while the table below shows the percentage of clients below the National Food Poverty Line disaggregated across various categories.



Performance Highlights

Daily Food Expenditure per Capita



Clients Below the National Food Poverty Line

By seniority	New clients	50%
	Existing clients	62%
	Total clients	57%
By location	Rural clients	58%
	Urban clients	44%
	Total clients	57%
Group versus individual	Group clients	56%
	Individual clients	62%
	Total clients	57%



Operational Coverage



AMK reaches nearly all districts in Cambodia and 86% of all communes. With 8,032 villages represented, AMK now operates in 57% of the 14,073 villages in Cambodia. AMK is Cambodia's leading MFI in terms of client outreach with a total of 251,352 clients.

Provinces	Districts	Communes	Villages	Clients
Banteay Meanchey	9	63	461	10,945
Battambang/Pailin	16	90	584	16,589
Kampong Cham	14	130	817	26,293
Kampong Chhnang	7	57	365	10,419
Kampot/Kep	8	79	349	10,467
Kampong Speu	7	69	618	16,820
Kampong Thom	8	74	513	13,845
Kandal	7	85	323	14,264
Kratie	6	41	181	11,048
Preah Vihear	8	46	166	5,242
Prey Veng	12	111	623	22,924
Svay Rieng	7	76	504	15,920
Takeo	9	78	514	15,047
Oddar Meanchey	6	30	236	8,677
Pursat	6	49	352	12,176
Sihanouk Ville/Koh Kong	10	46	181	7,753
Siem Reap	11	89	584	16,589
Stung Treng	4	26	64	2,403
Mondulkiri	5	18	59	1,935
Ratanakiri	8	41	151	3,399
Phnom Penh	9	48	190	1,304
Kandal (Mukampoul)	4	44	197	7,293
Total	181	1,390	8,032	251,352*
% of Coverage	95%	86%	57%	9%*

* Includes staff loans

* Clients as percentages of total households

Ownership and Governance

AMK's shareholders are Concern Worldwide (Ireland) 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 nine-member Board has broad expertise in areas such as auditing, Cambodian law, management, financial systems, human resource development, microfinance, as well as extensive experience in commercial banking.

The Board of Directors appoints the Chief Executive Officer (CEO) who in turn oversees the management team. The management team consists of ten departments heads, namely Operations, Finance, Human Resources, Information Technology,

Internal Audit, Marketing, Training, Research, Risk, and Product Development. Operations also has 5 regional managers responsible for managing the performance of 4-5 branches each.

The Board of Directors has the following standing committees: (1) Audit & Finance Committee, (2) Risk Committee, (3) Remuneration, Nominations, & Governance Committee, and (4) Social Performance Committee. The first three committees perform traditional corporate governance functions. The Social Performance Committee advises the Board on AMK's performance in terms of poverty outreach, product suitability, client protection, and overall social responsibility.



Awards and Recognitions

2010

AMK received the Microfinance Information Exchange (MIX) Social Performance Reporting Gold Award. This award is administered by MIX and sponsored by CGAP, the Michael & Susan Dell Foundation, and the Ford Foundation. This award recognizes outstanding efforts in reporting social performance information.

2009

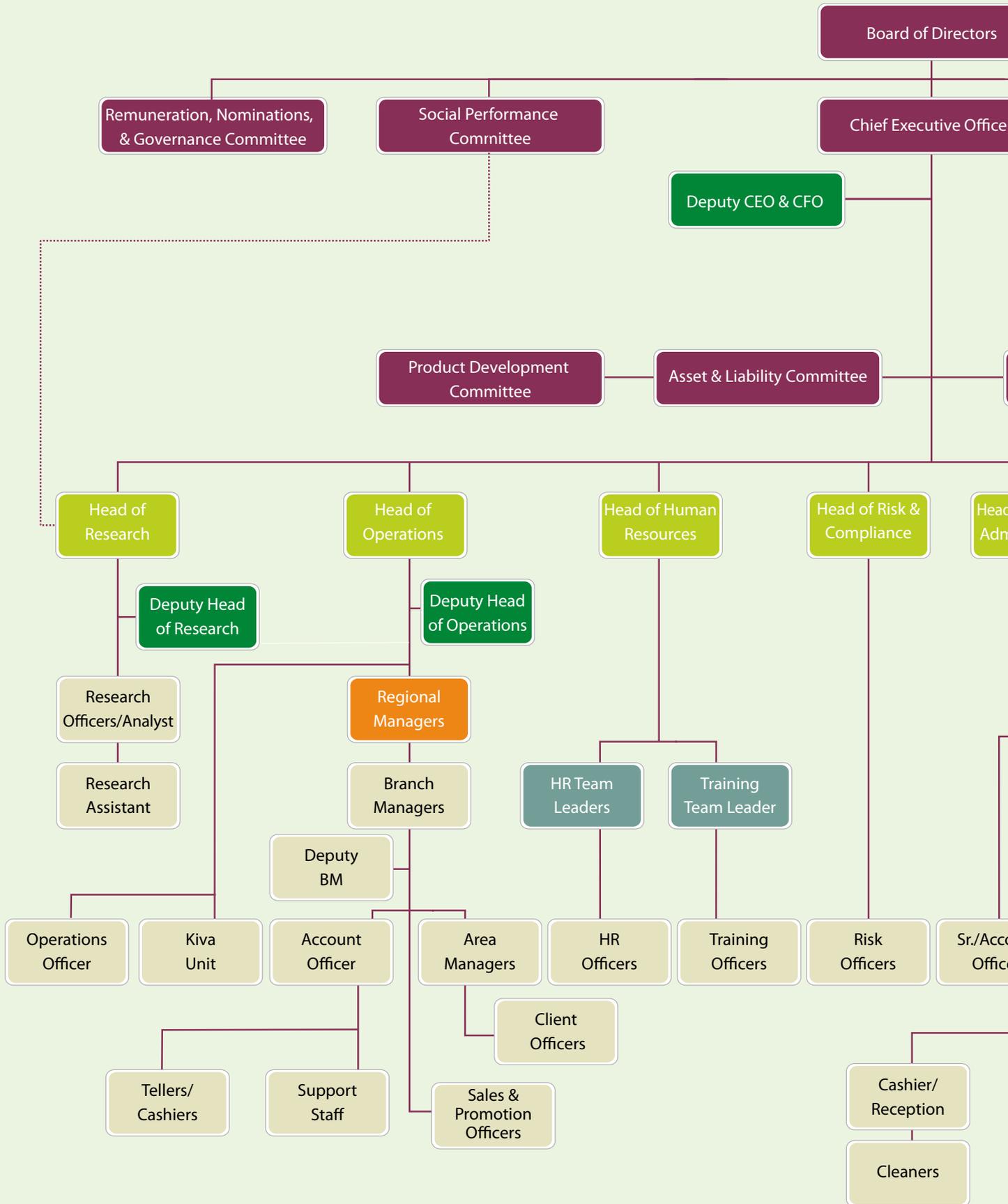
UNITUS presented AMK with its first annual award for effectiveness. This award was in recognition of AMK's outstanding job in the area of understanding and meeting its clients' needs.

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

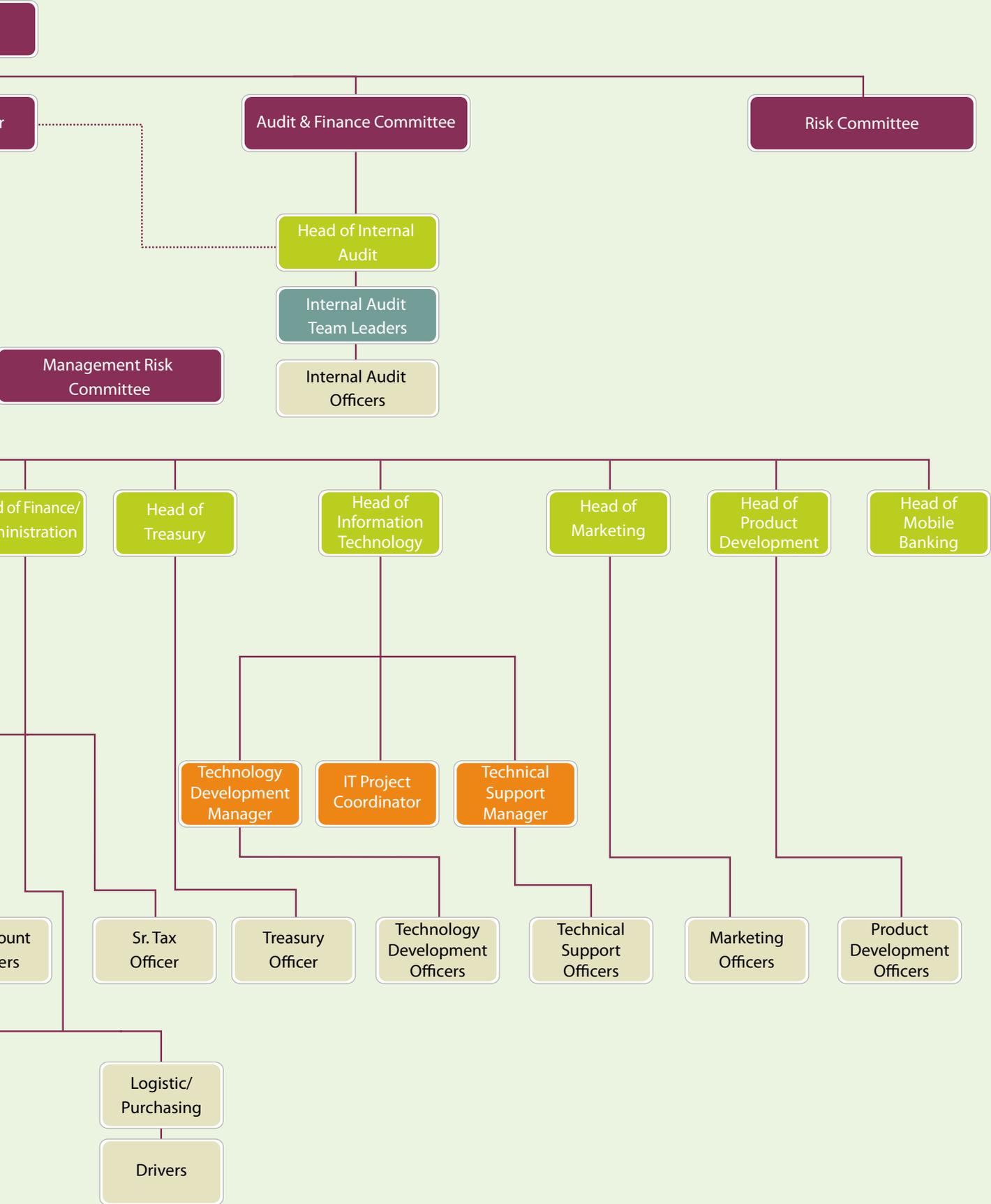
In the 2009 MIX Global 100 Composite rating, AMK was ranked #16 in the world. AMK was also rated #1 in Cambodia for the third year in a row and is one of only two organizations who finished in the top 20 organizations worldwide for the last three years.



Management Structure



Management Structure



Board of Directors and Advisory Committees



Tanmay Chetan

Director, Board Chairman, Chairperson of Remuneration, Nominations & Governance Committee

Tanmay is a Co-founder and Managing Partner at Agora Microfinance Partners LLP. He has over 12 years of microfinance experience in areas such as credit ratings, consulting, and implementation. From 2003 to 2007, he served as the first CEO of AMK. Tanmay holds a Master's in Public Administration from the Harvard Kennedy School and an MBA from the Indian Institute of Forest Management.



Howard Dalzell

Director, Chairperson of Social Performance Committee

Howard recently retired from Concern Worldwide's Senior Management Team, having served as Overseas Director and Policy Director. He has over 30 years' practical experience in development and humanitarian assistance. Howard holds a degree in Agricultural Science and a Masters in Animal Nutrition.



Rebecca McKenzie

Director, Member of Remuneration, Nominations, & Governance Committee

Rebecca is Co-Founder and Managing Partner at Agora Microfinance Partners LLP. She is a capital markets expert and was previously responsible for investor relations at DEPFA Bank plc. Prior to DEPFA Bank, she worked in capital markets sales at UBS, Credit Suisse, and Paribas. Rebecca holds a Bachelor of Arts from Scripps College.



Irina Ignatieva

Director, Member of Social Performance Committee

Irina is Concern Worldwide's current Microfinance Advisor. She has over 15 years of experience as a microfinance consultant and trainer and holds an EMBA from Stockholm School of Economics and an MA from St. Petersburg University.

Board of Directors and Advisory Committees



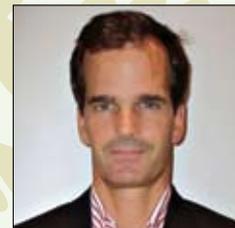
Tip Janvibol
Director

Dr. Tip Janvibol is a managing partner at Tip & Partners law firm. He is a member of the Cambodian Bar Association and has served on the Governing Bar Council in Cambodia. Dr. Tip has also served as a legal consultant on numerous projects for organizations including the United Nations, World Bank, and the Asian Development Bank.



Pete Power
Director and current CEO

Pete brings several decades of management consulting, NGO, and private sector development experience to AMK. Pete has led consulting practices at various organizations in the US, Ireland and China. Pete holds a Bachelor of Science in International Relations and Philosophy from the University of Scranton, an MA in European Integration from the University of Limerick, and an MBA from Tulane University.



Marcus Fedder
Director, Chairperson of Risk Committee, & Member of Audit & Finance Committee

Marcus is a banker with over two decades of experience and is a Co-Founder and Managing Partner at Agora Microfinance Partners LLP. He previously held senior positions at institutions including The Toronto Dominion Bank, the European Bank for Reconstruction and Development, the World Bank, and the Canadian Imperial Bank of Commerce. Marcus holds a PhD in Politics from Berlin and post graduate degrees in International Relations.



Frances Sinha
Director, Member of Social Performance Committee

Frances is the Executive Director of EDA Rural Systems, based in Gurgaon India. She has over 25 years of experience in research and capacity building in Asian microfinance.



Adrian Graham
Director, Chairperson of Audit and Finance Committee, & Member of Risk Committee

Adrian is the Finance Director at UNICEF Australia. Previously, Adrian was the Finance Director at Concern Worldwide and the Concern Country Representative in Australia.

Management Team



Mr. Peter Power
Chief Executive Officer



Mr. Kea Borann
Deputy Chief Executive Officer and
Chief Financial Officer



Mr. Mam Choern
Operations Department Head



Ms. Ly Theeda
Human Resources Department
Head



Mr. Thun Vathana
Research Department Head



Ms. Long Chantha
Treasury Department Head



Mr. Nang Kinal
Marketing Department Head



Mr. Chum Paulette
Internal Audit Department
Head



Mr. Soeung Phyry
Risk Department Head



Ms. Roeung Viriny
Finance Department Head



Mr. Prem Chandraboth
IT Department Head



Mr. Meas Chanra
Deputy Operations Department
Head



Ms. Pum Sophy
Deputy Research Department
Head



Mr. Chea Roattana
Mobile Banking Department
Head



Mr. Yuong Setha
Training Team Leader



Miss. Rith Sokha
Regional Manager



Mr. Lim Seakrun
Regional Manager



Mr. Pok Thy
Regional Manager



Mr. Sok Ratana
Regional Manager



Mr. Suon Pisey
Regional Manager

Business Strategy

The first phase of AMK's growth as an independent company focused on geographic expansion, client outreach, and corresponding portfolio growth.

In 2010, AMK embarked on a multi-year process of transforming itself into a much broader provider of microfinance services. This strategic transition will enable AMK to increase the avenues through which its clients can improve their livelihood options.

AMK began by building its organizational capacity to support this strategy in 2009/2010. Significant investments were made in new corporate functions and capacities. Specialized Treasury, Risk Management, Product Development, and Marketing functions were created, and experienced management and staff were hired.

Major investments were also made in technology, with a new Core Banking System implemented in 2010. The new system supports a much broader array of product offerings, thereby allowing client focused product design rather than having to work around system limitations. The system also provides management with much improved levels of accuracy and reliability in analysis and reporting.

During 2010, AMK began expanding the breadth of its credit offerings with the introduction of Business Expansion, Seasonal, and Urban loan products.

Additionally, AMK was granted a deposit taking license in 2010 and began piloting savings products in a limited numbers of branches. A nationwide rollout of an enhanced savings product family will be completed in 2011.

The upcoming year will also see the rollout of domestic money transfer products and the continued investigation of other product options including micro-insurance.



AMK recognizes that its traditional "Finance at your doorstep" methodology, an innovative approach which meets clients at the village level, is a costly but necessary distribution channel for much of its credit business. However, in order to offer effective and viable savings products to its target clients and mobilize savings nationally, AMK must explore leveraging lower cost approaches. As a result, AMK will make significant investments in Mobile Banking Technology as an alternative delivery channel. This will not only require new technologies and processes to be implemented, but also a new operating strategy involving a nationwide agent network in addition to direct AMK employees. Mobile banking will be piloted during 2011 and rolled out nationally thereafter.

While these developments highlight the early stages of its transformation into a broader microfinance provider, AMK remains committed to providing the highest level of excellence and support for its existing clients and products. 2011 will see continued growth of AMK's traditional rural credit business, with a focus on expansion to previously unserved villages across the country. AMK will continue to build market share in its existing branch network through innovative product design and extended outreach to traditionally marginalized groups.

Financial Products and Working Methodology

AMK's products have been designed to serve its clients' financial needs as their lifestyles and income sources change over time. As a result, AMK offers a range of Credit and Savings products customized for specific client needs.

The typical AMK customer joins as a Village Bank client who accesses small amounts of credit through AMK's Group Guaranteed loan products. Depending on their income stream, clients can choose between Installment and End of Term loans. Successful clients who return to AMK are rewarded with higher loan ceilings on subsequent loans. These clients can also utilize flexible Credit Line products and Emergency loans if the need arises.

Clients who wish to borrow larger amounts can take advantage of a variety of individual loan products. Since the amounts and associated risks are higher, these loans require collateral and guarantors. For city dwellers, AMK offers a slightly different Urban loan product which is individual in modality but has relaxed residency, collateral, and guarantor requirements. The loan ceilings, durations, and other features of these individual loan products are designed to appropriately serve specific client needs.

AMK has also created a family of flexible saving products. Clients can avail of current account and term deposit products as well as planned savings products which allow them to save for the future; for a specific asset purchase, education, weddings, illnesses, and other emergencies.

Solidarity Group Methodology

AMK's utilizes an innovative solidarity group lending methodology to administer its group loans. This process begins with potential clients self-selecting themselves into solidarity groups of four to six members. These solidarity groups are then organized into Village Banks that consist of four to twelve groups (or twenty to sixty clients). Being part of a self-selected solidarity group signifies that three to five other villagers trust the loan applicant to let him/her join their group. All loans are guaranteed by the respective group members. Loans are appraised and approved by an AMK Client Officer (CO) and the Village Bank President (VBP) prior to disbursement taking place.

Disbursements take place in the presence of the group members and AMK's Area/Branch Manager.

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

- Be willing to be part of a solidarity group and offer a moral guarantee for other members;
- Have at least one economic activity in their household;
- Cannot have existing (outstanding) loans from other microfinance institutions, programs, banks, or moneylenders;
- Groups cannot have two or more members from the same family or household.

There are no gender requirements, though women are encouraged to participate. Women currently

represent 86% of AMK's client base. Each group nominates a group leader who is in charge of ensuring member attendance at meetings, troubleshooting, and liaising with the VBP, CO, and other members.

A VBP is the management representative of the VB. He/she is elected through secret ballot by all VB members and is paid an incentive based on the VB's performance. VBPs are responsible for helping COs organize collection and repayment meetings, advising COs of potential non-payment situations, following-up with delinquent clients, solving membership related problems, and ensuring that all clients have been enrolled according to group and VB formation criteria.

Financial Products and Working Methodology

AMK offers three Village Bank loan products which utilize the solidarity group lending methodology. The VB End of Term product is designed for clients with seasonal cash flows as it allows for principal to be repaid at the end of the loan term. The VB Installment option targets clients with regular cash flows as interest and principal payments are due monthly. The VB Credit Line product offers clients the unique

opportunity of borrowing additional funds and paying back outstanding balances at any point over the life of their loan, providing increased flexibility for the client. Additionally, AMK offers an Emergency loan available to both Group Guaranteed and Individual loan clients to assist in the unfortunate event that an emergency arises.

AMK's Group Guaranteed and Emergency loan options are detailed in the chart below.

Group Guaranteed Loans and Emergency Loan

Product Description	END OF TERM – VILLAGE BANK	INSTALLMENT - VILLAGE BANK	CREDIT LINE – VILLAGE BANK	EMERGENCY LOAN*
Target Clients	Group members with seasonal (lumpy) cash flow	Group members with regular cash flow	Group members who have completed one cycle	Individual or group clients who have completed at least 6 months
Maximum Loan Size	1 st cycle: KHR 600,000 or THB 6,000 2 nd cycle: KHR 800,000 or THB 8,000 3 rd cycle: KHR 1,000,000 or THB 10,000	KHR 1,000,000 or THB 10,000	2 nd cycle: KHR 800,000 or THB 8,000 3 rd cycle: KHR 1,000,000 or THB 10,000	KHR 400,000 or THB 4,000
Loan Guarantee	Social guarantee – No need for physical collateral or guarantors			One personal guarantor
Currency	Khmer Riel and Thai Baht (in Banteay Meanchey)			
Disbursement Timeline	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	10 months
Repayment Amount and Frequency	Interest payments due monthly. Principal payment due at end of term.	Interest and principal payments due monthly. Interest calculated based on a declining balance system.	Monthly interest payments due on outstanding loan. Principal payment due on or before the end of term.	Monthly interest payments due on outstanding loan. Principal payment due on or before the end of term.
Interest Rate (Monthly)	3%	2.8%	3%	2.5%
Prepayment Penalties	None			
Late Payment Fee	Additional 1.0% per month on the pending principal (starting from the month a payment has been missed)			
Other Fees	Up-front fee: 0.5% of loan amount			None

*This product is available to Group as well as Individual clients

Financial Products and Working Methodology

In addition to Group loans, AMK offers four Individual loan options to its clients. The Standard Installment loan is available to individual clients with regular cash flows looking for additional liquidity. AMK's Business Expansion loan is designed for entrepreneurs in rural markets who are looking to expand their existing

business. AMK's Seasonal loan targets existing customers who need additional capital to invest in vegetable/crop production, animal raising, or agri-machinery and equipment. AMK's Urban loan targets low income city dwellers who previously had limited access to formal sources of credit.

The specific details of these Individual loan products are outlined below.

Individual Loans

PRODUCT DESCRIPTION	STANDARD INSTALLMENT LOAN	BUSINESS EXPANSION LOAN	SEASONAL LOAN	URBAN LOAN
Target Clients	Individual clients with regular cash flow	Individuals with small businesses who need funding for expanding their existing business or new enterprise	Individual clients with regular cash flow from agriculture, crop growing, and animal raising	Low income city dwellers who have been residents in the area at least 6 months
Maximum Loan Size	KHR 2,000,000 or THB 20,000 or USD 500	KHR 8,000,000 or THB 80,000 or USD 2,000	KHR 6,000,000 or THB 60,000 or USD 1,500	KHR 1,000,000 or THB 10,000 or USD 250
Loan Guarantee	Physical collateral and 2 personal guarantors		Physical collateral and 1 personal guarantor	No guarantor required if clients own their home and 1 personal guarantor required if clients rent home for living for loan amounts up to USD100 or KHR400,000 1 guarantor for loan amounts up to USD250 or KHR1,000,000
Interest Rate (Monthly)	3% and 2.5% after 3 rd cycle or 2 years	2.2% - 2.8%	2.4% - 3%	2.6% - 3%
Currency	Khmer Riel, Thai Baht (in Banteay Meanchey), and US Dollar			
Disbursement Timeline	1 to 2 weeks from signature if there are no changes in the application form		At least 3 days from signature if there are no changes in the application form	1 to 2 weeks from signature if there are no changes in the application form
Maximum Term	18 months		8 months	12 months
Repayment Amount and Frequency	Monthly installments, fixed principal, and declining interest.	Monthly installments, fixed principal, and declining interest.	Interest repaid monthly, 100% of principal loan amount repaid at end of cycle or any time during the cycle.	Fixed principal payment and declining interest payment due monthly or every 2 weeks
Prepayment Penalties	None			
Late Payment Fee	Additional 1.0% per month on pending principal (starting from the month a payment has been missed)			
Other Fees	Up-front fee: 0.5% of loan amount			

Financial Products and Working Methodology

Savings Products

AMK offers four distinct savings products. These include the General Savings account, Easy account, Fixed Deposit account, and Future account. The General Savings account offers clients the convenience of making transactions at monthly village meetings and collection visits. AMK's Easy account offers savers flexible and convenient terms to ensure they can deposit and withdraw safely at any time they need cash,

while still enjoying a competitive interest rate. The Fixed Deposit account offers high-interest earning options for clients who are willing to deposit funds for a fixed timeframe. AMK's Future account targets clients who are looking to save for a specific purpose or purchase in the future, such as retirement, a child's education, or the purchase of a household item.

The specific terms of these products are outlined in the charts below.

General Savings Account

CURRENCY	KHR	USD	THB
Annual Interest Rate	3.0%	1.5%	1.5%
Minimum Deposit	KHR 1,000	USD 1	THB 10
Transaction Location	Village (during monthly meetings or collection visits)		
Withdrawal and Capitalization	<ul style="list-style-type: none">Interest calculation is based on the daily balance.Accounts are capitalized every 6 months automatically in the system.No fees are charged on transactions, opening or closing accounts, or for the passbook unless it is lost.Withdrawal on non-monthly collection days requires clients to notify the branch office one business day in advance.		

Easy Account

CURRENCY	KHR	USD	THB
Annual Interest Rate	5.0%	3.0%	3.0%
Minimum Deposit	KHR 1,000	USD 1	THB 10
Transaction Location	Teller-based transactions at branch or sub-branch office		
Withdrawal and Capitalization	<ul style="list-style-type: none">Interest calculation is based on the daily balance.Accounts are capitalized every 6 months automatically in the system.No fees are charged on transactions, opening or closing accounts, or for the passbook unless it is lost.		

Financial Products and Working Methodology

Fixed Deposit Account

TERM / CURRENCY	KHR	USD	THB
1 Month	5.50%	3.25%	3.25%
3 Months	6.00%	3.50%	3.50%
6 Months	7.00%	4.00%	4.00%
9 Months	8.00%	5.00%	5.00%
12 Months	10.00%	7.00%	7.00%
18 Months	10.50%	7.25%	7.25%
24 Months	11.00%	7.50%	7.50%
Minimum Deposit	KHR 100,000	USD 25	THB 1,000
Transaction Location	Teller-based transactions at branch or sub-branch office		
Withdrawal and Capitalization	<ul style="list-style-type: none"> • Interest is capitalized at the end of term. • One business day notice is required for early withdrawal. The client will receive an interest rate equivalent to a corresponding Easy account rate. • No other penalty fees apply for early withdrawal. 		

Future Account

TERM / CURRENCY	KHR	USD	THB
3 - 12 Months	6.0%	3.5%	3.5%
13 - 24 Months	8.0%	5.0%	5.0%
25 - 60 Months	9.0%	6.0%	6.0%
Minimum Deposit	KHR 20,000	USD 5	THB 200
Transaction Location	Teller-based transactions at branch or sub-branch office		
Withdrawal and Capitalization	<ul style="list-style-type: none"> • Interest will be capitalized at end of term. • One business day notice is required for early withdrawal. The client will receive an interest payment equivalent to a corresponding Easy account rate. • No other penalty fees apply for early withdrawal. 		

A strong risk culture is an essential element to AMK's continued sustainability and success. As a result, AMK takes a proactive approach to increasing risk awareness and managing risk across the organization.

AMK promotes risk awareness and visibility among its staff at all levels of the company. Training programs are continuously held by the Risk Department to educate employees on how to identify risks, promote methods to improve controls, and remain compliant with both internal and external policies and regulations. The Board of Directors also has a standing Risk Committee to provide guidance on related issues and to ensure that AMK's risk appetite is appropriate to deliver both financial and social returns.

As risk is addressed across the company, a four step process is utilized by AMK in which risks are identified, assessed, managed, and then monitored and controlled. In the identification stage, AMK's Risk Department facilitates discussions with branch managers and department heads to determine potential issues relating to people, processes, systems,

and external factors. After risks are identified, they are assessed through the use of tools such as AMK's Risk Register. This register is used to log each identified risk with regard to its likelihood of occurring and its potential consequences. Based on these factors, risks are assigned a rating with regard to their perceived impact on AMK. This then allows AMK to manage and prioritize risks based on their severity and to develop action plans as to whether a given risk should be tolerated, treated, transferred, or terminated. AMK then continues to monitor and control each item to ensure the identified steps have been taken to mitigate each risk appropriately. Through this systematic approach, management is able to stay abreast of outstanding and new risks faced by the company and can make informed strategic decisions as a result.

A strong risk culture is emphasized at AMK, as the importance of risk awareness and proper management cannot be overstated. As AMK moves forward, it will remain focused on ensuring all risks to the company are identified and appropriately addressed in a manner consistent with promoting the dual social and financial objectives of the company.



Social Performance Management

Social Performance Management Approach

AMK is a socially motivated organization committed to its mission of helping large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services. It has double bottom lines, balancing both financial and social returns. While financial management systems and tools are well established in the microfinance sector, AMK is a pioneer in the area of Social Performance Management (SPM). AMK's commitment to SPM is enshrined throughout the organization, both at the management/staff and board/governance levels.

Management Level

AMK's Research Department leads and monitors the implementation of SPM within AMK. The department conducts social and market research to understand the issues facing AMK's clients and staff. Research works in cooperation with other AMK departments, including Operations, Human Resources, Internal Audit, and Finance in order to ensure that effective social performance standards and controls are in place and being effectively executed.

Board Level

Research results are reported to AMK Management and to the Social Performance Committee (SPC). The SPC then advises the Board of Directors on the results and discusses implications for business operations. The purpose of doing this is to give the Board a balanced view of AMK's overall institutional performance so that governance decisions are appropriately aligned with the institution's dual social and financial objectives.

Social Performance Management within AMK

In order to make SPM a driving force at AMK, the Research Department collects and analyzes information from clients, non-clients, and secondary sources in order to produce a series of reports on a yearly basis (the "Research Intelligence Reports"). The reporting framework covers both social and market research:

- Depth of Outreach**
 - Client Profile Report
 - Depth of Outreach Report
 - Other Ad-Hoc Surveys and Reports
- Adequate Products**
 - Exiting Client Report
 - Product Demand Report
 - Client Satisfaction Report
 - Competition Analysis Report
 - Other Ad-Hoc Surveys and Reports
- Transparency & Client Protection**
 - Client Awareness Report
 - Client Grievance Report
 - Multiple Loans Report
 - Social Performance Report Standard-The MIX
 - Other Ad-Hoc Surveys and Reports
- Other Corporate Social Responsibility**
 - Staff Satisfaction Report
 - Exiting Staff Report
 - Other Ad-Hoc Surveys and Reports
- Periodic Research - Change Effects (Not Annual)**
 - Change Effects Report
 - Other Ad-Hoc Surveys and Reports

Social Performance Management

Social Performance Highlights - 2010

Depth of Outreach:

Compared to the National Food Poverty Line, research estimates that 57% of AMK clients are poor. Research conducted in 2010 with more than 1,152 clients indicated that:

- Among new clients households, 50% are poor
- Among old clients households, 62% are poor

From this research, we can determine that the percentage of poor households is higher among old

clients than among new clients. This does not, however, mean that the old client households are getting poorer, but rather that there is a higher percentage of non-poor households among new clients. The level of poverty among old clients has decreased over time as poverty levels were higher when those clients originally joined AMK. Among group clients, 49% are below the National Food Poverty Line while 64% of individual clients fall below this level.

DEPTH OF OUTREACH (measuring poverty on entry):

Is AMK reaching at least a similar share of poor households to what is found in the general rural population?	Yes – see below:		
	Total clients	Group clients	Individual clients
New clients (< 1year) below the National Food Poverty Line in Rural Areas	50%	49%	64%
Estimation: Actual Number of Poor New Clients Being Served	54,652	49,963	4,696

[*] Based on representative sample data of total clients.

Adequate Products:

Exiting Clients:

According to AMK's database, the company has engaged with about 470,000 clients in total, however, about 45% of them have become inactive or already stopped using AMK's products and services. Among those who exited from AMK, more than half left AMK after their first loan cycle. Clients primarily left AMK because they no longer felt they needed to borrow money for their businesses (30%), they felt AMK products and services are not a good fit for their needs (25%), and the inability to make repayments due to income fluctuations (21%).

Product Demand:

AMK expanded its product offerings in 2010 as it began its strategic transformation into becoming a provider of a wider array of products catering to a broader scope

of clients' needs. As this transformation has unfolded, management has relied on social and market research to help drive its decision making in identifying and designing new product offerings to satisfy market demand and to further AMK's social mission.

Client Satisfaction:

Both new and old clients are generally satisfied with AMK. The competitive advantages mentioned most frequently are low interest rates, "finance at doorstep", and easy access to loan products. However, the level of satisfaction was down in 2010 compared to previous years. Research indicates this was due primarily to much stricter enforcement of loan assessment standards by AMK in its efforts to avoid client over-indebtedness and to insure portfolio quality.



Transparency & Client Protection:

Client Awareness:

Research findings suggest that approximately half of AMK's total clients fully understand their rights and responsibilities as an AMK customer. For example they understand the importance of their passbook (42%), are aware of AMK current products (41%), and know how to place a complaint (41%) regarding their experience with AMK. It was also found that most clients were able to determine the amount they paid in the previous month as well as their amount currently due.

Client Grievance:

There are three hotlines for clients to report their grievances relating to AMK's service, products, and other issues. While the aim of these hotlines is to provide mediums through which complaints can be

logged and addressed, the majority of clients tends to use this service to ask questions about loan information or appointments with Client Officers rather than providing feedback.

Multiple Loans Report:

Research findings indicate that clients with multiple loans have a much higher likelihood of repayment difficulty than those with a single loan from AMK (35% vs. 8%). Bearing Client Protection in mind, AMK closely screens all clients to avoid over-indebtedness and to ensure loan quality. As a result, AMK has seen the level of new clients with multiple loans reduce from 31% in 2009 to 21% in 2010. Of these clients, 14% are receiving funding from other formal sources (i.e. other MFIs, commercial banks, etc) while 7% are leveraging informal sources (i.e. relatives, money lenders, etc).

Other Corporate Social Responsibility:

Collaboration with External Organizations:

AMK leverages partnerships with other organizations to help drive its social mission. Recently, Research cooperated with external organizations such as the International Labor Organization (ILO) and UNITUS on issues related to financial education and social performance management.

- AMK works with ILO to strengthen the financial education of its Client Officers so they can provide better financial advice and guidance to their clients.

- AMK has also worked with UNITUS to conduct surveys to determine the effectiveness of different poverty measuring indicators. The research also looked at other microfinance related issues such as remittances, savings, and microinsurance.

Social Performance Management

Research Outputs for Decision Making – a Case Study

At the center of SPM is using information to improve social performance. As a result, AMK expects decision making at all levels of the organization to be supported by sound research. AMK's recent launch of its Urban loan highlights this. The Research Department

began by conducting surveys among urban poor individuals to identify their specific needs and how to best design a product catering to this demographic. The results from their findings are presented below:

Urban Poor Product Preferences

- 43% of respondents would be interested in receiving a loan
- Small loan sizes were requested, over 50% under USD 250
- Respondents requesting smaller loan sizes had less physical collateral than those requesting larger loan sizes, but would be more able to provide guarantors
- Short loan terms of between 10 and 14 months were preferred
- Monthly repayments were preferred
- Overwhelmingly favored the "Finance at your doorstep" service

As a result of these findings, a loan product was customized to meet the demands of the urban poor market, including a small loan size, short term duration, "Finance at your doorstep" option, monthly installment plan, and no collateral requirement. AMK's urban loan was subsequently launched and AMK continued to maintain detailed statistics on its progress. Product

performance was tracked closely over time and some clients and non-clients were resurveyed. As a result of additional feedback, several modifications were made to the original product design thereby greatly increasing its outreach and uptake. It is in this manner that AMK uses its research to drive informed decision making on an ongoing basis.



Report of the Board of Directors

Statement of the Board of Directors

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

Principal Activities

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

Results

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

Assets

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

Valuation Methods

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

Contingent and other Liabilities

At the date of this report there does not exist:

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

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

Change of Circumstances

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

Items of an Unusual Nature

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

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

Significant Events

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

The Board of Directors

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

Report of the Board of Directors

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

Directors' Interest

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

Directors' Benefits

During and at the end of the year, no arrangement existed, to which the Company was a party, with the object of enabling the Directors of the Company to

acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate body.

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

The Directors' Responsibility in Respect of the Financial Statements

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

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

Report of the Board of Directors

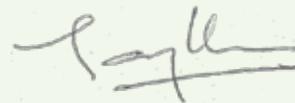
e) Effectively control and direct the Company and be involved in all material decisions affecting its operations and performance and ensure that such matters have been properly reflected in the financial statements.

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

Statement by the Directors

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

On behalf of the Directors



Mr. Tanmay Chetan

Chairman

Phnom Penh, Kingdom of Cambodia

Date: 10 March 2011



Report of the Independent Auditor

Independent auditor's report

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

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

Management's responsibilities for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

For PricewaterhouseCoopers (Cambodia) Limited



By Kuy Lim

Director

Phnom Penh, Kingdom of Cambodia

Date: 10 March 2011

Balance Sheet

As at 31 December 2010

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

Income Statement

For the year ended 31 December 2010

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



Statement of Changes in Equity

For the year ended 31 December 2010

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



Statement of Cash Flows

For the year ended 31 December 2010

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



Notes to the Financial Statement

For the year ended 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

The preparation of financial statements in accordance with the guidelines issued by the Central Bank and CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these

estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

2.2 FOREIGN CURRENCIES

(i) Functional and presentation currency

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

(ii) Presentation currency in US Dollar

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

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

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

(iii) Transactions and balances

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

2.3 CASH AND CASH EQUIVALENTS

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

2.4 LOANS TO CUSTOMERS

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

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

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

2.5 PROVISIONS FOR BAD AND DOUBTFUL LOANS

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

Notes to the Financial Statement

For the year ended 31 December 2010

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 interest and is charged as expense.

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

2.6 PROPERTY AND EQUIPMENT

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

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

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

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

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

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

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

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

2.7 INTANGIBLE ASSETS

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software

Notes to the Financial Statement

For the year ended 31 December 2010

and bring it to use. The core banking system is amortised using straight line method over the estimated useful life of 5 years. Other software are amortised on declining method at the rate of 50%.

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

2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

2.9 DEPOSITS

Deposits from customers are stated at placement value.

2.10 BORROWINGS

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

2.11 PROVISIONS

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

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

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

2.12 PROVISIONS FOR RETIREMENT BENEFITS AND STAFF PENSION FUNDS

Provision for retirement benefit:

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

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

Or

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

Notes to the Financial Statement

For the year ended 31 December 2010

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.

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

Staff pension funds

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

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

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

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

2.13 CURRENT AND DEFERRED TAXATION

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

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

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

2.14 INCOME AND EXPENSE RECOGNITION

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

Notes to the Financial Statement

For the year ended 31 December 2010

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

Expenses are recognised on an accrual basis.

2.15 OPERATING LEASE

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

2.16 RELATED PARTIES

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

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

2.17 ROUNDING OF AMOUNTS

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Impairment losses on loans to customers

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

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

(b) Income tax

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

4 CASH ON HAND

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

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

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

5 BALANCES WITH THE CENTRAL BANK

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

(i) Statutory capital deposit

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

Notes to the Financial Statement

For the year ended 31 December 2010

(ii) Reserve deposit

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

(iii) Interest rates

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

6 BALANCES WITH OTHER BANKS

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

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

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

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

7 LOANS TO CUSTOMERS

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

(a) Provision for bad and doubtful loans

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

(b) By maturity

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

(c) By currency

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

(d) By economic sector

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

Notes to the Financial Statement

For the year ended 31 December 2010

(e) By relationship

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

(f) By location

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

Notes to the Financial Statement

For the year ended 31 December 2010

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

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

(h) By interest rate

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

8 OTHER ASSETS

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

Notes to the Financial Statement

For the year ended 31 December 2010

9 PROPERTY AND EQUIPMENT

	Motor Vehicles	Motor-cycles	Computers and office equipment	Total	Total
	Riel'000	Riel'000	Riel'000	Riel'000	USD
At 1 January 2009					
Cost	1,516,679	2,098,150	1,204,864	4,819,693	1,181,008
Accumulated depreciation	(651,764)	(658,137)	(593,194)	(1,903,095)	(466,331)
Net book value	864,915	1,440,013	611,670	2,916,598	714,677
Year ended 31 December 2009					
Opening net book value	864,915	1,440,013	611,670	2,916,598	714,677
Additions	498,234	1,239,652	718,098	2,455,984	592,803
Disposals – net	(11,231)	-	-	(11,231)	(2,711)
Depreciation charge	(296,312)	(566,078)	(436,224)	(1,298,614)	(313,448)
Currency translation	-	-	-	-	(16,810)
Closing net book value	1,055,606	2,113,587	893,544	4,062,737	974,511
At 31 December 2009					
Cost	1,977,363	3,337,802	1,922,962	7,238,127	1,736,178
Accumulated depreciation	(921,757)	(1,224,215)	(1,029,418)	(3,175,390)	(761,667)
Net book value	1,055,606	2,113,587	893,544	4,062,737	974,511
Year ended 31 December 2010					
Opening net book value	1,055,606	2,113,587	893,544	4,062,737	974,511
Additions	-	374,641	806,655	1,181,296	282,067
Disposals – net	-	-	(6,640)	(6,640)	(1,585)
Depreciation charge	(263,935)	(605,207)	(554,133)	(1,423,275)	(339,846)
Currency translation	-	-	-	-	25,913
Closing net book value	791,671	1,883,021	1,139,426	3,814,118	941,060
At 31 December 2010					
Cost	1,977,354	3,712,443	2,643,107	8,332,904	2,055,984
Accumulated depreciation	(1,185,683)	(1,829,422)	(1,503,681)	(4,518,786)	(1,114,924)
Net book value	791,671	1,883,021	1,139,426	3,814,118	941,060

Notes to the Financial Statement

For the year ended 31 December 2010

10 INTANGIBLE ASSETS

	Computer software	Computer software
	Riel'000	USD
At 1 January 2009		
Cost	774,320	189,738
Accumulated depreciation	(176,876)	(43,341)
Net book value	597,444	146,397
Year ended 31 December 2009		
Opening net book value	597,444	146,397
Additions	93,593	22,591
Amortisation charge	(322,065)	(77,737)
Currency translation	-	(2,747)
Closing net book value	368,972	88,504
At 31 December 2009		
Cost	867,913	208,183
Accumulated amortisation	(498,941)	(119,679)
Net book value	368,972	88,504
Year ended 31 December 2010		
Opening net book value	368,972	88,504
Additions	2,364,762	564,652
Written off	(17,200)	(4,107)
Amortisation charge	(338,530)	(80,833)
Currency translation	-	18,511
Closing net book value	2,378,004	586,727
At 31 December 2010		
Cost	3,060,200	755,046
Accumulated amortisation	(682,196)	(168,319)
Net book value	2,378,004	586,727

Notes to the Financial Statement

For the year ended 31 December 2010

11 DEFERRED TAX ASSETS

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

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

The movement of net deferred tax assets is as follows:

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

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

12 DEPOSITS FROM CUSTOMERS

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

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

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

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

Deposits from customers analysis by types:

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

The term deposits bear interest at the following annual rates:

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

13 DUE TO SHAREHOLDER

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

14 CURRENT TAX LIABILITIES

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

Income tax is calculated by applying the corporate tax rate to accounting net income before tax.

Tax effect has been taken into account of items deemed not deductible by the Law on Taxation.

Notes to the Financial Statement

For the year ended 31 December 2010

15 OTHER LIABILITIES

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

16 BORROWINGS

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

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

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

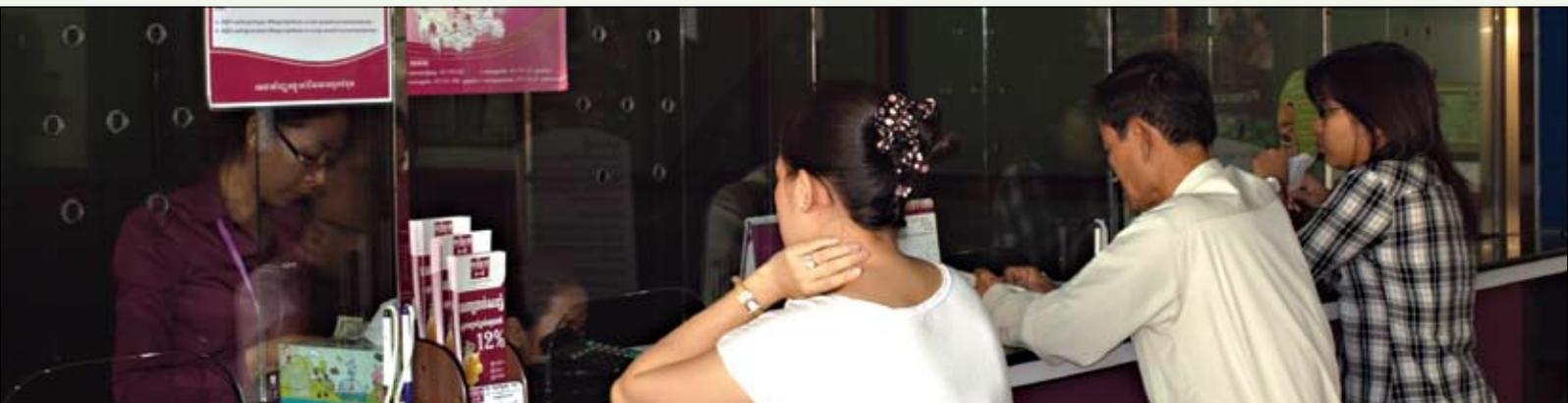
	2010		2009	
	Riel'000	USD	Riel'000	USD
Less than 1 month	-	-	-	-
1 month and less than 3 months	12,370,265	3,052,126	14,923,850	3,579,719
3 months and less than 12 months	31,421,253	7,752,591	21,613,166	5,184,257
1 year and less than 5 years	51,807,640	12,782,541	48,115,828	11,541,336
Over 5 years	21,580,259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

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

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

17 PROVISIONS FOR RETIREMENTS BENEFITS AND STAFF PENSION FUNDS

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



Notes to the Financial Statement

For the year ended 31 December 2010

(a) Provision for staff retirement benefits

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

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

(b) Staff pension funds

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

18 SHARE CAPITAL

	2010		2009	
	Riel'000	USD	Riel'000	USD
Concern Worldwide (Dublin)	34,066,750	8,405,317	34,066,750	8,171,444
Concern Worldwide (UK)	2,500	617	2,500	600
	34,069,250	8,405,934	34,069,250	8,172,044

Notes to the Financial Statement

For the year ended 31 December 2010

19 RESERVE

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

20 INTEREST INCOME

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

21 INTEREST EXPENSE

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

22 OTHER OPERATING INCOME

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

Notes to the Financial Statement

For the year ended 31 December 2010

23 OTHER OPERATING EXPENSES

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

24 GRANT INCOME

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



Notes to the Financial Statement

For the year ended 31 December 2010

25 INCOME TAX EXPENSE

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

a) Reconciliation between income tax expense and accounting profit:

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

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

b) Other tax matters

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

26 CASH USED IN OPERATIONS

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

Notes to the Financial Statement

For the year ended 31 December 2010

27 RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Related-party balances

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

(b) Interest income loan key management personnel

	2010		2009	
	Riel'000	USD	Riel'000	USD
Interest income from loan to key management personnel	128,830	30,762	108,483	26,185

(c) Director and Key management personnel remuneration

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

Notes to the Financial Statement

For the year ended 31 December 2010

28 COMMITMENTS

Operating lease commitments

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

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

29 FINANCIAL RISK MANAGEMENT

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

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

29.1 CREDIT RISK

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

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

(a) Credit risk measurement

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

(b) Risk limit control and mitigation policies

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

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

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

(c) Impairment and provisioning policies

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

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

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

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

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

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

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

(e) Loans to customers

Loans to customers are summarised as follows:

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

(i) Loans to customers neither past due nor impaired

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

(ii) Loans to customers past due but not impaired

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

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

(iii) Loans to customers individually impaired

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

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

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

(iv) Loans to customers renegotiated

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

(f) Repossessed collateral

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

Notes to the Financial Statement

For the year ended 31 December 2010

29.2 MARKET RISK

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

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

(i) Foreign exchange risk

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

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

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

	Riel'000			
	USD	THB	KHR	Total
At 31 December 2010 Financial assets				
Cash on hand	213,504	25,553	591,470	830,527
Balances with the Central Bank	-	-	5,215,031	5,215,031
Balances with other banks	26,609,039	1,331,700	8,027,459	35,968,198
Loans customers	2,879,245	7,839,869	114,879,719	125,598,833
Other assets	152,068	-	2,722,227	2,874,295
Total financial assets	29,853,856	9,197,122	131,435,906	170,486,884
Financial liabilities				
Deposits from customers	4,668,563	27,369	1,085,799	5,781,731
Due to shareholder	76,664	-	-	76,664
Other liabilities	1,491,153	207,331	2,036,715	3,735,199
Borrowings	37,635,766	6,630,458	72,913,193	117,179,417
Total financial liabilities	43,872,146	6,865,158	76,035,707	126,773,011
Net on-balance sheet position	(14,018,290)	2,331,964	55,400,199	43,713,873
In USD equivalent	(3,458,744)	575,367	13,668,937	10,785,560

Notes to the Financial Statement

For the year ended 31 December 2010

(ii) Price risk

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

(iii) Interest rate risk

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

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

29.3 Liquidity risk

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

(a) Liquidity risk management process

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

(b) Funding approach

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

(c) Non-derivative cash flows

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

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

Notes to the Financial Statement

For the year ended 31 December 2010

(d) Off-balance sheet items

i. Loans commitments

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

ii. Operating lease commitments

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

	No later than 1 year	1-5 years	Total
	Riel'000	Riel'000	Riel'000
As at 31 December 2010			
Unused portion of approved credit facility	4,474,009	-	4,474,009
Operating lease commitments	131,717	2,380,883	2,512,600
	4,605,726	2,380,883	6,986,609
In USD equivalent	1,136,375	587,437	1,723,812

29.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

i. Balances with other banks

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

ii. Loans to customers

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

iii. Deposits from customers and borrowings

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

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

iv. Other assets and other liabilities

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

Notes to the Financial Statement

For the year ended 31 December 2010

29.5 CAPITAL MANAGEMENT

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

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Company's ability to continue as a going concern so that it can continue to

provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of the business.

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

The table below summarises the composition of regulatory capital:

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

30 COMPARATIVE FIGURES

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

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

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