



AMK – second update

Limited Company licensed as an MFI

Phnom Penh, Cambodia

Report – March 2008

Contacts

M-CRIL:

Jyoti Gidwani; Berenice Da Gama Rose
jyotigidwani@m-cril.com, berenice@m-cril.com

Tel: +91 124 230 9497

Fax: +91 124 230 9520

AMK:

Paul Luchtenburg
paul.luchtenburg@amkcambodia.com
Tel +855 23 993 062

CREDIT RATING

α+

RATING OUTLOOK*

+ve

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Date of visit

March 2008

Date of previous rating

December 2006

Previous rating

α

Investment Grade	Above	$\alpha++$	
		α	$\alpha+$
			α
			$\alpha-$
		β	$\beta+$
			β
	$\beta-$		
	Below	γ	$\gamma+$
			γ

Main Performance Indicators

	Dec-06	Dec-07
Gross Portfolio (KHR mn.)	21,220	41,259
Gross Portfolio (US\$ thousand)	5,231	10,307
No. of active borrowers	67,586	120,111
ROA	7.4%	8.1%
Portfolio yield	35.7%	34.2%
Portfolio at Risk ₃₀	0.09%	0.06%
Operating expense ratio	28.4%	24.2%
Average loan o/s (KHR '000)	314	344
Borrowers per field staff	736	660

1US\$ = KHR4,057 (2006), 1US\$ = KHR4,003 (2007)

Synopsis

AMK has a strong Board, well designed loan products, good management systems including an experienced management team, strong internal control environment and excellent performance on financial indicators. The organisation has excellent portfolio quality, improving operating efficiencies and healthy operational profits. All these factors have resulted in overall excellent performance. In the future, the organisation plans to upgrade its MIS to address capacity constraints. The future performance of AMK would depend on its ability to mobilise adequate debt and hire adequate and skilled human resource.

In M-CRIL's view, on account of an overall good performance and strong capital base, AMK can absorb – from all sources – commercial loan funds of US\$8.6 million over the next one year for on-lending to its borrowers. This estimate is based on the projections of the organisation. However, given its capital base, AMK can manage to leverage much higher borrowings than the suggested amount.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here and to no other significant changes in the organisational structure and external operating environment.

Highlights

POSITIVE

- Strong Board, qualified and experienced management team
- Strong internal audit and control systems
- Good staff productivity
- Well designed loan products
- Excellent portfolio quality
- Good capital adequacy
- Good performance on profitability and sustainability

NEGATIVE

- Growth potential may become limited in Cambodia over the next 2-3 years
- Limited sources for borrowing funds in local currency
- Foreign exchange risk due to borrowing in other currencies
- Limited product knowledge among clients

M-CRIL New Delhi

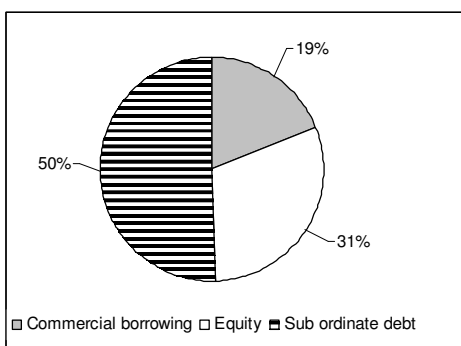
602 Pacific Square, 32nd Milestone NH8
Gurgaon 122001 INDIA
Phone: +91 (124) 230 9497, 230 9707
Fax: +91 (124) 230 9520

in association with

MicroRate Washington

3300 Fairfax Drive, Suite 202
Arlington, VA 22201 USA
Phone: +1 (703) 243-5340
Fax: +1 (703) 243-7380

Sources of Funding



Rating Rationale

Board: AMK has a highly experienced and professional Board with experience in Finance, Banking and Development sector. The two standing committees – the audit and finance committee and social performance committee ensure that AMK conforms to its double bottom line of being financially sustainable and serving the poor.

Management team: The management team has been stable and has gained considerable experience working with AMK. The members of the management team also have prior experience of working with other MFIs and other professional organisations.

Staff productivity: Staff productivity of 660 active borrowers per field staff is above the industry benchmarks primarily due to AMK's model of operating through Village Banks.

Loan products: AMK has well designed loan products. The organisation targets the poorer segments and thus has products which provide flexibility to the clients to pay as per their cash flows. The loan products are designed and modified based on the recommendations of an in-house research department. However, due to lower loan size and increased competition, retaining older clients may be difficult unless another product is designed to cater to their needs.

Internal control environment: AMK has a good quality internal audit that covers all – policy, operational and financial risks and compliance issues. However, the frequency needs to be improved to conform to the plan of auditing each branch at least thrice a year.

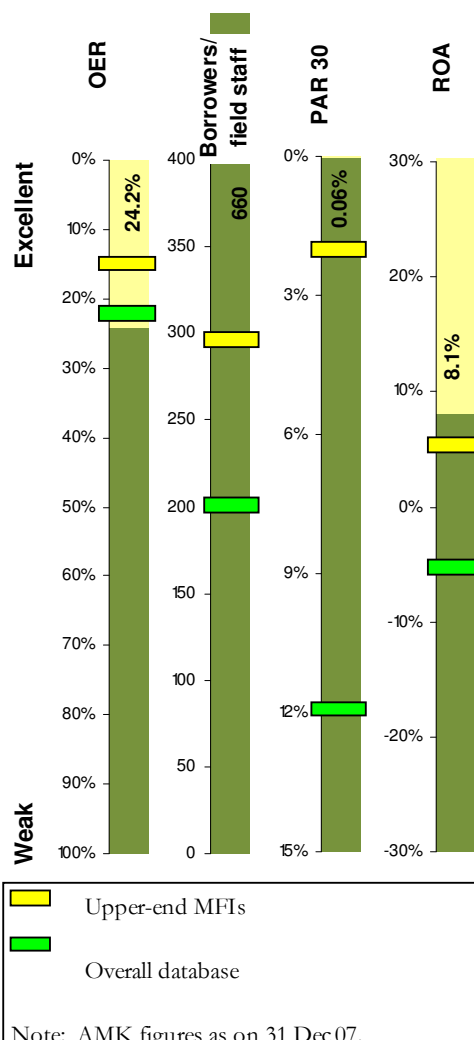
Portfolio quality: AMK has continued to maintain an excellent portfolio quality with PAR₃₀ of only 0.06%.

Capital base: AMK has a sound capital base with CAR of 87.6% as on 31 December 2007. This would allow the organisation to leverage external funds.

Financial performance: AMK has sound financial performance with ROA of 8.1% and OSS of 143.0%. Operating efficiency has improved with OER declining from 28.4% to 24.2% from Dec. 2006 to Dec. 2007.

Funding: The future performance of AMK depends on its ability to mobilise external funds. With Concern hardly injecting any funds in future, the organisation would require to mobilise both borrowings and equity from other sources. The challenge would be to mobilise funds in local currency to avoid exchange risk.

Market potential: The organisation expects the Cambodian microfinance market to saturate in another five years. As a result, it projects only a nominal average annual growth rate of 11% from the year 2010 onwards.



Comparison of AMK performance with MFIs rated by M-CRIL

Comparative Performance Highlights

Comparative Rating Grades

Category	Rating grade		Movement ³
	December 2006	March 2008	
Governance	α-	α	↑
Management	α	α	↔
Financial performance	α+	α+	↔
Overall	α	α+	↑

Select indicators/ratios

Indicator/ratio	December 2006	December 2007	Change ¹
1 Growth			
Loans outstanding (KHR million)	21,220	41,259	↑
Loans outstanding (US\$ '000)	5,231	10,307	↑
Outstanding borrowings (KHR million)	12,851	31,839	↑
Outstanding borrowings (US\$ '000)	3,168	7,954	↑
Active borrowers	67,586	120,111	↑
Average loan size (KHR '000)	349	387	↑
Average loan size (US\$)	86	97	↑
2 Credit performance			
Current repayment rate	99.2%	99.7%	↑
Portfolio at risk (>=30 days)	0.09%	0.06%	↑
3 Efficiency and profitability			
Active clients per staff	360	344	↓
Operating expense ratio	28.4%	24.2%	↑
Annual return on assets	7.4%	8.1%	↑
Operating self-sufficiency	122.6%	143.0%	↑
Financial self-sufficiency	104.9%	124.8%	↑
Capital adequacy ratio	104%	88%	↑

Note: With increase in outstanding borrowings from December 2006, capital adequacy ratio has come down to a relatively reasonable level. This is an improvement in AMK's financial leverage.
CAR has been calculated after including funds from long term loan funds from Concern worldwide. These loan funds are likely to be converted to equity by April 2008.

¹ An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.

Country overview

Cambodia is a Southeast Asian country, bordering the Gulf of Thailand, located between Thailand (in the West), Vietnam (in the East), and Laos (in the North). The country has had a history of invasions, wars and political unrest. After it gained independence from the French in 1953, the communist Khmer Rouge forces captured power in 1975. At least 1.5 million persons were either executed or killed due to forced hardships during the three-year Khmer Rouge regime. In 1978, the Cambodian army together with the Vietnamese army attempted to overthrow the Khmer Rouge regime, which started a 13-year period of civil war. The Paris Peace Accord in 1991 brought about the establishment of a democratically elected coalition government in 1998. Elections were again held in 2003, leading to the establishment of another coalition government in 2004.

In 1999, the first full year of peace in 30 years, the government made progress on economic reforms. From 2001 to 2004, the economy grew at an average rate of 6.4%, driven largely by an expansion in the garment sector and tourism. In 2005, exploitable oil and natural gas deposits were found beneath Cambodia's territorial waters, representing a new revenue stream for the government once commercial extraction begins in the coming years. However, the long-term development of the economy remains a daunting challenge. The Cambodian government continues to work with bilateral and multilateral donors, including the World Bank and IMF, to address the country's many pressing needs. The major economic challenge for Cambodia over the next decade will be fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance. The population lacks education and productive skills. 74% of the population remains fully engaged in subsistence farming. However, in terms of contribution of different sectors to GDP, agriculture contributes only 35%. Today, Cambodia is one of the poorest countries in the region: 36% of its 13.8 million citizens live below the national poverty line and 20% of the households are headed by a female. Further, a weak social infrastructure – evident in the United Nations Development Programme's (UNDP) Human Development Index rank of 130th (out of 175) in 2003 – has meant that gender inequality, rural-urban regional disparities and poor health facilities continue to be significant hindrances to development.

The financial and banking sector were destroyed by the Khmer Rouge regime, which abolished money for a number of years. In the 1990s, Cambodia's banking sector went from a system limited to a single public bank to a two-tiered public banking system that

separated the functions of the Central Bank from the Commercial Banks. The Royal Government of Cambodia (RGC) introduced banking regulations in 1999 and bank-restructuring programmes in 2000 as a result a number of non-viable banks were liquidated. Today 17 banks remain in operation, including one state owned bank, three foreign bank branches, 10 local banks and three specialized banks (one of which is state owned). The government has liberalized interest rates, established reserve requirements, capped total exposure allowed to any one individual or client, and capped bank positions in foreign currency as a percent of the bank's net worth. However, with one of the exceptions – ACLEDA Bank – these banks are highly liquid, conservative and serve a narrow elite clientele.

Cambodia's financial sector is still at a rudimentary state: the number of commercial banks is limited and effectively non-existent outside of the capital city. With the exception of ACLEDA Bank (commercial bank) and the RDB (specialized bank) formal banks do not yet serve the poor. In this context, microfinance operators and the informal financial sector have been the de facto providers of financial services in rural areas. Currently there are at least 100 registered and unregistered lending bodies serving the rural population in Cambodia, including 16 licensed Microfinance Institutions (MFIs) and 24 registered rural credit operators. The main nine players in the microfinance market in Cambodia serve over 95% of the formal sector market.

National Bank of Cambodia (NBC) is responsible for regulating and supervising microfinance in Cambodia. The NBC has the authority to regulate, supervise, license and revoke licenses of MFIs, to issue prudential regulations and strengthen supervisory capacity.

Registration or licensing by NBC of microfinance providers is compulsory when operators meet one or more of the following conditions:

If engaged in	Registration by NBC	Licensing by NBC
Credit	Loan portfolio ≥ KHR 100 million (USD 25,000)	Loan portfolio ≥ KHR 1,000 million (USD 250,000) or ≥ 1,000 borrowers
Savings	Voluntary savings: ≥ KHR 1 million (USD 250) or ≥ 100 depositors	Voluntary savings ≥ KHR 100 million (USD 25,000) or ≥ 1,000 depositors

MFI is required to be incorporated as a limited liability company or as a cooperative and require a minimum registered capital of approx USD 62,500. Recently, the license has been made permanent and most of the large microfinance providers are now licensed entities.

Microfinance operations

Main Indicators	31 Dec-03	31 Dec-04	31 Dec-05	31 Dec-06	31 Dec-07
Gross Loan Portfolio (KHR million)	3,480	4,798	10,050	21,220	41,259
Gross Loan Portfolio (US\$ thousand)	843	1,189	2,444	5,231	10,307
Number of Active Borrowers	18,422	20,464	36,221	67,586	120,111
Asset Quality					
Portfolio at Risk (>30 days)/Gross Loan Portfolio	2.51%	0.72%	0.05%	0.09%	0.06%
Loan Loss Reserve/Gross Portfolio	3.9%	3.0%	1.0%	1.0%	1.0%
Efficiency and Productivity					
Operating Expenses/Avg. Gross Loan Portfolio	32.6%	42.7%	34.9%	28.4%	24.2%
Cost per Borrower (KHR thousand)	39	94	78	66	64
Average Outstanding Loan Size (KHR thousand)	189	234	277	314	344
Average Outstanding Loan size (US\$)	46	58	67	77	86
Number of Borrowers/Total field staff	614	445	697	736	660
Number of Borrowers/Total staff	271	225	335	360	344

Exchange rates: 1US\$ = KHR4,127 (2003); 1US\$ = KHR4,035 (2004), 1US\$ = KHR4,112 (2005), 1US\$ = KHR4,057 (2006), 1US\$ = KHR4,003 (2007)

Angkor Mikroheranhvatho (Kampuchea) Co Ltd (AMK) was created out of the credit and savings programme of Concern Worldwide in Cambodia, which started in 1993. In 2000-01, Concern started moulding the credit and savings programme into an independent MFI, adhering to the new Cambodian microfinance regulation that stipulated the creation of a separate company and obtaining an MFI license once the outstanding loan portfolio exceeded KHR 1,000 million (equivalent to approx US\$250,000).

On 20 May 2003, Concern's credit and savings programme in Cambodia was renamed as AMK and it was registered as a Limited Liability Company, wholly owned by Concern Worldwide. In May 2004, AMK obtained its MFI license from the National Bank of Cambodia (NBC), the Cambodian Central Bank.

AMK, unlike many other MFI's in Cambodia, serves the lower economic segments. It has maintained its focus on serving the poor households in rural areas. Its products and policies are also designed in accordance with its mission.

As on 31 December 2007, AMK had 122,654 clients of which 120,111 were active borrowers. It was operating through 15 branches, with one branch each in Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kandal, Kratie, Preh Vihear, Prey Veng, Svay Rieng, Takeo, Oddar Meanchey, Pursat and Siem Reap provinces of Cambodia. The operations covered a total of 83 districts, 552 communes and 2,999 villages and had a total outstanding loan portfolio of US\$10.4 million.

The shaded areas of map below reflect the remaining 7 provinces of Cambodia, which the organisation plans to cover over the financial year 2008. This includes

the challenging north eastern provinces where no other MFIs are operating. The north eastern province is more challenging due to lack of adequate infrastructure and as it is inhabited by many ethnic tribal groups with different culture and language than the rest of the country.



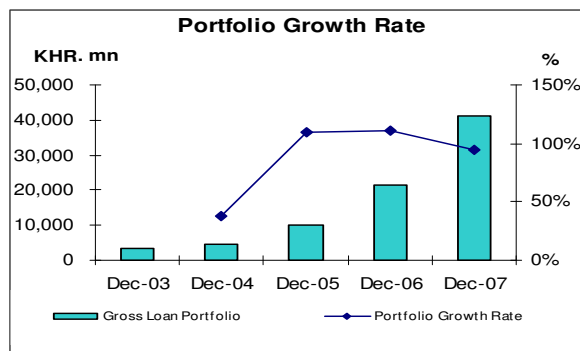
AMK had a total of 349 staff as on 31 December 2007, including 182 credit officers and 167 other staff (including HO staff, managerial staff at Branches and support staff).

The new CEO, Mr Paul Luchtenburg, took over the charge of operations from June 2007. He has more than 15 years of experience in microfinance, with primary focus on Cambodia.

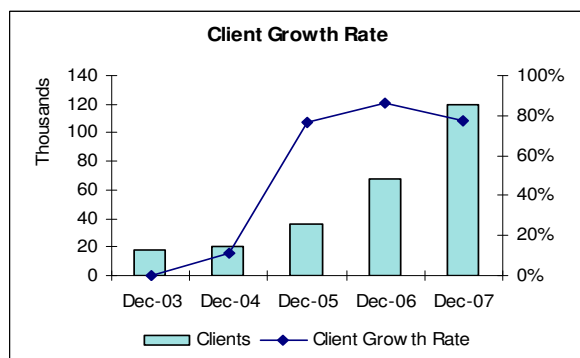
The Head Office includes Managers for Operations, Finance, HR, MIS, Inspections, Training and Market Research. Training and market Research have been recently split into two separate departments. The CEO and Managers constitute the senior management team. The Managers are supported by officers in their respective departments.

Field operations are managed by the Operations Manager with the support of four Regional Managers (RMs), two of whom have joined recently. The base location of RMs has been recently changed from the branches to HO. At the branches, the operations are led by the Branch Manager (BM), supported by 2-5 Area Managers (AMs), Credit Officers (COs) and one Teller/Cashier. Apart from these staff, senior branches have an Accountant. AM is expected to manage 4 COs and CO is expected to manage 1,000 active borrowers.

The period up to 2004 can be termed as formative years of AMK and thus witnessed a slow growth in portfolio. AMK achieved high growth rates during 2005 to 2007 and has nearly doubled its size each year. The organisation has witnessed an average annual growth rate of 105% from the financial year 2005 onwards.



Based on the estimates of AMK, the organisation has given itself 2-3 years to develop its market share. In its business plan, AMK projects rapid growth rate of 82% for 2008, as it plans to expand to new provinces along with consolidating operations in the existing provinces. In 2009, it will be mainly consolidating operations and projects a growth of almost 40%. From 2010 to 2012, it projects an average annual growth rate of only around 11%, indicating a much higher level of saturation in the market. AMK has had an average annual growth rate of almost 80% in its active borrowers since the year 2005. AMK plans to have more than 300,000 active borrowers by the financial year end 2012.



Microfinance policies

AMK plans to extend its operations to the remaining six provinces of Cambodia during the financial year 2008. For starting its operations in a new district, it gets authorisation from the district and commune chief and also collects the basic information on competition, security, risks etc. For a new village, the CO first does the risk profiling of the village to get the information on competition, security, political influence etc. and submits the report to the AM and BM. This is followed by preliminary orientation meetings in the village to inform the people about the organisation's policies and products.

AMK lends to women (84%) and men (16%) from poor households, who may be organised into Village Banks or VBs (consisting of 20-60 clients) or may be individual clients not associated with VBs. The Village Banks are formed by grouping together 4-12 solidarity groups, which are groups of 4-6 clients (men or women) formed by the clients themselves. To be part of solidarity groups, a member must have one economic activity in the household, should not have any other member from the same family or household in the same group and should not have existing loans from other MFIs, banks or moneylenders. Clients within the solidarity groups are required to stand guarantee for each others' loans.

The VB clients elect a Village Bank President (VBP) who is responsible for ensuring credit discipline within the VBs and also supports the Credit Officers in organising meetings for collections, informing COs in advance in case of potential non payment and follow up on delinquent clients. The VBPs are paid an incentive of 3% and 0.5% on the amount of interest and principal collected respectively. Incentive is paid only if there is 100% on time collection from the VB.

All loans are guaranteed by the respective group members and appraised and approved by AMK's COs and the VBP. The final sanction is done by BM. The disbursements take place in the field in the presence of group members and AMK's Area/Branch Manager. The client is interviewed to test his/her knowledge of the AMK's policies, products and its features by the AM/BM before the loan is physically disbursed. For loans to individual clients, a detailed monthly cash-flow statement for one year is prepared by the CO, based on discussions with the clients.

Disbursements are made in Riel in all the branches except Banteay Meanchey, where loans are also given in Thai Baht.

Loan products

AMK offers three **group-based loan** products, one individual loan product to individual clients and an emergency loan product to clients who have completed at least 6 months with AMK. The group loan products are described in the table on the following page.

Feature	End of term (EoT-VB)	Instalment (Inst-VB)	Credit Line (CL-VB)
Clientele	With seasonal cash flow	With regular cash flow	Eligible from third cycle
Term	12 months	12 months	24 months
Amount	From US\$70-150	From US\$70-150	Max US\$150
Int. rate	3% p.m.	2.8% p.m.	3% p.m.
Repayment	I : monthly P: bullet payment end of term	I: monthly P: monthly	I: monthly P: end of term (or before)
Late payment fees	Additional 1% p.m. (from first payment after the end of the term)		
Other fees	0.5% of the loan amount		
Prepayment	Allowed, no penalty		NA

*NA – Not Applicable

** Instalment (VB plus individual loans), EoT (VB plus individual loans) and credit line form 39.4%, 37.9% and 23% of the total portfolio respectively.

*** VB loans and individual loans form 79% and 21% of total loan portfolio respectively

No physical collateral is required for the group loan products and the “social collateral” of the group guarantee is sufficient.

The **instalment loan for individual clients** is provided to rural/semi-rural individual entrepreneurs. The loan size ranges from KHR1.0 million (\$250) to KHR2.0 million (\$500). The maximum loan size for the first cycle is \$375, with subsequent increments of \$50. The maximum term is 18 months and the interest rate is 3% per month for the first three cycles (or two years) and 2.5% per month thereafter. In addition, processing fees of 0.5% of the loan amount are collected up-front.

Repayment takes place in monthly instalments with fixed principal and declining interest and there is no prepayment penalty. However, in case of late repayment, there is a penalty of 1% per month on the outstanding principal balance.

Individual loans require physical collateral and personal guarantors. The original documents of landed property

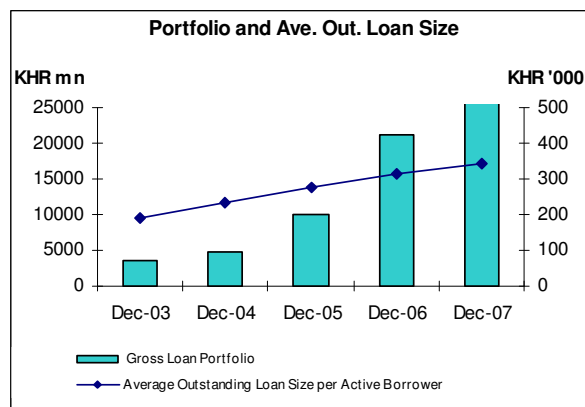
are generally taken as collateral security. However, the collateral is only to create pressure on clients and cannot easily be forfeited and sold, due to the unclear title of property in rural areas of Cambodia.

The **emergency loan product** is available to group or individual clients who have completed at least 6 months with AMK, and is given to help clients cover medical expenses or funeral expenses in case of a death in the family. A client can request an emergency loan from the Credit Officer in the village or the office staff at the branch and disbursement takes place within four working hours of receipt of the request.

The maximum loan amount is KHR400,000 or Thai Baht4,000 (\$126) and the maximum term is 10 months. Interest is charged at 2.5% per month and there is no processing fee.

There are no fixed instalments for repayment of the emergency loan but interest is paid monthly and the principal must be cleared on or before the end of the loan term. The penalty for late payment is 1% per month on the out-standing principal balance. There is no physical collateral but one personal guarantor is required.

AMK had an average loan outstanding of around US\$85 in December 2007. From December 2004 onwards, the average loan outstanding has grown only by 47%. The growth has been mainly on account of old customers graduating to higher loan cycles. AMK's loan sizes are among the smallest in the Cambodian market, partly because the organisation operates exclusively in rural areas. AMK plans to continue offering smaller size loans, as in-house research shows that the current products are appropriate and manageable for poor. However, for the less poor, the credit demand is higher and thus it has recently increased its maximum loan size by US\$25 i.e. from US\$125 to US\$150 in late 2007, to meet increased credit demand of its clients and remain competitive.



Saving products

AMK offers two kinds of savings products: 1) Loan-linked compulsory savings for individual loan clients and 2) general voluntary savings.

Individual loan clients are required to deposit 2% of the loan amount up-front as compulsory savings, which cannot be withdrawn till the loan is paid off. These savings may be returned to the client together with 12% pa interest, once the loan is closed. However, now the organisation plans to stop collecting this loan linked savings as the amount is too small to provide any security in case of non repayment.

The general voluntary savings product provides clients (both VB and individual clients) sufficient flexibility for deposit and withdrawal amounts and earns 6% interest per annum, recently reduced from 18% p.a. Interest calculation is based on daily basis and credited in the account of customers bi-annually. Accounts can be opened with a deposit of KHR500 (US\$0.125, which is also the minimum savings balance to be maintained in the account), and the minimum denomination for transactions would be KHR100 or multiples of KHR100. Transactions for deposits and withdrawals can take place at the village (on the day of the monthly VB or individual meeting/visit) or at the branch office.

A savings account is considered dormant if no transaction takes place for 12 consecutive months and is liquidated in case no of transaction for 24 consecutive months.

Governance and strategic positioning

AMK has good performance on governance with a rating grade of **α**. This is one notch higher than the last rating grade as a result of smooth transfer of leadership to the new CEO. Presence of strong Board with substantial experience in Finance and Development, high focus on maintaining the double bottom line of serving poor without compromising on sustainability, impressive growth and well designed microfinance loan products has resulted in this performance.

Governance structure

AMK has a highly experienced and professional Board of international repute. The ten member Board is composed of a former partner with PriceWaterhouse-Coopers, a Cambodian lawyer, one Program Manager from Concern Worldwide Cambodia, two senior management and one financial systems expert from Concern Worldwide, Dublin, one international microfinance consultant (ex-CEO of AMK), Head of Community Finance at ANZ Banking Group, the

retired Chairman of DEFPA Bank plc. and the CEO of AMK.

The Board of Directors has two standing committees – the Audit and Finance Committee and Social Performance Committee. The Audit and Finance Committee advises AMK on both external and internal audits. The Social Performance Committee advises AMK on social performance in terms of poverty outreach, product suitability, client protection etc. Both the committees have external experts besides the Directors. The objective of the dual committee structure is to ensure that AMK balances its social mission with financial self sufficiency requirement.

The Board met three times in 2007. The Board keeps itself updated on the progress of AMK's performance on a monthly basis. The management reports details of financial performance and cash flows to the Directors every month end. In the future, the organisation plans to increase representation of appropriate Cambodian Directors and professional microfinance experts in its Board. The Board will also see representation from other investors, as the ownership structure is expected to change in future with flow of investments from investors other than Concern Worldwide.

Equity ownership

The shareholders in AMK are Concern Worldwide (Dublin, Ireland) and Concern Worldwide UK, which hold 99.9% and 0.1% of the US\$ 2.5 million share capital respectively.

In December 2007, it was decided to convert the subordinate debt from Concern Worldwide into equity. The transfer is likely to be complete by April 2008. Though Concern is likely to be the major shareholder in AMK for next 4-5 years, it would not be the sole shareholder. The organisation plans to gradually add more social equity investors who share the same vision as AMK.

Foundation Moringaway, an institution partially owned by one of the Directors, former Chairman of DEFPA Bank plc., is interested in investing equity in AMK. The foundation is likely to invest around debt at a commercial interest rate of 10% p.a., which on the approval from Concern, would then be converted to equity by the end of 2008 or beginning of next financial year. The business plan projects equity inflow of US\$4.7million from Concern and US\$8.5million from other sources from the year 2008 to 2012. Concern's equity shareholding is projected to decrease to 60% by the year 2012.

Operational and growth strategy

AMK has a well laid out operational and growth strategy. The Business Plan details out the medium to long term strategy of the organisation on ownership, governance, legal structure, growth and outreach, product development, human resource, training and research etc.

AMK has almost doubled its portfolio size every year from the year 2005 onwards. For the next two years, the organisation will continue to focus on expansion. In 2008, the organisation plans to extend its reach to all the provinces of Cambodia, including remote tribal areas of north east. As other MFIs cater to better off economic segment, AMK's products with smaller loan sizes are likely to be much more suitable for these remote provinces. Moreover, entering into these remote un-served provinces is in line with its vision of serving the poor. As competition is increasing in other areas, organisation wants to establish its presence across entire country. However, operating in these provinces may require some modifications in the current methodology. By the end of year 2008, AMK would be the first microfinance organisation in Cambodia having operations across all the provinces of the country.

So far, AMK has had a strategy of opening only one branch per province. As a result, the operational area of branch extends up to even 100km in some provinces. This not only results in high cost and time being spent on travelling but also reduces CO productivity to some extent. To counter this, the management now plans to open fully operational sub branch offices in the province. Five provinces already have sub branch offices, however, the operations are not fully decentralised to them. Cash management systems at sub branch offices as well as system of data transfer from sub branches to branches are some of the key aspects which would be critical. Some of the sub branch locations may not have bank facility available and keeping cash at sub branch locations may be risky.

In the long run, AMK hopes to eventually convert to a commercial bank as this would allow it to offer a wider range of financial services, including remittances, insurance and mobilising deposits from public, which it is not allowed to offer under the present legal structure. The benefits and challenges of graduating to a bank structure (other than capital requirement of US\$13million) are currently being reviewed by AMK.

Fund mobilisation

AMK has majority of its funding from Concern Worldwide. Besides equity support, it has provided

subordinate debt to AMK at only 1% interest rate p.a. To meet its growth needs, AMK began to borrow from commercial sources for the first time in 2006. Details of the borrowing as on 31 Dec. 2007 have been presented in the table below:

in KHR mn.

Lender	Total sanction	Outstanding on Dec-07	Total interest rate
Concern Worldwide	30,143.0	23,228.7	1.0%
Micro-finance Alliance Fund	800.0	395.1	11.6%
Oikocredit	4,056.0	4,056.0	12.8%
Blue Orchard	4,159.2	4,159.2	12.2%
Total	39,158.2	31,839.0	
Weighted av. cost of borrowings			3.39%

AMK is also negotiating funds from a number of other lenders.

In Cambodia, it is difficult to borrow significant amount of funds from local financial institutions/banks. Thus, AMK has borrowed local currency from external commercial lenders. However, there are only 4-5 such lenders from which the organisation can borrow local currency. The other option is to borrow funds in other currencies like Thai Baht or Dollars. While borrowing in local currency is more expensive, borrowing in other currencies has an associated exchange rate risk. As on 31 December 2007, the organisation had 31% of its borrowings in US\$ and 13% in Thai Baht, against which only 1% of outstanding portfolio was in US\$ and 17% was in Thai Baht. Currently, organisation bears the exchange risk on its borrowings in Baht and US\$. As the commercial borrowings increase, the organisation would need to find ways to hedge exchange rate risk. However, it is to be noted that there has not been any serious fluctuation in the currency and it has mostly remained stable over the last five years. The organisation has earned foreign exchange gains in years 2004, 2006 and 2007.

In 2008, the organisation plans to reduce its exposure to Thai Baht and US\$. Internally, it plans to strengthen its capacity to deal with currency risk and liquidity management by adding a treasury function as part of its finance department, especially as its reliance on external borrowings is now going to increase. The future growth of AMK depends to a great extent on its performance on adequate mobilisation of funds.

Microfinance Products

AMK has very well designed loan products for its target clients. Due to organisation's focus on serving the poor households, AMK has one of lowest average loan size among all the MFI's in Cambodia. The clients can choose the product based on their cash flow pattern, thereby providing them good flexibility in

repaying loans. The emergency loan product provides an easy access to funds in times of crisis. AMK has an in-house research department which provides client feedback on products and policies to the management. The research team conducts detail client cash flow analysis, including client satisfaction surveys.

However, during the discussions in the branches, it was revealed that though the products are liked by the clients, there have been cases of older clients either dropping out or also borrowing from other MFI's due to small loan size of the organisation. The not so poor clients of AMK also complain of lower loan size. To counter this to some extent, the organisation did increase its maximum loan size by US\$25 in late 2007. The research department, based on the current ongoing research on client cash flows and client satisfaction surveys (conducted annually), should be able to give feedback on whether the increase in loan size is adequate or does the organisation needs a separate product to retain its older and not so poor clients.

Based on the Exiting Clients Report November 2007 and discussion at the branches, another feature that many clients do not like is that AMK uses daily interest calculation method unlike many other MFI's, who calculate interest on a monthly basis.

Unlike the loan products, the General savings product of the organisation has not been successful and constitutes only 1.1% of the total liabilities as on Dec. 2007. Even offering an interest rate as high as 18% p.a. was not effective and has now been reduced to 6% p.a.

The organisation has not yet coined the definition for its client dropouts. However, the estimates given by the branches visited indicate a dropout of more than 10%. Based on Exiting Clients Report, the organisation had 9% of its clients who had not borrowed for more than a year, of which 19% were planning to borrow again from AMK within next six months.

Competition

Cambodia has many microfinance service providers and the market is estimated to saturate within next five years. Cambodia has two categories of MFI – those achieving growth by increasing their loan sizes, and those concentrating on growth through greater outreach. AMK falls in the latter category. Based on the ranking of 18 MFIs done by Cambodia Microfinance Association, AMK stands third in terms of outreach but eighth in terms of portfolio size.

AMK's target market is different from most of the other MFIs, who are mostly catering to the needs of economically better off clients. However, this is not to say that AMK is not being affected by competition.

The policy of not lending to clients with loans from other sources is no longer effective in the field with the increase in competition and there is no overlap of clients with other MFIs. AMK has a competitive edge in terms of its interest rates which are still lower than many others, flexible products, emergency loan and loan write off feature in case of death of the client. On the other hand, it lags behind others on account of absence of higher loan options for older and not so poor clients and higher time lag (at least 1 week) in processing of subsequent loans (2-3 days), mainly on account of the bigger size of branches.

Organisation and management

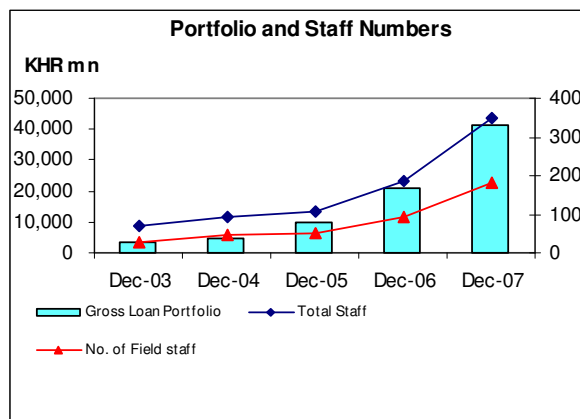
AMK has good management performance with a grade of **α**. The organisation has standardised operations, well documented policies and systems, reasonably sound second leadership line, good MIS, internal controls and audit mechanism.

Human resource quality & management

AMK has qualified and experienced staff in its management cadre. All the senior managers have significant experience in their present area of work, in other microfinance institutions in Cambodia or in other professional organisations. Several senior staffs in the field have also been with the organisation since it was the credit and savings programme of Concern. AMK has done well to separate Research and Training and product promotion into two separate departments. As the staff base is expanding, it would be wise to have a separate training team in place to take care of future capacity building requirements of the organisation, especially as it a challenge to find experienced people and thus people with less than desired experience are being hired. At present, the training department has only one staff, previously a Regional Manager. AMK plans to hire two more training officers.

Besides in-house training, the senior staff in AMK are also sent for external trainings and exposure visits. For the branch staff, AMK would do well to strengthen their supervisory and cash planning skills.

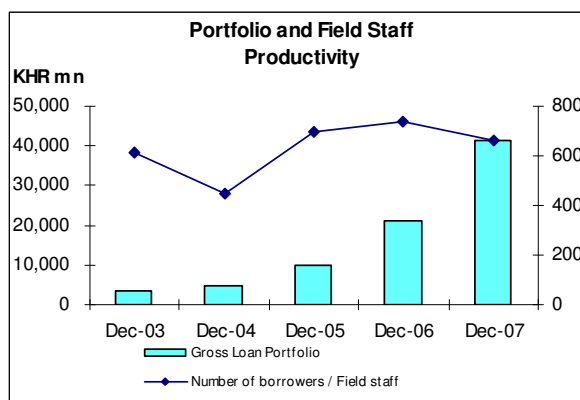
The staff are also provided with range of financial benefits including staff loans, deposit facility, insurance and gratuity. The organisation also has a good incentive system in place for its field staff. The incentives are linked with the performance of individual staff (active clients, portfolio quality etc), assessment of superiors as well as audit opinion (satisfactory or unsatisfactory) of the branch presented in the audit report. AMK also encourages promotion of good performing staff internally and has a well laid out system for this. As a result the staff turnover has been low.



The growth in total staff has been commensurate with the growth in total portfolio. The field staff to total staff ratio was 52% in December 2007. This is much lower than the other MFIs, who generally have this ratio in the range of 70% – 75%. This is partly the result of higher support staff in the branches due to their bigger scale. The HO also has a separate research department and a much bigger internal audit team, unlike most of the other MFIs.

Staff productivity

The staff productivity of AMK is much ahead of industry benchmarks primarily due to its model of operating through village banks. The number of borrowers to field staff ratio was 660 as on December 2007. The maximum that the field staff is expected to manage is 1,000 active borrowers. The organisation aims to increase the average productivity of field staff to 800 active borrowers as per its business plan.

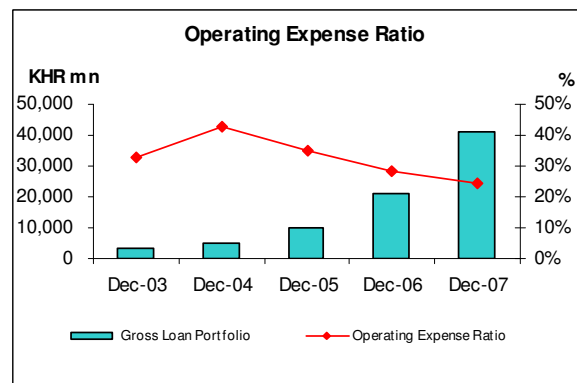


Operating efficiency

With the growth in portfolio size, the OER has gradually come down to 24.2% as on 31 December 2007. The trend is encouraging and the operational efficiencies are bound to improve in future with further growth in portfolio. However, over the next financial

year, the OER is likely to stay around the same level due to organisation's plan to start operations in remaining remote provinces of Cambodia.

Despite the reasonable staff productivity ratio, one of the main reasons for slow decline in the OER is that the organisation offers smaller loan sizes.



Accounting and MIS

AMK uses the MicroBanker software for accounting and MIS. It has a fully connected branch-HO system. Monthly Trial Balance statements from all the branches, prepared in MicroBanker are downloaded from the database (which is shared and can be accessed in the Head Office). These are transferred to MS-Excel and consolidated financial statements are prepared, along with the Head Office Trial Balance.

The financial statements are presented to the Board on a quarterly basis. On a monthly basis, the financial statements along with reports on liquidity, capital adequacy and foreign currency exposure are sent to the National Bank of Cambodia.

All income and expenses are recorded on accrual basis, as per the guidelines of National Bank of Cambodia (NBC). Loan loss reserve is also created in accordance with the guidelines (based on portfolio ageing analysis) of NBC. AMK maintains an additional loan loss reserve of 1% on all outstanding loans. Loans are written off when unpaid for more than one year and/or when the senior management believes that there is no prospect of recovery. The software does not have fixed asset and HR module.

The branches are treated as profit centres. Branch-wise income and expenditure statements are prepared and profitability analysis, without loading the Head Office administrative costs, is carried out. The organisation plans to start allocating HO costs from 2008 onwards.

The quality of MIS reporting is good. The MicroBanker software allows the Head Office staff to

check the transactions on-line after the transactions are closed at the end of the day.

The current software has quite successfully fulfilled the needs of the organisation so far but is now becoming difficult to manage with increased portfolio size. Moreover, with the vision to become commercial bank and introduce more new products like remittances, the current software would not be adequate.

For bigger branches, the increased size of database is becoming difficult to manage and often gets corrupted. The processing time for reports is high and consolidation for both accounts and MIS has to be done in Microsoft Excel which is time consuming. As a result, the organisation plans to migrate to a new MIS in 2008. The organisation is currently in the process of reviewing new software options.

Tracking system for overdues

The tracking system of overdues is good. The MIS software is well equipped to generate reports on overdues. The collection sheet and client wise overdues reports generated from the software enable staff to track repayments. The HO can monitor the collections and overdues online. Besides the branches send HO bad debt preliminary report on a monthly basis, which is an overdue list along with the reasons for overdues.

The organisation has maintained good credit discipline at all levels resulting in a good portfolio quality. Besides VBP's play an important role in recovery of collections, as they get incentive only on full recovery.

Internal control systems

AMK had a team of 13 in its internal audit at the time of the rating visit, three of whom were very new. The audit team is jointly managed by Senior Inspections Manager and Inspections Manager who have experience in auditing with Pricewaterhouse Coopers and National Bank of Cambodia respectively.

The quality of audit was found to be very good. The audit covers four areas – Operations, MIS and IT, Finance and HR. Audit includes policy, operational and financial compliance along with risks associated in all these four areas. Audit is conducted on sample basis and covers 3% of the total clients in a branch including new and old clients, all overdue clients, etc.

The audit can be either a regular audit or rapid audit. The policy is to audit all branches three times in a year. However, only some branches were audited thrice, the others were mostly audited twice and only few were audited once over the last year. Considering the size of the audit team, the frequency of audit needs to be

improved so that all branches are audited as per the plan. Rapid audit is conducted only when requested by senior management. No rapid audit was conducted over the last year. Over the next year, the team plans to focus more on process and controls.

AMK has had three cases of frauds – two in 2007 and one in 2008, however the amount involved was not very significant. As the organisation has very high pre-payments and collects savings, it automatically becomes more susceptible to frauds. The organisation would do well to put in place a mechanism to track monitoring and passbook verifications done by BMs and AMs to ensure that all the passbooks in the branch get verified by them at least once in a quarter. The maximum time lag in detection of frauds so far is 3 months.

Financial planning

AMK has prepared a five year strategic Business Plan for the period 2008-2012. The plan is quite rigorous and shows the projected growth of the organisation in terms of operational area, portfolio and clients based on market and competitive analysis. The organisation follows bottoms up approach for the preparation of Business Plan. The plan submitted by the branches is approved by RMs and HO before consolidation in Microfin. Targets to the field staff are assigned in line with the strategic Business Plan of the organisation. Branches send variance analysis report on a monthly basis to the HO.

Cash planning is the responsibility of Finance Manager. He monitors the cash position of all the branches. Each branch sends cash flow statement to the HO every month. Any excess cash is transferred to the HO and sent to other branches as per the requirement. The money is transferred electronically as all the branches have bank account with Aceda Bank. However, once the organisations open sub branch offices, cash management is likely to become more difficult as the number of locations handling cash would increase and an option to open account with Aceda may not be available for all the sub branches.

The organisation has applied for overdraft facility to minimise its idle funds. It also plans to open savings account for each of its branch, to earn better returns on excess funds kept at branches.

Quality of clients/member groups

The village bank meetings visited by the rating team were not conducted efficiently. The members were not found to be aware of group products and policies and no test was conducted by the AMs or BMs, as required under the policy, before disbursing the loan to the

members. The team also found a case where a loan was issued in the name of a dead client in one VB and in another case the field staff was unaware of the loan product that the client had actually applied for.

In the case of individual clients, the awareness of the products was also found to be only moderate. It was observed the client was prepaying loans within few months to access subsequent bigger loans. Though the rating team visited very few clients to make any conclusion on the overall quality of clients, the above observations are indications of areas that need attention.

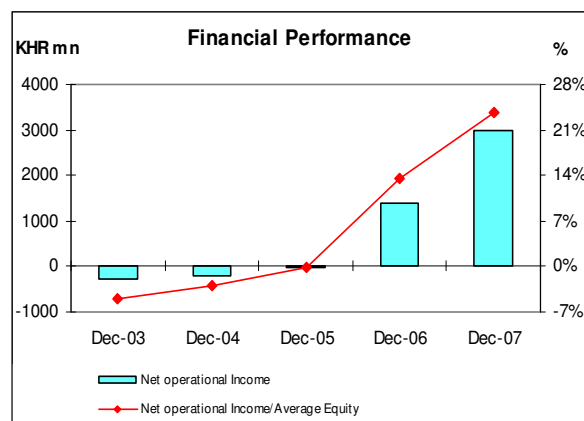
Infrastructure

AMK has reasonable infrastructure for its operations. The fixed assets contribute almost 4% of the total asset base as on 31 December 2007. Fixed assets mainly include, computers, office equipments and fixtures, vehicle, furniture and motorcycles for staff. The HO and branches operate from rented premises.

Financial profile

The financial performance of AMK is excellent with a rating grade of **α+**. This is same as the previous rating grade of the organisation and has resulted from healthy performance on profitability and sustainability.

The microfinance programme of AMK shows an improving trend since the beginning. The organisation made losses in the first three years and has been making healthy profits since then. The operational efficiencies have improved with the growth in operations and stable yield from healthy portfolio has resulted in this performance. The financial cost has gradually started to increase with organisation now shifting to commercial funds. This is likely to result in a dip in the ROA in the next financial year. The operational efficiencies may not show much improvement over the next year due to planned expansion in all the remaining provinces of Cambodia.



Financial Ratios	31 Dec-03	31 Dec-04	31 Dec-05	31 Dec-06	31 Dec-07
Capital Adequacy					
Risk Weighted Capital Adequacy ratio	133.8%	144.3%	114.5%	104.0%	87.6%
Asset Quality					
Portfolio at Risk (>30 days)/ Gross Loan Portfolio	2.51%	0.72%	0.05%	0.09%	0.06%
Loan Loss Reserve/Gross Portfolio	3.9%	3.0%	1.0%	1.0%	1.0%
Management					
Operating Expenses/Average Gross Loan Portfolio	32.6%	42.7%	34.9%	28.4%	24.2%
Number of Borrowers/Total field staff	614	445	697	736	660
Number of Borrowers/Total staff	271	225	335	360	344
Earnings					
Net operating income/Average Equity (ROE)	(4.9)%	(3.0)%	(0.3)%	13.6%	23.7%
Net operating income/Average Assets (ROA)	(4.7)%	(2.9)%	(0.2)%	7.4%	8.1%
Portfolio Yield (including fees)	25.1%	34.4%	33.6%	35.7%	34.2%
Financial Cost Ratio	0.0%	0.0%	0.0%	0.5%	1.6%
Cost of Funds	0.0%	0.0%	0.3%	1.1%	2.3%
Liquidity					
Cash & Liquid Assets/Total Current Assets	28.1%	37.3%	15.0%	8.5%	10.2%
Cash & Liquid Assets/Total Assets	25.6%	34.9%	14.4%	8.2%	9.9%

Credit performance and portfolio quality

AMK has an excellent portfolio quality with PAR > 30 days of only 0.06% as on December 2007. The repayment rate is 99.7%. Strong credit discipline at all levels has resulted in this performance.

In terms of portfolio diversification, organisation has a high proportion of its portfolio in agriculture (67%). The balance 24% is in trade and commerce, 3% is in service and 6% is in other activities. While a large proportion of portfolio is in agriculture, majority of the clients are not solely dependent on agriculture and have other sources of income through wage employment in factories, self employment or sale of livestock.

Mobilisation of funds, liability & equity composition

AMK's main source of funds has been from Concern Worldwide. Besides equity support, it has provided subordinate debt to AMK at only 1% interest rate p.m. As on 31 December 2007, the external borrowings form 65% of the total liabilities, out of which 73% of the funds have been contributed by Concern. However, now these funds will be converted to equity by April 2008. From 2009 onwards, Concern is going to invest only KHR1 million each year as equity. In the future, the organisation plans to raise equity from other investors. One of the Board members is likely to lend to AMK at a commercial rate of interest in 2008, which with the consent of Concern is likely to be then converted to equity by the beginning of financial year 2009. However, Concern would still continue to remain major equity shareholder at least for next five years.

The organisation took its first commercial loan in 2006. So far it has succeeded in mobilising commercial funds from three sources – Micro Finance Alliance Fund, Oikocredit and Blue Orchard. It is in the process of negotiation with other lenders. The biggest challenge for the organisation is to be able to mobilise funds in local currency to avoid exchange rate risk. However, limited sources and high cost of borrowing funds in local currency may pose restrictions. This has not been

a problem for AMK hitherto, because it has equity investors willing to put in more capital.

The capital adequacy position of the organisation as on 31 Dec '07 is reasonably sound at 87.6%, due to fund support from Concern. This would allow organisation to leverage desired commercial borrowings in future.

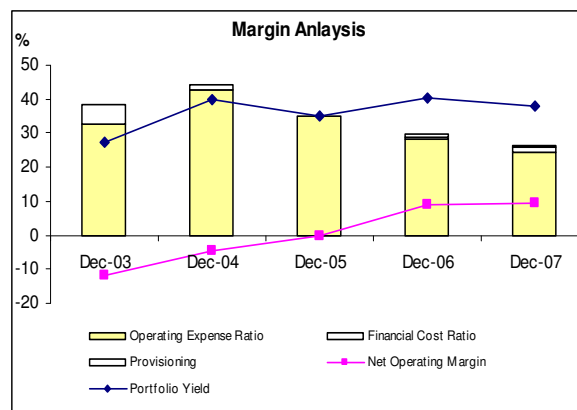
Asset composition

The net loan portfolio forms a reasonable 84% of the total asset base of the organisation. Cash and short term deposits constitute 10% of the total assets. The fixed asset base stands at reasonable 4% of total assets.

Profitability and sustainability

The organisation has performed extremely well on profitability and sustainability indicators. The operating efficiencies have gradually improved. An excellent portfolio quality has allowed the organisation to maintain a stable yield on portfolio. The financial cost is increasing due to commercial borrowings and is likely to result in a dip in ROA in the next year. The OER (24.2%) is likely to remain around the same level due to expansion into newer and more remote provinces.

As on 31 December 2007, AMK has a ROA of 8.1%, OSS of 143.0% and FSS of 124.8%.



Future plans and prospects

AMK plans to continue focusing on expansion over the next two years, as it feels that the microfinance market in Cambodia is going to be largely saturated in another five years. As a result, from 2010 to 2012, it expects to grow at a nominal average annual growth rate of only 11%. By the year end 2012, it aims to extend its outreach to more than 300,000 clients. For this, the organisation plans to mobilise both equity and external debt from sources other than Concern Worldwide. However, Concern is expected to hold around 60% of total equity even till 2012.

In the long run, AMK plans to convert into a Commercial Bank and may even extend its operations beyond Cambodia into neighbouring countries like Vietnam and Laos.

It plans to add more Cambodian Directors on its Board with expertise in Microfinance and develop new products especially with regard to savings, remittances and insurance. The organisation also wants to pilot test phone banking.

Going forward, mobilising adequate funds in local currency, implementing new MIS and recruiting adequate experienced staff are going to be some of its main challenges.

Validity	This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A rating update (comprehensive repeat rating) is recommended whenever such changes take place or at the end of one year from the date of the initial assessment, <u>whichever is earlier</u> . Any substantial additional information that becomes available could also result in a rating update or a <u>rating review</u> (revision of rating grade based on a desk analysis).
Liability	The rating assigned is a professional <u>opinion</u> of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Financial statements for AMK operations

Balance sheets

KHR thousands

31-Dec-03	31-Dec-04	31-Dec-05	31-Dec-06		31-Dec-07
1 410 704	2 075 479	1 058 360	2 040 349	Assets	
	941 821	816 800		Cash and bank	4 794 352
	271 999	509 000	517 446	Fixed deposits	
	52 568	124 694	187 875	Statutory deposits with Central Bank	529 446
261 743	101 965	81 509	141 846	Staff loans	535 826
				Other current assets	199 212
3 480 423	4 797 994	10 050 165	21 219 909	Gross loans outstanding	41 258 843
- 136 963	- 146 228	- 104 178	- 217 246	Loan loss reserve	- 421 082
3 343 460	4 651 766	9 945 987	21 002 663	Net loans outstanding	40 837 761
	25 283	25 318	50 743	MIS software	25 371
497 382	514 309	468 453	1 012 764	Net property and equipment	1 731 705
5 513 289	8 635 190	13 030 121	24 953 686	Total assets	48 653 673
				Current liabilities	
133 014	282 240	269 627	274 666	Expenses payable	758 393
41 381	103 384	209 325	363 094	Provision for retirement benefits	633 563
	14 114	46 996	172 462	Customers deposits	517 393
			229 293	Other current liabilities	860 388
			202 647	Short term debt - concern Worldwide	
		2 846 581	11 936 757	Concern Worldwide	23 228 725
			711 182	Micro Finance Alliance fund	395 102
				Oikocredit	4 056 000
				Blue Orchard	4 159 250
174 395	399 738	3 372 529	13 890 101	Total liabilities	34 608 814
				Net worth	
5 599 167	8 702 224	10 148 925	10 148 925	Share capital	10 148 925
	- 260 273	- 466 772	- 491 333	Retained net surplus/(deficit)	914 660
- 260 273	- 206 499	- 24 561	1 405 993	Current net surplus/(deficit)	2 981 274
5 513 289	8 635 190	13 030 121	24 953 686	Total liabilities and net worth	48 653 673

Income statements

KHR thousands

31-Dec-03	31-Dec-04	31-Dec-05	31-Dec-06		31-Dec-07
				Income	
556 988	1 520 569	2 663 613	5 519 322	Interest on loan	10 636 232
3 161	30 646	59 465	125 263	Fee income	242 998
47 247	104 793	44 822	48 545	Other income	89 498
	28 334	50 357	45 152	Bank interest income	83 130
	115 611		634 099	Foreign exchange gain	1 001 842
607 396	1 799 953	2 818 257	6 372 381	Total income	12 053 700
				Financial costs	
			76 024	Interest on borrowings	460 406
	452	3 711	10 891	Interest paid on savings	40 749
607 396	1 799 501	2 814 546	6 285 466	Gross financial margin	11 552 545
135 865	61 094	- 14 963	108 953	Provision for loan losses	217 976
471 531	1 738 407	2 829 509	6 176 513	Net financial margin	11 334 569
				Operating expenses	
430 966	1 152 816	1 664 176	2 591 345	Staff cost	4 486 261
45 773	115 340	159 772	341 249	Travel & Vehicle	569 425
50 828	83 876	121 504	241 073	Village bank support costs	445 591
79 671	194 919	184 844	278 008	Depreciation	481 426
		36 868		Exchange losses	
118 607	380 584	657 903	1 036 684	Other operating expenses	1 728 748
725 845	1 927 535	2 825 067	4 488 359	Total operating expenses	7 711 451
- 254 314	- 189 128	4 442	1 688 154	Profit/loss before tax	3 623 118
5 959	17 371	29 003	282 161	Tax expense/credit	641 844
- 260 273	- 206 499	- 24 561	1 405 993	Profit/loss transferred to balance sheet	2 981 274

Balance sheets

In US\$

31-Dec-03	31-Dec-04	31-Dec-05	31-Dec-06		31-Dec-07
341 823	514 369	257 383	503 045	<u>Current assets</u>	
	233 413	198 638		Cash and bank	1 197 690
	67 410	123 784	127 575	Fixed deposits	
	13 028	30 324	46 320	Statutory deposits with Central Bank	132 262
63 422	25 270	19 822	34 972	Staff loans	133 856
				Other current assets	49 766
843 330	1 189 094	2 444 106	5 231 733	Gross loans outstanding	10 306 981
- 33 187	- 36 240	- 25 335	- 53 562	Loan loss reserve	- 105 192
810 143	1 152 854	2 418 771	5 178 171	Net loans outstanding	10 201 789
	6 266	6 157	12 511	MIS software	6 338
120 519	127 462	113 923	249 695	Net property and equipment	432 602
1 335 907	2 140 072	3 168 804	6 152 289	Total assets	12 154 303
				<u>Current liabilities</u>	
32 230	69 948	65 571	67 718	Expenses payable	189 456
10 027	25 622	50 906	89 520	Provision for retirement benefits	158 272
	3 498	11 429	42 520	Customers deposits	129 251
			56 532	Other current liabilities	214 936
			49 962	Short term debt - concern Worldwide	
		692 262	2 942 987	Concern Worldwide	5 802 829
			175 341	Micro Finance Alliance fund	98 701
				Oikocredit	1 013 240
				Blue Orchard	1 039 033
42 257	99 068	820 168	3 424 581	Total liabilities	8 645 719
				<u>Net worth</u>	
1 356 716	2 156 685	2 468 124	2 502 200	Share capital	2 535 330
	- 64 504	- 113 515	- 121 137	Retained net surplus/(deficit)	228 494
- 63 066	- 51 177	- 5 973	346 645	Current net surplus/(deficit)	744 760
1 335 907	2 140 072	3 168 804	6 152 289	Total liabilities and net worth	12 154 303

Note** Exchange rates: 1US\$ = KHR4,127 (2003); 1US\$ = KHR4,035 (2004), 1US\$ = 4,112 (2005), 1US\$ = 4,056 (2006), 1US\$ = 4,003 (2007)

Income statements

In US\$

31-Dec-03	31-Dec-04	31-Dec-05	31-Dec-06		31-Dec-07
				Income	
134 962	376 845	647 766	1 360 780	Interest on loan	2 657 065
766	7 595	14 461	30 883	Fee income	60 704
11 448	25 971	10 900	11 969	Other income	22 358
	7 022	12 246	11 132	Bank interest income	20 767
	28 652		156 336	Foreign exchange gain	250 273
147 176	446 085	685 374	1 571 100	Total income	3 011 167
				Financial costs	
			18 744	Interest on borrowings	115 015
	112	902	2 685	Interest paid on savings	10 180
147 176	445 973	684 471	1 549 671	Gross financial margin	2 885 972
32 921	15 141	- 3 639	26 862	Provision for loan losses	54 453
114 255	430 832	688 110	1 522 809	Net financial margin	2 831 519
				Operating expenses	
104 426	285 704	404 712	638 892	Staff cost	1 120 725
11 091	28 585	38 855	84 134	Travel & Vehicle	142 250
12 316	20 787	29 549	59 436	Village bank support costs	111 314
19 305	48 307	44 952	68 542	Depreciation	120 266
		8 966		Exchange losses	
28 739	94 321	159 996	255 593	Other operating expenses	431 863
175 877	477 704	687 030	1 106 597	Total operating expenses	1 926 418
- 61 622	- 46 872	1 080	416 212	Profit before tax	905 101
1 444	4 305	7 053	69 566	Tax expense/credit	160 341
- 63 066	- 51 177	- 5 973	346 645	Profit/loss transferred to balance sheet	744 760

Note** Exchange rates: 1US\$ = KHR4,127 (2003); 1US\$ = KHR4,035 (2004), 1US\$ = 4,112 (2005), 1US\$ = 4,056 (2006), 1US\$ = 4,003 (2007)

Notes to the financial statements

1. All loan portfolio related income is recognised only when it is actually received (**cash basis**).
2. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**.
3. The income and expenditure account for the year 2005, as prepared by M-CRIL, shows a loss on account of adjustment for interest income accrued but not received. However, in spite of the loss, accounting for tax has not been changed, so as to reflect the true picture.

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk (PAR₃₀): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
13. Risk weighted capital adequacy ratio: Ratio of networth to risk weighted assets
M-CRIL Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%.
14. Return on assets: Ratio of operational income/(loss) to average total assets
15. Return on equity: Ratio of operational income/(loss) to average net worth

Projected cash flow and financial statements for five years

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions (see also Notes to Cash Flow Projections below)

For the year ending:	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Members	122,654	202,379	261,069	289,787	312,970	334,877
Number of voluntary savers	1,936	2,377	3,318	3,909	4,368	4,802
Average savings / members		20	20	24	28	33
Yield on average portfolio	34%	35%	34%	34%	34%	34%
Interest paid on savings	6%	6%	6%	6%	6%	6%
Cost of external funds	4%	12%	12%	13%	13%	13%
Repayment rate from groups	100%	98%	97%	97%	97%	97%
Loan loss reserve ratio	1%	2%	2%	2%	2%	2%
Number of active loanes/loan a/cs	120,111	198,332	258,458	272,399	291,062	311,436
Number of loans disbursed - Total		196,348	255,874	269,675	288,151	308,322
Number of loans disbursed - EoT		107,992	127,937	161,805	172,891	184,993
Number of loans disbursed - Inst		58,904	102,350	80,903	86,445	92,496
Number of loans disbursed - credit line		29,452	25,587	26,968	28,815	30,832
Average loan size to borrowers - EoT	56	62	71	82	94	108
Average loan size to borrowers - Inst	160	168	181	196	212	229
Average loan size to borrowers - Credit line	125	137	148	160	173	187

2 Projected Balance Sheets

in US\$

As on:	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Assets					
Cash & Bank Balances	1 690 540	2 461 333	1 763 442	2 227 168	2 390 397
Statutory deposits with Central Bank	249 800	293 895	314 713	350 022	418 821
Staff loans	126 148	124 747	123 626	116 375	113 752
Other current assets	69 672	97 541	136 557	191 180	267 652
Loans outstanding - EoT	7 728 827	10 272 005	14 183 069	17 665 418	21 421 114
Loans outstanding - Inst	7 164 380	14 149 555	11 951 332	11 172 600	13 259 078
Loans outstanding - Credit line	4 322 186	4 111 913	4 420 297	5 144 691	5 982 001
Loan loss reserve	- 384 308	- 570 669	- 611 094	- 679 654	- 813 244
Net loans outstanding	18 831 085	27 962 804	29 943 604	33 303 055	39 848 950
Net fixed assets	1 338 013	1 688 313	1 609 975	1 436 865	1 291 125
Total Assets	22 305 259	32 628 633	33 891 918	37 624 664	44 330 696
Liabilities and Net Worth					
Commercial borrowings	9 668 335	15 035 557	11 497 115	10 485 249	12 220 198
Savings deposits	150 790	187 242	244 882	319 004	411 628
Provision for retirement benefits	288 231	342 402	366 656	407 793	487 946
Other current liabilities	399 609	599 414	779 238	1 013 010	1 316 912
Taxes payable	57 376	144 620	436 926	466 502	592 181
Share capital	10 538 159	14 538 159	17 038 159	19 538 159	21 538 159
Retained surplus/deficit	973 254	1 202 759	1 781 239	3 528 942	5 394 949
Current surplus/deficit	229 505	578 480	1 747 703	1 866 006	2 368 723
Net worth	11 740 917	16 319 398	20 567 101	24 933 108	29 301 830
Total Liabilities and Net Worth	22 305 259	32 628 633	33 891 918	37 624 664	44 330 696

3 Projected Income Statements

in US\$

For the year ending:	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Income					
Interest	5 166 415	8 117 307	10 044 989	10 971 359	12 689 633
Fee income	76 862	99 867	106 941	118 939	142 318
Other Income	96 077	85 600	91 664	101 948	121 987
Total Income	5 339 354	8 302 775	10 243 595	11 192 247	12 953 938
Cost					
Financial	879 376	1 639 805	1 609 842	1 402 415	1 481 553
Loan loss provision	279 116	186 362	40 424	68 560	133 590
Depreciation	446 004	562 771	536 658	478 955	430 375
Operating expenses (excl. depr.)	3 447 976	5 190 737	5 872 041	6 909 809	7 947 517
Total Cost	5 052 473	7 579 675	8 058 965	8 859 739	9 993 034
Profit before tax	286 881	723 100	2 184 629	2 332 508	2 960 904
Tax	57 376	144 620	436 926	466 502	592 181
Profit after tax & appropriations	229 505	578 480	1 747 703	1 866 006	2 368 723

4 Projected Cash Flow Statements

in US\$

For the year ending:	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Inflows					
Opening cash	1 197 690	1 690 540	2 461 333	1 763 442	2 227 168
External borrowings	8 576 068	9 380 465	2 635 523	5 633 275	7 381 964
Repayments from clients - EoT	2 878 740	6 572 510	9 347 125	12 809 144	16 290 986
Repayments from clients - Inst	6 753 888	11 589 990	18 055 673	19 078 094	19 060 265
Repayments from clients - credit line	2 090 874	4 003 217	4 008 952	4 257 775	4 920 084
Equity	8 002 829	4 000 000	2 500 000	2 500 000	2 000 000
Interest income	5 166 415	8 117 307	10 044 989	10 971 359	12 689 633
Loan fees	76 862	99 867	106 941	118 939	142 318
Increase in provision for retirement benefits	129 959	54 171	24 255	41 136	80 154
Repayment of staff loans	26 771	25 230	24 949	24 725	23 275
Savings desposit	47 389	66 610	95 088	123 099	156 425
Increase in other liabilities	133 203	199 805	179 824	233 771	303 903
Other income	96 077	85 600	91 664	101 948	121 987
Total Inflow	35 176 764	45 885 312	49 576 317	57 656 709	65 398 160
Outflows					
Disbursement - EoT	6 690 914	9 115 688	13 258 188	16 291 493	20 046 682
Disbursement- Inst	9 898 545	18 575 165	15 857 450	18 299 362	21 146 743
Disbursement - Credit line	4 042 454	3 792 944	4 317 336	4 982 169	5 757 394
Staff loans	19 063	23 829	23 829	17 474	20 651
Repayments to lenders	1 058 708	4 013 242	6 173 965	6 645 141	5 647 015
Subordinate debt transferred to equity	5 802 829				
Operating expenses (excl. depr.)	3 447 976	5 190 737	5 872 041	6 909 809	7 947 517
Interest paid on borrowings	870 974	1 629 664	1 596 878	1 385 498	1 459 634
Increase in statutory deposit	117 538	44 095	20 819	35 309	68 799
Increase in other current assets	19 906	27 869	39 016	54 623	76 472
Withdrawal of saving deposits	25 850	30 158	37 448	48 976	63 801
Taxes paid	137 986	57 376	144 620	436 926	466 502
Interest on savings	8 401	10 141	12 964	16 917	21 919
Fixed assets purchase	1 345 078	913 071	458 320	305 844	284 635
Total Outflow	33 486 224	43 423 979	47 812 875	55 429 541	63 007 763
Net cash balance	1 690 540	2 461 333	1 763 442	2 227 168	2 390 397

5 Key Projected Performance Ratios

For the year ending:	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Operational self-sufficiency	105.7%	109.5%	127.1%	126.3%	129.6%
Return on average assets	1.3%	2.1%	5.3%	5.2%	5.8%
Operating expense ratio	26.4%	24.1%	21.7%	22.9%	22.4%
Portfolio growth rate	82.3%	-4.9%	7.5%	16.4%	16.3%
Savings to total assets	0.7%	0.6%	0.7%	0.8%	0.9%
Risk weighted capital adequacy ratio	58.9%	55.7%	65.7%	71.9%	71.0%

Notes to the projections

- The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
- Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment.
- Average loan size to members increases every year by 5%-10%.
- Sub-ordinate debt from Concern has been converted to equity in 2008.
- Interest income is taken as [yield on portfolio*average portfolio for the year].
- Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
- Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity. Increase in clients is taken at rates between 65% in the first year, 29% in second year and 7%-11% over next three years.
- Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].

Abbreviations

AMK	Angkor Mikroheranhvatho (Kampuchea) Co Ltd
BM	Branch Manager
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CL	Credit Line
EMI	Equated Monthly Instalment
EoT	End of Term
FCR	Financial Cost Ratio
FSS	Financial Self-Sufficiency
HO	Head Office
IT	Information Technology
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institutions
MIS	Management Information System
NBC	National Bank of Cambodia
OER	Operating Expenses Ratio
OM	Operations Manager
OSS	Operational Self-Sufficiency
PAR ₀	Portfolio at Risk (>=0 days)
RGC	Royal Government of Cambodia
RM	Regional Manager
ROA	Return on Assets
ROE	Return on Equity
VB	Village Bank
VBP	Village Bank President