



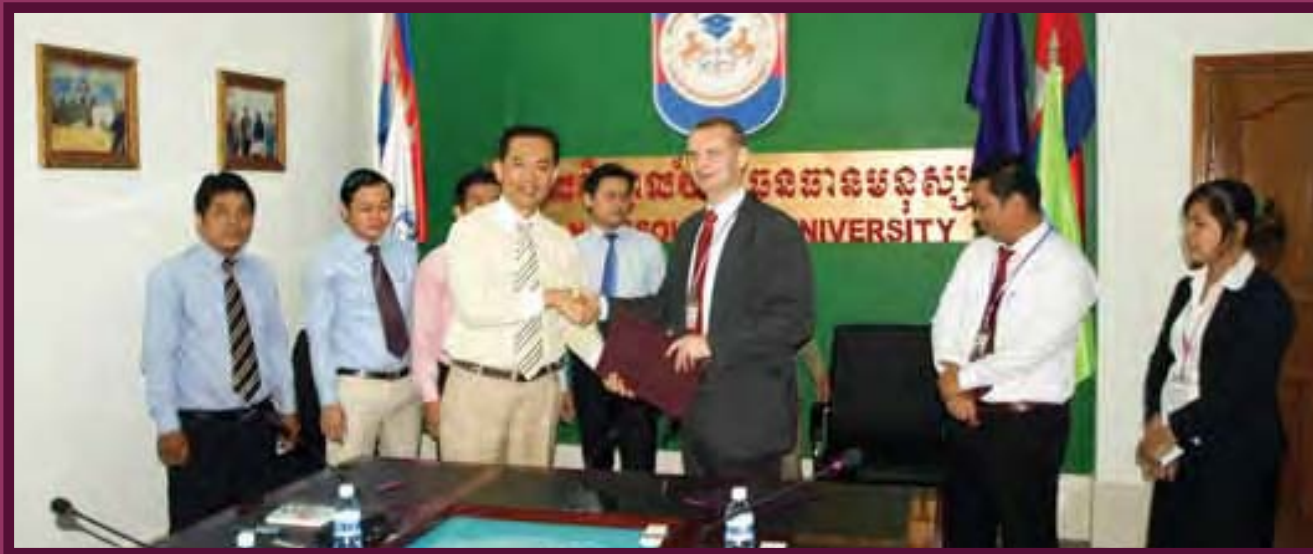
**FINANCE AT  
YOUR DOORSTEP**





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AMK and Human Resource University (HRU) sign Memorandum of Cooperation: September 2011

**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.

The origins of Angkor Mikroheranhvatho (Kampuchea) Co.Ltd (AMK) trace back to Concern Worldwide's microcredit interventions in the 1990s. As operations grew, in 2002 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 borrowing 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. In 2011, AMK surpassed all other banks and MFIs to become the largest provider of credit in Cambodia in terms of client numbers.

In 2010, AMK began a strategic transformation, moving from a rural credit-only business into a broader provider of microfinance services. This strategy was 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 money transfer products. Savings products were rolled out to all branches by mid 2011, with a domestic money transfer product launched in July 2011. AMK began piloting an agent based mobile banking solution in December 2011.

Throughout its history, AMK's commitment to social performance 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 973 staff serve over 280,000 clients in 9,152 villages across Cambodia. This outreach represents 65% of all villages and approximately 10% of all 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 behaviors 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 improvements in policies and systems.

## 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.



2011 was a landmark year for AMK during which it emerged as the premier financial services company for the poor in Cambodia. AMK achieved this both in scale and in the range of products it offers to its clientele.

The biggest change to AMK was its transformation from being a microlender to being a true microfinance company, while retaining the same historical focus on low income rural households in Cambodia. This happened through a multi-pronged strategy of expanding its branch office network and geographical outreach; implementing new product lines, savings deposits and domestic money transfers; and piloting mobile banking as an innovative new delivery channel. 2012 holds much promise for rapid growth in savings and money transfer and the expansion of mobile banking, thereby allowing AMK to continue on its path of providing a range of demand-driven products for its target market.

Despite considerable investments in its technology and office network, AMK was still able to almost double its profits over 2010 levels. This was achieved through strong performance in its credit business, where all the indicators revealed positive growth throughout the year. AMK's loan portfolio was further diversified through new products, new market segments, and a further expansion of geographical reach. AMK's reach to the poorer communities, which was already significant, improved further during the year. The fact that AMK ended the year as the largest MFI in Cambodia in terms of borrower reach indicates its relevance to not just its clients but also to the financial infrastructure of the country. Over 280,000 households, or approximately 1.4 million people, have a financial relationship with AMK. More than half of new clients come from below the official poverty line of the country.

Another landmark was reached with the formalization of AMK's Staff Association (AMK-SA), which represents the institution's 973 strong staff team. AMK-SA was formally inducted as a shareholder in the company, a step that recognizes the key role played by AMK's staff in achieving the company's objectives. This demonstrates the shareholders' and the Board of Directors' commitment to finding effective ways to increase AMK staff's stake in the company.

2012 will be a year of consolidation, when new product lines will flourish and the lending business will continue to grow organically to provide a stable platform on which further innovation can be carried out. Public deposits will play a larger part on AMK's balance sheet, and money transfers will diversify its revenue streams. All of this will be achieved with the same unfailing focus to work with the less fortunate in society.

None of these achievements would have been possible without the dynamic and strong leadership at AMK, exemplified by its CEO Pete Power. Pete, along with the senior management of the company, led AMK through this impressive year and the Board wishes to thank him as well as other members of the management team for their high quality of work and their determined leadership of AMK. Most importantly, the Board extends its gratitude and best wishes to all the staff of AMK who have developed such a strong strategy and successfully implemented it through the years.

AMK's success depends in large part on the trust our 280,000 client's families have placed in the institution. We express our heartfelt appreciation for this trust and commit to our common goal of working to improve our client's access to financial services, helping improve their livelihood options, and ultimately impacting the quality of their lives.

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

**TANMAY CHETAN**

Chairman, AMK Board of Directors

During 2011, AMK made significant progress in transforming itself from a pure lending institution into a much broader financial services provider.

AMK continued expanding the breadth of its credit offerings, with a nationwide rollout of new business expansion and seasonal loan products. A seasonal credit line product pilot began in several provinces. AMK also expanded its urban poor loan product to additional urban centers. During the year AMK surpassed all other banks and MFIs to provide the largest number of loans in Cambodia, with 275,251 credit clients being served.

A nationwide rollout of savings products to all AMK branches was completed in June 2011. Money transfer services were launched in July and rolled out to all branches a month later. AMK also began opening its sub-branch network to the public in Q4 2011. All sub-branches will be upgraded and open to the public for savings, money transfer, and loan repayment services by early 2012. As many as 85 sub-branches will therefore be added to AMK's existing office network.

During 2011, AMK made significant investments in mobile banking technology as a mechanism to mobilize village based savings. This has required the licensing of new technologies and the creation of a new operating model involving an agent network working in cooperation with AMK staff. A mobile banking pilot commenced in Q4, with a nationwide rollout expected to follow once the concept is proven.

AMK returned USD 1.76 million in profit in 2011, which represents 13.66% Return on Equity.

#### KEY ACHIEVEMENTS ARE OUTLINED BELOW:

- Roll out of savings products to all branches and increase in the number of savings accounts from 2,781 to 8,924.
- A corresponding increase in public deposit balance from USD 1.1 million to USD 4.1 million.
- Launch of a domestic money transfer service in July processing 1,676 transfers and moving USD 428,041 within the country in 2011.
- Development of Mobile Banking technology and piloting of a network of village-based, mobile phone-enabled, savings mobilization agents.
- Growth of overall borrower numbers by nearly 10%, from 250,930 to 275,254.
- Portfolio growth of 51% from USD 31.3 million to USD 47.2 million.
- Excellent portfolio quality with PAR 30 at 0.10%.
- Rollout of several new credit products nationally including Business Expansion, Seasonal, and Urban Poor loans. These new products now make up approximately USD 4 million portfolio value with almost 100% repayment to date.



- Piloting of an innovative individual Seasonal Credit Line loan product.
- Provision of flood response emergency loans to 1,631 clients to help them recover from the severe floods of September-October.
- Creation of the AMK Staff Association (AMK-SA) with staff ownership of AMK shares enabled through a share grant and a share purchase scheme.

2012 will bring new challenges and opportunities for AMK. AMK will continue the rollout of savings and money transfer to its expanded network. By the end of Q1, 108 AMK outlets will be open to the public throughout the country. AMK has embraced the Credit Bureau of Cambodia (CBC) which will mandate credit checks for all new loan applications in early 2012. This will represent a significant process change for AMK, but should result in greatly increased client transparency and portfolio quality. AMK will closely monitor the progress of its mobile banking pilot during 2012 with the goal of beginning national rollout as soon as the concept is proven. AMK also plans to investigate and begin piloting micro-insurance during 2012.

I wish to express my thanks to AMK's Chairman Mr. Tanmay Chetan and all of AMK's Board and committee members for their leadership, support, and insight throughout the year. Most importantly, I would like to recognize AMK staff for their hard work and diligence during the year. All are critical to AMK's ongoing success.

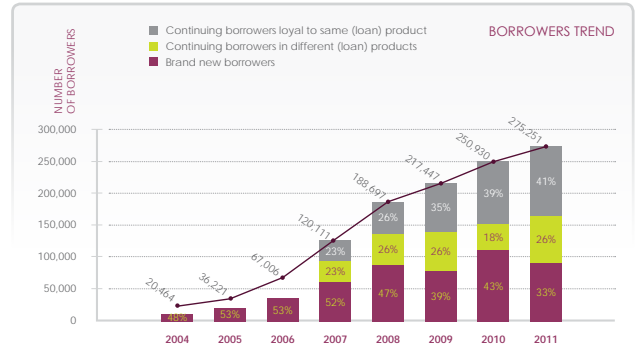
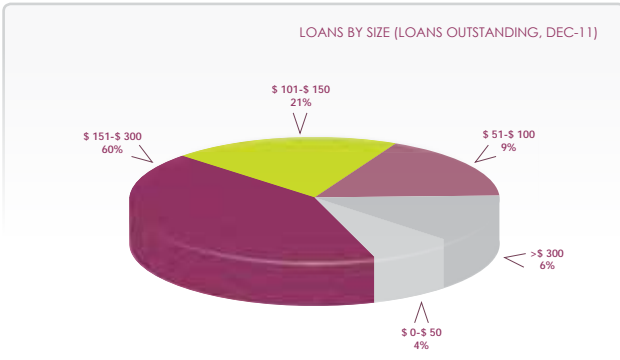
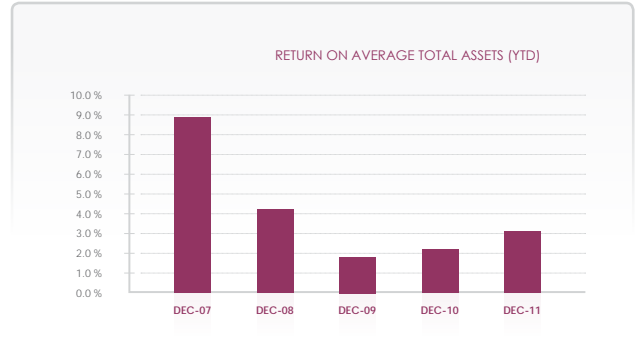
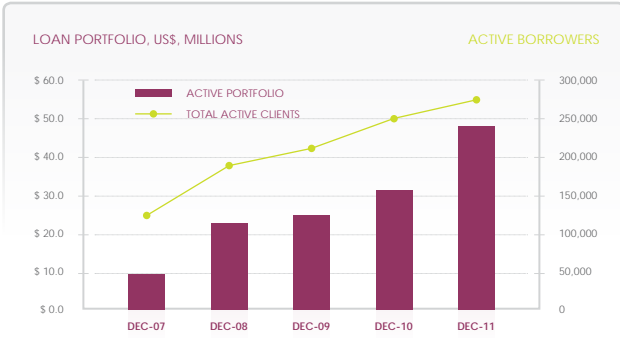


**PETE POWER**  
Chief Executive Officer AMK Co.,Ltd



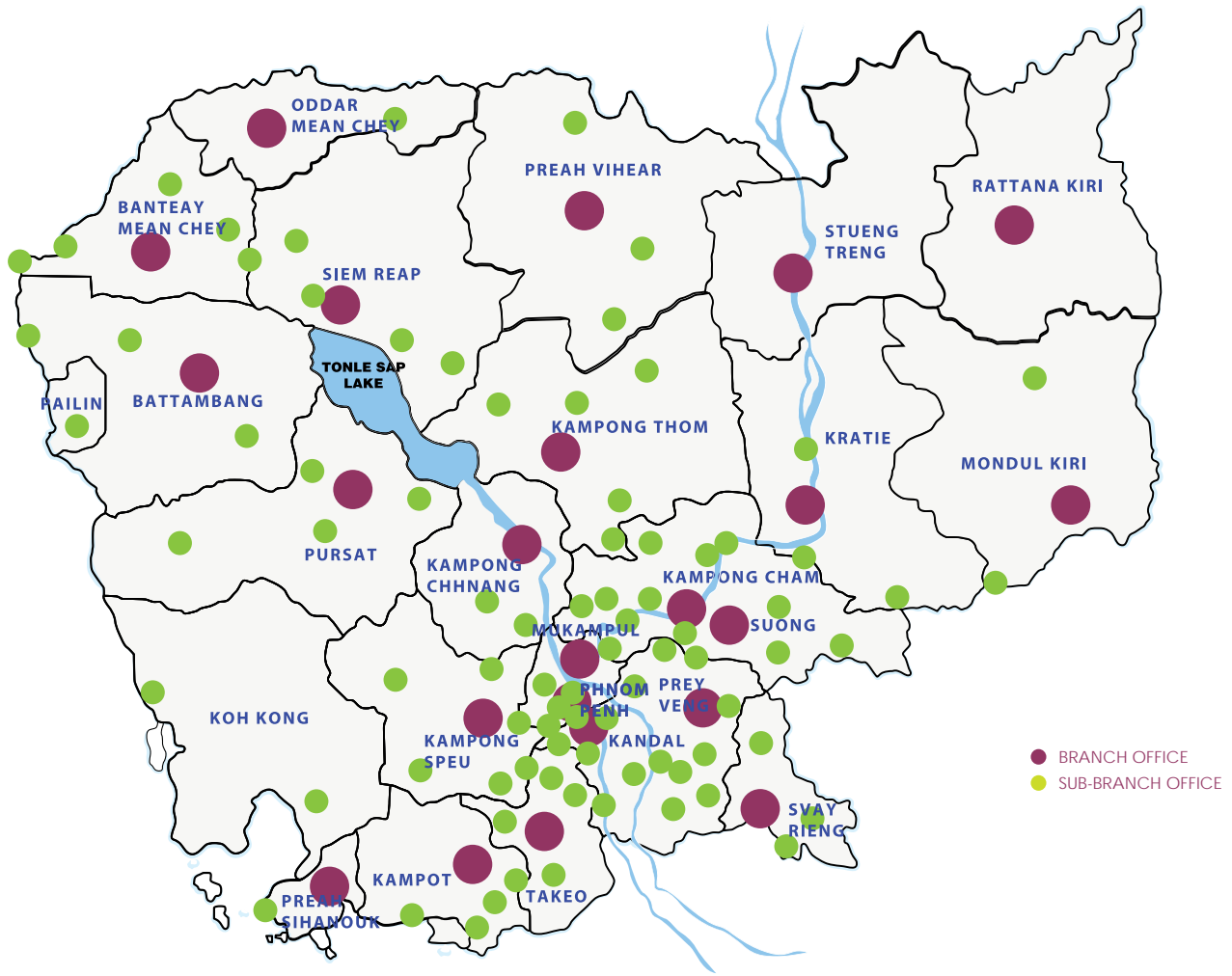
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<b>OPERATIONAL HIGHLIGHTS</b>				
Number of Branches	20	22	22	22
Number of Sub Branches	25	43	56	76
Number of Villages	4,762	6,253	8,032	9,152
Coverage of Total Villages in Cambodia	36 %	45 %	57 %	65 %
Total Staff	566	766	844	973
Client Officers Over Total Staff	57 %	57 %	57 %	54 %
Total Number of Clients	189,390	218,256	251,636	280,195
Number of Active Borrowers (Exc. Staff)	188,696	217,477	250,930	275,251
Group Loan Borrowers	85 %	88 %	93 %	93 %
Individual Loan Borrowers	15 %	12 %	7 %	7 %
Loan Portfolio (USD, exc. staff loans)	\$ 23,187,911	\$ 24,795,880	\$ 31,329,857	\$ 47,248,599
Group Loans	65 %	77 %	86 %	84 %
Individual Loans	35 %	23 %	14 %	16 %
Active borrowers/Avg. Client Officer	746	542	548	523
Loan outstanding/Avg. Client Officer (USD)	\$ 92,583	\$ 62,661	\$ 69,324	\$ 90,644
Total Number of Savers	1,702	1,770	2,781	8,924
Total Savings Balances (USD)	\$ 11,494	\$ 19,342	\$ 1,142,409	\$ 4,182,370
Total Money Transfer Transaction	-	-	-	1,676
Value of Money Transfer (USD)	-	-	-	428,041
<b>FINANCIAL HIGHLIGHTS</b>				
Net Profit (after tax, USD)	\$ 986,145	\$ 448,172	\$ 935,239	\$ 1,766,971
Operational Self Sufficiency (OSS)	118 %	106 %	108 %	114 %
Return on Assets (RoA)	4.30 %	1.30 %	2.46 %	3.10 %
Adjusted RoA (Less B2B)	5.40 %	1.35 %	2.71 %	3.76 %
Return on Equity (RoE)	12.70 %	4.20 %	8.26 %	13.66 %
Portfolio Yield	35.9 %	34.5 %	34.5 %	33.9 %
Operating Cost Ratio	22.4 %	22.0 %	22.3 %	19.3 %
Average Cost of Funds	8.30 %	10.20 %	10.87 %	11.14 %
Leverage Ratio (Debt to Equity)	1.80	2.55	2.58	3.35
PAR 30 Days	0.33 %	2.85 %	1.57 %	0.10 %
Write off Ratio	0.19 %	0.38 %	1.17 %	1.11 %
<b>SOCIAL HIGHLIGHTS</b>				
Women Borrowers	85 %	85 %	86 %	87 %
Loans Below USD 300	89 %	91 %	94 %	94 %
Loan Accounts below USD 300	168,046	197,471	236,743	258,841
Rural Borrowers	95 %	93 %	92 %	94 %
Avg. Outstanding Loan Per Borrower (USD)	\$ 124	\$ 116	\$ 126	\$ 172
Group Borrowers	\$ 77	\$ 99	\$ 115	\$ 153
Individual Borrowers	\$ 286	\$ 220	\$ 245	\$ 402
Avg. Loan Disbursed (USD)	\$ 149	\$ 155	\$ 165	\$ 213
Group Borrowers	\$ 115	\$ 123	\$ 141	\$ 187
Individual Borrowers	\$ 357	\$ 359	\$ 427	\$ 571
Avg. Savings Per Saver (USD)	\$ 7	\$ 11	\$ 411	\$ 469
Drop-out Rate *	24 %	35 %	31 %	26 %
Adjusted Drop-Out Rate (minus resters)*	13 %	19 %	15 %	16 %
Depth of Outreach: New Clients (<1 year) Below Poverty Line				
% of New Clients Below National Food Poverty Line (est.)	63 %	56 %	50 %	50 %
New Clients Below National Food Poverty Line (est.)	56,605	47,151	54,652	45,374

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



AMK clients producing palm sugar in Prey Veng; July 2011





● BRANCH OFFICE  
● SUB-BRANCH OFFICE

AMK reaches nearly all districts in Cambodia and 95% of all communes. With 9,152 villages served, AMK now operates in 65% of the 14,073 villages in Cambodia. AMK is Cambodia's leading MFI in terms of borrower outreach with a total of 275,739 loan clients.

PROVINCES	DISTRICTS	COMMUNES	VILLAGES	TOTAL BORROWERS*
Banteay Meanchey	8	64	478	10,800
Battambang/Pailin	16	98	620	17,058
Kampong Cham	16	164	1,145	34,055
Kampong Chhnang	7	57	394	10,627
Kampong Speu	8	78	787	20,645
Kampong Thom	8	80	541	16,917
Kampot/Kep	10	95	418	14,047
Kandal	11	130	594	20,467
Koh Kong	5	19	77	4,343
Kratie	5	35	176	11,351
Mondul Kiri	5	18	59	1,825
Otdar Meanchey	5	24	201	8,749
Phnom Penh	8	69	256	2,807
Preah Sihanouk	4	25	98	4,169
Preah Vihear	8	47	170	5,417
Prey Veng	12	107	673	22,722
Pursat	6	49	366	11,548
Ratankiri	8	40	159	3,280
Siem Reap	12	96	682	17,036
Stung Treng	4	26	76	3,251
Svay Rieng	7	78	548	16,634
Takeo	10	89	634	17,991
<b>TOTAL</b>	<b>183</b>	<b>1,488</b>	<b>9,152</b>	<b>275,739*</b>
<b>% COVERAGE</b>	<b>95%</b>	<b>92%</b>	<b>65%</b>	<b>10%**</b>

\* Includes staff loans  
\*\* Clients as percentages of total households



AR 2011

Branch manager workshop in Mundulkiri: December 2011

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 finance, audit, law, and development as well as extensive experience in microfinance, commercial, and investment banking.

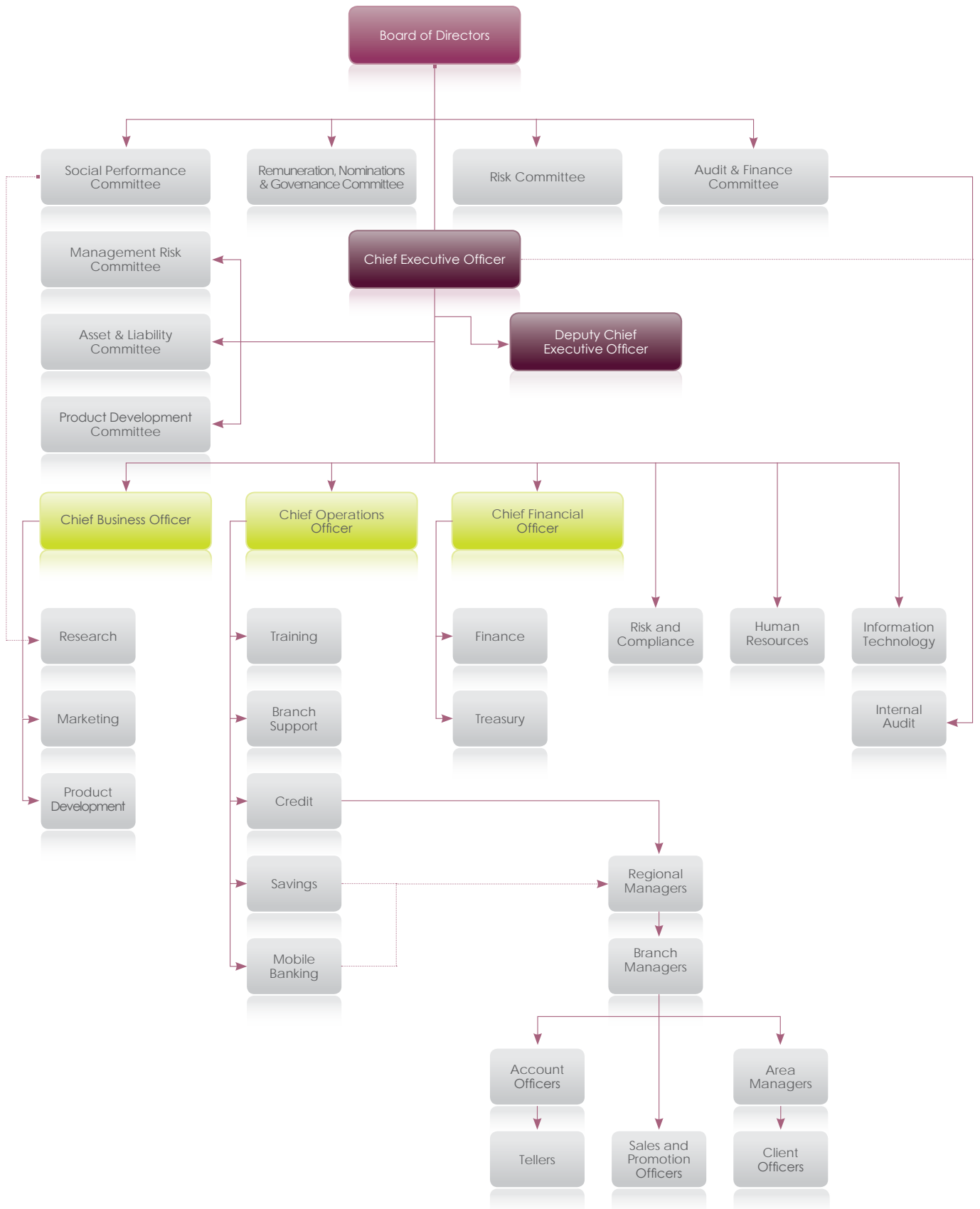
The Board of Directors appoints the Chief Executive Officer (CEO) who works with a senior management team, who in turn supervises a broader management team. The senior management team consists of the CEO, Deputy CEO, Chief Financial Officer (CFO), Chief Operations Officer (COO), and Chief Business Officer (CBO). This team in turn oversees the broader management team. The management team consists of the following department heads: Credit, Savings, Branch Support, Mobile Banking, Finance, Treasury, Human Resources, Information Technology, Internal Audit, Marketing, Training, Research, Risk & compliance, and Product Development. Operations also have five regional managers responsible for managing the performance of four to five branches each.

The Board of Directors has the following standing committees: (1) Audit and Finance Committee, (2) Risk Committee, (3) Remuneration, Nominations, and 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.

AMK's shareholders are Concern Worldwide (Ireland), Concern Worldwide UK, and the AMK Staff Association (AMK-SA).



Loan disbursement in Takeo: February 2012





## TANMAY CHETAN

*Director, Board Chairman, Chairperson of Remuneration, Nominations and 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 Bachelor's degree in Agricultural Science and a Master's in Animal Nutrition.

## 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.

## PETE POWER

*Director and Current CEO*



Pete has been CEO of AMK since 2010. Pete is a qualified accountant and has spent most of his career working as a management consultant 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.

## REBECCA MCKENZIE

*Director, Member of Remuneration, Nominations, & Governance Committee*



Rebecca is a 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 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.

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.



**FRANCES SINHA**

*Director, Member of Social Performance 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.



**ADRIAN GRAHAM**

*Director, Chairperson of Audit and Finance Committee, & Member of Risk Committee*

Tip 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. Tip has also served as a legal consultant on numerous projects for organizations including the United Nations, World Bank, and the Asian Development Bank.



**TIP JANVIBOL**

*Director*

Helen is the Country Director for Save the Children in Albania having spent the past 15 years in the development sector in Asia and Africa. She has worked for leading International NGOs such as Concern Worldwide and Save the Children, including nearly 3 years based in Phnom Penh. Helen is also a UK qualified Chartered Accountant and has worked in public practice in the UK as an auditor and also in the commercial sector in Europe.



**HELEN IANSON**

*Member of Audit & Finance Committee*

Janu is the Country Director for Concern Cambodia. He has over 24 years experience working in the NGO sector in rural development. Janu completed his Master's in Social Work in India in 1987 after which he spent several years working with indigenous NGOs in rural India. Janu began working with Concern in 2000 as the Assistant Country Director in South Sudan and then as Country Director in Eritrea and North Sudan before undertaking his current position in Cambodia.



**JANARDHAN (JANU) RAO**

*Member of Social Performance Committee*

Olga is the Head of Research at Agora Microfinance Partners LLP. She has over 12 years of experience as a manager, consultant and researcher. From 2003 to 2009, Olga led AMK's work in conceptualizing and implementing systems for collecting and analyzing client data (including poverty levels) and on other aspects of social performance. Olga holds a PhD from Universidad Complutense (Spain) and a Master's of International Affairs from Columbia University (USA).



**OLGA TORRES**

*Member of Social Performance Committee*



**MR. PETER POWER**  
Chief Executive Officer



**MR. KEA BORANN**  
Deputy Chief Executive Officer



**MR. MAM CHOERN**  
Chief Operations Officer



**MR. CHHEANG TAING**  
Chief Financial Officer



**MS. LY THEEDA**  
Human Resources Department Head



**MS. LONG CHANTHA**  
Treasury Department Head



**MR. NANG KINAL**  
Marketing Department Head



**MR. HEAK THAVUTH**  
Internal Audit Department Head



**MR. SOEUNG PHYRY**  
Risk & Compliance Department Head



**MS. ROEUNG VIRINY**  
Finance Department Head



**MR. PREM CHANDRABOTH**  
IT Department Head



**MR. MEAS CHANRA**  
Staff Development Manager



**MS. PUM SOPHY**  
Research Department Head



**MR. CHEA ROATTANA**  
Mobile Banking Department Head



**MS. PEANG PISAK**  
Training Department Head



**MR. SOK RATANA**  
Branch Support Department Head



**MR. SUON PISEY**  
Credit Operations Department Head



**MISS. RITH SOKHA**  
Regional Manager



**MR. LIM SEAKRUN**  
Regional Manager



**MR. POK THY**  
Regional Manager



**MR. CHHEANG VUTHY**  
Regional Manager



**MR. YIV PHANNA**  
Regional Manager





AR 2011

AMK staff participate in careers fair at the National Institution of Pedagogy, December 2011

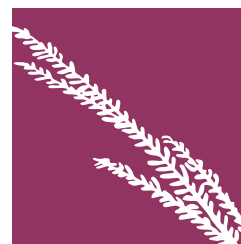
At the end of 2011, AMK had over 280,195 active loan and savings customers in Cambodia. Most of our clients are poor or near poor. AMK's Research department conducts detailed client profile surveys on an annual basis. 2011 research indicates that:

- 87% of AMK's clients are female.
- 63% of clients are literate.
- The average client is 42 years old.
- The average AMK household has 5.2 members, 2.99 of whom are income earners.
- 83% of clients own at least some cultivable land, but 55% own less than 1.6 Ha.
- Only 40% of AMK clients own assets of high value (over USD 500).
- More than half of new clients each year since the inception of AMK have been below the rural food poverty level (daily food expenditure of KHR 2,512).

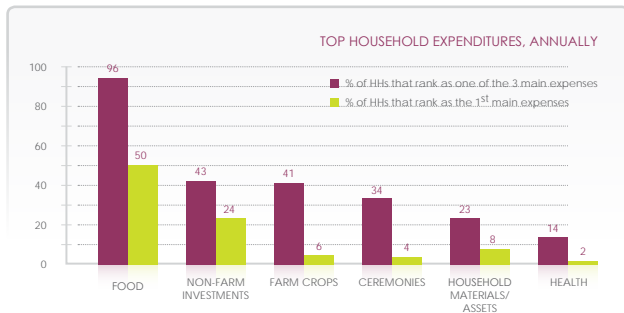
The typical AMK household depends on an array of diverse income generating activities, with most households having three or more sources of income.

- 93% of households participate in farming activities.
- 95% participate in non-farm activities (typically shop keeping or petty trading, etc).
- 96% have other inflows, which include remittances, sales, rentals, and income from loans.

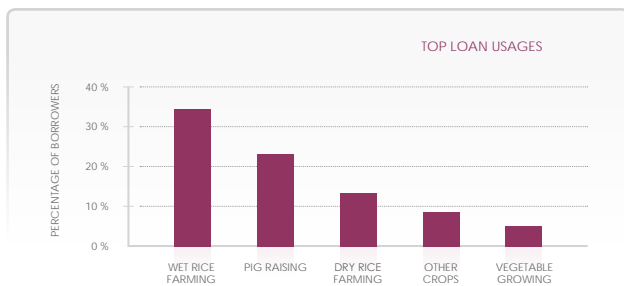
Although most clients are rural, non-farm activities make up 63% of their total income. Farm activities comprise 35% of total income, while other activities account for only 3%. Clients consume much of their farm production and rely on non-farm activities to generate cash income.



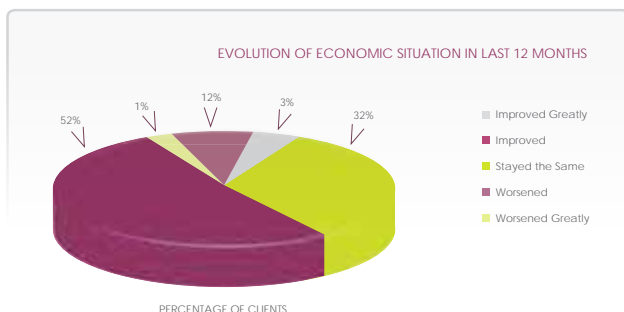
According to client rankings, the most significant expenditures include food (50%), non-farm investments (24%), household materials (8%), and farm investments (8%). Ceremonies, asset-building, health, and loan payments were also frequently mentioned by households, but these represent only a small share of the household yearly outflows.



AMK clients use their loan for a variety of reasons. Outlined below are the primary uses.



Most clients reported an improvement in their economic situation over the last twelve months (55%), while 13% reported a worsening situation, and 32% stayed the same.



During 2012, AMK will undertake a detailed time-series assessment of impact/change in client lives during their relationship with AMK. In order to create a baseline, AMK interviewed a sample of 825 clients in 2006 and 2007 and

re-interviewed 641 of this sample in 2008. During 2012, AMK will again re-interview these households, focusing on income, expenditure, assets, education, etc. We will measure the changes since the previous interview and attempt to determine how much of this change can be attributed to access to financial services. While attributing impact to any particular MFI's intervention is a very complex proposition, we believe it to be a necessary part of our client informed approach. Significant research and management time will be dedicated to this change study in 2012.

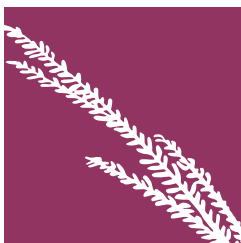




AR 2011

AMK staff disburses group loan to clients in Siem Reap: March 2011

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 a double bottom line, 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 management /staff and board/governance levels. Fondazione Giordano Dell'Amore recognized AMK for this innovation by awarding AMK its 2011 Microfinance International Best Practices Award.



### 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, Marketing, and Finance in order to ensure that effective social performance standards and controls are in place and are being successfully executed.

### BOARD LEVEL

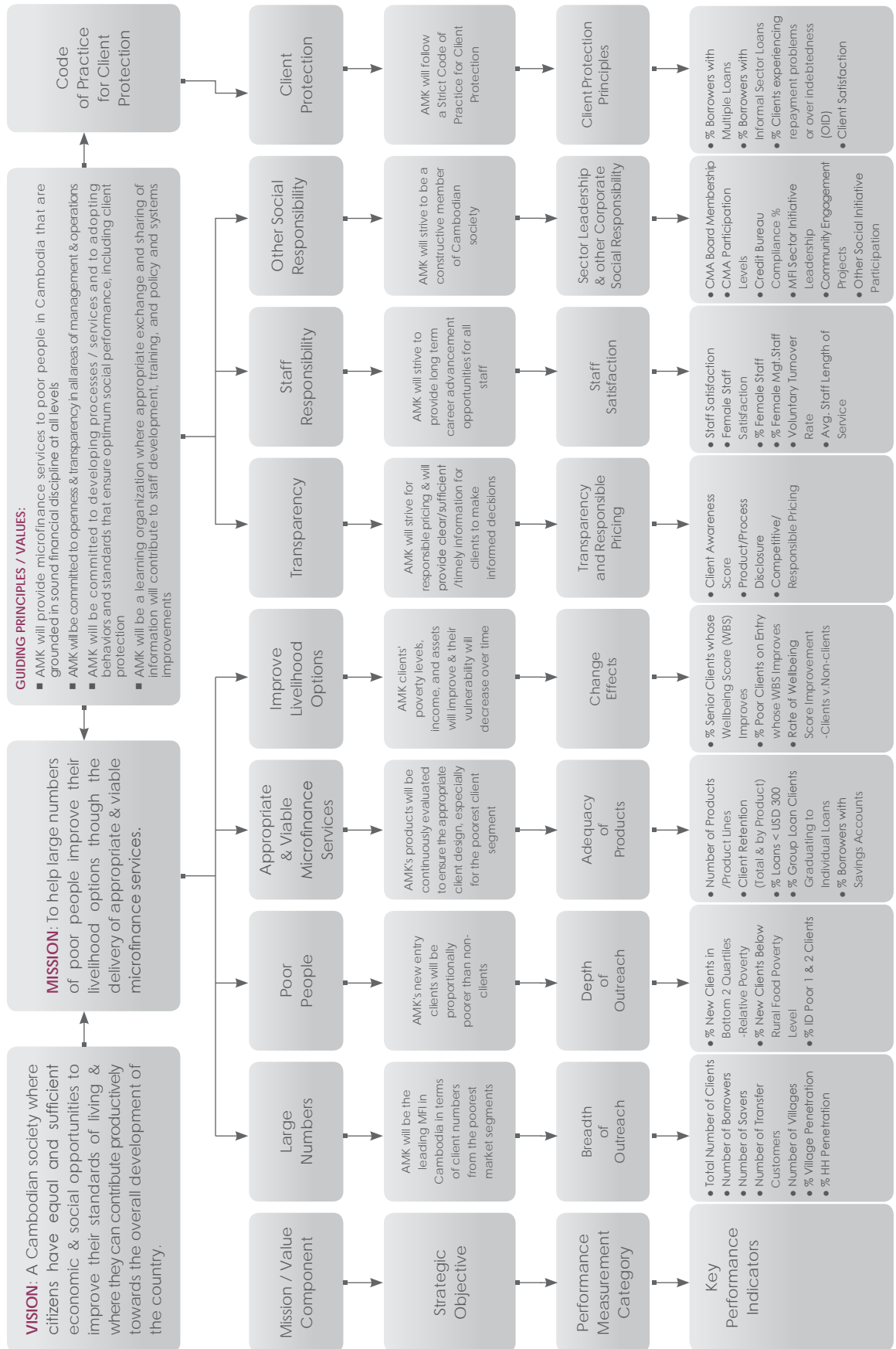
Research results are reported to management and to AMK's Social Performance Committee (SPC). The SPC then advises the Board of Directors on the results and discusses implications for business strategy. The purpose of doing this is to give the Board a balanced view of AMK's overall institutional performance 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, AMK has developed a SPM Framework that translates AMK's mission into strategic objectives and formulates key performance measures for each objective. The SPM Framework is outlined on the next page.



AMK MISSION/STRATEGY ARTICULATION MAP



To support this framework, each year AMK's Research Department collects and analyzes information from clients, non-clients, and secondary sources to produce a series of reports (the "Research Intelligence Reports").

The reporting framework, which covers both social and market research, is outlined below:

**OUTREACH**

- Client Profile Report
- Depth of Outreach Report

**ADEQUACY OF PRODUCTS**

- Exiting Client Report
- Client Satisfaction Report
- New Product Feedback Reports
- Product Pilot Assessment Reports

**TRANSPARENCY**

- Client Awareness Report
- Competition Report
- Social Performance Report Standard-The MIX

**CLIENT PROTECTION**

- Multiple Loans Report
- Client Grievance Report

**STAFF SATISFACTION**

- Staff Satisfaction Survey/Report
- Exiting Staff Report

**CHANGE EFFECTS**

- Change Effects Report

Other Ad-Hoc Surveys and Reports are produced based upon management, SPC, and Board requests.

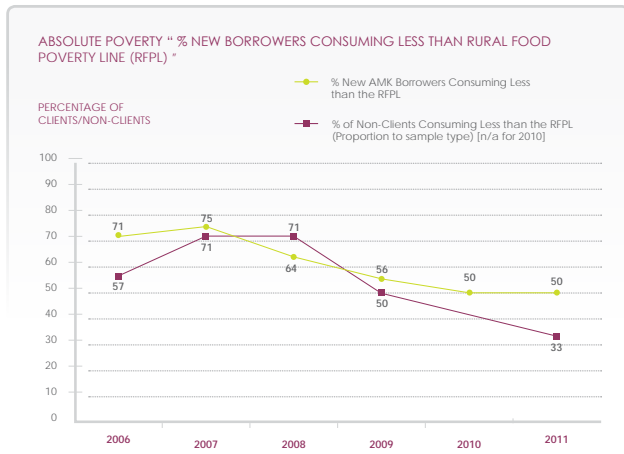


AMK target client harvesting rice in Takeo: July 2011

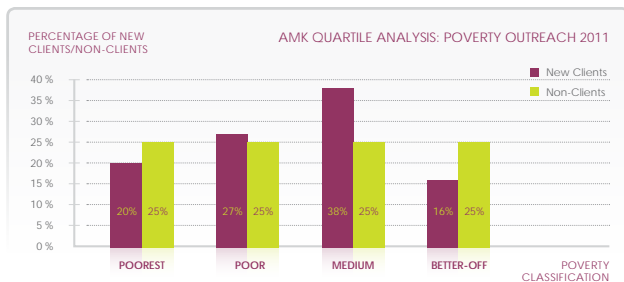
**DEPTH OF OUTREACH**

In 2011, AMK's Research Department interviewed 1,665 households. Key findings are outlined below:

AMK's new entry clients are on average poorer than non-clients. In 2011, 50% of AMK clients surveyed were below the Rural Food Poverty Level (daily food expenditure of KHR 2,512), while 33% of non-clients were below the same poverty line.



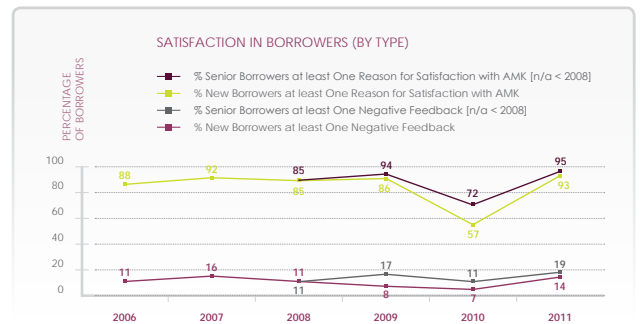
While the absolute poverty level is interesting from an external comparison perspective, AMK relies primarily on a New Client Relative Poverty Measurement to ensure that it continues to target the poor. Each household is assigned a Wellbeing Score, with higher scores indicating greater household prosperity. All non-client households are then divided into four equal quartiles and these quartiles are compared with the AMK new entry client Wellbeing Scores. The graph below shows that AMK is reaching a smaller proportion of the poorest households than the control group of non-clients. However, AMK clients are overrepresented in the poor and medium quartiles and significantly under-represented in the better-off quartile. Overall, it is clear that AMK's new clients in 2011 were on average poorer than non-clients.



**NOTE:** The non-clients (control group) are sampled each year from the districts and provinces where AMK operated that same year. Therefore, during AMK's earlier years of operation, non-client poverty rates showed higher poverty levels as AMK was only operating in the poorest provinces at that time. As AMK's reach became national, non-client statistics started to broadly reflect the overall poverty dynamic in the country.

**ADEQUACY OF PRODUCTS**

In line with its strategic transformation into a broad provider of financial services, AMK began expanding its product offering in 2010. As this transformation has unfolded, management has relied on social and market research to help drive its decision making in identifying, designing, and monitoring new product offerings to satisfy market demand and to further AMK's social mission. The graph below demonstrates that borrowers are generally satisfied with AMK, with borrower satisfaction increasing significantly from 2010 to 2011.



Both new and existing clients are generally satisfied with AMK. The competitive advantages mentioned most frequently are "finance at doorstep", low interest rates, and easy access to loan products. This appears to have had a knock-on effect on client loyalty, with improved rates of retention in most products.

**TRANSPARENCY - CLIENT AWARENESS**

Research findings indicate that most of AMK's clients understand their rights and responsibilities as AMK customers. For example, 69% knew the exact amount of their previous month payment, while 17% knew the approximate amount. 76% could locate the amount due in their passbook.

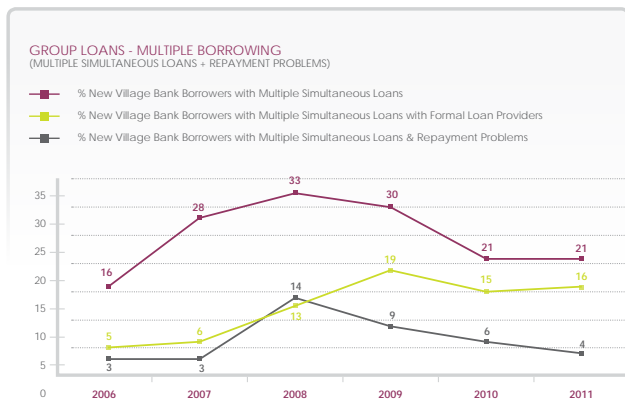


**CLIENT PROTECTION - CLIENT GRIEVANCE**

There are three hotlines for clients to report their grievances relating to AMK’s service, products, and other issues. AMK received 522 calls in 2011. While the aim of this hotline is to provide a medium through which complaints can be addressed, the majority of calls received in 2011 were for loan requests, appointment scheduling, and other routine administration issues (91%). The most common complaints were about missed meeting appointments and delays in the withdrawal of collateral.

**CLIENT PROTECTION - 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 (4% vs. 1%). 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 30% in 2009 to 21% in 2010 and 2011.



Out of AMK’s total clients, 16% are receiving funding from other formal sources (i.e. other MFIs, commercial banks, etc.) while 5% are leveraging informal sources (i.e. relatives, money lenders, etc.). AMK clients with multiple loans typically receive their AMK loan before borrowing from other sources, and instances of multiple borrowing are relatively similar between old and new clients and across AMK’s various products. AMK expects that the implementation of credit checks in 2012 will improve its identification of clients with additional loans and therefore decrease the risks associated with multiple lending.



AR2011

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 choose from 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 any emergencies.

## SOLIDARITY GROUP METHODOLOGY

AMK utilizes a 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 fulfill 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 87% 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.

## GROUP LOAN PRODUCTS

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 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 (lump) 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 <sup>st</sup> cycle: KHR 600,000 / THB 6,000 2 <sup>nd</sup> cycle: KHR 800,000 / THB 8,000 3 <sup>rd</sup> cycle: KHR 1,000,000 / THB 10,000	KHR 1,000,000 / THB 10,000	2 <sup>nd</sup> cycle: KHR 800,000 / THB 8,000 3 <sup>rd</sup> cycle: KHR 1,000,000 / THB 10,000	KHR 400,000 / 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%
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



## INDIVIDUAL LOAN PRODUCTS

In addition to Group loans, AMK offers three Individual loan options to its clients. (A fourth seasonal credit line product is currently being piloted). 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	BUSINESS EXPANSION LOAN	SEASONAL LOAN	SEASONAL CREDIT LINE*	URBAN LOAN
TARGET CLIENTS	Individuals with small businesses who need funding to expand their existing business or new enterprise	Individual clients with regular cash flow from agriculture, crop growing, and animal raising	Individuals who need funds for agricultural purposes	Low income city dwellers who have been residents in the area at least 6 months
MAXIMUM LOAN SIZE	KHR 8,000,000 / THB 80,000 / USD 2,000	KHR 6,000,000 / THB 60,000 / USD 1,500	KHR 4,000,000 / THB 40,000 / USD 1,000	KHR 1,000,000 / THB 10,000 / USD 250
LOAN GUARANTEE	Physical collateral and 1 personal guarantor	Physical collateral and 1 personal guarantor	Physical collateral and 1 personal guarantor	No guarantor required if clients own their home and 1 personal guarantor required if clients rent their home, for loan amounts up to KHR400,000 / USD100 1 guarantor for loan amounts up to KHR1,000,000 / USD250
INTEREST RATE (MONTHLY)	2.2% - 3%	2.3% - 3%	2.4% - 3%	2.3% - 3%
CURRENCY	Khmer Riel, Thai Baht (in Banteay Meanchey), and US Dollar			
DISBURSEMENT TIMELINE	3 working days from the signature if there are no changes in the application form.	3 working days from signature if there are no changes in the application form	3 working 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	12 months	12 months	12 months
REPAYMENT AMOUNT AND FREQUENCY	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.	Monthly interest payments due on outstanding loan. Principal payment due on or before the end of term.	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			

\* The Seasonal Credit Line product is currently being piloted

**SAVINGS PRODUCTS**

AMK offers four distinct savings products. These include the General Savings Account, Easy Account, Fixed Deposit Account, and Future Account. A mobile savings product is currently being piloted. The General Savings Account offers clients the convenience of conducting transactions at monthly village meetings and collection visits. AMK's Easy Account offers savers flexible and convenient terms to ensure clients 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 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"> <li>■ Interest calculation is based on the daily balance.</li> <li>■ Interest is capitalized every 6 months automatically in the system.</li> <li>■ No fees are charged on transactions, opening or closing accounts, or for the passbook unless it is lost.</li> <li>■ Withdrawal on non-monthly collection days requires clients to notify the branch office one business day in advance.</li> </ul>		

**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"> <li>■ Interest calculation is based on the daily balance.</li> <li>■ Interest is capitalized every 6 months automatically in the system.</li> <li>■ No fees are charged on transactions, opening or closing accounts, or for the passbook unless it is lost.</li> </ul>		

## FIXED DEPOSIT ACCOUNT

TERM / CURRENCY	KHR	USD	THB
1 MONTH	5.50 %	3.25 %	3.25 %
3 MONTH	6.00 %	3.50 %	3.50 %
6 MONTH	7.00 %	4.00 %	4.00 %
9 MONTH	8.00 %	5.00 %	5.00 %
12 MONTH	10.00 %	7.00 %	7.00 %
18 MONTH	10.50 %	7.25 %	7.25 %
24 MONTH	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"> <li>■ Interest is capitalized at the end of term.</li> <li>■ One business day notice is required for early withdrawal. The client will receive an interest rate equivalent to a corresponding Easy Account rate.</li> <li>■ No other penalty fees apply for early withdrawal.</li> </ul>		

## 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"> <li>■ Interest is capitalized at end of term.</li> <li>■ One business day notice is required for early withdrawal. The client will receive an interest payment equivalent to a corresponding Easy account rate.</li> <li>■ No other penalty fees apply for early withdrawal.</li> </ul>		



## MOBILE BANKING

In order to allow a large number of poor households to access sustainable financial and savings solutions, AMK plans to build a nationwide network of village-based savings agents. Agents use a mobile phone equipped with a mobile application in local Khmer language to access AMK's banking system. AMK began testing this system in Q2 2011 and began a live pilot in Q4.

AMK agents offer deposit, withdrawal, and money transfer services to AMK customers. Customers using the AMK interest-bearing savings account will have the freedom to check balances, deposit cash, make withdrawals, and transfer money at conveniently located agents.

The AMK Agent Network will be managed by AMK's field staff, who will be responsible for Know Your Customer (KYC) compliance, agent liquidity management, and dispute resolution. AMK is currently piloting this mobile banking channel with 100 agents in three provinces. The pilot will be evaluated toward the end of 2012, and nationwide rollout is expected thereafter.

The specific terms of these products are outlined below:

## MOBILE SAVING\*

CURRENCY	KHR	USD
ANNUAL INTEREST RATE	3.5 %	2.5 %
TARGET CLIENTS	Rural residents – AMK clients and non-clients	
MINIMUM DEPOSIT	Not required	Not required
TRANSACTION	<ul style="list-style-type: none"> <li>■ Branches</li> <li>■ Sub branches</li> <li>■ Village based agents</li> </ul>	
FEE CHARGE FOR DEPOSIT	Free	
WITHDRAWAL AND CAPITALIZATION	<ul style="list-style-type: none"> <li>■ Interest is calculated based on the daily balance</li> <li>■ Interest is capitalized every month automatically in the system</li> <li>■ No fees are charged to open or close accounts or for the card unless it is lost</li> </ul>	
AVAILABLE CURRENT TRANSACTIONS	<ul style="list-style-type: none"> <li>■ Cash In at agents/branches</li> <li>■ Cash Out at agents/branches</li> <li>■ Account to Account funds transfer</li> </ul>	
TRANSACTIONS PLANNED FOR FUTURE	Loan Repayment	

\* Mobile Savings is currently being piloted

AMK began piloting domestic money transfer in July 2011 in a small number of branches. Client feedback was extremely positive, and AMK quickly rolled the product out to all branches. AMK's money transfer product features are outlined below.

## BRANCH OFFICE DELIVERY

CURRENCY	AMOUNT TRANSFERRED	SERVICE FEE
USD	Up to 1,000	1
	1,001 - 2,000	2
	>2,000	0.10%
KHR	Up to 4,000,000	4,000
	4,000,001 - 8,000,000	8,000
	>8,000,000	0.10%
THB	Up to 40,000	40
	40,001 - 80,000	80
	>80,000	0.10%

## DOORSTEP DELIVERY

CURRENCY	AMOUNT TRANSFERRED	SERVICE FEE
USD	Up to 500	2
KHR	Up to 2,000,000	8,000
THB	Up to 20,000	80

Since its July soft launch, AMK has seen a steady increase in the volume and value of money transfer transactions.



AMK staff promotes money transfer service in Phnom Penh: July 2011

In late September, three weeks of heavy monsoon rains caused the worst flooding that Cambodia has seen in a decade. An estimated 1.5 million people, approximately 10 percent of the total population, were affected. AMK recognized that the flooding had a negative impact on its clients' lives and their ability to repay existing debts.

In response, AMK offered a flood emergency loan for dry rice planting. This loan, which was developed according to flood-affected client feedback, had no fee, an interest rate of only 1.5% per month, and a maximum loan amount of KHR 600,000 or THB 6,000. The loan was only available to clients in twelve badly affected provinces with a maximum term of six months. A total of 1,631 clients availed of the flood response emergency loan.

AMK's flood emergency loan product features are outlined below:

PRODUCT DESCRIPTION	FLOOD EMERGENCY LOAN
TARGET CLIENTS	Existing AMK clients who are affected by the flood
MAXIMUM LOAN SIZE	KHR 600,000 / THB 6,000
LOAN GUARANTEE	No guarantor
INTEREST RATE (MONTHLY)	1.5%
CURRENCY	Khmer Riel and Thai Baht (in Banteay Meanchey)
DISBURSEMENT TIMELINE	3 working days from signature if there are no changes in the application form
MAXIMUM TERM	6 months
REPAYMENT AMOUNT AND FREQUENCY	Monthly installments, principal payment due on or before the end of the term
PREPAYMENT PENALTIES	None
LATE PAYMENT FEES	Additional 1.0% per month on the pending principal (starting from the month a payment has been missed)
OTHER FEES	None

AMK also assisted with the NGO flood emergency response, most notably working with Save the Children to process physical cash transfers to over 10,000 households in Kampong Cham and Prey Veng provinces.



Flood affected national road N° 5, Kandal: October 2011



2011 was a good year for the Cambodian MFI sector. The sector saw positive growth across all lines of business:

- Numbers of borrowers increased 16% to 1,151,340
- Loan Portfolio increased 51% to USD 645 million
- Number of savers increased 48% to 280,538
- Deposit balances increased 179% to USD 115 million

AMK remained committed to the poorest segments of society with the largest number of loan clients of all MFIs in Cambodia and the lowest average loan size among the larger national MFIs.

## CAMBODIA MICROFINANCE SECTOR PERFORMANCE \*

YEAR	NUMBER OF BORROWERS	LOAN OUTSTANDING		AVERAGE LOAN SIZE (USD)	NUMBER OF DEPOSITORS	DEPOSITS		AVERAGE DEPOSIT SIZE (USD)
		AMOUNT (MILLION KHR)	AMOUNT (MILLION USD)			AMOUNT (MILLION KHR)	AMOUNT (MILLION USD)	
2009	878,559	1,247,774	299	341	126,099	40,457	10	77
2010	992,452	1,726,257	426	429	190,023	165,735	41	215
2011	1,151,340	2,603,712	645	560	280,538	462,896	115	409

\* Source – CMA Microfinance, Network Information Exchange (NIX), December 31, 2011



AMK teller with her savings passbook in Phnom Penh: August 2011



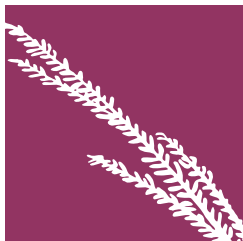
A strong risk culture is an essential element to AMK's continued sustainability and success. As a result, AMK takes a proactive approach to increasing risk awareness and managing risk across the organization. AMK follows the three lines of defense approach to risk management, with Operations, Risk, and Internal Audit contributing to the overall management of risk.

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, and 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 occurrence 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 make informed strategic decisions as a result.

As AMK continues to grow, 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.



## 2011

AMK received the Fondazione Giordano Dell'Amore Microfinance International Best Practices Award. This award recognizes AMK's innovative Social Performance Management Framework and has a EUR 50,000 cash prize.

AMK also received the platinum level MIX Social Performance Reporting and Management award, the highest award level for its commitment to transparent social performance monitoring and management. The platinum award was received by only 22 microfinance institutions globally in 2011.

The C5 Microfinance Summit recognized AMK with the Global Microfinance Highest Customer Orientation Achievement Award for high levels of responsibility towards customers.



## 2010

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



## 2009

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.

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



## STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors ("the Directors") is 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 2011.

## PRINCIPAL ACTIVITIES

The principal activity of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd is to provide microfinance 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 2011 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.

## 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 2011.

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

## SIGNIFICANT EVENTS

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

## THE BOARD OF DIRECTORS

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

- **MR. TANMAY CHETAN**  
Chairman
- **MS. FRANCES SINHA**  
Director
- **MR. MARCUS FEDDER**  
Director
- **MR. PETER POWER**  
Director and Chief Executive Officer
- **MS. REBECCA MCKENZIE**  
Director
- **MS. IRINA IGNATIEVA**  
Director
- **MR. HOWARD DALZELL**  
Director
- **MR. TIP JANVIBOL**  
Director
- **MR. ADRIAN GRAHAM**  
Director

## 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 of 31 December 2011 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 which are supported by reasonable and prudent judgments and estimates, and then apply them consistently;
- (b) Comply with the disclosure requirements and guidelines of the National Bank of Cambodia and Cambodian Accounting Standards or, if there has been any departure from such standards in the interest of true and fair presentation, ensure that this has been appropriately disclosed, explained and quantified in the financial statements;
- (c) Maintain adequate accounting records and an effective system of internal controls;
- (d) Prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- (e) Effectively control and direct the Company and be involved in all material decisions affecting its operations and performance and ensure that such matters have been properly reflected in the financial statements.

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

## STATEMENT BY THE DIRECTORS

On behalf of the Directors of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd, we do hereby affirm that the accompanying financial statements, together with the notes thereto, present fairly, in all material respects, the financial position of the Company as of 31 December 2011 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: 21 March 2012

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 2011, 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 the guidelines of the National Bank of Cambodia and Cambodian Accounting Standards, 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

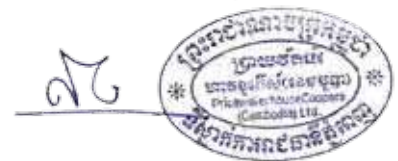
considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit 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 2011, and its financial performance and its cash flows for the year then ended in accordance with the guidelines of the National Bank of Cambodia and Cambodian Accounting Standards.

For PricewaterhouseCoopers (Cambodia) Ltd.



BY KUY LIM  
Director

Phnom Penh, Kingdom of Cambodia  
Date: 21 March 2012



AMK teller serves clients at sub branch Meanchey: June 2011

	Note	2011		2010	
		Riel'000	USD	Riel'000	USD
<b>ASSETS</b>					
Cash on hand	4	1,520,404	376,431	830,527	204,917
Balances with the Central Bank	5	4,855,343	1,202,115	5,215,031	1,286,709
Balances with other banks	6	66,125,545	16,371,762	35,968,198	8,874,463
Loans to customers	7	190,088,822	47,063,338	125,598,833	30,989,103
Other assets	8	6,666,740	1,650,592	3,871,358	955,183
Property and equipment	9	4,350,945	1,077,233	3,814,118	941,060
Intangible assets	10	1,856,576	459,662	2,378,004	586,727
Deferred tax assets	11	793,469	196,452	242,186	59,755
<b>TOTAL ASSETS</b>		<b>276,257,844</b>	<b>68,397,585</b>	<b>177,918,255</b>	<b>43,897,917</b>
<b>LIABILITIES</b>					
Deposits from customers	12	18,534,102	4,588,785	5,781,731	1,426,531
Due to shareholder		-	-	76,664	18,917
Current tax liabilities	13	1,856,417	459,623	430,862	106,307
Other liabilities	14	8,114,240	2,008,973	3,970,194	979,569
Borrowings	15	188,511,908	46,672,916	117,179,417	28,911,773
Provisions for retirement benefits	16	3,011,281	745,551	2,039,305	503,159
<b>TOTAL LIABILITIES</b>		<b>220,027,948</b>	<b>54,475,848</b>	<b>129,478,173</b>	<b>31,946,256</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	17	34,579,200	8,561,327	34,069,250	8,405,934
Share premium		95,506	23,646		
Reserve	18	3,304,338	818,108	1,550,618	382,585
Retained earnings		18,250,852	4,467,319	12,820,214	3,131,697
Currency translation differences		-	51,337	-	31,445
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>56,229,896</b>	<b>13,921,737</b>	<b>48,440,082</b>	<b>11,951,661</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>276,257,844</b>	<b>68,397,585</b>	<b>177,918,255</b>	<b>43,897,917</b>

	Note	2011		2010	
		Riel'000	USD	Riel'000	USD
Interest income	19	56,730,010	13,952,290	42,814,752	10,223,198
Interest expense	20	(16,386,436)	(4,030,112)	(12,118,198)	(2,893,553)
<b>Net interest income</b>		<b>40,343,574</b>	<b>9,922,178</b>	<b>30,696,554</b>	<b>7,329,645</b>
Fee and commission expenses		(3,060,560)	(752,720)	(2,089,381)	(498,897)
Other operating income	21	1,440,636	354,313	1,518,981	362,698
Other operating expenses	22	(28,176,110)	(6,929,688)	(23,960,699)	(5,721,274)
Provision for possible loan losses	7-a	(1,889,013)	(464,588)	(1,603,090)	(382,782)
<b>Operating income</b>		<b>8,658,527</b>	<b>2,129,495</b>	<b>4,562,365</b>	<b>1,089,390</b>
Grant income	23	517,290	127,223	666,438	159,130
<b>Profit before income tax</b>		<b>9,175,817</b>	<b>2,256,718</b>	<b>5,228,803</b>	<b>1,248,520</b>
Income tax expense	24	(1,991,459)	(489,783)	(1,312,022)	(313,281)
<b>Net profit for the year</b>		<b>7,184,358</b>	<b>1,766,935</b>	<b>3,916,781</b>	<b>935,239</b>

AMK staff delivers money transfer to clients in Prey Veng: December 2011



# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2011

	SHARE CAPITAL		SHARE PREMIUM		RESERVE		RETAINED EARNINGS		CURRENCY TRANSLATION DIFFERENCES		TOTAL	
	Riel'000	USD	Riel'000	USD	Riel'000	USD	Riel'000	USD	Riel'000	USD	Riel'000	USD
<b>Year ended 31 December 2010</b>												
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	
Transfers to reserves during 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	
<b>Balance as at 31 December 2010</b>	<b>34,069,250</b>	<b>8,405,934</b>	<b>-</b>	<b>-</b>	<b>1,550,618</b>	<b>382,585</b>	<b>12,820,214</b>	<b>3,131,697</b>	<b>31,445</b>	<b>48,440,082</b>	<b>11,951,661</b>	
<b>Year ended 31 December 2011</b>												
Balance as at 1 January 2011	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	
Issuance of new shares	509,950	125,418	95,506	23,489	-	-	-	-	-	605,456	148,907	
Transfers to reserves during the year	-	-	-	-	1,753,720	431,313	(1,753,720)	(431,313)	-	-	-	
Net profit for the year	-	-	-	-	-	-	7,184,358	1,766,935	-	7,184,358	1,766,935	
Currency translation differences	-	29,975	-	157	-	4,210	-	-	19,892	-	54,234	
<b>Balance as at 31 December 2011</b>	<b>34,579,200</b>	<b>8,561,327</b>	<b>95,506</b>	<b>23,646</b>	<b>3,304,338</b>	<b>818,108</b>	<b>18,250,852</b>	<b>4,467,319</b>	<b>51,337</b>	<b>56,229,896</b>	<b>13,921,737</b>	

	Note	2011		2010	
		Riel'000	USD	Riel'000	USD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash used in operations	25	(63,267,454)	(15,560,121)	(13,189,811)	(3,149,430)
Income tax paid	13	(1,117,186)	(274,763)	(951,408)	(227,175)
Staff pension fund paid		(306,034)	(75,267)	(245,686)	(58,664)
<b>Net cash used in operating activities</b>		<b>(64,690,675)</b>	<b>(15,910,151)</b>	<b>(14,386,905)</b>	<b>(3,435,269)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital guarantee deposit with the Central Bank		-	-	(1,703,462)	(406,748)
Purchases of property and equipment	9	(1,852,329)	(455,565)	(1,181,296)	(282,067)
Purchases of intangible assets	10	(20,879)	(5,135)	(2,364,762)	(564,652)
Proceeds from sale of property and equipment		50,271	12,364	10,122	2,417
<b>Net cash used in investing activities</b>		<b>(1,822,937)</b>	<b>(448,336)</b>	<b>(5,239,398)</b>	<b>(1,251,050)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		101,239,334	24,899,000	46,333,469	11,063,388
Repayments on borrowings		(33,944,061)	(8,348,269)	(35,974,797)	(8,589,971)
Proceeds from issuance of shares		605,456	149,902	-	-
<b>Net cash from financing activities</b>		<b>67,900,729</b>	<b>16,700,633</b>	<b>10,358,672</b>	<b>2,473,417</b>
<b>NET (DECREASE)/INCREASE IN CASH, CASH EQUIVALENTS</b>		<b>1,387,117</b>	<b>342,145</b>	<b>(9,267,631)</b>	<b>(2,212,902)</b>
Cash and cash equivalents at the beginning of the year	4	19,117,731	4,716,933	28,385,362	6,808,674
Currency translation differences		-	17,636	-	121,161
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>20,504,848</b>	<b>5,076,714</b>	<b>19,117,731</b>	<b>4,716,933</b>

## 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 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 Riel ("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 the Company's operations.

#### (II) PRESENTATION CURRENCY IN US DOLLAR

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

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

#### (III) TRANSACTIONS & 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 & CASH EQUIVALENTS

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdraft. In the balance sheet, bank overdraft is shown within borrowings.

### 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 dies. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss. Recovery of previously written-off loans to customers is recognised in the income statement.

## 2.5 PROVISIONS FOR BAD AND DOUBTFUL LOANS

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

CLASSIFICATION	NUMBER OF DAYS PAST DUE	PROVISION
<b>SHORT TERM LOAN (LESS THAN ONE YEAR):</b>		
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
<b>LONG TERM LOAN (MORE THAN ONE YEAR):</b>		
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.

## 2.6 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets as follow:

- Motor vehicles 8 years
- Motorcycles 5 years
- Computer and office equipment 3 to 4 years

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.



## 2.7 INTANGIBLE ASSETS

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised over five years using the straight-line method.

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

## 2.8 CHANGES IN ACCOUNTING ESTIMATE

During the year, the company changed the accounting estimates of the asset useful lives and methods for depreciation and amortisation. The useful lives of some assets were changed and the depreciation method changed from Declining Method to Straight-line Method. Management judges that the new useful lives and depreciation method provide reliable and more relevant information because it results in a more transparent treatment of the assets' useful lives and the nature of the Company's operations. The effects of these changes are being applied prospectively from 1 July 2011. If the accounting estimates had not been changed, the reported depreciation expenses and amortisation expense for the year 2011 would be higher by Riel 23 million and Riel 16 million respectively.

CHANGES OF THE METHOD AND ANNUAL RATE	DECLINING METHOD	STRAIGHT-LINE METHOD
<b>PROPERTY AND EQUIPMENT:</b>		
Motor vehicles	25%	12.50%
Motorcycles	25%	20.00%
Computer and office equipment	50%	25.00% - 33.33%
<b>INTANGIBLE ASSETS:</b>		
Other software	50%	20%

## 2.9 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.

## 2.10 DEPOSITS

Deposits from customers are stated at placement value.

## 2.11 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.

## 2.12 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.

### 2.13 PROVISIONS FOR STAFF PENSION FUNDS

The Company provides its employees with benefits under the staff pension fund policy. Employees who complete three months of service with the Company have to participate in the staff pension fund scheme. The fund is sourced from the following:

- Employees contribute 3% of their monthly salary, and the Company contributes 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.

### 2.14 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.

### 2.15 INCOME AND EXPENSE RECOGNITION

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

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

Expenses are recognised on an accrual basis.

### 2.16 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.

### 2.17 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. SIGNIFICANT 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 three 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.

**(C) PROPERTY AND EQUIPMENT**

Accounting for property and equipment involves the use of estimates for determining the expected useful lives and residual values of these assets. The determination of the useful lives and residual values of the assets are based on management's judgement. In making this judgement, the Company evaluates, among other factors, the expected usage of the asset, expected physical wear and tear which depends on operational and environmental factors, and technical or commercial obsolescence arising from changes or improvements in technology.

**4. CASH ON HAND**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Head office	14,121	3,496	23,953	5,910
Branches	1,506,283	372,935	806,574	199,007
	1,520,404	376,431	830,527	204,917

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

	2011		2010	
	Riel'000	USD	Riel'000	USD
Cash on hand	1,520,404	376,431	830,527	204,917
Balances with the Central Bank	113,418	28,081	1,368,106	337,554
Balances with other banks:		-		
Current accounts	14,830,244	3,671,761	9,866,098	2,434,270
Term deposits (maturity less than 3 months)	8,078,000	2,000,000	7,053,000	1,740,192
Bank overdraft	(4,037,218)	(999,559)	-	-
	20,504,848	5,076,714	19,117,731	4,716,933

## 5. BALANCES WITH THE CENTRAL BANK

	2011		2010	
	Riel'000	USD	Riel'000	USD
Statutory capital deposit	3,406,925	843,507	3,406,925	840,593
Reserve deposit	1,335,000	330,527	440,000	108,562
Current accounts	113,418	28,081	1,368,106	337,554
	4,855,343	1,202,115	5,215,031	1,286,709

## (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 Central Bank of 10% of registered capital. This deposit is refundable should the Company voluntarily liquidate and have no deposit liabilities.

## (II) RESERVE DEPOSIT

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

## (III) INTEREST RATES

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

## 6. BALANCES WITH OTHER BANKS

	2011		2010	
	Riel'000	USD	Riel'000	USD
Current accounts	1,182,982	292,890	777,265	191,775
Savings accounts	13,647,263	3,378,872	9,088,833	2,242,495
Fixed accounts	51,295,300	12,700,000	26,102,100	6,440,193
	66,125,545	16,371,762	35,968,198	8,874,463

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

	2011	2010
Fixed accounts	5%	4.25%
Savings accounts	0.25% to 0.75%	0.10% to 2%



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

	2011		2010	
	Riel'000	USD	Riel'000	USD
Foreign Trade Bank of Cambodia	51,642,568	12,785,979	23,976,951	5,915,853
Acleda Bank Plc	14,087,105	3,487,771	8,914,929	2,199,588
Maruhan Japan Bank Plc	162,898	40,331		
Wing Cambodia Ltd	133,905	33,153	3,030,993	747,839
ANZ Royal Bank	99,069	24,528	45,325	11,183
	66,125,545	16,371,762	35,968,198	8,874,463

## 7. LOANS TO CUSTOMERS

	2011		2010	
	Riel'000	USD	Riel'000	USD
<b>VILLAGE BANK LOANS:</b>				
End of term	79,086,486	19,580,710	60,716,134	14,980,541
Credit line	49,046,752	12,143,291	22,854,322	5,638,866
Installment	29,447,568	7,290,807	24,838,507	6,128,425
<b>INDIVIDUAL LOANS:</b>				
Installment	20,281,808	5,021,492	17,820,506	4,396,868
End of term	12,407,225	3,071,856	750,441	185,157
Seasonal credit line	567,255	140,444	-	-
Staff loans	1,921,454	475,725	1,563,326	385,721
	192,758,548	47,724,325	128,543,236	31,715,578
<b>PROVISION FOR BAD AND DOUBTFUL LOANS</b>				
Specific	(152,167)	(37,674)	(1,694,739)	(418,144)
General	(2,517,559)	(623,313)	(1,249,664)	(308,331)
	(2,669,726)	(660,987)	(2,944,403)	(726,475)
	190,088,822	47,063,338	125,598,833	30,989,103

## (A) PROVISION FOR BAD AND DOUBTFUL LOANS

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

	2011		2010	
	Riel'000	USD	Riel'000	USD
At beginning of the year	2,944,403	726,475	2,695,434	646,542
Provision for the year	1,889,013	464,588	1,603,090	382,782
Bad debts written-off	(2,166,096)	(532,734)	(1,361,597)	(325,119)
Currency revaluation	2,406	2,658	7,476	22,270
At the end of the year	2,669,726	660,987	2,944,403	726,475

## (B) LOANS BY MATURITY

	2011		2010	
	Riel'000	USD	Riel'000	USD
Less than 1 month	6,181,324	1,530,410	5,084,423	1,254,483
1 month and less than 3 months	21,769,875	5,389,917	13,241,340	3,267,047
3 months and less than 12 months	128,360,224	31,780,199	91,857,213	22,664,005
1 year and less than 5 years	36,447,125	9,023,799	18,360,260	4,530,043
	192,758,548	47,724,325	128,543,236	31,715,578

## (C) LOANS BY CURRENCY

	2011		2010	
	Riel'000	USD	Riel'000	USD
Khmer Riel	175,327,427	43,408,623	117,824,122	29,070,842
Thai Baht	9,089,669	2,250,475	7,839,869	1,934,337
US Dollars	8,341,452	2,065,227	2,879,245	710,399
	192,758,548	47,724,325	128,543,236	31,715,578

(D) LOANS BY ECONOMIC SECTOR

	2011		2010	
	Riel'000	USD	Riel'000	USD
Agriculture	129,843,937	32,147,546	95,606,848	23,589,156
Trade and commerce	31,328,864	7,756,589	18,882,714	4,658,947
Household/family	17,309,275	4,285,535	6,868,771	1,694,737
Construction	975,902	241,620	1,791,266	441,961
Services	11,241,201	2,783,164	2,008,774	495,626
Transportation	367,764	91,053	470,102	115,989
Other categories	1,691,605	418,818	2,914,761	719,162
	192,758,548	47,724,325	128,543,236	31,715,578

(E) LOANS BY RELATIONSHIP

	2011		2010	
	Riel'000	USD	Riel'000	USD
External customers	190,837,094	47,248,600	126,979,910	31,329,857
Staff loans	1,921,454	475,725	1,563,326	385,721
	192,758,548	47,724,325	128,543,236	31,715,578

(F) ANALYSIS BY SECURITY ON PERFORMING & NON-PERFORMING LOANS

	2011		2010	
	Riel'000	USD	Riel'000	USD
<b>STANDARD LOANS:</b>				
Secured	32,746,325	8,107,533	16,802,990	4,145,815
Unsecured	159,825,351	39,570,524	109,726,721	27,072,963
<b>SUB-STANDARD LOANS:</b>				
Secured	11,540	2,857	30,302	7,476
Unsecured	10,863	2,690	152,311	37,580
<b>DOUBTFUL LOANS:</b>				
Secured	4,015	994	63,859	15,756
Unsecured	16,893	4,182	156,762	38,678
<b>LOANS LOSS:</b>				
Secured	76,955	19,053	1,141,858	281,732
Unsecured	66,606	16,492	468,433	115,578
	192,758,548	47,724,325	128,543,236	31,715,578

(G) BY LOCATION

	2011		2010	
	Riel'000	USD	Riel'000	USD
Head office	191,395	47,387	1,563,326	385,721
Banteay Meanchey	9,464,727	2,343,333	7,967,705	1,965,878
Battambang	12,093,290	2,994,130	8,713,521	2,149,894
Kampong Cham	17,426,113	4,314,461	11,229,018	2,770,545
Kampong Chhnang	6,113,110	1,513,521	4,195,426	1,035,141
Kampong Speu	14,488,422	3,587,131	9,150,817	2,257,789
Kampong Thom	10,518,077	2,604,129	5,794,089	1,429,580
Kandal	9,176,123	2,271,880	6,327,139	1,561,100
Kratie	11,983,990	2,967,069	8,052,501	1,986,800
Otdor Meanchey	6,655,130	1,647,717	5,134,619	1,266,869
Preah Vihear	4,012,941	993,548	2,891,839	713,506
Prey Veng	16,710,670	4,137,329	11,525,148	2,843,609
Pursat	8,118,062	2,009,919	6,643,139	1,639,067
Siem Reap	9,240,229	2,287,752	6,477,175	1,598,119
Svay Rieng	11,615,217	2,875,766	7,781,849	1,920,022
Takeo	11,861,247	2,936,679	7,561,064	1,865,547
Kampot	8,965,320	2,219,688	4,265,485	1,052,427
Mondulkiri	2,410,130	596,715	1,835,130	452,783
Ratanakiri	4,252,323	1,052,816	2,553,170	629,946
Sihanouk Ville	6,192,641	1,533,211	3,676,403	907,082
Stung Treng	2,348,606	581,482	1,260,401	310,980
Dangkor	3,376,256	835,914	868,882	214,380
Mokom Poul	5,544,529	1,372,748	3,075,390	758,793
	192,758,548	47,724,325	128,543,236	31,715,578

(H) BY INTEREST RATE

	2011	2010
External customers	27.60% - 36.00%	30.00% - 36.00%
Staff loans	2.00% - 12.00%	2.00% - 12.00%



**8. OTHER ASSETS**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Interest receivable	4,699,426	1,163,512	2,609,127	643,752
Prepayments and deposits	1,666,957	412,715	1,082,438	267,071
Other	300,357	74,365	179,793	44,360
	6,666,740	1,650,592	3,871,358	955,183

**9. PROPERTY AND EQUIPMENT**

	MOTOR VEHICLES	MOTOR CYCLES	COMPUTERS AND OFFICE EQUIPMENT	TOTAL	TOTAL
	Riel'000	Riel'000	Riel'000	Riel'000	USD
<b>AT 1 JANUARY 2010</b>					
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
<b>YEAR ENDED 31 DECEMBER 2010</b>					
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
<b>AT 31 DECEMBER 2010</b>					
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

## YEAR ENDED 31 DECEMBER 2011

Opening net book value	791,671	1,883,021	1,139,426	3,814,118	941,060
Additions	394,461	398,046	1,059,822	1,852,329	455,565
Disposals – net	(26,363)	(9,891)	(314)	(36,568)	(8,994)
Depreciation charge	(143,780)	(479,592)	(655,562)	(1,278,934)	(314,544)
Currency translation	-	-	-	-	4,146
Closing net book value	1,015,989	1,791,584	1,543,372	4,350,945	1,077,233

## AT 31 DECEMBER 2011

Cost	2,196,192	4,076,322	3,638,107	9,910,621	2,453,731
Accumulated depreciation	(1,180,203)	(2,284,738)	(2,094,735)	(5,559,676)	(1,376,498)
Net book value	1,015,989	1,791,584	1,543,372	4,350,945	1,077,233

## 10. INTANGIBLE ASSETS

	COMPUTER SOFTWARE	COMPUTER SOFTWARE
	Riel'000	USD
<b>AT 1 JANUARY 2010</b>		
Cost	867,913	208,183
Accumulated amortisation	(498,941)	(119,679)
Net book value	368,972	88,504
<b>YEAR ENDED 31 DECEMBER 2010</b>		
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
<b>AT 31 DECEMBER 2010</b>		
Cost	3,060,200	755,046
Accumulated amortisation	(682,196)	(168,319)
Net book value	2,378,004	586,727

**YEAR ENDED 31 DECEMBER 2011**

Opening net book value	2,378,004	586,727
Additions	20,879	5,135
Amortisation charge	(542,307)	(133,376)
Currency translation	-	1,176
Closing net book value	1,856,576	459,662

**AT 31 DECEMBER 2011**

Cost	3,081,079	762,832
Accumulated amortisation	(1,224,503)	(303,170)
Net book value	1,856,576	459,662

**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:

	2011		2010	
	Riel'000	USD	Riel'000	USD
Deferred tax assets	1,196,016	296,117	582,877	143,814
Deferred tax liabilities	(402,547)	(99,665)	(340,691)	(84,059)
	793,469	196,452	242,186	59,755

The movements of net deferred tax assets are as follows:

	2011		2010	
	Riel'000	USD	Riel'000	USD
Balance at beginning of year	242,186	59,755	688,155	165,065
Credited to income statement	551,283	135,584	(445,969)	(106,487)
Currency translation	-	1,113	-	1,177
	793,469	196,452	242,186	59,755

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

	2011		2010	
	Riel'000	USD	Riel'000	USD
Provision for retirement benefits and staff pension funds	500,854	124,004	271,907	67,088
General provision	503,512	124,663	249,978	61,677
Khmer new year bonus	169,444	41,952	150,544	37,144
Unrealised exchange (gain)/loss	22,207	5,498	(89,553)	(22,095)
Depreciation and amortisation	(402,548)	(99,665)	(340,690)	(84,059)
	793,469	196,452	242,186	59,755

## 12. DEPOSITS FROM CUSTOMERS

	2011		2010	
	Riel'000	USD	Riel'000	USD
Term deposits	13,315,634	3,296,765	4,227,393	1,043,028
Saving accounts	3,576,959	885,605	402,792	99,381
Staff saving accounts	1,639,935	406,025	1,124,560	277,464
Loan-linked saving accounts	1,574	390	26,986	6,658
	18,534,102	4,588,785	5,781,731	1,426,531



Saving accounts comprise of general saving, easy account, and mobile savings accounts. The general savings are voluntary saving for the Company's borrowers and bear interest at 3% per annum for deposits in Khmer Riel and 1.5% per annum for deposits in US Dollar and Thai Baht. The easy account is available for the public and multiple currencies. The easy account bears interest at 5% per annum for deposits in Khmer Riel and 3% per annum for deposits in US Dollar and Thai Baht. The mobile savings account bears interest at 3.5% per annum for Khmer Riel and 2.5% per annum for US Dollar.

The loan-linked saving is a compulsory deposit on individual loan as required by the Company. 2% of the loan principal 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 product was discontinued on 1 July 2008.

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

Deposits from customers analysis by types:

	2011		2010	
	Riel'000	USD	Riel'000	USD
Staff	1,639,935	406,025	1,124,560	277,464
Corporate	2,837,946	702,636	1,216,001	300,025
General public	14,056,221	3,480,124	3,441,170	849,042
	18,534,102	4,588,785	5,781,731	1,426,531

The term deposits bear interest at the following annual rates:

	2011		2010	
	USD/THB	Riel	USD/THB	Riel
One-month term	3.25%	5.5%	3%	6%
Three-month term	3.5%	6%	4%	7%
Six-month term	4%	7%	5%	8%
Nine-month term	5.5%	8%	6%	10%
Twelve-month term	7%	10%	7%	11%
Eighteen-month term	7.25%	10.5%	8%	12%
Twenty four-month term	7.5%	11%	-	-

## 13. CURRENT TAX LIABILITIES

	2011		2010	
	Riel'000	USD	Riel'000	USD
At beginning of the year	430,862	106,307	516,218	123,823
Current income tax expenses during the year (note 24)	2,542,741	625,367	866,052	206,794
Payments during the year	(1,117,186)	(274,763)	(951,408)	(227,175)
Currency translation	-	2,712	-	2,865
	1,856,417	459,623	430,862	106,307

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

## 14. OTHER LIABILITIES

	2011		2010	
	Riel'000	USD	Riel'000	USD
Accrued interest payable	4,117,195	1,019,360	2,335,292	576,189
Account payable (*)	1,821,270	450,921	10,200	2,447
Staff bonus payable	847,220	209,760	752,723	185,720
Staff incentive	801,008	198,319	277,266	68,410
Other tax payables	250,555	62,034	234,995	57,981
Other accruals	276,992	68,579	359,718	88,822
	8,114,240	2,008,973	3,970,194	979,569

(\*) This represents the payable to target client of the project of Save the Children and a supplier. The balance is non interest bearing and payable within one month.

## 15. BORROWINGS

### (A) BY CREDITOR

	2011		2010	
	Riel'000	USD	Riel'000	USD
Foreign Trade Bank of Cambodia (i)	53,200,000	13,171,577	25,400,000	6,266,963
ICO (*)	50,106,279	12,405,615	21,580,259	5,324,515
Hivos-Triodos Fonds	18,000,000	4,456,549	18,000,000	4,441,155
Oikocredit	15,060,000	3,728,646	6,120,000	1,509,993
Agora Microfinance N.V	12,154,000	3,009,161	-	-
Maruhan Japan Bank Plc	8,076,218	1,999,559	-	-
Symbiotics SA Information	5,938,710	1,470,342	8,103,825	1,999,463
Oxfam Novib	4,423,194	1,095,121	4,423,194	1,091,338
Rural Impulse Fund	4,407,412	1,091,214	4,552,109	1,123,146
VDK-Spaarbank n.v	4,039,000	1,000,000	-	-
Micro Credit Enterprise	4,039,000	1,000,000	-	-
ResponsAbility	4,039,000	1,000,000	-	-
BlueOrchard	2,159,000	534,538	2,295,000	566,247
Clann Credo	1,728,288	427,900	2,624,972	647,661
KIVA Microfunds	1,141,807	282,694	5,110,058	1,260,809
Moringaway	-	-	18,940,000	4,673,082
The Minerva Treehouse	-	-	30,000	7,401
	188,511,908	46,672,916	117,179,417	28,911,773

(\*) 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.

## (B) BY MATURITY

	2011		2010	
	Riel'000	USD	Riel'000	USD
Less than 1 month	2,360,950	584,538	-	-
1 month and less than 3 months	14,999,814	3,713,744	12,370,265	3,052,126
3 months and less than 12 months	29,654,947	7,342,151	31,421,253	7,752,591
1 year and less than 5 years	94,974,206	23,514,287	51,807,640	12,782,541
Over 5 years	46,521,991	11,518,196	21,580,259	5,324,515
	188,511,908	46,672,916	117,179,417	28,911,773

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

	2011	2010
Khmer Riel	10% - 14.30%	0% - 14.30%
US Dollars	0% - 10.47%	0% - 11.63%
Thai Baht	11.05% - 12.21%	9.59% - 12.56%

## 16. PROVISIONS FOR STAFF PENSION FUNDS

	2011		2010	
	Riel'000	USD	Riel'000	USD
Provision for staff retirements benefits (a)	-	-	1,045,281	257,903
Staff pension funds (b)	3,011,281	745,551	994,024	245,256
	3,011,281	745,551	2,039,305	503,159

## (A) PROVISION FOR STAFF RETIREMENT BENEFITS

The Company ceased providing staff retirement benefits during year 2010. The remaining balance of the staff retirement benefits were calculated and maintained as a balance to be carried forward and paid to the employee when they resign. The balance is transferred to the staff pension accounts.



(B) STAFF PENSION FUNDS

	2011		2010	
	Riel'000	USD	Riel'000	USD
At beginning of year	2,039,305	503,159	-	-
Addition:				
Employer contributions at 6%	749,642	184,368	680,980	162,603
Employee contributions at 3%	367,618	90,413	280,475	66,971
Interest earned	160,750	39,535	78,342	18,706
Payments made during the year	(259,372)	(63,790)	(42,118)	(10,057)
Transfer from retirement benefits	-	-	1,045,281	249,590
Reversal	(40,588)	(9,982)	-	-
Currency translation	(6,074)	1,848	(3,655)	15,346
	3,011,281	745,551	2,039,305	503,159

**17. SHARE CAPITAL**

A) SHAREHOLDERS BY AMOUNT

	2011		2010	
	Riel'000	USD	Riel'000	USD
Concern Worldwide (Dublin)	34,066,750	8,434,452	34,066,750	8,405,317
AMK – SA	509,950	126,256	-	-
Concern Worldwide (UK)	2,500	619	2,500	617
	34,579,200	8,561,327	34,069,250	8,405,934

B) SHAREHOLDERS BY NUMBER OF SHARE

	2011		2010	
	Number of share	%	Number of share	%
Concern Worldwide (Dublin)	1,362,670	98.52	1,362,670	99.99
AMK – SA	20,398	1.47	-	-
Concern Worldwide (UK)	100	0.01	100	0.01
	1,383,168	100	1,362,770	100

(\*) AMK-SA refers to the AMK Staff Association (AMK-SA) Ltd. a company established under the Law of Cambodia. On 05 October 2011, the existing shareholder resolved to issue 20,398 new shares to the AMK-SA for Riel 510 million. The shares were fully subscribed and paid.

**18. 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.

**19. INTEREST INCOME**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Loans to customers	54,392,551	13,377,410	41,435,896	9,893,958
Deposits and placements with Banks	2,337,459	574,880	1,378,856	329,240
	56,730,010	13,952,290	42,814,752	10,223,198

**20. INTEREST EXPENSE**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Borrowings	15,579,623	3,831,683	11,878,279	2,836,265
Deposits from customers	806,813	198,429	239,919	57,288
	16,386,436	4,030,112	12,118,198	2,893,553

**21. OTHER OPERATING INCOME**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Loan fee income	1,245,112	306,225	842,573	201,187
Bad debts recovered	108,926	26,789	20,988	5,011
(Losses)/gains on foreign exchange	(42,410)	(10,430)	447,764	106,916
Gains/losses on disposals of properties and equipments	13,703	3,370	(13,718)	(3,276)
Other income	115,305	28,359	221,374	52,860
	1,440,636	354,313	1,518,981	362,698

**22. OTHER OPERATING EXPENSES**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Staff costs	18,782,062	4,619,297	15,053,886	3,594,529
Depreciation and amortisation	1,821,241	447,920	1,761,805	420,679
Transportation costs	1,912,687	470,410	1,513,572	361,407
Office supplies and equipment	1,725,012	424,253	868,934	207,482
Office rentals	1,308,774	321,882	1,199,015	286,298
Professional services	936,943	230,434	1,222,627	291,936
Communications	454,222	111,712	453,692	108,331
Utilities	407,726	100,277	363,869	86,884
Other expenses	827,443	203,503	954,995	228,030
Technical support costs	-	-	568,304	135,698
	28,176,110	6,929,688	23,960,699	5,721,274

**23. GRANT INCOME**

Grant income represents the grant received from the International Labour Office (ILO) for the data collection work and/or services in connection with the microfinance for decent work action research performed by AMK in head office and Kampong Cham and Kampong Thom provinces, and a reward grant from Giordano dell'Amore for the Microfinance Best Practices Award 2011.

**24. INCOME TAX EXPENSE**

	2011		2010	
	Riel'000	USD	Riel'000	USD
<b>CURRENT TAX:</b>				
Current year tax based on profit for the reporting period	2,542,743	625,367	835,062	199,394
Under/(over) provision in respect of prior years	-	-	30,991	7,400
	2,542,743	625,367	866,053	206,794
<b>DEFERRED TAX:</b>				
Current year origination and reversal of temporary differences	(551,284)	(135,584)	445,969	106,487
Prior year under/(over) recognition of deferred tax assets	-	-	-	-
	(551,284)	(135,584)	445,969	106,487
Total income tax expenses	1,991,459	489,783	1,312,022	313,281

## 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:

	2011		2010	
	Riel'000	USD	Riel'000	USD
Profit before income tax	9,175,817	2,256,718	5,228,803	1,248,520
Tax calculated at a rate of 20%	1,835,163	451,344	1,045,761	249,704
Tax effect of non-deductible expenses	156,296	38,439	235,270	56,177
Under/(over) provision of tax in prior years	-	-	30,991	7,400
Total income tax expenses	1,991,459	489,783	1,312,022	313,281

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

## B) OTHER TAX MATTERS

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



**25. CASH USED IN OPERATIONS**

	2011		2010	
	Riel'000	USD	Riel'000	USD
Profit before income tax	9,175,817	2,256,718	5,228,803	1,248,520
Adjustments for :				
Depreciation (note 9)	1,278,934	314,544	1,423,275	339,846
Amortisation (note 10)	542,307	133,376	338,530	80,833
Provision for bad and doubtful loans (note 7-a)	1,889,013	464,588	1,603,090	382,782
Provision for staff pension fund obligation	1,278,010	314,316	159,205	38,015
Net gain on sale of property and equipment	(13,703)	(3,370)	(3,481)	(831)
Written off of intangible assets	-	-	17,200	4,107
Operating profit before changes in operating assets and liabilities	14,150,378	3,480,172	8,766,622	2,093,272
Changes in operating assets and Liabilities				
Balances with the Central Bank	(895,000)	(220,118)	(413,000)	(98,615)
Balances with other banks	(24,168,200)	(5,943,974)	(3,415,352)	(815,509)
Loans to customers	(66,379,002)	(16,325,382)	(25,142,653)	(6,003,499)
Other assets	(2,795,382)	(687,502)	1,037,905	247,828
Deposits from customers	12,752,371	3,136,343	5,060,482	1,208,329
Due to shareholders	(76,664)	(18,855)	72,955	17,420
Other liabilities	4,144,044	1,019,194	843,230	201,344
Cash used in operations	(63,267,454)	(15,560,121)	(13,189,811)	(3,149,430)

**26. RELATED PARTY TRANSACTIONS & 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**

	2011		2010	
	Riel'000	USD	Riel'000	USD
<b>DUE FROM RELATED PARTIES :</b>				
Loans to key management personnel	73,760	18,262	111,833	27,593
<b>DUE TO RELATED PARTIES :</b>				
Concern Worldwide Dublin	-	-	76,664	18,915
Deposits from directors and key management personnel	2,238,601	554,246	787,678	194,344
	2,238,601	554,246	864,342	213,259

## (B) INTEREST INCOME LOAN KEY MANAGEMENT PERSONNEL

	2011		2010	
	Riel'000	USD	Riel'000	USD
<b>DUE FROM RELATED PARTIES :</b>				
Interest income from loans to key management personnel	70,906	17,439	128,830	30,762

## (C) DIRECTOR &amp; KEY MANAGEMENT PERSONNEL REMUNERATION

	2011		2010	
	Riel'000	USD	Riel'000	USD
Board of Director expenses	82,797	20,363	193,264	46,147
Key management remuneration & other short- term benefits	1,625,725	399,834	1,670,283	398,826

**27. COMMITMENTS**

## OPERATING LEASE COMMITMENTS

These operating leases mainly relate to office and car park rental contracts 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:

	2011		2010	
	Riel'000	USD	Riel'000	USD
No later than 1 year	198,989	49,267	308,972	76,233
Later than 1 year and no later than 5 years	27,825	6,889	202,650	50,000
	226,814	56,156	511,622	126,233

**28. SUBSEQUENT EVENT**

The subscription of shares by AMK-SA and the change of shareholding were subsequently approved by the Central Bank on 06 January 2012.

## HEAD OFFICE

#442, STREET 193, SANGKAT TUOL SVAYPREY I  
KHAN CHAMKARMORN, PHNOM PENH  
Postal Address: PO Box 480

TEL: (855) 23 993 062/224 763 | FAX: (855) 23 221 650

info@amkcambodia.com | www.amkcambodia.com

## BRANCH AND SUB BRANCH OFFICES

### PHNOM PENH

#442, ST.193, SANGKAT TUOL SVAYPREY I, KHAN CHAMKARMORN  
Tel: 023 220 202

### ANGK SNUOL

#B10, National Road 4, Bek Charn Village, Bek Charn Commune  
Ang Sruol District, Kandal Province

Tel: 060 777 170

### MEANCHEY

#24, Street 271, Sangkat Psar Deumthkov, Khan Chamkarmorn  
Tel: 023 666 1793 / 060 777 173

### RUSSEYKEO

#748, National Road 5, Phum Krolkor, Sangkat Kilomet No.6  
Khan Russeykeo

Tel: 023 691 0655 / 060 777 174

### TEOK THLA

#8, Sahakpuon Russie Blvd, Chong Thnol Khang Lech Village  
Sangkat Toek Thlar, Khan Sen Sok

Tel: 060 777 172

### VENG SRENG

#06, Street Chamchao, Sangkat Chamchao, Khan Dankau

Tel: 023 632 6390 / 060 777 171

### BANTEAY MEANCHEY

#314, NATIONAL ROAD 5, PHUM KOROTHAN, SANGKAT O'S AMBIL  
KRONG SEREI SAOPHOAN, BANTEAY MEANCHEY PROVINCE

Tel: 054 710 267

### MALAI

Phum Kandal, Doung Commune, Malai District

### PHNOM SROK

Phum Srak Chik, Sras Chik Commune Phnom Srok District

### POIPET

Bali Lai 2 Village, Sangkat Poipet, Krong Poipet

### THMOR PUOK

Phsar Thmey Village, Komrou Commune Thmor Puok District

### BATTAMBANG

NATIONAL ROAD 10, PHUM DAMNAK LOUNG, SANGKAT VAT  
KOR, KRONG BATTAMBANG, BATTAMBANG PROVINCE

TEL: 053 730 376

### BAVEL

#70, Group 5, Tumnub Teok Village, Bavel Commune, Bavel District

### MOUNG RUSSEY

Kansay Banteay Village, Moung Commune, Moung Russey District

### PHNOM PREK

Phnom Touch Village, Pich Chenda Commune, Phnom Prek District

### KAMPONG CHAM

#93, ST. TUOLSBEUV, PHUM TUOLSBEUV, SANGKAT VEAL VONG  
KRONG KAMPONG CHAM, KAMPONG CHAM PROVINCE

TEL: 042 942 169

### BATHEAY

Phaav Village, Phaav Commune, Batheay District

### CHAMKAR LEU

Thnol Bek Kert Village, Svay Teap Commune, Chamkar Leu  
District

### DAMBAE

Phum Chey Sambath, Dambaec Commune, Dambae  
District

### CHOEURNG PREAY

Skun Village, Sotip Commune, Choeurng Prey District

### KOH SOTIN

Deum Sdau Village, Pong Ro Commune, Koh Sotin District

### MEMUT

Cham Treak Village, Tromoung Commune, Memut District

### ORAING OV

Phum leak 4 Koet, Ampil Ta Pok Commune, Orang Ov District

### PONHEA KRAEK

Kandal Koung Village, Kaong Kang Commune, Ponhea  
Kraet District

### PREY CHHOR

Prey Toteung Village, Chrey Vean Commune, Prey Chhor District

### STOEUNG TRANG

Boeng Deng Village, Prek Kork Commune, Stoeng Trang District

### SUONG

#93, Nation street 7, Phum Suong Loech, Sangkat Suong  
Krong Suong

**KAMPONG CHHNANG**

VILLAGE-1, SANGKAT KHSAM, KRONG KAMPONG CHHNANG  
KAMPONG CHHANG PROVINCE

TEL: 026 989 043

**BORIBOU**

Pun Ley Village, Punley Commune, Boribou District

**KAMPONG LENG**

Kampong Boeng Village, Kampong Hav Commune  
Kampong Leng District

**TEOK PHOS**

Krom Ti 21, Sre Tachey Village, Aphivat Commune  
Teok Phous District

**KAMPONG SPEU**

PHUM TRAPAING LEUK, SANGKAT ROKA THUM, KRONG CHBAR  
MON, KOMPONG SPEU PROVINCE

TEL: 025 987 259

**BASETH**

Phsar Slab Leng Village, Svay Rumpea Commune, Baseth District

**KONG PISEI**

Trapaing Khna Village, Sophy Commune, Bati District, Takeo  
Province

**OARAL**

Phsar Kantuot Village, Kantuot Commune, Oaral District

**THNAL TOTOENG**

Thnal ToTeong Village, Damnak Ampil Commune, Angk Snoul District

**TPONG**

Monorom Village, Veal Pun Commune Tpong District

**TRAENG TROYEONG**

Ty5 Village, Traeng Troyeong Commune, Phnom Srouch District

**KAMPONG THOM**

#67, PHUM KAMPONG KRABAO, SANGKAT KAMPONG  
KRABAO, KRONG STUNG SEN, KAMPONG THOM PROVINCE

TEL: 062 962 410

**KAMPONG THMOR**

Troh Village, Balaing Commune, Balaing District

**PRASATH BALAIING**

Sala Visai Village, Sala Visai Commune, Prasath Balaing District

**ROM LOUNG**

Utumpor Village, Sralao Commune, Baray District

**SANDANN**

Teuk Mleang Village, Sandann Commune, Sandann District

**STOUNG**

Chheu Teal Village, Kampong Chen Tboung Commune, Stoung District

**KANDAL**

#239, STREET 21, PHUM PREK SAMRAONG, SANGKAT TAKMAO  
KRONG TAKMAO, KANDAL PROVINCE

TEL: 024 985 098

**KANDAL STEOUNG**

Siem Reap Village, Siem Reap Commune, Kandal Steoung District

**KIEN SVAY**

Slab Ta Aun Village, Koki, Kien Svay

**KOH THOM**

Prek Thmey Village, Prek Thmey Commune, Koh Thom District

**LEUK DEK**

Prek Dach Village, Prek Dach Commune, Leuk Dek District

**SAANG**

Praek Run Village, Praek Koy Commune, Saang District

**KAMPOT**

SATPORNG VILLAGE, SATPORNG COMMUNE, CHHOUK DISTRICT  
KAMPOT PROVINCE

TEL: 023 351 301

**ANGKOR CHEY**

Pral Village, Tani Commune, Angkor Chey District

**BANTEY MEAS**

Prey Krala Khang Lech Village, Tuk Meas Khang Lech Commune  
Bantey Meas District

**KAMPONG TRACH**

Kampong Trach 1 Village, Kampong Trach Khang Keut Commune  
Kampong Trach District

**KRONG KAMPOT**

Svay Thom Village, Sangkat Kraing Ampil, Krong Kampot

**KRATIE**

#428, STREET 4, SANGKAT KRACHEH, KRONG KARTIE KRATIE  
PROVINCE

TEL: 072 971 781

**CHHLONG**

Kaoh Kandor Village, Chhlong Commune, Chhlong District

**KROUCH CHHMAR**

Krouch Chhmar Leu Village, Krouch Chhmar District, Kouch  
Chhmar Commune

**SAMBOUR**

Sambour Village, Sambour Commune, Sambour District

**SNUOL**

Phsar Snuol Village, Snuol Commune, Snuol District

**MONDUL KIRI**

PHUM CHAMKARTEI, SANGKAT SPEANMEANCHEY KRONG  
SENMONOROM, MONDULKIRI PROVINCE

TEL: 073 6333 266

**KEO SEIMA**

O'Am Village, Srek Ktum Commune, Keo Seima District

**KOH NHEK**

Raisey Village, Srae Sangkum Commune, Koh Nhek District

## MUKAMPOUL

#043, NATIONAL ROAD 6A, PHUM KROM, PREAK ANCHANH COMMUNEMUKAMPOUL DISTRICT, KANDAL PROVINCE

TEL: 024 630 7172

## KANG MEAS

Thlok Chrov Village, Kchoa Commune, Korng Meas District

## PUNHEAR LEU

Thom Cheung Village, Sangkat Punher Pun, Khan Sensok

## SREY SANTHOR

Preak Pou Village, Preak Pou Commune, Srey Santhor District

## ODDAR MEANCHEY

#68B, PHUM DOUN KEN, SANGKAT SOMRONG, KRONG SOMRONG ODDAR MEANCHEY PROVINCE

TEL: 065 393 912

## ANGLUNG VENG

Aphivat Village, Anglung Veng Commune, Anglung Veng District

## PAILIN

#C2-14 GROUP 1, OTABRANG VILLAGE, SANGKAT PAILIN KRONG PAILIN, PAILIN PROVINCE

Tel: 089 640 978

## PREAH VIHEAR

PHUM THMEY, SANGKAT KAMPONG PRANAK, KRONG PREAH VIHEAR PREAH VIHEAR PROVINCE

TEL: 064 6333 446

## CHAM SKHAN

Cham Skhan Village, Cham Skhan Commune, Cham Skhan District

## CHEY SAEN

S'ang Village, S'ang Commune, Chey Saen District

## ROVIENG

Rovieng Cheung Village, Robeib Commune, Rovieng District

## PREAH SIHANOUK

SOMRONG KROM VILLAGE, SOMRONG COMMUNE, PREYNUP DISTRICT PREAH SIHANOUK PROVINCE

TEL: 034 6363 166

## KOH KONG

Village 3, Sangkat Dang Tung, Krong Khemarak Phumin, Koh Kong Province

Tel: 035 6363 166

## KRONG PREAH SIHANOUK

Group 13, Phoum 2, Sangkat 3, Krong Preah Sihanouk

## SRE AMBIL

#675, Group 9, Trapaing Village, Sre Ambil Commune, Sre Ambil District, Koh Kong Province

## PREY VENG

PHUM LEK 2, SANGKAT KAMPONG LEAV, KRONG PREY VENG, PREY VENG PROVINCE

TEL: 043 944 612

## BA PHNOM

Chheu Village, Chheu Kach Commune, Ba Phnom District

## KAMCHAY MEAR

Chou I Village, Kranhoung Commune, Kamchay Mear District

## KAMPONG TRABAEEK

Chambak Village, Prasath Commune, Kampong Trabaek District

## MESANG

#9, Chipoch Village, Chipoch Commune, Mesang District

## NAK LEOURNG

Odom, Praek Khsay Ka, Peam Ro

## PEAM CHOR

Bang Aek Village, Svay Phluos Commune, Peam Chor District

## PEARAING

Snay Pul Village, Roka Commune, Pearaing District

## PREAH SDACH

Krasaing Tong Village, Angkor Reach Commune, Preah Sdach District

## SITHOR KANDAL

Praek Sandaek, Praek Changkran, Sithor Kandal

## PURSAT

PHUM PEAL NHEAK I, SANGKAT PHTEAS PREY, KRONG PURSAT PURSAT PROVINCE

TEL: 052 951 758

## BAKAN

Khnach Rormeas Village, Beoung Khna Commune, Bakan District

## KRAVANH

Pech Ban Village, Leach Commune, Phnom Kravanh District

## KROKOR

Phsar Village, Andoung Commune, Krokror District

## VEAL VENG

Pramouy Village, Pramouy Commune, Veal Veng District

## RATANAK KIRI

PHUM 3, SANGKAT LARBANSIEK, KRONG BANLOUNG RATANAKIRI PROVINCE

TEL: 075 974 186

## BOR KEO

Phum 1 Village, Laminh Commune, Bor Keo District



### SIEM REAP

---

N° 702, STREET 7 MAKARA, PHUM VATBO, SANGKAT SALAKAMREUK  
KRONG SIEM REAP, SIEM REAP PROVINCE

TEL: 063 761 152

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### ANGKOR CHUM

Kbal Cham Village, Char Chhouk, Commune, Angkor Chum  
District

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### CHI KRENG

#092, Kampong Kdei Village, Kampong Kdei Commune  
Chikreng District

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### KRALANH

#034, Group 1, Kampong Thkov 2 Village, Kampong Thkov  
Commune, Kralanh District

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### POUK

House #0768, Ou Tabrak Village, Pouk Commune, Pouk District

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### SOT NIKUM

Dam Daem Thmey Village, Dam Daem Commune, Sot Nikum  
District

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### SVAY LEU

Svay Leu Village, Svay Leu Commune, Svay Leu District

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### STUNG TRENG

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PHUM PRAEK, SANGKAT STUNG TRENG, KRONG STUNG TRENG  
STUNG TRENG PROVINCE

TEL: 074 973 567

### SVAY RIENG

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PHUM KEAN SAING, SANGKAT SVAY RIENG, KRONG SVAY  
RIENG SVAY RIENG PROVINCE

TEL: 044 945 904

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### CHI PHO

National Road 1, Thnalcheat Village, Sangkat Chorkmates  
Krong Bavet

---

### KAMPONG ROR

Svay Anat Village, Nhor Commune, Kompong Ro District

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### ROMEAS HAEK

Kampong Trach Village, Rosmeas, Commune, Romeas Haek District

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### TAKEO

---

STREET 02, PHUM PHSAR TAKOR, SANGKAT ROKA KHNONG  
KRONG DOUN KEO, TAKEO PROVINCE

TEL: 032 931 496

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### BATI

Bocham Village, Chambak Commune, Bati District

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### KAMPONG CHREY

Kampong Chrey Village, Smaong Commune, Treang District

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### PREY KABBAS

Prey Lvea Keut Village, Prey Lvea, Commune, Prey Kabbas District

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### TRAMKOK

Srae Khvav Village Cheang Torng, Commune, Tramkok District