

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

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APPENDIX 1: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS*

* This Appendix does not form part of the audited financial statements



អង្គរ មីក្រូហិរញ្ញវត្ថុ (កម្ពុជា)

អាគារលេខ៤៤២ ផ្លូវ១៩៣ សង្កាត់ទួលស្វាយ ព្រៃ១ ខណ្ឌចំការមន រាជធានីភ្នំពេញ
ប្រអប់សំបុត្រ ៤៨០ • ទូរស័ព្ទលេខ: (៨៥៥) ២៣ ៩៩៣ ០៦២ • ទូរសារលេខ: (៨៥៥) ២៣ ២២១ ៦៥០
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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 micro-finance services to the economically active poor population of Cambodia through its head office in Phnom Penh and its various branch offices in Phnom Penh and provinces in the Kingdom of Cambodia.

RESULTS

The financial performance for the year ended 31 December 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
- Mr. Peter Power, Director and Chief Executive Officer
- Mr. Howard Dalzell, Director
- Ms. Frances Sinha, Director
- Mr. Tip Janvibol, Director
- Ms. Rebecca McKenzie, Director
- Mr. Marcus Fedder, Director
- Ms. Irina Ignatieva, 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 at 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

Independent auditor's report

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

We have audited the accompanying financial statements of Angkor Mikroheranhvatho (Kampuchea) Co., Ltd that comprise the balance sheet as of 31 December 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 performances 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

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**BALANCE SHEET
AS AT 31 DECEMBER 2011**

	Note	2011		2010	
		Riel'000	US\$	Riel'000	US\$
ASSETS					
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
TOTAL ASSETS		276,257,844	68,397,585	177,918,255	43,897,917
LIABILITIES					
Deposits from customers	12	18,534,102	4,588,785	5,781,731	1,426,531
Due to shareholders		-	-	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
Provision for staff pension funds	16	3,011,281	745,551	2,039,305	503,159
Total liabilities		220,027,948	54,475,848	129,478,173	31,946,256
SHAREHOLDERS' EQUITY					
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
Total shareholders' equity		56,229,896	13,921,737	48,440,082	11,951,661
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		276,257,844	68,397,585	177,918,255	43,897,917

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

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

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**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	US\$	Riel'000	US\$	Riel'000	US\$	Riel'000	US\$	US\$	Riel'000	US\$
Year ended 31 December 2010											
Balance as at 1 January 2010	34,069,250	8,172,044	-	-	-	-	10,454,051	2,566,711	(59,143)	44,523,301	10,679,612
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
Balance as at 31 December 2010	<u>34,069,250</u>	<u>8,405,934</u>	<u>-</u>	<u>-</u>	<u>1,550,618</u>	<u>382,585</u>	<u>12,820,214</u>	<u>3,131,697</u>	<u>31,445</u>	<u>48,440,082</u>	<u>11,951,661</u>
Year ended 31 December 2011											
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
Balance as at 31 December 2011	<u>34,579,200</u>	<u>8,561,327</u>	<u>95,506</u>	<u>23,646</u>	<u>3,304,338</u>	<u>818,108</u>	<u>18,250,852</u>	<u>4,467,319</u>	<u>51,337</u>	<u>56,229,896</u>	<u>13,921,737</u>

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011		2010	
		Riel'000	US\$	Riel'000	US\$
Cash flows from operating activities					
Cash used in operations	25	(63,267,455)	(15,560,122)	(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)
Net cash used in operating activities		(64,690,675)	(15,910,152)	(14,386,905)	(3,435,269)
Cash flows from investing activities					
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
Net cash used in investing activities		(1,822,937)	(448,336)	(5,239,398)	(1,251,050)
Cash flow from financing activities					
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	-	-
Net cash from financing activities		67,900,729	16,700,633	10,358,672	2,473,417
Net (decrease)/increase in cash, cash equivalents		1,387,117	342,145	(9,267,631)	(2,212,902)
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
Cash and cash equivalents at the end of the year		<u>20,504,848</u>	<u>5,076,714</u>	<u>19,117,731</u>	<u>4,716,933</u>

The accompanying notes on pages 10 to 51 are an integral part of these financial statements.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. BACKGROUND INFORMATION

Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. (“the Company” or “AMK”), a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under register number Co. 1698/03E, dated 30 April 2003. AMK is engaged primarily in the provision of micro-finance services to the economically active poor of Cambodia through its headquarters in Phnom Penh and various offices in the Kingdom of Cambodia. The Company is 98.52% owned by Concern Worldwide (Dublin).

The Company was initially established in 1999 as Thanakea Ponleu Thmey (“TPT”) Program by Concern Worldwide, Cambodia (“CWC”). All assets, liabilities and accumulated donations of TPT were transferred to the Company on 1 July 2003 against the issue of shares. The Company commenced to trade on the date of the asset transfer.

On 29 January 2010, the Company obtained a Microfinance Deposit Taking Institution (“MDI”) license to conduct deposit taking business from the National Bank of Cambodia.

Concern Worldwide intends to divest up to 90% of its shares to a proposed specialised microfinance vehicle, subject to approvals from the respective regulatory authorities. Three of AMK’s current board members will be shareholders in this proposed vehicle.

AMK provides credit services to poor families through its head office and twenty-two branches located in Banteay Meanchey, Battambang, Dangkor, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kandal, Kratie, Kampot, Monduliri, Muk Kampoul, Otdor Meanchey, Preah Vihear, Prey Veng, Pursat, Ratanakiri, Siem Reap, Sihanouk Ville, Stung Treng, Svay Rieng, and Takeo. AMK has the following main guiding principles:

- AMK provides micro-finance 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/services and to adopting behaviours and standards that ensure optimum social performance, including client protection.
- AMK is a learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and system improvements.

The registered office of the Bank is currently located at No. 442, Street 193, Sangkat Toul Svayprey I, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia

The financial statements were approved for issue by the Board of Directors on March 21, 2012.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 Riels ("Riel") under the historical cost convention.

The preparation of financial statements in accordance with the guidelines issued by the Central Bank and CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

2.2 Foreign currencies

(i) Functional and presentation currency

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

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies (continued)

(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 and balances

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

2.3 Cash and cash equivalents

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.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
<i>Short term loan (less than one year):</i>		
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
<i>Long term loan (more than one year):</i>		
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.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property and equipment (continued)

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
<i>Property and equipment:</i>		
Motor vehicles	25%	12.50%
Motorcycles	25%	20.00%
Computer and office equipment	50%	25.00%-33.33%
<i>Intangible assets:</i>		
Other software	50%	20%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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	US\$	Riel'000	US\$
Head office	14,121	3,496	23,953	5,910
Branches	1,506,283	372,935	806,574	199,007
	<u>1,520,404</u>	<u>376,431</u>	<u>830,527</u>	<u>204,917</u>

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

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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	<u>(4,037,218)</u>	<u>(999,559)</u>	<u>-</u>	<u>-</u>
	<u>20,504,848</u>	<u>5,076,714</u>	<u>19,117,731</u>	<u>4,716,933</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

5. BALANCES WITH THE CENTRAL BANK

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>4,855,343</u>	<u>1,202,115</u>	<u>5,215,031</u>	<u>1,286,709</u>

(i) Statutory capital deposit

In compliance with Prakas B7-07-16 3 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	US\$	Riel'000	US\$
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
	<u>66,125,545</u>	<u>16,371,762</u>	<u>35,968,198</u>	<u>8,874,463</u>

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%

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

6. BALANCES WITH OTHER BANKS (continued)

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

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Foreign Trade Bank of Cambodia	51,642,568	12,785,979	23,976,951	5,915,853
Aceda 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
	<u>66,125,545</u>	<u>16,371,762</u>	<u>35,968,198</u>	<u>8,874,463</u>

7. LOANS TO CUSTOMERS

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Village Bank loans:				
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
Individual loans:				
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
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>
Provision for bad and doubtful Loans				
Specific	(152,167)	(37,674)	(1,694,739)	(418,144)
General	<u>(2,517,559)</u>	<u>(623,313)</u>	<u>(1,249,664)</u>	<u>(308,331)</u>
	<u>(2,669,726)</u>	<u>(660,987)</u>	<u>(2,944,403)</u>	<u>(726,475)</u>
	<u>190,088,822</u>	<u>47,063,338</u>	<u>125,598,833</u>	<u>30,989,103</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

7. LOANS TO CUSTOMERS (continued)

(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	US\$	Riel'000	US\$
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	<u>2,669,726</u>	<u>660,987</u>	<u>2,944,403</u>	<u>726,475</u>

(b) Loans by maturity

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>

(c) Loans by currency

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

7. LOANS TO CUSTOMERS (continued)

(d) Loans by economic sector

	2011		2009	
	Riel'000	US\$	Riel'000	US\$
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
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>

(e) Loans by relationship

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>

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

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Standard loans:				
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
Sub-standard loans:				
Secured	11,540	2,857	30,302	7,476
Unsecured	10,863	2,690	152,311	37,580
Doubtful loans:				
Secured	4,015	994	63,859	15,756
Unsecured	16,893	4,182	156,762	38,678
Loans loss:				
Secured	76,955	19,053	1,141,858	281,732
Unsecured	66,606	16,492	468,433	115,578
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

7. LOANS TO CUSTOMERS (continued)

(g) By location

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>192,758,548</u>	<u>47,724,325</u>	<u>128,543,236</u>	<u>31,715,578</u>

(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	US\$	Riel'000	US\$
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
	<u>6,666,740</u>	<u>1,650,592</u>	<u>3,871,358</u>	<u>955,183</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

9. PROPERTY AND EQUIPMENT

	Motor Vehicles Riel'000	Motor- cycles Riel'000	Computers and office equipment Riel'000	Total Riel'000	Total US\$
At 1 January 2010					
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	<u>1,055,606</u>	<u>2,113,587</u>	<u>893,544</u>	<u>4,062,737</u>	<u>974,511</u>
Year ended 31 December 2010					
Opening net book value	1,055,606	2,113,587	893,544	4,062,737	974,511
Additions	-	374,641	806,655	1,181,296	282,067
Disposals – net	-	-	(6,640)	(6,640)	(1,585)
Depreciation charge	(263,935)	(605,207)	(554,133)	(1,423,275)	(339,846)
Currency translation	-	-	-	-	25,913
Closing net book value	<u>791,671</u>	<u>1,883,021</u>	<u>1,139,426</u>	<u>3,814,118</u>	<u>941,060</u>
At 31 December 2010					
Cost	1,977,354	3,712,443	2,643,107	8,332,904	2,055,984
Accumulated depreciation	(1,185,683)	(1,829,422)	(1,503,681)	(4,518,786)	(1,114,924)
Net book value	<u>791,671</u>	<u>1,883,021</u>	<u>1,139,426</u>	<u>3,814,118</u>	<u>941,060</u>
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	<u>1,015,989</u>	<u>1,791,584</u>	<u>1,543,372</u>	<u>4,350,945</u>	<u>1,077,233</u>
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	<u>1,015,989</u>	<u>1,791,584</u>	<u>1,543,372</u>	<u>4,350,945</u>	<u>1,077,233</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

10. INTANGIBLE ASSETS

	Computer software Riel'000	Computer software US\$
At 1 January 2010		
Cost	867,913	208,183
Accumulated amortisation	<u>(498,941)</u>	<u>(119,679)</u>
Net book value	<u>368,972</u>	<u>88,504</u>
Year ended 31 December 2010		
Opening net book value	368,972	88,504
Additions	2,364,762	564,652
Written off	(17,200)	(4,107)
Amortisation charge	(338,530)	(80,833)
Currency translation	-	<u>18,511</u>
Closing net book value	<u>2,378,004</u>	<u>586,727</u>
At 31 December 2010		
Cost	3,060,200	755,046
Accumulated amortisation	<u>(682,196)</u>	<u>(168,319)</u>
Net book value	<u>2,378,004</u>	<u>586,727</u>
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	-	<u>1,176</u>
Closing net book value	<u>1,856,576</u>	<u>459,662</u>
At 31 December 2011		
Cost	3,081,079	762,832
Accumulated amortisation	<u>(1,224,503)</u>	<u>(303,170)</u>
Net book value	<u>1,856,576</u>	<u>459,662</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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	US\$	Riel'000	US\$
Deferred tax assets	1,196,016	296,117	582,877	143,814
Deferred tax liabilities	(402,547)	(99,665)	(340,691)	(84,059)
	<u>793,469</u>	<u>196,452</u>	<u>242,186</u>	<u>59,755</u>

The movements of net deferred tax assets are as follows:

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>793,469</u>	<u>196,452</u>	<u>242,186</u>	<u>59,755</u>

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

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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)
	<u>793,469</u>	<u>196,452</u>	<u>242,186</u>	<u>59,755</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

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12. DEPOSITS FROM CUSTOMERS

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>18,534,102</u>	<u>4,588,785</u>	<u>5,781,731</u>	<u>1,426,531</u>

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	US\$	Riel'000	US\$
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
	<u>18,534,102</u>	<u>4,588,785</u>	<u>5,781,731</u>	<u>1,426,531</u>

The term deposits bear interest at the following annual rates:

	2011		2010	
	US\$/THB	Riel	US\$/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%	-	-

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13. CURRENT TAX LIABILITIES

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>1,856,417</u>	<u>459,623</u>	<u>430,862</u>	<u>106,307</u>

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	US\$	Riel'000	US\$
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
	<u>8,114,240</u>	<u>2,008,973</u>	<u>3,970,194</u>	<u>979,569</u>

(*) 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.

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15. BORROWINGS

(a) By creditor

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>188,511,908</u>	<u>46,672,916</u>	<u>117,179,417</u>	<u>28,911,773</u>

(*) 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	US\$	Riel'000	US\$
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
	<u>188,511,908</u>	<u>46,672,916</u>	<u>117,179,417</u>	<u>28,911,773</u>

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15. BORROWINGS (continued)

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

	<u>2011</u>	<u>2010</u>
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

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

(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

	<u>2011</u>		<u>2010</u>	
	<u>Riel'000</u>	<u>US\$</u>	<u>Riel'000</u>	<u>US\$</u>
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
	<u>3,011,281</u>	<u>745,551</u>	<u>2,039,305</u>	<u>503,159</u>

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17. SHARE CAPITAL

a) Shareholders by amount

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>34,579,200</u>	<u>8,561,327</u>	<u>34,069,250</u>	<u>8,405,934</u>

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
	<u>1,383,168</u>	<u>100</u>	<u>1,362,770</u>	<u>100</u>

(*) AMK-SA refers to the AMK Staff Association (AMK-SA) Ltd. a company established under the Law of Cambodia. On 05 October 2011, the 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	US\$	Riel'000	US\$
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
	<u>56,730,010</u>	<u>13,952,290</u>	<u>42,814,752</u>	<u>10,223,198</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

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20. INTEREST EXPENSE

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

21. OTHER OPERATING INCOME

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>1,440,636</u>	<u>354,313</u>	<u>1,518,981</u>	<u>362,698</u>

22. OTHER OPERATING EXPENSES

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
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
	<u>28,176,110</u>	<u>6,929,688</u>	<u>23,960,699</u>	<u>5,721,274</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
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23. GRANT INCOME

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

24. INCOME TAX EXPENSE

	2011		2010	
	Riel’000	US\$	Riel’000	US\$
<i>Current tax:</i>				
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
	<u>2,542,743</u>	<u>625,367</u>	<u>866,053</u>	<u>206,794</u>
<i>Deferred tax:</i>				
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	-	-	-	-
	<u>(551,284)</u>	<u>(135,584)</u>	<u>445,969</u>	<u>106,487</u>
Total income tax expenses	<u>1,991,459</u>	<u>489,783</u>	<u>1,312,022</u>	<u>313,281</u>

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	US\$	Riel’000	US\$
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	<u>1,991,459</u>	<u>489,783</u>	<u>1,312,022</u>	<u>313,281</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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24. INCOME TAX EXPENSE (continued)

a) Reconciliation between income tax expense and accounting profit: (continued)

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	US\$	Riel'000	US\$
Profit before income tax	9,175,817	2,256,718	5,228,803	1,248,520
<i>Adjustments for:</i>				
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
<i>Changes in operating assets and Liabilities</i>				
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	<u>(63,267,455)</u>	<u>(15,560,122)</u>	<u>(13,189,811)</u>	<u>(3,149,430)</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
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26. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Related-party balances

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Due from related parties:				
Loans to key management personnel	<u>73,760</u>	<u>18,262</u>	<u>111,833</u>	<u>27,593</u>
Due to related parties:				
Concern Worldwide Dublin	-	-	76,664	18,915
Deposits from directors and key management personnel	<u>2,238,601</u>	<u>554,246</u>	<u>787,678</u>	<u>194,344</u>
	<u>2,238,601</u>	<u>554,246</u>	<u>864,342</u>	<u>213,259</u>

(b) Interest income loan key management personnel

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Interest income from loans to key management personnel	<u>70,906</u>	<u>17,439</u>	<u>128,830</u>	<u>30,762</u>

(c) Director and Key management personnel remuneration

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Board of Director expenses	<u>82,797</u>	<u>20,363</u>	<u>193,264</u>	<u>46,147</u>
Key management remuneration and other short- term benefits	<u>1,625,725</u>	<u>399,834</u>	<u>1,670,283</u>	<u>398,826</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

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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	US\$	Riel'000	US\$
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
	<u>226,814</u>	<u>56,156</u>	<u>511,622</u>	<u>126,233</u>

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.

29. FINANCIAL RISK MANAGEMENT

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

The Company has entered into currency swap agreements such as forward contract agreements and back-to-back lending agreements, where the Company obtained loans in Riel secured against fixed deposits in US Dollar, to manage its risk exposure.

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29. FINANCIAL RISK MANAGEMENT (continued)

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Financial assets				
Cash on hand	1,520,404	376,431	830,527	204,917
Balances with the Central Bank	4,855,343	1,202,115	5,215,031	1,286,709
Balances with other banks	66,125,545	16,371,762	35,968,198	8,874,463
Loans to customers	192,606,381	47,686,650	126,848,497	31,297,434
Other assets	5,142,304	1,273,163	2,874,295	709,177
Total financial assets	270,249,977	66,910,121	171,736,548	42,372,700
Financial liabilities				
Deposits from customers	18,534,102	4,588,785	5,781,731	1,426,531
Due to shareholders	-	-	76,664	18,917
Other liabilities	7,863,685	1,946,939	3,735,199	921,588
Borrowings	188,511,908	46,672,916	117,179,417	28,911,773
Total financial liabilities	214,909,695	53,208,640	126,773,011	31,278,809
Net financial assets	55,340,282	13,701,481	44,963,537	11,093,891

29.1 Credit risk

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

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

(a) Credit risk measurement

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

(b) Risk limit control and mitigation policies

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

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**NOTES TO THE FINANCIAL STATEMENTS
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29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

b) Risk limit control and mitigation policies (continued)

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

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

(c) Impairment and provisioning policies

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

	2011	2010
Standard	0%	0%
Substandard	10%	10%
Doubtful	30%	30%
Loss	100%	100%

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

	<u>2011</u>		<u>2010</u>	
	<u>Riel'000</u>	<u>US\$</u>	<u>Riel'000</u>	<u>US\$</u>
<i>Credit exposure relating to on-balance sheet assets:</i>				
Balances with other banks	66,125,545	16,371,762	35,968,198	8,874,463
Loans customers (*)	192,606,381	47,686,650	126,848,497	31,297,434
Other assets	5,142,304	1,273,163	2,874,295	709,177
 Credit risk exposures relating to off-balance sheet items:				
Commitments of approved loans	<u>9,134,362</u>	<u>2,261,540</u>	<u>4,474,009</u>	<u>1,103,876</u>
	<u>273,008,592</u>	<u>67,593,115</u>	<u>170,164,999</u>	<u>41,984,950</u>

* Gross loans deducted specific provision

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29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

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

The above table represents a worst case scenario for credit risk exposure to the Company at 31 December 2011 and 2010, without taking into account any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposure set out above is based on net carrying amounts.

As shown above, 70% of total maximum exposure is derived from loans to customers (2010: 76%).

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

- 99% of the loans in the portfolio are considered to be neither past due nor impaired (2010: 98%)
- The Company has introduced a more stringent selection and collection process for granting loans to customers

(e) Loans to customers

Loans to customers are summarised as follows:

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Loans to customers neither past due nor impaired	192,392,868	47,633,788	126,369,142	31,179,162
Loans to customers past due but not impaired	178,808	44,270	160,569	39,617
Loans to customers individually impaired	<u>186,872</u>	<u>46,266</u>	<u>2,013,525</u>	<u>496,799</u>
Gross Loan	<u>192,758,548</u>	<u>47,724,324</u>	<u>128,543,236</u>	<u>31,715,578</u>
Specific provision	<u>(152,167)</u>	<u>(37,674)</u>	<u>(1,694,739)</u>	<u>(418,144)</u>
Net loans to customers	<u>192,606,381</u>	<u>47,686,650</u>	<u>126,848,497</u>	<u>31,297,434</u>

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirements. The total provision for bad and doubtful loans is Riel152 million (2010: Riel 1,694 million), which represents the mandatory provision required by the Central Bank and additional provision for the loan losses.

(i) Loans to customers neither past due nor impaired

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

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**NOTES TO THE FINANCIAL STATEMENTS
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29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

(e) Loans to customers (continued)

(ii) Loans to customers past due but not impaired

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

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Past due up to 30 days	166,602	41,248	160,569	39,617
Value of collateral (*)	-	-	-	-

(iii) Loans to customers individually impaired

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

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Past due 30-60 days	14,595	3,614	182,613	45,056
Past due 60-90 days	11,431	2,830	11,507	2,839
Past due 90-180 days	10,713	2,652	368,447	90,907
Past due 180-360 days	30,454	7,540	209,113	51,595
Past due 360 days or more	119,678	29,631	1,241,845	306,401
	186,871	46,267	2,013,525	496,798
Value of collateral (*)	-	-	-	-

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

(iv) Loans to customers renegotiated

There were no renegotiated loans to customers at 31 December 2011 (2010: nil).

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29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

(f) Repossessed collateral

During the year ended 31 December 2011, the Company did not obtain any assets by taking possession of collateral held as security (2010: nil).

29.2 Market risk

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

The Company use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge its risk exposure.

(i) Foreign exchange risk

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

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

The Company entered a currency swap agreement as part of its foreign currency trading strategy. The currency swap agreement represents commitment to purchase the foreign currency and sell the functional currency. The notional amount and the fair value of the contract are as follows:

	2011		2010		
	Notional contract amount Riel'000	Fair value		Fair value	
		Assets Riel'000	Liabilities Riel'000	Assets Riel'000	Liabilities Riel'000
Currency swaps	22,913,913	-	165,000	-	-

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29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

(i) Foreign exchange risk (continued)

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2011. Included in the table are the Company's financial instruments at carrying amount by currency in Riel.

	Riel'000			
	US\$	THB	KHR	Total
At 31 December 2011				
Financial assets				
Cash on hand	24,116	746,658	749,630	1,520,404
Balances with the Central Bank	-	-	4,855,343	4,855,343
Balances with other banks	57,170,282	369,363	8,585,900	66,125,545
Loans customers	8,341,452	9,089,669	175,175,260	192,606,381
Other assets	1,995,986	-	3,146,318	5,142,304
Total financial assets	<u>67,531,836</u>	<u>10,205,690</u>	<u>192,512,451</u>	<u>270,249,977</u>
Financial liabilities				
Deposits from customers	10,916,601	209,709	7,407,792	18,534,102
Other liabilities	2,230,611	214,085	5,418,989	7,863,685
Borrowings	77,422,327	8,252,387	102,837,194	188,511,908
Total financial liabilities	<u>90,569,539</u>	<u>8,676,181</u>	<u>115,663,975</u>	<u>214,909,695</u>
Net on-balance sheet position	<u>(23,037,703)</u>	<u>1,529,509</u>	<u>76,848,476</u>	<u>55,340,282</u>
In US\$ equivalent	<u>(5,703,814)</u>	<u>378,685</u>	<u>19,026,610</u>	<u>13,701,481</u>

	Riel'000			
	US\$	THB	KHR	Total
At 31 December 2010				
Financial assets				
Cash on hand	213,504	25,553	591,470	830,527
Balances with the Central Bank	-	-	5,215,031	5,215,031
Balances with other banks	26,609,039	1,331,700	8,027,459	35,968,198
Loans customers	2,879,245	7,839,869	116,129,383	126,848,497
Other assets	152,068	-	2,722,227	2,874,295
Total financial assets	<u>29,853,856</u>	<u>9,197,122</u>	<u>132,685,570</u>	<u>171,736,548</u>
Financial liabilities				
Deposits from customers	4,668,563	27,369	1,085,799	5,781,731
Due to shareholders	76,664	-	-	76,664
Other liabilities	1,491,153	207,331	2,036,715	3,735,199
Borrowings	37,635,766	6,630,458	72,913,193	117,179,417
Total financial liabilities	<u>43,872,146</u>	<u>6,865,158</u>	<u>76,035,707</u>	<u>126,773,011</u>
Net on-balance sheet position	<u>(14,018,290)</u>	<u>2,331,964</u>	<u>56,649,863</u>	<u>44,963,537</u>
In US\$ equivalent	<u>(3,458,744)</u>	<u>575,367</u>	<u>13,977,267</u>	<u>11,093,891</u>

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NOTES TO THE FINANCIAL STATEMENTS
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29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

(ii) Price risk

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

(iii) Interest rate risk

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

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

	Up to 1 month Riel'000	1 to 3 months Riel'000	3 to 12 months Riel'000	1 to 5 Years Riel'000	Over 5 years Riel'000	Non- interest bearing Riel'000	Total Riel'000
At 31 December 2011							
Financial assets							
Cash on hand	-	-	-	-	-	1,520,404	1,520,404
Balances with the Central Bank	-	-	-	-	3,406,925	1,448,418	4,855,343
Balances with other banks	13,647,263	8,078,000	4,039,000	39,178,300	-	1,182,982	66,125,545
Loans to customers	5,994,452	21,769,875	128,360,224	36,447,125	-	34,705	192,606,381
Other assets	-	-	-	-	-	5,142,304	5,142,304
	<u>19,641,715</u>	<u>29,847,875</u>	<u>132,399,224</u>	<u>75,625,425</u>	<u>3,406,925</u>	<u>9,328,813</u>	<u>270,249,977</u>
Financial liabilities							
Deposits from customers	7,902,279	2,478,480	5,978,452	2,174,891	-	-	18,534,102
Other liabilities	-	-	-	-	-	7,863,685	7,863,685
Borrowings	2,360,950	14,309,827	29,203,126	94,974,206	46,521,991	1,141,808	188,511,908
	<u>10,263,229</u>	<u>16,788,307</u>	<u>35,181,578</u>	<u>97,149,097</u>	<u>46,521,991</u>	<u>9,005,493</u>	<u>214,909,695</u>
Total interest rate repricing gap	<u>9,378,486</u>	<u>13,059,568</u>	<u>97,217,646</u>	<u>(21,523,672)</u>	<u>(43,115,066)</u>	<u>323,320</u>	<u>55,340,282</u>
Total interest rate repricing gap – In US\$ equivalent	<u>2,321,982</u>	<u>3,233,366</u>	<u>24,069,732</u>	<u>(5,328,961)</u>	<u>(10,674,688)</u>	<u>80,050</u>	<u>13,701,481</u>

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Up to 1 month Riel'000	1 to 3 months Riel'000	3 to 12 months Riel'000	1 to 5 Years Riel'000	Over 5 years Riel'000	Non- interest bearing Riel'000	Total Riel'000
At 31 December 2010							
Financial assets							
Cash on hand	-	-	-	-	-	830,527	830,527
Balances with the Central Bank	-	-	-	-	3,626,925	1,588,106	5,215,031
Balances with other banks	16,141,833	-	19,049,100	-	-	777,265	35,968,198
Loans to customers	3,170,256	13,204,882	91,801,309	18,353,264	-	318,786	126,848,497
Other assets	-	-	-	-	-	2,874,295	2,874,295
	<u>19,312,089</u>	<u>13,204,882</u>	<u>110,850,409</u>	<u>18,353,264</u>	<u>3,406,925</u>	<u>6,608,979</u>	<u>171,736,548</u>
Financial liabilities							
Deposits from customers	1,571,904	492,187	2,566,591	1,151,049	-	-	5,781,731
Due to shareholders	-	-	-	-	-	76,664	76,664
Other liabilities	-	-	-	-	-	3,735,199	3,735,199
Borrowings	-	12,370,265	31,421,253	46,667,582	21,580,259	5,140,058	117,179,417
	<u>1,571,904</u>	<u>12,862,452</u>	<u>33,987,844</u>	<u>47,818,631</u>	<u>21,580,259</u>	<u>8,951,921</u>	<u>126,773,011</u>
Total interest rate repricing gap	<u>17,740,185</u>	<u>342,430</u>	<u>76,862,565</u>	<u>(29,465,367)</u>	<u>(18,173,334)</u>	<u>(2,342,942)</u>	<u>44,963,537</u>
Total interest rate repricing gap – In US\$ equivalent	<u>4,377,050</u>	<u>84,488</u>	<u>18,964,363</u>	<u>(7,270,014)</u>	<u>(4,483,922)</u>	<u>(578,074)</u>	<u>11,093,891</u>

29.3 Liquidity risk

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

(a) Liquidity risk management process

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

(b) Funding approach

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

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NOTES TO THE FINANCIAL STATEMENTS
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29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk (continued)

(c) Non-derivative cash flows

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

	Up to 1 month Riel'000	1 to 3 months Riel'000	3 to 12 months Riel'000	1 to 5 Years Riel'000	Over 5 years Riel'000	Total Riel'000
At 31 December 2011						
Financial liabilities						
Deposits from customers	7,978,294	2,576,744	6,490,332	2,457,963	-	19,503,333
Other liabilities	3,746,490	-	-	-	-	3,746,490
Borrowings	4,722,650	17,680,234	39,111,061	116,503,527	55,278,624	233,296,096
Total financial liabilities (contractual maturity dates)	16,447,434	20,256,978	45,601,393	118,961,490	55,278,624	256,545,919
In US\$ equivalent	4,072,155	5,015,345	11,290,268	29,453,204	13,686,215	63,517,187
At 31 December 2010						
Financial liabilities						
Deposits from customers	1,572,382	512,238	2,778,359	1,299,342	-	6,162,321
Due to shareholders	76,664	-	-	-	-	76,664
Other liabilities	544,150	752,723	-	-	-	1,296,873
Borrowings	2,201,705	14,554,434	37,692,522	62,673,571	25,143,576	142,265,808
Total financial liabilities (contractual maturity dates)	4,394,901	15,819,395	40,470,881	63,972,913	25,143,576	149,801,666
In US\$ equivalent	1,084,358	3,903,132	9,985,414	15,784,089	6,203,695	36,960,688

(d) Off-balance sheet items

i. Loans commitments

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

ii. Operating lease commitments

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

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
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29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk (continued)

(d) Off-balance sheet items (continued)

	No later than 1 year Riel'000	1-5 years Riel'000	Total Riel'000
As at 31 December 2011			
Unused portion of approved credit facility	9,134,362	-	9,134,362
Operating lease commitments	198,989	27,825	226,814
	<u>9,333,351</u>	<u>27,825</u>	<u>9,361,176</u>
In US\$ equivalent	<u>2,310,807</u>	<u>6,889</u>	<u>2,317,696</u>
As at 31 December 2010			
Unused portion of approved credit facility	4,474,009	-	4,474,009
Operating lease commitments	308,972	202,650	511,622
	<u>4,782,981</u>	<u>202,650</u>	<u>4,985,631</u>
In US\$ equivalent	<u>1,180,109</u>	<u>50,000</u>	<u>1,230,109</u>

29.4 Fair value of financial assets and liabilities

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

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

i. Balances with other banks

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

ii. Loans to customers

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

iii. Deposits from customers and borrowings

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

29. FINANCIAL RISK MANAGEMENT (continued)

29.4 Fair value of financial assets and liabilities (continued)

iv. Other assets and other liabilities

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

29.5 Capital management

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

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

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

The table below summarises the composition of regulatory capital:

	2011		2010	
	Riel'000	US\$	Riel'000	US\$
Tier 1 Capital				
Share capital	34,579,200	8,561,327	34,069,250	8,405,934
Share premium	95,506	23,646		
Reserve	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
	<u>56,229,896</u>	<u>13,921,737</u>	<u>48,440,082</u>	<u>11,951,661</u>
Less: Loan to related parties	<u>(73,760)</u>	<u>(18,262)</u>	<u>(111,833)</u>	<u>(27,593)</u>
Total regulatory capital	<u>56,156,136</u>	<u>13,903,475</u>	<u>48,328,249</u>	<u>11,924,068</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

30. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

30.1 New standards, amendments to existing standards and interpretations effective in the year 2011

There were no standards, amendments to existing standards and interpretations which became effective in the financial year ended 31 December 2011.

30.2 Standards and amendments to existing standards issued but not yet effective

On 28 August 2009, the National Accounting Council announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on all standards published by International Accounting Standard Board including other interpretation and amendment that may occur in any circumstances to each standard by adding "Cambodian". Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company:

The following Cambodian International Accounting Standards ("CIAS") or CIFRS and amendments to existing standards, which have been published are relevant and mandatory for the Company for accounting periods beginning on or after 1 January 2012, but have not been early adopted by the Company:

- CIAS 1 (Revised), 'Presentation of Financial Statements'.
The revised standard prohibits the presentation of income and expense items (i.e., 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity are to be shown in a performance statement. Entities can opt to present one performance statement (i.e. statement of comprehensive income) or two statements (i.e. income statement and statement of comprehensive income). Entities which restate or reclassify comparative information are required to present a restated balance sheet as at the beginning comparative period. The revised standard also clarifies that potential settlement of a liability by issue of equity is not relevant in determining the classification of a liability as current or non-current. In addition, the standard clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

The Company will apply CIAS 1 (Revised) from 1 January 2012. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- CIAS 16 (Amendment), 'Property, Plant and Equipment' (and consequential amendment to CIAS 7, 'Statement of Cash Flows')
The amended standard requires entities whose ordinary activities comprise renting and subsequently selling assets, to present proceeds from the sale of those assets as revenue and to transfer the carrying amount of an asset to inventories when the asset becomes held for sale. The consequential amendment to CIAS 7 requires cash flows arising from the purchases, rental and sale of those assets to be classified as cash flows from operating activities. This is not expected to have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

30. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

30.2 Standards and amendments to existing standards issued but not yet effective (continued)

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company (continued)

- CIAS 19, 'Employee Benefits'
The objective of this standard is to prescribe the accounting and disclosure requirements for employee benefits. The Standard requires an entity to recognise: (a) a liability when an employee has provided services in exchange for employee benefits to be paid in the future; and (b) an expense when the entity consumes the economic benefit arising from the services provided by an employee in exchange for employee benefits. There was an amendment during the year 2011 to eliminate the corridor approach and calculate finance costs on a net funding basis.

These are not expected to have a material impact on the Company's financial statements.

- CIAS 24 (Revised), 'Related Party Disclosures'
CIAS 24 was revised by (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and (b) providing a partial exemption from the disclosure requirements for government-related entities. CIAS 24 (Revised) will not have a material impact on the Company's financial statements
- CIAS 32, 'Financial Instruments: Presentation'
The objective of this standard is to establish the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments as well as classification of related interest, dividends, losses and gains. CIAS 32 will not have significant impact on the classification and presentation of the Company's financial instruments as it mainly has loans and receivables as financial assets and deposits from customers as financial liabilities.
- CIAS 36 (Amendment), 'Impairment of Assets'
The amended standard states that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment will not have a material impact on the Company's financial statements.
- CIAS 38 (Amendment), 'Intangible Assets'
The revised standard provides clarification in respect of fair value measurement of an intangible asset acquired in business combination and it permits the grouping of intangible assets as a single asset if the individual assets have similar useful economic lives. The amendment will not have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

30. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

30.2 Standards and amendments to existing standards issued but not yet effective (continued)

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company (continued)

- CIAS 39, "Financial Instruments: Recognition and Measurement"
The standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Adoption of CIAS 39 will result in the following revisions to the accounting policies on financial instruments:

Loans to customers

Loans to customers are currently stated in the balance sheet at outstanding principal, less any amounts written off and provision for loan losses. Under CIAS 39, loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Impairment of financial assets

The Company currently follows the mandatory credit classification and provisioning as required by Prakas No. B7-02-186 dated 13 September 2002 issued by the Central Bank, as disclosed in note 2.7 to the financial statements. CIAS 39 requires the Company to assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired, either on an individual or collective assessment basis. Impairment loss is measured as the difference between an asset's carrying amount and present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. For the purposes of collective impairment assessment, assets are grouped on the basis of similar credit risk characteristics.

Deposits from customers

The Company currently measures deposits from customers at the deposit amount. CIAS 39 requires financial liabilities (which include deposits from customers) to be measured at amortised cost.

Interest income and interest expense

The Company currently recognises interest income and expense on an accrual basis at contractual rates, except where serious doubt exists as to the collectability, in which case interest is suspended until it is realised on a cash basis. CIAS 39 requires interest income and expense for all interest-bearing financial instruments to be recognised using the effective interest method. In respect of a financial asset or a group of similar financial assets which are impaired, interest income is to be recognised at the interest rate used in discounting future cash flows for the purpose of measuring the impairment loss.

ANGKOR MIKROHERANHVATHO (KAMPUCHEA) CO., LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

30. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

30.2 Standards and amendments to existing standards issued but not yet effective (continued)

(a) Adoption of the following standards is expected to have impact on the financial statements of the Company (continued)

- CIFRS 7 (Amendment), 'Financial Instruments - Disclosures'
The revised standard requires enhanced disclosures in respect of fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair values by fair value measurement hierarchy as follows:
 - Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly; and
 - Level 3 - Inputs for an asset or liability that are not based on observable market data.

The standard also emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- CIFRS 9, 'Financial Instruments'
This standard establishes principles for financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. CIFRS 9 specifies the bases for classification and measurement of financial assets, including some hybrid contracts. They require all financial assets to be: (a) classified on the basis of an entity's business model for managing the financial assets and the contractual cash flow characteristics of a financial asset; (b) initially measured at fair value, plus transaction costs in the case of a financial asset not at fair value through profit or loss; and (c) subsequently measured at amortised cost or fair value based on asset classification.
- CIFRS 13, 'Fair value measurement'
CIFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across CIFRSs. The requirements, which are largely aligned between CIFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This is not expected to have a material impact on the Company's financial statements.

Other than the standards, improvements and amendments to existing standards as set out above, the other published standards, amendments and interpretations to existing standards, which are applicable for accounting periods beginning on or after 1 January 2011, are not relevant to the Company's operations.

(b) Early adoption of standards

In the year 2011, the Company did not early-adopt any new or amended standards.

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2011****1. SOLVENCY RATIO, Prakas No. B7-07-133**

A licenced deposit-taking microfinance institution shall at all times maintain a solvency ratio of more than 15%. As at 31 December 2011, the solvency ratio of the Company was 20.13%.

The net worth and solvency ratio calculation are detailed in Schedule 1.

2. LIQUIDITY RATIO, Prakas No. B7-02-48

A licenced deposit-taking microfinance institution shall at all times maintain a liquidity ratio of at least 50%. As at 31 December 2011, the liquidity ratio of the Company was 1,461%.

The liquidity ratio calculation is detailed in Schedule 2.

3. NET OPEN POSITION IN FOREIGN CURRENCY, Prakas No. B7-07-134

A licenced microfinance institution shall at all times maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Company's net worth. As at 31 December 2011, the net open position in USD was 4.14%.

The net open position calculation is detailed in Schedule 3.

4. RESERVE REQUIREMENT, Prakas No. B7-02-45 and B7-07-163

A licenced deposit-taking microfinance institution shall deposit 8% of its deposits into an account maintained with the Central Bank. As at 31 December 2011, the reserve requirement was Riel 1,335 million and the Company has deposited the amount with the Central Bank in January 2012 following the annual schedule set by the Central Bank.

The reserve requirement calculation is detailed in Schedule 4.

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2011****5. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,
Prakas No. B7-02-186**

Licensed microfinance institutions shall classify their loan portfolios into the following four classes, depending on the financial situation of the borrower and the timeliness of principal and interest payments.

Loan term of one year or less than one year

- **Standard:** good financial condition and punctual payment of principal and interest
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more
- **Doubtful:** some payments of principal and/or interest are overdue by 60 days or more
- **Loss:** some payments of principal and/or interest are overdue by 90 days or more

Loan term of more than one year

- **Standard:** good financial condition and punctual payment of principal and interest
- **Sub-standard:** some payments of principal and/or interest are overdue by 30 days or more
- **Doubtful:** some payments of principal and/or interest are overdue by 180 days or more
- **Loss:** some payments of principal and/or interest are overdue by 360 days or more

Mandatory provisions on the loans are classified as follows:

- **Sub-standard:** 10% regardless of the collateral value except cash
- **Doubtful:** 30% regardless of the collateral value except cash
- **Loss:** 100%

As at 31 December 2011, the mandatory provision provided by the Company was KHR 152,167,000, which is in compliance with the Central Bank's Prakas.

Loan classification, provision and delinquency ratio calculation are detailed in Schedule 5

SCHEDULE 1

NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2011

	<u>Riel '000</u>
I- Sub-total A: Items to be added	
- Capital or endowment	34,579,200
- Reserve, other than revaluation reserves	3,304,338
- Premium related to capital (share premium)	95,506
- Provision for general banking risks, with the prior agreement of the NBC	-
- Retained earnings	11,066,494
- Audited net profit for the latest financial year	7,184,358
- Other items approved by the NBC	-
	<u>56,229,896</u>
II- Sub-total B: Items to be deducted	
- For shareholders, directors, managers and their next of kin	
> Unpaid portion of capital	-
> Advances, loans, security and the agreement of the persons concerned as defined above	73,760
- Holding of own shares at their book value	-
- Accumulated losses	-
- Formation expenses	-
- Losses determined on dates other than the end of the annual accounting period (including provisions to be made for doubtful debt and securities)	-
	<u>73,760</u>
III- Total C: BASE NET WORTH = A – B	<u>56,156,136</u>
IV- Sub-total D: Items to be added	
- Revaluation reserves, with the prior agreement of the NBC	-
- Subordinated debt, with the prior agreement of the NBC, up to 100% of base net worth	-
- Other items, with the prior agreement of the NBC, could be included in the calculation of net worth and shall not be more than the base net worth	-
	<u>-</u>
	<u>-</u>
V- Sub-total E: Items to be deducted	
- Equity participation in banking and financial institutions	-
- Other items	-
	<u>-</u>
VI- Total F: TOTAL NET WORTH = C + D – E	<u>56,156,136</u>

SCHEDULE 1
NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2011

	<u>Riel'000</u>	
I- Numerator (A)		
Net worth		<u>56,156,136</u>
II- Denominator (B)		
Assets (*)	Riel'000	Weighting
- Cash	1,520,404	0%
- Gold	-	0%
- Claims on the NBC	4,855,343	0%
- Assets collateralised by deposits	-	0%
- Claims on sovereigns rated AAA to AA-	-	0%
- Claims on sovereigns rated A+ to A-	-	20%
- Claims on banks rated AAA to AA-	-	20%
- Claims on sovereigns rated BBB to BBB-	-	50%
- Claims on banks rated A+ to A-	-	50%
- All other assets	269,882,097	100%
- All off-balance sheet items	<u>9,134,362</u>	100%
	285,392,206	
		<u>279,016,459</u>
III- Solvency ratio (A/B)		<u>20.13%</u>

(*): The denominator of the ratio shall comprise the aggregate of the assets (net amount after deduction of provision and depreciation) and off-balance sheet items, weighted to their degree of risk. It excludes the items which are deducted in calculating the net worth according to the provisions of the Prakas on the calculation of microfinance institutions' net worth.

SCHEDULE 2
LIQUIDITY RATIO AS AT 31 DECEMBER 2011

	<u>Riel'000</u>	
1- Numerator: liquid assets		
- Cash on hand		1,520,404
- Balance with the Central Bank		4,855,343
- Balances with other banks		<u>66,125,545</u>
Sub-Total (A)		<u>72,501,292</u>
Less:		
- Amount owed to the Central Bank		-
- Amount owed to other banks		<u>-</u>
Sub-total (B)		<u>-</u>
Net liquidity (A – B)		72,501,292
Plus:		
- Portion of loans outstanding maturing in less than one month		<u>6,181,324</u>
Liquid assets (L)		<u>78,682,616</u>
2- Denominator: Adjusted amount of deposits (A)		
Category of deposits	Riel'000	%
- Voluntary savings	21,543,809	25% <u>5,385,952</u>
LIQUIDITY RATIO (L/A)		<u>1,461%</u>

**SCHEDULE 3
NET OPEN POSITION IN FOREIGN CURRENCY AS AT 31 DECEMBER 2011**

Currency	Assets Riel'000	Liabilities and capital Riel'000	Currencies receivable Riel'000	Currencies payable Riel'000	Net open position (NOP) Riel'000	NOP/ Net worth %	Limit %
US\$	69,213,013	(93,754,110)	22,913,913	-	(1,627,184)	-2.90%	20%
THB	9,546,828	(8,694,473)	-	-	852,355	1.52%	20%
KHR	197,498,003	(173,809,261)	-	(22,913,913)	774,829	1.38%	20%
Total	<u>276,257,844</u>	<u>(276,257,844)</u>	<u>22,913,913</u>	<u>(22,913,913)</u>	<u>-</u>		
Net worth					<u>56,156,136</u>		

**SCHEDULE 4
RESERVE REQUIRMENT AS AT 31 DECEMBER 2011**

	<u>Riel'000</u>
1- Voluntary	
1-1 Demand	-
1-2 Savings	5,216,894
1-3 Term	13,315,634
1-4 Other	-
	<u>-</u>
1-5 Total reservable deposits	<u>18,532,528</u>
2- Compulsory	
2-1 Program	-
2-2 Program	1,574
2-3 Program	-
	<u>-</u>
2-4 Total compulsory savings	<u>1,574</u>
3- Total savings mobilised	<u>7,820,506</u>
8% Reservable deposits	<u>18,534,102</u>

SCHEDULE 5
LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO
AS AT 31 DECEMBER 2011

Loan classification	Amount Riel'000	Rate %	Mandatory Provision Riel'000
1-Loans of one year or less			
1-1 Standard	128,734,786	0%	-
1-2 Substandard past due ≥ 30 days	9,717	10%	972
1-3 Doubtful past due ≥ 60 days	8,524	30%	2,557
1-4 Loss past due ≥ 90 days	43,668	100%	43,668
Sub-total 1	<u>128,796,695</u>		<u>47,197</u>
2-Loans of more than one year			
2-1 Standard	63,836,890	0%	-
2-2 Substandard past due ≥ 30 days	12,686	10%	1,269
2-3 Doubtful past due ≥ 180 days	12,384	30%	3,808
2-4 Loss past due ≥ 360 days	99,893	100%	99,893
Sub-total 2	<u>63,961,853</u>		<u>104,970</u>
Grand total 1+2	<u>192,758,548</u>		<u>152,167</u>
All loans past due > 30 days (A)			186,872
Loans outstanding (B)			<u>192,758,548</u>
Delinquency ratio (A/B)			<u>0.10%</u>