

**PRASAC MICROFINANCE  
INSTITUTION LIMITED**

**Financial Statements  
for the year ended 31 December 2015  
and  
Report of the Independent Auditors**

## Corporate Information

Company	PRASAC Microfinance Institution Limited
Registration No.	Co. 6931/04P (with MoC), MF10 (with NBC)
Registered office	Building 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia
Shareholders	Dragon Capital Group Limited (DCG) Belgian Investment Company for Developing Countries SA (BIO) The Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) Lanka ORIX LEASING Company Ltd (LOLC) PRASAC Staff Company Ltd. (PSCo)
Board of Directors	Mr. Ranjit Fernando, Chairman Mr. Joseph Hoess, Director Mr. Hanco Halbertsma, Director Mr. Ishara C. Nanayakkara, Director Mr. Oum Sam Oeun, Director Mr. Phai Touch, Independent Director Mr. Antonius Theodorus Maria (Antoin) Bruijninx, Director
Executive Management team	Mr. Sim Senacheert, President & Chief Executive Officer Mr. Oum Sophan, EVP & Chief Financial Officer Mr. Oum Sam Oeun, EVP & Chief Operations Officer Mr. Neang Sokhim, SVP & Chief Business Management Mr. Sou Vanthan, SVP & Chief Human Resource Management Mr. Say Sony, SVP & Chief Marketing Management
Auditors	KPMG Cambodia Ltd

# **PRASAC Microfinance Institution Limited**

## **Contents**

	<b>Page</b>
1. Report of the Board of Directors	1
2. Report of the independent auditors	5
3. Balance sheet	7
4. Income statement	8
5. Statement of changes in equity	9
6. Statement of cash flows	10
7. Notes to the financial statements	11



## Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of PRASAC Microfinance Institution Limited (“the Company”) for the year ended 31 December 2015.

### Principal activity

The principal activity of the Company is to provide loans, savings and other financial services to local customers through its head office in Phnom Penh and its various provincial and district offices in the Kingdom of Cambodia.

### Financial results

The financial results of the Company for the year ended 31 December 2015 were as follows:

	USD	KHR'000
Profit before income tax	58,210,755	235,753,559
Income tax expense	(11,754,666)	(47,606,397)
Net profit for the year	<u>46,456,089</u>	<u>188,147,162</u>

### Dividend

On 28 May 2015, the Company received approval from the National Bank of Cambodia (“NBC”) on dividend distribution request amounting to USD 3,005,481 in respect of 2014 profits based on the requested dividend declaration letter dated 30 March 2015.

### Reserves and provisions

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

### Bad and doubtful loans

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

# **PRASAC Microfinance Institution Limited**

## **Bad and doubtful loans (continued)**

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

## **Assets**

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

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

## **Valuation methods**

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

## **Contingent and other liabilities**

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

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

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

## **Change of circumstances**

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

# **PRASAC Microfinance Institution Limited**

## **Items of unusual nature**

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

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

## **Share capital**

On 27 March 2015, the Board of Directors approved to use part of the retained earnings to increase the paid up share capital of the Company from USD 47,000,000 to USD 72,000,000. The revised Memorandum and Articles of Association was acknowledged by the NBC and the Ministry of Commerce on 3 July 2015 and 13 July 2015 respectively.

## **The Board of Directors**

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

- 1) Mr. Ranjit Fernando, Chairman
- 2) Mr. Joseph Hoess, Director
- 3) Mr. Hanco Halbertsma, Director
- 4) Mr. Ishara C. Nanayakkara, Director
- 5) Mr. Oum Sam Oeun, Director
- 6) Mr. Phai Touch, Independent Director
- 7) Mr. Antonius Theodorus Maria (Antoin) Bruijninx, Director.

## **Directors' benefits**

During and at the end of the financial year, no arrangements existed to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

# PRASAC Microfinance Institution Limited

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

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

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

## Approval of the financial statements

I, the undersigned, on behalf of the Board of Directors, hereby approve the accompanying financial statements as set out on pages 7 to 58 which present fairly in all material respects, the financial position of PRASAC Microfinance Institution Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

*On behalf of the Board of Directors*

Ranjit Fernando  
*Chairman*

Phnom Penh, Kingdom of Cambodia

Date: 29 FEB 2016



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## **Report of the independent auditors To the shareholders PRASAC Microfinance Institution Limited**

We have audited the accompanying financial statements of PRASAC Microfinance Institution Limited (“the Company”), which comprise the balance sheet as at 31 December 2015, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 7 to 58.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, 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.

### **Auditors’ 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 financial statements present fairly, in all material respects, the financial position of PRASAC Microfinance Institution Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

### Other matter

We draw attention to the fact that the Company's balance sheet as at 31 December 2014 and its statements of income, cash flows and changes in equity for the year ended 31 December 2014 and related explanatory notes were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2015.

For KPMG Cambodia Ltd

Nge Huy  
Partner

Phnom Penh, Kingdom of Cambodia

29 February 2016

# PRASAC Microfinance Institution Limited

## Balance sheet As at 31 December 2015

	Note	2015		2014	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<b>ASSETS</b>					
Cash on hand	5	38,657,774	156,563,985	32,621,225	132,931,492
Deposits and placements with the National Bank of Cambodia	6	73,698,178	298,477,621	59,148,975	241,032,073
Deposits and placements with banks	7	63,527,275	257,285,464	19,698,918	80,273,091
Loans to customers	8	847,173,235	3,431,051,602	571,187,994	2,327,591,076
Other assets	9	15,204,236	61,577,156	11,179,052	45,554,637
Property and equipment	10	5,537,336	22,426,211	5,459,877	22,248,999
Intangible assets	11	1,598,781	6,475,063	1,654,490	6,742,047
Deferred tax assets, net	12	1,409,630	5,709,002	624,458	2,544,666
<b>TOTAL ASSETS</b>		<b>1,046,806,445</b>	<b>4,239,566,104</b>	<b>701,574,989</b>	<b>2,858,918,081</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposits from banks and other financial institutions	13	23,901,222	96,799,949	16,763,602	68,311,678
Deposits from customers	14	443,532,243	1,796,305,584	288,400,205	1,175,230,835
Overdraft		11,390,511	46,131,570	-	-
Borrowings	15	362,620,831	1,468,614,366	260,902,091	1,063,176,021
Subordinated debts	16	49,335,158	199,807,390	21,000,000	85,575,000
Other liabilities	17	19,951,950	80,805,398	12,169,992	49,592,716
Current income tax liabilities	12	10,691,091	43,298,919	6,738,740	27,460,366
Severance pay obligations	18	3,633,432	14,715,400	2,534,965	10,329,982
Total liabilities		<b>925,056,438</b>	<b>3,746,478,576</b>	<b>608,509,595</b>	<b>2,479,676,598</b>
<b>Equity</b>					
Share capital	19	72,000,000	291,600,000	47,000,000	191,525,000
Subordinated debts	16	-	-	11,204,313	45,657,577
Reserves		2,272,647	9,204,220	5,482,607	22,341,624
Retained earnings		47,477,360	192,283,308	29,378,474	119,717,282
Total equity		<b>121,750,007</b>	<b>493,087,528</b>	<b>93,065,394</b>	<b>379,241,483</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,046,806,445</b>	<b>4,239,566,104</b>	<b>701,574,989</b>	<b>2,858,918,081</b>

The accompanying notes form an integral part of these financial statements.

# PRASAC Microfinance Institution Limited

## Income statement for the year ended 31 December 2015

	Note	2015		2014	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Interest income	20	155,865,652	631,255,891	107,575,555	438,370,387
Interest expenses	21	(53,370,045)	(216,148,682)	(34,609,507)	(141,033,741)
Net interest income		102,495,607	415,107,209	72,966,048	297,336,646
Allowance for bad and doubtful loans	8	(688,812)	(2,789,689)	(3,441,488)	(14,024,064)
<b>Net interest income after allowance for bad and doubtful loans</b>		101,806,795	412,317,520	69,524,560	283,312,582
Fee and commission expenses	22	(1,449,667)	(5,871,151)	(1,061,976)	(4,327,552)
Other income	23	4,010,951	16,244,352	1,930,955	7,868,642
Personnel expenses	24	(31,050,183)	(125,753,241)	(21,877,355)	(89,150,222)
Depreciation and amortisation	25	(2,236,549)	(9,058,023)	(1,916,739)	(7,810,711)
General and administrative expenses	26	(12,637,379)	(51,181,385)	(9,333,094)	(38,032,358)
<b>Operating profit</b>		58,443,968	236,698,072	37,266,351	151,860,381
Net foreign exchange (loss)/gain		(262,813)	(1,064,393)	178,483	727,318
Grant		29,600	119,880	219,808	895,718
Profit before income tax		58,210,755	235,753,559	37,664,642	153,483,417
Income tax expense	12	(11,754,666)	(47,606,397)	(7,609,837)	(31,010,086)
<b>Net profit for the year</b>		46,456,089	188,147,162	30,054,805	122,473,331

The accompanying notes form an integral part of these financial statements.

# PRASAC Microfinance Institution Limited

## Statement of changes in equity for the year ended 31 December 2015

	Share capital USD	Subordinated debts USD	Reserves USD	Retained earnings USD	Total USD
At 1 January 2014	19,685,067	11,428,679	4,698,399	27,422,810	63,234,955
Net profit for the year	-	-	-	30,054,805	30,054,805
Transfer to share capital	27,314,933	-	-	(27,314,933)	-
Transfer to reserves	-	-	784,208	(784,208)	-
Currency translation differences	-	(224,366)	-	-	(224,366)
As at 31 December 2014	<u>47,000,000</u>	<u>11,204,313</u>	<u>5,482,607</u>	<u>29,378,474</u>	<u>93,065,394</u>
(KHR'000 equivalents - Note 4)	<u>191,525,000</u>	<u>45,657,577</u>	<u>22,341,624</u>	<u>119,717,282</u>	<u>379,241,483</u>
At 1 January 2015	47,000,000	11,204,313	5,482,607	29,378,474	93,065,394
Net profit for the year	-	-	-	46,456,089	46,456,089
Transfer to share capital	25,000,000	-	-	(25,000,000)	-
Transfer to subordinated debts (Note 16)	-	(11,204,313)	(3,561,682)	-	(14,765,995)
Transfer to reserves	-	-	351,722	(351,722)	-
Dividend paid	-	-	-	(3,005,481)	(3,005,481)
As at 31 December 2015	<u>72,000,000</u>	<u>-</u>	<u>2,272,647</u>	<u>47,477,360</u>	<u>121,750,007</u>
(KHR'000 equivalents - Note 4)	<u>291,600,000</u>	<u>-</u>	<u>9,204,220</u>	<u>192,283,308</u>	<u>493,087,528</u>

The accompanying notes form an integral part of these financial statements.

# PRASAC Microfinance Institution Limited

## Statement of cash flows for the year ended 31 December 2015

	Note	2015		2014	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<b>Cash flows from operating activities</b>					
Net cash used in operations	27	(169,829,882)	(687,811,022)	(82,104,016)	(334,573,863)
Interest received		153,088,200	620,007,210	105,254,419	428,911,757
Interest paid		(46,565,957)	(188,592,126)	(30,319,153)	(123,550,548)
Income tax paid		(8,587,487)	(34,779,322)	(4,859,215)	(19,801,301)
Severance pay paid		(227,158)	(919,990)	(200,540)	(817,201)
Net cash used in operating activities		(72,122,284)	(292,095,250)	(12,228,505)	(49,831,156)
<b>Cash flows from investing activities</b>					
Purchase/transfer of property and equipment		(2,074,330)	(8,401,037)	(3,357,916)	(13,683,508)
Purchase of intangible assets		(216,642)	(877,400)	(771,147)	(3,142,424)
Proceeds from disposals of property and equipment		74,669	302,409	27,446	111,842
Net cash used in investing activities		(2,216,303)	(8,976,028)	(4,101,617)	(16,714,090)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		192,952,040	781,455,762	126,081,765	513,783,192
Repayments of borrowings		(77,733,300)	(314,819,865)	(79,457,988)	(323,791,301)
Dividend payment		(3,005,481)	(12,172,198)	-	-
Net cash generated from financing activities		112,213,259	454,463,699	46,623,777	189,991,891
<b>Net increase in cash and cash equivalents</b>		<b>37,874,672</b>	<b>153,392,421</b>	<b>30,293,655</b>	<b>123,446,645</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>83,211,657</b>	<b>339,087,502</b>	<b>52,918,002</b>	<b>211,407,418</b>
Currency translation differences		-	(2,080,291)	-	4,233,440
<b>Cash and cash equivalents at the end of the year</b>	28	<b>121,086,329</b>	<b>490,399,632</b>	<b>83,211,657</b>	<b>339,087,503</b>

The accompanying notes form an integral part of these financial statements.

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements for the year ended 31 December 2015**

### **1. Reporting entity**

PRASAC Microfinance Institution Limited (“the Company” or “PRASAC”), is engaged in providing financial services to rural communities and micro-enterprises of Cambodia through its head office in Phnom Penh and various branches in Phnom Penh and provinces in Cambodia.

The Company was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under the registration number Co-6931/04P, dated 12 August 2004 and latest renewed on 29 July 2014. Renewal is required every three years.

The net assets of PCA (PRASAC Credit Association) were transferred to PRASAC as subordinated debt, as discussed in Note 19 to these financial statements, in accordance with the asset transfer document effective from 31 December 2004.

The National Bank of Cambodia (“NBC”) granted a microfinance license to the Company effective from 14 December 2007.

On 8 February 2011, the Company received a license from the NBC to conduct a deposit-taking business.

On 1 December 2011, the Company received a permission from the NBC to conduct the Automatic Teller Machine (“ATM”) and POS services.

On 10 April 2014, the NBC approved for the increase of share capital to KHR 188,000 million (equivalent to USD 47 million) and the changes in par value to KHR 4,000 (equivalent to USD 1) per share. Such changes were amended in Memorandum and Articles of Association which acknowledged by the Ministry of Commerce on 29 July 2014.

On 27 March 2015, the Board of Directors approved to use part of the retained earnings to increase the paid up share capital of the Company from USD 47,000,000 to USD 72,000,000. The revised Memorandum and Articles of Association was acknowledged by the NBC and the Ministry of Commerce on 3 July 2015 and 13 July 2015 respectively.

The Company’s head office is at Building 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2015, the Company had 5,285 employees (31 December 2014: 4,100).

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **2. Basis of preparation**

#### **(a) Statement of compliance**

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

The financial statements were approved and authorised for issue by the Board of Directors on 29 February 2016.

#### **(b) Basis of measurement**

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

#### **(c) Functional and presentation currency**

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel (“KHR”), United States Dollars (“USD”) and Thai Baht (“THB”). Management have determined the USD to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

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

#### **(d) Use of estimates and judgments**

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

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

Key accounting estimates and judgements applied in the preparation of financial statements include estimates of recoverable amounts for loans and advances which have a separate accounting policy stated in Note 3 (g).

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **3. Significant accounting policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except in the Notes 3(g) and 3(j).

#### **(a) Financial instruments**

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

#### **(b) Basis of aggregation**

The Company's financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

#### **(c) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. These also include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

#### **(d) Deposits and placements with the National Bank of Cambodia**

Deposits and placements with the National Bank of Cambodia are stated at cost.

#### **(e) Deposits and placements with banks**

Deposits and placements with banks are stated at cost.

#### **(f) Loans to customers**

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general allowances for bad and doubtful loans.



# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 3. Significant accounting policies (continued)

#### (g) Allowance for bad and doubtful loans

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

Classification	Number of days past due	Allowance
<b>Short term loans (less than one year):</b>		
Sub-standard	30 days or more	10%
Doubtful	60 days or more	30%
Loss	90 days or more	100%
<b>Long term loans (more than one year):</b>		
Sub-standard	30 days or more	10%
Doubtful	180 days or more	30%
Loss	360 days or more	100%

In addition, the Company makes a general allowance for bad and doubtful loans as at balance sheet date which is over the mandatory specific level of provisioning as required by the NBC above. Management believes that this more reasonably reflect the allowance necessary to absorb risks relating to problems in the macro-economic environment, natural disasters, and widespread deterioration in rural household income, which would render customers incapable of reimbursing their outstanding loans.

In November 2015, the Company changed the general allowance for bad and doubtful loans at the rate of 1.5% to 1% (2014: 1.5%) of total outstanding loans based on the Board of Director Resolution dated 2 November 2015. The change in the rate used was applied prospectively and the effect of this change resulted in decrease of general allowance expenses for the year ended 31 December 2015 of USD 4,282,962.

Recoveries on loans previously written off and reversal of previous allowances are disclosed as other income in the income statement.

#### (h) Interest in suspense

Interest in suspense represents interest on non-performing loans and advances, that is recorded as a provision rather than income until it is realised on a cash basis.

Interest in suspense is disclosed as a deduction from interest receivables.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 3. Significant accounting policies (continued)

#### (i) Other assets

Other assets are carried at lower of cost and estimated realisable value. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

#### (j) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

(ii) Depreciation of property and equipment which is charged to the income statement is as follows:

Description	2015		2014	
	Annual rate	Method	Annual rate	Method
Office furniture	20%	Straight-line	25%	Declining
Motor vehicles	20%	Straight-line	25%	Declining
Motorcycles	25%	Straight-line	25%	Declining
Computers and peripherals	25%	Straight-line	50%	Declining
Leasehold improvements	Lease period	Straight-line	Lease period	Straight-line
Communication equipment	25%	Straight-line	25%	Declining

In July 2015, the Company changed the depreciation method of property and equipment items except for leasehold improvements from declining to straight-line method. The change in the method used was applied prospectively and the effect of these changes resulted in increase in depreciation expenses, included in general and administrative expenses for the year ended 31 December 2015 of USD 156,329.

Work in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amounts 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.

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **3. Significant accounting policies (continued)**

#### **(j) Property and equipment (continued)**

- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

#### **(k) Intangible assets**

Intangible assets consist of computer software and Core Banking Licence and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised over their estimated useful lives of 10 years using the straight-line method.

#### **(l) Impairment**

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

#### **(m) Deposits from customers**

Deposits from customers are stated at cost.

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **3. Significant accounting policies (continued)**

#### **(n) 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.

Borrowing costs (interest expense) shall be recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.

#### **(o) Subordinated debts**

Subordinated debts are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. The subordinated debts which are approved by the NBC are included as a Tier 2 line item in the calculation of the Company's net worth in accordance with the guidelines of the NBC.

Subordinated debts are stated at cost.

#### **(p) Provision**

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

#### **(q) Severance pay**

Severance pay is accrued based on the monthly fixed salary of an employee with the rate of 8.33% (equal to one month salary of each year of service).

This obligation will be paid to staff upon resignation or retirement. Staff are entitled to benefits based on their length of service (after completion of probation period and working at least six months) of regular employment, except termination due to serious offense. This obligation earns no interest.

The severance obligation funds are maintained at savings accounts (non-interest bearing) under the name of each employee within the Company and the withdrawal can only be made upon resignation or retirement.

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **3. Significant accounting policies (continued)**

#### **(r) Income and expense recognition**

Interest income on loans to customers, balance with the NBC and balance with other banks are 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. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

The Company earns fee and commission income from a diverse range of service it provides to its customers, mainly from collection of loan loss recovery, fee charge on money transfer and other services. Interest expenses are recognised on an accrual basis.

#### **(s) Operating leases**

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

#### **(t) Income tax**

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

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

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

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

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 3. Significant accounting policies (continued)

#### (u) Related parties

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

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

#### (v) Reserves

Based on the loan agreement signed between Instituto De Crédito Oficial (ICO) of the Kingdom of Spain and PRASAC, PRASAC shall undertake to establish and keep a reserve fund for the capital strengthening by transferring its net profit of each year, an amount equivalent to a 3.5% of the outstanding principal of the loan. This reserve is non-distributable.

### 4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars (“USD”). The translations of United States Dollars amount into Khmer Riel (“KHR”) are included solely for convenient purposes and have been made using the prescribed official exchange rate as of 31 December 2015 of USD 1: KHR 4,050 (31 December 2014 of USD 1: KHR 4,075 published by the NBC. These convenience translations are not audited and should not be construed as representations that the USD amounts have been, could have been, or could in the future be, converted into KHR at this or any other rate of exchange.

### 5. Cash on hand

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Head office	8,236,145	33,356,387	9,270,542	37,777,459
Branches	30,421,629	123,207,598	23,350,683	95,154,033
	<u>38,657,774</u>	<u>156,563,985</u>	<u>32,621,225</u>	<u>132,931,492</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 6. Deposits and placements with the National Bank of Cambodia

	Note	2015		2014	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Statutory capital deposit	(i)	7,111,111	28,800,000	4,613,497	18,800,000
Reserve requirement	(ii)	36,295,276	146,995,868	23,643,964	96,349,153
Current accounts	(iii)	14,983,149	60,681,752	18,130,778	73,882,920
Term deposits	(iv)	15,308,642	62,000,001	12,760,736	52,000,000
		<u>73,698,178</u>	<u>298,477,621</u>	<u>59,148,975</u>	<u>241,032,073</u>

(i) *Statutory capital deposit*

In compliance with Prakas B7-07-163 dated 13 December 2007 on the Licensing of Deposit-Taking Microfinance Institutions, the Company is required to maintain a statutory capital deposit with the NBC at 10% of registered capital. This deposit is refundable should the Company voluntarily liquidate. The statutory capital deposit is denominated in KHR and earns interest at 3% per annum.

(ii) *Reserve requirement*

The reserve requirement 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. Reserve deposit earns no interest.

(iii) *Current accounts*

Current accounts earn no interest.

(iv) *Term deposits*

This represents the Negotiable Certificate of Deposit (“NCD”) with NBC for the maturity of 2 weeks bearing an interest rate of 1.27% per annum.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 7. Deposits and placements with banks

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Current accounts	3,809,843	15,429,864	2,710,075	11,043,555
Savings accounts	59,717,432	241,855,600	16,988,843	69,229,536
	<u>63,527,275</u>	<u>257,285,464</u>	<u>19,698,918</u>	<u>80,273,091</u>

Current accounts are non-interest bearing. Annual interest rates on savings accounts are as follows:

	2015	2014
Savings accounts	<u>0.05% to 0.75%</u>	<u>0.05% to 0.50%</u>

### 8. Loans to customers

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Individual loans	843,320,397	3,415,447,608	568,064,995	2,314,864,855
Loan to small and medium enterprises (SME)	6,638,362	26,885,366	5,636,386	22,968,273
Group loans	3,822,162	15,479,756	4,799,490	19,557,922
Staff loans	2,811,511	11,386,620	2,042,895	8,324,797
Gross loans	<u>856,592,432</u>	<u>3,469,199,350</u>	<u>580,543,766</u>	<u>2,365,715,847</u>
Allowance for bad and doubtful loans:				
General	(8,565,924)	(34,691,992)	(8,677,515)	(35,360,874)
Specific	(853,273)	(3,455,756)	(678,257)	(2,763,897)
	<u>(9,419,197)</u>	<u>(38,147,748)</u>	<u>(9,355,772)</u>	<u>(38,124,771)</u>
Net loans	<u>847,173,235</u>	<u>3,431,051,602</u>	<u>571,187,994</u>	<u>2,327,591,076</u>



# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 8. Loans to customers (continued)

#### (a) Allowance for bad and doubtful loans

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

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
At 1 January	9,355,772	38,124,771	5,931,844	23,697,717
Allowance for the year	688,812	2,789,689	3,441,488	14,024,064
Written off during the year	(625,387)	(2,532,817)	-	-
Currency translation differences	-	(233,895)	(17,560)	402,990
At 31 December	<u>9,419,197</u>	<u>38,147,748</u>	<u>9,355,772</u>	<u>38,124,771</u>

The gross loans to customers are analysed as follows:

#### (b) By economic sector

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Agriculture	295,555,852	1,197,001,201	191,614,940	780,830,881
Consumption	252,479,338	1,022,541,319	165,039,159	672,534,573
Trade and commerce	160,021,335	648,086,407	125,533,910	511,550,683
Services	83,360,669	337,610,709	51,372,915	209,344,629
Transportation	56,942,524	230,617,222	43,261,188	176,289,341
Construction	8,232,714	33,342,492	3,721,654	15,165,740
	<u>856,592,432</u>	<u>3,469,199,350</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 8. Loans to customers (continued)

#### (c) By relationship

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
External customers	853,780,921	3,457,812,730	578,500,871	2,357,391,049
Staff loans	2,811,511	11,386,620	2,042,895	8,324,798
	<u>856,592,432</u>	<u>3,469,199,350</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

#### (d) By locations

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Branches	853,755,821	3,457,711,075	577,842,494	2,354,708,164
Head office	2,836,611	11,488,275	2,701,272	11,007,683
	<u>856,592,432</u>	<u>3,469,199,350</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

#### (e) By performance

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Standard loans:				
Secured	305,982,997	1,239,231,138	201,805,491	822,357,376
Unsecured	548,082,359	2,219,733,554	377,543,670	1,538,490,455
Sub-standard loans:				
Secured	316,098	1,280,197	44,673	182,042
Unsecured	1,006,704	4,077,151	240,207	978,844
Doubtful loans:				
Secured	149,547	605,665	101,520	413,694
Unsecured	540,852	2,190,451	269,844	1,099,614
Loss loans:				
Secured	152,659	618,269	88,497	360,625
Unsecured	361,216	1,462,925	449,864	1,833,197
	<u>856,592,432</u>	<u>3,469,199,350</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 8. Loans to customers (continued)

The gross loans to customers are analysed as follows: (continued)

#### (e) By performance (continued)

The secured loans are those loans secured in the form of land or house title deeds (which are hard and soft title deeds), as the Company generally issues loans to poor entrepreneurs in the provinces.

#### (f) Interest rates

The annual interest rates as at the year end are as follows:

	As at 31 December 2015	As at 31 December 2014
Group loans	30.0%	31.2% - 39.0%
Individual loans	12.0% - 33.6%	12.0% - 39.0%
Biogas loans	14.4%	14.4%
Staff loans	12.0%	12.0%

### 9. Other assets

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Interest receivable	9,788,856	39,644,867	6,967,712	28,393,426
Allowance for interest receivable	(247,848)	(1,003,784)	(204,156)	(831,936)
Net interest receivable	9,541,008	38,641,083	6,763,556	27,561,490
Prepayments	5,196,392	21,045,388	3,975,982	16,202,127
Deposits	310,318	1,256,788	258,443	1,053,155
Accounts receivable	121,981	494,023	152,904	623,084
Long term investments	28,167	114,076	28,167	114,781
Others	6,370	25,798	-	-
	<u>15,204,236</u>	<u>61,577,156</u>	<u>11,179,052</u>	<u>45,554,637</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 10. Property and equipment

31 December 2015	Office furniture USD	Vehicles USD	Motor-cycles USD	Computer peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD	Total USD
<b>Cost</b>								
At 1 January 2015	2,986,600	1,699,748	321,961	2,650,316	1,509,870	260,499	140,971	9,569,965
Additions	546,602	633,200	32,820	432,664	392,719	63,472	76,204	2,177,681
Disposals	(11,176)	(136,198)	-	(35,333)	(10,322)	(3,303)	-	(196,332)
Transfer to intangible assets	-	-	-	-	-	-	(103,351)	(103,351)
At 31 December 2015	<u>3,522,026</u>	<u>2,196,750</u>	<u>354,781</u>	<u>3,047,647</u>	<u>1,892,267</u>	<u>320,668</u>	<u>113,824</u>	<u>11,447,963</u>
<b>Less: Accumulated depreciation</b>								
At 1 January 2015	1,085,181	673,190	82,315	1,738,347	445,901	85,154	-	4,110,088
Depreciation for the year	589,848	393,268	77,850	468,534	366,265	68,433	-	1,964,198
Disposals	(8,512)	(111,725)	-	(33,414)	(7,194)	(2,814)	-	(163,659)
At 31 December 2015	<u>1,666,517</u>	<u>954,733</u>	<u>160,165</u>	<u>2,173,467</u>	<u>804,972</u>	<u>150,773</u>	<u>-</u>	<u>5,910,627</u>
<b>Carrying amounts</b>								
At 1 January 2015	<u>1,901,419</u>	<u>1,026,558</u>	<u>239,646</u>	<u>911,969</u>	<u>1,063,969</u>	<u>175,345</u>	<u>140,971</u>	<u>5,459,877</u>
At 31 December 2015	<u>1,855,509</u>	<u>1,242,017</u>	<u>194,616</u>	<u>874,180</u>	<u>1,087,295</u>	<u>169,895</u>	<u>113,824</u>	<u>5,537,336</u>
At 31 December 2015 (KHR'000 equivalents - Note 4)	<u>7,514,811</u>	<u>5,030,169</u>	<u>788,195</u>	<u>3,540,429</u>	<u>4,403,545</u>	<u>688,075</u>	<u>460,987</u>	<u>22,426,211</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 10. Property and equipment (continued)

<b>31 December 2014</b>	Office furniture USD	Vehicles USD	Motor-cycles USD	Computer peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD	Total USD
<b>Cost</b>								
At 1 January 2014	2,159,185	1,084,894	55,219	1,917,471	858,317	153,541	117,813	6,346,440
Additions	881,136	647,700	271,150	759,954	665,089	109,729	23,158	3,357,916
Disposals	(53,721)	(32,846)	(4,408)	(27,109)	(13,536)	(2,771)	-	(134,391)
At 31 December 2014	<u>2,986,600</u>	<u>1,699,748</u>	<u>321,961</u>	<u>2,650,316</u>	<u>1,509,870</u>	<u>260,499</u>	<u>140,971</u>	<u>9,569,965</u>
<b>Less: Accumulated depreciation</b>								
At 1 January 2014	668,286	456,737	29,622	1,247,252	180,508	50,987	-	2,633,392
Depreciation for the year	461,524	240,931	57,101	517,749	276,519	36,543	-	1,590,367
Disposals	(44,629)	(24,478)	(4,408)	(26,654)	(11,126)	(2,376)	-	(113,671)
At 31 December 2014	<u>1,085,181</u>	<u>673,190</u>	<u>82,315</u>	<u>1,738,347</u>	<u>445,901</u>	<u>85,154</u>	<u>-</u>	<u>4,110,088</u>
<b>Carrying amounts</b>								
At 1 January 2014	<u>1,490,899</u>	<u>628,157</u>	<u>25,597</u>	<u>670,219</u>	<u>677,809</u>	<u>102,554</u>	<u>117,813</u>	<u>3,713,048</u>
At 31 December 2014	<u>1,901,419</u>	<u>1,026,558</u>	<u>239,646</u>	<u>911,969</u>	<u>1,063,969</u>	<u>175,345</u>	<u>140,971</u>	<u>5,459,877</u>
At 31 December 2014 (KHR'000 equivalents - Note 4)	<u>7,748,282</u>	<u>4,183,224</u>	<u>976,557</u>	<u>3,716,274</u>	<u>4,335,674</u>	<u>714,531</u>	<u>574,457</u>	<u>22,248,999</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 11. Intangible assets

<b>31 December 2015</b>	Computer software USD	Core banking system USD	Total USD
<b>Cost</b>			
At 1 January 2015	819,271	1,535,393	2,354,664
Additions	27,720	188,922	216,642
	<hr/>	<hr/>	<hr/>
At 31 December 2015	846,991	1,724,315	2,571,306
	<hr/>	<hr/>	<hr/>
<b>Less: Accumulated amortisation</b>			
At 1 January 2015	258,075	442,099	700,174
Amortisation for the year	102,462	169,889	272,351
	<hr/>	<hr/>	<hr/>
At 31 December 2015	360,537	611,988	972,525
	<hr/>	<hr/>	<hr/>
<b>Carrying amounts</b>			
At 31 December 2015	486,454	1,112,327	1,598,781
	<hr/>	<hr/>	<hr/>
At 31 December 2015 (KHR'000 equivalents - Note 4)	1,970,139	4,504,924	6,475,063
	<hr/>	<hr/>	<hr/>
<b>31 December 2014</b>			
<b>Cost</b>			
At 1 January 2014	586,810	996,707	1,583,517
Additions	232,461	538,686	771,147
	<hr/>	<hr/>	<hr/>
At 31 December 2014	819,271	1,535,393	2,354,664
	<hr/>	<hr/>	<hr/>
<b>Less: Accumulated amortisation</b>			
At 1 January 2014	66,493	307,309	373,802
Amortisation for the year	191,582	134,790	326,372
	<hr/>	<hr/>	<hr/>
At 31 December 2014	258,075	442,099	700,174
	<hr/>	<hr/>	<hr/>
<b>Carrying amounts</b>			
At 31 December 2014	561,196	1,093,294	1,654,490
	<hr/>	<hr/>	<hr/>
At 31 December 2014 (KHR'000 equivalents - Note 4)	2,286,874	4,455,173	6,742,047
	<hr/>	<hr/>	<hr/>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 12. Taxation

#### (a) Deferred tax assets

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

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Deferred tax assets	1,720,263	6,967,065	959,451	3,909,763
Deferred tax liabilities	(310,633)	(1,258,063)	(334,993)	(1,365,097)
	<u>1,409,630</u>	<u>5,709,002</u>	<u>624,458</u>	<u>2,544,666</u>

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

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
General provision and sub-standard loan provision	358,646	1,452,517	-	-
Provision for severance pay	726,686	2,943,078	506,995	2,066,005
Unrealised exchange loss	289,737	1,173,435	181,680	740,345
Unused annual leave	231,098	935,947	162,605	662,615
Depreciation and amortisation	(186,426)	(755,025)	(220,913)	(900,220)
Currency translation differences	(10,111)	(40,950)	(5,909)	(24,079)
	<u>1,409,630</u>	<u>5,709,002</u>	<u>624,458</u>	<u>2,544,666</u>

The movements of net deferred tax assets are as follows:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Balance at the beginning of the year	624,458	2,544,666	504,182	2,014,207
Recognised in the income statement	421,111	1,705,500	126,185	514,204
Deferred tax not recognised in prior year	360,206	1,458,834	-	-
Currency translation differences	3,855	2	(5,909)	16,255
	<u>1,409,630</u>	<u>5,709,002</u>	<u>624,458</u>	<u>2,544,666</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 12. Taxation (continued)

#### (b) Current income tax liabilities

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
At 1 January	6,738,740	27,460,366	3,861,933	15,428,422
Charge to income statement	12,175,777	49,311,897	7,736,022	31,524,290
Additional income tax expense resulted from tax assessment	360,206	1,458,834	-	-
Income tax paid	(8,587,487)	(34,779,322)	(4,859,215)	(19,801,301)
Currency translation differences	3,855	(152,856)	-	308,955
At the end of the year	<u>10,691,091</u>	<u>43,298,919</u>	<u>6,738,740</u>	<u>27,460,366</u>

#### (c) Income tax expense

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Current tax	12,175,777	49,311,897	7,736,022	31,524,290
Deferred tax assets	(421,111)	(1,705,500)	(126,185)	(514,204)
Additional income tax expense resulted from tax assessment	360,206	1,458,834	-	-
Deferred tax assets not recognised in prior years	(360,206)	(1,458,834)	-	-
	<u>11,754,666</u>	<u>47,606,397</u>	<u>7,609,837</u>	<u>31,010,086</u>

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:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Profit before income tax	<u>58,210,755</u>	<u>235,753,559</u>	<u>37,664,642</u>	<u>153,483,417</u>



# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 12. Taxation (continued)

#### (c) Income tax expense (continued)

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: (continued)

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Tax calculated at a rate of 20%	11,642,151	47,150,711	7,532,928	30,696,683
Effect of non-deductible expenses	112,515	455,686	76,909	313,403
Additional income tax expense resulted from tax assessment	360,206	1,458,834	-	-
Deferred tax assets not recognised in prior years	(360,206)	(1,458,834)	-	-
Total income tax expenses	<u>11,754,666</u>	<u>47,606,397</u>	<u>7,609,837</u>	<u>31,010,086</u>

In accordance with Law on Taxation, 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.

### 13. Deposits from banks and other financial institutions

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Term deposits	23,898,604	96,789,346	16,485,822	67,179,725
Savings deposits	2,618	10,603	277,780	1,131,953
	<u>23,901,222</u>	<u>96,799,949</u>	<u>16,763,602</u>	<u>68,311,678</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 13. Deposits from banks and other financial institutions (continued)

Interest rates are analysed as follows:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Term deposits	1.50% - 5.00%	1.00% - 6.00%	1.50% - 7.50%	1.00% - 5.50%
Savings deposits	0.25%	0.50%	0.50%	0.25%

### 14. Deposits from customers

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Term deposits	397,624,824	1,610,380,537	255,861,358	1,042,635,034
Savings deposits	45,907,419	185,925,047	32,538,847	132,595,801
	<u>443,532,243</u>	<u>1,796,305,584</u>	<u>288,400,205</u>	<u>1,175,230,835</u>

Annual interest rates for deposits from customers are as follows:

	2015			2014		
	USD	KHR	THB	USD	KHR	THB
Term deposits	4.75%-8.00%	5.25% - 9.75%	5.00%-8.50%	4.75% - 8.00%	5.25% - 9.75%	5.00%-8.50%
Savings accounts - staff	2.00%	2.50%	-	2.00%	2.50%	-
Savings deposits – customers	3.00%	4.00%	4.00%	3.00%	4.00%	4.00%

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 15. Borrowings

Borrowings are analysed as follows:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<b>(a) By relationship</b>				
Non-related parties	335,687,621	1,359,534,865	223,306,876	909,975,520
Related parties	26,933,210	109,079,501	37,595,215	153,200,501
	<u>362,620,831</u>	<u>1,468,614,366</u>	<u>260,902,091</u>	<u>1,063,176,021</u>

The Company did not default any payment of principal, interest or redemption amounts during the year (2014: nil).

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<b>(b) By currency</b>				
US Dollars	316,687,748	1,282,585,379	221,860,995	904,083,555
Khmer Riel	23,600,000	95,580,000	20,741,596	84,522,004
Thai Baht	22,333,083	90,448,987	18,299,500	74,570,462
	<u>362,620,831</u>	<u>1,468,614,366</u>	<u>260,902,091</u>	<u>1,063,176,021</u>

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<b>(c) By maturity</b>				
1 to 3 months	18,756,501	75,963,829	5,193,028	21,161,589
3 to 12 months	114,113,471	462,159,558	67,444,001	274,834,304
1 to 5 years	228,075,992	923,707,768	184,915,329	753,529,965
Over 5 years	1,674,867	6,783,211	3,349,733	13,650,163
	<u>362,620,831</u>	<u>1,468,614,366</u>	<u>260,902,091</u>	<u>1,063,176,021</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 15. Borrowings (continued)

The interest rate (per annum, including withholding tax):

	2015	2014
Khmer Riel	4.65% to 11.63%	4.65% to 11.63%
US Dollars	5.75% to 10.47%	6.39% to 11.13%
Thai Baht	9.30% to 11.05%	10.28% to 11.05%

### 16. Subordinated debts

Subordinated debts are analysed as follows:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<i>In liability</i>				
Subordinated debts (a)	34,500,000	139,725,000	21,000,000	85,575,000
Trust fund (b)	14,835,158	60,082,390	-	-
	<u>49,335,158</u>	<u>199,807,390</u>	<u>21,000,000</u>	<u>85,575,000</u>
<i>In equity</i>				
Trust fund (b)	-	-	11,204,313	45,657,577
	<u>49,335,158</u>	<u>199,807,390</u>	<u>32,204,313</u>	<u>131,232,577</u>

#### (a) Subordinated debts

These are subordinated debts from a shareholder and foreign lenders which were approved by the NBC. The amount of USD 34,500,000 is repayable to the shareholder and lenders based on the agreed schedules stated in each loan agreement. The amount is included as tier 2 capital for the purpose of net worth calculation (Note 31 (e)).

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Non-related parties	44,835,158	181,582,390	16,000,000	65,200,000
Related parties	4,500,000	18,225,000	5,000,000	20,375,000
	<u>49,335,158</u>	<u>199,807,390</u>	<u>21,000,000</u>	<u>85,575,000</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 16. Subordinated debts (continued)

The interest rate (per annum, including withholding tax):

	2015	2014
Khmer Riel	1.22% to 11.63%	4.65% to 11.63%
US Dollars	5.75% to 10.47%	6.39% to 11.13%

#### (b) Trust fund

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
From the RGC	8,561,648	34,674,673	8,509,122	34,674,673
From CRDF	2,711,828	10,982,904	2,695,191	10,982,904
Transfer from reserves	3,561,682	14,424,813	-	-
	<u>14,835,158</u>	<u>60,082,390</u>	<u>11,204,313</u>	<u>45,657,577</u>

#### *Subordinated debt from the Royal Government of Cambodia (“the RGC”)*

The subordinated debt was denominated in KHR currency consists of the funds transferred by the European Commission to the RGC and transferred by the RGC to PRASAC as subordinated debt on 31 December 2004 with the terms and conditions of the agreement as follows:

The Subordinated Debt will not be repayable to the RGC unless PRASAC ceases to provide credit to rural communities and micro enterprises in Cambodia or unless PRASAC elects at its own discretion to repay all or part of the Subordinated Debt to the RGC.

The Subordinated Debt is considered as “Tier 2 Capital” in the context of Article 15 of Prakas No. B700-006 on the licensing of Microfinance Institutions dated 11 January 2000 and shall be included when calculating the Capital Adequacy Ratio of PRASAC. Subsequently, this was superseded by the NBC’s letter dated 22 May 2007 which recommended that PRASAC should request permission from the NBC to include Subordinated Debt as Tier 2 Capital in Capital Adequacy Ratio calculation. On 14 August 2007, PRASAC wrote a letter to the NBC requesting approval as subordinated debt in the calculation of net worth. It was approved by NBC on 12 December 2007.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 16. Subordinated debts (continued)

#### (b) Trust fund (continued)

##### *Subordinated debt from Cambodia Rural Development Foundation (“CRDF”)*

In 2007, the proceeds of the sale (“the Funds”) of Cambodia Rural Development Foundation (“CRDF”)’s share transfer in the amount of KHR 10,982,902,272 (equivalent to USD 2,711,828 as at 31 December 2015) was treated as subordinated debt with conditions as follows:

The Funds shall be made available to PRASAC as a perpetual subordinated debt as provided below and shall be utilised solely for the purpose of the long-term provision of microfinance to communities and micro-enterprises of Cambodia.

The full amount of the SDCSS shall be included for the calculation of the net worth as Tier 2 Capital in the context of the Calculation of Net Worth and for all prudential ratio purposes, such as the Capital Adequacy Ratio.

##### *Transfer of subordinated debts from Reserve to Liabilities under Financial Trust Fund*

According to Sub-decree No. 476 dated 26 August 2013 and Announcement No. 1041 dated 26 September 2014 of the MEF on the registration of trust fund, the subordinated debts were registered as trust fund with the MEF on 10 July 2015 via certificate No. 187 សំណុំរ.អឌ្ឍហ. Trust fund will be managed by the Trustees to which the Company is the Beneficiary. As at the date of this report, there was no any agreement made between the Trust Committee of PRASAC and the Company yet. Accordingly, this subordinated debts are reclassified to liability.

The movement of subordinated debts from Equity to Liabilities are as follows:

	Equity		Exchange difference	Liability
	2014	Reserve	difference	2015
	USD	USD	USD	USD
From the RGC	8,509,122	-	-	8,509,122
From CRDF	2,695,191	-	-	2,695,191
Addition to principal from reserve	-	3,561,682	-	3,561,682
Exchange difference	-	-	69,163	69,163
	<u>11,204,313</u>	<u>3,561,682</u>	<u>69,163</u>	<u>14,835,158</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 17. Other liabilities

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Accrued interest payable	16,380,537	66,341,175	9,576,449	39,024,030
Accrued expenses	2,264,752	9,172,246	1,406,820	5,732,790
Tax on salary	780,400	3,160,620	591,071	2,408,614
Withholding tax payable	294,074	1,191,000	152,893	623,039
Accrued bonuses/incentives	-	-	14,598	59,487
Others	232,187	940,357	428,161	1,744,756
	<u>19,951,950</u>	<u>80,805,398</u>	<u>12,169,992</u>	<u>49,592,716</u>

### 18. Severance pay obligations

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Severance pay obligations	<u>3,633,432</u>	<u>14,715,400</u>	<u>2,534,965</u>	<u>10,329,982</u>

The movements in the allowance for severance pay obligations for the year are as follows:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Balance at the beginning of the year	2,534,965	10,329,982	1,847,855	7,382,181
Additions during the year	1,325,625	5,368,782	887,650	3,617,175
Payments during the year	(227,158)	(919,990)	(200,540)	(817,201)
Currency translation differences	-	(63,374)	-	147,827
	<u>3,633,432</u>	<u>14,715,400</u>	<u>2,534,965</u>	<u>10,329,982</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 19. Share capital

	2015			2014		
	USD	KHR'000 (Note 4)	%	USD	KHR'000 (Note 4)	%
PSCo	7,920,000	32,076,000	11.00%	5,170,000	21,067,752	11.00%
BIO	16,020,000	64,881,000	22.25%	10,457,500	42,614,312	22.25%
DCG	16,020,000	64,881,000	22.25%	10,457,500	42,614,312	22.25%
FMO	16,020,000	64,881,000	22.25%	10,457,500	42,614,312	22.25%
LOLC	16,020,000	64,881,000	22.25%	10,457,500	42,614,312	22.25%
	<u>72,000,000</u>	<u>291,600,000</u>	<u>100%</u>	<u>47,000,000</u>	<u>191,525,000</u>	<u>100%</u>

The total authorised number of ordinary shares at 31 December 2015 was 72,000,000 shares (31 December 2014: 47,000,000 shares) with a par value of KHR 4,000 (31 December 2014: KHR 4,000) per share. All issued shares are fully paid.

Abbreviation:

PSCo:	PRASAC Staff Company Limited
BIO:	Belgian Investment Company for Developing Countries SA
DCG:	Dragon Capital Group Limited
FMO:	The Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
LOLC:	Lanka ORIX Leasing Company Ltd

### 20. Interest income

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Individual loans	154,146,891	624,294,909	105,927,080	431,652,851
Group loans	1,285,932	5,208,025	1,454,097	5,925,446
Deposits with banks	432,829	1,752,957	194,378	792,090
	<u>155,865,652</u>	<u>631,255,891</u>	<u>107,575,555</u>	<u>438,370,387</u>



# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 21. Interest expenses

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Deposits from customers	26,866,793	108,810,512	14,383,294	58,611,923
Borrowings	26,503,252	107,338,170	20,226,213	82,421,818
	<u>53,370,045</u>	<u>216,148,682</u>	<u>34,609,507</u>	<u>141,033,741</u>

### 22. Fee and commission expenses

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Fee on borrowings	1,359,061	5,504,197	983,493	4,007,734
Bank charges on borrowings	86,286	349,458	75,040	305,788
Others	4,320	17,496	3,443	14,030
	<u>1,449,667</u>	<u>5,871,151</u>	<u>1,061,976</u>	<u>4,327,552</u>

### 23. Other income

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Fee income from loans	2,025,055	8,201,473	637,572	2,598,106
Fees and commission income				
from local remittance and services	961,125	3,892,556	662,268	2,698,742
Penalty income	775,044	3,138,928	421,332	1,716,928
Loan loss recovered	117,746	476,871	124,433	507,064
Gain on disposals of property and equipment	41,996	170,084	6,744	27,482
Others	89,985	364,440	78,606	320,320
	<u>4,010,951</u>	<u>16,244,352</u>	<u>1,930,955</u>	<u>7,868,642</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 24. Personnel expenses

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Salaries	28,413,014	115,072,707	20,093,102	81,879,391
Severance benefits (Note 18)	1,325,625	5,368,782	887,650	3,617,175
Staff bonuses/incentives	370,879	1,502,060	294,226	1,198,971
Medical expenses	59,990	242,959	42,752	174,214
Other staff benefits	880,675	3,566,733	559,625	2,280,471
	<u>31,050,183</u>	<u>125,753,241</u>	<u>21,877,355</u>	<u>89,150,222</u>

### 25. Depreciation and amortisation

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Depreciation charge (Note 10)	1,964,198	7,955,001	1,590,367	6,480,746
Amortisation charge (Note 11)	272,351	1,103,022	326,372	1,329,965
	<u>2,236,549</u>	<u>9,058,023</u>	<u>1,916,739</u>	<u>7,810,711</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 26. General and administrative expenses

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Rental expenses	2,774,946	11,238,531	2,160,244	8,802,994
Fuel costs	1,522,231	6,165,036	991,766	4,041,446
Marketing and promotions	1,008,141	4,082,971	341,586	1,391,963
Office supplies	900,746	3,648,021	669,417	2,727,874
Communication	849,459	3,440,309	729,399	2,972,301
Printing and stationery	842,087	3,410,452	608,709	2,480,489
Utilities	818,741	3,315,901	649,475	2,646,611
Per diem and travelling	688,633	2,788,964	525,259	2,140,430
Transportation	626,365	2,536,778	387,114	1,577,490
Maintenance	592,536	2,399,771	550,462	2,243,133
License fees	460,747	1,866,025	435,823	1,775,979
Professional fees	339,641	1,375,546	499,024	2,033,523
Training	185,174	749,955	178,387	726,927
Bank charges	180,227	729,919	172,996	704,959
Other tax expenses	80,977	327,957	128,465	523,495
Others	766,728	3,105,249	304,968	1,242,744
	<u>12,637,379</u>	<u>51,181,385</u>	<u>9,333,094</u>	<u>38,032,358</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 27. Cash used in operations

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Profit before income tax	58,210,755	235,753,559	37,664,642	153,483,417
Adjustments for:				
Allowance for bad and doubtful loans (Note 8)	688,812	2,789,689	3,441,488	14,024,064
Depreciation and amortisation (Note 25)	2,236,549	9,058,023	1,916,739	7,810,711
Gain on disposals of property and equipment	(41,996)	(170,084)	(6,744)	(27,482)
Severance pay expenses (Note 18)	1,325,625	5,368,782	887,650	3,617,175
Net interest income	(102,495,607)	(415,107,209)	(72,966,048)	(297,336,646)
Foreign exchange loss/(gain)	69,163	280,110	(224,366)	(914,291)
	<u>(40,006,699)</u>	<u>(162,027,130)</u>	<u>(29,286,639)</u>	<u>(119,343,052)</u>
Changes in:				
Loans to customers	(276,674,053)	(1,120,529,915)	(201,487,897)	(821,063,180)
Statutory capital deposit	(2,497,614)	(10,115,337)	(2,610,994)	(10,639,801)
Reserve requirement	(12,651,312)	(51,237,814)	(13,156,308)	(53,611,955)
Other assets	(1,247,732)	(5,053,315)	(935,429)	(3,811,874)
Deposits from banks and other financial institutions	7,137,620	28,907,361	7,262,996	29,596,709
Deposits from customers	155,132,038	628,284,754	159,281,407	649,071,734
Other liabilities	977,870	3,960,374	(1,171,152)	(4,772,444)
	<u>(169,829,882)</u>	<u>(687,811,022)</u>	<u>(82,104,016)</u>	<u>(334,573,863)</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 28. Cash and cash equivalents

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Cash on hand (Note 5)	38,657,774	156,563,985	32,621,225	132,931,492
Balances with the NBC				
Current accounts (Note 6)	14,983,149	60,681,752	18,130,778	73,882,920
Term deposits (Note 6)	15,308,642	62,000,001	12,760,736	52,000,000
Deposits and placements with banks				
Current accounts (Note 7)	3,809,843	15,429,864	2,710,075	11,043,555
Savings accounts (Note 7)	59,717,432	241,855,600	16,988,843	69,229,536
	<u>132,476,840</u>	<u>536,531,202</u>	<u>83,211,657</u>	<u>339,087,503</u>
Bank overdraft*	<u>(11,390,511)</u>	<u>(46,131,570)</u>	<u>-</u>	<u>-</u>
	<u><u>121,086,329</u></u>	<u><u>490,399,632</u></u>	<u><u>83,211,657</u></u>	<u><u>339,087,503</u></u>

\*: Bank overdraft is unsecured, bore interest rate at 6.5% - 8% per annum and has the last maturity date on 30 November 2016.

### 29. 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 expenses and income for the year are as follows:

#### (a) Significant related party transactions

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Board of Directors				
Fee and related expenses	<u>266,076</u>	<u>1,077,608</u>	<u>143,460</u>	<u>584,600</u>
Shareholders				
Interest expenses	3,151,299	12,762,761	989,777	4,033,341
Fee and commission on borrowings	<u>204,413</u>	<u>827,873</u>	<u>72,545</u>	<u>295,621</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 29. Related party transactions and balances (continued)

#### (b) Significant related party balances

Loans to and deposits from Directors, key management personnel and shareholders:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Directors and key management				
Deposits	1,428,051	5,783,607	1,055,316	4,300,413
Loans	44,904	181,861	-	-
Shareholders				
Borrowings from:				
BIO	25,183,210	101,992,001	35,095,215	143,013,001
FMO	6,250,000	25,312,500	7,500,000	30,562,500
Deposits from:				
PSCo	6,665	26,993	355	1,447
	<u>32,912,830</u>	<u>133,296,962</u>	<u>43,650,886</u>	<u>177,877,361</u>

Deposits from related parties have the same term and annual interest rate to deposit from customers as described in Note 14.

Borrowings from shareholders of the Company have maturity from one to seven years and bear annual interest rates from 4.65% to 11.34% (including withholding tax).

#### (c) Key management compensation

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Salaries and employee benefits	1,271,768	5,150,660	966,860	3,939,955
Severance pay expenses	49,584	200,815	9,823	40,029
	<u>1,321,352</u>	<u>5,351,475</u>	<u>976,683</u>	<u>3,979,984</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 30. Commitments and contingencies

#### (a) Lease commitments

The Company has the future minimum lease payment under non-cancellable operating lease in respect of the rentals of offices as follows:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Within 1 year	3,061,478	12,398,986	2,476,164	10,090,368
With 2 to 5 year	9,085,544	36,796,453	7,770,221	31,663,650
More than 5 years	2,602,826	10,541,445	3,760,058	15,322,238
	<u>14,749,848</u>	<u>59,736,884</u>	<u>14,006,443</u>	<u>57,076,256</u>

#### (b) Taxation contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

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

### 31. Financial risk management

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

#### (a) Credit risk

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 and deposits and placements with banks. The credit risk management is carried out by the Company's credit committee.

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **31. Financial risk management (continued)**

#### **(a) Credit risk (continued)**

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 the NBC guidelines. Customer with more than one account is subject to stringent and careful review and assessment. The Company closely monitors concentration of credit risk by industries. Additional criteria for loan disbursement are also imposed for some specific risk areas.

#### **(i) 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.

#### **(ii) Risk limit control and mitigation policies**

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

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

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

#### **(iii) 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. Refer to Note 3(g) for details.



# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (a) Credit risk (continued)

#### (iv) Exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements.

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Credit exposure relating to on- balance sheet assets:				
Balances with banks	63,527,275	257,285,464	19,698,918	80,273,091
Loans to customers	847,173,235	3,431,051,602	571,187,994	2,327,591,076
Other assets	10,007,844	40,531,768	7,202,293	29,349,345
	<u>920,708,354</u>	<u>3,728,868,834</u>	<u>598,089,205</u>	<u>2,437,213,512</u>

The above table represents a worst case scenario for credit risk exposure to the Company at 31 December 2015 and 31 December 2014, 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, 92.01% of total maximum exposure is derived from loans to customers (31 December 2014: 95.5%).

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:

- 99.24% of the loans in the portfolio are considered to be neither past due nor impaired (31 December 2014: 99.5%).
- The Company has a stringent selection and collection process for granting loans to customers.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (a) Credit risk (continued)

#### (iv) Exposure to credit risk (continued)

##### Loan to customers

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Loans to customers neither past due nor impaired	850,124,436	3,443,003,966	577,840,827	2,354,701,370
Loans to customers past due but not impaired	3,940,921	15,960,730	1,508,334	6,146,461
Loans to customers individually impaired	2,527,075	10,234,654	1,194,605	4,868,016
	<u>856,592,432</u>	<u>3,469,199,350</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

For the purpose of loan allowance, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the NBC's requirements. The total allowance for bad and doubtful loans is USD 9,419,197 (31 December 2014: USD 9,355,772) which represents the specific provision required by the NBC and additional general allowance for the loan losses.

##### *Loans to customers neither past due nor impaired*

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by collaterals and management views that likelihood of default is relatively low.

##### *Impaired loans and advances*

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers.

In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(g).

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (a) Credit risk (continued)

#### (iv) Exposure to credit risk (continued)

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Past due 30-60 days	510,501	2,067,529	88,602	361,052
Past due 60-90 days	270,352	1,094,926	52,336	213,269
Past due 90-180 days	559,256	2,264,987	166,165	677,122
Past due 180-360 days	730,661	2,959,177	382,672	1,559,388
Past due 360 days or more	456,305	1,848,035	504,830	2,057,185
	<u>2,527,075</u>	<u>10,234,654</u>	<u>1,194,605</u>	<u>4,868,016</u>

Most of the customers' collateral is in the form of land or house title receipts (which are not official land title deeds), as the Company generally issues loans to low income entrepreneurs in the provinces. The Company does not perform, during the period of loan, 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 NBC's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

#### *Past due but not impaired loans and advances*

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 30 days, unless other information is available to indicate otherwise.

#### (v) Loans to customers renegotiated

There were no renegotiated/restructured loans to customers at 31 December 2015 and 31 December 2014.

#### (vi) Repossessed collateral

During the year ended 31 December 2015, the Company did not obtain any assets by taking possession of collateral held as security (31 December 2014: nil).

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **31. Financial risk management (continued)**

#### **(a) Credit risk (continued)**

##### **(vii) Deposit and placements with banks**

The Company deposits short-term excess liquidity with banks leading to counter party risk exposure. The Company manages counter party risk exposure by performing due diligence on individual counter parties, having counterparty limits and diversifying the deposits to different banks.

#### **(b) Operational risk**

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

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

#### **(c) Market risk**

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.

##### **(i) Foreign currency exchange risk**

The Company operates in Cambodia and transacts in KHR, USD, and THB and is exposed to currency risks, primarily with respect to KHR and THB.

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.

Management monitors its foreign exchange risk against functional currencies through monitoring the foreign exchange risk by using the absorbed risk of 20% of the net worth required by the NBC.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (c) Market risk

##### (i) Foreign currency exchange risk (continued)

##### Concentration of currency risk

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

As at 31 December 2015	USD equivalent			Total USD
	USD	KHR	THB	
<b>Financial assets</b>				
Cash on hand	30,406,745	7,151,572	1,099,457	38,657,774
Deposits and placements with the NBC	14,049,933	16,241,858	-	30,291,791
Deposits and placements with banks	36,391,883	24,487,907	2,647,485	63,527,275
Loans to customers	764,119,111	52,754,105	30,300,019	847,173,235
Other assets	8,549,951	1,014,114	443,779	10,007,844
<b>Total financial assets</b>	<b>853,517,623</b>	<b>101,649,556</b>	<b>34,490,740</b>	<b>989,657,919</b>
<b>Financial liabilities</b>				
Deposits from banks and Financial institutions	22,913,568	987,654	-	23,901,222
Deposits from customers	376,107,671	62,228,880	5,195,692	443,532,243
Borrowings	316,687,748	23,600,000	22,333,083	362,620,831
Subordinated debts	34,500,000	14,835,158	-	49,335,158
Other liabilities	16,107,026	2,205,530	564,920	18,877,476
<b>Total financial liabilities</b>	<b>766,316,013</b>	<b>103,857,222</b>	<b>28,093,695</b>	<b>898,266,930</b>
Net financial asset position	87,201,610	(2,207,666)	6,397,045	91,390,989
Equivalent in KHR'000	353,166,522	(8,941,047)	25,908,032	370,133,507
<b>As at 31 December 2014</b>				
Total financial assets	562,468,764	74,662,700	24,471,257	661,602,721
Total financial liabilities	515,297,278	61,180,018	22,014,630	598,491,926
Net financial asset position	47,171,486	13,482,682	2,456,627	63,110,795

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (c) Market risk (continued)

##### (i) Foreign currency exchange risk (continued)

###### Sensitivity analysis

A reasonably possible strengthening (weakening) of the USD against KHR or THB would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

<i>Effect in USD</i>	2015		2014	
	Strengthening	Weakening	Strengthening	Weakening
KHR (5% movements)	(110,383)	110,383	674,134	(674,134)
THB (5% movements)	319,852	(319,852)	122,831	(122,831)
	<u>209,469</u>	<u>(209,469)</u>	<u>796,965</u>	<u>(796,965)</u>

##### (ii) Interest rate risk

Cash flows 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 repricing 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 repricing or maturity dates.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

As at 31 December 2015	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	Non-interest sensitive USD	Total USD
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	38,657,774	38,657,774
Deposits and placements with NBC	15,308,642	-	-	-	-	14,983,149	30,291,791
Deposits and placements with banks	59,717,432	-	-	-	-	3,809,843	63,527,275
Loans to customers	31,289,370	70,813,701	255,527,844	480,568,099	8,974,221	-	847,173,235
Other assets	-	-	-	-	-	10,007,844	10,007,844
	<u>106,315,444</u>	<u>70,813,701</u>	<u>255,527,844</u>	<u>480,568,099</u>	<u>8,974,221</u>	<u>67,458,610</u>	<u>989,657,919</u>
<b>Financial liabilities</b>							
Deposits from banks and other financial institutions	2,702,618	6,037,654	15,160,950	-	-	-	23,901,222
Deposits from customers	99,137,030	96,443,714	243,269,187	4,682,312	-	-	443,532,243
Borrowings	8,555,556	10,200,945	114,113,471	228,075,992	1,674,867	-	362,620,831
Subordinated debts	-	-	3,000,000	26,166,667	20,168,491	-	49,335,158
Other liabilities	-	-	-	-	-	18,877,476	18,877,476
	<u>110,395,204</u>	<u>112,682,313</u>	<u>375,543,608</u>	<u>258,924,971</u>	<u>21,843,358</u>	<u>18,877,476</u>	<u>898,266,930</u>
Maturity gap	<u>(4,079,760)</u>	<u>(41,868,612)</u>	<u>(120,015,764)</u>	<u>221,643,128</u>	<u>(12,869,137)</u>	<u>48,581,134</u>	<u>91,390,989</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

<b>As at 31 December 2014</b>	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	Non-interest sensitive USD	Total USD
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	32,621,225	32,621,225
Deposits and placements with NBC	-	-	-	-	-	30,891,514	30,891,514
Deposits and placements with banks	16,988,843	-	-	-	-	2,710,075	19,698,918
Loans to customers	23,859,469	54,284,572	196,762,916	296,169,342	111,695	-	571,187,994
Other assets	-	-	-	-	-	7,203,070	7,203,070
	<u>40,848,312</u>	<u>54,284,572</u>	<u>196,762,916</u>	<u>296,169,342</u>	<u>111,695</u>	<u>73,425,884</u>	<u>661,602,721</u>
<b>Financial liabilities</b>							
Deposits from banks and financial institutions	2,182,841	3,764,064	10,816,697	-	-	-	16,763,602
Deposits from customers	70,892,204	57,247,090	157,023,831	3,237,080	-	-	288,400,205
Borrowings	1,765,919	3,427,108	67,444,001	184,915,329	3,349,734	-	260,902,091
Subordinated debts	-	-	1,500,000	15,333,333	4,166,667	-	21,000,000
Other liabilities	-	-	-	-	-	11,426,028	11,426,028
	<u>74,840,964</u>	<u>64,438,262</u>	<u>236,784,529</u>	<u>203,485,742</u>	<u>7,516,401</u>	<u>11,426,028</u>	<u>598,491,926</u>
Maturity gap	<u>(33,992,652)</u>	<u>(10,153,690)</u>	<u>(40,021,613)</u>	<u>92,683,600</u>	<u>(7,404,706)</u>	<u>61,999,856</u>	<u>63,110,795</u>



# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **31. Financial risk management (continued)**

#### **(c) Market risk (continued)**

##### **(ii) Interest rate risk (continued)**

##### **Fair value sensitivity analysis for fixed-rate instruments**

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

##### **Cash flow sensitivity analysis for variable-rate instruments**

The Company does not have variable-rate instruments. Therefore, cash flow sensitivity analysis is not presented.

#### **(d) 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 fulfil commitments to lend.

##### **(i) 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.

##### **(ii) Funding approach**

The Company's main sources of liquidity arise from the shareholders' paid-up capital, borrowings 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.

##### **(iii) Non-derivative cash flows**

The table on the following page 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.

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (d) Liquidity risk (continued)

##### (iii) Non-derivative cash flows (continued)

As at 31 December 2015	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	No fixed terms USD	Total USD
<b>Financial assets</b>							
Cash on hand	38,657,774	-	-	-	-	-	38,657,774
Deposits and placements with the NBC	14,983,149	-	-	-	-	15,308,642	30,291,791
Deposits and placements with banks	63,527,275	-	-	-	-	-	63,527,275
Loans to customers	37,255,700	98,854,325	354,425,413	603,992,820	9,720,852	-	1,104,249,110
Other assets	9,669,359	-	310,318	-	-	28,167	10,007,844
<b>Total financial assets</b>	<b>164,093,257</b>	<b>98,854,325</b>	<b>354,735,731</b>	<b>603,992,820</b>	<b>9,720,852</b>	<b>15,336,809</b>	<b>1,246,733,794</b>
<b>Financial liabilities</b>							
Deposits from banks and financial institutions	2,702,618	6,037,654	15,160,950	-	-	-	23,901,222
Deposits from customers	99,137,030	96,443,714	243,269,187	4,682,312	-	-	443,532,243
Borrowings	10,145,923	13,731,998	131,586,180	248,983,252	1,766,984	-	406,214,338
Subordinated debts	-	272,219	5,722,234	33,802,010	5,783,321	14,835,158	60,414,942
Other liabilities	4,089,555	2,762,784	8,988,436	3,036,702	-	-	18,877,477
<b>Total financial liabilities</b>	<b>116,157,133</b>	<b>121,463,321</b>	<b>404,192,844</b>	<b>288,741,460</b>	<b>7,550,305</b>	<b>14,835,158</b>	<b>952,940,221</b>
<b>Net financial assets/(liabilities)</b>	<b>47,936,124</b>	<b>(22,608,996)</b>	<b>(49,457,113)</b>	<b>315,251,360</b>	<b>2,170,547</b>	<b>501,651</b>	<b>293,793,573</b>
<b>Equivalent in KHR'000 (Note 4)</b>	<b>194,141,302</b>	<b>(91,566,434)</b>	<b>(200,301,307)</b>	<b>1,276,768,009</b>	<b>8,790,715</b>	<b>2,031,687</b>	<b>1,189,863,972</b>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (d) Liquidity risk (continued)

##### (iii) Non-derivative cash flows (continued)

As at 31 December 2014	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	No fixed terms USD	Total USD
<b>Financial assets</b>							
Cash on hand	32,621,225	-	-	-	-	-	32,621,225
Deposits and placements with the NBC	30,891,514	-	-	-	-	-	30,891,514
Deposits and placements with banks	19,698,918	-	-	-	-	-	19,698,918
Loans to customers	34,935,305	73,659,985	263,238,784	362,743,969	120,489	-	734,698,532
Other assets	6,833,326	-	341,576	-	-	28,168	7,203,070
<b>Total financial assets</b>	<u>124,980,288</u>	<u>73,659,985</u>	<u>263,580,360</u>	<u>362,743,969</u>	<u>120,489</u>	<u>28,168</u>	<u>825,113,259</u>
<b>Financial liabilities</b>							
Deposits from banks and financial institutions	2,182,841	3,764,064	10,816,697	-	-	-	16,763,602
Deposits from customers	70,892,204	57,247,090	157,023,831	3,237,080	-	-	288,400,205
Borrowings	2,473,364	5,960,643	77,324,176	205,395,330	3,626,591	-	294,780,104
Subordinated debts	-	226,356	3,184,829	20,334,927	4,557,795	-	28,303,907
Other liabilities	1,993,762	2,196,178	7,236,088	-	-	-	11,426,028
<b>Total financial liabilities</b>	<u>77,542,171</u>	<u>69,394,331</u>	<u>255,585,621</u>	<u>228,967,337</u>	<u>8,184,386</u>	<u>-</u>	<u>639,673,846</u>
<b>Net financial assets/(liabilities)</b>	<u>47,438,117</u>	<u>4,265,654</u>	<u>7,994,739</u>	<u>133,776,632</u>	<u>(8,063,897)</u>	<u>28,168</u>	<u>185,439,413</u>
<b>Equivalent in KHR'000 (Note 4)</b>	<u>193,310,327</u>	<u>17,382,540</u>	<u>32,578,561</u>	<u>545,139,775</u>	<u>(32,860,380)</u>	<u>114,785</u>	<u>755,665,608</u>

# PRASAC Microfinance Institution Limited

## Notes to the financial statements (continued) for the year ended 31 December 2015

### 31. Financial risk management (continued)

#### (d) Liquidity risk (continued)

##### (iv) Off-balance sheet items

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as disclosed in Note 30.

#### (e) Capital management

##### (i) Regulatory capital

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 NBC;
- 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 NBC requires all licensed deposit-taking micro-finance institutions to (i) fulfil the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

The table below summarises the composition of regulatory capital:

	2015		2014	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
<b>Tier 1 Capital</b> (paid-up capital (common stock) + reserve)				
Share capital	72,000,000	291,600,000	47,000,000	191,525,000
Reserves	2,272,647	9,204,220	5,482,607	22,341,624
Retained earnings	47,477,360	192,283,308	29,378,474	119,717,282
Less: loan to related parties	(44,904)	(181,861)	-	-
	<u>121,705,103</u>	<u>492,905,667</u>	<u>81,861,081</u>	<u>333,583,906</u>
<b>Tier 2 Capital</b> (general reserves + subordinated debts + hybrid capital (preferred stock))				
Subordinated debts (Note 16)	14,835,158	60,082,390	11,204,313	45,657,577
Subordinated debts (Note 15)	34,500,000	139,725,000	21,000,000	85,575,000
	<u>49,335,158</u>	<u>199,807,390</u>	<u>32,204,313</u>	<u>131,232,577</u>
<b>Total regulated capital (Tier 1+2)</b>	<u><u>171,040,261</u></u>	<u><u>692,713,057</u></u>	<u><u>114,065,394</u></u>	<u><u>464,816,483</u></u>

# **PRASAC Microfinance Institution Limited**

## **Notes to the financial statements (continued) for the year ended 31 December 2015**

### **31. Financial risk management (continued)**

#### **(e) Capital management (continued)**

The above regulated capital is calculated in accordance with the guidance issued by the National Bank of Cambodia which may be different in some material respects compared to generally accepted principles applied by financial institutions in other jurisdiction. The above regulated capital information is therefore not intended for users who are not informed about the guidance issued by the National Bank of Cambodia.

#### **(ii) Capital allocation**

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

#### **(f) Fair values**

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available and market prices are not available for a significant proportion of the Company's financial assets and liabilities fair values, therefore, were not presented.