

**PRASAC MICROFINANCE
INSTITUTION LIMITED**

**Interim Financial Statements
for the period from 1 January 2015
to 30 June 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
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

	Page
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 interim financial statements	11



Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited interim financial statements of PRASAC Microfinance Institution Limited (“the Company”) for the period from 1 January 2015 to 30 June 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 period from 1 January 2015 to 30 June 2015 were as follows:

	For the period from	
	1 January 2015 to 30 June 2015	
	US\$	KHR'000
Profit before income tax	24,138,208	98,918,377
Income tax expense	(4,867,215)	(19,945,847)
Net profit for the period	<u>19,270,993</u>	<u>78,972,530</u>

Dividend

On 28 May 2015, the Company received approval from National Bank of Cambodia (“NBC”) on dividend distribution request amounting to US\$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 period other than as disclosed in the interim financial statements.

Bad and doubtful loans

Before the interim 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 interim financial statements of the Company, inadequate to any material extent.

Assets

Before the interim 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 interim 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 interim 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 period 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 period 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 period 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 interim financial statements of the Company, which would render any amount stated in the interim financial statements misleading.

PRASAC Microfinance Institution Limited

Items of unusual nature

The results of the operations of the Company for the financial period 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 period 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 period in which this report is made.

Share capital

There were no changes in the shareholders and the shareholding of the Company during the period.

The Board of Directors

The members of the Board of Directors during the period 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

Directors' benefits

During and at the end of the financial period, 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 period, 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 interim 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 interim financial statements.

PRASAC Microfinance Institution Limited

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

The Board of Directors is responsible for ascertaining that the interim financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2015, and its financial performance and its cash flows for the period from 1 January 2015 to 30 June 2015. In preparing these interim 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 interim 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 interim financial statements;
- (iii) maintain adequate accounting records and an effective system of internal controls;
- (iv) prepare the interim 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 interim financial statements.

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

Approval of the interim financial statements

I, the undersigned, on behalf of the Board of Directors, hereby approve the accompanying interim financial statements as set out on pages 7 to 60 which present fairly in all material respects, the financial position of PRASAC Microfinance Institution Limited as at 30 June 2015, and its financial performance and its cash flows for the period from 1 January 2015 to 30 June 2015 in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of interim financial statements.

On behalf of the Board of Directors



Oum Sam Oeun

Director

Phnom Penh, Kingdom of Cambodia

Date: 30 JUL 2015



KPMG Cambodia Ltd
4th floor, Delano Center
No. 144, Street 169
Sangkat Veal Vong
Khan 7 Makara, Phnom Penh
Kingdom of Cambodia

Telephone +855 (23) 216 899
Fax +855 (23) 217 279
Internet www.kpmg.com.kh

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

We have audited the accompanying interim financial statements of PRASAC Microfinance Institution Limited (“the Company”), which comprise the balance sheet as at 30 June 2015, and the income statement, statement of changes in equity and statement of cash flows for the period from 1 January 2015 to 30 June 2015, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 7 to 60.

Management’s responsibility for the interim financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the interim 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 interim 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 interim 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 interim financial statements present fairly, in all material respects, the financial position of PRASAC Microfinance Institution Limited as at 30 June 2015, and its financial performance and its cash flows for the period from 1 January 2015 to 30 June 2015, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of interim 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 six month period ended 30 June 2014 and related explanatory notes were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2015 and 29 July 2014 respectively.

For **KPMG Cambodia Ltd**



Nge Huy
Audit Partner

Phnom Penh, Kingdom of Cambodia

30 July 2015

PRASAC Microfinance Institution Limited

Balance sheet As at 30 June 2015

	Note	As at 30 June 2015		As at 31 December 2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand	5	36,716,314	150,463,455	32,621,225	132,931,492
Deposits and placements with the National Bank of Cambodia	6	40,573,178	166,268,883	59,148,975	241,032,073
Deposits and placements with banks	7	66,145,339	271,063,599	19,698,918	80,273,091
Loans to customers	8	685,478,585	2,809,091,241	571,187,994	2,327,591,076
Other assets	9	12,129,640	49,707,265	11,179,052	45,554,637
Property and equipment	10	5,734,269	23,499,034	5,459,877	22,248,999
Intangible assets	11	1,530,126	6,270,456	1,654,490	6,742,047
Deferred tax assets, net	12	864,317	3,541,971	624,458	2,544,666
TOTAL ASSETS		849,171,768	3,479,905,904	701,574,989	2,858,918,081
LIABILITIES AND EQUITY					
Liabilities					
Deposits from banks and other financial institutions	13	18,142,281	74,347,068	16,763,602	68,311,678
Deposits from customers	14	383,526,684	1,571,692,351	288,400,205	1,175,230,835
Borrowings	15	313,254,813	1,283,718,224	281,902,091	1,148,751,021
Other liabilities	16	17,466,783	71,578,873	12,169,992	49,592,716
Current income tax liabilities	12	4,504,061	18,457,642	6,738,740	27,460,366
Severance pay obligations	17	3,009,124	12,331,390	2,534,965	10,329,982
Total Liabilities		739,903,746	3,032,125,548	608,509,595	2,479,676,598
Equity					
Share capital	18	47,000,000	192,606,000	47,000,000	191,525,000
Subordinated debts	19	11,141,429	45,657,577	11,204,313	45,657,577
Reserves		5,838,240	23,925,108	5,482,607	22,341,624
Retained earnings		45,288,353	185,591,671	29,378,474	119,717,282
Total equity		109,268,022	447,780,356	93,065,394	379,241,483
TOTAL LIABILITIES AND EQUITY		849,171,768	3,479,905,904	701,574,989	2,858,918,081

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

PRASAC Microfinance Institution Limited

Income statement for the period from 1 January 2015 to 30 June 2015

	Note	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	20	70,846,390	290,328,506	48,716,806	196,815,896
Interest expense	21	(23,530,066)	(96,426,210)	(15,115,838)	(61,067,986)
Net interest income		47,316,324	193,902,296	33,600,968	135,747,910
Allowance for bad and doubtful loans	8	(2,114,360)	(8,664,647)	(1,580,129)	(6,383,721)
Net interest income after allowance for bad and doubtful loans		45,201,964	185,237,649	32,020,839	129,364,189
Fee and commission expenses	22	(567,647)	(2,326,217)	(511,316)	(2,065,717)
Other income	23	1,483,633	6,079,928	780,487	3,153,167
Personnel expenses	24	(15,070,424)	(61,758,598)	(9,895,493)	(39,977,792)
Depreciation and amortisation	25	(1,042,046)	(4,270,304)	(809,588)	(3,270,736)
General and administrative expenses	26	(5,952,558)	(24,393,583)	(4,992,684)	(20,170,442)
Operating profit		24,052,922	98,568,875	16,592,245	67,032,669
Net foreign exchange gain		71,286	292,130	69,183	279,499
Grant		14,000	57,372	-	-
Profit before income tax		24,138,208	98,918,377	16,661,428	67,312,168
Income tax expense	12	(4,867,215)	(19,945,847)	(3,386,430)	(13,681,177)
Net profit for the period		19,270,993	78,972,530	13,274,998	53,630,991

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

PRASAC Microfinance Institution Limited

Statement of changes in equity for the period from 1 January 2015 to 30 June 2015

	Share capital US\$	Subordinated debts US\$	Reserves US\$	Retained earnings US\$	Total US\$
At 1 January 2014	19,685,067	11,301,381	4,698,399	27,422,810	63,107,657
Net profit for the period	-	-	-	13,274,998	13,274,998
Transfer to share capital	27,314,933	-	-	(27,314,933)	-
Transfer to reserves	-	-	451,265	(451,265)	-
As at 30 June 2014	<u>47,000,000</u>	<u>11,301,381</u>	<u>5,149,664</u>	<u>12,931,610</u>	<u>76,382,655</u>
(KHR'000 equivalents - Note 4)	<u>189,880,000</u>	<u>45,657,577</u>	<u>20,804,643</u>	<u>52,243,704</u>	<u>308,585,924</u>
At 1 January 2015	47,000,000	11,204,313	5,482,607	29,378,474	93,065,394
Net profit for the period	-	-	-	19,270,993	19,270,993
Transfer to reserves	-	-	355,633	(355,633)	-
Dividend paid	-	-	-	(3,005,481)	(3,005,481)
Currency translation differences	-	(62,884)	-	-	(62,884)
As at 30 June 2015	<u>47,000,000</u>	<u>11,141,429</u>	<u>5,838,240</u>	<u>45,288,353</u>	<u>109,268,022</u>
(KHR'000 equivalents - Note 4)	<u>192,606,000</u>	<u>45,657,577</u>	<u>23,925,108</u>	<u>185,591,671</u>	<u>447,780,356</u>

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

PRASAC Microfinance Institution Limited

Statement of cash flows for the period from 1 January 2015 to 30 June 2015

	Note	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operations	27	(47,334,664)	(193,977,453)	(39,564,288)	(159,839,723)
Interest received		70,134,874	287,412,714	48,032,578	194,051,615
Interest paid		(20,632,095)	(84,550,325)	(13,620,751)	(55,027,834)
Income tax paid		(7,345,258)	(30,100,867)	(4,275,224)	(17,271,905)
Severance pay paid		(135,111)	(553,685)	(74,528)	(301,093)
Net cash used in operating activities		(5,312,254)	(21,769,616)	(9,502,213)	(38,388,940)
Cash flows from investing activities					
Purchase of property and equipment		(1,192,142)	(4,885,398)	(1,665,335)	(6,727,953)
Purchase of intangible assets		(27,720)	(113,597)	(721,073)	(2,913,135)
Proceeds from disposals of property and equipment		72,778	298,244	22,588	91,256
Net cash used in investing activities		(1,147,084)	(4,700,751)	(2,363,820)	(9,549,832)
Cash flows from financing activities					
Proceeds from borrowings		55,740,100	228,422,930	53,882,263	217,684,343
Repayments of borrowings		(24,387,378)	(99,939,475)	(27,469,596)	(110,977,168)
Dividend payment		(3,005,481)	(12,316,461)	-	-
Net cash generated from financing activities		28,347,241	116,166,994	26,412,667	106,707,175
Net decrease in cash and cash equivalents		21,887,903	89,696,627	14,546,634	58,768,403
Cash and cash equivalents at beginning of the period					
		83,211,657	339,087,502	52,918,002	211,407,418
Currency translation differences		-	1,913,868	-	2,381,308
Cash and cash equivalents at the end of the period	28	105,099,560	430,697,997	67,464,636	272,557,129

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

PRASAC Microfinance Institution Limited

Notes to the interim financial statements for the period from 1 January 2015 to 30 June 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 register 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 interim 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 KHR188,000 million (equivalent to US\$47 million) and the changes in par value to KHR4,000 (equivalent to US\$1) per share. Such changes were amended in Memorandum and Articles of Association which acknowledged by the Ministry of Commerce on 29 July 2014.

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

As at 30 June 2015, the Company had 4,649 employees (31 December 2014: 4,100 and 30 June 2014: 3,228 employees).

2. Basis of preparation

(a) Statement of compliance

The interim 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 interim financial statements.

The interim financial statements were approved and authorised for issue by the Board of Directors on 30 July 2015.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

2. Basis of preparation (continued)

(b) Basis of measurement

The interim 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 (“US\$”) and Thai Baht (“THB”). Management have determined the US\$ 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 US\$ are translated into US\$ at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ 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 interim 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 period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

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

(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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

(b) Basis of aggregation

The Company's interim financial statements comprise the interim 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.

(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
Short term loans (less than one year):		
Sub-standard	30 days or more	10%
Doubtful	60 days or more	30%
Loss	90 days or more	100%

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

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

Classification	Number of days past due	Allowance
Long term loans (more than one year):		
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 at the rate of 1.5% (2014: 1.5%) of total outstanding loans excluding staff 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.

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.

(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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

(j) Property and equipment (continued)

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

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

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 period in which it is incurred.
- (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 interim financial statements until disposed of or written off.

(k) Intangible assets

Intangible assets consist of computer software 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 at 50% annual rate using declining balance.

Core Banking Licence is stated at cost less accumulated amortisation and accumulated impairment losses, if any. It is amortised over their estimated useful lives of 10 years using the straight-line method.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

(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.

(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, if otherwise, it is treated as equity. The subordinated debts which are approved by the NBC are included as a Tier II 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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

(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. Staffs 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.

(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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

(t) Income tax

Income tax on the profit or loss for the period 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 period using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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.

(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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

3. Significant accounting policies (continued)

(v) Reserves

(i) *Special reserve*

Based on the memorandum and articles of association, the Company has to annually transfer an amount that provides capital protection from retained earnings into special reserve. The amount is equivalent to the annual inflation rate, but in any case not higher than 5%, multiplied by the subordinate debt amount. This reserve is non-distributable.

(ii) *ICO reserve*

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 interim financial statements are stated in United States Dollars (“US\$”). 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 30 June 2015 of US\$1: KHR4,098 (31 December 2014 of US\$1: KHR4,075 and 30 June 2014 of US\$1: KHR4,040) published by the NBC. These convenience translations are not audited and should not be construed as representations that the US\$ 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

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Branches	27,553,333	112,913,559	23,350,683	95,154,033
Head office	9,162,981	37,549,896	9,270,542	37,777,459
	<u>36,716,314</u>	<u>150,463,455</u>	<u>32,621,225</u>	<u>132,931,492</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

6. Deposits and placements with the National Bank of Cambodia

	Note	As at 30 June 2015		As at 31 December 2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory capital deposit	(i)	7,027,818	28,799,998	4,613,497	18,800,000
Reserve requirement	(ii)	31,307,453	128,297,942	23,643,964	96,349,153
Current accounts	(iii)	2,237,907	9,170,943	18,130,778	73,882,920
Term deposits	(iv)	-	-	12,760,736	52,000,000
		<u>40,573,178</u>	<u>166,268,883</u>	<u>59,148,975</u>	<u>241,032,073</u>

(i) *Capital guarantee 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*

Term deposits bore interest rate from 1.27% to 1.32% per annum.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

7. Deposits and placements with banks

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	38,619,199	158,261,477	2,710,075	11,043,555
Savings accounts	27,526,140	112,802,122	16,988,843	69,229,536
	<u>66,145,339</u>	<u>271,063,599</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:

	As at 30 June 2015	As at 31 December 2014
Savings accounts	<u>0.05% to 0.75%</u>	<u>0.05% to 0.50%</u>

8. Loans to customers

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Individual loans	684,924,589	2,806,820,966	568,064,995	2,314,864,855
Loan to small and medium enterprises (SME)	5,792,730	23,738,608	5,636,386	22,968,273
Group loans	3,617,222	14,823,376	4,799,490	19,557,922
Staff loans	2,593,299	10,627,339	2,042,895	8,324,797
Gross loans	<u>696,927,840</u>	<u>2,856,010,289</u>	<u>580,543,766</u>	<u>2,365,715,847</u>
Allowance for bad and doubtful loans:				
General	(10,382,338)	(42,546,822)	(8,677,515)	(35,360,874)
Specific	(1,066,917)	(4,372,226)	(678,257)	(2,763,897)
	<u>(11,449,255)</u>	<u>(46,919,048)</u>	<u>(9,355,772)</u>	<u>(38,124,771)</u>
Net loans	<u>685,478,585</u>	<u>2,809,091,241</u>	<u>571,187,994</u>	<u>2,327,591,076</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 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:

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	9,355,772	38,124,771	5,925,764	23,940,087
Provision for the period	2,114,360	8,664,647	1,580,129	6,383,721
Currency translation differences	(20,877)	129,630	(447)	(1,806)
At 30 June	<u>11,449,255</u>	<u>46,919,048</u>	<u>7,505,446</u>	<u>30,322,002</u>

The gross loans to customers are analysed as follows:

(b) By economic sector

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Agriculture	237,143,443	971,813,829	191,614,940	780,830,881
Construction	216,077,476	885,485,498	165,039,159	672,534,573
Trade and commerce	131,030,510	536,963,030	125,533,910	511,550,683
Transportation	48,177,421	197,431,071	43,261,188	176,289,341
Consumption	6,029,278	24,707,981	3,721,654	15,165,740
Services	58,469,712	239,608,880	51,372,915	209,344,629
	<u>696,927,840</u>	<u>2,856,010,289</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

8. Loans to customers (continued)

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

(c) By relationship

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
External customers	694,334,541	2,845,382,950	578,500,871	2,357,391,049
Staff loans	2,593,299	10,627,339	2,042,895	8,324,798
	<u>696,927,840</u>	<u>2,856,010,289</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

(d) By locations

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Branches	694,010,231	2,844,053,927	577,842,494	2,354,708,164
Head office	2,917,609	11,956,362	2,701,272	11,007,683
	<u>696,927,840</u>	<u>2,856,010,289</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

(e) By performance

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Standard loans:				
Secured	248,160,904	1,016,963,385	201,805,491	822,357,376
Unsecured	446,557,821	1,829,993,950	377,543,670	1,538,490,455
Sub-standard loans:				
Secured	183,015	749,995	44,673	182,042
Unsecured	861,406	3,530,042	240,207	978,844

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

8. Loans to customers (continued)

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

(e) By performance (continued)

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Doubtful loans:				
Secured	56,445	231,312	101,520	413,694
Unsecured	232,465	952,642	269,844	1,099,614
Loss loans:				
Secured	162,740	666,909	88,497	360,625
Unsecured	713,044	2,922,054	449,864	1,833,197
	<u>696,927,840</u>	<u>2,856,010,289</u>	<u>580,543,766</u>	<u>2,365,715,847</u>

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 that were in operation during the period/year are as follows:

	As at 30 June 2015	As at 31 December 2014
Group loans	31.2% - 33.6%	31.2% - 39.0%
Individual loans	12% - 33.6%	12.0% - 39.0%
Biogas loans	14.4%	14.4%
Staff loans	12%	12%

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

9. Other assets

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	7,809,228	32,002,216	6,967,712	28,393,426
Allowance for interest receivable	(334,156)	(1,369,371)	(204,156)	(831,936)
Net interest receivable	<u>7,475,072</u>	<u>30,632,845</u>	<u>6,763,556</u>	<u>27,561,490</u>
Prepayments	4,210,584	17,254,973	3,975,982	16,202,127
Deposits	323,459	1,325,535	258,443	1,053,155
Accounts receivable	89,541	366,939	152,904	623,084
Long term investments	28,167	115,428	28,167	114,781
Others	2,817	11,545	-	-
	<u>12,129,640</u>	<u>49,707,265</u>	<u>11,179,052</u>	<u>45,554,637</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

10. Property and equipment

30 June 2015	Office furniture US\$	Motor vehicles US\$	Motor-cycles US\$	Computer peripherals US\$	Leasehold improvements US\$	Communication equipment US\$	Work in progress US\$	Total US\$
Cost								
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	138,145	366,800	-	238,482	276,827	5,861	166,027	1,192,142
Disposals	(7,747)	(136,198)	-	(12,896)	(830)	(1,711)	-	(159,382)
At 30 June 2015	3,116,998	1,930,350	321,961	2,875,902	1,785,867	264,649	306,998	10,602,725
Less: Accumulated depreciation								
At 1 January 2015	1,085,181	673,190	82,315	1,738,347	445,901	85,154	-	4,110,088
Depreciation for the period	244,547	161,959	29,713	257,991	173,617	22,135	-	889,962
Disposals	(6,294)	(111,725)	-	(11,523)	(830)	(1,222)	-	(131,594)
At 30 June 2015	1,323,434	723,424	112,028	1,984,815	618,688	106,067	-	4,868,456
Carrying amounts								
At 1 January 2015	1,901,419	1,026,558	239,646	911,969	1,063,969	175,345	140,971	5,459,877
At 30 June 2015	1,793,564	1,206,926	209,933	891,087	1,167,179	158,582	306,998	5,734,269
At 30 June 2015 (KHR'000 equivalents - Note 4)	7,350,025	4,945,983	860,305	3,651,674	4,783,100	649,869	1,258,078	23,499,034

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

10. Property and equipment (continued)

31 December 2014	Office furniture US\$	Motor vehicles US\$	Motor-cycles US\$	Computer peripherals US\$	Leasehold improvements US\$	Communication equipment US\$	Work in progress US\$	Total US\$
Cost								
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>
Less: Accumulated depreciation								
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>
Carrying amounts								
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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

11. Intangible assets

30 June 2015	Computer Software US\$	Core banking System US\$	Total US\$
Cost			
At 1 January 2015	819,271	1,535,393	2,354,664
Additions	27,720	-	27,720
	<hr/>	<hr/>	<hr/>
At 30 June 2015	846,991	1,535,393	2,382,384
	<hr/>	<hr/>	<hr/>
Less: Accumulated amortisation			
At 1 January 2015	258,074	442,100	700,174
Amortisation for the period	68,409	83,675	152,084
	<hr/>	<hr/>	<hr/>
At 30 June 2015	326,483	525,775	852,258
	<hr/>	<hr/>	<hr/>
Carrying amounts			
At 30 June 2015	520,508	1,009,618	1,530,126
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2015 (KHR'000 equivalents - Note 4)	2,133,042	4,137,414	6,270,456
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
31 December 2014			
Cost			
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/>
Less: Accumulated amortisation			
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/>
Carrying amounts			
At 31 December 2014	561,196	1,093,294	1,654,490
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2014 (KHR'000 equivalents - Note 4)	2,286,874	4,455,173	6,742,047
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 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:

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deferred tax assets	1,165,287	4,775,346	959,451	3,909,763
Deferred tax liabilities	(300,970)	(1,233,375)	(334,993)	(1,365,097)
	<u>864,317</u>	<u>3,541,971</u>	<u>624,458</u>	<u>2,544,666</u>

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

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for severance pay	601,825	2,466,279	506,995	2,066,005
Unused annual leave	261,934	1,073,406	162,605	662,615
Unrealised exchange loss	198,740	814,436	181,680	740,345
Depreciation and amortisation	(159,318)	(652,885)	(220,913)	(900,220)
Currency translation differences	(38,864)	(159,265)	(5,909)	(24,079)
	<u>864,317</u>	<u>3,541,971</u>	<u>624,458</u>	<u>2,544,666</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

12. Taxation (continued)

(a) Deferred tax assets (continued)

The movements of net deferred tax assets are as follows:

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at the beginning of the period	624,458	2,544,666	504,182	2,036,895
Recognised in the income statement	243,364	997,306	130,490	527,180
Currency translation differences	(3,505)	(1)	(1,592)	(6,432)
	<u>864,317</u>	<u>3,541,971</u>	<u>633,080</u>	<u>2,557,643</u>

(b) Current income tax liabilities

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	6,738,740	27,460,366	3,861,933	15,428,422
Charge to income statement				
from 1 January to 30 June	5,110,579	20,943,153	3,516,920	14,208,357
from 1 July to 31 December	-	-	4,219,102	17,315,933
Income tax paid	(7,345,258)	(30,100,867)	(4,859,215)	(19,801,301)
Currency translation differences	-	154,990	-	308,955
At the end of the period/year	<u>4,504,061</u>	<u>18,457,642</u>	<u>6,738,740</u>	<u>27,460,366</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

12. Taxation (continued)

(c) Income tax expense

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current tax	5,110,579	20,943,153	3,516,920	14,208,357
Deferred tax	(243,364)	(997,306)	(130,490)	(527,180)
	<u>4,867,215</u>	<u>19,945,847</u>	<u>3,386,430</u>	<u>13,681,177</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:

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	<u>24,138,208</u>	<u>98,918,377</u>	<u>16,661,428</u>	<u>67,312,168</u>
Tax calculated at a rate of 20%	4,827,642	19,783,677	3,332,286	13,462,434
Effect of non-deductible expenses	<u>39,573</u>	<u>162,170</u>	<u>54,144</u>	<u>218,743</u>
Total income tax expenses	<u>4,867,215</u>	<u>19,945,847</u>	<u>3,386,430</u>	<u>13,681,177</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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

13. Deposits from banks and other financial institutions

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Term deposits	18,128,805	74,291,843	16,485,822	67,179,725
Savings deposits	13,476	55,225	277,780	1,131,953
	<u>18,142,281</u>	<u>74,347,068</u>	<u>16,763,602</u>	<u>68,311,678</u>

Interest rates are analysed as follows:

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR	US\$	KHR
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

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Term deposits	346,235,499	1,418,873,075	255,861,358	1,042,635,034
Savings deposits	37,291,185	152,819,276	32,538,847	132,595,801
	<u>383,526,684</u>	<u>1,571,692,351</u>	<u>288,400,205</u>	<u>1,175,230,835</u>

Annual interest rates for deposits from customers are as follows:

	As at 30 June 2015			As at 31 December 2014		
	US\$	KHR	THB	US\$	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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

15. Borrowings

Borrowings are analysed as follows:

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By relationship				
Non-related parties	274,943,503	1,126,718,476	239,306,876	975,175,520
Related parties	38,311,310	156,999,748	42,595,215	173,575,501
	<u>313,254,813</u>	<u>1,283,718,224</u>	<u>281,902,091</u>	<u>1,148,751,021</u>

Included in the borrowings are subordinated debts approved by the NBC:

Non-related parties	21,000,000	86,058,000	16,000,000	65,200,000
Related parties	5,000,000	20,490,000	5,000,000	20,375,000
	<u>26,000,000</u>	<u>106,548,000</u>	<u>21,000,000</u>	<u>85,575,000</u>

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

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(b) By currency				
US Dollars	277,023,817	1,135,243,602	242,860,995	989,658,555
Khmer Riel	18,232,735	74,717,748	20,741,596	84,522,004
Thai Bath	17,998,261	73,756,874	18,299,500	74,570,462
	<u>313,254,813</u>	<u>1,283,718,224</u>	<u>281,902,091</u>	<u>1,148,751,021</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

15. Borrowings (continued)

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(c) By maturity				
1 to 3 months	27,452,351	112,499,735	5,193,028	21,161,589
3 to 12 months	72,170,113	295,753,123	68,944,001	280,946,804
1 to 5 years	207,282,616	849,444,160	200,248,662	816,013,298
Over 5 years	6,349,733	26,021,206	7,516,400	30,629,330
	<u>313,254,813</u>	<u>1,283,718,224</u>	<u>281,902,091</u>	<u>1,148,751,021</u>

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

	As at 30 June 2015	As at 31 December 2014
Khmer Riel	4.65% to 11.63%	4.65% to 11.63%
US Dollars	5.92% to 10.47%	6.39% to 11.13%
Thai Bath	9.30% to 11.05%	10.28% to 11.05%

16. Other liabilities

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued interest payable	12,474,420	51,120,173	9,576,449	39,024,030
Accrued salary, bonuses/incentives	2,363,462	9,685,467	14,598	59,487
Accrued expenses	1,959,177	8,028,707	1,406,820	5,732,790
Withholding tax payable	271,353	1,112,005	152,893	623,039
Tax on salary	87,089	356,891	591,071	2,408,614
Others	311,282	1,275,630	428,161	1,744,756
	<u>17,466,783</u>	<u>71,578,873</u>	<u>12,169,992</u>	<u>49,592,716</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

17. Severance pay obligations

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Severance pay obligations	3,009,124	12,331,390	2,534,965	10,329,982

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

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at the beginning of the period	2,534,965	10,329,982	1,847,855	7,382,181
Additions during the period	609,270	2,496,789	386,246	1,560,434
Payments during the period	(135,111)	(553,685)	(74,528)	(301,093)
Currency translation differences	-	58,304	-	83,153
	3,009,124	12,331,390	2,159,573	8,724,675

18. Share capital

	As at 30 June 2015			As at 31 December 2014		
	US\$	KHR'000 (Note 4)	%	US\$	KHR'000 (Note 4)	%
PSCo	5,170,000	21,186,660	11.00%	5,170,000	21,067,750	11.00%
BIO	10,457,500	42,854,835	22.25%	10,457,500	42,614,313	22.25%
DCG	10,457,500	42,854,835	22.25%	10,457,500	42,614,313	22.25%
FMO	10,457,500	42,854,835	22.25%	10,457,500	42,614,313	22.25%
LOLC	10,457,500	42,854,835	22.25%	10,457,500	42,614,313	22.25%
	47,000,000	192,606,000	100.00%	47,000,000	191,525,000	100%

The total authorised number of ordinary shares at 30 June 2015 was 47,000,000 shares (31 December 2014: 47,000,000 shares) with a par value of KHR4,000 (31 December 2014: KHR4,000) per share. All issued shares are fully paid.

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 US\$47,000,000 to US\$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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

18. Share capital (continued)

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

19. Subordinated debts

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
From the RGC	8,461,365	34,674,673	8,509,122	34,674,673
From CRDF	2,680,064	10,982,904	2,695,191	10,982,904
	<u>11,141,429</u>	<u>45,657,577</u>	<u>11,204,313</u>	<u>45,657,577</u>

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

The subordinated debt was denominated in KHR currency. The outstanding amount of KHR34,674,673,770 (equivalent to US\$8,461,365 as at 30 June 2015) 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:

- a) The funds are recorded as “Subordinated Debt” in the accounting records of PRASAC.
- b) PRASAC shall repay the total value of the Subordinated Debt to the RGC on the following terms and conditions:
 1. 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.
 2. The Subordinated Debt is non-distributable funds.
 3. The Subordinated Debt is considered as “Tier II 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.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

19. Subordinated debts (continued)

i) Subordinated debt from the Royal Government of Cambodia (“the RGC”) (continued)

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 II 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.

The subordinated debt bears no interest.

ii) 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 KHR10, 982,902,272 (equivalent to US\$2,680,064 as at 30 June 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.

- a) The Funds are recorded as perpetual “Subordinated Debt, CRDF Share Sale” (“SDCSS”) in the accounting records of PRASAC with the following conditions:
 1. The SDCSS is recorded into a separate account in the balance sheet of PRASAC;
 2. The full amount of the SDCSS shall be included for the calculation of the net worth as Tier II Capital in the context of the Calculation of Net Worth and for all prudential ratio purposes, such as the Capital Adequacy Ratio;
 3. The SDCSS shall bear no interest.
 4. Any transfer of the SDCSS to a third party should be approved by all the parties to the agreement.
- b) The SDCSS shall only be repayable by PRASAC to CRDF in the following circumstances:
 1. If PRASAC ceases to provide credit to rural communities and micro enterprises in Cambodia. If CRDF forms the view that PRASAC MFI has ceased to provide credit to rural communities and micro enterprises in Cambodia, CRDF may call upon PRASAC to repay the SDCSS. However, CRDF may not call upon PRASAC to repay the SDCSS without such allegations being first confirmed by an audit (the “Audit”) to be carried out by a private international audit firm. The Audit will be carried out at the initiative of and will be financed by PRASAC;

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

19. Subordinated debts (continued)

ii) Subordinated debt from Cambodia Rural Development Foundation (“CRDF”) (continued)

- b) The SDCSS shall only be repayable by PRASAC to CRDF in the following circumstances:
(continued)
 - 2. If PRASAC does not approve the transfer of the SDCSS to a third party proposed by CRDF pursuant to clause 2.2. (d) of the agreement;
 - 3. If PRASAC decides at any time and at its sole discretion to repay the SDCSS in full.
- c) In the event CRDF is dissolved, PRASAC shall no longer have the obligation to repay the SDCSS, and the amount outstanding will be converted into a special protected reserve in PRASAC’s accounts, not distributable to shareholders. In case PRASAC is dissolved due to insolvency, the RGC shall be considered owner of the Funds.
- d) On 12 December 2007, PRASAC obtained the approval from the NBC to include subordinated debt above as Tier 2 in the net worth calculation, however, limited to 100% of base net worth (Tier 1).

On 19 September 2008, PRASAC and the Ministry of Economy and Finance (MEF) signed agreement for the use of the SDCSS transferred from the CRDF to MEF with the terms and conditions as follows:

- 1 PRASAC will continue to use CRDF Funds solely for the purpose of the long-term provision of microfinance to individuals, rural and urban communities, and micro enterprise in Cambodia.
- 2 The CRDF Funds shall be recorded as subordinated debt (“SD”) in the accounting records of PRASAC.
- 3 PRASAC shall comply with the following terms and conditions:
 - 1. The SD will not be repaid to the MEF unless PRASAC ceases to provide credit to individuals, rural and urban communities, and micro-enterprises in Cambodia as shall be evidenced in accordance with the provisions of (4) hereunder or unless PRASAC elects at its own discretion to repay all or part of the SD to MEF.
 - 2. The SD is a non-distributable funds, i.e. the SD cannot be distributed to any party, except as stated in condition (4) below.
 - 3. The SD will be considered as ‘Tier II Capital’ and shall be included in the calculation of the net worth of PRASAC as per the regulations of the National Bank of Cambodia.
 - 4. PRASAC is entitled to use part or all of the SD for facilitating the extension of short and long term credit to individuals, rural and urban communities and micro-enterprises in Cambodia.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

19. Subordinated debts (continued)

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

3 PRASAC shall comply with the following terms and conditions: (continued)

5. If MEF forms the view that PRASAC has ceased to provide credit to individuals, rural and urban communities, and micro-enterprises in Cambodia or has violated its approved Memorandum and Articles of Association (MoA), with respect to Article 2: vision, mission and business objectives, Article 21: profit or loss restrictions on declaring dividend or has amended the MoA in violation of Article 24, paragraph 4, MEF may call upon PRASAC to repay the SD. However, MEF may not call upon PRASAC to repay the SD without such allegations being first confirmed by an audit to be carried out by a private internationally recognised audit firm.
6. In the unlikely event the individuals, rural and urban communities, and microenterprises in Cambodia to which PRASAC extended credit, are not able to honour debts, MEF agrees to these debts being offset against and thereby reducing the SD, to the extent that the losses of those credits cannot be covered by the accumulated own capital of PRASAC.

The SD shall bear no interest, but the value of this SD shall be protected, to the extent that annual allocation shall be made to a Special Reserve based on the inflation rate published by National Institute of Statistic (NIS), capped at 5% p.a. As a condition for the non-interest bearing SD, PRASAC is obliged to strictly adhere to Article 21 of its MoA. This “Special Reserve Account” will be non-distributable to the shareholders.

20. Interest income

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Individual loans	70,044,998	287,044,401	48,041,876	194,089,179
Group loans	666,855	2,732,772	661,457	2,672,286
Deposits with banks	134,537	551,333	13,473	54,431
	<u>70,846,390</u>	<u>290,328,506</u>	<u>48,716,806</u>	<u>196,815,896</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

21. Interest expenses

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deposits from customers	11,784,613	48,293,344	5,621,767	22,711,939
Borrowings	11,745,453	48,132,866	9,494,071	38,356,047
	<u>23,530,066</u>	<u>96,426,210</u>	<u>15,115,838</u>	<u>61,067,986</u>

22. Fee and commission expenses

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Fee on borrowings	536,244	2,197,528	478,429	1,932,854
Bank charges on borrowings	28,406	116,408	30,679	123,943
Others	2,997	12,281	2,208	8,920
	<u>567,647</u>	<u>2,326,217</u>	<u>511,316</u>	<u>2,065,717</u>

23. Other income

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Fee income from loans	607,582	2,489,871	196,398	793,448
Penalty income	268,231	1,099,211	190,350	769,014
Fees and commission income from local remittance and services	463,516	1,899,489	273,704	1,105,764
Loan loss recovered	56,300	230,717	66,630	269,185
Gain on disposals of property and equipment	44,991	184,373	8,414	33,993
Others	43,013	176,267	44,991	181,763
	<u>1,483,633</u>	<u>6,079,928</u>	<u>780,487</u>	<u>3,153,167</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

24. Personnel expenses

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries	10,981,846	45,003,605	7,264,375	29,348,075
Staff bonuses/incentives	2,648,807	10,854,811	1,759,198	7,107,160
Other staff benefits	802,580	3,288,973	466,973	1,886,571
Severance benefits (Note 17)	609,270	2,496,789	386,246	1,560,434
Medical expenses	27,921	114,420	18,701	75,552
	<u>15,070,424</u>	<u>61,758,598</u>	<u>9,895,493</u>	<u>39,977,792</u>

25. Depreciation and amortisation

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Depreciation charge	889,962	3,647,064	661,680	2,673,188
Amortisation charge	152,084	623,240	147,908	597,548
	<u>1,042,046</u>	<u>4,270,304</u>	<u>809,588</u>	<u>3,270,736</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

26. General and administrative expenses

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Rental expenses	1,321,866	5,417,007	1,014,943	4,100,370
Fuel costs	689,850	2,827,005	484,156	1,955,990
Marketing and promotions	623,575	2,555,410	338,649	1,368,142
Communication	411,903	1,687,979	354,154	1,430,782
Utilities	400,375	1,640,737	319,436	1,290,521
Printing and stationery	380,502	1,559,297	327,614	1,323,561
Per diem and travelling	315,028	1,290,985	185,572	749,711
Maintenance	314,647	1,289,423	229,073	925,455
Office supplies	311,490	1,276,486	291,111	1,176,088
Transportation	260,923	1,069,262	172,604	697,320
License fees	236,041	967,296	428,420	1,730,817
Training	124,903	511,853	94,679	382,503
Professional fees	114,804	470,467	337,350	1,362,894
Bank charges	83,101	340,548	84,764	342,447
Other tax expenses	43,570	178,550	113,569	458,819
Others	319,980	1,311,278	216,590	875,022
	<u>5,952,558</u>	<u>24,393,583</u>	<u>4,992,684</u>	<u>20,170,442</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

27. Cash used in operations

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	24,138,208	98,918,377	16,661,428	67,312,168
Adjustments for:				
Allowance for bad and doubtful loans (Note 8)	2,114,360	8,664,647	1,580,129	6,383,721
Depreciation and amortisation (Note 25)	1,042,046	4,270,304	809,588	3,270,736
Gain on disposals of property and equipment	(44,990)	(184,369)	(6,820)	(27,553)
Severance pay expenses (Note 17)	609,270	2,496,789	386,246	1,560,434
Net interest income	(47,316,324)	(193,902,296)	(33,600,968)	(135,747,910)
Foreign exchange gain	(62,884)	(257,699)	(127,299)	(514,288)
	<u>(19,520,314)</u>	<u>(79,994,247)</u>	<u>(14,297,696)</u>	<u>(57,762,692)</u>
Changes in:				
Loans to customers	(116,404,951)	(477,027,489)	(91,063,053)	(367,894,734)
Statutory capital deposit	(2,414,321)	(9,893,887)	(2,650,962)	(10,709,886)
Reserve requirement	(7,663,489)	(31,404,978)	(5,451,330)	(22,023,373)
Other assets	(235,567)	(965,354)	(389,925)	(1,575,297)
Deposits from banks and other financial institutions	1,378,679	5,649,827	5,113,129	20,657,041
Deposits from customers	95,126,479	389,828,311	68,997,928	278,751,629
Other liabilities	2,398,820	9,830,364	177,621	717,589
Cash used in operations	<u>(47,334,664)</u>	<u>(193,977,453)</u>	<u>(39,564,288)</u>	<u>(159,839,723)</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

28. Cash and cash equivalents

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	36,716,314	150,463,455	22,560,808	91,145,664
Balances with the NBC-				
Current accounts (Note 6)	2,237,907	9,170,943	23,091,043	93,287,814
Deposits and placements with banks				
Current accounts	38,619,199	158,261,477	6,746,479	27,255,775
Savings accounts	27,526,140	112,802,122	15,055,266	60,823,275
Fixed deposits with maturity less than three months	-	-	11,040	44,601
	<u>105,099,560</u>	<u>430,697,997</u>	<u>67,464,636</u>	<u>272,557,129</u>

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 period end, and related expense and income for the period are as follows:

(a) Significant related party transactions

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of Directors				
Fee and related expenses	<u>105,102</u>	<u>430,708</u>	<u>71,730</u>	<u>289,789</u>
Shareholders				
Interest expenses	1,650,365	6,763,196	989,777	3,998,699
Fee and commission on borrowings	<u>88,261</u>	<u>361,694</u>	<u>72,545</u>	<u>293,082</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

29. Related party transactions and balances (continued)

(b) Significant related party balances

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

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Directors and key management				
Deposits	1,048,267	4,295,798	977,077	3,981,589
Loans	52,726	216,071	-	-
Shareholders				
Borrowings from:				
FMO	30,811,310	126,264,748	35,095,215	143,013,001
BIO	7,500,000	30,735,000	7,500,000	30,562,500
	<u>39,412,303</u>	<u>161,511,617</u>	<u>43,572,292</u>	<u>177,557,090</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 10.39% (including withholding tax).

(c) Key management compensation

	Period from 1 January 2015 to 30 June 2015		Period from 1 January 2014 to 30 June 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and employee benefits	362,679	1,486,259	286,352	1,156,862
Severance pay expenses	24,792	101,598	9,823	39,685
	<u>387,471</u>	<u>1,587,857</u>	<u>296,175</u>	<u>1,196,547</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 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:

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 year	2,910,307	11,926,440	1,953,512	7,804,280
With 2 to 5 year	8,648,439	35,441,302	5,699,579	22,769,818
More than 5 years	4,022,671	16,484,906	2,191,625	8,755,542
	<u>15,581,417</u>	<u>63,852,648</u>	<u>9,844,716</u>	<u>39,329,640</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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 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.

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Credit exposure relating to on- balance sheet assets:				
Balances with banks	66,145,339	271,063,599	19,698,918	80,273,091
Loans to customers	685,478,585	2,809,091,241	571,187,994	2,327,591,076
Other assets	7,919,056	32,452,292	7,203,070	29,352,510
	<u>759,542,980</u>	<u>3,112,607,132</u>	<u>598,089,982</u>	<u>2,437,216,677</u>

The above table represents a worst case scenario for credit risk exposure to the Company at 30 June 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, 90.25% 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:

- 99.17% of the loans in the portfolio are considered to be neither past due nor impaired (31 December 2014: 99.5%)
- The Company has introduced a more stringent selection and collection process for granting loans to customers.

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loan to customers

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers neither past due nor impaired	691,147,154	2,832,321,037	577,840,827	2,354,701,370
Loans to customers past due but not impaired	3,571,570	14,636,294	1,508,334	6,146,461
Loans to customers individually impaired	2,209,116	9,052,958	1,194,605	4,868,016
	<u>696,927,840</u>	<u>2,856,010,289</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 US\$11,449,255 (31 December 2014: US\$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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Past due 30-60 days	406,101	1,664,202	88,602	361,052
Past due 60-90 days	285,538	1,170,135	52,336	213,269
Past due 90-180 days	393,246	1,611,522	166,165	677,122
Past due 180-360 days	298,852	1,224,695	382,672	1,559,388
Past due 360 days or more	825,379	3,382,404	504,830	2,057,185
	2,209,116	9,052,958	1,194,605	4,868,016
	2,209,116	9,052,958	1,194,605	4,868,016

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 30 June 2015 and 31 December 2014.

(vi) Repossessed collateral

During the period ended 30 June 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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(a) Credit risk (continued)

(vii) Deposit and placements with banks (continued)

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, US\$, 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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 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 30 June 2015	US\$ equivalent			Total US\$
	US\$	KHR	THB	
Financial assets				
Cash on hand	28,299,503	7,425,386	991,425	36,716,314
Deposits and placements with the NBC	1,438,352	799,555	-	2,237,907
Deposits and placements with banks	56,545,368	7,583,080	2,016,891	66,145,339
Loan to customers	602,762,420	53,548,645	29,167,520	685,478,585
Other assets	6,562,707	950,380	405,969	7,919,056
Total financial assets	695,608,350	70,307,046	32,581,805	798,497,201
Financial liabilities				
Deposits from banks and Financial institutions	16,039,480	2,102,801	-	18,142,281
Deposits from customers	333,657,154	44,287,332	5,582,198	383,526,684
Borrowings	277,023,816	18,232,736	17,998,261	313,254,813
Other liabilities	15,308,683	1,328,866	470,792	17,108,341
Total financial liabilities	642,029,133	65,951,735	24,051,251	732,032,119
Net financial asset position	53,579,217	4,355,311	8,530,554	66,465,082
Equivalent in KHR'000	219,567,631	17,848,064	34,958,210	272,373,905
As at 31 December 2014				
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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 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 US\$ 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 US\$</i>	30 June 2015		31 December 2014	
	Strengthening	Weakening	Strengthening	Weakening
KHR (5% movements)	217,766	(217,766)	674,134	(674,134)
THB (5% movements)	426,528	(426,528)	122,831	(122,831)
	<u>644,294</u>	<u>(644,294)</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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 30 June 2015	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Financial assets							
Cash on hand	-	-	-	-	-	36,716,314	36,716,314
Deposits and placements with NBC	-	-	-	-	-	2,237,907	2,237,907
Deposits and placements with banks	27,526,140	-	-	-	-	38,619,199	66,145,339
Loans to customers	24,961,601	49,316,076	237,134,568	373,881,720	184,620	-	685,478,585
Other assets	-	-	-	-	-	7,919,056	7,919,056
	<u>52,487,741</u>	<u>49,316,076</u>	<u>237,134,568</u>	<u>373,881,720</u>	<u>184,620</u>	<u>85,492,476</u>	<u>798,497,201</u>
Financial liabilities							
Deposits from banks and other financial institutions	4,283,551	3,376,086	10,482,644	-	-	-	18,142,281
Deposits from customers	75,710,790	66,395,603	236,889,921	4,530,370	-	-	383,526,684
Borrowings	1,355,556	26,096,794	72,170,113	207,282,616	6,349,734	-	313,254,813
Other liabilities	-	-	-	-	-	17,108,341	17,108,341
	<u>81,349,897</u>	<u>95,868,483</u>	<u>319,542,678</u>	<u>211,812,986</u>	<u>6,349,734</u>	<u>17,108,341</u>	<u>732,032,119</u>
Maturity gap	<u>(28,862,156)</u>	<u>(46,552,407)</u>	<u>(82,408,110)</u>	<u>162,068,734</u>	<u>(6,165,114)</u>	<u>68,384,135</u>	<u>66,465,082</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2014	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Financial assets							
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>
Financial liabilities							
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	68,944,001	200,248,662	7,516,401	-	281,902,091
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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 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 prepared.

(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 interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

As at 30 June 2015	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Financial assets							
Cash on hand	36,716,314	-	-	-	-	-	36,716,314
Deposits and placements with the NBC	2,237,907	-	-	-	-	-	2,237,907
Deposits and placements with banks	66,145,339	-	-	-	-	-	66,145,339
Loans to customers	37,509,094	73,787,022	320,053,669	462,508,695	194,152	-	894,052,632
Other assets	7,477,889	-	413,000	-	-	28,167	7,919,056
Total financial assets	<u>150,086,543</u>	<u>73,787,022</u>	<u>320,466,669</u>	<u>462,508,695</u>	<u>194,152</u>	<u>28,167</u>	<u>1,007,071,248</u>
Financial liabilities							
Deposits from banks and financial institutions	4,283,551	3,376,086	10,482,644	-	-	-	18,142,281
Deposits from customers	75,710,790	66,395,603	236,889,921	4,530,370	-	-	383,526,684
Borrowings	2,289,412	29,010,920	83,833,386	230,926,744	6,819,778	-	352,880,240
Other liabilities	2,201,078	2,575,007	12,332,256	-	-	-	17,108,341
Total financial liabilities	<u>84,484,831</u>	<u>101,357,616</u>	<u>343,538,207</u>	<u>235,457,114</u>	<u>6,819,778</u>	<u>-</u>	<u>771,657,546</u>
Net financial assets/(liabilities)	<u>65,601,712</u>	<u>(27,570,594)</u>	<u>(23,071,538)</u>	<u>227,051,581</u>	<u>(6,625,626)</u>	<u>28,167</u>	<u>235,413,702</u>
Equivalent in KHR'000 (Note 4)	<u>268,835,816</u>	<u>(112,984,294)</u>	<u>(94,547,165)</u>	<u>930,457,379</u>	<u>(27,151,815)</u>	<u>115,428</u>	<u>964,725,349</u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 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 US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Financial assets							
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
Total financial assets	124,980,288	73,659,985	263,580,360	362,743,969	120,489	28,168	825,113,259
Financial liabilities							
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	6,186,999	80,509,005	225,730,257	8,184,386	-	323,084,011
Other liabilities	1,993,762	2,196,178	7,236,088	-	-	-	11,426,028
Total financial liabilities	77,542,171	69,394,331	255,585,621	228,967,337	8,184,386	-	639,673,846
Net financial assets/(liabilities)	47,438,117	4,265,654	7,994,739	133,776,632	(8,063,897)	28,168	185,439,413
Equivalent in KHR'000 (Note 4)	193,310,327	17,382,540	32,578,561	545,139,775	(32,860,380)	114,785	755,665,608

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 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:

	As at 30 June 2015		As at 31 December 2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Tier 1 Capital				
Share capital	47,000,000	192,606,000	47,000,000	191,525,000
Reserves	5,838,240	23,925,108	5,482,607	22,341,624
Retained earnings	45,288,353	185,591,671	29,378,474	119,717,282
	<u>98,126,593</u>	<u>402,122,779</u>	<u>81,861,081</u>	<u>333,583,906</u>
Tier 2 Capital				
Subordinated debts	11,141,429	45,657,577	11,204,313	45,657,577
Subordinated debts	26,000,000	106,548,000	21,000,000	85,575,000
	<u>37,141,429</u>	<u>152,205,577</u>	<u>32,204,313</u>	<u>131,232,577</u>
Total regulated capital	<u><u>135,268,022</u></u>	<u><u>554,328,356</u></u>	<u><u>114,065,394</u></u>	<u><u>464,816,483</u></u>

PRASAC Microfinance Institution Limited

Notes to the interim financial statements (continued) for the period from 1 January 2015 to 30 June 2015

31. Financial risk management (continued)

(e) Capital management (continued)

(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.