

**PRASAC MICROFINANCE
INSTITUTION LIMITED**

**Financial Statements
for the year ended 31 December 2011
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	No. 25, St. 294 & St.57, Boeung Keng Kang I, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia, PO Box 2412
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) Oikocredit, Ecumenical Development Cooperative Society, U.A. (Oikocredit) PRASAC Staff Company Ltd. (PSCo)
Board of Directors	Mr. Ranjit Fernando Mr. Joseph Hoess Mr. Hanco Halbertsma Mr. Ishara C. Nanayakkara Mr. Stefan A. V. Harpe Mr. Oum Sam Oeun Mr. Phai Touch
Auditor	KPMG Cambodia Ltd
Principal bankers	ACLEDA Bank Plc. ANZ Royal Bank (Cambodia) Ltd National Bank of Cambodia Maruhan Japan Bank Plc.

PRASAC MICROFINANCE INSTITUTION LIMITED

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Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of PRASAC Microfinance Institution Limited (“the Company” or “PRASAC”) for the year ended 31 December 2011.

Principal activity

The principal activity of the Company is to provide micro-finance services to the rural population of Cambodia through its headquarters in Phnom Penh and various provincial offices in the Kingdom of Cambodia.

Financial results

The financial results of the Company for the year ended 31 December 2011 were as follows:

	KHR'000
Profit before income tax	43,991,056
Income tax expense	(8,891,493)
Profit for the year	<u>35,099,563</u>

Reserves and provisions

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

Bad and doubtful loans

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

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

PRASAC MICROFINANCE INSTITUTION LIMITED

Report of the Board of Directors (continued)

Current assets

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current 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 current assets in the financial statements of the Company misleading.

Valuation methods

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

Contingent and other liabilities

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

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

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

Change of circumstances

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

PRASAC MICROFINANCE INSTITUTION LIMITED

Report of the Board of Directors (continued)

Items of unusual nature

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

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

Events since the balance sheet date

No significant events occurred after the balance sheet date that requires disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements.

The Board of Directors

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

- (i) Mr. Ranjit Fernando, representing the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., (Chairman)
- (ii) Mr. Joseph Hoess, representing Dragon Capital Group Limited, (Director)
- (iii) Mr. Hanco Halbertsma, representing Belgian Investment Company for Developing Countries SA, (Director)
- (iv) Mr. Ishara C. Nanayakkara, representing Lanka ORIX LEASING Company Ltd, (Director)
- (v) Mr. Stefan A.V. Harpe, representing Oikocredit, Ecumenical Development Cooperative Society, U.A., (Director)
- (vi) Mr. Oum Sam Oeun, representing PRASAC Staff Company Ltd., (Director)
- (vii) Mr. Phai Touch (Independent Director)
- (viii) Mr. Michael A. Temple (resigned on 30 January 2011)
- (ix) Mrs. Anne Demeuse (resigned on 25 January 2011)

All members are non-executive board members, except Mr. Oum Sam Oeun, who holds the position of Executive Vice President and Chief Operating Officer.

PRASAC MICROFINANCE INSTITUTION LIMITED

Report of the Board of Directors (continued)

Directors' interests

The Directors are representing the interests of shareholders of PRASAC during the year and at the date of this report are as follows:

Shareholder	Represented by	Holding %	Number of Shares KHR 20,000 each
Dragon Capital Group Limited	Mr. Joseph Hoess	18%	138,626
Belgian Investment Company for Developing Countries SA (BIO)	Mr. Hanco Halbertsma	18%	138,626
The Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V.(FMO)	Mr. Ranjit Fernando	18%	138,626
Lanka ORIX LEASING Company Ltd (LOLC)	Mr. Ishara C. Nanayakkara	18%	138,626
Oikocredit, Ecumenical Development Cooperative Society, U.A.	Mr. Stefan A. V. Harpe	18%	138,626
PRASAC Staff Company Ltd.	Mr. Oum Sam Oeun	10%	77,020
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		100%	770,150

Directors' benefits

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

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

Report of the Board of Directors (continued)

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

The Board of Directors is responsible for ascertaining that the financial statements are properly drawn up so as to present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

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

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

On behalf of the Board of Directors



Oum Sam Oeun
Director

Date: 16 MAR 2012



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REPORT OF THE INDEPENDENT AUDITORS

To the shareholders

PRASAC Microfinance Institution Limited

We have audited the accompanying financial statements of PRASAC Microfinance Institution Limited (“the Company” or “PRASAC”), which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 8 to 58.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PRASAC as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

For KPMG Cambodia Ltd

Craig Mc Donald
Audit Partner

Phnom Penh

16 March 2012

PRASAC MICROFINANCE INSTITUTION LIMITED

Balance sheet As at 31 December 2011

	Note	2011		2010	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
ASSETS					
Cash on hand	5	2,305,264	570,751	3,103,632	765,762
Deposits and placements with banks	6	4,527,312	1,120,899	18,804,255	4,639,589
Statutory deposits	7	3,037,526	752,049	1,622,342	400,282
Loans to customers	8	601,175,130	148,842,568	415,330,233	102,474,768
Other assets	9	10,496,943	2,598,897	7,760,420	1,914,735
Deferred tax assets	10	1,260,225	312,014	1,022,736	252,340
Intangible assets	11	3,605,164	892,588	3,999,635	986,833
Property and equipment	12	3,522,703	872,172	3,222,416	795,069
Investment	13	100,975	25,000	-	-
TOTAL ASSETS		630,031,242	155,986,938	454,865,669	112,229,378
LIABILITIES AND EQUITY					
Liabilities					
Deposits from customers	14	24,118,065	5,971,296	749,531	184,932
Borrowings	15	426,965,159	105,710,611	332,223,051	81,969,665
Overdraft	16	7,902,920	1,956,653	-	-
Other liabilities	17	17,168,615	4,250,709	8,844,704	2,182,261
Provision for income tax	10	7,926,363	1,962,457	3,382,299	834,517
Provision for severance pay	18	5,797,928	1,435,486	4,613,455	1,138,282
Total liabilities		489,879,050	121,287,212	349,813,040	86,309,657
Shareholders' equity					
Share capital	19	15,403,000	3,813,568	15,403,000	3,800,395
Other reserves		12,628,315	3,126,594	8,924,831	2,202,031
Retained earnings		66,463,300	16,455,385	35,067,221	8,652,164
Net shareholders' equity		94,494,615	23,395,547	59,395,052	14,654,590
Subordinated debt	20	45,657,577	11,304,179	45,657,577	11,265,131
Total shareholders' equity		140,152,192	34,699,726	105,052,629	25,919,721
TOTAL LIABILITIES AND EQUITY		630,031,242	155,986,938	454,865,669	112,229,378

The accompanying notes form part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

Income statement for the year ended 31 December 2011

		2011		2010	
	Note	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income	21	128,781,598	31,884,525	83,886,270	20,697,328
Interest expense	22	(31,237,546)	(7,733,980)	(21,448,635)	(5,292,039)
Net interest income		<u>97,544,052</u>	<u>24,150,545</u>	<u>62,437,635</u>	<u>15,405,289</u>
Other operating income	23	<u>2,144,779</u>	<u>531,017</u>	<u>2,256,436</u>	<u>556,732</u>
Operating income		<u>99,688,831</u>	<u>24,681,562</u>	<u>64,694,071</u>	<u>15,962,021</u>
Fee and commission expenses	24	(915,861)	(226,754)	(1,572,259)	(387,925)
Operating and other expenses	25	(52,092,046)	(12,897,263)	(42,453,181)	(10,474,508)
Provision for bad and doubtful loans	8	(2,978,169)	(737,353)	(4,385,488)	(1,082,035)
Profit from operations		<u>43,702,755</u>	<u>10,820,192</u>	<u>16,283,143</u>	<u>4,017,553</u>
Grant income	26	<u>288,301</u>	<u>71,379</u>	<u>1,217,245</u>	<u>300,332</u>
Profit before income tax		<u>43,991,056</u>	<u>10,891,571</u>	<u>17,500,388</u>	<u>4,317,885</u>
Income tax expense	10	(8,891,493)	(2,201,410)	(3,755,786)	(926,668)
Net profit for the year		<u><u>35,099,563</u></u>	<u><u>8,690,161</u></u>	<u><u>13,744,602</u></u>	<u><u>3,391,217</u></u>

The accompanying notes form part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

Statement of changes in equity for the year ended 31 December 2011

	Share capital KHR'000	Subordinated debt KHR'000	Other reserves KHR'000	Retained earnings KHR'000	Total KHR'000
Balance as at 1 January 2010	15,403,000	45,657,577	5,216,423	25,031,027	91,308,027
Net profit for the year	-	-	-	13,744,602	13,744,602
Transfers of special reserve *	-	-	2,282,879	(2,282,879)	-
Transfers of ICO loan reserve **	-	-	1,425,529	(1,425,529)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2010	15,403,000	45,657,577	8,924,831	35,067,221	105,052,629
Net profit for the year	-	-	-	35,099,563	35,099,563
Transfers of special reserve *	-	-	2,282,879	(2,282,879)	-
Transfers of ICO loan reserve **	-	-	1,420,605	(1,420,605)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2011	<u>15,403,000</u>	<u>45,657,577</u>	<u>12,628,315</u>	<u>66,463,300</u>	<u>140,152,192</u>
(US\$ equivalents – Note 4)	<u>3,813,568</u>	<u>11,304,179</u>	<u>3,126,594</u>	<u>16,455,385</u>	<u>34,699,726</u>

* Special reserve represents reserves transferred from net profit which are calculated based on 5% of subordinated debt. The amount is non-distributable.

** ICO loan reserve represents reserves transferred from net profit for the year which are calculated based on 3.5% of outstanding principal of loan obtained from Instituto De Crédito Oficial of the Kingdom of Spain. The amount is non-distributable.

The accompanying notes form part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

Statement of cash flows for the year ended 31 December 2011

	Note	2011 KHR'000	2011 US\$ (Note 4)	2010 KHR'000	2010 US\$ (Note 4)
Cash flows from operating activities					
Net cash used in operating activities	27	(115,998,428)	(28,719,591)	(137,031,667)	(33,809,935)
Cash flows from investing activities					
Purchase of property and equipment		(1,768,432)	(437,839)	(1,644,302)	(405,700)
Purchase of intangible assets		(13,209)	(3,270)	(93,308)	(23,022)
Proceeds from disposals of property and equipment		138,490	34,288	12,864	3,174
Net cash used in investing activities		(1,643,151)	(406,821)	(1,724,746)	(425,548)
Cash flows from financing activities					
Proceeds from borrowings		237,797,693	58,875,388	220,328,370	54,361,799
Repayments of borrowings		(135,152,665)	(33,461,913)	(79,802,074)	(19,689,631)
Acquisition of investment		(100,975)	(25,000)	-	-
Net cash generated from financing activities		102,544,053	25,388,475	140,526,296	34,672,168
Net (decrease)/increase in cash and cash equivalents		(15,097,526)	(3,737,937)	1,769,883	436,685
Cash and cash equivalents at beginning of year		21,907,887	5,405,351	20,138,004	4,830,416
Translation difference		-	18,736	-	138,250
Cash and cash equivalents at end of year	28	6,810,361	1,686,150	21,907,887	5,405,351

The accompanying notes form part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements for the year ended 31 December 2011

1. Reporting entity

PRASAC Microfinance Institution Limited (“the Company” or “PRASAC”), is engaged in providing micro-financing services in the rural population of Cambodia through its headquarters in Phnom Penh and various provincial offices in the Kingdom of Cambodia.

The Company was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under register number Co-6931/04P dated 12 August 2004.

PRASAC’s operations are based on the asset transfer document dated 10 May 2005, effective from 31 December 2004, whereby the net assets of PCA were transferred to PRASAC as subordinated debt, as discussed in note 20 to these financial statements.

The Company obtained its license to operate as a microfinance institution from the National Bank of Cambodia (“NBC”) on 15 November 2004. The license expired on 1 December 2007. The NBC granted an indefinite life microfinance license to the Company effective from 14 December 2007.

The amended Memorandum and Articles of Association for the changes in shareholders were certified by the Ministry of Commerce and the National Bank of Cambodia on 14 October 2008 and 6 November 2008 respectively.

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

On 19 August 2011, the Company received a permission from the NBC to serve as agent of FORTE insurance company to conduct micro insurance services for its clients.

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

As at 31 December 2011 the Company had 1,501 employees (31 December 2010: 1,440).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 23 February 2012.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

2. Basis of preparation (continued)

(b) Basis of measurement

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

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in two currencies, Khmer Riel (“KHR”) and United States Dollars (“US\$”). Management has determined KHR to be the Company’s currency for measurement and presentation purposes as it reflects the economic substance of the underlying events and circumstances of the Company.

Transactions in currencies other than KHR are translated into KHR at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than KHR at the balance sheet date are translated into KHR 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 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 ongoing 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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Financial instruments

The Company’s financial assets and liabilities include cash and cash equivalents, originated 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 financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(b) Basis of aggregation

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

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with 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.

(d) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general provisions.

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

(e) Provision for bad and doubtful loans

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

Classification	Number of days past due	Provision
Short term loans (less than one year):		
Sub-standard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
Long term loans (more than one year):		
Sub-standard	31 - 180 days	10%
Doubtful	181 - 360 days	30%
Loss	Over 360 days	100%

An additional general provision for bad and doubtful loans is set at the rate of 1.5% on gross loans outstanding as at year end, excluding loans to related parties (staff loans).

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(e) Provision for bad and doubtful loans (continued)

Overdue loans

In accordance with Prakas B700-51K issued by the National Bank of Cambodia on 17 February 2000, overdue loans are defined as the total outstanding principal where principal or interest are past due unless the payment terms on interest or principal have been adjusted.

The provision will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The provision shall be recorded in the institution's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard. The analysis of overdue loans is set out in note 8(g).

Recoveries on loans previously written off and reversal of previous provisions are disclosed as a deduction from the bad debts and doubtful accounts expense in the income statement.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when, in the judgement of the management with the approval of the Board of Directors, there is no prospect of recovery. Loans written off are reviewed on a quarterly basis.

(f) Deposits and placement with banks

Deposits and placements with banks are stated at cost.

(g) Investment

Investment is accounted for at cost less any impairment allowance to recognise non-temporary declines in the value of the investment.

(h) Other receivables

Other assets are carried at estimated realisable value. An estimate is made for doubtful receivables based on a review of outstanding amounts at the end of the fiscal year.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(i) Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses, if any. It is amortised on a declining method at the rate of 50%.

Core Banking License 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.

(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 comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

(ii) Depreciation of property and equipment is charged to the income statement on a declining basis over the estimated useful lives of the individual assets at the following rates:

Office furniture	25%
Motor vehicles	25%
Motorcycles	25%
Computers and peripherals	50%
Communication equipment	25%
Leasehold improvements	33%

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the 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 amount of the assets and are recognised in the income statement on the date of retirement or disposal.

(v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(vi) The carrying amounts of property and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(j) Property and equipment (continued)

- (vii) Capital work in progress is stated at cost. This includes the cost of construction of tellers' desk. Capital work in progress is not depreciated until such time as the items are completed and put into operational use.

(k) Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(d).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) *Non-financial assets*

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 amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(l) Deposits from customers

Deposits from customers are stated at placement value.

(m) Borrowings

Borrowings are stated at cost.

(n) Provisions

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.

(o) Provision for severance pay

Severance pay is conditional on the employee remaining in the service of the Company up to the completion of a minimum service period as follows:

<i>Number of working years</i>	<i>Percentage (%) of December salary provided</i>
Less than 3 years	50%
More than 3 years and less than 6 years	80%
More than 6 years	100%

Severance pay is accrued based on the monthly fixed salary of an employee with the rate of 8.3% (equal to one month of fixed salary per year of employment).

(p) Other 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 to the subordinated debt from the RGC into special reserves. The amount is equivalent to the yearly inflation rate, but in any case no higher than 5%, multiplied by the subordinate debt amount. This reserve is non-distributable.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(p) Other reserves (continued)

(ii) *ICO reserve*

Based on the loan agreement signed between Instituto De Crédito Oficial of the Kingdom of Spain and Prasac Microfinance Institution Limited, the Company 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.

(q) Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

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

Expenses are recognised on an accrual basis.

(r) Grants

Grants received to subsidise the Company's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

(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 become due.

(t) Income tax

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

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(t) Income tax (continued)

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount 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 ten percent (10%) of the capital of the Company or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

(v) New standards and interpretations not yet adopted

The National Accounting Council of Cambodia, as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia on the adoption of Cambodian Financial Reporting Standards, has decided to adopt International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) effective for financial statements with periods beginning on or after 1 January 2012. The new standards will be referred to as “Cambodian International Financial Reporting Standards” (CIFRS). The following standards are expected to have impact on the Company’s financial statements:

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(v) New standards and interpretations not yet adopted (continued)

- CIAS 1 *Presentation of Financial Statements* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income.
- CIAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- Reclassification of Financial Assets (CIAS 39 Financial Instruments: Recognition and Measurement and CIFRS 7 Financial Instruments: Disclosures) permits the Company to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the Company upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits the Company to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables if the Company has the intention and ability to hold that financial asset for the foreseeable future.
- CIAS 39 *Financial Instruments: Recognition and Measurement* establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Adoption of CIAS 39 will result in the following revisions to the accounting policies on financial instruments:

Loans to customers are currently stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general provisions. Under CIAS 39, such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Impairment of financial assets: the Company currently follows the mandatory credit classification and provisioning as required by Prakas No. B7-02-186 dated 13 September 2002 issued by the NBC. CIAS 39 requires the Company to assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired, either on an individual or collective assessment basis. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

(v) New standards and interpretations not yet adopted (continued)

Deposits from customers: the Company currently measures deposits from customers at placement value. CIAS 39, such liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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

4. Translation of Khmer Riel into United States Dollars

The financial statements are stated in Khmer Riel. The translations of Khmer Riel amounts into United States Dollars are included solely for presentation purposes and have been made using the prescribed official exchange rate of US\$1: KHR4,039 and (2010: US\$1: KHR4,053) published by the NBC on 31 December 2011. These translations should not be construed as representations that the Khmer Riel amounts have been, could have been, or could in the future be, converted into United States Dollars at this or any other rate of exchange.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

5. Cash on hand

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Head Office	151,274	37,453	110,015	27,144
Branches:				
Banteay Meanchey	295,703	73,212	133,476	32,933
Takeo	238,076	58,944	247,073	60,961
Phnom Penh	178,074	44,089	129,625	31,982
Kampong Cham	138,566	34,307	172,243	42,498
Kratie	136,570	33,813	127,841	31,542
Svay Rieng	135,497	33,547	281,982	69,574
Pursat	129,085	31,960	157,435	38,844
Prey Veng	124,344	30,786	308,369	76,084
Siem Reap	124,041	30,711	172,562	42,576
Kampong Speu	122,832	30,411	220,194	54,329
Preah Sihanouk	111,504	27,607	72,364	17,854
Tbong Khmum	104,351	25,836	198,260	48,917
Kampot	90,984	22,526	271,054	66,877
Kandal	89,445	22,145	199,130	49,132
Kampong Chhnang	60,804	15,054	127,308	31,411
Kampong Thom	51,347	12,713	73,380	18,105
Battambang	22,767	5,637	101,321	24,999
	<u>2,305,264</u>	<u>570,751</u>	<u>3,103,632</u>	<u>765,762</u>

The above amounts are analysed as follows:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
By currency:				
Khmer Riel	952,055	235,715	1,441,964	355,777
US Dollars	1,187,171	293,927	1,639,568	404,532
Thai Baht	166,038	41,109	22,100	5,453
	<u>2,305,264</u>	<u>570,751</u>	<u>3,103,632</u>	<u>765,762</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

6. Deposits and placements with banks

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
<i>Current accounts, without interest</i>				
Aceda Bank Plc.	89,369	22,127	107,530	26,531
National Bank of Cambodia	62,869	15,565	96,496	23,809
Maruhan Japan Bank	4,544	1,125	-	-
<i>Current accounts, with interest</i>				
ANZ Royal Bank	49,982	12,375	11,690	2,884
<i>Savings accounts</i>				
Aceda Bank Plc.	4,298,333	1,064,207	18,588,539	4,586,365
<i>Fixed deposit</i>				
ANZ Royal Bank	22,215	5,500	-	-
	4,527,312	1,120,899	18,804,255	4,639,589
	4,527,312	1,120,899	18,804,255	4,639,589

The above amounts are analysed as follows:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(i) By maturity:				
Within 1 month	4,505,097	1,115,399	18,804,255	4,639,589
3 months to 12 months	22,215	5,500	-	-
	4,527,312	1,120,899	18,804,255	4,639,589
	4,527,312	1,120,899	18,804,255	4,639,589
(ii) By currency:				
Khmer Riel	1,964,293	486,332	6,524,964	1,609,910
US Dollars	1,960,859	485,481	10,345,278	2,552,499
Thai Baht	602,160	149,086	1,934,013	477,180
	4,527,312	1,120,899	18,804,255	4,639,589
	4,527,312	1,120,899	18,804,255	4,639,589

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

6. Deposits and placements with banks (continued)

(iii) By interest rate (per annum):

	31 December 2011	31 December 2010
Current accounts	0.40%	0.75%
Savings accounts	0.05% to 0.25%	0.05% to 0.25%
Fixed deposit	2.35%	Nil

7. Statutory deposits

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Statutory deposits on:				
Capital guarantee deposit *	1,540,300	381,357	1,540,300	380,040
Reserve requirement **	1,497,226	370,692	82,042	20,242
	<u>3,037,526</u>	<u>752,049</u>	<u>1,622,342</u>	<u>400,282</u>

* The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-00-006 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 10% of the Company's registered share capital. The statutory deposit on registered share capital is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The statutory deposit on registered capital placed with NBC earns interest at the rate of 3% per annum.

**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 Licensing of Microfinance Deposit Taking Institutions. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit relating to customers' deposits does not earn interest.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

8. Loans to customers

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Group loans	9,523,886	2,357,981	9,373,145	2,312,644
Individual loans	601,333,187	148,881,700	416,000,437	102,640,127
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>
Provision for bad and doubtful loans				
Specific	(598,474)	(148,173)	(3,708,752)	(915,063)
General	(9,083,469)	(2,248,940)	(6,334,597)	(1,562,940)
	<u>(9,681,943)</u>	<u>(2,397,113)</u>	<u>(10,043,349)</u>	<u>(2,478,003)</u>
	<u><u>601,175,130</u></u>	<u><u>148,842,568</u></u>	<u><u>415,330,233</u></u>	<u><u>102,474,768</u></u>

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

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At beginning of year	10,043,349	2,478,003	5,657,861	1,357,127
Provision for the year	2,978,169	737,353	4,385,488	1,082,035
Written off during the year	(3,339,575)	(826,832)	-	-
Translation difference	-	8,589		38,841
	<u>9,681,943</u>	<u>2,397,113</u>	<u>10,043,349</u>	<u>2,478,003</u>

The loans to customers are analysed as follows:

(a) By maturity:

Within 1 month	38,241,642	9,468,096	6,523,189	1,609,472
1 to 3 months	90,873,586	22,499,031	16,244,671	4,008,061
3 months to 12 months	326,128,360	80,744,828	158,736,479	39,165,181
More than 12 months	155,613,485	38,527,726	243,869,243	60,170,057
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

8. Loans to customers (continued)

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(b) By currency:				
Khmer Riel	154,058,563	38,142,749	117,096,760	28,891,379
US Dollars	443,437,222	109,788,864	307,868,042	75,960,533
Thai Baht	13,361,288	3,308,068	408,780	100,859
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>
(c) By economic sector:				
Trade and commerce	193,269,977	47,850,947	146,480,096	36,141,154
Agriculture	202,163,161	50,052,776	131,188,718	32,368,300
Consumption	108,455,807	26,852,143	67,864,643	16,744,299
Services	57,645,113	14,272,125	44,942,535	11,088,708
Transportation	44,546,986	11,029,212	30,957,484	7,638,165
Construction	4,776,029	1,182,478	3,940,106	972,145
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>
(d) By residency status:				
Residents	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>
(e) By relationship:				
External customers	605,564,616	149,929,343	422,306,442	104,196,013
Staff loans	5,292,457	1,310,338	3,067,140	756,758
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

8. Loans to customers (continued)

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(f) by location				
Head Office	4,744,519	1,174,677	507,760	125,280
Branches:				
Takeo	61,250,955	15,164,881	51,773,719	12,774,172
Prey Veng	57,506,447	14,237,793	44,599,505	11,004,072
Kampong Cham	52,271,869	12,941,785	36,052,414	8,895,242
Kampong Speu	50,917,284	12,606,408	36,994,955	9,127,795
Kandal	47,692,960	11,808,111	34,206,067	8,439,691
Phnom Penh	43,700,839	10,819,718	32,172,788	7,938,018
Tbong Khmum	38,457,794	9,521,613	26,349,669	6,501,275
Battambang	28,799,887	7,130,450	18,041,947	4,451,504
Kratie	28,746,999	7,117,355	18,033,165	4,449,338
Pursat	28,289,163	7,004,002	20,227,193	4,990,672
Svay Rieng	28,016,835	6,936,577	20,940,974	5,166,784
Banteay Meanchey	27,083,362	6,705,462	15,895,488	3,921,907
Kampot	26,845,293	6,646,520	19,797,843	4,884,738
Siem Reap	24,890,097	6,162,440	12,731,637	3,141,287
Kampong Thom	24,597,617	6,090,026	14,799,326	3,651,450
Kampong Chhnang	18,918,142	4,683,868	12,693,604	3,131,903
Preah Sihanouk	18,127,011	4,487,995	9,555,528	2,357,643
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>
(g) By performance:				
Standard loans:				
Secured	159,279,150	39,435,293	109,100,139	26,918,366
Unsecured	450,724,159	111,593,008	311,947,297	76,967,011
Sub-standard loans:				
Secured	22,116	5,476	100,237	24,732
Unsecured	134,377	33,270	323,251	79,756
Doubtful loans:				
Secured	26,263	6,502	38,458	9,489
Unsecured	137,231	33,976	306,059	75,514
Loans loss:				
Secured	46,654	11,551	294,642	72,697
Unsecured	487,123	120,605	3,263,499	805,206
	<u>610,857,073</u>	<u>151,239,681</u>	<u>425,373,582</u>	<u>104,952,771</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

8. Loans to customers (continued)

(h) By interest rate (per month):

	2011	2010
Loans in Khmer Riel	1.6%-3.25%	1.8%-3.5%
Loans in US Dollars	1.0%-3.0%	1.0%-3.3%
Loans in Thai Baht	1.9%-3.25%	2.3%-3.0%

9. Other assets

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest receivable	8,191,787	2,028,172	7,298,805	1,800,840
Allowance for interest receivable	(247,853)	(61,365)	(1,438,240)	(354,858)
Net interest receivable	7,943,934	1,966,807	5,860,565	1,445,982
Prepayments	2,072,611	513,150	1,252,863	309,120
Advances to suppliers	173,938	43,065	95,799	23,637
Others	306,460	75,875	551,193	135,996
	<u>10,496,943</u>	<u>2,598,897</u>	<u>7,760,420</u>	<u>1,914,735</u>

10. Income tax

(a) Deferred tax assets

Deferred tax assets comprise:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Deferred tax assets	1,504,774	372,561	1,233,506	304,344
Deferred tax liabilities	(244,549)	(60,547)	(210,770)	(52,004)
At end of the year	<u>1,260,225</u>	<u>312,014</u>	<u>1,022,736</u>	<u>252,340</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

10. Income tax (continued)

(a) Deferred tax assets (continued)

The movement in the net deferred tax assets is as follows:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Balance at beginning of year	1,022,736	252,340	606,641	145,512
Credited to income statement	237,489	58,799	416,095	102,664
Translation difference	-	875	-	4,164
	<u>1,260,225</u>	<u>312,014</u>	<u>1,022,736</u>	<u>252,340</u>

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

Provisions	1,159,586	287,097	922,691	227,656
Unrealised exchange loss	345,188	85,464	310,815	76,688
Depreciation and amortisation	(244,549)	(60,547)	(210,770)	(52,004)
	<u>1,260,225</u>	<u>312,014</u>	<u>1,022,736</u>	<u>252,340</u>

(b) Provision for income tax

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Balance at beginning of year	3,382,299	834,517	3,109,199	745,790
Income tax expense	9,128,982	2,260,209	4,171,881	1,029,332
Income tax paid	(4,584,918)	(1,135,162)	(3,898,781)	(961,949)
Translation difference	-	2,893	-	21,344
	<u>7,926,363</u>	<u>1,962,457</u>	<u>3,382,299</u>	<u>834,517</u>

In accordance with Cambodian law, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

10. Income tax (continued)

(c) Income tax expense

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current income tax	9,128,982	2,260,209	4,171,881	1,029,332
Deferred tax assets	(237,489)	(58,799)	(416,095)	(102,664)
Income tax expense	<u>8,891,493</u>	<u>2,201,410</u>	<u>3,755,786</u>	<u>926,668</u>

The reconciliation of current income tax computed at the statutory tax rate of 20% to the income tax expense shown in the income statement is as follows:

	2011			2010		
	KHR'000	US\$ (Note 4)	%	KHR'000	US\$ (Note 4)	%
Profit before income tax	<u>43,991,056</u>	<u>10,891,571</u>		<u>17,500,388</u>	<u>4,317,885</u>	
Income tax using statutory rate	8,798,211	2,178,314	20.0%	3,500,078	863,577	20.0%
Non-deductible expenses	<u>93,282</u>	<u>23,096</u>	<u>0.2%</u>	<u>255,708</u>	<u>63,091</u>	<u>1.5%</u>
Income tax expense	<u>8,891,493</u>	<u>2,201,410</u>	<u>20.2%</u>	<u>3,755,786</u>	<u>926,668</u>	<u>21.5%</u>

The calculation of taxable income is subject to the review and approval of the tax authorities.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

11. Intangible assets

	Computer software KHR'000	Core banking system KHR'000	Total KHR'000	US\$ (Note 4)
Cost				
At 1 January 2011	15,941	4,025,698	4,041,639	997,197
Additions	13,209	-	13,209	3,270
Translation difference	-	-	-	3,457
At 31 December 2011	<u>29,150</u>	<u>4,025,698</u>	<u>4,054,848</u>	<u>1,003,924</u>
Less: accumulated amortisation				
At 1 January 2011	8,934	33,070	42,004	10,364
Amortisation for the year	5,331	402,349	407,680	100,936
Translation difference	-	-	-	36
At 31 December 2011	<u>14,265</u>	<u>435,419</u>	<u>449,684</u>	<u>111,336</u>
Carrying amounts				
As at 31 December 2011	<u>14,885</u>	<u>3,590,279</u>	<u>3,605,164</u>	<u>892,588</u>
As at 31 December 2010	<u>7,007</u>	<u>3,992,628</u>	<u>3,999,635</u>	<u>986,833</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

12. Property and equipment

	Office Furniture KHR'000	Motor vehicles KHR'000	Motorcycles KHR'000	Computer and peripherals KHR'000	Leasehold improvements KHR'000	Communication equipment KHR'000	Capital work in progress KHR'000	Total KHR'000	US\$ (Note 4)
Cost									
At 1 January 2011	1,710,690	2,281,090	178,100	3,032,317	48,875	138,648	-	7,389,720	1,823,271
Additions	308,200	226,315	-	987,888	174,290	65,418	6,321	1,768,432	437,839
Disposals	(107,342)	(213,395)	(60,937)	(36,221)	-	(9,392)	-	(427,287)	(105,790)
Translation difference	-	-	-	-	-	-	-	-	6,320
At 31 December 2011	1,911,548	2,294,010	117,163	3,983,984	223,165	194,674	6,321	8,730,865	2,161,640
Less: Accumulated depreciation									
At 1 January 2011	925,567	1,190,889	115,459	1,846,917	17,285	71,187	-	4,167,304	1,028,202
Depreciation for the year	218,773	280,367	15,620	792,667	39,779	24,986	-	1,372,192	339,736
Disposals	(85,004)	(141,026)	(59,878)	(36,034)	-	(9,392)	-	(331,334)	(82,034)
Translation difference	-	-	-	-	-	-	-	-	3,564
At 31 December 2011	1,059,336	1,330,230	71,201	2,603,550	57,064	86,781	-	5,208,162	1,289,468
Carrying amounts									
At 31 December 2011	852,212	963,780	45,962	1,380,434	166,101	107,893	6,321	3,522,703	872,172
At 31 December 2010	785,123	1,090,201	62,641	1,185,400	31,590	67,461	-	3,222,416	795,069

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

13. Investment

On 15 December 2010, PRASAC invested in Cambodian Microfinance Association Investment (“CMAI”) for establishing the Credit Bureau (Cambodia) Co., Ltd. The equity cash investment is 10% of the total share capital of CMAI equivalent to US\$25,000, which is exposure 1% of the Credit Bureau (Cambodia) Co., Ltd.

14. Deposits from customers

	2011		2010	
	KHR’000	US\$ (Note 4)	KHR’000	US\$ (Note 4)
Term deposits	18,543,729	4,591,168	-	-
Savings	5,574,336	1,380,128	749,531	184,932
	<u>24,118,065</u>	<u>5,971,296</u>	<u>749,531</u>	<u>184,932</u>

The above amounts are analysed as follows:

(a) By maturity:

Within 1 month	5,805,833	1,437,443	749,531	184,932
From 1 month to 3 months	1,267,555	313,829	-	-
From 3 months to 1 year	17,044,677	4,220,024	-	-
	<u>24,118,065</u>	<u>5,971,296</u>	<u>749,531</u>	<u>184,932</u>

(b) By currency:

Khmer Riel	1,334,371	330,372	9,202	2,270
US Dollars	22,641,160	5,605,635	740,329	182,662
Thai Baht	142,534	35,289	-	-
	<u>24,118,065</u>	<u>5,971,296</u>	<u>749,531</u>	<u>184,932</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

14. Deposits from customers (continued)

(c) By interest rates:

	Interest rates (per annum)		
	KHR	US\$	THB
Term deposits			
3 Months	5.5%	4.0%	N/A
6 Months	7.0%	5.0%	5.0%
9 Months	7.5%	5.5%	6.0%
12 Months	8.0%	6.0%	7.0%
Savings for staff (unlimited)	8.0%	6.0%	0.0%
Savings for customer (unlimited)	2.5%	2.0%	2.0%

15. Borrowings

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Related parties:				
Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V (“FMO”)	10,123,667	2,506,478	12,142,333	2,995,888
Belgian Investment Company for Developing Countries SA (BIO)	11,540,000	2,857,143	17,731,875	4,375,000
Oikocredit Ecumenical Development Cooperative Society U.A.	18,743,891	4,640,726	13,578,835	3,350,317
	<u>40,407,558</u>	<u>10,004,347</u>	<u>43,453,043</u>	<u>10,721,205</u>
Non-related parties:				
Credit Suisse Microfinance Fund Management Company	40,524,636	10,033,334	51,878,400	12,800,000
Instituto De Crédito Oficial of the Kingdom of Spain (ICO)	40,588,719	10,049,200	40,729,408	10,049,200

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

15. Borrowings (continued)

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
<i>Non-related parties (continued)</i>				
Dexia Micro-Credit Fund (SubFund Blue Orchard Debt)	12,117,000	3,000,000	30,397,500	7,500,000
Global Microfinance Facility	30,292,500	7,500,000	20,265,000	5,000,000
Dual Return Fund SICAV	20,195,000	5,000,000	20,265,000	5,000,000
Microfinance Enhancement Facility SA (Blue Orchard Pool)	37,540,425	9,294,485	20,262,000	4,999,260
responsAbility SICAV Mikrofinanz-Fonds (LUX)	16,021,368	3,966,667	19,049,100	4,700,000
VDK Spaarbank n.v.	16,156,000	4,000,000	16,212,000	4,000,000
Triodos SICAV II- Triodos Microfinance Fund	30,292,500	7,500,000	14,185,500	3,500,000
SNS Institutional Microfinance Fund II	20,869,611	5,167,024	12,159,000	3,000,000
Selectum SICAV-SIF	12,117,000	3,000,000	12,159,000	3,000,000
Pettelaar Effectenbewaarbedrijf N.V	8,078,000	2,000,000	8,106,000	2,000,000
EMF Microfinance Agmvk	6,058,500	1,500,000	6,079,500	1,500,000
VOLKSVERMOGEN N.V	6,058,500	1,500,000	6,079,500	1,500,000
Calvert Social Investment Foundation	5,250,700	1,300,000	4,863,600	1,200,000
Finethics Microfinance SCA	10,097,500	2,500,000	4,053,000	1,000,000
Impulse Microfinance Investment Fund NV	6,058,500	1,500,000	2,026,500	500,000
ACLEDA Bank Plc.	6,058,500	1,500,000	-	-
Maruhan Japan Bank	17,502,332	4,333,333	-	-
BANK IM BISTUM ESSEN e.G.	12,117,000	3,000,000	-	-
DWM Microfinance Fund	1,130,920	280,000	-	-
NMI Global Fund KS	18,175,500	4,500,000	-	-

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

15. Borrowings (continued)

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
<i>Non-related parties (continued)</i>				
SNS Institutional Micro Fund	8,752,610	2,167,024	-	-
Wallberg Invest S.A.	3,029,250	750,000	-	-
DWM Microfinance Fund J	1,475,030	365,197	-	-
	<u>386,557,601</u>	<u>95,706,264</u>	<u>288,770,008</u>	<u>71,248,460</u>
	<u>426,965,159</u>	<u>105,710,611</u>	<u>332,223,051</u>	<u>81,969,665</u>

The above amounts are analysed as follows:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
From 1 to 3 months	2,131,695	527,778	450,333	111,111
From 3 to 12 months	187,852,202	46,509,582	84,558,975	20,863,305
From 1 to 5 years	201,536,330	49,897,581	203,242,335	50,146,147
Over 5 years	35,444,932	8,775,670	43,971,408	10,849,102
	<u>426,965,159</u>	<u>105,710,611</u>	<u>332,223,051</u>	<u>81,969,665</u>
(b) By currency:				
Khmer Riel	26,623,667	6,591,648	20,542,334	5,068,427
US Dollars	383,079,895	94,845,233	307,630,717	75,901,978
Thai Baht	17,261,597	4,273,730	4,050,000	999,260
	<u>426,965,159</u>	<u>105,710,611</u>	<u>332,223,051</u>	<u>81,969,665</u>

(c) By interest rate per annum (including withholding tax):

	2011	2010
Khmer Riel	4.97%+NBC deposit rate	11.28%
US Dollars	7.44%+swap rate	8.02% + swap rate
Thai Baht	9.17%+Bibor	8.84%

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

16. Bank overdraft

This represents the bank overdraft (“OD”) obtained from Maruhan Japan Bank. The facility is unsecured and bears interest at the rate of 8.5% per annum which is due monthly. The OD is repayable upon demand.

17. Other liabilities

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Accrued expenses				
Interest	5,493,904	1,360,214	3,906,276	963,799
Bonus/incentives	4,551,408	1,126,865	1,256,273	309,961
Accrued taxes				
Withholding taxes	507,031	125,534	363,535	89,695
Salary tax	145,885	36,119	80,525	19,868
Other payables	1,608,157	398,157	176,527	43,555
Others	4,862,230	1,203,820	3,061,568	755,383
	<u>17,168,615</u>	<u>4,250,709</u>	<u>8,844,704</u>	<u>2,182,261</u>

18. Provision for severance pay

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Balance at beginning of year	4,613,455	1,138,282	3,531,731	847,141
Additions during year	1,475,008	365,191	1,278,933	315,552
Paid during the year	(290,535)	(71,932)	(197,209)	(48,658)
Translation difference	-	3,945	-	24,247
	<u>5,797,928</u>	<u>1,435,486</u>	<u>4,613,455</u>	<u>1,138,282</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

19. Share capital

The details of shareholding are as follows:

	2011		2010	
	Number of shares	Amount KHR'000	Number of shares	Amount KHR'000
PSCo	77,020	1,540,400	77,020	1,540,400
BIO	138,626	2,772,520	138,626	2,772,520
DCG	138,626	2,772,520	138,626	2,772,520
FMO	138,626	2,772,520	138,626	2,772,520
LOLC	138,626	2,772,520	138,626	2,772,520
Oikocredit	138,626	2,772,520	138,626	2,772,520
	<u>770,150</u>	<u>15,403,000</u>	<u>770,150</u>	<u>15,403,000</u>
(US\$ equivalents – Note 4)		<u>3,813,568</u>		<u>3,800,395</u>

The total authorised numbers of shares is 770,150 shares (2010: 770,150 shares) with a par value of KHR 20,000 per share (2011: KHR 20,000).

20. Subordinated debt

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Subordinated debt from the Royal Government of Cambodia	34,674,673	8,584,965	34,674,673	8,555,310
Subordinated debt from CRDF	10,982,904	2,719,214	10,982,904	2,709,821
	<u>45,657,577</u>	<u>11,304,179</u>	<u>45,657,577</u>	<u>11,265,131</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

20. Subordinated debt (continued)

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

The amount of KHR34,674,673,914 consists of the funds transferred by EC 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:

- (i) The fund is to be recorded as “Subordinated Debt” in the accounting records of PRASAC.
- (ii) 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 a non-distributable fund.
 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 Micro-Finance Institutions dated 11 January 2000 and shall be included when calculating the Capital Adequacy Ratio of PRASAC.

Subsequently, this was superseded by the NBC letter dated 22 May 2007 which recommended that PRASAC should request permission from 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 inclusion of subordinated debt in the calculation of net worth.

- (iii) The subordinated debt bears no interest

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

In 2007, the proceeds of the sale (“the Fund”) of Cambodia Rural Development Foundation (“CRDF”)’s share transfer in the amount of KHR 10,982,904,400 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 micro-finance to communities and micro-enterprises of the Kingdom of Cambodia.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

20. Subordinated debt (continued)

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

1. The Funds will be recorded as perpetual “Subordinated Debt, CRDF Share Sale” (“SDCSS”) in the accounting records of PRASAC with the following conditions:
 - (i) The SDCSS will be booked into a separate account in the balance sheet of PRASAC;
 - (ii) 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;
 - (iii) The SDCSS shall bear no interest.
 - (iv) Any transfer of the SDCSS to a third party should be approved by all the parties to this agreement.
2. The SDCSS shall only be repayable by PRASAC to CRDF in the following circumstances:
 - a) 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;
 - b) If PRASAC does not approve the transfer of the SDCSS to a third party proposed by CRDF pursuant to clause 2.2. (d) of this Agreement;
 - c) If PRASAC decides at any time and at its sole discretion to repay the SDCSS in full.
3. 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.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

20. Subordinated debt (continued)

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

4. On 12 December 2007, PRASAC obtained the approval from the Central Bank to include subordinated debt (i) above as Tier 2 in the net worth calculation, however, limited to 100% of base net worth; and

On 19 September 2008, CRDF and the MEF signed agreement with the terms and conditions as follows:

- (i) PRASAC will continue to use CRDF Funds solely for the purpose of the long-term provision of micro-finance to individuals, rural and urban communities, and micro-enterprises in Cambodia.
- (ii) The CRDF Funds shall be recorded as Subordinated Debt (“SD”) in the accounting records of PRASAC.
- (iii) PRASAC shall comply with the following terms and conditions:
 - a. 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 (d) hereunder or unless PRASAC elects at its own discretion to repay all or part of the SD to MEF.
 - b. The SD is a non-distributable fund, i.e. the SD cannot be distributed to any party, except as stated in condition (d) below.
 - c. 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.
 - d. PRASAC is entitled to use part or all of the Subordinated Debt 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 financial statements (continued) for the year ended 31 December 2011

20. Subordinated debt (continued)

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

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

- e. 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.
- f. In the unlikely event the individuals, rural and urban communities, and micro-enterprises 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 Subordinated Debt 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.

21. Interest income

	2011		2010	
	KHR’000	US\$ (Note 4)	KHR’000	US\$ (Note 4)
Individual loans	125,498,108	31,071,579	81,443,570	20,094,639
Group loans	3,216,394	796,334	2,305,123	568,745
Placements with banks	67,096	16,612	137,577	33,944
	<u>128,781,598</u>	<u>31,884,525</u>	<u>83,886,270</u>	<u>20,697,328</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

22. Interest expense

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Borrowings	30,736,858	7,610,017	21,390,578	5,277,715
Deposits from customers	500,688	123,963	58,057	14,324
	<u>31,237,546</u>	<u>7,733,980</u>	<u>21,448,635</u>	<u>5,292,039</u>

23. Other operating income

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Foreign exchange gain-realised	729,189	180,537	1,379,525	340,371
Fee income from loans	379,317	93,914	86,897	21,440
Penalty income	658,969	163,151	536,449	132,359
Loan loss recovered	277,865	68,795	182,244	44,965
Gain on disposal of property and equipment	42,537	10,532	7,500	1,850
Other income	56,902	14,088	63,821	15,747
	<u>2,144,779</u>	<u>531,017</u>	<u>2,256,436</u>	<u>556,732</u>

24. Fee and commission expenses

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Fee on borrowings	727,869	180,210	397,825	98,156
Bank charges on borrowings	187,992	46,544	280,918	69,311
Tax on borrowing fund	-	-	879,038	216,886
Fee on group loans	-	-	14,478	3,572
	<u>915,861</u>	<u>226,754</u>	<u>1,572,259</u>	<u>387,925</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

25. Operating and other expenses

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and staff benefits	35,589,403	8,811,439	26,862,395	6,627,781
Rental	3,077,357	761,910	2,800,108	690,873
Fuel for cars and generators	2,179,905	539,714	2,172,038	535,909
Depreciation and amortisation	1,779,872	440,672	1,528,560	377,143
Communications	1,656,255	410,066	1,400,557	345,561
Printing and stationery	973,924	241,130	535,029	132,008
Marketing and promotions	941,426	233,084	557,722	137,607
Office supplies	894,030	221,349	721,868	178,107
Transportation	810,877	200,762	637,482	157,286
Maintenance	759,340	188,002	701,632	173,114
Utilities	752,018	186,189	692,535	170,870
Professional fees	684,535	169,481	932,937	230,184
Per diem and travelling	461,833	114,343	637,858	157,379
Training	228,893	56,671	298,082	73,546
Foreign exchange loss - unrealised	171,862	42,551	1,283,618	316,708
Bank charges	243,073	60,181	311,514	76,860
Other tax expenses	104,039	25,759	228,166	56,296
Others	783,404	193,960	151,080	37,276
	<u>52,092,046</u>	<u>12,897,263</u>	<u>42,453,181</u>	<u>10,474,508</u>

26. Grant income

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
FMO for NBP Project*	288,301	71,379	545,763	134,657
ECOSORN	-	-	595,143	146,840
BIO for strategic planning & management	-	-	76,339	18,835
	<u>288,301</u>	<u>71,379</u>	<u>1,217,245</u>	<u>300,332</u>

*: This represents subsidies received from the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) for providing concessional loans to build biodigester plants which cooperates with the National Biodigester Programme Cambodia. The subsidy is US\$50 per loan disbursed for this biodigester plant.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

27. Net cash flows from operating activities

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	43,991,056	10,891,571	17,500,388	4,317,885
Adjustments for:				
Severance expense	1,475,008	365,191	1,278,933	315,552
Depreciation and amortisation	1,779,872	440,672	1,528,560	377,143
Provision for bad and doubtful loans	2,978,169	737,353	4,385,488	1,082,035
Gain on disposals of Property and equipment	(42,537)	(10,532)	(7,500)	(1,850)
	<u>50,181,568</u>	<u>12,424,255</u>	<u>24,685,869</u>	<u>6,090,765</u>
Changes in:				
Loans to customers	(188,823,066)	(46,749,954)	(158,190,592)	(39,030,494)
Deposits and placements with banks	(22,215)	(5,500)	-	-
Statutory deposits	(1,415,184)	(350,380)	(792,050)	(195,423)
Other assets	(2,736,523)	(677,525)	(2,353,813)	(580,758)
Deposits from customers	23,368,534	5,785,723	(1,256,816)	(310,095)
Other liabilities	8,323,911	2,060,884	4,971,725	1,226,677
	<u>(111,122,975)</u>	<u>(27,512,497)</u>	<u>(132,935,677)</u>	<u>(32,799,328)</u>
Cash used in operations	(111,122,975)	(27,512,497)	(132,935,677)	(32,799,328)
Severance pay paid	(290,535)	(71,932)	(197,209)	(48,658)
Income tax paid	(4,584,918)	(1,135,162)	(3,898,781)	(961,949)
	<u>(4,875,453)</u>	<u>(1,207,094)</u>	<u>(4,096,010)</u>	<u>(1,010,616)</u>
Net cash used in operating activities	<u><u>(115,998,428)</u></u>	<u><u>(28,719,591)</u></u>	<u><u>(137,031,667)</u></u>	<u><u>(33,809,935)</u></u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

28. Cash and cash equivalents

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash on hand	2,305,264	570,751	3,103,632	765,762
Deposits and placements with banks	4,505,097	1,115,399	18,804,255	4,639,589
	<u>6,810,361</u>	<u>1,686,150</u>	<u>21,907,887</u>	<u>5,405,351</u>

29. 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

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. 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 loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

The Company holds collateral against loans to customers in the form of mortgage interests over property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as doubtful.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(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

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

(i) Foreign currency exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by National Bank of Cambodia. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk

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

	KHR'000	KHR'000 equivalent US\$	THB	Total KHR'000
31 December 2011				
Assets				
Cash on hand	952,055	1,187,171	166,038	2,305,264
Deposit and placements				
with bank	1,964,293	1,960,859	602,160	4,527,312
Statutory deposits	2,811,342	226,184	-	3,037,526
Loan to customers	151,532,059	436,482,202	13,160,869	601,175,130
Other assets	2,938,016	7,249,241	309,686	10,496,943
Investment	-	100,975	-	100,975
Total financial assets	160,197,765	447,206,632	14,238,753	621,643,150
Liabilities				
Deposits from customers	1,334,371	22,641,160	142,534	24,118,065
Borrowings	26,623,667	383,079,895	17,261,597	426,965,159
Bank overdraft	-	7,902,920	-	7,902,920
Other liabilities	2,227,587	14,359,765	581,263	17,168,615
Provision for income tax	7,926,363	-	-	7,926,363
Provision for severance pay	-	5,797,928	-	5,797,928
Total financial liabilities	38,111,988	433,781,668	17,985,394	489,879,050
Net financial asset/(liability) position	122,085,777	13,424,964	(3,746,641)	131,764,100
31 December 2010				
Total assets	125,832,266	318,382,999	2,405,617	446,620,882
Total liabilities	25,453,083	320,266,632	4,093,324	349,813,039
Net financial asset/(liability) position	100,379,183	(1,883,633)	(1,687,707)	96,807,843

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loans and bank deposits.

Since the majority of financial assets are short-term and the interest rates are subject to change with the market rates, the company does not use derivative financial instruments to hedge such risk.

Cash flow sensitivity analysis for variable-rate instruments

The change of 150 basis points (“bp”) in interest rates at the reporting date would have increased (decreased) equity and income statement by the amounts shown below. This analysis assumes that all other variables remain the same. The analysis is performed on the same basis for 2010.

	Income statement	
	150 bp increase KHR'000	150 bp decrease KHR'000
31 December 2011		
Variable rate instruments	(473,005)	473,005
Cash flow sensitivity	(473,005)	473,005
31 December 2010		
Variable rate instruments	(651,796)	651,796
Cash flow sensitivity	(651,796)	651,796

The following table indicates the effective interest rates at the balance sheet date and the periods, in which the financial instruments re-price or mature, whichever is earlier.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

2011	Up to 1 month KHR'000	>1 – 3 months KHR'000	>3 – 12 months KHR'000	>1 – 5 years KHR'000	Over 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	2,305,264	2,305,264	
Deposits and placements with bank	4,505,097	-	22,215	-	-	-	4,527,312	0.5%
Statutory deposits	-	-	-	-	1,540,300	1,497,226	3,037,526	3.0%
Loans to customers								
- Performing	37,560,139	90,824,302	326,025,416	155,494,743	98,709	-	610,003,309	21.4%
- Non performing	681,503	49,284	102,944	20,033	-	-	853,764	
- Allowance	(606,121)	(1,440,325)	(5,169,059)	(2,464,873)	(1,565)	-	(9,681,943)	
Other assets	-	-	-	-	-	10,496,943	10,496,943	
Investment	-	-	-	-	-	100,975	100,975	
	<u>42,140,618</u>	<u>89,433,261</u>	<u>320,981,516</u>	<u>153,049,903</u>	<u>1,637,444</u>	<u>14,400,408</u>	<u>621,643,150</u>	
Liabilities								
Deposits from customers	5,805,833	1,267,555	17,044,677	-	-	-	24,118,065	1.7%
Borrowings	-	2,131,695	187,852,202	201,536,330	35,444,932	-	426,965,159	7.2%
Bank overdraft	-	-	7,902,920	-	-	-	7,902,920	
Other liabilities	-	-	-	-	-	17,168,615	17,168,615	
Provision for income tax	-	-	-	-	-	7,926,363	7,926,363	
Provision for severance pay	-	-	-	-	-	5,797,928	5,797,928	
	<u>5,805,833</u>	<u>3,399,250</u>	<u>212,799,799</u>	<u>201,536,330</u>	<u>35,444,932</u>	<u>30,892,906</u>	<u>489,879,050</u>	
Maturity gap	<u>36,334,785</u>	<u>86,034,011</u>	<u>108,181,717</u>	<u>(48,486,427)</u>	<u>(33,807,488)</u>	<u>(16,492,498)</u>	<u>131,764,100</u>	

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(ii) Interest rate risk (continued)

2010	Up to 1 month KHR'000	>1 – 3 months KHR'000	>3 – 12 months KHR'000	>1 – 5 years KHR'000	Over 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	3,103,632	3,103,632	
Deposits and placements with bank	18,600,229	-	-	-	-	204,026	18,804,255	1.5%
Statutory deposits	-	-	-	-	1,540,300	82,042	1,622,342	3.0%
Loans to customers								
- Performing	2,753,460	16,167,164	158,412,434	243,714,378	-	-	421,047,436	20.2%
- Non performing	3,769,729	77,507	324,045	154,865	-	-	4,326,146	
- Allowance	(3,683,889)	(276,592)	(2,435,559)	(3,647,309)	-	-	(10,043,349)	
Other assets	-	-	-	-	-	7,760,420	7,760,420	
	<u>21,439,529</u>	<u>15,968,079</u>	<u>156,300,920</u>	<u>240,221,934</u>	<u>1,540,300</u>	<u>11,150,120</u>	<u>446,620,882</u>	
Liabilities								
Deposits from customers	749,531	-	-	-	-	-	749,531	2.5%
Borrowings	-	450,333	84,558,975	203,242,335	43,971,408	-	332,223,051	8.3%
Other liabilities	-	-	-	-	-	8,844,704	8,844,704	
Provision for income tax	-	-	-	-	-	3,382,299	3,382,299	
Provision for severance pay	-	-	-	-	-	4,613,455	4,613,455	
	<u>749,531</u>	<u>450,333</u>	<u>84,558,975</u>	<u>203,242,335</u>	<u>43,971,408</u>	<u>16,840,458</u>	<u>349,813,040</u>	
Maturity gap	<u>20,689,998</u>	<u>15,517,746</u>	<u>71,741,945</u>	<u>36,979,599</u>	<u>(42,431,108)</u>	<u>(5,690,338)</u>	<u>96,807,842</u>	

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment.

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(d) Liquidity risk (continued)

2011	Up to 1 month KHR'000	>1 – 3 months KHR'000	>3 – 12 months KHR'000	>1 – 5 years KHR'000	Over 5 years KHR'000	No fixed terms KHR'000	Total KHR'000
Assets							
Cash on hand	2,305,264	-	-	-	-	-	2,305,264
Deposits and placements with banks	4,505,097	-	22,215	-	-	-	4,527,312
Statutory deposits	-	-	-	-	-	3,037,526	3,037,526
Loans to customers							
- Performing	37,560,139	90,824,302	326,025,416	155,494,743	98,709	-	610,003,309
- Non performing	681,503	49,284	102,944	20,033	-	-	853,764
- Allowance	(606,121)	(1,440,325)	(5,169,059)	(2,464,873)	(1,565)	-	(9,681,943)
Other assets	10,484,153	-	-	-	-	12,790	10,496,943
Investment	-	-	-	-	-	100,975	100,975
	<u>54,930,035</u>	<u>89,433,261</u>	<u>320,981,516</u>	<u>153,049,903</u>	<u>97,144</u>	<u>3,151,291</u>	<u>621,643,150</u>
Liabilities							
Deposits from customers	5,805,833	1,267,555	17,044,677	-	-	-	24,118,065
Borrowings	-	2,131,695	187,852,202	201,536,330	35,444,932	-	426,965,159
Bank overdraft	-	-	7,902,920	-	-	-	7,902,920
Other liabilities	14,107,398	2,703,969	357,248	-	-	-	17,168,615
Provision for income tax	-	7,926,363	-	-	-	-	7,926,363
Provision for severance pay	-	-	-	-	-	5,797,928	5,797,928
	<u>19,913,231</u>	<u>14,029,582</u>	<u>213,157,047</u>	<u>201,536,330</u>	<u>35,444,932</u>	<u>5,797,928</u>	<u>489,879,050</u>
Maturity gap	<u>35,016,804</u>	<u>75,403,679</u>	<u>107,824,469</u>	<u>(48,486,427)</u>	<u>(35,347,788)</u>	<u>(2,646,637)</u>	<u>131,764,100</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(d) Liquidity risk (continued)

2010	Up to 1 month KHR'000	>1 – 3 months KHR'000	>3 – 12 months KHR'000	>1 – 5 years KHR'000	Over 5 years KHR'000	No fixed terms KHR'000	Total KHR'000
Assets							
Cash on hand	3,103,632	-	-	-	-	-	3,103,632
Deposits and placements with banks	18,804,255	-	-	-	-	-	18,804,255
Statutory deposits		-	-	-		1,622,342	1,622,342
Loans to customers							
- Performing	2,753,460	16,167,164	158,412,434	243,714,378	-	-	421,047,436
- Non performing	3,769,729	77,507	324,045	154,865	-	-	4,326,146
- Allowance	(3,683,889)	(276,592)	(2,435,559)	(3,647,309)	-	-	(10,043,349)
Other assets	5,903,318	188,914	1,105,548	549,805	-	12,835	7,760,420
	<u>30,650,505</u>	<u>16,156,993</u>	<u>157,406,468</u>	<u>240,771,739</u>	<u>-</u>	<u>1,635,177</u>	<u>446,620,882</u>
Liabilities							
Deposits from customers	749,531	-	-	-	-	-	749,531
Borrowings	-	450,333	84,558,975	203,242,335	43,971,408	-	332,223,051
Other liabilities	4,992,817	664,797	3,173,796	13,294	-	-	8,844,704
Provision for income tax	82,189	3,300,110	-	-	-	-	3,382,299
Provision for severance pay	-	-	-	-	-	4,613,455	4,613,455
	<u>5,824,537</u>	<u>4,415,240</u>	<u>87,732,771</u>	<u>203,255,629</u>	<u>43,971,408</u>	<u>4,613,455</u>	<u>349,813,040</u>
Maturity gap	<u>24,825,968</u>	<u>11,741,753</u>	<u>69,673,697</u>	<u>37,516,110</u>	<u>(43,971,408)</u>	<u>(2,978,278)</u>	<u>96,807,842</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

29. Financial risk management (continued)

(e) Capital management

(i) Regulatory capital

The Company's lead regulator, the National Bank of Cambodia ("NBC"), sets and monitors capital requirements for the Company as a whole.

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(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.

30. Commitments and contingencies

(a) Lease commitments

The Company has lease commitments for the lease of its headquarters and provincial offices as follows:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Within one year	2,803,294	694,056	2,810,472	693,430
Two to five years	3,969,451	982,781	2,662,187	656,844
Over 5 years	290,808	72,000	-	-
	<u>7,063,553</u>	<u>1,748,837</u>	<u>5,472,659</u>	<u>1,350,274</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

30. Commitments and contingencies (continued)

(b) Capital expenditure

The Company has capital expenditure commitments in respect of the Automatic Teller Machine (“ATM”).

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Contracted but not paid for	2,631,287	651,470	-	-

(c) Taxation contingencies

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. 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.

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 could be significant.

31. Related parties transactions

The Company had significant related party transactions during the year as follows:

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Board of Directors:				
Salary and other benefits	427,257	105,783	272,233	67,168
Fee and related expenses	159,934	39,597	64,328	15,872
	<u>587,191</u>	<u>145,380</u>	<u>336,561</u>	<u>83,040</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

Notes to the financial statements (continued) for the year ended 31 December 2011

31. Related parties transactions (continued)

	2011		2010	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
With shareholders:				
<i>Interest expenses:</i>				
The Nederlandse Financiering- Maatschappij voor Ontwikkelingslanden N.V.(FMO)	648,516	160,564	830,831	204,992
Belgian Investment Company for Developing Countries SA (BIO)	994,208	246,152	734,653	181,261
Oikocredit Ecumenical Development Cooperative Society U.A	1,723,364	426,681	666,352	164,410
	<u>3,366,088</u>	<u>833,397</u>	<u>2,231,836</u>	<u>550,663</u>
<i>Borrowings' disbursed amount:</i>				
Belgian Investment Company for Developing Countries SA (BIO)	-	-	16,212,000	4,000,000
Oikocredit Ecumenical Development Cooperative Society U.A	12,300,000	3,045,308	8,400,000	2,072,539
	<u>12,300,000</u>	<u>3,045,308</u>	<u>24,612,000</u>	<u>6,072,539</u>

32. Fair values of financial assets and liabilities

The aggregate fair values of financial assets and liabilities carried on the balance sheet are approximately equal to their carrying values as at 31 December 2011.