

PRASAC MICROFINANCE INSTITUTION LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

PRASAC MICROFINANCE INSTITUTION LIMITED

**FINANCIAL STATEMENTS
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DIRECTORS' REPORT

The Board of Directors of PRASAC Microfinance Institution Limited ("the Company" or "PRASAC") is pleased to present its report and the audited financial statements of the Company for the year ended 31 December 2012.

PRINCIPAL ACTIVITY

The principal activity of PRASAC is to provide micro-finance services to rural population of Cambodia through its headquarter based Phnom Penh and its various branches in Phnom Penh and provinces in the Kingdom of Cambodia.

FINANCIAL PERFORMANCE

The financial performance for the year ended 31 December 2012 is set out in the income statement on page 6 of the financial statements.

SHARE CAPITAL

During the year, there have been changes in the registered and paid up capital of the Company as disclosed in note 18 to the financial statements.

BAD AND DOUBTFUL LOANS

Before the Company's financial statements were drawn up, the Board of Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans or making provision for bad and doubtful loans. The Board of Directors has satisfied itself that all known bad loans have been written off and that adequate provisions have 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 of the provision for bad and doubtful loans in the financial statements of the Company inadequate to any material extent.

ASSETS

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

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- i) no charge on the assets of the Company which has arisen since the end of the year which secures the liabilities of any other person; and
- ii) no contingent liability in respect of the Company that has arisen since the end of the 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 after the end of the year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become 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 in any material respect.

ITEMS OF AN UNUSUAL NATURE

The Company's financial performance for the year ended 31 December 2012 was not, in the opinion of the Board of Directors, materially affected by any items, transactions or events of a material and unusual nature.

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

SIGNIFICANT EVENTS

No significant events occurred after the balance sheet date requiring 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 holding office during the financial year and as at the date of this report are:

Mr. Ranjit Fernando	Representing the Nederlanse Financierings-Maatschappij voor Ontwikkelingslande N.V., (Chairman)
Mr. Joseph Hoess	Representing Dragon Capital Group Limited, (Director)
Mr. Hanco Halbertsma	Representing Belgian Investment Company for Developing Countries SA, (Director)
Mr. Ishara C. Nanayakkara	Representing Lanka ORIX LEASING Company Ltd, (Director)
Mr. Stefan A.V. Harpe	Representing Oikocredit, Ecumenical Development Cooperative Society, U.A., (Director) (resigned on 24 August 2012)
Mr. Oum Sam Oeun	Representing PRASAC Staff Company Ltd., (Director)
Mr. Phai Touch	Independent Director

DIRECTORS' BENEFITS

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

During the year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit received by the Directors as disclosed in the note to the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Directors is a member, or with a company which the Directors has a substantial financial interest other than as disclosed in the financial statements.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible to ensure 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 2012, and its financial performance and 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 judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia or, if there have been any departures in the interest of true and fair presentation, ensure they 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) set overall policies for the Company, ratify all decisions and actions by the Board of Directors that have a material effect on the operations and performance of the Company, and ensure they have been properly reflected in the financial statements.

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

APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia were approved by the Board of Directors.

On behalf of the Board of Directors,



Ranjit Fernando
Chairman

Phnom Penh, Kingdom of Cambodia
Date: 15 March 2013



Independent auditor's report

To the Shareholders of 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 2012 and the income statement, statement of changes in shareholders' equity and cash flow statement for the year ended 31 December 2012, and a summary of significant accounting policies and other explanatory information.

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 guidelines of the National Bank of Cambodia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, 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.

For PricewaterhouseCoopers (Cambodia) Ltd.


By Kuy Lim
Partner



Phnom Penh, Kingdom of Cambodia

Date: 15 March 2013

PricewaterhouseCoopers (Cambodia) Ltd.

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PRASAC MICROFINANCE INSTITUTION LIMITED

**BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012		2011	
		US\$	KHR'000	US\$	KHR'000
Assets					
Cash on hand	4	3,269,290	13,060,814	570,751	2,305,264
Balances with the Central Bank	5	21,548,504	86,086,273	767,614	3,100,393
Deposits with banks	6	6,503,266	25,980,548	1,105,334	4,464,445
Loans and advances to customers	7	211,508,052	844,974,668	148,842,568	601,175,130
Other assets	8	4,334,918	17,317,997	2,623,897	10,597,918
Intangible assets	9	1,295,762	5,176,569	892,588	3,605,164
Property and equipment	10	2,859,643	11,424,273	872,172	3,522,703
Deferred tax assets	11	254,201	1,015,533	312,014	1,260,225
Total assets		<u>251,573,636</u>	<u>1,005,036,675</u>	<u>155,986,938</u>	<u>630,031,242</u>
Liabilities and shareholders' equity					
Liabilities					
Deposits from banks and Micro finance institutions	12	5,911,985	23,618,380	2,100,203	8,482,720
Deposits from customers	13	51,299,768	204,942,573	5,074,914	20,497,578
Bank overdraft	14	-	-	1,956,653	7,902,920
Borrowings	15	139,382,048	556,831,282	105,710,611	426,965,159
Other liabilities	16	4,813,441	19,229,692	3,046,888	12,306,382
Current income tax liabilities	27	2,465,405	9,849,293	1,962,457	7,926,363
Severance pay obligation	17	1,349,381	5,390,777	1,435,486	5,797,928
Total liabilities		<u>205,222,028</u>	<u>819,861,997</u>	<u>121,287,212</u>	<u>489,879,050</u>
SHAREHOLDERS' EQUITY					
Share capital	18	19,685,067	78,641,843	3,813,568	15,403,000
Other reserves		3,809,529	15,219,068	3,126,594	12,628,315
Subordinated debts	19	11,428,679	45,657,577	11,304,179	45,657,577
Retained earnings		11,428,333	45,656,190	16,455,385	66,463,300
Total Shareholders' equity		<u>46,351,608</u>	<u>185,174,678</u>	<u>34,699,726</u>	<u>140,152,192</u>
Total Liabilities and Shareholders' equity		<u>251,573,636</u>	<u>1,005,036,675</u>	<u>155,986,938</u>	<u>630,031,242</u>

The accompanying notes on pages 9 to 53 form an integral part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012		2011	
		US\$	KHR'000	US\$	KHR'000
Interest income	20	42,397,028	169,376,127	31,884,525	128,781,598
Interest expense	21	(11,092,869)	(44,316,012)	(7,733,980)	(31,237,546)
Net interest income		<u>31,304,159</u>	<u>125,060,115</u>	<u>24,150,545</u>	<u>97,544,052</u>
Fee and commission expenses	22	(438,259)	(1,750,845)	(226,754)	(915,861)
Other operating income	23	1,348,862	5,388,704	602,396	2,433,079
Personnel expenses	24	(10,788,513)	(43,100,109)	(8,811,439)	(35,589,402)
Depreciation and amortisation	25	(600,868)	(2,400,468)	(440,672)	(1,779,872)
General and administrative expenses	26	(5,301,737)	(21,180,439)	(3,645,152)	(14,722,771)
Operating income		<u>15,523,644</u>	<u>62,016,958</u>	<u>11,628,924</u>	<u>46,969,225</u>
Provision for bad and doubtful loans	7	(1,064,919)	(4,254,351)	(737,353)	(2,978,169)
Profit before income tax		<u>14,458,725</u>	<u>57,762,607</u>	<u>10,891,571</u>	<u>43,991,056</u>
Income tax expense	27	(2,931,344)	(11,710,719)	(2,201,410)	(8,891,493)
Net profit for the year		<u><u>11,527,381</u></u>	<u><u>46,051,888</u></u>	<u><u>8,690,161</u></u>	<u><u>35,099,563</u></u>

The accompanying notes on pages 9 to 53 form an integral part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Share capital US\$	Subordinated debts US\$	Other reserves US\$	Retained earnings US\$	Total US\$
Year ended 31 December 2011					
Balance as at 1 January 2011	3,813,568	11,304,179	2,209,664	8,682,154	26,009,565
Net profit for the year	-	-	-	8,690,162	8,690,162
Transferred to other reserves	-	-	916,931	(916,931)	-
Balance as at 31 December 2011	<u>3,813,568</u>	<u>11,304,179</u>	<u>3,126,595</u>	<u>16,455,385</u>	<u>34,699,727</u>
Equivalent in KHR'000	<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>
Year ended 31 December 2012					
Balance as at 1 January 2012	3,813,568	11,304,179	3,126,595	16,455,385	34,699,727
Converted to share capital	15,871,499	-	-	(15,871,499)	-
Net profit for the year	-	-	-	11,527,381	11,527,381
Transferred to other reserves	-	-	682,934	(682,934)	-
Currency translation difference	-	124,500	-	-	124,500
Balance as at 31 December 2012	<u>19,685,067</u>	<u>11,428,679</u>	<u>3,809,529</u>	<u>11,428,333</u>	<u>46,351,608</u>
Equivalent in KHR'000	<u>78,641,843</u>	<u>45,657,577</u>	<u>15,219,068</u>	<u>45,656,190</u>	<u>185,174,678</u>

The accompanying notes on pages 9 to 53 form an integral part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012		2011	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Net cash used in operations	28	(7,092,450)	(28,334,337)	(27,133,511)	(109,592,255)
Cash flows from investing activities					
Purchases of property and equipment	10	(2,490,161)	(9,948,193)	(437,839)	(1,768,432)
Purchases of intangible assets	9	(513,633)	(2,051,964)	(3,271)	(13,212)
Proceeds from sales of property and equipment		23,968	95,752	34,288	138,489
Net cash used in investing activities		(2,979,826)	(11,904,405)	(406,822)	(1,643,155)
Cash flows from financing activities					
Proceeds from borrowings		86,697,115	346,354,974	46,927,440	189,539,930
Repayments of borrowings		(53,007,503)	(211,764,974)	(23,106,308)	(93,326,378)
Net cash from financing activities		33,689,612	134,590,000	23,821,132	96,213,552
Net increase/(decrease) in cash and cash equivalents		23,617,336	94,351,258	(3,719,201)	(15,021,858)
Cash and cash equivalents at the beginning of the year		1,686,150	6,810,361	5,405,351	21,907,887
Currency translation differences		-	(74,192)	-	(75,668)
Cash and cash equivalents at the end of the year	29	25,303,486	101,087,427	1,686,150	6,810,361

The accompanying notes on pages 9 to 53 form an integral part of these financial statements.

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. BACKGROUND INFORMATION

PRASAC Microfinance Institution Limited (“the Company” or “PRASAC”), is engaged in providing micro-financing services in the rural population of Cambodia through its headquarters based Phnom Penh and various branches in Phnom Penh and provinces 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 the register number Co-6931/04P, dated 12 August 2004.

The net assets of PCA (PRASAC Credit Association) were transferred to PRASAC as subordinated debt, as discussed in note 19 to these financial statements, in accordance with the asset transfer document dated 10 May 2005, effective from 31 December 2004.

The Central Bank 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 Central Bank on 14 October 2008 and 6 November 2008 respectively.

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

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

As at 31 December 2012, the Company had 2,135 employees (31 December 2011: 1,501).

The financial statements were approved for issue by the Board of Directors on 15 March 2013.

2. SUMMARY OF 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 year presented, unless otherwise stated.

2.1 Basis of preparation

The Company’s financial statements have been prepared in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards (“CAS”). In applying CAS, the Company also applies CFRS 7: *Financial Instruments: Disclosures*.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are only addressed to those who are informed about Cambodian accounting principles, procedures and practices.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The financial statements are prepared using the historical cost convention.

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

2.2 Change in accounting framework

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

The National Accounting Council of the Ministry of Economy and Finance through Circular No. 086 MoEF.NAC dated 30 July 2012 approves Banking and financial institution to delay adoption of CIFRS until the periods beginning on or after 1 January 2016.

The first financial statement of the Company which will be prepared under CIFRS is the year ending 31 December 2016. CAS, the current accounting standard used, is different to CIFRS in many areas. Hence, the adoption of CIFRS will have significant impact on the financial statements of the Company.

2.3 Basis of aggregation

The financial statements include the financial statements of the headquarter and its branches within Cambodia. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The Company transacts in three main currencies, Khmer Riel ("Riel"), United States Dollars ("US\$") and Thai Baht ("THB"). The management has determined the US\$ to be the Company's functional currency owing to the significant influence of the US\$ on its operations. The financial statements are presented in US\$, which is the Company's functional and presentation currency.

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(ii) Transactions and balances

Transactions in currencies other than US\$, the functional and presentation currency, are translated into US\$ at the exchange rate prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary and liabilities denominated in currencies other than US\$, are recognised in the income statement.

(iii) Presentation in Khmer Riel

For the sole regulatory purpose of complying with the Prakas No. B7-07-164 dated 13 December 2007 of the Central Bank, a translation to Khmer Riel ("KHR") is provided for the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and notes to the financial statements as of and for the financial for the year ended 31 December 2012 using the official rate of exchange regulated by the Central Bank as at the reporting date, which was US\$1 to KHR3,995 (2011: US\$1 to KHR4,039). Such translation amounts are unaudited and should not be construed as representations that the US\$ amounts represent, or have been or could be, converted into KHR at that or any other rate.

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less where the Company has full ability to withdraw for general purpose whenever needed.

2.6 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 for bad and doubtful loans.

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. The provision for doubtful loans charged to expense is based on the management's judgment of the amount necessary to maintain the provision balance at a level adequate to absorb losses.

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Provision for bad and doubtful loans

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

Classification	Number of days past due	Provision
<i>Short term loan (less than one year):</i>		
Standard	0 - 30 days	0%
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
<i>Long term loan (more than one year):</i>		
Standard	0 - 30 days	0%
Substandard	31 - 180 days	10%
Doubtful	181 - 360 days	30%
Loss	Over 360 days	100%

In addition to the specific provisions, an additional general provision for bad and doubtful loans is made at the rate of 1.5% (2011: 1.5%) of total outstanding loans as at 31 December 2012 which is based on the Company's experience and industry prospects.

Loans are written off when there is no realistic prospect of recovery. Recovery of previously written-off loans to customers is recognised as other income in the income statement.

2.8 Severance pay

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

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

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation of property and equipment is charged to the income statement on a declining balance method at the following annual rates:

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

The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.10 Intangible assets

Computer software is stated at cost less accumulated amortisation and impairment loss, if any. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. It is amortised at 50% annual rates using declining balance.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

2.12 Deposits from customers

Deposits from customers are stated at placement value.

2.13 Borrowings

Borrowings are stated at the amount of the principal outstanding. Fees paid on the establishment of borrowing facilities are capitalised and amortised over the period of the borrowings using the straight-line method.

2.14 Subordinated loans

Subordinated loans are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, if otherwise, it is treated as equity. The subordinated loans which are approved by the Central Bank are included as a Tier II line item in the calculation of the Company's net worth in accordance with the guidelines of the Central Bank and they are classified as equity (see note 19).

2.15 Related party transactions

Parties are considered to be related 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.

In accordance with the Law on Banking and Financial Institutions, related parties are defined as parties who hold, directly or indirectly, at least 10% of the capital of the Company or voting rights and include any individual who participates in the administration, direction, management or internal control of the Company.

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Reserves

Special reserve

Based on the memorandum and articles of association, the Company has to annually transfer an amount that provides capital protection from retained earnings into special reserves. The amount is equivalent to the annual inflation rate, but in any case no higher than 5%, multiplied by the subordinate debt amount. This reserve is nondistributable.

ICO reserve

Based on the loan agreement signed between Instituto De Crédito Oficial (ICO) 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 nondistributable.

2.17 Interest income and expense

Interest income on loans to customers, balances with the Central Bank and balances with banks are recognised on an accrual basis. Where a loan becomes non-performing, the recording of interest income on loans to customers is suspended until it is realised on a cash basis.

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.

2.18 Leases

Leases in which a significant portion of risks and rewards of ownership of assets are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

2.19 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are re-measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income taxes are calculated using a principal tax rate of 20%.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.21 Rounding of amounts

The presenting amounts in the financial statements have been rounded off to the nearest dollar and thousand KHR amounts, respectively.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Impairment losses on loans to customers

The Company is required to follow the mandatory credit classification and provisioning in accordance with the Central Bank's Prakas No. B7-02-186, dated 13 September 2002. The Central Bank requires micro-finance institutions to classify their loan portfolios into four classes, and a minimum mandatory level of provision is made depending on the classification concerned. For the purpose of loan classification, the Company is required to take into account the borrower's historical payment experience and financial condition.

In addition to the required provision, an additional provision for loan losses is made at the rate of 1.5% (2011: 1.5%) of all outstanding loans, which has been approved by the Board of Directors.

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

b) Income tax

Taxes are calculated on the basis of current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expense will be made following inspection by the General Department of Taxation. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

4. CASH ON HAND

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Head office	536,817	2,144,584	37,453	151,274
Branches	2,732,473	10,916,230	533,298	2,153,990
	<u>3,269,290</u>	<u>13,060,814</u>	<u>570,751</u>	<u>2,305,264</u>

5. BALANCES WITH THE CENTRAL BANK

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Statutory capital deposit (i)	2,002,503	7,999,999	381,357	1,540,300
Reserve requirement (ii)	4,009,390	16,017,513	370,692	1,497,226
Current accounts	15,536,611	62,068,761	15,565	62,867
	<u>21,548,504</u>	<u>86,086,273</u>	<u>767,614</u>	<u>3,100,393</u>

(i) Statutory capital deposit

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

(ii) Reserve requirement

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on the Licensing of Deposit-Taking Microfinance Institutions. Reserve deposit earns no interest.

(iii) Current accounts

Current accounts earn no interest.

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

6. DEPOSITS WITH BANKS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Current accounts	819,595	3,274,282	35,627	143,897
Savings accounts	5,677,990	22,683,570	1,064,207	4,298,333
Fixed deposits	5,681	22,696	5,500	22,215
	<u>6,503,266</u>	<u>25,980,548</u>	<u>1,105,334</u>	<u>4,464,445</u>

Current accounts are non-interest bearing. The savings and fixed deposit accounts bear interest rates per annum set out below:

	2012	2011
Current accounts	Nil	0.40%
Savings accounts	0.05% to 0.25%	0.05% to 0.25%
Fixed deposits	1.25% to 2.35%	2.35%

7. LOANS AND ADVANCES TO CUSTOMERS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Group loans	1,932,893	7,721,908	2,357,981	9,523,886
Individual loans	212,924,701	850,634,180	148,881,700	601,333,187
	<u>214,857,594</u>	<u>858,356,088</u>	<u>151,239,681</u>	<u>610,857,073</u>
Allowance for bad and doubtful loans				
Specific	(144,538)	(577,429)	(148,173)	(598,474)
General	(3,205,004)	(12,803,991)	(2,248,940)	(9,083,469)
	<u>(3,349,542)</u>	<u>(13,381,420)</u>	<u>(2,397,113)</u>	<u>(9,681,943)</u>
	<u>211,508,052</u>	<u>844,974,668</u>	<u>148,842,568</u>	<u>601,175,130</u>

(a) Provision for bad and doubtful loans

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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
At beginning of year	2,397,113	9,681,943	2,478,003	10,043,349
Provision during the year	1,064,919	4,254,351	737,353	2,978,169
Written off during the year	(153,549)	(613,428)	(826,832)	(3,339,575)
Currency translation differences	41,059	58,554	8,589	-
At the end of the year	<u>3,349,542</u>	<u>13,381,420</u>	<u>2,397,113</u>	<u>9,681,943</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) By maturity

The loans to customers are analysed as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Less than one year	40,122,131	160,287,913	38,949,153	157,315,630
More than one year	174,735,463	698,068,175	112,290,528	453,541,443
	<u>214,857,594</u>	<u>858,356,088</u>	<u>151,239,681</u>	<u>610,857,073</u>

(c) By economic sector

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Trade and commerce	62,057,987	247,921,658	47,850,947	193,269,977
Agriculture	66,736,252	266,611,327	50,052,776	202,163,161
Consumption	45,092,149	180,143,135	26,852,143	108,455,807
Services	21,020,375	83,976,398	14,272,125	57,645,113
Transportation	18,121,599	72,395,788	11,029,212	44,546,986
Construction	1,829,232	7,307,782	1,182,478	4,776,029
	<u>214,857,594</u>	<u>858,356,088</u>	<u>151,239,681</u>	<u>610,857,073</u>

(d) By relationship

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
External customers	213,666,910	853,599,305	149,929,343	605,564,616
Staff loans	1,190,684	4,756,783	1,310,338	5,292,457
	<u>214,857,594</u>	<u>858,356,088</u>	<u>151,239,681</u>	<u>610,857,073</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) By location

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Head Office	2,333,749	9,323,327	1,174,677	4,744,519
Branches:				
Kampong Speu	17,731,340	70,836,703	12,606,408	50,917,284
Prey Veng	17,881,473	71,436,485	14,237,793	57,506,447
Kompong Cham	17,781,523	71,037,184	12,941,785	52,271,869
Takeo	17,616,236	70,376,863	15,164,881	61,250,955
Phnom Penh	18,308,959	73,144,292	10,819,718	43,700,839
Kandal	14,429,753	57,646,863	11,808,111	47,692,960
Suong	11,994,143	47,916,601	8,543,920	34,508,893
Battambang	11,607,156	46,370,588	7,130,450	28,799,887
Pursat	9,493,836	37,927,875	7,004,002	28,289,163
Svay Rieng	9,858,348	39,384,100	6,936,577	28,016,835
Banteay Mean Chey	9,938,136	39,702,853	6,705,462	27,083,362
Kampot	9,049,600	36,153,152	6,646,520	26,845,293
Kompong Thom	9,248,429	36,947,474	5,456,485	22,038,743
Kratie	7,721,812	30,848,639	4,615,621	18,642,493
Siem Reap	6,907,615	27,595,922	5,426,319	21,916,902
Kampong Chnang	4,516,757	18,044,444	4,683,868	18,918,142
Rattanak Kiri	2,603,036	10,399,129	1,463,428	5,910,786
Preah Vihear	2,762,146	11,034,773	633,541	2,558,873
Preah Sihanouk	2,331,879	9,315,857	1,624,759	6,562,402
Srae Ambil	1,640,425	6,553,498	827,500	3,342,273
Prey Nob	1,651,597	6,598,130	1,018,429	4,113,435
Mondol Kiri	1,532,444	6,122,114	977,691	3,948,896
Anlong Veng	1,751,325	6,996,543	-	-
Steung Treng	1,419,944	5,672,676	1,038,307	4,193,722
Otdor Mean Chey	1,491,044	5,956,721	736,122	2,973,197
Koh Kong	1,254,889	5,013,282	1,017,307	4,108,903
	<u>214,857,594</u>	<u>858,356,088</u>	<u>151,239,681</u>	<u>610,857,073</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) By performance

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Standard loans:				
Secured	61,205,633	244,516,504	39,435,293	159,279,150
Unsecured	153,225,155	612,134,494	111,593,008	450,724,159
Sub-standard loans:				
Secured	17,846	71,295	5,476	22,116
Unsecured	206,729	825,882	33,270	134,377
Doubtful loans:				
Secured	7,686	30,706	6,502	26,263
Unsecured	106,830	426,786	33,976	137,231
Loss loans:				
Secured	6,512	26,015	11,551	46,654
Unsecured	81,203	324,406	120,605	487,123
	214,857,594	858,356,088	151,239,681	610,857,073

(g) By interest rate (per annum)

	2012	2011
Group loans	30% - 42%	30% - 42%
Individual loans	18% - 39.6%	12% - 42%
Staff loans	12% - 14.4%	10% - 15%

8. OTHER ASSETS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Accrued interest receivable	2,616,633	10,453,449	2,028,172	8,191,787
Allowance for interest receivable	(50,567)	(202,015)	(61,365)	(247,853)
Net interest receivable	2,566,066	10,251,434	1,966,807	7,943,934
Prepayments	1,485,748	5,935,563	513,150	2,072,611
Deposits	201,984	806,926	43,065	173,938
Investment	25,000	99,875	25,000	100,975
Others	56,120	224,199	75,875	306,460
	1,768,852	7,066,563	657,090	2,653,984
	4,334,918	17,317,997	2,623,897	10,597,918

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

8. OTHER ASSETS (continued)

The total other assets are analysed as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Less than one year	3,320,601	13,265,801	2,042,682	8,250,394
More than one year	1,014,317	4,052,196	581,215	2,347,524
	<u>4,334,918</u>	<u>17,317,997</u>	<u>2,623,897</u>	<u>10,597,918</u>

9. INTANGIBLE ASSETS

	Computer software US\$	Core banking system US\$	Total US\$
At 1 January 2011			
Cost	3,933	993,264	997,197
Accumulated amortisation	(2,204)	(8,160)	(10,364)
Net book value	<u>1,729</u>	<u>985,104</u>	<u>986,833</u>
Year ended 31 December 2011			
Opening net book value	1,729	985,104	986,833
Additions	3,271	-	3,271
Amortisation charge	(1,321)	(99,616)	(100,937)
Currency translation differences	-	3,421	3,421
Closing net book value	<u>3,679</u>	<u>888,909</u>	<u>892,588</u>
At 31 December 2011			
Cost	7,204	993,264	1,000,468
Accumulated amortisation	(3,525)	(104,355)	(107,880)
Net book value	<u>3,679</u>	<u>888,909</u>	<u>892,588</u>
Equivalent in KHR'000	<u>14,861</u>	<u>3,590,303</u>	<u>3,605,164</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

9. INTANGIBLE ASSETS (continued)

	Computer software US\$	Core banking system US\$	Total US\$
Year ended 31 December 2012			
Opening net book value	3,679	888,909	892,588
Additions	513,633	-	513,633
Amortisation charge	(10,477)	(99,982)	(110,459)
Closing net book value	<u>506,835</u>	<u>788,927</u>	<u>1,295,762</u>
At 31 December 2012			
Cost	520,837	993,264	1,514,101
Accumulated amortisation	<u>(14,002)</u>	<u>(204,337)</u>	<u>(218,339)</u>
Net book value	<u>506,835</u>	<u>788,927</u>	<u>1,295,762</u>
Equivalent in KHR'000	<u>2,024,806</u>	<u>3,151,763</u>	<u>5,176,569</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

10. PROPERTY AND EQUIPMENT

	Office furniture US\$	Motor vehicles US\$	Motor- cycles US\$	Computer and peripherals US\$	Leasehold improvements US\$	Communi- cation equipment US\$	Work in progress US\$	Total US\$
At 1 January 2011								
Cost	423,543	564,766	44,095	750,759	12,101	34,327	-	1,829,591
Accumulated depreciation	(229,157)	(294,847)	(28,586)	(457,271)	(4,280)	(17,625)	-	(1,031,766)
Net book value	<u>194,386</u>	<u>269,919</u>	<u>15,509</u>	<u>293,488</u>	<u>7,821</u>	<u>16,702</u>	<u>-</u>	<u>797,825</u>
Year ended 31 December 2011								
Opening net book value	194,386	269,919	15,509	293,488	7,821	16,702	-	797,825
Additions	76,306	56,032	-	244,587	43,152	16,197	1,565	437,839
Disposals - net	(5,531)	(17,918)	(262)	(46)	-	-	-	(23,757)
Depreciation charge	(54,165)	(69,415)	(3,867)	(196,253)	(9,849)	(6,186)	-	(339,735)
Closing net book value	<u>210,996</u>	<u>238,618</u>	<u>11,380</u>	<u>341,776</u>	<u>41,124</u>	<u>26,713</u>	<u>1,565</u>	<u>872,172</u>
At 31 December 2011								
Cost	494,318	602,880	43,833	995,300	55,253	50,524	1,565	2,243,673
Accumulated depreciation	(283,322)	(364,262)	(32,453)	(653,524)	(14,129)	(23,811)	-	(1,371,501)
Net book value	<u>210,996</u>	<u>238,618</u>	<u>11,380</u>	<u>341,776</u>	<u>41,124</u>	<u>26,713</u>	<u>1,565</u>	<u>872,172</u>
Equivalent in KHR'000	<u>852,213</u>	<u>963,778</u>	<u>45,964</u>	<u>1,380,433</u>	<u>166,100</u>	<u>107,894</u>	<u>6,321</u>	<u>3,522,703</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

10. PROPERTY AND EQUIPMENT (continued)

	Office furniture US\$	Motor vehicles US\$	Motor- cycles US\$	Computer and peripherals US\$	Leasehold improvements US\$	Communi- cation equipment US\$	Work in progress US\$	Total US\$
Year ended 31 December 2012								
Opening net book value	210,996	238,618	11,380	341,776	41,124	26,713	1,565	872,172
Additions	1,037,508	332,900	30,770	635,266	348,902	106,380	(1,565)	2,490,161
Disposals - net	(1,904)	(10,377)	-	-	-	-	-	(12,281)
Depreciation charge	(89,271)	(90,071)	(5,742)	(263,035)	(33,155)	(9,135)	-	(490,409)
Closing net book value	<u>1,157,329</u>	<u>471,070</u>	<u>36,408</u>	<u>714,007</u>	<u>356,871</u>	<u>123,958</u>	<u>-</u>	<u>2,859,643</u>
At 31 December 2012								
Cost	1,531,826	935,780	74,603	1,630,566	404,155	156,904	-	4,733,834
Accumulated depreciation	<u>(374,497)</u>	<u>(464,710)</u>	<u>(38,195)</u>	<u>(916,559)</u>	<u>(47,284)</u>	<u>(32,946)</u>	<u>-</u>	<u>(1,874,191)</u>
Net book value	<u>1,157,329</u>	<u>471,070</u>	<u>36,408</u>	<u>714,007</u>	<u>356,871</u>	<u>123,958</u>	<u>-</u>	<u>2,859,643</u>
Equivalent in KHR'000	<u>4,623,529</u>	<u>1,881,925</u>	<u>145,450</u>	<u>2,852,457</u>	<u>1,425,700</u>	<u>495,212</u>	<u>-</u>	<u>11,424,273</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

11. DEFERRED TAX ASSETS

The movements of net deferred tax assets are as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	312,014	1,260,225	252,340	1,022,736
(Credited)/debited to income statement	(61,250)	(244,692)	58,799	237,489
Currency translation differences	3,437	-	875	-
	<u>254,201</u>	<u>1,015,533</u>	<u>312,014</u>	<u>1,260,225</u>

Deferred tax assets

	Severance pay obligation US\$	Unused annual leave US\$	Unrealised exchange loss US\$	Depreciation and amortisation US\$	Total US\$
At 1 January 2012	287,097	-	85,464	(60,547)	312,014
(Credited)/debited to the income statement	(17,219)	86,509	(13,243)	(113,860)	(57,813)
At 31 December 2012	<u>269,878</u>	<u>86,509</u>	<u>72,221</u>	<u>(174,407)</u>	<u>254,201</u>
Equivalent in KHR'0000	<u>1,078,163</u>	<u>345,603</u>	<u>288,523</u>	<u>(696,756)</u>	<u>1,015,533</u>

12. DEPOSITS FROM BANKS AND MICRO FINANCE INSTITUTIONS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Term deposits	5,832,569	23,301,113	2,100,000	8,481,900
Savings deposits	79,416	317,267	203	820
	<u>5,911,985</u>	<u>23,618,380</u>	<u>2,100,203</u>	<u>8,482,720</u>

The above statements are analysed as follows:

(a) By maturity

Savings deposits are repayable on demand. The term deposits are matured less than one year.

(b) By interest rate

	Interest rates (per annum)		
	KHR	US\$	THB
Term deposits	5.25% to 9.75%	4.75% to 8.00%	4.00% to 7.00%
Savings deposits – customers	3.00%	2.50%	2.00%

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

13. DEPOSITS FROM CUSTOMERS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Term deposits	44,760,161	178,816,843	2,491,199	10,061,954
Savings deposits	6,539,607	26,125,730	2,583,715	10,435,624
	<u>51,299,768</u>	<u>204,942,573</u>	<u>5,074,914</u>	<u>20,497,578</u>

The above statements are analysed as follows:

(a) By maturity

Savings deposits are repayable on demand. The term deposits are matured less than one year.

(b) By interest rate

	Interest rates (per annum)		
	KHR	US\$	THB
Term deposits	5.25% to 9.75%	4.75% to 8.00%	4.00% to 7.00%
Savings accounts – staff	8.00%	6.00%	-
Savings deposits – customers	3.00%	2.50%	2.00%

14. BANK OVERDRAFT

This represents the overdraft (“OD”) obtained from a local bank. The facility is unsecured and bears interest at the rate of 8.5% per annum. The OD is repayable within one year.

15. BORROWINGS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Related Parties				
Oikocredit Ecumenical Development Cooperative Society U.A.	4,872,757	19,466,664	4,640,726	18,743,891
Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V (‘FMO’)	4,028,786	16,095,000	2,506,478	10,123,667
Belgian Investment Company for Developing Countries SA (BIO)	1,714,286	6,848,573	2,857,143	11,540,000
	<u>10,615,829</u>	<u>42,410,237</u>	<u>10,004,347</u>	<u>40,407,558</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

15. BORROWINGS (continued)

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Non Related Parties				
Microfinance Enhancement Facility SA (Blue Orchard Pool)	10,951,946	43,753,024	9,294,485	37,540,425
Credit Suisse Microfinance Fund Management Company	10,500,001	41,947,505	10,033,334	40,524,636
Instituto De Credito Oficial of the Kingdom of Spain (ICO)	10,049,200	40,146,554	10,049,200	40,588,719
DEG DEUTSCHE INVESTITIONS UND ENTWICKLUNGSGESELLSCHAFT MBH	10,000,000	39,950,000	-	-
Global Microfinance Facility	7,500,000	29,962,500	7,500,000	30,292,500
Triodos SICAV II- Triodos Microfinance Fund	7,500,000	29,962,500	7,500,000	30,292,500
responsAbility SICAV Mikrofinanz-Fonds (LUX)	6,500,000	25,967,500	3,966,667	16,021,368
Dual Return Fund SICAV	5,502,194	21,981,265	5,000,000	20,195,000
MARUHAN Japan Bank	5,291,666	21,140,206	4,333,333	17,502,332
SNS Institutional Microfinance Fund II	5,180,182	20,694,827	5,167,024	20,869,611
BANK IM BISTUM ESSEN e.G.	5,000,000	19,975,000	3,000,000	12,117,000
International Finance Corporation (IFC)	5,000,000	19,975,000	-	-
NMI Global Fund KS	4,500,000	17,977,500	4,500,000	18,175,500
VDK Spaarbank n.v.	4,000,000	15,980,000	4,000,000	16,156,000
Capital Gestion	4,000,000	15,980,000	-	-
Global Commercial Microfinance Consortium II B.V	3,000,000	11,985,000	-	-
Selectum SICAV-SIF	3,000,000	11,985,000	3,000,000	12,117,000
Finethics Microfinance SCA	2,500,000	9,987,500	2,500,000	10,097,500
SNS Institutional Micro Fund	2,180,182	8,709,827	2,167,024	8,752,610
Advance Bank of Asia Limited	2,000,000	7,990,000	-	-
Pettelaar Effectenbewaarbedrijf N.V	2,000,000	7,990,000	2,000,000	8,078,000
EMF Microfinance Agmvk	2,000,000	7,990,000	1,500,000	6,058,500
Dexia Micro-Credit Fund (SubFund Blue Orchard Debt)	1,500,000	5,992,500	3,000,000	12,117,000
CommerzBank AG (Invest in Vision Microfinance Fund)	1,500,000	5,992,500	-	-
Impulse Microfinance Investment Fund NV	1,500,000	5,992,500	1,500,000	6,058,500
VOLKSVERMOGEN N.V	1,500,000	5,992,500	1,500,000	6,058,500
FinAcc Fund S.C.A	1,400,000	5,593,000	-	-
Calvert Social Investment Foundation	1,300,000	5,193,500	1,300,000	5,250,700
Wallberg Invest S.A	750,000	2,996,250	750,000	3,029,250
IC Fund SICAV	500,000	1,997,500	-	-
DWM Microfinance Fund J	380,848	1,521,488	365,197	1,475,030
DWM Microfinance Fund	280,000	1,118,599	280,000	1,130,920
ACLEDA Bank Plc.	-	-	1,500,000	6,058,500
	<u>128,766,219</u>	<u>514,421,045</u>	<u>95,706,264</u>	<u>386,557,601</u>
	<u>139,382,048</u>	<u>556,831,282</u>	<u>105,710,611</u>	<u>426,965,159</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

15. BORROWINGS (continued)

The Company did not default any payment of principal, interest or redemption amounts during the year (2011: nil).

The borrowings bear interest rates per annum as set out below. All borrowings are unsecured.

	<u>2012</u>	<u>2011</u>
Khmer Riel	4% to 12.67%	4% to 12.67%
US Dollars	5.50% to 9.01%	5.50% to 9.50%
Thai Baht	8.84% to 10.47%	6.40% to 10.47%

The above amounts are analysed as follow:

(a) By maturity

	<u>2012</u>		<u>2011</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
Less than one year	43,148,105	172,376,679	40,982,959	165,530,171
More than one year	96,233,943	384,454,603	64,727,652	261,434,988
	<u>139,382,048</u>	<u>556,831,282</u>	<u>105,710,611</u>	<u>426,965,159</u>

16. OTHER LIABILITIES

	<u>2012</u>		<u>2011</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
Accrued interest payable	2,689,499	10,744,549	1,360,214	5,493,904
Accrued bonuses/incentives	1,209,206	4,830,778	1,126,865	4,551,408
Accrued expenses	610,018	2,437,022	383,097	1,547,329
Withholding taxes	151,071	603,529	125,534	507,031
Other payable	115,080	459,741	15,059	60,824
Tax on salary	38,567	154,073	36,119	145,886
	<u>4,813,441</u>	<u>19,229,692</u>	<u>3,046,888</u>	<u>12,306,382</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

17. SEVERANCE PAY OBLIGATION

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
At beginning of the year	1,435,486	5,797,928	1,138,282	4,613,455
Charge during the year	460,409	1,839,334	365,191	1,475,008
Payments during the year	(95,180)	(380,244)	(71,932)	(290,535)
Transfer to PSCo share (*)	(451,053)	(1,801,957)	-	-
Currency translation differences	(281)	(64,284)	3,945	-
Balance at year end	<u>1,349,381</u>	<u>5,390,777</u>	<u>1,435,486</u>	<u>5,797,928</u>

(*) PSCo, PRASAC Staff Company Ltd., is one of the Company's shareholders. During the year, severance pay amounting to US\$451,053 was converted to share capital.

18. SHARE CAPITAL

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
PSCo	2,165,475	8,651,071	381,383	1,540,400
BIO	4,379,898	17,497,693	686,437	2,772,520
DCG	4,379,898	17,497,693	686,437	2,772,520
FMO	4,379,898	17,497,693	686,437	2,772,520
LOLC	4,379,898	17,497,693	686,437	2,772,520
Oikocredit	-	-	686,437	2,772,520
	<u>19,685,067</u>	<u>78,641,843</u>	<u>3,813,568</u>	<u>15,403,000</u>

Ownership and number of shares are presented as below:

	2012		2011	
	Ownership	Shares	Ownership	Shares
PSCo	11.00%	440,024	10.00%	77,020
BIO	22.25%	889,994	18.00%	138,626
DCG	22.25%	889,994	18.00%	138,626
FMO	22.25%	889,994	18.00%	138,626
LOLC	22.25%	889,994	18.00%	138,626
Oikocredit	-	-	18.00%	138,626
	<u>100.00%</u>	<u>4,000,000</u>	<u>100.00%</u>	<u>770,150</u>

The total authorised number of ordinary shares at year end was 4,000,000 shares (2011: 770,150 shares) with a par value of KHR20,000 (2011: KHR20,000) per share.

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

18. SHARE CAPITAL (continued)

Abbreviation

PSCo	: PRASAC Staff Company Ltd.
BIO	: Belgian Investment Company for Developing Countries
DCG	: Dragon Capital Group Company Ltd.
FMO	: The Netherlands Development Finance Company
LOLC	: Lanka ORIX LEASING Company Ltd.
Oikocredit	: Oikocredit

19. SUBORDINATED DEBTS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Subordinated debt from the Royal Government of Cambodia	8,679,517	34,674,673	8,584,965	34,674,673
Subordinated debt from CRDF	2,749,162	10,982,904	2,719,214	10,982,904
	<u>11,428,679</u>	<u>45,657,577</u>	<u>11,304,179</u>	<u>45,657,577</u>

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

The subordinated debt was denominated in KHR currency. The outstanding amount of KHR34,674,673,914 (equivalent to US\$8,584,965) 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:

- a) The funds are recorded as “Subordinated Debt” in the accounting records of PRASAC.
- b) PRASAC shall repay the total value of the Subordinated Debt to the RGC on the following terms and conditions:
 1. The Subordinated Debt will not be repayable to the RGC unless PRASAC ceases to provide credit to rural communities and micro enterprises in Cambodia or unless PRASAC elects at its own discretion to repay all or part of the Subordinated Debt to the RGC.
 2. The Subordinated Debt is non-distributable funds.
 3. The Subordinated Debt is considered as “Tier II Capital” in the context of Article 15 of Prakas No. B700-006 on the licensing of 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 Central Bank’s letter dated 22 May 2007 which recommended that PRASAC should request permission from the Central Bank to include Subordinated Debt as Tier II Capital in Capital Adequacy Ratio calculation. On 14 August 2007, PRASAC wrote a letter to the Central Bank requesting approval as subordinated debt in the calculation of net worth. It was approved by NBC on 12 December 2007.

- c) The subordinated debt bears no interest

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

19. SUBORDINATED DEBTS (continued)

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

In 2007, the proceeds of the sale (“the Funds”) of Cambodia Rural Development Foundation (“CRDF”)’s share transfer in the amount of KHR10,982,904,400 (equivalent to US\$2,719,214) 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.

- a) The Funds are recorded as perpetual “Subordinated Debt, CRDF Share Sale” (“SDCSS”) in the accounting records of PRASAC with the following conditions:
1. The SDCSS is recorded into a separate account in the balance sheet of PRASAC;
 2. The full amount of the SDCSS shall be included for the calculation of the net worth as Tier II Capital in the context of the Calculation of Net Worth and for all prudential ratio purposes, such as the Capital Adequacy Ratio;
 3. The SDCSS shall bear no interest.
 4. Any transfer of the SDCSS to a third party should be approved by all the parties to the agreement.
- b) The SDCSS shall only be repayable by PRASAC to CRDF in the following circumstances:
1. If PRASAC ceases to provide credit to rural communities and micro enterprises in Cambodia. If CRDF forms the view that PRASAC MFI has ceased to provide credit to rural communities and micro enterprises in Cambodia, CRDF may call upon PRASAC to repay the SDCSS. However, CRDF may not call upon PRASAC to repay the SDCSS without such allegations being first confirmed by an audit (the “Audit”) to be carried out by a private international audit firm. The Audit will be carried out at the initiative of and will be financed by PRASAC;
 2. If PRASAC does not approve the transfer of the SDCSS to a third party proposed by CRDF pursuant to clause 2.2. (d) of the agreement;
 3. If PRASAC decides at any time and at its sole discretion to repay the SDCSS in full.
- c) In the event CRDF is dissolved, PRASAC shall no longer have the obligation to repay the SDCSS, and the amount outstanding will be converted into a special protected reserve in PRASAC’s accounts, not distributable to shareholders. In case PRASAC is dissolved due to insolvency, the RGC shall be considered owner of the Funds.
- d) On 12 December 2007, PRASAC obtained the approval from the Central Bank to include subordinated debt above as Tier 2 in the net worth calculation, however, limited to 100% of base net worth (Tier 1).

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

19. SUBORDINATED DEBTS (continued)

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

On 19 September 2008, CRDF and the Ministry of Economy and Finance (MEF) signed agreement with the terms and conditions as follows:

- a) 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 enterprise in Cambodia.
- b) The CRDF Funds shall be recorded as subordinated debt (“SD”) in the accounting records of PRASAC.
- c) PRASAC shall comply with the following terms and conditions:
 1. The SD will not be repaid to the MEF unless PRASAC ceases to provide credit to individuals, rural and urban communities, and micro-enterprises in Cambodia as shall be evidenced in accordance with the provisions of (4) hereunder or unless PRASAC elects at its own discretion to repay all or part of the SD to MEF.
 2. The SD is a non-distributable funds, i.e. the SD cannot be distributed to any party, except as stated in condition (4) below.
 3. The SD will be considered as ‘Tier II Capital’ and shall be included in the calculation of the net worth of PRASAC as per the regulations of the National Bank of Cambodia.
 4. PRASAC is entitled to use part or all of the SD for facilitating the extension of short and long term credit to individuals, rural and urban communities and micro-enterprises in Cambodia.
 5. If MEF forms the view that PRASAC has ceased to provide credit to individuals, rural and urban communities, and micro-enterprises in Cambodia or has violated its approved Memorandum and Articles of Association (MoA), with respect to Article 2: vision, mission and business objectives, Article 21: profit or loss restrictions on declaring dividend or has amended the MoA in violation of Article 24, paragraph 4, MEF may call upon PRASAC to repay the SD. However, MEF may not call upon PRASAC to repay the SD without such allegations being first confirmed by an audit to be carried out by a private internationally recognised audit firm.
 6. In the unlikely event the individuals, rural and urban communities, and microenterprises in Cambodia to which PRASAC extended credit, are not able to honour debts, MEF agrees to these debts being offset against and thereby reducing the SD, to the extent that the losses of those credits cannot be covered by the accumulated own capital of PRASAC.

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

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

20. INTEREST INCOME

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Individual loans	41,693,348	166,564,926	31,071,579	125,498,108
Group loans	654,543	2,614,899	796,334	3,216,394
Deposits with banks	49,137	196,302	16,612	67,096
	<u>42,397,028</u>	<u>169,376,127</u>	<u>31,884,525</u>	<u>128,781,598</u>

21. INTEREST EXPENSE

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Borrowings	9,596,310	38,337,259	7,610,017	30,736,858
Deposits from customers	1,496,559	5,978,753	123,963	500,688
	<u>11,092,869</u>	<u>44,316,012</u>	<u>7,733,980</u>	<u>31,237,546</u>

22. FEE AND COMMISSION EXPENSES

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Fee on borrowings	373,193	1,490,906	180,210	727,869
Bank charges on borrowings	65,066	259,939	46,544	187,992
	<u>438,259</u>	<u>1,750,845</u>	<u>226,754</u>	<u>915,861</u>

23. OTHER OPERATING INCOME

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Foreign exchange gain-realised	367,415	1,467,823	180,537	729,189
Fee income from loans	256,381	1,024,242	93,914	379,317
Penalty income	174,458	696,960	163,151	658,969
Loan loss recovered	111,652	446,050	68,795	277,865
Other income	77,881	311,134	85,467	345,202
Gains on disposals of property	11,868	47,413	10,532	42,537
Unrealised gain on foreign exchange	349,207	1,395,082	-	-
	<u>1,348,862</u>	<u>5,388,704</u>	<u>602,396</u>	<u>2,433,079</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

24. PERSONNEL EXPENSES

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Salaries	8,570,311	34,238,392	6,983,269	28,205,423
Staff bonuses/incentives	1,193,793	4,769,203	1,239,792	5,007,520
Severance pay	460,409	1,839,334	365,124	1,474,736
Other staff benefits	564,000	2,253,180	223,254	901,723
	<u>10,788,513</u>	<u>43,100,109</u>	<u>8,811,439</u>	<u>35,589,402</u>

25. DEPRECIATION AND AMORTISATION

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Depreciation	490,409	1,959,184	339,735	1,372,187
Amortisation	110,459	441,284	100,937	407,685
	<u>600,868</u>	<u>2,400,468</u>	<u>440,672</u>	<u>1,779,872</u>

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Rental expenses	1,089,026	4,350,659	761,910	3,077,357
Fuel costs	605,488	2,418,925	539,714	2,179,905
Marketing and promotions	759,238	3,033,156	233,084	941,426
Communications	471,381	1,883,167	410,066	1,656,255
Printing and stationery	318,348	1,271,800	241,130	973,924
Utilities	266,055	1,062,890	186,189	752,018
Foreign exchange losses	278,296	1,111,793	42,551	171,862
Maintenance	225,643	901,444	188,002	759,340
Transportation	203,717	813,849	200,762	810,877
Per diem and travelling	185,914	742,726	114,343	461,833
Office supplies	196,025	783,120	221,349	894,030
Professional fees	175,279	700,240	169,481	684,535
Bank charges	75,178	300,336	60,181	243,073
Training	81,269	324,670	56,671	228,893
Other tax expenses	29,572	118,139	25,759	104,039
Others	341,308	1,363,525	193,960	783,404
	<u>5,301,737</u>	<u>21,180,439</u>	<u>3,645,152</u>	<u>14,722,771</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
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27. INCOME TAX EXPENSE

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Current tax	2,870,094	11,466,026	2,260,209	9,128,982
Deferred tax	61,250	244,693	(58,799)	(237,489)
Total income tax expense	<u>2,931,344</u>	<u>11,710,719</u>	<u>2,201,410</u>	<u>8,891,493</u>

(i) Provision for income tax

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Balance at the beginning of the year	1,962,457	7,926,363	834,517	3,382,299
Income tax expense	2,870,094	11,466,026	2,260,209	9,128,982
Income tax paid	(2,388,757)	(9,543,096)	(1,135,162)	(4,584,918)
Currency translation differences	21,611	-	2,893	-
	<u>2,465,405</u>	<u>9,849,293</u>	<u>1,962,457</u>	<u>7,926,363</u>

(ii) Reconciliation between accounting profit and income tax expense

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	<u>14,458,725</u>	<u>57,762,607</u>	<u>10,891,571</u>	<u>43,991,056</u>
Tax calculated at a rate of 20%	2,891,745	11,552,521	2,178,314	8,798,211
<i>Tax effects in respect of:</i>				
Expenses not deductible for tax purpose	<u>39,599</u>	<u>158,198</u>	<u>23,096</u>	<u>93,282</u>
	<u>2,931,344</u>	<u>11,710,719</u>	<u>2,201,410</u>	<u>8,891,493</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

28. CASH USED IN OPERATIONS

	Note	2012		2011	
		US\$	KHR'000	US\$	KHR'000
Profit before income tax		14,458,725	57,762,607	10,891,571	43,991,056
<i>Adjustments for:</i>					
Depreciation	10	490,409	1,959,184	339,735	1,372,187
Amortisation	9	110,459	441,284	100,937	407,685
Provision for bad and doubtful loans		1,064,919	4,254,351	737,353	2,978,169
Gain on disposals of property and equipment		(11,868)	(47,413)	(10,532)	(42,541)
Unrealised exchange loss on subordinated debts		124,500	497,378	-	-
		<u>16,237,144</u>	<u>64,867,391</u>	<u>12,059,064</u>	<u>48,706,556</u>
Changes in:					
Loans to customers		(63,730,403)	(254,602,960)	(47,105,153)	(190,257,713)
Statutory capital deposit		(1,621,146)	(6,476,478)	(1,317)	(5,319)
Reserve requirement		(3,638,698)	(14,536,599)	(350,450)	(1,415,468)
Other assets		(1,711,021)	(6,835,529)	(709,162)	(2,864,305)
Deposits from banks and Micro finance institutions		3,811,782	15,228,069	2,100,203	8,482,720
Deposits from customers		46,224,854	184,668,292	4,889,982	19,750,637
Overdraft		(1,956,653)	(7,816,829)	1,956,653	7,902,921
Severance pay obligation		(86,105)	(343,989)	297,204	1,200,407
Other liabilities		1,766,553	7,057,379	864,627	3,492,228
Cash used in operations		<u>(4,703,693)</u>	<u>(18,791,253)</u>	<u>(25,998,349)</u>	<u>(105,007,336)</u>
Income tax paid		<u>(2,388,757)</u>	<u>(9,543,084)</u>	<u>(1,135,162)</u>	<u>(4,584,919)</u>
Net cash used in operating activities		<u>(7,092,450)</u>	<u>(28,334,337)</u>	<u>(27,133,511)</u>	<u>(109,592,255)</u>

29. CASH AND CASH EQUIVALENT

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	3,269,290	13,060,814	570,751	2,305,264
<i>Balances with central bank</i>				
Current accounts	15,536,611	62,068,761	15,565	62,867
<i>Deposits with banks</i>				
Current accounts	819,595	3,274,282	35,627	143,897
Savings accounts	5,677,990	22,683,570	1,064,207	4,298,333
	<u>25,303,486</u>	<u>101,087,427</u>	<u>1,686,150</u>	<u>6,810,361</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

30. RELATED PARTY TRANSACTIONS AND BALANCES

a) Key managements and board compensation

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
<i>Board of Directors</i>				
Fee and related expenses	170,546	681,331	100,607	406,352
<i>Key managements</i>				
Salaries and short-term benefits	679,450	2,714,403	540,300	2,182,272

b) Loans to key managements

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Loan outstanding (key management)	56,184	224,455	138,065	557,645
Interest income	12,009	47,976	11,941	48,230

Loans provided to key management which include executive committee members, Senior Vice President and Vice President of the Company have four years maturity and with the interest rates ranging between 12% to 14.4% per annum.

c) Deposits from key managements

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Deposits outstanding	1,282,187	5,122,337	703,502	2,841,445
Interest expenses	68,267	272,727	29,266	118,205

Interest rates per annum of deposits from key management of the Company are ranging from 6% to 8% per annum (2011: 6% to 8% per annum) depending on the terms of deposits.

d) Transactions with shareholders

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
<i>Borrowings from shareholders</i>				
Borrowings outstanding	10,615,829	42,410,237	10,004,347	40,407,558
Interest expenses	941,845	3,762,671	982,272	3,967,397

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. COMMITMENTS

Operating lease commitments represent contractual obligation for leasing of head office and branch offices. The future aggregate minimum lease payments are as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Within one year	1,468,531	5,866,781	694,056	2,803,294
From two to five years	4,430,778	17,700,958	982,781	3,969,451
Over five years	1,079,200	4,311,404	72,000	290,808
	<u>6,978,509</u>	<u>27,879,143</u>	<u>1,748,837</u>	<u>7,063,553</u>

32. FINANCIAL RISK MANAGEMENT

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

The Company does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage its risk exposures.

32.1 Credit risk

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

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

(a) Credit risk measurement

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

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

32. FINANCIAL RISK MANAGEMENT (continued)

32.1 Credit risk (continued)

(b) Risk limit control and mitigation policies

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

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

(c) Impairment and provisioning policies

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

	<u>2012</u>	<u>2011</u>
Standard	0%	0%
Sub-standard	10%	10%
Doubtful	30%	30%
Loss	100%	100%

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

	<u>2012</u>		<u>2011</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
<i>Credit exposure relating to on-balance sheet assets:</i>				
Balances with banks	6,503,266	25,980,548	1,105,334	4,464,445
Loans to customers	211,508,052	844,974,668	148,842,568	601,175,133
Other assets	2,849,170	11,382,434	2,110,747	8,525,307
	<u>220,860,488</u>	<u>882,337,650</u>	<u>152,058,649</u>	<u>614,164,885</u>

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2012 and 31 December 2011, without taking account of any collateral held. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

As shown above, 96% of total maximum exposure is derived from loans to customers (2011: 98%).

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

32. FINANCIAL RISK MANAGEMENT (continued)

32.1 Credit risk (continued)

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

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

- 99.56% of the loans to customers are considered to be neither past due nor impaired (2011: 99.75%); and
- The Company has introduced a stricter selection process for granting loans to customers.

(e) Loans to customers

Loans to customers are summarised as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Loans to customers neither past due nor impaired	213,907,243	854,559,436	150,860,813	609,326,825
Loans to customers past due but not impaired	523,544	2,091,558	167,487	676,480
Loans to customers individually impaired	426,807	1,705,094	211,381	853,768
Gross loans	<u>214,857,594</u>	<u>858,356,088</u>	<u>151,239,681</u>	<u>610,857,073</u>
Less: Provision				
Specific provision	(144,538)	(577,429)	(148,173)	(598,474)
General provision	<u>(3,205,004)</u>	<u>(12,803,991)</u>	<u>(2,248,940)</u>	<u>(9,083,469)</u>
	<u>(3,349,542)</u>	<u>(13,381,420)</u>	<u>(2,397,113)</u>	<u>(9,681,943)</u>
Net loans to customers	<u>211,508,052</u>	<u>844,974,668</u>	<u>148,842,568</u>	<u>601,175,130</u>

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirements. The total provision for bad and doubtful loans is US\$144,538 (2011: US\$148,173) which represents the mandatory provision required by the Central Bank and additional provision for the loan losses.

(i) Loans to customers neither past due nor impaired

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

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

32. FINANCIAL RISK MANAGEMENT (continued)

32.1 Credit risk (continued)

(e) Loans to customers (continued)

(ii) Loans to customers past due but not impaired

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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Past due up to 30 days	523,544	2,091,558	167,487	676,480

(iii) Loans to customers individually impaired

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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Past due 30-60 days	59,262	236,752	15,421	62,285
Past due 60-90 days	63,462	253,531	6,640	26,819
Past due 90-180 days	123,656	494,006	25,158	101,613
Past due 180-360 days	141,318	564,565	41,764	168,685
Past due 360 days or more	39,109	156,240	122,398	494,366
	426,807	1,705,094	211,381	853,768

Most of the customers' collaterals are in the form of land or house title deeds (both hard and soft titles). The value of collaterals is internally assessed. Following Central Bank's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

(iv) Loans to customers renegotiated

There were no renegotiated loans to customers at 31 December 2012 (2011: nil).

(v) Repossessed collateral

During the year ended 31 December 2012, the Company did not obtain any assets by taking possession of collateral held as security (2011: nil).

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.2 Market risk

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

The Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

(i) Foreign exchange risk

The Company operates in Cambodia and transacts in US\$ (the functional currency), Riel and Thai Baht, and is exposed to currency risks, primarily with respect to Riel and Thai Baht.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

Management monitors its foreign exchange risk against functional currencies. However, the Company does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts.

As at 31 December 2012, the Company has net assets denominated in Riel currency equivalent to US\$ 31,719,135 (taking into account of subordinated debt denominated in Riel). If the fluctuation in the prevailing foreign currency exchange rate between US\$ and Riel by 1%, the Company would incur unrealised loss/(gain) amounting to US\$320,000.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2012 and 31 December 2011. Included in the table are the Company's financial instruments at carrying amount by currency in US\$ equivalent.

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.2 Market risk (continued)

(i) Foreign exchange risk (continued)

	US\$	US\$ equivalent		Total US\$
		KHR	THB	
At 31 December 2012				
Financial assets				
Cash on hand	2,021,729	1,195,090	52,471	3,269,290
Balances with the Central Bank	15,439,519	6,108,985	-	21,548,504
Deposits with bank	3,801,664	2,103,165	598,437	6,503,266
Loans to customers	163,151,381	42,184,622	6,172,049	211,508,052
Other assets	2,024,131	739,143	85,896	2,849,170
Total financial assets	186,438,424	52,331,005	6,908,853	245,678,282
Financial liabilities				
Deposits from banks and Micro finance institutions	4,927,529	984,456	-	5,911,985
Deposits from customers	46,615,275	4,437,035	247,458	51,299,768
Borrowings	131,838,485	3,568,210	3,975,353	139,382,048
Other liabilities	4,330,535	193,490	99,778	4,623,803
Total financial liabilities	187,711,824	9,183,191	4,322,589	201,217,604
Net financial (liabilities)/assets (*)	(1,273,400)	43,147,814	2,586,264	44,460,678
Equivalent in KHR'000	(5,087,233)	172,375,517	10,332,125	177,620,409
At 31 December 2011				
Financial assets				
Cash on hand	293,927	235,715	41,109	570,751
Balances with the Central Bank	57,200	710,414	-	767,614
Deposits with bank	484,281	471,966	149,087	1,105,334
Loans to customers	108,066,899	37,517,221	3,258,448	148,842,568
Other assets	1,352,747	708,383	49,617	2,110,747
Total financial assets	110,255,054	39,643,699	3,498,261	153,397,014
Financial liabilities				
Deposits from banks and Micro finance institutions	2,100,203	-	-	2,100,203
Deposits from customers	4,333,311	668,925	72,678	5,074,914
Borrowings	94,845,233	6,591,648	4,273,730	105,710,611
Bank overdraft	1,956,653	-	-	1,956,653
Other liabilities	2,579,985	203,380	101,870	2,885,235
Total financial liabilities	105,815,385	7,463,953	4,448,278	117,727,616
Net financial assets/(liabilities) (*)	4,439,669	32,179,746	(950,017)	35,669,398
Equivalent in KHR'000	17,931,823	129,973,994	(3,837,119)	144,068,698

(*) The net financial assets denominated in KHR would have been reduced to US\$32 million equivalent (2011: US\$20 million) if the subordinated debts (denominated in KHR) were taken into account in the computation net open position above.

32. FINANCIAL RISK MANAGEMENT (continued)

32.2 Market risk (continued)

(ii) Price risk

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

(iii) Interest rate risk

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

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

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
At 31 December 2012							
Financial assets							
Cash on hand	-	-	-	-	-	3,269,290	3,269,290
Balances with the Central Bank	706,000	-	2,002,503	-	-	18,840,001	21,548,504
Deposit with banks	5,677,990	-	5,681	-	-	819,595	6,503,266
Loans to customers	12,388,669	27,984,747	99,480,515	71,643,702	10,419	-	211,508,052
Other assets	-	-	-	-	-	2,849,170	2,849,170
Total financial assets	18,772,659	27,984,747	101,488,699	71,643,702	10,419	25,778,056	245,678,282
Financial liabilities							
Deposits from banks and Micro finance institutions	79,416	2,000,000	3,832,569	-	-	-	5,911,985
Deposits from customers	8,176,667	5,924,371	37,198,730	-	-	-	51,299,768
Borrowings	-	2,736,111	40,411,994	81,235,333	14,998,610	-	139,382,048
Other liabilities	-	-	-	-	-	4,623,803	4,623,803
Total financial liabilities	8,256,083	10,660,482	81,443,293	81,235,333	14,998,610	4,623,803	201,217,604
Total interest pricing gap	10,516,576	17,324,265	20,045,406	(9,591,631)	(14,988,191)	21,154,253	44,460,678
Equivalent in KHR'000	42,476,450	69,972,706	80,963,395	(38,740,598)	(60,537,303)	85,442,028	179,576,678

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
At 31 December 2011							
Financial assets							
Cash on hand	-	-	-	-	-	570,751	570,751
Balances with the Central Bank	56,000	-	381,357	-	-	330,257	767,614
Deposit with banks	1,099,834	-	5,500	-	-	-	1,105,334
Loans to customers	9,318,029	22,142,427	79,465,041	37,893,019	24,052	-	148,842,568
Other assets	-	-	-	-	-	2,110,747	2,110,747
Total financial assets	10,473,863	22,142,427	79,851,898	37,893,019	24,052	3,011,755	153,397,014
Financial liabilities							
Deposits from banks and Micro finance institutions	203	-	2,100,000	-	-	-	2,100,203
Deposits from customers	2,622,492	202,451	2,249,971	-	-	-	5,074,914
Borrowings	-	527,778	46,509,582	49,897,581	8,775,670	-	105,710,611
Bank overdraft	-	-	1,956,653	-	-	-	1,956,653
Other liabilities	-	-	-	-	-	2,885,235	2,885,235
Total financial liabilities	2,622,695	730,229	52,816,206	49,897,581	8,775,670	2,885,235	117,727,616
Total interest pricing gap	7,851,168	21,412,198	27,035,692	(12,004,562)	(8,751,618)	126,520	35,669,398
Equivalent in KHR'000	31,710,868	86,483,868	109,197,160	(48,486,426)	(35,347,785)	511,014	144,068,699

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

32. FINANCIAL RISK MANAGEMENT (continued)

32.3 Liquidity risk

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

(a) Liquidity risk management process

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

(b) Non-derivative cash flows

The table on the following page presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on the expected undiscounted cash flows. Therefore, the figures in the table are not reconcilable to the statement of financial position.

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.3 Liquidity risk (continued)

(b) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No Fixed maturity date US\$	Total US\$
At 31 December 2012							
Financial assets							
Cash on hand	3,269,290	-	-	-	-	-	3,269,290
Balances with the Central Bank	16,242,611	-	2,002,503	-	-	3,303,390	21,548,504
Deposit with banks	6,497,585	-	5,681	-	-	-	6,503,266
Loans to customers	16,641,389	35,464,330	120,663,169	83,378,686	11,239	-	256,158,813
Other assets	2,824,170	-	-	-	-	25,000	2,849,170
Total financial assets	45,475,045	35,464,330	122,671,353	83,378,686	11,239	3,328,390	290,329,043
Financial liabilities							
Deposits from banks and Micro finance institutions	79,415	2,064,658	4,018,956	-	-	-	6,163,029
Deposits from customers	8,206,287	6,081,000	39,822,386	207,513	-	-	54,317,186
Borrowings	903,751	4,515,814	47,895,498	92,675,960	16,576,575	-	162,567,598
Other liabilities	2,313,650	1,360,143	950,010	-	-	-	4,623,803
Total financial liabilities	11,503,103	14,021,615	92,686,850	92,883,473	16,576,575	-	227,671,616
Net financial assets	33,971,942	21,442,715	29,984,503	(9,504,787)	(16,565,336)	3,328,390	62,657,427
Equivalent in KHR'000	135,717,908	85,663,646	119,788,089	(37,971,624)	(66,178,517)	13,296,918	250,316,420

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.3 Liquidity risk (continued)

(b) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No Fixed Maturity Date US\$	Total US\$
At 31 December 2011							
Financial assets							
Cash on hand	570,751	-	-	-	-	-	570,751
Balances with the Central Bank	71,565	-	381,357	-	-	314,692	767,614
Deposit with banks	1,099,834	-	5,500	-	-	-	1,105,334
Loans to customers	12,474,514	27,767,910	93,998,734	42,172,485	29,393	-	176,443,036
Other assets	1,632,766	36,479	233,899	178,042	6,902	22,659	2,110,747
Total financial assets	15,849,430	27,804,389	94,619,490	42,350,527	36,295	337,351	180,997,482
Financial liabilities							
Deposits from banks and Micro finance institutions	203	-	2,212,307	-	-	-	2,212,510
Deposits from customers	2,623,152	206,190	2,407,269	-	-	-	5,236,611
Borrowings	639,377	527,778	46,509,582	49,897,581	8,775,670	-	106,349,988
Bank overdraft	-	-	1,956,653	-	-	-	1,956,653
Other liabilities	3,331,141	669,465	88,450	-	-	-	4,089,056
Total financial liabilities	6,593,873	1,403,433	53,174,261	49,897,581	8,775,670	-	119,844,818
Net financial assets	9,255,557	26,400,956	41,445,229	(7,547,054)	(8,739,375)	337,351	61,152,664
Equivalent in KHR'000	37,383,195	106,633,461	167,397,280	(30,482,551)	(35,298,336)	1,362,561	246,995,610

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. FINANCIAL RISK MANAGEMENT (continued)

32.3 Liquidity risk (continued)

(c) Off-balance sheet items

The Company does not have any off-balance sheet items as at 31 December 2012.

32.4 Fair value of financial assets and liabilities

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

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

i. Deposits with banks

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

ii. Loans to customers

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

iii. Deposits from customers and borrowings

The fair value of deposits from customers approximates the carrying amount. The fair value of deposits from customers with no stated maturities which are repayable on demand.

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

iv. Other assets and liabilities

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

32.5 Capital management

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

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

The Central Bank requires all commercial banks and financial institutions to: i) adhere to the minimum capital requirement; ii) maintain net worth at least equal to the minimum capital amount; and iii) comply with solvency and liquidity ratios.

PRASAC MICROFINANCE INSTITUTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

32. FINANCIAL RISK MANAGEMENT (continued)

32.5 Capital management (continued)

The table below summarises the composition of regulatory capital:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Tier 1 Capital				
Share capital	19,685,067	78,641,843	3,813,568	15,403,000
Other reserves	3,809,529	15,219,068	3,126,594	12,628,315
Retained earnings	11,428,333	45,656,190	16,455,385	66,463,300
	<u>34,922,929</u>	<u>139,517,101</u>	<u>23,395,547</u>	<u>94,494,615</u>
Tier 2 Capital				
Subordinated debts (*)	11,428,679	45,657,577	11,304,179	45,657,577
Less: Loans to related parities	-	-	(52,818)	(213,332)
Total regulatory capital	<u>46,351,608</u>	<u>185,174,678</u>	<u>34,646,908</u>	<u>139,938,860</u>

(*) This represents subordinated debts approved by the Central Bank on 12 December 2007.

33. CORRESPONDING FIGURES

Certain corresponding figures have been reclassified to conform to current year presentation of the financial statements and to comply with the requirement of Prakas No. B7-04-204 dated 29 December 2004.

	As per reported		Reclassified
	2011 US\$	Reclassification US\$	2011 US\$
<u>Balance sheet</u>			
Assets			
Balances with the Central Bank	-	767,614	767,614
Statutory deposits	752,049	(752,049)	-
Deposits with banks	-	1,105,334	1,105,334
Deposits and placements with banks	1,120,899	(1,120,899)	-
Other assets	2,598,897	25,000	2,623,897
Investment	25,000	(25,000)	-
	<u>4,496,845</u>	-	<u>4,496,845</u>
Liabilities			
Deposits from banks and Micro finance institutions	-	2,100,203	2,100,203
Deposits from customers	5,971,296	(896,382)	5,074,914
Other liabilities	4,250,709	(1,203,821)	3,046,888
	<u>10,222,005</u>	-	<u>10,222,005</u>

PRASAC MICROFINANCE INSTITUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

33. CORRESPONDING FIGURES (continued)

	As per reported 2011 US\$	Reclassification US\$	Reclassified 2011 US\$
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
<u>Income statement</u>			
Operating and other expenses	12,897,263	(12,897,263)	-
Grant income	71,379	(71,379)	-
Other operating income	531,017	71,379	602,396
Personnel expenses	-	8,811,439	8,811,439
Depreciation and amortisation	-	440,672	440,672
General and administrative expenses	-	3,645,152	3,645,152
	<u>13,499,659</u>	<u>-</u>	<u>13,499,659</u>

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

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2012****1. SOLVENCY RATIO, Prakas No. B7-07-163**

A licensed deposit-taking microfinance institution shall at all times maintain a solvency ratio of more than 15%. As at 31 December 2012, the solvency ratio of the Company was 20.44%.

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

2. LIQUIDITY RATIO, Prakas No. B7-07-163

A licensed deposit-taking microfinance institution shall at all times maintain a liquidity ratio of at least 50%. As at 31 December 2012, the liquidity ratio of the Company was 259.01%.

The liquidity ratio calculation is detailed in Schedule 2.

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

A licensed microfinance institution shall at all times maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Company's net worth. As at 31 December 2012, the net open position in KHR was 3% and in THB was 6%.

The net open position calculation is detailed in Schedule 3.

4. RESERVE REQUIREMENT, Prakas No. B7-07-163

A licensed microfinance institution shall deposit 8% of its deposits into an account maintained with the Central Bank. On 8 February 2011, the Company received a licence from the Central Bank to conduct a deposit-taking business. As at 31 December 2012, the Company's reserve requirement was US\$4,009,390 which is lower by US\$567,550 than the Central Bank's requirement. However, on 14 January 2013, the Company made additional reserve requirement of US\$570,000 with the Central Bank to comply with the requirement. According to article 3 of the aforementioned Prakas, the Company is allowed to replenish its reserve requirement shortfall within 14 days after each of month end.

The reserve requirement calculation is detailed in Schedule 4.

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS
FOR THE YEAR ENDED 31 DECEMBER 2012****5. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,
Prakas No. B7-02-186**

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

Loan term of one year or less than one year

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

Loan term of more than one year

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

Mandatory provisions on the loans are classified as follows:

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

As at 31 December 2012, the provision provided by the Company was US\$144,538 which is in compliance with the Central Bank's Prakas.

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

SCHEDULE 1

NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2012

NET WORTH	US\$
I- Sub-total A: Items to be added	
- Capital or endowment	19,685,067
- Reserve, other than revaluation reserves	3,809,529
- Premium related to capital (share premiums)	-
- Provision for general banking risks, with prior agreement of the NBC	-
- Retained earnings	583,886
- Audited net profit for the latest financial year (*)	10,844,447
- Other items approved by the National Bank of Cambodia	-
	34,922,929
II- Sub-total B: Items to be deducted	
- For shareholders, directors, managers and their next of kin	
> Unpaid portion of capital	-
> Advances, loans, security and the agreement of the persons concerned as defined above	-
- Holding of own shares at their book value	-
- Accumulated losses	-
- Formation expenses	-
- Losses determined on dates other than the end of the annual accounting period (including provisions to be made for doubtful debt and securities)	-
	-
III- Total C: BASE NET WORTH = A - B	34,922,929
IV- Sub-total D: Items to be added	
- Revaluation reserves, with prior agreement of the NBC	-
- Subordinated debt, with prior agreement of the NBC, up to 100% of base net worth	11,428,679
- Other items, with prior agreement of the NBC, could be included in the calculation of net worth and shall not be more than base net worth	-
	11,428,679
V- Sub-total E: Items to be deducted	
- Equity participation in banking and financial institutions	-
- Other items	-
	-
VI- Total F: TOTAL NET WORTH = C + D - E	46,351,608

(*) Audit profit is net off with the amount transferred to other reverse

SCHEDULE 1
NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2012

SOLVENCY RATIO		<u>US\$</u>	
I- Numerator (A)			
Net worth			46,351,608
II- Denominator (B)			
Assets (*)		US\$ Weighting	
- Cash	3,269,290	0%	-
- Gold	-	0%	-
- Claims on the NBC	21,548,504	0%	-
- Assets collateralised by deposits	-	0%	-
- Claims on sovereigns rated AAA to AA-	-	0%	-
- Claims on sovereigns rated A+ to A-	-	0%	-
- Claims on banks rated AAA to AA-	-	20%	-
- Claims on sovereigns rated BBB to BBB-	-	50%	-
- Claims on banks rated A+ to A-	-	50%	-
- All other assets	226,755,842	100%	226,755,842
- All off-balance sheet items	-	100%	-
	<u>251,573,636</u>		<u>226,755,842</u>
III- Solvency ratio (A/B)			<u><u>20.44%</u></u>

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

SCHEDULE 2
LIQUIDITY RATIO AS AT 31 DECEMBER 2012

	<u>US\$</u>
I- Numerator: liquid assets	
Cash on hand	3,269,290
Balances with the Central Bank	15,536,611
Balances with banks	<u>6,503,266</u>
Sub-total (A)	<u>25,309,167</u>
Less:	
- Amount owed to Central Bank	
- Amount owed to banks	<u>651,719</u>
Sub-total (B)	<u>651,719</u>
Net liquidity (A - B)	24,657,448
Plus:	
- Portion of loans outstanding maturity in less than one month	<u>12,388,669</u>
Liquid assets (L)	<u>37,046,117</u>
II- Denominator: adjusted amount of deposits (A)	
Category of deposits	<u>US\$</u> %
Voluntary savings	57,211,753 25% <u>14,302,938</u>
III- LIQUIDITY RATIO (L/A)	<u>259.01%</u>

SCHEDULE 3

NET OPEN POSITION IN FOREIGN CURRENCY AS AT 31 DECEMBER 2012

	Assets US\$	Liabilities and capital US\$	Net open position US\$	%	Limit
US\$	187,904,386	189,236,995	(1,332,609)	3%	20%
THB	6,923,498	4,327,940	2,595,558	6%	20%
KHR	56,745,752	58,008,701	(1,262,949)	3%	20%
Total	<u>251,573,636</u>	<u>251,573,636</u>	<u>-</u>		

**SCHEDULE 4
RESERVE REQUIREMENT AS AT 31 DECEMBER 2012**

	<u>US\$</u>
1-Voluntary	
1-1 Demand	-
1-2 Saving	6,619,023
1-3 Term	50,592,730
1-4 Other	-
	<u> </u>
1-5 Total reservable deposits	<u>57,211,753</u>
2- Compulsory	
2-1 Programme	-
2-2 Programme	-
2-3 Programme	-
	<u> </u>
2-4 Total Compulsory saving	-
	<u> </u>
3- Total savings mobilised	<u>57,211,753</u>
8% Reservable deposits	<u>4,576,940</u>

SCHEDULE 5
LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO
AS AT 31 DECEMBER 2012

	Amount US\$	Rate %	Specific Provision US\$
Loan classification			
1-Loans of one year or less			
1-1 Standard	40,048,850	0%	-
1-2 Substandard past due ≥ 30 days	9,762	10%	976
1-3 Doubtful past due ≥ 60 days	4,235	30%	1,276
1-4 Loss past due ≥ 90 days	59,284	100%	59,284
Sub-Total 1	<u>40,122,131</u>		<u>61,536</u>
2-Loans of more than one year			
2-1 Standard	174,381,937	0%	-
2-2 Substandard past due ≥ 30 days	214,814	10%	21,481
2-3 Doubtful past due ≥ 180 days	110,280	30%	33,089
2-4 Doubtful past due ≥ 360 days	28,432	100%	28,432
Sub-Total 2	<u>174,735,463</u>		<u>83,002</u>
Grand total 1+2	<u>214,857,594</u>		<u>144,538</u>
All loans past due > 30 days (A)			426,807
Loans outstanding (B)			<u>214,857,594</u>
Delinquency ratio (A/B)			<u>0.20%</u>

**FINANCIAL SOUNDNESS INDICATORS
AS AT 31 DECEMBER 2012**

No	Others Ratio	NBC Formula		Basis of Calculation		31-Dec-12	31-Dec-11
		Numerator	Denominator	Numerator	Denominator	Ratio	Ratio
		A	B	A	B	A/B	A/B
	CAPITAL						
1	Equity to total assets	Equity	Total assets	46,351,608	251,573,636	18.42%	22.25%
2	Capital Tier I to total assets	Capital Tier I	Total assets	23,494,596	251,573,636	9.34%	4.45%
3	Capital Tier I to risk weighted asset	Capital Tier I	Risk weighted asset	23,494,596	226,755,842	10.36%	4.49%
4	Capital Tier I + Tier II to risk weighted asset	Capital Tier I + Tier II	Risk weighted asset	34,923,275	226,755,842	15.40%	11.80%
5	Net worth to total assets	Net Worth	Total assets	46,351,608	251,573,636	18.42%	22.21%
6	Solvency ratio	Net Worth	Risk weighted asset	46,351,608	226,755,842	20.44%	22.40%
7	Debt to total assets	Total Liabilities	Total assets	205,222,028	251,573,636	81.58%	77.75%
8	Debt to equity	Total Liabilities	Equity	205,222,028	46,351,608	442.75%	349.53%
9	Dividend to net profit	Dividend	Net profit	-	11,527,381	0.00%	0.00%
	ASSET QUALITY						
10	Banking reserve to total loans	Banking reserve	Total loan (gross)	-	214,857,594	0.00%	0.00%
11	Banking reserves to total assets	Banking reserve	Total assets	-	251,573,636	0.00%	0.00%
12	NPL to total loans	NPL	Total loan (gross)	426,807	214,857,594	0.20%	0.14%
13	NPL to total assets	NPL	Total assets	426,807	251,573,636	0.17%	0.14%
14	Classified assets to total loans	Classified Assets	Total loan (gross)	426,807	214,857,594	0.20%	0.14%
15	Classified assets to total assets	Classified Assets	Total assets	426,807	251,573,636	0.17%	0.14%
16	Classified assets to equity	Classified Assets	Total equity	426,807	46,351,608	0.92%	0.61%
17	Loan to related parties to total loans	Loans to related parties	Total loans (gross)	1,190,684	214,857,594	0.55%	0.03%
18	Large exposure to total loans	Large exposure	Total loans (gross)	-	214,857,594	0.00%	0.00%
19	Loan to related parties to net worth	Loan to related parties	Net worth	1,190,684	46,351,608	2.57%	0.15%
20	Large exposure to net worth	Large exposure	Net worth	-	46,351,608	0.00%	0.00%
21	General provision to total loans	General Provision	Total loans (gross)	3,205,004	214,857,594	1.49%	1.49%
22	Specific provision to total loans	Specific provision	Total loans (gross)	144,538	214,857,594	0.07%	0.10%
23	Specific provision to NPL	Specific provision	Non performing loan	144,538	426,807	33.86%	70.10%
24	All Allowances to total assets	All Allowances	Total assets	3,349,542	251,573,636	1.33%	1.54%
25	Loans to deposits	Total Loans to non-banks customers (Gross)	Customer's deposits	213,666,910	57,211,753	373.47%	2510.83%
	EARNING						

**FINANCIAL SOUNDNESS INDICATORS
AS AT 31 DECEMBER 2012**

No	Others Ratio	NBC Formula		Basis of Calculation		31-Dec-12	31-Dec-11
		Numerator	Denominator	Numerator	Denominator	Ratio	Ratio
		A	B	A	B	A/B	A/B
26	Return on assets	Net Profit	Total assets	11,527,381	251,573,636	4.58%	5.57%
27	Return on equity	Net Profit	Total equity	11,527,381	46,351,608	24.87%	25.04%
28	Gross yield	Interest Income	Total assets	42,397,028	251,573,636	16.85%	20.44%
29	Net interest margin (NIM) to total assets	Interest Income-Interest Expense	Total assets	31,304,159	251,573,636	12.44%	15.48%
30	Other income (OTINC)	Other incomes	Total assets	1,348,862	251,573,636	0.54%	0.39%
31	Provision to total assets	Provision	Total assets	1,064,919	251,573,636	0.42%	0.47%
32	Overhead (OHEAD)	Non-interest expense	Total assets	18,194,296	251,573,636	7.23%	8.89%
33	Net profit before tax (NIBT)	Net profit before tax	Total assets	14,458,725	251,573,636	5.75%	6.98%
34	Tax to total assets	Tax	Total assets	2,931,344	251,573,636	1.17%	1.41%
35	Interest margin to gross income	Interest Income-Interest Expense	Gross income	31,304,159	43,745,890	71.56%	74.34%
36	Non-interest income to gross income	Non-Interest Income	Gross income	1,348,862	43,745,890	3.08%	1.85%
37	Non-interest expense to gross income	Non-Interest Expense	Gross income	18,194,296	43,745,890	41.59%	42.67%
38	Times interest earned	Income before tax + interest expense	Interest expense	25,551,594	11,092,869	2.30	2.41
	LIQUIDITY						
39	Liquid asset	Liquid asset	Total assets	37,046,117	251,573,636	14.73%	7.64%
40	Short-term liabilities	Short-term liabilities (less than one year)	Total liabilities	118,211,568	251,573,636	46.99%	39.22%
41	Net liquid assets	Liquid asset-Short term liabilities (less than one year)	Total liabilities	(81,165,451)	205,222,028	-39.55%	-40.62%
42	Quick ratio	Quick Assets	Current liabilities	25,303,486	118,211,568	21.41%	2.77%
43	Deposit to total loans	Total Customer Deposits	Total loans to non-bank customers (gross)	51,299,768	213,666,910	24.01%	3.98%