

**PRASAC MICROFINANCE
INSTITUTION LIMITED**

**Financial Statements
for the year ended 31 December 2017
and
Report of the Independent Auditors**

Corporate Information

Company	PRASAC Microfinance Institution Limited
Registration No.	Co. 6931/04P (with MoC), MF10 (with NBC)
Registered office	Building 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia
Shareholders	LOLC International Private Limited (LOLC) The Bank of East Asia Limited PRASAC Staff Company Ltd. (PSCo)
Board of Directors	Mr. Chan Tze Ching Ignatius, Chairman Mr. Yuen Wai Hung Peter, Director Mr. Ishara Chinthaka Nanayakkara, Director Mr. Kahandawela Arachige Kithsiri Perera Gunawardena, Director Mr. Sim Senacheert, Director Mr. Minki Brian Hong, Independent Director Mr. Hiep Van Vo, Independent Director
Executive Management team	Mr. Sim Senacheert, President & Chief Executive Officer Mr. Oum Sophan, EVP & Chief Financial Officer Mr. Oum Sam Oeun, EVP & Chief Operations Officer Mr. Neang Sokhim, SVP & Chief Business Management Mr. Say Sony, SVP & Chief Marketing Management
Auditors	KPMG Cambodia Ltd

PRASAC Microfinance Institution Limited

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Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of PRASAC Microfinance Institution Limited ("the Company") for the year ended 31 December 2017.

Principal activity

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

Financial results

The financial results of the Company for the year ended 31 December 2017 were as follows:

	USD	KHR'000
Profit before income tax	71,948,202	290,454,891
Income tax expense	(14,438,214)	(58,287,069)
Net profit for the year	<u>57,509,988</u>	<u>232,167,822</u>

Dividend

No dividends were declared or paid during the financial year and the Directors do not recommend any dividend to be paid for the year.

Reserves and provisions

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

PRASAC Microfinance Institution Limited

Bad and doubtful loans

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

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

Assets

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

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

Valuation methods

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

Contingent and other liabilities

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

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

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

PRASAC Microfinance Institution Limited

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.

Items of unusual nature

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

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

Share capital

During the year, the Company had changed its shareholders as disclosed in Note 19. The revised Memorandum and Articles of Association was acknowledged by the National Bank of Cambodia (“NBC”) and the Ministry of Commerce (“MOC”) on 10 February 2017 and 10 March 2017 respectively.

The Board of Directors

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

- 1) Mr. Chan Tze Ching Ignatius, Chairman
- 2) Mr. Yuen Wai Hung Peter, Director
- 3) Mr. Ishara Chinthaka Nanayakkara, Director
- 4) Mr. Kahandawela Arachige Kithsiri Perera Gunawardena, Director
- 5) Mr. Sim Senacheert, Director
- 6) Mr. Minki Brian Hong, Independent Director
- 7) Mr. Hiep Van Vo, Independent Director

Directors’ benefits

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

PRASAC Microfinance Institution Limited

Directors' benefits (continued)

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

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Company's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so;
- (v) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

PRASAC Microfinance Institution Limited

Approval of the financial statements

I, the undersigned, on behalf of the Board of Directors, hereby approve the accompanying financial statements as set out on pages 9 to 61 which present fairly in all material respects, the financial position of PRASAC Microfinance Institution Limited as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

On behalf of the Board of Directors



Sim Senacheert
Director

Phnom Penh, Kingdom of Cambodia

Date: 28 FEB 2018



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

Opinion

We have audited the accompanying financial statements of PRASAC Microfinance Institution Limited (“the Company”), which comprise the balance sheet as at 31 December 2017, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 61.

In our opinion, the financial statements present fairly, in all material respects, the financial position of PRASAC Microfinance Institution Limited as at 31 December 2017, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the Board of Directors on pages 1 to 5, and the annual report which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For KPMG Cambodia Ltd



Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

28 February 2018

PRASAC Microfinance Institution Limited

Balance sheet As at 31 December 2017

	Note	2017		2016	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
ASSETS					
Cash on hand	5	75,102,882	303,190,335	39,422,071	159,146,901
Deposits and placements with the National Bank of Cambodia	6	107,182,560	432,695,995	102,455,211	413,611,687
Deposits and placements with banks	7	10,287,623	41,531,134	63,891,503	257,929,998
Loans to customers	8	1,528,863,817	6,172,023,229	1,016,385,263	4,103,147,307
Other assets	9	20,993,129	84,749,262	17,165,045	69,295,285
Property and equipment	10	4,799,471	19,375,464	6,416,079	25,901,711
Intangible assets	11	1,799,265	7,263,633	1,437,812	5,804,447
Deferred tax assets, net	12	5,240,425	21,155,597	2,200,910	8,885,074
TOTAL ASSETS		1,754,269,172	7,081,984,649	1,249,373,894	5,043,722,410
LIABILITIES AND EQUITY					
Liabilities					
Deposits from banks and other financial institutions	13	41,805,083	168,767,120	7,281,147	29,393,990
Deposits from customers	14	873,307,762	3,525,543,435	611,767,834	2,469,706,746
Overdraft		-	-	1,782,332	7,195,274
Borrowings	15	476,681,777	1,924,364,334	363,837,648	1,468,812,585
Subordinated debts	16	64,716,264	261,259,558	51,382,930	207,432,888
Other liabilities	17	53,835,507	217,333,942	25,263,366	101,988,210
Current income tax liabilities	12	15,323,182	61,859,686	12,290,277	49,615,848
Severance pay obligations	18	-	-	4,678,751	18,888,118
Total liabilities		1,525,669,575	6,159,128,075	1,078,284,285	4,353,033,659
Equity					
Share capital	19	110,000,000	444,070,000	110,000,000	444,070,000
Reserves		2,800,230	11,304,529	2,565,749	10,357,929
Retained earnings		115,799,367	467,482,045	58,523,860	236,260,822
Total equity		228,599,597	922,856,574	171,089,609	690,688,751
TOTAL LIABILITIES AND EQUITY		1,754,269,172	7,081,984,649	1,249,373,894	5,043,722,410

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

PRASAC Microfinance Institution Limited

Income statement for the year ended 31 December 2017

	Note	2017		2016	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Interest income	20	230,799,149	931,736,165	189,129,050	763,513,975
Interest expenses	21	(92,408,365)	(373,052,570)	(70,358,915)	(284,038,940)
Net interest income		138,390,784	558,683,595	118,770,135	479,475,035
Allowance for bad and doubtful loans	8	(15,013,105)	(60,607,905)	(5,076,038)	(20,491,965)
Net interest income after allowance for bad and doubtful loans		123,377,679	498,075,690	113,694,097	458,983,070
Fee and commission income - net	22	1,869,106	7,545,581	4,806,853	19,405,266
Other income	23	1,790,685	7,228,995	934,171	3,771,248
Personnel expenses	24	(38,683,311)	(156,164,527)	(36,020,132)	(145,413,273)
Depreciation and amortisation	25	(2,685,565)	(10,841,626)	(2,393,614)	(9,663,020)
General and administrative expenses	26	(14,628,031)	(59,053,361)	(13,857,150)	(55,941,315)
Operating profit		71,040,563	286,790,752	67,164,225	271,141,976
Net foreign exchange gain		714,348	2,883,823	560,527	2,262,847
Grant		193,291	780,316	9,250	37,342
Profit before income tax		71,948,202	290,454,891	67,734,002	273,442,165
Income tax expense	12	(14,438,214)	(58,287,069)	(13,748,791)	(55,503,869)
Net profit for the year		57,509,988	232,167,822	53,985,211	217,938,296

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

PRASAC Microfinance Institution Limited

Statement of changes in equity for the year ended 31 December 2017

	Share capital USD	Reserves USD	Retained earnings USD	Total USD
At 1 January 2016	72,000,000	2,272,647	47,477,360	121,750,007
Net profit for the year	-	-	53,985,211	53,985,211
Transferred to capital	38,000,000	-	(38,000,000)	-
Transfer to reserves	-	293,102	(293,102)	-
Dividend paid	-	-	(4,645,609)	(4,645,609)
As at 31 December 2016	<u>110,000,000</u>	<u>2,565,749</u>	<u>58,523,860</u>	<u>171,089,609</u>
(KHR'000 equivalents - Note 4)	<u>444,070,000</u>	<u>10,357,929</u>	<u>236,260,822</u>	<u>690,688,751</u>
At 1 January 2017	110,000,000	2,565,749	58,523,860	171,089,609
Net profit for the year	-	-	57,509,988	57,509,988
Transfer to reserves	-	234,481	(234,481)	-
As at 31 December 2017	<u>110,000,000</u>	<u>2,800,230</u>	<u>115,799,367</u>	<u>228,599,597</u>
(KHR'000 equivalents - Note 4)	<u>444,070,000</u>	<u>11,304,529</u>	<u>467,482,045</u>	<u>922,856,574</u>

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

PRASAC Microfinance Institution Limited

Statement of cash flows for the year ended 31 December 2017

	Note	2017		2016	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operations	27	(284,555,311)	(1,148,749,793)	(77,555,927)	(313,093,277)
Interest received		227,611,716	918,868,497	187,924,198	758,649,987
Interest paid		(83,267,683)	(336,151,637)	(64,991,232)	(262,369,604)
Income tax paid		(14,444,824)	(58,313,754)	(12,940,885)	(52,242,353)
Severance pay paid		(5,882,835)	(23,749,005)	(266,576)	(1,076,167)
Net cash (used in)/generated from operating activities		(160,538,937)	(648,095,692)	32,169,578	129,868,586
Cash flows from investing activities					
Purchase of property and equipment		(1,437,254)	(5,802,194)	(3,057,380)	(12,342,643)
Purchase of intangible assets		(16,525)	(66,711)	(81,360)	(328,450)
Proceeds from disposals of property and equipment		57,474	232,023	10,479	42,303
Statutory capital deposit		-	-	(3,788,072)	(15,292,447)
Net cash used in investing activities		(1,396,305)	(5,636,882)	(6,916,333)	(27,921,237)
Cash flows from financing activities					
Proceeds from borrowings		282,521,840	1,140,540,668	168,475,800	680,136,805
Repayments of borrowings		(156,344,376)	(631,162,246)	(165,211,210)	(666,957,655)
Dividend paid		-	-	(4,645,609)	(18,754,324)
Net cash generated from/(used in) financing activities		126,177,464	509,378,422	(1,381,019)	(5,575,174)
Net (decrease)/increase in cash and cash equivalents		(35,757,778)	(144,354,152)	23,872,226	96,372,175
Cash and cash equivalents at the beginning of the year		144,958,555	585,197,688	121,086,329	490,399,632
Currency translation differences		-	-	-	(1,574,119)
Cash and cash equivalents at the end of the year	28	109,200,777	440,843,536	144,958,555	585,197,688

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

PRASAC Microfinance Institution Limited

Notes to the financial statements for the year ended 31 December 2017

1. Reporting entity

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

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

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

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

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

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

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

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

On 1 April 2016, the Board of Directors approved to use part of the retained earnings to increase the paid up share capital of the Company from USD 72,000,000 to USD 110,000,000. The revised Memorandum and Articles of Association was acknowledged by the NBC and the Ministry of Commerce on 14 July 2016 and 25 July 2016 respectively.

During the year, the Company has changed its shareholders as disclosed in Note 19. The revised Memorandum and Articles of Association was acknowledged by the NBC and the MOC on 10 February 2017 and 10 March 2017 respectively.

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

As at 31 December 2017, the Company had 7,058 employees (31 December 2016: 6,162 employees).

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved and authorised for issue by the Board of Directors on 28 February 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgments

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

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

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

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Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) Financial instruments

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

(b) Basis of aggregation

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

(c) Cash and cash equivalents

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

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

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

(e) Deposits and placements with banks

Deposits and placements with banks are stated at cost.

(f) Loans to customers

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

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Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(g) Allowance for bad and doubtful loans

Prior to 1 December 2017

A specific allowance for bad and doubtful loans was made on loans that are identified as non-performing, as follows:

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

In addition, the Company made a general allowance for bad and doubtful loans as at balance sheet date which is over the mandatory specific level of provisioning as required by the NBC above at the rate of 1% (31 December 2016: 1%) of total outstanding loans.

From 1 December 2017:

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

Classification	Number of days past due	Allowance
Short term loans (less than one year):		
Normal/Standard	≤14 days	1%
Special mention	≥ 15 days – 30 days	3%
Sub-standard	≥ 31 days – 60 days	20%
Doubtful	≥ 61 days – 90 days	50%
Loss	≥ 91 days	100%

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Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

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

Classification	Number of days past due	Allowance
Long term loans (more than one year):		
Normal/Standard	< 30 days	1%
Special mention	≥ 30 days – 89 days	3%
Sub-standard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	≥ 360 days	100%

The change in the credit risk grading and provisioning used above is applied prospectively and the effect of this change resulted in an increase in allowance for bad and doubtful loans for the year ended 31 December 2017 of USD 1,285,710.

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

(h) Interest in suspense

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

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

(i) Other assets

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

(j) Property and equipment

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(j) Property and equipment (continued)

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

Description	Annual rate	Method
Office furniture	20%	Straight-line
Vehicles	20%	Straight-line
Motorcycles	25%	Straight-line
Computers and peripherals	25%	Straight-line
Leasehold improvements	Lease period	Straight-line
Communication equipment	25%	Straight-line

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

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amounts of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the assets and are recognised in the income statement on the date of retirement or disposal.

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

(k) Intangible assets

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(l) Impairment

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

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

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

(m) Deposits from customers

Deposits from customers are stated at cost.

(n) Borrowings

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

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

(o) Subordinated debts

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

Subordinated debts are stated at cost.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(p) Provision

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

(q) Severance pay

Prior to 1 May 2016, severance pay is accrued based on the monthly fixed salary of an employee with the rate of 8.33% (equal to one month salary of each year of service).

On 1 May 2016, the Company changed the method of calculating the severance pay from monthly fixed salary of an employee with the rate of 8.33% to the below applicable rate based on their length of working service with the Company:

No. of working year	Less than 5 years	Between 5 to 10 years	Between 10 to 15 years	More than 15 years
Severance pay rate	5%	8%	10%	12%

On 9 June 2017, the Company changed its method of calculating the severance pay again from the above to monthly fixed salary of an employee with the rate of 5% effective from 1 April 2017 onwards.

The change in the method used is applied prospectively and the effect of this change resulted in decrease in severance pay expense for the year ended 31 December 2017 of USD 235,065.

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

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(r) Income and expense recognition

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

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

Fee income from loans are recognised as income over the period of the loans.

Interest expenses are recognised on an accrual basis.

(s) Operating leases

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

(t) Income tax

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

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

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

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(u) Related parties

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

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

(v) Reserves

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

4. Translation of United State Dollars into Khmer Riel

The financial statements are stated in United States Dollar ("USD"). The translations of United States Dollar amount into Khmer Riel ("KHR") are included solely for convenient purposes and have been made using the prescribed official exchange rate as of 31 December 2017 of USD 1: KHR 4,037 (31 December 2016 of USD 1: KHR 4,037) published by the NBC. These convenience translations should not be construed as representations that the USD amounts have been, could have been, or could in the future be, converted into KHR at this or any other rate of exchange.

5. Cash on hand

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Branches	62,253,349	251,316,770	32,019,607	129,263,154
Head office	12,849,533	51,873,565	7,402,464	29,883,747
	<u>75,102,882</u>	<u>303,190,335</u>	<u>39,422,071</u>	<u>159,146,901</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

6. Deposits and placements with the National Bank of Cambodia

	Note	2017		2016	
		USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Statutory capital deposit	(i)	10,899,183	44,000,000	10,899,183	44,000,000
Reserve requirement	(ii)	72,324,022	291,972,077	48,128,715	194,295,622
Current accounts	(iii)	13,901,924	56,122,068	42,283,071	170,696,760
Term deposits	(iv)	10,057,431	40,601,850	1,144,242	4,619,305
		<u>107,182,560</u>	<u>432,695,995</u>	<u>102,455,211</u>	<u>413,611,687</u>

(i) *Statutory capital deposit*

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

(ii) *Reserve requirement*

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

(iii) *Current accounts*

Current accounts earn no interest.

(iv) *Term deposits*

Term deposits bear interest rate from 0.69% to 2.75% per annum.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

7. Deposits and placements with banks

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Savings accounts	2,043,814	8,250,877	57,687,660	232,885,084
Current accounts	8,243,809	33,280,257	6,203,843	25,044,914
	<u>10,287,623</u>	<u>41,531,134</u>	<u>63,891,503</u>	<u>257,929,998</u>

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

	2017	2016
Savings accounts	<u>0.015% to 0.75%</u>	<u>0.05% to 0.75%</u>

8. Loans to customers

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Individual loans	1,512,464,690	6,105,819,954	1,018,075,713	4,109,971,654
Loans to small and medium enterprises (SME)	24,918,202	100,594,781	6,403,323	25,850,215
Staff loans	10,910,556	44,045,915	4,812,201	19,426,855
Group loans	565,889	2,284,494	1,589,264	6,415,859
Gross loans	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>
Allowance for bad and doubtful loans:				
General	(15,372,600)	(62,059,186)	(10,308,805)	(41,616,646)
Specific	(4,622,920)	(18,662,729)	(4,186,433)	(16,900,630)
	<u>(19,995,520)</u>	<u>(80,721,915)</u>	<u>(14,495,238)</u>	<u>(58,517,276)</u>
Net loans	<u>1,528,863,817</u>	<u>6,172,023,229</u>	<u>1,016,385,263</u>	<u>4,103,147,307</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers (continued)

(a) Allowance for bad and doubtful loans

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
At 1 January	14,495,238	58,517,276	9,419,197	38,147,748
Allowance for the year	15,013,105	60,607,905	5,076,038	20,491,965
Written off during the year	(9,513,069)	(38,404,260)	-	-
Currency translation differences	246	994	3	(122,437)
At 31 December	<u>19,995,520</u>	<u>80,721,915</u>	<u>14,495,238</u>	<u>58,517,276</u>

The gross loans to customers are analysed as follows:

(b) By economic sector

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Consumption	640,881,424	2,587,238,309	334,970,163	1,352,274,548
Agriculture	330,165,808	1,332,879,367	304,121,417	1,227,738,160
Trade and commerce	290,120,153	1,171,215,058	199,662,321	806,036,791
Services	192,003,001	775,116,115	118,871,378	479,883,753
Transportation	85,747,127	346,161,152	64,687,138	261,141,976
Construction	9,941,824	40,135,143	8,568,084	34,589,355
	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>

(c) By relationship

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
External customers	1,537,948,781	6,208,699,229	1,026,068,300	4,142,237,728
Staff loans	10,910,556	44,045,915	4,812,201	19,426,855
	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers (continued)

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

(d) By locations

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Branches	1,542,521,323	6,227,158,581	1,027,272,261	4,147,098,118
Head office	6,338,014	25,586,563	3,608,240	14,566,465
	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>

(e) By performance

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Normal/Standard loans:				
Secured	603,253,860	2,435,335,834	378,372,600	1,527,490,187
Unsecured	934,006,252	3,770,583,239	640,597,466	2,586,091,970
Special mention loans:				
Secured	599,594	2,420,561	-	-
Unsecured	1,125,580	4,543,966	-	-
Sub-standard loans:				
Secured	895,202	3,613,930	1,884,014	7,605,765
Unsecured	1,819,258	7,344,345	3,961,432	15,992,301
Doubtful loans:				
Secured	2,275,243	9,185,156	1,174,442	4,741,222
Unsecured	3,987,389	16,097,089	2,344,275	9,463,838
Loss loans:				
Secured	272,080	1,098,387	402,078	1,623,189
Unsecured	624,879	2,522,637	2,144,194	8,656,111
	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers (continued)

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

(f) By maturity

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Short term loans (within 1 year)	25,248,137	101,926,729	34,473,378	139,169,027
Long term loans (more than 1 year)	1,523,611,200	6,150,818,415	996,407,123	4,022,495,556
	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>

(g) Interest rates

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

	2017	2016
Group loans	18.0% - 36.0%	30.0% - 31.2%
Individual loans	8.4% - 36.0%	12.0% - 28.8%
Biogas loans	14.4%	14.4%
Staff loans	10.0%	10.0%

With effective from 1 April 2017, the annual interest rate charge of all new loans and restructured loans are capped at 18% as required by the NBC Prakas B7-017-109.

9. Other assets

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Interest receivable	14,982,168	60,483,012	12,059,910	48,685,856
Allowance for interest receivable	(1,048,875)	(4,234,308)	(1,314,050)	(5,304,820)
Net interest receivable	<u>13,933,293</u>	<u>56,248,704</u>	<u>10,745,860</u>	<u>43,381,036</u>
Prepayments	6,704,089	27,064,407	5,954,986	24,040,278
Deposits	175,959	710,346	311,840	1,258,898
Accounts receivable	131,879	532,396	122,941	496,313
Long term investments	28,167	113,710	28,167	113,710
Others	19,742	79,699	1,251	5,050
	<u>20,993,129</u>	<u>84,749,262</u>	<u>17,165,045</u>	<u>69,295,285</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

10. Property and equipment

31 December 2017	Office furniture USD	Vehicles USD	Motorcycles USD	Computer and peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD	Total USD
Cost								
At 1 January 2017	3,924,350	2,177,050	354,781	4,910,159	1,985,285	301,773	630,935	14,284,333
Additions	416,339	272,300	-	399,097	308,953	848	39,717	1,437,254
Transfer to intangible assets	-	-	-	-	-	-	(637,338)	(637,338)
Disposals	(67,007)	(106,653)	(7,400)	(46,789)	(183,256)	(10,432)	-	(421,537)
At 31 December 2017	4,273,682	2,342,697	347,381	5,262,467	2,110,982	292,189	33,314	14,662,712
Less: Accumulated depreciation								
At 1 January 2017	2,316,971	1,321,968	245,442	2,670,432	1,114,532	198,909	-	7,868,254
Depreciation for the year	733,818	376,462	77,786	811,835	352,716	40,538	-	2,393,155
Disposals	(65,572)	(106,652)	(5,522)	(44,945)	(168,499)	(6,978)	-	(398,168)
At 31 December 2017	2,985,217	1,591,778	317,706	3,437,322	1,298,749	232,469	-	9,863,241
Carrying amounts								
At 1 January 2017	1,607,379	855,082	109,339	2,239,727	870,753	102,864	630,935	6,416,079
At 31 December 2017	1,288,465	750,919	29,675	1,825,145	812,233	59,720	33,314	4,799,471
At 31 December 2017 (KHR'000 equivalents - Note 4)	5,201,533	3,031,460	119,798	7,368,110	3,278,985	241,090	134,488	19,375,464

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

10. Property and equipment (continued)

31 December 2016	Office furniture USD	Vehicles USD	Motorcycles USD	Computer and peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD	Total USD
Cost								
At 1 January 2016	3,522,026	2,196,750	354,781	3,047,647	1,892,267	320,668	113,824	11,447,963
Additions	438,131	-	-	1,891,613	183,517	27,008	517,111	3,057,380
Disposals	(35,807)	(19,700)	-	(29,101)	(90,499)	(45,903)	-	(221,010)
At 31 December 2016	<u>3,924,350</u>	<u>2,177,050</u>	<u>354,781</u>	<u>4,910,159</u>	<u>1,985,285</u>	<u>301,773</u>	<u>630,935</u>	<u>14,284,333</u>
Less: Accumulated depreciation								
At 1 January 2016	1,666,517	954,733	160,165	2,173,467	804,972	150,773	-	5,910,627
Depreciation for the year	683,888	384,230	85,277	524,340	390,765	82,785	-	2,151,285
Disposals	(33,434)	(16,995)	-	(27,375)	(81,205)	(34,649)	-	(193,658)
At 31 December 2016	<u>2,316,971</u>	<u>1,321,968</u>	<u>245,442</u>	<u>2,670,432</u>	<u>1,114,532</u>	<u>198,909</u>	<u>-</u>	<u>7,868,254</u>
Carrying amounts								
At 1 January 2016	<u>1,855,509</u>	<u>1,242,017</u>	<u>194,616</u>	<u>874,180</u>	<u>1,087,295</u>	<u>169,895</u>	<u>113,824</u>	<u>5,537,336</u>
At 31 December 2016	<u>1,607,379</u>	<u>855,082</u>	<u>109,339</u>	<u>2,239,727</u>	<u>870,753</u>	<u>102,864</u>	<u>630,935</u>	<u>6,416,079</u>
At 31 December 2016 (KHR'000 equivalents - Note 4)	<u>6,488,988</u>	<u>3,451,966</u>	<u>441,402</u>	<u>9,041,778</u>	<u>3,515,230</u>	<u>415,262</u>	<u>2,547,085</u>	<u>25,901,711</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

11. Intangible assets

31 December 2017	Computer software USD	Core banking system license USD	Work in Progress USD	Total USD
Cost				
At 1 January 2017	928,351	1,724,315	-	2,652,666
Additions	16,525	-	-	16,525
Transfer from property and equipment	-	539,755	97,583	637,338
	<u>944,876</u>	<u>2,264,070</u>	<u>97,583</u>	<u>3,306,529</u>
Less: Accumulated amortisation				
At 1 January 2017	431,220	783,634	-	1,214,854
Amortisation for the year	121,233	171,177	-	292,410
	<u>552,453</u>	<u>954,811</u>	<u>-</u>	<u>1,507,264</u>
Carrying amounts				
At 1 January 2017	497,131	940,681	-	1,437,812
	<u>392,423</u>	<u>1,309,259</u>	<u>97,583</u>	<u>1,799,265</u>
At 31 December 2017 (KHR'000 equivalents - Note 4)	<u>1,584,211</u>	<u>5,285,479</u>	<u>393,943</u>	<u>7,263,633</u>
31 December 2016				
Cost				
At 1 January 2016	846,991	1,724,315	-	2,571,306
Additions	81,360	-	-	81,360
	<u>928,351</u>	<u>1,724,315</u>	<u>-</u>	<u>2,652,666</u>
Less: Accumulated amortisation				
At 1 January 2016	360,537	611,988	-	972,525
Amortisation for the year	70,683	171,646	-	242,329
	<u>431,220</u>	<u>783,634</u>	<u>-</u>	<u>1,214,854</u>
Carrying amounts				
At 1 January 2016	486,454	1,112,327	-	1,598,781
	<u>497,131</u>	<u>940,681</u>	<u>-</u>	<u>1,437,812</u>
At 31 December 2016 (KHR'000 equivalents - Note 4)	<u>2,006,918</u>	<u>3,797,529</u>	<u>-</u>	<u>5,804,447</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

12. Taxation

(a) Deferred tax assets

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Deferred tax assets	5,400,894	21,803,409	2,449,940	9,890,407
Deferred tax liabilities	(160,469)	(647,812)	(249,030)	(1,005,333)
	<u>5,240,425</u>	<u>21,155,597</u>	<u>2,200,910</u>	<u>8,885,074</u>

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
General provision up to sub-standard loan provision	2,232,899	9,014,213	1,218,120	4,917,551
Unearned income of loan fee	2,942,140	11,877,419	-	-
Provision for severance pay	-	-	935,750	3,777,623
Unused annual leave	224,401	905,907	296,070	1,195,235
Unrealised exchange loss	1,454	5,870	(4,919)	(19,858)
Depreciation and amortisation	(156,758)	(632,832)	(238,314)	(962,074)
Currency translation differences	(3,711)	(14,980)	(5,797)	(23,401)
	<u>5,240,425</u>	<u>21,155,597</u>	<u>2,200,910</u>	<u>8,885,074</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

12. Taxation (continued)

(a) Deferred tax assets (continued)

The movements of net deferred tax assets are as follows:

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
At 1 January	2,200,910	8,885,074	1,409,630	5,709,002
Recognised in the income statement	3,039,515	12,270,523	366,193	1,478,321
Tax assessment	-	-	420,444	1,697,332
Currency translation differences	-	-	4,643	419
At 31 December	<u>5,240,425</u>	<u>21,155,597</u>	<u>2,200,910</u>	<u>8,885,074</u>

(b) Current income tax liabilities

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
At 1 January	12,290,277	49,615,848	10,691,091	43,298,919
Charge to income statement	17,477,729	70,557,592	14,114,984	56,982,190
Additional income tax expense resulted from tax assessment	-	-	420,444	1,697,332
Income tax paid	(14,444,824)	(58,313,754)	(12,940,885)	(52,242,353)
Currency translation differences	-	-	4,643	(120,240)
At the end of the year	<u>15,323,182</u>	<u>61,859,686</u>	<u>12,290,277</u>	<u>49,615,848</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

12. Taxation (continued)

(c) Income tax expense

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Current tax	17,477,729	70,557,592	14,114,984	56,982,190
Deferred tax assets	(3,039,515)	(12,270,523)	(366,193)	(1,478,321)
Additional income tax expense resulted from tax assessment	-	-	420,444	1,697,332
Deferred tax assets not recognised in prior years	-	-	(420,444)	(1,697,332)
	<u>14,438,214</u>	<u>58,287,069</u>	<u>13,748,791</u>	<u>55,503,869</u>

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Profit before income tax	<u>71,948,202</u>	<u>290,454,891</u>	<u>67,734,002</u>	<u>273,442,165</u>
Tax calculated at a rate of 20%	14,389,639	58,090,972	13,546,800	54,688,431
Effect of non-deductible expenses	48,575	196,097	201,991	815,438
Additional income tax expense resulted from tax assessment	-	-	420,444	1,697,332
Deferred tax assets not recognised in prior years	-	-	(420,444)	(1,697,332)
Total income tax expenses	<u>14,438,214</u>	<u>58,287,069</u>	<u>13,748,791</u>	<u>55,503,869</u>

In accordance with Law on Taxation, the Company has an obligation to pay corporate income tax in the form of either Tax on Profit at the rate of 20% of taxable profit or minimum tax at 1% of turnover, whichever is higher.

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

13. Deposits from banks and other financial institutions

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Term deposits	40,726,532	164,413,010	5,589,839	22,566,180
Savings deposits	1,078,551	4,354,110	1,691,308	6,827,810
	<u>41,805,083</u>	<u>168,767,120</u>	<u>7,281,147</u>	<u>29,393,990</u>

Interest rates are analysed as follows:

	2017		2016	
	USD	KHR	USD	KHR
Term deposits	3.00% - 6.00%	3.00% - 6.00%	1.50% - 5.00%	1.00% - 6.00%
Savings deposits	0.00%	0.00%	0.25%	0.50%

14. Deposits from customers

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Term deposits	799,772,104	3,228,679,984	551,815,542	2,227,679,343
Savings deposits	73,535,658	296,863,451	59,952,292	242,027,403
	<u>873,307,762</u>	<u>3,525,543,435</u>	<u>611,767,834</u>	<u>2,469,706,746</u>

Annual interest rates for deposits from customers are as follows:

	2017			2016		
	USD	KHR	THB	USD	KHR	THB
Term deposits	4.00%-7.75%	4.00% -7.75%	4.00%-7.75%	4.75%-8.40%	5.25%-10.30%	5.00%-9.00%
Savings deposits - customers	2.00% - 3.00%	2.00% - 3.00%	2.00% - 3.00%	2.00% - 3.00%	2.50% - 4.00%	2.00% - 4.00%
Savings accounts - staff	2.00%	2.00%	2.00%	2.00%	2.50%	2.00%

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

15. Borrowings

Borrowings are analysed as follows:

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
(a) By relationship				
Non-related parties	476,681,777	1,924,364,334	349,436,112	1,410,673,584
Related parties	-	-	14,401,536	58,139,001
	<u>476,681,777</u>	<u>1,924,364,334</u>	<u>363,837,648</u>	<u>1,468,812,585</u>
	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
(b) By currency				
US Dollars	427,853,731	1,727,245,512	315,610,741	1,274,120,562
Khmer Riel	8,494,055	34,290,500	14,840,599	59,911,498
Thai Baht	40,333,991	162,828,322	33,386,308	134,780,525
	<u>476,681,777</u>	<u>1,924,364,334</u>	<u>363,837,648</u>	<u>1,468,812,585</u>
	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
(c) By maturity				
1 to 3 months	14,393,164	58,105,203	41,021,060	165,602,020
3 to 12 months	95,801,872	386,752,157	97,271,369	392,684,517
1 to 5 years	366,486,741	1,479,506,974	223,545,219	902,452,048
Over 5 years	-	-	2,000,000	8,074,000
	<u>476,681,777</u>	<u>1,924,364,334</u>	<u>363,837,648</u>	<u>1,468,812,585</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

15. Borrowings (continued)

Borrowings are analysed as follows: (continued)

The interest rates (per annum, including withholding tax) are as follows:

	2017	2016
Khmer Riel	8.50% - 11.61%	3.49% - 11.34%
US Dollars	6.00% - 9.01%	5.75% - 9.01%
Thai Baht	8.72% - 11.86%	10.41% - 12.21%

16. Subordinated debts

Subordinated debts are analysed as follows:

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Subordinated debts (a)	49,833,334	201,177,168	36,500,000	147,350,498
Trust fund (b)	14,882,930	60,082,390	14,882,930	60,082,390
	<u>64,716,264</u>	<u>261,259,558</u>	<u>51,382,930</u>	<u>207,432,888</u>

The interest rates (per annum, including withholding tax) are as follows:

	2017	2016
(a) Subordinated debts		
US Dollars	9.30% - 10.47%	9.57% - 10.47%
(b) Trust fund		
Khmer Riel	3.00%	3.00%

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

16. Subordinated debts (continued)

(a) Subordinated debts

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Non-related parties	49,833,334	201,177,168	33,000,000	133,221,000
Related parties	-	-	3,500,000	14,129,498
	<u>49,833,334</u>	<u>201,177,168</u>	<u>36,500,000</u>	<u>147,350,498</u>

(b) Trust fund

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
From the RGC	11,303,026	45,630,317	11,303,026	45,630,317
From CRDF	3,579,904	14,452,073	3,579,904	14,452,073
	<u>14,882,930</u>	<u>60,082,390</u>	<u>14,882,930</u>	<u>60,082,390</u>

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

This trust fund which is denominated in KHR represented subordinated debt transferred to RGC on 31 December 2004 with the terms and conditions of the agreement as follows:

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

16. Subordinated debts (continued)

(b) Trust fund (continued)

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

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

The share transfer funds of Cambodia Rural Development Foundation (“CRDF”) in 2007 amounting to KHR 10,982,902,272 together with the additional transfer from reserve as at and made on 31 December 2015 amounting to KHR 3,469,170,728 totally amounting to KHR 14,452,073,000 (equivalent to USD 3,579,904 as at 31 December 2017) was recognised as subordinated debts with conditions as follows:

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

Transfer of subordinated debts from equity to Liabilities under PRASAC Financial Trust

The full amount of the Subordinated Debt, CRDF Share Sale (“SDCSS”) shall be include for the calculation of the net worth as Tier 2 Capital in the context of the Calculation of Net Worth and for all prudential ratio purposes, such as the Capital Adequacy Ratio.

According to Sub-decree No. 476 dated 26 August 2013 and Announcement No. 1041 dated 26 September 2014 of the MEF on the registration of trust fund, the subordinated debts were registered as trust fund with the MEF on 10 July 2015 via certificate No. 187 សំណុំរឹបរយ. Trust fund will be managed by the Trustees (refers to a natural person or a legal entity who maintains and manages the trust fund in compliance with the financial trust registered with the Ministry of Economy and Finance) to which the Company is the Beneficiary. Accordingly, these subordinated debts and their cumulative reserves are reclassified to liability. On 28 December 2016, PRASAC Financial Trust and the Company entered into agreement that both parties agreed with the annual interest rate of 3% on the trust fund.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

17. Other liabilities

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Accrued interest payable	30,888,903	124,698,501	21,748,220	87,797,564
Unamortised loan fee	14,710,702	59,387,104	-	-
Accrued expenses	1,704,111	6,879,496	2,157,996	8,711,830
Withholding tax payable	298,502	1,205,053	322,904	1,303,563
Tax on salary	1,234,201	4,982,469	740,060	2,987,622
Others	4,999,088	20,181,319	294,186	1,187,631
	<u>53,835,507</u>	<u>217,333,942</u>	<u>25,263,366</u>	<u>101,988,210</u>

18. Severance pay obligations

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Severance pay obligations	-	-	4,678,751	18,888,118
	<u>-</u>	<u>-</u>	<u>4,678,751</u>	<u>18,888,118</u>

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
At 1 January	4,678,751	18,888,118	3,633,432	14,715,400
Additions during the year (Note 24)	1,204,084	4,860,887	1,311,895	5,296,120
Payments during the year	(5,882,835)	(23,749,005)	(266,576)	(1,076,167)
Currency translation differences	-	-	-	(47,235)
At 31 December	<u>-</u>	<u>-</u>	<u>4,678,751</u>	<u>18,888,118</u>

The severance pay obligations balance as at 31 December 2017 was paid to all staff on 29 December 2017.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

19. Share capital

	2017			2016		
	USD	KHR'000 (Note 4)	%	USD	KHR'000 (Note 4)	%
LOLC	77,000,000	310,849,000	70.00%	24,475,000	98,805,575	22.25%
BEA	23,100,000	93,254,700	21.00%	-	-	-
PSCo	9,900,000	39,966,300	9.00%	12,100,000	48,847,700	11.00%
BIO	-	-	-	24,475,000	98,805,575	22.25%
DCG	-	-	-	24,475,000	98,805,575	22.25%
FMO	-	-	-	24,475,000	98,805,575	22.25%
	<u>110,000,000</u>	<u>444,070,000</u>	<u>100.00%</u>	<u>110,000,000</u>	<u>444,070,000</u>	<u>100.00%</u>

During the year, the Company has changed its shareholders as stated in the table above. The revised Memorandum and Articles of Association was acknowledged by the NBC and MOC on 10 February 2017 and 10 March 2017 respectively.

The total authorised number of ordinary shares at 31 December 2017 was 110,000,000 shares (31 December 2016: 110,000,000 shares) with a par value of KHR 4,000 (31 December 2016: KHR 4,000) per share. All issued shares are fully paid.

Abbreviation:

LOLC:	LOLC INTERNATIONAL PRIVATE LIMITED
BEA:	The Bank of East Asia, Limited
PSCo:	PRASAC Staff Company Limited
BIO:	Belgian Investment Company for Developing Countries SA
DCG:	Dragon Capital Group Limited
FMO:	The Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

20. Interest income

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Individual loans	229,995,686	928,492,584	187,842,276	758,319,268
Group loans	247,240	998,108	721,106	2,911,105
Deposits with banks	556,223	2,245,473	565,668	2,283,602
	<u>230,799,149</u>	<u>931,736,165</u>	<u>189,129,050</u>	<u>763,513,975</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

21. Interest expenses

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Deposits from customers	54,389,955	219,572,249	38,085,479	153,751,079
Borrowings	38,018,410	153,480,321	32,273,436	130,287,861
	<u>92,408,365</u>	<u>373,052,570</u>	<u>70,358,915</u>	<u>284,038,940</u>

22. Fee and commission income - net

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Fee income from loans	3,138,578	12,670,439	5,702,983	23,022,942
Fees and commission income from local remittance and services	960,983	3,879,488	1,078,108	4,352,322
Total fee and commission income	<u>4,099,561</u>	<u>16,549,927</u>	<u>6,781,091</u>	<u>27,375,264</u>
Fee on borrowings	2,080,953	8,400,807	1,836,646	7,414,540
Bank charges on borrowings	147,867	596,939	135,077	545,306
Others	1,635	6,600	2,515	10,152
Total fee and commission expenses	<u>2,230,455</u>	<u>9,004,346</u>	<u>1,974,238</u>	<u>7,969,998</u>
Net fee and commission income	<u>1,869,106</u>	<u>7,545,581</u>	<u>4,806,853</u>	<u>19,405,266</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

23. Other income

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Penalty income	1,342,970	5,421,570	651,556	2,630,332
Loan loss recovered	145,998	589,394	161,079	650,276
Gain on disposal of property and equipment	34,105	137,682	-	-
Others	267,612	1,080,349	121,536	490,640
	<u>1,790,685</u>	<u>7,228,995</u>	<u>934,171</u>	<u>3,771,248</u>

24. Personnel expenses

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Salaries	30,327,566	122,432,384	25,842,958	104,328,021
Staff bonuses/incentives	6,656,308	26,871,515	7,761,760	31,334,225
Severance benefits (Note 18)	1,204,084	4,860,887	1,311,895	5,296,120
Staff uniform	308,850	1,246,827	281,425	1,136,113
Medical expenses	115,125	464,760	127,261	513,753
Other staff benefits	71,378	288,154	694,833	2,805,041
	<u>38,683,311</u>	<u>156,164,527</u>	<u>36,020,132</u>	<u>145,413,273</u>

25. Depreciation and amortisation

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Depreciation charge (Note 10)	2,393,155	9,661,167	2,151,285	8,684,738
Amortisation charge (Note 11)	292,410	1,180,459	242,329	978,282
	<u>2,685,565</u>	<u>10,841,626</u>	<u>2,393,614</u>	<u>9,663,020</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

26. General and administrative expenses

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Rental expenses	3,632,417	14,664,067	3,217,355	12,988,462
Fuel costs	2,477,960	10,003,525	1,910,351	7,712,087
License fees	955,435	3,857,091	444,594	1,794,826
Utilities	987,788	3,987,700	931,703	3,761,285
Transportation	892,458	3,602,853	753,039	3,040,018
Marketing and promotions	622,374	2,512,524	939,334	3,792,091
Printing and stationery	865,249	3,493,010	751,336	3,033,143
Maintenance	823,991	3,326,452	648,818	2,619,278
Communication	737,615	2,977,752	730,477	2,948,936
Per diem and travelling	467,730	1,888,226	749,829	3,027,060
Bank charges	388,093	1,566,731	163,217	658,907
Professional fees	313,582	1,265,931	517,065	2,087,391
Office supplies	334,926	1,352,096	453,178	1,829,480
Other tax expenses	175,719	709,378	185,389	748,415
Training	133,979	540,873	186,462	752,747
Others	818,715	3,305,152	1,275,003	5,147,189
	<u>14,628,031</u>	<u>59,053,361</u>	<u>13,857,150</u>	<u>55,941,315</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Net cash used in operations

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Profit before income tax	71,948,202	290,454,891	67,734,002	273,442,165
Adjustments for:				
Allowance for bad and doubtful loans (Note 8)	15,013,105	60,607,905	5,076,038	20,491,965
Loan loss written off	9,513,069	38,404,259	-	-
Depreciation and amortisation (Note 25)	2,685,565	10,841,626	2,393,614	9,663,020
(Gain)/Loss on disposals of property and equipment	(34,105)	(137,682)	16,754	67,637
Severance pay expenses (Note 18)	1,204,084	4,860,887	1,311,895	5,296,120
Net interest income	(138,390,784)	(558,683,595)	(118,770,135)	(479,475,035)
	<u>(38,060,864)</u>	<u>(153,651,709)</u>	<u>(42,237,832)</u>	<u>(170,514,128)</u>
Changes in:				
Loans to customers	(537,004,728)	(2,167,888,087)	(174,288,066)	(703,600,922)
Reserve requirement	(24,195,307)	(97,676,454)	(11,833,439)	(47,771,593)
Deposit which the maturity is more than three months	(149,083)	(601,848)	-	-
Other assets	(640,651)	(2,586,309)	(755,839)	(3,051,322)
Deposits from banks and other financial institutions	34,523,936	139,373,130	(16,620,075)	(67,095,243)
Deposits from customers	261,539,928	1,055,836,688	168,235,591	679,167,081
Other liabilities	19,431,458	78,444,796	(56,267)	(227,150)
Net cash used in operations	<u>(284,555,311)</u>	<u>(1,148,749,793)</u>	<u>(77,555,927)</u>	<u>(313,093,277)</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

28. Cash and cash equivalents

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Cash on hand (Note 5)	75,102,882	303,190,335	39,422,071	159,146,901
Balances with the NBC				
Current accounts (Note 6)	13,901,924	56,122,068	42,283,071	170,696,758
Term deposits (Note 6)	9,908,348	39,999,999	1,144,242	4,619,305
Deposits and placements with banks				
Current accounts (Note 7)	8,243,809	33,280,257	6,203,843	25,044,914
Savings accounts (Note 7)	2,043,814	8,250,877	57,687,660	232,885,084
	<u>109,200,777</u>	<u>440,843,536</u>	<u>146,740,887</u>	<u>592,392,962</u>
Bank overdraft	-	-	(1,782,332)	(7,195,274)
	<u>109,200,777</u>	<u>440,843,536</u>	<u>144,958,555</u>	<u>585,197,688</u>

29. Related party transactions and balances

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

(a) Significant related party transactions

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Board of Directors				
Fee and related expenses	<u>298,350</u>	<u>1,204,439</u>	<u>321,948</u>	<u>1,299,704</u>
Shareholders				
Interest expenses	<u>479,929</u>	<u>1,937,473</u>	<u>2,164,255</u>	<u>8,737,097</u>
Fee and commission on borrowings	<u>20,787</u>	<u>83,917</u>	<u>147,664</u>	<u>596,120</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

29. Related party transactions and balances (continued)

(b) Key management compensation

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Salaries and employee benefits	1,173,431	4,737,141	1,299,708	5,246,921
Severance pay expenses	49,425	199,529	65,576	264,730
	<u>1,222,856</u>	<u>4,936,670</u>	<u>1,365,284</u>	<u>5,511,651</u>

(c) Significant related party balances

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Directors and key management				
Deposits	4,503,416	18,180,290	1,797,084	7,254,828
Loans	10,000	40,370	99,496	401,665
Shareholders				
Borrowings from:				
FMO	-	-	14,151,536	57,129,751
BIO	-	-	3,750,000	15,138,750
Deposits from:				
PSCo	4,678,320	18,886,378	340	1,373
	<u>9,191,736</u>	<u>37,107,038</u>	<u>19,798,456</u>	<u>79,926,367</u>

The term and annual interest rate deposits from related parties are disclosed in Note 14.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

30. Commitments and contingencies

(a) Lease commitments

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Within 1 year	3,713,576	14,991,706	3,424,986	13,826,668
From 2 to 5 years	10,716,251	43,261,505	9,738,513	39,314,377
More than 5 years	5,920,012	23,899,088	5,886,622	23,764,293
	<u>20,349,839</u>	<u>82,152,299</u>	<u>19,050,121</u>	<u>76,905,338</u>

(b) Taxation contingencies

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

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

31. Financial risk management

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

(a) Credit risk

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(a) Credit risk (continued)

The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, and credit approval processes and procedures implemented to ensure compliance with the NBC guidelines. Customer with more than one account is subject to stringent and careful review and assessment. The Company closely monitors concentration of credit risk by industries. Additional criteria for loan disbursement are also imposed for some specific risk areas.

(i) Credit risk measurement

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

(ii) Risk limit control and mitigation policies

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

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

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

(iii) Impairment and provisioning policies

Prior to 1 December 2017, the Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-02-186 dated 13 June 2002 on loan classification and provisioning. From 1 December 2017, the Bank is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-017-344 Prokor dated 1 December 2017 on credit risk grading and provisioning and the circular No. B7-018-001 on the implementation on the Credit Risk Grading and Provision on Impairment. Refer to Note 3(g) for details.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk

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

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Credit exposure relating to on- balance sheet assets:				
Balances with banks	10,287,623	41,531,134	63,891,503	257,929,998
Loans to customers	1,528,863,817	6,172,023,229	1,016,385,263	4,103,147,307
Other assets	14,289,040	57,684,855	11,210,059	45,255,007
	<u>1,553,440,480</u>	<u>6,271,239,218</u>	<u>1,091,486,825</u>	<u>4,406,332,312</u>

The above table represents a worst case scenario for credit risk exposure to the Company at 31 December 2017 and 31 December 2016, without taking into account any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposure set out above is based on net carrying amounts.

As shown above, 98.42% of total maximum exposure is derived from loans to customers (31 December 2016: 93.12%).

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

- 99.25% of the loans in the portfolio are considered to be neither past due nor impaired (31 December 2016: 97.74%).
- The Company has a stringent selection and collection process for granting loans to customers.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loan to customers

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Loans to customers neither past due nor impaired	1,537,260,112	6,205,919,073	1,007,611,222	4,067,726,504
Loans to customers past due but not impaired	1,725,175	6,964,531	11,358,843	45,855,649
Loans to customers individually impaired	9,874,050	39,861,540	11,910,436	48,082,430
	<u>1,548,859,337</u>	<u>6,252,745,144</u>	<u>1,030,880,501</u>	<u>4,161,664,583</u>

For the purpose of loan allowance, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the NBC's requirements. The total allowance for bad and doubtful loans is USD 19,995,520 (31 December 2016: USD 14,495,238) which represents the general and specific provision required by the NBC and additional general allowance for the loan losses.

Loans to customers neither past due nor impaired

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default.

Impaired loans and advances

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

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Short term loan				
Past due ≥ 31 days – 60 days	4,423	17,856	14,869	60,026
Past due ≥ 61 days – 90 days	10,520	42,469	13,723	55,400
Past due ≥ 91 days	120,005	484,460	174,154	703,060
	<u>134,948</u>	<u>544,785</u>	<u>202,746</u>	<u>818,486</u>
Long term loan				
Past due ≥ 90 days – 179 days	2,710,037	10,940,420	5,830,577	23,538,039
Past due ≥ 180 days – 359 days	6,252,112	25,239,776	3,504,995	14,149,665
Past due ≥ 360 days	776,953	3,136,559	2,372,118	9,576,240
	<u>9,739,102</u>	<u>39,316,755</u>	<u>11,707,690</u>	<u>47,263,944</u>
	<u>9,874,050</u>	<u>39,861,540</u>	<u>11,910,436</u>	<u>48,082,430</u>

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

Past due but not impaired loans and advances

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than or equal 30 days for short term loans and less than 90 days for long term loan, unless other information is available to indicate otherwise.

(v) Repossessed collateral

During the year ended 31 December 2017, the Company did not obtain any assets by taking possession of collateral held as security (31 December 2016: nil).

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(a) Credit risk (continued)

(vi) Deposits and placements with banks

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

(b) Operational risk

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

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

(c) Market risk

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

(i) Foreign currency exchange risk

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

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

Management monitors its foreign exchange risk against functional currencies through monitoring the net open position in foreign currency at the limit 20% of the Company's net worth as required by the NBC.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk

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

As at 31 December 2017	USD equivalent			Total USD
	USD	KHR	THB	
Financial assets				
Cash on hand	55,689,213	17,958,417	1,455,252	75,102,882
Deposits and placements with the NBC	10,634,104	13,325,251	-	23,959,355
Deposits and placements with banks	9,502,063	779,940	5,620	10,287,623
Loans to customers	1,376,247,618	100,840,470	51,775,729	1,528,863,817
Other assets *	12,356,101	1,319,330	613,609	14,289,040
Total financial assets	1,464,429,099	134,223,408	53,850,210	1,652,502,717
Financial liabilities				
Deposits from banks and financial institutions	34,065,097	7,739,986	-	41,805,083
Deposits from customers	751,918,101	112,147,908	9,241,753	873,307,762
Borrowings	427,853,731	8,494,055	40,333,991	476,681,777
Subordinated debts	49,833,333	14,882,931	-	64,716,264
Other liabilities *	45,218,667	5,148,416	1,935,721	52,302,804
Total financial liabilities	1,308,888,929	148,413,296	51,511,465	1,508,813,690
Net financial asset position	155,540,170	(14,189,888)	2,338,745	143,689,027
Equivalent in KHR'000	627,915,666	(57,284,578)	9,441,514	580,072,602
As at 31 December 2016				
Total financial assets	1,031,427,447	102,847,764	40,060,998	1,174,336,209
Total financial liabilities	913,174,831	106,473,966	40,603,496	1,060,252,293
Net financial asset position	118,252,616	(3,626,202)	(542,498)	114,083,916

*: Amounts excluded non-financial assets/liabilities.

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Sensitivity analysis

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

<i>Effect in USD</i>	2017		2016	
	Strengthening	Weakening	Strengthening	Weakening
KHR (5% movements)	(709,494)	709,494	(181,310)	181,310
THB (5% movements)	116,937	(116,937)	(27,125)	27,125
	<u>(592,557)</u>	<u>592,557</u>	<u>(208,435)</u>	<u>208,435</u>

(ii) Interest rate risk

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's policy sets the limits on the level of mismatch of interest rate repricing at ≤ 25% of Recent Actual Net Interest Income and ALCO regularly monitors the mismatch on monthly basis.

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2017	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	Non-interest sensitive USD	Total USD
Financial assets							
Cash on hand	-	-	-	-	-	75,102,882	75,102,882
Deposits and placements with NBC	9,908,348	-	149,083	-	-	13,901,924	23,959,355
Deposits and placements with banks	2,037,700	-	-	-	-	8,249,923	10,287,623
Loans to customers	47,065,250	94,319,226	354,885,156	917,151,796	115,442,389	-	1,528,863,817
Other assets	-	-	-	-	-	14,289,040	14,289,040
	<u>59,011,298</u>	<u>94,319,226</u>	<u>355,034,239</u>	<u>917,151,796</u>	<u>115,442,389</u>	<u>111,543,769</u>	<u>1,652,502,717</u>
Financial liabilities							
Deposits from banks and other financial institutions	10,092,186	7,210,389	24,502,508	-	-	-	41,805,083
Deposits from customers	184,282,471	205,025,696	440,605,568	43,394,027	-	-	873,307,762
Borrowings	5,572,648	8,820,516	95,801,872	366,486,741	-	-	476,681,777
Subordinated debts	1,000,000	1,666,667	7,666,667	37,500,000	16,882,930	-	64,716,264
Other liabilities	-	-	-	-	-	52,302,804	52,302,804
	<u>200,947,305</u>	<u>222,723,268</u>	<u>568,576,615</u>	<u>447,380,768</u>	<u>16,882,930</u>	<u>52,302,804</u>	<u>1,508,813,690</u>
Maturity gap	<u>(141,936,007)</u>	<u>(128,404,042)</u>	<u>(213,542,376)</u>	<u>469,771,028</u>	<u>98,559,459</u>	<u>59,240,965</u>	<u>143,689,027</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2016	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	Non-interest sensitive USD	Total USD
Financial assets							
Cash on hand	-	-	-	-	-	39,422,071	39,422,071
Deposits and placements with NBC	1,094,700	-	49,542	-	-	42,283,071	43,427,313
Deposits and placements with banks	57,692,705	-	-	-	-	6,198,798	63,891,503
Loans to customers	40,268,047	81,703,631	297,474,848	591,158,708	5,780,029	-	1,016,385,263
Other assets	-	-	-	-	-	11,210,059	11,210,059
	<u>99,055,452</u>	<u>81,703,631</u>	<u>297,524,390</u>	<u>591,158,708</u>	<u>5,780,029</u>	<u>99,113,999</u>	<u>1,174,336,209</u>
Financial liabilities							
Deposits from banks and financial institutions	3,499,418	2,730,312	1,051,417	-	-	-	7,281,147
Deposits from customers	135,269,203	130,956,926	335,384,681	10,157,024	-	-	611,767,834
Overdraft	1,782,332	-	-	-	-	-	1,782,332
Borrowings	13,903,881	27,117,179	97,271,369	223,545,219	2,000,000	-	363,837,648
Subordinated debts	1,000,000	1,000,000	4,666,667	28,833,333	15,882,930	-	51,382,930
Other liabilities	-	-	-	-	-	24,200,402	24,200,402
	<u>155,454,834</u>	<u>161,804,417</u>	<u>438,374,134</u>	<u>262,535,576</u>	<u>17,882,930</u>	<u>24,200,402</u>	<u>1,060,252,293</u>
Maturity gap	<u>(56,399,382)</u>	<u>(80,100,786)</u>	<u>(140,849,744)</u>	<u>328,623,132</u>	<u>(12,102,901)</u>	<u>74,913,597</u>	<u>114,083,916</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed-rate instruments

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

Cash flow sensitivity analysis for variable-rate instruments

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

(d) Liquidity risk

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

(i) Liquidity risk management process

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

(ii) Funding approach

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

(iii) Non-derivative cash flows

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

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

As at 31 December 2017	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	No fixed terms USD	Total USD
Financial assets							
Cash on hand	75,102,882	-	-	-	-	-	75,102,882
Deposits and placements with the NBC	9,908,348	-	149,083	-	-	13,901,924	23,959,355
Deposits and placements with banks	10,287,623	-	-	-	-	-	10,287,623
Loans to customers	69,837,428	134,207,359	507,687,655	1,204,930,631	135,414,176	-	2,052,077,249
Other assets	14,084,914	-	175,959	-	-	28,167	14,289,040
Total financial assets	179,221,195	134,207,359	508,012,697	1,204,930,631	135,414,176	13,930,091	2,175,716,149
Financial liabilities							
Deposits from banks and financial institutions	10,104,130	7,258,474	25,345,894	-	-	-	42,708,498
Deposits from customers	184,737,734	207,462,657	460,699,112	51,078,706	-	-	903,978,209
Borrowings	9,508,443	14,732,668	116,284,956	398,990,618	-	-	539,516,685
Subordinated debts	1,184,000	2,001,735	11,321,875	44,229,376	16,963,375	-	75,700,361
Other liabilities	28,536,373	8,703,439	12,848,833	2,214,159	-	-	52,302,804
Total financial liabilities	234,070,680	240,158,973	626,500,670	496,512,859	16,963,375	-	1,614,206,557
Net financial assets/(liabilities)	(54,849,485)	(105,951,614)	(118,487,973)	708,417,772	118,450,801	13,930,091	561,509,592
Equivalent in KHR'000 (Note 4)	(221,427,370)	(427,726,666)	(478,335,947)	2,859,882,546	478,185,884	56,235,777	2,266,814,225

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

As at 31 December 2016	Up to 1 month USD	1 – 3 months USD	3 – 12 months USD	1 – 5 years USD	Over 5 years USD	Non fixed terms USD	Total USD
Financial assets							
Cash on hand	39,422,071	-	-	-	-	-	39,422,071
Deposits and placements with the NBC	43,377,771	-	49,542	-	-	-	43,427,313
Deposits and placements with banks	63,891,503	-	-	-	-	-	63,891,503
Loans to customers	58,228,010	112,507,324	408,003,356	730,851,247	6,127,487	-	1,315,717,424
Other assets	10,870,052	-	311,840	-	-	28,167	11,210,059
Total financial assets	215,789,407	112,507,324	408,364,738	730,851,247	6,127,487	28,167	1,473,668,370
Financial liabilities							
Deposits from banks and financial institutions	3,499,418	2,730,312	1,051,417	-	-	-	7,281,147
Deposits from customers	135,269,203	130,956,926	335,384,681	10,157,024	-	-	611,767,834
Overdraft	1,797,176	-	-	-	-	-	1,797,176
Borrowings	15,638,414	31,272,136	114,103,667	246,894,716	2,087,967	-	409,996,900
Subordinated debts	1,230,000	1,381,601	7,319,269	34,659,454	1,050,606	14,882,930	60,523,860
Other liabilities	6,510,300	5,962,485	9,872,078	1,855,539	-	-	24,200,402
Total financial liabilities	163,944,511	172,303,460	467,731,112	293,566,733	3,138,573	14,882,930	1,115,567,319
Net financial assets/(liabilities)	51,844,896	(59,796,136)	(59,366,374)	437,284,514	2,988,914	(14,854,763)	358,101,051
Equivalent in KHR'000 (Note 4)	209,297,845	(241,397,001)	(239,662,052)	1,765,317,583	12,066,246	(59,968,678)	1,445,653,943

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(d) Liquidity risk (continued)

(iv) Off-balance sheet items

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

(e) Capital management

(i) Regulatory capital

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

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

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

The table below summarises the composition of regulatory capital:

	2017		2016	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Tier 1 Capital (paid-up capital (common stock) + reserve)				
Share capital	110,000,000	444,070,000	110,000,000	444,070,000
Reserves	2,800,230	11,304,529	2,565,749	10,357,929
Retained earnings	115,799,367	467,482,045	58,523,860	236,260,822
Less: loans to related parties	(10,000)	(40,370)	(99,496)	(401,665)
	<u>228,589,597</u>	<u>922,816,204</u>	<u>170,990,113</u>	<u>690,287,086</u>
Tier 2 Capital (general reserves + subordinated debts + hybrid capital (preferred stock))				
Subordinated debts (Note 16)	49,833,334	201,177,168	36,500,000	147,350,498
Trust fund (Note 16)	14,882,930	60,082,390	14,882,930	60,082,390
	<u>64,716,264</u>	<u>261,259,558</u>	<u>51,382,930</u>	<u>207,432,888</u>
Total regulated capital (Tier 1+2)	<u>293,305,861</u>	<u>1,184,075,762</u>	<u>222,373,043</u>	<u>897,719,974</u>

PRASAC Microfinance Institution Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

31. Financial risk management (continued)

(e) Capital management (continued)

(i) Regulatory capital (continued)

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

(ii) Capital allocation

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

(f) Fair values

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