

# ANNUAL REPORT

PRASAC IS A RESPECTED, LEADING  
AND PROFESSIONALLY MANAGED MFI

# 07





# OUR VISION

To improve the living standard of the rural people contributing to sustainable economic developments by being a financially viable microfinance institution.

# OUR MISSION

To provide sustainable access to financial services for rural communities and micro-enterprises.







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# BUSINESS OBJECTIVES

The business objectives of the Company are to carry out activities of a micro-finance institution, by providing financial services to rural households and small and medium size enterprises, such as:

**01**

Credit services in form of group loan and individual loans

**02**

Savings and money transfer services

**03**

Raise fund or borrow money in such manner as the company shall think fit, and to secure the repayment of any money borrowed, raised or owing to creditors.

**04**

Do all such other things as are incidental or which the Company may think fit and conducive to the attainment of the above objectives.

## MILESTONE

**1995 - 1999:**

PRASAC I, three EU funded rural development projects in six provinces, with three different credit components.

**2000 - 2003:**

Extension as PRASAC II, combined to one project, one credit component.

**2000**

Early strategic decision to create a sustainable institution beyond closure of PRASAC II project.

**2001**

Accounts, HO and field offices separated from PRASAC II, own management and professional staff, but still a project component.

**2002**

Creation of PCA (PRASAC Credit Association), registered with the NBC in March 2002 as Rural Credit Operator.

## PRASAC BACKGROUND

PRASAC MFI was a former credit component of PRASAC project funded by the European Union and implemented by three ministries of the Royal Government of Cambodia.

The project started in 1995 to rehabilitate and support agricultural sector in six provinces around Phnom Penh i.e. Kompong Cham, Kompong Chhnang, Kompong Speu, Takeo, Prey Veng, and Svay Rieng. The PRASAC project concluded in December 2003.

To ensure the access to financial services to rural communities and micro-enterprises beyond the closure of the project in 2002, the PRASAC Project Steering Committee made on a strategic decision to transform its credit component in a licensed MFI. In March 2002, the transformation started by creating PRASAC Credit Association as credit operator registered with the National Bank of Cambodia (NBC).

In 2003, a trust fund called Cambodia Rural Development Foundation (CRDF) and PRASAC Staff

# OUR CHALLENGES

**01**

To continue serving the rural poor under high professional and moral standards implementing transparency and good governance on all operational levels.

**02**

To avoid mission drift.

**03**

To reinforce credit discipline among the staff and clients by strengthening the internal control system.

**04**

To diversify loan portfolio and review financial products and services to be competitive and suit clients' demands, and

**05**

Look for external funding of about 2.5 MUSD to safeguard funds its expansion plans.

## 2003

Two initial shareholders were created. CRDF (Cambodia Rural Development Foundation) a Trust Fund created by PRASAC II and PRASAC Staff Company was created by staff member.

## 2004

Registered PRASAC MFI Ltd with Ministry of Commerce as private limited liability company and received license from the NBC.

## 2005

The credit fund was transferred from EC to the government and finally to PRASAC MFI as Subordinated Debt with interest free, valid from Dec. 04.

## 2006

The commercialization process by seeking equity investment participation from commercial and social investor.

## 2007

Finalized the transformation with the equity participation of BIO, DCG, FMO, LOLC, Oikocredit, and PS Co. renewal a permanence license from NBC.

Company were established to facilitate the transformation. With two initial shareholders, PRASAC MFI Ltd was established by registered with the Ministry of Commerce as private limited liability company in August 2004 and got its license from the NBC in November 2004 to legally provision financial services to rural communities and micro-enterprises.

To finalize its transformation, PRASAC started to identify and negotiate with investors since 2005 in order to replace the temporary shareholder i.e. CRDF.

In 2007, PRASAC concluded its transformation by replacing CRDF with new five shareholders. Those new shareholders are BIO (Belgian Investment Company for Developing Countries), DGC (Dragon Capital Group), FMO (The Netherlands Development Finance Company), LOLC (Lanka ORIX LEASING Company Ltd), and Oikocredit. Particularly, PRASAC receive a renewal a permanence license from NBC on December 2007.



# PRASAC'S

## CLIENTS

### RURAL COMMUNITY

Our clients are village households with repayment capacity that constitute up to 90% of all households located in rural areas where bad roads and absence of facilities and utilities prevail. The majority of the clients are involved in rice production and farming. At least one person of such household is working in the semi subsistence village economy by employing some productive assets of the household, such as land, tools, livestock and so forth. Cash income is mainly generated from the sale of access rice or other food items (i.e. food what is not consumed by the household), but also from trading or service activities.



### MICRO ENTREPRENEUR

Apart of rural people who generate income from rice production as well as from farming PRASAC also targeting to micro-enterprises that produce (or offer services) predominantly to the market. The large majority of them are sole proprietorships where family members help out in the running of the business. They are mainly located in market centers that are located in or nearby district, provincial centre, and few in the villages. They have few employees and they are normally family members.







# FINANCIAL

## PRODUCTS AND ELIGIBLE CRITERIA

### 1 FINANCIAL PRODUCTS

**Group Loans:** Group solidarity is used in which the group members are self-selected between 3 to 8 members with one group leader. Each member can borrow amounts ranging from KHR 50,000 to KHR 1,000,000 or USD 15 to USD 250 within 12 months loan period. PRASAC charges interest 36% and 42% p.a. on declining balance.

**Individual Loans:** The target clientele are micro and small enterprises. The clients can borrow in Riel or USD with the amount range from KHR 300,000 to KHR 40,000,000 and USD 75 to USD 25,000 with the period up to 36 months. The interest rate is 21.6% p.a. and 39.6% p.a.



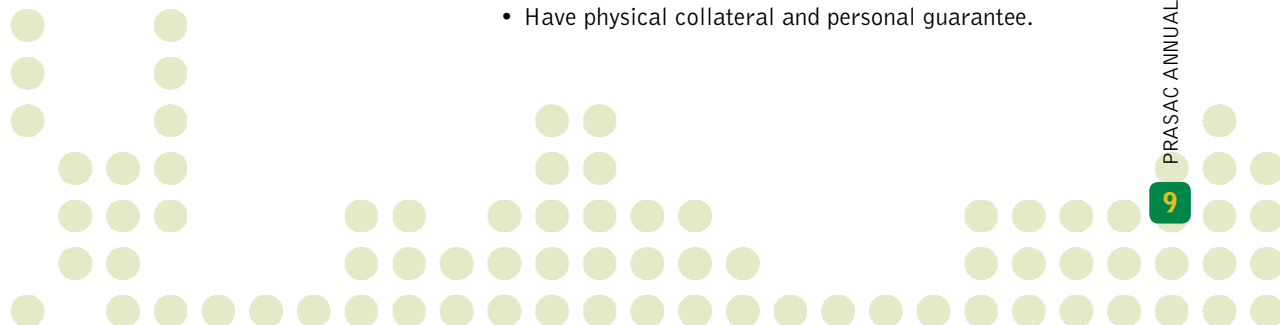
### 2 ELIGIBLE CRITERIA

#### Solidarity Group:

- Group member: 2-5 members and one selected group leader
- One member from each household
- Have permanent resident in the village
- Similar loan purposes (not homogeneous)
- Age between 18 – 60 years.

#### Individual Lending:

- Have permanent resident in the village
- Age between 18 – 60 years
- Have/show profitable business
- Contribute 20% of their own capital into the business activity
- Have physical collateral and personal guarantee.





# PRASAC'S

## SHAREHOLDERS

The share capital of the Company is KHR 5.4 Billion (Five point four billion Riel) distributed among the six shareholders - BIO, DCG, MFO, LOLC, Oikocredit, and PSCo. The new share distribution is as follows:

Shareholder	% Shareholding
BIO	19%
DCG	19%
FMO	19%
LOLC	19%
OIKOCREDIT	19%
PS Co.	5%

### Here is a brief presentation of the shareholders:



**BIO** is a member of EDFI, the Association of European Development Finance Institutions. BIO participates in European Financing Partners / EFP, a co-financing facility established by 10 of the EDFI-members. Its purpose is to facilitate the financing of private sector projects in the ACP states in collaboration with the European Investment Bank.

*For more information please visit this link [www.b-i-o.be](http://www.b-i-o.be)*



**Dragon Capital Group (DCG)** is a diversified investment banking institution offering traditional financial products and services with an exclusive focus on Vietnamese capital markets. The firm is known both within Vietnam and international financial circles as one of the premier Vietnam-focused financial institutions. Dragon Capital Group serves the investment banking needs of international and domestic businesses to enable them to realize their investment goals in Vietnam.

*For more information please visit this link [www.dragoncapital.com](http://www.dragoncapital.com)*



**The Netherlands Development Finance Company (FMO)** supports the private sector in developing countries and emerging markets in Asia, Africa, Latin America and Central and Eastern Europe. We do this with loans, participations, guarantees and other investment promotion activities.

*For more information please visit this link [www.fmo.nl](http://www.fmo.nl)*



**Lanka Orix Leasing Company** strives to deliver financial services to its customers with both corporate and rural grass roots level, in every region where it operates in Sri Lanka. Since its inception in 1980, it has been working with small and medium size entrepreneurs, which represents over 80% of its client portfolio. The Company innovates continuously in providing adapted financial solutions such as leasing products, factoring services, savings and deposits products, small loans and insurance broking services.

*for more information please visit this link [www.lankaorix.com](http://www.lankaorix.com)*



**Oikocredit** started as a pioneer in the field of development financing, Oikocredit is today one of the largest financiers of the microfinance sector worldwide.

Oikocredit is one of the few ethical investment funds, which finances development projects in the South benefiting disadvantaged and marginalized people. Privately owned, Oikocredit is a unique cooperative society, which encourages investors to invest their funds in a socially responsible manner.

*for more information please visit this link [www.oikocredit.org](http://www.oikocredit.org)*



**PRASAC Staff Company (PS Co.)** was established under the law and general provisions of Kingdom of Cambodia and has the following objectives: To make equity investments in PRASAC MFI Ltd and to manage the investments in accordance to high moral and professional standards, with transparency and good governance.

The company may be engaged in any other capital-and asset management, investment and trading and other financial or other activities and services which relates directly or indirectly to the above objectives or similar purposes, and is characteristic to the development of the company's operations.





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# FINANCIAL

## HIGHLIGHT

PRASAC MFI Ltd intends to continue to follow these high international standards.

PRASAC MFI Ltd was awarded with Financial transparency award by CGAP for achieving a fully compliance with International Standard for Financial reporting.

<b>BALANCE SHEET</b>	<b>DEC 31, 2007</b>	<b>DEC 31, 2006</b>	<b>DEC 31, 2005</b>
Loan Outstanding (Net)	132,051,327,540	87,888,912,157	44,548,983,034
Total Assets	148,185,582,498	105,973,331,177	52,363,768,294
Total Liabilities	89,521,225,651	54,249,465,588	14,970,302,548
Total Equity	58,664,356,846	51,723,865,589	37,393,465,746
<b>PROFIT AND LOST STATEMENT</b>	<b>DEC 31, 2007</b>	<b>DEC 31, 2006</b>	<b>DEC 31, 2005</b>
Operating income before loan provision	30,351,873,410	19,041,131,692	13,298,720,119
Loan Loss Provision	(716,305,132)	(231,893,341)	(158,732,654)
Net Operating income before operating expense	29,635,568,278	18,809,238,351	13,139,987,465
Total operating expense	(19,351,755,631)	(14,777,138,314)	(9,435,116,543)
Net Profit before non operating activities	10,283,812,647	4,032,100,037	3,704,870,922
Non operating income	-	40,790,000	53,136,555
Non operating expense	(704,524,289)	(668,585,424)	(672,016,437)
Net profit before tax	9,579,288,358	3,404,304,613	3,085,991,040
Income Tax Expense	(1,981,241,505)	(689,364,766)	(617,198,208)
Net Profit after tax	7,598,046,853	2,714,939,847	2,468,792,832



# REMARK

## FROM THE GENERAL MANAGER

This is the third annual report of PRASAC MFI Ltd after the completion of its transformation from a Credit Component into a licensed Microfinance Institution, it is a great pleasure to report to all stakeholders that “PRASAC finalized its transformation from a project component into a sustainable institution in 2007” with a strong group of financial institutions as shareholders such as BIO, DCG, FMO, LOLC, Oikocredit, and PSCo, who will bring a financial experiences, knowledge, and capital to PRASAC for growth in the future.

In 2007 PRASAC planned with an engagement to providing sustainable access to financial services for rural communities and micro-enterprises in Cambodia by setting some goals as follows: 1) To be a leading microfinance institution not only bigger but also better in portfolio outstanding, 2) To finalize its transformation from being a NGO operated company to being a commercial based entity by mobilized a strong group of investors to invest in PRASAC MFI, 3) To increase paid up capital to reach the grow plan.

On behalf of PRASAC management, I would like to highlight some selected performance indicators during the year end 2007 as follows:

- PRASAC confirmed its positioning as a biggest MFI and best MFI service providers for convenience of transactions and close customer interface.
- PRASAC is the largest MFI in Cambodia in terms of number of staff, loan portfolio, office network, and coverage area. End of 2007, PRASAC had 722

Reverting from a poor micro-finance operator in terms of poor management, poor loan portfolio quality, and weaknesses in many other operational aspects, “PRASAC is become a respected, leading and professionally managed MFI by following all best practices and high professional and moral standards at all operational levels and governance”. As mention on my first annual report in 2005, PRASAC will not only consolidate our operations, but also committed to a strong sustained growth as well. 2007, along with considerable growth, PRASAC also can strengthen its governance structure and capital base as well.

staff deploying in more than 76 office networks in 14 provinces and cities working in 100 districts, 941 communes to serve about 94,555 active clients with loan portfolio about 134 Billion Riel (USD33.5 million) in which 70% used for agricultural livelihoods; particularly, rice production and other multi-cultivations including buying seed, animals, biogas and other agricultural equipments while 30% of loans utilized for small enterprise businesses.

- The loan outstanding portfolio increased by 70% from 89.4 billion Riel in December 2006 to 134 billion Riel in December 2007. loan portfolio not only grew, but the portfolio quality was also maintained at the satisfactory rate 0.2% without making any loan writing-off. The efficiency and productivity was also improved. For instance, the operating expense ratio significantly decreased from 21.8% to 17.3%, costs per currency disbursed decreased from 0.11 to 0.10 and loan portfolio per credit officer increased from USD66,257 to USD89,487 by the end of 2006 and 2007 respectively.
- The profitability was also improved. The Return on Assets (ROA) increased from 3.4% to 6.0% and the operational self-efficiency increased from 122.0% to 139.3% for the year end 2006 and 2007 respectively.
- PRASAC also improved its management structure by creating and separating into its specialization and tasks. Those departments are IT/MIS, Marketing, Credit and Branch Support Department in order to improve support and monitor the operations of the branch more effective. In addition, the governance was also improved by increasing the number of the Board of Directors from three to six members with the financial and banking experiences and skills.

- PRASAC finalized its transformation by inviting five international investors to participate in equity investment. Those investors are Belgium Investment Company for Developing Countries (BIO), Dragon Capital Group (DGC), the Netherlands Development Finance Company (FMO), Lanka ORIX Leasing Company Ltd (LOLC) and Oikocredit along with existing shareholder PRASAC Staff Company (PSCo).

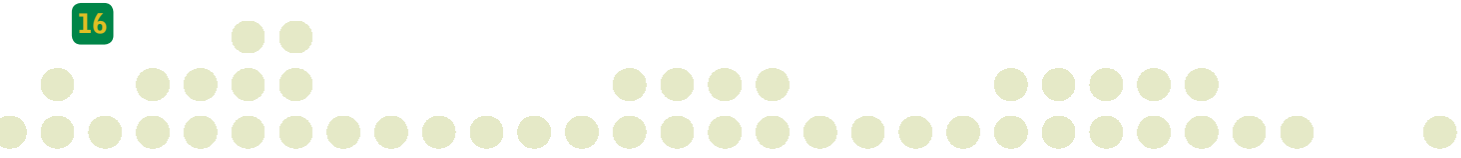
**To respond to the growing demands, PRASAC planned in 2008 as follows:**

- Increase registered share capital from 5 Billion Riel to 15 Billion Riel.
- Increase portfolio by 70% and maintain good portfolio quality by remaining portfolio at-risk below 0.3%.
- Improve management system and capacity such as upgrading Management Information System (MIS), improve staff capacity by providing more trainings and complete the management structure and so on.
- Revise loan products and lending methodology in order to meet the clients' preference.
- Increase marketing/promotional activities,
- Improve service quality by increasing number of office networks and so on.

Taking this chance, I , on behalf of PRASAC management, would like to express my sincere thanks to all these stakeholders such as customers for their loyalty and having credit discipline, our staff for their dedications, hard works, and professionalism, new boards of directors for their support and guidance, all development financial investment agencies for providing us loans to expand our outreach, and all other stakeholders, especially, the EC, the NBC, and all authority who contributed to this success.

And finally, I do strongly hope that all stakeholders will continue supporting us to reach our vision and mission.

**Sim Senacheert,**  
*General Manager*







# REMARK

## FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

PRASAC is a licensed microfinance institution operating in 14 provinces, 100 districts, 941 Commune, 6210 Villages in Cambodia and is registered with the Ministry of Commerce as a private limited liability company. Its activities began as an offshoot of the PRASAC Credit Association (PCA), which was managed and funded by the European Union (EU). PCA was initially established in 1995 as a support program for the agricultural sector in Cambodia, covering 6 provinces around Phnom Penh.

PRASAC obtained its first license from the National Bank of Cambodia to conduct business as a license micro-finance institution in the Kingdom of Cambodia. The first license expired on 1 December 2007. PRASAC obtained a renewal of the license for an indefinite period from the Central Bank on 14 December 2007.

PRASAC MFI is engaged primarily in providing sustainable access to financial services for rural communities and micro-enterprises in Cambodia, through its headquarters in Phnom Penh and various provincial and district offices in the Kingdom of Cambodia.

In 2007 PRASAC finalized its transformation from being a NGO operated company to being a commercial based entity. It now has a group of strong group of international investors as shareholders who bring a wealth of experience and knowledge to the company. PRASAC and its new shareholders would like to thank our valuable clients, the professional staff of PRASAC, the National Bank of Cambodia as well as the Royal Government of Cambodia for their strong support over the year and for their assistance during the period of transition. We look forward to continuing our close relationship in the years ahead.

On behalf of the BOD, I would like to highlight some of the significant milestones during the year below:

- In 2007 the public ranked PRASAC as one of best MFI service providers for convenience of transactions and close customer interface, confirmed by EMC, an external consulting firm.
- PRASAC has been awarded a permanent license from the National Bank of Cambodia.
- During the year PRASAC provided finance to 94,555 clients, the majority of whom are in rural area of Cambodia, with an average outstanding loan of \$355, the portfolio grew by 50 percent while maintaining a very high portfolio quality and the Portfolio at Risk ratio stood at 0.22%.
- PRASAC finalized the transformation to a commercial entity with a new Group of shareholders. The amended Memorandum and Articles of Association for the changes in shareholders were approved by the Ministry of Commerce and the National Bank of Cambodia.
- THE BOD has approved the change in management structure by creating new positions of Chief Financial Officer and Chief Operating Office to assist the General Manager in his duties. This will strengthen management control over the company as it continues to grow.
- In addition the BOD has set up an Audit Committee, an Asset and Liability Committee, Human Resources and Compensation Committee and a Strategy Committee to strengthen the support the new shareholders will provide to the company management.
- The members of the new Board of Directors appointed during the year to represent each shareholders are:

- **Mr. MICHAEL TEMPLE,**  
representing Dragon Capital Group, (Chairman)
- **Mr. DIDIER MALENGREAU**  
representing Belgium Investment Company for Developing Countries SA, (Director)
- **Mr. ZIEGFRIED VERMAAK**  
representing The Netherlands Finance Development Company, (Director)
- **Mr. ISHARA NANAYAKKARA**  
representing Lanka Orix Leasing Company Ltd, (Director)

- **Mr. STEFAN HARPE**  
representing Oikocredit Ecumenical Development Cooperative Society UA, (Director)
- **Mr. OUM SAM OEUN**  
representing PRASAC Staff Company, (Director)

The new BOD is responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of PRASAC, and of the results of its operations and its cash flows for the year then ended. In preparing these financial statements, the BOD is required to:

- 1) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- 2) comply with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards or, if there has been any departure in the interests of true and fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- 3) maintain adequate accounting records and an effective system of internal controls;
- 4) prepare the financial statements on a going concern basis unless it is inappropriate to assume that PRASAC will continue operations in the foreseeable future;
- 5) set overall policies for PRASAC, ratify all decisions and actions by the BOD that have a material effect on the operations and performance of PRASAC, and ensure they have been properly reflected in the financial statements.

The Board of Directors confirms that the audited financial report meets all the above conditions.

In 2008 PRASAC has put in place a new strategy to continue providing a wide range of financial services to rural people of Cambodia. This strategy has the following main objectives: **(i)** to increase the capacity of the staff as well as management through training and more delegation of responsibilities; **(ii)** to continue too diversify financial services to meet clients demands **(iii)** investing in technology by upgrading the MIS systems **(iv)** to maintain tight financial controls while providing for sustainable growth and **(v)** to continue to focus on poverty reduction in Cambodia.

As the microfinance regulations presently limits the range of financial services which can be distributed by MFIs, PRASAC will be apply for a license to become a Micro-finance Deposit taking Institution (MDI) as defined by NBC and the shareholders have agreed to increase equity in 2008 to meet the requirements for obtaining this license.

In 2008, PRASAC is thus poised to continue to play a leading role in the strengthening of the microfinance sector, both by increasing its contribution to the financing of agriculture and other rural areas, and by developing a clientele in urban areas. PRASAC wishes also to contribute to the overall development and stability of the sector by closely cooperating with other MFIs and the CMA to improve the industry infrastructure; for example, by sharing information on clients between MFIs to prevent over-indebtedness.

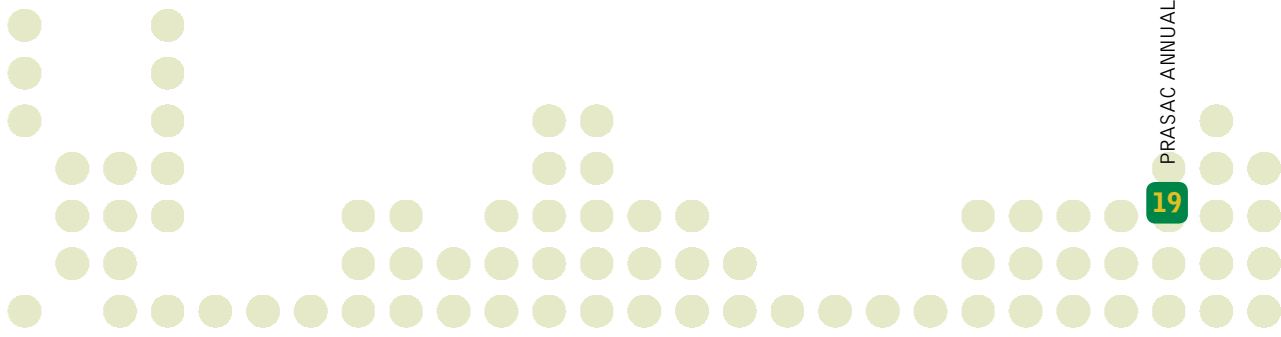
The Board of Directors of PRASAC MFI are pleased to express our warm congratulation to PRASAC MFI for its remarkable achievements in transforming into a full commercial microfinance institution and its continued strong financial performance in 2007.

We would also like to express our thanks to Sim Senacheert, General Manager and to all the management team and staff of PRASAC for all the hard work put in during the year. You can be very proud of your achievements.

On behalf of the BOD,

**Michael Temple**

*Chairman*







# BOARD OF DIRECTORS

AND ADVISORY COMMITTEES

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# OWNERSHIP, GOVERNANCE AND MANAGEMENT

## 1 OWNERSHIP AND CAPITAL

PRASAC is a Private Limited Liability Company registered with MoC 12 August, 2004, reg. Nr. 6931/04P with two incorporators – CRDF and PS Co and a licensed from the NBC (MFI License no 10), valid for three years from 1 December. After the finalization of the privatization plan, PRASAC has the ownership structure and shareholding as follows: BIO, DCG, FMO, LOLC, Oikocredit, and PSCo.

## 2 GOVERNANCE / BOARD OF DIRECTORS

The governing body of PRASAC MFI is the Board meeting. According to the PRASAC Bylaws it consists of 3 to 7 members of which one is the Chairman. PRASAC MFI Ltd is presently governed by a Board of Directors consisting of representatives of two representatives of CRDF and one representing the PSCo.

As a consequence of the concluded private placement plan and new shareholder structure, the size of Board of Directors was increased from three to seven members, appointed by the shareholders. According to the Articles of Association, each shareholder having more than 15% of shares has the right to appoint a Board member, and the staff is entitled one seat regardless of the size of shareholding. As a consequence the Board of Directors will consist of representatives of above mentioned

shareholders, i.e. a representative of BIO, DCG, FMO, LOLC, Oikocredit and PSCo. The following is the BoD members:

1. Mr. Michael Temple, Chairman
2. Mr. Didier Malengreau, Director
3. Mr. Ziegfried Vermaak, Director
4. Mr. Ishara Nanayakkara, Director
5. Mr. Stefan Harpe, Director
6. Mr. Oum Sam Oeun, Director

These directors possess experience, expertise and skills in legal, financial and banking, economic, and managerial matters in which they are able to provide the strategic directions and guidance to management, ensuring management accountability, and close monitoring of the management's performance.

In order to assume its functions, BoD plans to hold quarterly meetings. The Directors will receive board papers which report on the key operational areas of PRASAC and will critically analyze these reports, the Directors are able to monitor progress, assess risk and verify the effectiveness of controls.

## 3 COMMITTEE

With full capacity of the Board of Directors, the plan is to create permanent committees and ad hoc committees and delegate authority committee in order to supervise and support the management and oversee the whole operations of PRASAC:



**AUDIT / RISK MANAGEMENT / COMPLIANCE COMMITTEE (ARCC):**

This committee shall comprise of the Board of Directors (Mr. Michael Temple), General Manager, Audit Manager, Finance Manager, IT Manager, Credit Manager and Branch Support Manager. The duties of the audit committee are to review the report of the internal audit and external audit report, monitor the integrity of the financial statements, compliance of the policies and procedures, review the internal control system and risk management of PRASAC, and provide recommendations for implementation. In addition, the non-executive members will meet the external auditors twice a year i.e. in September before the external audit starts and in March after the completion of the external audit assignment. The committee will meet quarterly (four times per year).

**ASSETS / LIABILITIES MANAGEMENT COMMITTEE (ALCO):**

The key roles of the ALCO is to ensure that PRASAC has effective Assets and Liabilities management through establishing the policies for A/L management goals and risk parameters covering liquidity management, gap management, and FX management. The committee has the following responsibilities: protect the shareholders and depositors, maintain sufficient liquidity to cover cash flow required and minimize idle cash, manage the interest rate and tenor gap to maximize earnings within risk limits, manage the foreign exchange gap, and

maintain the sufficient capital to cushion against the business risk. The committee consists of two members of Board of Directors (Mr. Ziegfried Vermaak and Ishara Nanayakara), General Manager, Finance Manager, Credit Manager, Branch Support Manager, and Marketing Manager. The committee will meet every three months.

**HUMAN RESOURCE COMMITTEE:**

The key role of this committee is to evaluate the performance of the staff, staff remuneration, staff development plan, recruitment plan, and other personnel related issues. The committee composes of BOD (Mr. Oum Sam Oeun), General Manager, Human Resource Manager.

**STRATEGIC COMMITTEES:**

The committee will be created based on the priorities of the company. During the 2007, the following strategic committees will be created as follows:

**IT Committee:**

Consist of BoD (Mike), GM, IT manager, BM, MB Teller,

**Product development committee:**

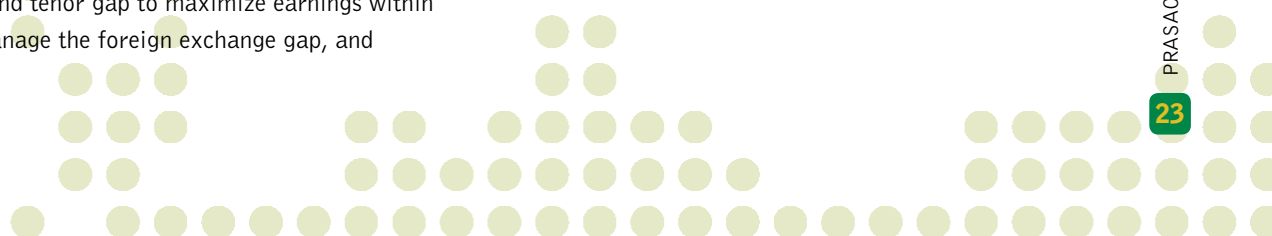
BoD (Stefa+Ishara), GM, Marketing Manager,

**Marketing committee:**

BoD (Stefan+Ishara), GM, Marketing Manager,

**Acquisition/merger committee:**

BoD (Mike, Arno, Ishara), GM



## 4 ORGANIZATIONAL STRUCTURE

The organizational structure of PRASAC consists of the Shareholder Assembly which is the highest legislative body of the company, the next highest level is Board of Directors which is appointed by the Shareholders Meeting and consisting of seven members, the executive level consists of General Manager and Managers of the Departments as appointed and hired by the Board of Directors, and the branch structure.

## 5 HO STRUCTURE

In order to reduce the workloads, segregate the responsibilities, and improve the whole operation of the company, PRASAC plans to increase the numbers of department from five to seven in early 2007. By doing so, Finance and MIS Department has splitted into two Departments, Finance Department and IT Department. Operations Department has splitted into three departments, Credit, Marketing, and Branch Support Department. Admin Department is relatively small in terms of activities and responsibilities, and it is not justified to have a department, therefore it will be added to Finance Department instead of having its own department.

## 6 BRANCH STRUCTURE

As of December 2006, there are 13 branches within 12 provinces of operational areas. The current structure was consolidated by combining two branches in the same province into one branch and creating more sub-branches. The original intention was to have small branch which can be managed by inexperienced branch managers. But, this one layer structure was revised by adding sub-branch as a second layer. Sub-branch manager is created to take over some tasks of branch managers and streamline the loan process. Therefore, the structure calls for a restructure in order to increase efficiency and mainly strengthen loan portfolio monitoring and control. The restructuring is aim to:

- Harmonize and simplify the structure,
- Increase the portfolio size per branch due to an increase of operational areas,
- Split the responsibility of BM to SBM,
- Increase responsibility of SBM,
- Improve loan process – the loan disbursement be faster,
- Increase the efficiency by treating all sub-branches as profit center
- Reduce the workload of MB tellers and cashier,



# BOARD OF DIRECTORS PROFILE

## Mike Temple

was educated in both Hong Kong and Scotland and joined the HSBC Group as an International Manager in 1977. He worked for HSBC in a number of areas primarily in the corporate banking and risk management in Germany, Brunei, Hong Kong, India, Indonesia, Bahrain and Vietnam. His last role in the HSBC Group was Chief Operating Officer in Vietnam where he worked for 6 years. He also was the project leader in evaluating the potential of Vietnam as a site for an HSBC Data Processing and Call Center site.

He retired from the HSBC Group in 2005 and became a Director of Dragon Capital, a UK based Investment Bank and Fund Management Company whose main focus of business in Vietnam. He is the Group COO and is part of the committee that evaluates the Groups private investments. PRASAC is the Dragon Capital Groups first investment in Cambodia



**MIKE TEMPLE**  
Director, Chairman  
of the Board

## Didier Malengreau

is in charge for Asian investments at BIO, the Belgian Investment Company for Developing Countries. In the framework of his responsibilities he is also a Director at the Board of private equity funds in Asia. Previously he has built an experience in corporate finance, mergers & acquisitions and private equity investment working at Deloitte & Touche and giving advisory services to the shareholders and the management of European companies Didier Malengreau holds a degree in Management Administration with a specialization in Finance. He is a Certified European Financial Analyst.



**DIDIER MALENGREAU**  
Director, Member  
of the Board



**ISHARA C. NANAYAKKARA**  
Director, Member of  
the Board

## Nanayakkara

Deputy Chairman of Lanka ORIX LEASING Company Ltd. He is the Managing Director of Ishara Traders, the pioneering importer of reconditioned motor vehicles in Sri Lanka. Having obtained a diploma in Business Accounting from Australia, he worked in Japan for two years with the largest exporter of reconditioned motor vehicles - Yamagin Corporation, Tokyo.

Nanayakkara is a Director of Ishara Plantations (Pvt) Ltd, and Ishara Property Development (Pvt) Ltd. Mr. I C Nanayakkara also serves as a director on the boards of all LOLC subsidiaries.



**OUM SAM OEUN**  
Director, Member of  
the Board

## Oum Sam Oeun

An accredited Micro Finance Training of Trainer certified by ADBI, TLDC of the WB, and UNCDF, holding MBA of Banking and Finance, he obtained a Diploma in Accounting and Commerce in 1988, and holds a Bachelor degree in Business Administration.

He used to work as chief accounting office of Takeo Province commerce department. Since 1995 he has worked with PRASAC credit program and he has attended several training courses related to microfinance operations.

He was elected as Chairman of Board of Director of PRASAC Staff Company (PSCo., Ltd) for the first term of 2003-2004 and he was re-elected as the chairman PS Co., Ltd. for the second term of 2005-08.



**STEFAN HARPE**  
Director, Member of  
the Board

## Stefan Harpe

Manager – Equity Investments, Oikocredit, Amersfoort, Netherlands; working with Oikocredit’s local managers in 28 country offices in Africa, Latin America, Asia and Eastern Europe to manage the private equity investments portfolio – i) financial (mostly microfinance); ii) non-financial (businesses with high development impact); and iii) specialized equity funds. Oikocredit is a global development finance institution with about 340 million total assets, funded by individuals (26,000 shareholders), churches, and institutional investors. While not profit-maximizing, and balancing dual objectives of development impact and investment return, Oikocredit is sustainable and generates a healthy surplus on the total portfolio (loans and equity).

Previously Stefan was Fund Manager, AfriCap Microfinance Fund, based in, Senegal, and prior to that Director - International Operations, Calmeadow, Toronto, Canada. His formal education includes - MBA, Univ of Western Ontario, Canada; and B.Sc (Econ), LSE, England.

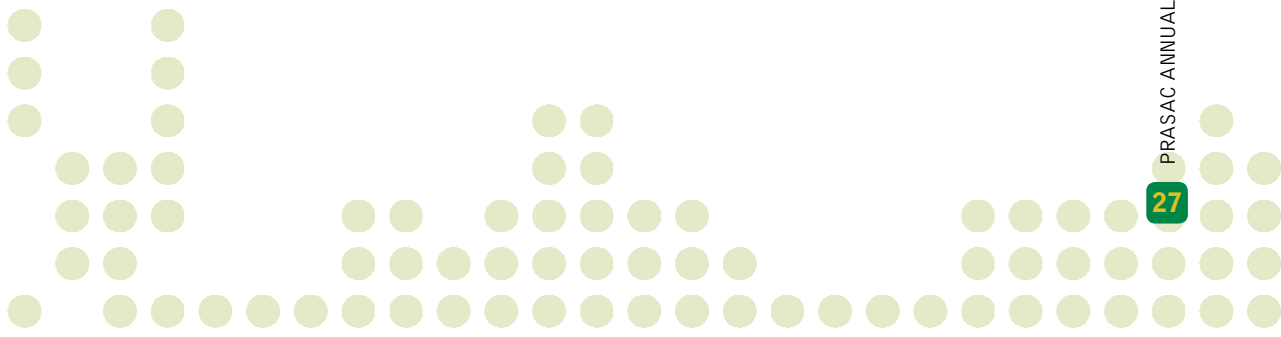
## Ziegfried Vermaak

Chief executive officer of simarch nv, leuven, Belgium who responsible for the entire management, business development and control functions of the organization, focusing on the design of tailor-made training programmes for financial institutions on an international basis and a member of leuvent inc. – leuven innovation networking circle. He is experience in management consultant/senior trainer, Belgian banker association, Brussels, conducting bank financial management training seminars, management consultant, absa bank/ world growth consulting, Ohannesburg.

He holds a bachelor in commerce (accountancy), university of pretoria, bachelor in commerce in accountancy, university of pretoria and certificate in theory of accountancy, university Africa.



**ZIEGFRIED VERMAAK**  
Director, Member of the Board





# MANAGEMENT STRUCTURE

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# MANAGEMENT

## TEAM MEMBERS PROFILE



**SIM SENACHEERT**  
General Manager

### Sim Senacheert

General Manager, Sim Senacheert obtained Diploma in Accounting and Finance in 1994, holds a Bachelor and Master Degree in Business Administration. Since 1995 he has attended several training courses related to microfinance operations and management. He is also an accredited Microfinance Training of Trainer certified by ADBI, TDLC of the WB, and UNCDF.

He used to work in banking sector and he started working with PRASAC since 1995 as Credit Officer and was promoted to various positions such as accountant, Branch Manager, MB Trainer and Supervisor, Finance Manager. From mid 2002, he used to hold positions of Branch Manager, Operations Manager, and Deputy CEO with another MFI before joining PRASAC as General Manager in late 2003.



**OUM SAM OEUN**  
Deputy General Manager,  
Chief Operations Officer

### Oum Sam Oeun

Deputy General Manager, Chief Operations Officer, Sam Oeun, an accredited Micro Finance Training of Trainer certified by ADBI, TLDC of the WB, and UNCDF, holding MBA of Banking and Finance, he obtained a Diploma in Accounting and Commerce in 1988, and holds a Bachelor degree in Business Administration.

He used to work as chief accounting office of Takeo Province commerce department. Since 1995 he has worked with PRASAC credit program and he has attended several training courses related to microfinance operations.

He was promoted as Deputy General Manager of PRASAC MFI in early 2007.

## Oum Sophan

Deputy General Manager, Chief Finance Officer, he Obtained Associates degree Specialize in Banking in 1998 at Center for Banking Study and BA in field Accounting in 2003 and hold MBA in Finance and Banking in 2006. 10 Years Experience with Micro-banker system.

Since 1998 he participated in several training courses related to microfinance, such as: FAO Micro-Banker system (Dos and MB Win), Micro-Finance Accounting, Financial Analysis, Fundamental of Accounting, Operational Risk Management, Project Management, Treasury and Asset Liability Management, Monthly Tax and Return Tax Fraud Awareness and Management, CoOperacy (transformational Leadership) and oversea Study visit at BRI Microfinance, CARD-MRI Microfinance Study visit.



**OUM SOPHAN**  
Deputy General Manager,  
Chief Finance Officer

## Yang Kimsreng

Manager of Finance Department, Yang Kimsreng obtained Associates degree Specialize in Banking in 1998 at Center for Banking Study and BA in field Accounting in 2003 and hold MBA in Finance and Banking in 2006. 10 Years Experience with Micro-banker system. Since 1998 he participated in several training courses related to microfinance

He joined PRASAC in 1998 and he was promoted to be senior staff in 2001 and promoted to be Deputy Finance Manager in October 2007 and Finance Manager in April 2008.



**YANG KIMSRENG**  
Finance Manager

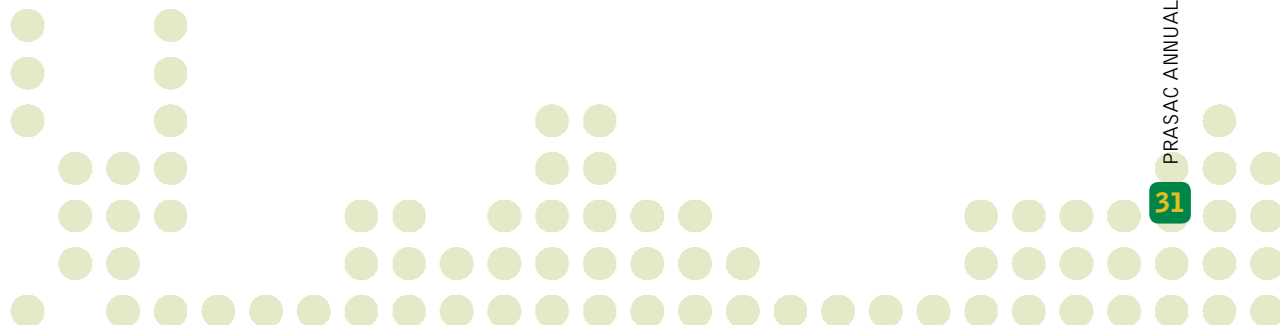
## Ouk Saroeung

Manager of the Internal Audit Department, Ouk Saroeung obtained a Bachelor degree in Banking in 1989 and presently finalizing his MBA. Since 1995 he participated in several training courses related to microfinance.

He used to work in banking sector and has more ten-year experience in microfinance. He joined PRASAC in 1995 and he was promoted to be Audit Manager in 2003.



**OUK SAROEUNG**  
Internal Audit Manager





**NEANG SOKHIM**  
Credit Manager

## Neang Sokhim

Manager of Credit Department, Sokhim is an accredited Micro Finance Training of Trainer certified by ADBI, TLDC of the WB, and UNCDF. He obtained bachelor degree of science in Agronomy in 1997 and he studied two years of BBA. He holds Master Degree in Business Administration in 2006. He has attended many courses related to micro finance operations and other courses.



**SAY SONY**  
Marketing Manager

## Say Sony

Manager of Marketing Department, Say Sony, an accredited Microfinance Training of Trainer certified by ADBI, TDLC of the WB, and UNCDF, he hold a bachelor degree in Marketing Management from Maharishi Vedic University. He is currently taking Master of General Management at Royal University of Law and Economics.

He has more than five years experiences in project management as well as marketing coordination in both social and private sector before joining PRASAC MFI in early 2005 as chief marketing. He was promoted to be a Marketing Manager of PRASAC MFI in 2007.



**LY SOPEAKTRA**  
IT Manager

## Ly Sopheaktra

Manager of IT Department, Ly Sopheaktra obtained BA Accounting in 2001 & BA IT in 2002 and holding MBA Finance & Banking in 2006. Currently he is pursuing second Master Degree in IT at Ruyal University of Phnom Penh.

He has more than 5 years experience in IT&MIS, Database Design & Report Writing, Financial Accounting, and Microfinance operation. He joined PRASAC in 2002 as MIS Assistant and he was promoted to be a Unit Manager, and he was promoted to be IT Manager in early 2007.



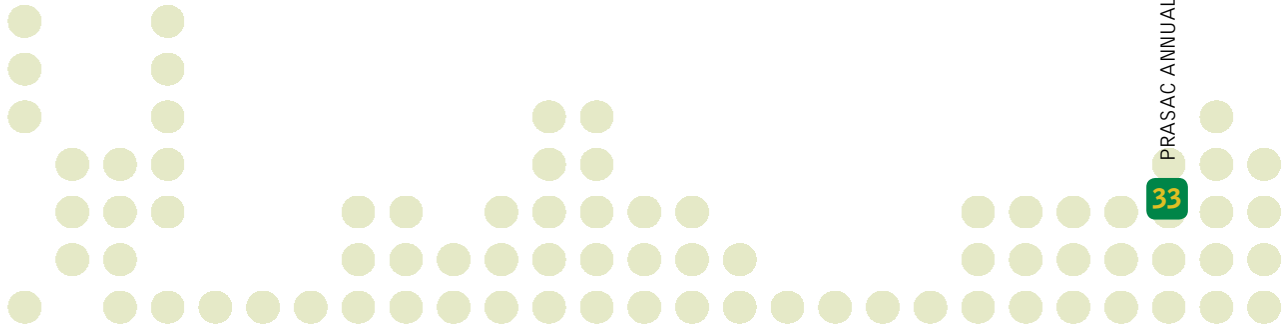
**SUM SINATH**  
Branch Support Manager

## Sum Sinath

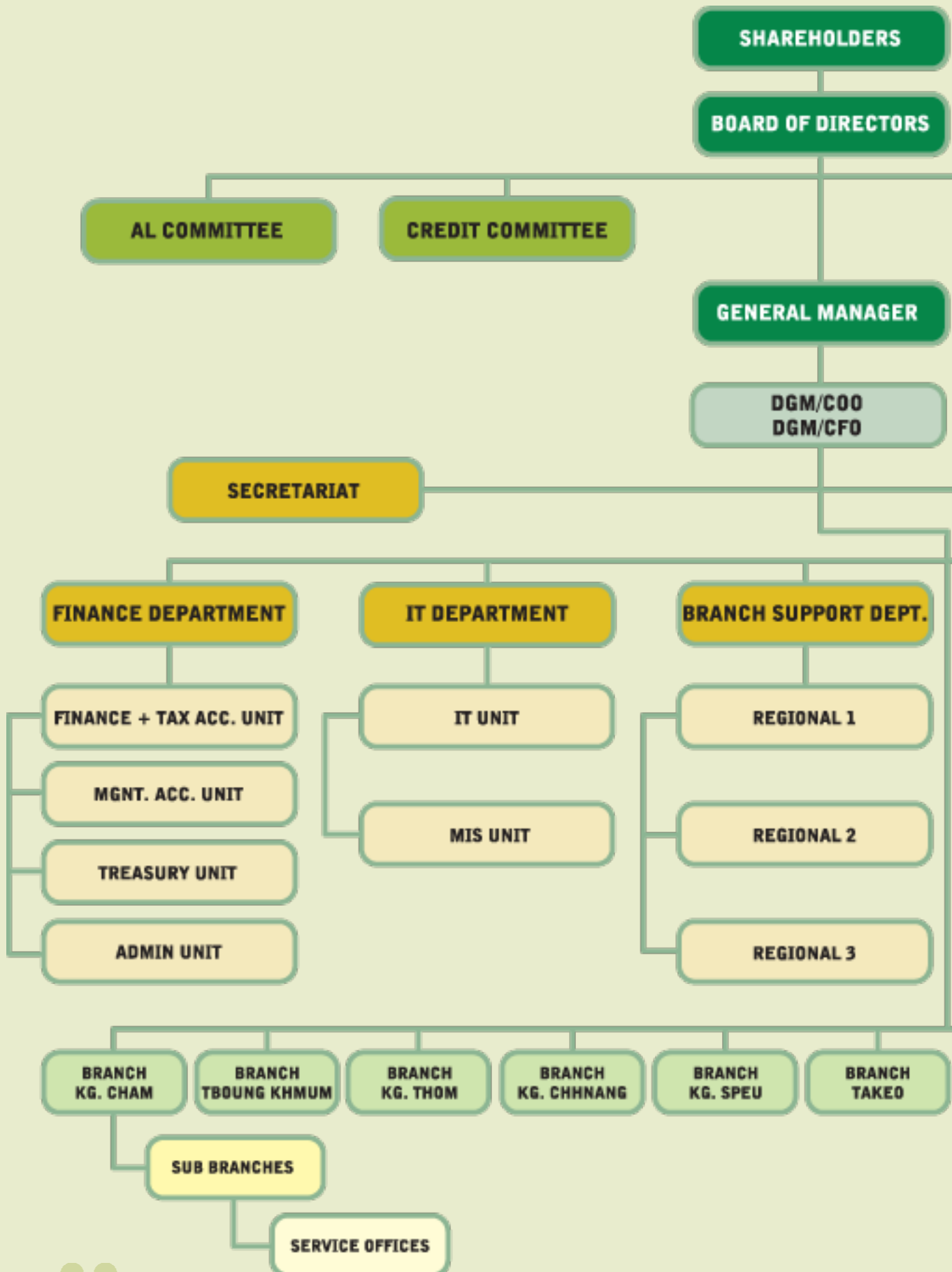
Manager of Branch Support Department, Sinath, an accredited Microfinance Training of Trainer certified by ADBI, TDLC of the WB, and UNCDF, obtained bachelor degree in Business Administration and holds Master of Business Administration.

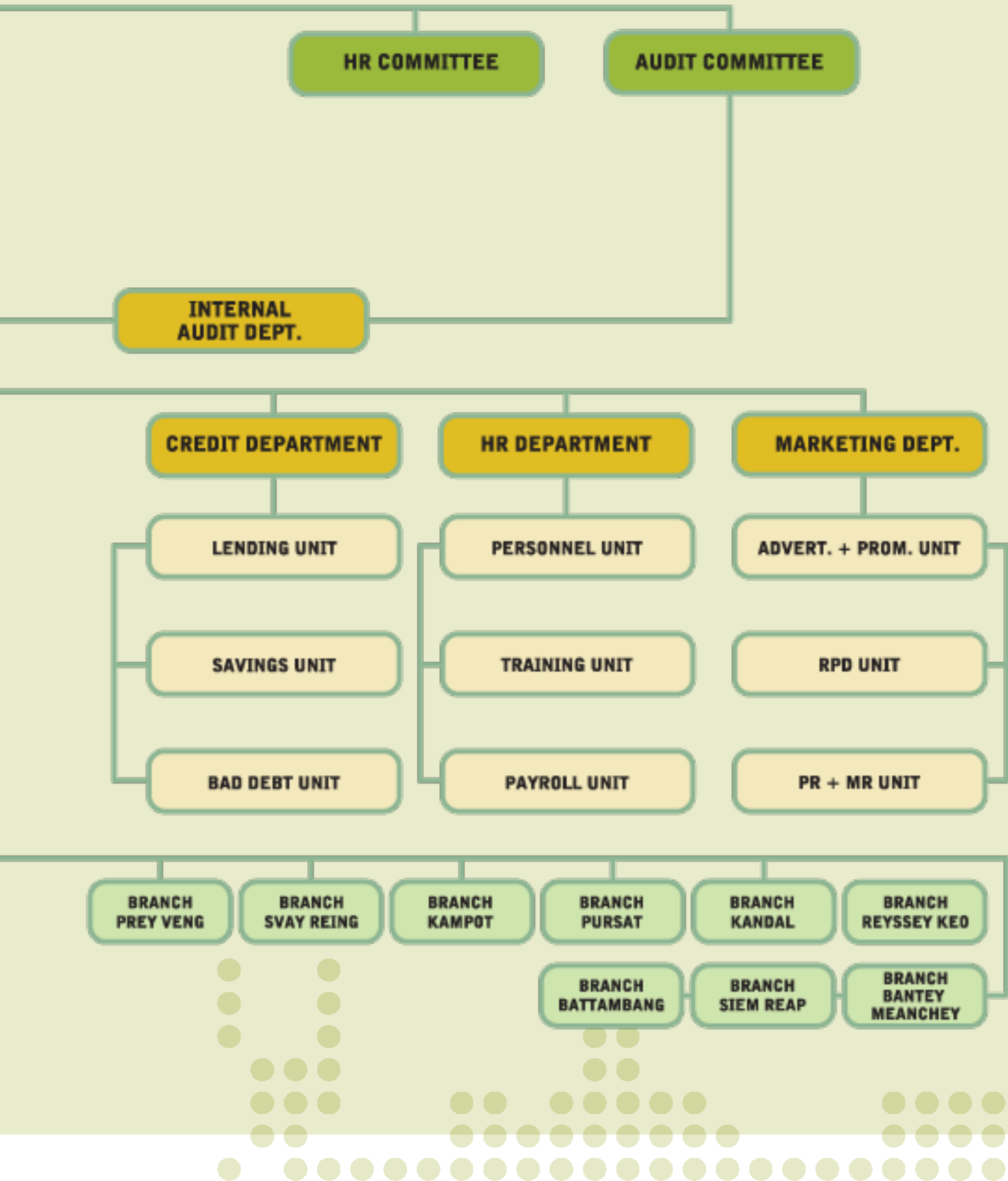
He joined PRASAC in 2002 as credit officer, he was promoted to be branch manager, regional manager and was promoted to be Branch Support Manager in early 2007.

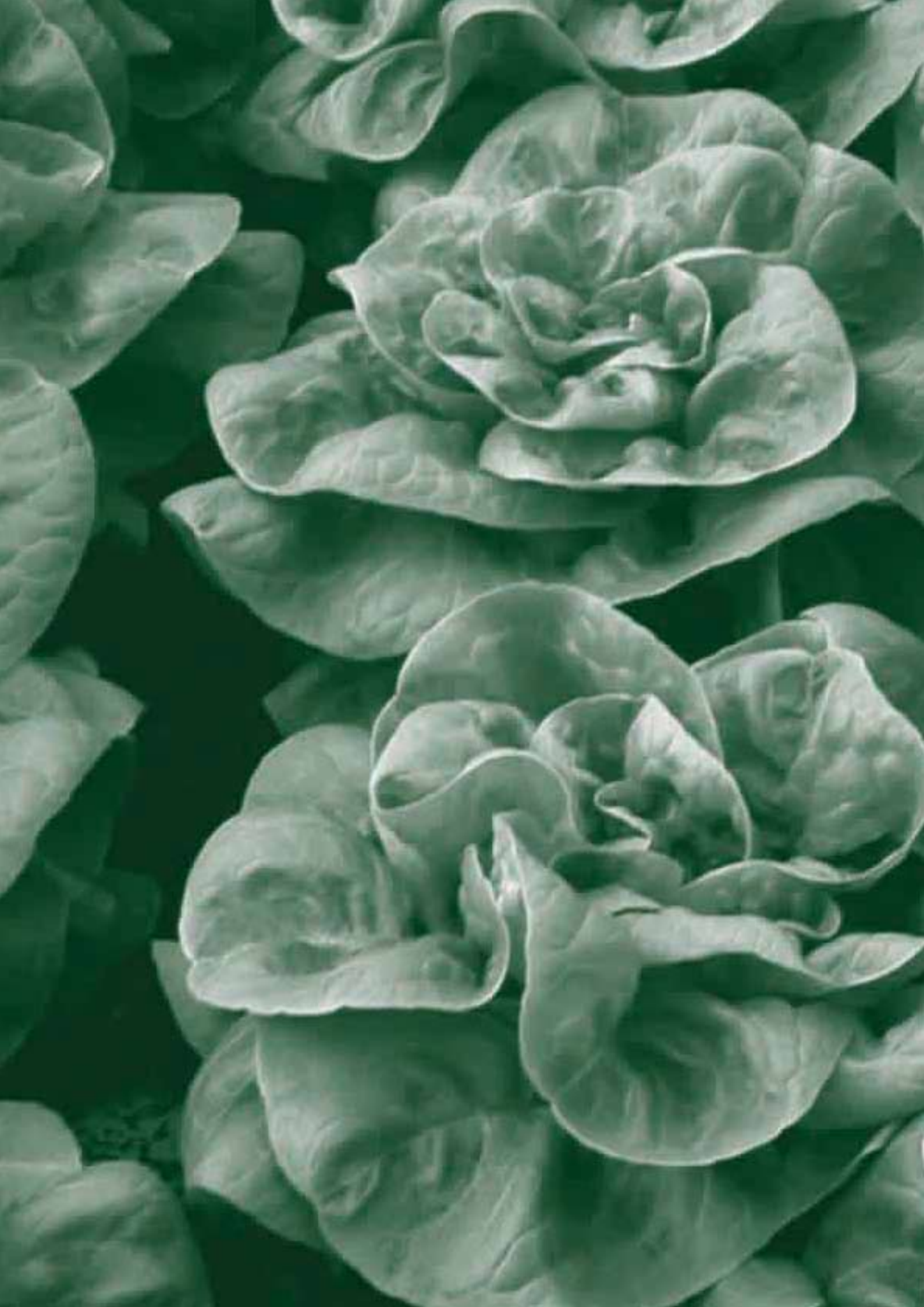




# PRASAC ORGANIZATIONAL STRUCTURE









# AUDITED FINANCIAL STATEMENTS

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# STATEMENT

## OF THE BOARD OF DIRECTORS

The Board of Directors ("BOD") submits its report and the audited financial statements of PRASAC MFI Ltd. ("PRASAC") for the year ended 31 December 2007.

### PRASAC MFI Ltd.

PRASAC, a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under register number Co-6931/04P dated 12 August 2004. Its activities are an offshoot of PRASAC Credit Association, which was managed by and funded by the European Union (EU). PRASAC was initially established in 1995 as a support program for the agricultural sector in Cambodia, covering six provinces around Phnom Penh, and is an integrated project.

PRASAC's operations are based on the asset transfer document dated 10 May 2005, effective from 31 December 2004, whereby the net assets of PRASAC Credit Component were transferred to PRASAC as subordinated debt, as discussed in note 18 to these financial statements.

PRASAC obtained its license from the Central Bank or the National Bank of Cambodia ("NBC") to conduct business as a micro-finance institution in the Kingdom of Cambodia as set out in the Central Bank's register No. 10 dated 15 November 2004. The license expired on 1 December 2007. The renewal of the license from the National Bank of Cambodia for an indefinite period of time was obtained on 14 December 2007.

### PRINCIPAL ACTIVITY

PRASAC is engaged primarily in the provision of micro-finance services to the rural population of Cambodia through its headquarters in Phnom Penh and various provincial offices in the Kingdom of Cambodia.

### RESULTS OF OPERATION AND DIVIDEND

The financial performance for the year ended 31 December 2007 is set out in the statement of income on page 9.

### SHARE CAPITAL

During the year ended 31 December 2007, there have been changes in the registered and paid up share capital of PRASAC as set out in the statement of changes in shareholders' equity on page 8.

### RESERVES AND PROVISIONS

There were no material movements to or from reserves and provisions during the year under review.

## BAD AND DOUBTFUL LOANS

Before the financial statements of PRASAC were drawn up, the BOD took reasonable steps to ascertain that appropriate action had been taken in relation to bad loans and the making of provision for bad and doubtful loans. The BOD have satisfied themselves that adequate provisions for all known bad loans have been made.

At the date of this report, the BOD is not aware of any circumstances of bad and doubtful loans in the financial statements of PRASAC.

## CURRENT ASSETS

Before the financial statements of PRASAC were drawn up, the BOD took reasonable steps to ensure that any current assets, other than loans which were unlikely to be realized in the ordinary course of business at their value as shown in the accounting records of PRASAC, have been written down to an amount which they might be expected to realize.

At the date of this report, the BOD is not aware of any circumstances which would render the values attributed to the current assets in the financial statements of PRASAC misleading in any material respect.

## VALUATION METHODS

At the date of this report, the BOD is not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the financial statements of PRASAC misleading or inappropriate in any material respect.

## CONTINGENT AND OTHER LIABILITIES

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

- a any charge on the assets of PRASAC which has arisen since the end of the year which secures the liabilities of any other person, or**
- b any contingent liability in respect of PRASAC that has arisen since the end of the year other than in the ordinary course of banking business.**

No contingent or other liability of PRASAC has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the year which, in the opinion of the BOD, will or may have a material effect on the ability of PRASAC to meet its obligations as and when they fall due.

## CHANGE OF CIRCUMSTANCES

At the date of this report, the BOD is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of PRASAC, which would render any amount stated in the financial statements misleading in any material respect.

## ITEMS OF AN UNUSUAL NATURE

The results of the operations of PRASAC for the year ended 31 December 2007 were not, in the opinion of the BOD, materially affected by any items, transactions or events of a material and unusual nature.

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

## DIRECTORS

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

- 1 Mr. MICHAEL TEMPLE**, representing Dragon Capital Group, (Chairman).
- 2 Mr. DIDIER MALENGREAU**, representing Belgium Investment Company for Developing Countries SA, (Director).
- 3 Mr. ZIEGFRIED VERMAAK**, representing The Netherlands Finance Development Company, (Director).
- 4 Mr. ISHARA NANAYAKKARA**, representing Lanka Orix Leasing Company Ltd. (Director).
- 5 Mr. STEFAN HARPE**, representing Oikocredit Ecumenical Development Cooperative Society UA, (Director)
- 6 Mr. OUM SAM OEUN**, representing PRASAC Staff Company, (Director)

All members are non-executive board members, except Mr. Oum Sam Oeun, who holds the position of Deputy General Manager.

## DIRECTORS' INTERESTS

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

Shareholder	Represented by	Holding %	Number of Shares of Riel
			20,000 each
Prasac Staff Company Ltd. (PSCO)	Mr. OUM SAM OEUN	5%	13,520
Belgian Investment Company for Developing Countries SA (BIO)	Mr. DIDIER MALENGREAU	19%	51,376
Dragon Capital Group Limited (DCG)	Mr. MICHAEL TEMPLE	19%	51,376
The Netherlands Finance Development Company (FMO)	Mr. ZIEGFRIED VERMAAK	19%	51,376
Lanka ORIX LEASING Company Ltd (LOLC)	Mr. ISHARA ANAYAKKARA	19%	51,376
Oikocredit Ecumenical Development Cooperative Society U.A. (Oikocredit)	Mr. STEFAN HARPE	19%	51,376
		100%	<b>270,400</b>

## DIRECTORS' BENEFITS

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

No Director of PRASAC has received or become entitled to receive any benefit by reason of a contract made by PRASAC or with a firm of which the Director is a member, or with a company in which the director has a material financial interest.

## RESPONSIBILITIES OF THE BOD IN RESPECT OF THE FINANCIAL STATEMENTS

The BOD is responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of PRASAC as at 31 December 2007, and of the results of its operations and its cash flows for the year then ended. In preparing these financial statements, the BOD is required to:



- 1 Adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- 2 Comply with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards or, if there has been any departure in the interests of true and fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- 3 maintain adequate accounting records and an effective system of internal controls;

- 4 prepare the financial statements on a going concern basis unless it is inappropriate to assume that PRASAC will continue operations in the foreseeable future;
- 5 set overall policies for PRASAC, ratify all decisions and actions by the BOD that have a material effect on the operations and performance of PRASAC, and ensure they have been properly reflected in the financial statements.

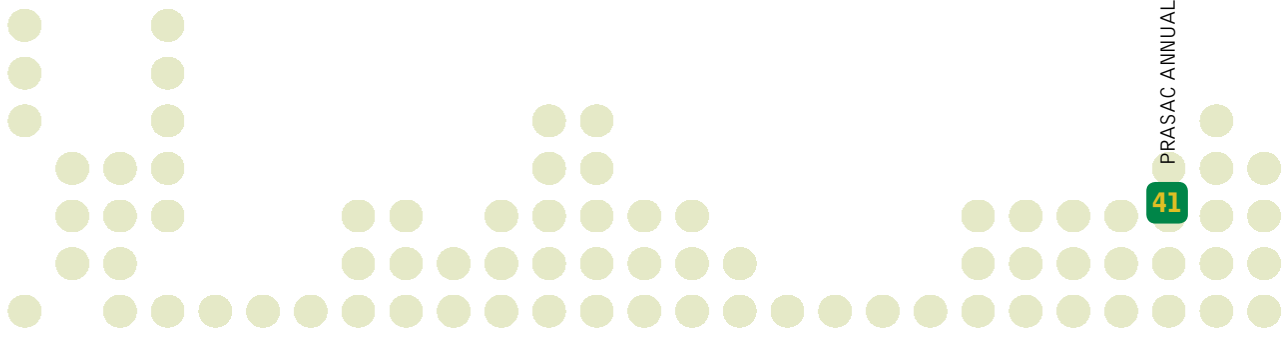
The BOD confirms that PRASAC has complied with these requirements in preparing the financial statements.

On behalf of the BOD,

**Name: Michael Temple**

Position: Chairman

Date: 26 March 2008



# INDEPENDENT

## AUDITOR'S REPORT

To the Shareholders of PRASAC Microfinance Institution Ltd.

We have audited the accompanying financial statements of PRASAC Microfinance Institution Ltd. (PRASAC) which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes on pages 7 to 46.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted

our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

## OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PRASAC as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards.

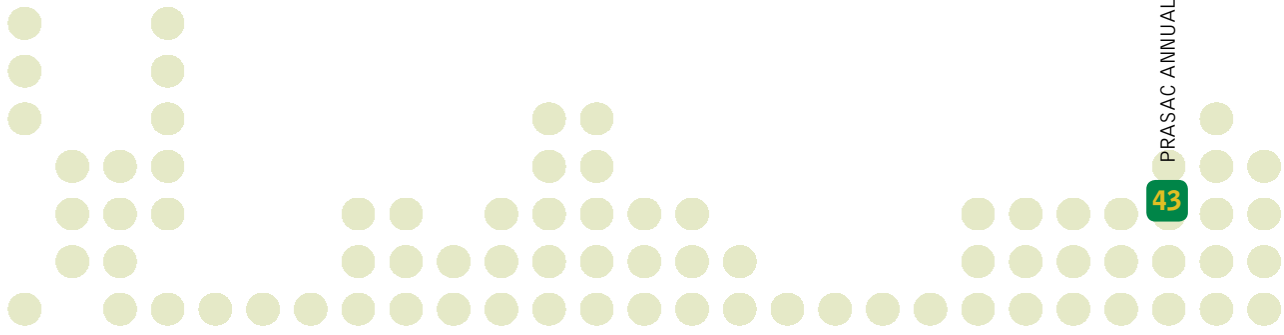
### **For PricewaterhouseCoopers (Cambodia) Limited**

#### **By Senaka Fernando**

Director

*Phnom Penh, Kingdom of Cambodia*

*Date: 26 March 2008*



# PRASAC MICROFINANCE INSTITUTION

# BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	31 December 2007	31 December 2006
		Riel '000	Riel '000
<b>ASSETS</b>			
Cash in hand	4	2,728,695	1,684,879
Balances with banks	5	76,887	8,427,747
Balances with the Central Bank	6	8,185,531	1,299,284
Loans and advances to customers	7	132,051,328	87,888,912
Other assets	8	3,496,364	5,004,524
Deferred tax assets	9	249,057	130,680
Property and equipment	10	1,397,720	1,537,305
<b>TOTAL ASSETS</b>		<b>148,185,582</b>	<b>105,973,331</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Customers' deposits	11	1,015,646	976,672
Borrowings	12	80,849,180	49,400,634
Provision for retirement and severance benefit obligation	13	1,518,410	877,536
Current income tax liabilities	14	1,705,394	551,083
Accruals and other liabilities	15	3,775,040	2,443,540
Share subscription received in advance	16	657,555	11,640,460
<b>TOTAL LIABILITIES</b>		<b>89,521,225</b>	<b>65,889,925</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	5,408,000	250,000
Subordinated debt	18	45,657,577	34,674,673
Retained earnings		7,598,780	5,158,733
Total Shareholders' Equity		58,664,357	40,083,406
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>148,185,582</b>	<b>105,973,331</b>

Date: 26 March 2008

Name: **SIM Senacheert**  
Position: General Manager

Name: **YANG Kimsreng**  
Position: Acting Finance Manager

PRASAC MICROFINANCE INSTITUTION

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

		Share Capital	Subordinated Debt	Retained Earning	Total
	Note	Riel '000	Riel '000	Riel '000	Riel '000
Balance at 1 January 2006		250,000	34,674,673	2,468,793	37,393,466
Net profit for the year		–	–	2,714,940	2,714,940
Dividend related to 2005 profit		–	–	(25,000)	(25,000)
<b>Balance at 31 December 2006</b>		<b>250,000</b>	<b>34,674,673</b>	<b>5,158,733</b>	<b>40,083,406</b>
<b>Balance at 1 January 2007</b>		250,000	34,674,673	5,158,733	40,083,406
Conversion of retained earnings to share capital	17	5,158,000	–	(5,158,000)	–
Subordinated debt from CRDF	18	–	10,982,904	–	10,982,904
Net profit for the year		–	–	7,598,047	7,598,047
<b>Balance at 31 December 2007</b>		<b>5,408,000</b>	<b>45,657,577</b>	<b>7,598,780</b>	<b>58,664,357</b>

Date: 26 March 2008

Name: **SIM Senacheert**

Position: General Manager

Name: **YANG Kimsreng**

Position: Acting Finance Manager

The accompanying notes on pages 48 to 69 form an integral part of these financial statements.

PRASAC MICROFINANCE INSTITUTION

# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	31 December 2007 Riel '000	31 December 2006 Riel '000
Interest income	20	35,228,215	21,045,384
Interest and fee expense	21	(5,472,070)	(2,388,652)
<b>NET INTEREST INCOME</b>		<b>29,756,145</b>	<b>18,656,732</b>
Fee and commission expense	22	(133,588)	(438,925)
Other operating income	23	463,340	335,025
		329,752	(103,900)
<b>OPERATING INCOME</b>		<b>30,085,897</b>	<b>18,552,832</b>
Provision for bad and doubtful loans	24	(448,688)	190,756
Operating and other expenses	25	(20,057,921)	(15,380,073)
		(20,506,609)	(15,189,317)
Grant income	26	–	40,790
<b>OPERATING PROFIT BEFORE INCOME TAX</b>		<b>9,579,288</b>	<b>3,404,305</b>
Income tax expense	27	(1,981,241)	(689,365)
<b>NET PROFIT FOR THE YEAR</b>		<b>7,598,047</b>	<b>2,714,940</b>

Date: 26 March 2008

Name: **SIM Senacheert**  
Position: General Manager

Name: **YANG Kimsreng**  
Position: Acting Finance Manager

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	31 December 2007 Riel '000	31 December 2006 Riel '000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Income before income tax</b>		<b>9,579,288</b>	<b>3,404,305</b>
Adjustments for:			
<i>Net movement in provision for retirement and severance pay benefit</i>	13	640,874	607,086
<i>Depreciation</i>	10	515,008	352,113
<i>Provision for bad and doubtful loans</i>	7	716,305	231,891
<i>Loss on disposal of property and equipment</i>		(32,202)	4,835
<b>OPERATING INCOME BEFORE CHANGES IN OPERATING assets and liabilities</b>			
		<b>11,419,273</b>	<b>4,600,230</b>
Changes in operating assets and liabilities:			
<i>Loans and advances to customers</i>		(44,878,721)	(43,571,820)
<i>Other assets</i>		1,508,160	(3,040,604)
<i>Customers' deposits</i>		38,975	(600,599)
<i>Accruals and other liabilities</i>		1,331,500	889,508
Net cash used in operations		(30,580,813)	(41,723,285)
Income taxes paid	14	(945,308)	(764,281)
<b>Net cash outflow from operating activities</b>		<b>(31,526,121)</b>	<b>(42,487,566)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	10	(394,630)	(1,127,624)
Disposals of property and equipment		51,408	—
Statutory deposit with Central Bank		220,280	(462,810)
<b>Net cash outflow from investing activities</b>		<b>(122,942)</b>	<b>(1,590,434)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Subordinated debts	18	10,982,904	—
Dividend paid		—	(25,000)
Proceeds from borrowings		31,448,546	38,464,084
Share subscription received in advance	18	(10,982,904)	11,640,460
<b>Net cash inflow from financing activities</b>		<b>31,448,546</b>	<b>50,079,544</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(200,517)</b>	<b>6,001,544</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>10,866,990</b>	<b>4,865,446</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	19	<b>10,666,473</b>	<b>10,866,990</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 1 BACKGROUND INFORMATION

PRASAC, a licensed micro-finance institution ("PRASAC"), was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under register number Co-6931/04P dated 12 August 2004. Its activities are an offshoot of the PRASAC Credit Association (PCA), which was managed and funded by the European Union (EU). PCA was initially established in 1995 as a support program for the agricultural sector in Cambodia, covering 10 provinces around Phnom Penh.

PRASAC's operations are based on the asset transfer document dated 10 May 2005, effective from 31 December 2004, whereby the net assets of PCA were transferred to PRASAC as subordinated debt, as discussed in note 18 to these financial statements.

PRASAC obtained its license from the National Bank of Cambodia ("Central Bank") to conduct business as a micro-finance institution in the Kingdom of Cambodia as set out in the Central Bank's register No. 10 dated 15 November 2004. The license expired on 1 December 2007. PRASAC obtained renewal of the license for an indefinite period from the Central Bank on 14 December 2007.

PRASAC is engaged primarily in the provision of micro-finance services to the rural population of Cambodia through its headquarters in Phnom Penh and various provincial and district offices in the Kingdom of Cambodia.

The amended Memorandum and Articles of Association for the changes in shareholders were certified by the Ministry of Commerce and the Central Bank on 4 December 2007 and 31 December 2007 respectively (Note 15 and 16).

The headquarters is located at house #25, street 294, Sangkat Boeung Kengkang 1, Chamkarmon, Phnom Penh, Cambodia.

As at 31 December 2007, PRASAC employed 722 employees (2006: 610 employees).

These financial statements have been approved for issue by the Board of Directors on 26 March 2008.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards. The accounting principals applied may differ from generally accepted accounting principals adopted in other countries and



jurisdictions. The accompanying financial statements are not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are addressed to only those who are informed about Cambodia accounting principles, procedures and practices.

The financial statements have been prepared in Cambodian Riel ("Riel") using the historical cost convention.

### BASIS OF AGGREGATION

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

### FINANCIAL INSTRUMENTS

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

### SEGMENT INFORMATION

PRASAC operates within one business segment, commercially oriented micro-finance services, and within one geographical segment, the Kingdom of Cambodia.

### FOREIGN CURRENCY TRANSLATION

PRASAC transacts primarily in and maintains its accounting records in Cambodian Riel ("Riel"). Foreign currency transactions other than Riel are accounted for at the exchange rates prevailing at the date of transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Monetary assets and liabilities dominated in the currencies other than Riel at the balance sheet date are translated into Riel at the rates of exchange ruling at that date.

The principal rates used to translate monetary assets and liabilities at the balance sheet date are:

	31 December 2007	31 December 2006
Riel/US Dollar	4,003	4,057

### CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank balances, demand deposits and short-term highly liquid investments with maturities of or less than 90 days maturity from the date of acquisition and they are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

### LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and impairment allowance for bad and doubtful loans and advances, including specific and/or general provisions, to reflect the estimated recoverable amount. The principal is calculated using the effective interest rate method, which is based on expected future cash flows of contractual installment payments discounted at prevailing market rates offered for similar loans with similar risk profiles.

### PROVISION FOR BAD AND DOUBTFUL LOANS

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

The provision for bad and doubtful loans charged to expense is based on management's judgment, which is consistent with the Central Bank's guidelines on the amount necessary to maintain the provision at a level adequate to absorb losses. Presently, the amount of provision is being determined by applying defined percentages to the respective category to which each of the loans belong, as set out below.

Loan status/classification	Percentage applied (%)
----------------------------	------------------------

**Loan of one year or less**

Standard	
Sub standard loans (where repayments and/or interest are more than 30 days overdue)	10
Doubtful loans (where repayments and/or interest are more than 60 days overdue)	30
Loss (where repayments and/or interest are more than 90 days overdue)	100

**Loan of more than one year**

Standard	
Sub standard loans (where repayments are more than 30 days overdue)	10
Doubtful loans (where repayments are more than 180 days overdue)	30
Loss (where repayments are more than 360 days overdue)	100

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

Loans are written off when they are considered as uncollectible. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

## OVERDUE LOANS

In accordance with Prakas B 700-51K issued by the Central Bank on 17 February 2000, overdue loans are defined as the total outstanding principal where principal or interest are past due unless the payment terms on interest or principal have been adjusted.

The provision will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The provision shall be recorded in the institution's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard. The analysis of overdue loans is set out in note 7.

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

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when, in the

judgment of the management with the approval of the Board of Directors, there is no prospect of recovery. Loans written off are reviewed on a quarterly basis.

## DEPOSITS WITH BANKS

Deposits and placements with banks are carried at cost.

## OTHER RECEIVABLES

Other receivables are carried at estimated realisable value.

## PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost less accumulated depreciation over their useful lives.

Building/Office improvements	5% - straight line
Motor vehicles	25% - declining balance
Motorcycles	25% - declining balance
Computers and Peripherals, software	50% - declining balance
Communication Equipment	25% - declining balance
Office Furniture and Fixtures	25% - declining balance

Expenditure for maintenance and repairs that do not extend the useful lives of assets is expensed to the income statement in the year in which it was incurred.

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

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on the sale of property and equipment are recognized upon the disposal of such assets.

Fully depreciated property and equipment are retained in the financial statement until they are disposed of or written-off.

## IMPAIRMENT OF ASSETS

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

## INTANGIBLE ASSETS

### *Computer software*

Acquired computer software licenses and development are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the period in compliance with the computer and peripherals depreciation rate and method.

Costs associated with maintaining computer software programs are recognised as expenses when incurred.

## CUSTOMER DEPOSITS

Deposits from customers are stated at placement value and adjusted for accrued interest.

## PROVISIONS

A provision is recognized in the balance sheet when PRASAC MFI 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 risk specific to the liability.

## PROVISION FOR RETIREMENT AND SEVERANCE PAY

The age of retirement for male employees is 60 years old and 55 years for female employees.

An employee who reaches the age of retirement or resigns before the retirement date is entitled to the following:

## Entitlement (Percentage to one month of current salary for each year of service rendered)

Year of Service rendered	Entitlement
Less than 3 years	50%
More than 3 years and less than 6 years	80%
More than 6 years and less than 10 years	100%
More than 10 years	120%

The differences between provision for retirement and severance benefits and realized amount will be charged to income statement when incurred.

## DEFERRED INCOME TAX

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

Deferred income tax assets are to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxes are calculated using a principal tax rate of 20%.

## INCOME AND EXPENSE RECOGNITION

Interest income earned on loans is recognized on an accrual basis taking into consideration the principal amount of loans outstanding. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding. When a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis.

Commission and fee income and expenses are recognized in the income statement on an accrual basis.

## FUND AND GRANT INCOMES

Fund and grant incomes are released to the income statement over the periods in which they are expected to be received as stipulated in their respective grant agreements. Grants received to finance operating expenses are as income in the same period as the related expenses are recorded.

## OPERATING LEASES

Operating Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## RELATED PARTIES

Parties are considered to be related to PRASAC 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 PRASAC and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

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

## 3 RISK MANAGEMENT

### FINANCIAL RISK MANAGEMENT AND POLICIES

By its nature PRASAC's activities are principally related to the use of financial instruments.

PRASAC accepts funds from its shareholders and lenders and seeks to earn interest margins by lending at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

PRASAC is exposed to risks from changes in market interest rates and in currency exchange rates. PRASAC manages and assumes such risks by monitoring the market movements in interest and currency exchange rates. There is no hedging currently. PRASAC does not hold or issue derivative instruments.

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

## INTEREST RATE RISK

The interest rate risk is the risk that future movements in market interest rates will affect the results of PRASAC's operations and its cash flows. Its exposure to interest rate risk relates primarily to its loans and bank deposits.

## FOREIGN CURRENCY RISK

PRASAC is exposed to foreign exchange risk arising from currency exposure of various types, primarily with respect to US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. In accordance with the Central Bank's guidelines, PRASAC is limited in foreign currency exposure to a ratio not to exceed 20% of its net worth per individual currency. There is no reserve for currency risk on unhedged borrowings which are denominated in United State Dollars (USD). In order to mitigate currency risk, PRASAC use the cash from borrowings in USD to provide loans in USD.

## CREDIT RISK

PRASAC is exposed to credit risk primarily with respect to loans. Such risks are monitored on a revolving basis and are subject to regular follow up visits. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Management believes that PRASAC's maximum exposure to credit risk is limited to the carrying amount of loans less provisions for doubtful loans. Loans are also provided to those borrowers that are deemed profitable.

## FAIR VALUE

Since the majority of financial assets are short-term (maturities of less than one year) with interest close to current market rates, the management believes the fair value of PRASAC's financial assets do not materially differ from their carrying values.

#### 4 CASH IN HAND

	31 December 2007	31 December 2006
	Riel '000	Riel '000
<b>HEAD OFFICE</b>	173,042	207,251
<b>Provincial Branches:</b>		
Kampong Cham	192,954	85,482
Cheung Prey	174,877	96,938
Chamkarleu	162,580	22,451
Prey Kry	129,101	69,540
Tbong Khmum	125,553	115,956
Sreysanthor	124,977	54,477
Svay Rieng	114,651	87,363
Takeo	108,326	16,411
Kampong Popil	98,745	47,458
Pursat	83,752	12,179
Prey Veng	83,197	78,343
Prey Chhor	83,035	-
Koah Soutin	76,987	-
Kirivong	57,767	8,653
Kampong Thom	51,538	4,973
Odong	49,551	2,408
Kampong Thmar	46,423	36,620
Banteay Meas	46,140	89,963
Baphnom	45,825	26,420
Kampong Chhnang	45,362	43,184
Kampot	44,104	-
Kampong Speu	43,307	11,463
Muk Kampul	42,732	28,378
Baek Chan	37,797	70,025
Chhlong	36,510	9,731
Ponhea Krek	34,745	1,010
Preak Kdam	33,876	9,819
Ta Khmao	32,089	11,307
Koah Thom	31,273	44,465
Kampong Trabek	30,352	-
Kampong Chrey	29,337	54,511
Sa ang	28,684	4,474
Kien Svay	28,307	110,655
Ruessei Kaev	27,748	86
Kong Pisey	26,468	11,213
Kamchaymear	25,956	15,077
Chhuk	19,108	-
Prey Kabas	18,348	34,114
Kandal Steung	16,006	71,753
Bati	15,346	33,553
Kampong Tralach	15,009	18,228
Neak Loeng	11,774	29,993
Bakan	8,578	-
Kampong Leaeng	6,537	-
Stoung	4,427	-
Boribo	3,451	3,830
Krakor	1,729	5,128
Moung Ruessei	714	-
	<b>2,728,695</b>	<b>1,684,879</b>

#### 5 BALANCES WITH BANKS

	31 December 2007	31 December 2006
	Riel '000	Riel '000
<b>Current accounts, without interest</b>		
Foreign Trade Bank of Cambodia	4,418	6,088,563
Aceda Bank Plc.	11,244	7,913
<b>Savings</b>		
Aceda Bank Plc.	48,549	2,318,427
Etimos	12,676	12,844
	<b>76,887</b>	<b>8,427,747</b>

#### 6 BALANCES WITH THE CENTRAL BANK

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Capital guarantee deposit (i)	270,400	500,000
Reserve requirement	54,240	44,920
Current account	7,860,891	754,364
	<b>8,185,531</b>	<b>1,299,284</b>

(i) Following the Central Bank's Prakas No. B700-006 on the Licensing of Micro-Finance Institutions, PRASAC maintains a minimum amount equal to 5% of its share capital of Riel 5,408,000,000 as at 31 December 2007 in an interest earning account with the Central Bank (3% per annum following the Central Bank's Prakas No. 06.210).

#### 7 LOANS AND ADVANCES TO CUSTOMERS

##### A) Analysis by type of loan products

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Group loans	5,490,728	9,821,806
Individual loans	128,804,240	79,594,441
	134,294,968	89,416,247
Provision for bad and doubtful loans (see g)	(2,243,640)	(1,527,335)
	<b>132,051,328</b>	<b>87,888,912</b>

Type of loan	Interest rates	Repayment terms	Tenure
Individual Loans	24% p.a. to 42% p.a.	<ul style="list-style-type: none"> <li>Monthly interest and principal</li> <li>Monthly interest and every 2 or 3 months for principal and interest</li> <li>End of term for principal and interest</li> </ul>	4 to 24 months
Group Loans	36% p.a. and 42% p.a.	<ul style="list-style-type: none"> <li>Monthly interest and principal</li> <li>Monthly interest and every 2 or 3 months for principal</li> <li>End of term for principal and interest</li> </ul>	4 to 12 months

The borrowers can borrow in USD currency or Riel. The principal can be repaid at any time without any penalty except for bigger (>Riel 8,000,000) loans which require at least four months of schedule interest to be paid.

### B) Analysis by performing and non-performing loans

	31 December 2007	31 December 2006
	Riel '000	Riel '000
<i>Standard loans</i>		
secured	24,718,834	12,209,755
unsecured	109,280,522	76,994,843
<i>Substandard Loans</i>		
secured	—	—
unsecured	59,500	7,132
<i>Doubtful loans</i>		
secured	—	9,937
unsecured	3,630	—
<i>Losses</i>		
secured	5,706	—
unsecured	226,776	194,580
	<b>134,294,968</b>	<b>89,416,247</b>

### D) Analysis by maturity

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Less than 1 month	2,057,900	195,337
From 1 month to 3 months	9,597,373	5,936,767
From 3 months to 1 year	75,775,147	56,046,614
Over 1 year	46,864,548	27,237,529
	<b>134,294,968</b>	<b>89,416,247</b>

### C) Analysis by relationship

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Non-related parties	133,607,966	88,603,593
Related Parties		
Management	114,110	193,932
Staff	572,892	618,722
	<b>134,294,968</b>	<b>89,416,247</b>

## E) Analysis of gross loans by sub-branches

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Head Office	29,308	125,702
Kampong Chrey	8,586,792	6,362,057
Svay Rieng	6,310,056	4,298,311
Takeo	6,078,783	3,385,930
Kampong Speu	5,305,970	3,120,519
Banteay Meas	5,228,039	4,365,989
Koah Thum	5,013,529	3,210,477
Tbong Khmum	4,534,467	3,124,670
Baphnom	4,411,331	2,695,579
Kampong Popil	4,054,589	3,066,639
Odong	3,734,600	2,324,785
Baek Chan	3,504,220	1,951,628
Bati	3,409,782	1,699,137
Kien Svay	3,331,986	2,228,547
Chhlong	3,316,027	1,643,198
Kong Pisey	3,312,216	2,744,405
Sa ang	3,232,273	2,316,082
Kirivong	3,185,008	2,664,745
Prey Kabas	3,055,374	2,352,290
Chamkarleu	2,928,284	1,680,576
Sreysanthor	2,895,641	2,092,366
Kampong Thmar	2,895,075	2,224,622
Cheung Prey	2,699,650	2,352,379
Kampong Trabek	2,493,299	—
Kandal Steung	2,455,611	1,777,787
Kampong Chhnang	2,306,334	2,714,339
Kampong Tralach	2,297,432	1,889,655
Pursat	2,284,243	1,931,825
Neak Loeung	2,281,722	3,259,277
Ponhea Kraek	2,273,053	1,724,509
Preak Kdam	2,188,771	1,896,133
Prey Chhor	2,092,268	—
Prey Veng	1,892,680	1,840,656
Chhuk	1,779,865	—
Koah Soutin	1,752,160	—
Bakan	1,740,359	—
Muk Kampul	1,589,119	1,040,713
Boribo	1,481,138	1,217,797
Krakor	1,454,031	1,063,232
Kampong Cham	1,441,190	4,177,798
Kampong Thom	1,417,272	350,403
Kampot	1,253,710	9,028
Kampong Leaeng	1,209,369	—
Prey Kry	1,202,018	1,260,079
Moung Ruessei	1,106,701	—
Ta Khmao	1,054,909	215,358
Kamchaymear	1,030,517	1,015,737
Stoung	619,911	—
Ruessei Kaev	544,286	—
Sithor Kandal	—	1,288
	<b>134,294,968</b>	<b>89,416,247</b>

## F) Analysis of gross loans by currency

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Khmer Riel	68,705,282	47,476,974
US Dollar	65,589,686	41,939,273
	<b>134,294,968</b>	<b>89,416,247</b>

## G) Loan loss reserves for bad and doubtful loans

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Specific provision in accordance with the Central Bank's guidelines	239,520	198,274
General provision	2,004,120	1,329,061
<b>Balance at end of the year</b>	<b>2,243,640</b>	<b>1,527,335</b>

The movements in provision for bad and doubtful loans are as follows:

	Specific provision	General provision	Total provision
	Riel '000	Riel '000	Riel '000
<b>2006</b>			
<b>Balance at the beginning of year</b>	<b>158,571</b>	<b>1,136,873</b>	<b>1,295,444</b>
Provision for the year	39,703	192,188	231,891
<b>Balance at end of the year</b>	<b>198,274</b>	<b>1,329,061</b>	<b>1,527,335</b>
<b>2007</b>			
<b>Balance at the beginning of year</b>	<b>198,274</b>	<b>1,329,061</b>	<b>1,527,335</b>
Provision for the year	41,247	675,058	716,305
<b>Balance at end of the year</b>	<b>239,521</b>	<b>2,004,119</b>	<b>2,243,640</b>

## 8 OTHER ASSETS

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Accrued interest income, net	(a) 2,965,630	2,258,881
Prepaid expenses	236,718	150,423
Advances to staff	4,609	25,637
Others	289,407	2,569,583
	<b>3,496,364</b>	<b>5,004,524</b>

a) *Accrued interest income, net*

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Accrued interest income	3,164,973	2,370,573
Accrued interest loss reserve	(199,343)	(111,692)
	<b>2,965,630</b>	<b>2,258,881</b>

## 9 DEFERRED TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes related to the same fiscal authority.

The offset amounts are as follows:

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Deferred tax assets	303,682	185,632
Deferred tax liabilities	(54,625)	(54,952)
	<b>249,057</b>	<b>130,680</b>

The gross movement in the deferred income tax account is as follows:

	31 December 2007	31 December 2006
	Riel '000	Riel '000
At beginning of year	130,680	136,680
Credited/(charged) to the income statement	118,377	(6,000)
<b>At end of year</b>	<b>249,057</b>	<b>130,680</b>

The movement of deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

### Deferred tax assets

	Provision for retirement & severance pay	Accrued staff benefit	Accrued commission to loans'group leaders	Total
	Riel '000	Riel '000	Riel '000	Riel '000
<b>As at 1 January 2006</b>	<b>54,090</b>	<b>63,454</b>	<b>19,136</b>	<b>136,680</b>
Credited/(charged) to income statement	121,417	(63,454)	(9,011)	48,952
<b>As at 31 December 2006</b>	<b>175,507</b>	<b>—</b>	<b>10,125</b>	<b>185,632</b>
Credited/(charged) to income statement	128,175	—	(10,125)	118,050
<b>As at 31 December 2007</b>	<b>303,682</b>	<b>—</b>	<b>—</b>	<b>303,682</b>

### Deferred tax liabilities

	Accelerated depreciation
	Riel '000
<b>As at 01 January 2006</b>	(54,952)
Charged to income statement	—
<b>As at 31 December 2006</b>	<b>(54,952)</b>
Credited to income statement	327
<b>As at 31 December 2007</b>	<b>(54,625)</b>



## 10 PROPERTY AND EQUIPMENT

	Office furniture	Vehicles	Motorcycles	Computers & Peripherals	Communication Equipment	Total
	Riel '000	Riel '000	Riel '000	Riel '000	Riel '000	Riel '000
<b>Cost</b>						
As at 31 December 2006	657,188	1,308,298	432,252	640,178	73,835	3,111,751
Additions	279,455	—	—	115,175	—	394,630
Disposals	(38,376)	(112,784)	(295,211)	(16,665)	(10,959)	(473,995)
As at 31 December 2007	898,267	1,195,514	137,041	738,688	62,876	3,032,386
<b>Accumulated depreciation</b>						
As at 31 December 2006	332,884	427,816	397,396	365,381	50,969	1,574,446
Charge for the year	119,774	219,910	8,320	160,206	6,798	515,008
Disposals	(30,135)	(112,784)	(285,053)	(16,571)	(10,245)	(454,788)
As at 31 December 2007	422,524	534,942	120,663	509,015	47,522	1,634,666
<b>Net Book Value</b>						
As at 31 December 2007	<b>475,743</b>	<b>660,572</b>	<b>16,378</b>	<b>229,673</b>	<b>15,354</b>	<b>1,397,720</b>
As at 31 December 2006	<b>324,304</b>	<b>880,482</b>	<b>34,856</b>	<b>274,797</b>	<b>22,866</b>	<b>1,537,305</b>

## 11 CUSTOMERS' DEPOSITS

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Certificate of deposits	107,029	68,772
Voluntary savings	908,617	907,900
	<b>1,015,646</b>	<b>976,672</b>

Type of Deposits	Tenure	Interest rates
Khmer Riel		
Savings for staff	unlimited	8% per annum
Savings for customers	unlimited	2.5% per annum
Fixed deposit	3 months	3% per annum
	6 months	5.5% per annum
	12 months	8% per annum
US Dollar		
Savings for staff	unlimited	6% per annum
Savings for customers	unlimited	2% per annum
Fixed deposit	3 months	2.5% per annum
	6 months	5% per annum
	12 months	6.5% per annum

According to the Central Bank's Prakas No. B07-163 dated 13 December 2007 on **Licensing of Micro-Finance Deposit Taking Institutions**, PRASAC decided to stop receiving customer deposits immediately and issued an internal memorandum to all branches for customers to withdraw their deposits. On 27 February 2008, the management submitted a letter to the Central Bank about their intention and the process of transferring customer deposits. However, as at the date of this report, there is no response from the Central Bank.

## 12 BORROWINGS

		31 December 2007	31 December 2006
		Riel '000	Riel '000
Credit Suisse Microfinance Fund Management Company	i	24,018,000	6,084,000
responsAbility SICAV Microfinanz-Fonds (LUX)	ii	14,010,500	—
The Netherlands-Finance Development Company	iii	12,201,000	6,100,500
Dexia Micro Credit Fund/Sub Fund BlueOrchard Debt	iv	10,207,650	13,384,800
Oikocredit Ecumenical Development Cooperative	v	8,858,380	9,839,334
Global Commercial Microfinance Consortium	vi	8,006,000	8,112,000
Consorzio Etimos S.C.	vii	1,536,750	2,028,000
Culvert Social Investment Foundation	viii	1,200,900	405,600
Prasac Staff Company	ix	810,000	810,000
Impulse Microfinance Investment Fund	x	—	2,028,000
Appui au Development Autonome	xi	—	608,400
		<b>80,849,180</b>	<b>49,400,634</b>

### i) Credit Suisse Microfinance Fund Management Company/Sub Fund PlaNet Finance

<b>Credit limit in original currency</b>	US\$6,000,000
<b>Equivalent in Riel</b>	Riel 24,018,000,000
<b>Effective date</b>	1st Loan of US\$500,000: 20 October 2006 2nd Loan of US\$4,000,000: 07 September 2007 3rd Loan of US\$1,500,000: 09 November 2007
<b>Maturity date</b>	1st Loan of US\$500,000: 20 October 2008 2nd Loan of US\$4,000,000: 07 September 2010 3rd Loan of US\$1,500,000: 09 November 2010
<b>Interest rate</b>	1st Loan: Libor USD (6 months) + 5.00% p.a. 2nd Loan: 8.6% p.a. 3rd Loan: 8.6% p.a.
<b>Repayment terms</b>	1st Loan: Principal repayment at maturity date and interest repayment on semi-annual basis. 2nd Loan: Principal repayment at maturity date and interest repayment on semi-annual basis. 3rd Loan: Principal repayment at maturity date and interest repayment on semi-annual basis.
<b>Guarantee mechanism</b>	None

## ii) responsAbility SICAV (Lux) Mikrofinanz-Fonds/Sub Fund PlaNet Finance

<b>Credit limit in original currency</b>	US\$3,500,000
<b>Equivalent in Riel</b>	Riel 14,010,500,000
<b>Effective date</b>	1st Loan of US\$1,000,000: 07 September 2007 2nd Loan of US\$500,000: 09 November 2007 3rd Loan of US\$2,000,000: 05 December 2007
<b>Maturity date</b>	1st Loan of US\$1,000,000: 07 September 2010 2nd Loan of US\$500,000: 09 November 2010 3rd Loan of US\$2,000,000: 05 December 2010
<b>Interest rate</b>	1st Loan: 8.6% p.a. 2nd Loan: 8.6% p.a. 3rd Loan: 8.6% p.a.
<b>Repayment terms</b>	1st Loan: Principal repayment at maturity date and interest repayment on semi-annual basis. 2nd Loan: Principal repayment at maturity date and interest repayment on semi-annual basis. 3rd Loan: Principal repayment at maturity date and interest repayment on semi-annual basis.
<b>Guarantee mechanism</b>	None

## iii) The Netherlands-Finance Development Company

<b>Credit limit in original currency</b>	Riel 12,201,000,000
<b>Effective date</b>	3 July 2006
<b>Maturity date</b>	3 July 2010
<b>Interest rate</b>	6 month deposit rate + 6%
<b>Repayment terms</b>	Principal: 6 equal semi-annual installment from 1 April 2008 Interest: semi-annual basis from disbursement date
<b>Guarantee mechanism</b>	None

## iv) Dexia Micro-Credit Fund/Sub Fund Blue Orchard Debt

<b>Credit limit in original currency</b>	US\$2,550,000
<b>Equivalent in Riel</b>	Riel 10,207,650,000
<b>Effective date</b>	1st Loan of US\$ 750,000: 18 April 2006 2nd Loan of US\$ 750,000: 17 July 2006 3rd Loan of US\$ 1,800,000: 3 October 2006
<b>Maturity date</b>	1st Loan of US\$ 750,000: 18 April 2008 2nd Loan of US\$ 750,000: 17 July 2009 3rd Loan of US\$ 1,800,000: 3 October 2008
<b>Interest rate</b>	1st Loan: Libor USD (6 months) + 6.15% p.a. 2nd Loan: Libor USD (6 months) + 6.00% p.a. 3rd Loan: Libor USD (6 months) + 5.00% p.a.
<b>Repayment terms</b>	Principal and interest on semi-annual basis
<b>Guarantee mechanism</b>	None

**v) Oikocredit, Ecumenical Development Cooperative**

<b>Credit limit in original currency</b>	US\$2,212,935.27
<b>Equivalent in Riel</b>	Riel 8,858,379,885
<b>Effective date</b>	1st Loan of US\$2,000,000 on 1 November 2006 2nd Loan of US\$ 212,935.27 on 22 December 2006
<b>Maturity date</b>	1st Loan of US\$2,000,000 on 1 November 2011 2nd Loan of US\$ 212,935.27 on 28 June 2008
<b>Interest rate</b>	1st Loan: 9.00% p.a. 2nd Loan: 9.50% p.a.
<b>Repayment terms</b>	1st Loan: Principal repayment of 8 equal installments starting from 1 May 2008 on semi-annual basis and interest on semi annual basis. 2nd Loan : 23 June 2007 repayment principal of US\$212,936 and the rest at the end and interest semi-annual basis
<b>Guarantee mechanism</b>	None

**vi) Global Commercial Microfinance Consortium Ltd**

<b>Credit limit in original currency</b>	US\$2,000,000
<b>Equivalent in Riel</b>	Riel 8,006,000,000
<b>Effective date</b>	1st Loan US\$1,000,000 on 27 October 2006 2nd Loan of US\$1,000,000 on 8 December 2006
<b>Maturity date</b>	1st Loan US\$1,000,000 on 3 November 2010 2nd Loan of US\$1,000,000 on 1 November 2010
<b>Interest rate</b>	1st Loan: 10.25% p.a. 2nd Loan: 9.68% p.a.
<b>Repayment terms</b>	Interest on semi-annual basis and Principal at maturity. Up front fees US\$ 10,000 for each loan.
<b>Guarantee mechanism</b>	None

**vii) Consorzio Etimos S.C**

<b>Credit limit in original currency</b>	US\$383,899.52
<b>Equivalent in Riel</b>	Riel 1,536,749,778
<b>Effective date</b>	1st Loan of US\$307,097.25: 6 April 2006 2nd Loan of US\$76,802.27: 23 October 2006
<b>Maturity date</b>	1st Loan of US\$307,097.25: 6 April 2009 2nd Loan of US\$76,802.27: 4 June 2009
<b>Interest rate</b>	Libor USD (6 months) + 4.5% p.a.
<b>Repayment terms</b>	Principal and interest repayment on semi-annual basis
<b>Guarantee mechanism</b>	None

**viii) Calvert Social Investment Foundation**

<b>Credit limit in original currency</b>	US\$300,000
<b>Equivalent in Riel</b>	Riel 1,200,900,000
<b>Effective date</b>	31 July 2006
<b>Maturity date</b>	31 July 2009
<b>Interest rate</b>	7% p.a.
<b>Repayment terms</b>	Interest on quarterly basis and principal at maturity.
<b>Guarantee mechanism</b>	None

### ix) Prasac Staff Company

<b>Credit limit in original currency</b>	Riel 810,000,000
<b>Equivalent in Riel</b>	Riel 810,000,000
<b>Effective date</b>	25 August 2006
<b>Maturity date</b>	Unlimited and equity convertible
<b>Interest rate</b>	11% p.a.
<b>Repayment terms</b>	Interest on quarterly basis and principal at maturity.
<b>Guarantee mechanism</b>	None

### 13 PROVISION FOR RETIREMENT AND SEVERANCE BENEFIT OBLIGATION

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Balance at beginning of the year	877,536	270,450
Additions during the year	673,048	617,229
Distribution to employees	(32,174)	(10,143)
<b>Balance at end of the year</b>	<b>1,518,410</b>	<b>877,536</b>

### 14 CURRENT INCOME TAX LIABILITIES

		31 December 2007	31 December 2006
		Riel '000	Riel '000
Balance at the beginning of the year		551,083	631,999
Current tax	27	2,099,619	683,365
Income tax paid		(945,308)	(764,281)
		<b>1,705,394</b>	<b>551,083</b>

### 15 ACCRUALS AND OTHER LIABILITIES

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Accrued expenses		
Interest	1,567,525	702,013
Bonus/incentives	1,047,157	769,890
Commission	—	50,625
Accrued taxes		
Withholding on salary	201,005	47,755
Withholding on others	191,199	264,208
Other payables	636,034	525,331
Others	132,120	83,718
	<b>3,775,040</b>	<b>2,443,540</b>

### 16 SHARE SUBSCRIPTION RECEIVED IN ADVANCE

According to the Subscription and Shareholder Agreement dated 14 December 2006, there were five new investors that invested in PRASAC. The new shareholders have paid in full for share subscription amounting to Riel 11,640,460,000 of ordinary shares since 22 December 2006. However, according to the Shareholder Agreement and Shareholder Purchase Agreement dated 27 December 2007, the five investors finally agreed on the consideration of Riel 10,982,904,400 for share purchase from Cambodia Rural Development Foundation ("CRDF") (as presented under subordinated debt in the balance sheet) and thus the balance of Riel 657,555,000 remains as "Share subscription received in advance" in the balance sheet.

The details of share subscription received in advance are as follows:

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Belgium Investment Company for Developing Counties SA ("BIO")	131,511	2,328,092
Dragon Capital Group ("DCG")	131,511	2,328,092
The Netherlands Finance Development Company ("FMO")	131,511	2,328,092
Lanka Orix Leasing Company Ltd ("LOLC")	131,511	2,328,092
Oikocredit Ecumenical Development Cooperative Society UA ("Oikocredit")	131,511	2,328,092
	<b>657,555</b>	<b>11,640,460</b>

According to an official letter No. B7.07.349.INF dated 6 July 2007 from the Central Bank, the Central Bank mentioned that the cash consideration to be paid by new investors for PRASAC shares should be used to strengthen PRASAC, according to the Agreement between the Royal Government of Cambodia and the Delegation of the European Union. Instead of being paid to the Government, the cash consideration paid by investors would increase the amount of the trust fund. (Note 18.ii Subordinated debt from CRDF).

## 17 SHARE CAPITAL

The details of shareholding are as follows:

	31 December 2007			31 December 2006		
	% of ownership	Number of shares	Amount Riel'000	% of ownership	Number of shares	Amount Riel'000
CRDF	0%	—	—	95%	11,875	237,500
PSCo	5%	13,520	270,400	5%	625	12,500
BIO	19%	51,376	1,027,520	—	—	—
DCG	19%	51,376	1,027,520	—	—	—
FMO	19%	51,376	1,027,520	—	—	—
LOLC	19%	51,376	1,027,520	—	—	—
Oikocredit	19%	51,376	1,027,520	—	—	—
	<b>100%</b>	<b>270,400</b>	<b>5,408,000</b>	<b>100%</b>	<b>12,500</b>	<b>250,000</b>

**PSCo** : PRASAC Staff Company. The total authorised numbers of share capital is 270,400 shares (2006: 12,500 shares) with a par value of Riel 20,000 per share (2006: Riel 20,000).

## 18 SUBORDINATED DEBT

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Subordinated debt from the Royal Government of Cambodia	(i) 34,674,673	34,674,673
Subordinated debt from CRDF (Note 16)	(ii) 10,982,904	—
	<b>45,657,577</b>	<b>34,674,673</b>

### (i) Subordinated debt from the Royal Government of Cambodia ("RGC")

The amount of Riel 34,674,673,914 consists of the funds transferred by EC to RGC and transferred by RGC to PRASAC as subordinated debt on 31 December 2004 with the terms and conditions of the agreement as follows:

- The fund is to be recorded as "Subordinated Debt" in the accounting records of PRASAC.
- PRASAC shall repay the total value of the Subordinated Debt to RGC on the following terms and conditions:
  - (a) The Subordinated Debt will not be repayable to RGC unless PRASAC MFI 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 RGC.

- (b)** The Subordinated Debt is a non-distributable fund.
- (c)** The Subordinated Debt is considered as "Tier II Capital" in the context of Article 15 of Prakas No.B700-006 on the licensing of Micro-Finance Institutions dated 11 January 2000 and shall be included when calculating the Capital Adequacy Ratio of PRASAC.

Subsequently, this was superseded by the NBC letter dated 22 May 2007 which recommended that PRASAC should request permission from NBC to include Subordinated Debt as Tier II Capital in Capital Adequacy Ratio calculation. On 14 August 2007, PRASAC wrote a letter to NBC requesting inclusion of Subordinated Debt in the calculation of net worth.

- The Subordinated Debt bears no interest.

## **(ii) Subordinated debt from Cambodia Rural Development Foundation**

In 2007, the proceeds of the sale ("the Fund") of Cambodia Rural Development Foundation ("CRDF")'s share transfer in the amount of Riel 10,982,904,400 was treated as subordinated debt with conditions as follows:

- The Funds shall be made available to PRASAC as a perpetual subordinated debt as provided below and shall be utilised solely for the purpose of the long-term provision of micro-finance to communities and micro-enterprises of the Kingdom of Cambodia.
- The Funds will be recorded as perpetual "Subordinated Debt, CRDF Share Sale" ("SDCSS") in the accounting records of PRASAC with the following conditions:
  - (a)** The SDCSS will be booked into a separate account in the balance sheet of PRASAC MFI;
  - (b)** The full amount of the SDCSS shall be included for the calculation of the net worth as 'Tier II Capital' in the context of the Calculation of Net Worth and for all prudential ratio purposes, such as the Capital Adequacy Ratio;
  - (c)** The SDCSS shall bear no interest. To protect the SDCSS from inflation, PRASAC will on an annual basis add to the amount outstanding under the SDCSS the previous year's inflation rate as published by the National Institute of Statistics

of Cambodia, with a cap at 5% p.a. This inflation compensation is an expense in PRASAC's books and will be booked into a special inflation protection account on its balance sheet;

- (d)** Any transfer of the SDCSS to a third party should be approved by all the parties to this agreement.

- The SDCSS shall only be repayable by PRASAC to CRDF in the following circumstances:

- (a)** If PRASAC ceases to provide credit to rural communities and micro enterprises in Cambodia. If CRDF forms the view that PRASAC MFI has ceased to provide credit to rural communities and micro enterprises in Cambodia, CRDF may call upon PRASAC to repay the SDCSS. However, CRDF may not call upon PRASAC to repay the SDCSS without such allegations being first confirmed by an audit (the "Audit") to be carried out by a private internationally audit firm. The Audit will be carried out at the initiative of and will be financed by PRASAC;
- (b)** If PRASAC does not approve the transfer of the SDCSS to a third party proposed by CRDF pursuant to clause 2.2. (d) of this Agreement;
- (c)** If PRASAC MFI decides at any time and at its sole discretion to repay the SDCSS in full.

- In the event CRDF is dissolved, PRASAC shall no longer have the obligation to repay the SDCSS, and the amount outstanding will be converted into a special protected reserve in PRASAC's accounts, not distributable to shareholders. In case PRASAC is dissolved due to insolvency, RGC shall be considered owner of the funds.

On 12 December 2007, PRASAC obtained the approval from the Central Bank to include:

- subordinated debt (i) above as Tier 2 in the net worth calculation, however, limited to 100% of base net worth; and
- in addition the subordinated debt (i) the full amount of subordinated debt (ii) can be considered tier 2 in net worth calculation until the end of 2008.

## 19 CASH AND CASH EQUIVALENTS

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Cash on hand (Note 4)	2,728,695	1,684,879
Balance with Banks (Note 5)	76,887	8,427,747
Current Account with the Central Bank (Note 6)	7,860,891	754,364
	<b>10,666,473</b>	<b>10,866,990</b>

## 20 INTEREST INCOME

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Group loans	2,456,319	3,579,765
Individual loans	32,672,722	17,465,345
Balances with banks	99,174	274
	<b>35,228,215</b>	<b>21,045,384</b>

## 21 INTEREST AND FEE EXPENSE

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Borrowings	5,433,585	2,333,436
Customers' deposits	38,485	55,216
	<b>5,472,070</b>	<b>2,388,652</b>

## 22 FEE AND COMMISSION EXPENSE

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Fee on group loans	(14,098)	65,651
Fee on borrowings	147,686	373,274
	<b>133,588</b>	<b>438,925</b>

To compensate and facilitate the collection of interest and principal amount for group loans, PRASAC pays the group loans' leaders, chief village, and chief commune:

Commission	2007	2006
Group loans	0%	4%

This commission includes withholding tax and is paid based on interest collection. Based on an Executive Management resolution on 15 June 2006, group loans disbursed after 15 June 2006 are not entitled to commission.

## 23 OTHER OPERATING INCOME

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Penalty income	152,858	51,350
Foreign exchange gain, net	193,006	126,933
Gain on disposal properties, net	32,350	(4,835)
Other income	85,126	161,577
	<b>463,340</b>	<b>335,025</b>

## 24 PROVISION FOR BAD AND DOUBTFUL LOANS - NET

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Provision expense for the period	716,305	231,891
Recovery of written-off previous loans	(267,617)	(422,647)
<b>Balance at end of the year</b>	<b>448,688</b>	<b>(190,756)</b>



## 25 OPERATING AND OTHER EXPENSES

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Salaries and staff benefits	12,319,074	9,292,721
Rental	1,211,468	846,791
Fuel for cars and generators	1,145,144	844,714
Other tax expenses	949,192	567,475
Marketing and promotions	710,548	330,803
Management advisory fees	704,524	668,585
Professional fees	534,611	209,456
Depreciation	515,008	352,113
Office supplies	454,742	459,879
Printing and stationary	367,402	329,294
Transportation	343,467	261,890
Per diem and incident travel	332,059	346,149
Communications	183,490	123,516
Maintenances	83,076	159,545
Training	67,754	519,239
Others	136,362	67,903
	<b>20,057,921</b>	<b>15,380,073</b>

## 26 GRANT INCOME

	31 December 2007	31 December 2006
	Riel '000	Riel '000
CGAP Financial Transparency Award	—	40,790
	—	<b>40,790</b>

During the year ended 31 December 2007, PRASAC did not receive any grant income or any donations.

## 27 INCOME TAX EXPENSE

### a) Tax on profit expenses

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Current tax	2,099,619	683,365
Deferred tax (note 9)	(118,378)	6,000
	<b>1,981,241</b>	<b>689,365</b>

### b) Accounting profit reconciliation

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Income before income tax	9,579,288	3,404,305
Profit tax at 20%	1,915,858	680,861
Expense not deductible for tax purposes	65,383	2,192
Additional income tax for 2005	—	6,312
	<b>1,981,241</b>	<b>689,365</b>

### c) Other tax matters

The Company's tax returns are subject to periodic examination by the tax authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities.

## 28 CURRENCY ANALYSIS (RIEL'000)

An analysis of PRASAC's assets and liabilities by currency are as follows:

31 December 2007	USD (Riel '000 Equivalent)	Riel	Total
<b>ASSETS</b>			
Cash in hand	1,415,689	1,313,006	2,728,695
Balances with banks	70,373	6,514	76,887
Balances with the Central Bank	1,761,320	6,424,211	8,185,531
Loans and advances to customers	64,586,317	67,465,011	132,051,328
Other assets	1,223,548	2,272,816	3,496,364
Deferred tax assets	—	249,057	249,057
Property and equipment	1,397,720	—	1,397,720
<b>Total Assets</b>	<b>70,454,967</b>	<b>77,730,615</b>	<b>148,185,582</b>
<b>LIABILITIES</b>			
Customers' deposits	726,749	288,897	1,015,646
Borrowings	67,838,180	13,011,000	80,849,180
Provision for retirement benefits and severance benefit obligation	1,385,495	132,915	1,518,410
Current income tax liabilities	—	1,705,394	1,705,394
Accruals and other liabilities	2,593,242	1,181,798	3,775,040
Share subscription received in advance	—	657,555	657,555
<b>Total Liabilities</b>	<b>72,543,666</b>	<b>16,977,559</b>	<b>89,521,225</b>
<b>Net (liability)/ asset position</b>	<b>(2,088,699)</b>	<b>60,753,056</b>	<b>58,664,357</b>
<b>31 December 2006</b>			
<b>Total Assets</b>	<b>51,150,866</b>	<b>54,822,465</b>	<b>105,973,331</b>
<b>Total Liabilities</b>	<b>45,955,891</b>	<b>19,934,034</b>	<b>65,889,925</b>
<b>Net asset position</b>	<b>5,194,975</b>	<b>34,888,430</b>	<b>40,083,406</b>

## 29 MATURITY PROFILE

The maturity profile of assets and liabilities (in Riel' 000) is as follows:

31 December 2007	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity date
<b>ASSETS</b>							
Cash in hand	2,728,695	2,728,695	—	—	—	—	—
Balances with banks	76,887	76,887	—	—	—	—	—
Balances with the Central Bank	8,185,531	7,860,891	—	—	—	—	324,640
Loans and advances to customers	132,051,328	1,808,494	9,441,042	74,636,661	46,165,131	—	—
Other assets	3,496,364	2,971,132	24,309	339,150	161,773	—	—
Deferred tax assets	249,057	—	—	—	—	—	249,057
Property and equipment	1,397,720	84,449	13,785	91,483	1,208,003	—	—
<b>Total Assets</b>	<b>148,185,582</b>	<b>15,530,548</b>	<b>9,479,136</b>	<b>75,067,294</b>	<b>47,534,907</b>	—	<b>573,697</b>
<b>LIABILITIES</b>							
Customers' deposits	1,015,646	909,632	89,514	16,500	—	—	—
Borrowings	80,849,180	—	—	19,128,865	60,910,315	810,000	—
Provision for retirement benefits and severance benefit obligation	1,518,410	—	—	—	—	—	1,518,410
Current income tax liabilities	1,705,394	—	1,705,394	—	—	—	—
Accruals and other liabilities	3,775,040	2,046,398	857,528	871,114	—	—	—
Share subscription received in advance	657,555	—	—	657,555	—	—	—
<b>Total Liabilities</b>	<b>89,521,225</b>	<b>2,956,030</b>	<b>2,652,436</b>	<b>20,674,034</b>	<b>60,910,315</b>	<b>810,000</b>	<b>1,518,410</b>
<b>Net liquidity surplus / (gap)</b>	<b>58,664,357</b>	<b>12,574,518</b>	<b>6,826,700</b>	<b>54,393,260</b>	<b>(13,375,408)</b>	<b>(810,000)</b>	<b>(944,713)</b>
<b>31 December 2006</b>							
Total Assets	105,973,331	16,168,251	5,836,478	55,099,395	28,193,607	—	675,600
Total Liabilities	65,889,925	3,047,788	1,921,466	21,712,478	37,520,657	810,000	877,536
<b>Net liquidity surplus / (gap)</b>	<b>40,083,406</b>	<b>13,120,463</b>	<b>3,915,012</b>	<b>33,386,917</b>	<b>(9,327,050)</b>	<b>(810,000)</b>	<b>(201,937)</b>

## 30 INTEREST RATE RISK

The interest rate risk exposure of financial assets and financial liabilities (in Riel' 000) is as follows:

31 December 2007	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non interest bearing
<b>ASSETS</b>							
Cash in hand	2,728,695	—	—	—	—	—	2,728,695
Balances with banks	76,887	48,549	—	—	—	—	28,338
Balances with the Central Bank	8,185,531	—	—	—	—	324,640	7,860,891
Loans and advances to customers	132,051,328	1,808,494	9,441,042	74,636,661	46,165,131	—	—
Other assets	3,496,364	—	—	—	—	—	3,496,364
Deferred tax assets	249,057	—	—	—	—	—	249,057
Property and equipment	1,397,720	—	—	—	—	—	1,397,720
<b>Total rate sensitive assets</b>	<b>148,185,582</b>	<b>1,857,043</b>	<b>9,441,042</b>	<b>74,636,661</b>	<b>46,165,131</b>	<b>324,640</b>	<b>15,761,065</b>
<b>LIABILITIES</b>							
Customers' deposits	1,015,646	909,632	89,514	16,500	—	—	—
Borrowings	80,849,180	—	—	19,128,865	60,910,315	810,000	—
Provision for retirement benefits and severance benefit obligation	1,518,410	—	—	—	—	—	1,518,410
Current income tax liabilities	1,705,394	—	—	—	—	—	1,705,394
Accruals and other liabilities	3,775,040	—	—	—	—	—	3,775,040
Share subscription received in advance	657,555	—	—	—	—	—	657,555
<b>Total rate sensitive liabilities</b>	<b>89,521,225</b>	<b>909,632</b>	<b>89,514</b>	<b>19,145,365</b>	<b>60,910,315</b>	<b>810,000</b>	<b>7,656,399</b>
<b>Total Interest Sensitive Gap</b>	<b>58,664,357</b>	<b>947,411</b>	<b>9,351,528</b>	<b>55,491,266</b>	<b>(14,745,184)</b>	<b>(485,360)</b>	<b>8,104,666</b>
<b>31 December 2006</b>							
Total rate sensitive assets	105,973,331	195,337	5,823,937	55,057,630	26,812,008	544,920	17,539,499
Total rate sensitive liabilities	65,889,925	907,900	1,066,730	10,072,018	37,520,657	810,000	15,512,620
<b>Total Interest Sensitive Gap</b>	<b>40,083,406</b>	<b>(712,563)</b>	<b>4,757,207</b>	<b>44,985,612</b>	<b>(10,708,649)</b>	<b>(265,080)</b>	<b>2,026,879</b>

### 31 LEASE COMMITMENTS

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

	31 December 2007	31 December 2006
	Riel '000	Riel '000
Not more than one year	977,283	513,486
More than 1 year and not more than 5 years	906,225	710,086
	<b>1,883,508</b>	<b>1,223,572</b>

### 32 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties.

	31 December 2007	31 December 2006
	Riel '000	Riel '000
<b>Board of Directors</b>		
Fees and relating expenses	26,236	39,486
<b>Key management</b>		
Salary and other benefits	1,227,095	728,842
<b>Interest expenses</b>		
The Netherlands Finance Development Company (Note 12.iii)	819,626	—
Oikocredit Ecumenical Development Cooperative Society UA (Note 12.v)	860,085	—
PRASAC Staff Company (Note 12.ix)	89,100	31,246
	<b>1,768,811</b>	<b>31,246</b>

# PRASAC MFI OFFICE NETWORK

## HEAD OFFICE:

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Chamkarmon, Phnom Penh, Cambodia  
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## Kampong Cham Branch

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Kampong Cham District, Kampong Cham Province  
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### Sub branch Kampong Siem

Address: Prampir Village, Kampong Cham Commune,  
Kampong Cham District, Kampong Cham Province  
Contact Person: Phat Pheth  
Contact Phone: 012 951 971 / 099 955 366

### Sub branch Chamkaleu

Address: Thnal Beak Village, Svay Teap Commune,  
Chamkarleu District, Kampong Cham Province  
Contact Person: Ly Kim Horn  
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### Sub branch Stoeung Trang

Boeng Deang Village, Prek Kak commune,  
Stoeung Trang district, Kampong Cham province  
Contact Person: Dyna Ponnarak  
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### Sub branch Prey Chhor

Slaeng village, Chey Vien Commune,  
Prey Chhor district, Kg. Cham province  
Contact Person: Khut Sophea  
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Email: prasac068@camshin.net

### Sub branch Koh Sotin

Daeum Sdau village, Pongro commune,  
Koh Soutin district, Kg. Cham province  
Contact Person: Chann Ratha  
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### Service Office Sithorkandal

Prek Sandek village, Prek Changkran Commune,  
Sithorkandal district, Prey Veng  
Contact Person: Heng Chanviratha  
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### Sub branch Cheung Prey

Skon Village, Soutip Commune, Cheung Prey District,  
Kampong Cham Province  
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### Sub branch Srey Santhor

Santey Village, Prek Pou Commune, Srey Santhor  
District, Kampong Cham Province  
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### Sub branch Batheay

Phaav Village, Phaav Commune, Batheay District,  
Kampong Cham Province  
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### Service Office Prey Kry

Prey Kry Village, Prey Kry Cheung Commune,  
Chol Kiri District, Kampong Chhnang Province  
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## Tbong Kmum branch

Cheung Lornng Village, Suong Commune,  
Tbong Khmum, Kampong Cham Province  
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### Sub branch Tbong Khmum

Cheung Lornng Village, Suong Commune,  
Thong Khmum distict, Kampong Cham Province  
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Contact Phone: 012 781 861 / 099 455 454

### Service Office Tra Peng Reusey

Trapeang Reusey Village, Roka Popram Commune,  
Tbong Khmum District, Kampong Cham Province  
Contact Person: In Sothy  
Contact Phone: 012 631 413

### Sub branch Oraing Ov

Lekh Bei village, Ampil Tapok Commune,  
Ouraing Ov District, Kampong Cham Province  
Contact Person: Phin Sary  
Contact Phone: 017 441 407 / 099 455 388 / 011 741 299

### Sub branch Chhloung

Koh Kandaor Village, Chhloung Commune,  
Chhloung District, Kratie Province.  
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### Sub branch Ponheakraek

Pou village, Kaong Kang commune,  
Ponhea Kraek district, Kampong Cham province  
Contact Person: Pel Taing Eng  
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### Sub branch Memut

Memut Phsar Village, Memut Commune, Memut district  
Kampong Cham province  
Contact Person: Teth Kamrong  
Contact Phone: 012 757 156 / 099 455 433

## Sub Branch Kratie

Phsarveng village, Kracheh commune,  
Kracheh district, Kratie province  
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## Prey Veng Branch

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**Sub branch Svay Antor**

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Prey Veng District, Prey Veng Province  
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**Sub branch Kam Chay Mea**

Chou Ti Muoy Village, Kranhng Commune,  
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**Service Office Kanhchriech**

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**Sub branch Neak Loeung**

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**Sub branch Baphnum**

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**Service Office Mesang**

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**Service Office Preah Sdach**

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**Sub branch Kampong Trabaek**

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Kampong Trabaek District, Prey Veng Province  
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**Kampong Thom Branch**

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**Sub-branch Kampong Thom**

Achar Leak Village, Achar Leak Commune,  
Stueng Sen district, Kampong Thom Province  
Contact Person: Soeur Kimheang  
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**Sub-branch Stong**

Chheuteal village, Kampong Chen Tbong Commune,  
Staung district, Kampong Thom province  
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**Sub branch Kampong Thmor**

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**Service Office Rom Long**

salakhom village, Salakhom commune,  
Baray district, Kampong Thom province  
Contact Person: Sum Lim Oeurn  
Contact Phone: 012 482 398

**Kampong Chhnang Branch**

Tuol Kralanh Village, Kampong Chhnang Commune,  
Kampong Chhnang District, Kampong Chhnang province  
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**Sub Branch Roleaphie**

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**Sub branch Boribo**

Ponley Village, Ponley Commune, Baribo District,  
Kampong Chhnang Province  
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**Sub branch Kampong Leng**

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**Sub branch Kampong Tralach**

Doeum Popel Village, Thmor Eth Commune,  
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**Service Office Tek Phos**

Sretachey Village, Akphivoadth Commune,  
Tuek Phos district Kampong Chhnang Province  
Contact Person: Men Samnang  
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**Takeo branch**

Phsar Takao village, Rorkakng Commune  
Daunkeo District, Takeo Province  
Contact Person: Sras Pheakdey  
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**Sub branch Daun Keo**

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**Sub Branch Ang Tasom**

Ang Tasom Village, Ang Tasaom Commune,  
Tram Kak District, Takeo Province  
Contact Person: Suon Yon  
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**Sub branch Kirivong**

Kampong Village, Preah Bat Chan Chum Commune,  
Kirivong District, Takeo Province  
Contact Person: Prak Lon  
Contact Phone: 012 525 903 / 032 399 036

**Service office Phsar Kiri**

Deikrahorm village, Rom Deng Commune  
 Kirivong District, Takeo Province  
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**Sub branch Kampong Chrey**

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**Sub branch Romenh**

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 Koh Andet District, Takeo Province  
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**Sub branch Prey Kabas**

Prey Lvea Kaeut village, Prey Lvea Commune,  
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**Sub branch Angkor Borey**

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**Sub branch Takhmau**

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**Sub branch Koh Thom**

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 Koh Thom District, Kandal Province  
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**Sub branch Saang**

Prek Run Village, Prek Koy Commune,  
 Saang District, Kandal Province  
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**Service Office Prek Ambil**

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 Saang District, Kandal Province  
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**Sub branch Kandal Steung**

Svay Ming village, Baku commune,  
 Kandal Stueng, Kandal  
 Contact Person: Kong Ty  
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**Sub branch Kien Svay**

Tuol Tnaot Village, Kokir Commune,  
 Kien Svay district, Kandal  
 Contact Person: Va Rithy  
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**Branch Ruesey Keo**

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 Reusey Keo district, Phnom Penh  
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**Sub branch Reusey Keo**

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**Sub branch Bekchan**

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**Sub branch Prek Kdam**

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 Pongea Leu District, Kandal Province  
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**Sub branch Prek Anchanh**

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**Sub branch Kampong Popil**

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**Service Office Pea Reang**

Snay Pol Village, Roka Commune,  
 Pea Reang District, Prey Veng Province  
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**Sub Branch Prek Takov**

Prek Lvea Village, Prek Takov Commune,  
 Khsach Kandal District, Kandal Province  
 Contact Person: Ek Sokphol  
 Contact Phone: 012 923 729

**Sub Branch Pochen Tong**

Por Prok Cheung village, Sangkat Ka Kab,  
 Khan Kangkoa, Phnom Penh  
 Contact Person: Sam Ol Sopheak  
 Contact Phone: 012 810 326 / 016 895 664

**Kampong Speu Branch**

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**Sub branch Chbar Morn**

Muk Khet Village, Roka Thum Commune,  
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**Sub branch Oudong**

Bat Doeng Village, Khsem Khsan Commune,  
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**Service Office Sam Rong**

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**Sub branch Kong Pisey**

Bat Doeng Village, Khsem Khsan Commune,  
Odongk District, Kampong Speu Province  
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**Service Office Slab Leng**

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**Service Office Trapeang Kraloeng**

Trapeang Kraloeng Village, Kiri Voan Commune,  
Phnom Sruoch District, Kampong Speu Province  
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Contact Phone: 012 904 072

**Svay Reing Branch**

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Contact Person: Preap Hor  
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**Sub branch Svay Chrum**

Ta Pa Village, Tasuos Commune,  
Svay Chrum District, Svay Rieng Province  
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Contact Phone: 011 598 177 / 016 732 077

**Sub branch Svay Teap**

Toul Ampil Village, Chrak Mtes Commune,  
Svay Teab District, Svay Rieng Province  
Contact Person: Som Sotha  
Contact Phone: 011 633 145

**Service Office Bror Sout**

Bror Sout Muoy Village, Kandeang Reay Commune,  
Svay Teab District, Svay Rieng Province  
Contact Person: Sann Tito  
Contact Phone: 012 736 772 / 099 844 117

**Sub branch Chantrea**

Toul Ampil Village, Chrak Mteh Commune,  
Svay Teab District, Svay Rieng Province  
Contact Person: Som Sotha  
Contact Phone: 011 633 145

**Service Office Prasaut**

Tradaet Village, Preah Ponlea Commune,  
Kampong Rou District, Svay Rieng Province  
Contact Person: San Tito  
Contact Phone: 012 736 772

**Sub branch Romeas Hek**

Kampong Trach Village, Kampong Trach Commune,  
Romeas Haek District, Svay Rieng Province  
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Contact Phone: 044 945 683 / 012 739 716 / 099 847 704

**Service Office Chann Trey**

Chann Trey Village, Chan Trey Commune,  
Romeas Haek District, Svay Rieng Province  
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Contact Phone: 012 322 080

**Kampot Branch**

6th group, Kampong Bay Khang Choeng Village,  
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**Sub branch Kampot**

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**Sub branch Banteay Meas**

Prey Krala Khang Lech Village, Touk Meas Khang Lech  
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**Sub branch Chhouk**

Sathpong Village, Sathpong Commune,  
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**Sub branch Kampong Trach**

Kampong Trach Ti Mouy Village,  
Kampong Trach Khang Khoeut Commune,  
Kampong Trach District, Kampot Province.  
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**Sub Branch Angkor Chey**

Phrav Village, Tann Commune,  
Angkor Chey District, Kampot Province  
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**Service Office Prey Nob**

Samrong Village, Sangkat Samrong,  
Khann Prey Nob, Sihanoukville  
Contact Person: Sorn Tha  
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**Pursat Branch**

Moan Chae Village, Prey Nhi Commune,  
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# MEETING

## Mr. San Rotha Client in Takeo

is a farmer who is successful in his agricultural livelihood with the working capital from PRASAC as well as his efforts.

It was difficult to grow the paddy due to lack of land and working capital as well as the irrigation system in the past time. Sometimes, it was flood and also drought. Significantly, we have an irrigation system by PRASAC project and working capital provided by PRASAC MFI which I can extend my economic activities like more agricultural equipments as well as home grocery selling, purchasing paddy and some agricultural land.

**"I currently have a better living with sufficient equipments and many economic activities".**



## Hay Channy Client in Kg. Speu

Mrs. Hay Chnany is the owner of a wooden furniture handicraft and pig raising. Today, her business activities are going well with a subsequently better living standard due to the loans from PRASAC with low interest rate enable to extend the business activities. I used to only grow paddy and my husband is a dentist. When we have loans available from PRASAC with low interest rate and my husband is also a carpenter, I initiated to request loan from PRASAC for another business in making furniture. Then I requested the second loan for helping my son in running his dentistry and buying some wood for making furniture as well as piglets.

I am currently raising pigs. It is convenient to have loan from PRASAC in running my business as I can earn some more money to support another one like feeds for piglets. We also can buy something after three months of raising piglets.

**"I am very glad to have loans provided by PRASAC with low interest rate, and I am convenient to repay by installments and some more money earned".**



## Chanthou-Client in Bati.

Mrs. Meas Chanthou, a middle-aged woman, had no a better living standard at the previous time. She and some of her children were stone-breaking workers while her husband is a moto-taxi driver.

As all the income together was insufficient for their livings, she decided to request loans from PRASAC to run a new job as a silk weaver which is the most popular and high income job in the village. I see the people in the village getting loan from PRASAC, I and my husband decided to get loan from PRASAC for weaving silk at home. At the first time, I have only one loom and I currently have three looms due to the loans from PRASAC with low interest rate and convenient repayment modes. My family has a better living now as I have paid off to PRASAC and I have left some money to build a room and buy a motor. At the same time, I get loan from PRASAC to build a biogas plant which electricity and gas are conveniently supplied to my family such as cooking and some extra work at night. In addition, I am planning to get more loans to increase the number of looms up to 5 for more economic activities.

**"It is fast services provided when I contact him in the morning, we can complete the loan documents in the afternoon. This makes me confidence in PRASAC".**



## Tes Sary-client taken

Mr. Tes Sary is a farmer and carpenter receiving loans with low interest rate from PRASAC for agricultural work and extension his wooden processing handicraft. I get loan from PRASAC owing to the interest rate lower than a private moneylender. At the same time, PRASAC provides loan based on the capacity of the borrower in repayment and I also request loan based on my repayment capacity. After I got loan from PRASAC, my livelihood is remarkably improved. I experienced to repay monthly interest and 3-month principal paid in the period of a year and when I get the yield from paddy,

**"I can pay off my loan at any time. When we need another loan, we can easily request it again from PRASAC".**



# PRASAC'S CLIENTS

*growing together*



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PRASAC MICROFINANCE INSTITUTION

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