

**CAMMA MICROFINANCE LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**CAMMA MICROFINANCE LIMITED**

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## DIRECTORS' REPORT

The Board of Directors of CAMMA Microfinance Limited (the Company) is pleased to present its report and the audited financial statements of the Company for the year ended 31 December 2013.

## PRINCIPAL ACTIVITY

The Company's principal activity is to efficiently and sustainably provide a wide variety of microfinance services to entrepreneurs of small and medium enterprises who are farmers, artisans and business persons.

## FINANCIAL PERFORMANCE

The financial performance for the year ended 31 December 2013 is set out in the income statement on page 8 of the financial statements.

## SHARE CAPITAL

The registered and paid-up capital of the Company is disclosed in the Note 13 to the financial statements.

## BAD AND DOUBTFUL LOANS

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

At the date of this report, the Board of Directors are not aware of any circumstances which would render the amount of the provision for bad and doubtful loans in the financial statements of the Company inadequate to any material extent.

## ASSETS

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

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





## VALUATION METHODS

At the date of this report, the Board of Directors 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 Company's financial statements misleading or inappropriate in any material respect.

## CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- i) no charge on the assets of the Company which has arisen since the end of the year which secures the liabilities of any other person; and
- ii) no contingent liability in respect of the Company that has arisen since the end of the year other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable after the end of the year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become due.

## CHANGE OF CIRCUMSTANCES

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

## ITEMS OF AN UNUSUAL NATURE

The Company's financial performance for the year ended 31 December 2013 was not, in the opinion of the Board of Directors, materially affected by any items, transactions or events of a material and unusual nature.

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

## THE BOARD OF DIRECTORS

The members of the Board of Directors holding office during the financial period and as at the date of this report are:

Mr. Benson Samay  
Ms. Khat Sokean  
Mr. Thun Vathana

Chairperson  
Vice-chairperson  
Member





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

The Board of Directors are responsible to ensure that the financial statements are properly drawn up, so as to present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of Cambodian Accounting Standards and the guidelines issued by Central Bank or, if there have been any departures in the interest of true and fair presentation, ensure they have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- v) set overall policies for the Company, ratify all decisions and actions by the Board of Directors that have a material effect on the operations and performance of the Company, and ensure they have been properly reflected in the financial statements.

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

## APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements, which present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year ended 31 December 2013 in accordance with Cambodian Accounting Standards and the guidelines issued by Central Bank, were approved by the Board of Directors.

On behalf of the Board of Directors,

Mr. Benson Samay  
Chairperson

Ms. Dith Nita  
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date **11 APR 2014**





## **Independent auditor's report**

To the shareholders of CAMMA Microfinance Limited

We have audited the accompanying financial statements of CAMMA Microfinance Limited (the Company), which comprise the balance sheet as at 31 December 2013, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibilities for the financial statements*

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

### *Auditor's Responsibility*

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

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

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines issued by Central Bank.

For PricewaterhouseCoopers (Cambodia) Ltd.



By Kuy Lim  
Partner

Phnom Penh, Kingdom of Cambodia  
Date: 11 April 2014

**CAMMA MICROFINANCE LIMITED**

**BALANCE SHEET  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013		2012	
		US\$	KHR '000	US\$	KHR '000
<b>Assets</b>					
Cash on hand		52,120	208,219	30,844	123,222
Balances with the Central Bank	4	42,718	170,658	42,680	170,507
Balances with banks	5	516,571	2,063,701	64,305	256,898
Loans to customers	6	3,559,846	14,221,585	2,465,893	9,851,243
Other assets	7	75,896	303,205	66,547	265,855
Property and equipment	8	59,708	238,534	59,151	236,308
Intangible assets	9	1,211	4,838	1,187	4,742
<b>Total assets</b>		<b>4,308,070</b>	<b>17,210,740</b>	<b>2,730,607</b>	<b>10,908,775</b>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Borrowings	10	3,187,000	12,732,065	1,805,000	7,210,975
Other liabilities	11	33,687	134,580	23,182	92,612
Provision for income tax	12	33,645	134,412	7,235	28,904
<b>Total liabilities</b>		<b>3,254,332</b>	<b>13,001,057</b>	<b>1,835,417</b>	<b>7,332,491</b>
<b>Equity</b>					
Share capital	13	850,000	3,395,750	850,000	3,395,750
Retained earnings		203,738	813,933	45,190	180,534
<b>Total equity</b>		<b>1,053,738</b>	<b>4,209,683</b>	<b>895,190</b>	<b>3,576,284</b>
<b>Total liabilities and equity</b>		<b>4,308,070</b>	<b>17,210,740</b>	<b>2,730,607</b>	<b>10,908,775</b>

The accompanying notes on pages 10 to 34 form an integral part of these financial statements.



**CAMMA MICROFINANCE LIMITED**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013		2012	
		US\$	KHR '000	US\$	KHR '000
Interest income	14	640,801	2,560,000	351,485	1,404,183
Interest expense	15	(198,254)	(792,025)	(100,900)	(403,096)
<b>Net interest income</b>		442,547	1,767,975	250,585	1,001,087
Provision for bad and doubtful loans	6	(10,849)	(43,342)	(32,537)	(129,985)
<b>Net interest income after provision for bad and doubtful loans</b>		431,698	1,724,633	218,048	871,102
Other operating income	16	25,226	100,778	9,378	37,465
Personnel expenses	17	(112,399)	(449,034)	(75,511)	(301,666)
Depreciation and amortisation charges		(21,518)	(85,964)	(4,933)	(19,707)
General and administrative expenses	18	(124,822)	(498,664)	(68,639)	(274,213)
<b>Profit before income tax</b>		198,185	791,749	78,343	312,981
Income tax expense	19	(39,637)	(158,350)	(10,395)	(41,529)
<b>Profit for the year</b>		158,548	633,399	67,948	271,452

The accompanying notes on pages 10 to 34 form an integral part of these financial statements.

**CAMMA MICROFINANCE LIMITED**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	<b>Share capital US\$</b>	<b>Retained earnings US\$</b>	<b>Total US\$</b>
As at 1 January 2012	350,000	(22,758)	327,242
Profit for the year	-	67,948	67,948
Additional paid up capital	500,000	-	500,000
<b>As at 31 December 2012</b>	<u>850,000</u>	<u>45,190</u>	<u>895,190</u>
<b>Equivalent in KHR '000</b>	<u>3,395,750</u>	<u>180,534</u>	<u>3,576,284</u>
As at 1 January 2013	850,000	45,190	895,190
Profit for the year	-	158,548	158,548
<b>Balance as at 31 December 2013</b>	<u>850,000</u>	<u>203,738</u>	<u>1,053,738</u>
<b>Equivalent in KHR '000</b>	<u>3,395,750</u>	<u>813,933</u>	<u>4,209,683</u>

The accompanying notes on pages 10 to 34 form an integral part of these financial statements.

**CAMMA MICROFINANCE LIMITED**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013		2012	
		US\$	KHR '000	US\$	KHR '000
<b>Cash flows from operating activities</b>					
Cash used in operations	20	(1,315,088)	(5,253,778)	(2,097,590)	(8,379,873)
Interest received		629,140	2,513,414	331,011	1,322,389
Interest paid		(187,146)	(747,648)	(94,133)	(376,061)
Income tax paid	12	(13,227)	(52,842)	(3,285)	(13,124)
Net cash used in operating activities		<u>(886,321)</u>	<u>(3,540,854)</u>	<u>(1,863,997)</u>	<u>(7,446,669)</u>
<b>Cash flows from investing activities</b>					
Capital guarantee with the Central Bank		-	-	(25,000)	(99,875)
Term deposits more than three months		(200,000)	(799,000)	-	-
Purchases of property and equipment	8	(22,099)	(88,286)	(56,334)	(225,054)
Net cash used in investing activities		<u>(222,099)</u>	<u>(887,286)</u>	<u>(81,334)</u>	<u>(324,929)</u>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		1,918,526	7,664,512	2,035,000	8,129,825
Repayments of borrowings		(536,526)	(2,143,421)	(530,000)	(2,117,350)
Proceeds from paid-up capital		-	-	500,000	1,997,500
Net cash generated from financing activities		<u>1,382,000</u>	<u>5,521,091</u>	<u>2,005,000</u>	<u>8,009,975</u>
<b>Net increase in cash and cash equivalents</b>		<b>273,580</b>	<b>1,092,951</b>	<b>59,669</b>	<b>238,377</b>
Cash and cash equivalents at the beginning of the year		<u>95,329</u>	<u>380,839</u>	<u>35,660</u>	<u>142,462</u>
<b>Cash and cash equivalents at the end of the year</b>	21	<u><b>368,909</b></u>	<u><b>1,473,790</b></u>	<u><b>95,329</b></u>	<u><b>380,839</b></u>

The accompanying notes on pages 10 to 34 form an integral part of these financial statements.

## **CAMMA MICROFINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

#### **1. BACKGROUND INFORMATION**

CAMMA Microfinance Limited (the Company) is incorporated in the Kingdom of Cambodia as a limited liability company. The Company is registered with the Ministry of Commerce under the Registration No. Co. 0700 KH/2010, dated 06 April 2010. On 29 July 2010, the Company obtained a permanent license from the National Bank of Cambodia (NBC or the Central Bank) to provide micro-finance services.

The Company's vision is to become a reliable microfinance institution which provides the Cambodian people with opportunities to improve their livelihoods through access to loans from the Company.

The Company's principal activity is to efficiently and sustainably provide a wide variety of microfinance services to entrepreneurs of small and medium enterprises who are farmers, artisans and business persons.

The Company's registered office is located at No.101A, Street 289, Sangkat Boeng Kak I, Khan Toul Kok, Phnom Penh, Cambodia.

As at 31 December 2013, the Company employed 37 employees (31 December 2012: 27 employees).

#### **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 the period presented, unless otherwise stated.

##### **2.1 Basis of preparation**

The financial statements of the Company, which are expressed in United States Dollars (US\$), are prepared under the historical cost convention and drawn up in accordance with Cambodian Accounting Standards (CAS) and the guidelines of the Central Bank.

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

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

## CAMMA MICROFINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 New financial reporting framework

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

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

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

### 2.3 Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The management has determined the US\$ to be the Company's functional currency owing to the significant influence of the US\$ on its operations. The financial statements are presented in US\$, which is the Company's functional and presentation currency.

#### (ii) *Transactions and balances*

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

#### (iii) *Presentation in Khmer Riel*

For the sole regulatory purpose of complying with the Prakas No. B7-07-164 dated 13 December 2007 of the Central Bank, a translation to Khmer Riel is provided for the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements as of and for the year ended 31 December 2013 using the official rate of exchange regulated by the Central Bank as at the reporting date, which was United States dollars (US\$) 1 to Khmer Riel (KHR) 3,995 (31 December 2012: US\$1 to KHR3,995). Such translation amounts are unaudited and should not be construed as representations that the US\$ amounts represent, or have been or could be, converted into Khmer Riel at that or any other rate.

## CAMMA MICROFINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4 Cash and cash equivalents

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

##### 2.5 Loans to customers

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

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

##### 2.6 Provision for bad and doubtful loans

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

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

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

## CAMMA MICROFINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.7 Property and equipment

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

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

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

Leasehold improvement	25%
Computer and IT equipment	25%
Office furniture and equipment	25%

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

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

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

##### 2.8 Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised at 25% per annum using straight-line basis.

Costs associated with maintaining computer software are recognised as an expense when incurred.

##### 2.9 Impairment of non-financial assets

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

## CAMMA MICROFINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Borrowings

Borrowings are stated at the amount of the principal outstanding. Fees paid on the establishment of borrowing facilities are recognised as expense in the income statement.

### 2.11 Provisions

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

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

### 2.12 Income tax

#### (a) *Current income tax*

The current income tax, recognised in the income statement, is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the Kingdom of Cambodia where the Company operates and generates taxable income.

#### (b) *Deferred income tax*

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

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

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

### 2.13 Interest income and expense recognition

Interest income earned on loans is recognised on an accrual basis taking into consideration the principal amount of loans outstanding. When a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis.

Interest expenses on borrowings are recognised on an accrual basis.



## **CAMMA MICROFINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.14 Fee and commission income**

Fee and commission income is recognised on an accruals basis when the service has been provided. Loan processing fees are recognised as income when loan is disbursed.

##### **2.15 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.

##### **2.16 Related party transactions**

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

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

#### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

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

##### **a) Impairment losses on loans to customers**

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

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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

**b) Taxes**

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

**4. BALANCES WITH THE CENTRAL BANK**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Statutory capital deposit (*)	42,500	169,788	42,500	169,788
Current accounts	218	870	180	719
	<u>42,718</u>	<u>170,658</u>	<u>42,680</u>	<u>170,507</u>

(\*) In compliance with Prakas No. B700-006 issued by the Central Bank's on the licensing of micro-finance institutions, the Company is required to maintain a minimum amount equal to 5% of its approved share capital in an interest-earning account of 0.11% per annum (2012:0.12%).

**5. BALANCES WITH BANKS**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Current accounts	166,571	665,451	64,305	256,898
Term deposits	350,000	1,398,250	-	-
	<u>516,571</u>	<u>2,063,701</u>	<u>64,305</u>	<u>256,898</u>

(i) *Annual interest rates:*

	2013	2012
Current accounts	Nil - 0.75%	Nil - 0.75%
Term deposits	2% - 2.25%	Nil

CAMMA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

6. LOANS TO CUSTOMERS

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Short term loans	45,732	182,699	19,703	78,713
Long term loans	3,519,183	14,059,136	2,447,590	9,778,122
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>
Provision for bad and doubtful loans	(5,069)	(20,250)	(1,400)	(5,592)
	<u>3,559,846</u>	<u>14,221,585</u>	<u>2,465,893</u>	<u>9,851,243</u>

(a) Provision for bad and doubtful loans

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
At beginning of the year	1,400	5,593	4,638	18,529
Additions	10,849	43,342	(3,238)	(12,937)
Bad debts written off during the year	(7,180)	(28,685)	-	-
At end of the year	<u>5,069</u>	<u>20,250</u>	<u>1,400</u>	<u>5,592</u>

(b) By maturity

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
No later than 1 month	119	475	1,358	5,425
Later than 1 month and no later than 3 months	2,933	11,717	2,108	8,421
Later than 3 months and no later than 12 months	134,105	535,749	71,354	285,059
Later than 12 months	<u>3,427,758</u>	<u>13,693,894</u>	<u>2,392,473</u>	<u>9,557,930</u>
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

(c) By economic sector

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Trade and commerce	1,526,024	6,096,466	882,796	3,526,770
Services	709,745	2,835,431	335,789	1,341,477
Agriculture	245,453	980,585	284,939	1,138,331
Transportation	182,867	730,554	106,606	425,891
Construction	99,759	398,537	50,948	203,537
Household/family	8,400	33,558	-	-
Others	<u>792,667</u>	<u>3,166,704</u>	<u>806,215</u>	<u>3,220,829</u>
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**6. LOANS TO CUSTOMERS (continued)**

*(d) By currency*

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
US Dollars	3,564,915	14,241,835	2,467,293	9,856,835
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

*(e) By relationship*

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Staff loans	30,433	121,580	7,230	28,883
External customers	3,534,482	14,120,255	2,460,063	9,827,952
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

*(f) Interest rate*

The annual interest rates during the period are as follows:

	2013	2012
Staff loans	15.60%	15.60%
External customers	15.60% - 30%	20.4% - 30%

*(g) By performance*

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Standard loans				
- Secured	3,502,218	13,991,361	2,396,992	9,575,983
- Unsecured	30,433	121,580	58,658	234,339
Substandard loans				
- Secured	23,053	92,097	10,459	41,784
- Unsecured	-	-	-	-
Doubtful loans				
- Secured	9,211	36,797	1,184	4,729
- Unsecured	-	-	-	-
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**6. LOANS TO CUSTOMERS (continued)**

(h) *By location*

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Phnom Penh city	2,641,010	10,550,835	1,611,281	6,437,068
Kandal province	923,905	3,691,000	855,140	3,416,284
Kampong Speu province	-	-	872	3,483
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

(i) *By exposure*

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Non large exposures	3,564,915	14,241,835	2,467,293	9,856,835
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

(j) *By residency status*

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Residents	3,564,915	14,241,835	2,467,293	9,856,835
	<u>3,564,915</u>	<u>14,241,835</u>	<u>2,467,293</u>	<u>9,856,835</u>

**7. OTHER ASSETS**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Accrued interest receivable	40,149	160,395	27,246	108,848
Interest in suspense	(1,962)	(7,838)	(720)	(2,876)
Net interest receivable	<u>38,187</u>	<u>152,557</u>	<u>26,526</u>	<u>105,972</u>
Deposits	32,075	128,140	36,630	146,337
Others	5,634	22,508	3,391	13,546
	<u>75,896</u>	<u>303,205</u>	<u>66,547</u>	<u>265,855</u>

CAMMA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

8. PROPERTY AND EQUIPMENT

	Leasehold improvement US\$	Office furniture and equipment US\$	Computer and IT equipment US\$	Total US\$
<b>As at 1 January 2012</b>				
Cost	-	4,425	7,130	11,555
Accumulated Depreciation	-	(1,595)	(2,604)	(4,199)
Closing net book value	-	2,830	4,526	7,356
<b>Year ended 31 December 2012</b>				
Opening net book value	-	2,830	4,526	7,356
Additions	47,947	1,422	6,965	56,334
Write off - net	-	(356)	-	(356)
Depreciation charge	-	(1,326)	(2,857)	(4,183)
Closing net book value	47,947	2,570	8,634	59,151
<b>At 31 December 2012</b>				
Cost	47,947	5,491	14,095	67,533
Accumulated depreciation	-	(2,921)	(5,461)	(8,382)
Closing net book value	47,947	2,570	8,634	59,151
Equivalent in KHR '000	191,548	10,267	34,493	236,308
<b>Year ended 31 December 2013</b>				
Opening net book value	47,947	2,570	8,634	59,151
Additions	7,205	6,035	7,824	21,064
Depreciation charge	(12,910)	(2,313)	(5,284)	(20,507)
Closing net book value	42,242	6,292	11,174	59,708
<b>At 31 December 2013</b>				
Cost	55,152	11,526	21,919	88,597
Accumulated depreciation	(12,910)	(5,234)	(10,745)	(28,889)
Closing net book value	42,242	6,292	11,174	59,708
Equivalent in KHR '000	168,757	25,137	44,640	238,534

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**9. INTANGIBLE ASSETS**

	<b>Computer software US\$</b>	<b>Total US\$</b>
<b>As at 1 January 2012</b>		
Cost	3,000	3,000
Accumulated Depreciation	(1,063)	(1,063)
Closing Net book value	<u>1,937</u>	<u>1,937</u>
<b>Year ended 31 December 2012</b>		
Opening net book amount	1,937	1,937
Additions	-	-
Amortisation charge	(750)	(750)
Closing net book value	<u>1,187</u>	<u>1,187</u>
<b>At 31 December 2012</b>		
Cost	3,000	3,000
Accumulated amortisation	(1,813)	(1,813)
Closing net book value	<u>1,187</u>	<u>1,187</u>
Equivalent in KHR '000	<u>4,742</u>	<u>4,742</u>
<b>Year ended 31 December 2013</b>		
Opening net book amount	1,187	1,187
Additions	1,035	1,035
Amortisation charge	(1,011)	(1,011)
Closing net book value	<u>1,211</u>	<u>1,211</u>
<b>At 31 December 2013</b>		
Cost	4,035	4,035
Accumulated amortisation	(2,824)	(2,824)
Closing net book value	<u>1,211</u>	<u>1,211</u>
Equivalent in KHR '000	<u>4,838</u>	<u>4,838</u>

**10. BORROWINGS**

	<b>2013</b>		<b>2012</b>	
	<b>US\$</b>	<b>KHR '000</b>	<b>US\$</b>	<b>KHR '000</b>
Specialised bank	1,500,000	5,992,500	1,100,000	4,394,500
Individuals	1,187,000	4,742,065	705,000	2,816,475
Company	500,000	1,997,500	-	-
	<u>3,187,000</u>	<u>12,732,065</u>	<u>1,805,000</u>	<u>7,210,975</u>

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**11. OTHER LIABILITIES**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Accrued Interest payable	19,775	79,001	8,667	34,625
Unearned income	4,761	19,020	2,645	10,567
Professional fees	2,915	11,645	5,280	21,094
Deposits from others	2,100	8,390	-	-
Salaries and other benefits	1,026	4,099	2,650	10,587
Other tax payables	1,016	4,059	3,475	13,883
Others	2,094	8,365	465	1,856
	<u>33,687</u>	<u>134,579</u>	<u>23,182</u>	<u>92,612</u>

**12. PROVISION FOR INCOME TAX**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Balance at the beginning of the year	7,235	28,904	125	499
Income tax expense (Note 19)	39,637	158,350	10,395	41,529
Income tax paid	(13,227)	(52,842)	(3,285)	(13,124)
Currency translation differences	-	-	-	-
	<u>33,645</u>	<u>134,412</u>	<u>7,235</u>	<u>28,904</u>

**13. SHARE CAPITAL**

	2013			2012		
	% of Ownership	Number of shares	Amount - US\$	% of Ownership	Number of shares	Amount - US\$
H.E Ou San	83.53%	7,100	710,000	83.53%	7,100	710,000
Madam Dith Nita	16.47%	1,400	140,000	16.47%	1,400	140,000
		<u>8,500</u>	<u>850,000</u>		<u>8,500</u>	<u>850,000</u>
Equivalent in KHR' 000			<u>3,395,750</u>			<u>3,395,750</u>

All shares are fully paid up, with a par value of US\$100 per share. The change of ownership and number of shares was reflected in the amended Memorandum and Articles of Association and then approved by Central Bank on 12 April 2012 and the Ministry of Commerce on 24 July 2012.



**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**14. INTEREST INCOME**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Loans to customers	640,003	2,556,812	350,965	1,402,105
Deposits with banks	798	3,188	520	2,078
	<u>640,801</u>	<u>2,560,000</u>	<u>351,485</u>	<u>1,404,183</u>

**15. INTEREST EXPENSE**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Borrowings from banks	116,048	463,612	85,662	342,220
Borrowings from individuals	82,206	328,413	15,238	60,876
	<u>198,254</u>	<u>792,025</u>	<u>100,900</u>	<u>403,096</u>

**16. OTHER OPERATING INCOME**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Rental income	12,945	51,715	-	-
Commission fees	5,072	20,263	6,920	27,645
Penalty income	191	763	269	1,075
Others	7,018	28,037	2,189	8,745
	<u>25,226</u>	<u>100,778</u>	<u>9,378</u>	<u>37,465</u>

**17. PERSONNEL EXPENSES**

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
Salaries and bonuses	110,481	441,372	72,545	289,817
Staff uniforms	776	3,100	2,357	9,416
Meal allowances	757	3,024	376	1,502
Training costs	360	1,438	195	779
Medical benefits	25	100	38	152
	<u>112,399</u>	<u>449,034</u>	<u>75,511</u>	<u>301,666</u>

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**18. GENERAL AND ADMINISTRATIVE EXPENSES**

	2013		2012	
	US\$	KHR '000	US\$	KHR '000
Office rental	60,000	239,700	25,600	102,272
Office supplies and equipment	10,350	41,348	1,946	7,774
Utilities	9,371	37,437	4,283	17,111
Security	9,360	37,393	-	-
Travelling and vehicle expenses	7,926	31,664	6,074	24,266
Professional fees	6,685	26,707	5,480	21,893
Credit Bureau fees	2,853	11,398	5,071	20,259
Repairs and maintenance	2,622	10,475	2,649	10,583
Communication	2,584	10,323	1,734	6,927
Printing and copy expenses	1,256	5,018	3,292	13,152
Board of Directors' fee	330	1,318	330	1,318
Others	11,485	45,883	12,180	48,658
	<u>124,822</u>	<u>498,664</u>	<u>68,639</u>	<u>274,213</u>

**19. INCOME TAX EXPENSE**

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
Profit before income tax	198,185	791,749	78,343	312,980
Loss carried forward	-	-	(22,758)	(90,918)
Taxable profit	<u>198,185</u>	<u>791,749</u>	<u>55,585</u>	<u>222,062</u>
Income tax using statutory rate (20%)	39,637	158,350	11,117	44,412
Effect of:				
Other adjustment	-	-	-	-
Non-deductible expenses	-	-	(722)	(2,883)
	<u>39,637</u>	<u>158,350</u>	<u>10,395</u>	<u>41,529</u>

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

The Company's tax returns are subject to periodic examination by the General Department of Taxation. 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 General Department of Taxation.

The Directors believe that they have adequately provided for tax liabilities based on its interpretation of current tax legislation.

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**20. CASH USED IN OPERATIONS**

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
<b>Cash flows from operating activities</b>				
Profit before income tax	198,185	791,749	78,343	312,980
<i>Adjustments for:</i>				
Depreciation and amortisation (Note 18)	21,518	85,964	4,933	19,707
Write-off property and equipment	-	-	356	1,422
Provision for bad and doubtful loans (Note 6)	(3,669)	(14,658)	3,238	12,936
Net interest income	(442,547)	(1,767,975)	(250,585)	(1,001,087)
	(226,513)	(904,920)	(163,715)	(654,042)
<i>Changes in working capital</i>				
Loans to customers	(1,090,284)	(4,355,685)	(1,902,532)	(7,600,615)
Other assets	2,312	9,236	(35,687)	(142,570)
Other liabilities	(603)	(2,409)	4,344	17,354
<b>Cash used in operations</b>	<b>(1,315,088)</b>	<b>(5,253,778)</b>	<b>(2,097,590)</b>	<b>(8,379,873)</b>

**21. CASH AND CASH EQUIVALENTS**

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
Cash on hand	52,120	208,219	30,844	123,222
Balances with the Central Bank	218	870	180	719
Balances with banks	316,571	1,264,701	64,305	256,898
	368,909	1,473,790	95,329	380,839

**22. RELATED PARTY TRANSACTIONS AND BALANCES**

The Company is owned by H.E Ou San and Madam Dith Nita which has 83.53% and 16.47% shares of the Company, respectively.

Significant transactions with related parties are as follows:

(a) Related party transactions

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
Board of Directors' fee	330	1,318	330	1,318
Key management's remuneration	41,080	164,115	21,176	84,599
	41,410	165,433	21,506	85,917

## CAMMA MICROFINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

#### 23. COMMITMENTS

These operating lease commitments mainly relate to the office rental, which is renewable upon mutual agreement.

Where the Company is the lessee, the future minimum lease payments under contractual operating leases are as follows:

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
<b><i>Lease commitments</i></b>				
No later than 1 year	60,000	239,700	60,000	239,700
Later than 1 year and no later than 5 years	262,202	1,047,497	254,430	1,016,448
Later than 5 years (6 and above)	281,106	1,123,018	348,878	1,393,768
	<u>603,308</u>	<u>2,410,215</u>	<u>663,308</u>	<u>2,649,915</u>

#### 24. FINANCIAL RISK MANAGEMENT

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

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

##### 24.1 Credit risk

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

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

##### (a) Credit risk measurement

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

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.1 Credit risk (continued)**

(b) Risk limit control and mitigation policies

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

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

(c) Impairment and provisioning policies

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

	<u>Percentage of provision</u>
Standard	0%
Substandard	10%
Doubtful	30%
Loss	100%

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

	<u>2013</u>		<u>2012</u>	
	<u>US\$</u>	<u>KHR' 000</u>	<u>US\$</u>	<u>KHR' 000</u>
<i>Credit exposures relating to on-balance sheet assets:</i>				
Balances with banks	516,571	2,063,701	64,305	256,898
Loans to customers	3,559,846	14,221,585	2,465,893	9,851,243
Other assets	71,444	285,417	57,956	231,534
	<u>4,147,861</u>	<u>16,570,703</u>	<u>2,588,154</u>	<u>10,339,675</u>

The above table represents a worst case scenario for credit risk exposure to the Company at 31 December 2013, without taking into account any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposure set out above is based on net carrying amounts.

As shown above, 86% of total maximum exposure is derived from loans to customers (2012: 95%).

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT** (continued)

**24.1 Credit risk** (continued)

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

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

- 99% of the loans in the portfolio are considered to be neither past due nor impaired (2012: 99%); and
- The Company has introduced a more stringent selection and collection process for granting loans to customers.

(e) Loans to customers

Loans to customers are summarised as follows:

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
Loans to customers neither past due nor impaired	3,518,979	14,058,321	2,450,441	9,789,512
Loans to customers past due but not impaired	13,672	54,620	5,209	20,810
Loans to customers individually impaired	32,264	128,894	11,643	46,514
Gross	3,564,915	14,241,835	2,467,293	9,856,836
Less: Provision for bad and doubtful loans	(5,069)	(20,250)	(1,400)	(5,593)
Net loans to customers	3,559,846	14,221,585	2,465,893	9,851,243

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirements. The total provision for bad and doubtful loans is US\$5,069 (2012: US\$1,400), which represents the specific provision required by the Central Bank.

(i) *Loans to customers neither past due nor impaired*

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

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

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.1 Credit risk (continued)**

*(ii) Loans to customers renegotiated*

There were no renegotiated loans to customers at 31 December 2013.

*(iii) Repossessed collateral*

During the period ended 31 December 2013, the Company did not obtain any assets by taking possession of collateral held as security (2012: nil).

**24.2 Market risk**

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

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

*(i) Foreign exchange risk*

The Company operates in Cambodia and transacts in US\$ only, and is not exposed to foreign currency risk.

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

*(ii) Price risk*

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

*(iii) Interest rate risk*

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

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.2 Market risk (continued)**

(iii) Interest rate risk (continued)

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

	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>As at 31 December 2013</b>							
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	52,120	52,120
Balances with the Central Bank	-	-	-	-	42,500	218	42,718
Balances with banks	166,571	150,000	200,000	-	-	-	516,571
Loans to customers (*)	119	2,933	134,105	3,427,758	-	-	3,564,915
Other assets	-	-	-	-	-	68,587	68,587
<b>Total financial assets</b>	<b>166,690</b>	<b>152,933</b>	<b>334,105</b>	<b>3,427,758</b>	<b>42,500</b>	<b>120,925</b>	<b>4,244,911</b>
<i>Equivalent in KHR' 000</i>	<i>665,927</i>	<i>610,967</i>	<i>1,334,749</i>	<i>13,693,893</i>	<i>169,788</i>	<i>483,095</i>	<i>16,958,419</i>
<b>Financial liabilities</b>							
Borrowings	(50,000)	(510,000)	(947,000)	(1,680,000)	-	-	(3,187,000)
Other liabilities	-	-	-	-	-	(29,849)	(29,849)
<b>Total financial liabilities</b>	<b>(50,000)</b>	<b>(510,000)</b>	<b>(947,000)</b>	<b>(1,680,000)</b>	<b>-</b>	<b>(29,849)</b>	<b>(3,216,849)</b>
<i>Equivalent in KHR' 000</i>	<i>(199,750)</i>	<i>(2,037,450)</i>	<i>(3,783,265)</i>	<i>(6,711,600)</i>	<i>-</i>	<i>(119,247)</i>	<i>(12,851,312)</i>
<b>Total interest repricing gap</b>	<b>216,690</b>	<b>662,933</b>	<b>1,281,105</b>	<b>5,107,758</b>	<b>42,500</b>	<b>150,774</b>	<b>7,461,760</b>
<i>Equivalent in KHR' 000</i>	<i>865,677</i>	<i>2,648,417</i>	<i>5,118,014</i>	<i>20,405,493</i>	<i>169,788</i>	<i>602,342</i>	<i>29,809,731</i>

(\*) this represents the gross loan excluding provision for bad and doubtful loan.



**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.2 Market risk (continued)**

(iii) Interest rate risk (continued)

	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>As at 31 December 2012</b>							
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	30,844	30,844
Balances with the Central Bank	-	-	-	-	42,500	180	42,680
Balances with banks	64,305	-	-	-	-	-	64,305
Loans to customers (*)	1,358	2,108	71,354	2,294,167	98,000	-	2,466,987
Other assets	-	-	-	-	-	40,021	40,021
<b>Total financial assets</b>	<b>65,663</b>	<b>2,108</b>	<b>71,354</b>	<b>2,294,167</b>	<b>140,500</b>	<b>71,045</b>	<b>2,644,837</b>
<i>Equivalent in KHR' 000</i>	<i>262,324</i>	<i>8,421</i>	<i>285,059</i>	<i>9,165,197</i>	<i>561,298</i>	<i>283,825</i>	<i>10,566,124</i>
<b>Financial liabilities</b>							
Borrowings	-	-	(162,000)	(1,643,000)	-	-	(1,805,000)
Other liabilities	-	-	-	-	-	(19,707)	(19,707)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(162,000)</b>	<b>(1,643,000)</b>	<b>-</b>	<b>(19,707)</b>	<b>(1,824,707)</b>
<i>Equivalent in KHR' 000</i>	<i>-</i>	<i>-</i>	<i>(647,190)</i>	<i>(6,563,785)</i>	<i>-</i>	<i>(78,729)</i>	<i>(7,289,704)</i>
<b>Total interest repricing gap</b>	<b>65,663</b>	<b>2,108</b>	<b>233,354</b>	<b>3,937,167</b>	<b>140,500</b>	<b>90,752</b>	<b>4,469,544</b>
<i>Equivalent in KHR' 000</i>	<i>262,324</i>	<i>8,421</i>	<i>932,249</i>	<i>15,728,982</i>	<i>561,298</i>	<i>362,554</i>	<i>17,855,828</i>

(\*) this represents the gross loan excluding provision for bad and doubtful loan.

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDING 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.3 Liquidity risk**

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

(a) Liquidity risk management process

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

(b) Funding approach

The Company's main sources of liquidity arise from the shareholders' paid-up capital and borrowings. The sources of liquidity are reviewed regularly through management's review of the maturity of borrowings.

(c) Non-derivative cash flows

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

	Up to 1 month US\$	1 – 3 months US\$	3 - 12 months US\$	– 5 years US\$	Over 5 years US\$	No fixed Maturity date US\$	Total US\$
<b>As at 31 December 2013</b>							
<b>Liabilities</b>							
Borrowings	73,112	550,463	1,104,963	1,834,791	-	-	3,563,329
Other liabilities	24,834	-	5,015	-	-	-	29,849
<b>Total financial liabilities</b>							
(contractual maturing dates)	97,946	550,463	1,109,978	1,834,791	-	-	3,593,178
<b>As at 31 December 2012</b>							
<b>Liabilities</b>							
Borrowings	11,312	-	195,935	1,767,202	-	-	1,974,449
Other liabilities	2,645	-	5,280	-	-	-	7,925
<b>Total financial liabilities</b>							
(contractual maturing dates)	13,957	-	201,215	1,767,202	-	-	1,982,374

(d) Off-balance sheet items - Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under contractual operating leases are as disclosed in Note 23.

CAMMA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDING 31 DECEMBER 2013

24. FINANCIAL RISK MANAGEMENT (continued)

24.4 Fair value of financial assets and liabilities

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

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

i. Balances with banks

Fair value of balance with banks is approximate the carrying amount.

ii. Loans to customers

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

iii. Borrowings

The fair value of borrowings approximates the carrying amount.

iv. Other assets and liabilities

The carrying amounts of other assets and liabilities are assumed to approximate their fair values as these are not materially sensitive to the shift in market interest. Except for rental deposit, its carrying value is significant different from its fair value. Rental deposit is expected to receive in cash on 31 October 2022. Fair value of the refundable deposits is calculated using the interest rate of 10% based on its borrowing obtained from a specialised bank to finance this deposit.

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
	US\$	US\$	US\$	US\$
Refundable deposits	30,000	12,723	30,000	11,566

**CAMMA MICROFINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDING 31 DECEMBER 2013**

**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.5 Capital management**

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

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

The Central Bank requires all licensed microfinance institutions to i) fulfil the minimum capital requirements, and ii) comply with solvency, liquidity and other requirements.

The table below summarises the composition of regulatory capital:

	2013		2012	
	US\$	KHR' 000	US\$	KHR' 000
<b>Tier 1 (core capital)</b>				
Statutory capital	850,000	3,395,750	850,000	3,395,750
Retained earnings	203,738	813,933	45,190	180,534
Total regulatory capital	<u>1,053,738</u>	<u>4,209,683</u>	<u>895,190</u>	<u>3,576,284</u>

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

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**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS  
FOR THE YEAR ENDED 31 DECEMBER 2013****1. CAPITAL ADEQUACY RATIO (SOLVENCY RATIO), Prakas No. B7-07-133**

A licensed microfinance institution shall at all times maintain a solvency ratio of more than 15%. As at 31 December 2013, the capital adequacy ratio of the Company was 25.01%.

The capital adequacy ratio calculation is detailed in Schedule 1.

**2. LIQUIDITY RATIO, Prakas No. B7-02-48**

A licensed micro-finance institution shall at all times maintain a liquidity ratio of more than 100%. As at 31 December 2013, the Company's liquidity ratio was not applicable due nil deposits.

The liquidity ratio calculation is detailed in Schedule 2.

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

A licensed microfinance institution shall at all times maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Company's net worth. As at 31 December 2013, the net open position in foreign currency is 0%.

The net open position calculation is detailed in Schedule 3.

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

A licensed micro-finance institution shall deposit 5% of its deposits into an account maintained with the Central Bank. As at 31 December 2013, the reserve requirement is nil as the Company does not have deposits.

APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS  
FOR THE YEAR ENDING 31 DECEMBER 20135. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,  
Prakas No. B7-02-186

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

Loan term of one year or less than one year

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

Loan term of more than one year

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

Mandatory provisions on the loans are classified as follows:

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

As at 31 December 2013, specific provision has been provided which is in compliance with the Central Bank's Prakas.

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

**SCHEDULE 1**  
**NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2013**

	<u>US\$</u>
<b>I- Sub-total A: Items to be added</b>	
- Capital or endowment	850,000
- Reserve, other than revaluation reserves	-
- Premium related to capital (share premium)	-
- Provision for general banking risks, with the prior agreement of the Central Bank	-
- Retained earnings	45,190
- Audited net profit for the latest financial period	158,548
- Other items approved by the Central Bank	-
	<u>1,053,738</u>
<b>II- Sub-total B: Items to be deducted</b>	
- For shareholders, directors, managers and their next of kin	-
> Unpaid portion of capital	-
> Advances, loans, security and the agreement of the persons concerned as defined above	-
- Holding of own shares at their book value	-
- Accumulated losses	-
- Formation expenses	-
- Losses determined on dates other than the end of the annual accounting period (including provisions to be made for doubtful debt and securities)	-
	<u>-</u>
<b>III- Total C: BASE NET WORTH = A – B</b>	<u>1,053,738</u>
<b>IV- Sub-total D: Items to be added</b>	
- Revaluation reserves, with the prior agreement of the Central Bank	-
- Subordinated debt, with the prior agreement of the Central Bank, up to 100% of base net worth	-
- Other items, with the prior agreement of the Central Bank, could be included in the calculation of net worth and shall not be more than the base net worth	-
	<u>-</u>
	<u>-</u>
<b>V- Sub-total E: Items to be deducted</b>	
- Equity participation in banking and financial institutions	-
- Other items	-
	<u>-</u>
	<u>-</u>
<b>VI- Total F: TOTAL NET WORTH = C + D – E</b>	<u><u>1,053,738</u></u>



**SCHEDULE 1**  
**NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2013**

		<u>US\$</u>	
<b>I- Numerator (A)</b>			
Net worth			<u>1,053,738</u>
<b>II- Denominator (B)</b>			
<b>Assets (*)</b>	<b>US\$</b>	<b>Weighting</b>	
- Cash	52,120	0%	-
- Gold	-	0%	-
- Claims on the Central Bank	42,718	0%	-
- Assets collateralised by deposits	-	0%	-
- Claims on sovereigns rated AAA to AA-	-	0%	-
- Claims on sovereigns rated A+ to A-	-	20%	-
- Claims on banks rated AAA to AA-	-	20%	-
- Claims on sovereigns rated BBB to BBB-	-	50%	-
- Claims on banks rated A+ to A-	-	50%	-
- All other assets	<u>4,213,232</u>	100%	<u>4,213,232</u>
	4,308,070		4,213,232
<b>III- Solvency ratio (A/B)</b>			<u>25.01%</u>

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

**SCHEDULE 2**  
**LIQUIDITY RATIO AS AT 31 DECEMBER 2013**

	<u>US\$</u>
<b>1- Numerator: Liquid assets (A)</b>	
- Cash on hand	52,120
- Balances with the Central Bank (excluding capital guarantee)	218
- Balances with banks	<u>516,571</u>
<b>Sub-Total</b>	<u>568,909</u>
<b>Less:</b>	
- Amount owed to the Central Bank	-
- Amount owed to banks	<u>-</u>
<b>Sub-total</b>	<u>-</u>
<b>Net liquidity</b>	<u>568,909</u>
<b>Plus:</b>	
- Portion of loans outstanding maturing in less than one month	<u>119</u>
<b>Liquid assets</b>	<u>569,028</u>
<b>2- Denominator: Adjusted amount of deposits (B)</b>	
Category of deposits	<b>US\$    %</b>
- Voluntary savings	-    25% <u>-</u>
<b>LIQUIDITY RATIO (A/B)</b>	<u>-</u>

## SCHEDULE 3

## NET OPEN POSITION IN FOREIGN CURRENCY AS AT 31 DECEMBER 2013

Currency	Assets US\$	Liabilities and capital US\$	Net open position (NOP) US\$	NOP/ Net worth %	Limit %
US\$	<u>4,308,070</u>	<u>4,308,070</u>	<u>-</u>	<u>0.00%</u>	<u>20%</u>
Total	<u>4,308,070</u>	<u>4,308,070</u>	<u>-</u>		
Net worth			<u>1,053,738</u>		

**SCHEDULE 4**  
**LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO**  
**AS AT 31 DECEMBER 2013**

Loan classification	Amount US\$	Rate %	Mandatory Provision US\$
<b>1-Loans of one year or less</b>			
1-1 Standard	45,732	0%	-
1-2 Substandard past due ≥ 30 days	-	10%	-
1-3 Doubtful past due ≥ 60 days	-	30%	-
1-4 Loss past due ≥ 90 days	-	100%	-
<b>Sub-total 1</b>	<u>45,732</u>		<u>-</u>
<b>2-Loans of more than one year</b>			
2-1 Standard	3,486,919	0%	-
2-2 Substandard past due ≥ 30 days	23,053	10%	2,305
2-3 Doubtful past due ≥ 180 days	9,211	30%	2,763
2-4 Loss past due ≥ 360 days	-	100%	-
<b>Sub-total 2</b>	<u>3,519,183</u>		<u>5,068</u>
<b>Grand total 1+2</b>	<u>3,564,915</u>		<u>5,068</u>
<b>All loans past due &gt; 30 days (A)</b>			32,264
<b>Loans outstanding (B)</b>			<u>3,564,915</u>
<b>Delinquency ratio (A/B)</b>			<u>0.91%</u>