

**HATTHA KAKSEKAR LIMITED**

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

# HATTHA KAKSEKAR LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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## **DIRECTORS' REPORT**

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

## **PRINCIPAL ACTIVITY**

The principal activity of HKL is to provide loans, savings and other financial services particularly to women and low income families through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

## **FINANCIAL PERFORMANCE**

The financial performance for the year ended 31 December 2012 is set out in the income statement on page 8 of the financial statements.

## **SHARE CAPITAL**

During the year, there have been no changes in the registered and paid up share capital of the Company.

## **BAD AND DOUBTFUL LOANS**

Before the Company's financial statements were drawn up, the Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans or making provision for bad and doubtful loans. The Directors have 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 and based on the best of knowledge, the 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 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 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 and based on the best of knowledge, the Directors are 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 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 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 2012 was not, in the opinion of the 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 Directors, to substantially affect the financial performance of the Company for the year in which this report is made.

## **SIGNIFICANT EVENTS**

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

## THE BOARD OF DIRECTORS

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

Mr. Erik Peter Geurts	Chairman
Mr. Dy Davuth	Member
Mr. Christoffer Christensen-Roed	Member
Mr. Hout Ieng Tong	Member (President and Chief Executive Officer)
Mr. Albert Hofsink	Member
Mr. Pierre Berthon	Member
Mr. Michael Fiebig	Member
Mr. Lonh Hay	Member
Ms. Tal Nay Im	Member

## DIRECTORS' INTERESTS

No members held any interest in the equity of the Company, except for Mr. Dy Davuth who holds 555 shares in the Company, with a par value of US\$100 each, representing 1.38% (2011: 555 shares of US\$100 each, representing 1.38%).

## DIRECTORS' BENEFITS

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

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

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The 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 2012, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia or, if there have been any departures in the interest of true and fair presentation, ensure they have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- v) set overall policies for the Company, ratify all decisions and actions by the 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 Directors confirm 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 2012, and its financial performance and its cash flows for the year ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia, were approved by the Board of Directors.

On behalf of the Board of Directors,

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Mr. Hout Ieng Tong  
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia  
Date:

## **Independent auditor's report**

To the Shareholders of Hattha Kaksekar Limited

We have audited the accompanying financial statements of Hattha Kaksekar Limited ("HKL" or "the Company") which comprise the balance sheet as at 31 December 2012 and the income statement, the statements of changes in shareholders' equity and cash flows for the year ended 31 December 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia.

For PricewaterhouseCoopers (Cambodia) Ltd.

By Kuy Lim  
Partner

Phnom Penh, Kingdom of Cambodia  
Date: dd/mm/yyyy



# HATTHA KAKSEKAR LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2012

	Note	2012		2011	
		US\$	Riel '000	US\$	Riel '000
<b>ASSETS</b>					
Cash on hand	4	2,036,319	8,135,094	687,872	2,778,315
Balances with the Central Bank	5	6,100,521	24,371,581	1,754,994	7,088,421
Balances with banks	6	6,143,087	24,541,633	6,017,370	24,304,157
Loans to customers	7	101,783,159	406,623,720	74,535,860	301,050,339
Other assets	8	2,443,692	9,762,549	1,515,678	6,121,822
Property and equipment	9	2,532,463	10,117,190	911,738	3,682,510
Intangible assets	10	1,933,624	7,724,828	1,187,345	4,795,686
Deferred tax assets	11 (a)	-	-	174,875	706,320
<b>TOTAL ASSETS</b>		<b>122,972,865</b>	<b>491,276,595</b>	<b>86,785,732</b>	<b>350,527,570</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from customers	12	44,254,970	176,798,605	15,775,630	63,717,770
Borrowings	13	40,065,011	160,059,719	37,178,413	150,163,610
Amounts due to shareholders	14	10,472,666	41,838,301	10,447,756	42,198,486
Subordinated debts	18 (a)	2,000,000	7,990,000	2,000,000	8,078,000
Provident benefits	15	629,295	2,514,034	419,506	1,694,385
Other liabilities	16	2,957,936	11,816,954	2,616,941	10,569,825
Deferred tax liability	11 (a)	144,248	576,271	-	-
Provision for income tax	11 (b)	561,681	2,243,916	721,542	2,914,308
<b>TOTAL LIABILITIES</b>		<b>101,085,807</b>	<b>403,837,800</b>	<b>69,159,788</b>	<b>279,336,384</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	17	4,036,800	16,127,016	4,036,800	16,304,635
Share premium		5,515,704	22,035,237	5,515,704	22,277,928
Legal reserves		403,680	1,612,702	382,470	1,544,796
Other reserves		295,162	1,179,171	-	-
Retained earnings		10,906,393	43,571,040	6,961,651	28,118,108
Net equity		21,157,739	84,525,166	16,896,625	68,245,467
Subordinated debts	18 (b)	729,319	2,913,629	729,319	2,945,719
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>21,887,058</b>	<b>87,438,795</b>	<b>17,625,944</b>	<b>71,191,186</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>122,972,865</b>	<b>491,276,595</b>	<b>86,785,732</b>	<b>350,527,570</b>

The accompanying notes on pages 11 to 52 form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED****INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012		2011	
		US\$	Riel '000	US\$	Riel '000
Interest income	19	23,200,630	92,686,517	15,402,816	62,211,974
Interest expense	20	<u>(6,574,601)</u>	<u>(26,265,531)</u>	<u>(4,300,110)</u>	<u>(17,368,144)</u>
<b>Net interest income</b>		16,626,029	66,420,986	11,102,706	44,843,830
Other operating income	21	<u>740,184</u>	<u>2,957,035</u>	<u>974,735</u>	<u>3,936,955</u>
<b>Operating income</b>		17,366,213	69,378,021	12,077,441	48,780,785
General and administrative expenses	22	(11,684,913)	(46,681,228)	(7,921,202)	(31,993,735)
Provision for bad and doubtful loans	7 (a)	<u>(315,068)</u>	<u>(1,258,697)</u>	<u>(328,085)</u>	<u>(1,325,135)</u>
<b>Profit before income tax</b>		5,366,232	21,438,096	3,828,154	15,461,915
Income tax expense	11 (c)	<u>(947,859)</u>	<u>(3,786,697)</u>	<u>(804,869)</u>	<u>(3,250,866)</u>
<b>Profit for the year</b>		<u>4,418,373</u>	<u>17,651,399</u>	<u>3,023,285</u>	<u>12,211,049</u>

The accompanying notes on pages 11 to 52 form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED**

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

	<b>Note</b>	<b>Share capital US\$</b>	<b>Share premium US\$</b>	<b>Legal reserves US\$</b>	<b>Other reserves US\$</b>	<b>Retained earnings US\$</b>	<b>Subordinated debts US\$</b>	<b>Total US\$</b>
Balance as at 1 January 2011		2,716,800	1,445,955	234,429	-	4,867,462	729,319	9,993,965
Capital injection		1,320,000	4,069,749	-	-	-	-	5,389,749
Profit for the year		-	-	-	-	3,023,285	-	3,023,285
Transfer to legal reserves (Note 2.20)		-	-	148,041	-	(148,041)	-	-
Dividends	23	-	-	-	-	(781,055)	-	(781,055)
<b>Balance as at 31 December 2011</b>		<b>4,036,800</b>	<b>5,515,704</b>	<b>382,470</b>	<b>-</b>	<b>6,961,651</b>	<b>729,319</b>	<b>17,625,944</b>
<b><i>Equivalent in Riel'000</i></b>		<b>16,304,635</b>	<b>22,277,928</b>	<b>1,544,796</b>	<b>-</b>	<b>28,118,108</b>	<b>2,945,719</b>	<b>71,191,186</b>
Balance as at 1 January 2012		4,036,800	5,515,704	382,470	-	6,961,651	729,319	17,625,944
Profit for the year		-	-	-	-	4,418,373	-	4,418,373
Transfer to legal reserves (Note 2.20)		-	-	21,210	-	(21,210)	-	-
Transfer to other reserves (Note 2.21)		-	-	-	295,162	(295,162)	-	-
Dividends	23	-	-	-	-	(157,259)	-	(157,259)
<b>Balance as at 31 December 2012</b>		<b>4,036,800</b>	<b>5,515,704</b>	<b>403,680</b>	<b>295,162</b>	<b>10,906,393</b>	<b>729,319</b>	<b>21,887,058</b>
<b><i>Equivalent in Riel'000</i></b>		<b>16,127,016</b>	<b>22,035,237</b>	<b>1,612,702</b>	<b>1,179,171</b>	<b>43,571,040</b>	<b>2,913,629</b>	<b>87,438,795</b>

The accompanying notes on pages 11 to 52 form an integral part of these financial statements.

**HATTHA KAKSEKAR LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012		2011	
		US\$	Riel '000	US\$	Riel '000
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operating activities	24	6,763,516	27,020,246	(16,004,159)	(64,640,798)
<b>Cash flows from investing activities</b>					
Reserve deposits with the Central Bank		(2,544,999)	(10,167,271)	(1,042,001)	(4,208,642)
Purchases of property and equipment	9	(2,190,998)	(8,753,037)	(773,815)	(3,125,439)
Purchases of intangible assets	10	(1,007,404)	(4,024,579)	(1,185,996)	(4,790,238)
Proceeds from disposals of property and equipment		30,435	121,588	513,660	2,074,673
Net cash used in investing activities		(5,712,966)	(22,823,299)	(2,488,152)	(10,049,646)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		16,808,588	67,150,309	20,031,812	80,908,489
Repayments of borrowings		(13,921,990)	(55,618,350)	(7,203,378)	(29,094,444)
Proceeds from amounts due to shareholders		4,026,284	16,085,005	6,079,723	24,556,001
Repayments of amounts due to shareholders		(4,001,374)	(15,985,489)	(2,304,063)	(9,306,110)
Proceeds from subordinated debts		-	-	2,000,000	8,078,000
Proceeds from issuance of share capital		-	-	1,320,000	5,331,480
Proceeds from share premium on issuance of share capital		-	-	4,069,749	16,437,716
Dividends paid	23	(687,367)	(2,746,031)	(250,947)	(1,013,575)
Net cash generated from financing activities		2,224,141	8,885,444	23,742,896	95,897,557
<b>Net increase in cash and cash equivalents</b>		3,274,691	13,082,391	5,250,585	21,207,113
<b>Cash and cash equivalents at the beginning of the year</b>		6,708,085	27,093,955	1,457,500	5,907,248
Currency translation differences		-	(295,156)	-	(20,406)
<b>Cash and cash equivalents at the end of the year</b>	25	<u>9,982,776</u>	<u>39,881,190</u>	<u>6,708,085</u>	<u>27,093,955</u>

The accompanying notes on pages 11 to 52 form an integral part of these financial statements.

## HATTHA KAKSEKAR LIMITED

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

#### 1. BACKGROUND INFORMATION

Hattha Kaksekar, a non-governmental organisation (“NGO”) established in November 1996, has created Hattha Kaksekar Limited (“HKL” or the “Company”) in order to comply with the Prakas No. B-700-06 dated 11 January 2000 of the National Bank of Cambodia (“NBC” or “the Central Bank”) on the licensing of micro-finance institutions. The creation of HKL converted the NGO’s micro-lending operations into a licensed and commercially oriented micro-finance institution. HKL aims to continue the NGO’s micro-finance activities and conduct banking operations as defined in the Law on Banking and Financial Institution. The conversion was achieved by transferring and assigning all the assets and liabilities of the NGO as at 27 April 2001, the effective date of transfer, to HKL including all grant contracts and the outstanding receivables arising from these contracts as at the date of transfer, conditions and obligations relating to borrowings, all employment contracts, conditions, obligations and benefits, leases on premises or houses for office branches or headquarters, and all other related to the micro-lending operations of the NGO. The transfer and assignment of all these were put into effect through an agreement to transfer assets and liabilities, and the subordinated loan agreement between the NGO and HKL, both dated 27 April 2001.

On 27 April 2001, the Ministry of Commerce issued a business license dated 3 April 2001 to HKL to operate as a limited company with the aim of providing credit and saving services for the lower segments of the market. On 19 October 2001, under license number 02, the Central Bank issued a license to HKL to conduct micro-finance operations for a three-year period which expired on 19 October 2004. On 12 July 2004, HKL obtained a new license for a three-year period which expired on 19 October 2007. The Central Bank granted an indefinite micro-finance license to the Company effective from 8 August 2007.

On 29 January 2010, the Central Bank issued a license to HKL to conduct the deposit taking business.

The principal activity of HKL is to provide loans, savings and other financial services particularly to women and low income families through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

HKL operates in 42 branches located in Phnom Penh capital and 21 provinces, namely, Siem Reap, Banteay Meanchey, Kampong Thom, Kampong Cham, Kratie, Kampong Chhnang, Pursat, Battambang, Takeo, Prey Veng, Kandal, Kampong Speu, Svay Rieng, Kampot, Koh Kong, Kampong Som, Preah Vihea, Steung Treng, Oddor Meanchey, Mondulkiri, and Ratanakiri with the primary source of revenue being interest income earned on providing loans to clients.

The Company’s head office is located at No. 606, Street 271, Sangkat Phsar Doeum Thkov, Khan Chamkarmorn, Phnom Penh, and the Kingdom of Cambodia.

As at 31 December 2012, the Company had 1,335 employees (2011: 1,140 employees).

The financial statements were approved for issue by the Board of Directors on DD/MM/YY.

## HATTHA KAKSEKAR LIMITED

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### 2.1 Basis of preparation

The 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 issued by the Central Bank. In applying CAS, the Company also applies CFRS 4: *Insurance Contracts* and CFRS 7: *Financial Instruments: Disclosures*. The Company maintains its accounting records in United States Dollars, the functional currency in Cambodia.

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

The financial statements are prepared using the historical cost convention.

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.

##### 2.2 Change in accounting framework

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

The National Accounting Council of the Ministry of Economy and Finance through Circular No. 086 MoEF.NAC dated 30 July 2012 approves banking and financial 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, the current accounting standard used, is different to CIFRS in many areas. Hence, the adoption of CIFRS will have significant impact on the financial statements of the Company.

## HATTHA KAKSEKAR LIMITED

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

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

### 2.3 Basis of aggregation

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

### 2.4 Foreign currency translation

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

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The 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*

In compliance with the Law on Corporate Accounting, Corporate Accounting Audit and the Accounting Profession dated 8 July 2002 and Prakas No. 643 MEF PRK dated 26 July 2007 of the Ministry of Economy and Finance, a translation of the financial statements from US\$ to Khmer Riel is required.

Translations of US\$ into Khmer Riel are included solely for compliance with the guidelines regulated by the Central Bank regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to Riel 3,995 (2011: US\$ 1 to Riel 4,039) published by the Central Bank.

The financial statements expressed in Khmer Riel do not form part of the audited financial statements and these convenience translation should not be construed as representation that the US\$ amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other exchange rate.

### 2.5 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.

## HATTHA KAKSEKAR LIMITED

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

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

##### 2.6 Loans to customers

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

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

##### 2.7 Provision for bad and doubtful loans

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

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

In addition to the specific provisions, an additional general provision for bad and doubtful loans is made at the rate of 1% (2011: 1%) of total outstanding loans as at 31 December 2012 which is based on the Company's experience and industry prospects.

Loans are written off when there is no realistic prospect of recovery. Recoveries of loans previously written or provided for decrease the amount of the provision for bad and doubtful loans in the income statement.

##### 2.8 Provident benefits

The Company provides its employees with provident benefits, being a defined contribution plan. The Company accrues for this fund at a percentage of the employees' annual salaries based on their years of service, as follows:

<i>Number of working years</i>	<i>Annual rate</i>
Up to 5 years	6 %
From 6 to 10 years	8 %
More than 10 years	10 %



## HATTHA KAKSEKAR LIMITED

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

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

##### 2.8 Provident benefits (continued)

Upon resignation or retirement, an employee who has worked for the Company for three years or more is entitled to a lump sum payment of the amount accrued for the individual employee.

The provident funds are maintained at saving accounts under the name of each employee with the Company commencing from February 2013 and the withdrawal can only be made upon resignation or retirement.

##### 2.9 Property and equipment

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

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

Depreciation of property and equipment is charged to the income statement based on the following methods and at the following annual rates:

	<b>Annual rate</b>	<b>Method</b>
Leasehold improvements	33.33%	Straight-line
Motor vehicles	25%	Declining
Computers	50%	Declining
Equipment	25%	Declining
Furniture and fixtures	20%	Declining

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

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

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

##### 2.10 Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. 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 20% per annum using straight-line basis.

## HATTHA KAKSEKAR LIMITED

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

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

##### 2.10 Intangible assets (continued)

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

##### 2.11 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Any impairment loss is charged to income statement in the year in which it arises. Reversal of impairment loss is recognised in the income statement to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

##### 2.12 Borrowings

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

##### 2.13 Subordinated debts

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

##### 2.14 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.

## HATTHA KAKSEKAR LIMITED

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

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

### 2.15 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.

### 2.16 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 deposits from customers, borrowings and subordinated loans are recognised on an accrual basis.

### 2.17 Fee and commission income

Fee and commission income is recognised on an accruals basis when the service has been provided. Fee and commission income comprise income received from money transfers, and others. Loan processing fees are recognised as income when loan is disbursed.

### 2.18 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.

## HATTHA KAKSEKAR LIMITED

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

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

### 2.19 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.

### 2.20 Legal reserves

In accordance with the Articles of Incorporation, HKL is required to transfer 5% of its prior year's net profit to the legal reserve. Such transfer will cease when the reserve fund equals 10% of the registered share capital of the Company.

### 2.21 Other reserves

According to the loan agreement between Instituto De Crédito Oficial ("ICO") of the Kingdom of Spain and Hattha Kaksekar Limited ("the Company"), the Company is required, during the life of the loan, to transfer each year to other reserves 3.5% of outstanding principal of the loan from ICO, under the Spanish Microfinance Program. The other reserves are for Institutional Strengthening, and still retained in the other reserves account of the life of the loan, except otherwise agreed by ICO.

### 2.22 Dividend

Dividends are recognised in equity in the period in which they are approved by the Company's shareholders.

Dividends for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note.

## 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.

## HATTHA KAKSEKAR LIMITED

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

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

##### 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.

In addition to the required provision, an additional provision for loan losses is made at the rate of 1% (2011: 1%) of all outstanding loans, which is based on the Company's experience and industry prospects.

##### b) Income tax

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

#### 4. CASH ON HAND

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Head office	467,788	1,868,813	204,120	824,441
Branches	1,568,531	6,266,281	483,752	1,953,874
	<u>2,036,319</u>	<u>8,135,094</u>	<u>687,872</u>	<u>2,778,315</u>

#### 5. BALANCES WITH THE CENTRAL BANK

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Current accounts	1,803,370	7,204,463	2,842	11,479
Statutory capital deposit	403,680	1,612,701	403,680	1,630,464
Reserve deposit	3,893,471	15,554,417	1,348,472	5,446,478
	<u>6,100,521</u>	<u>24,371,581</u>	<u>1,754,994</u>	<u>7,088,421</u>

## HATTHA KAKSEKAR LIMITED

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

#### 5. BALANCES WITH THE CENTRAL BANK (continued)

##### (i) Statutory capital deposit

In compliance with Prakas B7-07-163 dated 13 December 2007 on the Licensing of Deposit-Taking Microfinance Institutions, the Company is required to maintain a statutory capital deposit with the Central Bank of 10% of registered capital. This deposit is refundable should the Company voluntarily liquidate and have no deposit liabilities.

##### (ii) Reserve deposit

The reserve deposit represents the minimum reserve requirement which is calculated at 8% of the total voluntary deposits from customers as required by Prakas B7-07-163 on the Licensing of Deposit-Taking Microfinance Institutions.

##### (iii) Interest rates

Reserve deposit and current accounts are non-interest bearing. The statutory capital deposit in US\$ earns interest at 0.2% per annum (2011: 0.28% to 0.68%). The interest payment is settled semi-annually.

#### 6. BALANCES WITH BANKS

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Current accounts	512,473	2,047,330	24,562	99,206
Savings accounts	5,630,614	22,494,303	1,234,150	4,984,731
Term deposits	-	-	4,758,658	19,220,220
	<u>6,143,087</u>	<u>24,541,633</u>	<u>6,017,370</u>	<u>24,304,157</u>

Current accounts are non-interest bearing. Interest rates on its savings accounts are ranging from 0.05% to 1.5%% per annum (2011: from 0.10% to 0.75% per annum). Interest rate on term deposits is ranging from 0.29% to 1.25% per annum, depending on the term and amount.

**HATTHA KAKSEKAR LIMITED**

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

**7. LOANS TO CUSTOMERS**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Individual	102,838,107	410,838,237	75,248,833	303,930,036
Group	-	-	66,315	267,847
	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>
Provision for bad and doubtful loans				
- Specific provision	(27,725)	(110,761)	(26,137)	(105,567)
- General provision	(1,027,223)	(4,103,756)	(753,151)	(3,041,977)
	<u>(1,054,948)</u>	<u>(4,214,517)</u>	<u>(779,288)</u>	<u>(3,147,544)</u>
	<u>101,783,159</u>	<u>406,623,720</u>	<u>74,535,860</u>	<u>301,050,339</u>

**(a) Provision for bad and doubtful loans**

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

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
At the beginning of year	779,288	3,147,544	731,383	2,964,296
Provision during the year	315,068	1,258,697	328,085	1,325,135
Bad debts written off during the year	(39,408)	(157,435)	(280,180)	(1,131,647)
Currency translation differences	-	(34,289)	-	(10,240)
At the end of year	<u>1,054,948</u>	<u>4,214,517</u>	<u>779,288</u>	<u>3,147,544</u>

**(b) By economic sector:**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Agriculture	31,263,932	124,899,408	24,875,627	100,472,657
Trade and commerce	27,828,159	111,173,495	23,998,935	96,931,698
Construction	10,666,174	42,611,365	6,309,708	25,484,911
Household/family	17,613,809	70,367,167	10,809,048	43,657,745
Transportation	5,359,431	21,410,927	2,283,602	9,223,468
Services	9,413,700	37,607,732	6,600,146	26,657,990
Other categories	692,902	2,768,143	438,082	1,769,414
	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>

**HATTHA KAKSEKAR LIMITED**

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

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

**(c) By residency status:**

	<b>2012</b>		<b>2011</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Residents	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>

**(d) By relationship:**

	<b>2012</b>		<b>2011</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
External customers	101,422,422	405,182,576	74,266,186	299,961,125
Management and staff loans	<u>1,415,685</u>	<u>5,655,661</u>	<u>1,048,962</u>	<u>4,236,758</u>
	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>

**(e) By performance:**

	<b>2012</b>		<b>2011</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Standard loans				
- Secured	53,990,611	215,692,490	46,815,142	189,086,358
- Unsecured	48,731,674	194,683,038	28,445,453	114,891,185
Sub-standard loans				
- Secured	54,868	219,198	942	3,805
- Unsecured	12,439	49,694	4,844	19,565
Doubtful loans				
- Secured	19,936	79,644	24,311	98,192
- Unsecured	19,379	77,419	8,844	35,721
Loss loans				
- Secured	5,528	22,084	11,279	45,556
- Unsecured	<u>3,672</u>	<u>14,670</u>	<u>4,333</u>	<u>17,501</u>
	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>



HATTHA KAKSEKAR LIMITED

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

7. LOANS TO CUSTOMERS (continued)

(f) By location:

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Head office – Phnom Penh	2,994,977	11,964,933	1,814,136	7,327,295
<i>Phnom Penh branches</i>				
Phnom Penh	3,601,991	14,389,954	3,902,315	15,761,450
Dangkor	3,840,912	15,344,444	3,241,023	13,090,492
Daun Penh	2,641,535	10,552,932	3,351,518	13,536,781
Russey Keo	1,617,545	6,462,092	-	-
<i>Provincial branches</i>				
Pursat				
- Pursat	3,272,547	13,073,825	2,857,378	11,540,950
- Bakan	3,763,229	15,034,100	2,964,661	11,974,266
Kampong Thom				
- Steung Sen	4,137,518	16,529,384	3,746,688	15,132,873
- Staung	1,490,291	5,953,713	1,300,174	5,251,403
- Baray	3,785,205	15,121,894	3,131,384	12,647,660
Siem Reap				
- Siem Reap	5,938,547	23,724,495	5,905,428	23,852,024
- Sort Nikum	1,425,377	5,694,381	1,170,084	4,725,969
- Pourk	2,239,308	8,946,036	1,800,492	7,272,187
- Chikreng	1,829,354	7,308,269	1,462,040	5,905,180
Banteay Meanchey				
- Banteay Meanchey	4,600,530	18,379,117	3,556,128	14,363,201
- Poipet	4,763,802	19,031,389	3,648,691	14,737,063
- Thmar Pouk	3,193,016	12,756,099	1,982,227	8,006,215
Kampong Cham				
- Kampong Cham	3,823,281	15,274,008	3,184,940	12,863,973
- Tbong Khmum	3,495,698	13,965,314	1,829,743	7,390,332
- Memot	1,847,345	7,380,143	2,178,883	8,800,508
- Prey Chhor	2,266,328	9,053,980	1,791,205	7,234,677
Battambang				
- Battambang	4,013,220	16,032,814	2,663,854	10,759,306
- Bavel	2,906,854	11,612,882	1,882,547	7,603,607
Kampong Chhnang	1,103,271	4,407,568	953,759	3,852,233
Takeo				
- Takeo	2,533,732	10,122,259	2,656,791	10,730,779
- Prey Kabas	1,487,121	5,941,048	-	-

**HATTHA KAKSEKAR LIMITED**

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

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

**(f) By location: (continued)**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Prey Veng				
- Prey Veng	2,240,657	8,951,425	3,205,896	12,948,614
- Peam Ro	1,957,553	7,820,424	-	-
Kandal	-	-	-	-
- Takhmao	3,410,583	13,625,279	2,909,844	11,752,860
- Mok Kampoul	1,169,422	4,671,841	906,451	3,661,156
- Kien Svay	2,291,993	9,156,512		
Svay Rieng	2,325,458	9,290,205	1,585,330	6,403,148
Kampong Speu	1,687,443	6,741,335	879,576	3,552,607
Kampot	931,601	3,721,746	600,969	2,427,314
Koh Kong	1,068,006	4,266,684	502,150	2,028,184
Kampong Som	1,517,727	6,063,319	883,594	3,568,836
Kratie	1,240,758	4,956,828	797,700	3,221,910
Preah Vihea	1,453,269	5,805,810	67,549	272,830
Steung Treng	489,321	1,954,837	-	-
Odor Meanchey	1,817,588	7,261,264	-	-
Mondul Kiri	327,607	1,308,790	-	-
Ratanak Kiri	296,587	1,184,865	-	-
	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>

**(g) By type of loans:**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Micro loans	14,746,731	58,913,190	12,188,902	49,230,975
Small loans	32,256,795	128,865,896	25,548,356	103,189,810
Medium loans	42,464,226	169,644,583	29,509,725	119,189,779
Large loans	13,370,355	53,414,568	8,068,165	32,587,319
	<u>102,838,107</u>	<u>410,838,237</u>	<u>75,315,148</u>	<u>304,197,883</u>

**HATTHA KAKSEKAR LIMITED**

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

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

**(h) By interest rate (per month):**

	<u>2012</u>	<u>2011</u>
Micro loans (US\$50 - US\$1,000)	2.5%	2.5%
Small loans (US\$1,001 - US\$2,500)	2.3%-2.5%	2.3%-2.5%
Medium loans (US\$2,501 - US\$10,000)	1.9%-2%	1.9%-2%
Large loans (> US\$10,000)	1.5%-2%	1.5%-2%

**8. OTHER ASSETS**

	<u>2012</u>		<u>2011</u>	
	<u>US\$</u>	<u>Riel '000</u>	<u>US\$</u>	<u>Riel '000</u>
Interest receivable	1,676,596	6,698,001	1,090,619	4,405,010
Interest in suspense	(16,711)	(66,760)	(6,570)	(26,536)
Net interest receivables	1,659,885	6,631,241	1,084,049	4,378,474
Prepayments and deposits for office rentals	429,152	1,714,462	292,664	1,182,070
Other receivable	354,655	1,416,846	138,965	561,278
	<u>2,443,692</u>	<u>9,762,549</u>	<u>1,515,678</u>	<u>6,121,822</u>

**HATTHA KAKSEKAR LIMITED**

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

**9. PROPERTY AND EQUIPMENT**

	<b>Leasehold improvement US\$</b>	<b>Motor vehicles US\$</b>	<b>Computer equipment US\$</b>	<b>Equipment US\$</b>	<b>Furniture and fixtures US\$</b>	<b>Total US\$</b>
<b>At 1 January 2011</b>						
Cost	-	1,055,560	326,869	214,871	129,736	1,727,036
Accumulated depreciation	-	(508,314)	(203,802)	(103,217)	(37,092)	(852,425)
Net book value	-	547,246	123,067	111,654	92,644	874,611
<b>Year ended 31 December 2011</b>						
Opening net book value	-	547,246	123,067	111,654	92,644	874,611
Additions	117,369	230,370	164,189	136,331	125,556	773,815
Disposals – net	-	(340,217)	(5,082)	(2,280)	(109)	(347,688)
Depreciation charge	(29,342)	(165,968)	(109,336)	(49,300)	(35,054)	(389,000)
Closing net book value	88,027	271,431	172,838	196,405	183,037	911,738
<b>At 31 December 2011</b>						
Cost	117,369	519,625	430,820	332,382	242,802	1,642,998
Accumulated depreciation	(29,342)	(248,194)	(257,982)	(135,977)	(59,765)	(731,260)
Net book value	88,027	271,431	172,838	196,405	183,037	911,738
Equivalent to Riel '000	355,540	1,096,310	698,093	793,280	739,287	3,682,510

**HATTHA KAKSEKAR LIMITED**

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

**9. PROPERTY AND EQUIPMENT (continued)**

	<b>Leasehold improvement US\$</b>	<b>Motor vehicles US\$</b>	<b>Computer equipment US\$</b>	<b>Equipment US\$</b>	<b>Furniture and fixtures US\$</b>	<b>Total US\$</b>
<b>Year ended 31 December 2012</b>						
Opening net book value	88,027	271,431	172,838	196,405	183,037	911,738
Additions	159,141	432,300	1,145,469	300,000	154,088	2,190,998
Disposals – net	-	(16,471)	1,245	(542)	-	(15,768)
Depreciation charge	(68,701)	(154,385)	(193,686)	(71,184)	(66,549)	(554,505)
Closing net book value	<u>178,467</u>	<u>532,875</u>	<u>1,125,866</u>	<u>424,679</u>	<u>270,576</u>	<u>2,532,463</u>
<b>At 31 December 2012</b>						
Cost	276,510	908,735	1,574,335	629,327	396,890	3,785,797
Accumulated depreciation	(98,043)	(375,860)	(448,469)	(204,648)	(126,314)	(1,253,334)
Net book value	<u>178,467</u>	<u>532,875</u>	<u>1,125,866</u>	<u>424,679</u>	<u>270,576</u>	<u>2,532,463</u>
Equivalent to Riel '000	<u>712,976</u>	<u>2,128,836</u>	<u>4,497,835</u>	<u>1,696,593</u>	<u>1,080,950</u>	<u>10,117,190</u>

HATTHA KAKSEKAR LIMITED

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

10. INTANGIBLE ASSETS

	Software US\$	Work-in progress US\$	2012 Total US\$	2011 Total US\$
<b>As at 1 January</b>				
Cost	47,164	1,183,088	1,230,252	47,756
Accumulated amortisation	(42,907)	-	(42,907)	(43,409)
Net book value	4,257	1,183,088	1,187,345	4,347
<b>Year ended 31 December</b>				
Opening net book value	4,257	1,183,088	1,187,345	4,347
Additions	1,007,404	-	1,007,404	1,185,996
Transfer from work-in progress	1,183,088	(1,183,088)	-	-
Amortisation charges	(261,125)	-	(261,125)	(2,998)
Closing net book value	<u>1,933,624</u>	<u>-</u>	<u>1,933,624</u>	<u>1,187,345</u>
Equivalent to Riel '000	7,724,828	-	7,724,828	4,795,686
<b>At 31 December</b>				
Cost	2,237,656	-	2,237,656	1,230,252
Accumulated amortisation	(304,032)	-	(304,032)	(42,907)
Net book value	<u>1,933,624</u>	<u>-</u>	<u>1,933,624</u>	<u>1,187,345</u>
Equivalent to Riel '000	<u>7,724,828</u>	<u>-</u>	<u>7,724,828</u>	<u>4,795,686</u>

**HATTHA KAKSEKAR LIMITED**

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

**11. TAXATION**

**a) Deferred tax, net**

The movements of deferred tax assets and liabilities are as follow:

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
<i>Deferred tax asset:</i>				
Balance at beginning of year	178,850	722,375	142,316	576,807
Attributable to provisions for provident benefits and bonuses	41,958	167,622	36,534	147,561
Currency translation differences	-	(7,869)	-	(1,993)
Balance at end of year	<u>220,808</u>	<u>882,128</u>	<u>178,850</u>	<u>722,375</u>
<i>Deferred tax liabilities:</i>				
Balance at beginning of year	3,975	16,055	22,760	92,247
Attributable to property and equipment and intangible assets and unrealised exchange gains	361,081	1,442,519	(18,785)	(75,873)
Currency translation differences	-	(175)	-	(319)
Balance at end of year	<u>365,056</u>	<u>1,458,399</u>	<u>3,975</u>	<u>16,055</u>
<i>Deferred tax (assets)/liability, net:</i>				
Balance at beginning of year	174,875	706,320	119,556	484,560
Net deferred tax	(319,123)	(1,274,896)	55,319	223,434
Currency translation differences	-	(7,695)	-	(1,674)
Balance at end of year	<u>(144,248)</u>	<u>(576,271)</u>	<u>174,875</u>	<u>706,320</u>

**b) Provision for income tax**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Balance at beginning of year	721,542	2,914,308	430,907	1,746,466
Income tax expense	628,736	2,511,801	860,188	3,474,299
Income tax paid	(788,597)	(3,150,445)	(569,553)	(2,300,425)
Currency translation differences	-	(31,748)	-	(6,032)
Balance at end of year	<u>561,681</u>	<u>2,243,916</u>	<u>721,542</u>	<u>2,914,308</u>

**HATTHA KAKSEKAR LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012****11. TAXATION (continued)****c) Income tax expense**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Current income tax	628,736	2,511,801	860,188	3,474,299
Deferred tax, net	319,123	1,274,896	(55,319)	(223,433)
	<u>947,859</u>	<u>3,786,697</u>	<u>804,869</u>	<u>3,250,866</u>

**d) Reconciliation of income tax expense**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Profit before income tax	5,366,232	21,438,096	3,828,154	15,461,915
Income tax using statutory rate (20%)	1,073,246	4,287,619	765,631	3,092,383
Effect of:				
Non-deductible expenses, net	(125,387)	(500,922)	39,238	158,483
	<u>947,859</u>	<u>3,786,697</u>	<u>804,869</u>	<u>3,250,866</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 minimum tax at 1% of turnover, whichever is higher.

**e) Other tax matters**

The Company's tax returns are subject to periodic examination by the General Department of Taxation. Some areas of tax laws and regulations may be open to different interpretation; therefore, the tax amounts reported in the financial statements could be changed at a later date upon final determination by the General Department of Taxation.

**12. DEPOSITS FROM CUSTOMERS**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Loan-linked savings	-	-	1,922,170	7,763,645
Savings deposits	7,949,349	31,757,649	2,489,867	10,056,573
Term deposits	36,305,621	145,040,956	11,363,593	45,897,552
	<u>44,254,970</u>	<u>176,798,605</u>	<u>15,775,630</u>	<u>63,717,770</u>



## HATTHA KAKSEKAR LIMITED

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

#### 12. DEPOSITS FROM CUSTOMERS (continued)

The loan-linked savings are compulsory on loans disbursed as required by the Company and bear no interest. The loan-linked savings are to be refunded at the end of loan cycle. In 2012, the Company cancelled the loan linked savings requirement and the remaining balances have been transferred to voluntary savings.

The savings and term deposits bear interest at rates ranging from 3% to 11.2% (2011: 3% to 11.2%) per annum for Khmer Riel and Thai Baht, and from 2.5% to 9.2% (2011: 2.5% to 9.2%) per annum for US dollar. The interest charge is accrued to customers' accounts on a daily basis.

#### 13. BORROWINGS

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Advanced Bank of Asia	200,000	799,000	-	-
Alterfin	1,000,000	3,995,000	1,000,000	4,039,000
BlueOrchard Finance S.A	7,091,817	28,331,810	7,493,662	30,266,901
Developing World Market	7,541,537	30,128,440	7,498,734	30,287,386
Global Microfinance Facility	5,000,000	19,975,000	3,000,000	12,117,000
Grameen Credit Agricole Microfinance Foundation	1,250,000	4,993,750	1,000,000	4,039,000
Incofin	5,483,730	21,907,501	3,943,303	15,927,001
KIVA Microfunds	543,107	2,169,712	536,671	2,167,614
Nord-Sud Development	-	-	500,000	2,019,500
OIKOS	78,000	311,610	104,000	420,056
Planis	-	-	2,000,000	8,078,000
Proparco	5,000,000	19,975,000	3,000,000	12,117,000
Instituto De Crédito Oficial	4,860,300	19,416,899	3,572,900	14,430,943
Symbiotics	2,016,520	8,055,997	3,529,143	14,254,209
	<u>40,065,011</u>	<u>160,059,719</u>	<u>37,178,413</u>	<u>150,163,610</u>

The borrowings bear interest rates per annum as set out below:

	2012	2011
Khmer Riel	12.50%	-
US Dollar	5.50% - 8.75%	2.76% - 9.50%
Thai Baht	8.75% - 9.94%	8.10% - 9.85%

**HATTHA KAKSEKAR LIMITED**

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

**14. AMOUNTS DUE TO SHAREHOLDERS**

	<b>2012</b>		<b>2011</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
OIKOCREDIT	2,906,214	11,610,325	3,282,270	13,257,089
ASN-Novib Microkredietfonds (through Triple Jump BV)	1,066,452	4,260,476	1,066,452	4,307,400
responsAbility	6,500,000	25,967,500	4,000,000	16,156,000
Norwegian Investment Fund for Developing Countries ("NORFUND")	-	-	2,099,034	8,477,997
	<u>10,472,666</u>	<u>41,838,301</u>	<u>10,447,756</u>	<u>42,198,486</u>

For amounts due to shareholder in respect of subordinated debts – see Note 18 (a).

The amounts are borrowings from shareholders which bear interest rates per annum as set out below:

	<b>2012</b>	<b>2011</b>
US Dollar	6.5%-9.25%	6.5%-9.25%
Khmer Riel	10.47%-12.44%	10.70%-12.48%

**15. PROVIDENT BENEFITS**

The movements in provision for provident benefits are as follows:

	<b>2012</b>		<b>2011</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Balance at beginning of year	419,506	1,694,385	272,893	1,106,035
Charge during the year	278,575	1,112,907	149,484	603,766
Payments during the year	(3,924)	(15,676)	(2,871)	(11,596)
Reversal	(64,862)	(259,124)	-	-
Currency translation differences	-	(18,458)	-	(3,820)
Balance at end of year	<u>629,295</u>	<u>2,514,034</u>	<u>419,506</u>	<u>1,694,385</u>

**HATTHA KAKSEKAR LIMITED**

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

**16. OTHER LIABILITIES**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Interest payable	911,111	3,639,888	852,483	3,443,179
Unused annual leave	244,647	977,365	144,276	582,731
Provision for annual bonus (*)	574,388	2,294,680	465,520	1,880,235
Provision for Pchum Ben bonus	112,455	449,258	72,297	292,008
Other tax payable	144,942	579,043	122,063	493,012
Dividend payable	-	-	530,108	2,141,106
Supplier payable	564,647	2,255,765	236,387	954,767
Other payables	405,746	1,620,955	193,807	782,787
	<u>2,957,936</u>	<u>11,816,954</u>	<u>2,616,941</u>	<u>10,569,825</u>

(\*) HKL's staff are entitled to annual bonus. The annual bonus was paid in January and February 2013 (2011: March 2012) with the maximum up to 13% of net profit (2011: up to 13% of net profit) with approval by the Board of Directors.

**17. SHARE CAPITAL**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Share capital	4,036,800	16,127,016	4,036,800	16,304,635
	<u>4,036,800</u>	<u>16,127,016</u>	<u>4,036,800</u>	<u>16,304,635</u>

All shares are authorised and fully paid up, with a par value of US\$100 per share (2011: 100 per share).

The ownership and number of shares are analysed below:

Shareholders	2012		2011	
	% of ownership	Number of shares	% of ownership	Number of shares
OIKOCREDIT	20.02%	8,083	20.02%	8,083
ASN-Novib Microkredietfonds (Triple Jump)	17.62%	7,113	17.62%	7,113
NORFUND	17.62%	7,111	17.62%	7,111
HKNGO	15.46%	6,239	15.46%	6,239
responsAbility	10.17%	4,106	10.17%	4,106
SIDI	10.09%	4,075	10.09%	4,075
HKSA	7.64%	3,086	7.64%	3,086
Mr. Dy Davuth	1.38%	555	1.38%	555
	<u>100%</u>	<u>40,368</u>	<u>100%</u>	<u>40,368</u>

**HATTHA KAKSEKAR LIMITED**

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

**18. SUBORDINATED DEBTS**

**a) Subordinated debts designated under liability**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
ASN-Novib Mikrokredietfonds	2,000,000	7,990,000	2,000,000	8,078,000
	<u>2,000,000</u>	<u>7,990,000</u>	<u>2,000,000</u>	<u>8,078,000</u>

On 23 December 2010, HKL entered into subordinated debt agreement with ASN-Novib Mikrokredietfonds (represented by Triple Jump) for the sum of US\$2 million to finance the expansion of the HKL's loan portfolio. The repayment should be no later than 15 May 2016. Repayment of the debt by the HKL to ASN-Novib Mikrokredietfonds shall be subordinate and junior to other obligations of the HKL to the extent required by the National Bank of Cambodia.

**b) Subordinated debts designated under equity**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Hattha Kaksekar Non - Government Organisation ("HKNGO") (i)	415,743	1,660,893	415,743	1,679,186
Ministry of Economy and Finance - Agence Francaise de Development ("AFD") (ii)	313,576	1,252,736	313,576	1,266,533
	<u>729,319</u>	<u>2,913,629</u>	<u>729,319</u>	<u>2,945,719</u>

i) Hattha Kaksekar Non-Government Organisation ("HKNGO") made the subordinated debt to HKL, following the transfer and assignment of all micro-finance related assets, liabilities and operations of the NGO to the HKL with the terms and conditions of the subordinated loan agreement dated 27 April 2001 as follows:

- 1) The subordinated debt will not be repayable to HKNGO unless HKL ceases to provide credit to the rural population of Cambodia or unless HKL decides to repay all or part of the debt;
- 2) The debt is a non-distributable fund; and
- 3) Being a public grant, it will be considered as "Tier II Capital" in the context of Article 15 of Prakas No. B700-006 issued by the Central Bank, and shall be included in computing HKL's capital adequacy ratio.

**HATTHA KAKSEKAR LIMITED**

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

**18. SUBORDINATED LOANS (continued)**

**b) Subordinated debts designated under equity (continued)**

ii) HKL also accepts liability for repaying the total value of the debt to the Ministry of Economy and Finance of the Royal Government of Cambodia (“RGC”) under the terms and conditions of the subordinated debt agreement dated 27 December 2000, most notably, that the debt will not be repayable to the RGC unless HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the debt.

**c) Interest rates**

The amounts of subordinated debts bear interest rates per annum as set out below:

	<u>2012</u>	<u>2011</u>
US Dollar	0.5% - 10.75%	0.5% - 10.75%

**19. INTEREST INCOME**

	<u>2012</u>		<u>2011</u>	
	<u>US\$</u>	<u>Riel '000</u>	<u>US\$</u>	<u>Riel '000</u>
Loans to customers	23,166,004	92,548,186	15,397,159	62,189,125
Deposits with banks	34,626	138,331	5,657	22,849
	<u>23,200,630</u>	<u>92,686,517</u>	<u>15,402,816</u>	<u>62,211,974</u>

**20. INTEREST EXPENSE**

	<u>2012</u>		<u>2011</u>	
	<u>US\$</u>	<u>Riel '000</u>	<u>US\$</u>	<u>Riel '000</u>
Borrowings	4,637,706	18,527,635	3,831,168	15,474,088
Deposits from customers	1,936,895	7,737,896	468,942	1,894,056
	<u>6,574,601</u>	<u>26,265,531</u>	<u>4,300,110</u>	<u>17,368,144</u>

**HATTHA KAKSEKAR LIMITED**

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

**21. OTHER OPERATING INCOME**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Other interest and penalty income	207,264	828,020	392,597	1,585,699
Gains on disposals of property and equipment	14,667	58,595	165,971	670,357
Foreign exchange gain - net	168,586	673,501	140,406	567,100
Commission fees	121,150	483,994	82,404	332,830
Remittance fees	65,603	262,084	42,427	171,363
Other income	162,914	650,841	150,930	609,606
	<u>740,184</u>	<u>2,957,035</u>	<u>974,735</u>	<u>3,936,955</u>

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Personal expenses (*)	6,831,289	27,291,000	4,724,733	19,083,197
Rental expenses	1,099,962	4,394,348	721,194	2,912,903
Travelling and vehicle operating expenses	936,174	3,740,015	503,064	2,031,875
Depreciation and amortisation (Notes 9 and 10)	815,630	3,258,442	391,998	1,583,280
Marketing and advertising	511,019	2,041,521	369,718	1,493,291
Security expenses	268,319	1,071,934	208,698	842,931
Office supplies and equipment	349,182	1,394,982	301,111	1,216,187
Utilities	232,464	928,694	132,937	536,933
Consultancy and professional fees	90,677	362,255	113,064	456,665
Communication	152,419	608,914	87,930	355,149
Fees on borrowings	-	-	76,187	307,719
Bank charges	66,852	267,074	49,472	199,817
Repairs and maintenance	140,992	563,263	24,480	98,875
License fees	20,097	80,287	15,825	63,917
Board and shareholder meetings	127,722	510,249	71,843	290,174
Others	42,115	168,250	128,948	520,822
	<u>11,684,913</u>	<u>46,681,228</u>	<u>7,921,202</u>	<u>31,993,735</u>

## HATTHA KAKSEKAR LIMITED

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

#### 22. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

(\*) Personal expenses are analysed as below:

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Salaries and wages	6,009,013	24,006,007	4,242,142	17,134,012
Unused annual leave	250,521	1,000,831	147,649	596,354
Provident benefits (Note 15)	278,575	1,112,907	149,484	603,766
Training costs	135,981	543,244	79,297	320,281
Staff uniforms	53,110	212,174	40,702	164,395
Insurance	49,810	198,991	36,979	149,358
Medical benefits	42,227	168,697	24,156	97,566
Other staff benefits	12,052	48,149	4,324	17,465
	<u>6,831,289</u>	<u>27,291,000</u>	<u>4,724,733</u>	<u>19,083,197</u>

#### 23. DIVIDENDS

On 17 March 2012, the Board of Directors declared the final dividend of US\$157,259 from the Company's 2011 net profit (2011: US\$781,055; of which US\$360,056 from 2010 net profit and interim dividend of US\$420,999 from net profit for the period ended 30 September 2011). The dividend amounts of US\$687,367 were paid to the shareholders during 2012.

**HATTHA KAKSEKAR LIMITED**

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

**24. NET CASH USED IN OPERATING ACTIVITIES**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Operating profit before income tax	5,366,232	21,438,096	3,828,154	15,461,915
<i>Adjustments for:</i>				
Depreciation and amortisation	815,630	3,258,442	391,998	1,583,280
Provision for bad and doubtful loans	315,068	1,258,697	328,085	1,325,135
Net interest income	(16,626,029)	(66,420,986)	(11,102,706)	(44,843,830)
Provident benefits	274,651	1,097,231	146,613	592,170
Gains on disposals of property and equipment (Note 21)	(14,667)	(58,595)	(165,971)	(670,357)
	(9,869,115)	(39,427,115)	(6,573,827)	(26,551,687)
Loans to customers	(27,562,367)	(110,111,656)	(31,285,380)	(126,361,650)
Other assets	(351,790)	(1,405,401)	(187,130)	(755,818)
Deposits from customers	28,479,340	113,774,963	11,144,887	45,014,199
Other liabilities	747,612	2,986,710	2,257,085	9,116,366
Interest received	22,624,406	90,384,502	14,969,863	60,463,277
Interest paid	(6,515,973)	(26,031,312)	(5,760,104)	(23,265,060)
Income tax paid	(788,597)	(3,150,445)	(569,553)	(2,300,425)
Net cash generated from/(used in) operating activities	<u>6,763,516</u>	<u>27,020,246</u>	<u>(16,004,159)</u>	<u>(64,640,798)</u>

**25. CASH AND CASH EQUIVALENTS**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Cash on hands	2,036,319	8,135,094	687,872	2,778,315
Balances with the Central Bank	1,803,370	7,204,463	2,843	11,483
Balances with banks	6,143,087	24,541,633	6,017,370	24,304,157
	<u>9,982,776</u>	<u>39,881,190</u>	<u>6,708,085</u>	<u>27,093,955</u>



**HATTHA KAKSEKAR LIMITED**

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

**26. RELATED PARTY TRANSACTIONS**

**a) Key management compensation**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Board of Directors				
Fees and related expenses	127,722	510,249	71,843	290,174
Key management				
Salaries and short-term benefits	875,088	3,495,977	558,059	2,254,000
Post-employment benefits	46,526	185,871	25,515	103,055
	921,614	3,681,848	583,574	2,357,055
Key management Post-employment benefit payable	137,273	548,406	82,273	332,301

There were 16 key management personnel as at 31 December 2012 (2011: 13 key management personnel).

**b) Loans to key management**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Loans to key management	213,907	854,558	100,477	405,827
Interest income from key management	17,858	71,343	1,681	6,790

Loans are provided to key management of the Company with a two years term at interest rates ranging between 10% to 15.6% per annum.

**c) Deposits from key management**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Deposits from key management	421,709	1,684,728	47,731	192,786
Interest expenses to key management	10,199	40,745	4,087	16,507

Deposits from key management of the Company bear interest rates ranging from 3.5% to 11% per annum (2011: 3.5% to 11% per annum) depending on the terms and currency of deposits.

**HATTHA KAKSEKAR LIMITED**

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

**26. RELATED PARTY TRANSACTIONS (continued)**

**d) Transactions with shareholders**

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
ASN-Novib Microkredietfonds (Triple Jump)				
Principal received	-	-	2,000,000	8,078,000
Principal repayments	-	-	916,032	3,699,853
Interest expense	279,427	1,116,311	344,881	1,392,974
HKNGO				
Interest expense	29,102	116,262	11,800	47,660
NORFUND				
Principal repayments	-	-	-	-
Principal repayments	2,122,153	8,478,000	-	-
Interest expense	194,177	775,737	188,916	763,032
OIKOCREDIT				
Principal received	1,026,283	4,100,000	2,079,723	8,400,000
Principal repayments	1,431,953	5,720,650	1,400,856	5,658,057
Interest expense	308,668	1,233,129	224,510	906,796
RESPONSABILITY				
Principal received	3,000,000	11,985,000	4,000,000	16,156,000
Principal repayments	500,000	1,997,500	-	-
Interest expense	345,313	1,379,525	-	-

**27. COMMITMENTS**

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

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
No later than 1 year	1,114,457	4,452,256	748,955	3,025,029
Later than 1 year and no later than 5 years	3,089,172	12,341,242	2,127,459	8,592,807
Later than 5 years	2,488,986	9,943,499	1,157,177	4,673,838
	<u>6,692,615</u>	<u>26,736,997</u>	<u>4,033,591</u>	<u>16,291,674</u>

## HATTHA KAKSEKAR LIMITED

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

#### 28. FINANCIAL RISK MANAGEMENT

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

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

##### 28.1 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 and balances with banks. 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 the Central Bank's guidelines.

##### **(a) Credit risk measurement**

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

##### **(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.

## HATTHA KAKSEKAR LIMITED

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

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.1 Credit risk (continued)

###### (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:

	2012	2011
Standard	0%	0%
Sub-standard	10%	10%
Doubtful	30%	30%
Loss	100%	100%

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

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
<i>Credit exposure relating to on-balance sheet assets:</i>				
Balances with banks	6,143,087	24,541,633	6,017,370	24,304,157
Loans to customers	101,783,159	406,623,720	74,535,860	301,050,339
Other assets	1,815,584	7,253,258	1,141,815	4,611,791
	<u>109,741,830</u>	<u>438,418,611</u>	<u>81,695,045</u>	<u>329,966,287</u>

## HATTHA KAKSEKAR LIMITED

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

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.1 Credit risk (continued)

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

As shown above, 93% of total maximum exposure is derived from loans to customers (2011: 91%).

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

- 99% of the loans to customers are considered to be neither past due nor impaired (2011: 99%); and
- The Company has introduced a stricter selection process for granting loans to customers.

##### (e) Loans to customers

Loans to customers are summarised as follows:

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
Loans to customers neither past due nor impaired	102,717,948	410,358,202	75,259,055	303,971,324
Loans to customers past due but not impaired	4,337	17,326	1,540	6,220
Loans to customers individually impaired	115,822	462,709	54,553	220,339
Gross	102,838,107	410,838,237	75,315,148	304,197,883
Less: Provision for loan loss	(1,054,948)	(4,214,517)	(779,288)	(3,147,544)
Net loans to customers	101,783,159	406,623,720	74,535,860	301,050,339

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\$1,054,948 (2011: US\$779,288), which represents the specific provision required by the Central Bank and general provision for the loan losses.

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

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

**HATTHA KAKSEKAR LIMITED**

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

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

**28.1 Credit risk** (continued)

**(e) Loans to customers** (continued)

(ii) Loans to customers past due but not impaired

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

	2012		2011	
	US\$	Riel' 000	US\$	Riel' 000
Past due up to 30 days	4,337	17,326	1,540	6,220
Value of collateral (*)	-	-	-	-

(iii) Loans to customers individually impaired

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

	2012		2011	
	US\$	Riel' 000	US\$	Riel' 000
Past due 31-60 days	25,128	100,385	1,580	6,382
Past due 61-90 days	6,708	26,799	3,132	12,650
Past due 91-180 days	37,127	148,324	3,420	13,813
Past due 181-360 days	39,628	158,313	34,371	138,824
Past due more than 360 days	7,231	28,888	12,050	48,670
	<u>115,822</u>	<u>462,709</u>	<u>54,553</u>	<u>220,339</u>
Value of collateral (*)	-	-	-	-

## HATTHA KAKSEKAR LIMITED

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

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.1 Credit risk (continued)

###### (e) Loans to customers (continued)

(\*) : Most of the customers' collaterals are in the form of land or house title receipts (which are not official land title deeds), as the Company generally issues loans to poor 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, management believes that the value of collateral is nil. Under the Central Bank's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

###### (iv) Loans to customers renegotiated

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

###### (v) Repossessed collateral

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

##### 28.2 Market risk

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

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

###### (i) Foreign exchange risk

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in currencies which are not the Company's functional currency.

The Company has policy to monitor its foreign exchange risk against functional currencies. However, the Company does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts. The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2012 and 31 December 2011. Included in the table are the Company's financial instruments at carrying amount by currency in US\$ equivalent.

HATTHA KAKSEKAR LIMITED

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

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 Market risk (continued)

(i) Foreign exchange risk (continued)

	US\$	(US\$ equivalent)		Total
		THB	KHR' 000	
<b>31 December 2012</b>				
<b>Assets</b>				
Cash on hand	1,619,081	140,042	277,196	2,036,319
Balances with the Central Bank	6,100,473	-	48	6,100,521
Balances with banks	3,823,978	1,074,487	1,244,622	6,143,087
Loans to customers (*)	87,411,121	5,904,900	9,522,086	102,838,107
Other assets	1,242,654	110,372	462,558	1,815,584
<b>Total financial assets</b>	<b>100,197,307</b>	<b>7,229,801</b>	<b>11,506,510</b>	<b>118,933,618</b>
<b>Liabilities</b>				
Deposits from customers	39,658,408	1,836,535	2,760,027	44,254,970
Borrowings	32,931,407	4,075,031	3,058,573	40,065,011
Other liabilities	2,449,468	108,762	254,765	2,812,994
Subordinated loans	2,000,000	-	-	2,000,000
Amounts due to shareholders	7,764,280	-	2,708,386	10,472,666
<b>Total financial liabilities</b>	<b>84,803,563</b>	<b>6,020,328</b>	<b>8,781,751</b>	<b>99,605,641</b>
<b>Net asset position</b>	<b>15,393,744</b>	<b>1,209,473</b>	<b>2,724,759</b>	<b>19,327,977</b>
<b>31 December 2011</b>				
Total financial assets	72,972,708	3,756,715	8,187,776	84,917,199
Total financial liabilities	57,712,512	3,963,665	6,220,500	67,896,677
<b>Net asset position</b>	<b>15,260,196</b>	<b>(206,950)</b>	<b>1,967,276</b>	<b>17,020,522</b>

(\*) It excludes provision for loan losses.

(ii) Price risk

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



## HATTHA KAKSEKAR LIMITED

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

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.2 Market risk (continued)

###### (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 has a policy to set limits on the possible loss resulting from the mismatch of interest rate repricing that may be undertaken.

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.

**HATTHA KAKSEKAR LIMITED**

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

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

**28.2 Market risk** (continued)

**(iii) Interest rate risk** (continued)

	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>As at 31 December 2012</b>							
<b>Assets</b>							
Cash on hand	-	-	-	-	-	2,036,319	2,036,319
Balances with the Central Bank	-	-	-	-	403,680	5,696,841	6,100,521
Balances with banks	5,630,614	-	-	-	-	512,473	6,143,087
Loans to customers (*)	990,711	1,600,103	24,443,766	75,157,456	530,249	115,822	102,838,107
Other assets	-	-	-	-	-	1,815,584	1,815,584
<b>Total assets</b>	<b>6,621,325</b>	<b>1,600,103</b>	<b>24,443,766</b>	<b>75,157,456</b>	<b>933,929</b>	<b>10,177,039</b>	<b>118,933,618</b>
<b>Liabilities</b>							
Deposits from customers	12,012,568	7,425,180	24,788,026	15,834	-	13,362	44,254,970
Borrowings	-	1,726,000	4,048,345	27,348,798	6,398,761	543,107	40,065,011
Other liabilities	-	-	-	-	-	2,812,994	2,812,994
Subordinated debts	-	-	-	2,000,000	-	-	2,000,000
Amounts due to shareholders	-	618,354	6,486,978	3,367,334	-	-	10,472,666
<b>Total liabilities</b>	<b>12,012,568</b>	<b>9,769,534</b>	<b>35,323,349</b>	<b>32,731,966</b>	<b>6,398,761</b>	<b>3,369,463</b>	<b>99,605,641</b>
<b>Maturity gap</b>	<b>(5,391,243)</b>	<b>(8,169,431)</b>	<b>(10,879,583)</b>	<b>42,425,490</b>	<b>(5,464,832)</b>	<b>6,807,576</b>	<b>19,327,977</b>
<b>As at 31 December 2011</b>							
<b>Total assets</b>	<b>6,609,998</b>	<b>14,664,182</b>	<b>35,181,203</b>	<b>25,229,104</b>	<b>-</b>	<b>3,232,712</b>	<b>84,917,199</b>
<b>Total liabilities</b>	<b>4,916,189</b>	<b>8,105,427</b>	<b>24,908,106</b>	<b>22,857,384</b>	<b>6,572,900</b>	<b>658,734</b>	<b>68,018,740</b>
<b>Maturity gap</b>	<b>1,693,809</b>	<b>6,558,755</b>	<b>10,273,097</b>	<b>2,371,720</b>	<b>(6,572,900)</b>	<b>2,573,978</b>	<b>16,898,459</b>

(\*) It excludes provision for loan losses.

## HATTHA KAKSEKAR LIMITED

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

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.3 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 has policy to monitor 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 movements of the main depositors and lenders and projections of their withdrawals.

##### **(b) Non-derivative cash flows**

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Liquidity risk (continued)

(b) Non-derivative cash flows (continued)

	Less than 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
<b>As at 31 December 2012</b>							
<b>Liabilities</b>							
Deposits from customers	12,079,957	7,425,746	24,789,709	29,224	-	-	44,324,636
Borrowings	447,536	2,009,102	6,030,870	31,123,870	7,248,195	543,107	47,402,680
Other liabilities	854,292	1,602,071	267,687	-	-	88,944	2,812,994
Subordinated debts	-	-	185,000	2,385,712	-	-	2,570,712
Amounts due to share holders	65,000	716,168	7,051,302	3,703,954	-	-	11,536,424
<b>Total financial liabilities</b>	<u>13,446,785</u>	<u>11,753,087</u>	<u>38,324,568</u>	<u>37,242,760</u>	<u>7,248,195</u>	<u>632,051</u>	<u>108,647,446</u>
<b>As at 31 December 2011</b>							
<b>Liabilities</b>							
Deposits from customers	5,337,356	2,113,690	8,067,272	608,829	-	-	16,127,147
Borrowings	95,964	4,744,222	14,075,222	15,744,888	7,827,089	536,671	43,024,056
Other liabilities	1,000,664	1,324,693	75,926	-	-	-	2,401,283
Subordinated debts	-	-	185,507	2,570,712	-	-	2,756,219
Amounts due to share holders	571,875	419,770	3,880,650	6,900,573	-	-	11,772,868
<b>Total financial liabilities</b>	<u>7,005,859</u>	<u>8,602,375</u>	<u>26,284,577</u>	<u>25,825,002</u>	<u>7,827,089</u>	<u>536,671</u>	<u>76,081,573</u>

## HATTHA KAKSEKAR LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.3 Liquidity risk

###### (c) Off-balance sheet items

###### *Operating lease commitments*

Where the Company is the lessee, the future minimum lease payments under contractual obligation of operating leases are disclosed in Note 27.

##### 28.4 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**

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

###### **ii. Loans to customers**

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

###### **iii. Deposits from customers and borrowings**

The fair value of deposits from customers approximates the carrying amount. The fair value of deposits from customers with no stated maturities which include non-interest bearing deposits is the amount repayable on demand.

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

###### **iv. Other assets and liabilities**

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

## HATTHA KAKSEKAR LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 28. FINANCIAL RISK MANAGEMENT (continued)

##### 28.5 Capital management

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

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

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

The table below summarises the composition of regulatory capital:

	2012		2011	
	US\$	Riel '000	US\$	Riel '000
<b>Tier 1 Capital</b>				
Share capital	4,036,800	16,127,016	4,036,800	16,304,635
Share premium	5,515,704	22,035,237	5,515,704	22,277,928
Reserves	403,680	1,612,702	382,470	1,544,796
Other reserves	295,162	1,179,171	-	-
Retained earnings	10,906,393	43,571,040	6,961,651	28,118,108
	<u>21,157,739</u>	<u>84,525,166</u>	<u>16,896,625</u>	<u>68,245,467</u>
<b>Tier 2 Capital</b>				
Subordinated debts (*)	<u>2,729,319</u>	<u>10,903,629</u>	<u>2,729,319</u>	<u>2,945,719</u>
Less: Loans to related parties	<u>213,907</u>	<u>854,558</u>	<u>100,477</u>	<u>405,827</u>
Total regulatory capital	<u><u>23,673,151</u></u>	<u><u>94,574,237</u></u>	<u><u>19,525,467</u></u>	<u><u>70,785,359</u></u>

(\*) These represent subordinated debts approved by the Central Bank.