

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004**

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**CONTENTS**

	<b>Pages</b>
STATEMENT OF THE BOARD OF DIRECTORS	1 – 3
AUDITORS' REPORT	4 – 5
FINANCIAL STATEMENTS	
Balance sheet	6
Statement of changes in shareholders' equity	7
Income statement	8
Cash flow statement	9
Notes to the financial statements	10 – 24
APPENDIX 1: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS*	1 – 7

**\* This Appendix does not form part of the financial statements**

## **STATEMENT OF THE BOARD OF DIRECTOR**

The Board of Directors of Microfinance Institution CREDIT Co., Ltd (“CREDIT MFI”) presents its report together with the audited financial statements of CREDIT MFI for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

Microfinance Institute CREDIT (Cambodia Rural Economic Development Initiatives for Transformation) Co., Ltd (“CREDIT MFI”) is a registered limited liability company incorporated under Cambodian laws. Its activities are an offshoot of the World Relief Cambodia – CREDIT Program (the “Program”) which was managed by and funded through World Relief Cambodia, an international non-profit organisation registered with the Ministry of Foreign Affairs in Cambodia. The Program started on 1 October 1999 upon assignment from World Relief Cambodia of a segment of the activities of World Relief/Cambodia Community Building (“WR/CCB”), a micro-finance organization supported by World Relief.

CREDIT MFI was established on 1 January 2004, based on the asset transfer document dated 1 January 2004, as discussed in note 19 to these financial statements.

CREDIT MFI was registered as a limited liability company on 13 June 2003. The National Bank of Cambodia (‘Central Bank’) granted CREDIT MFI a license to conduct business as a micro-finance institution for a three year period commencing from 18 May 2004 to 18 May 2007.

CREDIT MFI’s business objective is to provide credit and saving services.

CREDIT MFI’s Central office is located in Phnom Penh. CREDIT MFI has four branch offices: Phnom Penh (which outreaches to Takeo and Neak Leung); Kompong Cham; Kompong Chhnang and Siem Reap.

### **RESULTS**

The results of operations for the year ended 31 December 2004 are set out in the income statement on page 8.

### **VALUATION OF ASSETS**

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

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

### **VALUATION METHODS**

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

### **CONTINGENT AND OTHER LIABILITIES**

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

- (a) any charge on the assets of CREDIT MFI which has arisen since the end of the year which secures the liabilities of any other person;
- (b) any contingent liability in respect of CREDIT MFI 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 CREDIT MFI has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the fiscal year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of CREDIT MFI to meet its obligations as and when they fall due.

### **CHANGE OF CIRCUMSTANCES**

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

### **ITEMS OF AN UNUSUAL NATURE**

The results of the operations of CREDIT MFI for the year ended 31 December 2004 were not, in the opinion of the Board of Directors, materially affected by any items, transactions or events of a material and unusual nature.

## **THE BOARD OF DIRECTORS**

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

Mr. Timothy Mark Amstutz, Chairman  
Mr. Paul Wesley Luchtenburg, and  
Mr. Yap Seh Hioeng Bob

No members held any interest in the equity of CREDIT MFI. No arrangements existed to which CREDIT MFI is a party with the object of enabling the members to obtain an interest in CREDIT MFI or in any body corporate. No member has a benefit, other than remuneration, by reason of a contract made by CREDIT MFI or related party.

## **AUDITORS**

The management's financial statements were audited by PricewaterhouseCoopers (Cambodia) Limited who have expressed their willingness to accept re-appointment.

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

The Board of Directors is responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of CREDIT MFI as at 31 December 2003, and of the results of its operations and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of the National Bank of Cambodia ("Central Bank") or, if there has been any departure in the interests of true and fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- 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 CREDIT MFI will continue operations in the foreseeable future;
- v) set overall policies for CREDIT MFI, ratify all decisions and actions by the management that have a material effect on the operations and performance of CREDIT MFI, and ensure they have been properly reflected in the financial statements.

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

On behalf of the Board of Directors

Karen Lewin  
Director  
Date:

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF MICROFINANCE INSTITUTION CREDIT CO., LTD**

1. We have audited the financial statements, expressed in United States Dollars, of Microfinance Institution CREDIT Co., Ltd (“CREDIT MFI/the Company”) as at 31 December 2004 and for the year then ended as set out on page 6 to 24. These financial statements have been prepared in accordance with the accounting policies set out in Note 2 to the financial statements and Central Bank’s guidelines. As discussed in note 2 to the financial statements, the translation in Khmer Riel is made for the sole purpose of complying with the Central Bank requirements.

### **Respective responsibilities of the Board of Directors and auditors**

2. The Board of Directors of CREDIT MFI is responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.
3. It is our responsibility to form an independent opinion based on our audit, on those financial statements and to report our opinion to you.
4. This report, including the opinion, has been prepared for and only for CREDIT MFI’s shareholders and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing.

### **Basis of Opinion**

5. We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by CREDIT MFI’s management in the preparation of the financial statements, and of whether the accounting policies are appropriate to CREDIT MFI’s circumstances, consistently applied and adequately disclosed.
6. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.
7. As indicated in note 2 to the financial statements, the accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilised in Cambodia may differ from those generally accepted in countries and jurisdictions other than Cambodia.
8. Each balance of the financial statements was translated into Khmer Riel at the official rate of exchange as at the reporting date as regulated by the National Bank of Cambodia (“the Central Bank”), in accordance with Announcement No. B795-139-AN issued on 5 December 1995. The financial statements which were expressed in Khmer Riel do not form part of the audited financial

statements and therefore we do not express an opinion on the financial statements expressed in Khmer Riel.

9. As disclosed under note 2 to the financial statements, CREDIT MFI's policy is to record interest earned on loans and fee income, and interest expense on deposits from members and fee and other expenses on a cash basis. On this basis, interest is recognised when received rather than when earned, and expenditure is recognised when paid rather than when incurred. This policy is not in accordance with Central Bank guidelines.

**Opinion**

10. In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements, expressed in United States Dollars give a true and fair view, in all material respects, of the financial position of CREDIT MFI as at 31 December 2004 and of the results of its operations and cash flows for the year then ended in accordance with the accounting policies set out in note 2 to the financial statements and Central Bank guidelines.

PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED

Phnom Penh, Kingdom of Cambodia

Date:

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**BALANCE SHEET  
AS AT 31 DECEMBER 2004**

**DRAFT**

	<b>Note</b>	<b>31 December 2004</b>	
		<b>US\$</b>	<b>Riel'000</b> (At year-end exchange rate)
<b>ASSETS</b>			
Cash on hand	3	120,775	486,361
Balance with banks	4	226,359	911,548
Loans and advances to customers	5	1,546,087	6,226,092
Other assets	6	16,091	64,799
Property, plant and equipment	7	43,342	174,538
<b>TOTAL ASSETS</b>		<u>1,952,654</u>	<u>7,863,338</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Customers' deposits	8	217,778	876,992
Borrowings	9	100,000	402,700
Other liabilities	10	91,783	369,610
Deferred revenue	11	44,966	181,078
<b>Total Liabilities</b>		<u>454,527</u>	<u>1,830,380</u>
<b>EQUITY</b>			
Share capital	12	500,000	2,013,500
Donated capital	13	1,018,629	4,102,020
Retained earnings		(20,502)	(82,562)
<b>Total Shareholders' Equity</b>		<u>1,498,127</u>	<u>6,032,958</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>1,952,654</u>	<u>7,863,338</u>

On behalf of CREDIT MFI

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Karen Lewin  
Director  
Date:

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2004**

**DRAFT**

	<b>Share capital US\$</b>	<b>Donated capital US\$</b>	<b>Retained earnings US\$</b>	<b>Total US\$</b>	<b>Total Riel'000 (At year-end exchange rate)</b>
<b>2004</b>					
Transferred from CREDIT Program on 1 January 2004	500,000	833,633	-	1,333,633	5,370,541
Increase in donated capital	-	184,996	-	184,996	744,979
Net loss for the year	-	-	(20,502)	(20,502)	(82,562)
As at 31 December 2004	<u>500,000</u>	<u>1,018,629</u>	<u>(20,502)</u>	<u>1,498,127</u>	<u>6,032,958</u>

On behalf of CREDIT MFI

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Karen Lewin  
Director  
Date:

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2004**

**DRAFT**

		<b>For the year ended 31 December 2004</b>	
	<b>Note</b>	<b>US\$</b>	<b>Riel' 000</b> (At year-end exchange rate)
Interest income	14	482,376	1,942,528
Interest expense	15	<u>13,022</u>	<u>52,440</u>
<b>Net interest income</b>		469,354	1,890,088
Grant income	16	41,980	169,053
Other operating income		<u>23,823</u>	<u>95,935</u>
<b>Net operating income</b>		535,157	2,155,076
<b>Operating expenses</b>			
Administrative expenses	17	516,454	2,079,760
Depreciation	7	<u>19,729</u>	<u>79,449</u>
<b>Total operating expenses</b>		536,183	2,159,209
Provision for doubtful debts	5	11,896	47,905
<b>Total expenses</b>		<u>548,079</u>	<u>2,207,114</u>
<b>Net loss before tax</b>		(12,922)	(52,038)
<b>Taxation</b>	18	<u>7,580</u>	<u>30,525</u>
<b>Net loss for the year</b>		<u>(20,502)</u>	<u>(82,563)</u>

On behalf of CREDIT MFI

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Karen Lewin  
Director  
Date:

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2004**

**DRAFT**

	Note	For the year ended 31 December 2004	
		US\$	Riel'000 (At year-end exchange rate)
<b>OPERATING ACTIVITIES</b>			
Net loss before tax		(12,922)	(52,037)
Adjustments for:			
Provision for doubtful loans		11,896	47,905
Depreciation of property, plant and equipment		19,729	79,449
Gain on disposal of property, plant and equipment		(7,235)	(29,135)
Property, plant and equipment transferred from CREDIT Program		(38,398)	(154,629)
Donated capital transferred from CREDIT Program		833,633	3,357,040
Share capital transferred from CREDIT Program		500,000	2,013,500
Cash flows from operating profits before changes in operating assets and liabilities		1,306,703	5,262,093
Changes in operating assets and liabilities:			
Loans and advances to customers		(1,557,983)	(6,273,998)
Customers' deposits		(16,091)	(64,799)
Other assets		217,778	876,992
Deferred revenue		91,783	369,611
Other liabilities		44,966	181,078
Tax paid		(7,580)	(30,525)
Net cash outflow from operating activities		79,576	320,452
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(25,461)	(102,531)
Proceeds from disposal of property, plant and equipment		8,023	32,309
Net cash outflow from investing activities		(17,438)	(70,222)
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings		100,000	402,700
Proceeds from increase in donated capital		184,996	744,979
Net cash inflow from financing activities		284,996	1,147,679
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		347,134	1,397,909
<b>CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR</b>		347,134	1,397,909

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

**1. GENERAL**

Microfinance Institution CREDIT (Cambodia Rural Economic Development Initiatives for Transformation) Co., Ltd (“CREDIT MFI”) is a registered limited liability company incorporated under Cambodian laws. Its activities are an offshoot of the World Relief Cambodia – CREDIT Program (the “Program”) which was managed by and funded through World Relief Cambodia, an international non-profit organisation registered with the Ministry of Foreign Affairs in Cambodia. The Program started on 1 October 1999 upon assignment from World Relief Cambodia of a segment of the activities of World Relief/Cambodia Community Building (“WR/CCB”), a micro-finance organization supported by World Relief.

CREDIT MFI was established on 1 January 2004, based on the asset transfer document dated 1 January 2004, as discussed in note 19 to these financial statements.

CREDIT MFI was registered as a limited liability company on 13 June 2003. The National Bank of Cambodia (“Central Bank”) granted CREDIT MFI a license to conduct business as a micro-finance institution for a three year period commencing from 18 May 2004 to 18 May 2007.

CREDIT MFI’s business objective is to provide credit and saving services.

CREDIT MFI’s Central office is located in Phnom Penh. CREDIT MFI has four branch offices: Phnom Penh (which outreaches to Takeo and Neak Leung); Kompong Cham; Kompong Chhnang and Siem Reap.

As at 31 December 2004, CREDIT MFI has 124 staff (31 December 2003: 112 staff).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below.

**Basis of preparation**

The financial statements have been prepared in United States Dollars (“US\$”) using historical cost convention.

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Kingdom of Cambodia. The accounting principles and practices utilised in the Kingdom of Cambodia may differ from those generally accepted in countries and jurisdictions other than the Kingdom of Cambodia.

For the sole purpose of complying with Announcement No. B795-139-AN dated 5 December 1995 of the Central Bank, each account of the financial statements has to be converted into Khmer Riel (“Riel”) at the official rate of exchange regulated by the Central Bank as at reporting date. The financial statements expressed in Riel do not form part of the audited financial statements and are not for use of other parties other than the Central Bank. As at 31 December 2004, such conversion was made at the rate of US\$ 1 to Riel 4,027 (2003: US\$ 1 to Riel 3,976).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Basis of aggregation**

The financial statements include the financial statements of the Central Office and four branch offices in: Phnom Penh (which outreaches to Takeo and Neak Leung); Kompong Cham; Kompong Chhnang and Siem Reap. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

**Loans and advances to customers**

Loans and advances to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and/or general provisions.

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

The provision for doubtful loans charged to the income statements is based on management's judgment of the amount necessary to maintain the provision balance at a level adequate to absorb losses.

The amount of provision established by CREDIT MFI as at balance sheet date is in full compliance with the requirement of the Central Bank Prakas No B-7-02-186 on classification and provisioning for bad and doubtful loans as follows:

<b>Loan status/classification</b>	<b>Percentage applied (%)</b>
<i>Loan of one year or less</i>	
Standard	0
Sub standard loans (where repayments are more than 30 days overdue)	10
Doubtful loans (where repayments are more than 60 days overdue)	30
Loss (where repayments are more than 90 days overdue)	100
 <i>Loan of more than one year</i>	
Standard	0
Sub standard loans (where repayments are more than 30 days overdue)	10
Doubtful loans (where repayments are more than 180 days overdue)	30
Loss (where repayments are more than 360 days overdue)	100

As at the year end, an additional general provision of bad and doubtful loans is set at the rate of 0.25% of all outstanding loans as at year end.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the property, plant and equipment as follows:

	<i>Estimated useful lives</i>
Computer	3 years
Vehicles	5 years
Office equipment	8 years

Expenditure for maintenance and repairs that do not extend the useful lives of assets are charged to the income statement. Gains or losses on sale of property, plant and equipment are recognised upon disposal of such assets.

**Donations and grants**

Revenue grants received to subsidise CREDIT MFI's operating and administrative expenses are released to the income statement over the periods in which they are expected to be received as stipulated in their respective grant agreements. Grants received are shown as *Deferred revenue*.

Grants received to be used exclusively by CREDIT MFI for funding its loan disbursements and which are not repayable to its shareholder are treated as *Donated capital*. Donated capital is recorded as part of shareholders' equity in the balance sheet.

**Interest and fee income and expense recognition**

Interest earned on loans and fee income, and interest expense on deposits from members and fee expenses are recognized in the income statement on a cash basis.

**Provision for staff accident and disability**

A provision for staff accident and disability of US\$10 is made monthly for each individual staff member. This provision is only reversed when a claim for medical expense that is due to an accident, is approved and reimbursed by the management of CREDIT MFI. Funds are set aside in a CREDIT MFI account held in Citibank, USA. If the total is more than \$250 per staff member, CREDIT MFI does not make additional provision.

**Provident fund**

A provident fund is maintained by CREDIT MFI for its employees. A monthly provision equal to 1/24 of each employee's salary is accrued for this provident fund. This provident fund will be fully paid to CREDIT MFI's employee when they leave. No separate fund is maintained i.e. there is no separate interest bearing bank account or any other asset for the fund.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Provision for medical benefit**

A provision for medical benefit of US\$100 is made annually for each individual staff member. This provision is only reversed when a claim for medical expense, which is approved and reimbursed by the management of CREDIT MFI.

**Foreign currency translation**

Assets and liabilities denominated in currencies other than US\$ at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than US\$ arising during the period are converted into US\$ at the rates of exchange prevailing on the transaction dates. All exchange differences are recognised in the profit and loss account.

**Cash and cash equivalents**

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days' maturity from the date of acquisition including: cash on hand and balances with banks.

**3. CASH ON HAND**

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
Phnom Penh	47,186	190,018
Cental Office	26,323	106,003
Kampong Chhnang	20,204	81,362
Kampong Cham	13,986	56,322
Siem Reap	13,076	52,656
	<u>120,775</u>	<u>486,361</u>

**4. BALANCES WITH BANKS**

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
<i>Saving deposits</i>		
Cambodian Public Bank	171,258	689,656
Foreign Trade Bank of Cambodia	1,380	5,557
Citibank	53,721	216,335
	<u>226,359</u>	<u>911,548</u>

Savings accounts earn interest at rates ranging from 1.5% to 2%.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

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## 5. LOANS AND ADVANCES TO CUSTOMERS

a) *Analysis by branches*

	31 December 2004	
	US\$	Riel '000 (At year-end exchange rate)
Phnom Penh	779,127	3,137,544
Kampong Cham	498,597	2,007,850
Kampong Chhnang	226,102	910,513
Siem Reap	88,749	357,392
Central Office	3,152	12,693
	<u>1,595,727</u>	<u>6,425,992</u>
Provision for doubtful loans	(49,640)	(199,900)
Loans and advances to customers	<u>1,546,087</u>	<u>6,226,092</u>

b) *Analysis by performing and non-performing loans*

	31 December 2004	
	US\$	Riel '000 (At year-end exchange rate)
Standard loans		
-unsecured	1,472,603	5,930,172
Substandard loans		
-unsecured	56,525	227,626
Doubtful loans		
-unsecured	38,075	153,328
Losses		
-unsecured	28,524	114,866
	<u>1,595,727</u>	<u>6,425,992</u>

c) *Analysis by industry*

	31 December 2004	
	US\$	Riel '000 (At year-end exchange rate)
Agriculture	49,168	197,999
Trade and commerce	1,546,559	6,227,993
	<u>1,595,727</u>	<u>6,425,992</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

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## 5. LOANS AND ADVANCES TO CUSTOMERS (Continued)

d) *Analysis by relationship*

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
Non-related parties	1,595,727	6,425,992
	<u>1,595,727</u>	<u>6,425,992</u>

e) *Analysis by type of customers*

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
Individual	1,047,650	4,218,887
Solidarity	548,077	2,207,105
	<u>1,595,727</u>	<u>6,425,992</u>

f) *Analysis by currency*

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
In Khmer Riel	881,222	3,548,680
In US\$	714,505	2,877,312
	<u>1,595,727</u>	<u>6,425,992</u>

g) *Analysis by maturity*

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
Maturity within one year	1,595,727	6,425,992
Over one year but within three years	-	-
Over three years but within five years	-	-
Over five years	-	-
	<u>1,595,727</u>	<u>6,425,992</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

## 5. LOANS AND ADVANCES TO CUSTOMERS (Continued)

h) *Provision for bad and doubtful loans*

	31 December 2004	
	US\$	Riel '000 (At year-end exchange rate)
Specific provision in accordance with Central Bank	45,599	183,627
General provision	4,041	16,273
	<u>49,640</u>	<u>199,900</u>

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

	31 December 2004	
	US\$	Riel '000 (At year-end exchange rate)
Opening balance	56,924	226,328
Provision for the year	11,896	47,905
Write-offs	(19,180)	(77,238)
Currency revaluation at the balance sheet date	-	2,905
	<u>49,640</u>	<u>199,900</u>

Loans denominated in Cambodian Riel and United States Dollars earn interest at 4% and 3% a month respectively.

## 6. OTHER ASSETS

	31 December 2004	
	US\$	Riel'000 (At year-end exchange rate)
Prepayments	12,850	51,747
Staff advances	-	-
Others	3,241	13,052
	<u>16,091</u>	<u>64,799</u>

## 7. PROPERTY, PLANT AND EQUIPMENT

	Computer US\$	Vehicles US\$	Office Equipment US\$	Total US\$
<b>Cost</b>				
Transferred from the Program on 1 January 2004	34,263	61,225	16,138	111,626
Additions	-	25,461	-	25,461
Disposals	-	(24,540)	-	(24,540)
	<u>34,263</u>	<u>62,146</u>	<u>16,138</u>	<u>112,547</u>
As at 31 December 2004	<u>34,263</u>	<u>62,146</u>	<u>16,138</u>	<u>112,547</u>
<b>Accumulated depreciation</b>				
Transferred from the Program on 1 January 2004	25,488	39,475	8,265	73,228
Charge for the year	6,697	11,318	1,714	19,729
Disposals	-	(23,752)	-	(23,752)
	<u>32,185</u>	<u>27,041</u>	<u>9,979</u>	<u>69,205</u>
As at 31 December 2004	<u>32,185</u>	<u>27,041</u>	<u>9,979</u>	<u>69,205</u>
<b>Net book value</b>				
As at 31 December 2004	<u>2,078</u>	<u>35,105</u>	<u>6,159</u>	<u>43,342</u>
In Riel'000 equivalent	<u>8,368</u>	<u>141,368</u>	<u>24,802</u>	<u>174,538</u>

## 8. CUSTOMERS' DEPOSITS

The details of customers' deposits are as follows:

	<b>31 December 2004</b>	
	US\$	Riel '000
	(At year-end exchange rate)	
<i>By location</i>		
Phnom Penh	83,994	338,245
Kompong Cham	64,088	258,082
Kompong Chhang	29,444	118,571
Siem Reap	11,351	45,710
Central Office	28,901	116,384
	<u>217,778</u>	<u>876,992</u>

8. CUSTOMERS' DEPOSITS (Continued)

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
<i>By currency</i>		
Compulsory savings		
In Riel	142,180	572,559
In US\$	46,697	188,049
Voluntary savings		
In Riel	2,531	10,192
In US\$	26,370	106,192
	<u>217,778</u>	<u>876,992</u>

Compulsory and voluntary deposits bear interest at the following rates:

	<b>Interest rate per annum</b>	
	<b>Riel</b>	<b>US\$</b>
Compulsory	7.2% – 12%	3%
Voluntary	5%	2%

9. BORROWINGS

	<b>31 December 2004</b>	
	<b>US\$</b>	<b>Riel '000</b> (At year-end exchange rate)
Stomme Foundation	<u>100,000</u>	<u>402,700</u>
	<u>100,000</u>	<u>402,700</u>

Credit limit in original currency	Effective interest rate	Repayment terms
	2004	
US\$100,000	6% per annum	Interest is to be paid quarterly commencing 30 March 2004. The principal of the loan is to be repaid in eight quarterly instalments commencing 30 March 2006.

This loan is unsecured.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

## 10. OTHER LIABILITIES

	31 December 2004	
	US\$	Riel'000 (At year-end exchange rate)
Provision for staff accident and disability	50,139	201,910
Provision for provident fund	25,292	101,851
Provision for medical benefit	15,131	60,933
Others	1,221	4,916
	<u>91,783</u>	<u>369,610</u>

## 11. DEFERRED REVENUE

This account represents the unamortized part of the grant subsidy received from World Relief US, World Relief Canada, Geneva Global and Stromme mainly for capacity building which includes the purchase of motor vehicles.

## 12. SHARE CAPITAL

The details of authorised, issued and fully paid share capital of CREDIT MFI are as follows:

<i>Shareholder</i>	<i>% of ownership</i>	<i>Number of shares</i>	<i>Price/Share US\$</i>	<i>Total US\$</i>	<i>Total Riel'000</i>
World Relief US	83%	830	500	415,000	1,671,205
World Relief Canada	17%	170	500	85,000	342,295
	<u>100%</u>	<u>1,000</u>	<u>500</u>	<u>500,000</u>	<u>2,013,500</u>

Each share will have one vote and will participate equally in all dividends and other distributions of the CREDIT MFI.

The movement in share capital during the year is as follows:

	World Relief US US\$	World Relief Canada US\$	Total US\$	Total Riel'000 (At year-end exchange rate)
As at 1 January 2004	-	-	-	
Transferred from the Program (see note 19)	<u>415,000</u>	<u>85,000</u>	<u>500,000</u>	<u>2,013,500</u>
As at 31 December 2004	<u>415,000</u>	<u>85,000</u>	<u>500,000</u>	<u>2,013,500</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

13. DONATED CAPITAL

	World Relief US\$	USAID US\$	Other donors US\$	Retained earnings US\$	Total US\$	Total Riel'000 (At year-end exchange rate)
As at 1 January 2004	-	-	-	-	-	-
Transferred from the Program (see note 19)	173,437	363,568	183,629	112,999	833,633	3,357,041
Proceeds during the year	113,400	-	71,596	-	184,996	744,979
As at 31 December 2004	<u>286,837</u>	<u>363,568</u>	<u>255,225</u>	<u>112,999</u>	<u>1,018,629</u>	<u>4,102,020</u>

14. INTEREST INCOME

	31 December 2004	
	US\$	Riel'000 (At year-end exchange rate)
Loans and advances to customers	477,395	1,922,470
Interest income on bank deposits	<u>4,981</u>	<u>20,058</u>
	<u>482,376</u>	<u>1,942,528</u>

15. INTEREST EXPENSE

Interest expense represents interest paid on customer deposits.

16. GRANT INCOME

	31 December 2004	
	US\$	Riel'000 (At year-end exchange rate)
World Relief US	6,600	26,578
World Relief Canada	14,273	57,476
Geneva Global	18,397	74,085
CEDAR	1,690	6,806
Stromme Foundation	<u>1,020</u>	<u>4,108</u>
	<u>41,980</u>	<u>169,053</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

## 17. ADMINISTRATIVE EXPENSES

	31 December 2004	
	US\$	Riel'000 (At year-end exchange rate)
Salaries and staff benefits	335,879	1,352,585
Offices expense	44,313	178,448
Repairs and maintenance	43,036	173,306
Office rental	39,441	158,829
Professional fees	24,150	97,252
Communication	10,800	43,492
Travel and business meeting	6,348	25,563
Rebates	4,922	19,821
Other expenses	7,565	30,464
	<u>516,454</u>	<u>2,079,760</u>

## 18. TAXATION

	31 December 2004	
	US\$	Riel'000 (At year-end exchange rate)
Current taxation	5,033	20,268
Prior year taxation	2,547	10,257
	<u>7,580</u>	<u>30,525</u>

Under the Law on Taxation, the Company has obligation to pay Tax on Profit at 20% of taxable profit or Minimum Tax at 1% of total revenue, whichever is higher.

The reconciliation of effective tax rate, subject to agreement with the Cambodian Tax Department, is as follows:

	2004 US\$
Accounting (loss)/profit before income tax	<u>(12,922)</u>
Minimum tax at 1% of turnover	<u>5,033</u>

Income tax expense for the year 2004 represents the minimum tax CREDIT MFI is required to pay, calculated at 1% of turnover.

Income tax expense is calculated on the basis of the current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of the income tax expense will be made following inspection by the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

## 19. TRANSFER OF ASSETS AND LIABILITIES

Based on the asset transfer document dated 1 January 2004, the Program's assets and liabilities as at 1 January 2004 (transfer date) were transferred to CREDIT MFI at their recorded net book values, with details as follows:

	US\$
<b>ASSETS</b>	
Cash on hand	93,794
Balance with banks	694,702
Loans and advances to customers	761,456
Other assets	14,008
Amount due from CREDIT MFI	2,547
Property, plant and equipment	38,398
	<hr/>
Total assets	1,604,905
	<hr/>
<b>LIABILITIES</b>	
Customers' deposits	147,346
Other liabilities	65,871
Deferred revenue	58,055
	<hr/>
Total liabilities	271,272
	<hr/>
Net	1,333,633
	<hr/> <hr/>

The net difference between the transferred assets and liabilities were treated as follows:

Share capital (see note 12)	500,000
Donated capital (see note 13)	833,633
	<hr/>
Total	1,333,633
	<hr/> <hr/>

**20. CURRENCY ANALYSIS**

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

	US\$	Riel '000	Total
<b><i>31 December 2004</i></b>			
<b>ASSETS</b>			
Cash on hand	65,115	55,660	120,775
Balances with banks	226,359	-	226,359
Loans and advances to customers	705,041	841,046	1,546,087
Other assets	16,091	-	16,091
Property, plant and equipment	43,342	-	43,342
	<u>1,055,948</u>	<u>896,706</u>	<u>1,952,654</u>
<b>LIABILITIES</b>			
Customers' deposits	73,067	144,711	217,778
Borrowings	100,000	-	100,000
Other liabilities	91,783	-	91,783
Deferred revenue	44,966	-	44,966
	<u>309,816</u>	<u>144,711</u>	<u>454,527</u>
<b>Net liquidity surplus/(gap)</b>	<u><u>746,132</u></u>	<u><u>751,995</u></u>	<u><u>1,498,127</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

## 21. MATURITY PROFILE

The maturity profile of assets and liabilities are as follows:

	Total US\$	Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	Over 5 years US\$	No fixed date of maturity US\$
<b>31 December 2004</b>							
<b>ASSETS</b>							
Cash on hand	120,775	120,775	-	-	-	-	-
Balances with banks	226,359	226,359	-	-	-	-	-
Loans and advances to customers	1,546,087	219,629	703,189	623,269	-	-	-
Other assets	16,091	345	10,430	3,108	2,208	-	-
Property, plant and equipment	43,342	1,487	4,461	13,383	24,011	-	-
Total assets	<u>1,952,654</u>	<u>568,595</u>	<u>718,080</u>	<u>639,760</u>	<u>26,219</u>	-	-
<b>LIABILITIES</b>							
Customers' deposits	217,778	12,788	57,545	147,445	-	-	-
Borrowings	100,000	-	-	-	100,000	-	-
Other liabilities	91,783	91,783	-	-	-	-	-
Deferred revenue	44,966	6,035	18,105	20,826	-	-	-
Total liabilities	<u>454,527</u>	<u>110,606</u>	<u>75,650</u>	<u>168,271</u>	<u>100,000</u>	-	-
<b>Net liquidity surplus/(gap)</b>	<u>1,498,127</u>	<u>457,989</u>	<u>642,430</u>	<u>471,489</u>	<u>(73,781)</u>	-	-

## 22. LEASE COMMITMENTS

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

	31 December 2004		31 December 2003	
	US\$	Riel'000 (At year-end exchange rate)	US\$	Riel'000 (At year-end exchange rate)
Not more than one year	9,670	38,941	11,380	45,247
More than one year and not more than five years	<u>28,560</u>	<u>115,011</u>	<u>-</u>	<u>-</u>
	<u>38,230</u>	<u>153,952</u>	<u>11,380</u>	<u>45,247</u>

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

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## MICROFINANCE INSTITUTION CREDIT CO., LTD

### APPENDIX I: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

#### 1. CAPITAL ADEQUACY RATIO, Prakas No. B7-00-46

A Licensed Micro-finance Institution shall at all times, maintain capital adequacy ratio of more than 20%. As at 31 December 2004, Capital Adequacy Ratio of CREDIT is 81.78%.

The Capital Adequacy Ratio calculation is detailed in Schedule 1.

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

A Licensed Micro-finance Institution shall at all times, maintain a liquidity ratio of more than 100%. As at 31 December 2004, the Liquidity Ratio is 4,804%.

The Liquidity Ratio calculation is detailed in Schedule 2.

#### 3. CALCULATION OF FOREIGN CURRENCY EXPOSURE, Prakas No B 795-001

The foreign currency exposure ratio should not exceed 5% of net worth for each individual currency and 15% of net worth in aggregate. As at 31 December 2004, the foreign currency exposure ratio is 12.46% in aggregate (there is only one foreign currency).

*(Note: CREDIT MFI transacts its business primarily in US dollars ("US\$") and maintains its books of accounts in US\$. Accordingly, for computation of this ratio, all currencies other than US\$ are considered as foreign currencies).*

Foreign currency exposure ratio calculation is detailed in Schedule 3.

#### 4. RESERVE REQUIREMENT, Prakas No. B7-02-45

A Licensed Micro-finance Institution shall deposit 5% of their deposits into an account maintained with the Central Bank. As at 31 December 2004, the reserve requirement is Riel 5,819 thousand. As at 31 December 2004, there is no reserve account with the Central Bank. This reserve account was opened in 2005 and stands at Riel 5,600 thousand as at 30 March 2005.

The Reserve Requirement calculation is detailed in Schedule 4.

#### 5. LICENSING OF MICRO-FINANCE INSTITUTION, Prakas No. B700-006

A Licensed Micro-finance Institution shall maintain an amount equal to 5% of its registered capital in a non-interest earning permanent account with the Central Bank. As at 31 December 2004, the capital guarantee deposit requirement is Riel 100,675 thousand. As at 31 December 2004, there is no capital guarantee deposit account with the Central Bank. This reserve account was opened in 2005 and stands at Riel 12,500 thousand as at 30 March 2005.

APPENDIX I: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS  
FOR THE YEAR ENDED 31 DECEMBER 2004

DRAFT

6. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO, Prakas  
No. B702-186

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

Loan term of one year or less than one year

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

Loan term more than one year

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

Specific provisions on the loans classified as follow:

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

As at 31 December 2004, the specific provision provided by CREDIT MFI is Riel 183,627 thousand which was in compliance with Central Bank's Prakas.

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

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**SCHEDULE 1  
CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2004**

**DRAFT**

		<b>Riel'000</b>
<b>1-NUMERATOR : ELIGIBLE CAPITAL</b>		
<b>1.1. CORE CAPITAL</b>		
- Paid in capital		2,013,500
- Reserves		4,102,020
- Retained earnings		-
- Net profit for the year		<u>(82,562)</u>
<b>Sub total A</b>		<u>6,032,958</u>
<i>Less :</i>		
- Unpaid capital		-
- Loan to related parties		-
- Intangible asset		<u>-</u>
<b>Sub-total B</b>		-
<b>Core capital (A-B)</b>		<b>6,032,958</b>
<b>1.2.HYBRID CAPITAL</b>		
- Nun-refundable grants		-
- Public guarantee funds		-
- Perpetual subordinated debt		-
<b>Hybrid capital</b>		-
<b>1.3 ELIGIBLE CAPITAL ( Core capital + Hybrid capital ) (E)</b>		<u><b>6,032,958</b></u>
<b>2-DENOMINATOR:RISK-WEIGHTED ASSET (R)</b>		
Asset	Amount Riel'000	Weighting
-Cash	486,361	0%
- Gold	0	0%
- Deposits with the Central Bank	0	0%
- Deposits with bank rated AAA to AA-	0	20%
- Deposits with bank rated A+ to A-	0	50%
- Loan	6,226,092	100%
- Others asset	<u>1,150,885</u>	100%
<b>Total</b>	<u><b>7,863,338</b></u>	
		<u><b>7,376,977</b></u>
<b>CAPITAL ADEQUACY RATIO ( C=E/R )</b>		<u><b>81.78%</b></u>

MICROFINANCE INSTITUTION CREDIT CO., LTD

SCHEDULE 2  
LIQUIDITY RATIO AS AT 31 DECEMBER 2004

DRAFT

<b>1-Numerator: liquid asset</b>			<b>Riel'000</b>
- Cash in hand			486,361
- Balances with Central Bank			0
- Balances with banks			<u>911,548</u>
<b>Sub-total A</b>			<b>1,397,909</b>
<i>Less :</i>			
- Amount owed to Central Bank			-
- Amount owed to banks			-
<b>Sub-total B</b>			-
<b>Net liquidity (A-B)</b>			<b>1,397,909</b>
<i>Plus :</i>			
Portion of loans maturing in less than one month			<u>-</u>
<b>Liquid assets (L)</b>			<b><u>1,397,909</u></b>
<b>2-Denominator: Adjusted amount of deposits (A)</b>			
Category of Deposits	Amount	%	
Voluntary savings	116,384	25%	29,096
<b>Total</b>	<b>116,384</b>		<b>29,096</b>
<b>LIQUIDITY RATIO (L/A)</b>			<b><u>4,804%</u></b>

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**SCHEDULE 3**

**CALCULATION OF FOREIGN CURRENCY EXPOSURE AS AT 31 DECEMBER 2004**

	<b>Total Riel'000</b>
1- Asset in foreign currency (US\$)	896,706
2- Minus: Liabilities in that currency (US\$)	144,711
3- Net Position (Long or Short)	751,995
4- Minus: Provision for FX losses	-
5- Adjusted Net Position ( Long or Short)	751,995
6- Net worth	<u>6,032,958</u>
<b>7- Foreign currency exposure ratio: 5/6</b>	<b><u>12.46%</u></b>

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**SCHEDULE 4  
RESERVE REQUIREMENT AS AT 31 DECEMBER 2004**

**DRAFT**

	<b>Riel'000</b>
1-Voluntary	
1-1 Demand	-
1-2 Saving	116,384
1-3 Term	-
1-4 Other	-
<b>1-5 Total Reservable Deposits</b>	<b><u>116,384</u></b>
<b>2-Compulsary</b>	
2-1 Program (5% for guarantee, Individual Credit)	760,608
2-2 Program	-
2-3 Program	-
2-4 Total compulsory saving	-
<b>3-Total saving mobilized</b>	<b>876,992</b>
5% Reservable Deposit	<b><u>5,819</u></b>

**MICROFINANCE INSTITUTION CREDIT CO., LTD**

**SCHEDULE 5  
LOAN CLASSIFICATION, PROVISION, AND DELINQUENCY RATIO  
AS AT 31 DECEMBER 2004**

**DRAFT**

<b>Loan classification</b>	<b>Amount Riel'000</b>	<b>Rate %</b>	<b>Specific Provision Riel'000</b>
<b>1-Loans of one year or less</b>			
1-1 Standard	5,930,172	0%	0
1-2 Substandard Past Due >30 days	227,626	10%	22,763
1-3 Doubtful Past Due >60 days	153,328	30%	45,998
1-4 Loss Past Due >90 days	114,866	100%	114,866
<b>Sub-Total 1</b>	<b>6,425,992</b>		<b>183,627</b>
<b>2-Loans of more than one year</b>			
2-1 Standard	-	0%	-
2-2 Substandard Past Due >30 days	-	10%	-
2-3 Doubtful Past Due >180 days	-	30%	-
2-4 Loss Past Due >360 days	-	100%	-
<b>Sub-Total 2</b>	<b>-</b>		<b>-</b>
<b>Grand total 1+2</b>	<b>6,425,992</b>		<b>183,627</b>
<b>All loans past due &gt; 30 days (A)</b>			<b>226,000</b>
<b>Loan outstanding (B)</b>			<b>6,425,992</b>
<b>Delinquency Ratio (A/B)</b>			<b><u>3.52%</u></b>