

CAMMA MICROFINANCE LIMITED

**Financial Statements
for the year ended 31 December 2015
and
Report of the Independent Auditors**

Corporate Information

Company	CAMMA Microfinance Limited
Registration No.	Co. 0700 KH/2010
Registered office	No.101A, Street 289 Sangkat Boeng Kak I, Khan Toul Kok Phnom Penh, Kingdom of Cambodia
Shareholders	Madam Ou San Madam Dith Nita
Board of Directors	Mr. Thun Vathana, Chairman (appointed on 26 December 2015) Mr. Benson Samay, Chairman (resigned on 2 January 2016) Ms. Khat Sokean, Vice-chairperson Mr. Khov Soviet, Member
Management team	Madam Dith Nita, Chief Executive Officer Mr. Tith Vannarith, Head of finance and accounting department Mr. Ly Chheang, Head of loan department Mr. Yang Haiy, Head of internal audit department
Principal bankers	Advanced Bank of Asia Limited ANZ Royal Bank (Cambodia) Ltd RHB Indochina Bank Limited ACLEDA Bank Plc. Vattanac Bank Limited
Auditors	KPMG Cambodia Ltd

CAMMA Microfinance Limited

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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of CAMMA Microfinance Limited (“the Company”) for the year ended 31 December 2015.

Principal activity

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

Financial results

The financial results of the Company for the year ended 31 December 2015 were as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	396,814	1,607,097	290,058	1,181,986
Income tax expense	(80,980)	(327,969)	(58,012)	(236,399)
Net profit for the year	<u>315,834</u>	<u>1,279,128</u>	<u>232,046</u>	<u>945,587</u>

Dividends

No dividend was declared or paid and the Directors do not recommend any dividend to be paid for the year under review.

Share capital

On 21 April 2015, the Board of Directors of the Company approved to issue the additional share capital of 1,050,000 shares for US\$1,050,000. On 5 September 2015, the Company obtained approval from National Bank of Cambodia to increase its share capital from US\$1,053,000 to US\$2,103,000 through cash injection and transfer from retained earnings of US\$850,000 and US\$200,000 respectively.

The amendment of the Articles of Incorporation is in the process of obtaining acknowledgement from the Ministry of Commerce as at the date of this report.

CAMMA Microfinance Limited

Reserves and provisions

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

Bad and doubtful loans

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

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

Current assets

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ensure that any current 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 the Company have 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 current assets in the financial statements of the Company misleading.

Valuation methods

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

Contingent and other liabilities

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

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

CAMMA Microfinance Limited

Contingent and other liabilities (continued)

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

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.

Items of an unusual nature

In the opinion of the Directors:

- (a) The results of the operations of the Company for the financial year were not, in the opinion of the Directors, materially affected by any item, transaction or event of a material and unusual nature; and
- (b) There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

Events since the reporting date

At the date of this report, except as disclosed in the financial statements, there have been no significant events occurring after the balance sheet date which would require adjustments or disclosures to be made in the financial statements.

The Board of Directors

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

Mr. Thun Vathana	Chairperson (appointed on 26 December 2015)
Mr. Benson Samay	Chairperson (resigned on 2 January 2016)
Ms. Khat Sokean	Vice-chairperson
Mr. Khov Soviet	Member

Directors' interests

The Directors who held office at the end of the financial year and their interests in the shares of the Company are as follows:

	2015		2014	
	Holding %	Number of shares of US\$1 each	Holding %	Number of shares of US\$1 each
H.E Ou San	90.19%	1,896,623	83.53%	879,565
Madam Dith Nita	9.81%	206,377	16.47%	173,435
	100%	2,103,000	100%	1,053,000

CAMMA Microfinance Limited

Directors' Benefits

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

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

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) maintain adequate accounting records and an effective system of internal control;
- (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) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

CAMMA Microfinance Limited

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 8 to 43 which present fairly, in all material respects, the financial position of CAMMA Microfinance Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Signed in accordance with a resolution of the Board of Directors,



Mr. Thun Vathana
Chairman

A handwritten signature in blue ink, appearing to be "D. Nita", is written above a horizontal line.

Madam Dith Nita
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 28 APR 2016



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Report of the independent auditors

To the shareholders

CAMMA Microfinance Limited

We have audited the accompanying financial statements of CAMMA Microfinance Limited (“the Company”), which comprise balance sheet as at 31 December 2015, and income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 8 to 43.

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

Auditors’ 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 of 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 our 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, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CAMMA Microfinance Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

Other matter

The financial statements of the Company as of and for the year ended 31 December 2014 were audited by other auditors who expressed an unmodified opinion on those statements on 9 April 2015.

For KPMG Cambodia Ltd

Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

28 April 2016

CAMMA Microfinance Limited

Balance sheet As at 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Assets					
Cash on hand	5	47,375	191,869	65,874	268,437
Balances with banks	6	351,075	1,421,854	85,548	348,608
Balances with National Bank of Cambodia	7	105,434	427,008	52,888	215,519
Loans to customers, net	8	5,913,596	23,950,064	4,724,960	19,254,212
Other assets	9	101,563	411,330	84,242	343,286
Property and equipment	10	32,923	133,338	44,172	180,001
Intangible assets	11	867	3,511	1,683	6,858
Total assets		6,552,833	26,538,974	5,059,367	20,616,921
Liabilities and equity					
Liabilities					
Other liabilities	12	64,321	260,500	67,644	275,650
Current income tax liabilities	13	68,617	277,899	49,575	202,018
Borrowings	14	3,968,277	16,071,522	3,656,364	14,899,683
Total liabilities		4,101,215	16,609,921	3,773,583	15,377,351
Equity					
Share capital	15	2,103,000	8,517,150	1,053,000	4,290,975
Retained earnings		348,618	1,411,903	232,784	948,595
Total equity		2,451,618	9,929,053	1,285,784	5,239,570
Total liabilities and equity		6,552,833	26,538,974	5,059,367	20,616,921

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

CAMMA Microfinance Limited

Income statement for the year ended 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	16	1,107,366	4,484,832	873,382	3,559,032
Interest expense	17	(358,967)	(1,453,816)	(281,688)	(1,147,879)
Net interest income		748,399	3,031,016	591,694	2,411,153
Provision for bad and doubtful loans	8	(28,612)	(115,879)	(20,506)	(83,562)
Net interest income after provision for bad and doubtful loans		719,787	2,915,137	571,188	2,327,591
Other operating income	18	76,760	310,878	56,595	230,625
Personnel expenses	19	(217,304)	(880,081)	(171,816)	(700,150)
Depreciation and amortisation expenses		(24,662)	(99,881)	(23,541)	(95,930)
General and administrative expenses	20	(157,767)	(638,956)	(142,368)	(580,150)
Profit before income tax		396,814	1,607,097	290,058	1,181,986
Income tax expense	13	(80,980)	(327,969)	(58,012)	(236,399)
Net profit for the year		315,834	1,279,128	232,046	945,587

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

CAMMA Microfinance Limited

Statement of changes in equity for the year ended 31 December 2015

	Share capital US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2014	850,000	203,738	1,053,738
Net profit for the year	-	232,046	232,046
Transfer from retained earnings to share capital	203,000	(203,000)	-
Balance as at 31 December 2014	<u>1,053,000</u>	<u>232,784</u>	<u>1,285,784</u>
(KHR'000 equivalents - Note 4)	<u>4,290,975</u>	<u>948,595</u>	<u>5,239,570</u>
Balance as at 1 January 2015	1,053,000	232,784	1,285,784
Net profit for the year	-	315,834	315,834
Transfer from retained earnings to share capital	200,000	(200,000)	-
Issuance of share capital	850,000	-	850,000
Balance as at 31 December 2015	<u>2,103,000</u>	<u>348,618</u>	<u>2,451,618</u>
(KHR'000 equivalents - Note 4)	<u>8,517,150</u>	<u>1,411,903</u>	<u>9,929,053</u>

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

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Statement of cash flows for the year ended 31 December 2015

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities				
Net profit for the year	315,834	1,279,128	232,046	945,587
Adjustments for:				
Depreciation and amortisation expenses	24,662	99,881	23,541	95,930
Allowance for bad and doubtful loans	28,612	115,879	20,506	83,562
Net interest income	(748,399)	(3,031,016)	(591,694)	(2,411,153)
Income tax expense	80,980	327,969	58,012	236,399
	(298,311)	(1,208,159)	(257,589)	(1,049,675)
Changes in:				
Loans to customers	(1,217,248)	(4,929,854)	(1,185,620)	(4,831,402)
Other assets	(6,992)	(28,318)	1,128	4,597
Other liabilities	1,560	6,318	31,765	129,442
Cash used in operations	(1,520,991)	(6,160,013)	(1,410,316)	(5,747,038)
Income tax paid	(61,938)	(250,849)	(42,082)	(171,484)
Interest received	1,097,037	4,443,000	863,908	3,520,425
Interest paid	(363,850)	(1,473,593)	(279,496)	(1,138,946)
Net cash used in operating activities	(849,742)	(3,441,455)	(867,986)	(3,537,043)
Cash flows from investing activities				
Statutory capital deposit	(52,500)	(212,625)	(10,150)	(41,361)
Term deposits	(200,000)	(810,000)	200,000	815,000
Purchased of property and equipment	(12,597)	(51,018)	(6,802)	(27,718)
Purchased of intangible assets	-	-	(1,675)	(6,826)
Net cash (used in)/ generated from investing activities	(265,097)	(1,073,643)	181,373	739,095
Cash flows from financing activities				
Proceeds from borrowings	5,871,800	23,780,790	3,791,534	15,450,503
Repayments of borrowings	(5,559,887)	(22,517,542)	(3,322,170)	(13,537,843)
Proceeds from issuance of share capital	850,000	3,442,500	-	-
Net cash generated from financing activities	1,161,913	4,705,748	469,364	1,912,660

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Statement of cash flows (continued) for the year ended 31 December 2015

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Net increase/(decrease) in cash and cash equivalents	47,074	190,650	(217,249)	(885,288)
Cash and cash equivalents at beginning of the year	151,660	618,015	368,909	1,473,790
Currency translation difference	-	(3,792)	-	29,513
	<u>198,734</u>	<u>804,873</u>	<u>151,660</u>	<u>618,015</u>
Cash and cash equivalents at end of the year	<u>198,734</u>	<u>804,873</u>	<u>151,660</u>	<u>618,015</u>
Cash and cash equivalents represented by:				
Cash on hand	5	47,375	65,874	268,437
Balances with banks	6	151,075	85,548	348,608
Deposits with NBC	7	284	238	970
	<u>198,734</u>	<u>804,873</u>	<u>151,660</u>	<u>618,015</u>

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

CAMMA Microfinance Limited

Notes to the financial statements for the year ended 31 December 2015

1. Reporting entity

CAMMA Microfinance Limited (“the Company”) was incorporated as a limited liability company in the Kingdom of Cambodia under the Registration No. Co. 0700 KH/2010 issued by the Ministry of Commerce on 6 April 2010. On 29 July 2010, the Company obtained a permanent license from the National Bank of Cambodia to provide micro-finance services.

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

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

As at 31 December 2015, the Company had 54 employees (31 December 2014:38 employees).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 28 April 2016.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in two currencies, Khmer Riel (“KHR”) and United States Dollars (“US\$”). Management has determined the US\$ to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

2. Basis of preparation (continued)

(c) Functional and presentation currency (continued)

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

(d) Use of estimates and judgements

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

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

Key accounting estimates and judgements applied in the preparation of the financial statements include estimates of recoverable amount for loans which have a separate accounting policy stated in Notes 3(f).

3. Significant accounting policies

The following significant accounting policies have been adopted by the Company in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Financial instruments

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

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(c) Deposits with bank

Deposits with bank are stated at cost less allowance for any uncollectible amounts.

(d) Statutory deposits

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by NBC.

(e) 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 allowance.

Loans are written off automatically when a client dies and in other cases where the loans remain unpaid based on the assessment of the management and upon the approval of the Board of Directors as they are uncollectible. Loans written off are removed from the outstanding loan portfolio and from the allowance for bad and doubtful loans.

(f) Allowance for bad and doubtful loans

In compliance with the NBC guidelines, a specific provision for bad and doubtful loans that are identified as non-performing is made as follows:

Classification	Number of days past due	Allowance
Short term loans (less than one year):		
Sub-standard	30- 59 days	10%
Doubtful	60- 89 days	30%
Loss	90 days or more	100%

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

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

Classification	Number of days past due	Allowance
Long term loans (more than one year):		
Sub-standard	30-179 days	10%
Doubtful	180- 359 days	30%
Loss	360 days or more	100%

The specific allowance is calculated as a percentage of the loan outstanding at the time the loan is classified, excluding accrued interest. The allowance is recorded in the Company's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard.

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

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

(g) Interest in suspense

Interest in suspense represents interest on non-performing loans to customers, that is recorded as an allowance rather than income until it is realised on a cash basis.

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

(h) Other assets

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

(i) Property and equipment

- (i) Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(i) Property and equipment (continued)

- (ii) Depreciation of property and equipment is charged to income statement on a straight line basis over the estimated useful lives of the individual assets as follows:

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

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses on disposal of an item of property and equipment are determined as the difference between the estimate net disposal proceeds and the carrying amount of property and equipment and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(j) Intangible assets

Intangible assets consist of computer software and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised based on declining balance method over the annual rate of 50%.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(f).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) *Non-financial assets*

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

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

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

(l) Borrowings

Borrowings are stated at the amount of the principal outstanding.

(m) Provisions

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

(n) Income and expense recognition

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

Loan fee income is calculated using the principal and the applicable fee rate and is recognised as income when the loan is disbursed to customers.

Expenses are recognised on an accruals basis.

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Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(o) Operating leases

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

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholders' equity, in which case it is recognised in equity.

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

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

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

(q) Related parties

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

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

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines issued by the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,050 published by the NBC on 31 December 2015 (2014: KHR4,075). These convenient translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

5. Cash on hand

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	47,375	191,869	65,874	268,437
	<u>47,375</u>	<u>191,869</u>	<u>65,874</u>	<u>268,437</u>

6. Balances with banks

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	143,397	580,758	85,548	348,608
Saving accounts	7,678	31,096	-	-
Term deposits	200,000	810,000	-	-
	<u>351,075</u>	<u>1,421,854</u>	<u>85,548</u>	<u>348,608</u>

The above amounts are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	351,075	1,421,854	85,548	348,608
	<u>351,075</u>	<u>1,421,854</u>	<u>85,548</u>	<u>348,608</u>
(b) By currency:				
US Dollars	351,075	1,421,854	85,548	348,608
	<u>351,075</u>	<u>1,421,854</u>	<u>85,548</u>	<u>348,608</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

6. Balances with banks (continued)

(c) By interest rate (per annum):

	2015	2014
Current accounts	0% - 0.50%	0% - 0.50%
Term deposits	2%	-

7. Balances with National Bank of Cambodia

		2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory capital deposit	(i)	105,150	425,858	52,650	214,549
Current accounts	(ii)	284	1,150	238	970
		<u>105,434</u>	<u>427,008</u>	<u>52,888</u>	<u>215,519</u>

(i) The statutory capital deposit is maintained with the NBC in compliance with Prakas No. B7-00-006 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 5% of the Company's registered share capital. This deposit is refundable when the Company voluntarily liquidates and has no deposit liabilities.

This statutory capital deposits earns interest at 0.08% per annum (2014: 0.08% per annum).

(ii) Current accounts earn no interest.

8. Loans to customers, net

		2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Short term loans		50,389	204,075	44,651	181,953
Long term loans		5,878,725	23,808,837	4,691,811	19,119,130
		<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
Allowances for bad and doubtful loans		(15,518)	(62,848)	(11,502)	(46,871)
		<u>5,913,596</u>	<u>23,950,064</u>	<u>4,724,960</u>	<u>19,254,212</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers, net (continued)

Movements of allowances for bad and doubtful loans were as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	11,502	46,871	5,069	20,250
Allowance for the year	28,612	115,879	20,506	83,562
Bad debts written off during the year	(24,596)	(99,614)	(14,073)	(57,347)
Currency translation difference	-	(288)	-	406
	<u>15,518</u>	<u>62,848</u>	<u>11,502</u>	<u>46,871</u>

The loans to customers are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	186,314	754,572	163,240	665,203
1 to 3 months	346,825	1,404,641	304,876	1,242,370
3 to 12 months	1,489,401	6,032,074	1,281,359	5,221,538
Over 12 months	3,906,574	15,821,625	2,986,987	12,171,972
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(b) By security:				
Secured	5,893,240	23,867,622	4,718,267	19,226,938
Unsecured	35,874	145,290	18,195	74,145
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers, net (continued)

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(c) By industry:				
Household/family	2,761,805	11,185,310	1,849,164	7,535,343
Trade and commerce	1,542,871	6,248,628	1,614,772	6,580,196
Services	999,131	4,046,481	841,280	3,428,216
Agriculture	215,180	871,479	147,670	601,755
Transportation	65,985	267,239	111,787	455,532
Construction	58,323	236,208	51,599	210,266
Others	285,819	1,157,567	120,190	489,775
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(d) By currency:				
US Dollars	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(e) By residency status:				
Residents	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(f) By relationship:				
External customers	<u>5,843,466</u>	<u>23,666,038</u>	<u>4,657,313</u>	<u>18,978,551</u>
Staff loans	<u>85,648</u>	<u>346,874</u>	<u>79,149</u>	<u>322,532</u>
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers, net (continued)

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(g) By performance:				
Standard loans:				
Secured	5,833,721	23,626,570	4,667,119	19,018,510
Unsecured	35,874	145,290	18,195	74,145
Substandard loans:				
Secured	16,121	65,290	21,721	88,513
Unsecured	-	-	-	-
Doubtful loans:				
Secured	42,131	170,631	28,710	116,993
Unsecured	-	-	-	-
Loss loans:				
Secured	1,267	5,131	717	2,922
Unsecured	-	-	-	-
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(h) By large exposures:				
Non-large exposures	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(i) By location:				
Phnom Penh	5,012,889	20,302,201	3,765,841	15,345,802
Kandal	915,768	3,708,860	970,621	3,955,281
Kampong Speu	457	1,851	-	-
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>
(j) By interest rate (per annum):				
		2015		2014
Staff loans		13.20% - 15.60%		16.00%
External customers		13.20% - 30.00%		13.00% - 36.00%

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

9. Other assets

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	64,265	260,273	53,605	218,440
Interest in suspense	(6,275)	(25,413)	(5,944)	(24,222)
Net interest receivable	57,990	234,860	47,661	194,218
Deposits (*)	37,085	150,194	31,400	127,955
Others	6,488	26,276	5,181	21,113
	<u>101,563</u>	<u>411,330</u>	<u>84,242</u>	<u>343,286</u>

*: This mainly represents the deposit for office building rental which will be refundable at the end of lease term. The rental contract will be expired on 31 October 2022.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

10. Property and equipment

2015	Leasehold improvements US\$	Office furniture and equipment US\$	Computer and IT equipment US\$	US\$	Total KHR'000 (Note 4)
Cost					
At 1 January 2015	57,215	12,804	25,380	95,399	388,751
Additions	-	4,361	8,236	12,597	51,018
Currency translation difference	-	-	-	-	(2,385)
At 31 December 2015	<u>57,215</u>	<u>17,165</u>	<u>33,616</u>	<u>107,996</u>	<u>437,384</u>
Less: Accumulated depreciation					
At 1 January 2015	26,920	8,224	16,083	51,227	208,750
Depreciation for the year	14,410	3,098	6,338	23,846	96,576
Currency translation difference	-	-	-	-	(1,280)
At 31 December 2015	<u>41,330</u>	<u>11,322</u>	<u>22,421</u>	<u>75,073</u>	<u>304,046</u>
Carrying amounts					
At 31 December 2015	<u><u>15,885</u></u>	<u><u>5,843</u></u>	<u><u>11,195</u></u>	<u><u>32,923</u></u>	<u><u>133,338</u></u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

10. Property and equipment (continued)

2014	Leasehold improvements US\$	Office furniture and equipment US\$	Computer and IT equipment US\$	US\$ Total	KHR'000 (Note 4)
Cost					
At 1 January 2014	55,152	11,526	21,919	88,597	361,033
Additions	2,063	1,278	3,461	6,802	27,718
	<u>57,215</u>	<u>12,804</u>	<u>25,380</u>	<u>95,399</u>	<u>388,751</u>
Less: Accumulated depreciation					
At 1 January 2014	12,910	5,234	10,745	28,889	117,723
Depreciation for the year	14,010	2,990	5,338	22,338	91,027
	<u>26,920</u>	<u>8,224</u>	<u>16,083</u>	<u>51,227</u>	<u>208,750</u>
Carrying amounts					
At 31 December 2014	<u><u>30,295</u></u>	<u><u>4,580</u></u>	<u><u>9,297</u></u>	<u><u>44,172</u></u>	<u><u>180,001</u></u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

11. Intangible assets

	Computer software			
	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Costs				
At 1 January	5,710	23,269	4,035	16,443
Additions	-	-	1,675	6,826
Currency translation difference	-	(143)	-	-
At 31 December	<u>5,710</u>	<u>23,126</u>	<u>5,710</u>	<u>23,269</u>
Less: Accumulated amortization				
At 1 January	4,027	16,411	2,824	11,508
Amortisation for the year	816	3,305	1,203	4,903
Currency translation difference	-	(101)	-	-
At 31 December	<u>4,843</u>	<u>19,615</u>	<u>4,027</u>	<u>16,411</u>
Carrying amounts				
At 31 December	<u><u>867</u></u>	<u><u>3,511</u></u>	<u><u>1,683</u></u>	<u><u>6,858</u></u>

12. Other liabilities

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and other benefits	27,117	109,824	28,744	117,132
Accrued interest payable	17,084	69,190	21,967	89,516
Professional fees	3,500	14,175	3,190	12,999
Other tax payables	5,190	21,020	2,591	10,558
Unearned income on rental deposits	2,350	9,518	1,670	6,805
Others	9,080	36,773	9,482	38,640
	<u>64,321</u>	<u>260,500</u>	<u>67,644</u>	<u>275,650</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

13. Income tax

(a) Current income tax liabilities

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	49,575	202,018	33,645	134,412
Current income tax expense	80,980	327,969	58,012	236,399
Income tax paid	(61,938)	(250,849)	(42,082)	(171,484)
Currency translation difference	-	(1,239)	-	2,691
At 31 December	<u>68,617</u>	<u>277,899</u>	<u>49,575</u>	<u>202,018</u>

(b) Income tax expense

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

The reconciliation of income tax computed at the statutory tax rate of 20% to the income tax expense shown in the income statement is as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	<u>396,814</u>	<u>1,607,097</u>	<u>290,058</u>	<u>1,181,986</u>
Income tax using statutory rate at 20%	79,363	321,420	58,012	236,399
Non-deductible expenses	292	1,183	-	-
Effect of tax loss not recognised	1,325	5,366	-	-
Income tax expense	<u>80,980</u>	<u>327,969</u>	<u>58,012</u>	<u>236,399</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

14. Borrowings

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Current</i>				
Individuals	2,740,800	11,100,240	1,291,534	5,263,001
<i>Non-current</i>				
Banks	604,699	2,449,031	1,794,830	7,313,932
Individuals	622,778	2,522,251	570,000	2,322,750
	1,227,477	4,971,282	2,364,830	9,636,682
Total borrowings	3,968,277	16,071,522	3,656,364	14,899,683

The Company entered into loan agreements with various lenders. The repayments of principal and interest are made either on a monthly basis based on the payment schedule for each of the loan agreements.

Borrowings are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	1,226,079	4,965,620	211,256	860,868
2 to 3 months	83,402	337,778	132,737	540,903
4 to 12 months	1,799,748	7,288,979	1,107,672	4,513,763
Over 12 months	859,048	3,479,145	2,204,699	8,984,149
	3,968,277	16,071,522	3,656,364	14,899,683
(b) By currency:				
US Dollars	3,968,277	16,071,522	3,656,364	14,899,683
(c) By interest rate (per annum):				
US Dollars	2015 8.00% - 10.00%		2014 6.00% - 10.00%	

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

15. Share capital

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and paid up 1,053,000 ordinary shares of US\$1 each				
At beginning of the year	1,053,000	4,290,975	850,000	3,463,750
Issuance of shares during the year	1,050,000	4,252,500	203,000	827,225
Foreign currency exchange difference	-	(26,325)	-	-
At end of the year	<u>2,103,000</u>	<u>8,517,150</u>	<u>1,053,000</u>	<u>4,290,975</u>

The share capital structure and the details of authorised and registered shareholding are as follows:

	2015			2014		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
H.E Ou San	90.19%	1,896,623	1,896,623	83.53%	879,565	879,565
Madam Dith Nita	9.81%	206,377	206,377	16.47%	173,435	173,435
	<u>100%</u>	<u>2,103,000</u>	<u>2,103,000</u>	<u>100%</u>	<u>1,053,000</u>	<u>1,053,000</u>

On 21 April 2015, the Board of Directors of the Company approved to issue the additional share capital of 1,050,000 shares for US\$1,050,000. On 5 September 2015, the Company obtained approval from National Bank of Cambodia to increase its share capital from US\$1,053,000 to US\$2,103,000 through cash injection and transfer from retained earnings of US\$850,000 and US\$200,000 respectively.

The amendment of the Articles of Incorporation is in the process of obtaining acknowledgement from the Ministry of Commerce as at the date of this report.

16. Interest income

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	1,106,106	4,479,729	872,235	3,554,358
Deposits with banks	1,260	5,103	1,147	4,674
	<u>1,107,366</u>	<u>4,484,832</u>	<u>873,382</u>	<u>3,559,032</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

17. Interest expense

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from banks	105,323	426,558	143,861	586,234
Borrowings from individuals	253,644	1,027,258	137,827	561,645
	<u>358,967</u>	<u>1,453,816</u>	<u>281,688</u>	<u>1,147,879</u>

18. Other operating income

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Penalty income	54,191	219,474	25,934	105,681
Rental income	18,662	75,581	20,819	84,837
Commission fees	449	1,818	3,872	15,778
Others	3,458	14,005	5,970	24,329
	<u>76,760</u>	<u>310,878</u>	<u>56,595</u>	<u>230,625</u>

19. Personnel expenses

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	208,762	845,486	165,921	676,128
Training costs	2,108	8,537	2,752	11,214
Staff uniforms	5,522	22,364	2,571	10,477
Others	912	3,694	572	2,331
	<u>217,304</u>	<u>880,081</u>	<u>171,816</u>	<u>700,150</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

20. General and administrative expenses

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Office rental	69,193	280,232	61,628	251,134
Travelling and vehicle expenses	18,958	76,780	17,898	72,934
Utilities	13,987	56,647	10,996	44,809
License fee & taxation	8,838	35,794	8,943	36,443
Office supplies and equipment	11,009	44,586	8,461	34,479
Security	7,708	31,217	7,942	32,364
Professional fees	9,284	37,600	6,960	28,362
Communication	3,834	15,528	2,901	11,822
Repairs and maintenance	3,197	12,948	2,467	10,053
Printing and copy expenses	1,489	6,030	2,049	8,350
Others	10,270	41,594	12,123	49,400
	<u>157,767</u>	<u>638,956</u>	<u>142,368</u>	<u>580,150</u>

21. Related party transactions

Related party transactions

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of Directors' fee	220	891	110	448
Key management's remuneration	21,120	85,536	20,490	83,497
	<u>21,340</u>	<u>86,427</u>	<u>20,600</u>	<u>83,945</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

22. Commitments and contingencies

(a) Lease commitments

The operating lease mainly relate to the offices rental contracts which are renewable upon mutual agreement. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one year	71,832	290,920	61,110	249,023
Two to five years	308,686	1,250,178	274,424	1,118,278
Over five years	134,442	544,490	207,774	846,679
	<u>514,960</u>	<u>2,085,588</u>	<u>543,308</u>	<u>2,213,980</u>

(b) Taxation contingencies

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

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

23. Financial risk management

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

(a) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific allowance as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. 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 loans 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 NBC Guidelines.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(a) Credit risk (continued)

The Company holds collateral against loans to customers in the form of mortgage interests over property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as doubtful.

(i) Credit risk measurement

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

(ii) Risk limit control and mitigation policies

The Company manages limits and controls the concentration of credit risk whenever it is identified.

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

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

(iii) Impairment and provisioning policies

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. Refer to Note 3(f) for details.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers neither past due nor impaired	5,859,869	23,732,470	4,685,314	19,092,655
Loans to customers past due but not impaired	9,726	39,390	-	-
Loans to customers individually impaired	59,519	241,052	51,148	208,428
	<u>5,929,114</u>	<u>24,012,912</u>	<u>4,736,462</u>	<u>19,301,083</u>

Impaired loans

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

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

Past due but not impaired loans

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

Neither past due nor impaired loans

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by collaterals and management views that likelihood of default is relatively low.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(b) Operational risk

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

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

(c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

(i) *Foreign currency exchange risk*

Foreign currency exchange risk refers to the adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Company maintains a policy of not exposing itself to large foreign exchange positions. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and cut-loss limits.

As of 31 December 2015, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

(ii) *Interest rate risk*

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

An analysis of the interest rate risk pertaining to the Company's assets and liabilities is disclosed below.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2015	Up to 1 month US\$	> 1 - 3 months US\$	> 3 -12 months US\$	> 1 - 5 years US\$	Over 5 years US\$	Non interest bearing US\$	Total US\$	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	47,375	47,375	
Balances with banks	351,075	-	-	-	-	-	351,075	0.35%
Deposits with National Bank of Cambodia	-	-	-	-	-	284	284	0.08%
Loans to customers	186,314	346,825	1,489,401	3,905,780	794	-	5,929,114	21.6%
Allowance for bad and doubtful loans	-	-	-	-	-	(15,518)	(15,518)	
Other assets	-	-	-	-	90,790	-	90,790	
	<u>537,389</u>	<u>346,825</u>	<u>1,489,401</u>	<u>3,905,780</u>	<u>91,584</u>	<u>32,141</u>	<u>6,403,120</u>	
Financial liabilities								
Other liabilities	-	-	-	-	-	49,545	49,545	
Borrowings	1,226,079	83,402	1,799,748	859,048	-	-	3,968,277	9.00%
	<u>1,226,079</u>	<u>83,402</u>	<u>1,799,748</u>	<u>859,048</u>	<u>-</u>	<u>49,545</u>	<u>4,017,822</u>	
Maturity gap	<u>(688,690)</u>	<u>263,423</u>	<u>(310,347)</u>	<u>3,046,732</u>	<u>91,584</u>	<u>(17,404)</u>	<u>2,385,298</u>	

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2014	Up to 1 month US\$	> 1 - 3 months US\$	> 3 -12 months US\$	> 1 - 5 years US\$	Over 5 years US\$	Non interest bearing US\$	Total US\$	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	65,874	65,874	
Balances with banks	85,548	-	-	-	-	-	85,548	0.35%
Deposits with NBC	-	-	-	-	-	238	238	0.08%
Loans to customers	163,240	304,876	1,281,359	2,986,594	393	-	4,736,462	24.5%
Allowance for bad and doubtful loans	-	-	-	-	-	(11,502)	(11,502)	
Other assets	-	-	-	-	-	78,061	78,061	
	<u>248,788</u>	<u>304,876</u>	<u>1,281,359</u>	<u>2,986,594</u>	<u>393</u>	<u>132,671</u>	<u>4,954,681</u>	
Financial liabilities								
Other liabilities	-	-	-	-	-	56,960	56,960	
Borrowings	211,256	132,737	1,107,672	2,204,699	-	-	3,656,364	8.00%
	<u>211,256</u>	<u>132,737</u>	<u>1,107,672</u>	<u>2,204,699</u>	<u>-</u>	<u>56,960</u>	<u>3,713,324</u>	
Maturity gap	<u>37,532</u>	<u>172,139</u>	<u>173,687</u>	<u>781,895</u>	<u>393</u>	<u>75,711</u>	<u>1,241,356</u>	

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(d) Liquidity risk (continued)

As at 31 December 2015	Up to 1 month US\$	> 1 - 3 months US\$	> 3 -12 months US\$	> 1 - 5 months US\$	Over 5 years US\$	Non interest bearing US\$	Total US\$
Other liabilities	44,263	-	5,282	-	-	-	49,545
Borrowings	1,226,079	83,402	1,799,748	859,048	-	-	3,968,277
	<u>1,270,342</u>	<u>83,402</u>	<u>1,805,030</u>	<u>859,048</u>	<u>-</u>	<u>-</u>	<u>4,017,822</u>
As at 31 December 2014							
Other liabilities	100,281	-	6,679	-	-	-	106,960
Borrowings	211,256	132,737	1,107,672	2,204,699	-	-	3,656,364
	<u>311,537</u>	<u>132,737</u>	<u>1,114,351</u>	<u>2,204,699</u>	<u>-</u>	<u>-</u>	<u>3,763,324</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. Financial risk management (continued)

(e) Capital management

(i) Regulatory capital

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

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

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

The table below summarises the composition of regulatory capital:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Tier 1 Capital				
Share capital	2,103,000	8,517,150	1,053,000	4,264,650
Retained earnings	348,618	1,411,903	232,784	942,775
	<u>2,451,618</u>	<u>9,929,053</u>	<u>1,285,784</u>	<u>5,207,425</u>

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

(ii) Capital allocation

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

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

24. Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Company's financial assets and liabilities. Fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the statement of financial position are a reasonable estimation of their fair values.