

CAMMA MICROFINANCE LIMITED

**Financial Statements
for the year ended 31 December 2016
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 Ms. Khat Sokean, Vice-chairwoman Mr. Khov Soviet, Member
Management team	Madam Dith Nita, Chief Executive Officer Mr. Khov Makarath, Deputy Chief Executive Officer Mr. Tith Vannarith, Head of Accounting and Finance Department Mr. Ly Chheang, Head of Credit Department Mr. Yiang Hai, Head of Internal Audit Department Mr. Mom Chansothea, Head of Administration and Human Resource Department
Principal bankers	Advanced Bank of Asia Limited ANZ Royal Bank (Cambodia) Ltd RHB Indochina Bank Limited ACLEDA Bank Plc. Vattanac Bank Limited Cathay United Bank Phillip Bank Plc.
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 2016.

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 2016 were as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	382,270	1,543,224	396,814	1,607,097
Income tax expense	(70,996)	(286,611)	(80,980)	(327,969)
Net profit for the year	<u>311,274</u>	<u>1,256,613</u>	<u>315,834</u>	<u>1,279,128</u>

Dividends

On 8 August 2016, the Board of Directors declared and paid the dividend of US\$160,000.

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.

At the date of the report, the amendment of the Articles of Incorporation has not been obtained approval from the Ministry of Commerce yet.

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 dated 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 other 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	Chairman
Ms. Khat Sokean	Vice-chairwoman
Mr. Khov Soviet	Member

Directors' interests

None of the Directors held or dealt directly in the shares of the Company during the financial year.

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 2016, 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) oversee the Company's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and during the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so; 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 9 to 45 which present fairly, in all material respects, the financial position of CAMMA Microfinance Limited as at 31 December 2016, 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,



Thana
Mr. Thun Vathana
Chairman

Madam Dith Nita
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 28 APR 2017



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Report of the independent auditors

To the shareholders

CAMMA Microfinance Limited

Opinion

We have audited the financial statements of CAMMA Microfinance Limited (“the Company”), which comprise the balance sheet as at 31 December 2016, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 45 (hereafter referred to as “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards (“CAS”) and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors’ report is the report of the Directors on pages 1 to 5, and the annual report, which is expected to be made available to us after that date.



Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For **KPMG Cambodia Ltd**



Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

28 April 2017

CAMMA Microfinance Limited

Balance sheet As at 31 December 2016

	Note	2016 US\$ KHR'000 (Note 4)	2015 US\$ KHR'000 (Note 4)		
Assets					
Cash on hand	5	82,936	334,813	47,375	191,869
Balances with banks	6	21,072	85,068	351,075	1,421,854
Balances with National Bank of Cambodia	7	105,570	426,186	105,434	427,008
Loans to customers, net	8	7,385,295	29,814,436	5,913,596	23,950,064
Other assets	9	120,612	486,910	101,563	411,330
Property and equipment	10	62,515	252,374	32,923	133,338
Intangible assets	11	48	194	867	3,511
Deferred tax asset, net	13	6,738	27,200	-	-
Total assets		<u>7,784,786</u>	<u>31,427,181</u>	<u>6,552,833</u>	<u>26,538,974</u>
Liabilities and equity					
Liabilities					
Other liabilities	12	94,799	382,704	64,321	260,500
Current income tax liabilities	13	63,623	256,846	68,617	277,899
Borrowings	14	5,023,472	20,279,756	3,968,277	16,071,522
Total liabilities		<u>5,181,894</u>	<u>20,919,306</u>	<u>4,101,215</u>	<u>16,609,921</u>
Equity					
Share capital	15	2,103,000	8,489,811	2,103,000	8,517,150
Retained earnings		499,892	2,018,064	348,618	1,411,903
Total equity		<u>2,602,892</u>	<u>10,507,875</u>	<u>2,451,618</u>	<u>9,929,053</u>
Total liabilities and equity		<u>7,784,786</u>	<u>31,427,181</u>	<u>6,552,833</u>	<u>26,538,974</u>

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

CAMMA Microfinance Limited

Income statement for the year ended 31 December 2016

	Note	US\$	2016 KHR'000 (Note 4)	US\$	2015 KHR'000 (Note 4)
Interest income	16	1,354,914	5,469,788	1,107,366	4,484,832
Interest expense	17	(392,032)	(1,582,633)	(358,967)	(1,453,816)
Net interest income		962,882	3,887,155	748,399	3,031,016
Provision for bad and doubtful loans	8	(47,021)	(189,824)	(28,612)	(115,879)
Net interest income after provision for bad and doubtful loans		915,861	3,697,331	719,787	2,915,137
Other operating income	18	92,697	374,218	76,760	310,878
Personnel expenses	19	(365,633)	(1,476,060)	(217,304)	(880,081)
Depreciation and amortisation expenses		(38,586)	(155,772)	(24,662)	(99,881)
General and administrative expenses	20	(222,069)	(896,493)	(157,767)	(638,956)
Profit before income tax		382,270	1,543,224	396,814	1,607,097
Income tax expense	13	(70,996)	(286,611)	(80,980)	(327,969)
Net profit for the year		311,274	1,256,613	315,834	1,279,128

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 2016

	Share capital US\$	Retained earnings US\$	Total US\$
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>
Balance as at 1 January 2016	2,103,000	348,618	2,451,618
Net profit for the year	-	311,274	311,274
Dividend paid during the year	-	(160,000)	(160,000)
Balance as at 31 December 2016	<u>2,103,000</u>	<u>499,892</u>	<u>2,602,892</u>
(KHR'000 equivalents - Note 4)	<u>8,489,811</u>	<u>2,018,064</u>	<u>10,507,875</u>

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

CAMMA Microfinance Limited

Statement of cash flows for the year ended 31 December 2016

	Note	2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net profit for the year		311,274	1,256,613	315,834	1,279,128
Adjustments for:					
Depreciation and amortisation expenses		38,586	155,772	24,662	99,881
Allowance for bad and doubtful loans		47,021	189,824	28,612	115,879
Net interest income		(962,882)	(3,887,155)	(748,399)	(3,031,016)
Income tax expense		70,996	286,611	80,980	327,969
		(495,005)	(1,998,335)	(298,311)	(1,208,159)
Changes in:					
Loans to customers		(1,518,720)	(6,131,073)	(1,217,248)	(4,929,854)
Other assets		(7,340)	(29,632)	(6,992)	(28,318)
Other liabilities		22,320	90,106	1,560	6,318
Cash used in operations		(1,998,745)	(8,068,934)	(1,520,991)	(6,160,013)
Income tax paid		(82,728)	(333,973)	(61,938)	(250,849)
Interest received		1,343,205	5,422,519	1,097,037	4,443,000
Interest paid		(383,875)	(1,549,703)	(363,850)	(1,473,593)
Net cash used in operating activities		(1,122,143)	(4,530,091)	(849,742)	(3,441,455)
Cash flows from investing activities					
Statutory capital deposit		-	-	(52,500)	(212,625)
Term deposits		200,000	807,400	(200,000)	(810,000)
Purchased of property and equipment		(67,359)	(271,928)	(12,597)	(51,018)
Net cash generated/(used in) from investing activities		132,641	535,472	(265,097)	(1,073,643)
Cash flows from financing activities					
Proceeds from borrowings		7,016,208	28,324,431	5,871,800	23,780,790
Repayments of borrowings		(5,961,012)	(24,064,605)	(5,559,887)	(22,517,542)
Proceeds from issuance of share capital		-	-	850,000	3,442,500
Dividend paid		(160,000)	(645,920)	-	-
Net cash generated from financing activities		895,196	3,613,906	1,161,913	4,705,748

CAMMA Microfinance Limited

Statement of cash flows (continued) for the year ended 31 December 2016

	Note	2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Net (decrease)/increase in cash and cash equivalents		(94,306)	(380,713)	47,074	190,650
Cash and cash equivalents at beginning of the year		198,734	804,873	151,660	618,015
Currency translation difference		-	(2,584)	-	(3,792)
Cash and cash equivalents at end of the year		<u>104,428</u>	<u>421,576</u>	<u>198,734</u>	<u>804,873</u>
Cash and cash equivalents represented by:					
Cash on hand	5	82,936	334,813	47,375	191,869
Balances with banks	6	21,072	85,068	151,075	611,854
Deposits with NBC	7	420	1,695	284	1,150
		<u>104,428</u>	<u>421,576</u>	<u>198,734</u>	<u>804,873</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 2016

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 2016, the Company had 79 employees (31 December 2015: 54 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 2017.

(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.

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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

2. Basis of preparation (continued)

(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.

(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 banks

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

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

3. Significant accounting policies (continued)

(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%
Classification		
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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

3. Significant accounting policies (continued)

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

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.

(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% - 50%
Motor vehicles	25%

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

3. Significant accounting policies (continued)

(i) Property and equipment (continued)

- (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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

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 2016

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 the compliance with the guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,037 (2015: US\$1 to KHR4,050) published by the NBC on 31 December 2016. These convenience 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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	82,936	334,813	47,375	191,869
	<u>82,936</u>	<u>334,813</u>	<u>47,375</u>	<u>191,869</u>

6. Balances with banks

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	19,082	77,034	143,397	580,758
Saving accounts	1,990	8,034	7,678	31,096
Term deposits	-	-	200,000	810,000
	<u>21,072</u>	<u>85,068</u>	<u>351,075</u>	<u>1,421,854</u>

The above amounts are analysed as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	21,072	85,068	351,075	1,421,854
	<u>21,072</u>	<u>85,068</u>	<u>351,075</u>	<u>1,421,854</u>
(b) By currency:				
US Dollars	21,072	85,068	351,075	1,421,854
	<u>21,072</u>	<u>85,068</u>	<u>351,075</u>	<u>1,421,854</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

6. Balances with banks (continued)

(c) By interest rate (per annum):

	2016	2015
Current accounts	0% - 0.50%	0% - 0.50%
Term deposits	-	2%

7. Balances with National Bank of Cambodia

		2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory capital deposit	(i)	105,150	424,491	105,150	425,858
Current accounts	(ii)	420	1,695	284	1,150
		<u>105,570</u>	<u>426,186</u>	<u>105,434</u>	<u>427,008</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 0.22% per annum (2015: 0.08% per annum).

(ii) Current accounts earn no interest.

8. Loans to customers, net

		2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Short term loans		51,254	206,912	50,389	204,075
Long term loans		7,379,432	29,790,767	5,878,725	23,808,837
		<u>7,430,686</u>	<u>29,997,679</u>	<u>5,929,114</u>	<u>24,012,912</u>
Allowances for bad and doubtful loans		(45,391)	(183,243)	(15,518)	(62,848)
		<u>7,385,295</u>	<u>29,814,436</u>	<u>5,913,596</u>	<u>23,950,064</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

8. Loans to customers, net (continued)

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	15,518	62,848	11,502	46,871
Allowance for the year	47,021	189,824	28,612	115,879
Bad debts written off during the year	(17,148)	(69,226)	(24,596)	(99,614)
Currency translation difference	-	(203)	-	(288)
	<u>45,391</u>	<u>183,243</u>	<u>15,518</u>	<u>62,848</u>
At 31 December	<u>45,391</u>	<u>183,243</u>	<u>15,518</u>	<u>62,848</u>

The loans to customers are analysed as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	3,052	12,321	186,314	754,572
1 to 3 months	8,047	32,486	346,825	1,404,641
3 to 12 months	160,624	648,439	1,489,401	6,032,074
Over 12 months	7,258,963	29,304,433	3,906,574	15,821,625
	<u>7,430,686</u>	<u>29,997,679</u>	<u>5,929,114</u>	<u>24,012,912</u>
b) By security:				
Secured	7,402,839	29,885,261	5,893,240	23,867,622
Unsecured	27,847	112,418	35,874	145,290
	<u>7,430,686</u>	<u>29,997,679</u>	<u>5,929,114</u>	<u>24,012,912</u>
(c) By industry:				
Households/family	3,793,397	15,313,944	2,761,805	11,185,310
Trade and commerce	1,661,178	6,706,176	1,542,871	6,248,628
Services	763,327	3,081,551	999,131	4,046,481
Agriculture	237,547	958,977	215,180	871,479
Transportation	209,107	844,165	65,985	267,239
Construction	215,758	871,015	58,323	236,208
Others	550,372	2,221,851	285,819	1,157,567
	<u>7,430,686</u>	<u>29,997,679</u>	<u>5,929,114</u>	<u>24,012,912</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

8. Loans to customers, net (continued)

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(d) By currency:				
US Dollars	7,430,686	29,997,679	5,929,114	24,012,912
(e) By residency status:				
Residents	7,430,686	29,997,679	5,929,114	24,012,912
(f) By relationship:				
External customers	7,331,588	29,597,621	5,843,466	23,666,038
Staff loans	99,098	400,058	85,648	346,874
	7,430,686	29,997,679	5,929,114	24,012,912
(g) By performance:				
Standard loans:				
Secured	7,259,365	29,306,057	5,833,721	23,626,570
Unsecured	25,593	103,319	35,874	145,290
Substandard loans:				
Secured	66,285	267,592	16,121	65,290
Unsecured	2,254	9,099	-	-
Doubtful loans:				
Secured	55,216	222,907	42,131	170,631
Unsecured	-	-	-	-
Loss loans:				
Secured	21,973	88,705	1,267	5,131
Unsecured	-	-	-	-
	7,430,686	29,997,679	5,929,114	24,012,912
(h) By large exposures:				
Non-large exposures	7,430,686	29,997,679	5,929,114	24,012,912

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

8. Loans to customers, net (continued)

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(i) By location:				
Phnom Penh	5,980,349	24,142,668	5,012,889	20,302,201
Kandal	1,136,860	4,589,504	915,768	3,708,860
Kampong Speu	313,477	1,265,507	457	1,851
	<u>7,430,686</u>	<u>29,997,679</u>	<u>5,929,114</u>	<u>24,012,912</u>
(j) By interest rate (per annum):				
	2016		2015	
Staff loans	13.20% - 15.60%		13.20% - 15.60%	
External customers	<u>13.20% - 36.00%</u>		<u>13.20% - 30.00%</u>	

9. Other assets

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	85,914	346,835	64,265	260,273
Interest in suspense	(16,215)	(65,460)	(6,275)	(25,413)
Net interest receivable	<u>69,699</u>	<u>281,375</u>	<u>57,990</u>	<u>234,860</u>
Deposits (*)	34,978	141,206	37,085	150,194
Others	15,935	64,329	6,488	26,276
	<u>120,612</u>	<u>486,910</u>	<u>101,563</u>	<u>411,330</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 2016

10. Property and equipment

2016	Leasehold improvements US\$	Office furniture and equipment US\$	Computer and IT equipment US\$	Motor vehicles US\$	US\$	Total	KHR'000 (Note 4)
Cost							
At 1 January 2016	57,215	17,165	33,616	-	107,996		437,384
Additions	15,753	13,544	23,062	15,000	67,359		271,928
Currency translation difference	-	-	-	-	-		(1,403)
At 31 December 2016	<u>72,968</u>	<u>30,709</u>	<u>56,678</u>	<u>15,000</u>	<u>175,355</u>		<u>707,909</u>
Less: Accumulated depreciation							
At 1 January 2016	41,330	11,322	22,421	-	75,073		304,046
Depreciation for the year	16,325	4,829	14,560	2,053	37,767		152,466
Currency translation difference	-	-	-	-	-		(977)
At 31 December 2016	<u>57,655</u>	<u>16,151</u>	<u>36,981</u>	<u>2,053</u>	<u>112,840</u>		<u>455,535</u>
Carrying amounts							
At 31 December 2016	<u><u>15,313</u></u>	<u><u>14,558</u></u>	<u><u>19,697</u></u>	<u><u>12,947</u></u>	<u><u>62,515</u></u>		<u><u>252,374</u></u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

10. Property and equipment (continued)

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 2016

11. Intangible assets

	Computer software			
	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Costs				
At 1 January	5,710	23,126	5,710	23,269
Currency translation difference	-	(75)	-	(143)
	<u>5,710</u>	<u>23,051</u>	<u>5,710</u>	<u>23,126</u>
At 31 December	5,710	23,051	5,710	23,126
Less: Accumulated amortization				
At 1 January	4,843	19,615	4,027	16,411
Amortisation for the year	819	3,306	816	3,305
Currency translation difference	-	(64)	-	(101)
	<u>5,662</u>	<u>22,857</u>	<u>4,843</u>	<u>19,615</u>
At 31 December	5,662	22,857	4,843	19,615
Carrying amounts				
At 31 December	<u>48</u>	<u>194</u>	<u>867</u>	<u>3,511</u>

12. Other liabilities

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and other benefits	33,807	136,479	27,117	109,824
Accrued interest payable	25,241	101,898	17,084	69,190
Professional fees	3,750	15,139	3,500	14,175
Other tax payables	5,797	23,402	5,190	21,020
Unearned income on rental deposits	11,220	45,295	2,350	9,518
Others	14,984	60,491	9,080	36,773
	<u>94,799</u>	<u>382,704</u>	<u>64,321</u>	<u>260,500</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

13. Income tax

(a) Deferred tax, net

Deferred tax assets attributable from:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Property and equipment	3,118	12,587	-	-
Unearned income	2,249	9,078	-	-
Allowance for substandard of loans and advances (*)	1,371	5,535	-	-
	<u>6,738</u>	<u>27,200</u>	<u>-</u>	<u>-</u>
At 31 December	<u>6,738</u>	<u>27,200</u>	<u>-</u>	<u>-</u>

Movements of deferred tax assets during the year are as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	-	-	-	-
Charged to income statement	6,738	27,200	-	-
	<u>6,738</u>	<u>27,200</u>	<u>-</u>	<u>-</u>
At 31 December	<u>6,738</u>	<u>27,200</u>	<u>-</u>	<u>-</u>

(*) This represents deferred tax assets arising from the allowance for substandard loans and advances which is temporary not deductible for corporate income tax expense under the new Prakas no.1535 MEF issued by the Ministry of Economy and Finance ("MEF") on 23 December 2016.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

13. Income tax (continued)

(b) Current income tax liabilities

Movements of income tax liabilities during the year are as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	68,617	277,899	49,575	202,018
Current income tax expense	77,734	313,811	80,980	327,969
Income tax paid	(82,728)	(333,973)	(61,938)	(250,849)
Currency translation difference	-	(891)	-	(1,239)
	<u>63,623</u>	<u>256,846</u>	<u>68,617</u>	<u>277,899</u>

(c) Income tax expense

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	77,734	313,811	80,980	327,969
Deferred tax assets	(6,738)	(27,200)	-	-
	<u>70,996</u>	<u>286,611</u>	<u>80,980</u>	<u>327,969</u>

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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

13. Income tax (continued)

(c) Income tax expense (continued)

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:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	382,270	1,543,224	396,814	1,607,097
Income tax using statutory rate at 20%	76,454	308,645	79,363	321,420
Non-deductible expenses	8,083	32,631	292	1,183
Effect of tax loss not recognized	(13,541)	(54,665)	1,325	5,366
Income tax expense	70,996	286,611	80,980	327,969

14. Borrowings

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Current:</i>				
Individuals	1,775,300	7,166,886	2,740,800	11,100,240
Banks	117,015	472,390	-	-
	1,892,315	7,639,276	2,740,800	11,100,240
<i>Non-current:</i>				
Individuals	1,652,777	6,672,260	622,778	2,522,251
Banks	1,478,380	5,968,220	604,699	2,449,031
	3,131,157	12,640,480	1,227,477	4,971,282
Total borrowings	5,023,472	20,279,756	3,968,277	16,071,522

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

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

14. Borrowings (continued)

Borrowings are analysed as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	263,291	1,062,906	1,226,079	4,965,620
2 to 3 months	247,548	999,351	83,402	337,778
4 to 12 months	2,324,335	9,383,340	1,799,748	7,288,979
Over 12 months	2,188,298	8,834,159	859,048	3,479,145
	<u>5,023,472</u>	<u>20,279,756</u>	<u>3,968,277</u>	<u>16,071,522</u>
(b) By currency:				
US Dollars	<u>5,023,472</u>	<u>20,279,756</u>	<u>3,968,277</u>	<u>16,071,522</u>
(c) By interest rate (per annum):				
US Dollars		<u>6.00% - 9.00%</u>		<u>8.00% - 10.00%</u>

15. Share capital

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and paid up 2,103,000 ordinary shares of US\$1 each				
At beginning of the year	2,103,000	8,517,150	1,053,000	4,290,975
Issuance of shares during the year	-	-	1,050,000	4,252,500
Currency translation difference	-	(27,339)	-	(26,325)
At end of the year	<u>2,103,000</u>	<u>8,489,811</u>	<u>2,103,000</u>	<u>8,517,150</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

15. Share capital (continued)

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

	2016			2015		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Madam Ou San	90.19%	1,896,623	1,896,623	90.19%	1,896,623	1,896,623
Madam Dith Nita	9.81%	206,377	206,377	9.81%	206,377	206,377
	100%	2,103,000	2,103,000	100%	2,103,000	2,103,000

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.

At the date of the report, the amendment of the Articles of Incorporation has not been obtained approval from the Ministry of Commerce yet.

There are no changes in shareholders and shareholding during the year.

16. Interest income

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	1,351,480	5,455,925	1,106,106	4,479,729
Deposits with banks	3,434	13,863	1,260	5,103
	1,354,914	5,469,788	1,107,366	4,484,832

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

17. Interest expense

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from banks	111,626	450,634	105,323	426,558
Borrowings from individuals	280,406	1,131,999	253,644	1,027,258
	<u>392,032</u>	<u>1,582,633</u>	<u>358,967</u>	<u>1,453,816</u>

18. Other operating income

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Penalty income	70,534	284,746	54,191	219,474
Rental income	12,981	52,404	18,662	75,581
Commission fees	-	-	449	1,818
Others	9,182	37,068	3,458	14,005
	<u>92,697</u>	<u>374,218</u>	<u>76,760</u>	<u>310,878</u>

19. Personnel expenses

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	352,792	1,424,221	208,762	845,486
Training costs	2,084	8,413	2,108	8,537
Staff uniforms	7,629	30,798	5,522	22,364
Others	3,128	12,628	912	3,694
	<u>365,633</u>	<u>1,476,060</u>	<u>217,304</u>	<u>880,081</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

20. General and administrative expenses

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Office rental	86,857	350,642	69,193	280,232
Travelling and vehicles expenses	25,510	102,984	18,958	76,780
Utilities	18,580	75,007	13,987	56,647
License fee & taxation	13,855	55,933	8,838	35,794
Office supplies and equipment	21,510	86,836	11,009	44,586
Security	10,503	42,401	7,708	31,217
Professional fees	9,453	38,162	9,284	37,600
Communication	7,917	31,961	3,834	15,528
Repairs and maintenance	4,223	17,048	3,197	12,948
Printing and copy expenses	3,374	13,621	1,489	6,030
Others	20,287	81,898	10,270	41,594
	<u>222,069</u>	<u>896,493</u>	<u>157,767</u>	<u>638,956</u>

21. Related party transactions

Related party transactions

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of directors' fee	370	1,494	220	891
Key management's remuneration	11,640	46,991	21,120	85,536
	<u>12,010</u>	<u>48,485</u>	<u>21,340</u>	<u>86,427</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

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:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one year	82,056	331,260	71,832	290,920
Two to five years	319,710	1,290,669	308,686	1,250,178
Over five years	56,109	226,512	134,442	544,490
	<u>457,875</u>	<u>1,848,441</u>	<u>514,960</u>	<u>2,085,588</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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

23. Financial risk management

(a) Credit risk (continued)

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.

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 2016

23. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers neither past due nor impaired	7,284,633	29,408,063	5,859,869	23,732,470
Loans to customers past due but not impaired	325	1,312	9,726	39,390
Loans to customers individually impaired	145,728	588,304	59,519	241,052
	<u>7,430,686</u>	<u>29,997,679</u>	<u>5,929,114</u>	<u>24,012,912</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 2016

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 2016, 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.

(c) Market risk

(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 2016

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2016	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	-	-	-	-	-	82,936	82,936	
Balances with banks	21,072	-	-	-	-	-	21,072	0.50%
Deposits with National Bank of Cambodia	-	-	-	-	-	420	420	
Loans to customers	3,052	8,047	160,624	6,939,963	319,000	-	7,430,686	13.20%-36.00%
Allowance for bad and doubtful loans	-	-	-	-	-	(45,391)	(45,391)	
Other assets	-	-	-	-	-	50,913	50,913	
	<u>24,124</u>	<u>8,047</u>	<u>160,624</u>	<u>6,939,963</u>	<u>319,000</u>	<u>88,878</u>	<u>7,540,636</u>	
Financial liabilities								
Other liabilities	-	-	-	-	-	77,757	77,757	
Borrowings	263,291	247,548	2,324,335	2,188,298	-	-	5,023,472	6.00%-9.00%
	<u>263,291</u>	<u>247,548</u>	<u>2,324,335</u>	<u>2,188,298</u>	<u>-</u>	<u>77,757</u>	<u>5,101,229</u>	
Maturity gap	<u>(239,167)</u>	<u>(239,501)</u>	<u>(2,163,711)</u>	<u>4,751,665</u>	<u>319,000</u>	<u>11,121</u>	<u>2,439,407</u>	

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

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 2016

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 2016

23. Financial risk management (continued)

(d) Liquidity risk (continued)

	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\$
As at 31 December 2016							
Other liabilities	70,549	-	7,208	-	-	-	77,757
Borrowings	263,291	247,548	2,324,335	2,188,298	-	-	5,023,472
	<u>333,840</u>	<u>247,548</u>	<u>2,331,543</u>	<u>2,188,298</u>	<u>-</u>	<u>-</u>	<u>5,101,229</u>
As at 31 December 2015							
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>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

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 the financial institutions to (i) fulfil the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

(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.

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, were not presented.

25. Events since the reporting date

Interest cap

On 13 March 2017, the NBC issued Prakas No. B7-017-109 to cap the interest rate to a maximum of 18% per annum for any maturity of loan. This Prakas is effective for a new loan contract including restructured loan and/or refinancing loans with signature and/or figure-printed from 1 April 2017.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2016

25. Events since the reporting date (continued)

Change of the Company's logo

As per the notifications issued by the NBC No. T7.017.181 សជណ on 21 February 2017 and No. 0705 ព.ណ កីសប៊ី issued by the MOC on 22 February 2017, the Company is required to change its existing logo which is viewed to contain characters similar to the logo of the NBC.

On 22 February 2017, the Company has obtained the acknowledgement from the MOC for changing new logo and processed to obtain approval from MOC. The rapid rebranding at the Company's 3 offices and, communications materials, social media and website would cost approximately US\$4,000.