

CAMMA MICROFINANCE LIMITED

**Financial Statements
for the year ended 31 December 2017
and
Report of the Independent Auditors**

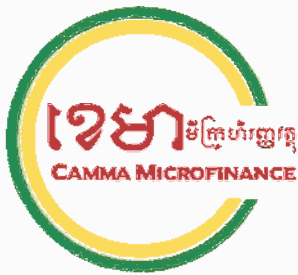
Corporate Information

Company	CAMMA Microfinance Limited
Registration No.	00019512
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. 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 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 2017.

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 2017 were as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	207,159	836,301	382,270	1,543,224
Income tax expense	(58,581)	(236,492)	(70,996)	(286,611)
Net profit for the year	<u>148,578</u>	<u>599,809</u>	<u>311,274</u>	<u>1,256,613</u>

Dividends

On 28 August 2017, the Board of Directors declared and paid the dividend of US\$150,000.

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.

The amendment of the Articles of Incorporation was acknowledged by the Ministry of Commerce (“MoC”) on 26 February 2018.

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 2017, 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 2017, 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,



Thun

Mr. Thun Vathana
Chairman

Madam Dith Nita
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 27 APR 2018



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Report of the independent auditors

To the shareholders of 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 2017, 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 2017, 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 information included in the Report of the Directors as set out 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

27 April 2018

CAMMA Microfinance Limited

Balance sheet As at 31 December 2017

	Note	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Assets					
Cash on hand	5	148,494	599,470	82,936	334,813
Balances with banks	6	26,951	108,801	21,072	85,068
Balances with					
National Bank of Cambodia	7	105,833	427,248	105,570	426,186
Loans to customers, net	8	7,592,198	30,649,703	7,385,295	29,814,436
Other assets	9	122,452	494,339	120,612	486,910
Property and equipment	10	59,938	241,970	62,515	252,374
Intangible assets	11	43,442	175,375	48	194
Deferred tax asset, net	13	30,448	122,919	6,738	27,200
Total assets		8,129,756	32,819,825	7,784,786	31,427,181
Liabilities and equity					
Liabilities					
Other liabilities	12	156,438	631,541	94,799	382,704
Current income tax liabilities	13	52,873	213,448	63,623	256,846
Borrowings	14	5,318,975	21,472,702	5,023,472	20,279,756
Total liabilities		5,528,286	22,317,691	5,181,894	20,919,306
Equity					
Share capital	15	2,103,000	8,489,811	2,103,000	8,489,811
Retained earnings		498,470	2,012,323	499,892	2,018,064
Total equity		2,601,470	10,502,134	2,602,892	10,507,875
Total liabilities and equity		8,129,756	32,819,825	7,784,786	31,427,181

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

CAMMA Microfinance Limited

Income statement for the year ended 31 December 2017

	Note	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	16	1,444,169	5,830,110	1,354,914	5,469,788
Interest expense	17	(450,476)	(1,818,571)	(392,032)	(1,582,633)
Net interest income		993,693	4,011,539	962,882	3,887,155
Provision for bad and doubtful loans	8	(108,829)	(439,343)	(47,021)	(189,824)
Net interest income after provision for bad and doubtful loans		884,864	3,572,196	915,861	3,697,331
Other operating income	18	140,210	566,028	92,697	374,218
Personnel expenses	19	(491,913)	(1,985,853)	(365,633)	(1,476,060)
Depreciation and amortisation expenses		(51,345)	(207,280)	(38,586)	(155,772)
General and administrative expenses	20	(274,657)	(1,108,790)	(222,069)	(896,493)
Profit before income tax		207,159	836,301	382,270	1,543,224
Income tax expense	13	(58,581)	(236,492)	(70,996)	(286,611)
Net profit for the year		148,578	599,809	311,274	1,256,613

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 2017

	Share capital US\$	Retained earnings US\$	Total US\$
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>
Balance as at 1 January 2017	2,103,000	499,892	2,602,892
Net profit for the year	-	148,578	148,578
Dividend paid during the year	-	(150,000)	(150,000)
Balance as at 31 December 2017	<u>2,103,000</u>	<u>498,470</u>	<u>2,601,470</u>
(KHR'000 equivalents - Note 4)	<u>8,489,811</u>	<u>2,012,323</u>	<u>10,502,134</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 2017

	Note	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net profit for the year		148,578	599,809	311,274	1,256,613
Adjustments for:					
Depreciation and amortisation expenses		51,345	207,280	38,586	155,772
Allowance for bad and doubtful loans		108,829	439,343	47,021	189,824
Net interest income		(993,693)	(4,011,539)	(962,882)	(3,887,155)
Income tax expense		58,581	236,492	70,996	286,611
Property and equipment written off		58	234	-	-
		(626,302)	(2,528,381)	(495,005)	(1,998,335)
Changes in:					
Loans to customers		(315,732)	(1,274,610)	(1,518,720)	(6,131,073)
Other assets		(2,358)	(9,519)	(7,340)	(29,632)
Other liabilities		60,618	244,715	22,320	90,106
Cash used in operations		(883,774)	(3,567,795)	(1,998,745)	(8,068,934)
Income tax paid		(93,041)	(375,607)	(82,728)	(333,973)
Interest received		1,444,687	5,832,201	1,343,205	5,422,519
Interest paid		(449,455)	(1,814,450)	(383,875)	(1,549,703)
Net cash generated from/(used in) operating activities		18,417	74,349	(1,122,143)	(4,530,091)
Cash flows from investing activities					
Term deposits		-	-	200,000	807,400
Purchased of property and equipment		(43,435)	(175,347)	(67,359)	(271,928)
Purchased of intangible assets		(48,785)	(196,945)	-	-
Net cash (used in)/generated from investing activities		(92,220)	(372,292)	132,641	535,472
Cash flows from financing activities					
Proceeds from borrowings		7,205,111	29,087,033	7,016,208	28,324,431
Repayments of borrowings		(6,909,608)	(27,894,088)	(5,961,012)	(24,064,605)
Dividend paid		(150,000)	(605,550)	(160,000)	(645,920)
Net cash generated from financing activities		145,503	587,395	895,196	3,613,906

CAMMA Microfinance Limited

Statement of cash flows (continued) for the year ended 31 December 2017

	Note	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Net increase/(decrease) in cash and cash equivalents		71,700	289,452	(94,306)	(380,713)
Cash and cash equivalents at beginning of the year		104,428	421,576	198,734	804,873
Currency translation difference		-	-	-	(2,584)
Cash and cash equivalents at end of the year		<u>176,128</u>	<u>711,028</u>	<u>104,428</u>	<u>421,576</u>
Cash and cash equivalents represented by:					
Cash on hand	5	148,494	599,470	82,936	334,813
Balances with banks	6	26,951	108,801	21,072	85,068
Balances with NBC	7	683	2,757	420	1,695
		<u>176,128</u>	<u>711,028</u>	<u>104,428</u>	<u>421,576</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 2017

1. Reporting entity

CAMMA Microfinance Limited (“the Company”) was incorporated as a limited liability company in the Kingdom of Cambodia under the Registration No.00019512 issued by the Ministry of Commerce on 21 March 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 2017, the Company had 94 employees (31 December 2016: 79 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 27 April 2018.

(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 2017

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 2017

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%
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 2017

3. Significant accounting policies (continued)

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

In addition, the Company made a general allowance for bad and doubtful loans as at balance sheet date at the rate of 0.25% of standard loan outstanding (2016: Nil).

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.

New NBC Credit Risk Grading and Provision on Impairment not yet adopted:

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

Classification	Number of days past due	Allowance
Short-term loans (less than or equal one year):		
Normal/standard	≤ 14 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%
Long-term loans (more than one year):		
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	More than 360 days	100%

Based on Section 1 of the Circular No. B7-018-001, the Company decided to adopt prospectively all requirements of Prakas No. B7-017-344 including the calculation of provision on impairment in its 2018 financial statements.

Management is assessing the potential impact on its financial statements resulting from the application of this new credit risk grading and provision on impairment.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(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	4 years
Office furniture and equipment	4 years
Computer and IT equipment	2 - 4years
Motor vehicles	4 years

(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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(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 a period of 2 years.

(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.

(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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(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.

(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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(p) Income tax (continued)

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.

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 (2016: US\$1 to KHR4,037) published by the NBC on 31 December 2017. 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.

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

5. Cash on hand

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	148,494	599,470	82,936	334,813

6. Balances with banks

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	4,047	16,338	19,082	77,034
Saving accounts	22,904	92,463	1,990	8,034
	26,951	108,801	21,072	85,068

The above amounts are analysed as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	26,951	108,801	21,072	85,068
(b) By currency:				
US Dollars	26,951	108,801	21,072	85,068
(c) By interest rate (per annum):				
		2017		2016
Current accounts		0% - 0.50%		0% - 0.50%

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

7. Balances with National Bank of Cambodia

		2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory capital deposit	(i)	105,150	424,491	105,150	424,491
Current accounts	(ii)	683	2,757	420	1,695
		<u>105,833</u>	<u>427,248</u>	<u>105,570</u>	<u>426,186</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 range from 0.32%-0.36% per annum. (2016: 0.22% per annum).

- (ii) Current accounts earn no interest.

8. Loans to customers, net

		2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Short term loans		68,257	275,554	51,254	206,912
Long term loans		7,678,161	30,996,735	7,379,432	29,790,767
		<u>7,746,418</u>	<u>31,272,289</u>	<u>7,430,686</u>	<u>29,997,679</u>
Allowances for bad and doubtful loans:					
General provision		(18,842)	(76,065)	-	-
Specific provision		(135,378)	(546,521)	(45,391)	(183,243)
		<u>(154,220)</u>	<u>(622,586)</u>	<u>(45,391)</u>	<u>(183,243)</u>
		<u>7,592,198</u>	<u>30,649,703</u>	<u>7,385,295</u>	<u>29,814,436</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers, net (continued)

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	45,391	183,243	15,518	62,848
Allowance for the year	108,829	439,343	47,021	189,824
Bad debts written off during the year	-	-	(17,148)	(69,226)
Currency translation difference	-	-	-	(203)
	<u>154,220</u>	<u>622,586</u>	<u>45,391</u>	<u>183,243</u>
At 31 December	<u>154,220</u>	<u>622,586</u>	<u>45,391</u>	<u>183,243</u>

The loans to customers are analysed as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	7,088	28,614	3,052	12,321
1 to 3 months	6,604	26,660	8,047	32,486
3 to 12 months	212,408	857,491	160,624	648,439
Over 12 months	7,520,318	30,359,524	7,258,963	29,304,433
	<u>7,746,418</u>	<u>31,272,289</u>	<u>7,430,686</u>	<u>29,997,679</u>
(b) By security:				
Secured	7,737,946	31,238,088	7,402,839	29,885,261
Unsecured	8,472	34,201	27,847	112,418
	<u>7,746,418</u>	<u>31,272,289</u>	<u>7,430,686</u>	<u>29,997,679</u>
(c) By industry:				
Households/family	4,979,055	20,100,445	3,793,397	15,313,944
Trade and commerce	1,315,273	5,309,757	1,661,178	6,706,176
Services	629,838	2,542,656	763,327	3,081,551
Agriculture	282,685	1,141,199	237,547	958,977
Transportation	132,541	535,068	209,107	844,165
Construction	117,721	475,240	215,758	871,015
Others	289,305	1,167,924	550,372	2,221,851
	<u>7,746,418</u>	<u>31,272,289</u>	<u>7,430,686</u>	<u>29,997,679</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers, net (continued)

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(d) By currency:				
US Dollars	7,746,418	31,272,289	7,430,686	29,997,679
(e) By residency status:				
Residents	7,746,418	31,272,289	7,430,686	29,997,679
(f) By relationship:				
External customers	7,631,693	30,809,145	7,331,588	29,597,621
Staff loans	114,725	463,144	99,098	400,058
	7,746,418	31,272,289	7,430,686	29,997,679
(g) By performance:				
Standard loans:				
Secured	7,528,299	30,391,743	7,259,365	29,306,057
Unsecured	8,472	34,201	25,593	103,319
Substandard loans:				
Secured	44,849	181,055	66,285	267,592
Unsecured	-	-	2,254	9,099
Doubtful loans:				
Secured	48,435	195,532	55,216	222,907
Unsecured	-	-	-	-
Loss loans:				
Secured	116,363	469,758	21,973	88,705
Unsecured	-	-	-	-
	7,746,418	31,272,289	7,430,686	29,997,679
(h) By large exposures:				
Non-large exposures	7,746,418	31,272,289	7,430,686	29,997,679

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers, net (continued)

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(i) By location:				
Phnom Penh	4,823,096	19,470,839	5,980,349	24,142,668
Kandal	1,821,340	7,352,749	1,136,860	4,589,504
Kampong Speu	1,101,982	4,448,701	313,477	1,265,507
	<u>7,746,418</u>	<u>31,272,289</u>	<u>7,430,686</u>	<u>29,997,679</u>
(j) By interest rate (per annum):				
		2017		2016
Staff loans		13.20% - 15.60%		13.20% - 15.60%
External customers		13.20% - 48.00%		13.20% - 36.00%

9. Other assets

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	104,916	423,546	85,914	346,835
Interest in suspense	(35,735)	(144,262)	(16,215)	(65,460)
Net interest receivable	<u>69,181</u>	<u>279,284</u>	<u>69,699</u>	<u>281,375</u>
Deposits (*)	34,553	139,490	34,978	141,206
Others	18,718	75,565	15,935	64,329
	<u>122,452</u>	<u>494,339</u>	<u>120,612</u>	<u>486,910</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 2017

10. Property and equipment

2017	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 2017	72,968	30,709	56,678	15,000	175,355		707,908
Additions	7,605	11,695	19,335	4,800	43,435		175,347
Written off	(4,254)	(450)	(1,581)	-	(6,285)		(25,372)
At 31 December 2017	<u>76,319</u>	<u>41,954</u>	<u>74,432</u>	<u>19,800</u>	<u>212,505</u>		<u>857,883</u>
Less: Accumulated depreciation							
At 1 January 2017	57,655	16,151	36,981	2,053	112,840		455,535
Depreciation for the year	6,905	9,842	23,165	6,042	45,954		185,516
Written off	(4,254)	(440)	(1,533)	-	(6,227)		(25,138)
At 31 December 2017	<u>60,306</u>	<u>25,553</u>	<u>58,613</u>	<u>8,095</u>	<u>152,567</u>		<u>615,913</u>
Carrying amounts							
At 31 December 2017	<u><u>16,013</u></u>	<u><u>16,401</u></u>	<u><u>15,819</u></u>	<u><u>11,705</u></u>	<u><u>59,938</u></u>		<u><u>241,970</u></u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

10. Property and equipment (continued)

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)
	<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)
	<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 2017

11. Intangible assets

	Computer software			
	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Costs				
At 1 January	5,710	23,051	5,710	23,126
Addition	48,785	196,945	-	-
Currency translation difference	-	-	-	(75)
	<u>54,495</u>	<u>219,996</u>	<u>5,710</u>	<u>23,051</u>
Less: Accumulated amortization				
At 1 January	5,662	22,857	4,843	19,615
Amortisation for the year	5,391	21,764	819	3,306
Currency translation difference	-	-	-	(64)
	<u>11,053</u>	<u>44,621</u>	<u>5,662</u>	<u>22,857</u>
Carrying amounts				
At 31 December	<u>43,442</u>	<u>175,375</u>	<u>48</u>	<u>194</u>

12. Other liabilities

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and other benefits	-	-	33,807	136,479
Accrued interest payable	26,262	106,020	25,241	101,898
Professional fees	5,304	21,412	3,750	15,139
Other tax payables	6,256	25,255	5,797	23,402
Unearned income on rental deposits	100,119	404,181	11,220	45,295
Others	18,497	74,673	14,984	60,491
	<u>156,438</u>	<u>631,541</u>	<u>94,799</u>	<u>382,704</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

13. Income tax

(a) Deferred tax, net

Deferred tax assets, net attributable from:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Property and equipment	4,850	19,579	3,118	12,587
Unearned income	20,933	84,507	2,249	9,078
Allowance for substandard of loans and advances (*)	4,665	18,833	1,371	5,535
	<u>30,448</u>	<u>122,919</u>	<u>6,738</u>	<u>27,200</u>

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	6,738	27,200	-	-
Charged to income statement	23,710	95,717	6,738	27,200
Currency translation difference	-	2	-	-
At 31 December	<u>30,448</u>	<u>122,919</u>	<u>6,738</u>	<u>27,200</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 2017

13. Income tax (continued)

(b) Current income tax liabilities

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	63,623	256,846	68,617	277,899
Current income tax expense	82,291	332,209	77,734	313,811
Income tax paid	(93,041)	(375,607)	(82,728)	(333,973)
Currency translation difference	-	-	-	(891)
At 31 December	<u>52,873</u>	<u>213,448</u>	<u>63,623</u>	<u>256,846</u>

(c) Income tax expense

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	82,291	332,209	77,734	313,811
Deferred tax assets	(23,710)	(95,717)	(6,738)	(27,200)
	<u>58,581</u>	<u>236,492</u>	<u>70,996</u>	<u>286,611</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 2017

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:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	207,159	836,301	382,270	1,543,224
Income tax using statutory rate at 20%	41,432	167,261	76,454	308,645
Non-deductible expenses	2,197	8,869	8,083	32,631
Under provision in prior year	14,952	60,362	-	-
Effect of tax loss not recognized	-	-	(13,541)	(54,665)
Income tax expense	58,581	236,492	70,996	286,611

14. Borrowings

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Current:</i>				
Individuals	2,827,500	11,414,618	1,775,300	7,166,886
Banks	184,358	744,253	117,015	472,390
	3,011,858	12,158,871	1,892,315	7,639,276
<i>Non-current:</i>				
Individuals	1,068,333	4,312,860	1,652,777	6,672,260
Banks	1,238,784	5,000,971	1,478,380	5,968,220
	2,307,117	9,313,831	3,131,157	12,640,480
Total borrowings	5,318,975	21,472,702	5,023,472	20,279,756

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 2017

14. Borrowings (continued)

Borrowings are analysed as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	450,375	1,818,164	263,291	1,062,906
2 to 3 months	172,831	697,719	247,548	999,351
4 to 12 months	3,095,053	12,494,729	2,324,335	9,383,340
Over 12 months	1,600,716	6,462,090	2,188,298	8,834,159
	<u>5,318,975</u>	<u>21,472,702</u>	<u>5,023,472</u>	<u>20,279,756</u>
(b) By currency:				
US Dollars	<u>5,318,975</u>	<u>21,472,702</u>	<u>5,023,472</u>	<u>20,279,756</u>
(c) By interest rate (per annum):				
US Dollars		<u>6.00% - 9.50%</u>		<u>6.00% - 9.00%</u>

15. Share capital

	2017		2016	
	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	8,489,811	2,103,000	8,517,150
Currency translation difference	-	-	-	(27,339)
At end of the year	<u>2,103,000</u>	<u>8,489,811</u>	<u>2,103,000</u>	<u>8,489,811</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

15. Share capital (continued)

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

	2017			2016		
	% 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.

The amendment of the Articles of Incorporation was acknowledged by the Ministry of Commerce ("MoC") on 26 February 2018.

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

16. Interest income

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	1,442,610	5,823,817	1,351,480	5,455,925
Deposits with banks	1,559	6,293	3,434	13,863
	1,444,169	5,830,110	1,354,914	5,469,788

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

17. Interest expense

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from banks	108,571	438,301	111,626	450,634
Borrowings from individuals	341,905	1,380,270	280,406	1,131,999
	<u>450,476</u>	<u>1,818,571</u>	<u>392,032</u>	<u>1,582,633</u>

18. Other operating income

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Penalty income	81,161	327,647	70,534	284,746
Rental income	17,337	69,989	12,981	52,404
Commission fees	27,762	112,075	-	-
Others	13,950	56,317	9,182	37,068
	<u>140,210</u>	<u>566,028</u>	<u>92,697</u>	<u>374,218</u>

19. Personnel expenses

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	474,204	1,914,362	352,792	1,424,221
Training costs	4,097	16,540	2,084	8,413
Staff uniforms	8,251	33,309	7,629	30,798
Others	5,361	21,642	3,128	12,628
	<u>491,913</u>	<u>1,985,853</u>	<u>365,633</u>	<u>1,476,060</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

20. General and administrative expenses

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Office rental	97,483	393,539	86,857	350,642
Travelling and vehicles expenses	34,369	138,748	25,510	102,984
Utilities	20,916	84,438	18,580	75,007
License fee & taxation	16,530	66,732	13,855	55,933
Office supplies and equipment	23,486	94,813	21,510	86,836
Security	19,519	78,798	10,503	42,401
Professional fees	9,684	39,094	9,453	38,162
Communication	14,501	58,541	7,917	31,961
Repairs and maintenance	3,680	14,856	4,223	17,048
Printing and copy expenses	4,664	18,828	3,374	13,621
Others	29,825	120,403	20,287	81,898
	<u>274,657</u>	<u>1,108,790</u>	<u>222,069</u>	<u>896,493</u>

21. Related party transactions

Related party transactions

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of directors' fee	-	-	370	1,494
Key management's remuneration	<u>23,785</u>	<u>96,020</u>	<u>11,640</u>	<u>46,991</u>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

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:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one year	82,056	331,260	82,056	331,260
Two to five years	293,097	1,183,233	319,710	1,290,669
Over five years	-	-	56,109	226,512
	<u>375,153</u>	<u>1,514,493</u>	<u>457,875</u>	<u>1,848,441</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 2017

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 2017

23. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers:				
neither past due nor impaired	7,534,396	30,416,357	7,284,633	29,408,063
past due but not impaired	2,375	9,588	325	1,312
individually impaired	209,647	846,344	145,728	588,304
	<u>7,746,418</u>	<u>31,272,289</u>	<u>7,430,686</u>	<u>29,997,679</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 2017

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 2017, 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 2017

23. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2017	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	-	-	-	-	-	148,494	148,494	
Balances with banks	26,951	-	-	-	-	-	26,951	0.00% - 0.50%
Deposits with National Bank of Cambodia	-	-	-	-	-	105,833	105,833	
Loans to customers	284,656	428,017	1,854,982	5,178,535	228	-	7,746,418	13.20% - 48.00%
Allowance for bad and doubtful loans	-	-	-	-	-	(154,220)	(154,220)	
Other assets	-	-	-	-	-	53,271	53,271	
	<u>311,607</u>	<u>428,017</u>	<u>1,854,982</u>	<u>5,178,535</u>	<u>228</u>	<u>153,378</u>	<u>7,926,747</u>	
Financial liabilities								
Other liabilities	-	-	-	-	-	50,063	50,063	
Borrowings	450,375	172,831	3,095,053	1,600,716	-	-	5,318,975	6.00% - 9.00%
	<u>450,375</u>	<u>172,831</u>	<u>3,095,053</u>	<u>1,600,716</u>	<u>-</u>	<u>50,063</u>	<u>5,369,038</u>	
Maturity gap	<u>(138,768)</u>	<u>255,186</u>	<u>(1,240,071)</u>	<u>3,577,819</u>	<u>228</u>	<u>103,315</u>	<u>2,557,709</u>	

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

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	0.00% - 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 2017

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 2017

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 2017							
Other liabilities	39,259	10,804	-	-	-	-	50,063
Borrowings	450,375	172,831	3,095,053	1,600,716	-	-	5,318,975
	<u>489,634</u>	<u>183,635</u>	<u>3,095,053</u>	<u>1,600,716</u>	<u>-</u>	<u>-</u>	<u>5,369,038</u>
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>

CAMMA Microfinance Limited

Notes to the financial statements (continued) for the year ended 31 December 2017

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.