

AMK Microfinance Institution Plc.

Audited financial statements in accordance with
Cambodian Accounting Standards and
Regulations and Guidelines of the National Bank of Cambodia

as at 31 December 2015 and for the year then ended

AMK Microfinance Institution Plc.

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REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of AMK Microfinance Institution Plc. ("the Company") is pleased to present its report and the Company's financial statements as at and for the year ended 31 December 2015.

THE COMPANY

The Company is a licensed micro-finance institution, incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under registration number Co. 1698/03E, dated 30 April 2003. The Company is engaged primarily in the provision of micro-finance services to the poor population of Cambodia through its headquarters in Phnom Penh and various offices in the Kingdom of Cambodia.

The Company was initially established in 1999 as Thanakea Ponleu Thmey ("TPT") Programme by Concern Worldwide, Cambodia ("CWC"). All assets, liabilities and accumulated donations of TPT were transferred to the Company on 1 July 2003 against the issue of shares. The Company commenced to trade on the date of the asset transfer. On 29 January 2010, the Company obtained a Microfinance Deposit-Taking Institution ("MDI") license from the National Bank of Cambodia ("NBC") to conduct deposit-taking business. On 7 July 2014, the Ministry of Commerce approved the change in business name of the Company from Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. to AMK Microfinance Institution Plc.

RESULTS OF OPERATIONS

The financial results of the Company for the year are as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
Profit before income tax	25,453,698	6,284,863	20,563,859	5,046,345
Income tax expense	(5,138,194)	(1,268,690)	(4,250,267)	(1,043,010)
Net profit for the year	20,315,504	5,016,173	16,313,592	4,003,335

DIVIDENDS

On 24 March 2015, the Board of Directors approved the declaration and payment of cash dividends amounting to KHR1.63 billion during the year (US\$400,322) on the basis of 2014 results. On 15 September 2015, the dividends were paid to the shareholders.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL LOANS

Before the financial statements of the Company were drawn up, the Board of Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad loans and the making of provisions for bad and doubtful loans, and satisfied themselves that all known bad loans had been written off and that adequate provisions had been made for bad and doubtful loans.

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

AMK Microfinance Institution Plc.

REPORT OF THE BOARD OF DIRECTORS (continued)

CURRENT ASSETS

Before the financial statements of the Company were drawn up, the Board of Directors took reasonable steps to ascertain that any current assets, other than loans, which were unlikely to be realized 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 realize.

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- No 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; and
- No contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liabilities of the Company have become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Board of Directors is 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 UNUSUAL NATURE

The results of the operations of the Company for the financial year were not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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, in the opinion of the Board of Directors, to affect substantially the results of the operations of the Company for the current financial year in which this report is made.

AMK Microfinance Institution Plc.

REPORT OF THE BOARD OF DIRECTORS (continued)

EVENTS SINCE THE BALANCE SHEET DATE

On 22 March 2016, the Board of Directors approved to declare cash dividends amounting to KHR2.03 billion subject to approval by the NBC.

Except for the above and as disclosed elsewhere in the financial statements, at the date of this report, there were no other events, which occurred subsequent to 31 December 2015 that had significant impact on the financial position of the Company as at 31 December 2015.

THE BOARD OF DIRECTORS

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

Mr. Tanmay Chetan	Chairman
Mr. Patrick Peter Power	Director
Mr. Tip Janvibol	Director
Ms. Rebecca Ann Mckenzie	Director
Mr. Adrian John Graham	Director
Mr. Kea Borann	Director
Ms. Blandine Claudia Marie Pons	Director
Mr. Joshua Morris	Director
Ms. Hannah M. Siedek	Director (resigned on 3 December 2015)

AUDITOR

Ernst & Young (Cambodia) Ltd. is the auditor of the Company.

DIRECTORS' INTERESTS

No members of the Board of Directors hold any direct interest in the equity of the Company.

DIRECTORS' BENEFITS

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

No director of the Company has received or become entitled to receive any benefit by reason of a contract made by the Company or with a firm which the director is a member, or with a company which the director has a material financial interest other than as disclosed elsewhere in the financial statements.

AMK Microfinance Institution Plc.

REPORT OF THE BOARD OF DIRECTORS (continued)

STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended. The Board of Directors oversees preparation of these financial statements by management who is required to:

- Adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- Comply with Cambodian Accounting Standards, and relevant regulations and guidelines issued by the NBC or, if there has been any departure in the interest of fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- Maintain adequate accounting records and an effective system of internal controls;
- Prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- Set overall policies for the Company, ratify all decisions and actions that have a material effect on the operations and performance of the Company, and ensure they have been properly reflected in the financial statements.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and to ensure that the accounting records comply with the applicable accounting system. It is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the NBC.

On behalf of the Board of Directors:



Mr. Tanmay Chetan
Chairman

Phnom Penh, Kingdom of Cambodia

22 MAR 2016



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working world**

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INDEPENDENT AUDITORS' REPORT

To: The Shareholders of AMK Microfinance Institution Plc.

We have audited the accompanying financial statements of AMK Microfinance Institution Plc. ("the Company"), which comprise the balance sheet as at 31 December 2015, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.



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Other matter

The financial statements of the Company for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2015.



Maria Cristina M. Calimbas
Partner

Ernst & Young (Cambodia) Ltd.
Certified Public Accountants
Registered Auditors

Phnom Penh, Kingdom of Cambodia

22 March 2016

AMK Microfinance Institution Plc.

BALANCE SHEET as at 31 December 2015

		2015		2014	
	Notes	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
ASSETS					
Cash on hand	3	45,460,719	11,224,869	25,603,288	6,283,015
Balances with the National Bank of Cambodia	4	29,393,520	7,257,659	25,339,156	6,218,198
Balances with banks	5	19,481,594	4,810,270	21,794,178	5,348,265
Loans to customers	6	512,985,627	126,663,118	388,323,570	95,294,128
Other assets	9	14,396,198	3,554,617	10,247,324	2,514,681
Property and equipment	7	18,454,696	4,556,715	11,188,578	2,745,663
Software	8	1,540,788	380,441	1,506,660	369,733
Deferred tax assets	13	2,977,177	735,105	1,821,796	447,067
TOTAL ASSETS		644,690,319	159,182,794	485,824,550	119,220,750
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
Deposits from customers	10	261,875,569	64,660,634	160,108,894	39,290,526
Income tax payable	13	4,890,319	1,207,486	3,377,220	828,766
Other liabilities	14	27,617,336	6,819,096	17,989,074	4,414,498
Borrowings	11	224,480,853	55,427,371	199,153,791	48,872,096
Provision for staff pension funds	12	9,243,062	2,282,237	7,296,514	1,790,556
Total liabilities		528,107,139	130,396,824	387,925,493	95,196,442
SHAREHOLDERS' EQUITY					
Share capital	15	35,127,300	8,673,407	35,127,300	8,620,196
Share premium		149,505	36,915	149,505	36,688
Reserve	15	13,888,134	3,429,169	11,228,229	2,755,394
Retained earnings		67,418,241	16,646,479	51,394,023	12,612,030
Total shareholders' equity		116,583,180	28,785,970	97,899,057	24,024,308
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		644,690,319	159,182,794	485,824,550	119,220,750

The attached notes 1 to 26 form part of these financial statements.

AMK Microfinance Institution Plc.

INCOME STATEMENT

for the year ended 31 December 2015

	Notes	2015		2014	
		KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Operating income					
Interest income	16	146,935,811	36,280,447	119,247,352	29,263,154
Interest expense	17	(34,746,787)	(8,579,453)	(30,133,655)	(7,394,762)
Net interest income		112,189,024	27,700,994	89,113,697	21,868,392
Fee and commission expense	18	(12,823,370)	(3,166,264)	(9,032,614)	(2,216,592)
Other income	19	9,382,169	2,316,585	4,299,587	1,055,113
Total operating income		108,747,823	26,851,315	84,380,670	20,706,913
Grant income	21	386,476	95,426	657,601	161,374
Provision for losses on loans to customers	6	(4,367,201)	(1,078,321)	(2,190,357)	(537,511)
Other operating expenses	20	(79,313,400)	(19,583,557)	(62,284,055)	(15,284,431)
Profit before income tax		25,453,698	6,284,863	20,563,859	5,046,345
Income tax expense	13	(5,138,194)	(1,268,690)	(4,250,267)	(1,043,010)
Net profit for the year		20,315,504	5,016,173	16,313,592	4,003,335

The attached notes 1 to 26 form part of these financial statements.

AMK Microfinance Institution Plc.

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2015

	Share capital	Share premium	Advance capital contribution	Reserves	Retained earnings	Total	US\$
	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	KHR'000	(Note 2.3.1)
Balance as at 1 January 2015	35,127,300	149,505	-	11,228,229	51,394,023	97,899,057	24,172,607
Net profit for the year	-	-	-	-	20,315,504	20,315,504	5,016,173
Appropriation to reserves	-	-	-	2,659,905	(2,659,905)	-	-
Dividends declared	-	-	-	-	(1,631,381)	(1,631,381)	(402,810)
Balance as at 31 December 2015	35,127,300	149,505	-	13,888,134	67,418,241	116,583,180	28,785,970
US\$ equivalent (Note 2.3.1)	8,673,407	36,915	-	3,429,169	16,646,479	28,785,970	
Balance as at 1 January 2014	34,881,325	126,984	268,496	8,551,904	37,756,756	81,585,465	20,020,973
Additional share capital	245,975	22,521	(268,496)	-	-	-	-
Appropriation to reserves	-	-	-	2,676,325	(2,676,325)	-	-
Net profit for the year	-	-	-	-	16,313,592	16,313,592	4,003,335
Balance as at 31 December 2014	35,127,300	149,505	-	11,228,229	51,394,023	97,899,057	24,024,308
US\$ equivalent (Note 2.3.1)	8,620,196	36,688	-	2,755,394	12,612,030		

The attached notes 1 to 26 form part of these financial statements.

AMK Microfinance Institution Plc.

STATEMENT OF CASH FLOWS for the year ended 31 December 2015

	Notes	2015		2014	
		KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Operating activities					
Profit before income tax		25,453,698	6,284,863	20,563,859	5,046,345
Add back:					
Depreciation and amortization	20	5,023,215	1,240,300	3,522,551	864,430
Gain on disposals of property and equipment		-	-	(43,310)	(10,628)
<i>Operating cash flows before changes in operating assets and liabilities:</i>		30,476,913	7,525,163	24,043,100	5,900,147
Balances with the National Bank of Cambodia		(8,356,128)	(2,063,241)	(6,158,717)	(1,511,342)
Balances with banks		(1,292,228)	(319,069)	27,627,060	6,779,647
Loans to customers		(124,662,057)	(30,780,755)	(74,929,614)	(18,387,635)
Other assets		(4,148,874)	(1,024,413)	(1,913,214)	(469,500)
Deposits from customers		101,766,675	25,127,574	85,352,996	20,945,520
Provision for staff pension funds		1,946,548	480,629	1,593,596	391,067
Other liabilities		9,628,262	2,377,349	5,535,733	1,358,462
		5,359,111	1,323,237	61,150,940	15,006,366
Income tax paid	13	(4,780,476)	(1,180,364)	(3,874,133)	(950,707)
Net cash from operating activities		578,635	142,873	57,276,807	14,055,659
Investing activities					
Acquisition of property and equipment		(11,747,821)	(2,900,697)	(5,776,149)	(1,417,460)
Acquisition of software		(575,640)	(142,134)	(233,248)	(57,239)
Proceeds from disposal of property and equipment		-	-	97,903	24,025
Net cash used in investing activities		(12,323,461)	(3,042,831)	(5,911,494)	(1,450,674)
Financing activities					
Proceeds from borrowings		87,478,841	21,599,714	61,818,081	19,247,299
Repayment of borrowings		(62,151,779)	(15,346,118)	(91,409,866)	(27,114,268)
Dividends paid		(1,631,381)	(402,810)	-	-
Net cash from (used in) financing activities		23,695,681	5,850,786	(29,591,785)	(7,866,969)
Net increase in cash and cash equivalents		11,950,855	2,950,828	21,773,528	4,738,016
Cash and cash equivalents at beginning of year		56,513,032	13,868,228	34,739,504	8,695,745
Foreign exchange difference		-	85,608	-	434,467
Cash and cash equivalents at end of the year	3	68,463,887	16,904,664	56,513,032	13,868,228

AMK Microfinance Institution Plc.

STATEMENT OF CASH FLOWS (continued) for the year ended 31 December 2015

For the purpose of the statement of cash flows, cash and cash equivalents comprise:

	<i>Notes</i>	<i>2015</i>		<i>2014</i>	
		<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Cash on hand	3	45,460,719	11,224,869	25,603,288	6,283,015
Balances with the NBC	4	5,711,042	1,410,134	10,012,806	2,457,130
Balances with banks	5	17,292,126	4,269,661	20,896,938	5,128,083
		68,463,887	16,904,664	56,513,032	13,868,228

The attached notes 1 to 26 form part of these financial statements

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015 and for the year then ended

1. CORPORATE INFORMATION

AMK Microfinance Institution Plc. (“the Company”) is a licensed micro-finance institution (“MFI”) incorporated and registered in the Kingdom of Cambodia.

Establishment and operations

The Company was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under registration number Co. 1698/03E, dated 30 April 2003. The Company is engaged primarily in the provision of micro-finance services to the poor population of Cambodia through its headquarters in Phnom Penh and various offices in the Kingdom of Cambodia.

The Company was initially established in 1999 as Thanakea Ponleu Thmey (“TPT”) Programme by Concern Worldwide, Cambodia (“CWC”). All assets, liabilities and accumulated donations of TPT were transferred to the Company on 1 July 2003 against the issue of shares. The Company commenced to trade on the date of the asset transfer. On 29 January 2010, the Company obtained a Microfinance Deposit Taking Institution (“MDI”) license from the National Bank of Cambodia (“NBC”) to conduct deposit taking business. On 7 July 2014, the Ministry of Commerce approved the change in business name of the Company from Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. to AMK Microfinance Institution Plc.

The registered office of the Company is currently located at #285, Yothapol Khemarak Phoumin Blvd. (St. 271), Sangkat Tomnub Teuk, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia. The Company operates its business in 31 branches and 115 sub-branches (2014: 28 branches and 111 sub-branches).

The Company has the following guiding principles:

- Provide micro-finance services to poor people in Cambodia that are grounded in sound financial discipline at all levels.
- Committed to openness and transparency in all areas of management and operations.
- Committed to developing processes/services and to adopting behaviours and standards that ensure optimum social performance, including client protection.
- A learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and system improvements

Paid-up capital

The paid-up capital of the Company as at 31 December 2015 was KHR35.13 billion or US\$8.67 million (2014: KHR35.13 billion or US\$8.62 million).

Board of Directors

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

Mr. Tanmay Chetan	Chairman
Mr. Patrick Peter Power	Director
Mr. Tip Janvibol	Director
Ms. Rebecca Ann Mckenzie	Director
Mr. Adrian John Graham	Director
Mr. Kea Borann	Director
Ms. Blandine Claudia Marie Pons	Director
Mr. Joshua Morris	Director
Ms. Hannah M. Siedek	Director (resigned on 3 December 2015)

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

1. CORPORATE INFORMATION (continued)

Employees

As at 31 December 2015, the Company had a total of 2,126 employees (2014: 1,740 employees).

The financial statements were authorized for issue by the Board of Directors on 22 March 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 ***Basis of preparation***

The financial statements have been prepared on the historical cost basis. The Company maintains records and prepares financial statements in Khmer riel ("KHR") in accordance with NBC Prakas No. B7-07-164 dated 13 December 2007 on *Using Language, Currency Unit and Exchange Rate for Accounting Records and Reports*.

The financial statements of the Company have been prepared in compliance with Cambodian Accounting Standards ("CAS") and relevant regulations and guidelines issued by the NBC.

Transactions in currencies other than KHR are translated into KHR at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than KHR at the balance sheet date are translated into KHR at the rates of exchange ruling at that date. Exchange differences arising on translation are recognized in the income statement.

2.1.1 *Fiscal year*

The Company's fiscal year starts on 1 January and ends on 31 December.

2.1.2 *Presentation of financial statements*

The accompanying financial statements, including their utilization, are not designed for those who are not informed about the Kingdom of Cambodia's accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Kingdom of Cambodia.

The accounting policies set out below have been consistently applied by the Company during the year.

2.2 ***Significant accounting judgments and estimates***

In applying the Company's accounting policies, management has used its judgment and made estimates in determining the amounts recognized in the financial statements, as follows:

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 *Significant accounting judgments and estimates* (continued)

2.2.1 *Estimated useful lives of property and equipment*

The useful life of each item of property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease the carrying value of these nonfinancial assets. There is no change in the estimated useful lives of property and equipment during the year.

2.2.2 *Leases*

Operating lease

The Company has entered into property leases as a lessee for its office premises. The Company has determined that the lessor retained all the significant risks and rewards of ownership over this property based on the indicators of operating lease treatment. In determining whether or not there is an indication of operating lease treatment, the Company considers the following factors: retention of ownership title to the leased property, and period of lease contract relative to the estimated useful economic life of the leased property, bearer of executory costs, among others.

Finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. Rights to assets held under finance leases are recognised as assets of the Company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in the income statement. Assets held under finance leases are included in property and equipment, and depreciated and assessed for impairment losses in the same way as owned assets. The Company has entered into ATM lease agreement and is classified as finance lease.

2.2.3 *Impairment losses on loans to customers*

When preparing the financial statements, the quality of loans to customers is reviewed and assessed to determine their classification and level of impairment losses, as more fully disclosed in Note 2.3.8.1.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 *Significant accounting judgments and estimates* (continued)

2.2.4 *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

2.2.5 *Recognition of deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Company's estimates of future taxable income indicate that temporary differences will be realized in the future. As such, the Company recognized deferred tax assets as at 31 December 2015 amounting to KHR2.98 billion (US\$0.74 million) (2014: KHR1.82 billion or US\$0.45 million) as disclosed in Note 13.

2.3 *Summary of significant accounting policies*

2.3.1 *Foreign currency translation*

The Company's functional and presentation currency is KHR.

The financial statements are translated in United States dollar ("US\$") based on the closing exchange rate of KHR4,050 per US\$1 ruling at the reporting date (2014: KHR4,075: US\$1), as announced by the NBC. Such translation should not be construed as a representation that US\$ amounts represent, or have been or could be, converted into US\$ at that or any other rate. All values in KHR and US\$ are rounded to the nearest thousand ("KHR'000") and dollar, respectively, except as otherwise indicated.

2.3.2 *Impairment of financial assets*

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated.

Evidence of impairment for loans to customers may include indications that a borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. There is however a mandatory credit classification and minimum provisioning that the Company has to follow to meet the requirement of the NBC, as disclosed in Note 2.3.8.1.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.3 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

2.3.4 Operating leases

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

2.3.5 Cash and cash equivalents

For cash flow statement purposes, 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, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

2.3.6 Balances with the National Bank of Cambodia

Capital guarantee deposit and reserve balance are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions determined at defined percentages of minimum share capital and total deposits from customers, respectively. This account also includes current account carried at cost.

2.3.7 Balances with other banks

Balances with other banks are carried at cost.

2.3.8 Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal less any amounts written off and allowance for losses on loans.

Loans are written off when there is no realistic prospect of recovery. Recoveries of loans to customers previously written off, or provided for, decrease the amount of the provision for losses on loans to customers in the income statement.

Loans classified as substandard, doubtful or loss are considered non-performing.

2.3.8.1 Loan classification and allowance for losses on loans to customers

The Company follows the mandatory credit classification and provisioning as required by Prakas No. B7-02-186 dated 13 September 2002. The Prakas requires licensed MFIs to classify their loan portfolio into four classes based on number of days past due of principal and/or interest repayment. The mandatory level of specific provisioning is provided depending on the loan classification, regardless of the assets (except cash) pledged as collateral, as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Rate of provision</i>
<i>Loans (term of up to one year)</i>		
• Standard	Less than 30 days	0%
• Substandard	30 days or more	10%
• Doubtful	60 days or more	30%
• Loss	90 days or more	100%

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.8.1 Loan classification and allowance for losses on loans to customers (continued)

<i>Classification</i>	<i>Number of days past due</i>	<i>Rate of provision</i>
<i>Loans (term of more than one year)</i>		
• Standard	Less than 30 days	0%
• Substandard	30 days or more	10%
• Doubtful	180 days or more	30%
• Loss	360 days or more	100%

In addition to the above mandatory level of specific provisioning, the Company provides, as a matter of policy, an additional general allowance for bad and doubtful loans at a rate of 1% of all outstanding performing loans excluding staff loans.

The specific provision is calculated as a percentage of the loan outstanding at the time the loan is classified, excluding accrued interest, and is charged as an expense. Interest accrued from non-performing loans is recorded as interest in suspense in balance sheet.

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.

Loans are written off automatically when a client dies and in case where the loans remain unpaid based on the assessment of the management and upon the approval of the Board of Directors. Loans written off are removed from the outstanding loan portfolio and from the provision for bad and doubtful loans. Recoveries on loans previously written off and reversals of previous allowance are disclosed separately together with the net movement in the allowance for bad and doubtful loans and advances in the income statement.

Overdue loans

In accordance with NBC Prakas B7-00-51K dated 17 February 2000, overdue loans are defined as the total outstanding principal where principal or interest are past due unless the payment terms on interest or principal have been adjusted. In general, loans are not allowed to be restructured. However, on certain rare cases, loans are allowed to be restructured once per cycle. The maximum additional extension of the term is up to 5 months and 50% of the original amount only.

2.3.9 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of a property and equipment item comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Where an item of property and equipment comprises major components having different estimated useful lives, the components are accounted for as separate items of property and equipment.

Subsequent expenditure relating to an item of property and equipment that has already been recognized 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 recognized as an expense in the year in which it is incurred.

Gain or loss arising from the retirement or disposal of an item of property and equipment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and is recognized in profit or loss on the date of retirement or disposal.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.9 Property and equipment (continued)

Depreciation is calculated on a straight line basis over the respective estimated useful life of the asset as follows:

Computer and office equipment	3 to 4 years
Motor vehicles	8 years
Motorcycles	5 years
Leasehold improvements	4 years

Construction in progress is not depreciated until such time as the relevant asset is completed and put into operational use.

Fully depreciated assets are retained in the financial statements until they are no longer in use or no further charge for depreciation is made in respect of these assets.

If there is any indication that there has been a significant change in depreciation or amortization rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

2.3.10 Software

Software is stated at cost less accumulated amortization and accumulated impairment losses, if any. It is amortized on a straight line basis at the rate of 20% per annum. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of software, the amortization is revised prospectively to reflect the new expectations.

Work in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

2.3.11 Other assets

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

2.3.12 Deposits from customers

Deposits from customers are stated at placement value.

2.3.13 Borrowings

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

2.3.14 Foreign currency forward and swap contracts

Foreign currency forward and swap contracts are initially measured at nil and subsequently measured at market value as the difference of the forward or swap rate compared with the spot rate. This measurement is in accordance with NBC's Circular No. 07-012-001 dated 19 January 2012 on "Accounting for Currency Swap or Forward Contract".

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.15 Provision for staff pension funds

The Company provides its employees with benefits under the staff pension fund policy. Employees who complete three months of service with the Company have to participate in the staff pension fund scheme. The fund is sourced from the following:

- Employees contribute 3% of their monthly salary, and the Company contributes 6% for employees who are working less than three years and 7% for employees working in the Company for over three years. The Company's contribution is charged to the income statement.
- The Company contributes interest on the cumulative balance of the staff pension fund computed at 7% per annum. This interest is charged to the income statement.

The staff pension fund will be paid to employees (who have contributed to the fund) upon their retirement, resignation or termination of employment. The employee's contribution and interest are paid in full accordingly.

Those who have been terminated due to serious misconduct are only entitled to his/her contribution plus interest, regardless of how long they have been employed by the Company.

2.3.16 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

2.3.17 Recognition of income or expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Interest income or expense

Interest income from loans to customers, and balances with the NBC and other banks is recognized on an accrual basis, except for loans to customers that have been classified as substandard, doubtful or loss. Interest accruing to these loans shall instead be credited to an interest in suspense account. Subsequently, interest income from these loans is recognized on a cash basis. Interest in suspense is presented net of accrued interest receivable in 'Other assets'.

Interest expense is recognized on an accrual basis.

(ii) Fee and commission income and expense

The Company earns fee and commission income from a diverse range of services it provides to its customers, mainly from loan processing.

Loan administrative fee income is recognized as income when the loan is disbursed to customers. The loan fee is based on a percentage of the loan principal. The account is presented as part of other income.

Fee and commission expense are charged to income statement when the expense is incurred. Fees on borrowings are amortised on a straight-line basis over the term of the related borrowings.

(iii) Operating expenses are recognized on an accrual basis.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.18 Dividends on share capital

Dividends on share capital are recognized as a liability and deducted from equity when approved by the Board of Directors and the NBC. Dividends declared during the year but are approved by the NBC after the balance sheet date is dealt with as an event after the balance sheet date.

2.3.19 Grants

Grants received from third parties to subsidise the Company's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

Grants received from third parties for the purchase of property and equipment are amortised to the income statement on a systematic and rational basis over the useful life of the assets. The unamortised grants are shown as deferred grant income.

2.3.20 Related parties

Parties are considered to be related if the Company 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 vice-versa, or where the Company and the 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.

Related parties, as defined in Article 49 and 50 of the Cambodian Law on Banking and Financial Institutions, include the following:

- (a) any person holding directly or indirectly at least ten percent (10%) of the capital or voting rights;
- (b) any company of which the Company directly or indirectly holds at least 10% of the capital or voting rights;
- (c) any individual who participates in the administration, direction, management or internal control; and
- (d) the external auditors.

2.3.21 Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the balance sheet date.

Deferred tax

Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these differences can be utilized, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.21 Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Unrecognized deferred income tax assets are re-assessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

3. CASH ON HAND

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Head office	1,792,187	442,515	824,090	202,230
Branches	43,668,532	10,782,354	24,779,198	6,080,785
	45,460,719	11,224,869	25,603,288	6,283,015

Analysis of cash on hand by currency is as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Khmer Riel ("KHR")	20,234,413	4,996,151	13,432,466	3,296,311
US Dollar ("US\$")	23,776,159	5,870,657	11,185,981	2,745,026
Thai Baht ("THB")	1,450,147	358,061	984,841	241,678
	45,460,719	11,224,869	25,603,288	6,283,015

4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Current accounts	5,711,042	1,410,134	10,012,806	2,457,130
Capital guarantee	3,512,730	867,341	3,512,730	862,020
Reserve requirement	20,169,748	4,980,184	11,813,620	2,899,048
	29,393,520	7,257,659	25,339,156	6,218,198

Under Prakas No. B7-00-06 on the Licensing of MFIs dated 11 January 2000, the Company is required to maintain a capital guarantee deposit equivalent to 10% of registered capital with the NBC. This deposit is not available for use in the Company's day-to-day operations but is refundable when the Company voluntarily ceases to operate the business in Cambodia.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA (continued)

The capital guarantee deposit earns annual interest at 3% in 2015 (2014: 3%) whereas the current accounts do not earn interest.

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on Licensing of MDIs. The reserve requirement fluctuates depending on the level of deposits from customers and it does not earn interest.

5. BALANCES WITH BANKS

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Current accounts	2,829,399	698,617	1,338,170	328,385
Savings accounts	14,462,727	3,571,044	19,558,768	4,799,698
Placements and term deposits	2,189,468	540,609	897,240	220,182
	19,481,594	4,810,270	21,794,178	5,348,265

The current accounts earn no interest, savings accounts earn annual interest at 0.25% to 0.75% in 2015 (2014: 0.25% - 0.75%) whereas placements and term deposits earn annual interest at 1.00% to 5.00% in 2015 (2014: 1.00% to 5.00%).

Balances with banks analyzed by currency are as follows:

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
KHR	9,004,657	2,223,372	14,058,180	3,449,860
US\$	8,082,578	1,995,698	6,302,113	1,546,531
THB	2,394,359	591,200	1,433,885	351,874
	19,481,594	4,810,270	21,794,178	5,348,265

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

6. LOANS TO CUSTOMERS

Loans to customers are categorized as follows:

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
<i>Village bank loans</i>				
Credit line	134,400,526	33,185,315	68,562,582	16,825,173
End of term	124,004,270	30,618,338	92,737,423	22,757,650
Installment	72,395,566	17,875,448	89,952,590	22,074,255
<i>Individual loans</i>				
Installment	116,096,518	28,665,808	88,683,580	21,762,843
Credit line	57,400,889	14,173,059	24,641,850	6,047,080
End of term	15,392,839	3,800,701	27,981,405	6,866,602
Gross loans to customers	519,690,608	128,318,669	392,559,430	96,333,603
Allowance for losses on loans to customers				
Specific	1,606,639	396,701	381,907	93,720
General	5,098,342	1,258,850	3,853,953	945,755
Allowance at end of year	6,704,981	1,655,551	4,235,860	1,039,475
Loans to customers - net	512,985,627	126,663,118	388,323,570	95,294,128

Movements of allowance for losses on loans to customers:

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
At beginning of year	4,235,860	1,039,475	3,444,736	862,262
Provision during the year	4,367,201	1,078,321	2,190,357	537,511
Write offs during the year	(1,898,080)	(468,662)	(1,399,233)	(343,370)
Foreign exchange difference	-	6,417	-	(16,928)
At end of year	6,704,981	1,655,551	4,235,860	1,039,475

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

6. LOANS TO CUSTOMERS (continued)

Further analyses of loans to customers are set out below.

(a) Grading of loans to customers:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
<i>Standard loans:</i>				
Secured	187,082,783	46,193,280	139,447,175	34,220,166
Unsecured	330,493,448	81,603,320	252,489,499	61,960,613
<i>Substandard loans:</i>				
Secured	204,367	50,461	68,270	16,753
Unsecured	264,138	65,219	108,124	26,533
<i>Doubtful loans:</i>				
Secured	132,960	32,830	18,312	4,494
Unsecured	214,120	52,869	98,967	24,286
<i>Loss loans:</i>				
Secured	213,082	52,613	114,867	28,189
Unsecured	1,085,710	268,077	214,216	52,569
Total gross loans	519,690,608	128,318,669	392,559,430	96,333,603

(b) Analyses of loan portfolio by maturity are as follows:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Within one month	29,386,902	7,256,025	27,578,395	6,767,704
More than 1 month to 3 months	106,967,536	26,411,737	96,374,429	23,650,167
More than 3 months to 12 months	250,307,307	61,804,274	194,883,146	47,824,085
More than 1 year to 5 years	130,967,477	32,337,649	72,404,555	17,767,989
More than 5 years	2,061,386	508,984	1,318,905	323,658
	519,690,608	128,318,669	392,559,430	96,333,603

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

6. LOANS TO CUSTOMERS (continued)

(c) Analyses of loan portfolio by residency, relationship, currency, industry sector and office location are as follows:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Residence status:				
Residents	519,690,608	128,318,669	392,559,430	96,333,603
Relationship:				
External customers	509,782,999	125,872,345	385,395,225	94,575,515
Staff loans	9,907,609	2,446,324	7,164,205	1,758,088
	519,690,608	128,318,669	392,559,430	96,333,603
Currency:				
KHR	404,254,360	99,815,892	306,560,958	75,229,683
US\$	86,826,413	21,438,620	61,655,088	15,130,083
THB	28,609,835	7,064,157	24,343,384	5,973,837
	519,690,608	128,318,669	392,559,430	96,333,603
Industry sector:				
Agriculture	282,081,940	69,649,862	219,000,713	53,742,506
Trade and commerce	98,143,560	24,232,978	74,253,792	18,221,789
Household	23,441,420	5,788,005	14,464,789	3,549,641
Services	20,347,380	5,024,044	18,427,405	4,522,063
Construction	89,921,570	22,202,857	63,158,805	15,499,093
Transportation	4,165,570	1,028,536	3,220,481	790,302
Others	1,589,168	392,387	33,445	8,209
	519,690,608	128,318,669	392,559,430	96,333,603
Office location:				
Head office	2,518,062	621,744	2,027,260	497,487
Branches	517,172,546	127,696,925	390,532,170	95,836,116
	519,690,608	128,318,669	392,559,430	96,333,603

(d) Annual interest rates are as follows:

	2015	2014
External customers	20.40% - 36.00%	24.00% - 36.00%
Staff loans	2.00% - 11.00%	2.00% - 12.00%

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

7. PROPERTY AND EQUIPMENT

	<i>Leasehold improvements KHR'000</i>	<i>Motor vehicles KHR'000</i>	<i>Motorcycles KHR'000</i>	<i>Computer and office equipment KHR'000</i>	<i>Construction in progress KHR'000</i>	<i>Total KHR'000</i>	<i>US\$ (Note 2.3.1)</i>
Cost							
As at 1 January 2015	1,582,945	3,064,480	7,321,940	9,037,751	540,112	21,547,228	5,320,303
Additions	346,042	869,188	1,531,041	7,681,422	1,320,128	11,747,821	2,900,697
Transfer in (out)	568,284	-	-	678,313	(1,520,383)	(273,786)	(67,062)
As at 31 December 2015	2,497,271	3,933,668	8,852,981	17,397,486	339,857	33,021,263	8,153,398
Accumulated depreciation							
As at 1 January 2015	399,626	1,556,184	3,764,813	4,638,027	-	10,358,650	2,557,691
Depreciation	497,289	250,792	790,327	2,669,509	-	4,207,917	1,038,992
As at 31 December 2015	896,915	1,806,976	4,555,140	7,307,536	-	14,566,567	3,596,683
Net book value							
As at 31 December 2015	1,600,356	2,126,692	4,297,841	10,089,950	339,857	18,454,696	4,556,715
As at 31 December 2014	1,183,319	1,508,296	3,557,127	4,399,724	540,112	11,188,578	2,745,663
US\$ equivalent (Note 2.3.1)							
As at 31 December 2015	395,150	525,109	1,061,195	2,491,346	83,915	4,556,715	
As at 31 December 2014	290,385	370,134	872,914	1,079,687	132,543	2,745,663	

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

8. SOFTWARE

	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Cost		
As at 1 January 2015	4,977,159	1,228,926
Addition	575,640	142,134
Transfer in	273,786	67,601
As at 31 December 2015	5,826,585	1,438,661
Accumulated amortization		
As at 1 January 2015	3,470,499	856,912
Amortization	815,298	201,308
As at 31 December 2015	4,285,797	1,058,220
Net book value		
As at 31 December 2015	1,540,788	380,441
As at 31 December 2014	1,506,660	369,733

9. OTHER ASSETS

	<i>2015</i>		<i>2014</i>	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Interest receivable	7,996,669	1,974,486	6,131,335	1,504,622
Prepayments	4,859,903	1,199,976	3,090,755	758,467
Accrued gain on forward exchange contracts	-	-	269,242	66,072
Other assets	1,539,626	380,155	755,992	185,520
	14,396,198	3,554,617	10,247,324	2,514,681

10. DEPOSITS FROM CUSTOMERS

	<i>2015</i>		<i>2014</i>	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Savings deposits	93,916,638	23,189,293	63,375,335	15,552,229
Term deposits	167,958,931	41,471,341	96,733,559	23,738,297
	261,875,569	64,660,634	160,108,894	39,290,526

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

10. DEPOSITS FROM CUSTOMERS (continued)

Further analyses on deposits from customers follow:

(a) By currency:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
KHR	169,752,147	41,914,110	107,787,148	26,450,834
US\$	87,621,158	21,634,854	50,193,868	12,317,514
THB	4,502,264	1,111,670	2,127,878	522,178
	261,875,569	64,660,634	160,108,894	39,290,526

(b) By relationship:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Non-related party	259,219,056	64,004,704	159,910,233	39,241,487
Related party	2,656,513	655,930	198,661	49,039
	261,875,569	64,660,634	160,108,894	39,290,526

(c) By maturity:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Within 1 month	108,064,227	26,682,525	68,496,466	16,808,949
More than 1 month to 3 months	37,093,177	9,158,809	17,939,145	4,402,244
More than 3 months to 12 months	82,984,747	20,490,061	41,543,193	10,194,649
More than 12 months	33,733,418	8,329,239	32,130,090	7,884,684
	261,875,569	64,660,634	160,108,894	39,290,526

(d) By interest rates per annum:

	2015	2014
Savings deposits	3.00% - 5.75%	3.00% - 5.75%
Term deposits	4.25% - 12.25%	4.25% - 12.00%

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

11. BORROWINGS

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Instituto de Credito Official of the Kingdom of Spain ("ICO")	75,997,298	18,764,765	76,466,417	18,764,765
Oikocredit	30,400,000	7,506,173	24,920,000	6,115,337
Symbiotics SA Information	12,009,174	2,965,227	2,037,500	500,000
Hivos-Triodos Fonds	12,000,000	2,962,963	12,000,000	2,944,785
BlueOrchard	11,959,188	2,952,886	14,998,603	3,680,639
ResponsAbility	10,606,061	2,618,781	12,441,577	3,053,148
Rural Impulse Fund	5,625,000	1,388,889	2,116,500	519,387
Microvest GMG Local Credit Master Fund, Ltd	9,487,500	2,342,593	4,150,000	1,018,405
Global Commercial Microfinance Consortium II B.V	16,200,000	4,000,000	16,300,000	4,000,000
ASN Novib Mikrokredietfonds	8,146,000	2,011,358	8,146,000	1,999,018
Grameen Credit Agricole Microfinance Foundation	4,800,000	1,185,185	9,000,000	2,208,589
VDK-Spaarbank n.v	4,050,000	1,000,000	4,075,000	1,000,000
ICBC Limited Phnom Penh Branch	8,100,000	2,000,000	-	-
Bank im Bistum Essen eG	4,050,000	1,000,000	-	-
Foreign Trade Bank of Cambodia	9,109,488	2,249,256	-	-
Vattanac Bank	1,941,144	479,295	-	-
DWM Asset Management	-	-	8,079,000	1,982,577
Oxfam Novib	-	-	4,423,194	1,085,446
	224,480,853	55,427,371	199,153,791	48,872,096

All the above borrowings of the Company from non-related parties are unsecured.

(a) By currency:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
KHR	72,519,488	17,906,047	79,971,444	19,624,894
US\$	124,513,442	30,744,059	102,953,917	25,264,765
THB	27,447,923	6,777,265	16,228,430	3,982,437
	224,480,853	55,427,371	199,153,791	48,872,096

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

11. BORROWINGS (continued)

(b) By maturity:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Within one month	23,316,679	5,757,205	6,400,002	1,570,553
More than 1 month to 3 months	10,539,000	2,602,222	8,900,334	2,184,131
More than 3 months to 12 months	25,802,211	6,370,916	41,533,297	10,192,220
More than 1 year to 5 years	87,924,956	21,709,866	85,830,612	21,062,727
Over 5 years	76,898,007	18,987,162	56,489,546	13,862,465
	224,480,853	55,427,371	199,153,791	48,872,096

12. PROVISION FOR STAFF PENSION FUNDS

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Balance at beginning of year	7,296,514	1,790,556	5,702,918	1,427,514
Additions during the year:				
Employer contribution	1,752,003	432,593	1,399,899	343,533
Employee contribution	876,002	216,297	699,950	171,767
Interest	555,031	137,045	161,103	39,534
Paid during the year	(1,047,896)	(258,740)	(698,850)	(171,496)
Reversal	(188,546)	(46,555)	(82,708)	(20,296)
Foreign exchange difference	(46)	11,041	114,202	-
Balance at end of year	9,243,062	2,282,237	7,296,514	1,790,556

13. INCOME TAX

The Company's tax returns are subject to examination by the General Department of Taxation ("GDT"). Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, the amounts reported in the financial statements could change at a later date upon final determination by the GDT.

Applicable tax rates

In accordance with Cambodian tax law, the Company has the obligation to pay tax on profit ("ToP") at the rate of 20% of taxable income or minimum tax at 1% of turnover inclusive of all taxes except value-added tax, whichever is higher.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

13. INCOME TAX (continued)

13.1 Income tax expense

Income tax expense comprises:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Current income tax	6,293,575	1,553,969	4,579,481	1,123,799
Deferred tax	(1,155,381)	(285,279)	(329,214)	(80,789)
	5,138,194	1,268,690	4,250,267	1,043,010

Movements of income tax payable are as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Balance at beginning of year	3,377,220	828,766	2,671,872	668,804
Income tax expense	6,293,575	1,553,969	4,579,481	1,123,799
Income tax paid	(4,780,476)	(1,180,364)	(3,874,133)	(950,707)
Foreign exchange difference	-	5,115	-	(13,130)
Balance at end of year	4,890,319	1,207,486	3,377,220	828,766

The reconciliation of income tax expense shown in profit or loss is as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Profit before income tax	25,453,698	6,284,863	20,563,859	5,046,345
Income tax expense at applicable tax rate of 20%	5,090,740	1,256,973	4,112,772	1,009,269
Non-deductible expenses	1,208,292	298,344	59,600	14,626
Other	(1,160,838)	(286,627)	77,895	19,115
Effective income tax	5,138,194	1,268,690	4,250,267	1,043,010

13.2 Deferred income tax

Details of deferred income tax asset (liability) recognized during the year are as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Provision for staff pension funds	1,848,612	456,447	1,037,215	254,531
Allowance for loan losses	1,019,668	251,770	770,791	189,151
Accruals	425,625	105,093	348,811	85,597
Unrealized loss on foreign exchange	131,943	32,578	332,635	81,628
Property and equipment	(448,671)	(110,783)	(667,656)	(163,840)
	2,977,177	735,105	1,821,796	447,067

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

14. OTHER LIABILITIES

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Interest payable	10,151,349	2,506,506	7,230,066	1,774,249
Accrued and other payables	5,088,857	1,256,509	2,977,713	730,729
Finance lease liability	4,375,616	1,080,399	650,574	159,650
Swap and forward exchange contract	4,169,009	1,029,385	4,028,105	988,492
Personnel and other related costs	3,250,374	802,561	2,601,048	638,294
Taxes payable	582,131	143,736	501,568	123,084
	27,617,336	6,819,096	17,989,074	4,414,498

The Company entered into an ATM lease agreement with Novus Technologies (Cambodia) Company Limited for a 3-year period starting from 1 August 2014. The lease liability is effectively secured as the rights to the leased assets revert to the lessor in the event of default. The future minimum lease payments ("MLP") are as follows:

	<i>Future minimum lease payments</i> <i>KHR'000</i>	<i>Interest</i> <i>KHR'000</i>	<i>Present value of MLP</i> <i>KHR'000</i>
<i>31 December 2015</i>			
Less than one year	2,094,328	342,833	1,751,495
More than 1 year to 3 years	2,866,230	242,109	2,624,121
	4,960,558	584,942	4,375,616
<i>US\$ equivalent (Note 2.3.1)</i>	1,224,829	144,430	1,080,399
<i>31 December 2014</i>			
Less than one year	308,018	56,183	251,835
More than 1 year to 3 years	435,877	37,138	398,739
	743,895	93,321	650,574
<i>US\$ equivalent (Note 2.3.1)</i>	182,551	22,901	159,650

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

15. EQUITY

Details of shareholding are as follows:

	2015			2014		
	KHR'000	US\$	%	KHR'000	US\$	%
	(Note 2.3.1)			(Note 2.3.1)		
Agora Micro-finance N.V	17,819,450	4,399,864	50.73	17,819,450	4,372,871	50.73
Rural Impulse Fund II	8,644,800	2,134,519	24.61	8,644,800	2,121,423	24.61
PROPARCO	5,250,000	1,296,296	14.95	5,250,000	1,288,344	14.95
CLDF	2,355,000	581,481	6.70	2,355,000	577,914	6.70
AMK – Staff Association	1,058,050	261,247	3.01	1,058,050	259,644	3.01
	35,127,300	8,673,407	100.00	35,127,300	8,620,196	100.00

The Company's registered and fully paid up share capital is 1,405,092 shares (2014: 1,405,092 shares) at KHR25,000 per share.

Dividends

Pursuant to the Board of Directors' meeting on 24 March 2015, the Board of Directors declared cash dividends of KHR1.63 billion (US\$400,322) to the shareholders. The dividends declaration was approved by the NBC on 15 August 2015 and paid to the shareholders on 15 September 2015.

On 22 March 2016, the Board of Directors approved to declare cash dividends amounting to KHR2.03 billion subject to approval by the NBC.

Reserve

Under the loan agreement with ICO, the Company is required to transfer a reserve amount of 3.5% of the loan outstanding with ICO from net profit each year into a capital strengthening reserve account. ICO has no entitlement to this reserve.

16. INTEREST INCOME

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Loans to customers	146,838,901	36,256,519	118,315,266	29,034,421
Balances with banks	96,910	23,928	932,086	228,733
	146,935,811	36,280,447	119,247,352	29,263,154

17. INTEREST EXPENSE

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Borrowings	18,874,727	4,660,426	20,905,591	5,130,206
Deposits from customers	15,317,029	3,781,982	8,781,649	2,155,006
Staff pension funds	555,031	137,045	446,415	109,550
	34,746,787	8,579,453	30,133,655	7,394,762

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

18. FEE AND COMMISSION EXPENSE

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Village Bank President and mobile banking agent commission	8,395,914	2,073,065	4,962,398	1,217,766
Fees and commissions on borrowings and swaps	4,427,456	1,093,199	4,070,216	998,826
	12,823,370	3,166,264	9,032,614	2,216,592

19. OTHER INCOME

	2015		2014	
	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$</i> <i>(Note 2.3.1)</i>
Mobile banking fees from customers	3,997,214	986,966	666,078	163,455
Loan fees	3,167,685	782,144	2,619,321	642,778
Micro-insurance commissions	1,134,991	280,245	28,475	6,988
Remittance fees	595,650	147,074	733,741	180,059
Payroll processing fees from customers	165,577	40,883	35,132	8,621
Loan recovery	49,246	12,160	55,442	13,605
Gain on disposals of property and equipment	-	-	43,310	10,628
Other income	271,806	67,113	118,088	28,979
	9,382,169	2,316,585	4,299,587	1,055,113

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

20. OTHER OPERATING EXPENSES

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Personnel and other related costs	44,660,784	11,027,354	36,336,888	8,917,028
Depreciation and amortization	5,023,215	1,240,300	3,522,551	864,430
Rental	4,922,798	1,215,506	3,731,451	915,693
Transportation	4,217,556	1,041,372	4,313,651	1,058,565
Professional fees	3,438,345	848,974	2,846,741	698,587
Non-capitalisable furniture and fixtures	2,205,738	544,626	1,288,129	316,105
Security guard	2,201,194	543,505	1,926,547	472,772
Marketing	2,181,750	538,704	675,604	165,792
Printing	1,895,330	467,983	1,226,719	301,035
Stationeries and supplies	1,729,685	427,083	1,273,954	312,627
NBC license	1,440,250	355,617	1,465,290	359,580
Utilities	1,373,447	339,123	1,018,636	249,972
Foreign exchange loss, net*	1,230,866	303,917	410,768	100,802
Communication	1,164,445	287,517	955,153	234,393
Other expenses	1,627,997	401,976	1,291,973	317,050
	79,313,400	19,583,557	62,284,055	15,284,431

* This includes foreign exchange loss amounting to KHR1.47 billion (US\$ 362,546) (2014: KHR0.14 billion or US\$ 33,709) incurred on the recognition of forward exchange contracts in accordance with NBC Circular No. 07-012-001 dated 19 January 2012 on "Accounting for Currency Swap or Forward Contract".

21. GRANT INCOME

This represents the grant received from Agence Francasie De Development ("AFD") for the technical assistance assignment to support the Company in various areas as set forth in the grant agreement.

22. COMMITMENTS

The Company leases office premises under an operating lease arrangement with minimum lease commitments as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Within one year	3,055,030	754,328	3,203,965	786,249
More than 1 year to 5 years	7,664,826	1,892,550	6,000,520	1,472,520
More than 5 years	2,962,347	731,444	723,893	177,642
	13,682,203	3,378,322	9,928,378	2,436,411

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22. COMMITMENTS (continued)

In the normal course of business, the Company makes commitments and incurs certain contingent liabilities with legal recourse. No material losses are anticipated from these transactions, which consist of:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Foreign exchange swap contracts	78,570,000	19,400,000	55,997,683	13,741,763
Foreign exchange forward contracts	16,200,000	4,000,000	28,525,000	7,000,000
Unused portion of credit line	51,429,623	12,698,672	22,056,948	5,412,748

The Company has 21 foreign exchange swap contracts (2014: 14 contracts) with certain commercial banks and 1 foreign exchange forward contract (2014: 2 contracts) with The Currency Exchange Fund ("TCX") which are outstanding as at 31 December 2015. The Company enters into these contracts in order to manage its foreign exchange risk.

23. RELATED PARTY TRANSACTIONS AND BALANCES

Significant transactions with related parties during the year were as follows:

Related party	Transaction	2015		2014	
		KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Board of directors	Remuneration	232,432	57,391	208,413	51,144
Key management personnel	Interest income	8,983	2,218	117,417	28,814
	Remuneration	1,214,591	299,899	1,090,409	267,585
AMK – Staff Association (shareholder)	Capital contribution	-	-	245,975	60,361

Balances with related parties at the reporting year were as follows:

Related party	Transaction	2015		2014	
		KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Key management personnel	Deposit	122,876	30,340	190,152	46,951
	Loan	77,653	19,174	93,263	23,028
Agora Micro-finance N.V (shareholder)	Deposit	2,533,637	625,590	8,509	2,088

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24. FINANCIAL RISK MANAGEMENT

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

The Company entered into certain foreign currency forward swap and forward contracts to manage its risk exposure (Note 22).

The Company intends to comply with the NBC's regulations for financial risk management purposes. The Company however recognizes that international best practices on risk management are yet to be fully implemented. The Board of Directors has established an asset and liability management committee and risk management committee to formulate broad parameters of acceptable risk for the Company and monitor the activities against these parameters.

The Company holds the following financial assets and liabilities:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
		(Note 2.3.1)		(Note 2.3.1)
Financial assets				
Cash on hand	45,460,719	11,224,869	25,603,288	6,283,015
Balances with the NBC	5,711,042	1,410,134	10,012,806	2,457,130
Balances with banks	19,481,594	4,810,270	21,794,178	5,348,265
Loans to customers	512,985,627	126,663,118	388,323,570	95,294,128
Other assets	7,996,669	1,974,486	6,131,335	1,504,622
Total financial assets	591,635,651	146,082,877	451,865,177	110,887,160
Financial liabilities				
Deposits from customers	261,875,569	64,660,634	160,108,894	39,290,526
Borrowings	224,480,853	55,427,371	199,153,791	48,872,096
Other liabilities	27,035,205	6,675,360	17,487,506	4,291,414
Total financial liabilities	513,391,627	126,763,365	376,750,191	92,454,036

Capital management

The primary objectives of the Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains a strong financial position and healthy capital ratios to support its business and to maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends payment to shareholders, return the capital, or issue capital securities. No changes were made in the objectives, policies and processes from previous years.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

Capital Management (continued)

As at 31 December 2015, the Company is compliant with the solvency ratio prescribed by the NBC at 15%, as shown in the table below:

	2015		2014	
	KHR'000	US\$ (Note 2.3.1)	KHR'000	US\$ (Note 2.3.1)
Share capital	35,127,300	8,673,407	35,127,300	8,620,196
Share premium	149,505	36,915	149,505	36,688
Reserve	13,888,134	3,429,169	11,228,229	2,755,394
Retained earnings	67,418,241	16,646,479	51,394,023	12,612,030
	<u>116,583,180</u>	<u>28,785,970</u>	<u>97,899,057</u>	<u>24,024,308</u>
Less loans to related parties	<u>(1,618,691)</u>	<u>(399,677)</u>	<u>(1,105,398)</u>	<u>(271,263)</u>
Total regulatory capital	<u>114,964,489</u>	<u>28,386,293</u>	<u>96,793,659</u>	<u>23,753,045</u>
Total risk-weighted assets	<u>620,060,659</u>	<u>153,101,397</u>	<u>456,939,054</u>	<u>112,132,283</u>
Solvency ratio	<u>18.54%</u>	<u>18.54%</u>	<u>21.18%</u>	<u>21.18%</u>

The loans to related parties deducted from capital of the Company follows the definition in Articles 49 and 50 of the Cambodian Law on Banking and Financial Institutions (Note 2.3.20).

Net worth and risk-weighted assets are computed based on NBC regulations. Management believes the Company has complied with all externally imposed capital requirements.

24.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposure arises principally in lending activities that lead to loans to customers. The credit risk management is carried out by the credit committee.

(a) Credit risk measurement

The Company assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. The Credit Committee is responsible for determining the appropriateness and sufficiency of its credit policies.

(b) Risk limit control and mitigation policy

The Company operates and provides loans to individuals within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 2% for individual loan and 3% for group loan of the Company's net worth under the conditions of Prakas No. B7-07-163 of the NBC.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.1 Credit risk (continued)

(b) Risk limit control and mitigation policy (continued)

The Company also 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 also accepts personal guarantee for the village bank loans. 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.

(c) Impairment and provisioning policy

The Company is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas, as disclosed in Note 2.3.8.1.

(d) Loans to customers

Loans to customers are summarized as follows:

	2015		2014	
	KHR'000	US\$	KHR'000	US\$
	(Note 2.3.1)		(Note 2.3.1)	
Loans to customers neither past due nor impaired (i)	517,576,231	127,796,600	391,771,636	96,140,279
Loans to customers past due but not impaired (ii)	449,736	111,046	165,038	40,500
Loans to customers individually impaired (iii)	1,664,641	411,023	622,756	152,824
Loans to customers, gross	519,690,608	128,318,669	392,559,430	96,333,603

For purposes of loan provisioning, expected recovery from collateral (except cash) is not taken into consideration based on NBC's requirement.

(i) Loans to customers neither past due nor impaired

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

(ii) Loans to customers past due but not impaired

Loans to customers less than 30 days past due are not considered impaired, unless other information is available to indicate the contrary.

(iii) Loans to customers individually impaired

In accordance with Prakas No. B7-02-186 dated 13 September 2002 on the classification and provisioning for bad and doubtful debts, loans and advances past due more than 30 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.2 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 business.

24.3 Market risk

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.3 Market risk (continued)

(i) Foreign exchange risk

The Company operates in the Kingdom of Cambodia and transacts in US\$, THB and KHR.

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency.

The balances of monetary assets and liabilities translated into KHR equivalent of their respective original currency are as follows:

	2015			2014		
	KHR KHR'000	US\$ KHR'000	THB KHR'000	KHR KHR'000	US\$ KHR'000	THB KHR'000
On-balance sheet items						
Financial assets						
Cash on hand	20,234,413	23,776,158	1,450,147	13,432,466	11,185,981	984,841
Balances with the NBC	2,376,750	3,334,292	-	25,116,909	222,247	-
Balances with banks	8,960,515	8,131,230	2,389,849	14,058,180	6,302,113	1,433,885
Loans to customers	398,912,844	85,925,345	28,147,438	303,177,170	61,073,104	24,073,296
Other assets	6,733,786	993,777	1,339,739	5,229,446	1,566,191	360,932
Total financial assets	437,218,308	122,160,802	33,327,173	361,014,171	80,349,636	26,852,954
Financial liabilities						
Deposits from customers	169,752,147	87,621,158	4,502,264	107,787,148	50,193,868	2,127,878
Borrowings	72,519,488	124,513,442	27,447,922	79,971,444	102,953,917	16,228,430
Other liabilities	14,340,429	12,187,446	507,330	10,969,233	6,696,833	323,008
Total financial liabilities	256,612,064	224,322,046	32,457,516	198,727,825	159,844,618	18,679,316
Net open position	180,606,244	(102,161,244)	869,657	162,286,346	(79,494,982)	8,173,638

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.3 Market risk (continued)

(i) Foreign exchange risk (continued)

	2015			2014		
	<i>KHR</i> <i>KHR'000</i>	<i>US\$</i> <i>KHR'000</i>	<i>THB</i> <i>KHR'000</i>	<i>KHR</i> <i>KHR'000</i>	<i>US\$</i> <i>KHR'000</i>	<i>THB</i> <i>KHR'000</i>
Off-balance sheet items						
Foreign exchange swap contracts	(78,570,000)	78,570,000	-	(51,800,891)	55,997,683	(4,196,792)
Foreign exchange forward contracts	(16,200,000)	16,200,000	-	(28,525,000)	28,525,000	-
	(94,770,000)	94,770,000	-	(80,325,891)	84,522,683	(4,196,792)
Net open position	85,836,244	(7,391,244)	869,657	81,960,455	5,027,701	3,976,846
US\$ equivalent (Note 2.3.1)	21,194,134	(1,824,999)	214,730	20,112,995	1,233,792	975,913

The Company enters into these contracts in order to manage its foreign exchange risk. As exposure is deemed to be minimal, no sensitivity analysis for foreign currency exchange risk was presented.

(ii) Price risk

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

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes and may reduce losses in the event that unexpected movements arise. At this stage, management does not have a policy to set limits on the level of mismatch of interest rate re-pricing that may be undertaken; however, management regularly monitors the mismatch.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.3 Market risk (continued)

(iii) Interest rate risk (continued)

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The Company has no significant financial assets and liabilities with floating interest rates. Balance with the NBC, balance with banks earn fixed interest rates for the period of the deposit and placement and loans to customers earns fixed interest rate based on outstanding balance over the agreed terms.

	<i>Up to 1 month KHR'000</i>	<i>>1 to 3 months KHR'000</i>	<i>>3 to 12 months KHR'000</i>	<i>>1 to 5 years KHR'000</i>	<i>Over 5 years KHR'000</i>	<i>Non-interest sensitive KHR'000</i>	<i>Total KHR'000</i>	<i>Weighted average Interest %</i>
As at 31 December 2015								
Financial assets								
Cash on hand	-	-	-	-	-	45,460,719	45,460,719	-
Balances with the NBC	-	-	-	-	-	5,711,042	5,711,042	-
Balances with banks	17,292,126	-	2,189,468	-	-	-	19,481,594	1.00
Loans to customers	29,386,903	106,967,535	250,307,307	124,262,496	2,061,386	-	512,985,627	33.22
Other assets	-	-	-	-	-	7,996,669	7,996,669	-
	46,679,029	106,967,535	252,496,775	124,262,496	2,061,386	59,168,430	591,635,651	
Financial liabilities								
Deposits from customers	108,064,227	37,093,177	82,984,747	33,733,418	-	-	261,875,569	7.52
Borrowings	2,400,000	15,055,480	58,617,617	117,597,202	30,810,554	-	224,480,853	8.97
Other liabilities	1,158,985	784,101	20,716,503	4,375,616	-	-	27,035,205	-
	111,623,212	52,932,758	162,318,867	155,706,236	30,810,554	-	513,391,627	
Maturity gap	(64,944,183)	54,034,777	90,177,908	(31,443,740)	(28,749,168)	59,168,430	78,244,024	
US\$ equivalent (Note 2.3.1)	(16,035,601)	13,341,920	22,266,150	(7,763,886)	(7,098,560)	14,609,489	19,319,512	

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.3 Market risk (continued)

(iii) Interest rate risk (continued)

	<i>Up to 1 month KHR'000</i>	<i>>1 to 3 months KHR'000</i>	<i>>3 to 12 months KHR'000</i>	<i>>1 to 5 years KHR'000</i>	<i>Over 5 years KHR'000</i>	<i>Non-interest sensitive KHR'000</i>	<i>Total KHR'000</i>	<i>Weighted average Interest %</i>
As at 31 December 2014								
Financial assets								
Cash on hand	—	—	—	—	—	25,603,288	25,603,288	—
Balances with the NBC	—	—	—	—	—	10,012,806	10,012,806	—
Balances with banks	19,558,768	—	—	897,240	—	1,338,170	21,794,178	3.38
Loans to customers	9,799,272	36,984,247	234,953,592	104,188,084	2,398,375	—	388,323,570	33.21
Other assets	—	—	—	—	—	6,400,577	6,400,577	—
	29,358,040	36,984,247	234,953,592	105,085,324	2,398,375	43,354,841	452,134,419	
Financial liabilities								
Deposits from customers	68,496,466	17,939,145	41,543,193	32,130,090	—	—	160,108,894	6.28
Borrowings	6,400,002	8,900,334	41,533,297	85,830,612	56,489,546	—	199,153,791	9.48
Other liabilities	—	—	—	—	—	17,487,506	17,487,506	—
	74,896,468	26,839,479	83,076,490	117,960,702	56,489,546	17,487,506	376,750,191	
Maturity gap	(45,538,428)	10,144,768	151,877,102	(12,875,378)	(54,091,171)	25,867,335	75,384,228	
US\$ equivalent (Note 2.3.1)	(11,175,074)	2,489,514	37,270,454	(3,159,602)	(13,273,907)	6,347,812	18,499,197	

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the daily cash position and projection for the next day, week and month respectively, as these are key periods for liquidity management. Management monitors the movements of the main depositors and projection of their withdrawals.

The table next page is an analysis of the assets and liabilities of the Company by relevant maturity based on the remaining period at the balance sheet date to the contractual or estimated maturity dates.

	<i>Up to 1 month KHR'000</i>	<i>>1 to 3 months KHR'000</i>	<i>>3 to 12 months KHR'000</i>	<i>>1 to 5 years KHR'000</i>	<i>Over 5 years KHR'000</i>	<i>No fixed maturity date KHR'000</i>	<i>Total KHR'000</i>
As at 31 December 2015							
Financial assets							
Cash on hand	45,460,719	-	-	-	-	-	45,460,719
Balances with the NBC	5,711,042	-	-	-	-	-	5,711,042
Balances with banks	17,292,126	-	2,189,468	-	-	-	19,481,594
Loans to customers	29,386,903	106,967,535	250,307,307	124,262,496	2,061,386	-	512,985,627
Other assets	7,996,669	-	-	-	-	-	7,996,669
Total financial assets	105,847,459	106,967,535	252,496,775	124,262,496	2,061,386	-	591,635,651
Financial liabilities							
Deposits from customers	108,064,227	37,093,177	82,984,747	33,733,418	-	-	261,875,569
Borrowings	2,400,000	15,055,480	58,617,617	117,597,202	30,810,554	-	224,480,853
Other liabilities	1,158,985	784,101	20,716,503	4,375,616	-	-	27,035,205
Total financial liabilities	111,623,212	52,932,758	162,318,867	155,706,236	30,810,554	-	513,391,627
Net liquidity surplus (gap) – KHR'000	(5,775,753)	54,034,777	90,177,908	(31,443,740)	(28,749,168)	-	78,244,024
US\$ equivalent (Note 2.3.1)	(1,426,112)	13,341,920	22,266,150	(7,763,886)	(7,098,560)	-	19,319,512

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.4. Liquidity risk (continued)

	<i>Up to 1 month KHR'000</i>	<i>>1 to 3 months KHR'000</i>	<i>>3 to 12 months KHR'000</i>	<i>>1 to 5 years KHR'000</i>	<i>Over 5 years KHR'000</i>	<i>No fixed maturity date KHR'000</i>	<i>Total KHR'000</i>
As at 31 December 2014							
Financial assets							
Cash on hand	25,603,288	-	-	-	-	-	25,603,288
Balances with the NBC	10,012,806	-	-	-	-	-	10,012,806
Balances with banks	21,794,178	-	-	-	-	-	21,794,178
Loans to customers	23,342,535	96,374,429	194,883,146	72,404,555	1,318,905	-	388,323,570
Other assets	6,400,577	-	-	-	-	-	6,400,577
Total financial assets	87,153,384	96,374,429	194,883,146	72,404,555	1,318,905	-	452,134,419
Financial liabilities							
Deposits from customers	68,496,466	17,939,145	41,543,193	32,130,090	-	-	160,108,894
Borrowings	6,400,002	8,900,334	41,533,297	85,830,612	56,489,546	-	199,153,791
Other liabilities	3,628,287	12,163,646	1,695,573	-	-	-	17,487,506
Total financial liabilities	78,524,755	39,003,125	84,772,063	117,960,702	56,489,546	-	376,750,191
Net liquidity surplus (gap) – KHR'000	8,628,629	57,371,304	110,111,083	(45,556,147)	(55,170,641)	-	75,384,228
US\$ equivalent (Note 2.3.1)	2,130,526	14,165,754	27,187,922	(11,248,431)	(13,622,380)	-	18,613,391

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2015 and for the year then ended

24. FINANCIAL RISK MANAGEMENT (continued)

24.5 Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Company's financial assets and liabilities. Fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values. In making this assessment, the management assumes that loans to customers are mainly held to maturity with fair values equal to the book value of loans to customers adjusted for provision for loan losses, if any.

25. SUBSEQUENT EVENTS

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no other events, which occurred subsequent to 31 December 2015 that had significant impact on the financial position of the Company as at 31 December 2015.

26. TAX CONTINGENCY

The taxation system in Cambodia is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. 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. 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.