

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 2016 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 2016.

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"). The Company, before 7 July 2014, is known as Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. On 29 January 2010, the Company obtained a Microfinance Deposit-Taking Institution ("MDI") license to conduct deposit-taking business from the National Bank of Cambodia. 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:

	2016		2015	
	KHR'000	US\$ equivalent	KHR'000	US\$ equivalent
Profit before income tax	33,088,748	8,196,371	25,453,698	6,284,863
Income tax expense	(6,387,307)	(1,582,191)	(5,138,194)	(1,268,690)
Net profit for the year	26,701,441	6,614,180	20,315,504	5,016,173

DIVIDENDS

On 22 March 2016, the Board of Directors approved the declaration and payment of cash dividends amounting to KHR2.03 billion during the year (US\$0.50 million) based on 2015 financial results. On 29 August 2016 the NBC approved the dividends. On 14 September 2016, 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.

EVENTS SINCE THE BALANCE SHEET DATE

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 2016 that had significant impact on the financial position of the Company as at 31 December 2016.

AMK Microfinance Institution Plc.

REPORT OF THE BOARD OF DIRECTORS (continued)

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
Mr. Michael Goh Chiang Huat	Director (appointed 7 February 2017)

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.

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 2016, 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.

AMK Microfinance Institution Plc.

REPORT OF THE BOARD OF DIRECTORS (continued)

STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS (continued)

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 2016, and its financial performance and its 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

31 March 2017

Reference: 61211851-18689243

INDEPENDENT AUDITOR'S REPORT

To: The Shareholders of AMK Microfinance Institution Plc.

Opinion

We have audited the accompanying financial statements of AMK Microfinance Institution Plc. ("the Company"), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the sub-decree on the Code of Ethics for Professional Accountants and Auditors promulgated by the Royal Government of Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors 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.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Maria Cristina M. Calimbas
Partner

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

Phnom Penh, Kingdom of Cambodia

31 March 2017

AMK Microfinance Institution Plc.

BALANCE SHEET as at 31 December 2016

		2016		2015	
	Notes	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
ASSETS					
Cash on hand	3	49,579,891	12,281,370	45,460,719	11,224,869
Balances with the National Bank of Cambodia	4	118,688,171	29,400,092	29,393,520	7,257,659
Balances with banks	5	46,252,421	11,457,127	19,481,594	4,810,270
Loans to customers	6	598,146,744	148,166,149	512,985,627	126,663,118
Other assets	9	16,358,118	4,052,048	14,396,198	3,554,617
Property and equipment	7	26,356,818	6,528,813	18,454,696	4,556,715
Software	8	1,077,376	266,875	1,540,788	380,441
Deferred tax assets	14	3,548,865	879,085	2,977,177	735,105
TOTAL ASSETS		860,008,404	213,031,559	644,690,319	159,182,794
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from customers	10	354,405,385	87,789,295	261,875,569	64,660,634
Income tax payable	14	5,686,194	1,408,520	4,890,319	1,207,486
Other liabilities	15	28,932,442	7,166,817	27,617,336	6,819,096
Borrowings	11	293,841,948	72,787,205	224,480,853	55,427,371
Subordinated debt	12	24,252,000	6,007,431	-	-
Provision for staff pension funds	13	11,637,366	2,882,677	9,243,062	2,282,237
Total liabilities		718,755,335	178,041,945	528,107,139	130,396,824
Shareholders' equity					
Share capital	16	35,127,300	8,701,338	35,127,300	8,673,407
Share premium		149,505	37,034	149,505	36,915
Reserve	16	16,414,114	4,065,919	13,888,134	3,429,169
Retained earnings		89,562,150	22,185,323	67,418,241	16,646,479
Total shareholders' equity		141,253,069	34,989,614	116,583,180	28,785,970
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		860,008,404	213,031,559	644,690,319	159,182,794

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

AMK Microfinance Institution Plc.

INCOME STATEMENT

for the year ended 31 December 2016

	Notes	2016		2015	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Operating income					
Interest income	17	193,791,247	48,003,777	146,935,811	36,280,447
Interest expense	18	(50,417,076)	(12,488,748)	(34,746,787)	(8,579,453)
Net interest income		143,374,171	35,515,029	112,189,024	27,700,994
Fee and commission expense	19	(14,799,347)	(3,665,927)	(12,823,370)	(3,166,264)
Other income	20	10,177,528	2,521,062	9,382,169	2,316,585
Total operating income		138,752,352	34,370,164	108,747,823	26,851,315
Grant income	22	644,364	159,615	386,476	95,426
Provision for losses on loans to customers	6	(8,690,754)	(2,152,775)	(4,367,201)	(1,078,321)
Other operating expenses	21	(97,617,214)	(24,180,633)	(79,313,400)	(19,583,557)
Profit before income tax		33,088,748	8,196,371	25,453,698	6,284,863
Income tax expense	14	(6,387,307)	(1,582,191)	(5,138,194)	(1,268,690)
Net profit for the year		26,701,441	6,614,180	20,315,504	5,016,173

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 2016

	Share capital (Note 16) KHR'000	Share premium KHR'000	Reserve (Note 16) KHR'000	Retained earnings KHR'000	Total KHR'000	US\$ (Note 2.3.1)
Balance as at 1 January 2016	35,127,300	149,505	13,888,134	67,418,241	116,583,180	28,878,667
Net profit for the year	-	-	-	26,701,441	26,701,441	6,614,180
Appropriation to reserves	-	-	2,525,980	(2,525,980)	-	-
Dividends declared	-	-	-	(2,031,552)	(2,031,552)	(503,233)
Balance as at 31 December 2016	35,127,300	149,505	16,414,114	89,562,150	141,253,069	34,989,614
US\$ equivalent (Note 2.3.1)	8,701,338	37,034	4,065,919	22,185,323	34,989,614	
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	

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 2016

	Notes	2016		2015	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Operating activities					
Profit before income tax		33,088,748	8,196,371	25,453,698	6,284,863
Add back:					
Depreciation and amortization	21	6,332,641	1,568,650	5,023,215	1,240,300
Loss on disposals of property and equipment		605,479	149,982	-	-
Operating cash flows before changes in operating assets and liabilities		40,026,868	9,915,003	30,476,913	7,525,163
Changes in operating assets and liabilities:					
Balances with the National Bank of Cambodia		(7,552,247)	(1,870,757)	(8,356,128)	(2,063,241)
Balances with banks		2,189,468	542,350	(1,292,228)	(319,069)
Loans to customers		(85,161,117)	(21,095,149)	(124,662,057)	(30,780,755)
Other assets		(1,961,920)	(485,985)	(4,148,874)	(1,024,413)
Deposits from customers		92,529,816	22,920,440	101,766,675	25,127,574
Provision for staff pension funds		2,394,304	593,090	1,946,548	480,629
Other liabilities		5,113,137	1,266,569	9,628,262	2,377,349
Income tax paid	14	47,578,309 (6,163,120)	11,785,561 (1,526,658)	5,359,111 (4,780,476)	1,323,237 (1,180,364)
Net cash from operating activities		41,415,189	10,258,903	578,635	142,873
Investing activities					
Acquisition of property and equipment		(17,794,211)	(4,407,781)	(11,747,821)	(2,900,697)
Acquisition of software		(380,650)	(94,290)	(575,640)	(142,134)
Net cash used in investing activities		(18,174,861)	(4,502,071)	(12,323,461)	(3,042,831)
Financing activities					
Proceeds from borrowings		162,706,199	40,303,740	87,478,841	21,599,714
Proceeds from subordinated debt		24,252,000	6,007,431	-	-
Repayment of borrowings		(93,345,104)	(23,122,394)	(62,151,779)	(15,346,118)
Dividends paid		(2,031,552)	(503,233)	(1,631,381)	(402,810)
Net cash from financing activities		91,581,543	22,685,544	23,695,681	5,850,786
Net increase in cash and cash equivalents		114,821,871	28,442,376	11,950,855	2,950,828
Cash and cash equivalents at beginning of year		68,463,887	16,904,664	56,513,032	13,868,228
Foreign exchange difference		-	54,436	-	85,608
Cash and cash equivalents at end of the year		183,285,758	45,401,476	68,463,887	16,904,664

AMK Microfinance Institution Plc.

STATEMENT OF CASH FLOWS (continued) for the year ended 31 December 2016

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

	<i>Notes</i>	<i>2016</i>		<i>2015</i>	
		<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Cash on hand	3	49,579,891	12,281,370	45,460,719	11,224,869
Balances with the NBC	4	87,453,446	21,662,979	5,711,042	1,410,134
Balances with banks	5	46,252,421	11,457,127	17,292,126	4,269,661
		183,285,758	45,401,476	68,463,887	16,904,664

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 2016 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 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 33 branches and 118 sub-branches (2015: 31 branches and 115 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 2016 was KHR35.13 billion or US\$8.70 million (2015: KHR35.13 billion or US\$8.67 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
Mr. Michael Goh Chiang Huat	Director (appointed 7 February 2017)

Employees

As at 31 December 2016, the Company had a total of 2,349 employees (2015: 2,126 employees).

The financial statements were authorized for issue by the Board of Directors on 31 March 2017.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

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:

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 *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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 *Significant accounting judgments and estimates* (continued)

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.

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 can be realized in the future. As such, the Company recognized deferred tax assets as at 31 December 2016 amounting to KHR3.55 billion (US\$0.88 million) (2015: KHR2.98 billion or US\$0.74 million) as disclosed in Note 14.

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\$") for the Company's internal uses based on the closing exchange rate of KHR4,037 per US\$1 ruling at the reporting date (2015: KHR4,050: 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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 *Summary of significant accounting policies* (continued)

2.3.2 *Impairment of financial assets* (continued)

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.

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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 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

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%
<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 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.

Overdue loans are also required to comply with the above mandatory level of specific provisioning depending on the loan classification.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 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

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.

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

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

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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.14 Subordinated debt

Subordinated debt is a long-term debt that is subordinated to all other liabilities of the Company. This is treated as part of the Company's liabilities and included in the Company's net worth computation under the NBC's guidelines. Foreign exchange differences on subordinated debt are taken through the income statement.

2.3.15 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 Circular No. 07-012-001 dated 19 January 2012 on "Accounting for Currency Swap or Forward Contract".

2.3.16 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.

2.3.17 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.

2.3.18 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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.18 Recognition of income or expense (continued)

(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.

2.3.19 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.

2.3.20 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.

2.3.21 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.

2.3.22 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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Summary of significant accounting policies (continued)

2.3.22 Income tax (continued)

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.

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

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Head office	3,011,397	745,949	1,792,187	442,515
Branches	46,568,494	11,535,421	43,668,532	10,782,354
	49,579,891	12,281,370	45,460,719	11,224,869

Analysis of cash on hand by currency is as follows:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Khmer Riel ("KHR")	23,911,184	5,923,008	20,234,413	4,996,151
US Dollar ("US\$")	24,242,974	6,005,196	23,776,159	5,870,657
Thai Baht ("THB")	1,425,733	353,166	1,450,147	358,061
	49,579,891	12,281,370	45,460,719	11,224,869

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Current accounts	31,460,386	7,793,011	5,711,042	1,410,134
Negotiable certificate of deposit ("NCD")	55,993,060	13,869,968	-	-
Capital guarantee	3,512,730	870,134	3,512,730	867,341
Reserve requirement	27,721,995	6,866,979	20,169,748	4,980,184
	118,688,171	29,400,092	29,393,520	7,257,659

Under NBC 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.

The capital guarantee deposit and NCD earns annual interest at 3.00% in 2016 (2015: 3.00%), and at 1.00% - 2.00% in 2016, respectively, whereas the current accounts do not earn interest.

The NCD amounting to KHR200.00 million is used as collateral against the overdraft facility with the NBC in connection with the Fast and Secure Transfer ("FAST") service. The FAST service provides instant Riel-denominated fund transfers between banking institutions. The overdraft line as at 31 December 2016 is unutilized. The NCD amounting to KHR25.76 billion was used as collateral against the borrowing with the NBC (Note 11).

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by NBC Prakas No. 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

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Current accounts	9,788,828	2,424,778	2,829,399	698,617
Savings accounts	14,463,593	3,582,758	14,462,727	3,571,044
Placements and term deposits	22,000,000	5,449,591	2,189,468	540,609
	46,252,421	11,457,127	19,481,594	4,810,270

The current accounts do not earn interest. Savings accounts earn annual interest at 0.05% - 1.50% in 2016 (2015: 0.25% - 0.75%) whereas placements and term deposits earn annual interest at 2.75% in 2016 (2015: 1.00% to 5.00%).

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

5. BALANCES WITH BANKS (continued)

Balances with banks analyzed by currency are as follows:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
KHR	29,925,385	7,412,778	8,960,515	2,212,473
US\$	6,986,425	1,730,598	8,131,230	2,007,711
THB	9,340,611	2,313,751	2,389,849	590,086
	46,252,421	11,457,127	19,481,594	4,810,270

6. LOANS TO CUSTOMERS

Loans to customers are categorized as follows:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<i>Village bank loans</i>				
Credit line	180,980,942	44,830,553	134,400,526	33,185,315
End of term	120,913,693	29,951,373	124,004,270	30,618,338
Installment	70,689,134	17,510,313	72,395,566	17,875,448
<i>Individual loans</i>				
Installment	158,739,336	39,321,114	116,217,763	28,695,744
Credit line	59,558,962	14,753,273	57,400,889	14,173,059
End of term	19,297,152	4,780,072	15,271,594	3,770,765
Gross loans to customers	610,179,219	151,146,698	519,690,608	128,318,669
Allowance for losses on loans to customers				
Specific	6,042,578	1,496,799	1,606,639	396,701
General	5,989,897	1,483,750	5,098,342	1,258,850
Allowance at end of year	12,032,475	2,980,549	6,704,981	1,655,551
Loans to customers - net	598,146,744	148,166,149	512,985,627	126,663,118

Movements of allowance for losses on loans to customers:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
At beginning of year	6,704,981	1,655,551	4,235,860	1,039,475
Provision during the year	8,690,754	2,152,775	4,367,201	1,078,321
Write-offs during the year	(3,363,260)	(833,109)	(1,898,080)	(468,662)
Foreign exchange difference	-	5,332	-	6,417
At end of year	12,032,475	2,980,549	6,704,981	1,655,551

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 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:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
<i>Standard loans</i>				
Secured	234,502,340	58,088,269	187,082,783	46,193,280
Unsecured	368,104,190	91,182,608	330,493,448	81,603,320
<i>Substandard loans</i>				
Secured	932,379	230,958	204,367	50,461
Unsecured	1,482,989	367,349	264,138	65,219
<i>Doubtful loans</i>				
Secured	476,089	117,931	132,960	32,830
Unsecured	900,638	223,096	214,120	52,869
<i>Loss loans</i>				
Secured	797,049	197,436	213,082	52,613
Unsecured	2,983,545	739,051	1,085,710	268,077
Total gross loans	610,179,219	151,146,698	519,690,608	128,318,669

(b) Loan portfolio by maturity:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Within one month	38,794,210	9,609,663	29,386,902	7,256,025
More than 1 month to 3 months	126,036,750	31,220,399	106,967,536	26,411,737
More than 3 months to 12 months	301,347,425	74,646,377	250,307,307	61,804,274
More than 1 year to 5 years	141,709,966	35,102,791	130,967,477	32,337,649
More than 5 years	2,290,868	567,468	2,061,386	508,984
	610,179,219	151,146,698	519,690,608	128,318,669

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

6. LOANS TO CUSTOMERS (continued)

(c) By residency, relationship, currency, industry sector and location:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
<i>Residence status:</i>				
Residents	610,179,219	151,146,698	519,690,608	128,318,669
<i>Relationship:</i>				
External customers	598,989,716	148,374,961	509,782,999	125,872,345
Staff loans	11,189,503	2,771,737	9,907,609	2,446,324
	610,179,219	151,146,698	519,690,608	128,318,669
<i>Currency:</i>				
KHR	459,047,183	113,709,978	404,254,360	99,815,892
US\$	121,332,002	30,054,992	86,826,413	21,438,620
THB	29,800,034	7,381,728	28,609,835	7,064,157
	610,179,219	151,146,698	519,690,608	128,318,669
<i>Industry sector:</i>				
Agriculture	306,822,550	76,002,614	282,081,940	69,649,862
Trade and commerce	126,051,720	31,224,107	98,143,560	24,232,978
Household	30,107,770	7,457,956	23,441,420	5,788,005
Services	25,402,550	6,292,432	20,347,380	5,024,044
Construction	114,552,250	28,375,588	89,921,570	22,202,857
Transportation	5,135,660	1,272,148	4,165,570	1,028,536
Others	2,106,719	521,853	1,589,168	392,387
	610,179,219	151,146,698	519,690,608	128,318,669
<i>Location:</i>				
Head office	2,922,360	723,894	2,518,062	621,744
Branches	607,256,859	150,422,804	517,172,546	127,696,925
	610,179,219	151,146,698	519,690,608	128,318,669

(d) Annual interest rates are as follows:

	2016	2015
External customers	19.20% - 36.00%	20.40% - 36.00%
Staff loans	2.00% - 11.00%	2.00% - 11.00%

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 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 US\$ equivalent (Note 2.3.1)</i>	
Cost							
As at 1 January 2016	2,497,271	3,933,668	8,852,981	17,397,486	339,857	33,021,263	8,179,654
Additions	358,572	210,473	3,860,634	2,215,871	11,148,661	17,794,211	4,407,781
Disposals/write-offs	(32,072)	-	-	(6,584,948)	(35,855)	(6,652,875)	(1,647,975)
Transfers	456,889	-	-	755,084	(1,434,755)	(222,782)	(55,185)
As at 31 December 2016	3,280,660	4,144,141	12,713,615	13,783,493	10,017,908	43,939,817	10,884,275
Accumulated depreciation							
As at 1 January 2016	896,915	1,806,976	4,555,140	7,307,536	-	14,566,567	3,608,265
Depreciation	728,318	284,129	1,117,251	3,143,707	-	5,273,405	1,306,268
Disposals/write-offs	(11,723)	-	-	(2,245,250)	-	(2,256,973)	(559,072)
As at 31 December 2016	1,613,510	2,091,105	5,672,391	8,205,993	-	17,582,999	4,355,461
Net book value							
As at 31 December 2016	1,667,150	2,053,036	7,041,224	5,577,500	10,017,908	26,356,818	
As at 31 December 2015	1,600,356	2,126,692	4,297,841	10,089,950	339,857	18,454,696	
US\$ equivalent (Note 2.3.1)							
As at 31 December 2016	412,968	508,555	1,744,172	1,381,595	2,481,523	6,528,813	
As at 31 December 2015	395,150	525,109	1,061,195	2,491,346	83,915	4,556,715	

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

8. SOFTWARE

	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Cost		
As at 1 January 2016	5,826,585	1,443,296
Addition	380,650	94,289
Disposal	(8,031)	(1,989)
Transfer	222,782	55,185
As at 31 December 2016	6,421,986	1,590,781
Accumulated amortization		
As at 1 January 2016	4,285,797	1,061,629
Amortization	1,059,236	262,382
Disposal	(423)	(105)
As at 31 December 2016	5,344,610	1,323,906
Net book value		
As at 31 December 2016	1,077,376	266,875
As at 31 December 2015	1,540,788	380,441

9. OTHER ASSETS

	<i>2016</i>		<i>2015</i>	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Interest receivable	9,407,126	2,330,227	7,998,385	1,974,910
Prepayments	6,333,132	1,568,772	4,932,036	1,217,787
Other assets	617,860	153,049	1,465,777	361,920
	16,358,118	4,052,048	14,396,198	3,554,617

10. DEPOSITS FROM CUSTOMERS

	<i>2016</i>		<i>2015</i>	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Savings deposits	109,560,934	27,139,196	93,916,638	23,189,293
Term deposits	244,844,451	60,650,099	167,958,931	41,471,341
	354,405,385	87,789,295	261,875,569	64,660,634

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

10. DEPOSITS FROM CUSTOMERS (continued)

Further analyses on deposits from customers follow:

(a) By maturity:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Within 1 month	133,740,609	33,128,711	108,064,227	26,682,525
More than 1 month to 3 months	55,416,847	13,727,235	37,093,177	9,158,809
More than 3 months to 12 months	126,642,812	31,370,526	82,984,747	20,490,061
More than 12 months	38,605,117	9,562,823	33,733,418	8,329,239
	354,405,385	87,789,295	261,875,569	64,660,634

(b) By currency:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
KHR	244,761,444	60,629,537	169,752,147	41,914,110
US\$	102,339,152	25,350,298	87,621,158	21,634,854
THB	7,304,789	1,809,460	4,502,264	1,111,670
	354,405,385	87,789,295	261,875,569	64,660,634

(c) By relationship:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Non-related party	350,210,970	86,750,302	259,219,056	64,004,704
Related party	4,194,415	1,038,993	2,656,513	655,930
	354,405,385	87,789,295	261,875,569	64,660,634

(d) By interest rate per annum:

	2016	2015
Savings deposits	3.00% - 5.50%	3.00% - 5.75%
Term deposits	4.25% - 12.50%	4.25% - 12.25%

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

11. BORROWINGS

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Instituto de Credito Official of the Kingdom of Spain ("ICO")	72,170,845	17,877,345	75,997,298	18,764,765
National Bank of Cambodia	24,000,000	5,945,009	-	-
Oikocredit	21,600,000	5,350,508	30,400,000	7,506,173
Symbiotics SA Information	20,198,052	5,003,233	12,009,174	2,965,227
BlueOrchard	20,059,495	4,968,911	11,959,188	2,952,886
Global Commercial Microfinance Consortium II B.V	16,148,000	4,000,000	16,200,000	4,000,000
Hivos-Triodos Fonds	16,000,000	3,963,339	12,000,000	2,962,963
Microvest GMG Local Credit Master Fund, Ltd	15,600,667	3,864,421	9,487,500	2,342,593
Rural Impulse Fund	11,803,000	2,923,706	5,625,000	1,388,889
responsibility	11,234,572	2,782,901	10,606,061	2,618,781
Grameen Credit Agricole Microfinance Foundation	10,366,960	2,567,986	4,800,000	1,185,185
Bank im Bistum Essen eG	10,092,500	2,500,000	4,050,000	1,000,000
NMI KS	10,000,000	2,477,087	-	-
ICBC Limited Phnom Penh Branch	9,285,100	2,300,000	8,100,000	2,000,000
ASN Novib Microkredietfonds	8,146,000	2,017,835	8,146,000	2,011,358
Foreign Trade Bank of Cambodia	5,055,704	1,252,342	9,109,488	2,249,256
VDK-Spaarbank n.v	4,037,000	1,000,000	4,050,000	1,000,000
Kookmin Bank Cambodia Plc	4,037,000	1,000,000	-	-
Vattanac Bank	4,007,053	992,582	1,941,144	479,295
	293,841,948	72,787,205	224,480,853	55,427,371

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

(a) By currency:

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
KHR	104,712,204	25,938,123	72,519,488	17,906,047
US\$	158,451,958	39,249,928	124,513,442	30,744,059
THB	30,677,786	7,599,154	27,447,923	6,777,265
	293,841,948	72,787,205	224,480,853	55,427,371

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

11. BORROWINGS (continued)

(b) By maturity:

	2016		2015	
	KHR'000	US\$ equivalent (note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Within one month	10,400,000	2,576,170	23,316,679	5,757,205
More than 1 month to 3 months	30,913,704	7,657,593	10,539,000	2,602,222
More than 3 months to 12 months	44,100,095	10,923,977	25,802,211	6,370,916
More than 1 year to 5 years	190,342,053	47,149,382	87,924,956	21,709,866
Over 5 years	18,086,096	4,480,083	76,898,007	18,987,162
	293,841,948	72,787,205	224,480,853	55,427,371

12. SUBORDINATED DEBT

This pertains to a subordinated debt from Société de Promotion et de Participation pour la Coopération Economique ("PROPARCO"). On 14 June 2016, the NBC approved the subordinated debt from PROPARCO amounting to KHR24.252 billion (US\$5.94 million) obtained by the Company on 29 February 2016. This subordinated has a five-year term maturing on 15 September 2021.

13. PROVISION FOR STAFF PENSION FUND

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Balance at beginning of year	9,243,062	2,282,237	7,296,514	1,790,556
Additions during the year				
Employer contribution	2,298,656	569,397	1,752,003	432,593
Employee contribution	1,056,744	261,765	876,002	216,297
Interest	709,074	175,644	555,031	137,045
Paid during the year	(788,949)	(195,430)	(1,047,896)	(258,740)
Reversal	(881,221)	(218,286)	(188,546)	(46,555)
Foreign exchange difference	-	7,350	(46)	11,041
Balance at end of year	11,637,366	2,882,677	9,243,062	2,282,237

14. INCOME TAX

14.1 Income tax expense

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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

14. INCOME TAX (continued)

14.1 Income tax expense (continued)

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.

Income tax expense comprises:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Current	6,958,995	1,723,804	6,293,575	1,553,969
Deferred	(571,688)	(141,613)	(1,155,381)	(285,279)
	6,387,307	1,582,191	5,138,194	1,268,690

Movements of income tax payable are as follows:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Balance at beginning of year	4,890,319	1,207,486	3,377,220	828,766
Income tax expense	6,958,995	1,723,804	6,293,575	1,553,969
Income tax paid	(6,163,120)	(1,526,658)	(4,780,476)	(1,180,364)
Foreign exchange difference	-	3,888	-	5,115
Balance at end of year	5,686,194	1,408,520	4,890,319	1,207,486

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

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Profit before income tax	33,088,748	8,196,371	25,453,698	6,284,863
Income tax expense at applicable tax rate of 20%	6,617,750	1,639,274	5,090,740	1,256,973
Non-deductible expenses	341,245	84,530	1,202,835	296,996
Temporary differences	(571,688)	(141,613)	(1,155,381)	(285,279)
Effective income tax	6,387,307	1,582,191	5,138,194	1,268,690

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

14 INCOME TAX (continued)

14.2 Deferred income tax

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

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Provision for staff pension funds	1,630,277	403,834	1,848,612	456,447
Allowance for loan losses	1,246,287	308,716	1,019,668	251,770
Accruals	505,992	125,339	425,625	105,093
Unrealized loss on foreign exchange	347,508	86,081	131,943	32,578
Property and equipment	(181,199)	(44,885)	(448,671)	(110,783)
	3,548,865	879,085	2,977,177	735,105

15. OTHER LIABILITIES

	31 December 2016		31 December 2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Interest payable	15,680,274	3,884,140	10,151,349	2,506,506
Accrued and other payables	5,944,503	1,472,505	5,088,857	1,256,509
Finance lease liability	-	-	4,375,616	1,080,399
Swap and forward exchange contract	2,073,627	513,655	4,169,009	1,029,385
Personnel and other related costs	4,193,436	1,038,751	3,250,374	802,561
Taxes payable	1,040,602	257,766	582,131	143,736
	28,932,442	7,166,817	27,617,336	6,819,096

16. EQUITY

Details of shareholding are as follows:

	2016			2015		
	KHR'000	US\$ equivalent (Note 2.3.1)	%	KHR'000	US\$ equivalent (Note 2.3.1)	%
Agora Micro-finance N.V	17,819,450	4,414,033	50.73	17,819,450	4,399,864	50.73
Rural Impulse Fund II	8,644,800	2,141,392	24.61	8,644,800	2,134,519	24.61
PROPARCO	5,250,000	1,300,471	14.95	5,250,000	1,296,296	14.95
Cambodia-Laos Development Fund S.C.A, SICAV-SIF ("CLDF")	2,355,000	583,354	6.70	2,355,000	581,481	6.70
AMK - Staff Association	1,058,050	262,088	3.01	1,058,050	261,247	3.01
	35,127,300	8,701,338	100.00	35,127,300	8,673,407	100.00

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

16. EQUITY (continued)

The Company's registered and fully paid up share capital is 1,405,092 shares (2015: 1,405,092 shares) at KHR25,000 per share.

On 22 March 2016, the NBC issued Prakas B7-016-117 on *Minimum Registered Capital of Banking and Financial Institutions* ("the Prakas"). The Prakas requires MDI a minimum registered capital of KHR120.00 billion (approximately US\$30.00 million).

Subsequently, on 16 June 2016, the NBC issued Circular B7-016-001 on *Implementation of Prakas on Minimum Registered Capital of Banking and Financial Institutions* that requires banks and financial institutions to inject half of the additional required capital to comply with the requirements of the Prakas by 31 March 2017 and to fully comply by 22 March 2018.

Complying with the requirement of the Prakas, on 13 February 2017, the NBC approved the increase of capital by KHR44 billion. The Company paid up the additional capital guarantee resulting from the capital increase on 17 February 2017.

Dividends

On 22 March 2016, the Board of Directors approved the declaration and payment of cash dividends amounting to KHR2.03 billion during the year (US\$0.50 million) on the basis of 2015 results. On 29 August 2016 the NBC approved the dividends. On 14 September 2016, the dividends were paid to the shareholders.

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.

17. INTEREST INCOME

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Loans to customers	193,337,438	47,891,365	146,838,901	36,256,519
Balances with banks	453,809	112,412	96,910	23,928
	193,791,247	48,003,777	146,935,811	36,280,447

18. INTEREST EXPENSE

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Borrowings	26,939,404	6,673,124	19,211,952	4,743,692
Deposits from customers	22,768,598	5,639,980	14,979,804	3,698,716
Staff pension fund	709,074	175,644	555,031	137,045
	50,417,076	12,488,748	34,746,787	8,579,453

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

19. FEE AND COMMISSION EXPENSE

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Village Bank President and mobile banking agent commission	9,821,231	2,432,804	8,395,914	2,073,065
Fees and commissions on borrowings and swaps	4,978,116	1,233,123	4,427,456	1,093,199
	14,799,347	3,665,927	12,823,370	3,166,264

20. OTHER INCOME

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Mobile banking fees from customers	4,019,681	995,710	3,997,214	986,966
Loan fees	3,391,414	840,083	3,167,605	782,125
Micro-insurance commissions	1,367,262	338,683	1,134,991	280,245
Remittance fees	571,281	141,511	595,650	147,074
Payroll processing fees from customers	398,744	98,772	165,577	40,883
Loan penalties	195,905	48,527	73,751	18,210
Loan recovery	52,575	13,023	49,246	12,160
Other income	180,666	44,753	198,135	48,922
	10,177,528	2,521,062	9,382,169	2,316,585

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

21. OTHER OPERATING EXPENSES

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Personnel and other related costs	57,568,808	14,260,294	44,660,784	11,027,354
Depreciation and amortization	6,332,641	1,568,650	5,023,215	1,240,300
Rental	6,757,297	1,673,841	4,922,798	1,215,506
Professional fees	4,979,105	1,233,368	3,438,345	848,974
Transportation	4,026,531	997,407	3,658,579	903,353
Non-capitalisable furniture and fixtures	2,217,437	549,278	2,205,738	544,626
Stationeries and supplies	1,982,497	491,082	1,750,196	432,147
Security guard	1,908,089	472,650	2,201,194	543,505
Utilities	1,732,924	429,260	1,373,447	339,123
Printing	1,649,633	408,628	1,895,330	467,983
Marketing	1,649,150	408,509	2,174,076	536,809
NBC license	1,552,000	384,444	1,440,250	355,617
Communication	1,357,342	336,225	1,164,445	287,517
Repairs and maintenance	1,054,186	261,131	899,449	222,086
Bank charges	662,084	164,004	512,313	126,497
Loss of disposal of fixed assets	605,479	149,982	-	-
Foreign exchange loss, net*	438,490	108,618	1,230,866	303,917
Other expenses	1,143,521	283,262	762,375	188,241
	97,617,214	24,180,633	79,313,400	19,583,557

* This includes foreign exchange gain amounting to KHR392.93 million (US\$97,333) (2015: foreign exchange loss of KHR1.47 billion or US\$362,546) 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".

22. GRANT INCOME

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

23. COMMITMENTS

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

	2016		2015	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Within one year	4,346,077	1,076,561	3,055,030	754,328
More than 1 year to 5 years	6,957,539	1,723,443	7,664,826	1,892,550
More than 5 years	3,402,424	842,810	2,962,347	731,444
	14,706,040	3,642,814	13,682,203	3,378,322

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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23. 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:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Foreign exchange swap contracts	52,481,000	13,000,000	78,570,000	19,400,000
Foreign exchange forward contracts	2,018,500	500,000	16,200,000	4,000,000
Unused portion of credit line	45,871,948	11,362,880	51,429,623	12,698,672

The Company has 14 foreign exchange swap contracts (2015: 21 contracts) with certain commercial banks which are outstanding as at 31 December 2016. The Company enters into these contracts in order to manage its foreign exchange risk.

24. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Transaction	2016		2015	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
PROPARCO (shareholder)	Consultant fee	173,514	42,981	-	-
Board of directors	Remuneration	144,692	35,841	232,432	57,391
Key management personnel	Interest income	-	-	8,983	2,218
	Remuneration	2,000,640	495,576	1,214,591	299,899

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

Related party	Transaction	2016		2015	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Key management personnel	Deposit	706,710	175,058	122,876	30,340
	Loan	-	-	77,653	19,174
Agora Micro- finance N.V (shareholder)	Deposit	2,641,846	654,408	2,533,637	625,590

25. 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 23).

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

The Company intends to comply with the NBC regulations for financial risk management purposes. 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:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Financial assets				
Cash on hand	49,579,891	12,281,370	45,460,719	11,224,869
Balances with the NBC	87,453,446	21,662,979	5,711,042	1,410,134
Balances with banks	46,252,421	11,457,127	19,481,594	4,810,270
Loans to customers	598,146,744	148,166,149	512,985,627	126,663,118
Other assets	9,407,126	2,330,227	7,998,385	1,974,910
Total financial assets	790,839,628	195,897,852	591,637,367	146,083,301
Financial liabilities				
Deposits from customers	354,405,385	87,789,295	261,875,569	64,660,634
Borrowings	293,841,948	72,787,205	224,480,853	55,427,371
Subordinated debt	24,252,000	6,007,431	-	-
Other liabilities	27,891,840	6,909,051	27,035,205	6,675,360
Total financial liabilities	700,391,173	173,492,982	513,391,627	126,763,365

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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

As at 31 December 2016, the Company is compliant with the solvency ratio prescribed by the NBC at 15%, as shown in the table below:

	2016 (Unaudited)		2015 (Unaudited)	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Share capital	35,127,300	8,701,338	35,127,300	8,673,407
Share premium	149,505	37,034	149,505	36,915
Reserve	16,414,114	4,065,919	13,888,134	3,429,169
Retained earnings	89,562,150	22,185,323	67,418,241	16,646,479
	141,253,069	34,989,614	116,583,180	28,785,970
Add subordinated debt	24,252,000	6,007,431	-	-
Less loans to related parties	(1,427,000)	(353,480)	(1,618,691)	(399,677)
Total regulatory capital	164,078,069	40,643,565	114,964,489	28,386,293
Total risk-weighted assets	737,535,980	182,694,075	620,060,659	153,101,397
Solvency ratio	22.25%	22.25%	18.54%	18.54%

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 2.3.21).

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

25.1 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Credit risk (continued)

(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:

	2016		2015	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Loans to customers neither past due nor impaired (i)	602,606,529	149,270,877	517,576,231	127,796,600
Loans to customers past due but not impaired (ii)	2,494,910	618,011	449,736	111,046
Loans to customers individually impaired (iii)	5,077,780	1,257,810	1,664,641	411,023
Loans to customers, gross	610,179,219	151,146,698	519,690,608	128,318,669

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 NBC 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.

25.2 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.

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 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.

(i) Foreign exchange risk

The Company operates in the Kingdom of Cambodia and transacts in US\$, KHR and Thailand Baht ("THB").

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

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Market risk (continued)

(i) Foreign exchange risk (continued)

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

	2016			2015		
	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	23,911,184	24,242,974	1,425,733	20,234,414	23,776,158	1,450,147
Balances with the NBC	39,233,659	48,219,787	-	2,376,750	3,334,292	-
Balances with banks	29,925,385	6,986,425	9,340,611	8,960,515	8,131,230	2,389,849
Loans to customers	449,382,005	119,864,885	28,899,854	398,912,844	85,925,345	28,147,438
Other assets	7,578,212	1,370,494	458,420	6,585,094	436,484	976,807
Total financial assets	550,030,445	200,684,565	40,124,618	437,069,617	121,603,509	32,964,241
Financial liabilities						
Deposits from customers	244,761,444	102,339,152	7,304,789	169,752,147	87,621,158	4,502,264
Borrowings	104,712,204	158,451,958	30,677,786	72,519,489	124,513,442	27,447,922
Subordinated debt	24,252,000	-	-	-	-	-
Other liabilities	17,780,535	9,465,455	645,850	14,340,429	12,187,446	507,330
Total financial liabilities	391,506,183	270,256,565	38,628,425	256,612,065	224,322,046	32,457,516
Net open position	158,524,262	(69,572,000)	1,496,193	180,606,244	(102,161,244)	869,657

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Market risk (continued)

(i) Foreign exchange risk (continued)

	2016			2015		
	KHR KHR'000	US\$ KHR'000	THB KHR'000	KHR KHR'000	US\$ KHR'000	THB KHR'000
Off-balance sheet items						
Foreign exchange swap contracts	(52,481,000)	52,481,000	-	(78,570,000)	78,570,000	-
Foreign exchange forward contracts	-	2,018,500	(2,018,500)	(16,200,000)	16,200,000	-
	(52,481,000)	54,499,500	(2,018,500)	(94,770,000)	94,770,000	-
Net open position	106,134,911	(15,072,500)	(522,307)	85,836,244	(7,391,244)	869,657
US\$ equivalent (Note 2.3.1)	26,290,540	(3,733,589)	(129,380)	21,194,134	(1,824,999)	214,730

The Company enters into these contracts 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 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 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. Balances with the NBC and banks earn fixed interest for the respective period of the deposit and placement, and loans to customers earns fixed interest based on outstanding balance and the agreed maturity term.

	<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 2016								
Financial assets								
Cash on hand	-	-	-	-	-	49,579,891	49,579,891	-
Balances with the NBC	-	-	55,993,060	-	-	31,460,386	87,453,446	0.64
Balances with banks	22,000,000	9,788,828	14,463,593	-	-	-	46,252,421	1.59
Loans to customers	38,794,211	85,799,779	341,584,396	129,677,490	2,290,868	-	598,146,744	32.84
Other assets	9,407,126	-	-	-	-	-	9,407,126	-
	70,201,337	95,588,607	412,041,049	129,677,490	2,290,868	81,040,277	790,839,628	
Financial liabilities								
Deposits from customers	130,513,144	55,416,847	130,837,230	37,638,164	-	-	354,405,385	7.81
Borrowings	2,400,000	30,913,704	52,100,095	190,342,053	18,086,096	-	293,841,948	8.74
Subordinated debt	-	-	4,850,400	19,401,600	-	-	24,252,000	17.69
Other liabilities	-	113,873	27,777,967	-	-	-	27,891,840	-
	132,913,144	86,444,424	215,565,692	247,381,817	18,086,096	-	700,391,173	
Maturity gap	(62,711,807)	9,144,183	196,475,357	(117,704,327)	(15,795,228)	81,040,277	90,448,455	
US\$ equivalent (Note 2.3.1)	(15,534,260)	2,265,094	48,668,654	(29,156,385)	(3,912,615)	20,074,382	22,404,870	

AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 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 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	-	-	-	-	-	7,998,385	7,998,385	—
	46,679,029	106,967,535	252,496,775	124,262,496	2,061,386	59,170,146	591,637,367	
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)	59,170,146	78,245,740	
US\$ equivalent (Note 2.3.1)	(16,035,601)	13,341,920	22,266,150	(7,763,886)	(7,098,560)	14,609,913	19,319,936	

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 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>Total KHR'000</i>
As at 31 December 2016						
Financial assets						
Cash on hand	49,579,891	-	-	-	-	49,579,891
Balances with the NBC	31,460,386	-	55,993,060	-	-	87,453,446
Balances with banks	22,000,000	9,788,828	14,463,593	-	-	46,252,421
Loans to customers	38,794,211	85,799,779	341,584,396	129,677,490	2,290,868	598,146,744
Other assets	9,407,126	-	-	-	-	9,407,126
Total financial assets	151,241,614	95,588,607	412,041,049	129,677,490	2,290,868	790,839,628
Financial liabilities						
Deposits from customers	130,513,144	55,416,847	130,837,230	37,638,164	-	354,405,385
Borrowings	2,400,000	30,913,704	52,100,095	190,342,053	18,086,096	293,841,948
Subordinated debt	-	-	4,850,400	19,401,600	-	24,252,000
Other liabilities	-	113,873	27,777,967	-	-	27,891,840
Total financial liabilities	132,913,144	86,444,424	215,565,692	247,381,817	18,086,096	700,391,173
Net liquidity surplus (gap) - KHR'000	18,328,470	9,144,183	196,475,357	(117,704,327)	(15,795,228)	90,448,455
US\$ equivalent (Note 2.3.1)	4,540,121	2,265,094	48,668,654	(29,156,385)	(3,912,614)	22,404,870

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.4. 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 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	7,998,385	-	-	-	-	-	7,998,385
Total financial assets	105,849,175	106,967,535	252,496,775	124,262,496	2,061,386	-	591,637,367
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	(5,774,037)	54,034,777	90,177,908	(31,443,740)	(28,749,168)	-	78,245,740
US\$ equivalent (Note 2.3.1)	(1,425,688)	13,341,920	22,266,150	(7,763,886)	(7,098,560)	-	19,319,936

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NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2016 and for the year then ended

25. FINANCIAL RISK MANAGEMENT (continued)

25.5 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.

26. SUBSEQUENT EVENTS

On 13 March 2017, the NBC issued Prakas B7-017-109 Prokor, requiring microfinance institutions (MFIs), including microfinance deposit-taking institutions (MDIs) to observe a ceiling on interest rate charged to its borrowers. The cap is set at 18% per annum. This is applicable to all new credit facilities, including restructured and refinanced loans, issued and disbursed from 1 April 2017.

As at the report date, the Company is assessing the potential effect of this new regulation in its operations.

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 2016 that had significant impact on the financial position of the Company as at 31 December 2016.

27. 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.