

## **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 2017 and for the year then ended

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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 2017.

### THE COMPANY

The Company is a licensed micro-finance institution, incorporated in Cambodia and registered with the Ministry of Commerce as a public limited company under registration number 00007298, 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, was 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:

	2017		2016	
	KHR'000	US\$ equivalent	KHR'000	US\$ equivalent
Profit before income tax	28,497,528	7,059,086	33,088,748	8,196,371
Income tax expense	(7,190,784)	(1,781,220)	(6,387,307)	(1,582,191)
<b>Net profit for the year</b>	<b>21,306,744</b>	<b>5,277,866</b>	<b>26,701,441</b>	<b>6,614,180</b>

### DIVIDENDS

No dividends were declared during the year.

### 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.

# AMK Microfinance Institution Plc.

## REPORT OF THE BOARD OF DIRECTORS (continued)

### **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.

### **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 are 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.

# AMK Microfinance Institution Plc.

## REPORT OF THE BOARD OF DIRECTORS (continued)

### 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 as disclosed elsewhere in the financial statements, at the date of this report, there were no other events, which occurred subsequent to 31 December 2017 that had significant impact on the financial position of the Company as at 31 December 2017.

### 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
Mr. Kea Borann	Director
Ms. Blandine Claudia Marie Pons	Director
Mr. Joshua Dunham Morris	Director
Mr. Michael Goh Chiang Huat	Director (appointed on 7 February 2017)
Mr. Adrian John Graham	Director (resigned on 26 March 2017)
Ms. Rebecca Ann McKenzie	Director (resigned on 22 November 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 except as disclosed elsewhere in notes to the financial statements.

## REPORT OF THE BOARD OF DIRECTORS (continued)

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

The Board of Directors is responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended. The Board of Directors oversees preparation of these financial statements by management who is required to:

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

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

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

### APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Company as at 31 December 2017, 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



Reference: 61211851/19442258

## 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 2017, 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 2017, 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.

### *Information Other than the Financial Statements and Auditor's Report Thereon*

The other information obtained at the date of the auditor's report comprises the Report of the Board of Directors as set out in pages 1 to 4. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and 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.

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

27 March 2018



# AMK Microfinance Institution Plc.

## BALANCE SHEET as at 31 December 2017

	Notes	2017		2016	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<b>ASSETS</b>					
Cash on hand	3	69,444,503	17,202,007	49,579,891	12,281,370
Balances with the National Bank of Cambodia	4	169,383,997	41,957,889	118,688,171	29,400,092
Balances with banks	5	41,603,644	10,305,584	46,252,421	11,457,127
Loans to customers	6	810,721,760	200,822,829	598,146,744	148,166,149
Other assets	9	17,775,994	4,403,268	16,358,118	4,052,048
Property and equipment	7	25,912,939	6,418,860	26,356,818	6,528,813
Software	8	849,840	210,513	1,077,376	266,875
Deferred tax assets	14.2	5,969,108	1,478,600	3,548,865	879,085
<b>TOTAL ASSETS</b>		<b>1,141,661,785</b>	<b>282,799,550</b>	<b>860,008,404</b>	<b>213,031,559</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from customers	10	476,894,860	118,131,003	354,405,385	87,789,295
Income tax payable	14.1	7,341,834	1,818,636	5,686,194	1,408,520
Other liabilities	15	35,837,798	8,877,333	28,932,442	7,166,817
Borrowings	11	425,530,473	105,407,598	293,841,948	72,787,205
Subordinated debt	12	19,401,600	4,805,945	24,252,000	6,007,431
Provision for staff pension fund	13	14,095,407	3,491,555	11,637,366	2,882,677
<b>Total liabilities</b>		<b>979,101,972</b>	<b>242,532,070</b>	<b>718,755,335</b>	<b>178,041,945</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	16	79,127,300	19,600,520	35,127,300	8,701,338
Share premium		149,505	37,034	149,505	37,034
Reserve	16	18,814,706	4,660,566	16,414,114	4,065,919
Retained earnings		64,468,302	15,969,360	89,562,150	22,185,323
<b>Total shareholders' equity</b>		<b>162,559,813</b>	<b>40,267,480</b>	<b>141,253,069</b>	<b>34,989,614</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,141,661,785</b>	<b>282,799,550</b>	<b>860,008,404</b>	<b>213,031,559</b>

The attached notes 1 to 27 form part of these financial statements.

# AMK Microfinance Institution Plc.

## INCOME STATEMENT

for the year ended 31 December 2017

	Notes	2017		2016	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<b>Operating income</b>					
Interest income	17	191,654,847	47,474,572	193,791,247	48,003,777
Interest expense	18	(59,979,248)	(14,857,381)	(50,417,076)	(12,488,748)
<b>Net interest income</b>		<b>131,675,599</b>	<b>32,617,191</b>	<b>143,374,171</b>	<b>35,515,029</b>
Fee and commission expense	19	(11,860,093)	(2,937,848)	(14,799,347)	(3,665,927)
Other income	20	28,989,385	7,180,923	10,177,528	2,521,062
<b>Total operating income</b>		<b>148,804,891</b>	<b>36,860,266</b>	<b>138,752,352</b>	<b>34,370,164</b>
Grant income	22	491,421	121,729	644,364	159,615
Provision for losses on loans to customers	6	(13,021,747)	(3,225,600)	(8,690,754)	(2,152,775)
Other operating expenses	21	(107,777,037)	(26,697,309)	(97,617,214)	(24,180,633)
<b>Profit before income tax</b>		<b>28,497,528</b>	<b>7,059,086</b>	<b>33,088,748</b>	<b>8,196,371</b>
Income tax expense	14.1	(7,190,784)	(1,781,220)	(6,387,307)	(1,582,191)
<b>Net profit for the year</b>		<b>21,306,744</b>	<b>5,277,866</b>	<b>26,701,441</b>	<b>6,614,180</b>

The attached notes 1 to 27 form part of these financial statements.

# AMK Microfinance Institution Plc.

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017

	<i>Share capital</i>	<i>Share premium</i>	<i>Reserve</i>	<i>Retained earnings</i>	<i>Total</i>	
	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>US\$ equivalent</i>
	<i>(Note 16)</i>		<i>(Note 16)</i>			<i>(Note 2.3.1)</i>
Balance as at 1 January 2017	35,127,300	149,505	16,414,114	89,562,150	141,253,069	34,989,614
Net profit for the year	-	-	-	21,306,744	21,306,744	5,277,866
Conversion of retained earnings to share capital	44,000,000	-	-	(44,000,000)	-	-
Appropriation to reserves	-	-	2,400,592	(2,400,592)	-	-
<b>Balance as at 31 December 2017</b>	<b>79,127,300</b>	<b>149,505</b>	<b>18,814,706</b>	<b>64,468,302</b>	<b>162,559,813</b>	<b>40,267,480</b>
<b><i>US\$ equivalent (Note 2.3.1)</i></b>	<b>19,600,520</b>	<b>37,034</b>	<b>4,660,566</b>	<b>15,969,360</b>	<b>40,267,480</b>	
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)
<b>Balance as at 31 December 2016</b>	<b>35,127,300</b>	<b>149,505</b>	<b>16,414,114</b>	<b>89,562,150</b>	<b>141,253,069</b>	<b>34,989,614</b>
<b><i>US\$ equivalent (Note 2.3.1)</i></b>	<b>8,701,338</b>	<b>37,034</b>	<b>4,065,919</b>	<b>22,185,323</b>	<b>34,989,614</b>	

The attached notes 1 to 27 form part of these financial statements.

# AMK Microfinance Institution Plc.

## STATEMENT OF CASH FLOWS for the year ended 31 December 2017

	Notes	2017		2016	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<b>OPERATING ACTIVITIES</b>					
Profit before income tax		28,497,528	7,059,086	33,088,748	8,196,371
<i>Adjustments:</i>					
Depreciation and amortization	21	5,771,658	1,429,690	6,332,641	1,568,650
(Gain) loss on disposal of property and equipment		(126,183)	(31,257)	605,479	149,982
<i>Movements in operating assets and liabilities:</i>					
Balances with the National Bank of Cambodia		(10,410,443)	(2,578,757)	(7,552,247)	(1,870,757)
Balances with banks		-	-	2,189,468	542,350
Loans to customers		(212,575,016)	(52,656,680)	(85,161,117)	(21,095,149)
Other assets		(1,417,876)	(351,220)	(1,961,920)	(485,985)
Deposits from customers		122,489,475	30,341,708	92,529,816	22,920,440
Provision for staff pension fund		2,458,041	608,878	2,394,304	593,090
Other liabilities		6,905,354	1,710,515	5,113,137	1,266,569
		(58,407,462)	(14,468,037)	47,578,309	11,785,561
Income tax paid	14.1	(7,955,386)	(1,970,619)	(6,163,120)	(1,526,658)
<b>Net cash (used in) generated from operating activities</b>		<b>(66,362,848)</b>	<b>(16,438,656)</b>	<b>41,415,189</b>	<b>10,258,903</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition of property and equipment		(5,519,897)	(1,367,326)	(17,794,211)	(4,407,781)
Acquisition of software		(111,211)	(27,548)	(380,650)	(94,290)
Proceeds from disposal of property and equipment		657,049	162,757	-	-
<b>Net cash used in investing activities</b>		<b>(4,974,059)</b>	<b>(1,232,117)</b>	<b>(18,174,861)</b>	<b>(4,502,071)</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from borrowings		226,553,198	56,119,197	162,706,199	40,303,740
Repayment of borrowings		(94,864,673)	(23,498,804)	(93,345,104)	(23,122,394)
Repayment of subordinated debt		(4,850,400)	(1,201,486)	24,252,000	6,007,431
Payment of dividends		-	-	(2,031,552)	(503,233)
<b>Net cash generated from financing activities</b>		<b>126,838,125</b>	<b>31,418,907</b>	<b>91,581,543</b>	<b>22,685,544</b>
<b>Net increase in cash and cash equivalents</b>		<b>55,501,218</b>	<b>13,748,134</b>	<b>114,821,871</b>	<b>28,442,376</b>
Cash and cash equivalents at beginning of year		183,285,758	45,401,476	68,463,887	16,904,664
Foreign exchange difference		-	-	-	54,436
<b>Cash and cash equivalents at end of the year</b>		<b>238,786,976</b>	<b>59,149,610</b>	<b>183,285,758</b>	<b>45,401,476</b>

# AMK Microfinance Institution Plc.

## STATEMENT OF CASH FLOWS (continued) for the year ended 31 December 2017

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

	<i>Notes</i>	<i>2017</i>		<i>2016</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	69,444,503	17,202,007	49,579,891	12,281,370
Balances with the National Bank of Cambodia	4	127,738,829	31,642,019	87,453,446	21,662,979
Balances with other banks	5	41,603,644	10,305,584	46,252,421	11,457,127
		<b><u>238,786,976</u></b>	<b><u>59,149,610</u></b>	<b><u>183,285,758</u></b>	<b><u>45,401,476</u></b>

*The attached notes 1 to 27 form part of these financial statements.*



# AMK Microfinance Institution Plc.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2017 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 34 branches and 116 sub-branches (2016: 33 branches and 118 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 2017 was KHR79.13 billion or US\$19.60 million (31 December 2016: KHR35.13 billion or US\$8.70 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
Mr. Kea Borann	Director
Ms. Blandine Claudia Marie Pons	Director
Mr. Joshua Dunham Morris	Director
Mr. Michael Goh Chiang Huat	Director (appointed on 7 February 2017)
Mr. Adrian John Graham	Director (resigned on 26 March 2017)
Ms. Rebecca Ann McKenzie	Director (resigned on 22 November 2017)

#### ***Employees***

As at 31 December 2017, the Company had a total of 2494 employees (31 December 2016: 2,349 employees).

The financial statements were authorized for issue by the Board of Directors on 27 March 2018.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 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 *Use of 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 ("CASs") 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 except for the provision for losses on loans to customers and recognition of fee and commission income and expense as further disclosed in Notes 2.3.8.1 and 2.3.18, respectively.

#### 2.1.3 *Standards not yet adopted*

On 24 March 2016, the National Accounting Council of Cambodia ("NAC") announced that the implementation of Cambodian International Financial Reporting Standards ("CIFRSs") is deferred until the end of 2018. During the transition period, banks and financial institutions, including insurance companies, shall prepare progress report regarding the implementation of CIFRSs and report annually to the NAC and other regulators. The adoption of CIFRSs may have significant impact on the financial statements of the Company.

## 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.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 *Significant accounting judgments and estimates* (continued)

#### 2.2.2 *Operating leases*

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.

#### 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. On 1 December 2017, the NBC issued Prakas B7-017-344 on *Credit Risk Grading and Impairment Provisioning* repealing NBC Prakas No. B7-02-186 that previously governs the credit classification and provisioning, as further 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 will be realized in the future. As such, the Company recognized deferred tax assets as at 31 December 2017 amounting to KHR5.97 billion or US\$1.48 million (2016: KHR3.55 billion or US\$0.88 million) as disclosed in Note 14.2.

### 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 into United States dollar ("US\$") based on the closing exchange rate of KHR4,037 per US\$1 ruling at the reporting date (2016: KHR4,037), 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.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 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*

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

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

#### 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 banks*

Balances with 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 2017 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

Allowance for losses on loans to customers is made with regard to specific risks and relates to those loans and advances that have been individually reviewed and specifically identified as special mention, substandard, doubtful or loss. and general allowance is also maintained for loans classified as normal.

The allowance is based on a percentage of total outstanding loans and advances.

On 1 December 2017, the NBC issued Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning which repealed NBC Prakas No. B7-02-186 on Asset Classification and Provisioning effective from the date of the newly-issued Prakas. The new Prakas requires banks and financial institutions to calculate the regulatory provision by classifying their loan portfolio into five classes based on number of days past due of principal and/or interest repayment. The NBC subsequently issued Circular No. B7-018-001 dated 16 February 2018 to clarify the mandatory level of general and specific allowance provided based on the loan classification as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Allowance rate</i>
<i>Loans (term of up to one year)</i>		
<i>General allowance</i>		
Normal	0 to 14 days	1%
<i>Specific allowance</i>		
Special mention	15 to 30 days	3%
Substandard	31 to 60 days	20%
Doubtful	61 to 90 days	50%
Loss	91 days or more	100%
<i>Loans (term of more than one year)</i>		
<i>General allowance</i>		
Normal	0 to 29 days	1%
<i>Specific allowance</i>		
Special mention	30 to 89 days	3%
Substandard	90 to 179 days	20%
Doubtful	180 to 359 days	50%
Loss	360 days or more	100%

The regulatory provision applies to all on and off balance sheet facilities of banks and financial institutions.

The regulatory provision calculated based on the new Prakas resulted in a decrease in the Company's loans and advances as at 31 December 2017 amounting to KHR1,195.63 million or US\$296,168 and in the net income for the year then ended by the same amount.

Further, the new Prakas requires the comparison of the regulatory provision with the impairment provision determined based on CIFRSs when adopted. During the transition period before the implementation of CIFRSs, the Bank will follow the mandatory credit classification and regulatory provision in the new Prakas.

The Company applies individual assessment for loan size over a materiality threshold of US\$10,000 or equivalent in other currency, based on facility review carried out at least annually, or more frequently where a review trigger occurs. Other loans are assessed collectively, applying the required maximum number of days past due at a minimum. Where information has been received which affects the client's financial status or their ability of willingness to repay the loan, this is used for classification where it results in a more severe classification being applied. Classification of loans is carried out on a monthly basis.



# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

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

The 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 together with the net movement in the allowance for bad and doubtful loans and advances in the income statement.

#### 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 period 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 estimated useful life of the asset as follows:

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

Construction in progress is not depreciated until such time as the relevant assets are 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 rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 2.3.10 Software

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

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

#### 2.3.11 Other assets

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

#### 2.3.12 Deposits from customers

Deposits from customers are stated at placement value.

#### 2.3.13 Borrowings

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

#### 2.3.14 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 fund

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.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 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.

##### (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. Fee and commission income is presented as part of other income.

Prior to 1 April 2017, the Company charged loan administrative fees to customers based on a percentage of the loan principal. Loan administrative fees were recognized as income on the date of loan disbursement.

Subsequent to 1 April 2017, the Company charges loan processing fees and loan administrative fees to its customers. These loan fees are an integral part of the loan and as such, management reassessed the appropriateness of the accounting policy. The loan processing fees are collected outright when the loan is disbursed to customers and are recognized as income on a straight-line basis over the term of the loan. The unamortised loan processing fees are shown as a deduction from the balance of loans to customers. Had the loan processing fees been recognized as income outright, total assets and income before tax would have been higher by KHR 7.64 billion. Loan administrative fee is charged on a monthly basis based on the original loan balance and is recognized as income on a monthly basis.

Fee and commission expense is charged to the 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

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 of the Company and the NBC. Dividends declared during the year but approved by the NBC after the balance sheet date are dealt with as an event after the balance sheet date.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 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.

##### *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.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 3. CASH ON HAND

	2017		2016	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Head office	2,836,918	702,729	3,011,397	745,949
Branches	66,607,585	16,499,278	46,568,494	11,535,421
	<b>69,444,503</b>	<b>17,202,007</b>	<b>49,579,891</b>	<b>12,281,370</b>

Cash on hand by currency comprises the following:

	2017		2016	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Khmer Riel ("KHR")	33,701,566	8,348,171	23,911,184	5,923,008
US Dollar ("US\$")	33,893,992	8,395,837	24,242,974	6,005,196
Thai Baht ("THB")	1,848,945	457,999	1,425,733	353,166
	<b>69,444,503</b>	<b>17,202,007</b>	<b>49,579,891</b>	<b>12,281,370</b>

## 4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	2017		2016	
	<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	31,216,009	7,732,477	31,460,386	7,793,011
Negotiable certificate of deposit ("NCD")	96,522,820	23,909,542	55,993,060	13,869,968
Capital guarantee	7,912,730	1,960,052	3,512,730	870,134
Reserve requirement	33,732,438	8,355,818	27,721,995	6,866,979
	<b>169,383,997</b>	<b>41,957,889</b>	<b>118,688,171</b>	<b>29,400,092</b>

Under NBC Prakas No. B7-00-06 on 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 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 2017 is unutilized. NCD amounting to KHR96.32 billion is used as collateral (for currency hedge purpose) against the borrowing with the NBC (Note 11).

The capital guarantee deposit and NCD earn annual interest at 3.00% (2016: 3.00%) and at rates ranging from 0.96% - 1.40% in 2017 (2016: 1.00% - 2.00%), respectively. Current accounts do not earn interest.

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



# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 5. BALANCES WITH BANKS

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Current accounts	7,829,764	1,939,501	9,788,828	2,424,778
Savings accounts	33,773,880	8,366,083	14,463,593	3,582,758
Placements and term deposits	-	-	22,000,000	5,449,591
	<b>41,603,644</b>	<b>10,305,584</b>	<b>46,252,421</b>	<b>11,457,127</b>

The current accounts do not earn interest. Savings accounts earn annual interest at 0.05% - 1.50% in 2017 (2016: 0.05% - 1.50%). Placements and term deposits made and withdrawn or matured in 2017 earn annual interest at 0.88% - 2.75% (2016: 2.75%).

Balances with banks analyzed by currency are as follows:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
KHR	10,164,932	2,517,942	29,925,385	7,412,778
US\$	27,005,500	6,689,497	6,986,425	1,730,598
THB	4,433,212	1,098,145	9,340,611	2,313,751
	<b>41,603,644</b>	<b>10,305,584</b>	<b>46,252,421</b>	<b>11,457,127</b>

## 6. LOANS TO CUSTOMERS

Loans to customers are categorized as follows:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<i>Village bank loans</i>				
End of term	192,380,211	47,654,251	120,913,693	29,951,373
Credit line	155,063,317	38,410,532	180,980,942	44,830,553
Installment	145,376,415	36,011,002	70,689,134	17,510,313
<i>Individual loans</i>				
Installment	237,502,371	58,831,402	158,739,336	39,321,114
Credit line	29,857,515	7,395,966	59,558,962	14,753,273
End of term	76,610,671	18,977,130	19,297,152	4,780,072
<b>Gross loans to customers</b>	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>
<b>Allowance for losses on loans to customers</b>				
Specific	(10,098,237)	(2,501,421)	(6,042,578)	(1,496,799)
General	(8,328,434)	(2,063,026)	(5,989,897)	(1,483,750)
<b>Total allowance</b>	<b>(18,426,671)</b>	<b>(4,564,447)</b>	<b>(12,032,475)</b>	<b>(2,980,549)</b>
Unamortised loan processing fees	(7,642,069)	(1,893,007)	-	-
<b>Loans to customers - net</b>	<b>810,721,760</b>	<b>200,822,829</b>	<b>598,146,744</b>	<b>148,166,149</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 6. LOANS TO CUSTOMERS (continued)

Movements of allowance for losses on loans to customers:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
At beginning of year	12,032,475	2,980,549	6,704,981	1,655,551
Provision during the year	13,021,747	3,225,600	8,690,754	2,152,775
Write-offs during the year	(6,627,551)	(1,641,702)	(3,363,260)	(833,109)
Foreign exchange difference	-	-	-	5,332
<b>At end of year</b>	<b>18,426,671</b>	<b>4,564,447</b>	<b>12,032,475</b>	<b>2,980,549</b>

Further analyses of loans to customers are set out below.

### (a) By grading of loans to customers

The grading as at 31 December 2017 applied the loan classifications specified in NBC Prakas No. B7-017-344 whereas the grading as at 31 December 2016 is based on NBC Prakas No. B7-02-186 (Note 2.3.8.1), as presented below:

	2017	
	KHR'000	US\$ equivalent (Note 2.3.1)
<i>Standard loans</i>		
Secured	351,676,942	87,113,436
Unsecured	467,564,305	115,819,744
<i>Special mention loans</i>		
Secured	2,314,653	573,360
Unsecured	2,219,382	549,760
<i>Substandard loans</i>		
Secured	750,568	185,922
Unsecured	1,856,065	459,763
<i>Doubtful loans</i>		
Secured	161,264	39,946
Unsecured	1,502,087	372,080
<i>Loss loans</i>		
Secured	3,165,743	784,182
Unsecured	5,579,493	1,382,089
<b>Total gross loans</b>	<b>836,790,500</b>	<b>207,280,283</b>
	2016	
	KHR'000	US\$ equivalent (Note 2.3.1)
<i>Standard loans:</i>		
Secured	234,502,340	58,088,269
Unsecured	368,104,190	91,182,608
<i>Substandard loans:</i>		
Secured	932,379	230,958
Unsecured	1,482,989	367,349
<i>Doubtful loans:</i>		
Secured	476,089	117,931
Unsecured	900,638	223,096
<i>Loss loans:</i>		
Secured	797,049	197,436
Unsecured	2,983,545	739,051
<b>Total gross loans</b>	<b>610,179,219</b>	<b>151,146,698</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 6 LOANS TO CUSTOMERS (continued)

(b) By maturity

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Within one month	52,055,677	12,894,644	38,794,210	9,609,663
More than 1 month to 3 months	167,499,188	41,491,005	126,036,750	31,220,399
More than 3 months to 12 months	425,170,251	105,318,368	301,347,425	74,646,377
More than 1 year to 5 years	189,960,533	47,054,876	141,709,966	35,102,791
More than 5 years	2,104,851	521,390	2,290,868	567,468
	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>

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

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<i>Residence status</i>				
Residents	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>
<i>Relationship</i>				
External customers	823,749,428	204,049,895	598,989,716	148,374,961
Staff loans	13,041,072	3,230,388	11,189,503	2,771,737
	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>
<i>Currency</i>				
KHR	597,116,535	147,910,957	459,047,183	113,709,978
US\$	200,362,407	49,631,510	121,332,002	30,054,992
THB	39,311,558	9,737,816	29,800,034	7,381,728
	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>
<i>Industry sector</i>				
Agriculture	337,725,296	83,657,492	306,822,550	76,002,614
Trade and commerce	219,516,757	54,376,209	126,051,720	31,224,107
Services	161,110,326	39,908,429	25,402,550	6,292,432
Construction	105,729,575	26,190,135	114,552,250	28,375,588
Household	11,542,639	2,859,212	30,107,770	7,457,956
Transportation	1,144,347	283,465	5,135,660	1,272,148
Others	21,560	5,341	2,106,719	521,853
	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 6. LOANS TO CUSTOMERS (continued)

### (d) By location

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Head office	2,993,361	741,482	2,922,360	723,894
Branches	833,797,139	206,538,801	607,256,859	150,422,804
	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>

### (e) Annual interest rates

	2017	2016
External customers	17.40% - 36.00% (before April) 15.60% - 18.00% (after April)	19.20% - 36.00%
Staff loans		
Educational	2.00%	2.00%
Others	10.00% - 11.00%	10.00% - 11.00%

On 13 March 2017, the NBC issued Prakas B7-017-109 requiring all microfinance institutions to observe a maximum interest rate of 18.00% per annum on all loans issued, restructured or refinanced from 1 April 2017.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 7. PROPERTY AND EQUIPMENT

	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Motorcycles</i>	<i>Computer and office equipment</i>	<i>Construction in progress</i>	<i>Total</i>	<i>US\$ equivalent (Note 2.3.1)</i>
	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	
<b>Cost</b>							
As at 1 January 2017	3,280,660	4,144,141	12,713,615	13,783,493	10,017,908	43,939,817	10,884,275
Additions	386,014	407,613	1,403,414	1,456,806	1,866,050	5,519,897	1,367,326
Disposals	(62,682)	-	(1,598,783)	(119,355)	(131,751)	(1,912,571)	(473,758)
Transfers	73,333	-	-	191,231	(426,928)	(162,364)	(40,220)
As at 31 December 2017	<b>3,677,325</b>	<b>4,551,754</b>	<b>12,518,246</b>	<b>15,312,175</b>	<b>11,325,279</b>	<b>47,384,779</b>	<b>11,737,623</b>
<b>Accumulated depreciation</b>							
As at 1 January 2017	1,613,510	2,091,105	5,672,391	8,205,993	-	17,582,999	4,355,461
Depreciation	782,960	285,887	1,445,739	2,755,960	-	5,270,546	1,305,560
Disposals	(1,815)	-	(1,266,746)	(113,144)	-	(1,381,705)	(342,259)
As at 31 December 2017	<b>2,394,655</b>	<b>2,376,992</b>	<b>5,851,384</b>	<b>10,848,809</b>	<b>-</b>	<b>21,471,840</b>	<b>5,318,762</b>
<b>Net book value</b>							
As at 31 December 2017	<b>1,282,670</b>	<b>2,174,762</b>	<b>6,666,862</b>	<b>4,463,366</b>	<b>11,325,279</b>	<b>25,912,939</b>	
As at 31 December 2016	<b>1,667,150</b>	<b>2,053,036</b>	<b>7,041,224</b>	<b>5,577,500</b>	<b>10,017,908</b>	<b>26,356,818</b>	
<b>US\$ equivalent (Note 2.3.1)</b>							
As at 31 December 2017	<b>317,729</b>	<b>538,707</b>	<b>1,651,440</b>	<b>1,105,615</b>	<b>2,805,369</b>	<b>6,418,860</b>	
As at 31 December 2016	<b>412,968</b>	<b>508,555</b>	<b>1,744,172</b>	<b>1,381,595</b>	<b>2,481,523</b>	<b>6,528,813</b>	

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 7. PROPERTY AND EQUIPMENT (continued)

	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Motorcycles</i>	<i>Computer and office equipment</i>	<i>Construction in progress</i>	<i>Total</i>	<i>US\$ equivalent (Note 2.3.1)</i>
	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	<i>KHR'000</i>	
<b>Cost</b>							
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	<b>3,280,660</b>	<b>4,144,141</b>	<b>12,713,615</b>	<b>13,783,493</b>	<b>10,017,908</b>	<b>43,939,817</b>	<b>10,884,275</b>
<b>Accumulated depreciation</b>							
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	<b>1,613,510</b>	<b>2,091,105</b>	<b>5,672,391</b>	<b>8,205,993</b>	<b>-</b>	<b>17,582,999</b>	<b>4,355,461</b>
<b>Net book value</b>							
As at 31 December 2016	<b>1,667,150</b>	<b>2,053,036</b>	<b>7,041,224</b>	<b>5,577,500</b>	<b>10,017,908</b>	<b>26,356,818</b>	
As at 31 December 2015	<b>1,600,356</b>	<b>2,126,692</b>	<b>4,297,841</b>	<b>10,089,950</b>	<b>339,857</b>	<b>18,454,696</b>	
<b>US\$ equivalent (Note 2.3.1)</b>							
As at 31 December 2016	<b>412,968</b>	<b>508,555</b>	<b>1,744,172</b>	<b>1,381,595</b>	<b>2,481,523</b>	<b>6,528,813</b>	
As at 31 December 2015	<b>395,150</b>	<b>525,109</b>	<b>1,061,195</b>	<b>2,491,346</b>	<b>83,915</b>	<b>4,556,715</b>	

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 8. SOFTWARE

	2017		2016	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
<b>Cost</b>				
As at beginning of the year	6,421,986	1,590,781	5,826,585	1,443,296
Additions	111,211	27,548	380,650	94,290
Disposals	-	-	(8,031)	(1,990)
Transfers	162,365	40,220	222,782	55,185
As at end of the year	<b>6,695,562</b>	<b>1,658,549</b>	<b>6,421,986</b>	<b>1,590,781</b>
<b>Accumulated amortisation</b>				
As at beginning of the year	5,344,610	1,323,906	4,285,797	1,061,629
Amortisation	501,112	124,130	1,059,236	262,382
Disposals	-	-	(423)	(105)
As at end of the year	<b>5,845,722</b>	<b>1,448,036</b>	<b>5,344,610</b>	<b>1,323,906</b>
<b>Net book value</b>				
As at end of the year	<b>849,840</b>	<b>210,513</b>	<b>1,077,376</b>	<b>266,875</b>

## 9. OTHER ASSETS

	2017		2016	
	<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	8,670,597	2,147,782	9,407,126	2,330,227
Prepayments	6,522,128	1,615,588	6,333,132	1,568,772
Others	2,583,269	639,898	617,860	153,049
	<b>17,775,994</b>	<b>4,403,268</b>	<b>16,358,118</b>	<b>4,052,048</b>

## 10. DEPOSITS FROM CUSTOMERS

	2017		2016	
	<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	194,761,260	48,244,057	109,560,934	27,139,196
Term deposits	282,133,600	69,886,946	244,844,451	60,650,099
	<b>476,894,860</b>	<b>118,131,003</b>	<b>354,405,385</b>	<b>87,789,295</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 10. DEPOSITS FROM CUSTOMERS (continued)

Further analyses on deposits from customers follow:

### (a) By maturity

	2017		2016	
	<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	237,613,359	58,858,895	133,740,609	33,128,711
More than 1 month to 3 months	55,568,302	13,764,752	55,416,847	13,727,235
More than 3 months to 12 months	140,901,026	34,902,409	126,642,812	31,370,526
More than 12 months	42,812,173	10,604,947	38,605,117	9,562,823
	<b>476,894,860</b>	<b>118,131,003</b>	<b>354,405,385</b>	<b>87,789,295</b>

### (b) By currency

	2017		2016	
	<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	297,092,477	73,592,390	244,761,444	60,629,537
US\$	165,805,761	41,071,529	102,339,152	25,350,298
THB	13,996,622	3,467,084	7,304,789	1,809,460
	<b>476,894,860</b>	<b>118,131,003</b>	<b>354,405,385</b>	<b>87,789,295</b>

### (c) By relationship

	2017		2016	
	<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 parties	474,361,301	117,503,419	350,210,970	86,750,302
Related parties	2,533,559	627,584	4,194,415	1,038,993
	<b>476,894,860</b>	<b>118,131,003</b>	<b>354,405,385</b>	<b>87,789,295</b>

### (d) By interest rate per annum

	2017	2016
Savings deposits	0.50% - 5.00%	3.00% - 5.50%
Term deposits	1.00% - 12.50%	4.25% - 12.50%



# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 11. BORROWINGS

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
National Bank of Cambodia	92,000,000	22,789,200	24,000,000	5,945,009
Instituto de Credito Official of the Kingdom of Spain ("ICO")	68,588,334	16,989,927	72,170,845	17,877,345
BlueOrchard Microfinance Fund	41,005,665	10,157,460	20,059,495	4,968,911
Industrial and Commercial Bank of China Limited, Phnom Penh Branch	28,259,000	7,000,000	9,285,100	2,300,000
Oikocredit Ecumenical Development Co-operative Society U.A	27,701,224	6,861,834	21,600,000	5,350,508
Incofin Investment Management	20,185,000	5,000,000	11,803,000	2,923,706
Nordic Microfinance Initiative Fund III KS	20,000,000	4,954,174	10,000,000	2,477,087
Global Commercial Microfinance Consortium II B.V	16,148,000	4,000,000	16,148,000	4,000,000
Microvest GMG Local Credit Master Fund, Ltd	14,465,000	3,583,106	15,600,667	3,864,421
Symbiotics SA Information	14,267,500	3,534,184	20,198,052	5,003,233
Sathapana Bank Plc	12,000,000	2,972,504	-	-
ResponAbility Investments AG	11,755,035	2,911,824	11,234,572	2,782,901
Triodos Investment Management B.V	10,666,667	2,642,226	16,000,000	3,963,339
Bank im Bistum Essen eG	10,092,500	2,500,000	10,092,500	2,500,000
Grameen Credit Agricole Microfinance Foundation	9,215,460	2,282,750	10,366,960	2,567,986
Vattanac Bank	9,933,338	2,460,574	4,007,053	992,582
ASN Novib Microkredietfonds	8,146,000	2,017,835	8,146,000	2,017,835
Kookmin Bank Cambodia Plc	8,074,000	2,000,000	4,037,000	1,000,000
Leap Philanthropy Ltd	2,018,500	500,000	-	-
Khun Heang	1,009,250	250,000	-	-
Foreign Trade Bank of Cambodia	-	-	5,055,704	1,252,342
VDK-Spaarbank n.v	-	-	4,037,000	1,000,000
	<b>425,530,473</b>	<b>105,407,598</b>	<b>293,841,948</b>	<b>72,787,205</b>

All Company borrowings other than with the NBC (Note 4) are unsecured and are from non-related parties.

Further analyses of borrowings follow:

(a) By currency

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
KHR	159,061,667	39,400,958	104,712,204	25,938,123
US\$	238,794,606	59,151,500	158,451,958	39,249,928
THB	27,674,200	6,855,140	30,677,786	7,599,154
	<b>425,530,473</b>	<b>105,407,598</b>	<b>293,841,948</b>	<b>72,787,205</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 11. BORROWINGS (continued)

(b) By maturity

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Within one month	5,316,738	1,317,002	10,400,000	2,576,170
More than 1 month to 3 months	9,447,440	2,340,213	30,913,704	7,657,593
More than 3 months to 12 months	171,045,743	42,369,518	44,100,095	10,923,977
More than 1 year to 5 years	230,677,504	57,140,823	190,342,053	47,149,382
Over 5 years	9,043,048	2,240,042	18,086,096	4,480,083
	<b>425,530,473</b>	<b>105,407,598</b>	<b>293,841,948</b>	<b>72,787,205</b>

## 12. SUBORDINATED DEBT

This pertains to a subordinated debt from Société de Promotion et de Participation pour la Coopération Economique ("PROPARCO") approved by the NBC on 14 June 2016. This subordinated debt has a five-year term maturing on 15 September 2021.

## 13. PROVISION FOR STAFF PENSION FUND

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Balance at beginning of year	11,637,366	2,882,677	9,243,062	2,282,237
Additions during the year				
Employer contribution	2,570,863	636,825	2,298,656	569,397
Employee contribution	1,176,095	291,329	1,056,744	261,765
Interest	868,251	215,074	709,074	175,644
Payments during the year	(1,922,113)	(476,124)	(788,949)	(195,430)
Reversal	(235,055)	(58,226)	(881,221)	(218,286)
Foreign exchange difference	-	-	-	7,350
<b>Balance at end of year</b>	<b>14,095,407</b>	<b>3,491,555</b>	<b>11,637,366</b>	<b>2,882,677</b>

On 16 March 2018, the Company issued a resolution on staff pension fund provision. The outstanding balance of staff pension fund as at 31 December 2017, which is sourced from both the employees and the Company's contribution, will be paid to the employees in April 2018.

## 14. INCOME TAX

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

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 14. INCOME TAX (continued)

### 14.1 Income tax expense

#### 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:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Current income tax	9,611,026	2,380,735	6,958,995	1,723,804
Deferred tax income	(2,420,242)	(599,515)	(571,688)	(141,613)
	<b>7,190,784</b>	<b>1,781,220</b>	<b>6,387,307</b>	<b>1,582,191</b>

Movements of income tax payable follow:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Balance at beginning of year	5,686,194	1,408,520	4,890,319	1,207,486
Corporate income tax	9,611,026	2,380,735	6,958,995	1,723,804
Income tax paid	(7,955,386)	(1,970,619)	(6,163,120)	(1,526,658)
Foreign exchange difference	-	-	-	3,888
<b>Balance at end of year</b>	<b>7,341,834</b>	<b>1,818,636</b>	<b>5,686,194</b>	<b>1,408,520</b>

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

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Profit before income tax	28,497,528	7,059,087	33,088,748	8,196,371
Income tax expense at applicable tax rate of 20%	5,699,506	1,411,817	6,617,750	1,639,274
Adjustments:				
Non-deductible expenses	3,704,685	917,683	920,328	227,973
Under provision of income tax in prior year	206,835	51,235	(579,083)	(143,443)
Temporary differences	(2,420,242)	(599,515)	(571,688)	(141,613)
<b>Effective income tax</b>	<b>7,190,784</b>	<b>1,781,220</b>	<b>6,387,307</b>	<b>1,582,191</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 14. INCOME TAX (continued)

### 14.2 Deferred income tax

Details of deferred income tax assets (liability) recognized during the year follow:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Allowance for loan losses	2,036,798	504,533	1,246,287	308,716
Provision for staff pension fund	1,966,792	487,191	1,630,277	403,834
Unamortised loan processing fees	1,528,414	378,601	-	-
Accruals	667,763	165,411	505,992	125,339
Unrealized loss on foreign exchange	-	-	347,508	86,081
Property and equipment	(230,659)	(57,136)	(181,199)	(44,885)
	<b>5,969,108</b>	<b>1,478,600</b>	<b>3,548,865</b>	<b>879,085</b>

## 15. OTHER LIABILITIES

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Interest payable	17,862,049	4,424,585	15,680,274	3,884,140
Personnel and other related costs	7,278,085	1,802,844	4,193,436	1,038,751
Accrued and other payables	4,787,272	1,185,849	5,944,503	1,472,505
Swap and forward exchange contract	560,485	138,837	2,073,627	513,655
Taxes payable	5,349,907	1,325,218	1,040,602	257,766
	<b>35,837,798</b>	<b>8,877,333</b>	<b>28,932,442</b>	<b>7,166,817</b>

## 16. EQUITY

Details of shareholding are as follows:

	2017			2016		
	KHR'000	US\$ equivalent (Note 2.3.1)	%	KHR'000	US\$ equivalent (Note 2.3.1)	%
Agora Micro-finance N.V	40,139,850	9,942,990	50.73	17,819,450	4,414,033	50.73
Rural Impulse Fund II	19,473,175	4,823,675	24.61	8,644,800	2,141,392	24.61
PROPARCO	11,826,075	2,929,422	14.95	5,250,000	1,300,471	14.95
CLDF	5,304,850	1,314,057	6.70	2,355,000	583,354	6.70
AMK - Staff Association	2,383,350	590,376	3.01	1,058,050	262,088	3.01
	<b>79,127,300</b>	<b>19,600,520</b>	<b>100.00</b>	<b>35,127,300</b>	<b>8,701,338</b>	<b>100.00</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 16. EQUITY (continued)

The Company's registered and fully paid up share capital comprises 3,165,092 shares (2016: 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 which requires MDIs to have a minimum registered capital of KHR120 billion (approximately US\$30 million). On 16 June 2016, the NBC issued Circular B7-016-001 on implementation of the said Prakas requiring banks and financial institutions to inject half of the additional required capital by 31 March 2017 and to fully comply by 22 March 2018.

On 13 February 2017, the NBC approved the increase in the Company's registered capital by KHR44 billion through conversion of retained earnings. On 17 February 2017, the Company placed the additional capital guarantee with the NBC resulting from the capital increase.

For the rest of additional required capital, the Company obtained the approval from the NBC on the increase by KHR41.2 billion through conversion of retained earnings on 16 March 2018. On 19 March 2018, the Company placed the additional capital guarantee with the NBC resulting from the capital increase.

### Dividends

There were no dividends declared in 2017.

### Reserve

Under the loan agreement with ICO (*Note 11*), 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

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Loans to customers	190,477,236	47,182,867	193,337,438	47,891,365
Balances with banks	1,177,611	291,705	453,809	112,412
	<b>191,654,847</b>	<b>47,474,572</b>	<b>193,791,247</b>	<b>48,003,777</b>

## 18. INTEREST EXPENSE

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Borrowings	32,131,700	7,959,301	26,939,404	6,673,124
Deposits from customers	26,979,297	6,683,006	22,768,598	5,639,980
Provident fund	868,251	215,074	709,074	175,644
	<b>59,979,248</b>	<b>14,857,381</b>	<b>50,417,076</b>	<b>12,488,748</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 19. FEE AND COMMISSION EXPENSE

	2017		2016	
	<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 fees and commission and mobile bank agents' incentives	9,727,280	2,409,532	9,821,231	2,432,804
Fees and commissions on borrowings and swaps	2,132,813	528,316	4,978,116	1,233,123
	<b>11,860,093</b>	<b>2,937,848</b>	<b>14,799,347</b>	<b>3,665,927</b>

## 20. OTHER INCOME

	2017		2016	
	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>	<i>KHR'000</i>	<i>US\$ equivalent (Note 2.3.1)</i>
Loan fees	18,444,822	4,568,943	3,391,414	840,083
Mobile banking fees	5,301,956	1,313,341	4,019,681	995,710
Micro-insurance commissions	2,343,315	580,459	1,367,262	338,683
Loan penalties	1,225,787	303,638	195,905	48,527
Payroll fees	750,067	185,798	398,744	98,772
Remittance fees	526,489	130,416	571,281	141,511
Gain on disposal of property and equipment	126,183	31,257	-	-
Loan recoveries	67,710	16,772	52,575	13,023
Others	203,056	50,299	180,666	44,753
	<b>28,989,385</b>	<b>7,180,923</b>	<b>10,177,528</b>	<b>2,521,062</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 21. OTHER OPERATING EXPENSES

	2017		2016	
	<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	59,908,392	14,839,830	57,568,808	14,260,294
Rental	8,451,166	2,093,427	6,757,297	1,673,841
Professional fees	6,933,932	1,717,595	4,979,105	1,233,368
Depreciation and amortization	5,771,658	1,429,690	6,332,641	1,568,650
Transportation	4,193,322	1,038,722	4,026,531	997,407
Penalties and fines	4,084,223	1,011,698	19,030	4,714
Non-capitalisable furniture and fixtures	2,841,620	703,894	2,217,437	549,278
Security guard	2,534,122	627,724	1,908,089	472,650
Utilities	1,881,886	466,160	1,732,924	429,260
Stationeries and supplies	1,753,075	434,252	1,982,497	491,082
Communication	1,563,851	387,379	1,357,342	336,225
Printing	1,560,174	386,469	1,649,633	408,629
NBC license fees	1,497,500	370,944	1,552,000	384,444
Repairs and maintenance	1,211,642	300,134	1,054,186	261,131
Marketing expense	824,286	204,183	1,649,150	408,509
Bank charges	754,363	186,862	662,084	164,004
Foreign exchange losses - net*	94,183	23,330	438,490	108,618
Loss on disposal of fixed assets	46,387	11,490	605,479	149,982
Others	1,871,255	463,526	1,124,491	278,547
	<b>107,777,037</b>	<b>26,697,309</b>	<b>97,617,214</b>	<b>24,180,633</b>

\* This is net of foreign exchange gain amounting to KHR334.80 million or US\$82,932 (2016: includes foreign exchange loss of KHR392.93 million or US\$97,333) 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 Water.org for a program managed by the Company as set forth in the grant agreement.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 23. COMMITMENTS

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

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Within one year	4,412,986	1,093,135	4,346,077	1,076,561
More than 1 year to 5 years	7,793,360	1,930,483	6,957,539	1,723,443
More than 5 years	3,516,893	871,165	3,402,424	842,810
	<b>15,723,239</b>	<b>3,894,783</b>	<b>14,706,040</b>	<b>3,642,814</b>

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

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Foreign exchange swap contracts	16,148,000	4,000,000	52,481,000	13,000,000
Foreign exchange forward contracts	8,074,000	2,000,000	2,018,500	500,000
Unused portion of credit line	52,702,634	13,054,901	45,871,948	11,362,880

The Company has 7 foreign exchange swap contracts (2016: 14 contracts) with certain commercial banks outstanding as at 31 December 2017. The Company enters into these contracts 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	2017		2016	
		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	154,044	38,158	144,692	35,841
Key management	Interest income	8,615	2,134	9,656	2,392
personnel	Remuneration	1,886,656	467,341	2,000,640	495,576



# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 24. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Related party	Transaction	2017		2016	
		KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
Key management personnel	Deposit	707,195	175,178	706,710	175,058
	Loan	79,186	19,615	90,092	22,317
Agora Micro-finance N.V (shareholder)	Deposit	1,826,364	452,406	2,641,846	654,408

## 25. FINANCIAL RISK MANAGEMENT

The Company's activities are exposed to a variety of financial risks: credit risk, market risk (including currency risk and interest rate 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).

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

The Company holds the following financial assets and liabilities:

	2017		2016	
	KHR'000	US\$ equivalent (Note 2.3.1)	KHR'000	US\$ equivalent (Note 2.3.1)
<b>Financial assets</b>				
Cash on hand	69,444,503	17,202,007	49,579,891	12,281,370
Balances with the NBC	127,738,829	31,642,019	87,453,446	21,662,979
Balances with banks	41,603,644	10,305,584	46,252,421	11,457,127
Loans to customers	810,721,760	200,822,829	598,146,744	148,166,149
Other assets	8,670,597	2,147,782	9,407,126	2,330,227
<b>Total financial assets</b>	<b>1,058,179,333</b>	<b>262,120,221</b>	<b>790,839,628</b>	<b>195,897,852</b>
<b>Financial liabilities</b>				
Deposits from customers	476,894,860	118,131,003	354,405,385	87,789,295
Borrowings	425,530,473	105,407,598	293,841,948	72,787,205
Subordinated debt	19,401,600	4,805,945	24,252,000	6,007,431
Other liabilities	30,487,891	7,552,115	27,891,840	6,909,051
<b>Total financial liabilities</b>	<b>952,314,824</b>	<b>235,896,661</b>	<b>700,391,173</b>	<b>173,492,982</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 25. FINANCIAL RISK MANAGEMENT (continued)

### *Capital management*

The primary objectives of the Company's capital management are to ensure that it complies with externally imposed capital requirements and maintains 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 dividend payment to shareholders, return the capital, or issue capital securities. No changes were made in the objectives, policies and processes from previous years.

Net worth and risk-weighted assets are computed based on NBC regulations. Management believes the Company is compliant with the solvency ratio prescribed by the NBC at 15% and 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 NBC Prakas No. B7-07-163.

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

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

#### (c) Impairment and provisioning policy

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

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.1 Credit risk (continued)

#### (d) Loans to customers

Loans to customers are summarized as follows:

	2017		2016	
	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)	796,449,718	197,287,520	602,606,529	149,270,877
Loans to customers past due but not impaired (ii)	22,791,530	5,645,660	2,494,910	618,011
Loans to customers individually impaired (iii)	17,549,252	4,347,103	5,077,780	1,257,810
<b>Loans to customers, gross</b>	<b>836,790,500</b>	<b>207,280,283</b>	<b>610,179,219</b>	<b>151,146,698</b>

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

##### 2017

Loans to customers less than 15 days past due (short-term loans) and less than 30 days past due (long-term loans) are not considered impaired, unless other information is available to indicate the contrary, based on loan classifications prescribed in NBC Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning.

##### 2016

Loans to customers less than 30 days past due (short-term and long-term loans) are not considered impaired, unless other information is available to indicate the contrary, based on loan classifications prescribed in NBC Prakas No. B7-02-186 on Asset Classification and Provisioning.

#### (iii) Loans to customers individually impaired

In accordance with NBC Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning, loans and advances that are classified as substandard, doubtful and loss are considered non-performing and impaired. As such, a specific minimum level of provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## **25. FINANCIAL RISK MANAGEMENT (continued)**

### **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.

### **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 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 currency.

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.3 Market risk (continued)

#### (i) Foreign exchange risk (continued)

The balances in monetary assets and liabilities denominated in their respective currencies are as follows:

	2017			2016		
	KHR KHR'000	US\$ KHR'000	THB KHR'000	KHR KHR'000	US\$ KHR'000	THB KHR'000
<b>On-balance sheet items</b>						
<b>Financial assets</b>						
Cash on hand	33,701,566	33,893,992	1,848,945	23,911,184	24,242,974	1,425,733
Balances with the NBC	17,595,906	110,142,923	-	39,233,659	48,219,787	-
Balances with banks	10,164,932	27,005,500	4,433,212	29,925,385	6,986,425	9,340,611
Loans to customers	575,973,106	196,897,958	37,850,696	449,382,005	119,864,885	28,899,854
Other assets	5,990,447	2,277,375	402,775	7,578,212	1,370,494	458,420
<b>Total financial assets</b>	<b>643,425,957</b>	<b>370,217,748</b>	<b>44,535,628</b>	<b>550,030,445</b>	<b>200,684,565</b>	<b>40,124,618</b>
<b>Financial liabilities</b>						
Deposits from customers	297,092,477	165,805,761	13,996,622	244,761,444	102,339,152	7,304,789
Borrowings	159,061,667	238,794,606	27,674,200	104,712,204	158,451,958	30,677,786
Subordinated debt	19,401,600	-	-	24,252,000	-	-
Other liabilities	15,625,063	13,818,270	1,044,558	17,780,535	9,465,455	645,850
<b>Total financial liabilities</b>	<b>491,180,807</b>	<b>418,418,637</b>	<b>42,715,380</b>	<b>391,506,183</b>	<b>270,256,565</b>	<b>38,628,425</b>
	<b>152,245,150</b>	<b>(48,200,889)</b>	<b>1,820,248</b>	<b>158,524,262</b>	<b>(69,572,000)</b>	<b>1,496,193</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.3 Market risk (continued)

#### (i) Foreign exchange risk (continued)

	2017			2016		
	<i>KHR</i> <i>KHR'000</i>	<i>US\$</i> <i>KHR'000</i>	<i>THB</i> <i>KHR'000</i>	<i>KHR</i> <i>KHR'000</i>	<i>US\$</i> <i>KHR'000</i>	<i>THB</i> <i>KHR'000</i>
<b>Off-balance sheet items</b>						
Foreign exchange swap contracts	(16,148,000)	16,148,000	-	(52,481,000)	52,481,000	-
Foreign exchange forward contracts	-	8,074,000	(8,074,000)	-	2,018,500	(2,018,500)
	<b>(16,148,000)</b>	<b>24,222,000</b>	<b>(8,074,000)</b>	<b>(52,481,000)</b>	<b>54,499,500</b>	<b>(2,018,500)</b>
<b>Net open position</b>	<b>136,097,150</b>	<b>(23,978,889)</b>	<b>(6,253,752)</b>	<b>106,043,262</b>	<b>(15,072,500)</b>	<b>(522,307)</b>
<b>US\$ equivalent (Note 2.3.1)</b>	<b>33,712,447</b>	<b>(5,939,779)</b>	<b>(1,549,109)</b>	<b>26,267,838</b>	<b>(3,733,589)</b>	<b>(129,380)</b>

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 in 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. The management of the Company, at this stage, 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 2017 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 with banks earn fixed interest for the period of the deposit and placement, and loans to customers earn fixed interest based on outstanding balance over the agreed term.

	<i>Up to 1 month KHR'000</i>	<i>&gt;1 to 3 months KHR'000</i>	<i>&gt;3 to 12 months KHR'000</i>	<i>&gt;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>
<b>2017</b>								
<b>Financial assets</b>								
Cash on hand	-	-	-	-	-	69,444,503	69,444,503	-
Balances with the NBC	-	200,000	96,322,820	-	-	31,216,009	127,738,829	1.06
Balances with banks	16,595	33,773,880	-	-	-	7,813,169	41,603,644	0.14
Loans to customers	52,055,677	98,723,443	477,411,587	180,426,203	2,104,850	-	810,721,760	21.00
Other assets	8,670,597	-	-	-	-	-	8,670,597	-
	<b>60,742,869</b>	<b>132,697,323</b>	<b>573,734,407</b>	<b>180,426,203</b>	<b>2,104,850</b>	<b>108,473,681</b>	<b>1,058,179,333</b>	
<b>Financial liabilities</b>								
Deposits from customers	232,275,932	55,568,302	140,901,026	48,149,600	-	-	476,894,860	6.05
Borrowings	5,333,333	9,447,440	171,045,743	230,660,909	9,043,048	-	425,530,473	7.38
Subordinated debt	-	-	4,850,400	14,551,200	-	-	19,401,600	17.69
Other liabilities	-	3,986,414	20,954,990	5,546,487	-	-	30,487,891	-
	<b>237,609,265</b>	<b>69,002,156</b>	<b>337,752,159</b>	<b>298,908,196</b>	<b>9,043,048</b>	<b>-</b>	<b>952,314,824</b>	
<b>Maturity gap</b>	<b>(176,866,396)</b>	<b>63,695,167</b>	<b>235,982,248</b>	<b>(118,481,993)</b>	<b>(6,938,198)</b>	<b>108,473,681</b>	<b>105,864,509</b>	
<b>US\$ equivalent (Note 2.3.1)</b>	<b>(43,811,344)</b>	<b>15,777,847</b>	<b>58,454,855</b>	<b>(29,349,020)</b>	<b>(1,718,652)</b>	<b>26,869,874</b>	<b>26,223,560</b>	

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 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>&gt;1 to 3 months KHR'000</i>	<i>&gt;3 to 12 months KHR'000</i>	<i>&gt;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>
<b>2016</b>								
<b>Financial assets</b>								
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	-
	<b>70,201,337</b>	<b>95,588,607</b>	<b>412,041,049</b>	<b>129,677,490</b>	<b>2,290,868</b>	<b>81,040,277</b>	<b>790,839,628</b>	
<b>Financial liabilities</b>								
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	-
	<b>132,913,144</b>	<b>86,444,424</b>	<b>215,565,692</b>	<b>247,381,817</b>	<b>18,086,096</b>	<b>-</b>	<b>700,391,173</b>	
<b>Maturity gap</b>	<b>(62,711,807)</b>	<b>9,144,183</b>	<b>196,475,357</b>	<b>(117,704,327)</b>	<b>(15,795,228)</b>	<b>81,040,277</b>	<b>90,448,455</b>	
<b>US\$ equivalent (Note 2.3.1)</b>	<b>(15,534,260)</b>	<b>2,265,094</b>	<b>48,668,654</b>	<b>(29,156,385)</b>	<b>(3,912,615)</b>	<b>20,074,382</b>	<b>22,404,870</b>	



# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 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 following tables present 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>&gt;1 to 3 months KHR'000</i>	<i>&gt;3 to 12 months KHR'000</i>	<i>&gt;1 to 5 years KHR'000</i>	<i>Over 5 years KHR'000</i>	<i>Total KHR'000</i>
<b>2017</b>						
<b>Financial assets</b>						
Cash on hand	69,444,503	-	-	-	-	69,444,503
Balances with the NBC	31,216,009	200,000	96,322,820	-	-	127,738,829
Balances with banks	7,829,764	33,773,880	-	-	-	41,603,644
Loans to customers	52,055,677	98,723,443	477,411,587	180,426,203	2,104,850	810,721,760
Other assets	8,670,597	-	-	-	-	8,670,597
<b>Total financial assets</b>	<b>169,216,550</b>	<b>132,697,323</b>	<b>573,734,407</b>	<b>180,426,203</b>	<b>2,104,850</b>	<b>1,058,179,333</b>
<b>Financial liabilities</b>						
Deposits from customers	232,275,932	55,568,302	140,901,026	48,149,600	-	476,894,860
Borrowings	5,333,333	9,447,440	171,045,743	230,660,909	9,043,048	425,530,473
Subordinated debt	-	-	4,850,400	14,551,200	-	19,401,600
Other liabilities	-	3,986,414	20,954,990	5,546,487	-	30,487,891
<b>Total financial liabilities</b>	<b>237,609,265</b>	<b>69,002,156</b>	<b>337,752,159</b>	<b>298,908,196</b>	<b>9,043,048</b>	<b>952,314,824</b>
<b>Net liquidity surplus (gap) – KHR'000</b>	<b>(68,392,715)</b>	<b>63,695,167</b>	<b>235,982,248</b>	<b>(118,481,993)</b>	<b>(6,938,198)</b>	<b>105,864,509</b>
<b>US\$ equivalent (Note 2.3.1)</b>	<b>(16,941,470)</b>	<b>15,777,847</b>	<b>58,454,855</b>	<b>(29,349,020)</b>	<b>(1,718,652)</b>	<b>26,223,560</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 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>&gt;1 to 3 months KHR'000</i>	<i>&gt;3 to 12 months KHR'000</i>	<i>&gt;1 to 5 years KHR'000</i>	<i>Over 5 years KHR'000</i>	<i>Total KHR'000</i>
<b>2016</b>						
<b>Financial assets</b>						
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
<b>Total financial assets</b>	<b>151,241,614</b>	<b>95,588,607</b>	<b>412,041,049</b>	<b>129,677,490</b>	<b>2,290,868</b>	<b>790,839,628</b>
<b>Financial liabilities</b>						
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
<b>Total financial liabilities</b>	<b>132,913,144</b>	<b>86,444,424</b>	<b>215,565,692</b>	<b>247,381,817</b>	<b>18,086,096</b>	<b>700,391,173</b>
<b>Net liquidity surplus (gap) - KHR'000</b>	<b>18,328,470</b>	<b>9,144,183</b>	<b>196,475,357</b>	<b>(117,704,327)</b>	<b>(15,795,228)</b>	<b>90,448,455</b>
<b>US\$ equivalent (Note 2.3.1)</b>	<b>4,540,121</b>	<b>2,265,094</b>	<b>48,668,654</b>	<b>(29,156,385)</b>	<b>(3,912,614)</b>	<b>22,404,870</b>

# AMK Microfinance Institution Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 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. Management believes that 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, 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**

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 2017 that had significant impact on the financial position of the Company as at 31 December 2017.

## **27. TAX CONTINGENCY**

The taxation system in Cambodia has undergone numerous changes and is characterized by often unclear, contradictory and/or differing interpretations existing 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.