



Cambodia

MAXIMA MIKROHERANHVATHO PLC.

**Financial Statements
for the year ended 31 December 2014
and
Report of the Independent Auditors**

Corporate Information

Company	Maxima Mikroheranhvatho Plc.	
Registration No	Co. 7897/05P	
Registered office	#21AB, St. 271 Sangkat Phsar Doeum Thkov Khan Chamkamorn Phnom Penh, Cambodia	
Shareholders	Mr. An Bun Hak Ms. Sarun Vithourat Ms. Sreng Sive Chheng Mr. Chet Chan Prasoeur Mr. Pa Ponnak Rithy Mr. Pa Ponnak Rithy (staff representative)	
Board of Directors	Mr. An Bun Hak, Mr. Chet Chan Prasoeur, Mr. Muy Mara, Mr. Yean Rithy, Mr. Ao Veng, Ms. Sreng Sive Chheng, Mr. Pa Ponnak Rithy, Mr. Taejun Shin, Mr. Sanjay Gandhi,	Non-Executive Director/Chairman Non-Executive Director Non-Executive Director (Appointed on 26 February 2014) Non-Executive Director/Independent Board Member Non-Executive Director/Independent Board Member (Appointed on 26 February 2014) Executive Director (Resigned on 26 February 2014) Executive Director (Resigned on 26 February 2014) Non-Executive Director (Appointed on 30 March 2015) Non-Executive Director (Appointed on 30 March 2015)
Management team	Mr. Si Len, Mr. Pa Ponnak Rithy, Ms. Sreng Sive Chheng, Mr. Ear Sokry, Mr. Khean Darith, Mr. Tann Huk Heng,	Chief Executive Officer Deputy Chief Executive Officer Chief Financial Officer Credit Manager IT Manager Head of Internal Audit and Risk Department
Auditors	KPMG Cambodia Ltd	

Maxima Mikroheranhvatho Plc.

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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of Maxima Mikroheranhvatho Plc. (“the Company”) for the year ended 31 December 2014.

Principal activities

The Company is principally engaged in all aspects of micro-finance business and the provision of related financial services in Cambodia.

Financial results

The financial results of the Company for the year ended 31 December 2014 were as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	141,804	577,851	155,544	621,398
Income tax expense	(32,949)	(134,267)	(36,649)	(146,413)
Net profit for the year	<u>108,855</u>	<u>443,584</u>	<u>118,895</u>	<u>474,985</u>

Reserves and provisions

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

Dividends

During the financial year, the Company declared and paid dividends amounting to US\$22,589 in respect of the prior year’s net profit.

Share capital

On 18 July 2014, the Company’s shareholders, Ms. Sreng Sive Chheng acquired 2,500 shares from Ms. Buy Sivantha and Mr. An Bun Hak acquired 15,000 shares from Mr. Uong Kimseng for US\$13.27 per share respectively.

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Share capital (continued)

Mr. Pa Ponnak Rithy (staff representative) also transferred his 1,055 shares for US\$13.27 per share to the following:

- Ms. Sreng Sive Chheng: 500 shares;
- Mr. Chet Chan Prasoeur: 500 shares; and
- Mr. Pa Ponnak Rithy: 55 shares.

Except for the shareholding structure changes, the total number of shares registered, authorised and paid up as at 31 December 2014 remain unchanged from the previous year.

On 29 December 2014, the Company submitted a request to the National Bank of Cambodia (“NBC”) to increase the Company’s share capital from US\$1,315,000 to US\$3,075,000 for its additional 176,000 shares with par value of US\$10 per share. These additional shares will be issued to Mr. An Bun Hak for 15,000 shares, Ms. Sreng Sive Chheng for 4,000 shares, Ms. Sarun Vithourat for 2,000 shares and a potential new shareholder, Gojo & Company, Inc. for 155,000 shares. This request was obtained a principal approval from the NBC on 30 March 2015.

The amendment of the Articles of Incorporation is in the process of obtaining acknowledgement from the Ministry of Commerce as at the date of this report.

Bad and doubtful loans

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

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Company, inadequate to any substantial extent.

Current assets

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets, other than loans, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company had been written down to amounts which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Company misleading.

Valuation methods

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

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Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

Items of an unusual nature

The results of the operations of the Company for the financial year were not, in the opinion of the 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 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 reporting date

At the date of this report, except as disclosed in the financial statements, there have been no significant events occurring after the balance sheet date which would require adjustments or disclosures to be made in the financial statements.

The Board of Directors

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

- Mr. An Bun Hak Non-Executive Director/Chairman
- Mr. Chet Chan Prasoeur Non-Executive Director
- Mr. Muy Mara Non-Executive Director (Appointed on 26 February 2014)
- Mr. Yean Rithy Non-Executive Director/Independent Board Member
- Mr. Ao Veng Non-Executive Director/Independent Board Member (Appointed on 26 February 2014)
- Ms. Sreng Sive Chheng Executive Director (Resigned on 26 February 2014)

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The Board of Directors (continued)

- Mr. Pa Ponnak Rithy, Executive Director (Resigned on 26 February 2014)
- Mr. Taejun Shin, Non-Executive Director (Appointed on 30 March 2015)
- Mr. Sanjay Gandhi, Non-Executive Director (Appointed on 30 March 2015)

Directors' interests

The Board of Directors who held office at the end of the financial year and their interests in the shares of the Company are as follows:

	2014		2013	
	Holding %	Number of shares of US\$10 each	Holding %	Number of shares of US\$10 each
Mr. An Bun Hak	31.94%	42,000	20.53%	27,000
Ms. Sreng Sive Chheng	-	-	27.38%	36,000
Mr. Chet Chan Prasoeur	4.18%	5,500	3.80%	5,000
Mr. Pa Ponnak Rithy	-	-	1.27%	1,670
	<u>36.12%</u>	<u>47,500</u>	<u>52.98%</u>	<u>69,670</u>

Directors' benefits

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

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a Company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Responsibilities of the Directors in respect of the financial statements

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are 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 the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;

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Responsibilities of the Directors in respect of the financial statements (continued)

- 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
- control and direct the Company effectively in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of the financial statements

I hereby approve the accompanying financial statements which present fairly, in all material respects, the balance sheet of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Mr. An Bun Hak
Chairman

Phnom Penh, Kingdom of Cambodia

23 April 2015



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Report of the independent auditors

To the shareholders

Maxima Mikroheranhvatho Plc.

We have audited the accompanying financial statements of Maxima Mikroheranhvatho Plc. (“the Company”), which comprise the balance sheet as at 31 December 2014, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 8 to 49.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Maxima Mikroheranhvatho Plc. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

For **KPMG Cambodia Ltd**



Nge Huy
Audit Partner

Phnom Penh, Kingdom of Cambodia

23 April 2015

Maxima Mikroheranhvatho Plc.

Balance sheet

As at 31 December 2014

	Note	2014		2013	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand	5	9,176	37,392	6,947	27,753
Deposits and placements with banks	6	622,940	2,538,481	175,514	701,179
Statutory deposits	7	65,750	267,931	65,750	262,671
Loans to customers	8	4,320,005	17,604,020	3,133,505	12,518,353
Equity investment	9	10,000	40,750	10,000	39,950
Other assets	10	99,289	404,602	90,125	360,049
Property and equipment	11	26,607	108,424	27,124	108,360
Deferred tax assets	12	6,089	24,813	5,845	23,351
TOTAL ASSETS		5,159,856	21,026,413	3,514,810	14,041,666
LIABILITIES AND EQUITY					
Liabilities					
Amounts due to shareholders	13	288,607	1,176,074	495,000	1,977,525
Borrowings	14	2,945,615	12,003,381	1,173,891	4,689,694
Provident benefits	15	63,611	259,215	61,429	245,409
Other liabilities	16	40,326	164,328	44,526	177,881
Provision for income tax	12	28,104	114,524	32,637	130,385
Total Liabilities		3,366,263	13,717,522	1,807,483	7,220,894
Equity					
Share capital	17	1,315,000	5,358,625	1,315,000	5,253,425
Share premium	17	121,025	493,177	121,025	483,495
Reserves		48,548	197,833	42,603	170,199
Retained earnings		309,020	1,259,256	228,699	913,653
Total Equity		1,793,593	7,308,891	1,707,327	6,820,772
TOTAL LIABILITIES AND EQUITY		5,159,856	21,026,413	3,514,810	14,041,666

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

Maxima Mikroheranhvatho Plc

Income statement for the year ended 31 December 2014

	Note	2014		2013	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	18	834,827	3,401,920	795,022	3,176,113
Interest expense	19	(142,514)	(580,745)	(150,190)	(600,009)
Net interest income		<u>692,313</u>	<u>2,821,175</u>	<u>644,832</u>	<u>2,576,104</u>
Other operating income	20	14,800	60,310	12,452	49,745
Operating income		<u>707,113</u>	<u>2,881,485</u>	<u>657,284</u>	<u>2,625,849</u>
General and administrative expenses	21	(561,504)	(2,288,129)	(500,737)	(2,000,444)
Allowance for bad and doubtful loans	8	(3,805)	(15,505)	(1,003)	(4,007)
Profit before income tax		<u>141,804</u>	<u>577,851</u>	<u>155,544</u>	<u>621,398</u>
Income tax expense	12	(32,949)	(134,267)	(36,649)	(146,413)
Net profit for the year		<u><u>108,855</u></u>	<u><u>443,584</u></u>	<u><u>118,895</u></u>	<u><u>474,985</u></u>

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

Maxima Mikroheranhvatho Plc

Statement of changes in equity for the year ended 31 December 2014

	Share capital US\$	Share premium US\$	Reserves US\$	Retained earnings US\$	Total US\$
At 1 January 2013	1,315,000	121,025	39,519	124,605	1,600,149
Transfer to reserves	-	-	3,084	(3,084)	-
Dividends paid	-	-	-	(11,717)	(11,717)
Net profit for the year	-	-	-	118,895	118,895
At 31 December 2013	<u>1,315,000</u>	<u>121,025</u>	<u>42,603</u>	<u>228,699</u>	<u>1,707,327</u>
(KHR'000 equivalents) (Note 4)					
At 31 December 2013	<u>5,253,425</u>	<u>483,495</u>	<u>170,199</u>	<u>913,653</u>	<u>6,820,772</u>
At 1 January 2014	1,315,000	121,025	42,603	228,699	1,707,327
Transfer to reserves	-	-	5,945	(5,945)	-
Dividends paid	-	-	-	(22,589)	(22,589)
Net profit for the year	-	-	-	108,855	108,855
At 31 December 2014	<u>1,315,000</u>	<u>121,025</u>	<u>48,548</u>	<u>309,020</u>	<u>1,793,593</u>
(KHR'000 equivalents) (Note 4)					
At 31 December 2014	<u>5,358,625</u>	<u>493,177</u>	<u>197,833</u>	<u>1,259,256</u>	<u>7,308,891</u>

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

Maxima Mikroheranhvatho Plc.

Statement of cash flows for the year ended 31 December 2014

	Note	2014		2013	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash (used in)/generated from operating activities	22	(1,287,177)	(5,245,246)	199,275	796,103
Cash flows from investing activities					
Purchase of property and equipment		(12,303)	(50,135)	(8,359)	(33,394)
Net cash used in investing activities		(12,303)	(50,135)	(8,359)	(33,394)
Cash flows from financing activities					
Dividend paid		(22,589)	(92,050)	(11,717)	(46,809)
Proceeds from borrowings		2,463,386	10,038,298	584,741	2,336,040
Repayments of borrowings		(691,662)	(2,818,523)	(633,960)	(2,532,670)
Net cash generated from/(used in) financing activities		1,749,135	7,127,725	(60,936)	(243,439)
Net increase in cash and cash equivalents		449,655	1,832,344	129,980	519,270
Cash and cash equivalents at the beginning of the year		182,461	743,529	52,481	209,662
Cash and cash equivalents at the end of the year	23	632,116	2,575,873	182,461	728,932

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

Maxima Mikroheranhvatho Plc

Notes to the financial statements for the year ended 31 December 2014

1. Reporting entity

Maxima Mikroheranhvatho Co., Ltd (“the Company”), formerly known as Maxima Organization for Household Economic Development (“the Institution”), was incorporated in Cambodia and registered with the Ministry of Commerce on 27 July 2005 under Registration No. Co. 7897/05P. On 10 August 2005, the Company obtained the license No. 013 from the National Bank of Cambodia (“NBC”) to operate the micro-finance service to the economically active poor population of Cambodia. In June 2008, the NBC granted a permanent license No. M.F 013 to the Company. On 2 February 2012, the NBC continuously granted a permanent license No. M.F 013 to the Company with the new name Maxima Mikroheranhvatho Plc.

The Company’s vision is to be the leading microfinance institution offering micro-financial services with the highest quality of customer service. Maxima’s mission is to offer micro-financial services with an emphasis on lending to rural poor and low-income individuals and groups and small & medium enterprises to improve their living standards and realizing their business goals. The Company’s focus is to provide high quality of services to customers with a dedicated and committed team and at the same time create value to satisfy all its stakeholders socially and economically.

The Company operates the micro-finance services with its head office located at house No. 21AB, St. 271, Sangkat Phsar Doeum Thkov, Khan Chamkamorn, Phnom Penh and its branch located in Kandal province.

As at 31 December 2014, the Company had 91 employees (2013: 84 employees).

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Cambodian Accounting Standards (“CAS”) and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements.

The financial statements of the Company were authorised for issue by the Board of Directors on 23 April 2015.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

2. Basis of preparation (continued)

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in two currencies, Khmer Riel (“KHR”) and United States Dollars (“US\$”). Management has determined the US\$ to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Financial instruments

The Company’s financial assets and liabilities include cash and cash equivalents, originated loans and receivables, deposits, other receivables, borrowings and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(b) Basis of aggregation

The Company’s financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

3. Significant accounting policies (continued)

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(d) Deposits and placement with banks

Deposits and placements with banks are stated at cost.

(e) Statutory deposits

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by NBC.

(f) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific allowance.

(g) Allowance for bad and doubtful loans

In compliance with the NBC guidelines, a specific allowance for bad and doubtful loans is made on loans that are identified as non-performing as follows:

Classification	Number of days past due	Rate of allowances
Short-term loans (less than one year):		
Sub-standard	31 – 60 days	10%
Doubtful	61 – 90 days	30%
Loss	Over 90 days	100%
Long-term loans (more than one year):		
Sub-standard	31 – 180 days	10%
Doubtful	181 – 360 days	30%
Loss	Over 360 days	100%

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

3. Significant accounting policies (continued)

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

The specific allowance is calculated as a percentage of the loans outstanding at the time the loan is classified, excluding accrual interest and is charged as expense. Interest on non-performing loans is not accrued.

In addition to the specific provision, the amount of provision in excess of defined percentages required by the National Bank of Cambodia ("NBC") is showed as a general allowance (90% of sub-standard loans and 70% of doubtful loans).

Overdue loans

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision 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.

The provision will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The provision shall be recorded in the Company's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard.

Recoveries on loans previously written off and reversal of previous provisions are disclosed as other operating income in the income statement.

(h) Interest in suspense

Interest in suspense represents interest on non-performing loans and advances, that is recorded as a provision rather than income until it is realised on a cash basis.

Interest in suspense is disclosed as a deduction from interest receivables.

(i) Other assets

Other assets are carried at estimated realisable value.

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Notes to the financial statements (continued) for the year ended 31 December 2014

3. Significant accounting policies (continued)

(j) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a declining balance basis over the estimated useful lives of the individual assets at the following rates per annum:

(i) Leasehold improvements	10%-33.33%
(ii) Office equipment	25%
(iii) Computer & IT equipment	50%
(iv) Furniture & fixtures	25%
(v) Motor vehicles	25%
- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(k) Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(g).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

3. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

(l) Borrowings

Borrowings are stated at the amount of the principal outstanding.

(m) Provident benefits

The Company provides its employees with benefits under the staff provident benefits policy. Employees who complete three months of service with the Company are entitled to participate in the staff provident fund scheme.

The fund is sourced from employees' contribution at 3% of their monthly salary, and the Company contributes 3%. The Company's contribution is charged to the income statement.

The provident benefits will be paid to employees (who have contributed to the fund) upon their retirement, resignation or termination of employment. The employee's contribution is paid in full accordingly.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

3. Significant accounting policies (continued)

(m) Provident benefits (continued)

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

(n) Provisions

Provisions are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Reserves

Based on the Memorandum and Articles of Association, the Company shall transfer 5% of its net profit after deduction of prior years' losses, if any to this reserves fund. The transfer to this reserve fund shall cease when the reserve fund is equal to 10% of the Company's registered capital.

(p) Dividends

Dividends are recognised in equity in the period in which they are approved by the Company's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with the subsequent events note.

(q) Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

Loan administrative fee income is recognised as income when the loan is disbursed to customers. The loan fee income is calculated using the principal and fee rate.

Expenses are recognised on an accrual basis.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

3. Significant accounting policies (continued)

(r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing Company are accounted for as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholders' equity, in which case it is also disclosed as a component of shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Related parties

Parties are considered to be related to the Company if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Company and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10% of the capital of the Company or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars (“US\$”). The translations of US\$ amounts into Khmer Riel (“KHR”) are included solely for the compliance with the guidelines of the NBC relating to the preparation and presentation of the financial statements and have been made using the prescribed official exchange rate of US\$1: KHR4,075 published by the NBC on 31 December 2014 (31 December 2013: US\$1: KHR3,995). These convenience translations are not audited and should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

5. Cash on hand

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Head office	6,867	27,983	4,972	19,863
Branches	2,309	9,409	1,975	7,890
	<u>9,176</u>	<u>37,392</u>	<u>6,947</u>	<u>27,753</u>

The above amounts are analysed by currency as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	8,168	33,285	5,928	23,682
Khmer Riel	1,008	4,107	1,019	4,071
	<u>9,176</u>	<u>37,392</u>	<u>6,947</u>	<u>27,753</u>

6. Deposits and placements with banks

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	2,920	11,899	2,778	11,098
Saving accounts	620,020	2,526,582	172,736	690,081
	<u>622,940</u>	<u>2,538,481</u>	<u>175,514</u>	<u>701,179</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

6. Deposits and placements with banks (continued)

Deposits and placements with banks are analysed as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By currency:				
US Dollars	622,940	2,538,481	175,514	701,179
(b) By type:				
Current accounts				
National Bank of Cambodia	402	1,638	547	2,185
Acleda Bank Plc.	1,515	6,174	1,005	4,015
Rural Development Bank of Cambodia	-	-	99	396
Canadia Bank Plc.	503	2,050	503	2,009
Maruhan Japan Bank Plc.	500	2,037	624	2,493
	2,920	11,899	2,778	11,098
Savings accounts				
Acleda Bank Plc.	94,473	384,977	42,071	168,074
Canadia Bank Plc.	525,547	2,141,605	130,665	522,007
	620,020	2,526,582	172,736	690,081
	622,940	2,538,481	175,514	701,179
(c) By maturity:				
Within 1 month	622,940	2,538,481	175,514	701,179
(d) By interest rate (per annum)				
		2014		2013
Current accounts		Nil		Nil
Saving accounts		0.50% - 0.75%		0.50% - 0.75%

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

7. Statutory deposits

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory deposits on:				
Registered share capital	65,750	267,931	65,750	262,671

The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-00-006 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 5% of the Company's registered share capital. The deposit is refundable when the Company voluntarily liquidates and has no deposit liabilities.

This statutory deposit earns interest at the rate of 0.08% (2013: 0.12%) per annum.

8. Loans to customers

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Individual loans	4,328,664	17,639,306	3,143,838	12,559,633
Group loans	6,274	25,566	5,375	21,473
Loans to customers - gross	4,334,938	17,664,872	3,149,213	12,581,106
Allowances for bad and doubtful loans				
Specific	(9,160)	(37,327)	(9,371)	(37,437)
General	(5,773)	(23,525)	(6,337)	(25,316)
	(14,933)	(60,852)	(15,708)	(62,753)
Loans to customers	4,320,005	17,604,020	3,133,505	12,518,353

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

8. Loans to customers (continued)

The movements in allowances for bad and doubtful loans were as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of year	15,708	64,010	14,705	58,746
Addition during the year	3,805	15,505	1,003	4,007
Written off during the year	(4,580)	(18,663)	-	-
At end of year	<u>14,933</u>	<u>60,852</u>	<u>15,708</u>	<u>62,753</u>

Loans to customers are analysed as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	8,491	34,601	8,210	32,799
>1 to 3 months	22,358	91,109	28,657	114,485
>3 to 12 months	692,863	2,823,416	756,413	3,021,870
> 12 months	3,611,226	14,715,746	2,355,933	9,411,952
	<u>4,334,938</u>	<u>17,664,872</u>	<u>3,149,213</u>	<u>12,581,106</u>
(b) By currency:				
US Dollars	<u>4,334,938</u>	<u>17,664,872</u>	<u>3,149,213</u>	<u>12,581,106</u>
(c) By economic sector:				
Household/family	180,185	734,254	151,691	606,006
Agriculture	828,718	3,377,026	540,172	2,157,987
Construction	941,763	3,837,684	701,713	2,803,343
Transportation	1,330,245	5,420,748	1,070,274	4,275,745
Services	365,529	1,489,531	230,802	922,054
Trade and commerce	657,127	2,677,793	430,482	1,719,776
Staff loans	10,368	42,249	4,762	19,024
Other categories	21,003	85,587	19,317	77,171
	<u>4,334,938</u>	<u>17,664,872</u>	<u>3,149,213</u>	<u>12,581,106</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

8. Loans to customers (continued)

Loans to customers are analysed as follows: (continued)

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(d) By residency status:				
Residents	4,334,938	17,664,872	3,149,213	12,581,106
(e) By relationship:				
Related parties (staff loans)	10,368	42,249	4,762	19,024
Non-related parties	4,324,570	17,622,623	3,144,451	12,562,082
	4,334,938	17,664,872	3,149,213	12,581,106
(f) By location:				
Head office	3,138,889	12,790,972	2,303,997	9,204,468
Branch	1,196,049	4,873,900	845,216	3,376,638
	4,334,938	17,664,872	3,149,213	12,581,106
(g) By performance:				
Standard loans				
Secured	4,176,466	17,019,099	3,066,577	12,250,975
Unsecured	143,539	584,921	66,928	267,377
Sub-standard loans				
Secured	5,828	23,750	2,769	11,062
Unsecured	149	607	652	2,605
Doubtful loans				
Secured	115	468	4,266	17,043
Unsecured	448	1,826	389	1,554
Loss loans				
Secured	6,284	25,607	7,632	30,490
Unsecured	2,109	8,594	-	-
	4,334,938	17,664,872	3,149,213	12,581,106

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

8. Loans to customers (continued)

Loans to customers are analysed as follows (continued):

	2014	2013
(h) By interest rate (per annum):		
Group loan	20.40% - 33.60%	20.40% - 33.60%
Individual loans	0% - 33.60%	0% - 33.60%

9. Equity investment

This represents the investment in Credit Bureau Holding (Cambodia) (“CBH”) Ltd through the Association of Banks in Cambodia (“ABC”). CBH is one of the shareholders of Credit Bureau (Cambodia) Co., Ltd which is a Company operates as the leading provider of information, analytical tools and credit reporting services and Micro-finance Institutions and consumers in Cambodia.

10. Other assets

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interests receivable	53,330	217,320	40,394	161,374
Interest in suspense	(2,049)	(8,350)	(2,079)	(8,305)
Prepaid rent	33,647	137,111	34,450	137,627
Deposit in registered stock share of Consorzio Etimos S.C. (*)	6,553	26,703	6,553	26,179
Others	7,808	31,818	10,807	43,174
	<u>99,289</u>	<u>404,602</u>	<u>90,125</u>	<u>360,049</u>

(*) In accordance with the loan agreement with Consorzio Etimos S.C., the Company is required to subscribe a number of Consorzio Etimos S.C. shares at EURO258 per share with total value of EURO4,386 (equivalent to US\$6,553). This is to comply with the requirement of Consorzio Etimos S.C. and the subscribed amount represents the deposit which will be recoverable and repaid following the loan maturity date or when the Company pay off the loan.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

11. Property and equipment

2014	Leasehold improvements US\$	Office equipment US\$	Computer & IT equipment US\$	Furniture & fixtures US\$	Motor vehicles US\$	US\$	Total KHR'000 (Note 4)
Cost							
At 1 January 2014	9,959	4,287	25,236	15,754	44,137	99,373	404,945
Additions	680	1,107	8,898	1,618	-	12,303	50,135
At 31 December 2014	10,639	5,394	34,134	17,372	44,137	111,676	455,080
Less: Accumulated depreciation							
At 1 January 2014	1,828	3,419	19,862	11,455	35,685	72,249	294,414
Depreciation for the year	1,600	494	7,136	1,478	2,112	12,820	52,242
At 31 December 2014	3,428	3,913	26,998	12,933	37,797	85,069	346,656
Carrying amounts							
At 31 December 2014	7,211	1,481	7,136	4,439	6,340	26,607	108,424

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

11. Property and equipment (continued)

2013	Leasehold improvements US\$	Office equipment US\$	Computer & IT equipment US\$	Furniture & fixtures US\$	Motor vehicles US\$	US\$	Total KHR'000 (Note 4)
Cost							
At 1 January 2013	8,283	4,167	19,414	15,533	44,137	91,534	365,678
Additions	1,676	120	6,342	221	-	8,359	33,394
Written off	-	-	(520)	-	-	(520)	(2,077)
At 31 December 2013	9,959	4,287	25,236	15,754	44,137	99,373	396,995
Less: Accumulated depreciation							
At 1 January 2013	608	3,128	14,945	10,025	32,867	61,573	245,984
Depreciation for the year	1,220	291	5,379	1,430	2,818	11,138	44,496
Written off	-	-	(462)	-	-	(462)	(1,845)
At 31 December 2013	1,828	3,419	19,862	11,455	35,685	72,249	288,635
Carrying amounts							
At 31 December 2013	8,131	868	5,374	4,299	8,452	27,124	108,360

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

12. Income tax

(a) Deferred tax, net

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deferred tax assets	6,361	25,921	6,143	24,541
Deferred tax liabilities	(272)	(1,108)	(298)	(1,190)
	<u>6,089</u>	<u>24,813</u>	<u>5,845</u>	<u>23,351</u>

The movement of net deferred tax assets is as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of year	5,845	23,819	5,112	20,423
Credited to income statement	244	994	733	2,928
At end of year	<u>6,089</u>	<u>24,813</u>	<u>5,845</u>	<u>23,351</u>

Deferred tax assets/(liabilities) are attributable to the following:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for provident benefits	6,361	25,921	6,143	24,541
Depreciation and amortisation	(272)	(1,108)	(298)	(1,190)
	<u>6,089</u>	<u>24,813</u>	<u>5,845</u>	<u>23,351</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

12. Income tax (continued)

(b) Current income tax liability

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at beginning of year	32,637	132,996	20,137	80,448
Current income tax expense	33,193	135,261	37,382	149,341
Income tax paid	(37,726)	(153,733)	(24,882)	(99,404)
Balance at end of year	<u>28,104</u>	<u>114,524</u>	<u>32,637</u>	<u>130,385</u>

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

(c) Income tax expense

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	33,193	135,261	37,382	149,341
Deferred tax expense	(244)	(994)	(733)	(2,928)
	<u>32,949</u>	<u>134,267</u>	<u>36,649</u>	<u>146,413</u>

The reconciliation of income tax expense computed at the statutory tax rate of 20% to the income tax expense shown in the income statement is as follows:

	2014			2013		
	US\$	KHR'000 (Note 4)	%	US\$	KHR'000 (Note 4)	%
Profit before income tax	141,804	577,851		155,544	621,398	
Income tax using statutory rate	28,361	115,571	20	31,109	124,280	20
Non-deductible expenses	3,235	13,183	2	6,273	25,061	4
Temporary difference	1,353	5,513	1	(733)	(2,928)	-
Income tax expense	<u>32,949</u>	<u>134,267</u>	<u>23</u>	<u>36,649</u>	<u>146,413</u>	<u>24</u>

The calculation of taxable income is subject to the review and approval of the tax authorities.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

13. Amounts due to shareholders

	Note	2014		2013	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Advance from shareholders					
Mr. An Bun Hak	(i)	199,005	810,946	-	-
Ms. Sreng Sive Chheng	(i)	53,068	216,252	-	-
Ms. Sarun Vithourat	(i)	26,534	108,126	-	-
		<u>278,607</u>	<u>1,135,324</u>	<u>-</u>	<u>-</u>
Borrowings from shareholders					
Mr. An Bun Hak		-	-	300,000	1,198,500
Ms. Sreng Sive Chheng		-	-	175,000	699,125
Mr. Pa Ponnak Rithy	(ii)	10,000	40,750	20,000	79,900
		<u>288,607</u>	<u>1,176,074</u>	<u>495,000</u>	<u>1,977,525</u>

- (i) This represents cash received in advance from the shareholders for the plan to increase share capital of the Company.

On 29 December 2014, the Company submitted a request to the National Bank of Cambodia ("NBC") to increase the Company's share capital from US\$1,315,000 to US\$3,075,000 for its additional 176,000 shares with par value of US\$10 per share. These additional shares will be issued to Mr. An Bun Hak for 15,000 shares, Ms. Sreng Sive Chheng for 4,000 shares, Ms. Sarun Vithourat for 2,000 shares and a potential new shareholder, Gojo & Company, Inc. for 155,000 shares. This request was obtained a principal approval from the NBC on 30 March 2015.

- (ii) This represents borrowing from shareholders which is unsecured and will mature within 12 months from 31 December 2014, and bear interest at 10% (2013: 10%) per annum.

14. Borrowings

	Note	2014		2013	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
KIVA Microfunds	(i)	124,230	506,237	114,467	457,295
Gojo & Company, Inc.	(ii)	2,056,385	8,379,769	-	-
Conorzio Etimos S.C.		-	-	79,424	317,299
Luxembourg Microfinance and Development Fund SICAV	(iii)	525,000	2,139,375	600,000	2,397,000
Maruhan Japan Bank Plc.				60,000	239,700
Aceda Bank Plc.	(iv)	140,000	570,500	220,000	878,900
Mr. So Khomrithykun	(v)	100,000	407,500	100,000	399,500
		<u>2,945,615</u>	<u>12,003,381</u>	<u>1,173,891</u>	<u>4,689,694</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

14. Borrowings (continued)

(iv) Aceda Bank Plc.

Terms	Nine years maturing on: First loan April 2015 Second loan July 2014	
Total credit facilities	First loan	US\$100,000
	Second loan	US\$100,000
Repayment	First loan Principal	US\$100,000 on 3 April 2015
	Second loan Principal	US\$100,000 on 15 August 2014
Interest rate	First loan	12.50% per annum
	Second loan	10% per annum
Security	Unsecured	

(v) Mr. So Khornrithykun

Terms	One year maturing on: First loan 1 February 2015	
Total credit facilities	First loan	US\$100,000
Repayment	First loan	Monthly interest payment Principal to be paid by the end of loan contract.
Interest rate	First loan	10% per annum
Security	Unsecured	

The above amounts are analysed as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
1 to 5 years	2,945,615	12,003,381	1,173,891	4,689,694
(b) By currency:				
US Dollars	2,945,615	12,003,381	1,173,891	4,689,694
(c) By interest rate (per annum):				
		2014		2013
US Dollars		8% - 12.5%		8% - 12.5%

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

15. Provident benefits

The movements in provision for provident benefits are as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance as at 1 January	61,429	250,323	50,940	203,506
Payment during the year	(14,756)	(60,131)	(4,982)	(19,903)
Charge during the year	7,853	32,001	7,127	28,472
Contribution from staff during the year	9,085	37,022	8,344	33,334
	<u>63,611</u>	<u>259,215</u>	<u>61,429</u>	<u>245,409</u>

16. Other liabilities

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest payable	21,739	88,586	24,852	99,284
Insurance for staff	5,321	21,683	5,470	21,853
Accrued professional fees	5,144	20,962	4,411	17,622
Salary and withholding tax payable	4,251	17,323	5,565	22,231
Others	3,871	15,774	4,228	16,891
	<u>40,326</u>	<u>164,328</u>	<u>44,526</u>	<u>177,881</u>

17. Share capital and share premium

a) Share capital

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
131,500 shares of US\$10 each:				
Registered, issued and fully paid 131,500 shares	<u>1,315,000</u>	<u>5,358,625</u>	<u>1,315,000</u>	<u>5,253,425</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

17. Share capital and share premium (continued)

a) Share capital (continued)

On 18 July 2014, the Bank's shareholders, Ms. Sreng Sive Chheng acquired 2,500 shares from Ms. Buy Sivantha and Mr. An Bun Hak acquired 15,000 shares from Mr. Uong Kimseng for US\$13.27 per share respectively.

Mr. Pa Ponnak Rithy (staff representative) also transferred his 1,055 shares for US\$13.27 per share to the following:

- Ms. Sreng Sive Chheng: 500 shares;
- Mr. Chet Chan Prasoeur: 500 shares; and
- Mr. Pa Ponnak Rithy: 55 shares.

The details of shareholding are as follows:

	2014			2013		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Mr. An Bun Hak	31.94	42,000	420,000	20.53	27,000	270,000
Ms. Sarun Vithourat	30.42	40,000	400,000	30.42	40,000	400,000
Ms. Sreng Sive Chheng	29.66	39,000	390,000	27.38	36,000	360,000
Mr. Uong Kimseng	-	-	-	11.41	15,000	150,000
Mr. Chet Chan Prasoeur	4.18	5,500	55,000	3.80	5,000	50,000
Mr. Pa Ponnak Rithy	3.33	4,385	43,850	3.29	4,330	43,300
Ms. Buy Sivantha	-	-	-	1.90	2,500	25,000
Mr. Pa Ponnak Rithy (staff representative)	0.47	615	6,150	1.27	1,670	16,700
	<u>100</u>	<u>131,500</u>	<u>1,315,000</u>	<u>100</u>	<u>131,500</u>	<u>1,315,000</u>

b) Share premium

On 3 September 2012, the Board of Directors decided to increase the number of the Company's share capital from 80,000 to 131,500 that is 51,500 new shares at US\$12.35 each. The excess of US\$2.35 per share over par value was recognised as share premium. The increase was approved by NBC and the Ministry of Commerce on 23 November 2012 and 13 March 2013 respectively.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

18. Interest income

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans and advances	832,639	3,393,004	794,290	3,173,189
Deposits and placements with banks	2,188	8,916	732	2,924
	<u>834,827</u>	<u>3,401,920</u>	<u>795,022</u>	<u>3,176,113</u>

19. Interest expense

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings	76,192	310,483	65,651	262,276
Amount due to shareholders	49,004	199,691	48,069	192,036
Banks	17,318	70,571	36,470	145,697
	<u>142,514</u>	<u>580,745</u>	<u>150,190</u>	<u>600,009</u>

20. Operating income

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Penalty income	4,938	20,122	3,495	13,962
Recovery on loans written off	966	3,937	913	3,647
Others	8,896	36,251	8,044	32,136
	<u>14,800</u>	<u>60,310</u>	<u>12,452</u>	<u>49,745</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

21. General and administrative expenses

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	361,669	1,473,801	322,883	1,289,918
Employees training	2,177	8,871	282	1,127
Depreciation expenses	12,820	52,242	11,138	44,496
Professional fees	15,756	64,206	7,008	27,997
Office rental	64,118	261,281	57,827	231,019
Motor vehicle operating expense	22,081	89,980	21,554	86,108
Withholding tax	10,201	41,569	7,087	28,314
Stationery and supplies expenses	5,060	20,620	4,973	19,867
Memberships expenses	9,576	39,022	9,103	36,366
Provident benefits (Note 15)	7,853	32,001	7,127	28,472
Security expenses	3,982	16,227	6,864	27,422
Fees and commission	2,880	11,735	5,550	22,172
Utilities expenses	6,104	24,874	5,331	21,297
Communication	5,240	21,353	4,722	18,864
Business meals and entertainment	4,438	18,085	4,189	16,735
Per-diem and incidental travel	3,948	16,088	2,426	9,692
Insurance	1,641	6,687	1,442	5,761
License fees expense	10,141	41,324	1,567	6,260
Repair and maintenance	329	1,341	513	2,049
Marketing and advertising expenses	449	1,830	412	1,646
Others	11,041	44,992	18,739	74,862
	<u>561,504</u>	<u>2,288,129</u>	<u>500,737</u>	<u>2,000,444</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

22. Net cash (used in)/generated from operating activities

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	141,804	577,851	155,544	621,398
Adjustments for:				
Depreciation expenses	12,820	52,242	11,138	44,496
Allowance for bad and doubtful loans	3,805	15,505	1,003	4,007
Provident benefits	7,853	32,001	7,127	28,472
Property and equipment written off	-	-	58	232
	<u>166,282</u>	<u>677,599</u>	<u>174,870</u>	<u>698,605</u>
Changes in:				
Loans and advances to customers	(1,190,305)	(4,850,493)	30,302	121,056
Other assets	(9,164)	(37,343)	(12,654)	(50,552)
Amount due to shareholders	(206,393)	(841,052)	20,000	79,900
Other liabilities	(4,200)	(17,115)	8,277	33,067
Provision for provident benefits	9,085	37,022	8,344	33,334
	<u>(1,234,695)</u>	<u>(5,031,382)</u>	<u>229,139</u>	<u>915,410</u>
Income tax paid	(37,726)	(153,733)	(24,882)	(99,404)
Provident benefits paid	(14,756)	(60,131)	(4,982)	(19,903)
	<u>(1,287,177)</u>	<u>(5,245,246)</u>	<u>199,275</u>	<u>796,103</u>

23. Cash and cash equivalents

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	9,176	37,392	6,947	27,753
Deposits and placements with banks	622,940	2,538,481	175,514	701,179
	<u>632,116</u>	<u>2,575,873</u>	<u>182,461</u>	<u>728,932</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

24. Commitments and contingencies

(a) Lease commitments

The Company has lease commitments for the lease of its headquarters and provincial offices as follows:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Less than 1 year	36,650	149,349	40,830	163,116
Between 1 and 5 years	142,220	579,547	70,820	282,926
	<u>178,870</u>	<u>728,896</u>	<u>111,650</u>	<u>446,042</u>

(b) Taxation contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects since the incorporation of the Company could be significant.

25. Related party transactions and balances

(a) Related party transactions:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of Directors/Key management				
Salaries and other benefits	<u>137,331</u>	<u>559,624</u>	<u>91,040</u>	<u>363,705</u>
Interest expenses from amounts due to shareholders	<u>49,004</u>	<u>196,691</u>	<u>48,069</u>	<u>192,036</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

25. Related party transactions and balances (continued)

(b) Related party balances:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from shareholders				
Mr. An Bun Hak	-	-	300,000	1,198,500
Ms. Sreng Sive Chheng	-	-	175,000	699,125
Mr. Pa Ponnak Rithy	10,000	40,750	20,000	79,900
	<u>10,000</u>	<u>40,750</u>	<u>495,000</u>	<u>1,977,525</u>
Capital advance contribution				
Mr. An Bun Hak	199,005	810,946	-	-
Ms. Sreng Sive Chheng	53,068	216,252	-	-
Mr. Pa Ponnak Rithy	26,534	108,126	-	-
	<u>278,607</u>	<u>1,135,324</u>	<u>-</u>	<u>-</u>
	<u>288,607</u>	<u>1,176,074</u>	<u>495,000</u>	<u>1,977,525</u>

26. Financial risk management

The guidelines and policies adopted by the Company to manage the risks that arise in the conduct of their business activities are as follows:

(a) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management

(a) Credit risk (continued)

The Company holds collateral against loans to customers in the form of mortgage interests over property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as doubtful.

(i) Credit risk measurement

The Company assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flow. The credit committees are responsible for approving loans to customers.

(ii) Risk limit control and mitigation policies

The Company manages limits and controls the concentration of credit risk whenever it is identified.

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to individual customers.

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of loans less provisions for doubtful loans. Loans are also provided to those borrowers that are deemed profitable.

(iii) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with NBC's Prakas No B7-02-186 dated 13 September 2002 on loan classification and provisioning. Refer to Note 3(g) for details.

(iv) Exposure to credit risk:

	2014		2013	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	4,320,005	17,604,020	3,133,505	12,518,352
Individually impaired	14,933	60,852	15,708	62,754
	<u>4,334,938</u>	<u>17,664,872</u>	<u>3,149,213</u>	<u>12,581,106</u>

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers.

In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days. A minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(g).

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 30 days for both short-term loans and long-term loans, unless other information is available to indicate otherwise.

(b) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

The operational risk management entail the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Khmer Riel. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by the National Bank of Cambodia.

(i) Foreign currency exchange risk

Concentration of currency risk

The aggregate amounts of assets and liabilities, by currency denomination, are as follows:

	US\$ equivalent		Total US\$
	US\$	KHR	
31 December 2014			
Assets			
Cash on hand	8,168	1,008	9,176
Deposits and placements with banks	622,940	-	622,940
Statutory deposits	65,750	-	65,750
Loans and advances to customers	4,320,005	-	4,320,005
Equity investment	10,000	-	10,000
Other assets	99,289	-	99,289
Total financial assets	5,126,152	1,008	5,127,160

Maxima Mikroheranhvatho Plc.

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The aggregate amounts of assets and liabilities, by currency denomination, are as follows: (continued)

	US\$ equivalent		Total
	US\$	KHR	US\$
Liabilities			
Amount due to shareholders	288,607	-	288,607
Borrowings	2,945,615	-	2,945,615
Provident benefits	63,611	-	63,611
Other liabilities	40,326	-	40,326
Total financial liabilities	<u>3,338,159</u>	<u>-</u>	<u>3,338,159</u>
Net financial asset position	<u>1,787,993</u>	<u>1,008</u>	<u>1,789,001</u>
31 December 2013			
Total financial assets	3,480,822	1,019	3,481,841
Total financial liabilities	1,774,846	-	1,774,846
Net financial asset position	<u>1,705,976</u>	<u>1,019</u>	<u>1,706,995</u>

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loans, bank deposits and borrowings.

The following table indicates the effective interest rates at the reporting date and the periods in which the financial instruments re-price or mature, whichever is earlier.

Maxima Mikroheranhvatho Plc

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2014	Up to 1 month US\$	>1–3 months US\$	>3–12 months US\$	1–5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	9,176	9,176	
Statutory deposits	-	-	65,750	-	-	-	65,750	
Deposits and placements with banks	620,020	-	-	-	-	2,920	622,940	
Loans and advances to customers								
- Performing	257,491	467,752	1,880,983	1,703,411	-	10,368	4,320,005	0%-33.60%
- Non performing	5,899	4,108	4,926	-	-	-	14,933	22.80%-33.60%
- Allowance	-	-	-	-	-	(14,933)	(14,933)	
Equity investment	-	-	-	-	-	10,000	10,000	
Other assets	-	-	-	-	-	99,289	99,289	
	<u>883,410</u>	<u>471,860</u>	<u>1,951,659</u>	<u>1,703,411</u>	<u>-</u>	<u>116,820</u>	<u>5,127,160</u>	
Liabilities								
Amount due to shareholders	-	288,607	-	-	-	-	288,607	0%-10%
Borrowings	-	325,000	2,520,615	100,000	-	-	2,945,615	0%-11.25%
Provident benefits	-	-	-	-	-	63,611	63,611	
Other liabilities	-	-	-	-	-	40,326	40,326	
	<u>-</u>	<u>613,607</u>	<u>2,520,615</u>	<u>100,000</u>	<u>-</u>	<u>103,937</u>	<u>3,338,159</u>	
Maturity gap	<u>883,410</u>	<u>(141,747)</u>	<u>(568,956)</u>	<u>1,603,411</u>	<u>-</u>	<u>12,883</u>	<u>1,789,001</u>	

Maxima Mikroheranhvatho Plc

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(c) Market risk (continued)

31 December 2013	Up to 1 month US\$	>1-3 months US\$	>3-12 months US\$	1-5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	6,947	6,947	
Statutory deposits	-	-	65,750	-	-	-	65,750	
Deposits and placements with banks	172,736	-	-	-	-	2,778	175,514	
Loans and advances to customers								
- Performing	13,213	44,253	835,365	2,235,912	-	4,762	3,133,505	0%-33.6%
- Non performing	6,954	1,081	5,801	1,872	-	-	15,708	0%-33.6%
- Allowance	-	-	-	-	-	(15,708)	(15,708)	
Equity investment	-	-	-	-	-	10,000	10,000	
Other assets	-	-	-	-	-	90,125	90,125	
	<u>192,903</u>	<u>45,334</u>	<u>906,916</u>	<u>2,237,784</u>	<u>-</u>	<u>98,904</u>	<u>3,481,841</u>	
Liabilities								
Amount due to shareholders	-	-	495,000	-	-	-	495,000	10%
Borrowings	-	-	-	1,173,891	-	-	1,173,891	8%-12.5%
Provident benefits	-	-	-	-	-	61,429	61,429	
Other liabilities	-	-	-	-	-	44,526	44,526	
	<u>-</u>	<u>-</u>	<u>495,000</u>	<u>1,173,891</u>	<u>-</u>	<u>105,955</u>	<u>1,774,846</u>	
Maturity gap	<u>192,903</u>	<u>45,334</u>	<u>411,916</u>	<u>1,063,893</u>	<u>-</u>	<u>(7,051)</u>	<u>1,706,995</u>	

Maxima Mikroheranhvatho Plc

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate liabilities at fair value through profit or loss, and the Company does not have derivatives as at the year end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment.

Maxima Mikroheranhvatho Plc

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2014	Up to 1 month US\$	2–3 months US\$	4–12 months US\$	1–5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Assets							
Cash on hand	9,176	-	-	-	-	-	9,176
Statutory deposits	-	-	-	-	65,750	-	65,750
Deposits and placements with banks	622,940	-	-	-	-	-	622,940
Loans to customers	258,029	468,829	1,885,830	1,707,317	-	-	4,320,005
Equity investment	-	-	-	-	-	10,000	10,000
Other assets	51,281	-	-	-	-	6,553	57,834
	<u>941,426</u>	<u>468,829</u>	<u>1,885,830</u>	<u>1,707,317</u>	<u>65,750</u>	<u>16,553</u>	<u>5,085,705</u>
Liabilities							
Amount due to shareholders	-	288,607	-	-	-	-	288,607
Borrowings	-	325,000	2,520,615	100,000	-	-	2,945,615
Provident benefits	-	-	-	-	-	63,611	63,611
Other liabilities	35,005	-	-	-	-	5,321	40,326
	<u>35,005</u>	<u>613,607</u>	<u>2,520,615</u>	<u>100,000</u>	<u>-</u>	<u>68,932</u>	<u>3,338,159</u>
Maturity gap	<u>906,421</u>	<u>(144,778)</u>	<u>(634,785)</u>	<u>1,607,317</u>	<u>65,750</u>	<u>(52,379)</u>	<u>1,747,546</u>

Maxima Mikroheranhvatho Plc

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2013	Up to 1 month US\$	2 – 3 months US\$	4 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Assets							
Cash on hand	6,947	-	-	-	-	-	6,947
Statutory deposits	-	-	-	-	65,750	-	65,750
Deposits and placements with banks	175,514	-	-	-	-	-	175,514
Loans to customers	13,213	44,253	840,127	2,235,912	-	-	3,133,505
Equity investment	-	-	-	-	-	10,000	10,000
Other assets	38,315	-	-	-	-	6,553	44,868
	<u>233,989</u>	<u>44,253</u>	<u>840,127</u>	<u>2,235,912</u>	<u>65,750</u>	<u>16,553</u>	<u>3,436,584</u>
Liabilities							
Amount due to shareholders	-	-	495,000	-	-	-	495,000
Borrowings	-	-	-	1,173,891	-	-	1,173,891
Provident benefits	-	-	-	-	-	61,429	61,429
Other liabilities	39,056	-	-	-	-	5,470	44,526
	<u>39,056</u>	<u>-</u>	<u>495,000</u>	<u>1,173,891</u>	<u>-</u>	<u>66,899</u>	<u>1,774,846</u>
Maturity gap	<u>194,933</u>	<u>44,253</u>	<u>345,127</u>	<u>1,062,021</u>	<u>65,750</u>	<u>(50,346)</u>	<u>1,661,738</u>

Maxima Mikroheranhvatho Plc

Notes to the financial statements (continued) for the year ended 31 December 2014

26. Financial risk management (continued)

(e) Capital management

(i) *Regulatory capital*

The Company's lead regulator, the NBC, sets and monitors capital requirements for the Company as a whole.

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(ii) *Capital allocation*

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

27. Fair values of financial assets and liabilities

The Company did not have financial instruments measured at fair value.

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Company's financial assets and liabilities. Fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values.