

MAXIMA MICROFINANCE PLC.
(Registration No. 00005996)

**REPORT OF THE BOARD OF DIRECTORS
AND AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2017

MAXIMA MICROFINANCE PLC.

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FOR THE YEAR ENDED 31 DECEMBER 2017**

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CORPORATE INFORMATION

Company	Maxima Microfinance Plc.	
Registration No	00005996	
Registered office	#21AB, Street 271 Sangkat Phsar Doeum Thkov Khan Chamkamorn Phnom Penh, Kingdom of Cambodia	
Shareholders	Gojo & Company, Inc. Mr. An Bunhak Ms. Sreng Sivechheng Ms. Sarun Vithourat Mr. Chet Chanprasoeur Mr. Pa Ponnak Rithy Mr. Pa Ponnak Rithy (staff representative)	
Board of Directors	Mr. An Bunhak Mr. Chet Chanprasoeur Mr. Muy Mara Mr. Taejun Shin Mr. Sanjay Gandhi Mr. Yean Rithy Mr. Ao Veng	Non-Executive Director/Chairman Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director/Independent Board Member Non-Executive Director/Independent Board Member
Management team	Mr. Pa Ponnak Rithy Ms. Sreng Sivechheng Mr. Ngory Sorn Mr. Khean Darith Mr. Tann Hok Heng Ms. Sim Soupheakna Mr. Khiev Sengdy	Chief Executive Officer Chief Financial Officer Acting Head of Credit Department Head of IT Department Head of Internal Audit Department Head of Human Resource Department Head of Marketing Department
Auditors	Deloitte (Cambodia) Co., Ltd.	



MAXIMA
Microfinance

គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ “ម៉ាកស៊ីម៉ា” ភីអិលស៊ី

MAXIMA Microfinance Plc.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report together with the audited financial statements of Maxima Microfinance Plc. (the “Company”) for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of micro-finance services. Those services comprise granting credit for poor and low income households and small enterprise operating in the Kingdom of Cambodia.

FINANCIAL RESULTS

The financial results of the Company for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	712,824	2,877,671	526,682	2,126,215
Income tax expense	(187,463)	(756,789)	(133,168)	(537,599)
Net profit for the year	525,361	2,120,882	393,514	1,588,616

RESERVES AND PROVISIONS

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

DIVIDENDS

The Company has declared and paid dividends amounting to US\$74,768 in respect of the Company’s net profit for the year ended 31 December 2016. (2016: US\$52,711 in respect of the Company’s net profit for the year ended 31 December 2015).

SHARE CAPITAL

As at 31 December 2017, the share capital of the Company was US\$5,095,290 (2016: US\$5,095,290).

BAD AND DOUBTFUL LOANS

Before the Company’s financial statements were drawn up, the Board of Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans or making allowance for bad and doubtful loans. The Board of Directors has satisfied itself that all known bad loans have been written off and that adequate allowance has been made for bad and doubtful loans.

At the date of this report and based on the best of knowledge, the Board of Directors is not aware of any circumstances which would render the amount of the allowance for bad and doubtful loans in the financial statements of the Company inadequate to any material extent.

ASSETS

Before the Company's financial statements were drawn up, the Board of Directors took reasonable steps to ensure that any assets, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company, had been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

At the date of this report and based on the best of knowledge, 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 Company's financial statements misleading or inappropriate in any material respect.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- i) no charge on the assets of the Company which has arisen since the end of the year which secures the liabilities of any other person; and
- ii) no contingent liability in respect of the Company that has arisen since the end of the 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 after the end of the 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 in any material respect.

ITEMS OF AN UNUSUAL NATURE

The Company's financial performance for the year ended 31 December 2017 was not, in the opinion of the Board of Directors, materially affected by any items, transactions or events of a material and unusual nature.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of Board of Directors, to substantially affect the financial performance of the Company for the period in which this report is made.

EVENTS AFTER THE REPORTING DATE

No significant events occurred after the balance sheet date requiring disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements if any.

THE BOARD OF DIRECTORS

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

- Mr. An Bunhak Non-Executive Director/Chairman
- Mr. Chet Chanprasoeur Non-Executive Director
- Mr. Muy Mara Non-Executive Director
- Mr. Taejun Shin Non-Executive Director
- Mr. Sanjay Gandhi Non-Executive Director
- Mr. Yean Rithy Non-Executive Director/Independent Board Member
- Mr. Ao Veng Non-Executive Director/Independent Board Member

DIRECTORS' INTERESTS

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

	31 December 2017		31 December 2016	
	Holding %	Number of shares of US\$10 each	Holding %	Number of shares of US\$100 each
Mr. An Bunhak	19.63%	100,000	19.63%	100,000
Mr. Chet Chanprasoeur	1.08%	5,500	1.08%	5,500

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the objective of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit by reason of a contract made by the Company other than as disclosed in the financial statements.

BOARD OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible to ascertain that the financial statements are properly drawn up, so as to present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

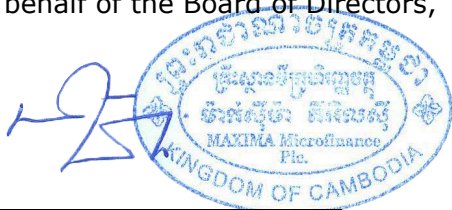
- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the requirements of Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, or, if there have been any departures in the interests of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) 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
- v) effectively control and direct the Company and is involved 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 confirm that the Company has complied with the above requirements in preparing the financial statements.

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements, together with the notes thereto, present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,



Mr. An Bunhak
Chairman

Phnom Penh, Kingdom of Cambodia
Date: 24 April 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Maxima Microfinance Plc.

Opinion

We have audited the financial statements of Maxima Microfinance 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 as set out on pages 9 to 50.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting 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 ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the other information. The other information comprises the corporate information and the Report of the Board of Directors as set out on page 1 and pages 2 to 5, respectively, but does not include the financial statements and our auditor's report thereon.

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 and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and relevant accounting 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 judgement 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.

For Deloitte (Cambodia) Co., Ltd.



Ung Kimsopheaktra
Director

Phnom Penh, Kingdom of Cambodia
Date: 24 April 2018

MAXIMA MICROFINANCE PLC.**BALANCE SHEET
AS AT 31 DECEMBER 2017**

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	4	10,288	41,533	10,235	41,319
Balances with the NBC	5	255,965	1,033,331	255,580	1,031,776
Balances with other banks	6	1,070,755	4,322,638	1,061,245	4,284,246
Loans to customers	7	15,007,833	60,586,622	9,727,358	39,269,344
Equity investment	8	10,000	40,370	10,000	40,370
Other assets	9	400,416	1,616,477	162,139	654,555
Property and equipment	10	53,841	217,356	42,325	170,866
Deferred tax assets	15(a)	58,631	236,693	49,717	200,708
TOTAL ASSETS		16,867,729	68,095,020	11,318,599	45,693,184
LIABILITIES AND EQUITY					
LIABILITIES					
Amounts due to shareholders	11	3,480,000	14,048,760	520,000	2,099,240
Borrowings	12	4,863,901	19,635,568	2,889,834	11,666,260
Provident fund obligations	13	127,666	515,388	92,873	374,928
Other liabilities	14	192,145	775,688	91,232	368,304
Current income tax liability	15(b)	164,844	665,475	136,080	549,355
TOTAL LIABILITIES		8,828,556	35,640,879	3,730,019	15,058,087
EQUITY					
Share capital	16	5,095,290	20,569,686	5,095,290	20,569,686
Share premium	17	1,538,174	6,209,608	1,538,174	6,209,608
Reserves		87,537	353,387	67,862	273,959
Retained earnings		1,318,172	5,321,460	887,254	3,581,844
TOTAL EQUITY		8,039,173	32,454,141	7,588,580	30,635,097
TOTAL LIABILITIES AND EQUITY		16,867,729	68,095,020	11,318,599	45,693,184

The accompanying notes on pages 14 to 50 form an integral part of these financial statements.

MAXIMA MICROFINANCE PLC.**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Interest income	18	2,534,604	10,232,196	1,926,666	7,777,951
Interest expense	19	(442,426)	(1,786,074)	(223,868)	(903,755)
Net interest income		2,092,178	8,446,122	1,702,798	6,874,196
Fee and commission income	20	222,350	897,627	-	-
Fee and commission expense		(18,604)	(75,104)	(21,220)	(85,665)
Net fee and commission income		203,746	822,523	(21,220)	(85,665)
Other operating income		56,033	226,205	63,140	254,896
Total operating income		2,351,957	9,494,850	1,744,718	7,043,427
Personnel expenses	21	(916,942)	(3,701,695)	(641,270)	(2,588,807)
Other operating expenses	22	(655,474)	(2,646,148)	(501,396)	(2,024,136)
Depreciation expenses	10	(25,661)	(103,593)	(21,273)	(85,879)
Allowance for bad and doubtful loans	7	(41,056)	(165,743)	(54,097)	(218,390)
Profit before income tax		712,824	2,877,671	526,682	2,126,215
Income tax expense	15(c)	(187,463)	(756,789)	(133,168)	(537,599)
Net profit for the year		525,361	2,120,882	393,514	1,588,616

The accompanying notes on pages 14 to 50 form an integral part of these financial statements.

MAXIMA MICROFINANCE PLC.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital	Share premium	Reserves	Retained earnings	Total
	US\$	US\$	US\$	US\$	US\$
Year ended 31 December 2017					
At 1 January 2017	5,095,290	1,538,174	67,862	887,254	7,588,580
Transfer to reserves	-	-	19,675	(19,675)	-
Dividends paid	-	-	-	(74,768)	(74,768)
Net profit for the year	-	-	-	525,361	525,361
At 31 December 2017	<u>5,095,290</u>	<u>1,538,174</u>	<u>87,537</u>	<u>1,318,172</u>	<u>8,039,173</u>
<i>At KHR'000 equivalent</i>	<u>20,569,686</u>	<u>6,209,608</u>	<u>353,387</u>	<u>5,321,460</u>	<u>32,454,141</u>
At 1 January 2016	3,075,000	696,017	53,990	560,323	4,385,330
Additional share capital	2,020,290	842,157	-	-	2,862,447
Transfer to reserves	-	-	13,872	(13,872)	-
Dividends paid	-	-	-	(52,711)	(52,711)
Net profit for the year	-	-	-	393,514	393,514
At 31 December 2016	<u>5,095,290</u>	<u>1,538,174</u>	<u>67,862</u>	<u>887,254</u>	<u>7,588,580</u>
<i>At KHR'000 equivalent</i>	<u>20,569,686</u>	<u>6,209,608</u>	<u>273,959</u>	<u>3,581,844</u>	<u>30,635,097</u>

The accompanying notes on pages 14 to 50 form an integral part of these financial statements.

MAXIMA MICROFINANCE PLC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Profit before income tax		712,824	2,877,671	526,682	2,126,215
<i>Adjustments:</i>					
Depreciation expenses	10	25,661	103,593	21,273	85,879
Allowance for bad and doubtful loans	7	41,056	165,743	54,097	218,390
Provident fund contributions by the Company	13	18,622	75,177	12,893	52,049
Provident fund contributions by staff	13	20,178	81,459	14,715	59,404
Loss on disposal of property and equipment		3,080	12,434	285	1,151
Effect on exchange loss for borrowing obtained		176,268	711,594	-	-
Net interest income		(2,092,178)	(8,446,122)	(1,702,798)	(6,874,196)
		(1,094,489)	(4,418,451)	(1,072,853)	(4,331,108)
<i>Changes in working capital:</i>					
Loans to customers		(5,321,531)	(21,483,021)	(1,819,175)	(7,344,010)
Other assets		(197,356)	(796,726)	(6,327)	(25,542)
Balances with the NBC		-	-	(101,015)	(407,798)
Other liabilities		15,838	63,937	25,234	101,870
<i>Cash used in operations</i>		(5,503,049)	(22,215,810)	(1,901,283)	(7,675,480)
Interest received		2,493,683	10,066,998	1,909,976	7,710,573
Interest paid		(357,351)	(1,442,626)	(228,201)	(921,247)
Income tax paid	15(b)	(167,613)	(676,654)	(103,734)	(418,775)
Provident fund paid	13	(4,007)	(16,176)	(10,270)	(41,460)
Net cash used in operating activities		(4,632,826)	(18,702,719)	(1,406,365)	(5,677,497)
Cash flows from investing activities					
Purchases of property and equipment	10	(40,257)	(162,518)	(25,113)	(101,381)
Net cash used in investing activities		(40,257)	(162,518)	(25,113)	(101,381)
Cash flows from financing activities					
Dividends paid		(74,768)	(301,838)	(52,711)	(212,794)
Proceeds from borrowings		6,165,265	24,889,175	3,668,185	14,808,463
Repayments of borrowings		(1,407,466)	(5,681,940)	(1,369,045)	(5,526,835)
Net cash generated from financing activities		4,683,031	18,905,397	2,246,429	9,068,834
Net increase in cash and cash equivalents		9,948	40,160	814,951	3,289,956
Cash and cash equivalents at the beginning of the year		1,072,295	4,328,855	257,344	1,042,243
Currency translation differences		-	-	-	(3,344)
Cash and cash equivalents at the end of the year	23	<u>1,082,243</u>	<u>4,369,015</u>	<u>1,072,295</u>	<u>4,328,855</u>

MAXIMA MICROFINANCE PLC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

Significant non-cash transactions

During the year, there were the following significant non-cash transactions:

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Increase in share capital through the transfer from amount due to shareholders	-	-	2,020,290	8,155,911
Increase in share premium through the transfer from amount due to shareholders	-	-	842,157	3,399,788
Increase in other reserves through the transfer from the retained earnings	19,675	79,428	13,872	56,001

The accompanying notes on pages 14 to 50 form an integral part of these financial statements.

MAXIMA MICROFINANCE PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. BACKGROUND INFORMATION

Maxima Microfinance Plc. (the "Company"), originally 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. 00005996 (previously Co. 7897E/2005). On 10 August 2005, the Company obtained the license No. 013 from the National Bank of Cambodia ("NBC") to provide the micro-finance service to the economically active poor population of Cambodia. On 22 February 2012, the NBC granted a permanent license No. M.F 013 to the Company with the new name Maxima Mikroheranhvatho Plc. On 22 July 2015, the NBC approved the amendment of the new name of the Company as Maxima Microfinance Plc.

The Company is principally engaged in the provision of micro-finance services. Those services comprise granting credit for poor and low income households and small enterprise operating in the Kingdom of Cambodia.

The Company's registered office is located at House No. 21AB, Street 271, Sangkat Phsar Doeum Thkov, Khan Chamkamorn, Phnom Penh and its provincial branches are located in Kandal, Kampong Speu, Takeo, Prey Veng, Kampot, Kampong Cham and Tboung Khmom provinces.

The financial statements were authorised for issue by the Board of Directors on 24 April 2018.

2. SUMMARY OF 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) Basis of preparation

The financial statements of the Company, which are expressed in United States Dollars ("US\$"), are prepared under the historical cost convention and drawn up in accordance with Cambodian Accounting Standards ("CAS") and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position, financial performance and cash flows of the Company in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are only addressed to those who are informed about Cambodian accounting principles, procedures and practices.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The preparation of financial statements in accordance with the CAS and relevant accounting regulations and guidelines issued by the NBC requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Financial reporting framework

On 28 August 2009, the National Accounting Council ("NAC") of the Ministry of Economy and Finance announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on all standards published by International Accounting Standard Board (IASB) including other interpretation and amendment. Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

NAC of the Ministry of Economy and Finance through Circular No. 086 MoEF.NAC dated 30 July 2012 approves banks and financial institutions to delay adoption of CIFRS until the periods beginning on or after 1 January 2016. On 24 March 2016, the NAC issued a Notification No. 058 MoEF.NAC to banks and financial institutions on the delay in adoption of CIFRS until the periods beginning on or after 1 January 2019, following the request of the NBC dated 16 November 2015.

The current accounting standard used is different to the CIFRS in many areas. Hence, the adoption of the CIFRS may have significant impact on the financial statements of the Company. Management is assessing the full impact of the change to CIFRS framework but not completed at the date of this report.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Management has determined the US\$ to be the Company's functional currency owing to the significant influence of the US\$ on its operations. The financial statements are presented in US\$, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in currencies other than US\$, the functional and presentation currency, are translated into US\$ at the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than US\$, are recognised in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Presentation in Khmer Riel

In compliance with the Law on Accounting and Auditing dated 11 April 2016, and Prakas No. 643 MEF PRK dated 26 July 2007 of the Ministry of Economy and Finance, a translation of the financial statements from US\$ to Khmer Riel is required.

Translations of US\$ into Khmer Riel ("KHR") are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to KHR 4,037 (2016: US\$ 1 to KHR 4,037) published by the National Bank of Cambodia.

The financial statements expressed in KHR are unaudited and should not be construed as representation that the US\$ amounts have been, could have been, or could in the future be, converted into KHR at this or any other exchange rate.

(d) Basis of aggregation

The financial statements include the financial statements of the head office and its branches after the elimination of significant inter-branch balances and transactions.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with the NBC, and balances with other banks, and other short-term highly liquid investments with original maturities of three months or less where the Company has full ability to withdraw for general purpose whenever needed and is subject to insignificant change in value.

(f) Balances with the NBC

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 as required by NBC. Balances with the NBC are stated at cost.

(g) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general provisions for bad and doubtful loans.

Loans are written off when there is no realistic prospect of recovery.

(h) Allowance for bad and doubtful loans

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by management.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**(h) Allowance for bad and doubtful loans** (continued)

Prior to December 2017, the Company follows the mandatory credit classification and provisioning as required by Prakas B7-02-186 dated 13 September 2002 of the NBC. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes based on number of days past due of principal and/or interest repayment and the minimum mandatory level of specific provision is provided depending on loan classification, regardless of the assets (except cash) pledged as collateral, as follows:

Classification	Number of days past due	Allowance
Short-term loans (less than one year):		
Standard	Less than 30 days	0%
Sub-standard	30 days to 59 days	10%
Doubtful	60 days to 89 days	30%
Loss	90 days or more	100%
Long-term loan (more than one year):		
Standard	Less than 30 days	0%
Sub-standard	30 days to 179 days	10%
Doubtful	180 days to 359 days	30%
Loss	360 days or more	100%

In addition to the specific allowance, the amount of allowance in excess of defined percentages required by the NBC is showed as a general allowance at 90% of sub-standard loans and 70% of doubtful loans. Effectively, 100% allowance is provided to loans below standard.

During the year, the NBC issued a new Prakas No. B7-017-344, dated on 1 December 2017, on Credit Risk Grading and Impairment Provisioning, which requires banks and financial institutions to provide impairment provisioning for short-term and long-term facilities based on new number of days past due. On 16 February 2018, the NBC issued a Circulation No. B7-018-001, allowing banks and financial institutions to continue to implement the old Prakas No. B7-02-186 on assets classification and provisioning for the financial year 2017 if they are not ready to implement the new Prakas. As at 31 December 2017, the Company continued to implement the old Prakas on assets classification and provisioning.

Loans are written off to the income statement when the loans are provisioned in full and remain unpaid after maturity date or when the certainty of being uncollectable loans is proven whichever is earlier. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for bad and doubtful loans.

Recoveries on loans previously written off are recognised as other operating income in the income statement. Reversal of previous allowance is presented in Allowance for bad and doubtful loans in the income statement.

(i) Interest in suspense

This represents interest on non-performing loans, that is recorded as interest in suspense rather than interest income until it is realised on a cash basis. Non-performing loans include sub-standard, doubtful and loss loans.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Other assets

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

(k) Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Work-in-progress is not depreciated. Depreciation of property and equipment is charged to the income statement using the following rates and method:

	Rate	Method
Leasehold improvements	10%-50%	Straight line
Office equipment	25%	Declining balance
Computer and IT equipment	50%	Declining balance
Furniture and fixtures	25%	Declining balance
Motor vehicles	25%	Declining balance

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(l) 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 2 (h).

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Impairment (continued)

(i) Financial assets (continued)

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

Any impairment loss is charged to income statement in the year in which it arises. Reversal of impairment loss is recognised in the income statement to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

(m) Borrowings

Borrowings are recognised initially at cost and subsequently stated at the outstanding principal amount.

Fees paid on the establishment of borrowing facilities are charged to the income statement when incurred.

(n) Provident fund obligations

The Company provides its employees with benefits under the staff provident fund 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 fund contributed by the Company will be paid to employees upon their retirement, resignation or termination of employment if an employee has been working for the Company for three years or more. The employee's contribution is paid in full even though the employee is working for less than three years.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(p) Current and deferred income tax

Income tax on the profit or loss for the year comprises current and deferred tax. 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.

(q) Reserves

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

(r) Dividends

Dividends declared and approved by the Company's shareholders before the end of reporting date are recognised as a liability and accounted for as a deduction from the retained earnings in the financial statements.

Dividends declared and approved by the Company's shareholders after the reporting date are not recognised as a liability but disclosed as the subsequent events in the note to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Interest 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 on declining balances of the principal amount outstanding.

Interest expenses is recognised on an accrual basis.

(t) Fee and commission income and other operating income

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

The Company earns penalty income from its customers for late payment of loan instalments. The income is recognised on a cash basis.

(u) Leases

Operating leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(v) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar and thousand Khmer Riel ("KHR'000") for US\$ and KHR amounts, respectively, unless otherwise stated.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Key sources of estimation uncertainty

(i) Allowance for bad and doubtful loans

The Company follows the mandatory credit classification and provisioning as required by Prakas B7-02-186 dated 13 September 2002 of the NBC. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes based on number of days past due of principal and/or interest repayment and the minimum mandatory level of specific provision is provided depending on loan classification, regardless of the assets (except cash) pledged as collateral.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Key sources of estimation uncertainty (continued)

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

In addition to the specific allowance, the amount of allowance in excess of defined percentages required by the NBC is shown as a general allowance at 90% of sub-standard loans and 70% of doubtful loans. Effectively, 100% allowance is provided to loans below standard.

(ii) Income tax

The taxation system in Cambodia is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, different interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are empowered by law to impose fines, penalties and interest charges.

These factors may create potential tax exposures for the Company. Directors believe that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, the relevant authorities may have different interpretations and the effects could be potential.

3.2 Critical judgments in applying accounting policies

There are no critical judgements made by the Management in the process of applying the Company's accounting policies that have the most significant effect on the amount recognised in these financial statements apart from those involving estimates, which are dealt with above.

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****4. CASH ON HAND**

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Head office	1,164	4,699	7,479	30,193
Branches	9,124	36,834	2,756	11,126
	<u>10,288</u>	<u>41,533</u>	<u>10,235</u>	<u>41,319</u>

The above amounts are analysed by currency as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
US Dollars	9,202	37,150	9,753	39,373
Khmer Riel	1,086	4,383	482	1,946
	<u>10,288</u>	<u>41,533</u>	<u>10,235</u>	<u>41,319</u>

5. BALANCES WITH THE NBC

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits *	254,765	1,028,486	254,765	1,028,486
Current account	1,200	4,845	815	3,290
	<u>255,965</u>	<u>1,033,331</u>	<u>255,580</u>	<u>1,031,776</u>

* In compliance with Prakas B7-06-209 dated 13 September 2006 on the Licensed Microfinance Institutions, the Company is required to maintain a statutory capital deposit with the NBC at 5% of paid-up capital. This deposit is refundable should the Company voluntarily liquidate or cease its operations.

The statutory capital deposit in US\$ earns interest at the rate of 0.36% (2016: 0.22%) per annum. The interest payment is settled semi-annually.

6. BALANCES WITH OTHER BANKS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts	406,804	1,642,268	9,339	37,701
Savings accounts	663,951	2,680,370	1,051,906	4,246,545
	<u>1,070,755</u>	<u>4,322,638</u>	<u>1,061,245</u>	<u>4,284,246</u>

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****6. BALANCES WITH OTHER BANKS** (continued)

Balances with other banks are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By currency				
US Dollars	<u>1,070,755</u>	<u>4,322,638</u>	<u>1,061,245</u>	<u>4,284,246</u>
(b) By maturity				
Within 1 month	<u>1,070,755</u>	<u>4,322,638</u>	<u>1,061,245</u>	<u>4,284,246</u>
(c) By interest rate (per annum):				
Current accounts		Nil		Nil
Savings accounts		0.015%-0.75%		0.015%-0.75%

7. LOANS TO CUSTOMERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Individual loans	14,765,524	59,608,420	9,651,063	38,961,341
Group loans	<u>365,988</u>	<u>1,477,494</u>	<u>174,230</u>	<u>703,367</u>
Loans to customers - gross	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>
Allowances for bad and doubtful loans:				
Specific	(77,471)	(312,750)	(40,161)	(162,130)
General	<u>(46,208)</u>	<u>(186,542)</u>	<u>(57,774)</u>	<u>(233,234)</u>
	<u>(123,679)</u>	<u>(499,292)</u>	<u>(97,935)</u>	<u>(395,364)</u>
Loans to customers - net	<u>15,007,833</u>	<u>60,586,622</u>	<u>9,727,358</u>	<u>39,269,344</u>

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****7. LOANS TO CUSTOMERS (continued)**

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

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
At 1 January	97,935	395,364	53,830	218,012
Addition during the year	41,056	165,743	54,097	218,390
Written off during the year	(15,312)	(61,815)	(9,992)	(40,338)
Currency translation differences	-	-	-	(700)
At 31 December	<u>123,679</u>	<u>499,292</u>	<u>97,935</u>	<u>395,364</u>

Loans to customers are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) <i>By maturity</i>				
Within 1 month	36,471	147,233	24,047	97,079
> 1 to 3 months	59,949	242,014	24,966	100,786
> 3 to 12 months	1,083,962	4,375,955	953,038	3,847,414
More than 12 months	13,951,130	56,320,712	8,823,242	35,619,429
	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>
(b) <i>By currency</i>				
US Dollars	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>

On 1 December 2016, the NBC issued a Prakas No. B7-016-334 on Provision of Credit in National Currency of Banking and Financial Institutions, required all institutions to have loans in national currency (KHR) at least 10% of the total loan portfolio. The Company is required to fully implement this requirement by 31 December 2019.

MAXIMA MICROFINANCE PLC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. LOANS TO CUSTOMERS continued)

Loans to customers are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
<i>(c) By economic sector</i>				
Household/family	372,605	1,504,206	358,678	1,447,984
Agriculture	2,302,924	9,296,904	1,628,601	6,574,662
Construction	4,938,038	19,934,859	1,655,437	6,682,999
Transportation	2,345,757	9,469,821	1,788,995	7,222,171
Services	1,747,498	7,054,649	1,396,212	5,636,508
Trade and commerce	1,806,914	7,294,512	1,603,176	6,472,023
Staff loans	135,618	547,490	92,354	372,833
Other categories	1,482,158	5,983,473	1,301,840	5,255,528
	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>
<i>(d) By residency status</i>				
Residents	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>
<i>(e) By relationship</i>				
Staff loans	135,618	547,490	12,561	50,709
Non-related parties	<u>14,995,894</u>	<u>60,538,424</u>	<u>9,812,732</u>	<u>39,613,999</u>
	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>
<i>(f) By location</i>				
Head office	-	-	1,472,185	5,943,211
Branches	<u>15,131,512</u>	<u>61,085,914</u>	<u>8,353,108</u>	<u>33,721,497</u>
	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>
<i>(g) By performance</i>				
Standard loans				
Secured	14,500,994	58,540,515	9,540,121	38,513,470
Unsecured	506,839	2,046,108	187,236	755,873
Sub-standards loans				
Secured	32,107	129,614	38,282	154,545
Unsecured	-	-	243	983
Doubtful loans				
Secured	24,731	99,840	32,196	129,974
Unsecured	-	-	806	3,254
Loss loans				
Secured	59,275	239,294	14,475	58,437
Unsecured	<u>7,566</u>	<u>30,543</u>	<u>11,933</u>	<u>48,172</u>
	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>

Secured loans are collateralised by hard and soft title deed. Soft title deed is not issued by cadastral department. Unsecured loans represent the uncollateralised loans.

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****7. LOANS TO CUSTOMERS (continued)***(h) By interest rate (per annum)*

	31 December 2017	31 December 2016
Group loan	18.00% - 36.00%	22.20% - 36.00%
Individual loan	16.20% - 33.60%	19.20% - 22.80%
Staff loan	15.60%	15.60%

On 13 March 2017, the NBC issued the Prakas No. B7-017-109 on Interest Rate Ceiling on Loans, requiring the microfinance deposit-taking institutions, microfinance institutions, and rural credit operators to set the interest rate not exceeding 18% per annum, effective from 1 April 2017 for all new loans, restructured loans and refinancing loans.

8. EQUITY INVESTMENT

This represents the investment in Credit Bureau Holding (Cambodia) Ltd ("CBH") through the Cambodia Microfinance Association. CBH is one of shareholders of Credit Bureau (Cambodia) Co., Ltd which is a company operating as the leading provider of information, analytical tools and credit reporting services in the Kingdom of Cambodia.

9. OTHER ASSETS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	152,477	615,550	111,556	450,352
Interest in suspense	(15,016)	(60,620)	(8,940)	(36,091)
Net interest receivable	137,461	554,930	102,616	414,261
Statutory deposit (a)	200,000	807,400	-	-
Prepaid rent	48,820	197,086	45,012	181,713
Deposit in registered stock share of Consorzio Etimos S.C. (b)	6,553	26,454	6,553	26,454
Others	7,582	30,607	7,958	32,127
	<u>400,416</u>	<u>1,616,477</u>	<u>162,139</u>	<u>654,555</u>

(a) This balance represents the security deposit placed with Chailease International Financial Service Co., Ltd (the "Lender") of total US\$ 200,000, which represents 20% of the long-term loan obtained. The security deposit received fixed interest rate of 1.20% per annum and the term is 27 months starting from 21 May 2017 to 21 May 2019.

(b) In accordance with the loan agreement with Consorzio Etimos S.C., the Company was required to subscribe a number of Consorzio Etimos S.C. share at EUR258 per share with total value of EUR4,386 (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 was to be repaid following the loan maturity date or when the Company pays off the loans. Although the loan has been paid off, the Company has not withdrawn the deposit to maintain relationship with the overseas lender.

MAXIMA MICROFINANCE PLC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. PROPERTY AND EQUIPMENT

	Leasehold improvement	Office equipment	Computer & IT equipment	Furniture & fixtures	Motor vehicles	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Year ended 31 December 2017						
Cost						
At 1 January 2017	22,372	20,335	37,573	21,880	45,432	147,592
Additions	19,578	3,499	11,718	5,462	-	40,257
Disposals	(6,660)	-	(3,523)	(2,444)	-	(12,627)
At 31 December 2017	<u>35,290</u>	<u>23,834</u>	<u>45,768</u>	<u>24,898</u>	<u>45,432</u>	<u>175,222</u>
Less: Accumulated depreciation						
At 1 January 2017	10,203	10,286	30,150	16,134	38,493	105,267
Depreciation charge for the year	8,232	3,386	9,538	2,770	1,735	25,661
Disposals	(3,831)	-	(3,441)	(2,275)	-	(9,547)
At 31 December 2017	<u>14,604</u>	<u>13,672</u>	<u>36,247</u>	<u>16,629</u>	<u>40,228</u>	<u>121,381</u>
Carrying amounts						
At 31 December 2017	<u>20,686</u>	<u>10,162</u>	<u>9,521</u>	<u>8,269</u>	<u>5,204</u>	<u>53,841</u>
<i>In KHR'000 equivalent</i>	<u>83,509</u>	<u>41,024</u>	<u>38,436</u>	<u>33,382</u>	<u>21,009</u>	<u>217,356</u>

MAXIMA MICROFINANCE PLC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvement	Office equipment	Computer & IT equipment	Furniture & fixtures	Motor vehicles	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Year ended 31 December 2016						
Cost						
At 1 January 2016	15,100	16,014	32,157	21,115	44,137	128,523
Additions	7,934	4,321	7,349	765	4,745	25,113
Disposals	(662)	-	(1,933)	-	(3,450)	(6,044)
At 31 December 2016	<u>22,372</u>	<u>20,335</u>	<u>37,573</u>	<u>21,880</u>	<u>45,432</u>	<u>147,592</u>
Less: Accumulated depreciation						
At 1 January 2016	4,831	6,938	23,663	14,218	39,382	89,032
Depreciation charge for the year	6,033	3,348	7,652	1,916	2,323	21,273
Disposal	(662)	-	(1,165)	-	(3,212)	(5,038)
At 31 December 2016	<u>10,203</u>	<u>10,286</u>	<u>30,150</u>	<u>16,134</u>	<u>38,493</u>	<u>105,267</u>
Carrying amounts						
At 31 December 2016	<u>12,169</u>	<u>10,049</u>	<u>7,423</u>	<u>5,746</u>	<u>6,939</u>	<u>42,325</u>
<i>In KHR'000 equivalent</i>	<u>49,126</u>	<u>40,568</u>	<u>29,967</u>	<u>23,197</u>	<u>28,013</u>	<u>170,866</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

11. AMOUNTS DUE TO SHAREHOLDERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Borrowings from shareholders				
Gojo & Company, Inc.	3,000,000	12,111,000	500,000	2,018,500
Ms. Sreng Sivechheng	250,000	1,009,250	-	-
Mr. An Bunhak	200,000	807,400	20,000	80,740
Mr. Pa Ponnak Rithy	30,000	121,110	-	-
	<u>3,480,000</u>	<u>14,048,760</u>	<u>520,000</u>	<u>2,099,240</u>

The above amounts are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity				
Within 1 month	-	-	-	-
> 1 to 3 months	-	-	20,000	80,740
> 3 to 12 months	3,480,000	14,048,760	500,000	2,018,500
	<u>3,480,000</u>	<u>14,048,760</u>	<u>520,000</u>	<u>2,099,240</u>
(b) By currency				
US Dollars	<u>3,480,000</u>	<u>14,048,760</u>	<u>520,000</u>	<u>2,099,240</u>
(c) By interest rate				
US Dollars		<u>8.00% - 10.00%</u>		<u>8.00% - 10.00%</u>

12. BORROWINGS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Oikocredit	1,444,440	5,831,204	500,000	2,018,500
SME Finance B.V.	1,168,507	4,717,263	625,193	2,523,904
Chailease International				
Financial Service	875,000	3,532,375	-	-
Phnom Penh Commercial Bank	398,806	1,609,980	-	-
ACLEDA Bank Plc.	390,000	1,574,430	750,000	3,027,750
Luxembourg Microfinance and				
Development Fund SICAV	300,000	1,211,100	300,000	1,211,100
Vattanac Bank Plc.	198,874	802,854	253,560	1,023,622
KIVA Microfunds	88,274	356,362	61,081	246,584
Mrs. Sok Keo	-	-	400,000	1,614,800
	<u>4,863,901</u>	<u>19,635,568</u>	<u>2,889,834</u>	<u>11,666,260</u>

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****12. BORROWINGS** (continued)

The above amounts are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity				
Within 1 month	-	-	61,081	246,584
> 1 to 3 months	488,806	1,973,310	-	-
> 3 to 12 months	188,274	760,062	400,000	1,614,800
1 to 5 years	4,186,821	16,902,196	2,428,753	9,804,876
	<u>4,863,901</u>	<u>19,635,568</u>	<u>2,889,834</u>	<u>11,666,260</u>
(b) By currency				
US Dollars	3,695,394	14,918,305	2,264,641	9,142,356
Euro	1,168,507	4,717,263	625,193	2,523,904
	<u>4,863,901</u>	<u>19,635,568</u>	<u>2,889,834</u>	<u>11,666,260</u>
(c) By interest rate				
US Dollars	7.20%-11.05%		8.00%-11.05%	
Euro	6.25%		6.25%	

13. PROVIDENT FUND OBLIGATIONS

The movements in provision for provident fund are as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	92,873	374,928	75,535	305,917
Payments during the year	(4,007)	(16,176)	(10,270)	(41,460)
Contributions by the Company	18,622	75,177	12,893	52,049
Contributions by staff	20,178	81,459	14,715	59,404
Currency translation differences	-	-	-	(982)
Balance at end of year	<u>127,666</u>	<u>515,388</u>	<u>92,873</u>	<u>374,928</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

14. OTHER LIABILITIES

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest payable	103,776	418,944	18,701	75,496
Accrued professional fees	30,479	123,044	18,424	74,378
Salary and withholding tax payable	19,147	77,296	9,480	38,271
Insurance for staff	5,321	21,481	5,321	21,481
Others	33,422	134,923	39,306	158,678
	<u>192,145</u>	<u>775,688</u>	<u>91,232</u>	<u>368,304</u>

15. INCOME TAX

(a) Deferred tax assets

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	<u>58,631</u>	<u>236,693</u>	<u>49,717</u>	<u>200,708</u>

The movement of deferred tax assets is as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	49,717	200,708	27,879	112,910
Credited to income statement	8,914	35,985	21,838	88,160
Currency translation differences	-	-	-	(362)
Balance at end of year	<u>58,631</u>	<u>236,693</u>	<u>49,717</u>	<u>200,708</u>

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****15. INCOME TAX** (continued)**(a) Deferred tax assets** (continued)

Deferred tax assets are attributable to the following:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Property and equipment	648	2,616	153	618
Allowance for bad and doubtful loans	9,884	39,902	12,325	49,758
Unrealised exchange loss	32,796	132,397	33,271	134,312
Payable to related parties	15,303	61,778	3,968	16,020
	<u>58,631</u>	<u>236,693</u>	<u>49,717</u>	<u>200,708</u>

(b) Current income tax liability

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	136,080	549,355	84,808	343,472
Current income tax expense	196,377	792,774	155,006	625,759
Income tax paid	(167,613)	(676,654)	(103,734)	(418,775)
Currency translation differences	-	-	-	(1,101)
	<u>164,844</u>	<u>665,475</u>	<u>136,080</u>	<u>549,355</u>

(c) Income tax expense

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current income tax	196,377	792,774	155,006	625,759
Deferred tax expense	(8,914)	(35,985)	(21,838)	(88,160)
	<u>187,463</u>	<u>756,789</u>	<u>133,168</u>	<u>537,599</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:

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****15. INCOME TAX** (continued)**(c) Income tax expense** (continued)

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:

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	712,822	2,877,662	526,682	2,126,215
Income tax using statutory rate	142,564	575,531	105,336	425,243
Non-deductible expenses	44,899	181,258	27,831	112,356
Income tax expense	187,463	756,789	133,168	537,599
Minimum tax at 1%	27,570	111,300	19,267	77,781

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 revenue, whichever is higher.

16. SHARE CAPITAL

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid 509,529 ordinary shares (2016: 509,529) of US\$10 each	5,095,290	20,569,686	5,095,290	20,569,686

The details of shareholding were as follows:

	31 December 2017			31 December 2016		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Gojo & Company, Inc.	61.63%	314,029	3,140,290	61.63%	314,029	3,140,290
Mr. An Bunhak	19.63%	100,000	1,000,000	19.63%	100,000	1,000,000
Ms. Sreng Sivechheng	8.44%	43,000	430,000	8.44%	43,000	430,000
Ms. Sarun Vithourat	8.24%	42,000	420,000	8.24%	42,000	420,000
Mr. Chet Chanprasoeur	1.08%	5,500	55,000	1.08%	5,500	55,000
Mr. Pa Ponnak Rithy	0.86%	4,385	43,850	0.86%	4,385	43,850
Mr. Pa Ponnak Rithy (staff representative)	0.12%	615	6,150	0.12%	615	6,150
	100%	509,529	5,095,290	100%	509,529	5,095,290

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

17. SHARE PREMIUM

	31 December 2017		31 December 2016	
	Number of shares	Amount US\$	Number of shares	Amount US\$
3 September 2012 (a)	51,500	121,025	51,500	121,025
17 October 2014 (b)	176,000	574,992	176,000	574,992
16 December 2016 (c)	202,029	842,157	202,029	842,157
	<u>429,529</u>	<u>1,538,174</u>	<u>429,529</u>	<u>1,538,174</u>

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

(b) On 17 October 2014, the Board of Directors resolved to increase the number of share capital from 131,500 shares to 307,500 shares through issuance of an additional 176,000 shares at US\$13.267 each. The excess of US\$3.267 per share over par value was recognised as share premium. The increase was approved by NBC on 30 March 2015.

(c) On 16 December 2016, the Board of Directors resolved to increase the number of share capital from 307,500 shares to 509,290 shares through issuance of an additional 201,790 shares, which 159,029 shares at US\$14.16 each and 43,000 shares at US\$14.20 each. The excess of US\$US\$4.159974 and US\$4.20 per share, respectively, over par value was recognised as share premium. The increase was approved by NBC on 23 December 2016.

18. INTEREST INCOME

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	2,530,430	10,215,346	1,924,084	7,767,527
Balances with NBC and other banks	4,174	16,850	2,582	10,424
	<u>2,534,604</u>	<u>10,232,196</u>	<u>1,926,666</u>	<u>7,777,951</u>

19. INTEREST EXPENSE

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Borrowings	329,410	1,329,828	123,023	496,644
Amounts due to shareholders	113,016	456,246	100,845	407,111
	<u>442,426</u>	<u>1,786,074</u>	<u>223,868</u>	<u>903,755</u>

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****20. FEE AND COMMISSION INCOME**

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loan processing fee	205,815	830,875	-	-
Commission fee on CBC	16,535	66,752	-	-
	<u>222,350</u>	<u>897,627</u>	<u>-</u>	<u>-</u>

21. PERSONNEL EXPENSES

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and bonuses	874,011	3,528,383	613,676	2,477,410
Provident benefits	18,622	75,177	12,893	52,049
Employee training	3,945	15,926	3,587	14,481
Staff material and incidental travel	14,812	59,796	7,331	29,595
Insurance	5,552	22,413	3,783	15,272
	<u>916,942</u>	<u>3,701,695</u>	<u>641,270</u>	<u>2,588,807</u>

MAXIMA MICROFINANCE PLC.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****22. OTHER OPERATING EXPENSES**

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Unrealised exchange loss	198,285	800,477	167,638	676,755
Office rental	167,846	677,594	121,646	491,085
Professional fees	122,687	495,287	91,017	367,435
Business meals and entertainment	11,409	46,058	18,606	75,112
Withholding tax	34,736	140,229	16,019	64,669
License fees and expenses	16,417	66,275	13,029	52,598
Memberships expense	18,483	74,616	12,501	50,467
Utilities expenses	11,173	45,105	9,367	37,815
Stationery and supplies	10,797	43,587	8,894	35,905
Communication	10,296	41,565	7,847	31,678
Security expenses	5,230	21,114	4,755	19,196
Motor vehicle operating expenses	4,151	16,758	3,958	15,978
Marketing and advertising expenses	3,019	12,188	3,104	12,531
Repairs and maintenance	1,341	5,414	1,809	7,303
Others	39,604	159,881	21,206	85,609
	<u>655,474</u>	<u>2,646,148</u>	<u>501,396</u>	<u>2,024,136</u>

23. CASH AND CASH EQUIVALENTS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	10,288	41,533	10,235	41,319
Balance with NBC	1,200	4,845	815	3,290
Balances with other banks	<u>1,070,755</u>	<u>4,322,638</u>	<u>1,061,245</u>	<u>4,284,246</u>
	<u>1,082,243</u>	<u>4,369,015</u>	<u>1,072,295</u>	<u>4,328,855</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

24. COMMITMENTS

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

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
No later than one year	43,656	176,239	64,324	259,676
Later than one year and no later than five years	70,442	284,374	162,731	656,945
Later than five years	500	2,019	-	-
	<u>114,598</u>	<u>462,632</u>	<u>227,055</u>	<u>916,621</u>

25. RELATED PARTY TRANSACTIONS AND BALANCES

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 or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

(a) Related party transactions

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Board of Directors/Key Management Salaries and other benefits	<u>190,999</u>	<u>771,063</u>	<u>192,548</u>	<u>777,316</u>
Interest expense for amounts due to shareholders	<u>113,016</u>	<u>456,246</u>	<u>100,845</u>	<u>407,111</u>
Proceeds from borrowings from shareholders				
Gojo & Company, Inc.	3,000,000	12,111,000	3,351,847	13,531,404
Mr. An Bunhak	200,000	807,400	890,000	3,592,930
Mr. Pa Ponnak Rithy	50,000	201,850	20,000	80,740
Ms. Sreng Sivechheng	<u>460,000</u>	<u>1,857,020</u>	<u>40,000</u>	<u>161,480</u>
	<u>3,710,000</u>	<u>14,977,270</u>	<u>4,301,847</u>	<u>17,366,554</u>
Repayments to shareholders				
Gojo & Company, Inc.	-	-	2,851,847	11,512,904
Mr. An Bunhak	-	-	890,000	3,592,930
Mr. Pa Ponnak Rithy	20,000	80,740	-	-
Ms. Sreng Sivechheng	<u>210,000</u>	<u>847,770</u>	<u>40,000</u>	<u>161,480</u>
	<u>230,000</u>	<u>928,510</u>	<u>3,781,847</u>	<u>15,267,314</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Related party balances

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Borrowings from shareholders				
Gojo & Company, Inc.	3,000,000	12,111,000	500,000	2,018,500
Ms. Sreng Sivechheng	250,000	1,009,250	-	-
Mr. An Bunhak	200,000	807,400	20,000	80,740
Mr. Pa Ponnak Rithy	30,000	121,110	-	-
	<u>3,480,000</u>	<u>14,048,760</u>	<u>520,000</u>	<u>2,099,240</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 and balances with other banks. 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, credit approval processes and procedures implemented to mitigate credit risks and to ensure compliance with NBC guidelines.

The Company holds collateral against loans to customers in the form of mortgage interests over the property and guarantees. Estimates of fair value of these properties are based on the value of collateral assessed at the time of borrowing, and generally are not updated unless there is any significant event affecting the area and/or the status of the property.

The Company applies guidelines for selecting a bank partners for its credit and liquidity risk management.

(i) Credit risk measurement

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(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. Loans are also provided to those small business borrowers that are deemed profitable.

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of loans less provisions for doubtful loans and balances with other banks.

(iii) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas No. B7-02-186 dated 13 September 2002 on loan classification and provisioning. Refer to Note 2(h) for details.

(iv) Exposure to credit risk with regard to loans to customers

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loans to customers				
Neither past due nor impaired	14,984,738	60,493,387	9,699,806	39,158,117
Past due but not impaired	23,095	93,235	27,552	111,226
Individually impaired	123,679	499,292	97,935	395,365
	<u>15,131,512</u>	<u>61,085,914</u>	<u>9,825,293</u>	<u>39,664,708</u>

Neither past due or impaired

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by collaterals and management views that likelihood of default is relatively low.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk with regard to loans to customers (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 the guidelines issued by the NBC, a minimum level of specific allowance and general allowance 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 2 (h).

(b) Operational risk

The operational risk 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 the management and oversight provided by the Board of Directors.

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 annually to address the operational risks of its micro-finance business.

(c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk. 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. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency, hence, it has limited exposure to foreign currency exchange risk.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk

Concentration of currency risk

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

	US\$ equivalent			Total US\$
	US\$	KHR	EUR	
31 December 2017				
Assets				
Cash on hand	9,202	1,086	-	10,288
Balances with the NBC	255,965	-	-	255,965
Balances with other banks	1,070,755	-	-	1,070,755
Loans to customers	15,007,833	-	-	15,007,833
Equity investment	10,000	-	-	10,000
Other assets	344,014	-	-	344,014
Total financial assets	<u>16,697,769</u>	<u>1,086</u>	<u>-</u>	<u>16,498,855</u>
Liabilities				
Amounts due to shareholders	3,480,000	-	-	3,480,000
Borrowings	3,695,394	-	1,168,507	4,863,901
Other liabilities	173,000	-	-	173,000
Total financial liabilities	<u>7,348,394</u>	<u>-</u>	<u>1,168,507</u>	<u>8,516,901</u>
Net financial asset position	<u>9,349,375</u>	<u>1,086</u>	<u>(1,168,507)</u>	<u>7,981,954</u>
<i>In KHR'000 equivalent</i>	<u>37,743,427</u>	<u>4,384</u>	<u>(4,717,263)</u>	<u>32,223,148</u>
31 December 2016				
Total financial assets	11,173,105	482	-	11,173,587
Total financial liabilities	2,866,393	-	625,193	3,491,586
Net financial asset position	<u>8,306,712</u>	<u>482</u>	<u>(625,193)</u>	<u>7,682,001</u>
<i>In KHR'000 equivalent</i>	<u>33,534,196</u>	<u>1,946</u>	<u>(2,523,904)</u>	<u>31,012,238</u>

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(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.

Since the interest rates fixed and are subject to change with the market rates, the Company does not use derivative financial instruments to hedge such risk.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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**NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	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\$
31 December 2017							
Assets							
Cash on hand	-	-	-	-	-	10,288	10,288
Balances with the NBC	-	-	254,765	-	-	1,200	255,965
Balances with other banks	663,951	-	-	-	-	406,804	1,070,755
Loans to customers	36,471	59,949	1,083,962	13,914,839	36,291	(123,679)	15,007,833
Equity investment	-	-	-	-	-	10,000	10,000
Other assets	-	-	-	200,000	-	144,014	344,014
	<u>700,422</u>	<u>59,949</u>	<u>1,338,727</u>	<u>14,114,839</u>	<u>36,291</u>	<u>448,627</u>	<u>16,698,855</u>
Liabilities							
Amounts due to shareholders	-	-	3,480,000	-	-	-	3,480,000
Borrowings	-	488,806	188,274	4,186,821	-	-	4,863,901
Other liabilities	-	-	-	-	-	173,000	173,000
	<u>-</u>	<u>488,806</u>	<u>3,668,274</u>	<u>4,186,821</u>	<u>-</u>	<u>173,000</u>	<u>8,516,901</u>
Interest re-pricing gap	<u>700,422</u>	<u>(428,857)</u>	<u>(2,329,547)</u>	<u>9,928,018</u>	<u>36,291</u>	<u>275,627</u>	<u>8,181,954</u>
<i>In KHR'000 equivalent</i>	<u>2,827,604</u>	<u>(1,731,296)</u>	<u>(9,404,381)</u>	<u>40,079,409</u>	<u>146,507</u>	<u>1,112,705</u>	<u>33,030,548</u>

MAXIMA MICROFINANCE PLC.

**NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	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\$
31 December 2016							
Assets							
Cash on hand	-	-	-	-	-	10,235	10,235
Balances with the NBC	-	-	254,765	-	-	815	255,580
Balances with other banks	1,051,906	-	-	-	-	9,339	1,061,245
Loans to customers	24,047	24,966	953,038	8,763,092	60,150	(97,935)	9,727,358
Equity investment	-	-	-	-	-	10,000	10,000
Other assets	-	-	-	-	-	109,169	109,169
	<u>1,075,953</u>	<u>24,966</u>	<u>1,207,803</u>	<u>8,763,092</u>	<u>60,150</u>	<u>41,623</u>	<u>11,173,587</u>
Liabilities							
Amounts due to shareholders	20,000	500,000	-	-	-	-	520,000
Borrowings	-	-	400,000	2,428,753	-	61,081	2,889,834
Other liabilities	-	-	-	-	-	81,752	81,752
	<u>20,000</u>	<u>500,000</u>	<u>400,000</u>	<u>2,428,753</u>	<u>-</u>	<u>142,833</u>	<u>3,491,586</u>
Interest re-pricing gap	<u>1,055,953</u>	<u>(475,034)</u>	<u>807,803</u>	<u>6,334,339</u>	<u>60,150</u>	<u>(101,210)</u>	<u>7,682,001</u>
<i>In KHR'000 equivalent</i>	<u>4,262,882</u>	<u>(1,917,712)</u>	<u>3,261,101</u>	<u>25,571,727</u>	<u>242,826</u>	<u>(408,585)</u>	<u>31,012,239</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis

No sensitivity analysis is presented for interest rate risk as the fluctuation of interest rates of loan to customers and borrowings are fixed as agreed in contracts.

(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 is 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, including instalment due.

MAXIMA MICROFINANCE PLC.

**NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	No fixed terms	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2017							
Assets							
Cash on hand	10,288	-	-	-	-	-	10,288
Balances with the NBC	1,200	-	-	-	-	254,765	255,965
Balances with other banks	1,070,755	-	-	-	-	-	1,070,755
Loans to customers	855,531	1,485,489	6,153,880	10,730,362	4,924	-	19,230,186
Equity investments	-	-	-	-	-	10,000	10,000
Other assets	137,461	-	-	200,000	-	6,553	344,014
	<u>2,075,235</u>	<u>1,485,489</u>	<u>6,153,880</u>	<u>10,730,362</u>	<u>4,924</u>	<u>271,318</u>	<u>20,721,208</u>
Liabilities							
Amounts due to shareholders	4,221	133,821	3,733,734	-	-	-	3,871,776
Borrowings	13,487	584,419	438,418	4,482,185	-	-	5,518,509
Other liabilities	167,679	-	-	-	-	5,321	173,000
	<u>185,387</u>	<u>718,240</u>	<u>4,172,152</u>	<u>4,482,185</u>	<u>-</u>	<u>5,321</u>	<u>9,563,285</u>
Maturity gap	<u>1,889,848</u>	<u>767,249</u>	<u>1,981,728</u>	<u>6,248,177</u>	<u>4,924</u>	<u>265,997</u>	<u>11,157,923</u>
<i>In KHR'000 equivalent</i>	<u>7,629,316</u>	<u>3,097,384</u>	<u>8,000,236</u>	<u>25,223,891</u>	<u>19,878</u>	<u>1,073,830</u>	<u>45,044,535</u>

MAXIMA MICROFINANCE PLC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

	<u>Up to 1 month</u> US\$	<u>> 1 – 3 months</u> US\$	<u>> 3 – 12 months</u> US\$	<u>1 – 5 years</u> US\$	<u>Over 5 years</u> US\$	<u>No fixed terms</u> US\$	<u>Total</u> US\$
31 December 2016							
Assets							
Cash on hand	10,235	-	-	-	-	-	10,235
Balances with the NBC	815	-	-	-	-	254,765	255,580
Balances with other banks	1,061,245	-	-	-	-	-	1,061,245
Loans to customers	610,149	1,106,927	4,452,149	6,375,155	6,504	-	12,550,884
Equity investments	-	-	-	-	-	10,000	10,000
Other assets	102,616	-	-	-	-	6,553	109,169
	<u>1,785,060</u>	<u>1,106,927</u>	<u>4,452,149</u>	<u>6,375,155</u>	<u>6,504</u>	<u>271,318</u>	<u>13,997,113</u>
Liabilities							
Amounts due to shareholders	20,000	510,000	-	-	-	-	530,000
Borrowings	-	-	436,667	2,797,209	-	61,081	3,294,957
Other liabilities	76,431	-	-	-	-	5,321	81,752
	<u>96,431</u>	<u>510,000</u>	<u>436,667</u>	<u>2,797,209</u>	<u>-</u>	<u>66,402</u>	<u>3,906,709</u>
Maturity gap	<u>1,688,629</u>	<u>596,927</u>	<u>4,015,482</u>	<u>3,577,946</u>	<u>6,504</u>	<u>204,916</u>	<u>10,090,404</u>
<i>In KHR'000 equivalent</i>	<u>6,816,995</u>	<u>2,409,794</u>	<u>16,210,501</u>	<u>14,444,168</u>	<u>26,257</u>	<u>827,246</u>	<u>40,734,961</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 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.

28. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of assets and liabilities are disclosed in the financial risk management section. Equity investment, property and equipment and deferred tax assets are non-current assets. Income tax liability is current liability and provident fund obligations are non-current liability.

**NOTES TO THE FINANCIAL STATEMENTS
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29. EVENTS AFTER THE REPORTING DATE

On 16 February 2018, the NBC issued a Circular No. B7-018-001 on the Implementation of Prakas on Credit Risk Grading and Impairment Provisioning, which clarifies the classification and impairment provisioning for short-term credit facilities as follows, among other clarifications:

Classification	Number of past due days	Allowance
Normal	14 days or less	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	91 days or more	100%

In addition, banks and financial institutions shall provide allowance on off-balance sheet items per detailed instructions in the Circular. The Circular is effective from 16 February 2018.