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## **Report of the independent auditors**

### **To the shareholders**

#### **Maxima Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

We have audited the accompanying financial statements of Maxima Microfinance Plc. (“the Company”), which comprise the balance sheet as at 31 December 2015, 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 51.

#### **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 Microfinance Plc. as at 31 December 2015, 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  
*Partner*

Phnom Penh, Kingdom of Cambodia

25 April 2016

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Balance sheet

As at 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>ASSETS</b>					
Cash on hand	5	15,311	62,009	9,176	37,392
Deposits and placements					
with banks	6	242,033	980,234	622,940	2,538,481
Statutory deposits	7	153,750	622,688	65,750	267,931
Loans to customers	8	7,962,287	32,247,262	4,320,005	17,604,020
Equity investment	9	10,000	40,500	10,000	40,750
Other assets	10	139,122	563,444	99,289	404,602
Property and equipment	11	39,491	159,938	26,607	108,424
Deferred tax assets	12	27,879	112,910	6,089	24,813
<b>TOTAL ASSETS</b>		<b>8,589,873</b>	<b>34,788,985</b>	<b>5,159,856</b>	<b>21,026,413</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Amounts due to shareholders	13	3,385,494	13,711,251	288,607	1,176,074
Borrowings	14	588,375	2,382,919	2,945,615	12,003,381
Provision for provident fund	15	75,535	305,917	63,611	259,215
Other liabilities	16	70,331	284,840	40,326	164,328
Current income tax liability	12	84,808	343,472	28,104	114,524
<b>Total liabilities</b>		<b>4,204,543</b>	<b>17,028,399</b>	<b>3,366,263</b>	<b>13,717,522</b>
<b>Equity</b>					
Share capital	17	3,075,000	12,453,750	1,315,000	5,358,625
Share premium	17	696,017	2,818,869	121,025	493,177
Reserves		53,990	218,659	48,548	197,833
Retained earnings		560,323	2,269,308	309,020	1,259,256
<b>Total equity</b>		<b>4,385,330</b>	<b>17,760,586</b>	<b>1,793,593</b>	<b>7,308,891</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,589,873</b>	<b>34,788,985</b>	<b>5,159,856</b>	<b>21,026,413</b>

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

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Income statement for the year ended 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	18	1,503,119	6,087,632	834,827	3,401,920
Interest expense	19	(206,985)	(838,289)	(142,514)	(580,745)
<b>Net interest income</b>		<u>1,296,134</u>	<u>5,249,343</u>	<u>692,313</u>	<u>2,821,175</u>
Other income	20	34,966	141,612	14,800	60,310
<b>Operating income</b>		<u>1,331,100</u>	<u>5,390,955</u>	<u>707,113</u>	<u>2,881,485</u>
General and administrative expenses	21	(939,454)	(3,804,789)	(561,504)	(2,288,129)
Allowance for bad and doubtful loans	8	(38,897)	(157,533)	(3,805)	(15,505)
<b>Profit before income tax</b>		<u>352,749</u>	<u>1,428,633</u>	<u>141,804</u>	<u>577,851</u>
Income tax expense	12	(75,320)	(305,046)	(32,949)	(134,267)
<b>Net profit for the year</b>		<u><u>277,429</u></u>	<u><u>1,123,587</u></u>	<u><u>108,855</u></u>	<u><u>443,584</u></u>

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

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Statement of changes in equity for the year ended 31 December 2015

	Share capital US\$	Share premium US\$	Reserves US\$	Retained earnings US\$	Total US\$
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>
At 1 January 2015	1,315,000	121,025	48,548	309,020	1,793,593
Additional share capital	1,760,000	574,992	-	-	2,334,992
Transfer to reserves	-	-	5,442	(5,442)	-
Dividends paid	-	-	-	(20,684)	(20,684)
Net profit for the year	-	-	-	277,429	277,429
At 31 December 2015	<u>3,075,000</u>	<u>696,017</u>	<u>53,990</u>	<u>560,323</u>	<u>4,385,330</u>
(KHR'000 equivalents) (Note 4)					
At 31 December 2015	<u>12,453,750</u>	<u>2,818,869</u>	<u>218,659</u>	<u>2,269,308</u>	<u>17,760,586</u>

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

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Statement of cash flows for the year ended 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>Cash flows from operating activities</b>					
Net cash used in operating activities	22	(3,397,823)	(13,761,183)	(1,287,177)	(5,245,246)
<b>Cash flows from investing activities</b>					
Purchase of property and equipment		(30,904)	(125,161)	(12,303)	(50,135)
Net cash used in investing activities		(30,904)	(125,161)	(12,303)	(50,135)
<b>Cash flows from financing activities</b>					
Dividends paid		(20,684)	(83,770)	(22,589)	(92,050)
Proceeds from borrowings		4,450,540	18,024,686	2,463,386	10,038,298
Repayments of borrowings		(1,375,901)	(5,572,399)	(691,662)	(2,818,523)
Net cash generated from financing activities		3,053,955	12,368,517	1,749,135	7,127,725
<b>Net increase in cash and cash equivalents</b>		<b>(374,772)</b>	<b>(1,517,827)</b>	<b>449,655</b>	<b>1,832,344</b>
<b>Cash and cash equivalents at 1 January</b>		<b>632,116</b>	<b>2,575,873</b>	<b>182,461</b>	<b>743,529</b>
Currency translation difference		-	(15,803)	-	-
<b>Cash and cash equivalents 31 December</b>	<b>23</b>	<b>257,344</b>	<b>1,042,243</b>	<b>632,116</b>	<b>2,575,873</b>

#### Significant non-cash transactions:

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Increase in share capital through the transfer from borrowings	1,550,000	6,277,500	-	-
Increase in share capital through the transfer from advance from shareholders	210,000	850,500	-	-
Increase in share premium through the transfer from borrowings	506,385	2,050,859	-	-
Increase in share premium through the transfer from advance from shareholders	68,607	277,858	-	-
Increase in other reserves through the transfer from the retained earnings	5,442	22,040	5,945	24,226

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

# **Maxima Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

## **Notes to the financial statements for the year ended 31 December 2015**

### **1. Reporting entity**

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. 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. In June 2008, the NBC granted a permanent license No. M.F 013 to the Company. 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’s vision is to be the leading micro-finance institution offering micro-financial services with the highest quality of customer service. The Company’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 realising 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’s head 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 and Takeo provinces.

As at 31 December 2015, the Company had 117 employees (2014: 91 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 25 April 2016.

#### **(b) Basis of measurement**

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

## **Maxima Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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.

Key accounting estimates and judgements applied in the preparation of financial statements include estimates of recoverable amounts for loans and advances which have a separate accounting policy stated in Note 3 (g).

#### **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 Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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 less allowance for any uncollectable amounts.

##### (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. Statutory deposits are stated at cost.

##### (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 and general allowances.

##### (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
<b>Short-term loans (one year or less than one year):</b>		
Sub-standard	30 – 59 days	10%
Doubtful	60 – 89 days	30%
Loss	Over 89 days	100%
<b>Long-term loans (more than one year):</b>		
Sub-standard	30 – 179 days	10%
Doubtful	180 – 359 days	30%
Loss	Over 359 days	100%

## **Maxima Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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 allowance, the amount of allowance 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 allowance include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

The allowance will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The allowance 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 allowance 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 cost. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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:
- |                           |            |
|---------------------------|------------|
| • Leasehold improvements  | 10%-33.33% |
| • Office equipment        | 25%        |
| • Computer & IT equipment | 50%        |
| • Furniture & fixtures    | 25%        |
| • 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 Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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 cost. Fee paid on the establishment of borrowing facilities are capitalised and amortised over the period of the borrowings using the straight-line method.

##### **(m) Provident fund**

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 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 Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **3. Significant accounting policies (continued)**

##### **(m) Provident fund (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 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 note in the financial statements.

##### **(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 Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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 Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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: KHR4,050 published by the NBC on 31 December 2015 (31 December 2014: US\$1: KHR4,075). 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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Head office	14,200	57,510	6,867	27,983
Branches	1,111	4,499	2,309	9,409
	<u>15,311</u>	<u>62,009</u>	<u>9,176</u>	<u>37,392</u>

The above amounts are analysed by currency as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	14,498	58,717	8,168	33,285
Khmer Riel	813	3,292	1,008	4,107
	<u>15,311</u>	<u>62,009</u>	<u>9,176</u>	<u>37,392</u>

#### 6. Deposits and placements with banks

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	4,839	19,598	2,920	11,899
Saving accounts	237,194	960,636	620,020	2,526,582
	<u>242,033</u>	<u>980,234</u>	<u>622,940</u>	<u>2,538,481</u>

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 6. Deposits and placements with banks (continued)

Deposits and placements with banks are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>(a) By currency</b>				
US Dollars	242,033	980,234	622,940	2,538,481
	<u>242,033</u>	<u>980,234</u>	<u>622,940</u>	<u>2,538,481</u>
<b>(b) By type</b>				
Current accounts				
National Bank of Cambodia	509	2,062	402	1,638
ACLEDA Bank Plc.	3,827	15,499	1,515	6,174
Canadia Bank Plc.	503	2,037	503	2,050
Maruhan Japan Bank Plc.	-	-	500	2,037
	<u>4,839</u>	<u>19,598</u>	<u>2,920</u>	<u>11,899</u>
Savings accounts				
ACLEDA Bank Plc.	128,243	519,384	94,473	384,977
Canadia Bank Plc.	108,951	441,252	525,547	2,141,605
	<u>237,194</u>	<u>960,636</u>	<u>620,020</u>	<u>2,526,582</u>
	<u>242,033</u>	<u>980,234</u>	<u>622,940</u>	<u>2,538,481</u>
<b>(c) By maturity</b>				
Within 1 month	242,033	980,234	622,940	2,538,481
	<u>242,033</u>	<u>980,234</u>	<u>622,940</u>	<u>2,538,481</u>
<b>(d) By interest rate (per annum)</b>				
		2015		2014
Current accounts		Nil		Nil
Saving accounts		0.50% - 0.75%		0.50% - 0.75%
		<u>0.50% - 0.75%</u>		<u>0.50% - 0.75%</u>



## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 7. Statutory deposits

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory deposits on:				
Registered share capital	153,750	622,688	65,750	267,931

The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-00-06 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% (2014: 0.08%) per annum.

#### 8. Loans to customers

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Individual loans	7,894,274	31,971,810	4,328,664	17,639,306
Group loans	121,843	493,464	6,274	25,566
Loans to customers - gross	8,016,117	32,465,274	4,334,938	17,664,872
Allowances for bad and doubtful loans				
Specific	(23,452)	(94,981)	(9,160)	(37,327)
General	(30,378)	(123,031)	(5,773)	(23,525)
	(53,830)	(218,012)	(14,933)	(60,852)
	7,962,287	32,247,262	4,320,005	17,604,020

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 8. Loans to customers (continued)

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	14,933	60,479	15,708	64,010
Addition during the year	38,897	157,533	3,805	15,505
Written off during the year	-	-	(4,580)	(18,663)
At 31 December	<u>53,830</u>	<u>218,012</u>	<u>14,933</u>	<u>60,852</u>

Gross loans to customers are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>(a) By maturity</b>				
Within 1 month	17,617	71,349	8,491	34,601
>1 to 3 months	25,742	104,255	22,358	91,109
>3 to 12 months	811,284	3,285,700	692,863	2,823,416
> 12 months	7,161,474	29,003,970	3,611,226	14,715,746
	<u>8,016,117</u>	<u>32,465,274</u>	<u>4,334,938</u>	<u>17,664,872</u>
<b>(b) By currency</b>				
US Dollars	<u>8,016,117</u>	<u>32,465,274</u>	<u>4,334,938</u>	<u>17,664,872</u>
<b>(c) By economic sector</b>				
Household/family	335,727	1,359,694	180,185	734,254
Agriculture	1,489,464	6,032,329	828,718	3,377,026
Construction	1,585,400	6,420,870	941,763	3,837,684
Transportation	1,959,904	7,937,611	1,330,245	5,420,748
Services	1,114,046	4,511,886	365,529	1,489,531
Trade and commerce	1,503,494	6,089,151	657,127	2,677,793
Staff loans	6,968	28,221	10,368	42,249
Other categories	21,114	85,512	21,003	85,587
	<u>8,016,117</u>	<u>32,465,274</u>	<u>4,334,938</u>	<u>17,664,872</u>

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 8. Loans to customers (continued)

Gross loans to customers are analysed as follows: (continued)

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>(d) By residency status</b>				
Residents	8,016,117	32,465,274	4,334,938	17,664,872
<b>(e) By relationship</b>				
Staff loans	6,968	28,221	10,368	42,249
Non-related parties	8,009,149	32,437,053	4,324,570	17,622,623
	8,016,117	32,465,274	4,334,938	17,664,872
<b>(f) By location</b>				
Head office	6,451,478	26,128,486	3,138,889	12,790,972
Branches	1,564,639	6,336,788	1,196,049	4,873,900
	8,016,117	32,465,274	4,334,938	17,664,872
<b>(g) By performance</b>				
Standard loans				
Secured	7,777,777	31,499,997	4,176,466	17,019,099
Unsecured	184,510	747,265	143,539	584,921
Sub-standard loans				
Secured	19,737	79,935	5,828	23,750
Unsecured	2,448	9,915	149	607
Doubtful loans				
Secured	12,231	49,536	115	468
Unsecured	2,643	10,703	448	1,826
Loss loans				
Secured	7,940	32,157	6,284	25,607
Unsecured	8,831	35,766	2,109	8,594
	8,016,117	32,465,274	4,334,938	17,664,872

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 8. Loans to customers (continued)

Gross loans to customers are analysed as follows: (continued)

	2015	2014
<b>(h) By interest rate (per annum)</b>		
Group loan	32.40% - 36.00%	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 Cambodia Microfinance Association (“CMA”). 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 in the Kingdom of Cambodia.

#### 10. Other assets

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interests receivable	94,866	384,207	53,330	217,320
Interest in suspense	(5,691)	(23,049)	(2,049)	(8,350)
	<u>89,175</u>	<u>361,158</u>	<u>51,281</u>	<u>208,970</u>
Prepaid rent	41,035	166,192	33,647	137,111
Deposit in registered stock share of Consorzio Etimos S.C. (*)	6,553	26,540	6,553	26,703
Others	2,359	9,554	7,808	31,818
	<u>139,122</u>	<u>563,444</u>	<u>99,289</u>	<u>404,602</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 Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 11. Property and equipment

2015	Leasehold improvements US\$	Office equipment US\$	Computer & IT equipment US\$	Furniture & fixtures US\$	Motor vehicles US\$	Total US\$	Total KHR'000 (Note 4)
<b>Cost</b>							
At 1 January 2015	10,639	5,394	34,134	17,372	44,137	111,676	452,288
Additions	5,090	10,620	10,343	4,851	-	30,904	125,161
Written off	(629)	-	(12,320)	(1,108)	-	(14,057)	(56,931)
At 31 December 2015	15,100	16,014	32,157	21,115	44,137	128,523	520,518
<b>Less: Accumulated depreciation</b>							
At 1 January 2015	3,428	3,913	26,998	12,933	37,797	85,069	344,529
Depreciation for the year	2,009	3,025	8,494	2,297	1,585	17,410	70,511
Written off	(606)	-	(11,829)	(1,012)	-	(13,447)	(54,460)
At 31 December 2015	4,831	6,938	23,663	14,218	39,382	89,032	360,580
<b>Carrying amounts</b>							
At 31 December 2015	10,269	9,076	8,494	6,897	4,755	39,491	159,938

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 11. Property and equipment (continued)

2014	Leasehold improvements US\$	Office equipment US\$	Computer & IT equipment US\$	Furniture & fixtures US\$	Motor vehicles US\$	Total US\$	Total KHR'000 (Note 4)
<b>Cost</b>							
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
<b>Less: Accumulated depreciation</b>							
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
<b>Carrying amounts</b>							
At 31 December 2014	7,211	1,481	7,136	4,439	6,340	26,607	108,424

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	(Note 4)
Deferred tax assets	28,119	113,882	6,361	25,921
Deferred tax liabilities	(240)	(972)	(272)	(1,108)
	<u>27,879</u>	<u>112,910</u>	<u>6,089</u>	<u>24,813</u>

The movement of net deferred tax assets is as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	6,089	24,661	5,845	23,819
Credited to income statement	21,790	88,249	244	994
At 31 December	<u>27,879</u>	<u>112,910</u>	<u>6,089</u>	<u>24,813</u>

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for provident fund	7,554	30,594	6,361	25,921
Depreciation and amortisation	(240)	(972)	(272)	(1,108)
General allowance on loans to customers	6,076	24,608	-	-
Unrealised exchange loss	14,489	58,680	-	-
	<u>27,879</u>	<u>112,910</u>	<u>6,089</u>	<u>24,813</u>

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 12. Income tax (continued)

##### (b) Current income tax liability

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	28,104	113,821	32,637	132,996
Current income tax expense	97,110	393,295	33,193	135,261
Income tax paid	(40,406)	(163,644)	(37,726)	(153,733)
	<u>84,808</u>	<u>343,472</u>	<u>28,104</u>	<u>114,524</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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	97,110	393,295	33,193	135,261
Deferred tax expense	(21,790)	(88,249)	(244)	(994)
	<u>75,320</u>	<u>305,046</u>	<u>32,949</u>	<u>134,267</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:

	2015			2014		
	US\$	KHR'000 (Note 4)	%	US\$	KHR'000 (Note 4)	%
Profit before income tax	352,749	1,428,633		141,804	577,851	
Income tax using statutory rate	70,550	285,728	20	28,361	115,571	20
Non-deductible expenses	6,160	24,948	1	4,588	18,696	3
Effect of over provision in prior year	(1,390)	(5,630)	-	-	-	-
Income tax expense	<u>75,320</u>	<u>305,046</u>	<u>21</u>	<u>32,949</u>	<u>134,267</u>	<u>23</u>

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



## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 13. Amounts due to shareholders

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from shareholders					
Mr. An Bunhak	(i)	890,000	3,604,500	-	-
Mr. Pa Ponnak Rithy	(i)	10,000	40,500	10,000	40,750
Gojo & Company, Inc.	(ii)	2,485,494	10,066,251	-	-
		<u>3,385,494</u>	<u>13,711,251</u>	<u>10,000</u>	<u>40,750</u>
Advance from shareholders					
Mr. An Bunhak		-	-	199,005	810,946
Ms. Sreng Sivechheng		-	-	53,068	216,252
Ms. Sarun Vithourat		-	-	26,534	108,126
		<u>-</u>	<u>-</u>	<u>278,607</u>	<u>1,135,324</u>
		<u>3,385,494</u>	<u>13,711,251</u>	<u>288,607</u>	<u>1,176,074</u>

- (i) These borrowings are unsecured and will mature within 12 months from 31 December 2015, and bear interest at a rate of 10% (2014: 10%) per annum.
- (ii) Detail borrowings from Gojo & Company, Inc. are as follows:

Description	Total credit facilities Yen'000	Total credit facilities US\$	Terms	Outstanding balance US\$	Interest per annum	Repayment	Security
First loan	-	200,000	3 months, from 6 April 2015 to 6 June 2015	-	9.60%	The principal of loan and interest were paid on 6 June 2015.	Unsecured
Second loan	-	200,000	3 months, from 28 April 2015 to 28 July 2015	-	9.60%	The principal of loan and interest were paid on 28 July 2015.	Unsecured

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 13. Amounts due to shareholders (continued)

(ii) Detail borrowings from Gojo & Company, Inc. are as follows: (continued)

Description	Total credit facilities Yen'000	Total credit facilities US\$	Terms	Outstanding balance US\$	Interest per annum	Repayment	Security
Third loan	-	100,000	3 months, from 1 October 2015 to 31 December 2015	100,000	9.60%	The principal of loan has extended to be paid on 30 June 2016. Interest paid on quarterly basis.	Unsecured
Forth loan	-	100,000	3 months, from 7 December 2015 to 7 February 2016	100,000	9.60%	The principal of loan has extended to be paid on 30 June 2016. Interest paid on quarterly basis.	Unsecured
Fifth loan	-	200,000	3 months, from 17 September 2015 to 17 December 2015	200,000	9.60%	The principal of loan has extended to be paid on 30 June 2016. Interest paid on quarterly basis.	Unsecured
Sixth loan*	250,000	2,085,494	3 years, from 19 June 2015 to 31 May 2018	2,085,494	7%	The principal of loan of 250,000,000 Yen will be paid on 31 May 2018. Interest paid on quarterly basis.	Unsecured

\* On 25 April 2016, the shareholders approved to convert the amount due to Gojo & Company, Inc. to the share capital in year 2016.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 14. Borrowings

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
KIVA Microfunds	(i)	38,375	155,419	124,230	506,237
Gojo & Company, Inc.	(ii)	-	-	2,056,385	8,379,769
Luxembourg Microfinance and Development Fund SICAV		-	-	525,000	2,139,375
ACLEDA Bank Plc.	(iii)	350,000	1,417,500	140,000	570,500
Mr. So Khomrithykun		-	-	100,000	407,500
Mr. Meng Leang	(iv)	200,000	810,000	-	-
		<u>588,375</u>	<u>2,382,919</u>	<u>2,945,615</u>	<u>12,003,381</u>

- (i) On 10 May 2007, the Company entered into a loan agreement with KIVA Microfunds (“KIVA”). The loan is initially disbursed by the Company to the customers, and then KIVA will be reimbursed upon request from the Company through the Website maintained by KIVA. The loan is unsecured, interest free while the principal amount is payable on a monthly basis.
- (ii) The Company obtained a principal approval from the National Bank of Cambodia and endorsement from the Ministry of Commerce on the amendment of the Articles of Incorporation on 30 March 2015 and 9 October 2015 respectively, to recognise Gojo & Company, Inc. as a new shareholder. Accordingly, the borrowings were transferred to the share capital amounting to US\$1,550,000 and share premium amounting to US\$506,385 during the year.
- (iii) Detail borrowings from ACLEDA Bank Plc is as follows:

Description	Total credit facilities US\$	Terms	Outstanding balance US\$	Interest per annum	Repayment	Security
First loan	100,000	3 years, from 3 April 2012 to 3 April 2015	-	12.50%	The principal of loan was paid on 3 April 2015. Interest is paid monthly.	Unsecured

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 14. Borrowings (continued)

(iii) Detail borrowings from ACLEDA Bank Plc is as follows: (continued)

Description	Total credit facilities US\$	Terms	Outstanding balance US\$	Interest per annum	Repayment	Security
Second loan	100,000	2 years, from 13 August 2014 to 15 August 2016	50,000	10%	The principal of loan will be repaid into two instalments of US\$50,000 on 15 August 2015 and US\$50,000 on 15 August 2016. Interest is paid monthly.	Unsecured
Third loan	300,000	3 years, from 2 November 2015 to 2 November 2018	300,000	10%	The principal of loan will be repaid into three instalments of US\$50,000 on 2 November 2016, US\$150,000 on 2 November 2017 and US\$100,000 on 2 November 2018. Interest is paid monthly.	Unsecured

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 14. Borrowings (continued)

(iv) Detail borrowing from Mr. Meng Leang is as follows:

Description	Total credit facilities US\$	Terms	Outstanding balance US\$	Interest per annum	Repayment	Security
First loan	200,000	10 months, from 25 March 2015 to 31 December 2015	200,000	10%	Principal has extended to be paid on 31 December 2016. Interest is paid monthly.	Unsecured

The above amounts are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>(a) By maturity</b>				
Within 1 month	238,375	965,419	-	-
>1 to 3 months	-	-	325,000	1,324,375
>3 to 12 months	50,000	202,500	2,520,615	10,271,506
1 to 5 years	300,000	1,215,000	100,000	407,500
	<u>588,375</u>	<u>2,382,919</u>	<u>2,945,615</u>	<u>12,003,381</u>
<b>(b) By currency</b>				
US Dollars	<u>588,375</u>	<u>2,382,919</u>	<u>2,945,615</u>	<u>12,003,381</u>
<b>(c) By interest rate (per annum)</b>				
		2015		2014
US Dollars		<u>8.00% - 10%</u>		<u>8.00% - 12.5%</u>

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 15. Provision for provident fund

The movements in provision for provident fund are as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	63,611	257,625	61,429	250,323
Payment during the year	(9,522)	(38,564)	(14,756)	(60,131)
Charge during the year	9,370	37,948	7,853	32,001
Contribution from staff during the year	12,076	48,908	9,085	37,022
At 31 December	<u>75,535</u>	<u>305,917</u>	<u>63,611</u>	<u>259,215</u>

#### 16. Other liabilities

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest payable	23,034	93,288	21,739	88,586
Insurance for staff	5,321	21,550	5,321	21,683
Accrued professional fees	22,744	92,113	5,144	20,962
Salary and withholding tax payable	8,391	33,983	4,251	17,323
Others	10,841	43,906	3,871	15,774
	<u>70,331</u>	<u>284,840</u>	<u>40,326</u>	<u>164,328</u>

#### 17. Share capital and share premium

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and fully paid 307,500 ordinary shares (2014: 131,500) of \$10 each	<u>3,075,000</u>	<u>12,453,750</u>	<u>1,315,000</u>	<u>5,358,625</u>

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 17. Share capital and share premium (continued)

The details of shareholding are as follows:

	2015			2014		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Gojo & Company, Inc.	50.40	155,000	1,550,000	-	-	-
Mr. An Bunhak	18.54	57,000	570,000	31.94	42,000	420,000
Ms. Sreng Sivechheng	13.98	43,000	430,000	29.66	39,000	390,000
Ms. Sarun Vithourat	13.66	42,000	420,000	30.42	40,000	400,000
Mr. Chet Chanprasoeur	1.79	5,500	55,000	4.18	5,500	55,000
Mr. Pa Ponnak Rithy	1.43	4,385	43,850	3.33	4,385	43,850
Mr. Pa Ponnak Rithy (staff representative)	0.20	615	6,150	0.47	615	6,150
	<u>100</u>	<u>307,500</u>	<u>3,075,000</u>	<u>100</u>	<u>131,500</u>	<u>1,315,000</u>

On 17 October 2014, the Board of Directors resolved to increase the number of share capital from 131,500 to 307,500 through issuance of an additional 176,000 shares at US\$13.267 each. Accordingly the share capital has been increased from US\$1,315,000 to US\$3,075,000 and share premium increased to US\$696,017 as at 31 December 2015.

On 30 March 2015, the Company obtained a principal approval from the National Bank of Cambodia (“NBC”) to increase the Company’s share capital. The amendment of the Articles of Incorporation is endorsed by the Ministry of Commerce on 9 October 2015.

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 18. Interest income

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans and advances	1,500,603	6,077,442	832,639	3,393,004
Deposits and placements with banks	2,516	10,190	2,188	8,916
	<u>1,503,119</u>	<u>6,087,632</u>	<u>834,827</u>	<u>3,401,920</u>

#### 19. Interest expense

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings	34,434	139,458	76,192	310,483
Amounts due to shareholders	158,093	640,276	49,004	199,691
Banks	14,458	58,555	17,318	70,571
	<u>206,985</u>	<u>838,289</u>	<u>142,514</u>	<u>580,745</u>

#### 20. Other income

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Penalty income	10,455	42,343	4,938	20,122
Recovery on loans written off	4,247	17,200	966	3,937
Others	20,264	82,069	8,896	36,251
	<u>34,966</u>	<u>141,612</u>	<u>14,800</u>	<u>60,310</u>



## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 21. General and administrative expenses

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	506,768	2,052,410	361,669	1,473,801
Employees training	2,829	11,458	2,177	8,871
Depreciation (Note 11)	17,410	70,511	12,820	52,242
Professional fees	87,825	355,690	15,756	64,206
Office rental	87,953	356,210	64,118	261,281
Motor vehicle operating expense	17,752	71,896	22,081	89,980
Withholding tax	16,287	65,962	10,201	41,569
Stationery and supplies expenses	8,265	33,473	5,060	20,620
Memberships expenses	12,954	52,464	9,576	39,022
Provident benefits (Note 15)	9,370	37,948	7,853	32,001
Security expenses	4,285	17,354	3,982	16,227
Fees and commission	4,800	19,440	2,880	11,735
Utilities expenses	8,597	34,818	6,104	24,874
Communication	7,819	31,667	5,240	21,353
Business meals and entertainment	18,450	74,723	4,438	18,085
Per-diem and incidental travel	5,131	20,781	3,948	16,088
Insurance	3,268	13,235	1,641	6,687
License fees expense	13,448	54,464	10,141	41,324
Repairs and maintenance	1,057	4,281	329	1,341
Marketing and advertising expenses	5,152	20,866	449	1,830
Unrealised exchange loss	72,443	293,394	-	-
Others	27,591	111,744	11,041	44,992
	<u>939,454</u>	<u>3,804,789</u>	<u>561,504</u>	<u>2,288,129</u>

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 22. Net cash used in operating activities

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	352,749	1,428,633	141,804	577,851
Adjustments for:				
Depreciation expenses	17,410	70,511	12,820	52,242
Allowance for bad and doubtful loans	38,897	157,533	3,805	15,505
Provident benefits	9,370	37,948	7,853	32,001
Property and equipment written off	610	2,471	-	-
	<u>419,036</u>	<u>1,697,096</u>	<u>166,282</u>	<u>677,599</u>
Changes in:				
Loans and advances to customers	(3,681,179)	(14,908,775)	(1,190,305)	(4,850,493)
Other assets	(39,833)	(161,324)	(9,164)	(37,343)
Statutory deposits	(88,000)	(356,400)	-	-
Amounts due to shareholders	-	-	(206,393)	(841,052)
Other liabilities	30,005	121,520	(4,200)	(17,115)
Provision for provident fund	12,076	48,908	9,085	37,022
	<u>(3,347,895)</u>	<u>(13,558,975)</u>	<u>(1,234,695)</u>	<u>(5,031,382)</u>
Income tax paid	(40,406)	(163,644)	(37,726)	(153,733)
Provident benefits paid	(9,522)	(38,564)	(14,756)	(60,131)
	<u>(49,934)</u>	<u>(409,812)</u>	<u>(52,482)</u>	<u>(273,597)</u>
Net cash used in operating activities	<u>(3,397,823)</u>	<u>(13,761,183)</u>	<u>(1,287,177)</u>	<u>(5,245,246)</u>

#### 23. Cash and cash equivalents

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	15,311	62,009	9,176	37,392
Deposits and placements with banks	242,033	980,234	622,940	2,538,481
	<u>257,344</u>	<u>1,042,243</u>	<u>632,116</u>	<u>2,575,873</u>

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 24. Commitments and contingencies

##### (a) Lease commitments

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Less than 1 year	54,714	221,592	36,650	149,349
Between 1 and 5 years	174,190	705,470	142,220	579,547
	<u>228,904</u>	<u>927,062</u>	<u>178,870</u>	<u>728,896</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 different interpretations and the effects since the incorporation of the Company could be significant.

#### 25. Related party transactions and balances

##### (a) Related party transactions

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of Directors/Key management				
Salaries and other benefits	<u>103,800</u>	<u>420,390</u>	<u>137,331</u>	<u>559,624</u>
Interest expenses for amounts due to shareholders	<u>158,093</u>	<u>640,276</u>	<u>49,004</u>	<u>199,691</u>

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 25. Related party transactions and balances (continued)

##### (a) Related party transactions (continued)

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from shareholders				
Gojo & Company, Inc.	2,885,494	11,686,251	-	-
Mr. An Bunhak	890,000	3,604,500	-	-
Ms. Sreng Sivechheng	175,000	708,750	-	-
	<u>3,950,494</u>	<u>15,999,501</u>	<u>-</u>	<u>-</u>
Repayments to shareholders				
Gojo & Company, Inc.	400,000	1,620,000	-	-
Mr. An Bunhak	-	-	300,000	1,222,500
Ms. Sreng Sivechheng	175,000	708,750	175,000	713,125
Mr. Pa Ponnak Rithy	-	-	10,000	40,750
	<u>575,000</u>	<u>2,328,750</u>	<u>485,000</u>	<u>1,976,375</u>

##### (b) Related party balances

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings from shareholders (Note 13)				
Gojo & Company, Inc.	2,485,494	10,066,251	-	-
Mr. An Bunhak	890,000	3,604,500	-	-
Mr. Pa Ponnak Rithy	10,000	40,500	10,000	40,750
	<u>3,385,494</u>	<u>13,711,251</u>	<u>10,000</u>	<u>40,750</u>
Advance capital contribution				
Mr. An Bunhak	-	-	199,005	810,946
Ms. Sreng Sivechheng	-	-	53,068	216,252
Ms. Sarun Vithourat	-	-	26,534	108,126
	<u>-</u>	<u>-</u>	<u>278,607</u>	<u>1,135,324</u>
	<u>3,385,494</u>	<u>13,711,251</u>	<u>288,607</u>	<u>1,176,074</u>

## **Maxima Microfinance Plc.**

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### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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.

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.

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 26. Financial risk management (continued)

##### (a) Credit risk (continued)

##### (iv) Exposure to credit risk

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	7,940,396	32,158,604	4,313,939	17,579,301
Pass due but not impaired	21,891	88,658	6,066	24,719
Individually impaired	53,830	218,012	14,933	60,852
	<u>8,016,117</u>	<u>32,465,274</u>	<u>4,334,938</u>	<u>17,664,872</u>

##### *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 29 days. A minimum level of specific allowance 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).

##### *Neither past due nor 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.

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 26. Financial risk management (continued)

##### (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.

##### (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, with respect to the Japanese Yen. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

##### (i) Foreign currency exchange risk

###### Concentration of currency risk

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

31 December 2015	US\$ equivalent			Total US\$
	US\$	KHR	Yen	
<b>Financial assets</b>				
Cash on hand	14,498	813	-	15,311
Deposits and placements with banks	242,033	-	-	242,033
Loans and advances to customers	7,962,287	-	-	7,962,287
Equity investment	10,000	-	-	10,000
Other assets	98,087	-	-	98,087
<b>Total financial assets</b>	<b>8,326,905</b>	<b>813</b>	<b>-</b>	<b>8,327,718</b>

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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)

31 December 2015	US\$ equivalent			Total US\$
	US\$	KHR	Yen	
<b>Financial liabilities</b>				
Amounts due to shareholders	1,300,000	-	2,085,494	3,385,494
Borrowings	588,375	-	-	588,375
Other liabilities	61,940	-	-	61,940
<b>Total financial liabilities</b>	<b>1,950,315</b>	<b>-</b>	<b>2,085,494</b>	<b>4,035,809</b>
<b>Net financial asset position</b>	<b>6,376,590</b>	<b>813</b>	<b>(2,085,494)</b>	<b>4,291,909</b>
<b>Equivalents in KHR'000</b> (Note 4)	<b>25,825,189</b>	<b>3,293</b>	<b>(8,446,251)</b>	<b>17,382,231</b>
<b>31 December 2014</b>				
Total financial assets	5,126,152	1,008	-	5,127,160
Total financial liabilities	3,338,159	-	-	3,338,159
<b>Net financial asset position</b>	<b>1,787,993</b>	<b>1,008</b>	<b>-</b>	<b>1,789,001</b>
<b>Equivalents in KHR'000</b> (Note 4)	<b>7,286,071</b>	<b>4,107,600</b>	<b>-</b>	<b>7,290,179</b>

##### (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 Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 26. Financial risk management (continued)

##### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

31 December 2015	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 %
<b>Financial assets</b>								
Cash on hand	-	-	-	-	-	15,311	15,311	
Deposits and placements with banks	237,194	-	-	-	-	4,839	242,033	
Loans and advances to customers								
- Performing	3,097	22,141	796,319	7,133,762	-	6,968	7,962,287	0%-36%
- Non-performing	14,500	3,601	13,375	22,354	-	-	53,830	20.40%-36%
- Allowance	-	-	-	-	-	(53,830)	(53,830)	
Equity investment	-	-	-	-	-	10,000	10,000	
Other assets	-	-	-	-	-	98,087	98,087	
	<u>254,791</u>	<u>25,742</u>	<u>809,694</u>	<u>7,156,116</u>	<u>-</u>	<u>81,375</u>	<u>8,327,718</u>	
<b>Financial liabilities</b>								
Amounts due to shareholders	290,000	-	-	3,095,494	-	-	3,385,494	7%-10%
Borrowings	-	-	50,000	500,000	-	38,375	588,375	0%-12.50%
Other liabilities	-	-	-	-	-	61,940	61,940	
	<u>290,000</u>	<u>-</u>	<u>50,000</u>	<u>3,595,494</u>	<u>-</u>	<u>100,315</u>	<u>4,035,809</u>	
Maturity gap	<u>(35,209)</u>	<u>25,742</u>	<u>759,694</u>	<u>3,560,622</u>	<u>-</u>	<u>(18,940)</u>	<u>4,291,909</u>	
Equivalents in KHR'000 (Note 4)	<u>(142,596)</u>	<u>104,255</u>	<u>3,076,761</u>	<u>14,420,519</u>	<u>-</u>	<u>(76,707)</u>	<u>17,382,231</u>	

## Maxima Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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 %
<b>Financial assets</b>								
Cash on hand	-	-	-	-	-	9,176	9,176	
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>1,885,909</u>	<u>1,703,411</u>	<u>-</u>	<u>116,820</u>	<u>5,061,410</u>	
<b>Financial liabilities</b>								
Amount due to shareholders	-	288,607	-	-	-	-	288,607	0%-10%
Borrowings	-	325,000	2,520,615	100,000	-	-	2,945,615	0%-11.25%
Other liabilities	-	-	-	-	-	40,326	40,326	
	<u>-</u>	<u>613,607</u>	<u>2,520,615</u>	<u>100,000</u>	<u>-</u>	<u>40,326</u>	<u>3,274,548</u>	
Maturity gap	<u>883,410</u>	<u>(141,747)</u>	<u>(634,706)</u>	<u>1,603,411</u>	<u>-</u>	<u>76,494</u>	<u>1,786,862</u>	
Equivalents in KHR'000 (Note 4)	<u>3,599,896</u>	<u>(577,619)</u>	<u>(2,586,427)</u>	<u>6,533,900</u>	<u>-</u>	<u>311,713</u>	<u>7,281,463</u>	

## **Maxima Microfinance Plc.**

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### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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 Microfinance Plc.

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### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 26. Financial risk management (continued)

##### (d) Liquidity risk (continued)

31 December 2015	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\$
<b>Financial assets</b>							
Cash on hand	15,311	-	-	-	-	-	15,311
Deposits and placements with banks	242,033	-	-	-	-	-	242,033
Loans to customers	381,228	700,613	2,982,435	3,898,011	-	-	7,962,287
Equity investment	-	-	-	-	-	10,000	10,000
Other assets	91,534	-	-	41,035	-	6,553	139,122
	<u>730,106</u>	<u>700,613</u>	<u>2,982,435</u>	<u>3,939,046</u>	<u>-</u>	<u>16,553</u>	<u>8,368,753</u>
<b>Financial liabilities</b>							
Amounts due to shareholders	290,000	-	-	3,095,494	-	-	3,385,494
Borrowings	-	-	50,000	500,000	-	38,375	588,375
Other liabilities	65,010	-	-	-	-	5,321	70,331
	<u>355,010</u>	<u>-</u>	<u>50,000</u>	<u>3,595,494</u>	<u>-</u>	<u>43,696</u>	<u>4,044,200</u>
Maturity gap	<u>375,096</u>	<u>700,613</u>	<u>2,932,435</u>	<u>343,552</u>	<u>-</u>	<u>(27,143)</u>	<u>4,324,553</u>
Equivalents in KHR'000 (Note 4)	<u>1,519,139</u>	<u>2,837,483</u>	<u>11,876,362</u>	<u>1,391,386</u>	<u>-</u>	<u>(109,929)</u>	<u>17,514,440</u>

## Maxima Microfinance Plc.

(Formerly known as Maxima Mikroheranhvatho PLC.)

### Notes to the financial statements (continued) for the year ended 31 December 2015

#### 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\$
<b>Financial assets</b>							
Cash on hand	9,176	-	-	-	-	-	9,176
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>-</u>	<u>16,553</u>	<u>5,019,955</u>
<b>Financial liabilities</b>							
Amount due to shareholders	-	288,607	-	-	-	-	288,607
Borrowings	-	325,000	2,520,615	100,000	-	-	2,945,615
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>5,321</u>	<u>3,274,548</u>
Maturity gap	<u>906,421</u>	<u>(144,778)</u>	<u>(634,785)</u>	<u>1,607,317</u>	<u>-</u>	<u>11,232</u>	<u>1,745,407</u>
Equivalents in KHR'000 (Note 4)	<u>3,693,665</u>	<u>(589,970)</u>	<u>(2,586,749)</u>	<u>6,549,817</u>	<u>-</u>	<u>45,770</u>	<u>7,112,533</u>

## **Maxima Microfinance Plc.**

(Formerly known as Maxima Mikroheranhvatho PLC.)

### **Notes to the financial statements (continued) for the year ended 31 December 2015**

#### **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 not been presented.