

AMK MICROFINANCE INSTITUTION PLC.

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

Corporate Information

Company	AMK Microfinance Institution Plc.
Registration No	Co. 1698/03E
Registered office	#285, Yothapol Khemarak Phoumin Blvd. (St. 271), Sangkat Tomnub Teuk, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia
Shareholders	Agora Microfinance N.V Rural Impulse Fund II PROPARCO Cambodia-Laos Development Fund (“CLDF”) AMK Staff Association (“AMK-SA”)
Board of Directors	Mr. Tanmay Chetan, Chairman Mr. Patrick Peter Power, Director Mr. Tip Janvibol, Director Ms. Mckenzie Ann Rebecca, Director Mr. Adrian John Graham, Director Mr. Kea Borann, Director Ms. Blandine Claudia Marie Pons, Director Mr. Joshua Morris, Director (appointed on 12 August 2014) Ms. Hannah M. Siedek, Director (appointed on 12 August 2014) Mr. Howard William Dalzell, Director (resigned on 12 August 2014) Mr. Thomas James O’Higgins, Director (resigned on 12 August 2014)
Executive Committee	Mr. Kea Borann, Chief Executive Officer Mr. Mam Choeurn, Chief Operations Officer Mr. Chheang Taing, Chief Financial Officer Mr. Huot Sokha, Chief Business Officer
Auditor	KPMG Cambodia Ltd

AMK Microfinance Institution Plc.

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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of AMK Microfinance Institution Plc. (formerly known as Angkor Mikroheranhvatho (Kampuchea) Co., Ltd) (“the Company” or “AMK”) for the year ended 31 December 2014.

Principal activity

The principal activity of AMK Microfinance Institution Plc. is to provide micro-finance services to the poor population of Cambodia through its head office in Phnom Penh and its various branch offices in Phnom Penh and provinces in the Kingdom of Cambodia.

Financial results

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

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	20,563,859	5,046,345	16,275,893	4,074,066
Income tax expense	(4,250,267)	(1,043,010)	(3,055,981)	(764,951)
Net profit for the year	<u>16,313,592</u>	<u>4,003,335</u>	<u>13,219,912</u>	<u>3,309,115</u>

Share capital

On 20 October 2013, the Board of Directors of the Company approved to issue additional share capital to AMK-SA of 9,839 shares for KHR245,975 thousand (US\$61,570) with a premium of KHR22,521 thousand (US\$5,638). This increase was approved by the National Bank of Cambodia and the Ministry of Commerce on 7 March 2014 and 20 November 2014 respectively.

On 24 March 2014, Concern Worldwide (Dublin) and Concern Worldwide (UK) entered into the Sale and Purchase Agreements (SPA) with PROPARCO, CLDF and Agora Microfinance N.V to sell all of their shareholding. Under the SPAs, Concern Worldwide (Dublin) agreed to sell 210,000 shares, 94,200 shares and 437,428 shares to PROPARCO, CLDF and Agora Microfinance N.V respectively and Concern Worldwide (UK) agreed to sell 100 shares to Agora Microfinance N.V. These transactions were approved by the National Bank of Cambodia and the Ministry of Commerce on 4 August 2014 and 20 November 2014 respectively.

Pursuant to the Board of Directors meeting on 24 March 2015, the Board of Directors declared a cash dividend of KHR1,631,312 thousand (US\$400,322) to the shareholders.

AMK Microfinance Institution Plc.

Reserves and provisions

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

Bad and doubtful loans

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

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

Current assets

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any current assets, other than debts, 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 attributed to the current assets in the financial statements of the Company misleading.

Valuation methods

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

Contingent and other liabilities

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

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

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

AMK Microfinance Institution Plc.

Change of circumstances

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

Items of unusual nature

The results of the operations of the Company for the financial year were not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

Events since the balance sheet date

No significant events occurred after the balance sheet date that requires disclosure or adjustment other than those already disclosed in the financial statements.

The Board of Directors

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

- Mr. Tanmay Chetan, Chairman
- Mr. Patrick Peter Power, Director
- Mr. Tip Janvibol, Director
- Ms. Mckenzie Ann Rebecca, Director
- Mr. Adrian John Graham, Director
- Mr. Kea Borann, Director
- Ms. Blandine Claudia Marie Pons, Director
- Mr. Joshua Morris, Director (appointed on 12 August 2014)
- Ms. Hannah M. Siedek, Director (appointed on 12 August 2014)
- Mr. Howard William Dalzell, Director (resigned on 12 August 2014)
- Mr. Thomas James O'Higgins, Director (resigned on 12 August 2014)

Directors' interests

No members held any direct interest in the equity of the Company.

AMK Microfinance Institution Plc.

Directors' benefits

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

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

Responsibilities of the Board of Directors in respect of the financial statements

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating the preparation and presentation of the financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (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) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

AMK Microfinance Institution Plc.

Approval of the financial statements

I hereby approve the accompanying financial statements as set out on pages 8 to 53 which present fairly, in all material respects, the financial position of AMK Microfinance Institution Plc. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Mr. Tanmay Chetan

Chairman

Phnom Penh, Kingdom of Cambodia

Date: 31 MAR 2015



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REPORT OF THE INDEPENDENT AUDITORS

To the shareholders

AMK Microfinance Institution Plc.

We have audited the accompanying financial statements of AMK Microfinance Institution Plc. (formerly known as Angkor Mikroheranhvatho (Kampuchea) Co., Ltd) (“the Company” or “AMK”), which comprise the balance sheet as at 31 December 2014, and the income statement, statement of changes in equity and 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 53.

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 the 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 AMK Microfinance Institution Plc. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

For KPMG Cambodia Ltd



Nge Huy
Audit Partner

Phnom Penh, Kingdom of Cambodia

31 March 2015

AMK Microfinance Institution Plc.

Balance sheet As at 31 December 2014

	Note	2014		2013	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
ASSETS					
Cash on hand	5	25,603,288	6,283,015	13,051,323	3,266,914
Deposits with National Bank of Cambodia	6	25,339,156	6,218,198	14,788,065	3,701,643
Deposits and placements with banks	7	21,794,178	5,348,265	44,592,049	11,161,965
Loans to customers	8	388,323,570	95,294,128	313,393,956	78,446,547
Other assets	9	10,247,324	2,514,681	8,334,111	2,086,135
Property and equipment	10	11,188,578	2,745,663	8,143,319	2,038,378
Intangible assets	11	1,506,660	369,733	2,119,665	530,579
Deferred tax assets	12	1,821,796	447,067	1,492,582	373,613
TOTAL ASSETS		<u>485,824,550</u>	<u>119,220,750</u>	<u>405,915,070</u>	<u>101,605,774</u>
LIABILITIES AND EQUITY					
Liabilities					
Deposits from customers	13	160,108,894	39,290,526	74,755,898	18,712,365
Provision for income tax	12	3,377,220	828,766	2,671,872	668,804
Other liabilities	14	17,989,074	4,414,498	12,453,341	3,117,231
Borrowings	15	199,153,791	48,872,096	228,745,576	57,257,966
Provision for staff pension funds	16	7,296,514	1,790,556	5,702,918	1,427,514
Total liabilities		<u>387,925,493</u>	<u>95,196,442</u>	<u>324,329,605</u>	<u>81,183,880</u>
Shareholders' equity					
Share capital	17	35,127,300	8,620,196	34,881,325	8,731,245
Share premium	17	149,505	36,688	126,984	31,786
Advance capital contribution	17	-	-	268,496	67,208
Reserves	18	11,228,229	2,755,394	8,551,904	2,140,652
Retained earnings		51,394,023	12,612,030	37,756,756	9,451,003
Total shareholders' equity		<u>97,899,057</u>	<u>24,024,308</u>	<u>81,585,465</u>	<u>20,421,894</u>
TOTAL LIABILITIES AND EQUITY		<u>485,824,550</u>	<u>119,220,750</u>	<u>405,915,070</u>	<u>101,605,774</u>

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

AMK Microfinance Institution Plc.

Income statement for the year ended 31 December 2014

		2014		2013	
	Note	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income	19	119,247,352	29,263,154	97,777,460	24,474,959
Interest expense	20	(30,133,655)	(7,394,762)	(25,980,544)	(6,503,265)
Net interest income		89,113,697	21,868,392	71,796,916	17,971,694
Fee and commission expenses	21	(9,032,614)	(2,216,592)	(7,110,828)	(1,779,932)
Other income	22	4,299,587	1,055,113	3,082,553	771,603
Other operating expenses	23	(62,284,055)	(15,284,431)	(49,491,329)	(12,388,318)
Allowance for bad and doubtful loans	8	(2,190,357)	(537,511)	(2,001,419)	(500,981)
Operating income		19,906,258	4,884,971	16,275,893	4,074,066
Grant income	24	657,601	161,374	-	-
Profit before income tax		20,563,859	5,046,345	16,275,893	4,074,066
Income tax expense	12	(4,250,267)	(1,043,010)	(3,055,981)	(764,951)
Net profit for the year		16,313,592	4,003,335	13,219,912	3,309,115

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

AMK Microfinance Institution Plc.

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

	Share capital KHR'000	Share premium KHR'000	Advance capital contribution KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000	Total US\$
At 1 January 2013	34,579,200	95,506	333,603	5,928,121	27,160,627	68,097,057	17,045,571
Additional share capital	302,125	31,478	(333,603)	-	-	-	-
Advance capital contribution	-	-	268,496	-	-	268,496	67,208
Transfers to reserves	-	-	-	2,623,783	(2,623,783)	-	-
Net profit for the year	-	-	-	-	13,219,912	13,219,912	3,309,115
At 31 December 2013	<u>34,881,325</u>	<u>126,984</u>	<u>268,496</u>	<u>8,551,904</u>	<u>37,756,756</u>	<u>81,585,465</u>	<u>20,421,894</u>
(US\$ equivalents - Note 4)	<u>8,731,245</u>	<u>31,786</u>	<u>67,208</u>	<u>2,140,652</u>	<u>9,451,003</u>	<u>20,421,894</u>	
At 1 January 2014	34,881,325	126,984	268,496	8,551,904	37,756,756	81,585,465	20,020,973
Additional share capital	245,975	22,521	(268,496)	-	-	-	-
Transfers to reserves	-	-	-	2,676,325	(2,676,325)	-	-
Net profit for the year	-	-	-	-	16,313,592	16,313,592	4,003,335
At 31 December 2014	<u>35,127,300</u>	<u>149,505</u>	<u>-</u>	<u>11,228,229</u>	<u>51,394,023</u>	<u>97,899,057</u>	<u>24,024,308</u>
(US\$ equivalents - Note 4)	<u>8,620,196</u>	<u>36,688</u>	<u>-</u>	<u>2,755,394</u>	<u>12,612,030</u>	<u>24,024,308</u>	

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

AMK Microfinance Institution Plc.

Statement of cash flows for the year ended 31 December 2014

	Note	2014		2013	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash flows from operating activities					
Net cash generated from/ (used in) operating activities	25	59,742,922	14,660,840	(2,614,487)	(654,442)
Cash flows from investing activities					
Purchase of property and equipment		(5,776,149)	(1,417,460)	(4,904,774)	(1,227,728)
Purchase of intangible assets		(233,248)	(57,239)	(703,058)	(175,984)
Proceeds from disposals of property and equipment		97,903	24,025	2,029	509
Net cash used in investing activities		(5,911,494)	(1,450,674)	(5,605,803)	(1,403,203)
Cash flows from financing activities					
Proceeds from borrowings		78,432,743	19,247,299	101,667,270	25,448,628
Repayments of borrowings		(110,490,643)	(27,114,268)	(88,486,397)	(22,149,286)
Proceeds from advance capital contribution		-	-	268,496	67,208
Net cash (used in)/generated from financing activities		(32,057,900)	(7,866,969)	13,449,369	3,366,550
Net increase in cash and cash equivalents		21,773,528	5,343,197	5,229,079	1,308,905
Cash and cash equivalents at beginning of year		34,739,504	8,525,031	29,510,425	7,386,840
Cash and cash equivalents at end of year	26	56,513,032	13,868,228	34,739,504	8,695,745

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

AMK Microfinance Institution Plc.

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

1. Reporting entity

AMK Microfinance Institution Plc. (formerly known as Angkor Mikroheranhvatho (Kampuchea) Co., Ltd) (“the Company” or “AMK”), a licensed micro-finance institution, was incorporated in Cambodia and registered with the Ministry of Commerce as a private limited liability company under registration number Co. 1698/03E, dated 30 April 2003. On 7 July 2014, the Company changed its name to AMK Microfinance Institution Plc. AMK is engaged primarily in the provision of micro-finance services to the poor population of Cambodia through its headquarters in Phnom Penh and various offices in the Kingdom of Cambodia.

The Company was initially established in 1999 as Thanakea Ponleu Thmey (“TPT”) Programme by Concern Worldwide, Cambodia (“CWC”). All assets, liabilities and accumulated donations of TPT were transferred to the Company on 1 July 2003 against the issue of shares. The Company commenced to trade on the date of the asset transfer. On 29 January 2010, the Company obtained a Microfinance Deposit Taking Institution (“MDI”) license to conduct deposit taking business from the National Bank of Cambodia.

AMK has the following main guiding principles:

- AMK provides micro-finance services to poor people in Cambodia that are grounded in sound financial discipline at all levels.
- AMK is committed to openness and transparency in all areas of management and operations.
- AMK is committed to developing processes/services and to adopting behaviours and standards that ensure optimum social performance, including client protection.
- AMK is a learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and system improvements.

The registered office of the Company is currently located at #285, Yothapol Khemarak Phoumin Blvd. (St. 271), Sangkat Tomnub Teuk, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2014, the Company had 1,740 employees (31 December 2013: 1,444 employees).

AMK Microfinance Institution Plc.

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

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2015.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel (“KHR”), United States Dollars (“US\$”) and Thai Baht (“THB”). Management have determined the KHR 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 KHR are translated into KHR at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than KHR at the reporting date are translated into KHR 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 judgments

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 year in which the estimates are revised and in any future years affected.

AMK Microfinance Institution Plc.

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

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 periods 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.

(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.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(d) Deposits and placement with banks

Deposits and placements with banks are stated at cost.

(e) 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 allowance.

Loans are written off automatically when a client dies and in other case where the loans remain unpaid based on the assessment of the management and upon the approval of the Board of Directors as they are uncollectible. Loans written off are removed from the outstanding loan portfolio and from the allowance for bad and doubtful loans.

AMK Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

(f) 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	Allowance
Short term loans (less than one year):		
Sub-standard	30 days or more	10%
Doubtful	60 days or more	30%
Loss	90 days or more	100%
Long term loans (more than one year):		
Sub-standard	30 days or more	10%
Doubtful	180 days or more	30%
Loss	360 days or more	100%

An additional general allowance for bad and doubtful loans is set at the rate of 1% of all outstanding performing loans excluding staff loans.

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 is 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.

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.

Recoveries on loans previously written off and reversals of previous allowance are disclosed separately together with the net movement in the allowance for bad and doubtful loans and advances in the income statement.

(g) Other assets

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

AMK Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

(h) 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 straight line basis over the estimated useful lives of the individual assets as follows:

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

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

- (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 year 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.

(i) Intangible assets

Intangible assets consist of computer software licenses and related costs and are stated at cost less accumulated amortisation and accumulated impairment losses; if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a straight line method over five years.

AMK Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

(j) Impairment

(i) *Financial assets*

A financial asset, except loans to customers, 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 estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(f).

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.

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.

(k) Deposits from customers

Deposits from customers are stated at cost.

AMK Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

(l) Borrowings

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

(m) Provisions

A provision is 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.

(n) Provisions for staff pension funds

The Company provides its employees with benefits under the staff pension fund policy. Employees who complete three months of service with the Company have to participate in the staff pension fund scheme. The fund is sourced from the following:

- Employees contribute 3% of their monthly salary, and the Company contributes 6%. The Company's contribution is charged to the income statement.
- The Company contributes interest on the cumulative balance of the staff pension fund computed at 7% per annum. This interest is charged to the income statement.

The staff pension fund will be paid to employees (who have contributed to the fund) upon their retirement, resignation or termination of employment. The employee's contribution and interest are paid in full accordingly.

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

(o) 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.

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

3. Significant accounting policies (continued)

(p) Grants

Grants received from third parties to subsidise the Company's operating expenses are released to the income statement on a systematic and rational basis, matching the related costs which they are intended to compensate.

Grants received from third parties for the purchase of property and equipment are amortised to the income statement on a systematic and rational basis over the useful life of the assets. The unamortised grants are shown as deferred grant income.

(q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. Rights to assets held under finance leases are recognised as assets of the Company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in the income statement. Assets held under finance leases are included in property and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(r) 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 reporting 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 reporting date.

AMK Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

(r) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to permit the realisation of the asset. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) 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.

4. Translation of Khmer Riel into United States Dollars

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

5. Cash on hand

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Head office	824,090	202,230	34,573	8,654
Branches	24,779,198	6,080,785	13,016,750	3,258,260
	<u>25,603,288</u>	<u>6,283,015</u>	<u>13,051,323</u>	<u>3,266,914</u>

AMK Microfinance Institution Plc.

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

5. Cash on hand (continued)

The above amounts are analysed as follows:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
By currency:				
Khmer Riel	13,432,466	3,296,311	7,536,863	1,886,574
US Dollars	11,185,981	2,745,026	5,084,452	1,272,703
Thai Baht	984,841	241,678	430,008	107,637
	<u>25,603,288</u>	<u>6,283,015</u>	<u>13,051,323</u>	<u>3,266,914</u>

6. Deposits with National Bank of Cambodia

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Statutory deposits:				
Capital guarantee deposit	3,512,730	862,020	3,488,133	873,125
Reserve requirement	11,813,620	2,899,048	5,679,500	1,421,652
	<u>15,326,350</u>	<u>3,761,068</u>	<u>9,167,633</u>	<u>2,294,777</u>
Current accounts	10,012,806	2,457,130	5,620,432	1,406,866
	<u>25,339,156</u>	<u>6,218,198</u>	<u>14,788,065</u>	<u>3,701,643</u>

Capital guarantee deposit

The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-00-006 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 10% of the Company's registered share capital. The statutory deposit on registered share capital is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The statutory deposit on registered capital placed with NBC earns interest at the rate of 3.00% per annum.

AMK Microfinance Institution Plc.

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

6. Deposits with National Bank of Cambodia (continued)

Reserve requirement

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas No. B7-07-163 on Licensing of Micro-finance Deposit Taking Institutions. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit relating to customers' deposits does not earn interest.

7. Deposits and placements with banks

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current accounts	1,338,170	328,385	1,551,615	388,389
Savings accounts	19,558,768	4,799,698	14,516,134	3,633,576
Fixed deposits	897,240	220,182	28,524,300	7,140,000
	<u>21,794,178</u>	<u>5,348,265</u>	<u>44,592,049</u>	<u>11,161,965</u>

Deposits and placements with banks are analysed as follows:

(a)		2014		2013	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
	By maturity:				
	Within 1 month	20,896,938	5,128,083	16,067,749	4,021,965
	More than 3 months	897,240	220,182	28,524,300	7,140,000
		<u>21,794,178</u>	<u>5,348,265</u>	<u>44,592,049</u>	<u>11,161,965</u>

AMK Microfinance Institution Plc.

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

7. Deposits and placements with banks (continued)

Deposits and placements with banks are analysed as follows (continued):

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(b) By currency:				
US Dollars	6,302,113	1,546,531	32,124,387	8,041,148
Khmer Riel	14,058,180	3,449,860	10,308,789	2,580,423
Thai Baht	1,433,885	351,874	2,158,873	540,394
	<u>21,794,178</u>	<u>5,348,265</u>	<u>44,592,049</u>	<u>11,161,965</u>

(c) By interest rate (per annum):

	2014	2013
Fixed deposits	1.00% - 5.00%	1.00% - 5.00%
Savings accounts	0.25% - 0.75%	0.25% - 0.75%

8. Loans to customers

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Village bank loans:				
End of term	92,737,423	22,757,650	86,804,078	21,728,180
Credit line	68,562,582	16,825,173	64,756,592	16,209,410
Instalment	89,952,590	22,074,255	82,531,966	20,658,815
Individual loans:				
Instalment	81,519,375	20,004,755	37,097,151	9,285,895
End of term	27,981,405	6,866,602	26,589,948	6,655,807
Seasonal credit line	24,641,850	6,047,080	13,345,734	3,340,609
Staff loans	7,164,205	1,758,088	5,713,223	1,430,093
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>
Allowance for bad and doubtful loans				
Specific	(381,907)	(93,720)	(333,494)	(83,478)
General	(3,853,953)	(945,755)	(3,111,242)	(778,784)
	<u>(4,235,860)</u>	<u>(1,039,475)</u>	<u>(3,444,736)</u>	<u>(862,262)</u>
	<u>388,323,570</u>	<u>95,294,128</u>	<u>313,393,956</u>	<u>78,446,547</u>

AMK Microfinance Institution Plc.

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

8. Loans to customers (continued)

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

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	3,444,736	845,334	2,617,310	655,147
Allowance for the year	2,190,357	537,511	2,001,419	500,981
Written off during the year	(1,399,233)	(343,370)	(1,173,993)	(293,866)
At 31 December	<u>4,235,860</u>	<u>1,039,475</u>	<u>3,444,736</u>	<u>862,262</u>

The loans to customers are analysed as follows:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Less than 1 month	27,578,395	6,767,704	25,298,229	6,332,473
1 to 3 months	96,374,429	23,650,167	89,867,488	22,494,991
3 to 12 months	194,883,146	47,824,085	163,426,887	40,907,857
More than 1 year	73,723,460	18,091,647	38,246,088	9,573,488
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>
(b) By currency:				
Khmer Riel	306,560,958	75,229,683	267,818,619	67,038,453
US Dollars	61,655,088	15,130,083	31,705,803	7,936,371
Thai Baht	24,343,384	5,973,837	17,314,270	4,333,985
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>

AMK Microfinance Institution Plc.

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

8. Loans to customers (continued)

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

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(c) By economic sector:				
Agriculture	219,000,713	53,742,506	199,722,779	49,993,186
Trade and commerce	74,253,792	18,221,789	62,779,009	15,714,395
Household/family	14,464,789	3,549,641	11,619,829	2,908,593
Services	18,427,405	4,522,063	13,480,637	3,374,377
Construction	63,158,805	15,499,093	26,112,882	6,536,391
Transportation	3,220,481	790,302	2,693,309	674,170
Other categories	33,445	8,209	430,247	107,697
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>
(d) By residency status:				
Residents	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>
(e) By relationship:				
External customers	385,395,225	94,575,515	311,125,469	77,878,716
Staff loans	7,164,205	1,758,088	5,713,223	1,430,093
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>
(f) By location:				
Head office	2,027,260	497,487	1,740,504	435,671
Branches	390,532,170	95,836,116	315,098,188	78,873,138
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>

AMK Microfinance Institution Plc.

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

8. Loans to customers (continued)

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

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(g) By performance:				
Standard loans:				
Secured	139,447,175	34,220,166	80,047,005	20,036,797
Unsecured	252,489,499	61,960,613	236,294,375	59,147,528
Sub-standard loans:				
Secured	68,270	16,753	17,646	4,417
Unsecured	108,124	26,533	83,071	20,794
Doubtful loans:				
Secured	18,312	4,494	45,793	11,463
Unsecured	98,967	24,286	58,740	14,703
Loans loss:				
Secured	114,867	28,189	156,705	39,225
Unsecured	214,216	52,569	135,357	33,882
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>
(h) By interest rate (per annum):				
	2014		2013	
External customers	24.00% - 36.00%		24.00% - 36.00%	
Staff loans	2.00% - 12.00%		2.00% - 12.00%	

9. Other assets

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest receivable	6,131,335	1,504,622	5,739,591	1,436,694
Prepayments	3,090,755	758,467	2,426,326	607,341
Accrued gain on forward exchange rate	269,242	66,072	-	-
Others	755,992	185,520	168,194	42,100
	<u>10,247,324</u>	<u>2,514,681</u>	<u>8,334,111</u>	<u>2,086,135</u>

AMK Microfinance Institution Plc.

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

10. Property and equipment

2014	Leasehold improvement KHR'000	Motor vehicles KHR'000	Motorcycles KHR'000	Computer and office equipment KHR'000	Construction in progress KHR'000	KHR'000	Total US\$ (Note 4)
Cost							
At 1 January 2014	1,339,359	2,531,215	5,944,638	6,546,734	98,937	16,460,883	4,039,480
Additions	119,213	533,265	1,617,607	2,360,201	1,145,863	5,776,149	1,417,460
Transfers	124,373	-	-	580,315	(704,688)	-	-
Disposals	-	-	(240,305)	(449,499)	-	(689,804)	(169,277)
At 31 December 2014	<u>1,582,945</u>	<u>3,064,480</u>	<u>7,321,940</u>	<u>9,037,751</u>	<u>540,112</u>	<u>21,547,228</u>	<u>5,287,663</u>
Less: Accumulated depreciation							
At 1 January 2014	42,432	1,382,674	3,275,552	3,616,906	-	8,317,564	2,041,121
Depreciation for the year	357,194	173,510	682,330	1,463,263	-	2,676,297	656,760
Disposals	-	-	(193,069)	(442,142)	-	(635,211)	(155,881)
At 31 December 2014	<u>399,626</u>	<u>1,556,184</u>	<u>3,764,813</u>	<u>4,638,027</u>	<u>-</u>	<u>10,358,650</u>	<u>2,542,000</u>
Carrying amounts							
At 31 December 2014	<u><u>1,183,319</u></u>	<u><u>1,508,296</u></u>	<u><u>3,557,127</u></u>	<u><u>4,399,724</u></u>	<u><u>540,112</u></u>	<u><u>11,188,578</u></u>	<u><u>2,745,663</u></u>

AMK Microfinance Institution Plc.

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

10. Property and equipment (continued)

2013	Leasehold improvement KHR'000	Motor vehicles KHR'000	Motorcycles KHR'000	Computer and office equipment KHR'000	Construction in progress KHR'000	KHR'000	Total US\$ (Note 4)
Cost							
At 1 January 2013	-	2,596,647	4,759,955	4,216,264	-	11,572,866	2,896,837
Additions	401,782	-	1,119,251	2,347,227	1,036,514	4,904,774	1,227,728
Transfers/reclassifications	937,577	(65,432)	65,432	-	(937,577)	-	-
Disposals	-	-	-	(16,757)	-	(16,757)	(4,194)
At 31 December 2013	<u>1,339,359</u>	<u>2,531,215</u>	<u>5,944,638</u>	<u>6,546,734</u>	<u>98,937</u>	<u>16,460,883</u>	<u>4,120,371</u>
Less: Accumulated depreciation							
At 1 January 2013	-	1,238,176	2,679,736	2,784,331	-	6,702,243	1,677,657
Depreciation for the year	42,432	146,798	593,516	847,123	-	1,629,869	407,977
Reclassifications	-	(2,300)	2,300	-	-	-	-
Disposals	-	-	-	(14,548)	-	(14,548)	(3,641)
At 31 December 2013	<u>42,432</u>	<u>1,382,674</u>	<u>3,275,552</u>	<u>3,616,906</u>	<u>-</u>	<u>8,317,564</u>	<u>2,081,993</u>
Carrying amounts							
At 31 December 2013	<u><u>1,296,927</u></u>	<u><u>1,148,541</u></u>	<u><u>2,669,086</u></u>	<u><u>2,929,828</u></u>	<u><u>98,937</u></u>	<u><u>8,143,319</u></u>	<u><u>2,038,378</u></u>

AMK Microfinance Institution Plc.

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

11. Intangible assets

	Computer Software			
	2014	US\$	2013	US\$
	KHR'000	(Note 4)	KHR'000	(Note 4)
Cost				
At 1 January	4,743,911	1,164,150	4,040,853	1,011,478
Additions	233,248	57,239	703,058	175,984
	<u>4,977,159</u>	<u>1,221,389</u>	<u>4,743,911</u>	<u>1,187,462</u>
At 31 December	4,977,159	1,221,389	4,743,911	1,187,462
Less: Accumulated amortisation				
At 1 January	2,624,246	643,987	1,886,599	472,240
Amortisation for the year	846,253	207,669	737,647	184,643
	<u>3,470,499</u>	<u>851,656</u>	<u>2,624,246</u>	<u>656,883</u>
At 31 December	3,470,499	851,656	2,624,246	656,883
Carrying amounts				
At 31 December	<u><u>1,506,660</u></u>	<u><u>369,733</u></u>	<u><u>2,119,665</u></u>	<u><u>530,579</u></u>

12. Income tax

(a) Deferred tax, net

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

	2014		2013	
	KHR'000	US\$	KHR'000	US\$
		(Note 4)		(Note 4)
Deferred tax assets	2,489,452	610,907	2,082,908	521,378
Deferred tax liabilities	(667,656)	(163,840)	(590,326)	(147,765)
	<u>1,821,796</u>	<u>447,067</u>	<u>1,492,582</u>	<u>373,613</u>

AMK Microfinance Institution Plc.

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

12. Income tax (continued)

(a) Deferred tax, net (continued)

The movement of net deferred tax assets is as follows:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At beginning of year	1,492,582	366,278	969,232	242,611
Credited to income statement	329,214	80,789	523,350	131,002
At end of year	<u>1,821,796</u>	<u>447,067</u>	<u>1,492,582</u>	<u>373,613</u>

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

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Provision for retirement benefits	1,037,215	254,531	908,920	227,514
General allowance	770,791	189,151	622,248	155,757
Khmer New Year and Pchum Ben bonuses	339,115	83,218	275,392	68,934
Unrealised exchange losses	332,635	81,628	228,408	57,173
Management incentives	9,696	2,379	47,940	12,000
Depreciation and amortisation	(667,656)	(163,840)	(590,326)	(147,765)
At end of year	<u>1,821,796</u>	<u>447,067</u>	<u>1,492,582</u>	<u>373,613</u>

(b) Provision for income tax

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	2,671,872	655,674	2,386,208	597,299
Current income tax expense	4,579,481	1,123,799	3,579,331	895,953
Income tax paid	(3,874,133)	(950,707)	(3,293,667)	(824,448)
At 31 December	<u>3,377,220</u>	<u>828,766</u>	<u>2,671,872</u>	<u>668,804</u>

AMK Microfinance Institution Plc.

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

12. Income tax (continued)

(b) Provision for income tax (continued)

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

(c) Income tax expense

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current income tax	4,579,481	1,123,799	3,579,331	895,953
Deferred tax	(329,214)	(80,789)	(523,350)	(131,002)
	<u>4,250,267</u>	<u>1,043,010</u>	<u>3,055,981</u>	<u>764,951</u>

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

	2014			2013		
	KHR'000	US\$ (Note 4)	%	KHR'000	US\$ (Note 4)	%
Profit before income tax	<u>20,563,859</u>	<u>5,046,345</u>		<u>16,275,893</u>	<u>4,074,066</u>	
Income tax using						
statutory rate at 20%	4,112,772	1,009,269	20.00	3,255,179	814,813	20.00
Non-deductible expenses	59,600	14,626	0.29	63,061	15,784	0.39
Others	-	-	-	(256,225)	(64,136)	(1.57)
Under/(over) provision in prior year	<u>77,895</u>	<u>19,115</u>	<u>0.38</u>	<u>(6,034)</u>	<u>(1,510)</u>	<u>(0.04)</u>
Income tax expense	<u>4,250,267</u>	<u>1,043,010</u>	<u>20.67</u>	<u>3,055,981</u>	<u>764,951</u>	<u>18.78</u>

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

AMK Microfinance Institution Plc.

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

13. Deposits from customers

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Term deposits	96,733,559	23,738,297	54,502,908	13,642,780
Savings accounts	62,032,338	15,222,660	19,988,972	5,003,497
Mobile saving accounts	1,342,997	329,569	264,018	66,088
	<u>160,108,894</u>	<u>39,290,526</u>	<u>74,755,898</u>	<u>18,712,365</u>

Deposits from customers are analysed as follows:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Less than 1 month	68,496,466	16,808,949	26,804,889	6,709,609
1 to 3 months	17,939,145	4,402,244	13,077,890	3,273,564
3 to 12 months	41,543,193	10,194,649	21,438,845	5,366,419
More than 12 months	32,130,090	7,884,684	13,434,274	3,362,773
	<u>160,108,894</u>	<u>39,290,526</u>	<u>74,755,898</u>	<u>18,712,365</u>
(b) By currency:				
US Dollars	50,193,868	12,317,514	27,629,721	6,916,075
Khmer Riel	107,787,148	26,450,834	45,558,463	11,403,871
Thai Baht	2,127,878	522,178	1,567,714	392,419
	<u>160,108,894</u>	<u>39,290,526</u>	<u>74,755,898</u>	<u>18,712,365</u>
(c) By relationship:				

Analysis of deposits from customers by relationship is disclosed in Note 29(a).

AMK Microfinance Institution Plc.

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

13. Deposits from customers (continued)

Deposits from customers are analysed as follows (continued):

(d) Interest rate by product (per annum)

	2014	2013
Term deposits	4.25% - 12%	4.25% - 12%
Saving accounts	3.00% - 5.75%	3.00% - 5.75%
Mobile saving	3.00% - 5.50%	3.00% - 5.50%

14. Other liabilities

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Accrued interest payable	11,258,171	2,762,741	7,521,572	1,882,746
Staff bonus payable	1,695,573	416,092	1,376,609	344,583
Staff incentive	905,475	222,202	676,275	169,280
Other tax payables	501,568	123,084	540,100	135,194
Finance lease liabilities (*)	650,574	159,650	-	-
Accrued loss on forward exchange rate	-	-	1,128,572	282,496
Other accruals and payables	2,977,713	730,729	1,210,213	302,932
	<u>17,989,074</u>	<u>4,414,498</u>	<u>12,453,341</u>	<u>3,117,231</u>

*: The Company has entered into the ATM lease agreement with Novus Technologies (Cambodia) Company Limited for the period of 3 years starting from 1 August 2014 and lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The future minimum lease payments are as follows:

	Future minimum lease payment KHR'000	Interest KHR'000	Present value of minimum lease payment KHR'000
Less than one year	308,018	56,183	251,835
Between two to three years	435,877	37,138	398,739
	<u>743,895</u>	<u>93,321</u>	<u>650,574</u>

AMK Microfinance Institution Plc.

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

15. Borrowings

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Non-related parties:				
Instituto de Credito Oficial of the Kingdom of Spain ("ICO")	76,466,417	18,764,765	74,965,236	18,764,765
Oikocredit	24,920,000	6,115,337	22,880,000	5,727,159
Global Commercial Microfinance Consortium II B.V	16,300,000	4,000,000	15,980,000	4,000,000
BlueOrchard	14,998,603	3,680,639	11,917,350	2,983,066
ResponsAbility	12,441,577	3,053,148	18,899,420	4,730,768
Hivos-Triodos Fonds	12,000,000	2,944,785	18,000,000	4,505,632
Grameen Credit Agricole Microfinance Foundation	9,000,000	2,208,589	3,000,000	750,939
ASN Novib Microkredietfonds	8,146,000	1,999,018	-	-
DWM Asset Management	8,079,000	1,982,577	8,128,000	2,034,543
Oxfam Novib	4,423,194	1,085,446	4,423,194	1,107,182
Microvest GMG Local Credit Master Fund, Ltd	4,150,000	1,018,405	6,125,000	1,533,166
VDK-Spaarbank n.v	4,075,000	1,000,000	3,995,000	1,000,000
Rural Impulse Fund	2,116,500	519,387	3,990,376	998,844
Symbiotics SA Information	2,037,500	500,000	1,997,500	500,000
Foreign Trade Bank of Cambodia	-	-	30,050,000	7,521,902
MARUHAN Japan Bank Plc	-	-	2,397,000	600,000
Micro Credit Enterprise	-	-	1,997,500	500,000
	<u>199,153,791</u>	<u>48,872,096</u>	<u>228,745,576</u>	<u>57,257,966</u>

AMK Microfinance Institution Plc.

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

15. Borrowings (continued)

Borrowings are unsecured and are analysed as follows:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By currency:				
US Dollars	102,953,917	25,264,765	109,322,236	27,364,765
Khmer Riel	79,971,444	19,624,894	102,461,194	25,647,358
Thai Baht	16,228,430	3,982,437	16,962,146	4,245,843
	<u>199,153,791</u>	<u>48,872,096</u>	<u>228,745,576</u>	<u>57,257,966</u>
(b) By maturity:				
Less than 1 month	6,400,002	1,570,553	2,719,750	680,788
1 to 3 months	8,900,334	2,184,131	19,586,750	4,902,816
3 to 12 months	41,533,297	10,192,220	66,223,630	16,576,628
1 to 5 years	85,830,612	21,062,727	76,844,896	19,235,268
Over 5 years	56,489,546	13,862,465	63,370,550	15,862,466
	<u>199,153,791</u>	<u>48,872,096</u>	<u>228,745,576</u>	<u>57,257,966</u>
(c) By interest rate (per annum, including withholding tax):				
		2014		2013
Khmer Riel		10.00% - 14.53%		10.00% - 14.53%
US Dollars		6.40% - 8.72%		6.40% - 8.72%
Thai Baht		11.05% - 11.45%		11.05% - 11.40%

AMK Microfinance Institution Plc.

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

16. Provision for staff pension funds

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	5,702,918	1,399,489	4,143,372	1,037,140
Addition:				
Employer contributions at 6%	1,399,899	343,533	1,170,215	292,920
Employee contributions at 3%	699,950	171,767	585,108	146,460
Interest earned	161,103	39,534	292,933	73,325
Payments made during the year	(698,850)	(171,496)	(428,612)	(107,287)
Reversal	(82,708)	(20,296)	(56,861)	(14,233)
Currency translation	114,202	28,025	(3,237)	(811)
At 31 December	<u>7,296,514</u>	<u>1,790,556</u>	<u>5,702,918</u>	<u>1,427,514</u>

17. Share capital and advance capital contribution

The Company's registered and fully paid up share capital is 1,405,092 shares (2013: 1,395,253 shares) at KHR25,000 per share. The details of shareholding are as follows:

	2014			2013		
	KHR'000	US\$ (Note 4)	%	KHR'000	US\$ (Note 4)	%
Agora Microfinance N.V	17,819,450	4,372,871	50.73	6,881,250	1,722,466	19.73
Rural Impulse Fund II	8,644,800	2,121,423	24.61	8,644,800	2,163,905	24.78
PROPARCO	5,250,000	1,288,344	14.95	-	-	-
CLDF	2,355,000	577,914	6.70	-	-	-
AMK – SA	1,058,050	259,644	3.01	812,075	203,273	2.33
Concern Worldwide						
(Dublin)	-	-	-	18,540,700	4,640,976	53.15
Concern Worldwide (UK)	-	-	-	2,500	625	0.01
	<u>35,127,300</u>	<u>8,620,196</u>	<u>100</u>	<u>34,881,325</u>	<u>8,731,245</u>	<u>100</u>

On 20 October 2013, the Board of Directors of the Company approved to issue additional share capital to AMK-SA of 9,839 shares for KHR245,975 thousand (US\$61,570) with a premium of KHR22,521 thousand (US\$5,638). This increase was approved by the National Bank of Cambodia and the Ministry of Commerce on 7 March 2014 and 20 November 2014 respectively.

AMK Microfinance Institution Plc.

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

17. Share capital and advance capital contribution (continued)

On 24 March 2014, Concern Worldwide (Dublin) and Concern Worldwide (UK) entered into the Sale and Purchase Agreements (SPA) with PROPARCO, CLDF and Agora Microfinance N.V to sell all of their shareholding. Under the SPAs, Concern Worldwide (Dublin) agreed to sell 210,000 shares, 94,200 shares and 437,428 shares to PROPARCO, CLDF and Agora Microfinance N.V respectively and Concern Worldwide (UK) agreed to sell 100 shares to Agora Microfinance N.V. These transactions were approved by the National Bank of Cambodia and the Ministry of Commerce on 4 August 2014 and 20 November 2014 respectively.

Pursuant to the Board of Directors meeting on 24 March 2015, the Board of Directors declared a cash dividend of KHR1,631,312 thousand (US\$400,322) to the shareholders.

18. Reserves

Under the loan agreement with ICO, the Company is required to transfer a reserve amount of 3.5% of the loan outstanding with ICO from net profit each year into a capital strengthening reserve account. ICO has no entitlement to this reserve.

19. Interest income

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to customers	118,315,266	29,034,421	96,017,344	24,034,379
Placements with banks	932,086	228,733	1,760,116	440,580
	<u>119,247,352</u>	<u>29,263,154</u>	<u>97,777,460</u>	<u>24,474,959</u>

20. Interest expense

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Borrowings	20,905,591	5,130,206	21,516,727	5,385,914
Deposits from customers	9,228,064	2,264,556	4,463,817	1,117,351
	<u>30,133,655</u>	<u>7,394,762</u>	<u>25,980,544</u>	<u>6,503,265</u>

AMK Microfinance Institution Plc.

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

21. Fee and commission expenses

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Fees on borrowings and swap	4,070,216	998,826	3,339,380	835,890
Village bank president and mobile banking agents incentive	4,962,398	1,217,766	3,771,448	944,042
	<u>9,032,614</u>	<u>2,216,592</u>	<u>7,110,828</u>	<u>1,779,932</u>

22. Other income

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loan fees	2,619,321	642,778	2,072,461	518,764
Remittance fees	1,399,819	343,514	804,916	201,481
Bad debts recovered	55,442	13,605	62,377	15,614
Loss/(gain) on disposals of property and equipment	43,310	10,628	(180)	(44)
Payroll and payment fee	35,132	8,621	5,195	1,300
Micro-insurance commission	28,475	6,988	-	-
Other income	118,088	28,979	137,784	34,488
	<u>4,299,587</u>	<u>1,055,113</u>	<u>3,082,553</u>	<u>771,603</u>

AMK Microfinance Institution Plc.

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

23. Other operating expenses

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Staff costs	36,336,887	8,917,027	29,736,146	7,443,341
Transportation costs	4,312,932	1,058,388	3,302,934	826,767
Office supplies and equipment	4,002,317	982,164	3,365,280	842,373
Depreciation and amortisation	3,522,550	864,429	2,367,516	592,620
Rental expenses	3,731,451	915,693	2,633,840	659,284
Professional services	4,773,288	1,171,359	3,512,080	879,119
Communications	955,153	234,393	775,437	194,102
Utilities	1,018,636	249,972	863,880	216,240
Other expenses	3,220,076	790,205	2,080,664	520,817
	<u>61,873,290</u>	<u>15,183,630</u>	<u>48,637,777</u>	<u>12,174,663</u>
Losses on foreign exchange, net (*)	<u>410,765</u>	<u>100,801</u>	<u>853,552</u>	<u>213,655</u>
	<u><u>62,284,055</u></u>	<u><u>15,284,431</u></u>	<u><u>49,491,329</u></u>	<u><u>12,388,318</u></u>

* This includes gain on foreign exchange amounting to KHR1,398 million (2013: KHR887 million) incurred on the recognition of forward exchange contracts in accordance with NBC's Circular No. 07-012-001 dated 19 January 2012 on "Accounting for Currency Swap or Forward Contract".

24. Grant income

This represents the grant received from Agence Francasie De Development ("AFD") for the technical assistance assignment to support the Company in the following areas:

- i. Human resources and responsible treatment of staff;
- ii. Risk management and internal audit; and
- iii. Product development and expansion of rural outreach as set forth in schedule technical assistance memo.

AMK Microfinance Institution Plc.

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

25. Cash flows from operating activities

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	20,563,859	5,046,345	16,275,893	4,074,066
Adjustments for:				
Depreciation and amortisation	3,522,550	864,429	2,367,516	592,620
(Loss)/gain on disposals of property and equipment	(43,310)	(10,628)	180	44
Allowance for bad and doubtful loans	2,190,357	537,511	2,001,419	500,981
Unrealised exchange gains	2,466,115	605,182	(755,662)	(189,151)
	<u>28,699,571</u>	<u>7,042,839</u>	<u>19,889,346</u>	<u>4,978,560</u>
Changes in:				
Statutory deposits	(6,158,717)	(1,511,342)	(2,929,713)	(733,345)
Deposits and placement with banks	27,627,060	6,779,647	10,227,200	2,560,000
Loans to customers	(77,119,971)	(18,925,146)	(69,115,559)	(17,300,515)
Other assets	(1,913,213)	(469,500)	(1,037,200)	(259,625)
Deposits from customers	85,352,996	20,945,520	40,339,364	10,097,463
Other liabilities	5,535,733	1,358,462	1,746,196	437,094
Provident fund obligations	1,593,596	391,067	1,559,546	390,374
	<u>63,617,055</u>	<u>15,611,547</u>	<u>679,180</u>	<u>170,006</u>
Income tax paid	(3,874,133)	(950,707)	(3,293,667)	(824,448)
	<u>59,742,922</u>	<u>14,660,840</u>	<u>(2,614,487)</u>	<u>(654,442)</u>
Net cash generated from/ (used in) operating activities	<u><u>59,742,922</u></u>	<u><u>14,660,840</u></u>	<u><u>(2,614,487)</u></u>	<u><u>(654,442)</u></u>

AMK Microfinance Institution Plc.

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

26. Cash and cash equivalents

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash on hand	25,603,288	6,283,015	13,051,323	3,266,914
Deposits with NBC	10,012,806	2,457,130	5,620,432	1,406,866
Deposits and placements with banks	20,896,938	5,128,083	16,067,749	4,021,965
	<u>56,513,032</u>	<u>13,868,228</u>	<u>34,739,504</u>	<u>8,695,745</u>

27. 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 allowance 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 committee is responsible for approving loans to customers.

AMK Microfinance Institution Plc.

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

27. 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 customers, which is common practice. The Company also accepts personal guarantee for the village bank loans. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are:

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

(iii) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning. Refer to Note 3(f) for detail.

(iv) Exposure to credit risk

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to customers neither past due nor impaired	391,771,636	96,140,279	316,219,273	79,153,760
Loans to customers past due but not impaired	165,038	40,500	122,107	30,565
Loans to customers individually impaired	622,756	152,824	497,312	124,484
	<u>392,559,430</u>	<u>96,333,603</u>	<u>316,838,692</u>	<u>79,308,809</u>

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Impaired loans and advances

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

In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days. A minimum level of specific 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(f).

Past due but not impaired loans and advances

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

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.

(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.

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(c) Market risk

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

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

(i) Foreign currency exchange risk

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

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

Concentration of currency risk

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

As at 31 December 2014 Denominated in	KHR'000 equivalent			Total KHR'000
	KHR	US\$	THB	
On-balance sheet financial assets and liabilities				
<i>Financial assets</i>				
Cash on hand	13,432,466	11,185,981	984,841	25,603,288
Deposits with National Bank of Cambodia	25,116,909	222,247	-	25,339,156
Deposits and placements with banks	14,058,180	6,302,113	1,433,885	21,794,178
Loans to customers	303,177,170	61,073,104	24,073,296	388,323,570
Other assets	5,229,446	1,566,191	360,932	7,156,569
	<u>361,014,171</u>	<u>80,349,636</u>	<u>26,852,954</u>	<u>468,216,761</u>
<i>Financial liabilities</i>				
Deposits from customers	107,787,148	50,193,868	2,127,878	160,108,894
Other liabilities	10,969,233	6,696,833	323,008	17,989,074
Borrowings	79,971,444	102,953,917	16,228,430	199,153,791
	<u>198,727,825</u>	<u>159,844,618</u>	<u>18,679,316</u>	<u>377,251,759</u>
Net financial asset/(liabilities)	<u>162,286,346</u>	<u>(79,494,982)</u>	<u>8,173,638</u>	<u>90,965,002</u>

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

As at 31 December 2014	KHR'000 equivalent			Total KHR'000
	Denominated in KHR	US\$	THB	
<i>Net financial asset/(liabilities)</i>	162,286,346	(79,494,982)	8,173,638	90,965,002
Off-balance sheet items				
Foreign exchange swap	(51,800,891)	55,997,683	(4,196,792)	-
Foreign exchange forward contracts	(28,525,000)	28,525,000	-	-
	(80,325,891)	84,522,683	(4,196,792)	-
Net open position	81,960,455	5,027,701	3,976,846	90,965,002

As at 31 December 2013	KHR'000 equivalent			Total KHR'000
	Denominated in KHR	US\$	THB	
On-balance sheet financial assets and liabilities				
Financial assets	299,269,701	72,445,301	20,018,176	391,733,178
Financial liabilities	154,780,957	141,825,478	18,808,280	315,414,715
Net financial asset/(liabilities)	144,488,744	(69,380,177)	1,209,896	76,318,463
Off-balance sheet items				
Foreign exchange swap	(42,746,500)	42,746,500	-	-
Foreign exchange forward contracts	(27,965,000)	27,965,000	-	-
	(70,711,500)	70,711,500	-	-
Net open position	73,777,244	1,331,323	1,209,896	76,318,463

AMK Microfinance Institution Plc.

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

27. 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 and bank deposits.

Since the majority of financial assets are short-term and the interest rates are subject to change with the market rates, the company does not use derivative financial instruments to hedge such risk.

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2014	Up to 1 month KHR'000	1 – 3 months KHR'000	3 – 12 months KHR'000	1 – 5 years KHR'000	Over 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	25,603,288	25,603,288	
Deposit with National Bank of Cambodia	-	-	3,512,730	-	-	21,826,426	25,339,156	3
Deposits and placements with banks	19,558,768	-	-	897,240	-	1,338,170	21,794,178	3.38
Loans to customers	9,799,272	36,984,247	234,953,592	104,188,084	2,398,375	-	388,323,570	33.21
Other assets	-	-	-	-	-	7,156,569	7,156,569	
	<u>29,358,040</u>	<u>36,984,247</u>	<u>238,466,322</u>	<u>105,085,324</u>	<u>2,398,375</u>	<u>55,924,453</u>	<u>468,216,761</u>	
Financial liabilities								
Deposits from customers	68,496,466	17,939,145	41,543,193	32,130,090	-	-	160,108,894	6.28
Borrowings	6,400,002	8,900,334	41,533,297	85,830,612	56,489,546	-	199,153,791	9.48
Other liabilities	-	-	-	-	-	17,487,506	17,487,506	
	<u>74,896,468</u>	<u>26,839,479</u>	<u>83,076,490</u>	<u>117,960,702</u>	<u>56,489,546</u>	<u>17,487,506</u>	<u>376,750,191</u>	
Maturity gap	<u>(45,538,428)</u>	<u>10,144,768</u>	<u>155,389,832</u>	<u>(12,875,378)</u>	<u>(54,091,171)</u>	<u>38,436,947</u>	<u>91,466,570</u>	

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2013	Up to 1 month KHR'000	1 – 3 months KHR'000	3 – 12 months KHR'000	1 – 5 years KHR'000	Over 5 years KHR'000	Non-interest sensitive KHR'000	Total KHR'000	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	13,051,323	13,051,323	
Deposit with National Bank of Cambodia	-	-	3,488,133	-	-	11,299,932	14,788,065	3
Deposits and placements with banks	14,516,134	-	27,965,000	559,300	-	1,551,615	44,592,049	4
Loans to customers	24,904,416	89,468,881	161,250,795	36,583,890	1,185,974	-	313,393,956	33.74
Other assets	-	-	-	-	-	5,907,785	5,907,785	
	<u>39,420,550</u>	<u>89,468,881</u>	<u>192,703,928</u>	<u>37,143,190</u>	<u>1,185,974</u>	<u>31,810,655</u>	<u>391,733,178</u>	
Financial liabilities								
Deposits from customers	26,804,889	13,077,890	21,438,845	13,434,274	-	-	74,755,898	7.5
Borrowings	2,719,750	19,586,750	66,223,630	76,844,896	63,370,550	-	228,745,576	9.75
Other liabilities	-	-	-	-	-	11,913,241	11,913,241	
	<u>29,524,639</u>	<u>32,664,640</u>	<u>87,662,475</u>	<u>90,279,170</u>	<u>63,370,550</u>	<u>11,913,241</u>	<u>315,414,715</u>	
Maturity gap	<u>9,895,911</u>	<u>56,804,241</u>	<u>105,041,453</u>	<u>(53,135,980)</u>	<u>(62,184,576)</u>	<u>19,897,414</u>	<u>76,318,463</u>	

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(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 are the contractual maturities of financial liabilities, including estimated interest payments.

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(d) Liquidity risk (continued)

As at 31 December 2014	Up to 1 month KHR'000	1 – 3 months KHR'000	3 – 12 months KHR'000	1 – 5 years KHR'000	Over 5 years KHR'000	Total KHR'000
Deposits from customers	68,496,466	17,939,145	41,543,193	32,130,090	-	160,108,894
Borrowings	6,400,002	8,900,334	41,533,297	85,830,612	56,489,546	199,153,791
Other liabilities	3,628,287	12,163,646	1,695,573	-	-	17,487,506
	<u>78,524,755</u>	<u>39,003,125</u>	<u>84,772,063</u>	<u>117,960,702</u>	<u>56,489,546</u>	<u>376,750,191</u>
As at 31 December 2013						
Deposits from customers	26,804,889	13,077,890	21,438,845	13,434,274	-	74,755,898
Borrowings	2,719,750	19,586,750	66,223,630	76,844,896	63,370,550	228,745,576
Other liabilities	3,048,024	7,657,748	1,207,469	-	-	11,913,241
	<u>32,572,663</u>	<u>40,322,388</u>	<u>88,869,944</u>	<u>90,279,170</u>	<u>63,370,550</u>	<u>315,414,715</u>

AMK Microfinance Institution Plc.

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

27. Financial risk management (continued)

(e) Capital management

(i) Regulatory capital

The Company's lead regulator, the National Bank of Cambodia ("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.

The table below summaries the composition of regulatory capital:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Tier 1 Capital				
Share capital	35,127,300	8,620,196	34,881,325	8,731,245
Share premium	149,505	36,688	126,984	31,786
Advance capital contribution	-	-	268,496	67,208
Reserves	11,228,229	2,755,394	8,551,904	2,140,652
Retained earnings	51,394,023	12,612,030	37,756,756	9,451,003
	<u>97,899,057</u>	<u>24,024,308</u>	<u>81,585,465</u>	<u>20,421,894</u>
Less: loan to related parties	<u>(1,105,398)</u>	<u>(271,263)</u>	<u>(1,024,059)</u>	<u>(256,335)</u>
Total regulatory capital	<u>96,793,659</u>	<u>23,753,045</u>	<u>80,561,406</u>	<u>20,165,559</u>

(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.

AMK Microfinance Institution Plc.

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

28. Commitments and contingencies

(a) Lease commitments

These operating leases mainly relate to office and car park rental contracts which are renewable upon mutual agreement. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follow:

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Within one year	3,203,965	786,249	1,913,729	479,031
Two to five years	6,000,520	1,472,520	4,168,425	1,043,411
Over five years	723,893	177,642	4,234,476	1,059,944
	<u>9,928,378</u>	<u>2,436,411</u>	<u>10,316,630</u>	<u>2,582,386</u>

(b) Loan and other commitments

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

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Foreign exchange swap contracts	55,997,683	13,741,763	42,746,500	10,700,000
Foreign exchange forward contracts	28,525,000	7,000,000	27,965,000	7,000,000
Unused portion of credit line	22,056,948	5,412,748	20,701,745	5,181,914
	<u>106,579,631</u>	<u>26,154,511</u>	<u>91,413,245</u>	<u>22,881,914</u>

In order to limit its exposure to foreign exchange risk, as at 31 December 2014, the Company has entered into 14 foreign exchange swap contracts (2013: 12 contracts) with ANZ Royal Bank and Foreign Trade Bank and 2 foreign exchange forward contracts (2013: 2 contracts) with The Currency Exchange Fund (TCX) to manage its exposure.

(c) Taxation contingencies

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

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

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

29. Related parties balances and transactions

(a) Related-party balances

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to key management personnel	1,105,398	271,263	1,024,059	256,335
Deposits from directors and key management personnel	1,898,696	465,938	1,462,287	366,029

(b) Related party transactions

	2014		2013	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income from loans to key management personnel	117,417	28,814	76,234	19,082
Board of Director expenses	208,413	51,144	269,005	67,335
Key management remuneration and other short - term benefits	2,227,057	546,517	1,414,406	354,044
Consultation fees	-	-	35,156	8,800

30. 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.