FUTABA MICROFINANCE PLC.

Financial Statements
for the year ended 31 December 2016
and
Report of the Independent Auditors

Corporate Information

Company	FUTABA Microfinance Plc.	
Registration No	Co. 2974 E/2015	
Registered office	No. 795, Monivong Blvd. Sangkat Boeung Trabek, Khan Chamkarmorn Phnom Penh, Kingdom of Cambodia	
Shareholder	AZUMA & Co., Ltd.	
Board of Directors	Mr. Chreuk Phally	Chairman
	Mr. Yosuke Sasaki	Director
	Dr. Chap Ratana	Director
	Mr. Ouk Chay	Independent Director
Management team	Mr. Junichi Sasaki	Chief Executive Officer
	Dr. Chap Ratana	Deputy Chief Executive Officer
	Mr. Preap Kandoeng	Assistant CEO
	Mr. Um Piseth	Assistant CEO
	Mr. Tum Vanheng	Head of Credit Department
	Mr. Huot Sokchea	Head of Operation Department
	Mr. Lim Sombo	Head of Marketing Department
	Mr. Kung Sarath	Head of IT Department
	Ms. Bou Rathna	Acting Head of Finance Department
Principal banker	ACLEDA Bank Plc.	
Auditors	KPMG Cambodia Ltd	

FUTABA Microfinance Plc.

Contents

Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of FUTABA Microfinance Plc. ("the Company") for the year ended 31 December 2016.

Principal activity

The principal activity of the Company is to provide the public with sustainable micro-finance services to small and medium enterprises, and low-income families in the Kingdom of Cambodia.

Financial results

The financial results of the Company for the year ended 31 December 2016 were as follows:

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Loss before income tax	(513,083)	(2,071,316)	(81,475)	(329,973)
Income tax expense	(3,799)	(15,337)	-	-
Net loss for the year/period	(516,882)	(2,086,653)	(81,475)	(329,973)

Dividends

No dividend was declared or paid and the Directors do not recommend any dividend to be paid for the year under audit.

Share capital

As at 31 December 2016, the Company's paid up share capital is US$7,000,000 (equivalent to KHR28,259,000 thousand) (2015: US$1,000,000) solely owned by AZUMA & Co., Ltd.

Bad and doubtful loans

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans and 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.

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Bad and doubtful loans (continued)

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Company, inadequate to any material 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, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company had been written down to amounts which they might be expected to realise.

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

Valuation methods

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

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 year which secures the liabilities of any other person except as disclosed in the financial statements; and

(b) any contingent liability in respect of the Company that has arisen since the end of the year other than in the ordinary course of its business operations.

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

Change of circumstances

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

Items of an unusual nature

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

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Items of an unusual nature (continued)

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

Events since the reporting date

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

The Board of Directors

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

• Mr. Chreuk Phally	Chairman
• Mr. Yosuke SASAKI	Director
• Dr. Chap Ratana	Director
• Mr. Ouk Chay	Independent Director

Directors' interests

None of the Directors held or dealt directly in the shares of the Company during the year.

The indirect interests of the Directors of the Company are disclosed in the financial statements.

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.

During the 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 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.

FUTABA Microfinance Plc.

Responsibilities of the Directors in respect of the financial statements

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are 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 to the preparation and presentation of the financial statements or, if there have been any departures in the interest of fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;

(iii). oversee the Company's financial reporting process and maintain adequate accounting records and an effective system of internal controls;

(iv). assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so; and

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

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

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 8 to 43 which, in our opinion, present fairly, in all material respects, the financial position of FUTABA Microfinance Plc. as at 31 December 2016, 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

FUTABA MICROFINANCE PLC
KINGDOM OF CAMBODIA

Chreuk Phally
Chairman

Junichi SASAKI
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 22 MAR 2017

Report of the independent auditors

To the shareholder
FUTABA Microfinance Plc.

Opinion

We have audited the financial statements FUTABA Microfinance Plc. ("the Company"), which comprise the balance sheet as at 31 December 2016, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 43.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, 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.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

We draw attention to the fact that we have not audited the accompanying balance sheet of the Company as at 31 December 2015, the income statement, the statements, changes in equity and cash flows for the period from 14 August 2015 (date of incorporation) to 31 December 2015, or any of the related notes and accordingly, we do not express an opinion on them.

KPMG

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the Report of the Board of Directors as set out on pages 1 to 4, and the annual report which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For **KPMG Cambodia Ltd**

KPMG CAMBODIA LTD.

Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

Date: 22 MAR 2017

FUTABA Microfinance Plc.

Balance sheet
As at 31 December 2016

	Note	As at 31 December 2016 US$	As at 31 December 2016 KHR'000 (Note 4)	As at 31 December 2015 US$ (Unaudited)	As at 31 December 2015 KHR'000 (Note 4) (Unaudited)
ASSETS					
Cash on hand	5	12,563	50,717	581,507	2,355,103
Deposits and placements with the National Bank of Cambodia	6	359,832	1,452,642	53,794	217,866
Deposits and placements with banks	7	204,184	824,291	1,792	7,258
Loans to customers	8	6,347,241	25,623,812	-	-
Other assets	9	156,347	631,173	90,000	364,500
Property and equipment	10	461,239	1,862,022	197,933	801,629
Intangible assets	11	17,417	70,312	363	1,470
TOTAL ASSETS		7,558,823	30,514,969	925,389	3,747,826
LIABILITIES AND EQUITY					
LIABILITIES					
Other liabilities	12	148,128	597,993	6,864	27,799
Current income tax liability	19	731	2,951	-	-
Borrowings	13	708,321	2,859,492	-	-
Advances from a shareholder	14	300,000	1,211,100	-	-
TOTAL LIABILITIES		1,157,180	4,671,536	6,864	27,799
EQUITY					
Share capital	15	7,000,000	28,259,000	1,000,000	4,050,000
Accumulated losses		(598,357)	(2,415,567)	(81,475)	(329,973)
TOTAL EQUITY		6,401,643	25,843,433	918,525	3,720,027
TOTAL LIABILITIES AND EQUITY		7,558,823	30,514,969	925,389	3,747,826

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

FUTABA Microfinance Plc.

Income statement
for the year ended 31 December 2016

	Note	Year ended 31 December 2016 US$	Year ended 31 December 2016 KHR'000 (Note 4)	Period from 14 August 2015 to 31 December 2015 US$ (Unaudited)	Period from 14 August 2015 to 31 December 2015 KHR'000 (Note 4) (Unaudited)
Interest income	16	369,173	1,490,351	-	-
Interest expenses		(12,387)	(50,006)	-	-
Net interest income		356,786	1,440,345	-	-
Other operating income	17	10,644	42,970	-	-
General and administrative expenses	18	(880,513)	(3,554,631)	(81,475)	(329,973)
Allowance for bad and doubtful loans	8	-	-	-	-
Loss before income tax		(513,083)	(2,071,316)	(81,475)	(329,973)
Income tax expense	19	(3,799)	(15,337)	-	-
Net loss for the year/period		(516,882)	(2,086,653)	(81,475)	(329,973)

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

FUTABA Microfinance Plc.

Statement of changes in equity
for the year ended 31 December 2016

	Share capital US$	Accumulated losses US$	Total US$
Issuance of share capital (Unaudited)	1,000,000	-	1,000,000
Net loss for the period (Unaudited)	-	(81,475)	(81,475)
At 31 December 2015 (Unaudited)	1,000,000	(81,475)	918,525
At 31 December 2015 (KHR'000 – Note 4) (Unaudited)	4,050,000	(329,973)	3,720,027
At 1 January 2016	1,000,000	(81,475)	918,525
Issuance of share capital	6,000,000	-	6,000,000
Net loss for the year	-	(516,882)	(516,882)
At 31 December 2016	7,000,000	(598,357)	6,401,643
At 31 December 2016 (KHR'000 – Note 4)	28,259,000	(2,415,567)	25,843,433

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

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Statement of cash flows
for the year ended 31 December 2016

	Note	Year ended 31 December 2016 US$	Year ended 31 December 2016 KHR'000 (Note 4)	Period from 14 August 2015 to 31 December 2015 US$ (Unaudited)	Period from 14 August 2015 to 31 December 2015 KHR'000 (Note 4) (Unaudited)
Cash flows from operating activities					
Net cash used in operating activities	20	(6,650,061)	(26,846,296)	(164,611)	(666,674)
Cash flows from investing activities					
Purchase of property and equipment	10	(390,737)	(1,577,405)	(197,933)	(801,629)
Purchases of intangible assets	11	(28,037)	(113,185)	(363)	(1,470)
Capital guarantee deposit		(300,000)	(1,211,100)	(50,000)	(202,500)
Net cash used in investing activities		(718,774)	(2,901,690)	(248,296)	(1,005,599)
Cash flows from financing activities					
Advances from a shareholder	14	300,000	1,211,100	-	-
Proceeds from issuance of share capital	15	6,000,000	24,222,000	1,000,000	4,050,000
Proceed from borrowings	13	708,321	2,859,492	-	-
Net cash generated from financing activities		7,008,321	28,292,592	1,000,000	4,050,000
Net (decrease)/increase in cash and cash equivalents		(360,514)	(1,455,394)	587,093	2,377,727
Cash and cash equivalents at the beginning of the year/period		587,093	2,370,094	-	-
Cash and cash equivalents at the end of the year/period	21	226,579	914,700	587,093	2,377,727

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

FUTABA Microfinance Plc.

Notes to the financial statements for the year ended 31 December 2016

1. Reporting entity

Futaba Microfinance Plc. ("the Company") is a public limited company incorporated in Cambodia and registered with the Ministry of Commerce under the Registration Number Co. 2974 E/2015 on 14 August 2015. The Company obtained its licence from the National Bank of Cambodia to operate as a micro-finance institution on 16 December 2015.

The principal activity of the Company is to provide the public with sustainable micro-finance services to small and medium enterprise and individual through its head office and other three branches based in Phnom Penh and Kampong Speu, Kingdom of Cambodia.

The address of its registered office is located at No. 795, Monivong Blvd., Sangkat Boeung Trabek, Khan Chamkar Morn, Phnom Penh, Kingdom of Cambodia

As at 31 December 2016, the Company had 90 (2015: 18) 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 22 March 2017.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

2. Basis of preparation (continued)

(c) Functional and presentation currency (continued)

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 reporting 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 on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

(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) 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.

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Notes to the financial statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

(c) Deposits and placements with the National Bank of Cambodia

Deposits and placements with the National Bank of Cambodia including statutory deposit are stated at costs.

The statutory deposit is maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital as required by the NBC.

(d) Deposits and placements with banks

Deposits and placements with banks are stated at cost less allowance for any uncollectable amounts.

(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 for bad and doubtful loans.

(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%

The allowance is 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.

3. Significant accounting policies (continued)

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

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

Recoveries on loans previously written off are disclosed as other operating income in the income statement. Reversal of previous allowance is presented in allowance expense in the income statement.

(g) 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.

(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 declining balance method, except for leasehold improvements which are depreciated on a straight-line method, over the useful lives of the individual assets at the following rates:

Leasehold improvements	10%
Furniture and fixtures	25%
Office equipment	50%
Computer equipment	50%
Motor vehicles	25%

3. Significant accounting policies (continued)

(h) Property and equipment (continued)

(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 it is disposed of or written off.

(i) Intangible assets

Intangible assets consist of computer software license and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software license 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 at the rate of 50% per annum. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

(j) 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 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.

3. Significant accounting policies (continued)

(j) Impairment (continued)

(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) Provisions

Provisions are recognised if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, 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.

(l) 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 income on loans is recognised by reference to rest periods, which are either monthly or daily.

Loan fee income is recognised as income over the term of loan. Unamortised loan fees are recognised as liability "unearned income".

Expenses are recognised on an accruals basis.

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Notes to the financial statements (continued)
for the year ended 31 December 2016

3. Significant accounting policies (continued)

(m) 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 term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(n) 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.

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.

(o) 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 United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for the compliance with the guidelines of the NBC relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US$1 to KHR4,037 (2015: US$1 to KHR4,050) published by the NBC on 31 December 2016. These convenience translations 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

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
US Dollars	12,563	50,717	581,507	2,355,103

6. Deposits and placements with the National Bank of Cambodia

		As at 31 December 2016		As at 31 December 2015	
		US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Statutory deposit on capital guarantee	(i)	350,000	1,412,950	50,000	202,500
Current accounts	(ii)	9,832	39,692	3,794	15,366
		359,832	1,452,642	53,794	217,866

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

This statutory deposit earns interest at the rate of 0.22% (2015: 0.21%) per annum.

(ii) Current accounts earn no interest.

7. Deposits and placements with banks

	As at 31 December 2016 US$	As at 31 December 2016 KHR'000 (Note 4)	As at 31 December 2015 US$ (Unaudited)	As at 31 December 2015 KHR'000 (Note 4) (Unaudited)
Current accounts	1,874	7,565	1,700	6,885
Saving accounts	202,310	816,726	92	373
	204,184	824,291	1,792	7,258

Deposits and placements with banks are analysed as follows:

		As at 31 December 2016 US$	As at 31 December 2016 KHR'000 (Note 4)	As at 31 December 2015 US$ (Unaudited)	As at 31 December 2015 KHR'000 (Note 4) (Unaudited)
(a)	By currency:				
	US Dollars	204,184	824,291	1,792	7,258
(b)	By type:				
	Current accounts				
	ACLEDA Bank Plc.	1,074	4,336	1,200	4,860
	Canadia Bank Plc.	200	807	-	-
	Hong Leong Bank Plc.	600	2,422	500	2,025
		1,874	7,565	1,700	6,885
	Saving accounts				
	ACLEDA Bank Plc.	202,310	816,726	92	373
		204,184	824,291	1,792	7,258
(c)	By maturity:				
	Within 1 month	204,184	824,291	1,792	7,258

		31 December 2016	31 December 2015
(d)	By interest rate (per annum):		
	Current accounts	0.00%	0.00%
	Saving accounts	0.015%	0.015%

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Notes to the financial statements (continued)
for the year ended 31 December 2016

8. Loans to customers

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Loans to customers	6,347,241	25,623,812	-	-
Allowance for bad and doubtful loans	-	-	-	-
	6,347,241	25,623,812	-	-

Loans to customers are analysed as follows:

		As at 31 December 2016		As at 31 December 2015	
		US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
(a)	By maturity:				
	Within 1 month	-	-	-	-
	> 1 to 3 months	-	-	-	-
	> 3 to 12 months	95,395	385,110	-	-
	Over 12 months	6,251,846	25,238,702	-	-
		6,347,241	25,623,812	-	-
(b)	By currency:				
	US Dollars	6,347,241	25,623,812	-	-
(c)	By economic sector:				
	Household/family	3,939,227	15,902,659	-	-
	Services	220,800	891,370	-	-
	Other categories	2,187,214	8,829,783	-	-
		6,347,241	25,623,812	-	-
(d)	By residency status:				
	Residents	6,347,241	25,623,812	-	-

8. Loans to customers (continued)

Loans to customers are analysed as follows: (continued)

		As at 31 December 2016 US$	As at 31 December 2016 KHR'000 (Note 4)	As at 31 December 2015 US$ (Unaudited)	As at 31 December 2015 KHR'000 (Note 4) (Unaudited)
(e)	By relationship:				
	External customers	6,173,060	24,920,643	-	-
	Staff loan	174,181	703,169	-	-
		6,347,241	25,623,812	-	-
(f)	By performance:				
	Standard loans - secured	6,347,241	25,623,812	-	-
(g)	By type of loans:				
	Business loan	2,178,105	8,793,010	-	-
	Consumption loan	1,675,395	6,763,569	-	-
	Agricultural loan	8,649	34,916	-	-
	Housing loan	2,309,511	9,323,496	-	-
	Education loan	1,400	5,652	-	-
	Staff loan	174,181	703,169	-	-
		6,347,241	25,623,812	-	-

		As at 31 December 2016	As at 31 December 2015
(h)	By interest rate (per annum):		
	External customers	1.50%-26.40%	-
	Staff loan	1.50%	-

9. Other assets

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Interest receivable	42,977	173,498	-	-
Deposits	113,126	456,690	90,000	364,500
Prepayments	244	985	-	-
	156,347	631,173	90,000	364,500

Notes to the financial statements (continued)
for the year ended 31 December 2016

10. Property and equipment

2016	Leasehold improvements US$	Furniture and fixtures US$	Office equipment US$	Computer equipment US$	Motor vehicles US$	Total US$	Total KHR'000 (Note 4)
Cost							
At 1 January 2016	19,172	39,636	2,241	49,144	87,740	197,933	799,056
Additions	146,955	51,713	61,154	110,140	20,775	390,737	1,577,405
At 31 December 2016	166,127	91,349	63,395	159,284	108,515	588,670	2,376,461
Less**: Accumulated depreciation**							
At 1 January 2016	-	-	-	-	-	-	-
Depreciation for the year	10,139	15,355	20,558	56,338	25,041	127,431	514,439
At 31 December 2016	10,139	15,355	20,558	56,338	25,041	127,431	514,439
Carrying amounts							
At 31 December 2016	155,988	75,994	42,837	102,946	83,474	461,239	1,862,022

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Notes to the financial statements (continued)
for the year ended 31 December 2016

10. Property and equipment (continued)

2015 (Unaudited)	Leasehold improvements US$	Furniture and fixtures US$	Office equipment US$	Computer equipment US$	Motor vehicles US$	Total US$	Total KHR'000 (Note 4)
Cost							
Additions/At 31 December 2015	19,172	39,636	2,241	49,144	87,740	197,933	801,629
Less**: Accumulated depreciation**							
Depreciation for the period/At 31 December 2015	-	-	-	-	-	-	-
Carrying amounts							
At 31 December 2015	19,172	39,636	2,241	49,144	87,740	197,933	801,629

11. Intangible assets

	Software			
	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Cost				
At the beginning of the year/period	363	1,466	-	-
Additions	28,037	113,185	363	1,470
At 31 December	28,400	114,651	363	1,470
Less: **accumulated amortisation**				
At the beginning of the year/period	-	-	-	-
Amortisation for the period	10,983	44,339	-	-
At 31 December	10,983	44,339	-	-
Carrying amounts				
At 31 December	17,417	70,312	363	1,470

12. Other liabilities

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Unearned income	58,545	236,346	-	-
Accrued expenses	30,205	121,938	-	-
Other tax payables	4,998	20,177	6,864	27,799
Accrued interest payable	827	3,339	-	-
Other payables	53,553	216,193	-	-
	148,128	597,993	6,864	27,799

13. Borrowings

The borrowings are obtained from FutureBud International Co., Ltd., a related company, bearing interest at a rate of 1.50% per annum. Detailed drawdowns are as follows:

Date of Drawdown	Maturity date	Exchange Rate	Drawdown JPY	Drawdown US$	Outstanding balance As at 31 December 2016 US$	Outstanding balance As at 31 December 2016 KHR'000 (Note 4)
25 November 2016	25 November 2017	112.53	56,000,000	497,645	497,645	2,008,993
5 December 2016	5 December 2017	113.92	24,000,000	210,676	210,676	850,499
			80,000,000	708,321	708,321	2,859,492

14. Advances from a shareholder

These represent the advances from shareholder, AZUMA & Co., Ltd. The amount is unsecured, interest free and repayable on demand.

15. Share capital

	As at 31 December 2016 US$	As at 31 December 2016 KHR'000 (Note 4)	As at 31 December 2015 US$ (Unaudited)	As at 31 December 2015 KHR'000 (Note 4) (Unaudited)
7,000 shares (2015: 1,000 shares) of US$1,000 each				
Registered, issued and fully paid up	7,000,000	28,259,000	1,000,000	4,050,000

On 23 December 2016, the Company obtained the approval from the National Bank of Cambodia to increase the Company's share capital to US$7,000,000 (7,000 shares of US$1,000 each). The amendment of the Articles of Incorporation was endorsed by the Ministry of Commerce on 2 March 2017.

Futaba Microfinance Plc.

Notes to the financial statements (continued) for the year ended 31 December 2016

15. Share capital (continued)

The details of shareholding are as follows:

	As at 31 December 2016			As at 31 December 2015		
	% of Ownership	Number of shares	Amount US$	% of Ownership	Number of shares	Amount US$
AZUMA & Co., Ltd.	100%	7,000	7,000,000	100%	1,000	1,000,000

16. Interest income

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Loans to customers	368,832	1,488,974	-	-
Deposits with banks	341	1,377	-	-
	369,173	1,490,351	-	-

17. Other operating income

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Loan administrative fees	9,187	37,088	-	-
Other income	1,457	5,882	-	-
	10,644	42,970	-	-

18. General and administrative expenses

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Personnel costs	395,971	1,598,535	23,231	94,085
Rental expenses	169,979	686,205	9,000	36,450
Depreciation and amortisation	138,414	558,778	-	-
License and professional fees	39,203	158,263	12,348	50,009
Other office expenses	39,124	157,944	3,935	15,937
Marketing expenses	13,195	53,268	3,450	13,972
Motor vehicle operating expenses	12,371	49,942	1,882	7,622
Bank charge	10,648	42,986	1,227	4,969
Communication expenses	10,522	42,477	1,090	4,415
Board of Directors fees	5,240	21,154	280	1,134
Entertainment expenses	1,627	6,568	1,050	4,253
Other Insurance expenses	2,221	8,966	-	-
Charitable donation expense	250	1,009	-	-
Loss on foreign exchange	26	105	-	-
Others	41,722	168,431	23,982	97,127
	880,513	3,554,631	81,475	329,973

19. Income tax

(a) Current income tax liability

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Current income tax expense	3,799	15,337	-	-
Income tax paid	(3,068)	(12,386)	-	-
At 31 December	731	2,951	-	-

19. Income tax (continued)

(b) Income tax expense

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.

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Income tax expense	3,799	15,337	-	-

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

	Year ended 31 December 2016			Period from 14 August 2015 to 31 December 2015		
	US$	KHR'000 (Note 4)	%	US$	KHR'000 (Note 4)	%
Loss before income tax	(513,083)	(2,071,316)		(81,475)	(329,973)	
Income tax using statutory rate at 20%	(102,617)	(414,265)	20%	(16,295)	(65,995)	20%
Non-deductible expenses	3,726	15,042	-1%	210	851	-
Unrecognised tax losses	98,891	399,223	-19%	16,085	65,144	-20%
	-	-	-	-	-	-
Minimum tax	3,799	15,337	-1%	-	-	-
Income tax expense	3,799	15,337		-	-	

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

19. Income tax (continued)

(c) Unrecognised deferred tax assets

Tax losses can be carried forward to offset against the taxable profits of subsequent years for up to five years from the year in which they were incurred.

Deferred tax assets on tax losses have not been recognised because it is not probable that future taxable profit will be available against which the losses can be utilised before they expire.

20. Net cash used in operating activities

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Loss before income tax	(513,083)	(2,071,316)	(81,475)	(329,973)
Adjustments for:				
Depreciation and amortisation	138,414	558,778	-	-
	(374,669)	(1,512,538)	(81,475)	(329,973)
Changes in:				
Loans to customers	(6,347,241)	(25,623,812)	-	-
Other assets	(66,347)	(267,843)	(90,000)	(364,500)
Other liabilities	141,264	570,283	6,864	27,799
Cash used in operations	(6,646,993)	(26,833,910)	(164,611)	(666,674)
Income tax paid	(3,068)	(12,386)	-	-
Net cash used in operating activities	(6,650,061)	(26,846,296)	(164,611)	(666,674)

Futaba Microfinance Plc.

Notes to the financial statements (continued)
for the year ended 31 December 2016

21. Cash and cash equivalents

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Cash on hand	12,563	50,717	581,507	2,355,103
Deposits and placements with National Bank of Cambodia	9,832	39,692	3,794	15,366
Deposits and placements with banks, less than three months maturity	204,184	824,291	1,792	7,258
	226,579	914,700	587,093	2,377,727

22. Operating lease commitments

The Company has lease commitments for the lease of its office and parking lot as follows:

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Within 1 year	151,040	609,748	119,460	483,813
Between 2 to 5 years	404,585	1,633,310	356,383	1,443,351
More than 5 years	553,000	2,232,461	671,500	2,719,575
	1,108,625	4,475,519	1,147,343	4,646,739

23. 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.

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Notes to the financial statements (continued) for the year ended 31 December 2016

24. Related party balances and transactions

(a) Balances with related parties

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Borrowings from related company	708,321	2,859,492	-	-
Advances from AZAZUMA & Co., Ltd.	300,000	1,211,100	-	-

Refer to terms and conditions disclosed in Notes 13 and 14.

(b) Key management compensation

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Board of Directors				
Salaries and benefits	5,520	22,284	280	1,134
Management team				
Salaries and benefits	144,258	582,370	20,151	81,612

(c) Transactions with directors/shareholders

	Year ended 31 December 2016		Period from 14 August 2015 to 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Borrowings	708,321	2,859,492	-	-
Advances from AZAZUMA & Co., Ltd.	300,000	1,211,100	-	-

25. 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 allowances 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, credit approval processes and procedures implemented to mitigate credit risks and to ensure compliance with the NBC guidelines.

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

(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.

(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 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.

25. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Impairment and allowance 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

	As at 31 December 2016		As at 31 December 2015	
	US$	KHR'000 (Note 4)	US$ (Unaudited)	KHR'000 (Note 4) (Unaudited)
Deposits and placements with NBC	9,832	39,692	3,794	15,366
Deposits and placements with banks	204,184	824,291	1,792	7,258
Loans to customers:				
Neither past due nor impaired	6,347,241	25,623,812	-	-
	6,561,257	26,487,795	5,586	22,624

Deposits and placements with NBC and banks

Deposits and placements are made with the NBC and leading commercial banks in Cambodia. Management views that likelihood of default is relatively low.

Loan to customers

Neither past due nor impaired

Loans not past due are not considered impaired, unless other information is available to indicate the contrary.

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.

25. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loan to customers (continued)

Impaired loans to customers (continued)

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(f).

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 29 days for both short-term loans and long-term loans, unless other information is available to indicate otherwise.

Loans with rescheduled loans

Loans with renegotiated terms are loans that have been rescheduled in accordance with an agreement setting forth a new repayment schedule on a periodic basis occasioned by weaknesses in the borrower's financial condition and/or inability to repay the loan as originally agreed. Loans to be rescheduled are analysed on the basis of the business prospects and repayment capacity of the borrower according to new cash flow projections supported by updated business perspectives and overall market conditions being based on realistic and prudent assumptions.

Customers can request for loan reschedule only once per loan and shall repay the principal at least 20% of the whole loan balance. In addition, this reschedule can be done if the customers have made repayment for 4 months or above from the disbursement date; otherwise, penalties may applied.

Write-off policy

In compliance with NBC Guidelines, the Company shall remove a loan/advance or a portion of a loan from its balance sheet when the Company loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectible; or there is no realistic prospect of recovery.

25. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loan and advance to customers (continued)

Collateral

The Company holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. The value of collateral is based on the valuation performed internally by the Company.

Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

(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.

25. 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

Concentration of currency risk

The Company's income is principally earned in US$. The Company's expenditure is principally paid in US$. The Company does not therefore have significant exposure to foreign currency risk:

(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.

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

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2016	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 %
Financial assets								
Cash on hand	-	-	-	-	-	12,563	12,563	-
Deposits and placements with NBC	-	-	-	-	-	9,832	9,832	0.11%
Deposits and placements with banks	202,310	-	-	-	-	1,874	204,184	0.15%
Loans to customers								
- Performing	-	-	95,395	1,214,035	5,037,811	-	6,347,241	13.30%
Other assets								
Accrual interest receivable	-	-	-	-	-	42,977	42,977	-
Deposits	-	-	-	-	-	113,126	113,126	-
	202,310	-	95,395	1,214,035	5,037,811	180,372	6,729,923	

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2016	Up to 1 month	> 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 US$%
Financial liabilities								
Other liabilities	-	-	-	-	-	84,585	84,585	-
Borrowings	-	-	708,321	-	-	-	708,321	1.5%
Advances from a shareholder	-	-	300,000	-	-	-	300,000	-
	-	-	1,008,321	-	-	84,585	1,092,906	
Maturity gap – US$	202,310	-	(912,926)	1,214,035	5,037,811	95,787	5,637,017	
Maturity gap (KHR'000 – Note 4)	816,725	-	(3,685,482)	4,901,059	20,337,643	386,692	22,756,637	
2015								
Financial assets	-	-	-	-	-	677,093	677,093	
Financial liabilities	-	-	-	-	-	-	-	
Maturity gap – US$	-	-	-	-	-	677,093	677,093	
Maturity gap – (KHR'000 – Note 4)	-	-	-	-	-	2,742,227	2,742,227	

25. 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 to customers and advances from a shareholder 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 liabilities of the Company into relevant maturity groupings, including instalment due and interest.

25. Financial risk management (continued)

(d) Liquidity risk (continued)

2016	Up to 1 month US$	> 1 – 3 months US$	> 3 – 12 months US$	1 – 5 years US$	Over 5 years US$	No fixed terms US$	Total US$
Financial liabilities							
Other liabilities	-	-	84,585	-	-	-	84,585
Borrowings	885	1,770	716,286	-	-	-	718,941
Advances from a shareholder	-	-	300,000	-	-	-	300,000
31 December 2016 – US$	885	1,770	1,100,871	-	-	-	1,103,526
31 December 2016 – (KHR'000 - Note 4)	3,573	7,145	4,444,216	-	-	-	4,454,934
2015							
Financial liabilities – US$	-	-	-	-	-	-	-
Financial liabilities – (KHR'000 (Note 4)	-	-	-	-	-	-	-

25. 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.

26. Fair values of financial assets and liabilities

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

27. Events since the reporting date

On 13 March 2017, the NBC issued Prakas No. B7-017-109 to cap the interest rate to a maximum of 18% per annum for any maturity of loan. This Prakas is effective for new loan contract including restructured loan and/or refinancing loans with signature and/or finger-printed from 1 April 2017.