



គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ ធីប៊ីប៊ី (ខេមបូឌា) ភីអិលស៊ី
臺灣企銀微型財務公司
TBB (CAMBODIA) MICROFINANCE INSTITUTION PLC.

Annual Report

2017

TBBMFI Help Your Life Convenient!

Address: # 2E-2F, Street 315, Sangkat Boeung Kok 1, Khan Toul Kork, Phnom Penh
Tel: +855(0) 23 88 71 71 / Fax: +855 (0) 23 88 24 69 / Email: tbbmfi@gmail.com

Table of Contents

❖ Background, Vision and Mission.....	1
❖ Message from the Chief Executive Officer (CEO)	2
❖ Organizational Chart of TBB(Cambodia) Microfinance Institution Plc. (TBBMFI)	3
❖ Shareholders and Board of Directors	4
❖ Products and Services.....	5
❖ Loan Performance	6
❖ Company Activities	7
❖ Financial Report and Report of the Independent Auditor.....	8
❖ Address	47

Background, Vision and Mission

Background

TBB (CAMBODIA) MICROFINANCE INSTITUTION PLC. (Hereinafter referred to as TBBMFI) is a public limited company and a subsidiary of TAIWAN BUSINESS BANK which is a specialized bank in Taiwan charged with providing financial assistance and guidance to SMEs and has developed the field of SME financial services for more than 30 years.

TBBMFI is licensed by the National Bank of Cambodia as a MFI in June 2015 to provide funding to commercial or individual purposes of Cambodian people as well as customers from Taiwan and support the monetary and economic environment of Cambodia.

Vision

To be the most people-centric company in Cambodia and build up a place where customers can seek and utilize the products with facility.

Mission

TBBMFI seeks to be one of the providers of ethical credit products in Cambodia and develops new products as appropriate to support Cambodian people to grow up the economic scale. In doing so, TBBMFI will observe the highest principles of morality and best international banking practice to conduct its business in line with the laws and regulations of the Kingdom of Cambodia.

Message from the Chief Executive Officer (CEO)



As the Chief Executive Officer (CEO) of TBB (Cambodia) Microfinance Plc., I am grateful that TBBMFI has operated the microfinance services successfully for 3 years in its history. The operation of TBBMFI has participated actively in the family economic development because TBBMFI is a real microfinance institution that serves in providing loan with low interest, high ethic and professionalism to achieve its statement of vision and mission.

TBBMFI has been trying its best to provide the loan products with good conditions to encourage customers who are not able to access microfinance services from other MFIs can get microfinance services from TBBMFI to improve their living quality.

In conclusion, being the CEO of TBBMFI, I would like to show my gratitude once again to customers, Board of Directors, managers and staffs who give the best support to TBBMFI to make it perform well from the beginning and hope TBBMFI can make its influence on people in Cambodia in a good way permanently.

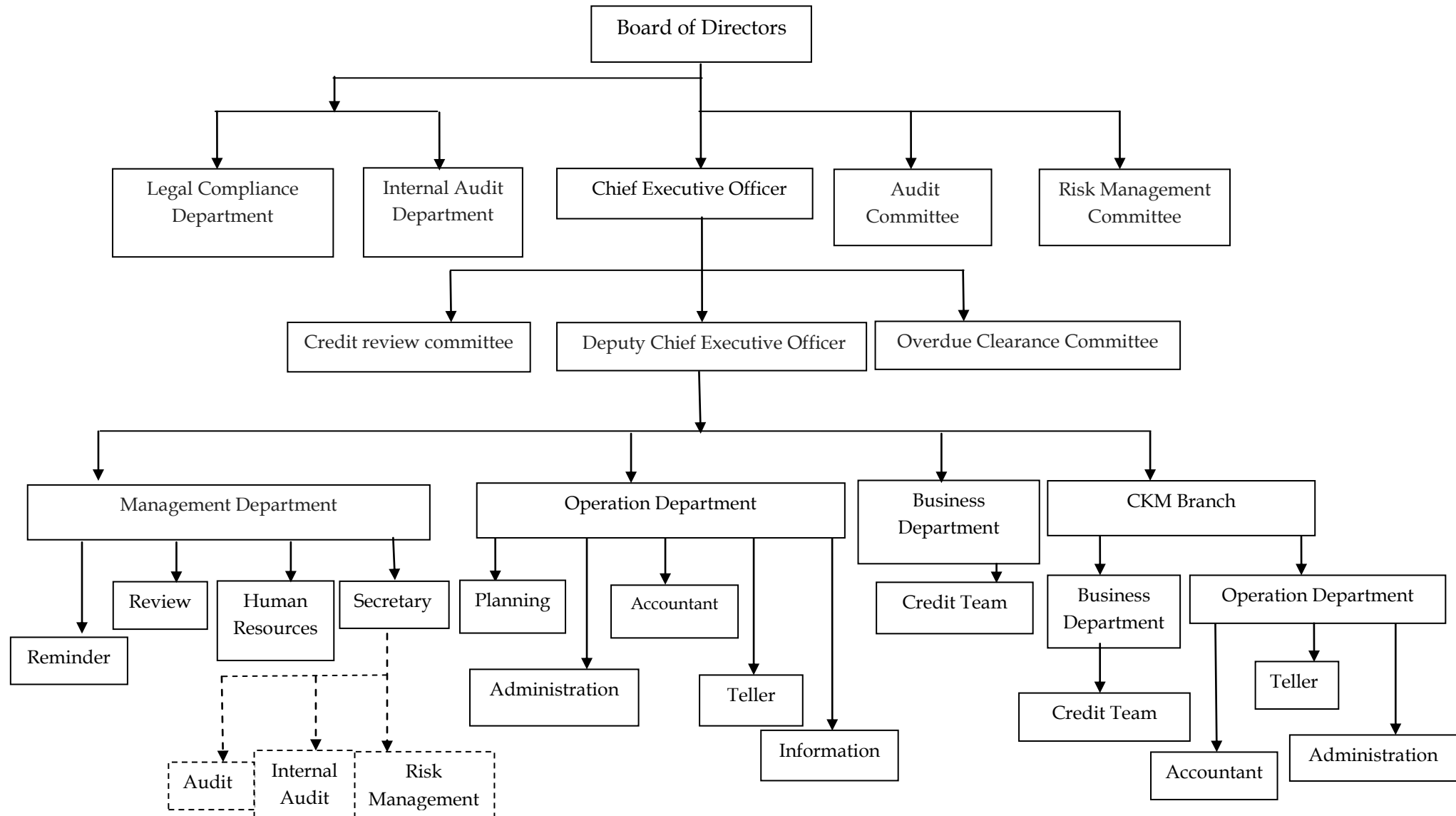
Phnom Penh, 20 June, 2018

Chief Executive Officer (CEO)

An official blue ink stamp of TBBMFI. The stamp is oval-shaped and contains text in Khmer. Below the stamp is a handwritten signature in blue ink, which reads 'Yang Ho Wen'. Below the signature, the name 'YANG HO WEN' is printed in blue capital letters.

YANG HO WEN

Organizational Chart of TBB (Cambodia) Microfinance Institution Plc. (TBBMFI)



Shareholders and Board of Directors

TAIWAN BUSINESS BANK Ltd. has solely assumed the total capital contribution of USD 20,000,000 (United States Dollars Twenty Million, equivalent to Riel 80,000,000,000) which is divided into 20,000 (Twenty Thousand) ordinary shares, each share with a par value of USD 1,000 (United States Dollars One Thousand, equivalent to Riel 4,000,000).

TBBMFI's Board of Directors (BOD) comprises 4 members as namely:

- | | |
|------------------|-------------------------------------|
| ▪ Chang-Yi CHEN | Chairman of the Board |
| ▪ Ho-Wen YANG | Board Member |
| ▪ Chang-Yu LIN | Board Member |
| ▪ Tien-Liang HSU | Board Member (Independent Director) |

Products and Services

Commercial Loan (CL)

TBBMFI provides a Commercial Loan product to meet the demand and the interest of clients who wish to increase their income.

Personal Loan (PL)

TBBMFI provides a Personal Loan product to satisfy customers' personal needs such as home improvement, consumption goods, housework facilities; transport means (Motorbike, automobile...)

Mortgage Loan (ML)

TBBMFI provides a Mortgage Loan product to satisfy customers' needs to buy real estate property such as land, house.

Loan Performance

To achieve the mission and vision, TBBMFI tries to provide loan to all kinds of customers and sectors to use for their own business. TBBMFI sets its own target customers by focusing on those with low and medium standards of living as well as small and medium business who wish to extend their business activities. At the end of 2017, loan disbursement increase constantly and lead to loan portfolio increase remarkably. In 2016, the loan disbursement was USD 7,541,600 and up to USD 14,363,600 at the end of 2017. Regarding loan outstanding in 2016, it was USD 7,204,797 and up to USD 13,481,217 in 2017.

Company Activities

Management and staffs during Grand Opening TBBMFI-Khan Chamkar Mon Branch in October 2017



Management and Staffs' Dinner



Annual Trip



Training Course





Financial Report and Report of the Independent Auditor

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby submit their report together with the audited financial statements of TBB (Cambodia) Microfinance Institution Plc. (“the Company”) for the year ended 31 December 2017.

Principal activities

The principal activities of the Company are to provide loans and other financial services to local customers through its head office and branch in Phnom Penh.

Financial results

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	(341,002)	(1,376,625)	(59,384)	(239,733)
Income tax expense	(11,294)	(45,594)	(5,747)	(23,201)
Net loss for the year	<u>(352,296)</u>	<u>(1,422,219)</u>	<u>(65,131)</u>	<u>(262,934)</u>

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

There was no movement in share capital during the financial year.

Additional capital

The Company has received US\$10,000,000 from the parent company on 28 February 2017. The Company submitted an application letter to the NBC for the additional capital injection and this has been approved by the NBC on 2 August 2017.

As at the date of this report, the amendment of the Memorandum and Articles of Association has not been done to reflect these changes yet.

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 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, other than loans, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company had been written down to amounts which they might be expected to realise.

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

Valuation methods

At the date of this report, the Board of 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 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; and
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may materially 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 Board of 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 unusual nature

The results of the operations of the Company for the financial period were not, in the opinion of the Board of Directors, materially 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 period 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 materially the results of the operations of the Company for the current financial period 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 reporting 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 during the period and at the date of this report are:

- | | |
|-----------------------|--------------------------------------|
| • Mr. Chang-Yi Chen | Chairman |
| • Mr. Ho- Wen Yang | Director (appointed on 14 July 2017) |
| • Mr. Chang- Yu Lin | Director (appointed on 14 July 2017) |
| • Mr. Tien- Liang Hsu | Director (appointed on 14 July 2017) |
| • Mr. Yi- Yun Wang | Director (resigned on 14 July 2017) |
| • Mr. Kun- Shan Chen | Director (resigned on 14 July 2017) |
| • Mr. Deng- Ruy Tsai | Director (resigned on 14 July 2017) |

Board of Directors' interests

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

Board of 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 the Board of 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 Board of 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 Board of 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 Board of Director is a member, or with a company in which the Board of 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 are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors are required to:

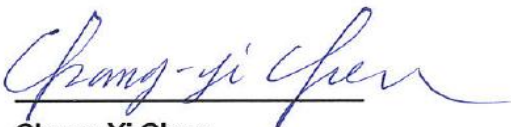
- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of 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) 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;
- (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 confirm 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 40 which present fairly, in all material respects, the financial position of TBB (Cambodia) Microfinance Institution Plc. as at 31 December 2017, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Chang-Yi Chen

Chairman

Phnom Penh, Kingdom of Cambodia

Date: 30 MAR 2018

Report of the Independent Auditors

To the shareholders of TBB (Cambodia) Microfinance Institution Plc

Opinion

We have audited the financial statements of TBB (Cambodia) Microfinance Institution Plc (“the Company”), which comprise the balance sheet as at 31 December 2017, 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 40.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of National Bank of Cambodia relating to the preparation and presentation of financial statement.

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 information

Management is responsible for the other information. The other information comprises the Report of the Board of Directors as set out on pages 1 to 4, which we obtained prior to the date of this auditors’ report, 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, 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 National Bank of Cambodia relating to the preparation and presentation of financial statement, 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.

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**



Lim Chew Teng
Partner



Phnom Penh, Kingdom of Cambodia

30 March 2018

Balance sheet as at 31 December 2017

As at					
31 December 2017			31 December 2016		
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		3,349	13,520	1,357	5,478
Deposits and placements with the NBC	5	1,003,789	4,052,296	501,374	2,024,047
Deposits and placements with other banks	6	5,077,736	20,498,820	2,079,984	8,396,896
Loans to customers - net	7	12,955,997	52,303,360	7,132,543	28,794,076
Other assets	8	293,275	1,183,951	59,595	240,585
Property and equipment	9	223,543	902,443	107,544	434,155
Intangible assets	10	8,914	35,986	5,787	23,362
TOTAL ASSETS		<u>19,566,603</u>	<u>78,990,376</u>	<u>9,888,184</u>	<u>39,918,599</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Other liabilities	11	48,879	197,324	19,343	78,088
Current income tax liability	17	1,620	6,540	441	1,780
		<u>50,499</u>	<u>203,864</u>	<u>19,784</u>	<u>79,868</u>
EQUITY					
Share capital	12	10,000,000	40,370,000	10,000,000	40,370,000
Additional capital	12	10,000,000	40,370,000	-	-
Accumulated losses		(483,896)	(1,953,488)	(131,600)	(531,269)
		<u>19,516,104</u>	<u>78,786,512</u>	<u>9,868,400</u>	<u>39,838,731</u>
TOTAL LIABILITIES AND EQUITY		<u>19,566,603</u>	<u>78,990,376</u>	<u>9,888,184</u>	<u>39,918,599</u>

Income statement for the year ended 31 December 2017

	Note	As at			
		31 December 2017		31 December 2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	13	996,870	4,024,364	507,236	2,047,712
Allowance for bad and doubtful loans	7	(453,174)	(1,829,463)	(72,046)	(290,850)
Net interest income after allowance for bad and doubtful loans		543,696	2,194,901	435,190	1,756,862
Other income		96,113	388,008	69,224	279,457
Personnel expenses	14	(572,253)	(2,310,185)	(293,622)	(1,185,352)
Depreciation and amortisation	15	(59,874)	(241,711)	(57,469)	(232,002)
General and administrative expenses	16	(348,684)	(1,407,638)	(212,707)	(858,698)
Loss before income tax		(341,002)	(1,376,625)	(59,384)	(239,733)
Income tax expense	17	(11,294)	(45,594)	(5,747)	(23,201)
Net loss for the year		(352,296)	(1,422,219)	(65,131)	(262,934)

Statement of changes in equity for the year ended 31 December 2017

	Share Capital US\$	Additional capital US\$	Accumulated losses US\$	Total US\$
At 1 January 2016	10,000,000	-	(66,469)	9,933,531
Net loss for the year	-	-	(65,131)	(65,131)
At 31 December 2016	<u>10,000,000</u>	<u>-</u>	<u>(131,600)</u>	<u>9,868,400</u>
(KHR'000 equivalents – Note 4)	<u>40,370,000</u>	<u>-</u>	<u>(531,269)</u>	<u>39,838,731</u>
At 1 January 2017	10,000,000	-	(131,600)	9,868,400
Capital contribution	-	10,000,000	-	10,000,000
Net loss for the year	-	-	(352,296)	(352,296)
At 31 December 2017	<u>10,000,000</u>	<u>10,000,000</u>	<u>(483,896)</u>	<u>19,516,104</u>
(KHR'000 equivalents – Note 4)	<u>40,370,000</u>	<u>40,370,000</u>	<u>(1,953,488)</u>	<u>78,786,512</u>

Statement of cash flows for the year ended 31 December 2017

		31 December 2017		to 31 December 2016	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Net cash (used in)/generated from operating activities	18	(10,318,841)	(41,657,162)	1,934,781	7,810,711
Cash flows from investing activities					
Statutory deposits with the NBC		(500,000)	(2,018,500)	-	-
Acquisition of property and equipment		(169,720)	(685,159)	(2,726)	(11,005)
Acquisition of intangible assets		(9,280)	(37,463)	(4,575)	(18,469)
Net cash used in investing activities		(679,000)	(2,741,122)	(7,301)	(29,474)
Cash flows from financing activities					
Proceeds from additional capital contribution		10,000,000	40,370,000	-	-
Net cash generated from financing activities		10,000,000	40,370,000	-	-
Net (decrease)/ increase in cash and cash equivalents		(997,841)	(4,028,284)	1,927,480	7,781,237
Cash and cash equivalents at beginning of the year		2,082,715	8,407,920	155,235	626,683
Cash and cash equivalents at end of the year	19	1,084,874	4,379,636	2,082,715	8,407,920

Notes to the financial statements for the year ended 31 December 2017

1. Reporting entity

TBB (Cambodia) Microfinance Institution Plc. (“the Company”) is a public limited company incorporated in the Kingdom of Cambodia under the Registration No. Co. 1506 E/2015 dated 28 April 2015 issued by the Ministry of Commerce. On 13 December 2017, the Company obtained Re-Registration No. 00029793 from the Ministry of Commerce. The Company obtained its licence from the National Bank of Cambodia to operate as a micro finance institution on 12 June 2015.

The Company is a wholly owned subsidiary of Taiwan Business Bank Ltd., a public company listed in Taiwan Stock Exchange.

The principal activities of the Company are to provide loans and other financial services to local customers through its head office and branch in Phnom Penh.

As at 31 December 2017, the Company had 31 employees (31 December 2016: 138 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 30 March 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

The financial statements are presented in US\$, which is the Company’s functional currency. All amounts have been rounded to the nearest dollars. Unless otherwise indicated.

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

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently in these financial statements.

(a) Foreign currency transactions

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

(b) Financial instruments

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

(c) Cash and cash equivalents

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

(d) Deposits and placements with the NBC

Deposits and placements with the NBC, including capital guarantee deposit, are carried at cost. Capital guarantee deposit is maintained 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.

(e) Deposits and placements with other banks

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

(f) Loans to customers

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

(g) Allowance for bad and doubtful loans

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

Classification	Number of days past due	Allowance rate
Short term loans (one year or less):		
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 general allowance for bad and doubtful loans is 1% of total outstanding loans.

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.

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.

New NBC Credit Risk Grading and Provision on Impairment not yet adopted:

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

Classification	Number of days past due	Allowance rate
Short-term loans (less than or equal one year):		
Normal/standard	≤14 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%
Long-term loans (more than one year):		
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	More than 359 days	100%

Based on Section 1 of the Circular No. B7-018-001, the Company decided to adopt prospectively all requirements of Prakas No. B7-017-344 including the calculation of provision on impairment in its 2018 financial statements.

Management is assessing the potential impact on its financial statements resulting from the application of this new credit risk grading and provision on impairment.

(h) Interest in suspense

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

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

(i) Other assets

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

(j) Property and equipment

- (i) Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.
- (ii) Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation of property and equipment is charged to the income statement on a straight line

method over their estimated useful life as follow:

Leasehold improvements	5 years
Office equipment	4 years
Information technology (IT) equipment	2 years
Furniture and fittings	4 years
Motor vehicles	4 years

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

- (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 on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within “other income” in the income statement.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(k) Intangible assets

Intangible assets consist of computer software 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 the straight-line method over 2 years.

(l) Impairment

(i) Financial assets

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

(ii) Non-financial assets (continued)

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.

m) Other liabilities

Other liabilities are stated at their cost.

(o) Income and expense recognition

Interest income on loans, balances with the NBC and balances with other banks are recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated on daily accrual basis.

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

Expenses are recognised on an accrual basis.

(p) 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 incentives received are recognised as an integral part of the total lease expenses, over the term of lease.

(o) 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 incentives received are recognised as an integral part of the total lease expenses, over the term of lease.

q) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or materially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax assets are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(r) 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 US\$ into KHR

The financial statements are stated in United States Dollars ("US\$"). The translations of United States Dollars amounts into Khmer Riel ("KHR") are included solely for compliance with guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,037 (2016: KHR4,037) published by the NBC on 31 December 2017. These convenience translations should not be construed as representations that the US\$ amounts have been, could have been, or could in the future be, converted into KHR at this or any other rates of exchange.

5. Deposits and placements with the NBC

		As at		As at	
		31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
			(Note 4)		(Note 4)
Capital guarantee deposit	(i)	1,000,000	4,037,000	500,000	2,018,500
Current account	(ii)	3,789	15,296	1,374	5,547
		<u>1,003,789</u>	<u>4,052,296</u>	<u>501,374</u>	<u>2,024,047</u>

- (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.

The capital guarantee deposit earns interest at the rate of 0.11% (2016: 0.11%) per annum.

- (ii) Current account earns no interest.

6. Deposits and placements with other banks

		As at		As at	
		31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
			(Note 4)		(Note 4)
Fixed deposits		4,000,000	16,148,000	1,500,000	6,055,500
Current accounts		629,601	2,541,699	282,045	1,138,616
Savings deposits		448,135	1,809,121	297,939	1,202,780
		<u>5,077,736</u>	<u>20,498,820</u>	<u>2,079,984</u>	<u>8,396,896</u>

Deposits and placements with other banks are analyzed as follows:

	As at		As at	
	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
				(Note 4)
(a) By maturity:				
Within 1 month		1,077,736		2,079,984
4 to 12 months		4,000,000		8,396,896
				-
				-
		5,077,736		2,079,984
		20,498,820		8,396,896
(b) By interest rate (per annum):				
		2017		2016
Fixed deposits		0.40% - 5.00%		0.40% - 2.00%
Savings accounts		0.02% - 1.00%		0.02% - 1.00%

7. Loans to customers - net

	As at		As at	
	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Commercial loans	9,143,530	36,912,431	5,498,835	22,198,797
Mortgage loans	4,094,551	16,529,702	1,694,004	6,838,694
Personal loans	243,136	981,540	11,750	47,435
	13,481,217	54,423,673	7,204,589	29,084,926
Allowance for bad and doubtful loans:				
General	(126,761)	(511,734)	(72,046)	(290,850)
Specific	(398,459)	(1,608,579)	-	-
	(525,220)	(2,120,313)	(72,046)	(290,850)
Loans to customers – net	12,955,997	52,303,360	7,132,543	28,794,076

Movements of allowance for bad and doubtful loans to customers were as follow:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of the year	72,046	290,850	-	-
Allowance made during the year	453,174	1,829,463	72,046	290,850
At end of the year	525,220	2,120,313	72,046	290,850

Gross loans to customers are analyzed as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	36,000	145,332	-	-
2 to 3 months	895,000	3,613,115	150,000	605,550
4 to 12 months	1,813,000	7,319,081	1,006,000	4,061,222
Over 12 months	10,737,217	43,346,145	6,048,589	24,418,154
	13,481,217	54,423,673	7,204,589	29,084,926
(b) By currency:				
US Dollars	13,481,217	54,423,673	7,204,589	29,084,926
(c) By economic sector:				
Trade and commerce	744,585	3,005,890	231,470	934,444
Services	2,267,005	9,151,899	-	-
Construction	488,220	1,970,944	-	-
Agriculture	270,000	1,089,990	-	-
Transportation	48,439	195,548	-	-
Household and family	4,892,928	19,752,750	-	-
Other categories	4,770,040	19,256,652	6,973,119	28,150,482
	13,481,217	54,423,673	7,204,589	29,084,926

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(d) By residency status:				
Residents	13,481,217	54,423,673	7,204,589	29,084,926
(e) By performance				
Standard loans				
Secured	12,176,133	49,155,049	7,204,589	29,084,926
Unsecured	500,000	2,018,500	-	-
Sub-standard loans				
Secured	259,500	1,047,602	-	-
Doubtful loans				
Secured	247,250	998,148	-	-
Loss loans				
Secured	298,334	1,204,374	-	-
	13,481,217	54,423,673	7,204,589	29,084,926
(f) By exposure:				
Non-large exposure	13,481,217	54,423,673	7,204,589	29,084,926

A “large exposure” is defined under NBC Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the institution’s net worth. The gross exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments. As at 31 December 2017, there is no large exposure to be disclosed in the financial statements.

(g) By interest rate (per annum):

	2017	2016
Commercial loans	6.00% - 10.80%	7.20% - 10.08%
Mortgage loans	7.00% - 10.80%	7.56% - 8.04%
Personal loans	8.52% - 9.72%	8.52%

8. Other assets

	As at		As at	
	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued interest receivables	199,154	803,985	31,587	127,517
Rental deposit	62,400	251,909	28,000	113,036
Others	31,721	128,057	8	32
	<u>293,275</u>	<u>1,183,951</u>	<u>59,595</u>	<u>240,585</u>

9. Property and equipment

	Leasehold improvements	Office equipment	IT equipment	Furniture and fittings	Motor vehicles (Note 4)	Total	
2017	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
Cost							
At 1 January 2017	87,545	18,587	47,546	28,843	3,482	186,003	750,895
Additions	136,800	7,799	17,790	3,776	3,555	169,720	685,159
At 31 December 2017	224,345	26,386	65,336	32,619	7,037	355,723	1,436,054
Less: Accumulated depreciation							
At 1 January 2017	25,748	6,212	34,873	10,785	841	78,459	316,739
Charge for the year	24,229	5,077	15,680	7,568	1,167	53,721	216,872
At 31 December 2017	49,977	11,289	50,553	18,353	2,008	132,180	533,611
Carrying amounts							
At 31 December 2017	174,368	15,097	14,783	14,266	5,029	223,543	902,443

	Leasehold improvements	Office equipment	IT equipment	Furniture and fittings	Motor vehicles	Total	
2016	US\$	US\$	US\$	US\$	US\$ (Note 4)	US\$	KHR'000
Cost							
At 1 January 2016	87,545	18,587	46,232	28,613	2,300	183,277	739,889
Additions	-	-	1,314	230	1,182	2,726	11,005
At 31 December 2016	87,545	18,587	47,546	28,843	3,482	186,003	750,894
Less: Accumulated depreciation							
At 1 January 2016	8,239	1,565	11,428	3,574	192	24,998	100,917
Charge for the year	17,509	4,647	23,445	7,211	649	53,461	215,822
At 31 December 2016	25,748	6,212	34,873	10,785	841	78,459	316,739
Carrying amounts							
At 31 December 2016	61,797	12,375	12,673	18,058	2,641	107,544	434,155

10. Intangible assets

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Computer Software				
Cost				
At 1 January	11,535	46,567	6,960	28,098
Additions	9,280	37,463	4,575	18,469
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	20,815	84,030	11,535	46,567
	<hr/>	<hr/>	<hr/>	<hr/>
Less: Accumulated amortisation				
At 1 January	5,748	23,205	1,740	7,025
Amortisation for the year	6,153	24,839	4,008	16,180
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	11,901	48,044	5,748	23,205
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amounts				
At 31 December	8,914	35,986	5,787	23,362
	<hr/>	<hr/>	<hr/>	<hr/>

11. Other liabilities

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued expenses	12,445	50,240	9,842	39,732
Salary and withholding taxes payable	20,762	83,816	6,501	26,245
Salary payables	15,672	63,268	3,000	12,111
	<hr/>	<hr/>	<hr/>	<hr/>
	48,879	197,324	19,343	78,088
	<hr/>	<hr/>	<hr/>	<hr/>

12. Share capital/additional capital

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and fully paid: 10,000 ordinary shares of US\$1,000 each	10,000,000	40,370,000	10,000,000	40,370,000
Additional capital	10,000,000	40,370,000	-	-

The Company has received US\$10,000,000 from the parent Company on 28 February 2018. The Company submitted an application letter to the NBC for the additional capital injection and this has been approved by the NBC on 2 August 2018.

As at the date of this report, the amendment of the Memorandum and Articles of Association has not been done to reflect these changes yet.

The Company is 100% owned by Taiwan Business Bank Ltd, which is also the Company's ultimate parent company.

13. Interest income

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	802,392	3,239,257	383,951	1,550,010
Deposits with other banks and NBC	194,478	785,107	123,285	497,702
	996,870	4,024,364	507,236	2,047,712

14. Personnel expenses

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	259,091	1,045,950	139,108	561,579
Other benefits	313,162	1,264,235	154,514	623,773
	572,253	2,310,185	293,622	1,185,352

15. Depreciation and amortization

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Depreciation (Note 9)	53,721	216,872	53,461	215,822
Amortisation (Note 10)	6,153	24,839	4,008	16,180
	<u>59,874</u>	<u>241,711</u>	<u>57,469</u>	<u>232,002</u>

16. General and administrative expenses

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Rental expenses	122,200	493,321	91,940	371,162
Professional fees	30,143	121,687	25,361	102,382
Stationery and utility expenses	15,694	63,357	9,313	37,597
Party and entertainment expenses	12,887	52,025	5,987	24,170
Marketing and advertising	6,628	26,757	263	1,062
Membership expenses	2,531	10,218	1,688	6,814
Travel expenses	1,749	7,061	6,505	26,261
Foreign exchange loss	348	1,405	16	65
Others	156,434	631,524	71,634	289,185
	<u>348,614</u>	<u>1,407,355</u>	<u>212,707</u>	<u>858,698</u>

17. Income tax

(a) Applicable tax rates

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 annual turnover, whichever is higher.

According to Prakas 638 issued on 4 July 2017, an entity is eligible to be exempted from payment of minimum tax if it meets the criteria as stipulated in the Prakas.

(b) Current income tax liability

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of the year	441	1,780	1,272	5,134
Minimum tax expense	11,294	45,594	5,747	23,201
Prepayment for profit tax	(10,115)	(40,834)	(6,578)	(26,555)
At end of the year	<u>1,620</u>	<u>6,540</u>	<u>441</u>	<u>1,780</u>

(c) Income tax expense

The reconciliation of income tax computed at the statutory tax rate to the income tax expense as shown in the profit or loss is as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	<u>(341,002)</u>	<u>(1,376,625)</u>	<u>(59,384)</u>	<u>(239,733)</u>
Income tax using statutory tax rate at 20%	(68,200)	(275,325)	(11,877)	(47,947)
Non-deductible expenses	19,787	79,880	11,534	46,563
Utilisation of unabsorbed tax losses	-	-	(12,325)	(49,756)
Deferred tax assets not recognised	48,413	195,445	12,668	51,140
Minimum tax	<u>11,294</u>	<u>45,594</u>	<u>5,747</u>	<u>23,201</u>
	<u>11,294</u>	<u>45,594</u>	<u>5,747</u>	<u>23,201</u>

(d) Unrecognized deferred tax

Tax losses incurred in any tax year can be carried forward to offset against profit realised in the following five tax years subject to the following conditions:

- The loss must be recorded in the Tax on Income return and submitted to the General Department of Taxation on time;
- The business objective of the Company must not have changed;
- The ownership of the Company must not have changed; or
- The Company must not have received a unilateral tax re-assessment.

Deferred tax assets in respect of the tax losses are not recognized in the financial statements because it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	(341,002)	(1,376,625)	(59,384)	(239,733)
Adjustments for:				
Allowance for bad and doubtful loans	453,174	1,829,463	72,046	290,850
Depreciation and amortisation	59,874	241,711	57,469	232,002
Interest income	(996,870)	(4,024,364)	(507,236)	(2,047,712)
	(824,824)	(3,329,815)	(437,105)	(1,764,593)
Changes in:				
Deposit and placements with other banks	(4,000,000)	(16,148,000)	7,500,000	30,277,500
Loans to customers	(6,276,628)	(25,338,747)	(5,773,507)	(23,307,648)
Other assets	(66,113)	(266,898)	-	-
Other liabilities	29,536	119,236	7,722	31,174
Cash (used in)/generated from operations	(11,138,029)	(44,964,224)	1,297,110	5,236,433
Interest received	829,303	3,347,896	644,249	2,600,833
Income tax paid	(10,115)	(40,834)	(6,578)	(26,555)
Net cash (used in)/generated from operating activities	(10,318,841)	(41,657,162)	1,934,781	7,810,711

19. Cash and cash equivalents

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	3,349	13,520	1,357	5,478
Deposits and placements with the NBC (Note 5)	3,789	15,296	1,374	5,547
Deposits and placements with other banks, with original maturity of less than 3 months	1,077,736	4,350,820	2,079,984	8,396,895
	<u>1,084,874</u>	<u>4,379,636</u>	<u>2,082,715</u>	<u>8,407,920</u>

20. Related party transactions

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Taiwan Business Bank Ltd.				
Capital contribution	<u>10,000,000</u>	<u>40,370,000</u>	<u>-</u>	<u>-</u>
Key management remuneration				
Salary and related expenses	<u>339,955</u>	<u>1,372,398</u>	<u>194,287</u>	<u>784,337</u>

21. Commitments and contingencies

(a) Operations

As at 31 December 2017, the Company's commitment in respect of lease agreement for office and motor vehicles are as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 year	141,000	569,217	34,500	139,277
From 1 to 5 years	444,000	1,792,428	-	-
	<u>585,000</u>	<u>2,361,645</u>	<u>34,500</u>	<u>139,277</u>

(b) Tax 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 materially 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 could be significant.

22. 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 financial loss to the Company if a borrower or counterparty fails to meet its contractual obligations, and arises principally from the loans to customers.

(i) *Management of credit risk*

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 loan 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 the NBC Guidelines.

(ii) *Risk limit control and mitigation policies*

The Company operates and provides loans to group, individuals or enterprises within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 2% for individual loans and 3% for group loans of the Company's net worth under the conditions of Prakas No. B7-07-163 of the NBC.

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 a common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types to secure 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) Exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements.

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	12,676,133	51,173,549	7,204,589	29,084,926
Past due but not impaired	506,750	2,045,750	-	-
Individually impaired	298,334	1,204,374	-	-
	<u>13,481,217</u>	<u>54,423,673</u>	<u>7,204,589</u>	<u>29,084,926</u>

Neither past due nor impaired

Neither past due nor impaired loans to customers are good quality loans to customers for which there is no experience of default and management views that likelihood of default is relatively low.

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due from 30 days to 90 days, unless other information is available to indicate otherwise.

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers. In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loan to customers with payment overdue more than 90 days. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(g).

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

(c) Market risk

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

(i) Foreign currency exchange risk

The Company's revenue is principally earned in US\$. The Company's expenditure is principally paid in US\$. Monetary assets and liability are significantly dominated 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 following table indicates the effective interest rates at the reporting date and the periods in which the financial instruments re-price or mature, whichever is earlier.

22. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2017	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\$
Financial assets							
Cash on hand	-	-	-	-	-	3,349	3,349
Deposits and placements with the NBC (*)	-	-	-	-	-	1,374	1,374
Deposits and placements with other banks	448,135	-	4,000,000	-	-	629,601	5,077,736
Loans to customers	36,000	895,000	1,813,000	274,309	10,462,908	-	13,481,217
Other assets (**)	-	-	-	-	-	199,154	199,154
	<u>484,135</u>	<u>895,000</u>	<u>5,813,000</u>	<u>274,309</u>	<u>10,462,908</u>	<u>833,478</u>	<u>18,762,830</u>
Financial liabilities							
Other liabilities (**)	-	-	-	-	-	28,117	28,117
Re-pricing gap	<u>484,135</u>	<u>895,000</u>	<u>5,813,000</u>	<u>274,309</u>	<u>10,462,908</u>	<u>805,361</u>	<u>18,734,713</u>
Re-pricing gap (KHR'000 – Note 4)	<u>1,954,453</u>	<u>3,613,115</u>	<u>23,467,081</u>	<u>1,107,385</u>	<u>42,238,760</u>	<u>3,251,242</u>	<u>75,632,036</u>

(*) Exclude statutory deposits. (**) exclude non-financial assets and liabilities.

22. 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\$
Financial assets							
Cash on hand	-	-	-	-	-	1,357	1,357
Deposits and placements with the NBC (*)	-	-	-	-	-	1,374	1,374
Deposits and placements with other banks	1,797,939	-	-	-	-	282,045	2,079,984
Loans to customers	-	150,000	1,006,000	206,333	5,842,256	-	7,204,589
Other assets (**)	-	-	-	-	-	31,587	31,587
	<u>1,797,939</u>	<u>150,000</u>	<u>1,006,000</u>	<u>206,333</u>	<u>5,842,256</u>	<u>316,363</u>	<u>9,318,891</u>
Financial liabilities							
Other liabilities (**)	-	-	-	-	-	12,842	12,842
Re-pricing gap	<u>1,797,939</u>	<u>150,000</u>	<u>1,006,000</u>	<u>206,333</u>	<u>5,842,256</u>	<u>303,521</u>	<u>9,306,049</u>
Re-pricing gap (KHR'000 – Note 4)	<u>7,258,280</u>	<u>605,550</u>	<u>4,061,222</u>	<u>832,966</u>	<u>23,585,187</u>	<u>1,225,314</u>	<u>37,568,519</u>

(*) Exclude statutory deposits. (**) exclude non-financial assets and liabilities.

22. 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 financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Company does not have variable-rate instruments. Therefore, cash flow sensitivity analysis is not prepared.

(d) Liquidity risk

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

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

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

	2017		2016	
	Less than 1 month US\$	Total US\$	Less than 1 month US\$	Total US\$
Other liabilities	28,117	28,117	12,842	12,842

22. 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 period.

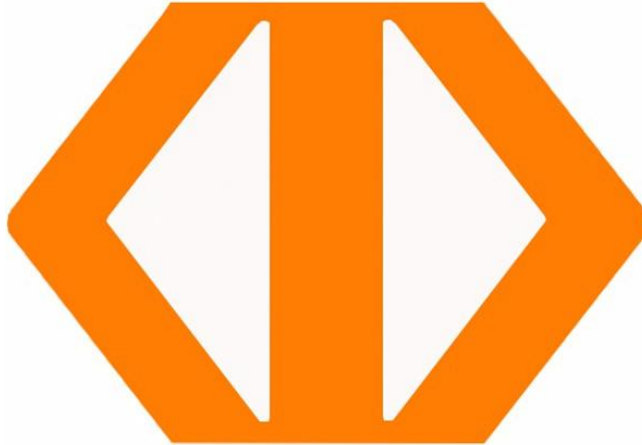
(ii) *Capital allocation*

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.

23. Fair values of assets and liabilities

The Company has not disclosed the fair value information for the financial assets and financial liabilities because their carrying amounts are a reasonable approximation of the fair value.

Address



Head Office

#2E-2F, Street 315, Sangkat Boeung Kok1, Khan Toul Kork, Phnom Penh

Tel: 023 88 71 71

Fax: 023 88 24 69

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com

Khan Chamkar Mon Branch

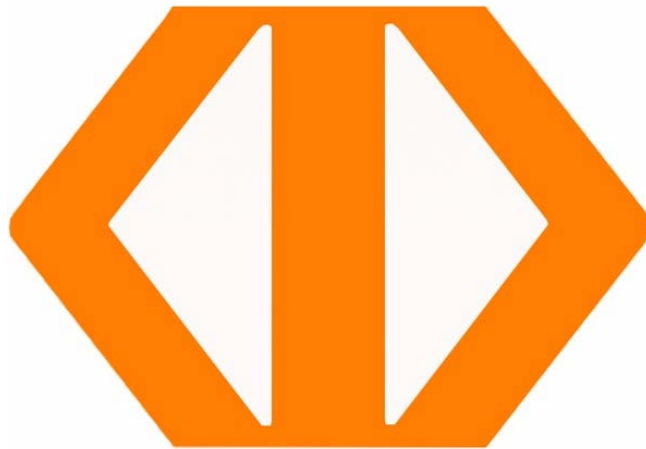
#249-251, Sangkat Tuol Svay Prey Ti Mouy, Khan Chamkar Mon, Phnom Penh

Tel: 023 21 71 71

Fax: 023 22 12 37

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com



Head Office

#2E-2F, Street 315, Sangkat Boeung Kok1, Khan Toul Kork, Phnom Penh

Tel: 023 88 71 71

Fax: 023 88 24 69

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com

Khan Chamkar Mon Branch

#249-251, Sangkat Tuol Svay Prey Ti Mouy, Khan Chamkar Mon, Phnom Penh

Tel: 023 21 71 71

Fax: 023 22 12 37

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com