CHOKCHEY FINANCE PLC.

Financial Statements
for the year ended 31 December 2017
and
Report of the Independent Auditors

Corporate Information

Institution	Chokchey Finance Plc.	
Registration No.	00002952	
Registered office	No. 9-11, Street Veng Sreng Sangkat Steung Meanchey, Khan Meanchey Phnom Penh, Kingdom of Cambodia	
Shareholders	Hanshin Engineering and Construction Co., Ltd. Plus International Co., Ltd.	
Board of Directors	Mr. Moon Kyu Choi Mr. Cheon Gil Park Mr. Jung Hoon Kim	Chairman Director and Chief Executive Officer Independent Director
Senior Management	Mr. Cheon Gil Park	Chief Executive Officer
Principal bankers	SATHAPANA Bank Plc. Philip Bank Plc. Phnom Penh Commercial Bank	
Auditors	HRDP & Associates Co., Ltd.	

Chokchey Finance Plc.

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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of Chokchey Finance Plc. ("the Institution") for the year ended 31 December 2017 ("the period" or "the financial period").

Principal activity

The principal activity of the Institution 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 Institution for the period were as follows:

	For the year ended 31 December 2017		Period from 02 March 2016 (date of incorporation) to 31 December 2016
	US$	KHR'000 (Note 4)	US$
Loss before income tax	(259,943)	(1,049,390)	(15,053)
Income tax expense	(3,253)	(13,132)	(1,457)
Net loss for the period	(263,196)	(1,062,522)	(16,510)

Dividends

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

Share capital

On 28 February 2017, the existing shareholders entered into a Sale and Purchase agreement with Hanshin Engineering and Construction Co., Ltd and Plus International Co., Ltd to sell their 100% shares. The Institution obtained approval from the National Bank of Cambodia related to share transferred on 21 August 2017.

As at 31 December 2017, the Institution's paid up share capital is US$1,500,000 equivalent to KHR6,000,000,000. The Institution obtained approval from the National Bank of Cambodia on 26 February 2018 related to the capital increased.

Bad and doubtful loans

Before the financial statements of the Institution 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.

During the financial year 2017, the Institution had written off loan with outstanding amount US$7,882.

Current assets

Before the financial statements of the Institution 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 Institution 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 Institution 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 Institution 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 Institution which has arisen since the end of the period which secures the liabilities of any other person; and

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

No contingent or other liability of the Institution has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the period which, in the opinion of the Directors, will or may substantially affect the ability of the Institution 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 Institution, which would render any amount stated in the financial statements misleading.

Chokchey Finance Plc.

Items of an unusual nature

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

There has not arisen in the interval between the end of the period 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 Institution for the current period in which this report is made.

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 any new loan contract including restructured loan and/or finger print from 1 April 2017.

There have been no other 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 period and at the date of this report are:

- Mr. Moon Kyu Choi — Chairman
- Mr. Cheon Gil Park — Director and CEO
- Mr. Jung Hoon Kim — Independent Director

Directors' benefits

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

During the financial period, no Director of the Institution 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 Institution 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.

Chokchey Finance Plc.

Directors' responsibility 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 Institution as at 31 December 2017, and its financial performance and its cash flows for the year ended 31 December 2017. In preparing these financial statements, the Directors are required to:

- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- 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;
- oversee the Institution's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- assess the Institution'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 or to cease operations, or has no realistic alternative but to do so; and
- control and direct the Institution 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 49 which, in our opinion, present fairly, in all material respects, the financial position of Chokchey Finance Plc. as at 31 December 2017, and its financial performance and its cash flows for the year ended 31 December 2017 in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors,

____

Mr. Cheon Gil Park
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

13 April 2018

Report of the independent auditors

To the shareholders
Chokchey Finance Plc.

Opinion

We have audited the financial statements of Chokchey Finance Plc. ("the Institution"), 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 ended 31 December 2017, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 49.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institution as at 31 December 2017, and its financial performance and its cash flows for the year ended 31 December 2017 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 Institution 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

The financial statements of the Institution as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 28 April 2017.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the information included in 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 Institution'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 Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institution'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 misstatements, 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 Institution'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 Institution'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 Institution 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 HRDP & Associates Co., Ltd.

Peou Dara
Partner

Phnom Penh, Kingdom of Cambodia

13 April 2018

Chokchey Finance Plc.

Balance sheet
As at 31 December 2017

	Note	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
ASSETS				
Cash on hand	5	2,520	10,173	1,418
Deposits and placements with the National Bank of Cambodia	6	552,256	2,229,457	52,031
Deposits and placements with banks	7	413,302	1,668,500	4,609
Loans to customers, net	8	2,467,753	9,962,319	1,368,660
Other assets	9	50,689	204,631	23,520
Property and equipment	10	135,949	548,826	92,369
Intangible assets	11	19,551	78,927	21,594
TOTAL ASSETS		3,642,020	14,702,833	1,564,201
LIABILITIES AND EQUITY				
LIABILITIES				
Other liabilities	12	33,283	134,362	3,977
Current income tax liability	18	-	-	251
Advances from shareholders	13	1,700,000	6,862,900	576,483
Long term borrowing	14	688,443	2,779,244	-
TOTAL LIABILITIES		2,421,726	9,776,506	580,711
EQUITY				
Share capital	15	1,000,000	4,037,000	1,000,000
Capital injection during the period		500,000	2,018,500	-
Accumulated losses		(16,510)	(66,651)	-
(Loss)/profit for the year		(263,196)	(1,062,522)	(16,510)
TOTAL EQUITY		1,220,294	4,926,327	983,490
TOTAL LIABILITIES AND EQUITY		3,642,020	14,702,833	1,564,201

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

Chokchey Finance Plc.

Income statement
for the year ended 31 December 2017

	Note	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Interest income	16	269,070	1,086,236	130,092
Interest expenses		(91,669)	(370,068)	(18,034)
Net interest income		177,401	716,168	112,058
Other operating income	17	56,385	227,626	28,465
General and administrative expenses	18	(443,320)	(1,789,683)	(147,907)
Allowance for bad and doubtful loans	8	(50,409)	(203,501)	(7,669)
Loss before income tax		(259,943)	(1,049,390)	(15,053)
Income tax expense	19	(3,253)	(13,132)	(1,457)
Net loss for the period		(263,196)	(1,062,522)	(16,510)

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

Chokchey Finance Plc.

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

	Note	Share capital US$	Accumulated losses US$	Total US$
At 2 March 2016 (date of incorporation)		-	-	-
Issuance of share capital		1,000,000	-	1,000,000
Net loss for the period		-	(16,510)	(16,510)
At 31 December 2016		1,000,000	(16,510)	983,490
Balance as at 01 January 2017		1,000,000	(16,510)	983,490
Additional during the period		500,000	-	500,000
Net loss for the period		-	(263,196)	(263,196)
Balance as at 31 December 2017		1,500,000	(279,706)	1,220,294
(KHR’000 equivalent)		6,055,500	(1,129,173)	4,926,327

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

Chokchey Finance Plc.

Statement of cash flows
for the year ended 31 December 2017

	Note	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Cash flows from operating activities				
Net cash used in operating activities	20	(1,340,721)	(5,412,491)	(1,395,266)
Cash flows from investing activities				
Purchase of property and equipment	10	(61,219)	(247,141)	(100,098)
Purchases of intangible assets	11	-	-	(23,061)
Capital guarantee deposit		-	-	(50,000)
Net cash used in investing activities		(61,219)	(247,141)	(173,159)
Cash flows from financing activities				
Advances from shareholders	13	1,123,517	4,535,638	576,483
Long term borrowing	14	688,443	2,779,244	-
Proceeds from issuance of share capital	15	-	-	1,000,000
Capital injection during the period	15	500,000	2,018,500	-
Net cash generated from financing activities		2,311,960	9,333,382	1,576,483
Net increase in cash and cash equivalents		910,020	3,673,750	8,058
Cash and cash equivalents at the beginning of the period		8,058	32,530	-
Cash and cash equivalents at the end of the period	21	918,078	3,706,280	8,058

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

Chokchey Finance Plc.

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

1. Reporting entity

Chokchey Finance Plc. ("the Institution") is a public limited company incorporated in the Kingdom of Cambodia and registered with the Ministry of Commerce under the Registration Number 00002952 on 2 March 2016. The Institution obtained its licence from the National Bank of Cambodia to operate as a micro-finance institution on 26 April 2016.

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

The address of its registered office is located at No. 9-11 Street Veng Sreng, Sangkat Stung Meanchey, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2017, the Institution had 79 employees while 2016 had 24 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 Institution were authorised for issue by the Board of Directors on 13 April 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Institution 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 Institution's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Institution.

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 period in which the estimates are revised and in any future periods affected.

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

3. Significant accounting policies

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

(a) Financial instruments

The Institution'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.

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.

(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.

3. Significant accounting policies (continued)

(f) Allowance for bad and doubtful loans

The Institution records the mandatory credit classification and provisioning as required by Prakas B7-02-186 Pro Kor dated 13 September 2002. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes and ensure that the minimum mandatory level of specific provisioning is provided:

Prior to 1 December 2017:

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

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified and is charged as expense in the income statement.

Loans are written off when they are considered uncollectible. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

Recoveries on loans previously written off and reversal of previous provisions are disclosed as other operating income in the income statement.

From 1 December 2017:

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 banks and 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:

3. Significant accounting policies (continued)

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

Classification	Number of days past due	Allowance
Short-term loans (less than or equal one year):		
Normal/standard	<15 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	≥ 360 days	100%

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in an increase in allowance for bad and doubtful loans for the year ended 31 December 2017 of US$42,526

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as “loss”, all collateral may be utilised, at market values approved by the NBC.

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by the management. Factors considered in evaluating the adequacy of the allowance include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when in the judgement of the management there is no prospect of recovery.

Recoveries on loans previously written off and reversal of previous allowances are disclosed as other income in the income statement.

3. Significant accounting policies (continued)

(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	5%
Furniture and fixtures and office equipment	25%
Computer equipment	50%
Motor vehicles	20%

(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 Institution. 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.

3. Significant accounting policies (continued)

(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 10% 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.

(ii) Non-financial assets

The carrying amounts of the Institution'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.

3. Significant accounting policies (continued)

(k) Provisions

Provisions are recognised if, as a result of a past event, the Institution 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 when the loan is disbursed to customers.

Expenses are recognised on an accruals basis.

(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 period 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 period using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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.

3. Significant accounting policies (continued)

(n) Income tax (continued)

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 Institution 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 Institution 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 Institution or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Institution.

4. Translation of United States Dollars into Khmer Riel

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

5. Cash on hand

	As at 31 December 2017		As at 31 December 2016
	US$	KHR'000 (Note 4)	US$
US Dollar	2,520	10,173	1,418
	2,520	10,173	1,418

Notes to the financial statements (continued)
for the year ended 31 December 2017

6. Deposits and placements with the National Bank of Cambodia

		As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Capital guarantee deposit	(i)	50,000	201,850	50,000
Current accounts		502,256	2,027,607	2,031
		552,256	2,229,457	52,031

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

On February 2018, the Institution deposited additional capital guarantee of US$25,000.This statutory deposit earns interest at the rate of 0.22% per annum. Current accounts earn no interest.

7. Deposits and placements with banks

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Current accounts	411,469	1,661,100	4,487
Saving accounts	1,833	7,400	122
	413,302	1,668,500	4,609

Deposits and placements with banks are analysed as follows:

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
(a) By currency:			
US Dollars	413,302	1,668,500	4,609

7. Deposits and placements with banks (continued)

		As at 31 December 2017		As at 31 December 2016
		US$	KHR'000 (Note 4)	US$
(b)	By type:			
	Current accounts			
	Philip Bank Plc.	97,989	395,582	3,987
	SHATAPANA Bank Plc.	500	2,018	500
	Phnom Penh Commercial Bank	312,980	1,263,500	-
		411,469	1,661,100	4,487
	Saving accounts			
	SHATAPANA Bank Plc.	767	3,096	122
	Phnom Penh Commercial Bank	1,066	4,304	-
		1,833	7,400	122
	Total	413,302	1,668,500	4,609
(c)	By maturity:			
	Within 1 month	413,302	1,668,500	4,609
		413,302	1,668,500	4,609
(d)	By interest rate (per annum):			
	Current accounts	0.00%		0.00%
	Saving accounts	0.40%		1.00%

8. Loans to customers

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Loans to customers	2,517,948	10,164,956	1,376,329
Allowance for bad and doubtful loans:			
Specific	(24,803)	(100,130)	(7,669)
General	(25,392)	(102,507)	-
	2,467,753	9,962,319	1,368,660

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

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
01 January 2017	7,669	30,960	-
Allowance for the period	50,409	203,501	7,669
Written-off during the period	(7,883)	(31,824)	-
At the end of the period/year	50,195	202,637	7,669

Loans to customers are analysed as follows:

		As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
(a)	By maturity:			
	Within 1 month	1,995	8,054	3,102
	> 1 to 3 months	2,735	11,041	3,708
	> 3 to 12 months	13,943	56,288	40,953
	Over 12 months	2,499,275	10,089,573	1,328,566
		2,517,948	10,164,956	1,376,329

Chokchey Finance Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers (continued)

(b)	By currency:			
	US Dollars	2,517,948	10,164,956	1,376,329
(c)	By economic sector:			
	Trade and commerce	2,517,948	10,164,956	1,376,329
(d)	By residency status:			
	Residents	2,517,948	10,164,956	1,376,329
(e)	By relationship:			
	External customers	2,497,935	10,084,164	1,369,018
	Staff loans	20,013	80,792	7,311
		2,517,948	10,164,956	1,376,329
(f)	By performance:			
	Standard loans			
	Secured	2,324,029	9,382,105	1,304,268
	Unsecured	59,602	240,613	34,900
	Special mention loans			
	Secured	51,851	209,323	-
	Unsecured	-	-	-
	Substandard loans			
	Secured	57,792	233,306	30,717
	Unsecured	177	715	959
	Doubtful loans			
	Secured	22,460	90,671	-
	Unsecured	167	674	1,444
	Loss loans			
	Secured	-	-	-
	Unsecured	1,870	7,549	4,041
		2,517,948	10,164,956	1,376,329

8. Loans to customers (continued)

(g) By type of loans:

Micro Loan and Personal Loan	147,260	594,489	43,010
Small Loan	961,400	3,881,172	148,378
Medium Loan	1,078,949	4,355,717	912,048
Large Loan	330,339	1,333,578	272,893
	2,517,948	10,164,956	1,376,329

(h) By province:

Phnom Penh city	1,254,166	5,063,068	1,043,889
Kandal province	674,820	2,724,248	332,440
Kompong Cham province	26,000	104,962	-
Kompong Speu province	496,257	2,003,390	-
Kompong Thom province	1,929	7,787	-
Svay Rieng province	60,014	242,277	-
Takeo province	4,762	19,224	-
	2,517,948	10,164,956	1,376,329

(i) By interest rate (per annum):

Micro Loan and Personal Loan	13.2% to 36%	24 to 36%
Small Loan	13.2% to 36%	18% to 36%
Medium Loan	13.2% to 20.4%	18% to 36%
Large Loan	13.2% to 14.4%	18.00%

9. Other assets

		As at 31 December 2017	As at 31 December 2016
	US$	KHR'000 (Note 4)	US$
Interest receivable	30,224	122,014	17,545
Interest in suspense	(9,166)	(37,003)	(2,425)
Net interest receivable	21,058	85,011	15,120
Advances and Prepayments	28,467	114,921	8,400
Other receivable	1,164	4,699	-
	50,689	204,631	23,520

10. Property and equipment

As at 31 December 2017	Leasehold improvement US$	Furniture and fixtures US$	Office equipment US$	Computer equipment US$	Total US$	Total KHR'000 (Note 4)
Cost						
As at 01 January 2017	86,419	-	9,394	4,285	100,098	404,095
Additions	24,655	16,417	9,050	11,097	61,219	247,141
Reclassification	-	6,550	(6,550)	-	-	-
As at 31 December 2017	111,074	22,967	11,894	15,382	161,317	651,236
Less: **Accumulated depreciation**						
As at 01 January 2017	5,178	-	1,606	945	7,729	31,202
Depreciation for the period	9,444	2,239	2,339	3,617	17,639	71,208
Reclassification	-	1,249	(1,249)	-	-	-
As at 31 December 2017	14,622	3,488	2,696	4,562	25,368	102,410
Carrying amounts						
As at 31 December 2017	96,452	19,479	9,198	10,820	135,949	548,826

10. Property and equipment (continued)

As at 31 December 2016

	Leasehold improvement US$	Furniture and fixtures & Office equipment US$	Computer equipment US$	Total US$	Total KHR'000 (Note 4)
Cost					
As at 2 March 2016 (date of incorporation)	-	-	-	-	-
Additions	86,419	9,394	4,285	100,098	404,096
Reclassification	-	-	-	-	-
As at 31 December 2016	86,419	9,394	4,285	100,098	404,096
Less: **Accumulated depreciation**					
As at 2 March 2016 (date of incorporation)	-	-	-	-	-
Depreciation for the period	5,178	1,606	945	7,729	31,202
As at 31 December 2016	5,178	1,606	945	7,729	31,202
Carrying amounts					
As at 31 December 2016	81,241	7,788	3,340	92,369	372,894

11. Intangible assets

License	US$	As at 31 December 2017 KHR'000 (Note 4)
Cost		
As at 01 January 2017	23,061	93,098
Additions	-	-
As at 31 December 2017	23,061	93,098
Less: accumulated amortisation		
As at 01 January 2017	1,467	5,922
Amortisation for the period	2,043	8,249
As at 31 December 2017	3,510	14,171
Carrying amounts		
As at 31 December 2017	19,551	78,927

License	US$	As at 31 December 2016 KHR'000 (Note 4)
Cost		
As at 2 March 2016 (date of incorporation)	-	-
Additions	23,061	93,097
At 31 December 2016	23,061	93,097
Less: accumulated amortisation		
As at 2 March 2016 (date of incorporation)	-	-
Amortisation for the period	1,467	5,922
As at 31 December 2016	1,467	5,922
Carrying amounts		
As at 31 December 2016	21,594	87,175

12. Other liabilities

	As at 31 December 2017		As at 31 December 2016
	US$	KHR'000 (Note 4)	US$
Accrual interest payable	13,292	53,660	-
Salaries and other benefits	74	298	799
Other tax payables	6,614	26,700	1,402
Other payables	13,303	53,704	1,776
	33,283	134,362	3,977

13. Advances from shareholders

These represent the advances from shareholders which are unsecured and repayable based on the agreement with the maturity period of 36 months. The interest is repayable every three months to Hanshin Engineering and Construction Co., Ltd at rate of 6% per annum.

14. Long term borrowing

These represent the long term borrowing with are unsecured and repayable based on the agreement with the maturity period of 36 months. The interest is repayable every month at rate of 10% per annum.

15. Share capital

	As at 31 December 2017		As at 31 December 2016
	US$	KHR’000 (Note 4)	US$
150,000 shares of US$10 each			
Registered, issued and fully paid up	1,000,000	4,037,000	1,000,000
Capital injection during the period	500,000	2,018,500	-
	1,500,000	6,055,500	1,000,000

15. Share capital (continued)

The details of shareholding are as follows:

	As at 31 December 2017		
	% of Ownership	Number of shares	Amount US$
Hanshin Engineering and Construction Co., Ltd.	51%	76,500	765,000
Plus International Co., Ltd.	49%	73,500	735,000
	100%	150,000	1,500,000

On 28 February 2017, the existing shareholders entered into a Sale and Purchase agreement with Hanshin Engineering and Construction Co., Ltd and Plus International Co., Ltd to sell their 100% shares. The Institution obtained approval from the National Bank of Cambodia related to share transferred on 21 August 2017.

As at 31 December 2017, the Institution's paid up share capital is US$1,500,000 equivalent to KHR6,000,000,000. The Institution obtained approval from the National Bank of Cambodia on 26 February 2018 related to the capital increased.

16. Interest income

	For the year ended 31 December 2017		Period from 2 March 2016 (date of incorporation) to 31 December 2016
	US$	KHR'000 (Note 4)	US$
Loans to customers	268,819	1,085,224	129,214
Deposits with banks	251	1,012	878
	269,070	1,086,236	130,092

Notes to the financial statements (continued)
for the year ended 31 December 2017

17. Other operating income

	For the year ended 31 December 2017		Period from 2 March 2016 (date of incorporation) to 31 December 2016
	US$	KHR'000 (Note 4)	US$
Loan administrative fees	49,052	198,023	24,659
Penalty income	7,023	28,352	3,683
Other income	310	1,251	123
	56,385	227,626	28,465

18. General and administrative expenses

	For the year ended 31 December 2017		Period from 2 March 2016 (date of incorporation) to 31 December 2016
	US$	KHR'000 (Note 4)	US$
Personal Expenses	296,201	1,195,764	91,251
Rental Expenses	43,343	174,976	14,200
Depreciation and Amortization	20,442	82,524	9,196
Fee &taxation	20,249	81,745	12,107
Travelling and vehicle expenses	12,292	49,622	4,460
Audit fee	9,900	39,966	-
Communication	7,534	30,415	2,146
Office supplies and equipment	7,120	28,743	2,676
Entertainment	6,650	26,846	2,726
Utilities	6,484	26,176	3,957
Other tax expenses	4,885	19,721	-
Repairs and maintenance	387	1,562	35
Printing and copy expenses	343	1,386	781
Others	7,490	30,237	4,372
	443,320	1,789,683	147,907

19. Income tax

(a) Current income tax liability

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
As at 01 January 2017	251	1,013	-
Current income tax expense	3,253	13,132	1,457
Income tax paid	(3,504)	(14,145)	(1,206)
As at 31 December 2017	-	-	251

(b) Income tax expense

In accordance with Cambodian law on taxation, the Institution 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.

	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Current income tax expense	3,253	13,132	1,457

19. Income tax (continued)

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

	%	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Loss before income tax	100.00	(259,943)	(1,049,390)	(15,053)
Income tax using statutory rate at 20%	(20.00)	(51,989)	(209,879)	(3,011)
Non-deductible expenses	19.90	51,726	208,818	762
Effect of others	0.10	263	1,061	2,249
Effect of minimum tax	1.00	3,253	13,132	1,457
Income tax expense	1.00	3,253	13,132	1,457

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

(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 period 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

	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Cash flows from operating activities			
Loss before income tax	(259,943)	(1,049,390)	(15,053)
Adjustments for:			
Depreciation and amortisation	19,682	79,457	9,196
Allowance for bad and doubtful loans	42,526	171,677	7,669
	(197,735)	(798,256)	1,812
Change in:			
Loans to customers	(1,141,619)	(4,608,716)	(1,376,329)
Other assets	(27,169)	(109,681)	(23,520)
Other liabilities	29,306	118,307	3,977
Cash used in operations	(1,139,482)	(4,600,090)	(1,395,872)
Income tax paid	(3,504)	(14,145)	(1,206)
Net cash used in operating activities	(1,340,721)	(5,412,491)	(1,395,266)

21. Cash and cash equivalents

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Cash on hand	2,520	10,173	1,418
Deposits and placements with National Bank of Cambodia	502,256	2,027,607	2,031
Deposits and placements with banks less than three months maturity	413,302	1,668,500	4,609
	918,078	3,706,280	8,058

22. Operating lease commitments

The Institution has lease commitments for the lease of its office as follows:

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Within 1 year	35,746	144,307	16,800
Between 2 to 5 years	164,739	665,051	67,200
More than 5 years	147,520	595,538	72,427
	348,005	1,404,896	156,427

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 Institution could be significant.

24. Related party balances and transactions

(a) Balances with related parties

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Advance from shareholders			
Hanshin Engineering and Construction Co., Ltd.	1,700,000	6,862,900	-
Mr. Va Dalot	-	-	184,475
Mrs. Ouk Chakriya	-	-	172,945
Mrs. Chea Pisey	-	-	172,945
Mr. Hiv Chunneath	-	-	46,118
	1,700,000	6,862,900	576,483

Refer to terms and conditions disclosed in Note 13.

24. Related party balances and transactions (continued)

(b) Key management compensation

	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Salaries and benefits	-	-	26,861
	-	-	26,861

(c) Transactions with shareholders

	For the year ended 31 December 2017 US$	For the year ended 31 December 2017 KHR'000 (Note 4)	Period from 2 March 2016 (date of incorporation) to 31 December 2016 US$
Interest expense from Hanshin Engineering and Construction Co., Ltd.	22,833	92,177	-
Mr. Va Dalot	-	-	5,771
Mrs. Ouk Chakriya	-	-	5,410
Mrs. Chea Pisey	-	-	5,410
Mr. Hiv Chunneath	-	-	1,443
	22,833	92,177	18,034

25. Financial risk management

The guidelines and policies adopted by the Institution to manage the risks that arise in the conduct of their business activities are as follows:

25. Financial risk management (continued)

(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 Institution'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 Institution 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 Institution 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 Institution manages limits and controls the concentration of credit risk whenever it is identified.

The Institution 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 Institution implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are:

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

(iii) Impairment and allowance policies

The Institution 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.

25. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk

	As at 31 December 2017 US$	As at 31 December 2017 KHR'000 (Note 4)	As at 31 December 2016 US$
Deposits and placements with NBC	502,256	2,027,607	2,031
Deposits and placements with banks	413,302	1,668,500	4,609
Loans to customers			
Neither past due nor impaired	2,383,631	9,622,718	1,331,207
Past due but not impaired	51,851	209,323	8,835
Individually impaired	82,466	332,915	37,161
	3,433,506	13,861,063	1,383,843

Deposits and placement with NBC and banks

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

Loan and advance 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 Institution 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 and advance 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 Institution shall remove a loan/advance or a portion of a loan from its balance sheet when the Institution 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 Institution 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 Institution.

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.

(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.

25. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk

Concentration of currency risk

The Institution's income is principally earned in US$. The Institution's expenditure is principally paid in US$. The Institution 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 Institution does not use derivative financial instruments to hedge such risk.

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

Chokchey Finance Plc.

Notes to the financial statements (continued)
for the year ended 31 December 2017

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 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$	Weighted average interest %
Financial assets								
Cash on hand	-	-	-	-	-	2,520	2,520	
Deposits and placements with NBC	-	-	-	-	-	502,256	502,256	
Deposits and placements with banks	413,302	-	-	-	-	-	413,302	
Loans to customers							-	
- Performing	600	1,917	13,942	1,644,808	774,215	-	2,435,482	17.15
- Non performing	1,395	819	-	55,301	24,951	-	82,466	
- Allowance	-	-	-	-	-	(50,195)	(50,195)	
Other assets							-	
Accrual Interest Receivable	21,058	-	-	-	-	-	21,058	
Deposit	-	-	-	-	-	28,467	28,467	
Other receivable	-	-	-	-	-	1,164	1,164	
	436,355	2,736	13,942	1,700,109	799,166	484,212	3,436,520	

Chokchey Finance Plc.

Notes to the financial statements (continued)
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25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 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	-	-	-	-	-	1,418	1,418	
Deposits and placements with NBC	-	-	-	-	-	2,031	2,031	
Deposits and placements with banks	4,609	-	-	-	-	-	4,609	
Loans to customers								
- Performing	678	3,207	38,395	1,193,888	103,000	-	1,339,168	18 - 36
- Non-performing	2,424	502	2,558	31,677	-	-	37,161	
- Allowance	-	-	-	-	-	(7,669)	(7,669)	
Other assets								
Accrual interest receivable	15,120	-	-	-	-	-	15,120	
Deposits	-	-	-	-	-	8,400	8,400	
	22,831	3,709	40,953	1,225,565	103,000	4,180	1,400,238	

Notes to the financial statements (continued)
for the year ended 31 December 2017

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 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$	Interest rate %
Financial liabilities								
Other liabilities								
Salaries and other benefits	74	-	-	-	-	-	74	
Other tax payables	33,209	-	-	-	-	-	33,209	
Advances from shareholders	-	-	-	1,700,000	-	-	1,700,000	6
Long term borrowing	-	-	-	688,443	-	-	688,443	10
	33,283	-	-	2,388,443	-	-	2,421,726	
Maturity gap - US$	403,072	2,736	13,942	(688,334)	799,166	484,212	1,014,794	
Maturity gap - KHR'000	1,627,202	11,045	56,284	(2,778,804)	3,226,233	1,954,764	4,096,723	

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 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$	Interest rates %
Financial liabilities								
Other liabilities								
Salaries and other benefits	799	-	-	-	-	-	799	
Other payables	1,776	-	-	-	-	-	1,776	
Advances from shareholders	-	-	576,483	-	-	-	576,483	10.08
	2,575	-	576,483	-	-	-	579,058	
Maturity gap – US$	20,256	3,709	(535,530)	1,225,565	103,000	4,180	821,180	
Maturity gap (KHR'000 – Note 4)	81,773	14,973	(2,161,935)	4,947,606	415,811	16,876	3,315,104	

Notes to the financial statements (continued)
for the year ended 31 December 2017

25. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Institution does not account for any fixed rate liabilities at fair value through profit or loss, and the Institution does not have derivatives as at the period 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 Institution closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans to customers and advances from shareholders 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 Institution into relevant maturity groupings, including instalment due and interest.

25. Financial risk management (continued)

(d) Liquidity risk (continued)

As at 31 December 2017	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	No fixed terms	Total
	US$	US$	US$	US$	US$	US$	US$
Financial liabilities							
Other liabilities							
Salaries and other benefits	74	-	-	-	-	-	74
Other payables	33,209	-	-	-	-	-	33,209
Advances from shareholders	-	-	-	1,700,000	-	-	1,700,000
Long term borrowing				688,443	-	-	688,443
31 December 2017 - US$	33,283			2,388,443			2,421,726
31 December 2016 – KHR'000 - Note 4)	134,362	-	-	9,642,144	-	-	9,776,507

25. Financial risk management (continued)

(d) Liquidity risk (continued)

As at 31 December 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							
Salaries and other benefits	799	-	-	-	-	-	799
Other payables	1,776	-	-	-	-	-	1,776
Advances from shareholders	-	-	576,483	-	-	-	576,483
31 December 2016 – US$	2,575	-	576,483	-	-	-	579,058
31 December 2016 – (KHR'000 - Note 4)	10,395	-	2,327,262	-	-	-	2,337,657

25. Financial risk management (continued)

(e) Capital management

(i) Regulatory capital

The Institution's lead regulator, the NBC, sets and monitors capital requirements for the Institution as a whole.

The Institution'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 Institution 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 Institution 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.

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 Institution'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.