

# **SATHAPANA Bank Plc.**

Audited financial statements in accordance with  
Cambodian Accounting Standards and  
Regulations and Guidelines of the National Bank of Cambodia

as at 31 December 2018 and for the year then ended

# SATHAPANA Bank Plc.

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## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of SATHAPANA Bank Plc. ("the Bank") is pleased to present its report and the Bank's financial statements as at and for the year ended 31 December 2018.

### THE BANK

SATHAPANA Limited, the micro-finance institution ("MFI"), was incorporated in the Kingdom of Cambodia by the Ministry of Commerce ("MoC") on 19 February 2003, based on the Memorandum and Articles of Association signed on 27 December 2002 between Cambodia Community Building ("CCB"), a local non-governmental organisation established in 1996 and the MFI's staff. The MFI obtained its license to operate as a micro-finance institution from the National Bank of Cambodia ("NBC") on 23 April 2003. Under the micro-finance license, the MFI is authorised to grant credit and offer saving services to poor and low-income households and small enterprise operating in the Kingdom of Cambodia.

The NBC granted SATHAPANA Limited micro-finance license with an indefinite life from 19 April 2006. On 22 January 2009, the MFI received a license from the NBC to conduct a deposit-taking business. On 11 February 2014, the MFI received another 3-year license to conduct money exchange business.

On 19 October 2012, MARUHAN Japan Bank ("MJB") entered into a sale and purchase agreement with Stichting Triodos-Doen ("ST"), Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. ("NFVO"), DWM Funds S.C.A.-SICAV SIF ("DWM"), CCB, and SATHAPANA Employee Investment Limited ("SEI") to acquire 95.1% equity of SATHAPANA Limited. This was approved by the NBC on 5 December 2012 with the subject shares approved for the change in ownership by the MoC on 17 December 2012.

On 8 February 2016, the Board of Directors of the MFI, pursuant to the option agreement with CCB, the non-controlling interest of the MFI, passed a resolution to sell the remaining 4.9% of the MFI, representing all the non-controlling interest of the MFI for a total price of US\$6.02 million. The transaction was completed on 17 March 2016.

In early 2015, MJB and SATHAPANA Limited agreed to merge the two institutions into one entity, under the name SATHAPANA Bank Plc. ("the Bank"), as approved by the NBC on 28 March 2016. On 29 March 2016, the NBC also granted an indefinite banking license to the Bank. All assets and liabilities of MJB were transferred to the Bank on 1 April 2016.

### PRINCIPAL ACTIVITIES

The principal activities of the Bank are as follows:

- Provide micro, small, and medium loans;
- Offer deposit-taking services;
- Provide local and international money transfer services;
- Offer ATM and eBanking services; and
- Offer related banking and financial services in the Kingdom of Cambodia.

# SATHAPANA Bank Plc.

## REPORT OF THE BOARD OF DIRECTORS (continued)

### Location

The registered office of the Bank is located at No. 83, Preah Norodom Blvd., Sangkat Phsar Thmey 3, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia. The Bank operates its businesses in 25 provinces with a network of 169 branches.

### Employees

As at 31 December 2018, the Bank had 4,456 employees (2017: 4,339 employees).

### FINANCIAL RESULTS

The financial results of the Bank for the year ended 31 December 2018 were as follows:

	<u>2018</u>	<u>2017</u>
	<u>US\$</u>	<u>US\$</u>
Profit before income tax	28,233,400	23,805,608
Income tax expense	<u>(5,139,203)</u>	<u>(5,219,569)</u>
<b>Income after income tax</b>	<b><u>23,094,197</u></b>	<b><u>18,586,039</u></b>
<b><i>KHR'000 equivalent</i></b>	<b><u>92,792,484</u></b>	<b><u>75,031,840</u></b>

### DIVIDEND

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

### RESERVES AND PROVISIONS

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

### SHARE CAPITAL

There were no changes in the registered and issued share capital of the Bank during the year.

### BAD AND DOUBTFUL LOANS

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

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

# SATHAPANA Bank Plc.

## REPORT OF THE BOARD OF DIRECTORS (continued)

### **ASSETS**

Before the financial statements of the Bank were prepared, the Board of Directors took reasonable steps to ensure that any assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank had been written down to an amount which they might be expected to realise.

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

### **VALUATION METHODS**

At the date of this report, the Board of Directors is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank 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 Bank 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 Bank 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 Bank has become enforceable, or is likely to become enforceable within the year of 12 months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

### **CHANGE OF CIRCUMSTANCES**

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

### **ITEMS OF UNUSUAL NATURE**

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

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

# SATHAPANA Bank Plc.

## REPORT OF THE BOARD OF DIRECTORS (continued)

### THE BOARD OF DIRECTORS

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

Dr. Han Chang-Woo	Chairman (non-executive)
Mr. Han Yu	Non-executive director
Mr. Han Ken	Non-executive director
H.E. Shinohara Katsuhiko	Independent and non-executive director
H.E. Kim Vada	Independent and non-executive director
Mr. Hun Monivann	Independent and non-executive director
Mr. Norihiko Kato	Executive director (resigned on 31 December 2018)

### DIRECTORS' INTERESTS

No members of the Board of Directors hold a controlling interest in the equity of the Bank.

### DIRECTORS' BENEFITS

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

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

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for ascertaining that the financial statements gives a true and fair view of the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating 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 Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Bank'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 Bank or to cease operations, or has no realistic alternative; and
- (v) control and direct effectively the Bank 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.

# SATHAPANA Bank Plc.

REPORT OF THE BOARD OF DIRECTORS (continued)

## APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.

On behalf of the Board of Directors

Mr. Lim Aun  
Chief Executive Officer

Mr. Svoeuy Ponnakrath  
Chief Financial Officer

Phnom Penh, Kingdom of Cambodia

27 February 2019

## INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of SATHAPANA Bank Plc.**

### **Opinion**

We have audited the financial statements of SATHAPANA Bank Plc. ("the Bank"), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.

### **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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the sub-decree on the Code of Ethics for Professional Accountants and Auditors promulgated by the Royal Government of 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 Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 March 2018.

### **Information Other than the Financial Statements and Auditor's Report Thereon**

The other information obtained at the date of the auditor's report comprises the Report of the Board of Directors as set out in pages 1 to 5. Management is responsible for the other information.

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 of financial statements that give a true and fair view in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia, 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance is responsible for overseeing the Bank's financial reporting process.



### **Auditor's 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 auditor's 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank 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.



Maria Cristina M. Calimbas  
Partner

**Ernst & Young (Cambodia) Ltd.**  
Certified Public Accountants  
Registered Auditors

Phnom Penh, Kingdom of Cambodia

27 February 2019

# SATHAPANA Bank Plc.

## BALANCE SHEET as at 31 December 2018

	Notes	2018		2017	
		US\$	KHR'000 equivalent (Note 3)	US\$	KHR'000 equivalent (Note 3)
<b>ASSETS</b>					
Cash on hand	4	67,916,384	272,888,031	43,744,709	176,597,390
Balances with the National Bank of Cambodia	5	168,970,016	678,921,524	124,540,739	502,770,963
Balances with other banks	6	7,792,978	31,312,186	19,095,480	77,088,453
Loans to customers	7	1,007,139,509	4,046,686,547	794,125,991	3,205,886,626
Property and equipment	10	10,238,649	41,138,892	8,016,784	32,363,757
Intangible assets	11	1,463,686	5,881,090	943,246	3,807,884
Other investment	12	50,000	200,900	50,000	201,850
Deferred tax asset	17(i)	4,903,785	19,703,408	3,048,924	12,308,506
Goodwill	9	17,380,030	69,832,961	17,380,030	70,163,181
Other assets	8	18,771,988	75,425,848	16,848,396	68,016,975
<b>TOTAL ASSETS</b>		<b>1,304,627,025</b>	<b>5,241,991,387</b>	<b>1,027,794,299</b>	<b>4,149,205,585</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from customers	13	804,699,381	3,233,282,113	618,172,252	2,495,561,381
Borrowings	14	253,817,389	1,019,838,269	214,788,333	867,100,500
Subordinated debts	15	30,000,000	120,540,000	13,000,000	52,481,000
Provident fund	16	12,923,876	51,928,134	10,378,502	41,898,013
Income tax payable	17(ii)	5,705,331	22,924,020	4,444,141	17,940,997
Other liabilities	18	20,207,444	81,193,510	12,831,664	51,801,428
<b>Total liabilities</b>		<b>1,127,353,421</b>	<b>4,529,706,046</b>	<b>873,614,892</b>	<b>3,526,783,319</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	19	120,000,000	482,160,000	120,000,000	484,440,000
Retained earnings		57,273,604	230,125,341	34,179,407	137,982,266
<b>Total shareholders' equity</b>		<b>177,273,604</b>	<b>712,285,341</b>	<b>154,179,407</b>	<b>622,422,266</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,304,627,025</b>	<b>5,241,991,387</b>	<b>1,027,794,299</b>	<b>4,149,205,585</b>

The attached notes 1 to 29 form part of these financial statements.

# SATHAPANA Bank Plc.

## INCOME STATEMENT for the year ended 31 December 2018

	Notes	2018		2017	
		US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
<b>Operating income</b>					
Interest income	20	130,966,956	526,225,229	115,992,555	468,261,945
Interest expense	21	(51,616,010)	(207,393,128)	(49,463,241)	(199,683,104)
<b>Net interest income</b>		<b>79,350,946</b>	<b>318,832,101</b>	<b>66,529,314</b>	<b>268,578,841</b>
Net fees and commissions	22	7,444,028	29,910,105	5,370,725	21,681,617
Other income		1,486,694	5,973,536	660,511	2,666,483
<b>Total operating profit</b>		<b>88,281,668</b>	<b>354,715,742</b>	<b>72,560,550</b>	<b>292,926,941</b>
Provision for losses on balances with other banks, loans and advances and loan/ financing commitments and financial guarantees	6, 7, 18	(7,626,415)	(30,642,935)	(4,871,366)	(19,665,705)
Other operating expenses	23	(52,421,853)	(210,631,005)	(43,883,576)	(177,157,996)
<b>Profit before income tax</b>		<b>28,233,400</b>	<b>113,441,802</b>	<b>23,805,608</b>	<b>96,103,240</b>
Income tax expense	17	(5,139,203)	(20,649,318)	(5,219,569)	(21,071,400)
<b>Net profit for the year</b>		<b>23,094,197</b>	<b>92,792,484</b>	<b>18,586,039</b>	<b>75,031,840</b>

The attached notes 1 to 29 form part of these financial statements.

## SATHAPANA Bank Plc.

### STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2018

	<i>Share capital</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
As at 1 January 2018	120,000,000	-	34,179,407	154,179,407
Net profit for the year	-	-	23,094,197	23,094,197
<b>As at 31 December 20178</b>	<b>120,000,000</b>	<b>-</b>	<b>57,273,604</b>	<b>177,273,604</b>
<b><i>KHR'000 equivalent (Note 3)</i></b>	<b>482,160,000</b>	<b>-</b>	<b>230,125,341</b>	<b>712,285,341</b>
As at 1 January 2017	120,000,000	-	15,593,368	135,593,368
Net profit for the year	-	-	18,586,039	18,586,039
<b>As at 31 December 2017</b>	<b>120,000,000</b>	<b>-</b>	<b>34,179,407</b>	<b>154,179,407</b>
<b><i>KHR'000 equivalent (Note 3)</i></b>	<b>484,440,000</b>	<b>-</b>	<b>137,982,266</b>	<b>622,422,266</b>

*The attached notes 1 to 29 form part of these financial statements.*

# SATHAPANA Bank Plc.

## STATEMENT OF CASH FLOWS for the year ended 31 December 2018

	Notes	2018		2017	
		US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
<b>Net cash used in operating activities</b>	24	<b>(32,163,814)</b>	<b>(129,234,206)</b>	<b>(152,091,243)</b>	<b>(613,992,348)</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition of property and equipment	10	(5,214,074)	(20,950,149)	(3,647,943)	(14,726,746)
Acquisition of intangible assets	11	(624,028)	(2,507,345)	(262,001)	(1,057,698)
Proceeds from disposal of property and equipment		33,416	134,265	454	1,833
<b>Net cash used in investing activities</b>		<b>(5,804,686)</b>	<b>(23,323,229)</b>	<b>(3,909,490)</b>	<b>(15,782,611)</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from borrowings		153,213,539	615,612,000	104,500,000	421,866,500
Repayment of borrowings		(95,184,484)	(382,451,257)	(60,433,015)	(243,968,082)
Repayment of subordinated debts		(2,000,000)	(8,036,000)	(3,313,217)	(13,375,456)
<b>Net cash generated from financing activities</b>		<b>56,029,055</b>	<b>225,124,743</b>	<b>40,753,768</b>	<b>164,522,962</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>18,060,555</b>	<b>72,567,308</b>	<b>(115,246,965)</b>	<b>(465,251,997)</b>
Cash and cash equivalents as at 1 January		78,602,584	315,825,183	193,849,549	782,570,629
<b>Cash and cash equivalents as at 31 December</b>	4	<b>96,663,139</b>	<b>388,392,492</b>	<b>78,602,584</b>	<b>317,318,632</b>

The attached notes 1 to 29 form part of these financial statements.

# SATHAPANA Bank Plc.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018

### **1. BASIS OF PREPARATION**

#### **1.1 *Statement of compliance***

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

The financial statements were approved and authorised for issue by the Board of Directors on 27 February 2019.

#### **1.2 *Basis of measurement***

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

#### **1.3 *Functional and presentation currency***

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

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate ruling at the respective 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.

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

#### **1.4 *Use of estimates and judgments***

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Key accounting estimates and judgements applied in the preparation of the financial statements include estimates of recoverable amounts for loans to customers as stated in Note 2.7.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been adopted by the Bank in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of aggregation**

The Bank's financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

### **2.2 Financial instruments**

The Bank'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.

### **2.3 Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances with NBC, demand deposits with other financial institutions, 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.

### **2.4 Balances with the National Bank of Cambodia**

Balances with the National Bank of Cambodia including statutory deposits are stated at cost.

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by the NBC.

### **2.5 Balances with other banks**

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

### **2.6 Loans to customers**

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

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continue)

### 2.7 Allowance for losses on balances with other banks, loans and advances and loan/ financing commitments and financial guarantees

In compliance with NBC guidelines, all facilities are classified according to the repayment capacity of the counterparty. This repayment capacity is assessed through past payment experience, financial condition of the borrower, business prospective and cash flow projections, borrowers' ability and willingness to repay, financial environment, and quality of documentation.

Further, 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 NBC Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions to measure the impairment and provide sufficient allowance for all facilities based on the new credit risk grading and provision as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Allowance</i>
<i>Short-term loans (less than or equal one year):</i>		
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%
<i>Long-term loans (more than one year):</i>		
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%

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 all facilities 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 in relation to contract terms.

An uncollectible facility or portion of a facility 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 facilities previously written off and reversal of previous allowances are recognized as other income in the income statement.



# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 *Interest in suspense*

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

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

### 2.9 *Other assets*

Other assets are stated at cost less allowance for losses.

### 2.10 *Property and equipment, intangible assets, and goodwill*

- (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 life, the components are accounted for as separate items of property and equipment.
- (ii) 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 Bank. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.
- (iii) 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 amounts of the assets and are recognised in the income statement on the date of retirement or disposal.
- (iv) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.
- (v) Intangible assets comprising computer software and core banking licence are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software is capitalised on the basis of the costs incurred to acquire the specific software and bring it into use.
- (vi) Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on impairment of non-financial assets).

# SATHAPANA Bank Plc.

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.11 Depreciation and amortisation

In 2018, the Bank changed its depreciation method for property and equipment from declining balance method to straight-line method. The change in the depreciation method was made to properly reflect the economic pattern of consumption of the property and equipment and intangible assets, as follows:

	<u>2018</u>	<u>2017</u>
	<i>Useful life based on straight-line method</i>	<i>Rate based on declining balance method</i>
Intangible assets	10	10%
Computer equipment and peripheral	3	50%
Computer and printer	5	50%
Computer server	7	50%
ATM	7	50%
Office equipment	4	25%
Office furniture and fixtures	6	25%
Cars	10	25%
Motorcycle	5	25%
Leasehold improvements	5	20%
Others	4	20%

The net effect of such change is not significant to the Bank.

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

#### 2.12 Impairment of non-financial assets

The carrying amounts of the non-financial assets with definite useful life 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. For intangible assets with indefinite useful life, annual impairment testing is conducted.

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.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 *Deposits from customers and other financial institutions*

Deposits from customers and other financial institutions are stated at cost.

### 2.14 *Borrowings*

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

Borrowing costs (interest expense) shall be recognised as an expense in the year in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.

### 2.15 *Subordinated debts*

Subordinated debts are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. The subordinated debts which are approved by the NBC are included as a Tier 2 line item in the calculation of the Bank's net worth in accordance with the guidelines of the NBC.

Subordinated debts are stated at cost.

### 2.16 *Provision*

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### 2.17 *Employee benefits*

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

In 2018, the Company accrued for the mandatory seniority payment for 2018 and prior years following the requirement of the Ministry of Labour and Vocational Training's Prakas 443 dated 21 September 2018 on implementation of payment of seniority indemnity. The said Prakas requires retroactive seniority payment equal to fifteen days per year of employees' wages which shall be paid to them every year for a maximum of 10 years (not exceed than 6 months of the average net wages of each year), equal to and commencing as follows:

- Seven and half days shall be made from June next year
- Seven and half days shall be made from December next year

Accordingly, the Company accrued US\$2,412,054 of seniority payment as part of personnel and other related costs presented under "Other operating expenses" in the income statement.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 *Provident fund*

The Bank provides its employees with benefits under the provident fund policy. Employees who complete the probationary year have an option to participate in the provident fund scheme. The fund is sourced from the following:

- Employees may contribute up to 5.0% of their monthly salary, and the Bank contributes twice that amount. This contribution is charged to the income statement.
- The Bank contributes interest on the cumulative balance of the provident fund computed at 6.5% per annum. This contribution is charged to the income statement.

The provident fund will be paid to employees (who have contributed to the fund) upon their retirement, resignation or termination of employment.

Upon retirement or resignation, the employee's contribution and related interest are paid in full while the Bank's contribution and related interest are paid in accordance with the following conditions:

<i>Years of service</i>	<i>Bank's % of contribution</i>
Equal to or less than 1 year	-
Worked for at least 1 year	20%
Worked for at least 2 years	40%
Worked for at least 3 years	60%
Worked for at least 4 years	80%
Worked for at least 5 years	100%

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

Provident fund is stated at cost.

### 2.19 *Income recognition*

Interest income on performing loans to customers is recognised on a daily accrual basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realised on a cash basis.

Income from the various activities of the Bank is accrued using the following bases:

- Loan arrangement fees and commissions on services and facilities extended to customers are recognised on the occurrence of such transactions;
- Commitment fees and guarantee fees on services and facilities extended to customers are recognised on the occurrence of such transactions; and
- Service charges and processing fees are recognised when the service is provided.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 *Interest expense*

Interest expense on deposits is recognised on an accruals basis.

### 2.21 *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.

### 2.22 *Income tax*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholders' equity, in which case it is also disclosed as a component of shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.

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 amounts of assets and liabilities, using tax rates enacted at the balance sheet date.

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

### 2.23 *Related parties*

Parties are considered to be related to the Bank 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 Bank 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 Bank or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Bank.

## SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

### 3. TRANSLATION OF UNITED STATES DOLLAR INTO KHMER RIEL

The financial statements are stated in US\$. The translation of US\$ amounts into KHR is included solely for compliance with the guidelines of the NBC relating to the preparation and presentation of financial statements and has been made using the prescribed official exchange rate of US\$1 to KHR4,018 published by the NBC as at 31 December 2018 (2017: KHR4,037). This translation should not be construed as a representation 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.

### 4. CASH ON HAND

	2018		2017	
	US\$	KHR'000 equivalent (Note 3)	US\$	KHR'000 equivalent (Note 3)
Branches	67,916,377	272,888,003	43,744,709	176,597,390
Head office	7	28	-	-
	<b>67,916,384</b>	<b>272,888,031</b>	<b>43,744,709</b>	<b>176,597,390</b>

Cash on hand by currency comprises the following:

	2018		2017	
	US\$	KHR'000 equivalent (Note 3)	US\$	KHR'000 equivalent (Note 3)
US\$	46,519,200	186,914,146	29,261,852	118,130,096
KHR	20,080,024	80,681,536	13,650,000	55,105,050
THB	1,250,892	5,026,084	757,241	3,056,982
EUR	49,105	197,304	8,124	32,797
GBP	7,395	29,713	5,782	23,342
AUD	7,048	28,319	5,919	23,895
JPY	1,785	7,172	55,300	223,246
CNY	825	3,315	491	1,982
SGD	110	442	-	-
	<b>67,916,384</b>	<b>272,888,031</b>	<b>43,744,709</b>	<b>176,597,390</b>

# SATHAPANA Bank Plc.

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2018

### 4. CASH ON HAND (continued)

For the purpose of the statement of cash flows, cash and cash equivalents comprise:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Cash on hand	67,916,384	272,888,031	43,744,709	176,597,390
Balances with the NBC	20,875,343	83,877,128	15,762,395	63,632,789
Balances with other banks	7,871,412	31,627,333	19,095,480	77,088,453
	<b>96,663,139</b>	<b>388,392,492</b>	<b>78,602,584</b>	<b>317,318,632</b>

### 5. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Current accounts	20,875,342	83,877,124	15,762,393	63,632,781
Short-term deposits	17,010,000	68,346,180	3,839,485	15,500,001
Capital guarantee	12,000,000	48,216,000	12,000,000	48,444,000
Reserve requirement	119,084,674	478,482,220	92,938,861	375,194,181
	<b>168,970,016</b>	<b>678,921,524</b>	<b>124,540,739</b>	<b>502,770,963</b>

Short-term deposits maturing within 6 months and 12 months earn annual interest at rates ranging from 0.90% to 0.95% and from 1.11% to 1.25 (2017: 1.68% per annum), respectively.

#### *Capital guarantee deposits*

Under NBC Prakas No B7-01-136 dated 15 October 2001, banks are required to maintain a statutory deposit of 10% of registered capital with the NBC. This deposit is not available for use in the Bank's day-to-day operations but is refundable when the Bank voluntarily ceases to operate the business in Cambodia.

The capital guarantee deposit earns annual interest of 0.62% (2017: 0.36%).

#### *Reserve requirement*

Under NBC Prakas No. B7-012-140 dated 13 September 2012, banks are required to maintain certain cash reserves with the NBC in the form of compulsory deposits, computed at 8.0% and 12.5% of customer deposits in KHR and in foreign currencies, respectively. The 4.5% reserve requirement in currencies other than KHR earns interest at 1/2 LIBOR (one month) while the remaining 8% and the reserve requirement in KHR do not earn interest.

The NBC Prakas No. B7-018-282 dated 29 August 2018 replaced a previous NBC Prakas providing interest at 1/2 LIBOR (one month) on reserve requirement.

# SATHAPANA Bank Plc.

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2018

### 6. BALANCES WITH OTHER BANKS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Savings accounts	57,259	230,066	199,131	803,892
Current accounts	7,814,153	31,397,267	8,896,349	35,914,561
Short-term deposits	-	-	10,000,000	40,370,000
Gross balances with other banks	7,871,412	31,627,333	19,095,480	77,088,453
Allowance for losses on balances with other banks	(78,434)	(315,147)	-	-
	<b>7,792,978</b>	<b>31,312,186</b>	<b>19,095,480</b>	<b>77,088,453</b>

Savings accounts earn annual interest at 1.5% (2017: 0.5% to 1.50%) whereas current accounts do not earn interest. In 2017, short-term deposits earned annual interest at rates ranging from 3.0% to 5.0%.

### 7. LOANS TO CUSTOMERS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Individual loans	1,025,992,973	4,122,439,766	808,940,050	3,265,690,982
Group loans	16,097	64,678	18,743	75,665
Gross loans to customers	<b>1,026,009,070</b>	<b>4,122,504,444</b>	<b>808,958,793</b>	<b>3,265,766,647</b>
Allowance for losses on loans to customers				
Specific	(8,788,273)	(35,311,282)	(6,910,403)	(27,897,296)
General	(10,081,288)	(40,506,615)	(7,922,399)	(31,982,725)
	<b>(18,869,561)</b>	<b>(75,817,897)</b>	<b>(14,832,802)</b>	<b>(59,880,021)</b>
Loans to customers - net	<b>1,007,139,509</b>	<b>4,046,686,547</b>	<b>794,125,991</b>	<b>3,205,886,626</b>

Movements of allowance for losses on loans to customers were as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
As at 1 January	14,832,802	59,598,198	11,234,730	45,354,605
Allowance for the year	7,149,332	28,726,016	4,871,366	19,665,705
Written-off	(3,117,475)	(12,526,015)	(1,273,294)	(5,140,289)
Foreign exchange difference	4,902	19,698	-	-
As at 31 December	<b>18,869,561</b>	<b>75,817,897</b>	<b>14,832,802</b>	<b>59,880,021</b>



# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 7. LOANS TO CUSTOMERS (continued)

Further analyses of loans to customers are set out below:

### (a) By type of loans

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Commercial loans				
Short-term loans	11,954,919	48,034,865	8,804,917	35,545,450
Overdraft	3,542,553	14,233,979	1,789,228	7,223,113
Long-term loans	624,694,240	2,510,021,454	534,481,308	2,157,701,040
Consumer loans				
Personal loans	345,386,591	1,387,763,321	233,770,384	943,731,040
Housing loans	17,976,177	72,228,281	9,596,119	38,739,532
Staff loans	22,454,590	90,222,543	20,516,837	82,826,472
<b>Total gross loans</b>	<b>1,026,009,070</b>	<b>4,122,504,443</b>	<b>808,958,793</b>	<b>3,265,766,647</b>

### (b) By grading of loans

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Short-term loans				
Standard loans				
Secured	13,511,454	54,289,022	9,360,093	37,786,695
Unsecured	3,920,050	15,750,761	3,334,257	13,460,396
Special mention				
Secured	2,031	8,161	161	650
Substandard loans				
Secured	-	-	989	3,993
Doubtful loans				
Secured	332	1,334	98	396
Loss loans				
Secured	20,136	80,905	34,194	138,041
<b>Sub-total</b>	<b>17,454,003</b>	<b>70,130,183</b>	<b>12,729,792</b>	<b>51,390,171</b>

# SATHAPANA Bank Plc.

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2018

### 7. LOANS TO CUSTOMERS (continued)

Further analyses of loans to customers are set out below: (continued)

#### (b) Grading of loans to customers (continued)

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Long term loans				
Standard loans				
Secured	965,763,220	3,880,436,618	761,078,903	3,072,475,531
Unsecured	24,934,051	100,185,017	18,466,719	74,550,145
Special mention				
Secured	1,273,112	5,115,364	5,926,675	23,925,987
Unsecured	2,096	8,422	-	-
Substandard loans				
Secured	5,643,769	22,676,664	1,944,385	7,849,482
Doubtful loans				
Secured	6,675,734	26,823,099	5,006,079	20,209,540
Unsecured	103	414	-	-
Loss loans				
Secured	4,262,982	17,128,662	3,806,240	15,365,791
<b>Sub-total</b>	<b>1,008,555,067</b>	<b>4,052,374,260</b>	<b>796,229,001</b>	<b>3,214,376,476</b>
<b>Grand total</b>	<b>1,026,009,070</b>	<b>4,122,504,443</b>	<b>808,958,793</b>	<b>3,265,766,647</b>

(c) For an analysis of loan portfolio by maturity, refer to the table under Note 27(iv) on Liquidity risk.

#### (d) By residency status

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Residents	1,026,009,070	4,122,504,443	808,958,793	3,265,766,647

#### (e) By relationship

Staff loans	652,377	2,621,252	702,362	2,835,435
Non-related parties	1,025,356,693	4,119,883,191	808,256,431	3,262,931,212
<b>Sub-total</b>	<b>1,026,009,070</b>	<b>4,122,504,443</b>	<b>808,958,793</b>	<b>3,265,766,647</b>

#### (f) By currency

US\$	939,301,141	3,774,111,981	753,605,245	3,042,304,374
KHR	78,942,127	317,189,468	48,576,279	196,102,438
Thai Baht ("THB")	7,765,802	31,202,994	6,777,269	27,359,835
<b>Sub-total</b>	<b>1,026,009,070</b>	<b>4,122,504,443</b>	<b>808,958,793</b>	<b>3,265,766,647</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 7. LOANS TO CUSTOMERS (continued)

Further analyses of loans to customers are set out below: (continued)

(g) By economic sector

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Household	319,052,775	1,281,954,051	205,943,616	831,394,378
Trade and commerce	298,037,921	1,197,516,367	241,772,177	976,034,279
Agriculture	185,593,418	745,714,355	166,483,930	672,095,625
Services	55,352,624	222,406,842	45,299,738	182,875,042
Construction	39,471,096	158,594,863	49,332,396	199,154,883
Others	128,501,236	516,317,965	100,126,936	404,212,440
	<b>1,026,009,070</b>	<b>4,122,504,443</b>	<b>808,958,793</b>	<b>3,265,766,647</b>

Annual interest rates are as follows:

	2018	2017
External customers	8.0% to 36.0%	8.0% to 36%
Staff loans	6.50%	6.50%

## 8. OTHER ASSETS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Prepayments	10,329,304	41,503,143	9,431,818	38,076,249
Interest receivable	8,442,684	33,922,705	7,416,578	29,940,726
	<b>18,771,988</b>	<b>75,425,848</b>	<b>16,848,396</b>	<b>68,016,975</b>

## 9. GOODWILL

The goodwill originated from the legal merger between MJB and SATHAPANA Limited on 1 April 2016 resulting from MJB's initial acquisition of shares of SATHAPANA Limited on 17 December 2012.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 10. PROPERTY AND EQUIPMENT

	<i>Office furniture and equipment</i>	<i>Computers</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Work in progress</i>	<i>Total</i>	
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>KHR'000</i> <i>(Note 3)</i>
<b>2018</b>							
<b>Cost</b>							
As at 1 January 2018	4,884,048	6,958,823	7,563,150	1,485,201	727,136	21,618,358	86,862,562
Additions	726,969	3,151,657	171,000	145,170	1,019,278	5,214,074	20,950,149
Transfers	15,593	611,774	-	-	(670,112)	(42,745)	(171,749)
Disposals	(29,800)	-	(56,100)	(12,760)	-	(98,660)	(396,416)
Write-offs	(153,152)	(211,326)	-	(20,582)	-	(385,060)	(1,547,171)
<b>As at 31 December 2018</b>	<b>5,443,658</b>	<b>10,510,928</b>	<b>7,678,050</b>	<b>1,597,029</b>	<b>1,076,302</b>	<b>26,305,967</b>	<b>105,697,375</b>
<b>Accumulated depreciation</b>							
As at 1 January 2018	3,007,399	5,469,705	4,510,135	613,405	-	13,600,644	54,647,388
Depreciation for the year	1,073,098	738,163	767,543	319,270	-	2,898,074	11,644,461
Disposals	(16,879)	-	(42,390)	(10,038)	-	(69,307)	(278,476)
Write-offs	(136,285)	(206,352)	-	(19,457)	-	(362,093)	(1,454,890)
<b>As at 31 December 2018</b>	<b>3,927,333</b>	<b>6,001,516</b>	<b>5,235,288</b>	<b>903,180</b>	<b>-</b>	<b>16,067,318</b>	<b>64,558,483</b>
<b>Net carrying amount</b>							
<b>As at 31 December 2018</b>	<b>1,516,325</b>	<b>4,509,412</b>	<b>2,442,762</b>	<b>693,849</b>	<b>1,076,302</b>	<b>10,238,649</b>	<b>41,138,892</b>

SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

10. PROPERTY AND EQUIPMENT (continued)

	<i>Office furniture and equipment</i>	<i>Computers</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Work in progress</i>	<i>Total</i>	
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>KHR'000</i>
							<i>(Note 3)</i>
<b>2017</b>							
<b>Cost</b>							
As at 1 January 2017	4,073,149	6,653,871	6,646,044	1,157,108	194,062	18,724,234	75,589,733
Additions	668,780	897,298	967,050	387,679	727,136	3,647,943	14,726,746
Transfers	23,144	35,988	-	125,000	(194,062)	(9,930)	(40,087)
Disposals	(1,250)	-	-	-	-	(1,250)	(5,046)
Write-offs	(240,918)	(292,139)	(49,944)	(159,811)	-	(742,812)	(2,998,732)
<b>As at 31 December 2017</b>	<b>4,522,905</b>	<b>7,295,018</b>	<b>7,563,150</b>	<b>1,509,976</b>	<b>727,136</b>	<b>21,618,185</b>	<b>87,272,614</b>
<b>Accumulated depreciation</b>							
As at 1 January 2017	2,360,713	4,882,369	3,668,106	604,308	-	11,515,496	46,488,057
Depreciation for the year	514,707	1,180,954	888,692	180,747	-	2,765,100	11,162,709
Disposals	(1,066)	-	-	-	-	(1,066)	(4,303)
Write-offs	(189,420)	(283,828)	(49,944)	(154,937)	-	(678,129)	(2,737,606)
<b>As at 31 December 2017</b>	<b>2,684,934</b>	<b>5,779,495</b>	<b>4,506,854</b>	<b>630,118</b>	<b>-</b>	<b>13,601,401</b>	<b>54,908,857</b>
<b>Net carrying amount</b>							
<b>As at 31 December 2017</b>	<b>1,837,971</b>	<b>1,515,523</b>	<b>3,056,296</b>	<b>879,858</b>	<b>727,136</b>	<b>8,016,784</b>	<b>32,363,757</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 11. SOFTWARE INTANGIBLE ASSETS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
<b>Cost</b>				
As at 1 January	4,946,405	19,874,655	4,685,569	18,915,642
Additions	624,028	2,507,345	262,001	1,057,698
Transfers	42,746	171,753	9,930	40,087
Write-offs	(199)	(799)	(10,922)	(44,092)
<b>As at 31 December</b>	<b>5,612,980</b>	<b>22,552,954</b>	<b>4,946,578</b>	<b>19,969,335</b>
<b>Accumulated amortisation</b>				
As at 1 January	4,004,088	16,088,426	3,218,708	12,993,924
Amortisation for the year	145,385	584,157	795,546	3,211,619
Write-offs	(179)	(720)	(10,922)	(44,092)
<b>As at 31 December</b>	<b>4,149,294</b>	<b>16,671,864</b>	<b>4,003,332</b>	<b>16,161,451</b>
<b>Net carrying amount</b>				
<b>As at 31 December</b>	<b>1,463,686</b>	<b>5,881,090</b>	<b>943,246</b>	<b>3,807,884</b>

## 12. OTHER INVESTMENT

This comprises equity interest in Cambodian Microfinance Association amounting to US\$25,000 and equity interest in Association of Banks in Cambodia amounting to US\$25,000. Fair value could not be reliably determined due to the unpredictable nature of future cash flow and the lack of suitable methods of arriving at a reliable fair value. This investment is carried at original cost.

## 13. DEPOSITS FROM CUSTOMERS AND OTHER FINANCIAL INSTITUTIONS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Savings accounts	137,000,496	550,467,993	119,404,226	482,034,860
Current accounts	28,780,837	115,641,403	16,829,167	67,939,347
Short-term deposits	638,918,048	2,567,172,717	481,938,859	1,945,587,174
	<b>804,699,381</b>	<b>3,233,282,113</b>	<b>618,172,252</b>	<b>2,495,561,381</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 13. DEPOSITS FROM CUSTOMERS AND OTHER FINANCIAL INSTITUTIONS (continued)

Further analyses of deposits from customers and other financial institutions are set out below:

### (a) By type of customers

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Current accounts				
Individuals	2,183,804	8,774,524	2,902,268	11,716,456
Corporate	16,865,116	67,764,036	7,262,176	29,317,405
Other financial institutions	9,731,917	39,102,843	6,664,722	26,905,483
Savings deposits				
Individuals	92,005,780	369,679,224	74,357,580	300,181,550
Corporate	36,574,150	146,954,935	44,899,350	181,258,676
Other financial institutions	8,420,566	33,833,834	147,297	594,638
Term deposits				
Individuals	539,075,804	2,166,006,580	422,055,294	1,703,837,222
Corporate	77,558,820	311,631,339	35,845,480	144,708,203
Other financial institutions	22,283,424	89,534,798	24,038,085	97,041,748
	<b>804,699,381</b>	<b>3,233,282,113</b>	<b>618,172,252</b>	<b>2,495,561,381</b>

### (b) By residency status

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Residents	729,527,349	2,931,240,888	540,913,759	2,183,668,845
Non-residents	75,172,032	302,041,225	77,258,493	311,892,536
	<b>804,699,381</b>	<b>3,233,282,113</b>	<b>618,172,252</b>	<b>2,495,561,381</b>

### (c) By currency

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
US\$	673,903,862	2,707,745,718	513,384,706	2,072,534,058
KHR	98,551,792	395,981,100	72,459,416	292,518,662
THB	2,823,745	11,345,807	3,696,288	14,921,915
Japanese Yen	29,419,512	118,207,599	28,631,351	115,584,764
Others	470	1,889	491	1,982
	<b>804,699,381</b>	<b>3,233,282,113</b>	<b>618,172,252</b>	<b>2,495,561,381</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 13. DEPOSITS FROM CUSTOMERS AND OTHER FINANCIAL INSTITUTIONS (continued)

Further analyses of deposits from customers and other financial institutions are set out below (continued):

(d) By relationship

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Related	387,213	1,555,822	446,221	1,801,394
Non-related	804,312,168	3,231,726,291	617,726,031	2,493,759,987
	<b>804,699,381</b>	<b>3,233,282,113</b>	<b>618,172,252</b>	<b>2,495,561,381</b>

(e) By maturity

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Within 1 month	184,023,331	739,405,745	149,854,939	604,964,389
Between 1 to 3 months	14,912,953	59,920,245	25,063,012	101,179,379
More than 3 months	605,763,097	2,433,956,123	443,254,301	1,789,417,613
	<b>804,699,381</b>	<b>3,233,282,113</b>	<b>618,172,252</b>	<b>2,495,561,381</b>

Annual interest rates are as follows:

	2018	2017
Banks and MFIs		
Term deposits	1.25% - 3.25%	1.00% to 3.50%
Individuals		
Savings deposits	1.00% - 1.50%	1.50% to 2.00%
Term deposits	3.00% - 8.00%	3.50% to 8.00%
Corporate		
Savings deposits	1.00% - 1.50%	1.00%
Term deposits	3.00% - 8.00%	3.00% to 8.00%



# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 14. BORROWINGS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
<i>Related party</i>				
Maruhan Investment Asia ("MIA)	14,990,000	60,229,820	18,330,000	73,998,210
<i>Non-related parties</i>				
Nederlandse Financierings – Maatschappij voor Ontwik- kelingslanden N.V ("FMO")	11,250,000	45,202,500	22,500,000	90,832,500
Symbiotics	4,500,000	18,081,000	8,500,000	34,314,500
DEG	5,000,000	20,090,000	7,500,000	30,277,500
Micro-Finance Enhancement ResponsAbility SICAV	5,500,000	22,099,000	13,500,000	54,499,500
ICBC	1,500,000	6,027,000	3,000,000	12,111,000
Norfund	37,000,000	148,666,000	37,000,000	149,369,000
Triodos – Doen	10,000,000	40,180,000	10,000,000	40,370,000
Cathay United Bank (Cambodia Corporation Limited	-	-	5,250,000	21,194,250
First Commercial Bank	625,000	2,511,250	875,000	3,532,375
DWM Funds S.C.A	11,666,667	46,876,668	23,333,333	94,196,665
MIZUHO Bank Ltd	15,000,000	60,270,000	15,000,000	60,555,000
Aozora Bank Ltd	95,835,000	385,065,030	50,000,000	201,850,000
NBC (LPCO)	30,000,000	120,540,000	-	-
	10,950,722	44,000,001	-	-
	<b>253,817,389</b>	<b>1,019,838,269</b>	<b>214,788,333</b>	<b>867,100,500</b>

The borrowings are unsecured.

Further analyses of borrowings are set out below:

### (a) By currency

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
US\$	242,866,667	975,838,268	214,788,333	867,100,500
KHR	10,950,722	44,000,001	-	-
	<b>253,817,389</b>	<b>1,019,838,269</b>	<b>214,788,333</b>	<b>867,100,500</b>

## SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

### 14. BORROWINGS (continued)

(b) By maturity

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Within one month	3,611,561	14,511,252	-	-
Between 1 to 3 months	8,000,000	32,144,000	3,000,000	12,111,000
Between 3 to 12 months	51,880,828	208,457,167	24,250,000	97,897,250
More than 1 up to 5 years	190,325,000	764,725,850	187,538,333	757,092,250
	<b>253,817,389</b>	<b>1,019,838,269</b>	<b>214,788,333</b>	<b>867,100,500</b>

Annual interest rates are as follows:

	2018	2017
US\$	2.6% to 10.65%	3.44% to 10.65%
KHR	2.86% to 3.06%	-

### 15. SUBORDINATED DEBTS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
DEG - Deutsche Investitions Maruhan Investment Asia Pte. Ltd.	6,000,000	24,108,000	8,000,000	32,296,000
Maruhan Corporation	5,000,000	20,090,000	5,000,000	20,185,000
BlueOrchard Microfinance Ltd.	10,000,000	40,180,000	-	-
	9,000,000	36,162,000	-	-
	<b>30,000,000</b>	<b>120,540,000</b>	<b>13,000,000</b>	<b>52,481,000</b>

#### DEG

On 31 December 2015, the NBC approved the Bank's subordinated debt from DEG amounting to US\$10,000,000. The Bank repaid the principal amount of US\$2,000,000 on 15 December 2017. This subordinated debt has a seven-year term maturing on 15 December 2021 and bears fixed interest at 10.65% per annum.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 15. SUBORDINATED DEBTS (continued)

### Maruhan Investment Asia Pte. Ltd.

On 10 October 2013, the NBC approved the Bank's subordinated debt from Maruhan Investment Asia ("MIA") amounting to US\$5,000,000. The Bank has drawn down the amount of US\$5,000,000 on 12 August 2013. This subordinated debt has a seven-year term maturing on 12 August 2020 and bears gross interest at 10.4651% per annum.

### Maruhan Corporation

On 26 December 2018, the NBC approved the Bank's subordinated debt from Maruhan Corporation ("MC") amounting to US\$10,000,000. The Bank has drawn down the amount of US\$10,000,000 on 5 November 2018. This subordinated debt has a seven-year term maturing on 5 November 2025 and bears gross interest at 10.4651% per annum.

### BlueOrchard Microfinance Ltd

On 6 August 2018, the NBC approved the Bank's subordinated debt from BlueOrchard Microfinance Ltd amounting to US\$9,000,000. The Bank has drawn down the amount of US\$9,000,000 on 23 July 2018. This subordinated debt has a seven-year term maturing on 23 July 2025 and bears gross interest rate at 10.4651% per annum.

## 16. PROVIDENT FUND

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
As at 1 January	10,378,502	41,700,821	7,645,507	30,864,912
Additions during the year				
Employer contribution	2,167,017	8,707,074	1,905,098	7,690,881
Employee contribution	1,192,322	4,790,750	1,005,252	4,058,203
Interest	640,313	2,572,778	501,524	2,024,652
Payments during the year	(1,454,278)	(5,843,289)	(678,879)	(2,740,635)
As at 31 December	<b>12,923,876</b>	<b>51,928,134</b>	<b>10,378,502</b>	<b>41,898,013</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 17. INCOME TAX

### (i) Deferred tax assets

Deferred tax assets are attributable to the following:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Employee benefit contribution	2,238,099	8,992,682	1,417,985	5,724,405
Allowance for losses on loans to customers (*)	2,023,921	8,132,115	1,620,041	6,540,106
Property and equipment	476,824	1,915,879	(71,646)	(289,235)
Allowance for off-balance sheet commitments and cash at other banks	95,417	383,386	-	-
Unrealised loss on foreign exchange	66,402	266,802	74,368	300,223
Unearned income	3,122	12,544	8,176	33,007
	<b>4,903,785</b>	<b>19,703,408</b>	<b>3,048,924</b>	<b>12,308,506</b>

(\*) This comprises deferred tax assets arising from the general and specific allowance for doubtful loans to customers classified as special mention but not deductible for purposes of computing the taxable income under Prakas No.1535 issued by the Ministry of Economy and Finance ("MEF") on 23 December 2016.

Movements of deferred tax assets during the year are as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
As at 1 January	3,048,924	12,250,577	2,697,590	10,890,171
Additions during the year	1,854,861	7,452,831	351,334	1,418,335
As at 31 December	<b>4,903,785</b>	<b>19,703,408</b>	<b>3,048,924</b>	<b>12,308,506</b>

### (ii) Income tax payable

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
As at 1 January	4,444,141	17,856,559	2,783,651	11,237,599
Income tax expense	6,994,065	28,102,153	5,570,903	22,489,735
Income tax paid	(5,732,875)	(23,034,692)	(3,910,413)	(15,786,337)
As at 31 December	<b>5,705,331</b>	<b>22,924,020</b>	<b>4,444,141</b>	<b>17,940,997</b>

## SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

### 17. INCOME TAX (continued)

#### (iii) Income tax expense

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Current income tax	6,994,065	28,102,153	5,570,903	22,489,735
Deferred tax	(1,854,862)	(7,452,835)	(351,334)	(1,418,335)
	<b>5,139,203</b>	<b>20,649,318</b>	<b>5,219,569</b>	<b>21,071,400</b>

In accordance with the Cambodian Law on Taxation, the Bank has an obligation to pay corporate income tax at 20% of taxable profits.

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:

		2018		2017	
		US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Profit before income tax		<u>28,233,400</u>	<u>113,441,801</u>	<u>23,805,608</u>	<u>96,103,240</u>
Income tax expense at applicable tax rate of 20%	20%	5,646,680	22,688,360	4,761,122	19,220,648
Non-deductible expenses	(1.8%)	(507,477)	(2,039,042)	458,447	1,850,752
Effective income tax expense	18.2%	<b>5,139,203</b>	<b>20,649,318</b>	<b>5,219,569</b>	<b>21,071,400</b>

The calculation of income tax expense is subject to the review and assessment of the tax authorities.

## SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

### 18. OTHER LIABILITIES

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Interest payable	12,325,137	49,522,400	9,159,880	36,978,436
Personnel and other related costs	5,590,991	22,464,602	1,879,122	7,586,016
Other taxes payable	553,322	2,223,248	235,411	950,354
Unearned income	536,385	2,155,195	44,790	180,817
Provision on loan/financing commitments and financial guarantees	398,649	1,601,772	-	-
Accounts payable	393,323	1,580,372	264,280	1,066,898
Other payables	409,637	1,645,921	1,248,181	5,038,907
	<b>20,207,444</b>	<b>81,193,510</b>	<b>12,831,664</b>	<b>51,801,428</b>

Movements of provision on loan/financing commitments and financial guarantees are as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Balance at beginning of year	-	-	-	-
Provision during the year	398,649	1,601,773	-	-
Balance at end of year	<b>398,649</b>	<b>1,601,773</b>	-	-

Total provision for losses on balances with other banks, loans and advances and loan/ financing commitments and financial guarantees in 2018 amounted to US\$7,626,415 (2017: US\$4,871,366).

### 19. SHARE CAPITAL

Details of shareholding are as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
MARUHAN Investment Asia Pte. Ltd.	<b>120,000,000</b>	<b>482,160,000</b>	<b>120,000,000</b>	<b>484,440,000</b>

The total authorised number of shares is 1,200,000 (2017: 1,200,000) shares with par value of US\$100 per share. All shares are issued and fully paid.

## SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

### 20. INTEREST INCOME

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Loans to customers	130,480,716	524,271,517	114,930,660	463,975,074
Balances with the NBC	467,916	1,880,086	401,237	1,619,795
Balances with other banks	18,324	73,626	660,658	2,667,076
	<b>130,966,956</b>	<b>526,225,229</b>	<b>115,992,555</b>	<b>468,261,945</b>

### 21. INTEREST EXPENSE

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Deposits from customers and other financial institutions	33,817,986	135,880,668	34,707,619	140,114,658
Borrowings	15,096,881	60,659,268	12,545,071	50,644,452
Subordinated debts	1,975,016	7,935,614	1,665,268	6,722,687
Provident fund	726,127	2,917,578	545,283	2,201,307
	<b>51,616,010</b>	<b>207,393,128</b>	<b>49,463,241</b>	<b>199,683,104</b>

### 22. NET FEES AND COMMISSIONS

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Fees and commissions on loans	7,970,525	32,025,569	6,652,013	26,854,176
Remittance fees	113,990	458,012	64,452	260,193
Other fees and commissions	1,467,369	5,895,889	85,163	343,803
	9,551,884	38,379,470	6,801,628	27,458,172
Fees and commissions on borrowings	(2,107,856)	(8,469,365)	(1,430,903)	(5,776,555)
	<b>7,444,028</b>	<b>29,910,105</b>	<b>5,370,725</b>	<b>21,681,617</b>

## SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

### 23. OTHER OPERATING EXPENSES

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Personnel and other related costs	33,406,052	134,225,517	27,205,183	109,827,324
Office rental	4,355,549	17,500,596	3,853,234	14,374,328
Depreciation and amortisation	3,043,458	12,228,614	3,560,646	15,555,506
Stationeries and printing	1,301,330	5,228,744	1,333,329	5,382,649
Repairs and maintenance	1,055,552	4,241,208	913,412	3,687,444
Utilities	1,003,892	4,033,638	953,394	3,848,852
License fees	943,519	3,791,059	964,753	3,994,707
Communication	740,253	2,974,337	693,786	3,687,444
Motor vehicle expenses	686,658	2,758,992	619,555	2,501,144
Security	666,086	2,676,334	442,360	1,785,807
Bank charges	617,916	2,482,786	431,313	1,741,211
Professional fees	585,588	2,352,893	245,179	989,788
Marketing and advertising	568,366	2,283,695	1,104,050	4,457,050
Penalties	541,907	2,177,382	315,186	1,272,406
Staff training and conference	373,213	1,499,570	525,614	2,121,903
Transportation	350,455	1,408,128	340,340	1,373,953
Charitable donation expenses	32,347	129,970	75,950	306,609
Other expenses	2,149,712	8,637,542	306,292	1,236,501
	<b>52,421,853</b>	<b>210,631,005</b>	<b>43,883,576</b>	<b>177,157,996</b>



# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 24. NET CASH USED IN OPERATING ACTIVITIES

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
<b>OPERATING ACTIVITIES</b>				
Profit before income tax	28,233,400	113,441,801	23,805,608	96,103,240
<i>Adjustments for:</i>				
Depreciation and amortisation	3,043,458	12,228,614	3,560,646	14,374,328
Provident fund expense	2,167,017	8,707,074	1,905,098	7,690,881
Property and equipment and intangible assets written off	22,985	92,354	64,683	261,125
Gain on disposals of property and equipment	(4,063)	(16,325)	(270)	(1,090)
Provision for losses on balances with other banks, loans and advances and loan/financing commitments and financial guarantees	7,626,415	30,642,935	4,871,366	19,665,705
<i>Changes in:</i>				
Balances with the National Bank of Cambodia	(39,316,328)	(157,973,006)	(11,494,524)	(46,403,393)
Balances with other banks	-	-	1,000,000	4,037,000
Loans to customers	(220,162,850)	(884,614,331)	(199,446,599)	(805,165,920)
Other assets	(1,923,591)	(7,728,987)	(8,629,104)	(34,835,693)
Deposits from customers and other financial institutions	186,527,129	749,466,004	34,951,254	141,098,212
Provident fund	1,832,635	7,363,527	1,506,776	6,082,854
Other liabilities	6,977,131	28,034,111	403,115	1,627,375
Net cash used in operations	(24,976,622)	(100,356,229)	(147,501,951)	(595,465,376)
Income tax paid	(5,732,874)	(23,034,688)	(3,910,413)	(15,786,337)
Provident fund paid	(1,454,278)	(5,843,289)	(678,879)	(2,740,635)
<b>Net cash used in operating activities</b>	<b>(32,163,814)</b>	<b>(129,234,206)</b>	<b>(152,091,243)</b>	<b>(613,992,348)</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

### (i) Transactions with related parties

Significant transactions with related parties during the year were as follows:

<i>Related party</i>	<i>Transaction</i>	<i>2018</i>		<i>2017</i>	
		<i>US\$</i>	<i>KHR'000</i> <i>(Note 3)</i>	<i>US\$</i>	<i>KHR'000</i> <i>(Note 3)</i>
MC	Subordinated debt	10,000,000	40,180,000	-	-
	Deposit	-	-	342,318	1,381,938
	Interest expense	370,926	1,490,381	-	-
	Interest expense	195,223	784,408	898,318	3,626,510
	Withdrawal	(9,840,145)	(39,537,701)	821,095	3,314,761
MIA	Borrowing	10,000,000	40,180,000	10,000,000	40,370,000
	Repayment	13,340,000	53,600,120	1,670,000	6,741,790
	Interest expense	1,645,758	6,612,654	1,591,377	6,424,389
	Deposit	438,676	1,762,601	442,334	1,785,702
MJBL	Deposit	(83)	(335)	5,389	21,755
Remuneration of management		67,184	269,943	538,308	2,173,149
Han Family Senior management	Deposit	1,540,914	6,191,392	1,888,491	7,623,838
	Deposit	(59,008)	(237,095)	301,781	1,218,290
	Loan	(181,551)	(729,472)	419,802	2,173,149

### (ii) Balances with related parties

Outstanding balances with related parties as at balance sheet date were as follows:

<i>Related party</i>	<i>Transaction</i>	<i>2018</i>		<i>2017</i>	
		<i>US\$</i>	<i>KHR'000</i> <i>(Note 3)</i>	<i>US\$</i>	<i>KHR'000</i> <i>(Note 3)</i>
MC	Subordinated debt	10,000,000	40,180,000	-	-
	Deposit	20,590,484	82,732,566	20,414,046	82,411,504
MCC	Deposit	11,006,210	44,222,953	20,846,355	84,156,735
MIA	Subordinated debt	5,000,000	20,090,000	5,000,000	20,185,000
	Borrowing	14,990,000	60,229,820	18,330,000	73,998,210
	Deposit	1,923,672	7,729,315	1,484,996	5,994,929
MJBL	Deposit	16,533	66,428	16,616	67,079
Han Family Senior management	Deposit	27,364,336	109,949,902	25,823,422	104,249,155
	Deposit	387,213	1,555,821	446,221	1,801,394
	Loan	520,811	2,092,618	702,362	2,835,435

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 26. COMMITMENTS AND CONTINGENCIES

### (i) Lease commitments

The Bank leases office premises under an operating lease arrangement, with minimum lease commitments as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Within one year	4,071,236	16,358,226	3,741,459	15,104,270
More than 1 year to 5 years	10,260,786	41,227,838	10,836,477	43,746,858
More than 5 years	4,157,888	16,706,394	5,099,023	20,584,756
	<b>18,489,910</b>	<b>74,292,458</b>	<b>19,676,959</b>	<b>79,435,884</b>

### (ii) Credit commitments

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
<i>Assets</i>				
Foreign exchange contracts	28,411,613	114,157,862	27,716,757	111,892,548
Unused portion of overdrafts	9,382,558	37,699,117	6,025,772	24,326,042
Bond	689,000	2,768,402	57,790	233,298
<i>Liabilities</i>				
Undrawn down portion of borrowings	4,985,002	20,029,740	-	-
Letter of credits	1,179,477	4,739,141	226,869	915,870
Bank guarantees	129,125	518,824	511,479	2,064,841

### (iii) Taxation contingency

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 Bank could be significant.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT

### ***Bank's exposure risks***

The Bank has exposure to the following risks:

- Operational risk;
- Credit risk;
- Market risk; and
- Liquidity risk

The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposures.

#### **(i) Operational risk**

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The operational risk losses 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 senior management of the Bank.

The Bank's operational risk management entails the establishment of clear organisational structures, roles and control policies. Various internal control policies and measures have been implemented including the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation and compliance with regulatory and other legal requirements.

#### **(ii) Credit risk**

Credit risk is the financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations, and arises principally from the loans to customers.

Credit risk is the most important risk for the Bank's business. Credit exposure arises principally in lending activities that lead to loans to customers. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management is carried out by the Bank's credit committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations. Exposure to credit risk is also managed by obtaining collateral and personal guarantees. Management performs credit assessment on a yearly basis after loans to customers have been disbursed to analyse the financial conditions and performance of the borrowers.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (ii) Credit risk (continued)

#### *Credit risk measurement*

The Bank has established the Core Credit Risk Policy which is designed to govern the Bank's risk undertaking activities. Extension of credit is governed by credit programmes that set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

The Bank also ensures that there is a clear segregation of duties between loan originators, evaluators and approving authorities.

#### *Risk limit control and mitigation policies*

The Bank operates and provides loans to customers to individuals or enterprises within the Kingdom of Cambodia. The Bank 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 10% of the Bank's net worth.

The Bank is required, under the conditions of NBC Prakas No. B7-06-226, to maintain at all times a maximum ratio of 20% between the Bank's overall credit exposure to any single beneficiary and the Bank's net worth. The aggregation of large credit exposure must not exceed 300% of the Bank's net worth.

The Bank 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 to customers, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types to secure for loans to customers to customers are:

- Mortgages over residential properties (land, building and other properties);
- Charges over business assets such as land and buildings; and
- Cash in the form of margin deposits.

#### *Impairment and allowance policy*

From 1 December 2017, the Bank is required to follow the mandatory credit classification and provisioning in accordance with NBC Prakas B7-017-344 Prokor dated 1 December 2017 on Credit Risk Grading and Provisioning and Circular No. B7-018-001 providing further implementation guidance on the said NBC Prakas (Note 2.7) .

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (ii) Credit risk (continued)

#### *Exposure to credit risk*

Maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Balances with the NBC	37,885,342	152,223,304	19,601,878	79,132,782
Balances with other banks	7,871,412	31,627,333	19,095,480	77,088,453
Loans to customers	1,026,009,070	4,122,504,444	808,958,793	3,265,766,647
Other assets	8,442,684	33,922,705	7,416,578	29,940,726
	<u>1,080,208,508</u>	<u>4,340,277,786</u>	<u>855,072,729</u>	<u>3,451,928,608</u>
Provision for losses on balances with other banks, loans and advances and loan	(18,947,996)	(76,133,044)	(14,832,802)	(59,880,021)
	<b><u>1,061,260,512</u></b>	<b><u>4,264,144,742</u></b>	<b><u>840,239,927</u></b>	<b><u>3,392,048,587</u></b>

The above table represents a worst case scenario for credit risk exposure to the Bank as at balance sheet date without taking into account any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposure set out above is based on net carrying amounts.

As shown above, 94.98% of total maximum exposure is derived from loans to customers (2017: 94.61%).

Management is confident in its ability to continue to control and sustain minimal credit risk exposure to the Bank relating to its loans to customers on the following basis:

- 98.26% of the loans in the portfolio are considered to be neither past due nor impaired (31 December 2017: 97.93%).
- The Bank has a stringent selection and collection process for granting loans to customers.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (ii) Credit risk (continued)

*Exposure to credit risk (continued)*

#### Loans to customers

For impairment purposes, loans to customers are further analysed as follows:

	2018		2017	
	US\$	KHR'000 (Note 3)	US\$	KHR'000 (Note 3)
Loans to customers neither past due nor impaired	1,005,909,446	4,041,744,154	790,105,856	3,189,657,341
Loans to customers past due but not impaired	9,140,337	36,725,874	10,006,325	40,395,534
Loans to customers individually impaired	10,959,287	44,034,416	8,846,612	35,713,772
	<b>1,026,009,070</b>	<b>4,122,504,444</b>	<b>808,958,793</b>	<b>3,265,766,647</b>

For the purpose of loan allowance, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the NBC's requirements. The total allowance for bad and doubtful loans is US\$18,869,561 (2017: US\$14,832,802) which represents the specific allowance required by the NBC and additional general allowance for the loan losses.

In compliance with NBC guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 31 days (Short-term) or 90 days (Long-term). 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 (Note 2.7).

#### *Loans to customers neither past due nor impaired*

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by collaterals and management views that likelihood of default is relatively low.

#### *Past due but not impaired loans to customers*

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 31 days (Short-term) or 90 days (Long-term), unless other information is available to indicate otherwise. Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due more than 30 days but less than 90 days, unless other information is available to indicate otherwise. In compliance with NBC guidelines such loans are classified as special mention with a specific allowance of 3%.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (ii) Credit risk (continued)

*Exposure to credit risk (continued)*

Loans to customers (continued)

*Individually impaired loans to customers*

Individually impaired loans to customers are loans to customers for which the Bank determines that there is objective evidence of impairment and contractual principal or interest payments are past due or history of past due of more than 31 days (Short-term) or 90 days (Long-term), unless other information is available to indicate or otherwise.

Most of the customers' collateral is in the form of land or house title receipts (which are not official land title deeds), as the Bank generally issues loans to low income entrepreneurs in the provinces. The Bank does not perform, during the year of loan, a revaluation of collateral either internally or externally. Since no legal official land title deeds have been obtained, no values have been ascribed to the collateral. Under the NBC's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

*Loans with renegotiated terms/restructured loans*

Loans with renegotiated terms are loans that have been rescheduled or refinanced 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 restructured 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.

Once the loan is restructured it remains in the same category independent of satisfactory performance after restructuring. The classification is not improved unless there are no arrears in repayment of principal and interest within 3 instalment years and within a year of not less than 3 months.

*Write-off policy*

In compliance with NBC guidelines, the Bank shall remove a loan/advance or a portion of a loan from its balance sheet when the Bank 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.

*Collateral*

The Bank holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. Estimates of value are based on the value of collateral assessed on an annual basis.

There are no non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances.



# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (ii) Credit risk (continued)

*Exposure to credit risk (continued)*

*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.

#### Balances with other banks

The Bank deposits short-term excess liquidity with banks leading to counter party risk exposure. The Bank manages counter party risk exposure by performing due diligence on individual counter parties, having counterparty limits and diversifying the deposits to different banks.

### (iii) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

*Foreign currency exchange risk*

The Bank operates in the Kingdom of Cambodia and transacts in many currencies, and is exposed to various currency risks, primarily with respect to KHR, US\$, JPY, THB etc.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Bank's functional currency.

Management monitors its foreign exchange risk against functional currencies through monitoring the foreign exchange risk by using the absorbed risk of 20% of the net worth required by the NBC.

As at 31 December 2018, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (iii) Market risk (continued)

#### *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. Interest rate risk is managed through close monitoring of returns on investment, market pricing, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

An analysis of the interest rate risk of the Bank's assets and liabilities is disclosed on the next page.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (iii) Market risk (continued)

*Interest rate risk (continued)*

	<i>Up to 1 month</i>	<i>&gt;1 to 3 months</i>	<i>&gt;3 to 12 months</i>	<i>&gt;1 to 5 years</i>	<i>Over 5 years</i>	<i>Non-interest Sensitive</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>As at 31 December 2018</b>							
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	67,916,384	67,916,384
Balances with the NBC	6,950,000	1,900,000	20,160,000	-	-	139,960,016	168,970,016
Balances with other banks	127,759	-	-	-	-	7,743,653	7,871,412
Loans to customers	29,030,010	56,883,759	223,460,024	662,176,487	54,458,790	-	1,026,009,070
Other investments	-	-	-	-	-	50,000	50,000
Other assets	-	-	-	-	-	8,442,684	8,442,684
<b>Total financial assets</b>	<b>36,107,769</b>	<b>58,783,759</b>	<b>243,620,024</b>	<b>662,176,487</b>	<b>54,458,790</b>	<b>224,112,737</b>	<b>1,279,259,566</b>
<b>Financial liabilities</b>							
Deposits from customers	206,895,315	134,403,530	334,060,806	100,506,563	-	28,833,168	804,699,381
Borrowings	3,611,560	37,794,333	77,590,495	134,821,000	-	-	253,817,389
Subordinated debts	-	-	2,000,000	20,400,000	7,600,000	-	30,000,000
Provident fund	129,026	258,051	1,161,231	6,193,230	5,182,338	-	12,923,876
Other liabilities	-	-	-	-	-	20,207,444	20,207,444
<b>Total financial liabilities</b>	<b>210,635,901</b>	<b>172,455,914</b>	<b>414,812,532</b>	<b>261,920,793</b>	<b>12,782,338</b>	<b>49,040,612</b>	<b>1,121,648,090</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(174,528,132)</b>	<b>(113,672,155)</b>	<b>(171,192,508)</b>	<b>400,255,694</b>	<b>41,676,452</b>	<b>175,072,125</b>	<b>157,611,476</b>
<b><i>KHR'000 equivalent (Note 3)</i></b>	<b>(701,254,034)</b>	<b>(456,734,719)</b>	<b>(687,851,497)</b>	<b>1,608,227,378</b>	<b>167,455,984</b>	<b>703,439,798</b>	<b>633,282,911</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (iii) Market risk (continued)

*Interest rate risk (continued)*

	<i>Up to 1 month</i>	<i>&gt;1 to 3 months</i>	<i>&gt;3 to 12 months</i>	<i>&gt;1 to 5 years</i>	<i>Over 5 years</i>	<i>Non-interest Sensitive</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>As at 31 December 2017</b>							
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	43,744,709	43,744,709
Balances with the NBC	-	-	3,839,485	-	-	15,762,393	19,601,878
Balances with other banks	9,571,457	700,000	-	-	-	8,824,023	19,095,480
Loans to customers	22,102,738	49,668,856	194,788,018	510,875,138	31,524,043	-	808,958,793
Other investments	-	-	-	-	-	50,000	50,000
Other assets	-	-	-	-	-	7,416,578	7,416,578
<b>Total financial assets</b>	<b>31,674,195</b>	<b>50,368,856</b>	<b>198,627,503</b>	<b>510,875,138</b>	<b>31,524,043</b>	<b>75,797,703</b>	<b>898,867,438</b>
<b>Financial liabilities</b>							
Deposits from customers	159,692,432	103,138,376	288,855,365	49,656,912	-	16,829,167	618,172,252
Borrowings	125,000	24,461,667	49,836,666	140,365,000	-	-	214,788,333
Subordinated debts	-	-	2,000,000	11,000,000	-	-	13,000,000
Provident fund	70,471	140,943	632,241	3,382,620	6,150,227	-	10,378,502
Other liabilities	-	-	-	-	-	12,831,664	12,831,664
<b>Total financial liabilities</b>	<b>159,887,903</b>	<b>127,740,986</b>	<b>341,326,272</b>	<b>204,404,532</b>	<b>6,150,227</b>	<b>29,660,831</b>	<b>869,170,751</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(128,213,708)</b>	<b>(77,372,130)</b>	<b>(142,698,769)</b>	<b>306,470,606</b>	<b>25,373,816</b>	<b>46,136,872</b>	<b>29,696,687</b>
<b>KHR'000 equivalent (Note 3)</b>	<b>(517,598,739)</b>	<b>(312,351,289)</b>	<b>(576,074,930)</b>	<b>1,237,221,836</b>	<b>102,434,095</b>	<b>186,254,552</b>	<b>119,885,525</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (iii) Market risk (continued)

#### *Interest rate risk (continued)*

##### Fair value sensitivity analysis for fixed-rate instruments

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

### (iv) Liquidity risk

Liquidity risk is the risk of the Bank being unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

#### *Liquidity risk management process*

The Bank's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the reviewing of the daily cash position and projections for the next day, week and month, as these are key years for liquidity management. Management monitors the movement of the main depositors and lenders and projections of their withdrawals.

#### *Funding approach*

The Bank's main sources of liquidity arise from the shareholders' paid-up capital, borrowings and customers' deposits. The sources of liquidity are reviewed regularly through management's review of the maturity of term deposits, key depositors, borrowings and subordinated debts.

#### *Non-derivative cash flows*

The table on the following page presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on the expected undiscounted cash flows.

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (iv) Liquidity risk (continued)

*Non-derivative cash flows (continued)*

	<i>Up to 1 month</i>	<i>&gt;1 to 3 months</i>	<i>&gt;3 to 12 months</i>	<i>&gt;1 to 5 years</i>	<i>Over 5 years</i>	<i>No fixed maturity date</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>As at 31 December 2018</b>							
<b>Financial assets</b>							
Cash on hand	67,916,384	-	-	-	-	-	67,916,384
Balances with the NBC	56,409,306	20,024,617	53,833,855	26,702,238	-	12,000,000	168,970,016
Balances with other banks	7,871,412	-	-	-	-	-	7,871,412
Loans to customers	29,030,010	56,883,759	223,460,024	662,176,487	54,458,790	-	1,026,009,070
Other investments	-	-	-	-	50,000	-	50,000
Other assets	8,442,684	-	-	-	-	-	8,442,684
<b>Total financial assets</b>	<b>169,669,796</b>	<b>76,908,376</b>	<b>277,293,879</b>	<b>688,878,725</b>	<b>54,508,790</b>	<b>12,000,000</b>	<b>1,279,259,566</b>
<b>Financial liabilities</b>							
Deposits from customers	235,728,483	134,403,530	334,060,806	100,506,563	-	-	804,699,381
Borrowings	3,611,560	37,794,333	77,590,495	134,821,000	-	-	253,817,388
Subordinated debts	-	-	2,000,000	20,400,000	7,600,000	-	30,000,000
Provident fund	129,026	258,051	1,161,231	6,193,230	5,182,338	-	12,923,876
Other liabilities	4,290,077	6,166,186	6,420,233	2,478,207	830,639	22,102	20,207,444
<b>Total financial liabilities</b>	<b>243,759,146</b>	<b>178,622,100</b>	<b>421,232,765</b>	<b>264,399,000</b>	<b>13,612,977</b>	<b>22,102</b>	<b>1,121,648,089</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(74,089,350)</b>	<b>(101,713,724)</b>	<b>(149,938,886)</b>	<b>424,479,725</b>	<b>40,895,813</b>	<b>11,977,898</b>	<b>157,611,477</b>
<b>KHR'000 equivalent (Note 3)</b>	<b>(297,691,008)</b>	<b>(408,685,743)</b>	<b>(578,346,444)</b>	<b>1,705,559,535</b>	<b>164,319,377</b>	<b>48,127,194</b>	<b>633,282,915</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### (iv) Liquidity risk (continued)

*Non-derivative cash flows (continued)*

	<i>Up to 1 month</i>	<i>&gt;1 to 3 months</i>	<i>&gt;3 to 12 months</i>	<i>&gt;1 to 5 years</i>	<i>Over 5 years</i>	<i>No fixed maturity date</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>As at 31 December 2017</b>							
<b>Financial assets</b>							
Cash on hand	43,744,709	-	-	-	-	-	43,744,709
Balances with the NBC	15,762,393	-	3,839,485	-	-	-	19,601,878
Balances with other banks	18,395,480	700,000	-	-	-	-	19,095,480
Loans to customers	22,102,737	49,668,856	194,788,017	510,875,139	31,524,044	-	808,958,793
Other investments	-	-	-	-	50,000	-	50,000
Other assets	7,416,578	-	-	-	-	-	7,416,578
<b>Total financial assets</b>	<b>107,421,897</b>	<b>50,368,856</b>	<b>198,627,502</b>	<b>510,875,139</b>	<b>31,574,044</b>	<b>-</b>	<b>898,867,438</b>
<b>Financial liabilities</b>							
Deposits from customers	176,521,599	103,138,376	288,855,365	49,656,912	-	-	618,172,252
Borrowings	125,000	24,461,666	49,836,667	140,365,000	-	-	214,788,333
Subordinated debts	-	-	2,000,000	11,000,000	-	-	13,000,000
Provident fund	70,471	140,943	634,241	3,382,620	6,150,227	-	10,378,502
Other liabilities	7,933,844	3,991,374	35,021	46,695	824,730	-	12,831,664
<b>Total financial liabilities</b>	<b>184,650,914</b>	<b>131,732,359</b>	<b>341,361,294</b>	<b>204,451,227</b>	<b>6,974,957</b>	<b>-</b>	<b>869,170,751</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(77,229,017)</b>	<b>(81,363,503)</b>	<b>(142,733,792)</b>	<b>306,423,912</b>	<b>24,599,087</b>	<b>-</b>	<b>29,696,687</b>
<b>KHR'000 equivalent (Note 3)</b>	<b>(311,773,542)</b>	<b>(328,464,462)</b>	<b>(576,216,318)</b>	<b>1,237,033,333</b>	<b>99,306,514</b>	<b>-</b>	<b>119,885,525</b>

# SATHAPANA Bank Plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2018

## 27. FINANCIAL RISK MANAGEMENT (continued)

### *Capital management*

#### (i) Regulatory capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the NBC;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The NBC requires all licensed commercial banks to (i) fulfil the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

#### (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.

## 28. FAIR VALUES

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 and market prices are not available for a significant proportion of the Bank's financial assets and liabilities fair values, therefore, were not presented.

## 29. SUBSEQUENT EVENTS

At the date of this report, there is no other matter or circumstance which occurred subsequent to the balance sheet date that requires adjustment or disclosure in the financial statements of the Bank.