

## **Sathapana Limited**

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

as at 31 December 2015 and for the year then ended

# Sathapana Limited

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## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Sathapana Limited ("the Company") is pleased to present its report and the Company's financial statements as at and for the year ended 31 December 2015.

### THE COMPANY

The Company is a micro-finance institution operating under the Cambodian Law on Commercial Enterprises and the supervision of the National Bank of Cambodia ("NBC"), pursuant to the Law on Banking and Financial Institution of Cambodia. The Company was granted an indefinite life microfinance license from the NBC effective from 19 April 2006. On 22 January 2009, the Company received a license from the NBC to conduct a deposit-taking business. On 11 February 2014, the Company received another 3-year license to conduct money exchange business.

The Company's registered office address is located at No. 831C, Monivong Blvd, SangkatPhsarDoeumthkov, Khan Chamkarmon, Phnom Penh, Cambodia.

The principal activities of the Company are as follows:

- Provide micro, small, and medium loans
- Offer deposit-taking services
- Provide local money transfer services
- Offer ATM Services.

### RESULTS OF OPERATIONS

The financial results of the Company for the year are as follows:

	2015 US\$	2014 US\$
Profit before income tax	23,663,795	13,222,567
Income tax expense	(4,723,134)	(2,652,770)
<b>Income after income tax</b>	<b>18,940,661</b>	<b>10,569,797</b>
<b>Income after income tax - KHR'000</b>	<b>76,709,677</b>	<b>43,071,922</b>

### DIVIDENDS

On 6 May 2015, the shareholders approved the declaration and payment of cash dividends amounting to US\$2,642,449 during the year (2014: US\$1,523,019).

### RESERVES AND PROVISIONS

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

# Sathapana Limited

## REPORT OF THE BOARD OF DIRECTORS (continued)

### **BAD AND DOUBTFUL LOANS**

Before the financial statements of the Company were drawn up, the Board of Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad loans and the making of provisions for bad and doubtful loans, and satisfied themselves that all known bad loans had been written off and that adequate provisions 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 the provision for bad and doubtful loans in the financial statements of the Company inadequate to any material extent.

### **CURRENT ASSETS**

Before the financial statements of the Company were drawn up, the Board of Directors took reasonable steps to ascertain that any current assets, other than loans, which were unlikely to be realized in the ordinary course of business at their value as shown in the accounting records of the Company, have been written down to an amount which they might be expected to realize.

At the date of this report, the Board of Directors is not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading or inappropriate in any material respect.

### **VALUATION METHODS**

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

### **CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there is:

- No charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
- No contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liabilities of the Company have become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become 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 Company, which would render any amount stated in the financial statements misleading.

# Sathapana Limited

## REPORT OF THE BOARD OF DIRECTORS (continued)

### ITEMS OF UNUSUAL NATURE

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

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

### EVENTS SINCE THE BALANCE SHEET DATE

There had been no significant events occurring after the reporting period which require adjustments of disclosure to be made in the financial statements.

### THE BOARD OF DIRECTORS

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

Dr. Han Chang-Woo	Chairman (Non-executive)
Mr. Han Yu	Non-executive Director
Mr. Han Ken	Non-executive Director
Oknha Dr. Bun Mony	Executive Director and Chief Executive Officer
H.E. Shinohara Katsuhiko	Independent and Non-executive Director
Mr. Yabe Yoshikazu	Non-executive Director
Mr. Fujii Takashi	Non-executive Director
Dr. Yang Saing Koma	Independent and Non-executive Director
Mr. Hun Monivann	Independent and Non-executive Director

### AUDITOR

Ernst & Young (Cambodia) Ltd. is the auditor of the Company.

### DIRECTORS' INTERESTS

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

### DIRECTORS' BENEFITS

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

No director of the Company has received or become entitled to receive any benefit by reason of a contract made by the Company or with a firm which the director is a member, or with a company which the director has a material financial interest.

# Sathapana Limited

REPORT OF THE BOARD OF DIRECTORS (continued)

## STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended. The Board of Directors oversees preparation of these financial statements by management who is required to:

- Adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- Comply with Cambodian Accounting Standards, and relevant regulations and guidelines issued by the NBC or, if there has been any departure in the interest of fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- Maintain adequate accounting records and an effective system of internal controls;
- Prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- Set overall policies for the Company, ratify all decisions and actions that have a material effect on the operations and performance of the Company, and ensure they have been properly reflected in the financial statements.

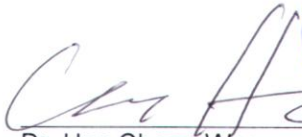

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and to ensure that the accounting records comply with the applicable accounting system. It is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors confirms that the Company has complied with these requirements in preparing the financial statements.

## 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 Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the NBC.

On behalf of the Board of Directors:

Dr. Han Chang-Woo  
Chairman

Phnom Penh, Kingdom of Cambodia

Date: 05 FEB 2016



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## **INDEPENDENT AUDITORS' REPORT**

**To: The Shareholders of Sathapana Limited**

We have audited the accompanying financial statements of Sathapana Limited ("the Company"), which comprise the balance sheet as at 31 December 2015, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility 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.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and 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.



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***Emphasis of matter***

Without modifying our opinion, we draw attention to Note 1 to the financial statements that presents the merger of the operations of the Company and its immediate parent company, Maruhan Japan Bank Plc ("MJB"). On 29 May 2015, the Company received approval in principle from the NBC on the merger subject to certain conditions that should be complied upon by the Company and MJB within six months after the approval. On 13 November 2015, the management of the Company and MJB submitted all pertinent documents required by the NBC which are under pending approvals from the relevant regulatory bodies. According to the merger plan, MJB's assets and liabilities will be transferred to the Company at the merger date which will continue to fulfill all rights and obligations of MJB. Accordingly, these financial statements have been prepared on a going concern assumption basis.



Dai Xuan Nguyen  
Partner

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

Phnom Penh, Kingdom of Cambodia

5 February 2016



# Sathapana Limited

## BALANCE SHEET as at 31 December 2015

Notes	2015		2014		
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1) (As restated – Note 16)	
<b>ASSETS</b>					
Cash on hand	4	14,050,134	56,903,043	6,969,731	28,401,654
Balances with the National Bank of Cambodia	3	28,781,703	116,565,897	26,312,275	107,222,521
Balances with other banks	4	7,767,064	31,456,609	6,309,967	25,713,116
Loans to customers	5	470,335,542	1,904,858,945	310,289,536	1,264,429,859
Property and equipment	6	5,358,748	21,702,929	3,843,846	15,663,672
Software	7	198,904	805,561	397,809	1,621,072
Other investment	8	25,000	101,250	25,000	101,875
Deferred tax asset	14	1,413,581	5,725,003	966,085	3,936,796
Other assets	9	11,157,335	45,187,207	7,421,708	30,243,460
<b>TOTAL ASSETS</b>		<b>539,088,011</b>	<b>2,183,306,444</b>	<b>362,535,957</b>	<b>1,477,334,025</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from customers	10	259,870,588	1,052,475,881	166,096,268	676,842,292
Borrowings	11	160,867,551	651,513,582	116,164,535	473,370,480
Subordinated debts	12	40,313,217	163,268,529	25,313,217	103,151,359
Provident fund	13	5,371,180	21,753,279	3,749,258	15,278,226
Income tax payable	14	4,411,045	17,864,732	2,482,746	10,117,190
Other liabilities	15	7,434,546	30,109,911	4,208,261	17,148,664
<b>Total liabilities</b>		<b>478,268,127</b>	<b>1,936,985,914</b>	<b>318,014,285</b>	<b>1,295,908,211</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	16	18,201,060	73,714,293	18,201,060	74,169,320
Share premium		174,964	708,604	174,964	712,978
Retained earnings		42,443,860	171,897,633	26,145,648	106,543,516
<b>Total shareholders' equity</b>		<b>60,819,884</b>	<b>246,320,530</b>	<b>44,521,672</b>	<b>181,425,814</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>539,088,011</b>	<b>2,183,306,444</b>	<b>362,535,957</b>	<b>1,477,334,025</b>

The attached notes 1 to 25 form part of these financial statements.

# Sathapana Limited

## INCOME STATEMENT for the year ended 31 December 2015

	Notes	2015		2014	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Operating income</b>					
Interest income	17	82,153,480	332,721,594	50,385,123	205,319,376
Interest expense	18	(30,196,976)	(122,297,753)	(16,649,251)	(67,845,698)
<b>Net interest income</b>		<b>51,956,504</b>	<b>210,423,841</b>	<b>33,735,872</b>	<b>137,473,678</b>
Net fees and commissions	19	1,043,806	4,227,414	727,296	2,963,731
Other income		178,032	721,030	103,245	420,723
<b>Total operating income</b>		<b>53,178,342</b>	<b>215,372,285</b>	<b>34,566,413</b>	<b>140,858,132</b>
Provision for losses on loans to customers	5	(743,299)	(3,010,361)	(615,923)	(2,509,886)
Other operating expenses	20	(28,771,248)	(116,523,554)	(20,727,923)	(84,466,286)
<b>Profit before income tax</b>		<b>23,663,795</b>	<b>95,838,370</b>	<b>13,222,567</b>	<b>53,881,960</b>
Income tax expense	14	(4,723,134)	(19,128,693)	(2,652,770)	(10,810,038)
<b>Net income for the year</b>		<b>18,940,661</b>	<b>76,709,677</b>	<b>10,569,797</b>	<b>43,071,922</b>

The attached notes 1 to 25 form part of these financial statements.

# Sathapana Limited

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2015

	<i>Share capital</i> US\$	<i>Share premium</i> US\$	<i>Retained earnings</i> US\$	<i>Total</i> US\$
	<i>(As restated – Note 16)</i>			
Balance as at 1 January 2015	18,201,060	174,964	26,145,648	44,521,672
Net income for the year	-	-	18,940,661	18,940,661
Dividends declared	-	-	(2,642,449)	(2,642,449)
<b>Balance as at 31 December 2015</b>	<b>18,201,060</b>	<b>174,964</b>	<b>42,443,860</b>	<b>60,819,884</b>
<b><i>KHR'000 equivalent (Note 2.3.1)</i></b>	<b>73,714,293</b>	<b>708,604</b>	<b>171,897,633</b>	<b>246,620,530</b>
Balance as at 1 January 2014	9,100,530	174,960	17,098,870	26,374,360
Capital contribution	9,100,530	4	-	9,100,534
Net income for the year	-	-	10,569,797	10,569,797
Dividends declared	-	-	(1,523,019)	(1,523,019)
<b>Balance as at 31 December 2014</b>	<b>18,201,060</b>	<b>174,964</b>	<b>26,145,648</b>	<b>44,521,672</b>
<b><i>KHR'000 equivalent (Note 2.3.1)</i></b>	<b>74,169,320</b>	<b>712,978</b>	<b>106,543,516</b>	<b>181,425,814</b>

*The attached notes 1 to 25 form part of these financial statements.*

# Sathapana Limited

## STATEMENT OF CASH FLOWS for the year ended 31 December 2015

Notes	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Operating activities</b>				
	23,663,795	95,838,370	13,222,567	53,881,960
<i>Adjustments for:</i>				
Depreciation and amortization Property and equipment and software written off	20 9,676	10,440,572 39,188	1,921,334 26,136	7,829,436 106,504
Gain on disposals of property and equipment	(33,738)	(136,639)	(1,313)	(5,350)
Income tax paid	14 (3,242,331)	(13,131,441)	(1,722,313)	(7,018,425)
<b>Cash generated from operating activities</b>	<b>22,975,321</b>	<b>93,050,050</b>	<b>13,446,411</b>	<b>54,794,125</b>
Increase in operating assets and liabilities:				
Balances with the National Bank of Cambodia	(7,968,200)	(32,271,210)	(7,958,053)	(32,429,066)
Loans to customers	(160,046,006)	(648,186,324)	(129,444,183)	(527,485,046)
Other assets	(3,735,627)	(15,129,289)	(2,757,042)	(11,234,946)
Deposits from customers	93,774,320	379,785,996	85,509,999	348,453,246
Provident fund	1,621,922	6,568,784	1,121,551	4,570,320
Other liabilities	3,226,285	13,066,454	1,449,150	5,905,286
<b>Net cash used in operating activities</b>	<b>(50,151,985)</b>	<b>(203,115,539)</b>	<b>(38,632,167)</b>	<b>(157,426,081)</b>
<b>Investing activities</b>				
Acquisition of property and equipment	6 (3,942,483)	(15,967,056)	(1,679,775)	(6,845,083)
Acquisition of software	7 -	-	(463,694)	(1,889,553)
Proceeds from disposal of property and equipment	72,629	294,147	9,317	37,967
<b>Net cash used in investing activities</b>	<b>(3,869,854)</b>	<b>(15,672,909)</b>	<b>(2,134,152)</b>	<b>(8,696,669)</b>
<b>Financing activities</b>				
Proceeds from borrowings	11 87,249,506	353,360,499	65,700,000	267,727,500
Proceeds from subordinated debt	12 15,000,000	60,750,000	14,000,000	57,050,000
Repayment of borrowings	11 (42,546,490)	(172,313,285)	(33,719,325)	(137,406,249)
Dividends paid	(2,642,449)	(10,701,918)	(1,523,019)	(6,206,302)
Capital contribution	-	-	9,100,534	37,084,676
<b>Net cash generated from financing activities</b>	<b>57,060,567</b>	<b>231,095,296</b>	<b>53,558,190</b>	<b>218,249,625</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,038,728</b>	<b>12,306,848</b>	<b>12,791,871</b>	<b>52,126,875</b>
Cash and cash equivalents at beginning of year	24,564,160	100,098,953	11,772,289	47,030,296
Foreign exchange difference	-	(614,104)	-	941,782
<b>Cash and cash equivalents at end of the year</b>	<b>4 27,602,888</b>	<b>111,791,697</b>	<b>24,564,160</b>	<b>100,098,953</b>

The attached notes 1 to 25 form part of these financial statements

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS  
as at 31 December 2015 and for the year then ended

## 1. CORPORATE INFORMATION

Sathapana Limited (“the Company”) is a licensed micro-finance institution (“MFI”) incorporated and registered in the Kingdom of Cambodia.

### ***Establishment and operations***

The Company was incorporated in the Kingdom of Cambodia with the Ministry of Commerce (“MoC”) on 19 February 2003 as a result of the Memorandum and Articles of Association signed on 27 December 2002 between Cambodia Community Building (“CCB”), a local Non-governmental Organization established in 1996, and the Company’s staff. The Company obtained its license to operate as a MFI from the National Bank of Cambodia (“NBC”) on 23 April 2003. Under the microfinance license, the Company is authorized 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 the Company microfinance license with an indefinite life from 19 April 2006. On 22 January 2009, the Company received a license from the NBC to conduct a deposit-taking business. On 11 February 2014, the Company received another 3-year license to conduct money exchange business.

The principal activities of the Company are as follows:

- Provide micro, small, and medium loans
- Offer deposit-taking services
- Provide local money transfer services
- Offer ATM services.

### ***Paid-up capital***

The paid-up capital of the Company as at 31 December 2015 was US\$18,201,060 (2014: US\$18,201,060).

### ***Board of Directors***

The members of the Board of Directors during the year and at the date of the financial statements are:

Dr. Han Chang-Woo	Chairman (Non-executive)
Mr. Han Yu	Non-executive Director
Mr. Han Ken	Non-executive Director
Oknha Dr. Bun Mony	Executive Director and Chief Executive Officer
H.E. Shinohara Katsuhiko	Independent and Non-executive Director
Mr. Yabe Yoshikazu	Non-executive Director
Mr. Fujii Takashi	Non-executive Director
Dr. Yang Saing Koma	Independent and Non-executive Director
Mr. Hun Monivann	Independent and Non-executive Director

### ***Location***

The registered office of the Company is located at No. 831C, Monivong Boulevard, Sangkat Phsar Doeumthkov, Khan Chamkarmorn, Phnom Penh, Kingdom of Cambodia. The Company operates its businesses in 25 provinces with a network of 96 branches.

### ***Employees***

As at 31 December 2015, the Company had a total of 3,123 employees (2014: 2,469 employees).

The financial statements were authorized for issue by the Board of Directors on 5 February 2016.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 1. CORPORATE INFORMATION (continued)

### ***Merger with MARUHAN Japan Bank Plc***

On 13 January 2015, the Board of Directors of the Company and MARUHAN Japan Bank Plc (“MJB”) agreed to merge the operations of the two entities. On 27 January 2015, the Board of Directors and management of the Company and MJB entered and signed a memorandum of understanding for the said merger.

On 29 May 2015, the Company received approval in principle from the NBC on the merger subject to certain conditions that should be complied upon by the Company and MJB within six months after the approval. On 13 November 2015, the management of the Company and MJB submitted all pertinent documents required by the NBC. To date, the Company is yet to obtain necessary approvals from the relevant regulatory bodies.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 ***Basis of preparation***

The financial statements have been prepared based on the historical cost basis. The Company maintains records and prepares financial statements in United States dollar (“US\$”) in accordance with NBC Prakas No. B7-07-164 dated 13 December 2007 on *Using Language, Currency Unit and Exchange Rate for Accounting Records and Reports*.

The financial statements of the Company have been prepared in compliance with Cambodian Accounting Standards (“CAS”) and relevant regulations and guidelines issued by the NBC.

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate ruling at the date of the transaction. 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 recognized in the income statement.

#### 2.1.1 *Fiscal year*

The Company’s fiscal year starts on 1 January and ends on 31 December.

#### 2.1.2 *Presentation of financial statements*

The accompanying financial statements, including their utilization, are not designed for those who are not informed about the Kingdom of Cambodia’s accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Kingdom of Cambodia.

The accounting policies set out below have been consistently applied by the Company during the year.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 *Significant accounting judgments and estimates* (continued)

In applying the Company's accounting policies, management has used its judgment and made estimates in determining the amounts recognized in the financial statements, as follows:

#### 2.2.1 *Going concern assumption*

As disclosed in Note 1, the Company and MARUHAN Japan Bank Plc ("MJB") have submitted the application for merge of their operations to the NBC. According to the merger plan, MJB's assets and liabilities will be transferred to the Company at the merger date which will continue to fulfill all rights and obligations of MJB. Accordingly, these financial statements have been prepared on a going concern assumption basis.

#### 2.2.2 *Estimated useful lives of property and equipment*

The useful life of each item of property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease the carrying value of these nonfinancial assets. There is no change in the estimated useful lives of property and equipment during the year.

#### 2.2.3 *Operating leases*

The Company has entered into property leases as a lessee for its office premises. The Company has determined that the lesser retained all the significant risks and rewards of ownership over this property based on the indicators of operating lease treatment. In determining whether or not there is an indication of operating lease treatment, the Company considers the following factors: retention of ownership title to the leased property, and period of lease contract relative to the estimated useful economic life of the leased property, bearer of executory costs, among others.

#### 2.2.4 *Impairment losses on loans to customers*

When preparing the financial statements, the quality of loans to customers is reviewed and assessed to determine their classification and level of impairment losses, as more fully disclosed in Note 2.3.8.1.

#### 2.2.5 *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 *Significant accounting judgments and estimates* (continued)

#### 2.2.6 *Recognition of deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Company's estimates of future taxable income indicate that temporary differences will be realized in the future. As such, the Company recognized deferred tax assets as at 31 December 2015 amounting to US\$ 1.41 million (KHR 5.73 billion) as disclosed in Note 14 (2014: US\$ 0.97 million or KHR 3.94 billion).

### 2.3 *Summary of significant accounting policies*

#### 2.3.1 *Foreign currency translation*

The Company's functional and presentation currency is US\$.

The financial statements are translated in Khmer Riel ("KHR") based on the closing exchange rate of KHR4,050 per US\$1 ruling at the reporting date (2014: KHR4,075: US\$1), as announced by the NBC. Such translation should not be construed as a representation that KHR amounts represent, or have been or could be, converted into KHR at that or any other rate. All values in KHR are rounded to the nearest thousand ("KHR'000"), except as otherwise indicated.

#### 2.3.2 *Impairment of financial assets*

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated.

Evidence of impairment for loans to customers may include indications that a borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. There is however a mandatory credit classification and minimum provisioning that the Company has to follow to meet the requirement of the NBC, as disclosed in Note 2.3.8.1.

#### 2.3.3 *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

#### 2.3.4 *Operating leases*

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.



# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.5 Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### 2.3.6 Balances with the National Bank of Cambodia

Statutory deposit is maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and is determined at defined percentage of minimum share capital.

#### 2.3.7 Balances with other banks

Balances with other banks are carried at cost.

#### 2.3.8 Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal less any amounts written off and allowance for losses on loans.

Loans are written off when there is no realistic prospect of recovery. Recoveries of loans to customers previously written off, or provided for, decrease the amount of the provision for losses on loans to customers in the income statement.

Loans classified as substandard, doubtful or loss are considered non-performing.

##### 2.3.8.1 Loan classification and allowance for losses on loans to customers

The Company follows the mandatory credit classification and provisioning as required by Prakas No. B7-02-186 dated 13 September 2002. The Prakas requires licensed MFIs to classify their loan portfolio into four classes based on number of days past due of principal and/or interest repayment. The mandatory level of specific provisioning is provided depending on the loan classification, regardless of the assets (except cash) pledged as collateral, as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Rate of provision</i>
<i>Loans (term of up to one year)</i>		
• Standard	Nil to 29 days	0%
• Substandard	30 to 59 days	10%
• Doubtful	60 to 89 days	30%
• Loss	90 days or more	100%
<i>Loans (term of more than one year)</i>		
• Standard	Nil to 29 days	0%
• Substandard	30 to 179 days	10%
• Doubtful	180 to 359 days	30%
• Loss	360 days or more	100%

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 2.3.8.1 Loan classification and allowance for losses on loans to customers (continued)

In addition to the above mandatory level of specific provisioning, the Company provides, as a matter of policy, an additional general provision for bad and doubtful loans as follows:

- 0.2% on outstanding performing loans;
- 90% on substandard loans; and
- 70% on doubtful loans.

The specific provision is calculated as a percentage of the loan outstanding at the time the loan is classified, excluding accrued interest, and is charged as an expense. Interest accrued from non-performing loans is recorded as interest in suspense in balance sheet.

Loans are written off to the income statement when the loans remain unpaid after 360 days. Loans written off are removed from the outstanding loan portfolio and from the provision for bad and doubtful loans.

#### *Overdue loans*

In accordance with NBC Prakas B7-00-51K dated 17 February 2000, overdue loans are defined as the total outstanding principal where principal or interest are past due unless the payment terms on interest or principal have been adjusted. In general, loans are not allowed to be restructured. However, on certain rare cases, loans are allowed to be restructured once per cycle. The maximum additional extension of the term is up to 5 months and 50% of the original amount only.

The provision will be calculated as percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The provision shall be recorded in the Company's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard. Analysis of overdue loans is set out in Note 5.

#### 2.3.9 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of a property and equipment item comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Where an item of property and equipment comprises major components having different estimated useful lives, the components are accounted for as separate items of property and equipment.

Subsequent expenditure relating to an item of property and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognized as an expense in the year in which it is incurred.

Gain or loss arising from the retirement or disposal of an item of property and equipment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and is recognized in profit or loss on the date of retirement or disposal.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 2.3.9 Property and equipment (continued)

Depreciation is calculated on declining basis over the estimated useful life of the asset as follows:

Computers	2 years
Motor vehicles	4 years
Office furniture and equipment	4 years
Leasehold improvements	Shorter of the expected useful life and duration of the lease term

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

Fully depreciated assets are retained in the financial statements until they are no longer in use or no further charge for depreciation is made in respect of these assets.

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

#### 2.3.10 Software

Software is stated at cost less accumulated amortization and accumulated impairment losses, if any. It is amortized on a declining balance method at the rate of 50% per annum. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of software, the amortization is revised prospectively to reflect the new expectations.

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

#### 2.3.11 Other assets

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

#### 2.3.12 Deposits from customers

Deposits from customers are stated at placement value.

#### 2.3.13 Borrowings

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

#### 2.3.14 Subordinated debts

Subordinated debts are long-term debts that are subordinated to all other liabilities of the Company. These are treated as part of the Company's liabilities and included in the Company's net worth computation under the NBC's guidelines. Foreign exchange differences on subordinated debts are taken through the income statement.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 2.3.15 Provident fund

The Company 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% of their monthly salary, and the Company contributes twice that amount. This contribution is charged to the income statement.
- The Company 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. The employee's contribution and interest are paid in full accordingly, while the Company/s contribution is paid in accordance with the following conditions:

<i>Years of service (*)</i>	<i>Percentage of contribution by the Company</i>
Equal to or less than 1 year	-
More than 1 year	20%
More than 2 years	40%
More than 3 years	60%
More than 4 years	80%
More than 5 years	100%

(\*) Years of service are exclusive of the probationary year.

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

#### 2.3.16 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

#### 2.3.17 Recognition of income or expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### (i) Interest income or expense

Interest income from loans to customers, and balances with the NBC and other banks is recognized on an accrual basis, except for loans to customers that have been classified as substandard, doubtful or loss. Interest accruing to these loans shall instead be credited to an interest in suspense account.

Interest expense is recognized on an accrual basis.

##### (ii) Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers, mainly from loan and deposits processing.

Loan administrative fee income is recognized as income when the loan is disbursed to customers. The loan fee is based on a percentage of the loan principal.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. Summary of significant accounting policies (continued)

#### 2.3.18 Related parties

Parties are considered to be related if the Company 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 vice-versa, or where the Company and the 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.

Related parties, as defined in Article 49 and 50 of the Cambodian Law on Banking and Financial Institutions, include the following:

- (a) any person holding directly or indirectly at least ten percent (10%) of the capital or voting rights;
- (b) any company of which the Company directly or indirectly holds at least 10% of the capital or voting rights;
- (c) any individual who participates in the administration, direction, management or internal control; and
- (d) the external auditors.

#### 2.3.19 Income tax

##### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the balance sheet date.

##### *Deferred tax*

Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these differences can be utilized, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Unrecognized deferred income tax assets are re-assessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 3. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Current accounts	5,785,690	23,432,045	11,284,462	45,984,183
Capital guarantee	1,820,106	7,371,429	1,820,106	7,416,932
Reserve requirement	21,175,907	85,762,423	13,207,707	53,821,406
	<b>28,781,703</b>	<b>116,565,897</b>	<b>26,312,275</b>	<b>107,222,521</b>

Under Prakas No. B7-00-06 on the Licensing of MFIs dated 11 January 2000, the Company is required to maintain a capital guarantee deposit equivalent to 10% of registered capital with the NBC. This deposit is not available for use in the Company's day-to-day operations but is refundable when the Company voluntarily ceases to operate the business in Cambodia.

The capital guarantee deposit earns annual interest at 0.11% in 2015 (2014: 0.08%) whereas the current accounts do not earn interest.

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on Licensing of Microfinance Deposit Taking Institutions. The reserve requirement fluctuates depending on the level of deposits from customers and it does not earn interest.

## 4. BALANCES WITH OTHER BANKS

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Savings accounts	4,587,422	18,579,059	2,396,952	9,767,580
Current accounts	3,179,642	12,877,550	3,913,015	15,945,536
	<b>7,767,064</b>	<b>31,456,609</b>	<b>6,309,967</b>	<b>25,713,116</b>

The savings accounts earn annual interest at 0.05% to 0.10% in 2015 (2014: 0.05% - 0.10%) whereas the current accounts earn interest at 0.5% in 2015 (2014: 0.5%).

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

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Cash on hand	14,050,134	56,903,043	6,969,731	28,401,654
Balances with the NBC – current account	5,785,690	23,432,045	11,284,462	45,984,183
Balances with other banks	7,767,064	31,456,609	6,309,967	25,713,116
	<b>27,602,888</b>	<b>111,791,697</b>	<b>24,564,160</b>	<b>100,098,953</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 5. LOANS TO CUSTOMERS

Loans to customers are categorized as follows:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Group loans	136,986	554,793	359,941	1,466,760
Individual loans	471,881,745	1,911,121,067	311,033,600	1,267,461,920
<b>Gross loans to customers</b>	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>
<b>Allowance for losses on loans to customers</b>				
Specific	(199,389)	(807,525)	(112,937)	(460,218)
General	(1,483,800)	(6,009,390)	(991,068)	(4,038,603)
<b>Allowance at end of year</b>	<b>(1,683,189)</b>	<b>(6,816,915)</b>	<b>(1,104,005)</b>	<b>(4,498,821)</b>
<b>Loans to customers - net</b>	<b>470,335,542</b>	<b>1,904,858,945</b>	<b>310,289,536</b>	<b>1,264,429,859</b>

Movements of allowance for losses on loans to customers:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
At beginning of year	1,104,005	4,498,821	744,417	2,973,947
Provision during the year	743,299	3,010,361	615,923	2,509,886
Write offs during the year	(165,827)	(671,599)	(254,953)	(1,038,933)
Foreign exchange difference	1,712	(20,668)	(1,382)	53,921
<b>At end of year</b>	<b>1,683,189</b>	<b>6,816,915</b>	<b>1,104,005</b>	<b>4,498,821</b>

Further analyses of loans to customers are set out below.

(a) Grading of loans to customers:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Standard loans	471,278,098	1,908,676,297	310,911,359	1,266,963,788
Substandard loans	423,049	1,713,348	328,876	1,340,170
Doubtful loans	229,286	928,608	104,652	426,457
Loss loans	88,298	357,607	48,654	198,265
<b>Total gross loans</b>	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>

(b) All of the Company loans to customers are secured. Refer to Note 23.1 on Credit risk for analysis of standard loans quality.

(c) For an analysis of loan portfolio by maturity, refer to Note 23.3 on Liquidity analysis.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 5. LOANS TO CUSTOMERS (continued)

(d) Analyses of loan portfolio by residency, relationship, currency and industry sector are as follows:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Residence status:				
Residents	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>
Relationship:				
Related parties	1,193,934	4,835,433	684,188	2,788,066
Non-related parties	470,824,797	1,906,840,427	310,709,353	1,266,140,614
	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>
Currency:				
US\$	438,853,622	1,777,357,169	289,745,495	1,180,712,893
KHR	28,775,652	116,541,391	21,648,046	88,215,787
THB	4,389,457	17,777,300	-	-
	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>
Industry sector:				
Agriculture	139,827,704	566,302,201	97,437,319	397,057,076
Trade and commerce	171,880,901	696,117,649	83,270,985	339,329,265
Services	80,798,388	327,233,471	50,754,903	206,826,229
Household	78,851,999	319,350,596	45,038,570	183,532,173
Construction	491,423	1,990,263	31,479,841	128,280,351
Others	168,316	681,680	3,411,923	13,903,586
	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>

(e) Annual interest rates are as follows:

	2015	2014
External customers	14.4%-36%	14.4% - 42.0%
Staff loans	8.0%	8.0%



# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 6. PROPERTY AND EQUIPMENT

	<i>Office furniture and equipment US\$</i>	<i>Computers US\$</i>	<i>Motor vehicles US\$</i>	<i>Leasehold improvements US\$</i>	<i>Construction in progress US\$</i>	<i>Total US\$</i>
<b>Cost</b>						
As at 1 January 2015	2,753,953	2,843,099	3,169,869	584,138	424,242	9,775,301
Additions	646,917	1,129,303	1,713,424	154,690	298,149	3,942,483
Disposal	(4,451)	(20,281)	(185,760)	-	-	(210,492)
Written off	(35,885)	(26,053)	(1,520)	-	-	(63,458)
Transfer	-	424,241	-	-	(424,241)	-
As at 31 December 2015	<b>3,360,534</b>	<b>4,350,309</b>	<b>4,696,013</b>	<b>738,828</b>	<b>298,150</b>	<b>13,443,834</b>
<b>Accumulated depreciation</b>						
As at 1 January 2015	1,558,556	2,260,814	1,832,186	279,899	-	5,931,455
Depreciation	459,405	1,067,670	755,552	96,387	-	2,379,014
Disposal	(3,411)	(20,120)	(148,070)	-	-	(171,601)
Written off	(27,047)	(25,474)	(1,261)	-	-	(53,782)
As at 31 December 2015	<b>1,987,503</b>	<b>3,282,890</b>	<b>2,438,407</b>	<b>376,286</b>	<b>-</b>	<b>8,085,086</b>
<b>Net book value</b>						
As at 31 December 2015	<b>1,373,031</b>	<b>1,067,419</b>	<b>2,257,606</b>	<b>362,542</b>	<b>298,150</b>	<b>5,358,748</b>
As at 31 December 2014	<b>1,195,397</b>	<b>582,285</b>	<b>1,337,683</b>	<b>304,239</b>	<b>424,242</b>	<b>3,843,846</b>
<b>KHR'000 equivalent (Note 2.3.1)</b>						
As at 31 December 2015	<b>5,560,776</b>	<b>4,323,047</b>	<b>9,143,304</b>	<b>1,468,295</b>	<b>1,207,508</b>	<b>21,702,929</b>
As at 31 December 2014	<b>4,871,243</b>	<b>2,372,811</b>	<b>5,451,058</b>	<b>1,239,774</b>	<b>1,728,786</b>	<b>15,663,672</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 7. SOFTWARE

US\$

### Cost

As at 1 January 2015	1,797,328
As at 31 December 2015	<u>1,797,328</u>

### Accumulated amortization

As at 1 January 2015	1,399,519
Amortization	198,905
As at 31 December 2015	<u>1,598,424</u>

### Net book value

As at 31 December 2015	<u>198,904</u>
As at 31 December 2014	<u>397,809</u>

### *KHR'000 equivalent (Note 2.3.1)*

As at 31 December 2015	<u>805,561</u>
As at 31 December 2014	<u>1,621,072</u>

## 8. OTHER INVESTMENT

This is an equity interest in Cambodian Microfinance Association 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.

## 9. OTHER ASSETS

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Prepayments and deposits	5,704,254	23,102,229	3,728,306	15,192,847
Interest receivable	5,453,081	22,084,978	3,693,402	15,050,613
	<u>11,157,335</u>	<u>45,187,207</u>	<u>7,421,708</u>	<u>30,243,460</u>

Prepayments pertain mainly to prepaid expenses for transaction fees on borrowings and rent which are being amortized over the economic usage period ranging from 24 to 36 months for transaction fees and 2 to 24 months for rent.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 10. DEPOSITS FROM CUSTOMERS

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Savings deposits	33,438,845	135,427,322	26,216,014	106,830,257
Term deposits	226,431,743	917,048,559	139,880,254	570,012,035
	<b>259,870,588</b>	<b>1,052,475,881</b>	<b>166,096,268</b>	<b>676,842,292</b>

Further analyses on deposits from customers follow:

(a) By type of customer:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<i>Savings deposits</i>				
Individual	31,939,577	129,355,287	26,169,831	106,642,061
Private sector	1,499,268	6,072,035	46,183	188,196
<i>Term deposits</i>				
Individual	201,292,232	815,233,540	130,657,458	532,429,141
Private sector	25,139,511	101,815,019	9,222,796	37,582,894
	<b>259,870,588</b>	<b>1,052,475,881</b>	<b>166,096,268</b>	<b>676,842,292</b>

(b) By residency status:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Resident	256,503,418	1,038,838,843	133,858,677	545,474,108
Non-resident	3,367,170	13,637,038	32,237,591	131,368,184
	<b>259,870,588</b>	<b>1,052,475,881</b>	<b>166,096,268</b>	<b>676,842,292</b>

(c) By currency:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
US\$	213,898,592	866,289,298	139,469,516	568,338,276
KHR	44,998,662	182,244,581	26,626,752	108,504,016
THB	973,334	3,942,002	-	-
	<b>259,870,588</b>	<b>1,052,475,881</b>	<b>166,096,268</b>	<b>676,842,292</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 10. DEPOSITS FROM CUSTOMERS (continued)

(d) By relationship:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Related	3,298,433	13,358,654	1,677,589	6,836,176
Non-related	256,572,155	1,039,117,227	164,418,679	670,006,116
	<b>259,870,588</b>	<b>1,052,475,881</b>	<b>166,096,268</b>	<b>676,842,292</b>

(e) By maturity:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Within 1 month	37,503,135	151,887,697	41,944,490	170,923,795
More than 1 month to 3 months	17,724,268	71,783,285	30,981,136	126,248,130
More than 3 months	204,643,185	828,804,899	93,170,642	379,670,367
	<b>259,870,588</b>	<b>1,052,475,881</b>	<b>166,096,268</b>	<b>676,842,292</b>

(f) By interest rates per annum:

	2015	2014
<i>Bank &amp; MFIs</i>		
Saving	0%	0%
Term deposit	3.5%-4.5%	3.5%-4.5%
<i>Individuals</i>		
Savings deposits	4.0%	4.0%
Term deposits in US\$	4.5% - 7.5%	4.5% - 7.5%
Term deposits in KHR	5.0% - 9.5%	5.0% - 9.50%
Term deposits in THB	4.5% - 7.5%	-

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 11. BORROWINGS

The borrowings of the Company are unsecured and broken down as follows:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Related party:</b>				
MJB	442,155	1,790,728	634,315	2,584,834
<b>Non-related parties:</b>				
Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V ('FMO')	45,000,000	182,250,000	25,656,851	104,551,667
Symbiotics	17,996,049	72,883,998	17,481,227	71,236,000
DEG	12,500,000	50,625,000	15,000,000	61,125,000
Micro-Finance Enhancement ResponsAbility SICAV	15,000,000	60,750,000	10,000,000	40,750,000
ICBC	11,000,000	44,550,000	10,000,000	40,750,000
Norfund	15,000,000	60,750,000	9,000,000	36,675,000
Triodos - Doen	4,200,000	17,010,000	7,000,000	28,525,000
Blue Orchard	5,250,000	21,262,500	5,250,000	21,393,750
Cathay United Bank (Cambodia) Corporation Limited	3,333,334	13,500,003	4,666,667	19,016,668
NMI	2,896,013	11,728,853	4,475,475	18,237,561
Maruhan Investment Asia	4,000,000	16,200,000	4,000,000	16,300,000
Hatton National Bank Plc	10,000,000	40,500,000	-	-
ABA Bank	4,750,000	19,237,500	-	-
UCB	2,500,000	10,125,000	-	-
ACLEDA Bank	5,000,000	20,250,000	-	-
DWM Funds S.C.A	2,000,000	8,100,000	-	-
	-	-	3,000,000	12,225,000
	<b>160,425,396</b>	<b>649,722,854</b>	<b>115,530,220</b>	<b>470,785,646</b>
	<b>160,867,551</b>	<b>651,513,582</b>	<b>116,164,535</b>	<b>473,370,480</b>

(a) By currency:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
US\$	156,371,502	633,304,584	113,026,457	460,582,813
KHR	4,496,049	18,208,998	3,138,078	12,787,667
	<b>160,867,551</b>	<b>651,513,582</b>	<b>116,164,535</b>	<b>473,370,480</b>

(b) By interest rates:

	2015	2014
US\$	4.72% - 11%	5.21% - 10.50%
KHR	9.17% - 10.50%	9.00% - 10.50%

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 11. BORROWINGS (continued)

(c) By maturity:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Within one month	2,080,353	8,425,430	-	-
More than 1 month to 3 months	9,491,014	38,438,607	9,581,119	39,043,058
More than 3 months to 12 months	43,127,772	174,667,477	32,230,441	131,339,048
More than 1 year to 5 years	106,168,412	429,982,068	71,852,975	292,800,874
Over 5 years	-	-	2,500,000	10,187,500
	<b>160,867,551</b>	<b>651,513,582</b>	<b>116,164,535</b>	<b>473,370,480</b>

As at 31 December 2015, the Company breached the financial covenant with FMO and DEG to maintain a liquidity coverage ratio ("LCR") of 100%. Calculated LCR of the Company is 86%. On 12 January 2016, the Company informed the creditors of the breach and requested for a waiver of the LCR for the quarter ended 31 December 2015.

On 20 January 2016, DEG acknowledged the waiver request of the Company.

As at the date of the report, the FMO is yet approved the waiver request of the Company. The management believes that approval of the waiver request will be secured from the creditors.

## 12. SUBORDINATED DEBTS

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Maruhan (Cambodia) Corporation	15,000,000	60,750,000	-	-
DEG	10,000,000	40,500,000	10,000,000	40,750,000
Maruhan Japan Bank Plc.	8,000,000	32,400,000	8,000,000	32,600,000
Maruhan Investment Asia	5,000,000	20,250,000	5,000,000	20,375,000
Triodos - Doen	1,313,217	5,318,529	1,313,217	5,351,359
DWM Funds S.C.A	1,000,000	4,050,000	1,000,000	4,075,000
	<b>40,313,217</b>	<b>163,268,529</b>	<b>25,313,217</b>	<b>103,151,359</b>

### Maruhan (Cambodia) Corporation

On 6 April 2014, the NBC approved the Company's subordinated debt from Maruhan (Cambodia) Corporation ("MCC") amounting to US\$15,000,000. The Company drew down US\$15,000,000 on 28 January 2015. This subordinated has a seven-year term maturing on 28 January 2022 and bears a fixed interest at 7.00% per annum.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 12. SUBORDINATED DEBTS (continued)

### **DEG**

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

### **Maruhan Japan Bank Plc.**

On 21 December 2012, the NBC approved the Company's subordinated debt from MJB amounting to US\$4,000,000 which was transferred out from the borrowings with MJB. This subordinated debt bears interest at 10% per annum and matures within 8 years after the disbursement date. On 24 November 2014, NBC approved another subordinated debt from MJB amounting to US\$4,000,000 at the interest of 9% per annum and matures within 6 years after disbursement date.

### **Maruhan Investment Asia**

On 10 October 2013, the NBC approved the Company's subordinated debt from Maruhan Investment Asia ("MIA") amounting to US\$5,000,000. The Company drew down 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.

### **DWM Funds S.C.A**

On 29 October 2008, the NBC approved the Company's subordinated debt from DWM amounting to US\$1,000,000. The Company drew down US\$400,000 in 2009 and another US\$600,000 in 2010. This subordinated debt has an eight-year term maturing on 31 October 2016 and bears gross interest at 12.7907% per annum.

On 6 January 2011, the NBC approved the Company's another subordinated debt from DWM amounting to US\$1,000,000. this subordinated debt bears gross interest rate at 11.05% per annum and matures within 7 years after the disbursement date. This subordinated debt was subsequently converted into the Company's share capital on 24 October 2011 which was approved by the NBC on 11 August 2011.

Share of DWM were subsequently sold and transferred to MJB in 2012.

### **Triodos - Doen**

On 19 December 2007, the NBC approved the Company's subordinated debt from Triodos – Doen amounting to US\$1,000,000 and Triodos Fair Share Fund, amounting to US\$1,000,000. This subordinated debt has a 10-year term maturing on 1 January 2018 and bears interest at 11.6279% per annum for the first five years, and gross interest at 12-month LIBOR plus 6% (subject to a minimum gross interest rate charge at 12.2093%) for the remaining period from 1 January 2013.

On 6 January 2011, the NBC approved the Company's another subordinated debt from Triodos – Doen amounting to US\$500,000. This subordinated debt bears gross interest at 11.0466% per annum and matures on 1 January 2018. The subordinated debts from Triodos – Doen amounting to US\$900,000 and US\$286,783 were converted into the Company's share capital on 12 October 2011 and 1 December 2011, respectively, which were approved by the NBC on 11 August 2011. These shares of Triodos – Doen were subsequently sold and transferred to MJB in 2012.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 13. PROVIDENT FUND

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Balance at beginning of year	3,749,258	15,278,226	2,627,707	10,497,688
Additions during the year:				
Employer contribution	1,003,670	4,064,863	728,045	2,966,783
Employee contribution	531,141	2,151,121	397,164	1,618,443
Interest	258,601	1,047,334	178,951	729,225
Paid during the year	(171,490)	(694,535)	(182,609)	(744,132)
Foreign exchange difference	-	(93,730)	-	210,119
<b>Balance at end of year</b>	<b>5,371,180</b>	<b>21,753,279</b>	<b>3,749,258</b>	<b>15,278,126</b>

## 14. INCOME TAX

The Company's tax returns are subject to examination by the General Department of Taxation ("GDT"). Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, the amounts reported in the financial statements could change at a later date upon final determination by the GDT.

### **Applicable tax rates**

In accordance with Cambodian tax law, the Company has the obligation to pay tax on profit ("ToP") at the rate of 20% of taxable income or minimum tax at 1% of turnover inclusive of all taxes except value-added tax, whichever is higher.

### 14.1 Income tax expense

Income tax expense comprises:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Current income tax	5,170,630	20,941,052	2,943,115	11,993,194
Deferred tax income	(447,496)	(1,812,359)	(290,345)	(1,183,156)
	<b>4,723,134</b>	<b>19,128,693</b>	<b>2,652,770</b>	<b>10,810,038</b>

Movements of income tax payable follow:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Balance at beginning of year	2,482,746	10,117,190	1,261,944	5,041,468
Income tax expense	5,170,630	20,941,052	2,943,115	11,993,194
Income tax paid	(3,242,331)	(13,131,441)	(1,722,313)	(7,018,425)
Foreign exchange difference	-	(62,069)	-	100,953
<b>Balance at end of year</b>	<b>4,411,045</b>	<b>17,864,732</b>	<b>2,482,746</b>	<b>10,117,190</b>



# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 14. INCOME TAX (continued)

### 14.1 *Income tax expense* (continued)

The reconciliation of income tax expense shown in profit or loss is as follows:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Profit before income tax	23,663,798	95,838,382	13,222,567	53,881,960
Income tax expense at applicable tax rate of 20%	4,732,760	19,167,676	2,644,513	10,776,392
Permanent differences	(9,626)	(38,983)	8,257	33,646
<b>Effective income tax</b>	<b>4,723,134</b>	<b>19,128,693</b>	<b>2,652,770</b>	<b>10,810,038</b>

### 14.2 *Deferred income tax*

Details of deferred income tax recognized during the year follow:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Accruals	957,329	3,877,183	687,321	2,800,831
Allowance for loan losses	296,760	1,201,878	198,214	807,720
Property and equipment	48,133	194,939	36,241	147,682
Unearned income	31,536	127,721	34,161	139,207
Unrealized loss on foreign exchange	79,823	323,283	10,148	41,356
	<b>1,413,581</b>	<b>5,725,003</b>	<b>966,085</b>	<b>3,936,796</b>

## 15. OTHER LIABILITIES

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Interest payable	5,492,172	22,243,297	2,825,217	11,512,759
Personnel and other related costs	1,050,503	4,254,537	753,776	3,071,637
Taxes payable	405,642	1,642,850	321,177	1,308,796
Unearned income	157,682	638,612	170,806	696,034
Accounts payable	128,715	521,296	52,761	215,002
Accrued expenses	199,832	809,319	84,524	344,436
	<b>7,434,546</b>	<b>30,109,911</b>	<b>4,208,261</b>	<b>17,148,664</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 16. SHARE CAPITAL

Details of shareholding are as follows:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1) (As restated)
MJB	17,309,200	70,102,260	17,309,200	70,534,990
CCB	891,860	3,612,033	891,860	3,634,330
	<b>18,201,060</b>	<b>73,714,293</b>	<b>18,201,060</b>	<b>74,169,320</b>

The total authorized number of shares is 1,820,106 shares with par value of US\$10 per share. All shares are issued and fully paid.

*Restatement of corresponding figures*

The financial statements for the year ended 31 December 2014 were restated to correct the details of the shareholding and to conform with the memorandum and by-laws of the Company.

*Dividend declaration*

On 6 May 2015, the shareholders approved the declaration and payment of dividends amounting to US\$2,642,449 during the period (2014: US\$1,523,019).

## 17. INTEREST INCOME

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Loans to customers	82,146,090	332,691,665	50,375,676	205,280,880
Balances with other banks	5,659	22,918	8,212	33,463
Balances with the NBC	1,731	7,011	1,235	5,033
	<b>82,153,480</b>	<b>332,721,594</b>	<b>50,385,123</b>	<b>205,319,376</b>

## 18. INTEREST EXPENSE

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Deposits from customers	15,103,504	61,169,191	8,086,843	32,953,885
Borrowings	11,156,457	45,183,651	7,033,600	28,661,920
Subordinated debts	3,657,076	14,811,158	1,333,158	5,432,619
Provident fund	279,939	1,133,753	195,650	797,274
	<b>30,196,976</b>	<b>122,297,753</b>	<b>16,649,251</b>	<b>67,845,698</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 19. NET FEES AND COMMISSIONS

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Fees and commissions on loans	1,569,025	6,354,551	995,640	4,057,233
Remittance fees	95,020	384,831	66,711	271,847
Other fees and commissions	9,508	38,507	6,204	25,281
	<b>1,673,553</b>	<b>6,777,889</b>	<b>1,068,555</b>	<b>4,354,361</b>
Fees and commissions on borrowings	(629,747)	(2,550,475)	(341,259)	(1,390,630)
	<b>1,043,806</b>	<b>4,227,414</b>	<b>727,296</b>	<b>2,963,731</b>

## 20. OTHER OPERATING EXPENSES

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Personnel and other related costs	17,424,587	70,569,577	12,398,274	50,522,967
Depreciation and amortization	2,577,919	10,440,572	1,921,318	7,829,371
Office rental	2,389,370	9,676,949	1,892,141	7,710,475
Marketing and advertising	1,399,987	5,669,947	945,910	3,854,583
Stationeries and printing	1,062,968	4,305,020	544,790	2,220,019
Motor vehicle expenses	526,314	2,131,572	542,711	2,211,547
Utilities	577,075	2,337,154	460,853	1,877,976
Communication	468,881	1,898,968	393,284	1,602,632
Repairs and maintenance	403,997	1,636,188	280,233	1,141,949
Security	346,546	1,403,511	260,755	1,062,577
Transportation	278,109	1,126,341	199,929	814,711
Bank charges	124,582	504,557	109,877	447,749
Professional fees	197,204	798,676	84,574	344,639
Other expenses	993,709	4,024,522	693,274	2,825,091
	<b>28,771,248</b>	<b>116,523,554</b>	<b>20,727,923</b>	<b>84,466,286</b>

Others include Board of Directors' fees, donations, dues and membership, insurance, license fees, and non-capitalised fixed assets

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 21. COMMITMENTS

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

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Within one year	2,370,291	9,599,679	1,971,251	8,032,848
More than 1 year to 5 years	7,492,299	30,343,811	5,784,523	23,571,932
More than 5 years	3,920,686	15,878,778	2,278,605	9,285,315
	<b>13,783,276</b>	<b>55,822,268</b>	<b>10,034,379</b>	<b>40,890,095</b>

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Transaction	2015		2014	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
MJB	Dividends declared	2,512,968	10,177,520	1,448,391	5,902,193
	Borrowing	-	-	500,000	2,037,500
	Subordinated debt	-	-	4,000,000	16,300,000
	Repayments of borrowing	192,160	778,248	642,160	2,616,802
	Interest expense	817,799	3,312,088	494,337	2,014,423
	Deposit	1,414,381	5,728,243	548,464	2,234,991
Board of Directors	Remuneration	353,000	1,429,650	291,936	1,189,639
	Fee and related expenses	133,863	542,145	77,176	314,491

Balances with related parties at the reporting year were as follows:

Related party	Transaction	2015		2014	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
MJB	Borrowing	442,155	1,790,728	634,315	2,584,834
	Subordinated debt	8,000,000	32,400,000	8,000,000	32,600,000
	Deposit	2,735,661	11,079,427	1,321,280	5,384,215
Senior management	Deposit	562,772	2,279,227	356,309	1,451,958
	Loan	1,193,934	4,835,433	684,188	2,788,064

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT

The Company's activities are exposed to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risk is core to the financial business, and operational risks are an inevitable consequence of being in business.

In the absence of a derivative market in Cambodia, the Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposure.

The Company intends to comply with the NBC's regulations for financial risk management purposes. The Company however recognizes that international best practices on risk management are yet to be fully implemented. The Board of Directors has established an asset and liability management committee and risk management committee to formulate broad parameters of acceptable risk for the Company and monitor the activities against these parameters.

The Company holds the following financial assets and liabilities:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Financial assets</b>				
Cash on hand	14,050,134	56,903,043	6,969,731	28,401,654
Balances with the NBC	5,785,690	23,432,045	11,284,462	45,984,183
Balances with other banks	7,767,064	31,456,609	6,309,967	25,713,116
Loans to customers	470,335,542	1,904,858,945	310,289,536	1,264,429,859
Other investment	25,000	101,250	25,000	101,875
Other assets	5,453,080	22,084,974	3,693,402	15,050,613
<b>Total financial assets</b>	<b>503,416,510</b>	<b>2,038,836,866</b>	<b>338,572,098</b>	<b>1,379,681,300</b>
<b>Financial liabilities</b>				
Deposits from customers	259,870,588	1,052,475,881	166,096,268	676,842,292
Borrowings	160,867,551	651,513,582	116,164,535	473,370,480
Subordinated debts	40,313,217	163,268,529	25,313,217	103,151,359
Provident fund	5,371,180	21,753,279	3,749,258	15,278,226
Other liabilities	6,871,222	27,828,449	3,716,278	15,143,833
<b>Total financial liabilities</b>	<b>473,293,758</b>	<b>1,916,839,720</b>	<b>315,039,556</b>	<b>1,283,786,190</b>

### Capital Management

The primary objectives of the Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong financial position and healthy capital ratios to support its business and to maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from previous years.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### *Capital Management (continued)*

As at 31 December 2015, the Company is compliant with the solvency ratio prescribed by the NBC at 15%, as shown in the table below:

	31 December 2015		31 December 2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Tier I capital	59,625,950	241,485,098	43,837,484	178,637,747
Tier II capital	40,313,217	163,268,529	25,313,217	103,151,359
<b>Net worth</b>	<b>99,939,167</b>	<b>404,753,627</b>	<b>69,150,701</b>	<b>281,789,106</b>
Total risk-weighted assets	495,129,085	2,005,272,794	328,620,855	1,339,129,984
<b>Solvency ratio</b>	<b>20%</b>	<b>20%</b>	<b>21%</b>	<b>21%</b>

Net worth and risk-weighted assets are computed based on NBC regulations. Management believes the Company has complied with all externally imposed capital requirements.

### 23.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposure arises principally in lending activities that lead to loans to customers. The credit risk management is carried out by the credit department.

#### (a) Credit risk measurement

The Company assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. Credit committee is responsible for determining the risk rating policies.

#### (b) Risk limit control and mitigation policy

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

#### (c) Impairment and provisioning policy

The Company is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas, as disclosed in Note 2.3.8.1.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.1 Credit risk (continued)

#### (d) Loans to customers

Loans to customers are summarized as follows:

	2015		2014	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Loans to customers neither past due nor impaired (i)	470,905,999	1,907,169,296	310,873,510	1,266,809,553
Loans to customers past due but not impaired (ii)	376,048	1,522,994	37,849	154,233
Loans to customers individually impaired (iii)	736,684	2,983,570	482,182	1,964,894
<b>Loans to customers, gross</b>	<b>472,018,731</b>	<b>1,911,675,860</b>	<b>311,393,541</b>	<b>1,268,928,680</b>

For purposes of loan provisioning, expected recovery from collateral (except cash) is not taken into consideration based on NBC's requirement.

#### (i) Loans to customers neither past due nor impaired

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

#### (ii) Loans to customers past due but not impaired

Loans to customers less than 30 days past due are not considered impaired, unless other information is available to indicate the contrary.

#### (iii) Loans to customers individually impaired

In accordance with Prakas No. B7-02-186 dated 13 September 2002 on the classification and provisioning for bad and doubtful debts, loans and advances past due more than 30 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

### 23.2 Market risk

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument 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.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.2 *Market risk* (continued)

#### (i) Foreign exchange risk

The Company operates in the Kingdom of Cambodia and transacts in US\$, KHR, and THB.

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

As at 31 December 2015, 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.

#### (ii) Price risk

The Company is not exposed to securities price risk because it does not hold any investment classified on the balance sheet either as available for sale or at fair value through profit or loss.

#### (iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes and may reduce losses in the event that unexpected movements arise. The management of the Company at this stage does not have a policy to set limits on the level of mismatch of interest rate re-pricing that may be undertaken; however, the management regularly monitors the mismatch.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The Company has no financial assets and liabilities with floating interest rates. Balance with the NBC, and other banks earn fixed interest rates for the period of the deposit and placement and loans to customers earns fixed interest rate based on outstanding balance over the agreed terms.

### 23.3 *Liquidity risk*

Liquidity risk is the risk that the Company is 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 fulfill commitments to lend.

The management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the daily cash position and projection for the next day, week and month respectively, as these are key periods for liquidity management. Management monitors the movements of the main depositors and projection of their withdrawals.

The table next page is an analysis of the assets and liabilities of the Company by relevant maturity based on the remaining period at the balance sheet date to the contractual or estimated maturity dates.



# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.3 Liquidity risk (continued)

	<i>Up to 1 month US\$</i>	<i>&gt;1 to 3 months US\$</i>	<i>&gt;3 to 12 months US\$</i>	<i>&gt;1 to 5 years US\$</i>	<i>Over 5 years US\$</i>	<i>No fixed maturity date US\$</i>	<i>Total US\$</i>
<b>As at 31 December 2015</b>							
<b>Financial assets</b>							
Cash on hand	14,050,134	-	-	-	-	-	14,050,134
Balances with the NBC	5,785,690	-	-	-	-	-	5,785,690
Balances with other banks	7,767,064	-	-	-	-	-	7,767,064
Loans to customers	15,938,425	42,852,828	151,033,710	261,457,084	-	-	471,282,047
Other investments	-	-	-	-	25,000	-	25,000
Other assets	5,453,080	-	-	-	-	-	5,453,080
<b>Total financial assets</b>	<b>48,994,393</b>	<b>42,852,828</b>	<b>151,033,710</b>	<b>261,457,084</b>	<b>25,000</b>	<b>-</b>	<b>504,363,015</b>
<b>Financial liabilities</b>							
Deposits from customers	56,825,473	59,206,153	149,577,057	1,754,121	-	-	267,362,804
Borrowings	2,131,312	10,615,658	49,336,282	116,918,798	-	-	179,002,050
Subordinated debts	-	309,363	3,983,721	43,597,674	6,955,708	-	54,846,466
Provident fund	427,685	855,373	3,849,179	238,943	-	-	5,371,180
Other liabilities	4,441,092	2,031,404	398,726	-	-	-	6,871,222
<b>Total financial liabilities</b>	<b>63,825,562</b>	<b>73,017,951</b>	<b>207,144,965</b>	<b>162,509,536</b>	<b>6,955,708</b>	<b>-</b>	<b>513,453,722</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(14,831,169)</b>	<b>(30,165,123)</b>	<b>(56,111,255)</b>	<b>98,947,548</b>	<b>(6,930,708)</b>	<b>-</b>	<b>(9,090,707)</b>
<b>KHR'000 equivalent (Note 2.3.1)</b>	<b>(60,066,234)</b>	<b>(122,168,748)</b>	<b>(277,250,583)</b>	<b>400,737,569</b>	<b>(28,069,367)</b>	<b>-</b>	<b>(36,817,363)</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.3. Liquidity risk (continued)

	Up to 1 month US\$	>1 to 3 months US\$	>3 to 12 months US\$	>1 to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
<b>As at 31 December 2014</b>							
<b>Financial assets</b>							
Cash on hand	6,969,731	-	-	-	-	-	6,969,731
Balances with the NBC	11,284,462	-	-	-	-	-	11,284,462
Balances with other banks	6,309,967	-	-	-	-	-	6,309,967
Loans to customers	11,694,815	30,558,739	110,557,776	158,100,029	-	-	310,911,359
Other investments	-	-	-	-	25,000	-	25,000
Other assets	3,693,402	-	-	-	-	-	3,693,402
<b>Total financial assets</b>	<b>39,952,377</b>	<b>30,558,739</b>	<b>110,557,776</b>	<b>158,100,029</b>	<b>25,000</b>	<b>-</b>	<b>339,193,921</b>
<b>Financial liabilities</b>							
Deposits from customers	41,272,885	32,039,117	97,040,375	716,630	-	-	171,069,007
Borrowings	1,263,649	8,953,240	36,883,072	81,334,760	2,638,713	-	131,073,434
Subordinated debts	-	236,694	2,152,832	17,304,673	18,635,447	-	38,329,646
Provident fund	290,840	581,678	2,617,551	259,189	-	-	3,749,258
Other liabilities	1,921,223	1,503,104	253,451	38,500	-	-	3,716,278
<b>Total financial liabilities</b>	<b>44,748,597</b>	<b>43,313,833</b>	<b>138,947,281</b>	<b>99,653,752</b>	<b>21,274,160</b>	<b>-</b>	<b>347,937,623</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(4,796,220)</b>	<b>(12,755,094)</b>	<b>(28,389,505)</b>	<b>58,446,277</b>	<b>(21,249,160)</b>	<b>-</b>	<b>(8,743,702)</b>
<b>KHR'000 equivalent (Note 2.3.1)</b>	<b>(19,544,595)</b>	<b>(51,977,008)</b>	<b>(115,687,233)</b>	<b>238,168,579</b>	<b>(86,590,327)</b>	<b>-</b>	<b>(35,630,584)</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015 and for the year then ended

## **23. FINANCIAL RISK MANAGEMENT (continued)**

### **23.4 Fair value of financial assets and liabilities**

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Company's financial assets and liabilities. Fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values. In making this assessment, the management assumes that loans to customers are mainly held to maturity with fair values equal to the book value of loans to customers adjusted for provision for loan losses, if any.

## **24. SUBSEQUENT EVENTS**

There were no significant events which occurred after the reporting date that would require adjustments or disclosures to be made in the financial statements .

## **25. TAX CONTINGENCY**

The taxation system in Cambodia is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects since the incorporation of the Company could be significant.