

SATHAPANA BANK PLC.

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

Corporate Information

Bank	SATHAPANA Bank Plc.	
Registration No.	00017121	
Registered office	No. 83, Preah Norodom Blvd. Sangkat Phsar Thmey 3, Khan Daun Penh Phnom Penh, Kingdom of Cambodia	
Shareholder	MARUHAN Investment Asia Pte. Ltd.	
Board of Directors	Dr. Han Chang-Woo Mr. Han Yu Mr. Han Ken H.E. Shinohara Katsuhiko Mr. Ishimura Mitsuhiru H.E. Kim Vada Mr. Hun Monivann Mr. Norihiko Kato	Chairman (Non-executive) Non-executive Director Non-executive Director Independent and Non-executive Director Independent and Non-executive Director Independent and Non-executive Director (appointed on 1 August 2017) Independent and Non-executive Director Executive Director
Senior management team	Mr. Norihiko Kato Mr. Lim Aun Mr. Tsuchiya Kazuhiko Mr. Seang Serey Mr. Vong Sokhal Mr. Svoeuy Ponnakrath Mr. Eap Bunthan	Chief Executive Officer Deputy Chief Executive Officer and Chief Operating Officer Chief Corporate Officer Chief Administration Officer Chief Planning Officer Chief Financial Officer (appointed on 17 October 2017) Chief Financial Officer (resigned on 31 January 2017)
Auditors	KPMG Cambodia Ltd	

Sathapana Bank Plc.

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Report of the Board of Directors

The Board of Directors has pleasure in submitting its report together with the financial statements of SATHAPANA Bank Plc. ("the Bank") for the year ended 31 December 2017.

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.

Financial results

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	23,805,608	96,103,240	11,281,887	45,544,977
Income tax expense	(5,219,569)	(21,071,400)	(2,450,183)	(9,891,389)
Net profit for the year	<u>18,586,039</u>	<u>75,031,840</u>	<u>8,831,704</u>	<u>35,653,588</u>

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.

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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 are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Bank, inadequate to any material extent.

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.

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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.

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
Mr. Ishimura Mitsuru	Independent and Non-executive Director
H.E. Kim Vada	Independent and Non-executive Director appointed on 1 August 2017
Mr. Hun Monivann	Independent and Non-executive Director
Mr. Norihiko Kato	Executive Director

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.

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Responsibilities of the Board of Directors in respect of the financial statements

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors 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.

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Approval of the financial statements

I, the undersigned, on behalf of the Board of Directors, hereby approve the accompanying financial statements which include the balance sheet as at 31 December 2017, and the related income statement, statements of changes in equity and cash flows for the year then ended, and notes as set out on pages 9 to 60 which, in our opinion, are prepared, in all material respects, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Dr. Han Chang-Woo
Chairman

Phnom Penh, Kingdom of Cambodia

Date 26 MAR 2018



Mr. Norihiko Kato
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date 26 MAR 2018



Mr. Svoeuy Ponnakrath
Chief Financial Officer

Phnom Penh, Kingdom of Cambodia

Date 26 MAR 2018



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Report of the Independent Auditors To the shareholder 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 2017, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 60.

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

Basis for Opinion

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



Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the information included in the Report of the Board of Directors as set out on pages 1 to 5, and the annual report which is expected to be made available to us after that date.

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with CISA, 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

For **KPMG Cambodia Ltd**

Nge Huy
Partner



Phnom Penh, Kingdom of Cambodia

26 March 2018

SATHAPANA Bank Plc.

Balance sheet As at 31 December 2017

	Note	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		43,744,709	176,597,390	32,876,496	132,722,414
Balances with the National Bank of Cambodia	5	124,540,739	502,770,963	212,512,999	857,914,977
Balances with other banks	6	19,095,480	77,088,453	46,743,874	188,705,020
Loans to customers	7	794,125,991	3,205,886,626	599,550,758	2,420,386,410
Other assets	8	16,848,396	68,016,975	8,219,292	33,181,282
Goodwill	9	17,380,030	70,163,181	17,380,030	70,163,181
Property and equipment	10	8,016,784	32,363,757	7,208,738	29,101,675
Intangible assets	11	943,246	3,807,884	1,466,861	5,921,718
Other investment		50,000	201,850	50,000	201,850
Deferred tax assets	16	3,048,924	12,308,506	2,697,590	10,890,171
TOTAL ASSETS		1,027,794,299	4,149,205,585	928,706,638	3,749,188,698
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from customers and other financial institutions	12	618,172,252	2,495,561,381	583,220,998	2,354,463,169
Borrowings	13	214,788,333	867,100,500	170,721,348	689,202,082
Subordinated debts	14	13,000,000	52,481,000	16,313,217	65,856,457
Provident fund	15	10,378,502	41,898,013	7,645,507	30,864,912
Current income tax liabilities	16	4,444,141	17,940,997	2,783,651	11,237,599
Other liabilities	17	12,831,664	51,801,428	12,428,549	50,174,052
Total liabilities		873,614,892	3,526,783,319	793,113,270	3,201,798,271
SHAREHOLDERS' EQUITY					
Share capital	18	120,000,000	484,440,000	120,000,000	484,440,000
Retained earnings		34,179,407	137,982,266	15,593,368	62,950,427
Total shareholders' equity		154,179,407	622,422,266	135,593,368	547,390,427
TOTAL LIABILITIES AND EQUITY		1,027,794,299	4,149,205,585	928,706,638	3,749,188,698

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

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Income statement for the year ended 31 December 2017

	Notes	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Operating income					
Interest income	19	115,992,555	468,261,945	102,114,824	412,237,544
Interest expense	20	(49,463,241)	(199,683,104)	(44,225,679)	(178,539,066)
Net interest income		66,529,314	268,578,841	57,889,145	233,698,478
Net fees and commissions	21	5,370,725	21,681,617	940,707	3,797,634
Other income		660,511	2,666,483	360,304	1,454,547
Total operating profit		72,560,550	292,926,941	59,190,156	238,950,659
Allowance for bad and doubtful loans	7	(4,871,366)	(19,665,705)	(7,150,298)	(28,865,753)
Other operating expenses	22	(43,883,576)	(177,157,996)	(40,757,971)	(164,539,929)
Profit before income tax		23,805,608	96,103,240	11,281,887	45,544,977
Income tax expense	16	(5,219,569)	(21,071,400)	(2,450,183)	(9,891,389)
Net profit for the year		18,586,039	75,031,840	8,831,704	35,653,588

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

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

	Share capital US\$	Share premium US\$	Retained earnings US\$	Total US\$
At 1 January 2016	18,201,060	174,964	42,443,860	60,819,884
Transfers	35,857,160	(174,964)	(35,682,196)	-
Increase in share capital under the legal merger	65,941,780	-	-	65,941,780
Net profit for the year	-	-	8,831,704	8,831,704
As at 31 December 2016	120,000,000	-	15,593,368	135,593,368
(KHR'000 equivalents - Note 4)	484,440,000	-	62,950,427	547,390,427
At 1 January 2017	120,000,000	-	15,593,368	135,593,368
Net profit for the year	-	-	18,586,039	18,586,039
As at 31 December 2017	120,000,000	-	34,179,407	154,179,407
(KHR'000 equivalents - Note 4)	484,440,000	-	137,982,266	622,422,266

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

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Statement of cash flows for the year ended 31 December 2017

	Note	2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Net cash (used in)/generated from operating activities	23	(152,091,243)	(613,992,348)	152,620,326	616,128,255
Cash flow from investing activities					
Acquisition of property and equipment		(3,647,943)	(14,726,746)	(5,030,855)	(20,309,561)
Acquisition of intangible assets		(262,001)	(1,057,698)	(2,649,673)	(10,696,730)
Proceeds from disposal of property and equipment		454	1,833	15,855	64,007
Investment		-	-	(25,000)	(100,925)
Net cash used in investing activities		(3,909,490)	(15,782,611)	(7,689,673)	(31,043,209)
Cash flow from financing activities					
Proceeds from borrowings		104,500,000	421,866,500	85,500,000	345,163,500
Repayment of borrowings		(60,433,015)	(243,968,082)	(75,646,203)	(305,383,722)
Repayment of subordinated debts		(3,313,217)	(13,375,456)	(24,000,000)	(96,888,000)
Net cash generated from/(used in) financing activities		40,753,768	164,522,962	(14,146,203)	(57,108,222)
Net (decrease)/increase in cash and cash equivalents		(115,246,965)	(465,251,997)	130,784,450	527,976,824
Cash and cash equivalents at 1 January		193,849,549	782,570,629	27,602,888	111,791,696
Cash and cash equivalents transferred from MJB under the legal merger		-	-	35,462,211	143,160,946
Cash and cash equivalents at 31 December	24	78,602,584	317,318,632	193,849,549	782,570,629

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Statement of cash flows (continued) for the year ended 31 December 2017

Significant non-cash transactions

During the year there were the significant non-cash transactions related to the assets and liabilities and retained earnings from the business combination under the legal merger as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Recognised assets, liabilities and retained earnings				
Balances with the National Bank of Cambodia	-	-	23,924,962	96,585,072
Balances with other banks	-	-	9,332,056	37,673,510
Loans to customers	-	-	76,126,475	307,322,580
Property and equipment, net	-	-	458,482	1,850,892
Intangible assets, net	-	-	85,171	343,835
Goodwill	-	-	17,380,030	70,163,181
Other assets	-	-	4,407,899	17,794,688
Deposits from customers and other financial institutions	-	-	(95,519,194)	(385,610,986)
Provident fund	-	-	(245,169)	(989,747)
Income tax payable	-	-	(5,500)	(22,204)
Other liabilities	-	-	5,465,643	22,064,801

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

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

1. Reporting entity

Establishment and operations

SATHAPANA Limited (“the Bank”) was incorporated in the Kingdom of Cambodia by 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 Organisation established in 1996 and the Bank’s staff. The Bank 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 Bank 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 the micro-finance license with an indefinite life from 19 April 2006. On 22 January 2009, the Bank received a license from the NBC to conduct a deposit-taking business. On 11 February 2014, the Bank 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”), Cambodia Community Building (“CCB”), and Sathapana Employee Investment Limited (“SEI”) to acquire 95.1% equity of Sathapana Limited (“the Subsidiary”). This was subsequently approved by the NBC on 5 December 2012. In addition, the subject shares were approved for the change in ownership by the MoC on 17 December 2012.

On 8 February 2016, the Board of Directors of the Bank, pursuant to the option agreement with Cambodia Community Building (“CCB”), the non-controlling interest of the Bank, passed a resolution to purchase the remaining 4.9% of the Bank, representing all the non-controlling interest of the Bank for a total price of US\$6.02 million. The transaction was completed on 17 March 2016.

In early 2015, MARUHAN Japan Bank (“MJB”) and SATHAPANA Limited agreed to merge the two institutions into one entity, with the new name SATHAPANA Bank Plc. (“the Bank”).

SATHAPANA Limited changed its name to SATHAPANA Bank Plc. after the formal approval of the merger between MARUHAN Japan Bank (“MJB”) and Sathapana Limited by the National Bank of Cambodia (“NBC”) on 28 March 2016. On 29 March 2016, the NBC also granted the banking license to SATHAPANA Bank Plc. All assets and liabilities of MJB were transferred to the Bank on 1 April 2016.

The new Bank commenced its operations on 1 April 2016.

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

1. Reporting entity (continued)

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.

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 168 branches.

Employees

As at 31 December 2017, the Bank had 4,339 employees (31 December 2016: 3,989 employees).

2. Basis of preparation

(a) 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”) relating to the preparation and presentation of financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However as the Bank transacts and maintains its accounting records primarily in the United States Dollars (“US\$”), management have 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.

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

2. Basis of preparation (continued)

(c) Functional and presentation currency (continued)

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the 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.

(d) 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 financial statements include estimates of recoverable amounts for loans to customers which have a separate accounting policy stated in Note 3(h).

3. 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.

(a) Legal merger

Legal merger is a transaction that involves the combination of two or more entities in which one of the legal entity survives and other cease to exist, or in which both existing entities cease to exist and a new legal entity come into existence.

The Bank has adopted the book value accounting method on merger transactions under common control.

Assets and liabilities including goodwill arising from the acquisition of business prior to the legal merger, are recognised upon legal merger at their carrying amounts.

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

3. Significant accounting policies (continued)

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) Balances with other banks

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

(g) 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.

(h) Allowance for bad and doubtful loans

In compliance with NBC Guidelines, all loans to customers 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.

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

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

In addition to the above qualitative information, the number of days past due is taken into account as follows:

Prior to 1 December 2017:

Classification	Number of days past due	Allowance
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%

From 1 December 2017:

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

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

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in increase in allowance for bad and doubtful loans for the year ended 31 December 2017 of US\$ 3,277.

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.

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

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

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

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

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

(i) 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.

(j) Other assets

Other assets are stated at cost less allowance for losses.

(k) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

(ii) Depreciation of property and equipment which is charged to the income statement is as follows:

Office furniture and equipment	Declining method at 25%
Computers	Declining method at 50%
Motor vehicles	Declining method at 25%

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

(k) Property and equipment (continued)

- (ii) In July 2017, the Bank changes the depreciation method for leasehold improvement from straight-line method to declining method. The change in the method applied prospectively from 1 January 2017 by using the carrying amount of that asset and the effect of these changes resulted in increase in depreciation expenses, included in general and administrative expenses for the year ended 31 December 2017 of US\$9,990.

	Prior to 1 January 2017 Straight-line method		New declining-balance method	
	Depreciation rate	Useful life	Depreciation rate	Useful life
Leasehold improvements	5%	Shorter of the expected useful life and duration of the lease term	20%	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 uses as intended by management.

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amounts 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.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(l) Intangible assets

Intangible assets consist of computer software and Core Banking Licence and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised over their estimated useful lives of 10 years using the declining method.

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

(m) Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 3(h).

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed through the income statement if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) *Non-financial assets*

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

(n) Deposits from customers and other financial institutions

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

(o) 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.

(p) 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.

(q) 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.

(r) 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.

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

(r) Provident fund (continued)

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 Bank's contribution is paid in accordance with the following conditions:

Years of service	Percentage of contribution by the Bank
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.

(s) Income recognition

Interest income on performing loans to customers are 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 2017

3. Significant accounting policies (continued)

(t) Interest expense

Interest expense on deposits is recognised on a daily accruals basis.

(u) 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.

(v) 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.

(w) 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.

SATHAPANA Bank Plc.

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

3. Significant accounting policies (continued)

(w) Related parties (continued)

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.

4. Translation of United States Dollars into Khmer Riels

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

5. Balances with the National Bank of Cambodia

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	15,762,393	63,632,781	65,940,846	266,203,196
Short-term deposits	3,839,485	15,500,001	51,388,333	207,454,700
Capital guarantee (i)	12,000,000	48,444,000	12,000,000	48,444,000
Reserve requirement (ii)	92,938,861	375,194,181	83,183,820	335,813,081
	<u>124,540,739</u>	<u>502,770,963</u>	<u>212,512,999</u>	<u>857,914,977</u>

Short-term deposits are matured within 6 months and bear interest rate at 1.68% (31 December 2016: 0.74% to 3% per annum).

SATHAPANA Bank Plc.

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

5. Balances with the National Bank of Cambodia (continued)

(i) 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 at a rate of 0.36% (31 December 2016: 0.22%).

(ii) 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 8.00% and 12.50% of customer deposits in KHR and in foreign currencies, respectively. The 4.50% 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 bears no interest.

6. Balances with other banks

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Savings accounts	199,131	803,892	1,213,063	4,897,136
Current accounts	8,896,349	35,914,561	32,730,811	132,134,284
Short-term deposits	10,000,000	40,370,000	12,800,000	51,673,600
	<u>19,095,480</u>	<u>77,088,453</u>	<u>46,743,874</u>	<u>188,705,020</u>

The savings accounts earn annual interest at 0.5% to 1.50% as at 31 December 2017 (31 December 2016: 0.05% - 0.10%) whereas the current accounts bear no annual interest in 2017 (31 December 2016: Nil). The short-term deposits earn interest from 3.00% to 5% in 2017 (31 December 2016: 1.50% to 4.50%) per annum.

SATHAPANA Bank Plc.

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

7. Loans to customers

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Group loans	18,743	75,665	35,991	145,296
Individual loans	808,940,050	3,265,690,982	610,749,497	2,465,595,719
Gross loans to customers	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>
Allowance for losses on loans to customers				
Specific	(6,910,403)	(27,897,296)	(5,236,851)	(21,141,167)
General	(7,922,399)	(31,982,725)	(5,997,879)	(24,213,438)
	<u>(14,832,802)</u>	<u>(59,880,021)</u>	<u>(11,234,730)</u>	<u>(45,354,605)</u>
Loans to customers - net	<u>794,125,991</u>	<u>3,205,886,626</u>	<u>599,550,758</u>	<u>2,420,386,410</u>

Movements of allowance for losses on loans were as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	11,234,730	45,354,605	1,683,189	6,795,034
Allowance for the year	4,871,366	19,665,705	7,150,298	28,865,753
Written off	(1,273,294)	(5,140,289)	(325,299)	(1,313,232)
Transferred from MJB under the legal merger	-	-	2,722,906	10,992,372
Foreign exchange difference	-	-	3,636	14,678
At 31 December	<u>14,832,802</u>	<u>59,880,021</u>	<u>11,234,730</u>	<u>45,354,605</u>

SATHAPANA Bank Plc.

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

7. Loans to customers (continued)

Further analyses of loans to customers are set out below:

(a) By types of loans to customers:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Commercial loans:				
Short-term loans	8,804,917	35,545,450	9,584,347	38,692,009
Overdraft	1,789,228	7,223,113	1,085,214	4,381,009
Long-term loans	534,481,308	2,157,701,040	483,575,280	1,952,193,405
Consumer loans:				
Personal loans	233,770,384	943,731,040	91,927,069	371,109,576
Housing loans	9,596,119	38,739,532	7,099,272	28,659,762
Staff loans	20,516,837	82,826,472	17,514,306	70,705,254
Total gross loans	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

(b) Grading of loans to customers:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Short term loan				
Standard loans – Secured	9,360,093	37,786,695	11,553,925	46,643,195
Standard loans – Unsecured	3,334,257	13,460,396	53,194	214,744
Special mention – Secured	161	650	7,971	32,179
Substandard loans – Secured	989	3,993	23,505	94,890
Doubtful loans – Secured	98	396	511,335	2,064,259
Loss loans – Secured	34,194	138,041	8,028	32,409
Sub-total	<u>12,729,792</u>	<u>51,390,171</u>	<u>12,157,958</u>	<u>49,081,676</u>

SATHAPANA Bank Plc.

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

7. Loans to customers (continued)

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

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Long term loan				
Standard loans – Secured	761,078,903	3,072,475,531	582,093,735	2,349,912,408
Standard loans – Unsecured	18,466,719	74,550,145	6,087,007	24,573,247
Special mention – Secured	5,926,675	23,925,987	1,384,837	5,590,587
Substandard loans – Secured	1,944,385	7,849,482	1,644,276	6,637,942
Doubtful loans – Secured	5,006,079	20,209,540	5,639,719	22,767,547
Loss loans – Secured	3,806,240	15,365,791	1,777,956	7,177,608
Sub-total	<u>796,229,001</u>	<u>3,214,376,476</u>	<u>598,627,530</u>	<u>2,416,659,338</u>
Grand total	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

(c) For an analysis of loan portfolio by maturity, refer to Note 27(d) on liquidity analysis.

(d) By residency status:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Residents:	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

(e) By relationship

Staff loans	702,362	2,835,435	282,560	1,140,695
Non-related parties	<u>808,256,431</u>	<u>3,262,931,212</u>	<u>610,502,928</u>	<u>2,464,600,320</u>
	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

(f) By currency:

US\$	753,605,245	3,042,304,374	569,954,904	2,300,907,947
KHR	48,576,279	196,102,438	34,874,132	140,786,871
Thai Baht (THB)	<u>6,777,269</u>	<u>27,359,835</u>	<u>5,956,452</u>	<u>24,046,197</u>
	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

SATHAPANA Bank Plc.

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

7. Loans to customers (continued)

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

(g) By economic sector:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Agriculture	166,483,930	672,095,625	158,685,904	640,614,994
Trade and commerce	241,772,177	976,034,279	183,013,789	738,826,666
Services	45,299,738	182,875,042	42,323,588	170,860,325
Household	205,943,616	831,394,378	166,102,254	670,554,800
Construction	49,332,396	199,154,883	16,846,053	68,007,516
Others	100,126,936	404,212,440	43,813,900	176,876,714
	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

(h) Annual interest rates are as follows:

	2017	2016
External customers	8.00% to 36%	6.80% to 36.00%
Staff loans	<u>6.50%</u>	<u>6.50%</u>

8. Other assets

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Prepayments	9,431,818	38,076,249	1,798,393	7,260,113
Interest receivables	7,416,578	29,940,726	6,420,899	25,921,169
	<u>16,848,396</u>	<u>68,016,975</u>	<u>8,219,292</u>	<u>33,181,282</u>

9. Goodwill

The goodwill resulted from the legal merger between MJB and SATHAPANA Limited on 1 April 2016. Such goodwill is originally resulted from MJB, on 17 December 2012, when MJB acquired SATHAPANA Limited.

SATHAPANA Bank Plc.

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

10. Property and equipment

2017	Office furniture and equipment US\$	Computers US\$	Motor vehicles US\$	Leasehold improvements US\$	Work in progress US\$	US\$	Total KHR'000 (Note 4)
Cost							
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)
Disposal	(1,250)	-	-	-	-	(1,250)	(5,046)
Written off	(240,918)	(292,139)	(49,944)	(159,811)	-	(742,812)	(2,998,732)
As at 31 December 2017	<u>4,522,905</u>	<u>7,295,018</u>	<u>7,563,150</u>	<u>1,509,976</u>	<u>727,136</u>	<u>21,618,185</u>	<u>87,272,614</u>
Accumulated depreciation							
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
Disposal	(1,066)	-	-	-	-	(1,066)	(4,303)
Written off	(189,420)	(283,828)	(49,944)	(154,937)	-	(678,129)	(2,737,606)
As at 31 December 2017	<u>2,684,934</u>	<u>5,779,495</u>	<u>4,506,854</u>	<u>630,118</u>	<u>-</u>	<u>13,601,401</u>	<u>54,908,857</u>
Carrying amounts							
As at 31 December 2017	<u>1,837,971</u>	<u>1,515,523</u>	<u>3,056,296</u>	<u>879,858</u>	<u>727,136</u>	<u>8,016,784</u>	<u>32,363,757</u>

SATHAPANA Bank Plc.

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

10. Property and equipment (continued)

2016	Office furniture and equipment US\$	Computers US\$	Motor vehicles US\$	Leasehold improvements US\$	Work in progress US\$	US\$	Total KHR'000 (Note 4)
Cost							
As at 1 January 2016	3,360,534	4,350,309	4,696,013	738,828	298,150	13,443,834	54,272,758
Transfer from MJB under legal merger	70,477	1,282,829	414,870	369,948	-	2,138,124	8,631,606
Additions	975,057	2,157,818	1,566,714	152,879	178,387	5,030,855	20,309,561
Transfers	-	266,475	-	16,000	(282,475)	-	-
Disposals	(5,208)	(1,380)	(30,440)	-	-	(37,028)	(149,482)
Written off	(327,711)	(1,402,180)	(1,113)	(120,547)	-	(1,851,551)	(7,474,711)
As at 31 December 2016	<u>4,073,149</u>	<u>6,653,871</u>	<u>6,646,044</u>	<u>1,157,108</u>	<u>194,062</u>	<u>18,724,234</u>	<u>75,589,732</u>
Accumulated depreciation							
As at 1 January 2016	1,987,503	3,282,890	2,438,407	376,286	-	8,085,086	32,639,492
Transfer from MJB under legal merger	34,431	1,215,700	265,036	164,475	-	1,679,642	6,780,715
Depreciation for the year	583,023	1,773,610	992,794	184,059	-	3,533,486	14,264,683
Disposals	(3,826)	(1,267)	(27,029)	-	-	(32,122)	(129,677)
Written off	(240,418)	(1,388,564)	(1,102)	(120,512)	-	(1,750,596)	(7,067,156)
As at 31 December 2016	<u>2,360,713</u>	<u>4,882,369</u>	<u>3,668,106</u>	<u>604,308</u>	<u>-</u>	<u>11,515,496</u>	<u>46,488,057</u>
Carrying amounts							
As at 31 December 2016	<u>1,712,436</u>	<u>1,771,502</u>	<u>2,977,938</u>	<u>552,800</u>	<u>194,062</u>	<u>7,208,738</u>	<u>29,101,675</u>

SATHAPANA Bank Plc.

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

11. Intangible assets

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cost				
As at 1 January	4,685,569	18,915,642	1,797,328	7,255,813
Transfer from MJB	-	-	1,458,690	5,888,732
Additions	262,001	1,057,698	2,649,673	10,696,730
Transfers	9,930	40,087	-	-
Written off	(10,922)	(44,092)	(1,220,122)	(4,925,633)
As at 31 December	<u>4,946,578</u>	<u>19,969,335</u>	<u>4,685,569</u>	<u>18,915,642</u>
Accumulated amortisation				
As at 1 January	3,218,708	12,993,924	1,598,424	6,452,838
Transfer from MJB	-	-	1,373,519	5,544,896
Amortisation for the year	795,546	3,211,619	1,466,862	5,921,722
Written off	(10,922)	(44,092)	(1,220,097)	(4,925,532)
As at 31 December	<u>4,003,332</u>	<u>16,161,451</u>	<u>3,218,708</u>	<u>12,993,924</u>
Carrying amounts				
As at 31 December	<u>943,246</u>	<u>3,807,884</u>	<u>1,466,861</u>	<u>5,921,718</u>

12. Deposits from customers and other financial institutions

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Savings accounts	119,404,226	482,034,860	93,777,737	378,580,724
Current accounts	16,829,167	67,939,347	4,764,890	19,235,862
Short-term deposits	481,938,859	1,945,587,174	484,678,371	1,956,646,583
	<u>618,172,252</u>	<u>2,495,561,381</u>	<u>583,220,998</u>	<u>2,354,463,169</u>

SATHAPANA Bank Plc.

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

12. Deposits from customers and other financial institutions (continued)

Further analyses on deposits from customers and other financial institutions are as follows:

(a) By type of customers:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Current accounts</i>				
Individuals	2,902,268	11,716,456	839,562	3,389,312
Corporate	7,262,176	29,317,405	2,733,582	11,035,471
Other financial institutions	6,664,722	26,905,483	1,191,746	4,811,079
<i>Savings deposits</i>				
Individuals	74,357,580	300,181,550	60,703,551	245,060,235
Corporate	44,899,350	181,258,676	33,048,347	133,416,177
Other financial institutions	147,297	594,638	25,839	104,312
<i>Term deposits</i>				
Individuals	422,055,294	1,703,837,222	411,393,896	1,660,797,158
Corporate	35,845,480	144,708,203	39,519,301	159,539,418
Other financial institutions	24,038,085	97,041,748	33,765,174	136,310,007
	<u>618,172,252</u>	<u>2,495,561,381</u>	<u>583,220,998</u>	<u>2,354,463,169</u>

(b) By residency status:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Resident	540,913,759	2,183,668,845	544,687,461	2,198,903,280
Non-resident	77,258,493	311,892,536	38,533,537	155,559,889
	<u>618,172,252</u>	<u>2,495,561,381</u>	<u>583,220,998</u>	<u>2,354,463,169</u>

SATHAPANA Bank Plc.

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

12. Deposits from customers and other financial institutions (continued)

Further analyses on deposits from customers and other financial institutions are as follows:
(continued)

(c) By currency:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	513,384,706	2,072,534,058	469,818,628	1,896,657,801
Khmer Riels	72,459,416	292,518,662	85,706,542	345,997,310
Thai Baht	3,696,288	14,921,915	3,476,415	14,034,287
Japanese Yen	28,631,351	115,584,764	24,219,413	97,773,771
Others	491	1,982	-	-
	<u>618,172,252</u>	<u>2,495,561,381</u>	<u>583,220,998</u>	<u>2,354,463,169</u>

(d) By relationship:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Related	446,221	1,801,394	144,440	583,104
Non-related	617,726,031	2,493,759,987	583,076,558	2,353,880,065
	<u>618,172,252</u>	<u>2,495,561,381</u>	<u>583,220,998</u>	<u>2,354,463,169</u>

(e) By maturity:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 month	149,854,939	604,964,389	98,542,627	397,816,585
Between 1 month to 3 months	25,063,012	101,179,379	37,239,071	150,334,130
More than 3 months	443,254,301	1,789,417,613	447,439,300	1,806,312,454
	<u>618,172,252</u>	<u>2,495,561,381</u>	<u>583,220,998</u>	<u>2,354,463,169</u>

SATHAPANA Bank Plc.

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

12. Deposits from customers and other financial institutions (continued)

Further analyses on deposits from customers and other financial institutions are as follows: (continued)

(f) By interest rates per annum:

	2017	2016
<i>Bank & MFIs</i>		
Term deposits	1.00% to 3.50%	2.25% - 8.00%
<i>Individuals</i>		
Savings deposits	1.50% to 2.00%	3.00%
Term deposits	3.50% to 8.00%	4.50% - 10.00%
<i>Corporate</i>		
Saving deposits	1.00%	3.00%
Term deposits	3.00% to 8.00%	4.50% - 10.00%

13. Borrowings

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Related party:</i>				
Maruhan Investment Asia ("MIA")	18,330,000	73,998,210	10,000,000	40,370,000
	<u>18,330,000</u>	<u>73,998,210</u>	<u>10,000,000</u>	<u>40,370,000</u>
<i>Non-related parties:</i>				
Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V ("FMO")	22,500,000	90,832,500	33,750,000	136,248,750
Symbiotics	8,500,000	34,314,500	18,510,775	74,728,000
DEG	7,500,000	30,277,500	10,000,000	40,370,000
Micro-Finance Enhancement ResponsAbility SICAV	13,500,000	54,499,500	13,500,000	54,499,500
ICBC	3,000,000	12,111,000	9,000,000	36,333,000
Norfund	37,000,000	149,369,000	17,500,000	70,647,500
Triodos – Doen	10,000,000	40,370,000	1,400,000	5,651,800
Blue Orchard	5,250,000	21,194,250	5,250,000	21,194,250
Cathay United Bank (Cambodia) Corporation Limited	-	-	500,000	2,018,500
NMI Global Fund KS	875,000	3,532,375	5,560,573	22,448,032
Hatton National Bank Plc	-	-	4,000,000	16,148,000
First Commercial Bank	-	-	3,750,000	15,138,750
DWM Funds S.C.A	23,333,333	94,196,665	35,000,000	141,295,000
MIZUHO Bank Ltd	15,000,000	60,555,000	3,000,000	12,111,000
	50,000,000	201,850,000	-	-
	<u>196,458,333</u>	<u>793,102,290</u>	<u>160,721,348</u>	<u>648,832,082</u>
	<u>214,788,333</u>	<u>867,100,500</u>	<u>170,721,348</u>	<u>689,202,082</u>

SATHAPANA Bank Plc.

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

13. Borrowings (continued)

The borrowings are unsecured.

(a) By currency:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	214,788,333	867,100,500	167,210,573	675,029,083
Khmer Riels	-	-	3,510,775	14,172,999
	<u>214,788,333</u>	<u>867,100,500</u>	<u>170,721,348</u>	<u>689,202,082</u>

(b) By annual interest rates:

	2017	2016
US Dollars	3.44% to 10.65%	4.72% - 8.00%
Khmer Riels	-	10.00% - 10.50%

(c) By maturity:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one month	-	-	2,397,213	9,677,549
Between 1 month to 3 months	3,000,000	12,111,000	19,290,153	77,874,348
Between 3 months to 12 months	24,250,000	97,897,250	32,075,649	129,489,395
More than 1 year to 5 years	187,538,333	757,092,250	116,958,333	472,160,790
	<u>214,788,333</u>	<u>867,100,500</u>	<u>170,721,348</u>	<u>689,202,082</u>

SATHAPANA Bank Plc.

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

14. Subordinated debts

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
DEG - Deutsche Investitions	8,000,000	32,296,000	10,000,000	40,370,000
Maruhan Investment Asia Pte. Ltd.	5,000,000	20,185,000	5,000,000	20,185,000
Triodos - Doen	-	-	1,313,217	5,301,457
	<u>13,000,000</u>	<u>52,481,000</u>	<u>16,313,217</u>	<u>65,856,457</u>

DEG

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

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 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 rate at 10.4651% per annum.

15. Provident fund

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	7,645,507	30,864,912	5,371,180	21,683,454
Additions during the year				
Employer contribution	1,905,098	7,690,881	1,477,233	5,963,590
Employee contribution	1,005,252	4,058,203	835,891	3,374,492
Interest	501,524	2,024,652	376,634	1,520,471
Paid during the year	<u>(678,879)</u>	<u>(2,740,635)</u>	<u>(415,431)</u>	<u>(1,677,095)</u>
At 31 December	<u>10,378,502</u>	<u>41,898,013</u>	<u>7,645,507</u>	<u>30,864,912</u>

SATHAPANA Bank Plc.

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

16. Income tax

(a) Deferred tax, net

Deferred tax assets attributable from:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Employee benefit contribution	1,417,985	5,724,405	1,318,688	5,323,543
Allowance for loan losses (*)	1,620,041	6,540,106	1,207,933	4,876,426
Property and equipment	(71,646)	(289,235)	78,067	315,156
Unearned income	8,176	33,007	20,747	83,756
Unrealised loss on foreign exchange	74,368	300,223	72,155	291,290
	<u>3,048,924</u>	<u>12,308,506</u>	<u>2,697,590</u>	<u>10,890,171</u>

(*) This represents deferred tax assets arising from the general allowance and the specific allowance for doubtful loans to customers classified as special-mention. These allowances are not deductible for computation of corporate income tax expense under the new Prakas No.1535 MEF issued by the Ministry of Economy and Finance ("MEF") on 23 December 2016.

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	2,697,590	10,890,171	1,413,581	5,706,627
Addition during the year	351,334	1,418,335	1,284,009	5,183,544
At 31 December	<u>3,048,924</u>	<u>12,308,506</u>	<u>2,697,590</u>	<u>10,890,171</u>

SATHAPANA Bank Plc.

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

16. Income tax (continued)

(b) Current income tax liabilities

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	2,783,651	11,237,599	4,411,045	17,807,389
Income tax expense	5,570,903	22,489,735	3,734,192	15,074,933
Income tax paid	<u>(3,910,413)</u>	<u>(15,786,337)</u>	<u>(5,361,586)</u>	<u>(21,644,723)</u>
At 31 December	<u>4,444,141</u>	<u>17,940,997</u>	<u>2,783,651</u>	<u>11,237,599</u>

(c) Income tax expense

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	5,570,903	22,489,735	3,734,192	15,074,933
Deferred tax	<u>(351,334)</u>	<u>(1,418,335)</u>	<u>(1,284,009)</u>	<u>(5,183,544)</u>
	<u>5,219,569</u>	<u>21,071,400</u>	<u>2,450,183</u>	<u>9,891,389</u>

In accordance with Cambodian Law on Taxation, the Bank has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

SATHAPANA Bank Plc.

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

16. Income tax (continued)

(c) Income tax expense (continued)

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	<u>23,805,608</u>	<u>96,103,240</u>	<u>11,281,887</u>	<u>45,544,977</u>
Income tax expense at applicable tax rate of	20%	4,761,122	19,220,648	2,256,377
Non-deductible expenses	3%	<u>458,447</u>	<u>1,850,752</u>	<u>193,806</u>
Income tax expenses	23%	<u><u>5,219,569</u></u>	<u><u>21,071,400</u></u>	<u><u>2,450,183</u></u>
			<u><u>9,891,389</u></u>	

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

17. Other liabilities

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest payable	9,159,880	36,978,436	9,492,098	38,319,600
Personnel and other related costs	1,879,122	7,586,016	2,173,364	8,773,870
Other taxes payable	235,411	950,354	268,216	1,082,788
Accounts payable	264,280	1,066,898	269,613	1,088,428
Unearned income	44,790	180,817	107,626	434,486
Accrued expenses	277,156	1,118,879	117,632	474,880
Other payables	971,025	3,920,028	-	-
	<u>12,831,664</u>	<u>51,801,428</u>	<u>12,428,549</u>	<u>50,174,052</u>

SATHAPANA Bank Plc.

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

18. Share capital

Details of shareholding are as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
MARUHAN Investment Asia Pte. Ltd.	<u>120,000,000</u>	<u>484,440,000</u>	<u>120,000,000</u>	<u>484,440,000</u>

The total authorised number of shares is 1,200,000 (2016: 1,200,000) shares with par value of US\$100 per share. All shares are issued and fully paid.

19. Interest income

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	114,930,660	463,975,074	101,691,201	410,527,378
Balances with other banks	660,658	2,667,076	199,101	803,771
Balances with the NBC	401,237	1,619,795	224,522	906,395
	<u>115,992,555</u>	<u>468,261,945</u>	<u>102,114,824</u>	<u>412,237,544</u>

20. Interest expenses

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deposits from customers and other financial institutions	34,707,619	140,114,658	28,919,340	116,747,376
Borrowings	12,545,071	50,644,452	12,336,419	49,802,124
Subordinated debts	1,665,268	6,722,687	2,562,265	10,343,864
Provident fund	545,283	2,201,307	407,655	1,645,702
	<u>49,463,241</u>	<u>199,683,104</u>	<u>44,225,679</u>	<u>178,539,066</u>

SATHAPANA Bank Plc.

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

21. Net fees and commissions

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Fees and commissions on loans	6,652,013	26,854,176	1,985,671	8,016,154
Remittance fees	64,452	260,193	47,561	192,004
Other fees and commissions	85,163	343,803	76,348	308,216
	<u>6,801,628</u>	<u>27,458,172</u>	<u>2,109,580</u>	<u>8,516,374</u>
Fees and commissions on borrowings	<u>(1,430,903)</u>	<u>(5,776,555)</u>	<u>(1,168,873)</u>	<u>(4,718,740)</u>
	<u>5,370,725</u>	<u>21,681,617</u>	<u>940,707</u>	<u>3,797,634</u>

22. Other operating expenses

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Personnel and other related costs	27,205,183	109,827,324	21,716,431	87,669,232
Depreciation and amortisation	3,560,646	14,374,328	5,000,348	20,186,405
Office rental	3,853,234	15,555,506	3,212,624	12,969,363
Marketing and advertising	1,104,050	4,457,050	1,545,966	6,241,065
Stationeries and printing	1,333,329	5,382,649	1,818,650	7,341,890
Motor vehicle expenses	619,555	2,501,144	559,206	2,257,515
Utilities	953,394	3,848,852	832,000	3,358,784
Communication	693,786	2,800,814	630,157	2,543,944
Repairs and maintenance	913,412	3,687,444	823,598	3,324,865
Security	442,360	1,785,807	385,808	1,557,507
Transportation	340,340	1,373,953	459,026	1,853,088
Bank charges	431,313	1,741,211	178,985	722,562
Professional fees	245,179	989,788	488,192	1,970,831
License fees	964,753	3,894,707	918,049	3,706,164
Staff training and conference	525,614	2,121,903	786,857	3,176,542
Penalties expenses	315,186	1,272,406	465,683	1,879,962
Charitable donation expenses	75,950	306,609	99,152	400,277
Other expenses	306,292	1,236,501	837,239	3,379,933
	<u>43,883,576</u>	<u>177,157,996</u>	<u>40,757,971</u>	<u>164,539,929</u>

SATHAPANA Bank Plc.

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

23. Net cash (used in)/generate from operating activities

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Operating activities				
Profit before income tax	23,805,608	96,103,240	11,281,887	45,544,977
<i>Adjustments for:</i>				
Depreciation and amortisation Property and equipment and intangible assets written off	3,560,646	14,374,328	5,000,348	20,186,405
Gain on disposals of property and equipment	64,683	261,125	100,980	407,656
Provident fund expense	(270)	(1,090)	(10,949)	(44,202)
Allowance for bad and doubtful loans	1,905,098	7,690,881	1,477,233	5,963,590
	4,871,366	19,665,705	7,150,298	28,865,753
	34,207,131	138,094,189	24,999,797	100,924,179
Changes in:				
Balances with the National Bank of Cambodia	(11,494,524)	(46,403,393)	(50,362,845)	(203,314,805)
Balances with other banks	1,000,000	4,037,000	8,332,056	33,636,510
Loans to customers	(199,446,599)	(805,165,920)	(60,239,039)	(243,185,000)
Other assets	(8,629,104)	(34,835,693)	7,345,942	29,655,568
Deposits from customers and other financial institutions	34,951,254	141,098,212	227,831,216	919,754,619
Provident fund	1,506,776	6,082,854	967,356	3,905,216
Other liabilities	403,115	1,627,375	(477,140)	(1,926,214)
Net cash (used in)/generated from operation	(147,501,951)	(595,465,376)	158,397,343	639,450,073
Income tax paid	(3,910,413)	(15,786,337)	(5,361,586)	(21,644,723)
Provident fund paid	(678,879)	(2,740,635)	(415,431)	(1,677,095)
Net cash (used in)/generated from operating activities	(152,091,243)	(613,992,348)	152,620,326	616,128,255

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

24. Cash and cash equivalents

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	43,744,709	176,597,390	32,876,496	132,722,414
Balances with the NBC	15,762,395	63,632,789	115,229,179	465,180,196
Balances with other banks	19,095,480	77,088,453	45,743,874	184,668,019
	<u>78,602,584</u>	<u>317,318,632</u>	<u>193,849,549</u>	<u>782,570,629</u>

25. Related party transactions and balances

(a) Transaction with related parties

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

		2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Related party Transactions</i>					
MC	Deposit	342,318	1,381,938	20,071,728	81,029,566
MCC	Repayment	-	-	15,000,000	60,555,000
	Interest expense	898,318	3,626,510	676,667	2,731,705
	Withdrawal	821,095	3,314,761	-	-
	Deposit	-	-	19,267,444	77,782,671
MIA	Borrowing	10,000,000	40,370,000	-	-
	Repayment	1,670,000	6,741,790	-	-
	Interest expense	1,591,377	6,424,389	933,654	3,769,161
	Deposit	442,334	1,785,702	1,042,662	4,209,226
MJB	Repayments of borrowing	-	-	442,155	1,784,980
	Interest expense	-	-	201,718	814,336
	Elimination	-	-	8,066,778	32,565,583
	Deposit	-	-	3,061,851	12,360,692
MJBL	Deposit	5,389	21,755	11,227	45,323
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

SATHAPANA Bank Plc.

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

25. Related party transactions and balances (continued)

(a) Transaction with related parties (continued)

		2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Related party</i>	<i>Transactions</i>				
Remuneration of management		538,308	2,173,149	296,406	1,196,591
Han Family	Deposit	1,888,491	7,623,838	23,934,931	96,625,316
Senior management	Deposit	301,781	1,218,290	144,440	583,104
	Loan	419,802	2,173,149	282,560	1,140,695

(b) Balance with related parties

Balances with related parties were as follows:

		2017		2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Related party</i>	<i>Transaction</i>				
MC	Deposit	20,414,046	82,411,504	20,071,728	81,029,566
MCC	Deposit	20,846,355	84,156,735	21,667,450	87,471,496
MIA	Subordinated debt	5,000,000	20,185,000	5,000,000	20,185,000
	Borrowing	18,330,000	73,998,210	10,000,000	40,370,000
	Deposit	1,484,996	5,994,929	1,042,662	4,209,226
MJBL	Deposit	16,616	67,079	11,227	45,323
Han Family	Deposit	25,823,422	104,249,155	23,934,931	96,625,316
Senior management	Deposit	446,221	1,801,394	144,440	583,104
	Loan	702,362	2,835,435	282,560	1,140,695

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

26. Commitments and contingencies

(a) Lease commitments

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one year	3,741,459	15,104,270	3,338,024	13,475,603
More than 1 year to 5 years	10,836,477	43,746,858	10,789,569	43,557,492
More than 5 years	5,099,023	20,584,756	3,862,671	15,593,602
	<u>19,676,959</u>	<u>79,435,884</u>	<u>17,990,264</u>	<u>72,626,697</u>

(b) Credit commitment

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Assets				
Foreign exchange contracts	27,716,757	111,892,548	29,476,301	118,995,827
Unused portion of overdrafts	6,025,772	24,326,042	12,088,303	48,800,479
Bond	57,790	233,298	149,875	605,045
	<u>33,799,319</u>	<u>136,451,888</u>	<u>41,714,479</u>	<u>168,401,351</u>
Liabilities				
Undrawn down portion of borrowings	-	-	1,000,000	4,037,000
Letter of credits	226,869	915,870	175,059	706,713
Bank guarantees	511,479	2,064,841	627,112	2,531,651
	<u>738,348</u>	<u>2,980,711</u>	<u>1,802,171</u>	<u>7,275,364</u>

(c) Taxation contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the effects since the incorporation of the Bank could be significant.

SATHAPANA Bank Plc.

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

27. Financial risk management

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.

(a) 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.

(b) 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 2017

27. Financial risk management (continued)

(b) Credit risk (continued)

(i) 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.

(ii) 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.

(iii) Impairment and allowance policies

Prior to 1 December 2017, the Bank was required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-09-074 dated 25 February 2009 on loan classification and provisioning. From 1 December 2017, the Bank is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-017-344 Prokor dated 1 December 2017 on credit risk grading and provisioning and the circular No. B7-018-001 on the implementation on the credit risk grading and provision on impairment. Refer to Note 3(h) for details.

SATHAPANA Bank Plc.

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

27. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk

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

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balances with the NBC	19,601,878	79,132,782	117,329,179	473,657,896
Balances with other banks	19,095,480	77,088,453	46,743,874	188,705,019
Loans to customers	808,958,793	3,265,766,647	610,785,488	2,465,741,015
Other assets	7,416,578	29,940,726	6,420,899	25,921,169
	<u>855,072,729</u>	<u>3,451,928,608</u>	<u>781,279,440</u>	<u>3,154,025,099</u>
Allowance for losses on loans to customers	<u>(14,832,802)</u>	<u>(59,880,021)</u>	<u>(11,234,730)</u>	<u>(45,354,605)</u>
	<u>840,239,927</u>	<u>3,392,048,587</u>	<u>770,044,710</u>	<u>3,108,670,494</u>

The above table represents a worst case scenario for credit risk exposure to the Bank at 31 December 2017 and 31 December 2016, 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, 94.61% of total maximum exposure is derived from loans to customers (31 December 2016: 78%).

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:

- 97.93% of the loans in the portfolio are considered to be neither past due nor impaired (31 December 2016: 97.70%).
- 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 2017

27. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loans to customers

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers neither past due nor impaired	792,239,971	3,198,272,763	599,787,861	2,421,343,595
Loans to customers past due but not impaired	7,872,210	31,780,112	3,060,589	12,355,598
Loans to customers individually impaired	8,846,612	35,713,772	7,937,038	32,041,822
	<u>808,958,793</u>	<u>3,265,766,647</u>	<u>610,785,488</u>	<u>2,465,741,015</u>

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\$14,832,802 (31 December 2016: US\$11,234,730) 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 30 days. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(h).

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.

SATHAPANA Bank Plc.

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

27. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loans to customers (continued)

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 30 days, 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%.

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 90 days, 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.

SATHAPANA Bank Plc.

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

27. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loans to customers (continued)

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.

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.

(v) Balance 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.

SATHAPANA Bank Plc.

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

27. Financial risk management (continued)

(c) 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.

(i) 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 2017, 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) 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 pertaining to the Bank's assets and liabilities is disclosed below:

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

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2017	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
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 investment	-	-	-	-	-	50,000	50,000
Other assets	-	-	-	-	-	7,416,578	7,416,578
	<u>31,674,195</u>	<u>50,368,856</u>	<u>198,627,503</u>	<u>510,875,138</u>	<u>31,524,043</u>	<u>75,797,703</u>	<u>898,867,438</u>
Financial liabilities							
Deposits from customers and other financial institutions	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	634,241	3,382,620	6,150,227	-	10,378,502
Other liabilities	-	-	-	-	-	12,831,664	12,831,664
	<u>159,887,903</u>	<u>127,740,986</u>	<u>341,326,272</u>	<u>204,404,532</u>	<u>6,150,227</u>	<u>29,660,831</u>	<u>869,170,751</u>
Maturity gap – US\$	<u>(128,213,708)</u>	<u>(77,372,130)</u>	<u>(142,698,769)</u>	<u>306,470,606</u>	<u>25,373,816</u>	<u>46,136,872</u>	<u>29,696,687</u>
Maturity gap – KHR'000 (Note 4)	<u>(517,598,739)</u>	<u>(312,351,289)</u>	<u>(576,074,930)</u>	<u>1,237,221,836</u>	<u>102,434,095</u>	<u>186,254,552</u>	<u>119,885,525</u>

SATHAPANA Bank Plc.

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

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2016	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Cash on hand	-	-	-	-	-	32,876,496	32,876,496
Balances with the NBC	-	49,288,333	2,100,000	-	-	65,940,846	117,329,179
Balances with other banks	7,651,298	10,045,786	1,000,000	-	-	28,046,790	46,743,874
Loans to customers	1,812,787	6,416,443	43,509,230	506,983,618	52,063,410	-	610,785,488
Other investment	-	-	-	-	-	50,000	50,000
Other assets	-	-	-	-	-	6,420,899	6,420,899
	<u>9,464,085</u>	<u>65,750,562</u>	<u>46,609,230</u>	<u>506,983,618</u>	<u>52,063,410</u>	<u>133,335,031</u>	<u>814,205,936</u>
Financial liabilities							
Deposits from customers and other financial institutions	93,777,737	37,239,071	406,506,396	40,932,904	-	4,764,890	583,220,998
Borrowings	2,397,213	19,290,153	32,075,649	53,145,116	63,813,217	-	170,721,348
Subordinated debts	-	-	3,313,217	13,000,000	-	-	16,313,217
Provident fund	11,664	23,329	104,980	559,891	6,945,643	-	7,645,507
Other liabilities	-	-	-	-	-	12,052,707	12,052,707
	<u>96,186,614</u>	<u>56,552,553</u>	<u>442,000,242</u>	<u>107,637,911</u>	<u>70,758,860</u>	<u>16,817,597</u>	<u>789,953,777</u>
Maturity gap – US\$	<u>(86,722,529)</u>	<u>9,198,009</u>	<u>(395,391,012)</u>	<u>399,345,707</u>	<u>(18,695,450)</u>	<u>116,517,434</u>	<u>24,252,159</u>
Maturity gap – KHR'000 (Note 4)	<u>(350,098,850)</u>	<u>37,132,362</u>	<u>(1,596,193,515)</u>	<u>1,612,158,619</u>	<u>(75,473,532)</u>	<u>470,380,881</u>	<u>97,905,965</u>

SATHAPANA Bank Plc.

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

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) 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.

(d) 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.

(i) 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.

(ii) 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.

(iii) 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 2017

27. Financial risk management (continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

As at 31 December 2017	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Financial assets							
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 Investment	-	-	-	-	50,000	-	50,000
Other assets	7,416,578	-	-	-	-	-	7,416,578
Total financial assets	107,421,897	50,368,856	198,627,502	510,875,139	31,574,044	-	898,867,438
Financial liabilities							
Deposits from customers and other financial institutions	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
Total financial liabilities	184,650,914	131,732,359	341,361,294	204,451,227	6,974,957	-	869,170,751
Maturity gap – US\$	(77,229,017)	(81,363,503)	(142,733,792)	306,423,912	24,599,087	-	29,696,687
Maturity gap – KHR'000 (Note 4)	(311,773,542)	(328,464,462)	(576,216,318)	1,237,033,333	99,306,514	-	119,885,525

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

27. Financial risk management (continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

As at 31 December 2016	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Financial assets							
Cash on hand	-	-	-	-	-	32,876,496	32,876,496
Balances with the NBC	-	49,288,333	2,100,000	-	-	65,940,846	117,329,179
Balances with other banks	7,651,298	10,045,786	1,000,000	-	-	28,046,790	46,743,874
Loans to customers	1,812,787	6,416,443	43,509,230	506,983,618	52,063,410	-	610,785,488
Other Investment	-	-	-	-	50,000	-	50,000
Other assets	-	-	-	-	-	6,420,899	6,420,899
Total financial assets	9,464,085	65,750,562	46,609,230	506,983,618	52,113,410	133,285,031	814,205,936
Financial liabilities							
Deposits from customers and other financial institutions	93,777,737	37,239,071	406,506,396	40,932,904	-	4,764,890	583,220,998
Borrowings	2,397,212	19,290,253	32,075,649	116,958,334	-	-	170,721,348
Subordinated debts	-	-	3,313,217	13,000,000	-	-	16,313,217
Provident Fund	11,664	23,329	104,980	559,891	6,945,643	-	7,645,507
Other liabilities	6,839,369	4,614,678	598,660	-	-	-	12,052,707
Total financial liabilities	103,025,982	61,167,331	442,598,902	171,451,135	6,945,643	4,764,890	789,953,777
Maturity gap – US\$	(93,561,897)	4,583,231	(395,989,672)	335,532,483	45,167,767	128,520,141	24,252,159
Maturity gap – KHR'000 (Note 4)	(377,709,378)	18,502,504	(1,598,610,306)	1,354,544,658	182,342,275	518,835,809	97,905,966

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

27. Financial risk management (continued)

(e) 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.

(f) 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.