

## **Sathapana Limited**

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

as at 31 December 2014 and for the year then ended

# Sathapana Limited

## CONTENTS

	<i>Pages</i>
REPORT OF THE BOARD OF DIRECTORS .....	1 - 4
AUDITED FINANCIAL STATEMENTS	
Independent auditors' report.....	5
Balance sheet.....	6
Income statement.....	7
Statement of changes in equity .....	8
Statement of cash flows .....	9
Notes to the financial statements .....	10 - 38



## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Sathapana Limited ("the Company") is pleased to present its report and the Company's financial statements as at and for the year ended 31 December 2014.

### THE COMPANY

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

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

The principal activities of the Company are as follows:

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

### RESULTS OF OPERATIONS

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

	2014 US\$	2013 US\$
Income before income tax	13,222,567	6,949,163
Income tax expense	(2,652,770)	(857,086)
<b>Income after income tax</b>	<b>10,569,797</b>	<b>6,092,077</b>
<b>Income after income tax - KHR'000</b>	<b>43,071,922</b>	<b>24,337,846</b>

### DIVIDENDS

On 4 June 2014, the shareholders approved the declaration and payment of cash dividends amounting to US\$1,523,019 during the year (2013: US\$1,000,125).

### RESERVES AND PROVISIONS

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

### BAD AND DOUBTFUL LOANS

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

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

# Sathapana Limited

## REPORT OF THE BOARD OF DIRECTORS (continued)

### **CURRENT ASSETS**

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

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

### **VALUATION METHODS**

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

### **CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there is:

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

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

### **CHANGE OF CIRCUMSTANCES**

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

### **ITEMS OF UNUSUAL NATURE**

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

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

# Sathapana Limited

## REPORT OF THE BOARD OF DIRECTORS (continued)

### EVENTS SINCE THE BALANCE SHEET DATE

On 13 January 2015, the Board of Directors of the Company and Maruhan Japan Bank (“MJB”) agreed to merge the operations of the two entities. As at the date of this report, the Company is yet to obtain approvals from relevant regulatory bodies. Subsequently, on 27 January 2015, the Board of Directors and management of Sathapana and MJB entered and signed a memorandum of understanding for the merger.

Except for as disclosed elsewhere in these financial statements, at the date of this report, there were no other events, which occurred subsequent to 31 December 2014 that had significant impact on the financial position of the Company as at 31 December 2014.

### 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. Yabe Yoshikazu	Non-executive Director
Mr. Fujii Takashi	Non-executive Director
Oknha Dr. Bun Mony	Executive Director and Chief Executive Officer
Dr. Yang Saing Koma	Independent and Non-executive Director
Mr. Hun Monivann	Independent and Non-executive Director

### AUDITOR

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

### DIRECTORS' INTERESTS

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

### DIRECTORS' BENEFITS

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

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

# Sathapana Limited

REPORT OF THE BOARD OF DIRECTORS (continued)

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

The Board of Directors is responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and its financial performance and cash flows for the year then ended. The Board of Directors oversees preparation of these financial statements by management who is required to:

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

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

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

## APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Company as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the NBC.

On behalf of the Board of Directors:

  
Dr. Han Chang-Woo  
Chairman



Phnom Penh, Kingdom of Cambodia

23 FEB 2015

Reference: 61072955-17221663

## INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of Sathapana Limited**

We have audited the accompanying financial statements of Sathapana Limited ("the Company"), which comprise the balance sheet as at 31 December 2014, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditors' responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.



  
Maria Cristina M. Calimbas  
Partner

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

Phnom Penh, Kingdom of Cambodia

23 February 2015

# Sathapana Limited

## BALANCE SHEET as at 31 December 2014

	Notes	2014		2013	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>ASSETS</b>					
Cash on hand	4	6,969,731	28,401,654	4,793,241	19,148,999
Balances with the National Bank of Cambodia	3	26,312,275	107,222,521	7,095,715	28,347,381
Balances with other banks	4	6,309,967	25,713,116	6,953,093	27,777,607
Loans to customers	5	310,289,536	1,264,429,859	180,845,353	722,477,184
Property and equipment	6	3,843,846	15,663,672	3,713,899	14,837,026
Software	7	397,809	1,621,072	339,761	1,357,344
Other investment	8	25,000	101,875	25,000	99,875
Deferred tax asset	14	966,085	3,936,796	675,740	2,699,581
Other assets	9	7,421,708	30,243,460	4,664,666	18,635,339
<b>TOTAL ASSETS</b>		<b>362,535,957</b>	<b>1,477,334,025</b>	<b>209,106,468</b>	<b>835,380,336</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from customers	10	166,096,268	676,842,292	80,586,269	321,942,145
Borrowings	11	116,164,535	473,370,480	84,183,860	336,314,521
Subordinated debts	12	25,313,217	103,151,359	11,313,217	45,196,302
Provident fund	13	3,749,258	15,278,226	2,627,707	10,497,688
Income tax payable	14	2,482,746	10,117,190	1,261,944	5,041,468
Other liabilities	15	4,208,261	17,148,664	2,759,111	11,022,647
<b>Total liabilities</b>		<b>318,014,285</b>	<b>1,295,908,211</b>	<b>182,732,108</b>	<b>730,014,771</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	16	18,201,064	74,169,336	9,100,530	36,356,617
Share premium		174,960	712,962	174,960	698,965
Retained earnings		26,145,648	106,543,516	17,098,870	68,309,983
<b>Total shareholders' equity</b>		<b>44,521,672</b>	<b>181,425,814</b>	<b>26,374,360</b>	<b>105,365,565</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>362,535,957</b>	<b>1,477,334,025</b>	<b>209,106,468</b>	<b>835,380,336</b>

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

# Sathapana Limited

## INCOME STATEMENT for the year ended 31 December 2014

	Notes	2014		2013	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Operating income</b>					
Interest income	17	50,385,123	205,319,376	33,080,657	132,157,224
Interest expense	18	(16,649,251)	(67,845,698)	(10,444,676)	(41,726,479)
<b>Net interest income</b>		<b>33,735,872</b>	<b>137,473,678</b>	<b>22,635,981</b>	<b>90,430,745</b>
Net fees and commissions	19	727,296	2,963,731	447,857	1,789,187
Other income		103,245	420,723	59,944	239,476
<b>Total operating income</b>		<b>34,566,413</b>	<b>140,858,132</b>	<b>23,143,782</b>	<b>92,459,408</b>
Provision for losses on loans to customers	5	(615,923)	(2,509,886)	(285,739)	(1,141,525)
Other operating expenses	20	(20,727,923)	(84,466,286)	(15,908,880)	(63,555,975)
<b>Profit before income tax</b>		<b>13,222,567</b>	<b>53,881,960</b>	<b>6,949,163</b>	<b>27,761,908</b>
Income tax expense	14	(2,652,770)	(10,810,038)	(857,086)	(3,424,062)
<b>Net income for the year</b>		<b>10,569,797</b>	<b>43,071,922</b>	<b>6,092,077</b>	<b>24,337,846</b>

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

# Sathapana Limited

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2014

	<i>Share capital</i> US\$	<i>Share premium</i> US\$	<i>Retained earnings</i> US\$	<i>Total</i> US\$
Balance as at 1 January 2014	9,100,530	174,960	17,098,870	26,374,360
Capital contribution	9,100,534	-	-	9,100,534
Net income for the year	-	-	10,569,797	10,569,797
Dividends declared	-	-	(1,523,019)	(1,523,019)
<b>Balance as at 31 December 2014</b>	<b>18,201,064</b>	<b>174,960</b>	<b>26,145,648</b>	<b>44,521,672</b>
<b><i>KHR'000 equivalent (Note 2.3.1)</i></b>	<b>74,169,336</b>	<b>712,962</b>	<b>106,543,516</b>	<b>181,425,814</b>
Balance as at 1 January 2013	9,100,530	174,960	12,006,918	21,282,408
Net income for the year	-	-	6,092,077	6,092,077
Dividends declared	-	-	(1,000,125)	(1,000,125)
<b>Balance as at 31 December 2013</b>	<b>9,100,530</b>	<b>174,960</b>	<b>17,098,870</b>	<b>26,374,360</b>
<b><i>KHR'000 equivalent (Note 2.3.1)</i></b>	<b>36,356,617</b>	<b>698,965</b>	<b>68,309,983</b>	<b>105,365,565</b>

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

# Sathapana Limited

## STATEMENT OF CASH FLOWS for the year ended 31 December 2014

Notes	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Operating activities</b>				
	13,222,567	53,881,960	6,949,163	27,761,908
<i>Adjustments for:</i>				
Depreciation and amortization Property and equipment and software written off	20 26,136	7,829,436 106,504	1,820,904 8,132	7,274,512 32,482
Gain on disposals of property and equipment	(1,313)	(5,350)	(7,958)	(31,788)
Income tax paid	14 (1,722,313)	(7,018,425)	(1,096,730)	(4,381,438)
<b>Cash generated from operating activities</b>	<b>13,446,411</b>	<b>54,794,125</b>	<b>7,673,511</b>	<b>30,655,676</b>
Movements in operating assets and liabilities:				
Balances with the National Bank of Cambodia	(7,958,053)	(32,429,066)	(1,383,627)	(5,527,589)
Loans to customers	5 (129,444,183)	(527,485,046)	(60,218,655)	(240,573,525)
Other assets	9 (2,757,042)	(11,234,946)	(1,590,787)	(6,355,192)
Deposits from customers	10 85,509,999	348,453,246	13,876,175	55,435,319
Provident fund	13 1,121,551	4,570,320	757,621	3,026,694
Other liabilities	15 1,449,150	5,905,286	713,229	2,849,348
<b>Net cash used in operating activities</b>	<b>(38,632,167)</b>	<b>(157,426,081)</b>	<b>(40,172,533)</b>	<b>(160,489,269)</b>
<b>Investing activities</b>				
Acquisition of property and equipment	6 (1,679,775)	(6,845,083)	(2,292,159)	(9,157,175)
Acquisition of software	7 (463,694)	(1,889,553)	-	-
Proceeds from disposal of property and equipment	9,317	37,967	15,515	61,984
<b>Net cash used in investing activities</b>	<b>(2,134,152)</b>	<b>(8,696,669)</b>	<b>(2,276,644)</b>	<b>(9,095,191)</b>
<b>Financing activities</b>				
Proceeds from borrowings	11 65,700,000	267,727,500	49,600,000	198,152,000
Proceeds from subordinated debt	12 14,000,000	57,050,000	5,000,000	19,975,000
Repayment of borrowings	11 (33,719,325)	(137,406,249)	(15,984,026)	(63,856,184)
Capital contribution	9,100,534	37,084,676	-	-
Dividends paid	(1,523,019)	(6,206,302)	(1,000,125)	(3,995,499)
<b>Net cash generated from financing activities</b>	<b>53,558,190</b>	<b>218,249,625</b>	<b>37,615,849</b>	<b>150,275,317</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>12,791,871</b>	<b>52,126,875</b>	<b>(4,833,328)</b>	<b>(19,309,143)</b>
Cash and cash equivalents at beginning of year	11,772,289	47,030,296	16,605,617	66,339,439
Foreign exchange difference	-	941,782	-	-
<b>Cash and cash equivalents at end of the year</b>	<b>4 24,564,160</b>	<b>100,098,953</b>	<b>11,772,289</b>	<b>47,030,296</b>

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS  
as at 31 December 2014 and for the year then ended

## 1. CORPORATE INFORMATION

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

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

The Company was incorporated in the Kingdom of Cambodia with the Ministry of Commerce (“MoC”) on 19 February 2003 as a result of the Memorandum and Articles of Association signed on 27 December 2002 between Cambodia Community Building (“CCB”), a local Non-governmental Organization established in 1996, and the Company’s staff. The Company obtained its license to operate as a MFI from the National Bank of Cambodia (“NBC”) on 23 April 2003. Under the microfinance license, the Company is authorized to grant credit and offer saving services to poor and low-income households and small enterprise operating in the Kingdom of Cambodia.

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

The principal activities of the Company are as follows:

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

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

The paid-up capital of the Company as at 31 December 2014 was US\$18,201,064 or KHR’000 74,169,336 (2013: US\$9,100,530 or KHR’000 36,356,617).

### ***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. Yabe Yoshikazu	Non-executive Director
Mr. Fujii Takashi	Non-executive Director
Oknha Dr. Bun Mony	Executive Director and Chief Executive Officer
Dr. Yang Saing Koma	Independent and Non-executive Director
Mr. Hun Monivann	Independent and Non-executive Director

### ***Location***

The registered office of the Company is located at No. 831C, Monivong Boulevard, Sangkat Phsar Doeumthkov, Khan Chamkarmorn, Phnom Penh, Kingdom of Cambodia. The Company operates its businesses in 25 provinces with a network of 83 branches.

### ***Employees***

As at 31 December 2014, the Company had a total of 2,469 employees (2013: 2,147 employees).

The financial statements were authorized for issue by the Board of Directors on 23 February 2015.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 *Basis of preparation*

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

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

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

#### 2.1.1 *Fiscal year*

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

#### 2.1.2 *Presentation of financial statements*

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

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

## 2.2 *Significant accounting judgments and estimates*

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

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

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 2.2.2 *Operating leases*

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

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

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

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

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

#### 2.2.5 *Recognition of deferred tax assets*

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

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

### 2.3 *Summary of significant accounting policies*

#### 2.3.1 *Foreign currency translation*

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

The financial statements are translated in Khmer Riel ("KHR") based on the closing exchange rate of KHR4,075 per US\$1 ruling at the reporting date (2013: KHR3,995: US\$1), as announced by the NBC. Such translation should not be construed as a representation that KHR amounts represent, or have been or could be, converted into KHR at that or any other rate. All values in KHR are rounded to the nearest thousand ("KHR'000"), except as otherwise indicated.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 2.3.2 *Impairment of financial assets*

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

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

#### 2.3.3 *Offsetting financial instruments*

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

#### 2.3.4 *Operating leases*

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

#### 2.3.5 *Cash and cash equivalents*

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

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

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

#### 2.3.7 *Balances with other banks*

Balances with other banks are carried at cost.

#### 2.3.8 *Loans to customers*

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

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

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

#### *Overdue loans*

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

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 2.3.9 Property and equipment

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

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

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

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

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

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

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

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

#### 2.3.10 Software

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

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

#### 2.3.11 Other assets

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

#### 2.3.12 Deposits from customers

Deposits from customers are stated at placement value.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 2.3.13 Borrowings

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

#### 2.3.14 Subordinated debts

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

#### 2.3.15 Provident fund

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

- Employees may contribute up to 5% of their monthly salary, and the Company contributes twice that amount. This contribution is charged to the income statement.
- The Company contributes interest on the cumulative balance of the provident fund computed at 6.5% per annum. This contribution is charged to the income statement.

The provident fund will be paid to employees (who have contributed to the fund) upon their retirement, resignation or termination of employment. The employee's contribution and interest are paid in full accordingly, while the Company/s contribution is paid in accordance with the following conditions:

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

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

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

#### 2.3.16 Provisions

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 2.3.17 Recognition of income or expense

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

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

Interest income from loans to customers, and balances with the NBC and other banks is recognized on an accrual basis, except for loans to customers that have been classified as substandard, doubtful or loss. Interest accruing to these loans shall instead be credited to an interest in suspense account. Subsequently, interest income from these loans is recognized on a cash basis. Interest in suspense is presented net of accrued interest receivable in 'Other assets'.

Interest expense is recognized on an accrual basis.

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

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

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

#### 2.3.18 Related parties

Parties are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice-versa, or where the Company and the party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

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

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

#### 2.3.19 Income tax

##### Current tax

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

##### Deferred tax

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

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 2.3.19 Income tax (continued)

##### Deferred tax (continued)

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

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

## 3. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Current accounts	11,284,462	45,984,183	25,955	103,690
Capital guarantee	1,820,106	7,416,932	910,053	3,635,662
Reserve requirement	13,207,707	53,821,406	6,159,707	24,608,029
	<b>26,312,275</b>	<b>107,222,521</b>	<b>7,095,715</b>	<b>28,347,381</b>

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

The capital guarantee deposit earns annual interest at 0.08% in 2014 (2013: 0.11%-0.12%) whereas the current accounts do not earn interest.

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

## 4. BALANCES WITH OTHER BANKS

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Savings accounts	2,396,952	9,767,580	3,705,441	14,803,237
Current accounts	3,913,015	15,945,536	3,247,652	12,974,370
	<b>6,309,967</b>	<b>25,713,116</b>	<b>6,953,093</b>	<b>27,777,607</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 4. BALANCES WITH OTHER BANKS (continued)

The savings accounts earn annual interest at 0.05% to 0.10% in 2014 (2013: 0.05% - 0.10%) whereas the current accounts earn interest at 0.5% in 2014 (2013: 0.5%).

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

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Cash on hand	6,969,731	28,401,654	4,793,241	19,148,999
Balances with the NBC	11,284,462	45,984,183	25,955	103,690
Balances with other banks	6,309,967	25,713,116	6,953,093	27,777,607
	<b>24,564,160</b>	<b>100,098,953</b>	<b>11,772,289</b>	<b>47,030,296</b>

## 5. LOANS TO CUSTOMERS

Loans to customers are categorized as follows:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Group loans	359,941	1,466,760	248,830	994,075
Individual loans	311,033,600	1,267,461,920	181,340,940	724,457,056
<b>Gross loans to customers</b>	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>
<b>Allowance for losses on loans to customers</b>				
Specific	(112,937)	(460,218)	(220,299)	(880,095)
General	(991,068)	(4,038,603)	(524,118)	(2,093,852)
<b>Allowance at end of year</b>	<b>(1,104,005)</b>	<b>(4,498,821)</b>	<b>(744,417)</b>	<b>(2,973,947)</b>
<b>Loans to customers - net</b>	<b>310,289,536</b>	<b>1,264,429,859</b>	<b>180,845,353</b>	<b>722,477,184</b>

Movements of allowance for losses on loans to customers:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
At beginning of year	744,417	2,973,947	715,183	2,857,156
Provision during the year	615,923	2,509,886	285,739	1,141,525
Write offs during the year	(254,953)	(1,038,933)	(256,505)	(1,024,734)
Foreign exchange difference	(1,382)	53,921	-	-
<b>At end of year</b>	<b>1,104,005</b>	<b>4,498,821</b>	<b>744,417</b>	<b>2,973,947</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 5. LOANS TO CUSTOMERS (continued)

Further analyses of loans to customers are set out below.

(a) Grading of loans to customers:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Standard loans	310,911,359	1,266,963,788	181,207,771	723,925,047
Substandard loans	328,876	1,340,170	91,482	365,471
Doubtful loans	104,652	426,457	113,380	452,952
Loss loans	48,654	198,265	177,137	707,661
<b>Total gross loans</b>	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>

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

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

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

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Residence status:				
Residents	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>
Relationship:				
Related parties	684,188	2,788,066	236,062	943,068
Non-related parties	310,709,353	1,266,140,614	181,353,708	724,508,063
	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>
Currency:				
US\$	289,745,495	1,180,712,893	164,960,453	659,017,008
KHR	21,648,046	88,215,787	16,629,317	66,434,123
	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>
Industry sector:				
Agriculture	97,437,319	397,057,076	61,774,734	246,790,062
Trade and commerce	83,270,985	339,329,265	56,190,970	224,482,923
Services	50,754,903	206,826,229	25,631,521	102,397,925
Household	45,038,570	183,532,173	25,156,015	100,498,279
Construction	31,479,841	128,280,351	5,804,887	23,190,522
Others	3,411,923	13,903,586	7,031,643	28,091,420
	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>

(e) Annual interest rates are as follows:

	2014	2013
External customers	14.4% - 42.0%	14.4% - 42.0%
Staff loans	8.0%	8.0%

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 6. PROPERTY AND EQUIPMENT

	<i>Office furniture and equipment US\$</i>	<i>Computers US\$</i>	<i>Motor vehicles US\$</i>	<i>Leasehold improvements US\$</i>	<i>Construction in progress US\$</i>	<i>Total US\$</i>
<b>Cost</b>						
As at 1 January 2014	2,329,151	2,342,724	2,704,685	542,528	360,314	8,279,402
Additions	487,047	279,632	524,214	41,610	347,272	1,679,775
Disposal	(600)	(5,288)	(57,210)	-	-	(63,098)
Written off	(61,645)	(57,313)	(1,820)	-	-	(120,778)
Transfer	-	283,344	-	-	(283,344)	-
As at 31 December 2014	<b>2,753,953</b>	<b>2,843,099</b>	<b>3,169,869</b>	<b>584,138</b>	<b>424,242</b>	<b>9,775,301</b>
<b>Accumulated depreciation</b>						
As at 1 January 2014	1,205,288	1,737,078	1,435,919	187,218	-	4,565,503
Depreciation	400,913	582,688	446,231	92,702	-	1,522,534
Disposal	(556)	(5,200)	(49,338)	-	-	(55,094)
Written off	(47,089)	(53,752)	(626)	(21)	-	(101,488)
As at 31 December 2014	<b>1,558,556</b>	<b>2,260,814</b>	<b>1,832,186</b>	<b>279,899</b>	<b>-</b>	<b>5,931,455</b>
<b>Net book value</b>						
As at 31 December 2014	<b>1,195,397</b>	<b>582,285</b>	<b>1,337,683</b>	<b>304,239</b>	<b>424,242</b>	<b>3,843,846</b>
As at 31 December 2013	<b>1,123,863</b>	<b>605,646</b>	<b>1,268,766</b>	<b>355,310</b>	<b>360,314</b>	<b>3,713,899</b>
<b>KHR'000 equivalent (Note 2.3.1)</b>						
As at 31 December 2014	<b>4,871,243</b>	<b>2,372,811</b>	<b>5,451,058</b>	<b>1,239,774</b>	<b>1,728,786</b>	<b>15,663,672</b>
As at 31 December 2013	<b>4,489,833</b>	<b>2,419,556</b>	<b>5,068,720</b>	<b>1,419,463</b>	<b>1,439,454</b>	<b>14,837,026</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 7. SOFTWARE

US\$

### Cost

As at 1 January 2014	1,435,199
Addition	463,694
Written off	(101,565)
As at 31 December 2014	<u>1,797,328</u>

### Accumulated amortization

As at 1 January 2014	1,095,438
Amortization	398,800
Written off	(94,719)
As at 31 December 2014	<u>1,399,519</u>

### Net book value

As at 31 December 2014	<u>397,809</u>
As at 31 December 2013	<u>339,761</u>

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

As at 31 December 2014	<u>1,621,072</u>
As at 31 December 2013	<u>1,357,344</u>

## 8. OTHER INVESTMENT

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

## 9. OTHER ASSETS

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Prepayments	3,728,306	15,192,847	2,489,236	9,944,492
Interest receivable	3,693,402	15,050,613	2,175,430	8,690,847
	<u>7,421,708</u>	<u>30,243,460</u>	<u>4,664,666</u>	<u>18,635,339</u>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 10. DEPOSITS FROM CUSTOMERS

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Savings deposits	26,216,014	106,830,257	15,087,660	60,275,202
Term deposits	139,880,254	570,012,035	65,498,609	261,666,943
	<b>166,096,268</b>	<b>676,842,292</b>	<b>80,586,269</b>	<b>321,942,145</b>

Further analyses on deposits from customers follow:

(a) By type of customer:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 Equivalent (Note 2.3.1)
<i>Savings deposits</i>				
Individual	26,169,831	106,642,061	14,648,734	58,521,691
Private sector	46,183	188,196	438,926	1,753,511
<i>Term deposits</i>				
Individual	130,657,458	532,429,141	62,149,294	248,286,431
Private sector	9,222,796	37,582,894	3,349,315	13,380,512
	<b>166,096,268</b>	<b>676,842,292</b>	<b>80,586,269</b>	<b>321,942,145</b>

(b) By residency status:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 Equivalent (Note 2.3.1)
Resident	133,858,677	545,474,108	80,116,533	320,065,548
Non-resident	32,237,591	131,368,184	469,736	1,876,597
	<b>166,096,268</b>	<b>676,842,292</b>	<b>80,586,269</b>	<b>321,942,145</b>

(c) By currency:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
US\$	139,469,516	568,338,276	70,201,117	280,453,462
KHR	26,626,752	108,504,016	10,385,152	41,488,683
	<b>166,096,268</b>	<b>676,842,292</b>	<b>80,586,269</b>	<b>321,942,145</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 10. DEPOSITS FROM CUSTOMERS (continued)

(d) By relationship:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 Equivalent (Note 2.3.1)
Related	1,677,589	6,836,176	1,212,719	4,844,815
Non-related	164,418,679	670,006,116	79,373,550	317,097,330
	<b>166,096,268</b>	<b>676,842,292</b>	<b>80,586,269</b>	<b>321,942,145</b>

(e) By maturity:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 Equivalent (Note 2.3.1)
Within 1 month	41,944,490	170,923,795	26,362,620	105,318,665
More than 1 month to 3 months	30,981,136	126,248,130	11,865,876	47,404,175
More than 3 months	93,170,642	379,670,367	42,357,773	169,219,305
	<b>166,096,268</b>	<b>676,842,292</b>	<b>80,586,269</b>	<b>321,942,145</b>

(f) By interest rates per annum:

	2014	2013
Savings deposits	4.0%	4.0%
Term deposits in US\$	4.5% - 8.0%	4.5% - 8.0%
Term deposits in KHR	5.0% - 9.75%	5.0% - 9.75%

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 11. BORROWINGS

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Related party:</b>				
MARUHAN Japan Bank Plc ("MJB")	634,315	2,584,834	776,475	3,102,018
<b>Non-related parties:</b>				
Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V ("FMO")	25,656,851	104,551,667	1,340,008	5,353,333
Symbiotics	17,481,227	71,236,000	14,000,272	55,931,087
DEG	15,000,000	61,125,000	15,000,000	59,925,000
Micro-Finance Enhancement ResponsAbility SICAV	10,000,000	40,750,000	10,000,000	39,950,000
ICBC	9,000,000	36,675,000	2,000,000	7,990,000
Norfund	7,000,000	28,525,000	2,000,000	7,990,000
Triodos - Doen	5,250,000	21,393,750	5,250,000	20,973,750
Blue Orchard	4,666,667	19,016,668	4,000,000	15,980,000
Cathay United Bank (Cambodia) Corporation Limited	4,475,475	18,237,561	-	-
NMI	4,000,000	16,300,000	4,000,000	15,980,000
DWM Funds S.C.A	3,000,000	12,225,000	6,000,000	23,970,000
VDK Spaarbank n.v	-	-	3,000,000	11,985,000
Global Micro-finance Facility	-	-	6,000,000	23,970,000
CCB NGO	-	-	1,500,000	5,992,500
Beldische Investerings – Maatschappij voor Ontwikkelingslanden N.V	-	-	666,667	2,663,333
Oikocredit	-	-	350,438	1,400,000
ACLEDA Bank	-	-	300,000	1,198,500
	<b>115,530,220</b>	<b>470,785,646</b>	<b>83,407,385</b>	<b>333,212,503</b>
	<b>116,164,535</b>	<b>473,370,480</b>	<b>84,183,860</b>	<b>336,314,521</b>

The borrowings of the Company are unsecured.

(a) By currency:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 Equivalent (Note 2.3.1)
US\$	113,026,457	460,582,813	81,493,142	325,565,102
KHR	3,138,078	12,787,667	2,690,718	10,749,419
	<b>116,164,535</b>	<b>473,370,480</b>	<b>84,183,860</b>	<b>336,314,521</b>

(b) By interest rates:

	2014	2013
US\$	5.21% - 10.50%	5.21% - 11.00%
KHR	9.00% - 10.50%	7.50% - 10.50%

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 11. BORROWINGS (continued)

(c) By maturity:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Within one month	-	-	-	-
More than 1 month to 3 months	9,581,119	39,043,058	6,500,000	25,967,500
More than 3 months to 12 months	32,230,441	131,339,048	20,817,377	83,165,420
More than 1 year to 5 years	71,852,975	292,800,874	41,866,483	167,256,601
Over 5 years	2,500,000	10,187,500	15,000,000	59,925,000
	<b>116,164,535</b>	<b>473,370,480</b>	<b>84,183,860</b>	<b>336,314,521</b>

## 12. SUBORDINATED DEBTS

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
DEG	10,000,000	40,750,000	-	-
Maruhan Japan Bank Plc.	8,000,000	32,600,000	4,000,000	15,980,000
Maruhan Investment Asia	5,000,000	20,375,000	5,000,000	19,975,000
Triodos - Doen	1,313,217	5,351,359	1,313,217	5,246,302
DWM Funds S.C.A	1,000,000	4,075,000	1,000,000	3,995,000
	<b>25,313,217</b>	<b>103,151,359</b>	<b>11,313,217</b>	<b>45,196,302</b>

### DEG

On 31 December 2014, the NBC approved the Company's subordinated debt from DEG amounting to US\$10,000,000. This subordinated has a seven-year term maturing on 15 December 2021 and bears fixed interest at 10.65% per annum.

### Maruhan Japan Bank Plc.

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

### Maruhan Investment Asia

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 12. SUBORDINATED DEBTS (continued)

### DWM Funds S.C.A

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

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

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

### Triodos - Doen

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

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

Shares of Triodos – Doen were subsequently sold and transferred to MJB in 2012.

## 13. PROVIDENT FUND

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Balance at beginning of year	2,627,707	10,497,688	1,870,086	7,470,994
Additions during the year:				
Employer contribution	728,045	2,966,783	554,173	2,213,919
Employee contribution	397,164	1,618,443	302,715	1,209,346
Interest	178,951	729,225	123,837	494,730
Paid during the year	(182,609)	(744,132)	(223,104)	(891,301)
Foreign exchange difference	-	210,220	-	-
<b>Balance at end of year</b>	<b>3,749,258</b>	<b>15,278,226</b>	<b>2,627,707</b>	<b>10,497,688</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 14. INCOME TAX

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

### *Applicable tax rates*

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

### 14.1 *Income tax expense*

Income tax expense comprises:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Current income tax	2,943,115	11,993,194	1,532,826	6,123,643
Deferred tax income	(290,345)	(1,183,156)	(675,740)	(2,699,581)
	<b>2,652,770</b>	<b>10,810,038</b>	<b>857,086</b>	<b>3,424,062</b>

Movements of income tax payable follow:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Balance at beginning of year	1,261,944	5,041,468	825,848	3,299,263
Income tax expense	2,943,115	11,993,194	1,532,826	6,123,643
Income tax paid	(1,722,313)	(7,018,425)	(1,096,730)	(4,381,438)
Foreign exchange difference	-	100,953	-	-
<b>Balance at end of year</b>	<b>2,482,746</b>	<b>10,117,190</b>	<b>1,261,944</b>	<b>5,041,468</b>

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

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Profit before income tax	13,222,567	53,881,960	6,949,163	27,761,908
Income tax expense at applicable tax rate of 20%	2,644,513	10,776,392	1,389,833	5,552,382
Non-deductible expenses	8,257	33,646	8,257	32,987
Movement of unrecognized deferred tax assets	-	-	(541,004)	(2,161,307)
<b>Effective income tax</b>	<b>2,652,770</b>	<b>10,810,038</b>	<b>857,086</b>	<b>3,424,062</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 14. INCOME TAX (continued)

### 14.2 Deferred income tax

Details of deferred income tax recognized during the year follow:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Accruals	687,321	2,800,831	500,921	2,001,179
Allowance for loan losses	198,214	807,720	104,824	418,772
Property and equipment	36,241	147,682	23,546	94,066
Unearned income	34,161	139,207	46,449	185,564
Unrealized loss on foreign exchange	10,148	41,356	-	-
	<b>966,085</b>	<b>3,936,796</b>	<b>675,740</b>	<b>2,699,581</b>

## 15. OTHER LIABILITIES

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Interest payable	2,825,217	11,512,759	1,634,122	6,528,317
Personnel and other related costs	753,776	3,071,637	532,730	2,128,257
Taxes payable	321,177	1,308,796	190,214	759,903
Unearned income	170,806	696,034	232,244	927,816
Accounts payable	52,761	215,002	105,396	421,056
Accrued expenses	84,524	344,436	64,405	257,298
	<b>4,208,261</b>	<b>17,148,664</b>	<b>2,759,111</b>	<b>11,022,647</b>

## 16. SHARE CAPITAL

Details of shareholding are as follows:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
MJB	17,309,210	70,535,031	8,654,604	34,575,143
CCB	891,854	3,634,305	445,926	1,781,474
	<b>18,201,064</b>	<b>74,169,336</b>	<b>9,100,530</b>	<b>36,356,617</b>

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

In October 2012, shareholders of the Company including FMO, DWM Funds S.C.A – SICAV SIF, Stitching Triodos – Doen, Sathapana Employee Investment Limited and CCB entered into the Sale and Purchase Agreement with MJB to sell their shareholding. After the acquisition, MJB owns 95.1% of the Company's shareholding and the remaining of 4.9% is owned by CCB. The Company has obtained approval from the NBC and the MoC on 5 December 2012 and 17 December 2012, respectively. On 27 March 2014 and 15 May 2014, the NBC and MoC approved the additional capital contributions from MJB and CCB, respectively.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 17. INTEREST INCOME

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Loans to customers	50,375,676	205,280,880	33,068,680	132,109,377
Balances with other banks	8,212	33,463	10,931	43,667
Balances with the NBC	1,235	5,033	1,046	4,180
	<b>50,385,123</b>	<b>205,319,376</b>	<b>33,080,657</b>	<b>132,157,224</b>

## 18. INTEREST EXPENSE

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Deposits from customers	8,086,843	32,953,885	4,653,367	18,590,201
Borrowings	7,033,600	28,661,920	4,748,933	18,971,988
Subordinated debts	1,333,158	5,432,619	901,969	3,603,365
Provident fund	195,650	797,274	140,407	560,925
	<b>16,649,251</b>	<b>67,845,698</b>	<b>10,444,676</b>	<b>41,726,479</b>

## 19. NET FEES AND COMMISSIONS

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Fees and commissions on loans	995,640	4,057,233	608,007	2,428,989
Remittance fees	66,711	271,847	51,615	206,203
Other fees and commissions	6,204	25,281	151	601
	<b>1,068,555</b>	<b>4,354,361</b>	<b>659,773</b>	<b>2,635,793</b>
Fees and commissions on borrowings	(341,259)	(1,390,630)	(211,916)	(846,606)
	<b>727,296</b>	<b>2,963,731</b>	<b>447,857</b>	<b>1,789,187</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 20. OTHER OPERATING EXPENSES

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Personnel and other related costs	12,398,274	50,522,967	9,521,665	38,039,053
Depreciation and amortization	1,921,318	7,829,371	1,820,904	7,274,512
Office rental	1,892,141	7,710,475	1,366,431	5,458,894
Marketing and advertising	945,910	3,854,583	520,043	2,077,570
Stationeries and printing	544,790	2,220,019	605,901	2,420,576
Motor vehicle expenses	542,711	2,211,547	460,808	1,840,927
Utilities	460,853	1,877,976	368,327	1,471,467
Communication	393,284	1,602,632	318,996	1,274,391
Repairs and maintenance	280,233	1,141,949	197,825	790,309
Security	260,755	1,062,577	238,155	951,430
Transportation	199,929	814,711	154,394	616,803
Bank charges	109,877	447,749	72,822	290,922
Professional fees	84,574	344,639	55,752	222,730
Other expenses	693,274	2,825,091	206,857	826,391
	<b>20,727,923</b>	<b>84,466,286</b>	<b>15,908,880</b>	<b>63,555,975</b>

Others include miscellaneous expenses such as director fees, donations, dues and membership, insurance, license fees, non-capitalized fixed assets etc.

## 21. COMMITMENTS

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

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Within one year	1,971,251	8,032,848	1,542,257	6,161,315
More than 1 year to 5 years	5,784,523	23,571,932	5,031,993	20,102,814
More than 5 years	2,278,605	9,285,315	2,491,360	9,952,986
	<b>10,034,379</b>	<b>40,890,095</b>	<b>9,065,610</b>	<b>36,217,115</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Transaction	2014		2013	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
MJB	Capital contribution	8,654,606	35,267,519	-	-
	Dividends declared	1,448,391	5,902,193	951,119	3,799,720
	Borrowing	634,315	2,584,834	776,475	3,102,018
	Subordinated debt	8,000,000	32,600,000	4,000,000	15,980,000
	Repayments of borrowing	642,160	2,616,802	258,000	1,030,710
	Interest expense	494,337	2,014,425	486,390	1,943,128
	Deposit	1,321,280	5,384,215	772,816	3,087,399
Board of Directors	Remuneration	291,936	1,189,639	235,860	942,261
	Fee and related expenses	77,176	314,491	67,080	267,983
Senior management	Deposit	356,309	1,451,958	439,903	1,757,414
	Loan	684,188	2,788,064	236,062	943,068

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

Related party	Transaction	2014		2013	
		US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
MJB	Borrowing	634,315	2,584,834	776,475	3,102,018
	Subordinated debt	8,000,000	32,600,000	4,000,000	15,980,000
	Deposit	1,321,280	5,384,215	772,816	3,087,399
Senior management	Deposit	356,309	1,451,958	439,903	1,757,414
	Loan	684,188	2,788,064	236,062	943,068

## 23. FINANCIAL RISK MANAGEMENT

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

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

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

The Company holds the following financial assets and liabilities:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
<b>Financial assets</b>				
Cash on hand	6,969,731	28,401,654	4,793,241	19,148,999
Balances with the NBC	11,284,462	45,984,183	25,955	103,690
Balances with other banks	6,309,967	25,713,116	6,953,093	27,777,607
Loans to customers	310,289,536	1,264,429,859	180,845,353	722,477,184
Other investment	25,000	101,875	25,000	99,875
Other assets	3,693,402	15,050,613	2,175,430	8,690,847
<b>Total financial assets</b>	<b>338,572,098</b>	<b>1,379,681,300</b>	<b>194,818,072</b>	<b>778,298,202</b>
<b>Financial liabilities</b>				
Deposits from customers	166,096,268	676,842,292	80,586,269	321,942,145
Borrowings	116,164,535	473,370,480	84,183,860	336,314,521
Subordinated debts	25,313,217	103,151,359	11,313,217	45,196,302
Provident fund	3,749,258	15,278,226	2,627,707	10,497,688
Other liabilities	3,716,278	15,143,833	2,568,897	10,262,744
<b>Total financial liabilities</b>	<b>315,039,556</b>	<b>1,283,786,190</b>	<b>181,279,950</b>	<b>724,213,400</b>

### 23.1 Credit risk

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

#### (a) Credit risk measurement

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

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

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

#### (c) Impairment and provisioning policy

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.1 Credit risk (continued)

#### (d) Loans to customers

Loans to customers are summarized as follows:

	2014		2013	
	US\$	KHR'000 equivalent (Note 2.3.1)	US\$	KHR'000 equivalent (Note 2.3.1)
Loans to customers neither past due nor impaired (i)	310,873,510	1,266,809,555	181,149,091	723,690,620
Loans to customers past due but not impaired (ii)	37,849	154,233	58,680	234,427
Loans to customers individually impaired (iii)	482,182	1,964,892	381,999	1,526,084
<b>Loans to customers, gross</b>	<b>311,393,541</b>	<b>1,268,928,680</b>	<b>181,589,770</b>	<b>725,451,131</b>

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

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

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

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

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

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

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

### 23.2 Market risk

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.2 *Market risk* (continued)

#### (i) Foreign exchange risk

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

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

As at 31 December 2014, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

#### (ii) Price risk

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

#### (iii) Interest rate risk

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

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

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

### 23.3 *Liquidity risk*

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

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

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.3 Liquidity risk (continued)

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

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

## 23. FINANCIAL RISK MANAGEMENT (continued)

### 23.3. Liquidity risk (continued)

	<i>Up to 1 month US\$</i>	<i>&gt;1 to 3 months US\$</i>	<i>&gt;3 to 12 months US\$</i>	<i>&gt;1 to 5 years US\$</i>	<i>Over 5 years US\$</i>	<i>No fixed maturity date US\$</i>	<i>Total US\$</i>
<b>As at 31 December 2013</b>							
<b>Financial assets</b>							
Cash on hand	4,793,241	-	-	-	-	-	4,793,241
Balances with the NBC	25,955	-	-	-	-	-	25,955
Balances with other banks	6,953,093	-	-	-	-	-	6,953,093
Loans to customers	8,824,346	22,213,949	79,360,239	71,191,236	-	-	181,589,770
Other investments	-	-	-	-	25,000	-	25,000
Other assets	2,175,431	-	-	-	-	-	2,175,431
<b>Total financial assets</b>	<b>22,772,066</b>	<b>22,213,949</b>	<b>79,360,239</b>	<b>71,191,236</b>	<b>25,000</b>	<b>-</b>	<b>195,562,490</b>
<b>Financial liabilities</b>							
Deposits from customers	22,251,945	14,227,885	46,547,868	-	-	-	83,027,698
Borrowings	2,663,012	8,138,215	23,886,429	55,691,475	5,461,953	-	95,841,084
Subordinated debts	34,444	269,861	806,915	6,418,838	10,543,193	-	18,073,251
Provident fund	217,262	434,521	1,905,081	70,843	-	-	2,627,707
Other liabilities	1,404,562	856,495	307,789	51	-	-	2,568,897
<b>Total financial liabilities</b>	<b>26,571,225</b>	<b>23,926,977</b>	<b>73,454,082</b>	<b>62,181,207</b>	<b>16,005,146</b>	<b>-</b>	<b>202,138,637</b>
<b>Net liquidity surplus (gap) - US\$</b>	<b>(3,799,159)</b>	<b>(1,713,028)</b>	<b>5,906,157</b>	<b>9,010,029</b>	<b>(15,980,146)</b>	<b>-</b>	<b>(6,576,147)</b>
<b>KHR'000 equivalent (Note 2.3.1)</b>	<b>(15,177,640)</b>	<b>(6,843,547)</b>	<b>23,595,097</b>	<b>35,995,066</b>	<b>(63,840,683)</b>	<b>-</b>	<b>(26,271,707)</b>

# Sathapana Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2014 and for the year then ended

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

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

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

## **24. SUBSEQUENT EVENTS**

On 13 January 2015, the Board of Directors of the Company and MJB agreed to merge the operations of the two entities. As at the date of this report, the Company is yet to obtain approvals from relevant regulatory bodies. Subsequently, on 27 January 2015, the Board of Directors and management of Sathapana and MJB entered and signed a memorandum of understanding for the merger.

Except for the above and as disclosed elsewhere in these financial statements, at the date of this report, there were no other events, which occurred subsequent to 31 December 2014 that had significant impact on the financial position of the Company as at 31 December 2014.

## **25. TAX CONTINGENCY**

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