

HATTHA KAKSEKAR LIMITED

**Financial Statements
for the year ended 31 December 2015
and
Report of the Independent Auditors**

Corporate Information

Company	Hattha Kaksekar Limited
Registration No	Co. 5523 KH/2001
Registered office	No. 606, Street 271, Sangkat Phsar Doeum Thkov Khan Chamkamorn, Phnom Penh, Kingdom of Cambodia
Shareholders	Oikocredit, Ecumenical Development Co-operative Society U.A. (“OIKOCREDIT”) ASN-Novib Microkredietfonds (ANMF) acting through Pettelaar Effectenbewaarbedrijf N.V. as its legal owner, duly represented by its agent Triple Jump B.V. Norwegian Investment Fund for Developing Countries (“NORFUND”) Hattha Kaksekar Non-Government Organisation (“HKNGO”) responsAbility Global Microfinance Fund (“rAGMF”) responsAbility Participations AG (“rAP”) HKSA Limited (“HKSA”) Mr. Dy Davuth
Board of Directors	Mr. Erik Peter Geurts, Chairman, Senior Investment Officer Equity of responsAbility Mr. Tor G. Gull, Director Mr. Dy Davuth, Independent Director, Vice President of Build Bright University Mr. Lonh Hay, Independent Director Mr. Eelco Mol, Director, Head of Debt Investments of Triple Jump Ms. Tal Nay Im, Independent Director Mr. Pak Sereivathana, Director Mr. Christoffer Christensen-Røed, Director, Investment Director of the Financial Institution and Funds Development at Norfund, the Norwegian Investment Fund for Developing Countries (resigned on 9 June 2015)
Executive Committee (“EXCOM”)	Mr. Hout Ieng Tong, President & Chief Executive Officer Ms. Im Vandith, Executive Vice President & Chief Administration Officer Mr. Rath Sarun, Executive Vice President & Chief Finance Officer Mr. Touch Lina, Executive Vice President & Chief Operation Officer Mr. Mech Sokmetrey, Executive Vice President & Chief Business Officer Mr. Ros Vol, Executive Vice President & Chief Internal Audit Mr. Chen Boranchanborath, Vice President & Director of Legal and Secretary Department Ms. Chheng Sokun, Vice President & Director of Risk and Compliance Department

Corporate Information (continued)

Management team	<p>Mr. Hout Ieng Tong, President & Chief Executive Officer Ms. Im Vandith, Executive Vice President & Chief Administration Officer Mr. Rath Sarun, Executive Vice President & Chief Finance Officer Mr. Touch Lina, Executive Vice President & Chief Operation Officer Mr. Mech Sokmetrey, Executive Vice President & Chief Business Officer Mr. Ros Vol, Executive Vice President & Chief Internal Audit Ms. Van Bonida, Vice President & Director of Social Performance Management Department Mr. Bong Benly, Vice President & Director of Information Technology Department Mr. Chen Boranchanborath, Vice President & Director of Legal and Secretary Department Ms. In Socheata, Vice President & Director of Treasury Department Mr. Keo Kimhuth, Vice President & Director of Marketing and Research Department Mr. Ly Siven, Vice President & Director of Credit Department Mr. Phat Thomas, Vice President & Director of Administration Department Mr. Sem Souphoan, Vice President & Director of Human Resource Department Mr. Ou Kimthon, Vice President & Director of Sale and Business Relation Department Ms. Ouk Maliny, Vice President & Director of Finance Department Mr. Leang Kimhouth, Vice President & Director of SME Lending Department Mr. Son Savang, Vice President & Director of Product Development Department Mr. Phan Sovithyea, Vice President & Director of Channel Banking Department Mr. Oum Chulsak, Vice President & Director of Internal Audit Department Mr. Leang Siebh, Vice President & Director of Internal Audit Assurance Department Mr. Ke Sopheak, Vice President & Director of Branch Support Department Mr. Leng Visoth, Vice President & Director of Management Information System Department Mr. Tho Sroy, Vice President & Director of Staff Development Department Ms. Chheng Sokun, Vice President & Director of Risk and Compliance Department</p>
Principal bankers	<p>ACLEDA Bank Plc. National Bank of Cambodia Foreign Trade Bank of Cambodia Advanced Bank of Asia Limited ANZ Royal Bank (Cambodia) Ltd Maybank (Cambodia) Plc. Industrial and Commercial Bank of China Limited, Phnom Penh Branch</p>
Auditors	<p>KPMG Cambodia Ltd</p>

Hattha Kaksekar Limited

Contents

	Page
1. Report of the Board of Directors	1
2. Report of the independent auditors	7
3. Balance sheet	9
4. Income statement	10
5. Statement of changes in equity	11
6. Statement of cash flows	12
7. Notes to the financial statements	14



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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of Hattha Kaksekar Limited (“the Company” or “HKL”) for the year ended 31 December 2015.

Principal activities

The principal activity of HKL is to provide loans, savings and other financial services particularly to women and low income families through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

Financial results

The financial results of the Company for the year ended 31 December 2015 were as follows:

	2015		2014	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	13,971,469	56,584,449	10,200,268	41,566,092
Income tax expense	(2,859,385)	(11,580,509)	(2,078,333)	(8,469,207)
Net profit for the year	<u>11,112,084</u>	<u>45,003,940</u>	<u>8,121,935</u>	<u>33,096,885</u>

Reserves and provisions

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

Dividends

During the year, the Company declared and paid dividends amounting to US\$1,599,699 in respect of the profit for the year ended 31 December 2014 (2014: US\$851,999).

Share capital

In 2013, the shareholders approved for the Company to set up the Management Equity Plan (“MEP”) in which HKL’s senior management is given a share purchase option up to 357,742 shares, including bonus shares of 1.8 for each purchased share (equivalent to 229,977 shares), with a nominal value of US\$1 each share over the five years from 2013 to 2017 and the modification of the approved MEP policy agreed by the shareholders on 21 January 2014.

Hattha Kaksekar Limited

Share capital (continued)

The bonus shares will have a vesting period of three years (i) 10% at the first year anniversary of the purchase date, (ii) 45% at the second year anniversary, and (iii) 45% at the third year anniversary. If a sale of more than 50% of the shares of HKL (excluding MEP shares) to a new shareholder is carried out, or effective control over the institution is obtained by a new shareholder or group of shareholders acting in concert, any unvested MEP shares will immediately vest.

- On 21 January 2014, Board of Directors approved the 2013 MEP share allocation, related to the financial year 2012, is replaced by a special allocation of 25,600 shares to the MEP participants effective from January 2014, priced at US\$5.0223 per share.
- On 16 March 2014, Board of Directors approved the 2014 MEP share allocation, related to the financial year 2013, is allocated amounting to 14,120 shares to the MEP participants effective from April 2014, priced at US\$5.8665 per share.
- On 22 February 2015, Board of Directors approved the 2015 MEP share allocation, related to the financial year 2014, is allocated amounting to 15,349 shares to the MEP participants effective from March 2015, priced at US\$6.9084 per share.
- On 30 September 2015, Board of Directors approved the MEP share allocation, related to the financial year 2015 performance amounting to 14,762 shares.

Shares exercised by HKL's senior management by purchasing the Company's shares through HKSA since 2013 up to the date of this report are as follows:

No. of allocation	MEP share allocation related to financial year	Period of exercise	# of share exercised	Value of share exercised (US\$)	# of bonus share entitled
1 st	2012	2014	25,600*	128,571	46,080*
2 nd	2013	2014	14,120	82,835	25,413
3 rd	2014	2015	15,349	106,037	27,626

- * As result of MEP exchange dated 1 May 2014, the 998 MEP shares were sold by MEP participants, and members of HKSA acquired the shares. After acquisition, the 998 MEP shares are no longer entitled to bonus shares as per said in MEP policy. The shareholders of HKL ratified the transaction at extraordinary meeting of shareholders on 17 July 2014. The remaining number of bonus share entitled for the first allocation is 44,279 shares.

On 13 April 2015, the Ministry of Commerce ("MOC") acknowledged the amendments of the Company's Articles of Incorporation to increase share capital from US\$5,257,068 to US\$5,271,188 while the change in the shareholding structure to reflect the second allocations of MEP shares to MEP participants was approved by the National Bank of Cambodia ("NBC") on 17 December 2014.

Hattha Kaksekar Limited

Share capital (continued)

On 9 April 2015, the NBC approved in principal to the Company's request for increasing share capital from US\$5,271,188 to US\$6,806,705 (including 10% MEP bonus shares of the first allocation amounting to US\$4,428). The amendment of the Articles of Incorporation was approved by the Company's shareholders on 4 February 2015, final approval by the NBC on 7 July 2015 and acknowledged by the MOC on 18 August 2015. On 16 July 2015, HKL requested to NBC for another increase in share capital from US\$6,806,705 to US\$6,824,594. This share capital increment represents third allocation of MEP shares to MEP participants and 10% MEP bonus shares of the second allocation amounting to US\$15,349 and US\$2,540 respectively. Formal final approval from the NBC and MoC for this share capital increment was obtained on 27 October 2015 and 7 December 2015 respectively.

Bad and doubtful loans

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

Current assets

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

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


Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Company 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 Company which has arisen since the end of the period which secures the liabilities of any other person except as disclosed in the financial statements; and
- (b) any contingent liability in respect of the Company that has arisen since the end of the period other than in the ordinary course of its business operations.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the period which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due. 

Hattha Kaksekar Limited

Change of circumstances

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

Items of an unusual nature

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

There has not arisen in the interval between the end of the 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 Directors, to affect substantially the results of the operations of the Company for the current financial year in which this report is made.

Events since the reporting date

On 26 January 2016, the shareholders of the Company and Bank of Ayudhya PCL (“Krungsri”) entered into an agreement for the acquisition of all registered and issued shares (100%) in the Company. Completion of the acquisition is still subject to satisfactory approval from all relevant regulators and satisfaction of other conditions precedent as set out in the agreement. Upon completion of the transaction, Bank of Ayudhya PCL will hold 100% of the issued share capital of the Company.

The Board of Directors

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

- Mr. Erik Peter Geurts, Chairman and Senior Investment Officer Equity of responsAbility
- Mr. Tor G. Gull, Director
- Mr. Dy Davuth, Independent Director, Vice President of Build Bright University
- Mr. Lonh Hay, Independent Director
- Mr. Eelco Mol, Director, Head of Debt Investments of Triple Jump
- Ms. Tal Nay Im, Independent Director
- Mr. Pak Sereivathana, Director
- Mr. Christoffer Christensen-Røed, Director, Investment Director of the Financial Institution and Funds Development at Norfund, the Norwegian Investment Fund for Developing Countries (resigned on 9 June 2015)



Hattha Kaksekar Limited

Directors' interests

The Directors who held office at the end of the financial year and their interests in the shares of the Company are as follows:

	As at 31 December 2015		As at 31 December 2014	
	Holding %	Number of shares of US\$1 each	Holding %	Number of shares of US\$1 each
Mr. Dy Davuth	0.81	55,500	1.05	55,500

Directors' benefits

During and at the end of the financial year, no arrangement existed to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the share purchase option.

Since the end of the previous financial year, no Director of the Company 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 Company or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Responsibilities of the Directors in respect of the financial statements

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have 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
- control and direct the Company effectively in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Hattha Kaksekar Limited

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 9 to 64 which present fairly, in all material respects, the financial position of Hattha Kaksekar Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Mr. Hout Jeng Tong

President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

24 February 2016



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Report of the independent auditors To the shareholders Hattha Kaksekar Limited

We have audited the accompanying financial statements of Hattha Kaksekar Limited (“the Company” or “HKL”), which comprise the balance sheet as at 31 December 2015, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 9 to 64.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

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 our 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, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating 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 present fairly, in all material respects, the financial position of HKL as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

For **KPMG Cambodia Ltd**


Nge Hury
Partner


Phnom Penh, Kingdom of Cambodia

24 February 2016

Hattha Kaksekar Limited

Balance sheet As at 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand	5	8,143,748	32,982,179	7,139,818	29,094,758
Deposits and placements with National Bank of Cambodia	6	21,359,572	86,506,267	25,922,366	105,633,642
Deposits and placements with banks	7	41,170,385	166,740,059	23,204,002	94,556,308
Loans to customers, net	8	361,818,717	1,465,365,804	249,680,252	1,017,447,027
Other assets	9	6,885,277	27,885,372	4,860,390	19,806,089
Property and equipment	10	5,300,230	21,465,932	4,311,024	17,567,423
Intangible assets	11	848,248	3,435,404	1,163,311	4,740,492
Deferred tax assets, net	17 (a)	590,120	2,389,986	82,642	336,766
TOTAL ASSETS		446,116,297	1,806,771,003	316,363,805	1,289,182,505
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from customers	12	236,414,270	957,477,794	172,333,352	702,258,409
Borrowings	13	83,933,535	339,930,817	57,702,149	235,136,257
Amounts due to shareholders	14	33,786,278	136,834,426	22,970,821	93,606,096
Subordinated debts	19	19,729,319	79,903,742	14,942,778	60,891,820
Provident benefits	15	1,748,508	7,081,457	1,285,208	5,237,223
Other liabilities	16	10,075,351	40,805,171	6,624,553	26,995,053
Current income tax liability	17 (b)	2,758,064	11,170,159	1,760,229	7,172,933
TOTAL LIABILITIES		388,445,325	1,573,203,566	277,619,090	1,131,297,791
EQUITY					
Share capital	18 (a)	6,824,594	27,639,606	5,271,188	21,480,091
Share premium		19,052,319	77,161,892	10,492,717	42,757,822
Legal reserves		682,459	2,763,959	527,119	2,148,010
Other reserves		805,493	3,262,247	635,382	2,589,182
MEP/Equity-settled share-based payment	18 (b)	30,183	122,241	-	-
Subordinated debts		-	-	729,319	2,971,975
Retained earnings		30,275,924	122,617,492	21,088,990	85,937,634
TOTAL EQUITY		57,670,972	233,567,437	38,744,715	157,884,714
TOTAL LIABILITIES AND EQUITY		446,116,297	1,806,771,003	316,363,805	1,289,182,505

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

Hattha Kaksekar Limited

Income statement for the year ended 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	20	64,226,422	260,117,009	45,496,801	185,399,464
Interest expense	21	(24,756,709)	(100,264,671)	(16,881,286)	(68,791,240)
Net interest income		39,469,713	159,852,338	28,615,515	116,608,224
Other operating income	22	328,370	1,329,898	282,218	1,150,038
Operating profit		39,798,083	161,182,236	28,897,733	117,758,262
General and administrative expenses	23	(24,553,842)	(99,443,060)	(19,609,362)	(79,908,150)
Allowance for bad and doubtful loans/ (Reversal of allowance)	8	(1,272,772)	(5,154,727)	911,897	3,715,980
Profit before income tax		13,971,469	56,584,449	10,200,268	41,566,092
Income tax expense	17 (c)	(2,859,385)	(11,580,509)	(2,078,333)	(8,469,207)
Net profit for the year		11,112,084	45,003,940	8,121,935	33,096,885

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

Hattha Kaksekar Limited

Statement of changes in equity for the year ended 31 December 2015

	Share capital US\$	Share premium US\$	Legal reserves US\$	Other reserves US\$	MEP/Equity- settled share-based payment US\$	Subordinated debt US\$	Retained earnings US\$	Total US\$
At 1 January 2014	4,036,800	5,515,704	403,680	465,272	-	729,319	14,112,603	25,263,378
Additional capital	1,234,388	4,977,013	-	-	-	-	-	6,211,401
Net profit for the year	-	-	-	-	-	-	8,121,935	8,121,935
Transfer to legal reserves	-	-	123,439	-	-	-	(123,439)	-
Transfer to other reserves	-	-	-	170,110	-	-	(170,110)	-
Dividends distribution (Note 24)	-	-	-	-	-	-	(851,999)	(851,999)
At 31 December 2014	<u>5,271,188</u>	<u>10,492,717</u>	<u>527,119</u>	<u>635,382</u>	<u>-</u>	<u>729,319</u>	<u>21,088,990</u>	<u>38,744,715</u>
(KHR'000 equivalents - Note 4)								
At 31 December 2014	<u>21,480,091</u>	<u>42,757,822</u>	<u>2,148,010</u>	<u>2,589,182</u>	<u>-</u>	<u>2,971,975</u>	<u>85,937,634</u>	<u>157,884,714</u>
At 1 January 2015	5,271,188	10,492,717	527,119	635,382	-	729,319	21,088,990	38,744,715
Additional capital	1,553,406	8,559,602	-	-	-	-	-	10,113,008
Net profit for the year	-	-	-	-	-	-	11,112,084	11,112,084
Transfer subordinated debts to liabilities (Note 19)	-	-	-	-	-	(729,319)	-	(729,319)
Transfer to legal reserves	-	-	155,340	-	-	-	(155,340)	-
Transfer to other reserves	-	-	-	170,111	-	-	(170,111)	-
MEP/Equity-settled share-based payment	-	-	-	-	30,183	-	-	30,183
Dividends distribution (Note 24)	-	-	-	-	-	-	(1,599,699)	(1,599,699)
At 31 December 2015	<u>6,824,594</u>	<u>19,052,319</u>	<u>682,459</u>	<u>805,493</u>	<u>30,183</u>	<u>-</u>	<u>30,275,924</u>	<u>57,670,972</u>
KHR'000 equivalents - Note 4)								
At 31 December 2015	<u>27,639,606</u>	<u>77,161,892</u>	<u>2,763,959</u>	<u>3,262,247</u>	<u>122,241</u>	<u>-</u>	<u>122,617,492</u>	<u>233,567,437</u>

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

Hattha Kaksekar Limited

Statement of cash flows for the year ended 31 December 2015

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operating activities	25	(37,571,283)	(152,163,696)	(10,355,538)	(42,198,817)
Cash flows from investing activities					
Purchase of property and equipment	10	(2,978,289)	(12,062,070)	(2,524,118)	(10,285,781)
Purchases of intangible assets	11	(171,057)	(692,781)	(47,559)	(193,803)
Proceeds from disposals of property and equipment		10,988	44,501	122,465	499,045
Net cash used in investing activities		(3,138,358)	(12,710,350)	(2,449,212)	(9,980,539)
Cash flows from financing activities					
Proceeds from borrowings		56,961,649	230,694,678	27,090,385	110,393,319
Repayments of borrowings		(30,730,263)	(124,457,565)	(16,654,566)	(67,867,356)
Proceeds from amounts due to shareholders		15,000,000	60,750,000	12,964,686	52,831,095
Repayments of amounts due to shareholders		(4,184,543)	(16,947,399)	(3,387,482)	(13,803,989)
Proceeds from subordinated debts		5,000,000	20,250,000	10,000,000	40,750,000
Proceeds from additional capital		9,163,262	37,111,211	5,154,179	21,003,279
Dividends paid	24	(1,599,699)	(6,478,781)	(851,999)	(3,471,896)
Net cash generated from financing activities		49,610,406	200,922,144	34,315,203	139,834,452
Net increase in cash and cash equivalents		8,900,765	36,048,098	21,510,453	87,655,096
Cash and cash equivalents at the beginning of the year		41,467,008	167,941,383	19,956,555	81,322,961
Cash and cash equivalents at the end of the year	26	50,367,773	203,989,481	41,467,008	168,978,057

Hattha Kaksekar Limited

Statement of cash flows (continued) for the year ended 31 December 2015

Significant non-cash transactions

During the year there were the following significant non-cash transactions:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Increase in other reserves as a result of transfer from the retained earnings	170,111	688,950	170,110	693,198
Increase in legal reserves as a result of transfer from the retained earnings	155,340	629,127	122,027	497,260
Increase in capital as result of conversion from subordinated debts	942,778	3,818,251	1,057,222	4,308,180
Decrease in subordinated debts as a result of transfer from equity to liabilities	729,319	2,953,742	-	-
Increase in capital as a result of transfer from MEP/Equity-settled share-based payment	6,968	28,220	-	-
Increase in MEP/Equity-settled share-based payment as a result of MEP bonus share vesting	30,183	122,241	-	-
	<u>30,183</u>	<u>122,241</u>	<u>-</u>	<u>-</u>

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

Hattha Kaksekar Limited

Notes to the financial statements for the year ended 31 December 2015

1. Reporting entity

Hattha Kaksekar, a non-governmental organisation (“NGO”) established in November 1996, has created Hattha Kaksekar Limited (“HKL” or the “Company”) in order to comply with the Prakas No. B7-00-06 dated 11 January 2000 of the National Bank of Cambodia (“NBC” or “the Central Bank”) on the licensing of micro-finance institutions. The creation of HKL converted the NGO’s micro-lending operations into a licensed and commercially oriented micro-finance institution. HKL aims to continue the NGO’s micro-finance activities and conduct banking operations as defined in the Law on Banking and Financial Institution. The conversion was achieved by transferring and assigning all the assets and liabilities of the NGO as at 27 April 2001, the effective date of transfer, to HKL including all grant contracts and the outstanding receivables arising from these contracts as at the date of transfer, conditions and obligations relating to borrowings, all employment contracts, conditions, obligations and benefits, leases on premises or houses for office branches or headquarters, and all other related to the micro-lending operations of the NGO. The transfer and assignment of all these were put into effect through an agreement to transfer assets and liabilities, and the subordinated loan agreement between the NGO and HKL, both dated 27 April 2001.

On 27 April 2001, the Ministry of Commerce issued a business license dated 3 April 2001 to HKL to operate as a limited company with the aim of providing credit and saving services for the lower segments of the market. On 19 October 2001, under license number 2, the National Bank of Cambodia (“NBC”) issued a license to HKL to conduct micro-finance operations for a three-year period which expired on 19 October 2004. On 12 July 2004, HKL obtained a new license for a three-year period which expired on 19 October 2007. The NBC granted an indefinite micro-finance license to the Company effective from 8 August 2007.

On 29 January 2010, the NBC issued a license to HKL to conduct the deposit taking business.

On 9 October 2013, HKL obtained approval from NBC for operating Mobile Banking exclusively covering the services namely (1) balance inquiry, (2) account statement summary, (3) search ATM location, (4) fund transfers, (5) mobile top-up, (6) loan repayment, (7) check interest rate, (8) check exchange rate, (9) loan repayment alert, (10) advertising through mobile device and (11) SMS notification.

On 19 December 2014, NBC approved HKL to be an Insurance Agent by acting as Referral for Prevoir Kampuchear Micro Life Insurance Plc.

The principal activity of HKL is to provide loans, savings and other financial services particularly to women and low income families through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

1. Reporting entity (continued)

HKL operates in 150 offices located in Phnom Penh and 24 provinces, namely, Siem Reap, Banteay Meanchey, Kampong Thom, Kampong Cham, Kratie, Kampong Chhnang, Pursat, Battambang, Takeo, Prey Veng, Kandal, Kampong Speu, Svay Rieng, Kampot, Koh Kong, Sihanouk Ville, Preah Vihea, Steung Treng, Oddar Meanchey, Mondulkiri, Ratanakiri, Kep, Pailin, and Tbong Khmum with the primary source of income being interest income earned on providing loans to customers.

The Company's head office is located at No. 606, Street 271, Sangkat Phsar Doeum Thkov, Khan Chamkamorn, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2015, the Company had 2,337 employees (31 December 2014: 1,992 employees).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements of the Company were authorised for issue by the Board of Directors on 24 February 2016.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel ("KHR"), United States Dollars ("US\$") and Thai Baht ("THB"). Management have determined the US\$ to be the Company's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

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

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

2. Basis of preparation (continued)

(d) Use of estimates and judgements

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

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

3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Financial instruments

The Company's financial assets and liabilities include cash and cash equivalents, originated loans and receivables, deposits, other receivables, borrowings and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(b) Basis of aggregation

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

(c) Cash and cash equivalents

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

(d) Deposits and placements with banks

Deposits and placements with banks are stated at cost.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(e) Deposits and placements with National Bank of Cambodia

Deposits and placements 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) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general allowance for bad and doubtful loans.

(g) Allowance for bad and doubtful loans

In compliance with the NBC guidelines, a specific allowance for bad and doubtful loans is made on loans that are identified as non-performing as follows:

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

An additional general allowance for bad and doubtful loans is set at the rate of 1% of standard loan growths during the year.

The provision is calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The provision is 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.

Loans are written off to the income statement when the loans are provisioned in full and remain unpaid after maturity date or when the proven certainty of being uncollectable loans is proven. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for bad and doubtful loans.

Recoveries on loans previously written off are disclosed as other operating income in the income statement. Reversal of previous provision is presented in provision expense in the income statement.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(h) Interest in suspense

Interest in suspense represents interest on non-performing loans and advances, that is recorded as a provision rather than income until it is realised on a cash basis.

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

(i) Other assets

Other assets are carried at cost.

(j) Property and equipment

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

(ii) Depreciation of property and equipment is charged to the income statement using straight-line method based on the estimated useful lives of the individual assets as follows:

	Useful lives
Leasehold improvements	3 years
Motor vehicles	3 - 5 years
Computer equipment	3 years
Equipment	3 - 5 years
Furniture and fixtures	3 years

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

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

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

(v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(k) Intangible assets

Intangible assets consist of computer software license and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software license is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a straight-line basis at the rate of 20% per annum. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

(l) 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(g).

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

All impairment losses are recognised in the income statement.

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

(ii) *Non-financial assets*

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

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

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(l) Impairment (continued)

(ii) *Non-financial assets (continued)*

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.

(m) Deposits from customers

Deposits from customers are stated at cost.

(n) Borrowings

Borrowings are stated at the cost. Fees paid on the establishment of borrowing facilities are capitalised and amortised over the period of the borrowings using the straight-line method.

(o) 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, if otherwise, it is treated as equity. The subordinated debts which are approved by the NBC are included as a Tier II 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.

(p) Provisions

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

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(q) Provident benefits

The Company provides its employees upon completion of probationary period with provident benefits, being a defined contribution plan. The Company contributes fund to each individual employees on a monthly basis at a percentage of the employees' monthly salaries based on their years of service, as follows:

Number of working year	Monthly rate
Up to 5 years	6%
More than 5 years to 10 years	8%
More than 10 years	10%

The provident funds are maintained at saving accounts under the name of each employee with the Company commencing from February 2013 and the withdrawal can only be made upon resignation or retirement.

Upon resignation or retirement, an employee who has worked for the Company for three years or more is entitled to provident fund accumulated and interest earned in their saving accounts. Provident funds are stated at cost.

(r) Legal reserves

Based on the Articles of Incorporation, the Company is required to transfer from retained earning based on the rate of 5% of its prior year net profit to these legal reserves. The transfer to this reserve fund shall cease when the reserve fund is equal to 10% of the Company's registered capital.

(s) Other reserves

From 9 December 2010, the Company is required to set up a reserve by a lender, Instituto de Credito Oficial ("ICO") of the Kingdom of Spain, in accordance with the requirement set out in the loan agreement under Spanish Microfinance Program. The reserve is transferred annually from the retained earnings based on the rate of 3.5% of the outstanding loan from ICO at the end of each year until 9 March 2023. The other reserves are for Institutional Strengthening and still retained in other reserved accounts of the life of the loan, except otherwise agreed by ICO and AECID.

(t) MEP/Equity-settled share-based payment

MEP bonus share are initially recognised as liability at the purchase price when shares are acquired by management through HKSA following the percentage of bonus share entitlement of each vesting period. MEP bonus share are transferred from liability to MEP/Equity-settled share-based payment at each vesting interval. Portion of MEP shares at par value is recorded at paid-up capital upon approval from the NBC while the remaining portion is still in MEP/Equity-settled share-based payment.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(u) Dividends

Dividends declared and approved by the Company's shareholders before the end of reporting date are recognised as a liability and accounted for as a deduction from the retained earnings in the financial statements.

Dividends declared and approved by the Company's shareholders after the reporting date are not recognised as a liability but disclosed as the subsequent events note in the financial statements.

(v) Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

Loan fee income is recognised as income when the loan is disbursed to customers. The loan fee income is calculated using the principal and fee rate.

Expenses are recognised on an accrual basis.

(w) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(x) 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.

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 years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

3. Significant accounting policies (continued)

(x) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(y) Related parties

Parties are considered to be related to the Company 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 Company and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10% of the capital of the Company or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

(z) New standards and interpretations not yet adopted

The National Accounting Council of Cambodia (“NAC”), as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia on the adoption of Cambodian Financial Reporting Standards, has decided to adopt International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) effective for financial statements with periods beginning on or after 1 January 2012.

On 30 July 2012, the Ministry of Economy and Finance through NAC issued a Notification on delaying of adopting the IFRS until periods beginning on 1 January 2016.

On 16 November 2015, the National Bank of Cambodia submitted a request for extension of adopting the CIFRS for bank and financial institution until 2019 to NAC. However, as at the date of this report, there has been no response from NAC to the request.

The new standards will be referred to as “Cambodian International Financial Reporting Standards” (CIFRS). The Company is assessing the potential impact on its financial statements resulting from the application of CIFRS.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars (“US\$”). The translations of US\$ amounts into Khmer Riel (“KHR”) are included solely for the compliance with the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements and have been made using the prescribed official exchange rate of US\$1: KHR4,050 published by the NBC on 31 December 2015 (31 December 2014 of US\$1: KHR4,075). These convenience translations are not audited and 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 Riel at this or any other rate of exchange.

5. Cash on hand

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Head office	1,233,689	4,996,440	2,266,724	9,236,900
Branches	6,910,059	27,985,739	4,873,094	19,857,858
	<u>8,143,748</u>	<u>32,982,179</u>	<u>7,139,818</u>	<u>29,094,758</u>

The above amounts are analysed by currency as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	6,117,557	24,776,106	5,462,278	22,258,783
Khmer Riel	1,599,543	6,478,149	1,366,321	5,567,758
Thai Baht	426,648	1,727,924	311,219	1,268,217
	<u>8,143,748</u>	<u>32,982,179</u>	<u>7,139,818</u>	<u>29,094,758</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

6. Deposits and placements with National Bank of Cambodia

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory deposits:				
Capital guarantee deposit	682,461	2,763,967	525,707	2,142,256
Reserve requirement	19,623,471	79,475,058	14,273,471	58,164,395
	<u>20,305,932</u>	<u>82,239,025</u>	<u>14,799,178</u>	<u>60,306,651</u>
Current accounts	1,053,640	4,267,242	11,123,188	45,326,991
	<u>21,359,572</u>	<u>86,506,267</u>	<u>25,922,366</u>	<u>105,633,642</u>

Capital guarantee deposit

The capital guarantee deposit is maintained with the NBC in compliance with Prakas No. B7-07-163 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 10% of the Company's registered share capital. This deposit is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The statutory deposit on registered capital placed with the NBC earns interest at the rate of 0.11% (2014: 0.08%) per annum.

Reserve requirement

The reserve requirement represents the minimum reserve which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on Licensing of Micro-finance Deposit Taking Institutions. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit relating to customers' deposits does not earn interest.

7. Deposits and placements with banks

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	8,257,674	33,443,580	2,361,601	9,623,524
Savings accounts	32,912,711	133,296,479	20,842,401	84,932,784
	<u>41,170,385</u>	<u>166,740,059</u>	<u>23,204,002</u>	<u>94,556,308</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

7. Deposits and placements with banks (continued)

Deposits and placements with banks are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By currency:				
US Dollars	21,865,668	88,555,955	16,292,590	66,392,304
Khmer Riel	13,840,191	56,052,774	4,646,441	18,934,247
Thai Baht	5,464,526	22,131,330	2,264,971	9,229,757
	<u>41,170,385</u>	<u>166,740,059</u>	<u>23,204,002</u>	<u>94,556,308</u>
(b) By type:				
<i>Current accounts</i>				
ACLEDA Bank Plc.	289,967	1,174,365	30,529	124,406
ANZ Royal Bank (Cambodia) Ltd	6,630,132	26,852,035	2,051,729	8,360,796
Advanced Bank of Asia Limited	1,536	6,221	1,166	4,751
Foreign Trade Bank of Cambodia	2,718	11,008	11,317	46,117
Maybank (Cambodia) Plc.	1,331,780	5,393,709	132,058	538,136
Industrial and Commercial Bank of China Limited, Phnom Penh Branch	1,540	6,237	134,802	549,318
	<u>8,257,673</u>	<u>33,443,575</u>	<u>2,361,601</u>	<u>9,623,524</u>
<i>Savings accounts</i>				
ACLEDA Bank Plc.	22,857,780	92,574,009	17,947,573	73,136,360
ANZ Royal Bank (Cambodia) Ltd	3,028,785	12,266,579	2,663,356	10,853,176
Advanced Bank of Asia Limited	775,155	3,139,378	38,305	156,093
Foreign Trade Bank of Cambodia	6,250,992	25,316,518	193,167	787,155
	<u>32,912,712</u>	<u>133,296,484</u>	<u>20,842,401</u>	<u>84,932,784</u>
	<u>41,170,385</u>	<u>166,740,059</u>	<u>23,204,002</u>	<u>94,556,308</u>
(c) By maturity:				
Within 1 month	<u>41,170,385</u>	<u>166,740,059</u>	<u>23,204,002</u>	<u>94,556,308</u>
		2015		2014
(d) By interest rate (per annum)				
Current accounts		0%-0.5%		0%-0.55%
Savings accounts		0.05%-1%		0.05%-0.75%

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Individual loans	363,504,006	1,472,191,224	250,192,757	1,019,535,485
Allowance for bad and doubtful loans:				
Specific	(43,016)	(174,215)	(10,531)	(42,914)
General	(1,642,273)	(6,651,205)	(501,974)	(2,045,544)
	(1,685,289)	(6,825,420)	(512,505)	(2,088,458)
	361,818,717	1,465,365,804	249,680,252	1,017,447,027

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

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of year	512,505	2,075,645	1,472,912	6,002,116
Provision during the year	1,272,772	5,154,727	1,088,103	4,434,020
Reversal during the year	-	-	(2,000,000)	(8,150,000)
Written off during the year	(97,324)	(394,162)	(48,510)	(197,678)
Currency translation difference	(2,664)	(10,790)	-	-
At end of year	1,685,289	6,825,420	512,505	2,088,458

Loans to customers are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	1,358,372	5,501,406	1,047,984	4,270,535
> 1 to 3 months	2,103,073	8,517,446	1,963,288	8,000,399
> 3 to 12 months	30,043,344	121,675,543	28,981,147	118,098,174
More than 12 months	329,999,217	1,336,496,829	218,200,338	889,166,377
	363,504,006	1,472,191,224	250,192,757	1,019,535,485

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers (continued)

Loans to customers are analysed as follows: (continued)

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(b) By currency:				
US Dollars	320,552,348	1,298,237,009	218,922,989	892,111,180
Khmer Riel	25,089,408	101,612,102	16,733,234	68,187,929
Thai Baht	17,862,250	72,342,113	14,536,534	59,236,376
	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>
(c) By economic sector:				
Agriculture	89,608,918	362,916,118	64,635,253	263,388,656
Trade and commerce	79,241,810	320,929,331	59,769,296	243,559,881
Household/family	51,317,055	207,834,073	31,447,593	128,148,941
Construction	11,552,231	46,786,536	19,134,621	77,973,581
Services	45,955,938	186,121,549	29,897,075	121,830,581
Transportation	16,716,042	67,699,970	12,078,683	49,220,633
Production	3,482,264	14,103,169	1,754,830	7,150,932
Land/house	65,248,879	264,257,959	31,402,334	127,964,511
Other categories	380,869	1,542,519	73,072	297,769
	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>
(d) By residency status:				
Residents	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>
(e) By relationship:				
External customers	356,867,933	1,445,315,129	246,478,711	1,004,400,747
Management and staff loans	6,636,073	26,876,095	3,714,046	15,134,738
	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers (continued)

Loans to customers are analysed as follows: (continued)

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(f) By location:				
Operational Office – Phnom Penh	7,281,388	29,489,621	5,335,772	21,743,271
<i>Phnom Penh branches</i>				
Phnom Penh	8,936,978	36,194,761	5,680,603	23,148,457
Dangkor	8,925,893	36,149,867	6,133,786	24,995,178
Daun Penh	10,507,226	42,554,265	5,681,122	23,150,572
Russey Keo	4,733,611	19,171,125	3,116,166	12,698,376
Boeng Trabek	6,983,097	28,281,543	4,505,307	18,359,126
<i>Provincial branches</i>				
Pursat				
- Pursat	8,958,056	36,280,127	6,313,231	25,726,416
- Bakan	9,048,347	36,645,805	6,092,435	24,826,673
Kampong Thom				
- Steung Sen	12,149,765	49,206,548	8,893,576	36,241,322
- Staung	4,915,049	19,905,948	3,484,281	14,198,445
- Baray	10,345,035	41,897,392	8,188,672	33,368,839
Siem Reap				
- Siem Reap	11,915,881	48,259,318	9,105,567	37,105,186
- Sort Nikum	4,272,622	17,304,119	3,216,586	13,107,588
- Pourk	9,997,886	40,491,438	6,473,687	26,380,275
- Chikreng	5,410,516	21,912,590	3,780,912	15,407,216
- Krong Siem Reap	5,266,026	21,327,405	3,605,603	14,692,832
Banteay Meanchey				
- Banteay Meanchey	12,978,494	52,562,901	8,888,792	36,221,827
- Poipet	8,110,721	32,848,420	9,646,325	39,308,774
- Thmar Pouk	4,926,211	19,951,155	6,129,229	24,976,608
- Svay Check	3,272,628	13,254,143	-	-
Kampong Cham				
- Kampong Cham	9,963,274	40,351,260	7,330,099	29,870,153
- Prey Chhor	7,004,054	28,366,419	5,314,540	21,656,751
Tbong Khmum				
- Tbong Khmum	5,095,599	20,637,176	3,673,886	14,971,085
- Memot	9,044,684	36,630,970	5,669,021	23,101,261
- Ponhea Krek	5,236,160	21,206,448	3,617,359	14,740,738
Battambang				
- Battambang	9,808,124	39,722,902	7,831,159	31,911,973
- Bavel	8,174,371	33,106,203	5,920,727	24,126,963
- Moug Ruessei	3,622,000	14,669,100	2,735,609	11,147,607
Sub - Total	216,883,696	878,378,969	156,364,052	637,183,512

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers - net (continued)

Loans to customers are analysed as follows: (continued)

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(f) By location: (continued)				
<i>Provincial branches (continued)</i>				
- Sampov Lun	4,320,738	17,498,989	-	-
- Ratanak Mondul	3,363,406	13,621,794	-	-
- Kamrieng	3,777,646	15,299,466	-	-
Kampong Chhnang	6,602,899	26,741,741	4,485,572	18,278,706
Takeo				
- Takeo	7,222,577	29,251,437	5,452,935	22,220,710
- Prey Kabas	2,236,358	9,057,250	3,948,970	16,092,053
- Batié	2,840,102	11,502,413	-	-
Prey Veng				
- Prey Veng	5,089,896	20,614,079	5,034,580	20,515,913
- Peam Ro	5,683,094	23,016,531	6,244,857	25,447,792
- Preah Sdach	3,668,566	14,857,692	-	-
- Svay Antor	3,055,501	12,374,779	-	-
Kandal				
- Takhmao	6,219,014	25,187,007	3,912,451	15,943,238
- Mok Kampoul	5,354,459	21,685,559	3,456,354	14,084,643
- Kien Svay	8,853,698	35,857,477	6,327,047	25,782,717
- Ang Snoul	4,579,482	18,546,902	2,933,805	11,955,255
- Sa Ang	6,423,050	26,013,353	4,945,642	20,153,491
Svay Rieng	8,476,285	34,328,954	5,803,861	23,650,734
Kampong Speu	9,303,919	37,680,872	5,754,078	23,447,868
Kampot	5,842,553	23,662,340	3,732,498	15,209,929
Koh Kong	4,158,743	16,842,909	2,258,685	9,204,141
Kampong Som	4,848,972	19,638,336	3,633,629	14,807,038
Kratie	4,348,776	17,612,543	3,372,294	13,742,098
Preah Vihea	6,643,733	26,907,119	4,561,716	18,588,993
Steung Treng	3,590,871	14,543,027	2,628,452	10,710,942
Odor Meanchey	8,853,524	35,856,772	5,744,797	23,410,048
Mondulkiri	3,105,018	12,575,323	1,710,322	6,969,562
Ratanakiri	3,755,247	15,208,750	2,348,002	9,568,108
Pailin	4,402,183	17,828,841	5,538,158	22,567,994
Sub - Total	146,620,310	593,812,255	93,828,705	382,351,973
Total	363,504,006	1,472,191,224	250,192,757	1,019,535,485

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers (continued)

Loans to customers are analysed as follows: (continued)

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(g) By performance:				
Standard loans				
Secured	195,348,631	791,161,956	139,356,745	567,878,736
Unsecured*	167,860,384	679,834,555	110,771,834	451,395,223
Sub-standard loans				
Secured	179,327	726,274	7,187	29,287
Unsecured*	52,427	212,329	45,461	185,254
Doubtful loans				
Secured	54,023	218,793	6,037	24,601
Unsecured*	7,971	32,283	2,909	11,854
Loss loans				
Secured	124	502	-	-
Unsecured*	1,119	4,532	2,584	10,530
	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>

* These loans are secured by soft title deed. The soft title deed refers to the deed which is not issued by cadastry department.

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(h) By type of loans:				
Micro loans	149,651,617	606,089,049	130,974,093	533,719,429
Small loans	82,040,040	332,262,162	50,709,389	206,640,760
Medium loans	95,500,945	386,778,827	51,904,045	211,508,984
Large loans	19,626,284	79,486,450	9,927,163	40,453,189
SME loans	16,685,120	67,574,736	6,678,067	27,213,123
	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

8. Loans to customers (continued)

Loans to customers are analysed as follows: (continued)

	2015	2014
(i) By interest rate (per month):		
Micro loans (US\$50 - US\$5,000)	1.2% - 3.0%	1.8% - 2.9%
Small loans (US\$5,001 - US\$10,000)	1.2% - 2.5%	1.8% - 2.1%
Medium loans (US\$10,001 - US\$30,000)	1.1% - 2.3%	1.6% - 2.0%
Large loans (US\$30,001 - US\$200,000)	1.0% - 1.6%	1.4% - 1.8%
SME loans (US\$50,000 - US\$200,000)	1.0% - 1.4%	1.0% - 1.4%

9. Other assets

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	4,552,903	18,439,257	3,437,894	14,009,418
Interest in suspense	(44,399)	(179,816)	(38,888)	(158,469)
Net interest receivable	4,508,504	18,259,441	3,399,006	13,850,949
Deposits for office rentals	884,689	3,582,991	708,914	2,888,825
Fees on borrowings	980,371	3,970,503	506,475	2,063,886
Prepaid maintenance services	164,006	664,224	127,296	518,731
Other receivable	347,707	1,408,213	118,699	483,698
	6,885,277	27,885,372	4,860,390	19,806,089

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

10. Property and equipment

2015	Leasehold improvements US\$	Motor vehicles US\$	Computer equipment US\$	Equipment US\$	Furniture and fixtures US\$	Work in progress US\$	US\$	Total KHR'000 (Note 4)
Cost								
At 1 January 2015	745,309	1,568,715	2,092,749	3,098,325	474,772	40,161	8,020,031	32,481,126
Additions	379,117	276,205	371,737	131,883	68,645	1,750,702	2,978,289	12,062,070
Disposals	(13,347)	(32,800)	(24,628)	(1,628)	(12,095)	-	(84,498)	(342,217)
Reclassification	92,820	41,245	746,222	847,098	200	(1,727,585)	-	-
At 31 December 2015	<u>1,203,899</u>	<u>1,853,365</u>	<u>3,186,080</u>	<u>4,075,678</u>	<u>531,522</u>	<u>63,278</u>	<u>10,913,822</u>	<u>44,200,979</u>
Less: Accumulated depreciation								
At 1 January 2015	372,333	643,187	1,260,188	1,040,443	392,856	-	3,709,007	15,021,478
Depreciation for the year	263,535	267,202	672,526	709,068	71,146	-	1,983,477	8,033,082
Disposals	(8,956)	(32,800)	(23,548)	(1,628)	(11,960)	-	(78,892)	(319,513)
At 31 December 2015	<u>626,912</u>	<u>877,589</u>	<u>1,909,166</u>	<u>1,747,883</u>	<u>452,042</u>	<u>-</u>	<u>5,613,592</u>	<u>22,735,047</u>
Carrying amounts								
At 31 December 2015	<u><u>576,987</u></u>	<u><u>975,776</u></u>	<u><u>1,276,914</u></u>	<u><u>2,327,795</u></u>	<u><u>79,480</u></u>	<u><u>63,278</u></u>	<u><u>5,300,230</u></u>	<u><u>21,465,932</u></u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

10. Property and equipment (continued)

2014	Leasehold improvements US\$	Motor vehicles US\$	Computer equipment US\$	Equipment US\$	Furniture and fixtures US\$	Work in progress US\$	US\$	Total KHR'000 (Note 4)
Cost								
At 1 January 2014	439,194	1,228,915	1,590,840	1,827,195	449,526	181,774	5,717,444	23,298,584
Additions	272,193	472,250	238,802	164,487	25,246	1,351,140	2,524,118	10,285,781
Disposals	(3,834)	(187,500)	(19,948)	(10,249)	-	-	(221,531)	(902,739)
Reclassification	37,756	55,050	283,055	1,116,892	-	(1,492,753)	-	-
At 31 December 2014	745,309	1,568,715	2,092,749	3,098,325	474,772	40,161	8,020,031	32,681,626
Less: Accumulated depreciation								
At 1 January 2014	211,835	591,834	793,234	566,825	280,439	-	2,444,167	9,959,980
Depreciation for the year	162,620	173,236	486,463	479,609	112,417	-	1,414,345	5,763,456
Disposals	(2,122)	(121,883)	(19,509)	(5,991)	-	-	(149,505)	(609,233)
At 31 December 2014	372,333	643,187	1,260,188	1,040,443	392,856	-	3,709,007	15,114,203
Carrying amounts								
At 31 December 2014	372,976	925,528	832,561	2,057,882	81,916	40,161	4,311,024	17,567,423

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

11. Intangible asset

2015	Software & Licenses	Work in progress	Total	
	US\$	US\$	US\$	KHR'000 (Note 4)
Cost				
At 1 January 2015	2,368,719	-	2,368,719	9,593,312
Additions	107,409	63,648	171,057	692,781
Reclassification	49,353	(49,353)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2015	2,525,481	14,295	2,539,776	10,286,093
	<hr/>	<hr/>	<hr/>	<hr/>
Less: accumulated amortisation				
At 1 January 2015	1,205,408	-	1,205,408	4,881,903
Amortisation for the year	486,120	-	486,120	1,968,786
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2015	1,691,528	-	1,691,528	6,850,689
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amounts				
At 31 December 2015	833,953	14,295	848,248	3,435,404
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
2014			Software & license	
			US\$	KHR'000 (Note 4)
Cost				
At 1 January 2014			2,321,160	9,458,727
Additions			47,559	193,803
			<hr/>	<hr/>
31 December 2014			2,368,719	9,652,530
			<hr/>	<hr/>
Less: accumulated amortisation				
At 1 January 2014			746,674	3,042,697
Amortisation for the year			458,734	1,869,341
			<hr/>	<hr/>
At 31 December 2014			1,205,408	4,912,038
			<hr/> <hr/>	<hr/> <hr/>
Carrying amounts				
At 31 December 2014			1,163,311	4,740,492
			<hr/> <hr/>	<hr/> <hr/>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

12. Deposits from customers

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Savings deposits	27,027,156	109,459,982	19,541,017	79,629,644
Term deposits	209,387,114	848,017,812	152,792,335	622,628,765
	<u>236,414,270</u>	<u>957,477,794</u>	<u>172,333,352</u>	<u>702,258,409</u>

The deposits from customers are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By currency:				
US Dollars	199,675,774	808,686,885	149,395,285	608,785,786
Khmer Riel	29,160,528	118,100,138	17,068,513	69,554,190
Thai Baht	7,577,968	30,690,771	5,869,554	23,918,433
	<u>236,414,270</u>	<u>957,477,794</u>	<u>172,333,352</u>	<u>702,258,409</u>
(b) By maturity:				
Within 1 month	40,925,973	165,750,191	42,721,855	174,091,559
> 1 to 3 months	38,794,394	157,117,296	25,219,392	102,769,022
> 3 to 12 months	155,732,942	630,718,415	104,333,551	425,159,220
More than 12 months	960,961	3,891,892	58,554	238,608
	<u>236,414,270</u>	<u>957,477,794</u>	<u>172,333,352</u>	<u>702,258,409</u>
(c) By relationship:				
External customers	230,447,389	933,311,926	168,944,823	688,450,154
Management and staff deposits	5,966,881	24,165,868	3,388,529	13,808,255
	<u>236,414,270</u>	<u>957,477,794</u>	<u>172,333,352</u>	<u>702,258,409</u>
		2015		2014
(d) By interest rate (per annum):				
US Dollars		2.5% - 9.3%		2.5% - 9.3%
Khmer Riel		3.0% - 12%		3.0% - 11.3%
Thai Baht		3.0% - 11.3%		3.0% - 11.3%

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

13. Borrowings (continued)

	2015	2014
(c) By interest rate (per annum):		
US Dollars	5.50% - 8.50%	5.50% - 8.50%
Khmer Riel	10.25% - 11.8%	11.80% - 12.50%
Thai Baht	8.60% - 9.25%	8.60% - 9.25%

14. Amounts due to shareholders

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
OIKOCREDIT	3,000,000	12,150,000	4,006,135	16,325,000
responsAbility	21,786,278	88,234,426	16,964,686	69,131,096
ASN-Novib Microkredietfonds (through Triple Jump)	2,000,000	8,100,000	2,000,000	8,150,000
Norfund	7,000,000	28,350,000	-	-
	<u>33,786,278</u>	<u>136,834,426</u>	<u>22,970,821</u>	<u>93,606,096</u>

The above amounts are analysed as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
> 3 to 12 months	11,750,000	47,587,500	2,006,135	8,175,000
1 to 5 years	22,036,278	89,246,926	20,964,686	85,431,096
	<u>33,786,278</u>	<u>136,834,426</u>	<u>22,970,821</u>	<u>93,606,096</u>
(b) By currency:				
US Dollars	32,000,000	129,600,000	20,000,000	81,500,000
Khmer Riel	-	-	1,006,135	4,100,000
Thai Baht	1,786,278	7,234,426	1,964,686	8,006,096
	<u>33,786,278</u>	<u>136,834,426</u>	<u>22,970,821</u>	<u>93,606,096</u>
(c) By interest rate (per annum):				
US Dollars	6.1% - 6.95%		6.14% - 6.95%	
Khmer Riel	-		9%	
Thai Baht	9.30%		9.30%	

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

15. Provident benefits

The movements in provision for provident benefits are as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at beginning of year	1,285,208	5,205,092	912,518	3,718,511
Charge during the year	494,834	2,004,078	395,538	1,611,817
Interest earned on savings	51,597	208,968	37,311	152,042
Payments during the year	(83,131)	(336,681)	(60,159)	(245,147)
	<u>1,748,508</u>	<u>7,081,457</u>	<u>1,285,208</u>	<u>5,237,223</u>

16. Other liabilities

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest payable	6,808,343	27,573,789	4,215,000	17,176,125
Accrual for annual bonus (*)	1,444,571	5,850,512	1,054,888	4,298,669
Unused annual leave	378,443	1,532,694	303,022	1,234,815
Accrual for Pchum Ben bonus	217,869	882,369	179,397	731,043
Accrual for Water Festival bonus	110,846	448,926	91,734	373,816
Accrued other staff benefits	228,955	927,268	91,303	372,060
Other tax payable	354,896	1,437,329	230,905	940,938
Supplier payable	203,637	824,730	278,965	1,136,782
Other payables	327,791	1,327,554	179,339	730,805
	<u>10,075,351</u>	<u>40,805,171</u>	<u>6,624,553</u>	<u>26,995,053</u>

(*) HKL's staff are entitled to annual bonus. The annual bonus will be paid in January and February 2016 (2014: February 2015) with the maximum up to 13% of net profit (31 December 2014: 13% of net profit) based on approval of the Board of Directors.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

17. Income tax

(a) Deferred tax assets, net

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deferred tax assets	727,349	2,945,763	304,705	1,241,673
Deferred tax liabilities	(137,229)	(555,777)	(222,063)	(904,907)
	<u>590,120</u>	<u>2,389,986</u>	<u>82,642</u>	<u>336,766</u>

The movement of net deferred tax assets/(liabilities) is as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of year	82,642	334,700	(28,297)	(115,310)
Credited to income statement	507,478	2,055,286	110,939	452,076
At end of year	<u>590,120</u>	<u>2,389,986</u>	<u>82,642</u>	<u>336,766</u>

Deferred tax assets/(liabilities) are attributable to the following:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for provident benefits	329,822	1,335,779	249,579	1,017,034
Annual bonus, Pchum Ben bonuses, Water Festival bonus & other staff benefits	92,455	374,443	60,822	247,850
Unrealised exchange losses/(gain)	76,477	309,731	(5,696)	(23,211)
Depreciation and amortisation	(137,229)	(555,777)	(222,063)	(904,907)
General allowance for bad and doubtful loans	228,595	925,810	-	-
	<u>590,120</u>	<u>2,389,986</u>	<u>82,642</u>	<u>336,766</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

17. Income tax (continued)

(b) Current income tax liability

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at beginning of year	1,760,229	7,128,927	842,182	3,431,892
Current income tax expense	3,366,863	13,635,795	2,189,272	8,921,283
Income tax paid	(2,369,028)	(9,594,563)	(1,271,225)	(5,180,242)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at end of year	<u>2,758,064</u>	<u>11,170,159</u>	<u>1,760,229</u>	<u>7,172,933</u>

In accordance with Cambodian law on taxation, the Company 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.

(c) Income tax expense

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	3,366,863	13,635,795	2,189,272	8,921,283
Deferred tax	(507,478)	(2,055,286)	(110,939)	(452,076)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>2,859,385</u>	<u>11,580,509</u>	<u>2,078,333</u>	<u>8,469,207</u>

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:

	2015			2014		
	US\$	KHR'000 (Note 4)	%	US\$	KHR'000 (Note 4)	%
Profit before income tax	<u>13,971,469</u>	<u>56,584,449</u>		<u>10,200,268</u>	<u>41,566,092</u>	
Income tax using statutory rate	2,794,294	11,316,891	20	2,040,054	8,313,220	20
Non-deductible expenses	35,034	141,887	0.25	38,279	155,987	0.37
Under provision in prior year	30,057	121,731	0.22	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income tax expense	<u>2,859,385</u>	<u>11,580,509</u>	<u>20.47</u>	<u>2,078,333</u>	<u>8,469,207</u>	<u>20.37</u>

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

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

18. Share capital and MEP/Equity-settled share-based payment

(a) Share capital

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and fully paid ordinary share of US\$1 each (2014: US\$1 each)	6,824,594	27,639,606	5,271,188	21,480,091

The details of shareholding are as follows:

	2015			2014		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
OIKOCREDIT	19.84	1,354,028	1,354,028	19.87	1,047,512	1,047,512
NORFUND	20.94	1,428,901	1,428,901	19.74	1,039,924	1,039,924
ASN-Novib						
Microkreditfonds (ANM)	17.46	1,191,537	1,191,537	17.49	921,805	921,805
HKNGO	10.42	711,141	711,141	13.20	695,830	695,830
responsAbility Global						
Microfinance Fund	11.25	767,792	767,792	10.60	558,783	558,783
responsAbility						
Participations AG	9.71	662,888	662,888	9.15	482,436	482,436
HKSA	9.57	652,807	652,807	8.90	469,398	469,398
Mr. Dy Davuth	0.81	55,500	55,500	1.05	55,500	55,500
	100	6,824,594	6,824,594	100	5,271,188	5,271,188

In 2013, the shareholders approved for the Company to set up the Management Equity Plan (“MEP”) in which HKL’s senior management is given a share purchase option up to 357,742 shares, including bonus shares of 1.8 for each purchased share (equivalent to 229,977 shares), with a nominal value of US\$1 each share over the five years from 2013 to 2017 and the modification of the approved MEP policy agreed by the shareholders on 21 January 2014.

The bonus shares will have a vesting period of three years (i) 10% at the first year anniversary of the purchase date, (ii) 45% at the second year anniversary, and (iii) 45% at the third year anniversary. If a sale of more than 50% of the shares of HKL (excluding MEP shares) to a new shareholder is carried out, or effective control over the institution is obtained by a new shareholder or group of shareholders acting in concert, any unvested MEP shares will immediately vest.

- On 21 January 2014, Board of Directors approved the 2013 MEP share allocation, related to the financial year 2012, is replaced by a special allocation of 25,600 shares to the MEP participants effective from January 2014, priced at US\$5.0223 per share.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

18. Share capital and MEP/Equity-settled share-based payment (continued)

(a) Share capital (continued)

- On 16 March 2014, Board of Directors approved the 2014 MEP share allocation, related to the financial year 2013, is allocated amounting to 14,120 shares to the MEP participants effective from April 2014, priced at US\$5.8665 per share.
- On 22 February 2015, Board of Directors approved the 2015 MEP share allocation, related to the financial year 2014, is allocated amounting to 15,349 shares to the MEP participants effective from March 2015, priced at US\$6.9084 per share.
- On 30 September 2015, Board of Directors approved the MEP share allocation, related to the financial year 2015 performance amounting to 14,762 shares.

Shares exercised by HKL's senior management by purchasing the Company's shares through HKSA since 2013 up to the date of this report are as follows:

No. of allocation	MEP share allocation related to financial year	Period of exercise	# of share exercised	Value of share exercised (US\$)	# of bonus share entitled
1 st	2012	2014	25,600*	128,571	46,080*
2 nd	2013	2014	14,120	82,835	25,413
3 rd	2014	2015	15,349	106,037	27,626

* As result of MEP exchange dated 1 May 2014, the 998 MEP shares were sold by MEP participants, and members of HKSA acquired the shares. After acquisition, the 998 MEP shares are no longer entitled to bonus shares as per said in MEP policy. The shareholders of HKL ratified the transaction at extraordinary meeting of shareholders on 17 July 2014. The remaining number of bonus share entitled for the first allocation is 44,279 shares.

On 13 April 2015, the Ministry of Commerce ("MOC") acknowledged the amendments of the Company's Articles of Incorporation to increase share capital from US\$5,257,068 to US\$5,271,188 while the change in the shareholding structure to reflect the second allocations of MEP shares to MEP participants was approved by the NBC on 17 December 2014.

On 9 April 2015, the NBC approved in principal to the Company's request for increasing share capital from US\$5,271,188 to US\$6,806,705 (including 10% MEP bonus shares of the first allocation amounting to US\$4,428). The amendment of the Articles of Incorporation was approved by the Company's shareholders on 4 February 2015, final approval by the NBC on 7 July 2015 and acknowledged by the MOC on 18 August 2015. On 16 July 2015, HKL requested to NBC for another increase in share capital from US\$6,806,705 to US\$6,824,594. This share capital increment represents third allocation of MEP shares to MEP participants and 10% MEP bonus shares of the second allocation amounting to US\$15,349 and US\$2,540 respectively. Formal final approval from the NBC and MoC for this share capital increment was obtained on 27 October 2015 and 7 December 2015 respectively.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

18. Share capital and MEP/Equity-settled share-based payment (continued)

(b) MEP/Equity-settled share-based payment

Movement of MEP/Equity-settled share-based payment is as follows:

	2015	
	US\$	KHR'000 (Note 4)
Balance at beginning of year	-	-
MEP/Equity-settled share-based payment (10% of MEP bonus of 1st allocation) *	22,241	90,076
Transfer from MEP/Equity-settled share-based payment to Paid-up capital **	(4,428)	(17,934)
MEP/Equity-settled share-based payment (10% of MEP bonus of 2nd allocation) *	14,910	60,386
Transfer from MEP/Equity-settled share-based payment to Paid-up capital **	(2,540)	(10,287)
Balance at end of year	<u>30,183</u>	<u>122,241</u>

* Represents MEP bonus share transferred from liability to MEP/Equity-settled share-based payment at each vesting interval.

** Represents portion of MEP shares at par value recorded at paid-up capital upon approval from the NBC.

19. Subordinated debts

(a) Subordinated debts designated under liability

		2015		2014	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
DEG – Deutsche Investitions – UND Entwicklungsgesellschaft MBH	(i)	10,000,000	40,500,000	10,000,000	40,750,000
BlueOrchard Finance S.A	(ii)	4,000,000	16,200,000	4,000,000	16,300,000
ASN-Novib Microkredietfonds	(iii)	-	-	942,778	3,841,820
DWM Asset Management	(iv)	5,000,000	20,250,000	-	-
		<u>19,000,000</u>	<u>76,950,000</u>	<u>14,942,778</u>	<u>60,891,820</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

19. Subordinated debts (continued)

(a) Subordinated debts designated under liability (continued)

	Note	2015		2014	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Transfer of subordinated debts from equity to liability under Financial Trust Fund (*)</i>					
Hattha Kaksekar					
Non-Government Organisation					
("HKNGO")					
	(v)	415,743	1,683,759	-	-
Ministry of Economy and					
Finance - Agence Francaise					
de Development ("AFD")					
	(vi)	313,576	1,269,983	-	-
		<u>729,319</u>	<u>2,953,742</u>	<u>-</u>	<u>-</u>
		<u>19,729,319</u>	<u>79,903,742</u>	<u>14,942,778</u>	<u>60,891,820</u>

- (i) On 17 December 2013, HKL entered into loan agreement with DEG – Deutsche Investitions – UND Entwicklungsgesellschaft MBH for the sum of US\$10 million to finance the expansion of the HKL's loan portfolio. The repayment should be no later than 15 November 2020.
- (ii) On 2 April 2013, HKL entered into loan agreement with BlueOrchard Finance S.A for the sum of US\$4 million to finance the expansion of the HKL's loan portfolio. The repayment should be no later than 4 April 2019.
- (iii) On 23 December 2010, HKL entered into subordinated debt agreement with ASN-NovibMicrokredietfonds (represented by Triple Jump) for the sum of US\$2 million to finance the expansion of the HKL's loan portfolio. The repayment should be no later than 15 May 2016. On 11 December 2013, Triple Jump requested for conversion of partial subordinated debt outstanding amounting to US\$1,057,222 to take up the rights for capital increase. Such conversion came into effect on 28 March 2014. On 10 April 2015, Triple Jump requested for conversion of the remaining subordinated debt amounting to US\$942,778 to take up the rights for capital increase effectively on 27 May 2015.
- (iv) On 13 March 2015, HKL entered into loan agreement with DWM Asset Management for the sum of US\$5 million for the period of 7 years for financing the expansion of the HKL's loan portfolio.

Repayment of the debt by the HKL to BlueOrchard Finance S.A, DEG and DWM shall be subordinate and junior to other senior obligations of the HKL to the extent required by the National Bank of Cambodia because these loans had been approved by the National Bank of Cambodia for inclusion in Net Worth calculation.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

19. Subordinated debts (continued)

(a) Subordinated debts designated under liability (continued)

(* Transfer of subordinated debts from Equity to Liability under Financial Trust Fund:

(v) Hattha Kaksekar Non-Government Organisation (“HKNGO”) made the subordinated debt to HKL, following the transfer and assignment of all micro-finance related assets, liabilities and operations of the NGO to the HKL with the terms and conditions of the subordinated loan agreement dated 27 April 2001 as follows:

- 1) The subordinated debt will not be repayable to HKNGO unless HKL ceases to provide credit to the rural population of Cambodia or unless HKL decides to repay all or part of the debt;
- 2) The debt is a non-distributable fund; and
- 3) Being a public grant, it will be considered as “Tier II Capital” in the context of Article 15 of Prakas No. B7-00-06 issued by the Central Bank, and shall be included in computing HKL’s capital adequacy ratio.

(vi) HKL also accepts liability for repaying the total value of the debt to the Ministry of Economy and Finance of the Royal Government of Cambodia (“RGC”) under the terms and conditions of the subordinated debt agreement dated 27 December 2000, most notably, that the debt will not be repayable to the RGC unless HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the debt.

According to Sub-decree No.476 dated 26 August 2013 of MEF on financial trust and Prakas No. 1041 dated 26 September 2014 of the MEF on the management and monitoring the financial trust, the subordinated debts were registered as trust fund with the MEF on 7 September 2015 via certificate No.313 MoEF.GDFI. Trust fund will be managed by the Trustees to which the Company is the Beneficiary.

According to sub-decree on financial trust, article 4, the Ministry of Economy and Finance can i) take legal action to seize the trust fund and put it under the state supervision or to replace a trustee who violates the trust instrument and applicable provisions; ii) terminate the financial trust upon trustor’s request after the liquidation is successfully completed; and iii) take a legal action against those who manage the unregistered trust fund. Accordingly, this subordinated debts are reclassified to liability.

(b) Interest rates

The amounts of subordinated debts bear interest rates per annum as set out below:

	2015	2014
US Dollars	<u>0.5% - 10.85%</u>	<u>0.5% - 10.85%</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

20. Interest income

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	64,054,624	259,421,227	45,396,165	184,989,372
Deposits with banks	171,798	695,782	100,636	410,092
	<u>64,226,422</u>	<u>260,117,009</u>	<u>45,496,801</u>	<u>185,399,464</u>

21. Interest expense

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Borrowings	10,069,773	40,782,581	7,284,668	29,685,022
Deposits from customers	14,635,339	59,273,123	9,559,307	38,954,176
Provident funds	51,597	208,967	37,311	152,042
	<u>24,756,709</u>	<u>100,264,671</u>	<u>16,881,286</u>	<u>68,791,240</u>

22. Other operating income

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Recovery on loans previously written off	76,477	309,732	86,111	350,902
Remittance fees	89,346	361,851	72,770	296,538
Commission fees	87,728	355,298	10,957	44,650
Gain on disposal of property and equipment	5,382	21,797	50,439	205,539
Other income	69,437	281,220	61,941	252,409
	<u>328,370</u>	<u>1,329,898</u>	<u>282,218</u>	<u>1,150,038</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

23. General and administrative expenses

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Personnel expenses (*)	13,901,582	56,301,407	10,838,088	44,165,209
Rental expenses	2,291,854	9,282,009	1,807,610	7,366,011
Travelling and vehicle operating expenses	1,268,812	5,138,689	1,166,731	4,754,429
Depreciation and amortisation (Notes 10 and 11)	2,469,597	10,001,868	1,873,079	7,632,797
Marketing and advertising	831,638	3,368,134	836,906	3,410,392
Security expenses	494,186	2,001,453	401,504	1,636,129
Office supplies and equipment	542,361	2,196,562	510,207	2,079,093
Utilities	517,776	2,096,993	405,758	1,653,464
Consultancy and professional fees	82,843	335,514	92,446	376,717
Communication	407,424	1,650,067	425,582	1,734,246
Bank charges	86,242	349,280	78,091	318,221
Repairs and maintenance	554,862	2,247,191	417,621	1,701,805
License fees	312,593	1,266,002	329,668	1,343,397
Board and shareholders meetings	138,600	561,330	138,889	565,973
Foreign exchange loss	416,270	1,685,894	39,586	161,313
Others	237,202	960,667	247,596	1,008,954
	<u>24,553,842</u>	<u>99,443,060</u>	<u>19,609,362</u>	<u>79,908,150</u>

(*) Personnel expenses are analysed as follows

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and wages	12,112,704	49,056,451	9,396,889	38,292,323
Unused annual leave	378,856	1,534,367	302,120	1,231,139
Provident benefits (Note 15)	494,834	2,004,078	395,538	1,611,817
Training costs	247,304	1,001,581	224,995	916,855
Staff uniforms	137,623	557,373	110,643	450,870
Medical benefits	211,564	856,834	181,733	740,562
Other staff benefits	318,697	1,290,723	226,170	921,643
	<u>13,901,582</u>	<u>56,301,407</u>	<u>10,838,088</u>	<u>44,165,209</u>

The Company's senior management are entitled to the share purchase option as disclosed in Note 18.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

24. Dividends

On 22 February 2015, the Board of Directors and shareholders declared the dividend of US\$1,599,699 from the Company's 2014 net profit (2014: US\$851,999) and had fully paid to the shareholders during the year.

25. Net cash used in operating activities

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	13,971,469	56,584,449	10,200,268	41,566,092
Adjustments for non-cash incomes and expenses:				
Depreciation and amortisation	2,469,597	10,001,868	1,873,079	7,632,797
Allowance for bad and doubtful loans	1,272,772	5,154,727	(911,897)	(3,715,980)
Provident benefits	494,834	2,004,078	395,538	1,611,817
Interest on provident benefits	51,597	208,968	37,311	152,042
Gain on disposals of property and equipment	(5,382)	(21,797)	(50,439)	(205,539)
	<u>18,254,887</u>	<u>73,932,293</u>	<u>11,543,860</u>	<u>47,041,229</u>
Changes in:				
Deposits and placements with National Bank of Cambodia	(5,506,754)	(22,302,354)	(7,452,027)	(30,367,010)
Loans to customers	(113,411,237)	(459,315,510)	(104,573,785)	(426,138,174)
Other assets	(2,024,887)	(8,200,792)	(1,633,743)	(6,657,503)
Deposits from customers	64,080,918	259,527,718	89,859,777	366,178,591
Other liabilities	3,487,949	14,126,193	3,231,764	13,169,439
	<u>(35,119,124)</u>	<u>(142,232,452)</u>	<u>(9,024,154)</u>	<u>(36,773,428)</u>
Income tax paid	(2,369,028)	(9,594,563)	(1,271,225)	(5,180,242)
Provident benefits paid	(83,131)	(336,681)	(60,159)	(245,147)
Net cash used in operating activities	<u><u>(37,571,283)</u></u>	<u><u>(152,163,696)</u></u>	<u><u>(10,355,538)</u></u>	<u><u>(42,198,817)</u></u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

26. Cash and cash equivalents

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	8,143,748	32,982,179	7,139,818	29,094,758
Balances with NBC	1,053,640	4,267,243	11,123,188	45,326,991
Balances with banks	41,170,385	166,740,059	23,204,002	94,556,308
	<u>50,367,773</u>	<u>203,989,481</u>	<u>41,467,008</u>	<u>168,978,057</u>

27. Commitments and contingencies

(a) Lease commitments

The Company has lease commitments for the lease of its headquarters and provincial offices as follows:

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
No later than 1 year	2,617,869	10,602,369	1,811,851	7,383,293
Later than 1 year and no later than 5 years	7,935,854	32,140,211	5,606,045	22,844,633
Later than 5 years	4,678,831	18,949,267	3,487,459	14,211,395
	<u>15,232,554</u>	<u>61,691,847</u>	<u>10,905,355</u>	<u>44,439,321</u>

(b) Other commitments

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Unused portion of loans and advances	197,737	800,835	29,097	118,570
Capital expenditure	253,443	1,026,444	92,584	377,280
Currency SWAP	2,604,025	10,546,301	1,043,956	4,254,121
Other commitment	138,959	562,784	-	-
	<u>3,194,164</u>	<u>12,936,364</u>	<u>1,165,637</u>	<u>4,749,971</u>

As at 31 December 2015, the Company has commitment in respect of borrowings to be received from lenders amounting to US\$4 million (31 December 2014: US\$8 million).

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

27. Commitments and contingencies (continued)

(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 differing interpretations and the effects since the incorporation of the Company could be significant.

28. Related party transactions and balances

(a) Key management compensation

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Board of Directors				
Fees and related expenses	138,600	561,330	138,889	565,973
Key management				
Salaries and short-term benefits	1,206,986	4,888,293	801,500	3,266,113
Provident benefits	50,790	205,700	38,912	158,566
	1,257,776	5,093,993	840,412	3,424,679
Provident benefit payable	234,368	949,190	166,141	677,025

On 13 December 2014, Executive Committee ("EXCOM") was appointed by the Board of Directors for dealing with strategic issues of the Company. EXCOM is considered to be key management personnel.

There were 8 key management personnel (EXCOM member) as at 31 December 2015 (31 December 2014: 6 key management personnel).

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

28. Related party transactions and balances (continued)

(b) Loans to key management

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to key management	573,588	2,323,031	340,262	1,386,568
Interest income from key management	65,912	266,944	25,326	103,203

Loans are provided to key management of the Company with interest rates 8% per annum (2014: 8% per annum).

(c) Deposits from key management

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deposits from key management	421,049	1,705,248	366,158	1,492,094
Interest expenses to key management	12,425	50,321	9,097	37,070

Deposits from key management of the Company bear interest rates ranging from 3.5% to 11.3% per annum (2014: 3.5% to 11.2% per annum) depending on the terms and currency of the deposits.

(d) Office rental from key management

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Office rental expenses	31,920	129,276	31,920	130,074

(e) MEP/Equity-settled share-based Payment (Note 18)

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

28. Related party transactions and balances (continued)

(f) Significant transactions with shareholders

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASN-Novib Microkredietfonds (Triple Jump)				
Principal received	-	-	2,000,000	8,150,000
Interest expense	178,209	721,746	204,872	834,853
HKNGO				
Interest expense	29,102	117,863	29,102	118,591
OIKOCREDIT				
Principal received	3,000,000	12,150,000	3,000,000	12,225,000
Principal repayments	4,012,346	16,250,001	1,830,675	7,460,001
Interest expense	166,718	675,208	214,008	872,083
responsAbility				
Principal received	5,000,000	20,250,000	7,964,686	32,456,095
Principal repayments	-	-	1,500,000	6,112,500
Interest expense	1,628,710	6,596,276	844,487	3,441,285
NORFUND				
Principal received	7,000,000	28,350,000	-	-
Interest expense	364,510	1,476,266	-	-

29. Financial risk management

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

(a) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(a) Credit risk (continued)

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, credit approval processes and procedures implemented to mitigate credit risks and to ensure compliance with NBC Guidelines.

The Company holds collateral against loans to customers in the form of mortgage interests over the (landed) property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated unless there is any significant event affecting the area and/or the status of the property.

(i) Credit risk measurement

The Company assesses the probability of default of individual counterparties using an internally-developed analytical framework, focusing on borrowers' characters, repayment capacity (profitability and cash flow position), loan purpose(s) and size, and associated risks. The holders of credit approval discretion; i.e. Board Credit Committee, Management Credit Committee, Credit Director, Branch/Sub-branch Managers, and Branch/Sub-branch Chief Credit Unit; are responsible for approving loans to customers.

(ii) Risk limit control and mitigation policies

The Company manages limits and controls the concentration of credit risk whenever it is identified. The threshold of such concentration is set by the Board of Directors on annual basis.

The Company employs a range of policies and practices to mitigate credit risk. The primary practice is to assess credit risks, and the procedures of which are mentioned earlier in "credit risk measurement". In addition to these practices, credit risks can be further mitigated through the securitization of loans by collateral and/or limited personal guarantee.

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of loans less provisions for doubtful loans. Loans are also provided to those borrowers that are deemed profitable.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-02-186 dated 13 September 2002 on loan classification and provisioning. Refer to Note 3(g) for detail.

(iv) Exposure to credit risk

	2015		2014	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	363,191,836	1,470,926,936	250,121,612	1,019,245,569
Past due but not impaired	17,179	69,575	6,967	28,390
Individually impaired	294,991	1,194,713	64,178	261,526
	<u>363,504,006</u>	<u>1,472,191,224</u>	<u>250,192,757</u>	<u>1,019,535,485</u>

Neither past due or impaired

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

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers.

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 provision 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(g).

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (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 for both short-term loans and long-term loans, unless other information is available to indicate otherwise.

(b) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

The operational risk management entail the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

(c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Khmer Riel and Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by the NBC.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk

Concentration of currency risk

The aggregate amounts of assets and liabilities, by currency denomination, are as follows:

31 December 2015	US\$ equivalent			Total US\$
	US\$	KHR	THB	
Assets				
Cash on hand	6,117,557	1,599,543	426,648	8,143,748
Deposits and placements with National Bank of Cambodia	21,076,087	283,485	-	21,359,572
Deposits and placements with banks	21,865,668	13,840,191	5,464,526	41,170,385
Loans to customers	320,552,348	25,089,408	17,862,250	363,504,006
Other assets*	3,916,861	458,644	310,228	4,685,733
Total financial assets	373,528,521	41,271,271	24,063,652	438,863,444
Liabilities				
Deposits from customers	199,675,774	29,160,528	7,577,968	236,414,270
Borrowings	70,931,449	3,565,679	9,436,407	83,933,535
Other liabilities*	8,145,351	906,052	563,381	9,614,784
Subordinated debts	19,729,319	-	-	19,729,319
Amount due to shareholders	32,000,000	-	1,786,278	33,786,278
Total financial liabilities	330,481,893	33,632,259	19,364,034	383,478,186
Net financial asset position	43,046,628	7,639,012	4,699,618	55,385,258

* Excluded non-financial assets/liabilities.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

	US\$ equivalent			Total US\$
	US\$	KHR	THB	
31 December 2014				
Total financial assets	265,699,724	26,851,984	17,386,019	309,937,727
Total financial liabilities	238,739,697	23,663,853	12,020,180	274,423,730
Net financial asset position	<u>26,960,027</u>	<u>3,188,131</u>	<u>5,365,839</u>	<u>35,513,997</u>

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loans, bank deposits and borrowings.

Since the majority of financial assets are short-term and the interest rates are subject to change with the market rates, the Company does not use derivative financial instruments to hedge such risk.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2015	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	8,143,748	8,143,748	-
Balance with National Bank of Cambodia	-	-	682,461	-	-	20,677,111	21,359,572	0.11%
Deposits and placements with banks	40,874,624	-	-	-	-	295,761	41,170,385	0.29%
Loans to customers								
- Performing	1,063,381	2,103,073	30,043,344	311,445,177	18,554,040	-	363,209,015	20.11%
- Non performing	-	-	-	-	-	294,991	294,991	-
- Allowance	-	-	-	-	-	(1,685,289)	(1,685,289)	-
Other assets	-	-	-	-	-	4,685,733	4,685,733	-
	<u>41,938,005</u>	<u>2,103,073</u>	<u>30,725,805</u>	<u>311,445,177</u>	<u>18,554,040</u>	<u>32,412,055</u>	<u>437,178,155</u>	
Liabilities								
Deposits from customers	40,925,973	38,794,394	155,732,942	921,515	39,446	-	236,414,270	7.51%
Borrowings	-	905,852	12,914,167	64,892,324	4,860,300	360,892	83,933,535	6.97%
Other liabilities	-	-	-	-	-	9,614,784	9,614,784	-
Subordinated debts	-	-	10,000,000	4,000,000	5,415,743	313,576	19,729,319	9.42%
Amount due to shareholders	-	7,000,000	7,000,000	19,786,278	-	-	33,786,278	6.72%
	<u>40,925,973</u>	<u>46,700,246</u>	<u>185,647,109</u>	<u>89,600,117</u>	<u>10,315,489</u>	<u>10,289,252</u>	<u>383,478,186</u>	
Maturity gap	<u>1,012,032</u>	<u>(44,597,173)</u>	<u>(154,921,304)</u>	<u>221,845,060</u>	<u>8,238,551</u>	<u>22,122,803</u>	<u>53,699,969</u>	

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2014	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Assets								
Cash on hand	-	-	-	-	-	7,139,818	7,139,818	-
Balance with National Bank of Cambodia	-	-	525,707	-	-	25,396,659	25,922,366	0.05%
Deposits and placements with banks	23,026,189	-	-	-	-	177,813	23,204,002	0.44%
Loans to customers								
- Performing	983,806	1,963,288	28,981,147	212,619,204	5,581,134	-	250,128,579	22.93%
- Non performing	-	-	-	-	-	64,178	64,178	-
- Allowance	-	-	-	-	-	(512,505)	(512,505)	-
Other assets	-	-	-	-	-	3,478,784	3,478,784	-
	<u>24,009,995</u>	<u>1,963,288</u>	<u>29,506,854</u>	<u>212,619,204</u>	<u>5,581,134</u>	<u>35,744,747</u>	<u>309,425,222</u>	
Liabilities								
Deposits from customers	42,721,855	25,219,392	104,333,551	-	58,554	-	172,333,352	7.50%
Borrowings	500,000	3,526,000	26,031,391	23,999,741	3,240,200	404,817	57,702,149	7.11%
Other liabilities	-	-	-	-	-	6,474,630	6,474,630	-
Subordinated debts	-	-	-	9,942,778	5,000,000	-	14,942,778	10.41%
Amount due to shareholders	-	-	2,006,135	20,964,686	-	-	22,970,821	7.07%
	<u>43,221,855</u>	<u>28,745,392</u>	<u>132,371,077</u>	<u>54,907,205</u>	<u>8,298,754</u>	<u>6,879,447</u>	<u>274,423,730</u>	
Maturity gap	<u>(19,211,860)</u>	<u>(26,782,104)</u>	<u>(102,864,223)</u>	<u>157,711,999</u>	<u>(2,717,620)</u>	<u>28,865,300</u>	<u>35,001,492</u>	

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate liabilities at fair value through profit or loss, and the Company does not have derivatives as at the year end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings, including instalment due.

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2015	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\$
Assets							
Cash on hand	8,143,748	-	-	-	-	-	8,143,748
Balance with National Bank of Cambodia	1,053,640	-	-	-	-	20,305,932	21,359,572
Deposits and placements with banks	41,170,385	-	-	-	-	-	41,170,385
Loans to customers	19,618,988	40,833,259	150,646,235	237,519,511	7,489,071	-	456,107,064
Other assets	4,552,903	36,143	96,687	-	-	-	4,685,733
	<u>74,539,664</u>	<u>40,869,402</u>	<u>150,742,922</u>	<u>237,519,511</u>	<u>7,489,071</u>	<u>20,305,932</u>	<u>531,466,502</u>
Liabilities							
Deposits from customers	41,763,844	41,023,309	166,011,508	980,742	84,057	-	249,863,460
Borrowings	514,606	4,223,740	27,830,018	60,085,901	2,957,657	360,892	95,972,814
Other liabilities	7,346,564	1,699,030	408,718	160,472	-	-	9,614,784
Subordinated debts	252,642	4,784	1,666,694	22,800,959	2,227,150	729,319	27,681,548
Amount due to shareholders	169,268	560,348	13,165,356	23,591,433	-	-	37,486,405
	<u>50,046,924</u>	<u>47,511,211</u>	<u>209,082,294</u>	<u>107,619,507</u>	<u>5,268,864</u>	<u>1,090,211</u>	<u>420,619,011</u>
Maturity gap	<u>24,492,740</u>	<u>(6,641,809)</u>	<u>(58,339,372)</u>	<u>129,900,004</u>	<u>2,220,207</u>	<u>19,215,721</u>	<u>110,847,491</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2014	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\$
Assets							
Cash on hand	7,139,818	-	-	-	-	-	7,139,818
Balance with National Bank of Cambodia	11,123,188	-	-	-	-	14,799,178	25,922,366
Deposits and placements with banks	23,204,002	-	-	-	-	-	23,204,002
Loans to customers	16,470,377	32,513,590	120,072,346	147,156,592	2,602,229	-	318,815,134
Other assets	3,437,894	9,059	-	31,831	-	-	3,478,784
	<u>61,375,279</u>	<u>32,522,649</u>	<u>120,072,346</u>	<u>147,188,423</u>	<u>2,602,229</u>	<u>14,799,178</u>	<u>378,560,104</u>
Liabilities							
Deposits from customers	43,690,797	26,963,200	111,193,041	-	58,554	-	181,905,592
Borrowings	903,151	4,147,571	28,752,889	27,035,528	3,956,764	404,817	65,200,720
Other liabilities	4,650,098	1,124,293	541,083	159,156	-	-	6,474,630
Subordinated debts	-	7,176	1,492,172	15,151,507	6,084,754	-	22,735,609
Amount due to shareholders	176,082	154,074	3,257,621	22,896,398	-	-	26,484,175
	<u>49,420,128</u>	<u>32,396,314</u>	<u>145,236,806</u>	<u>65,242,589</u>	<u>10,100,072</u>	<u>404,817</u>	<u>302,800,726</u>
Maturity gap	<u>11,955,151</u>	<u>126,335</u>	<u>(25,164,460)</u>	<u>81,945,834</u>	<u>(7,497,843)</u>	<u>14,394,361</u>	<u>75,759,378</u>

Hattha Kaksekar Limited

Notes to the financial statements (continued) for the year ended 31 December 2015

29. Financial risk management (continued)

(e) Capital management

(i) *Regulatory capital*

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

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(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.

30. Fair values of financial assets and liabilities

The Company did not have financial instruments measured at fair value.

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.

31. Subsequent events

On 26 January 2016, the shareholders of the Company and Bank of Ayudhya PCL ("Krungsri") entered into an agreement for the acquisition of all registered and issued shares (100%) in the Company. Completion of the acquisition is still subject to satisfactory approval from all relevant regulators and satisfaction of other conditions precedent as set out in the agreement. Upon completion of the transaction, Bank of Ayudhya PCL will hold 100% of the issued share capital of the Company.