

HATTHA KAKSEKAR LIMITED
(Registration No. 00005355)

**REPORT OF THE BOARD OF DIRECTORS
AND AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

HATTHA KAKSEKAR LIMITED

REPORT OF THE BOARD OF DIRECTORS AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CORPORATE INFORMATION

Company	Hattha Kaksekar Limited
Registration No	00005355
Registered office	No. 606, Street 271, Sangkat Phsar Doeum Thkov Khan Chamkamorn, Phnom Penh, Kingdom of Cambodia
Shareholders	<u>Prior to 12 September 2016</u> Oikocredit, Ecumenical Development Co-operative Society U.A. ("OIKOCREDIT") ASN-Novib Microkredietfonds (ANMF) acting through Pettelaar Effectenbewaarbiedrijf 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"), duly represented by its agent responsibility Investment AG responsAbility Participations AG ("rAP") HKSA., Limited ("HKSA") Mr. Dy Davuth <u>After 12 September 2016</u> Bank of Ayudhya Public Company Limited ("Krungsri")
Board of Directors	Mr. Sudargo Harsono, Chairperson, Head of Retail and Consumer Banking of Krungsri (appointed on 12 September 2016) Mr. Rohit Khanna, Director, Head of Corporate Strategy and Planning Group of Krungsri (appointed on 12 September 2016) Ms. Duangdao Wongpanitkrit, Director, Chief Financial Officer of Krungsri (appointed on 12 September 2016) Mr. Chandrashekar Subramanian Krishoolndmangalam, Director, Chief Risk Officer of Krungsri (appointed on 12 September 2016) Mr. Piyasak Ukritnukun, Director, Managing Director of Ngern Tid Lor Co., Ltd. (appointed on 12 September 2016) Mr. Dy Davuth, Independent Director, Vice President of Build Bright University Mr. Lonh Hay, Independent Director Ms. Tal Nay Im, Independent Director Mr. Hout Ieng Tong, Director, President and Chief Executive Officer of Hattha Kaksekar Limited (appointed on 12 September 2016) Mr. Erik Peter Geurts, Chairman, Senior Investment Officer Equity of responsibility (resigned on 12 September 2016) Mr. Tor G. Gull, Director (resigned on 12 September 2016) Mr. Eelco Mol, Director, Head of Debt Investments of Triple Jump (resigned on 12 September 2016) Mr. Pak Sereivathana, Director (resigned on 12 September 2016)

HATTHA KAKSEKAR LIMITED

REPORT OF THE BOARD OF DIRECTORS AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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
Principal bankers	ACLEDA Bank Plc. Advanced Bank of Asia Limited ANZ Royal Bank (Cambodia) Ltd National Bank of Cambodia
Auditors	Deloitte (Cambodia) Co., Ltd.

HATTHA KAKSEKAR LIMITED

**REPORT OF THE BOARD OF DIRECTORS AND AUDITED FIANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

CONTENTS

	Page
1. Report of the Board of Directors	1
2. Independent auditor's report	6
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	15



REPORT OF THE BOARD OF DIRECTORS

The Board of Directors (“BOD” or “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 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company 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 2016 were as follows:

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	16,235,228	65,541,616	13,971,469	56,584,449
Income tax expense	(3,416,171)	(13,791,082)	(2,859,385)	(11,580,509)
Net profit for the year	12,819,057	51,750,534	11,112,084	45,003,940

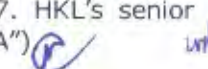
RESERVES AND PROVISIONS

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

DIVIDENDS

There was no dividend declared during the year (2015: the Company has declared and paid dividends amounting to US\$1,599,699 in respect of the Company’s net profit for the year ended 31 December 2014).

SHARE CAPITAL

In 2013, the shareholders approved for the Company to set up the Management Equity Plan (“MEP”). The plan was amended and approved by the shareholders on 21 January 2014. The MEP provided the HKL’s senior management 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 five years from 2013 to 2017. HKL’s senior management purchased the Company’s shares through HKSA Limited (“HKSA”) 

SHARE CAPITAL (continued)

As at the date of this report, the BOD approved the following allocation:

No. of allocation	MEP share allocation related to financial year	Period of exercise	# of share exercised	Price per share (US\$)	Value of share exercised (US\$)	# of bonus share entitled
1 st	2012	2014	* 25,600	5.0223	128,571	* 46,080
2 nd	2013	2014	14,120	5.8665	82,835	25,413
3 rd	2014	2015	15,349	6.9084	106,037	27,626
4 th	2015	2015	** 14,762	8.4505	124,746	** 26,572
5 th	2016	2016	**11,049	9.7676	107,922	**19,889

- * 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.
- ** MEP participants are not required to purchase all of shares approved by the Board of Director for the 4th and 5th allocation. However, its related bonus will be entitled to MEP Participants which was approved by the BoD.

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.

This transaction was approved by the National Bank of Cambodia ("NBC") on 11 July 2016 and acknowledged the new Memorandum and Articles of Association on 24 August 2016. On 12 September 2016, the new Memorandum and Articles of Association was approved by the Ministry of Commerce ("MoC") which is marked as effective date of change of control. Accordingly, the unvested and vested MEP bonus shares "Deemed Shares" for the five allocations were fully settled to MEP participants in December 2016 amounting to US\$ 3,970,048.

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 allowance for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate allowance had been made for bad and doubtful loans.

ASSETS

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ensure that any assets, 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 attributable to the 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 year 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 year 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 year 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.

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 AFTER THE REPORTING DATE

No significant events occurred after the balance sheet date requiring disclosures or adjustments other than those disclosed in Note 30 to the financial statements.

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. Sudargo Harsono, Chairperson, Head of Retail and Consumer Banking of Krungsri (appointed on 12 September 2016)
- Mr. Rohit Khanna, Director, Head of Corporate Strategy and Planning Group of Krungsri (appointed on 12 September 2016)
- Ms. Duangdao Wongpanitkrit, Director, Chief Financial Officer of Krungsri (appointed on 12 September 2016)
- Mr. Chandrashekar Subramanian Krishoolndmangalam, Director, Chief Risk Officer of Krungsri (appointed on 12 September 2016)

THE BOARD OF DIRECTORS (continued)

- Mr. Piyasak Ukritnukun, Director, Managing Director of Ngerm Tid Lor Co., Ltd. (appointed on 12 September 2016)
- Mr. Dy Davuth, Independent Director, Vice President of Build Bright University
- Mr. Lonh Hay, Independent Director
- Ms. Tal Nay Im, Independent Director
- Mr. Hout Ieng Tong, Director, President and Chief Executive Officer of Hattha Kaksekar Limited (appointed on 12 September 2016)
- Mr. Erik Peter Geurts, Chairman, Senior Investment Officer Equity of responsibility (resigned on 12 September 2016)
- Mr. Tor G. Gull, Director (resigned on 12 September 2016)
- Mr. Eelco Mol, Director, Head of Debt Investments of Triple Jump (resigned on 12 September 2016)
- Mr. Pak Sereivathana, Director (resigned on 12 September 2016)

DIRECTORS' BENEFITS


During and at the end of the financial year, no arrangement existed to which the Company is a party with the objective 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 ensuring that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

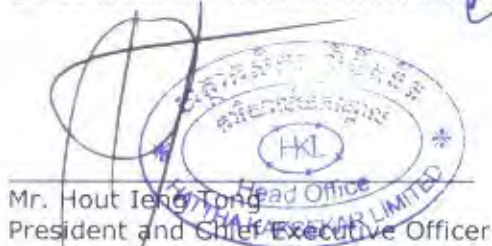
- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with the requirements of Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, or, if there have been any departures in the interests of fair presentation, 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
- effectively control and direct the Company and is involved 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 the Company has complied with the above requirements in preparing the financial statements. 

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements as set out on pages 9 to 62 present fairly, in all material respects, the financial position of Hattha Kaksekar Limited as at 31 December 2016, and its financial performance and its cash flows for year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors



The image shows a handwritten signature in blue ink over a circular blue stamp. The stamp contains the text 'HATTHA KAKSEKAR LIMITED' around the perimeter and 'HKL' in the center. Below the stamp, the name and title of the signatory are printed.

Mr. Hout Ieng Tong
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 24 February 2017

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hattha Kaksekar Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hattha Kaksekar Limited ("the Company"), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 9 to 62.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

Basis for Opinion

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

Other Matters

The financial statements of the Company as at and for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those statements on 24 February 2016.



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

Management is responsible for the other information. The other information comprises the Report of the Board of Directors as set out on pages 1 to 5, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with CISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Deloitte.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Deloitte (Cambodia) Co., Ltd.



Khoy Kimleng
Director

Phnom Penh, Kingdom of Cambodia
Date: 24 February 2017

HATTHA KAKSEKAR LIMITED
**BALANCE SHEET
AS AT 31 DECEMBER 2016**

	Note	31 December 2016		31 December 2015	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	4	9,317,664	37,615,410	8,143,748	32,982,179
Balances with the NBC	5	45,996,092	185,686,223	21,359,572	86,506,267
Balances with other banks	6	74,272,524	299,838,179	41,170,385	166,740,059
Loans to customers, net	7	442,277,524	1,785,474,364	361,818,717	1,465,365,804
Other assets	8	8,435,869	34,055,603	6,885,277	27,885,372
Property and equipment	9	4,713,214	19,027,245	5,300,230	21,465,932
Intangible assets	10	545,826	2,203,500	848,248	3,435,404
Deferred tax assets, net	17(a)	948,969	3,830,988	590,120	2,389,986
TOTAL ASSETS		586,507,682	2,367,731,512	446,116,297	1,806,771,003
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from customers	11	357,772,465	1,444,327,441	236,414,270	957,477,794
Borrowings	12	116,750,949	471,323,581	83,933,535	339,930,817
Amounts due to related parties	13	44,750	180,655	33,786,278	136,834,426
Subordinated debts	14	24,729,319	99,832,261	19,729,319	79,903,742
Provident benefits	15	2,318,590	9,360,148	1,748,508	7,081,457
Other liabilities	16	14,988,449	60,508,369	10,075,351	40,805,171
Current income tax payable	17(b)	3,044,038	12,288,781	2,758,064	11,170,159
TOTAL LIABILITIES		519,648,560	2,097,821,236	388,445,325	1,573,203,566
EQUITY					
Share capital	18(a)	6,824,594	27,550,886	6,824,594	27,639,606
Share premium		19,082,502	77,036,061	19,052,319	77,161,892
Legal reserves		682,459	2,755,087	682,459	2,763,959
Other reserves		975,604	3,938,513	805,493	3,262,247
MEP/Equity-settled share-based payment	18(b)	-	-	30,183	122,241
Retained earnings		39,293,963	158,629,729	30,275,924	122,617,492
TOTAL EQUITY		66,859,122	269,910,276	57,670,972	233,567,437
TOTAL LIABILITIES AND EQUITY		586,507,682	2,367,731,512	446,116,297	1,806,771,003

The accompanying notes from pages 15 to 62 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Year ended 31 December 2016		Year ended 31 December 2015	
		US\$	KHR'000	US\$	KHR'000
Interest income	19	81,568,073	329,290,311	64,226,422	260,117,009
Interest expense	20	(35,502,532)	(143,323,722)	(24,756,709)	(100,264,671)
Net interest income		46,065,541	185,966,589	39,469,713	159,852,338
Other operating income	21	877,402	3,542,072	328,370	1,329,898
Operating expenses	22	(28,992,784)	(117,043,869)	(24,553,842)	(99,443,060)
Operating profit		17,950,159	72,464,792	15,244,241	61,739,176
Allowance for bad and doubtful loans	7	(1,714,931)	(6,923,176)	(1,272,772)	(5,154,727)
Profit before income tax		16,235,228	65,541,616	13,971,469	56,584,449
Income tax expense	17(c)	(3,416,171)	(13,791,082)	(2,859,385)	(11,580,509)
Net profit for the year		12,819,057	51,750,534	11,112,084	45,003,940

The accompanying notes from pages 15 to 62 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share capital	Share Premium	Legal reserve	Other reserves	MEP/Equity-settled share-based payment	Subordinated debts	Retained earnings	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
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 14)	-	-	-	-	-	(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 23)	-	-	-	-	-	-	(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								
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>
At 1 January 2016	6,824,594	19,052,319	682,459	805,493	30,183	-	30,275,924	57,670,972
Net profit for the year	-	-	-	-	-	-	12,819,057	12,819,057
Transfer to other reserves	-	-	-	170,111	-	-	(170,111)	-
Transfer MEP/equity settled share-based payment to share premium	-	30,183	-	-	(30,183)	-	-	-
Settlement of MEP shares (Note 18(b))	-	-	-	-	-	-	(3,630,907)	(3,630,907)
At 31 December 2016	<u>6,824,594</u>	<u>19,082,502</u>	<u>682,459</u>	<u>975,604</u>	<u>-</u>	<u>-</u>	<u>39,293,963</u>	<u>66,859,122</u>
KHR'000 equivalents								
At 31 December 2016	<u>27,550,886</u>	<u>77,036,061</u>	<u>2,755,087</u>	<u>3,938,513</u>	<u>-</u>	<u>-</u>	<u>158,629,729</u>	<u>269,910,276</u>

The accompanying notes from pages 15 to 62 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED
**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

Note	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Cash flow from operating activities				
Profit before income tax	16,235,228	65,541,616	13,971,469	56,584,449
<i>Adjustments for non-cash income and expense</i>				
Depreciation and amortisation	22 2,808,229	11,336,820	2,469,597	10,001,868
Allowance for bad and doubtful loans	7 1,714,931	6,923,176	1,272,772	5,154,727
Provident benefits	15 588,977	2,377,700	494,834	2,004,078
Loss/(gain) on disposal of property and equipment	21& 22 2,979	12,026	(5,382)	(21,797)
Net interest income	(46,065,541)	(185,966,589)	(39,469,713)	(159,852,338)
<i>Effect of currency translation differences</i>				
Borrowings	97,662	394,262	(321,649)	(1,302,678)
Amount due to related parties	-	-	(172,198)	(697,402)
	(24,617,535)	(99,380,989)	(21,760,270)	(88,129,093)
<i>Changes in:</i>				
Balances with the NBC	(9,960,000)	(40,208,520)	(5,506,754)	(22,302,354)
Loans to customers	(82,173,738)	(331,735,380)	(113,411,237)	(459,315,510)
Other assets	(947,211)	(3,823,891)	(909,878)	(3,685,006)
Deposits from customers	121,358,195	489,923,033	64,080,918	259,527,718
Other liabilities	919,696	3,712,814	894,606	3,623,154
Amount due to related parties	44,750	180,656	-	-
Cash generated from/(used in) operations	4,624,157	18,667,723	(76,612,615)	(310,281,091)
Interest received	80,964,692	326,854,462	63,111,413	255,601,223
Interest paid	(31,439,708)	(126,922,101)	(22,111,769)	(89,552,664)
Income tax paid	17(b) (3,489,046)	(14,085,279)	(2,369,028)	(9,594,563)
Provident benefits paid	15 (88,317)	(356,536)	(83,131)	(336,681)
Settlement of MEP shares	(3,630,907)	(14,657,972)	-	-
Net cash generated from/(used in) operating activities	46,940,871	189,500,297	(38,065,130)	(154,163,776)
Cash flow from investing activities				
Purchases of property and equipment	9 (1,693,914)	(6,838,331)	(2,978,289)	(12,062,070)
Purchases of intangible assets	10 (229,183)	(925,212)	(171,057)	(692,781)
Proceeds from disposal of property and equipment	1,327	5,357	10,988	44,501
Net cash used in investing activities	(1,921,770)	(7,758,186)	(3,138,358)	(12,710,350)

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Note	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Cash flow from financing activities				
	36,101,743	145,742,736	56,961,649	230,694,678
	(29,168,269)	(117,752,302)	(30,408,613)	(123,154,883)
	-	-	15,000,000	60,750,000
	(8,000,000)	(32,296,000)	(4,012,346)	(16,250,001)
	5,000,000	20,185,000	5,000,000	20,250,000
	-	-	9,163,262	37,111,211
23	-	-	(1,599,699)	(6,478,781)
	3,933,474	15,879,434	50,104,253	202,922,224
	48,952,575	197,621,545	8,900,765	36,048,098
	50,367,773	203,989,480	41,467,008	168,978,057
	-	(654,780)	-	(1,036,675)
24	99,320,348	400,956,245	50,367,773	203,989,480

HATTHA KAKSEKAR LIMITED**STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016****Significant non-cash transactions**

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

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Increase in other reserves as a result of transfer from the retained earnings	170,111	686,738	170,111	688,950
Increase in legal reserves as a result of transfer from the retained earnings	-	-	155,340	629,127
Increase in capital as result of conversion from subordinated debts	-	-	942,778	3,818,251
Increase 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
Transfer amounts due to shareholders to borrowings	25,799,995	104,154,580	-	-
Increase in share premium as a result of transfer from MEP/Equity-settled share-based payment	30,183	121,849	-	-

The accompanying notes from pages 15 to 62 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 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.

HKL operates in 154 offices (including Head Office) 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, Mondulakiri, Ratanakiri, Kep, Pailin, and Tbong Khmum with the primary source of income being interest income earned on providing loans to customers.

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

The financial statements of the Company were authorised for issue by the Board of Directors on 24 February 2017.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. 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) Basis of preparation

The financial statements have been prepared in accordance with Cambodian Accounting Standards ("CAS") and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

(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.

(d) Presentation in Khmer Riel

In compliance with the Law on Accounting and Auditing dated 11 April 2016, a translation of the financial statements from US\$ to Khmer Riel is required.

Translations of US\$ into Khmer Riel are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to Riel 4,037 as at 31 December 2016 (31 December 2015: US\$1 to KHR 4,050) published by the National Bank of Cambodia.

The financial statements expressed in Khmer Riel are unaudited and should not be construed as representation that the US\$ amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other exchange rate.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 year in which the estimates are revised and in any future years affected.

For critical accounting estimates, assumptions and judgement, please refer to Note 3.

(f) Financial instruments

The Company's financial assets and liabilities include cash on hand, balances with the NBC, balances with other banks, loans to customers, other receivables, deposits from customers, borrowings, amounts due to shareholders, subordinated debts and other payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(g) 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.

(h) 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.

(i) Loans to customers

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

(j) Allowances for bad and doubtful loans and loan written off

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%

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Allowances for bad and doubtful loans and loan written off

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

The allowance is calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The allowance 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 certainty of being uncollectable loans is proven whichever is earlier. 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 recognised as other operating income in the income statement. Reversal of previous allowance is presented in Allowance for bad and doubtful loans in the income statement.

(k) Interest in suspense

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

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

(l) Other assets

Other assets are carried at cost.

(m) 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 operational use.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property and equipment (continued)

- (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 year in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the 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.

(n) 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.

(o) 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 estimated future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 2 (j).

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment (continued)

(ii) Non-financial assets (continued)

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

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

(p) Deposits from customers

Deposits from customers are stated at cost.

(q) Borrowings

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

(r) Subordinated debts

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

Subordinated debts are stated at cost.

(s) 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 FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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, dead 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.

(u) Legal reserves

Based on the Articles of Incorporation, the Company is required to transfer from retained earnings 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. According to the new Memorandum and Articles of Association approved by the MoC on 12 September 2016, the legal reserves are no longer required after the Company becomes solely-owned by Krungsri.

(v) 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 during the life of the loan, except otherwise agreed by ICO and AECID. Based on the loan agreement, the "other reserve" from that loan cannot be distributed for the life of loan, unless allowed by the lender with a request from the Company to debit from that reserve account.

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

Management Equity Plan ("MEP") bonus shares 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 shares are transferred from liability to MEP/Equity-settled share-based payment at each vesting interval. Portion of MEP shares at par value is recorded as paid-up capital upon approval from the NBC while the remaining portion is still in MEP/Equity-settled share-based payment. After the effective change of control dated 12 September 2016, the Company has no longer MEP scheme.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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 in a note as the subsequent events in the financial statements.

(y) Income and expense recognition

Interest income on loans is recognised on an accrual 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.

(z) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors 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.

(aa) Income tax and deferred 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 or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar and thousand Khmer Riel ("KHR'000") for US\$ and Riel amounts, respectively.

(ac) 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. The new standards will be referred to as Cambodian International Financial Reporting Standards ("CIFRS").

On 30 July 2012, the Ministry of Economy and Finance through NAC issued a Notification on delaying of adopting the CIFRS 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. On 24 March 2016, NAC approved the delay on adopting the CIFRS for bank and financial institution until end of 2018. Bank and financial institution is required to implement CIFRS from 1 January 2019.

The Company is assessing the potential impact on its financial statements resulting from the application of CIFRS for the financial year end, but they consider that it may not be practicable to assess the full impact as of the date of the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(a) Allowance for bad and doubtful loans

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas No. B7-02-186 dated 13 September 2002 of the National Bank of Cambodia. The NBC requires microfinance institutions to classify their loan portfolios into four classes, and a minimum mandatory level of provision is made depending on the classification concerned.

In addition to the specific allowance, an additional general allowance for bad and doubtful loans is set at the rate of 1% of standard loan growths during the year.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

(b) Income tax

The taxation system in Cambodia is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, different interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are empowered by law to impose fines, penalties and interest charges.

These factors may create significant tax exposures for the Company. Directors believe that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

4. CASH ON HAND

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Head office	1,965,011	7,932,749	1,233,689	4,996,440
Branches	7,352,653	29,682,661	6,910,059	27,985,739
	<u>9,317,664</u>	<u>37,615,410</u>	<u>8,143,748</u>	<u>32,982,179</u>

The above amounts are analysed by currency as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
US Dollars	7,076,387	28,567,375	6,117,557	24,776,106
Khmer Riel	1,928,789	7,786,521	1,599,543	6,478,149
Thai Baht	312,488	1,261,514	426,648	1,727,924
	<u>9,317,664</u>	<u>37,615,410</u>	<u>8,143,748</u>	<u>32,982,179</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****5. BALANCES WITH THE NATIONAL BANK OF CAMBODIA**

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits:				
Capital guarantee deposits	682,461	2,755,095	682,461	2,763,967
Reserve requirement	29,583,471	119,428,472	19,623,471	79,475,058
	<u>30,265,932</u>	<u>122,183,567</u>	<u>20,305,932</u>	<u>82,239,025</u>
Current account	1,957,557	7,902,658	1,053,640	4,267,242
Negotiable Certificate of Deposit (NCD) *	<u>13,772,603</u>	<u>55,599,998</u>	-	-
	<u>45,996,092</u>	<u>185,686,223</u>	<u>21,359,572</u>	<u>86,506,267</u>

* A Negotiable Certificate of Deposit (NCD) is a short-term interest bearing debt issued by the NBC. It is issued in Khmer riel and US dollar in order to help commercial banks and microfinance institutions invest their short term liquidity. The interest rate of NCDs is determined by the NBC and varies upon the market conditions. The above NCDs earned interest ranging from 1.28% to 3% per annum.

Capital guarantee deposits

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 0.22% (2015: 0.11%) 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.

6. BALANCES WITH OTHER BANKS

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Current accounts	25,878,640	104,472,070	8,257,674	33,443,580
Saving accounts	<u>48,393,884</u>	<u>195,366,109</u>	<u>32,912,711</u>	<u>133,296,479</u>
	<u>74,272,524</u>	<u>299,838,179</u>	<u>41,170,385</u>	<u>166,740,059</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

6. BALANCES WITH OTHER BANKS (continued)

Balances with other banks are analysed as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	56,890,874	229,668,458	21,865,668	88,555,955
Khmer Riel	12,039,926	48,605,181	13,840,191	56,052,774
Thai Baht	5,341,724	21,564,540	5,464,526	22,131,330
	<u>74,272,524</u>	<u>299,838,179</u>	<u>41,170,385</u>	<u>166,740,059</u>
	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(b) By maturity:				
Within 1 month	<u>74,272,524</u>	<u>299,838,179</u>	<u>41,170,385</u>	<u>166,740,059</u>
	31 December 2016		31 December 2015	
(c) By interest rate (per annum):				
Current accounts		0%-0.5%		0%-0.5%
Saving accounts		0.0%-1%		0.05%-1%

7. LOANS TO CUSTOMERS, NET

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Individual loans	445,243,664	1,797,448,672	363,504,006	1,472,191,224
Allowance for bad and doubtful loans:				
Specific	(532,335)	(2,149,036)	(43,016)	(174,215)
General	(2,433,805)	(9,825,272)	(1,642,273)	(6,651,205)
	<u>(2,966,140)</u>	<u>(11,974,308)</u>	<u>(1,685,289)</u>	<u>(6,825,420)</u>
Loans to customers, net	<u>442,277,524</u>	<u>1,785,474,364</u>	<u>361,818,717</u>	<u>1,465,365,804</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****7. LOANS TO CUSTOMERS, NET** (continued)

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

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	1,685,289	6,825,420	512,505	2,088,458
Allowance during the year	1,714,931	6,923,176	1,272,772	5,154,727
Written off during the year	(435,093)	(1,756,470)	(97,324)	(394,162)
Currency translation difference	1,013	(17,818)	(2,664)	(23,603)
At end of year	<u>2,966,140</u>	<u>11,974,308</u>	<u>1,685,289</u>	<u>6,825,420</u>

Loans to customers are analysed as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	557,387	2,250,171	439,458	1,779,805
> 1 to 3 months	2,148,568	8,673,769	1,985,587	8,041,627
> 3 to 12 months	24,747,042	99,903,809	24,589,560	99,587,718
More than 12 months	417,790,667	1,686,620,923	336,489,401	1,362,782,074
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>
(b) By currency:				
US Dollars	396,208,897	1,599,495,317	320,552,348	1,298,237,009
Khmer Riel	28,803,103	116,278,127	25,089,408	101,612,102
Thai Baht	20,231,664	81,675,228	17,862,250	72,342,113
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****7. LOANS TO CUSTOMERS (continued)**

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(c) By economic sector:				
Agriculture	112,874,346	455,673,735	89,608,918	362,916,118
Trade and commerce	98,376,676	397,146,641	79,241,810	320,929,331
Household/family	49,035,552	197,956,523	51,317,055	207,834,073
Construction	17,568,679	70,924,757	11,552,231	46,786,536
Services	49,908,396	201,480,195	45,955,938	186,121,549
Transportation	23,273,529	93,955,237	16,716,042	67,699,970
Production	6,837,266	27,602,043	3,482,264	14,103,169
Land/house	87,369,220	352,709,541	65,248,879	264,257,959
Other categories	-	-	380,869	1,542,519
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>
(d) By residency status:				
Residents	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>
(e) By relationship:				
External customers	436,914,738	1,763,824,797	356,867,933	1,445,315,129
Management and staff loans	<u>8,328,926</u>	<u>33,623,875</u>	<u>6,636,073</u>	<u>26,876,095</u>
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. LOANS TO CUSTOMERS (continued)

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(f) By location:				
Operational Office –				
Phnom Penh	7,952,827	32,105,563	7,281,388	29,489,621
<i>Phnom Penh branches :</i>				
Phnom Penh	12,054,383	48,663,544	8,936,978	36,194,761
Dangkor	12,012,702	48,495,278	8,925,893	36,149,867
Daun Penh	14,991,468	60,520,556	10,507,226	42,554,265
Russey Keo	5,845,700	23,599,091	4,733,611	19,171,125
Boeng Trabek	8,260,040	33,345,781	6,983,097	28,281,543
<i>Provincial branches :</i>				
Pursat	20,781,306	83,894,132	18,006,403	72,925,932
Kampong Thom	31,927,163	128,889,957	27,409,848	111,009,884
Siem Reap	45,437,494	183,431,163	36,862,931	149,294,871
Banteay Meanchey	31,558,477	127,401,572	29,288,055	118,616,623
Kampong Cham	22,421,399	90,515,188	16,967,327	68,717,674
Tbong Khmum	23,110,072	93,295,361	19,376,443	78,474,594
Battambang	39,611,533	159,911,759	33,066,285	133,918,454
Kampong Chhnang	7,863,432	31,744,675	6,602,899	26,741,741
Takeo	16,107,416	65,025,638	12,299,038	49,811,104
Prey Veng	21,607,369	87,228,949	17,497,057	70,863,081
Kandal	40,390,909	163,058,100	31,429,704	127,290,301
Svay Rieng	11,256,025	45,440,573	8,476,285	34,328,954
Kampong Speu	11,410,602	46,064,600	9,303,919	37,680,872
Kampot	7,038,229	28,413,328	4,780,183	19,359,740
Kep	1,776,186	7,170,465	1,062,370	4,302,600
Koh Kong	6,215,375	25,091,469	4,158,743	16,842,909
Kampong Som	6,172,042	24,916,534	4,848,972	19,638,337
Kratie	4,761,426	19,221,877	4,348,776	17,612,543
Preah Vihea	6,042,681	24,394,303	6,643,733	26,907,119
Steung Treng	4,452,129	17,973,245	3,590,871	14,543,028
Odor Meanchey	10,328,623	41,696,651	8,853,524	35,856,772
Mondulkiri	4,013,527	16,202,608	3,105,018	12,575,323
Ratanakiri	4,649,050	18,768,215	3,755,246	15,208,746
Pailin	5,194,079	20,968,497	4,402,183	17,828,840
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. LOANS TO CUSTOMERS (continued)

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(g) By performance:				
Standard loans				
Secured	235,353,870	950,123,573	195,348,631	791,161,956
Unsecured*	207,125,899	836,167,254	167,860,384	679,834,555
Sub-standard loans				
Secured	833,017	3,362,890	179,327	726,274
Unsecured*	994,613	4,015,253	52,427	212,329
Doubtful loans		-		
Secured	442,469	1,786,247	54,023	218,793
Unsecured*	395,661	1,597,283	7,971	32,283
Loss loans		-		
Secured	70,523	284,702	124	502
Unsecured*	27,612	111,470	1,119	4,532
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>

* These loans are secured by property soft title deed. The soft title deed refers to the deed which is not issued by cadastral departments.

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(h) By type of loans:				
Micro loans	149,229,865	602,440,965	149,651,617	606,089,049
Small loans	116,559,335	470,550,035	82,040,040	332,262,162
Medium loans	126,862,915	512,145,588	95,500,945	386,778,827
Large loans	21,057,770	85,010,217	19,626,284	79,486,450
SME loans	31,533,779	127,301,867	16,685,120	67,574,736
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>

	31 December 2016	31 December 2015
(i) By interest rate (per annum):		
Micro loans	1.2% - 3.5%	1.2% - 3.0%
Small loans	1.2% - 2.3%	1.2% - 2.5%
Medium loans	1.1% - 2.0%	1.1% - 2.3%
Large loans	1.0% - 1.6 %	1.0% - 1.6%
SME loans	1.0% - 1.4%	1.0% - 1.4%

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****8. OTHER ASSETS**

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	5,156,284	20,815,919	4,552,903	18,439,257
Interest in suspense	(199,696)	(806,173)	(44,399)	(179,816)
Net interest receivable	4,956,588	20,009,746	4,508,504	18,259,441
Prepaid and deposits for office and ATM booth rentals	1,109,294	4,478,220	884,689	3,582,991
Fees on borrowings	1,917,041	7,739,095	980,371	3,970,503
Prepaid maintenance services	175,001	706,479	164,006	664,224
Other receivable	277,945	1,122,063	347,707	1,408,213
	<u>8,435,869</u>	<u>34,055,603</u>	<u>6,885,277</u>	<u>27,885,372</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

9. PROPERTY AND EQUIPMENT

	Leasehold improvement	Motor vehicles	Computer equipment	Equipment	Furniture and fixtures	Work in progress	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
31 December 2016								
Cost								
At 1 January 2016	1,203,899	1,853,365	3,186,080	4,075,678	531,522	63,278	10,913,822	44,200,979
Additions	234,743	445,220	243,956	97,540	35,309	637,146	1,693,914	6,838,331
Disposals	(25,005)	-	(31,771)	(1,651)	(500)	-	(58,927)	(237,888)
Transfers	32,856	41,260	70,778	523,487	2,104	(670,485)	-	-
Currency translation difference	-	-	-	-	-	-	-	(141,880)
At 31 December 2016	1,446,493	2,339,845	3,469,043	4,695,054	568,435	29,939	12,548,809	50,659,542
Less: Accumulated depreciation								
At 1 January 2016	626,912	877,589	1,909,166	1,747,883	452,042	-	5,613,592	22,735,047
Depreciation	334,994	321,335	699,017	878,000	43,278	-	2,276,624	9,190,731
Disposals	(22,912)	-	(29,879)	(1,330)	(500)	-	(54,621)	(220,505)
Currency translation difference	-	-	-	-	-	-	-	(72,976)
At 31 December 2016	938,994	1,198,924	2,578,304	2,624,553	494,820	-	7,835,595	31,632,297
Carrying amounts								
At 31 December 2016	507,499	1,140,921	890,739	2,070,501	73,615	29,939	4,713,214	19,027,245

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvement	Motor vehicles	Computer equipment	Equipment	Furniture and fixtures	Work in progress	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
31 December 2015								
Cost								
At 1 January 2015	745,309	1,568,715	2,092,749	3,098,325	474,772	40,161	8,020,031	32,681,626
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)
Transfers	92,820	41,245	746,222	847,098	200	(1,727,585)	-	-
Currency translation difference	-	-	-	-	-	-	-	(200,500)
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	15,114,203
Depreciation	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)
Currency translation difference	-	-	-	-	-	-	-	(92,725)
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>576,987</u>	<u>975,776</u>	<u>1,276,914</u>	<u>2,327,795</u>	<u>79,480</u>	<u>63,278</u>	<u>5,300,230</u>	<u>21,465,932</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10. INTANGIBLE ASSET

31 December 2016	Software and licenses	Work in progress	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2016	2,525,481	14,295	2,539,776	10,286,093
Additions	83,423	145,760	229,183	925,212
Transfers	107,250	(107,250)	-	-
Disposal	(42,500)	-	(42,500)	(171,573)
Currency translation difference	-	-	-	(33,017)
At 31 December 2016	<u>2,673,654</u>	<u>52,805</u>	<u>2,726,459</u>	<u>11,006,715</u>
Less: Accumulated amortisation				
At 1 January 2016	1,691,528	-	1,691,528	6,850,689
Amortisation	531,605	-	531,605	2,146,089
Disposal	(42,500)	-	(42,500)	(171,573)
Currency translation difference	-	-	-	(21,990)
At 31 December 2016	<u>2,180,633</u>	<u>-</u>	<u>2,180,633</u>	<u>8,803,215</u>
Carrying amounts				
At 31 December 2016	<u>493,021</u>	<u>52,805</u>	<u>545,826</u>	<u>2,203,500</u>
31 December 2015				
Cost				
At 1 January 2015	2,368,719	-	2,368,719	9,652,530
Additions	107,409	63,648	171,057	692,781
Transfers	49,353	(49,353)	-	-
Currency translation difference	-	-	-	(59,218)
As at 31 December 2015	<u>2,525,481</u>	<u>14,295</u>	<u>2,539,776</u>	<u>10,286,093</u>
Less: Accumulated amortisation				
At 1 January 2015	1,205,408	-	1,205,408	4,912,038
Amortisation	486,120	-	486,120	1,968,786
Currency translation difference	-	-	-	(30,135)
At 31 December 2015	<u>1,691,528</u>	<u>-</u>	<u>1,691,528</u>	<u>6,850,689</u>
Carrying amounts				
At 31 December 2015	<u>833,953</u>	<u>14,295</u>	<u>848,248</u>	<u>3,435,404</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

11. DEPOSITS FROM CUSTOMERS

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Savings deposits	36,049,729	145,532,756	27,027,156	109,459,982
Term deposits	321,722,736	1,298,794,685	209,387,114	848,017,812
	<u>357,772,465</u>	<u>1,444,327,441</u>	<u>236,414,270</u>	<u>957,477,794</u>

The deposits from customers are analysed as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	299,146,307	1,207,653,641	199,675,774	808,686,885
Khmer Riel	48,721,653	196,689,313	29,160,528	118,100,138
Thai Baht	9,904,505	39,984,487	7,577,968	30,690,771
	<u>357,772,465</u>	<u>1,444,327,441</u>	<u>236,414,270</u>	<u>957,477,794</u>
(b) By maturity:				
Within 1 month	67,353,215	271,904,929	40,925,973	165,750,191
> 1 to 3 months	65,322,944	263,708,725	38,794,394	157,117,296
> 3 to 12 months	214,226,584	864,832,720	155,732,942	630,718,415
More than 12 months	10,869,722	43,881,067	960,961	3,891,892
	<u>357,772,465</u>	<u>1,444,327,441</u>	<u>236,414,270</u>	<u>957,477,794</u>
(c) By relationship:				
External customers	334,167,383	1,349,033,725	230,447,389	933,311,926
Management and staff deposits	23,605,082	95,293,716	5,966,881	24,165,868
	<u>357,772,465</u>	<u>1,444,327,441</u>	<u>236,414,270</u>	<u>957,477,794</u>
(d) By interest rate (per annum):				
US Dollars		2.5% - 9.3%		2.5% - 9.3%
Khmer Riel		3.0% - 12.0%		3.0% - 12.0%
Thai Baht		3.0% - 11.0%		3.0% - 11.3%

HATTHA KAKSEKAR LIMITED
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**
12. BORROWINGS

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Advanced Bank of Asia Limited	5,800,000	23,414,600	4,833,333	19,574,999
Alterfin	330,000	1,332,210	1,000,000	4,050,000
BlueOrchard Finance S.A	20,531,575	82,885,968	21,894,444	88,672,498
Grameen Credit AgricoleMicrofinance Foundation	782,759	3,159,998	1,560,495	6,320,005
Incofin	9,000,000	36,333,000	12,905,852	52,268,700
KIVA Microfunds	384,143	1,550,785	360,892	1,461,613
Proparco	2,307,692	9,316,153	3,076,923	12,461,538
Instituto De Crédito Oficial	4,860,300	19,621,031	4,860,300	19,684,215
Symbiotics	9,454,942	38,169,601	9,441,296	38,237,249
Industrial and Commercial Bank of China Limited	10,000,000	40,370,000	9,000,000	36,450,000
International Finance Corporation	22,500,000	90,832,500	10,000,000	40,500,000
Hatton National Bank PLC	4,000,000	16,148,000	5,000,000	20,250,000
Chailease International Financial Service Co., Ltd	2,700,000	10,899,900	-	-
responsAbility*	16,799,995	67,821,580	-	-
Norfund*	5,250,000	21,194,250	-	-
ASN-Novib Microkredietfonds (through Triple Jump)*	2,000,000	8,074,000	-	-
National Bank of Cambodia	49,543	200,005	-	-
	116,750,949	471,323,581	83,933,535	339,930,817

* Represent amounts transferred from amounts due to shareholders following the changes of the Company's shareholders, please refer to Note 18.

The above amounts are analysed as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	7,500,000	30,277,500	-	-
> 1 to 3 months	11,546,208	46,612,042	3,257,519	13,192,952
> 3 to 12 months	28,218,651	113,918,694	23,815,311	96,452,010
More than 12 months	69,486,090	280,515,345	56,860,705	230,285,855
	116,750,949	471,323,581	83,933,535	339,930,817
(b) By currency: -				
US Dollars	104,432,135	421,592,529	70,931,449	287,272,368
Khmer Riel	2,843,945	11,481,006	3,565,679	14,441,000
Thai Baht	9,474,869	38,250,046	9,436,407	38,217,449
	116,750,949	471,323,581	83,933,535	339,930,817

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

12. BORROWINGS (continued)

	31 December 2016	31 December 2015
(c) By interest rate (per annum):		
US Dollars	5.25%-8.50%	5.50% - 8.50%
Khmer Riel	3.00%-11.80%	10.25% - 11.80%
Thai Baht	8.85%-9.30%	8.60% - 9.25%

13. AMOUNTS DUE TO RELATED PARTIES

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Previous shareholders				
OIKOCREDIT	-	-	3,000,000	12,150,000
responsAbility	-	-	21,786,278	88,234,426
ASN-Novib Microkredietfonds (through Triple Jump)	-	-	2,000,000	8,100,000
Norfund	-	-	7,000,000	28,350,000
	-	-	<u>33,786,278</u>	<u>136,834,426</u>
Current shareholder and affiliate				
Krungsri	14,281	57,652	-	-
Ngern Tid Lor Co., Ltd	30,469	123,003	-	-
	<u>44,750</u>	<u>180,655</u>	-	-
	<u>44,750</u>	<u>180,655</u>	<u>33,786,278</u>	<u>136,834,426</u>

The outstanding amounts due to shareholders as at 31 December 2016 were transferred to borrowings during the year following the changes of the Company's shareholders, please refer to Note 18.

The above amounts are analysed as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	-	-	-	-
> 1 to 3 months	-	-	-	-
> 3 to 12 months	44,750	180,655	11,750,000	47,587,500
More than 12 months	-	-	22,036,278	89,246,926
	<u>44,750</u>	<u>180,655</u>	<u>33,786,278</u>	<u>136,834,426</u>
(b) By currency:				
US Dollars	-	-	32,000,000	129,600,000
Thai Baht	44,750	180,655	1,786,278	7,234,426
	<u>44,750</u>	<u>180,655</u>	<u>33,786,278</u>	<u>136,834,426</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

13. AMOUNTS DUE TO RELATED PARTIES (continued)

	<u>31 December 2016</u>	<u>31 December 2015</u>
(c) By interest rate (per annum):		
US Dollars	-	6.10% - 6.95%
Thai Baht	-	9.30%

14. SUBORDINATED DEBTS

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	US\$	KHR'000	US\$	KHR'000
DEG – Deutsche Investitions – UND Entwicklungsgesellschaft MBH (i)	10,000,000	40,370,000	10,000,000	40,500,000
BlueOrchard Finance S.A (ii)	4,000,000	16,148,000	4,000,000	16,200,000
DWM Asset Management (iii)	5,000,000	20,185,000	5,000,000	20,250,000
Incofin (iv)	5,000,000	20,185,000	-	-
	<u>24,000,000</u>	<u>96,888,000</u>	<u>19,000,000</u>	<u>76,950,000</u>
Hattha Kaksekar Non- Government Organisation ("HKNGO") (v)	415,743	1,678,354	415,743	1,683,759
Ministry of Economy and Finance - Agence Francaise de Development ("AFD") (vi)	313,576	1,265,907	313,576	1,269,983
	<u>729,319</u>	<u>2,944,261</u>	<u>729,319</u>	<u>2,953,742</u>
	<u>24,729,319</u>	<u>99,832,261</u>	<u>19,729,319</u>	<u>79,903,742</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 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.
- (iv) On 7 March 2016, HKL entered into another loan agreement with Incofin for the sum of US\$5 million for the period of 72 months for financing the expansion of the HKL's loan portfolio.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

14. SUBORDINATED DEBTS (continued)

- (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 is treated 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 ("MEF") 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 as mentioned in (v) and (vi) 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 MEF 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, these subordinated debts are classified as liability.

Repayment of the debt by the HKL to BlueOrchard Finance S.A, DEG, DWM, Incofin, HKNGO and MEF 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.

(a) Interest rates

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
US Dollars	7% - 10.85%	7% - 10.85%

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****15. PROVIDENT BENEFITS**

The movements of provident benefits during the year are as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	1,748,508	7,081,457	1,285,208	5,237,223
Charge during the year	588,977	2,377,700	494,834	2,004,078
Interest on savings	69,422	280,257	51,597	208,968
Payments during the year	(88,317)	(356,536)	(83,131)	(336,681)
Currency translation difference	-	(22,730)	-	(32,131)
Balance at end of year	<u>2,318,590</u>	<u>9,360,148</u>	<u>1,748,508</u>	<u>7,081,457</u>

16. OTHER LIABILITIES

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Interest payable	10,801,745	43,606,645	6,808,343	27,573,789
Accrual for annual bonus *	1,667,686	6,732,448	1,444,571	5,850,512
Unused annual leave	397,985	1,606,665	378,443	1,532,694
Accrual for Pchum Ben bonus	242,068	977,229	217,869	882,369
Accrual for Water Festival bonus	122,657	495,166	110,846	448,926
Other staff benefit accruals	87,987	355,204	228,955	927,268
Other tax payable **	1,192,508	4,814,155	354,896	1,437,329
Supplier payable	119,884	483,972	203,637	824,730
Other payables	355,929	1,436,885	327,791	1,327,554
	<u>14,988,449</u>	<u>60,508,369</u>	<u>10,075,351</u>	<u>40,805,171</u>

* HKL's staff are entitled to annual bonus. The annual bonus will be paid in January and February 2017 (2015: January and February 2016) with the maximum up to 13% of net profit of year 2016 (31 December 2015: 13% of 2015 net profit) based on approval of the Board of Directors.

** Including the Tax on Fringe Benefits for MEP share-based payment amounting to US\$668,459.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. INCOME TAX

(a) Deferred tax assets, net

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

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	1,016,428	4,103,320	727,349	2,945,763
Deferred tax liabilities	(67,459)	(272,332)	(137,229)	(555,777)
Net deferred tax assets	948,969	3,830,988	590,120	2,389,986

The movement of net deferred tax assets is as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
At beginning of year	590,120	2,389,986	82,642	336,766
Credited to income statement	358,849	1,448,674	507,478	2,055,286
Currency translation difference	-	(7,672)	-	(2,066)
At end of year	948,969	3,830,988	590,120	2,389,986

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

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Provident benefits	432,052	1,744,194	329,822	1,335,779
Pchum Ben bonuses, Water Festival bonus and other staff benefits	72,945	294,479	92,455	374,443
Unrealised exchange (gains)/losses	(67,459)	(272,332)	76,477	309,731
Depreciation and amortisation	59,448	239,992	(137,229)	(555,777)
Allowance for bad and doubtful loans	436,396	1,761,731	228,595	925,810
Unused tax credit	15,587	62,924	-	-
	948,969	3,830,988	590,120	2,389,986

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. INCOME TAX (continued)

(b) Current income tax liability

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	2,758,064	11,170,159	1,760,229	7,172,933
Current income tax expense	3,775,020	15,239,756	3,366,863	13,635,795
Income tax paid	(3,489,046)	(14,085,279)	(2,369,028)	(9,594,563)
Currency translation difference	-	(35,855)	-	(44,006)
Balance at end of year	<u>3,044,038</u>	<u>12,288,781</u>	<u>2,758,064</u>	<u>11,170,159</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 revenue, whichever is higher.

(c) Income tax expense

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Current income tax	3,775,020	15,239,756	3,366,863	13,635,795
Deferred tax	(358,849)	(1,448,674)	(507,478)	(2,055,286)
Income tax expense	<u>3,416,171</u>	<u>13,791,082</u>	<u>2,859,385</u>	<u>11,580,509</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:

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	16,235,228	65,541,616	13,971,469	56,584,449
Income tax using statutory rate at 20%	3,247,046	13,108,325	2,794,294	11,316,891
Non-deductible expenses	80,116	323,428	35,034	141,887
Prior year tax reassessment	107,617	434,450	-	-
Unused tax credit	(15,587)	(62,925)	-	-
(Over)/under provision in prior year	(3,021)	(12,196)	30,057	121,731
Income tax expense	<u>3,416,171</u>	<u>13,791,082</u>	<u>2,859,385</u>	<u>11,580,509</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

18. SHARE CAPITAL AND MEP/EQUITY-SETTLED SHARE-BASED PAYMENT

(a) Share capital

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid ordinary share of US\$1 each	6,824,594	27,550,886	6,824,594	27,639,606

The details of shareholding were as follows:

	31 December 2016			31 December 2015		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
Krungsri	100	6,824,594	6,824,594	-	-	-
OIKOCREDIT	-	-	-	19.84	1,354,028	1,354,028
NORFUND	-	-	-	20.94	1,428,901	1,428,901
ASN-Novib						
Microkredietfonds (ANM)	-	-	-	17.46	1,191,537	1,191,537
HKNGO	-	-	-	10.42	711,141	711,141
responsAbility Global Microfinance Fund	-	-	-	11.25	767,792	767,792
responsibility Participations AG	-	-	-	9.71	662,888	662,888
HKSA	-	-	-	9.57	652,807	652,807
Mr. Dy Davuth	-	-	-	0.81	55,500	55,500
	100	6,824,594	6,824,594	100	6,824,594	6,824,594

In 2013, the shareholders approved for the Company to set up the Management Equity Plan ("MEP"). The plan was amended and approved by the shareholders on 21 January 2014. The MEP provided the HKL's senior management 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 five years from 2013 to 2017. HKL's senior management purchased the Company's shares through HKSA Limited ("HKSA").

The bonus shares 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 16 August 2016, the Board of Directors approved to amend the MEP policy to permit the payment of cash in lieu of the issuance of new shares and accelerated allocation of MEP shares be approved.

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18. SHARE CAPITAL AND MEP/EQUITY-SETTLED SHARE-BASED PAYMENT (continued)

(a) Share capital (continued)

This transaction was approved by the National Bank of Cambodia ("NBC") on 11 July 2016 and acknowledged the new Memorandum and Articles of Association on 24 August 2016. On 12 September 2016, the new Memorandum and Articles of Association was approved by the Ministry of Commerce ("MoC") which is marked as effective date of change of control. Accordingly, the unvested and vested MEP bonus shares "Deemed Shares" for the five allocations were fully settled to MEP participants in December 2016 amounting to US\$ 3,970,048.

As at the date of this report, the BOD approved the following allocation:

No. of allocation	MEP share allocation related to financial year	Period of exercise	# of share exercised	Price per share (US\$)	Value of share exercised (US\$)	# of bonus share entitled
1 st	2012	2014	*25,600	5.0223	128,571	*46,080
2 nd	2013	2014	14,120	5.8665	82,835	25,413
3 rd	2014	2015	15,349	6.9084	106,037	27,626
4 th	2015	2015	**14,762	8.4505	124,746	**26,572
5 th	2016	2016	**11,049	9.7676	107,922	**19,889

* 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.

** MEP participants are not required to purchase all of shares approved by the Board of Director for the 4th and 5th allocation. However, its related bonus will be entitled to MEP Participants which was approved by the BoD.

On 22 March 2016, NBC issue a Prakas No. B7-016-117 on the Minimum Registered Capital of the Bank and Financial Institution, in which Licensed Micro-financed Deposit-Taking Institutions ("MDFI") are required to increase its minimum registered capital up to KHR 120 billion (approximately US\$30 million). MDFI is required to fulfil this requirement within 2 years from the date of this Prakas.

On 16 June 2016, the NBC issued a Circular No. B7-016-003 on implementation of Prakas on minimum registered capital of Banking and Financial Institutions, requiring the Company:

- To increase the minimum registered capital by at least half of the required additional capital (approximately US\$11,587,703) by the end of March 2017; and
- To increase capital to fulfil the requirement of the minimum registered capital (approximately US\$30,000,000) by 22 March 2018.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****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:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	30,183	122,241	-	-
MEP/Equity-settled share-based payment (MEP bonus share vesting) *	186,266	751,956	37,151	150,462
Transfer from MEP/Equity-settled share- based payment to paid-up capital	-	-	(6,968)	(28,221)
Transfer from MEP/ Equity settled share based payment to employee benefit liability account *	(186,266)	(751,956)	-	-
Transfer MEP/equity settled share-based payment to share premium **	(30,183)	(121,849)	-	-
Currency translation difference	-	(392)	-	-
Balance at end of year	-	-	30,183	122,241

* Represents MEP bonus share transferred from other employee benefit payable to MEP/Equity-settled share-based payment at each vesting interval. MEP bonus share vesting at 10% of the first allocation and 10% of the second allocation were vested amounted to US\$ 22,241 and US\$ 14,910 respectively in 2015. During the year, MEP bonus share at 45% of the first allocation, 10% of the third allocation and 45% of the second allocation were vested amounted to US\$100,083, US\$19,087 and US\$ 67,096 respectively. Total vested amount US\$ 186,266 was transferred back to other employee benefit payable during the year following the purchase of all MEP shares by a new shareholder.

** Upon effective change of control on 12 September 2016 the MEP is discontinued and the MEP shares vested and registered have been transferred to new shareholder including its relevant premium.

In December 2016, the Company settled the MEP/Equity settled share-based payment amounting to US\$3,970,048 to all MEP participants in accordance with the MEP policy, shareholder resolution on amendment of MEP policy dated 14 July 2016 and Share Purchase Agreement dated 26 January 2016. This amount is funded from retained earnings of US\$3,630,907, transferred from MEP/Equity settled share-based reserve account of US\$186,266 and accrued employee benefit expense of US\$152,875.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****19. INTEREST INCOME**

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	81,272,863	328,098,548	64,054,624	259,421,227
Deposits with banks	295,210	1,191,763	171,798	695,782
	<u>81,568,073</u>	<u>329,290,311</u>	<u>64,226,422</u>	<u>260,117,009</u>

20. INTEREST EXPENSE

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Borrowings	13,042,917	52,654,256	10,069,773	40,782,581
Deposits from customers	22,390,193	90,389,209	14,635,339	59,273,123
Provident funds	69,422	280,257	51,597	208,967
	<u>35,502,532</u>	<u>143,323,722</u>	<u>24,756,709</u>	<u>100,264,671</u>

21. OTHER OPERATING INCOME

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Foreign exchange gain	201,586	813,803	-	-
Recovery on loans previously written off	59,993	242,192	76,477	309,732
Remittance fees	102,843	415,177	89,346	361,851
Commission fees	338,208	1,365,346	87,728	355,298
Gain on disposal of property and equipment	-	-	5,382	21,797
Other income	174,772	705,554	69,437	281,220
	<u>877,402</u>	<u>3,542,072</u>	<u>328,370</u>	<u>1,329,898</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****22. OPERATING EXPENSES**

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Personnel expenses (*)	16,414,379	66,264,848	13,901,582	56,301,407
Rental expenses	2,810,154	11,344,592	2,291,854	9,282,009
Travelling and transportation	1,410,902	5,695,811	1,268,812	5,138,689
Depreciation and amortisation (Notes 9 and 10)	2,808,229	11,336,820	2,469,597	10,001,868
Marketing and advertising	859,044	3,467,961	831,638	3,368,134
Security expenses	563,401	2,274,450	494,186	2,001,453
Office supplies and equipment	426,722	1,722,677	542,361	2,196,562
Utilities	602,044	2,430,452	517,776	2,096,993
Consultancy and professional fees	511,992	2,066,912	82,843	335,514
Communication	429,834	1,735,240	407,424	1,650,067
Bank charges	88,547	357,464	86,242	349,280
Repairs and maintenance	879,839	3,551,910	554,862	2,247,191
License fees	575,463	2,323,144	312,593	1,266,002
Board and shareholders meetings	122,894	496,123	138,600	561,330
Loss on disposal of property and equipment	2,979	12,026	-	-
Foreign exchange loss	-	-	416,270	1,685,894
Others	486,361	1,963,439	237,202	960,667
	<u>28,992,784</u>	<u>117,043,869</u>	<u>24,553,842</u>	<u>99,443,060</u>

(*) Personnel expenses are analysed as follows

	Year ended 31 December 2016		Year ended 31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	14,464,409	58,392,819	12,112,704	49,056,451
Unused annual leave	401,789	1,622,022	378,856	1,534,367
Provident benefits (Note 15)	588,977	2,377,700	494,834	2,004,078
Training costs	154,676	624,427	247,304	1,001,581
Staff uniforms	155,276	626,849	137,623	557,373
Medical benefits	235,577	951,024	211,564	856,834
Other staff benefits	413,675	1,670,007	318,697	1,290,723
	<u>16,414,379</u>	<u>66,264,848</u>	<u>13,901,582</u>	<u>56,301,407</u>

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****23. DIVIDENDS**

There is no dividend declared during the year. 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 and it was fully paid to the shareholders during the year 2015.

24. CASH AND CASH EQUIVALENTS

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	9,317,664	37,615,410	8,143,748	32,982,179
Balances with the NBC	15,730,160	63,502,656	1,053,640	4,267,242
Balances with other banks	74,272,524	299,838,179	41,170,385	166,740,059
	<u>99,320,348</u>	<u>400,956,245</u>	<u>50,367,773</u>	<u>203,989,480</u>

25. COMMITMENTS AND CONTINGENCIES**(a) Operating lease commitments**

The Company has operating lease commitments for the lease of its headquarters, provincial offices and public Automated Teller Machine (ATM) as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
No later than 1 year	2,698,935	10,895,601	2,617,869	10,602,369
Later than 1 year and no later than 5 years	8,773,416	35,418,280	7,935,854	32,140,211
Later than 5 years	5,431,593	21,927,341	4,678,831	18,949,267
	<u>16,903,944</u>	<u>68,241,222</u>	<u>15,232,554</u>	<u>61,691,847</u>

(b) Other commitments

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Unused portion of loans	159,992	645,888	197,737	800,835
Capital expenditure	395,254	1,595,640	253,443	1,026,444
Currency swap	-	-	2,604,025	10,546,301
Other commitment	101,169	408,419	138,959	562,784
	<u>656,415</u>	<u>2,649,947</u>	<u>3,194,164</u>	<u>12,936,364</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****26. RELATED PARTY TRANSACTIONS AND BALANCES**

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 or who participates in the administration, direction, management or the design and implementation of the internal controls of the Company.

The Company is wholly owned by Krungsri ("the immediate parent company"), a company incorporated in Thailand. Its ultimate parent company is Mitsubishi UFJ Financial Group, Inc., incorporated in Japan.

(a) Directors and key management compensation

	Year ended		Year ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	US\$	KHR'000	US\$	KHR'000
Board of Directors				
Fees and related expenses	122,894	496,123	138,600	561,330
Key management				
Salaries and short-term benefits	1,351,317	5,455,267	1,206,986	4,888,293
Provident benefits	58,702	236,980	50,790	205,700
	<u>1,410,019</u>	<u>5,692,247</u>	<u>1,257,776</u>	<u>5,093,993</u>
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	US\$	KHR'000	US\$	KHR'000
Provident benefit payable	301,842	1,218,536	234,368	949,190

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 members) as at 31 December 2016 (31 December 2015: 8 key management personnel).

(b) Loans to key management

	2016		2015	
	US\$	KHR'000	US\$	KHR'000
Loans to key management as at 31 December	315,190	1,272,422	573,588	2,323,031
Interest income from key management for the year	75,927	306,517	65,912	266,944

Loans are provided to key management of the Company with interest rate at 8% per annum (2015: 8% per annum).

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****26. RELATED PARTY TRANSACTIONS AND BALANCES** (continued)**(c) Deposits from key management and Directors**

	2016		2015	
	US\$	KHR'000	US\$	KHR'000
Deposits from key management as at 31 December	8,116,894	32,767,902	421,049	1,705,248
Interest expense to key management for the year	171,698	693,145	12,425	50,321

Deposits from key management of the Company bear interest rates ranging from 3.5% to 11.3% per annum (2015: 3.5% to 11.3% per annum) depending on the terms and currency of the deposits.

	2016		2015	
	US\$	KHR'000	US\$	KHR'000
Deposits from the Board of Directors as at 31 December	1,698,679	6,857,567	1,279,832	5,183,320
Interest expense to the Board of Directors for the year	127,305	513,930	106,467	431,191

Deposits from the Board of Directors of the Company bear interest rates ranging from 3.5% to 11.2% per annum (2015: 3.5% to 11.3% per annum) depending on the terms and currency of deposits.

(d) Office rental from key management

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Office rental expenses	31,920	128,861	31,920	129,276

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****26. RELATED PARTY TRANSACTIONS AND BALANCES** (continued)**(f) Transactions with shareholders and affiliate****(i) Transactions with previous shareholders**

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
ASN-Novib Mikrokedietfonds (Triple Jump)				
Principal received	2,000,000	8,074,000	-	-
Principal repaid	(2,000,000)	(8,074,000)	-	-
Interest expense	117,123	472,826	178,209	721,746
HKNGO				
Interest expense	20,252	81,757	29,102	117,863
OIKOCREDIT				
Principal received	-	-	3,000,000	12,150,000
Principal repaid	(3,000,000)	(12,111,000)	(4,012,346)	(16,250,001)
Interest expense	65,954	266,256	166,718	675,208
responsAbility				
Principle received	-	-	5,000,000	20,250,000
Principal repaid	(5,000,000)	(20,185,000)	-	-
Interest expense	1,270,504	5,129,025	1,628,710	6,596,276
NORFUND				
Principal received	-	-	7,000,000	28,350,000
Interest expense	234,501	946,681	364,510	1,476,266

(ii) Balances with current shareholder and affiliate (Please refer to Note 13)**27. 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.

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 property and guarantees. Estimates of fair value of these properties 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

27. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Credit risk measurement

The Company applies guidelines for selecting a bank partner for its credit and liquidity risk management.

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 allowance for doubtful loans. Loans are also provided to those borrowers that are deemed profitable.

(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 2 (j) for detail.

(iv) Exposure to credit risk

	31 December 2016		31 December 2015	
	US\$	KHR'000	US\$	KHR'000
Loans to customers				
Neither past due nor impaired	442,022,879	1,784,446,363	363,191,836	1,470,926,936
Past due but not impaired	456,890	1,844,465	17,179	69,575
Individually impaired	2,763,895	11,157,844	294,991	1,194,713
	<u>445,243,664</u>	<u>1,797,448,672</u>	<u>363,504,006</u>	<u>1,472,191,224</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

27. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

It is not practical to obtain fair value of collateral due to costs of obtaining such information outweigh the potential benefits. The Company's policy is to fund approximately 67% of the collateral value. Under NBC regulations, the value of collateral is not taken into account when determining the allowance for bad and doubtful loans.

Neither past due or impaired

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

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.

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 the guidelines issued by the NBC, an allowance for doubtful loans to customers is made for loans to customers with payment overdue 30 days or more. 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 2 (j).

(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 annually to address the operational risks of its micro-finance business.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

27. FINANCIAL RISK MANAGEMENT (continued)

(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.

(i) Foreign currency exchange risk

Concentration of currency risk

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

	US\$ equivalent			Total
	US\$	KHR	THB	US\$
31 December 2016				
Assets				
Cash on hand	7,076,387	1,928,789	312,488	9,317,664
Balances with the NBC	31,506,624	14,489,468	-	45,996,092
Balances with other banks	56,890,874	12,039,926	5,341,724	74,272,524
Loans to customers, net	393,584,058	28,597,924	20,095,542	442,277,524
Other assets	5,375,781	479,631	343,810	6,199,222
Total financial assets	<u>494,433,724</u>	<u>57,535,738</u>	<u>26,093,564</u>	<u>578,063,026</u>
Liabilities				
Deposits from customers	299,146,307	48,721,653	9,904,505	357,772,465
Borrowings	104,432,135	2,843,945	9,474,869	116,750,949
Other liabilities	11,527,812	1,618,213	640,553	13,786,578
Subordinated debts	24,729,319	-	-	24,729,319
Amount due to related parties	-	-	44,750	44,750
Total financial liabilities	<u>439,835,573</u>	<u>53,183,811</u>	<u>20,064,677</u>	<u>513,084,061</u>
Net financial asset position	<u>54,598,151</u>	<u>4,351,927</u>	<u>6,028,887</u>	<u>64,978,965</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

27. 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 2015				
Assets				
Cash on hand	6,117,557	1,599,543	426,648	8,143,748
Balances with the NBC	21,076,087	283,485	-	21,359,572
Balances with other banks	21,865,668	13,840,191	5,464,526	41,170,385
Loans to customers, net	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	<u>373,528,521</u>	<u>41,271,271</u>	<u>24,063,652</u>	<u>438,863,444</u>
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	9,614,784	-	-	19,729,319
Amount due to related parties	32,000,000	-	1,786,278	33,786,278
Total financial liabilities	<u>330,481,893</u>	<u>33,632,259</u>	<u>19,364,034</u>	<u>383,478,186</u>
Net financial asset position	<u>43,046,628</u>	<u>7,639,012</u>	<u>4,699,618</u>	<u>55,385,258</u>

Management monitor current and forecast adhering to the limits of foreign exchange Open position and will determine appropriate counter balancing measures should the actual position threaten to breach thresholds laid down by the NBC and lenders. Acceptable foreign exchange risk management instruments that may serve to reduce the net long or short foreign exchange position in certain currencies include FX swap transaction with the ANZ Royal Bank.

(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
FOR THE YEAR ENDED 31 DECEMBER 2016**

27. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below is presented based on the contractual maturity.

	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\$
31 December 2016							
Assets							
Cash on hand	-	-	-	-	-	9,317,664	9,317,664
Balances with the NBC	13,673,520	732,003	49,542	-	-	31,541,027	45,996,092
Balances with other banks	72,155,552	-	-	-	-	2,116,972	74,272,524
Loans to customers							
- Performing	504,594	2,093,945	24,234,101	384,195,698	31,451,431	-	442,479,769
- Non-performing	-	-	-	-	-	2,763,895	2,763,895
- Allowance	-	-	-	-	-	(2,966,140)	(2,966,140)
Other assets	-	-	-	-	-	6,199,222	6,199,222
	<u>86,333,666</u>	<u>2,825,948</u>	<u>24,283,643</u>	<u>384,195,698</u>	<u>31,451,431</u>	<u>48,972,640</u>	<u>578,063,026</u>
Liabilities							
Deposits from customers	67,353,215	65,322,944	214,226,584	7,861,427	3,008,295	-	357,772,465
Borrowings	7,500,000	14,129,542	29,832,754	60,044,210	4,860,300	384,143	116,750,949
Other liabilities	-	-	-	-	-	13,786,578	13,786,578
Subordinated debts	-	-	10,000,000	4,000,000	10,000,000	729,319	24,729,319
Amounts due to related parties	-	-	44,750	-	-	-	44,750
	<u>74,853,215</u>	<u>79,452,486</u>	<u>254,104,088</u>	<u>71,905,637</u>	<u>17,868,595</u>	<u>14,900,040</u>	<u>513,084,061</u>
Maturity gap	<u>11,480,451</u>	<u>(76,626,538)</u>	<u>(229,820,445)</u>	<u>312,290,061</u>	<u>13,582,836</u>	<u>34,072,600</u>	<u>64,978,965</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

27. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below is presented based on the contractual maturity.

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

27. 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.

Deposits from customers consisted mainly of term deposits, which was at 89.25% of the total deposit outstanding. The term deposit roll-rate in term of amount showed that 45.01% of the term deposits keep rolling from one cycle to another. Therefore, management believes that underlying liquidity risk are manageable.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

27. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The table below is presented based on the contractual maturity.

	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\$
31 December 2016							
Assets							
Cash on hand	9,317,664	-	-	-	-	-	9,317,664
Balances with the NBC	15,631,077	49,542	49,542	-	-	30,265,931	45,996,092
Balances with other banks	74,272,524	-	-	-	-	-	74,272,524
Loans to customers	25,819,486	46,647,628	172,909,866	322,284,868	11,157,483	-	578,819,331
Other assets	21,066	33,805	-	990,865	-	20,000	1,065,736
	<u>125,061,817</u>	<u>46,730,975</u>	<u>172,959,408</u>	<u>323,275,733</u>	<u>11,157,483</u>	<u>30,285,931</u>	<u>709,471,347</u>
Liabilities							
Deposits from customers	69,051,072	69,076,963	229,205,287	9,021,199	3,081,128	-	379,435,649
Borrowings	8,152,233	12,960,564	32,950,177	73,435,680	1,686,624	384,143	129,569,421
Other liabilities	790,371	1,781,306	413,156	-	-	-	2,984,833
Subordinated debts	500,980	4,717	1,954,211	27,527,413	2,159,866	729,319	32,876,506
Amounts due to related parties	-	-	44,750	-	-	-	44,750
	<u>78,494,656</u>	<u>83,823,550</u>	<u>264,567,581</u>	<u>109,984,292</u>	<u>6,927,618</u>	<u>1,113,462</u>	<u>544,911,159</u>
Maturity gap	<u>46,567,161</u>	<u>(37,092,575)</u>	<u>(91,608,173)</u>	<u>213,291,441</u>	<u>4,229,865</u>	<u>29,172,469</u>	<u>164,560,188</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

27. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The table below is presented based on the contractual maturity.

	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\$
31 December 2015							
Assets							
Cash on hand	8,143,748	-	-	-	-	-	8,143,748
Balances with the NBC	1,053,640	-	-	-	-	20,305,932	21,359,572
Balances with other 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
Amounts due to related parties	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 FOR THE YEAR ENDED 31 DECEMBER 2016

27. 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.

28. 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

29. CONTINGENT TAX LIABILITIES

On 28 December 2016, the General Department of Taxation ("GDT") issued a notice of tax reassessment to the Company to pay reassessed taxes of KHR 3,114,349,124 (approximately US\$771,451) for the fiscal years 2010, 2011 and 2012.

On 26 January 2017, the Company filed a tax objection letter to the GDT protesting to the reassessed taxes on the ground that there are differences between the amount of tax assessment computed by the Company and the GDT. The reassessed taxes agreed by the Company is KHR 1,568,562,075 (approximately US\$388,547), this charge has been reflected in the income statement for the year ended 31 December 2016. The difference of KHR 1,545,787,049 (approximately US\$382,904) has not been recorded in the income statement as the Company believes that there are reasonable grounds to challenge the assessment as stated in the tax law and regulations as well as industry practices, as indicated in its objection letter. Hence, the Company made no additional provision for the differences at this stage.

At the date of this report, the GDT has not responded to the Company's tax objection letter. The outcome of the ultimate tax liabilities for these assessment years is unknown.

30. EVENTS AFTER THE REPORTING DATE

On 10 January 2017, the Company entered into agreements with Krungsri for interest rate swap totalling US\$ 54 million, effective from 15 May 2017. This is to manage the Company's exposure to interest rate risk on its floating interest rate borrowings.